Annual Financial Report

For the year ended 30 June 2020

Here for good.

NEWCASTLE PERMANENT

Newcastle Permanent Building Society Limited ACN 087 651 992

Newcastle Permanent Building Society Limited
ABN: 96 087 651 992

Annual Financial Report
For the year ended 30 June 2020

Contents

The financial report was authorised for issue by the directors on 18 September 2020.
The directors have the power to amend and reissue the financial report.

The Directors present their report on the consolidated entity consisting of Newcastle Permanent Building Society Limited (Newcastle Permanent) and the entities it controlled at the end of, or during, the year ended 30 June 2020.

DIRECTORS

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

J.R. Eather (Chair)	
R.E. Griffiths	
M.A. Haseltine	
K.W. Kwan	Appointed as a Director on 11 March 2020
J.M. Leslie	
S.J. Martin-Williams	
P.J. Neat	
N.J. Page	Appointed as a Director on 11 March 2020
D.E. Shanley	Resigned as a Director on 16 July 2019

INFORMATION ON DIRECTORS

JEFFREY R. EATHER BCom, CPA, FGIA, MAICD
Chair
Board Member since May 2013
Chair of the Corporate Governance & Nominations Committee. Member of the Risk and Remuneration & People 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 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 Remuneration & People Committees

Margie forged a successful executive career with Mars Food 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, 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 Newcastle Permanent Community Foundation Company Ltd, which is the Trustee of Newcastle Permanent Charitable Foundation, Bapcor Ltd, Central Coast Industry Connect and Droppoint Australia. She is the Chair of Bagtrans, Advisory Chair of PURE Grain and Remuneration and Nominations Chair of Bapcor Ltd.

KARINA W. KWAN BEc, FCPA, GAICD, GradDip Applied Finance (FinSIA)
Board Member since March 2020
Member of the Audit and Risk Committees

Karina is a highly experienced banking and financial services industry leader with expertise in treasury, finance and risk governance. Karina is a non-executive director of WAM Active Ltd (part of the Wilson Asset Management group), Kyckr Ltd and Nulis Nominees (Australia) Ltd, which is the trustee of the MLC superannuation funds. She is also an Advisory Board Member of the University of Sydney Business School, Split Payments Pty Ltd and 1WordFlow. Karina previously held the positions of Chief Financial Officer at Citibank Australia & New Zealand and CFO/General Manager of the corporate centre of a major bank. Karina holds a Bachelor of Economics from the University of Sydney, is a Fellow of CPA Australia and Graduate of the Australian Institute of Company Directors.

JENNIFER M. LESLIE BCom, 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, a Member of the Australian Institute of Company Directors, a 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. 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.

INFORMATION ON DIRECTORS (continued)

SAMANTHA J. MARTIN-WILLIAMS B.Bus, M.HR&IR, M.CommLaw, 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 25 years diverse business experience in complex and highly regulated industries including financial services, education, health, resources and logistics. Samantha is a former CEO with expertise in strategic transformation, commercial change and business growth. She has degrees in Business, Industrial Relations and Commercial Law and has studied at Harvard Business School and INSEAD. She is a Fellow of the Australian Institute of Company Directors, a recognised member of the Chartered Institute of Transport and Logistics and a conjoint lecturer at the University of Newcastle Business & Law School. An experienced Board Director, she currently serves on several Boards encompassing aviation, supply chain, social purpose and education.

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 and is 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.

NICOLA J. PAGE GAICD, MACS
Board Member since March 2020
Member of the Audit and Risk Committees

Nicki is a highly experienced IT professional and non-executive Director, with digital transformation, technology and leadership expertise in both the UK and Australia. Nicki is a non-executive Director of Kennards Hire Pty Ltd, a former Director of Gymnastics Australia and was previously the Chief Executive Officer and Executive Director of MOQdigital, an ASX-listed technology company. Nicki has completed leadership and innovation training at Harvard Business School, is a Graduate of the Australian Institute of Company Directors and is a Member of the Australian Computer Society.

DAVID E. SHANLEY BCom, CFP, GAICD, GIA (Cert)
Board Member from July 2003 to 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.

COMPANY SECRETARIES

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

CHRISTOPHER COCKBURN BEc, LLB, Grad Dip Leg Prac, Grad Dip ACG, AGIA, ACG

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 14 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 Chartered Governance Institute.

LINDA LINDSAY BCom, LLB, Grad Dip Leg Prac, Grad Dip ACG, AGIA, ACG

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 19 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 Chartered Governance Institute.

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	Officers for part of the financial year	
B. Inglis	J. Cudmore	From 2 December 2019
C. Cockburn	A.M. Fullick	Until 3 January 2020
E.J. Larkin	D.J. Harney	Until 29 November 2019
S.O. Hassall	P. Juergens	From 2 December 2019
F.E. Laczina	G. Katz	From 6 January 2020
M.B. Williams	M. D. Leach	Until 8 November 2019
	P. Macpherson	Various periods until 3 December 2019
	T. Martin	Until 1 December 2019
	L.N.C. Rees	Until 19 July 2019

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
DIRECTORS' REPORT
30 JUNE 2020

MEETINGS OF DIRECTORS

The number of meetings of Newcastle Permanent's Board of Directors and of each Board Committee meeting held during the year ended 30 June 2020, and the number 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[1]	14	14	8	8	10	10	5	5	1	1	-	-
Ross Griffiths	14	14	10	10	10	10	5	5	-	-	9	9
Margaret Haseltine[1,2]	14	13	10	9	7	5	-	-	1	1	9	8
Karina Kwan[2,3]	5	5	2	1	3	3	-	-	-	-	3	3
Jennifer Leslie	14	14	10	10	-	-	5	5	5	5	-	-
Samantha Martin-Williams[2,4]	14	14	-	-	10	9	5	5	5	5	5	4
Philip Neat[2]	14	13	-	-	10	9	-	-	5	5	9	9
Nicola Page[3]	5	5	2	2	3	3	-	-	-	-	3	3
David Shanley[5]	-	-	-	-	-	-	-	-	-	-	-	-

Notes:

(1) On 1 March 2020, Jeffrey Eather and Margaret Haseltine were appointed as members of the Remuneration & People Committee, Jeffrey Eather stood down from the Audit Committee and Margaret Haseltine stood down from the Risk Committee.
(2) Leave of absence may be granted by the Board in advance to excuse a Director from attending a particular meeting.
(3) On 11 March 2020, Karina Kwan and Nicola Page were appointed as Directors and as members of the Audit, Risk and Independent Board Committees. Ms Kwan and Ms Page attended the January and February 2020 Board meetings as invitees prior to their appointment as Directors.
(4) 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, a controlled entity in the Newcastle Permanent consolidated group of companies. The composition of the Independent Board Committee as at 30 June 2020 was Directors Ross Griffiths (Chair), Margaret Haseltine, Karina Kwan, Philip Neat and Nicola Page, all of whom were not Directors on the Board of Newcastle Friendly Society Ltd. Samantha Martin-Williams was a member of the Independent Board Committee until 27 January 2020 when she became a Director of Newcastle Friendly Society Ltd.
(5) David Shanley resigned as a Director on 16 July 2019 and there were no meetings of the Board between 1 and 16 July 2019.

- Number of meetings noted is the number of meetings of the Board or relevant Committee that were held while that Director was on the Board or relevant Committee.
- In addition to the formal meetings noted:
  - two Board strategy workshops were held on 13 March 2020 and 27 May 2020;
  - a Remuneration & People Committee workshop was held on 10 June 2020;
  - six circulating resolutions were distributed to and signed by the Board on 15 July 2019, 4 September 2019, 3 October 2019, 4 October 2019, 31 October 2019 and 24 March 2020; and
  - one circulating resolution was distributed to and signed by the Risk Committee on 12 July 2019.

OBJECTIVES

Newcastle Permanent's purpose is to provide trusted banking that's here for you, here for good, while aspiring to become Australia's favourite banking experience. The core values of Newcastle Permanent are to share the success, do the right thing, embrace the opportunity and give a damn every day.

A key objective of Newcastle Permanent's over its Strategic Planning horizon is to build upon our core strengths in a manner that is relevant for current and new customers. These strengths reside in:
- exceptional customer service provided by people who genuinely care;
- a Newcastle/Hunter heartland with a strong branch network and a leading market share;
- attractive financial products offered at competitive prices; and
- a continuing proud heritage of a strong organisation and brand that is owned by its customers and is solely focussed on delivering value for its customers.

Newcastle Permanent has identified three strategic priorities that we must excel at in order to achieve our vision. Those strategic priorities are:
- delivering market leading service, customer and partner experience;
- grow our customer base by meeting more financial needs of more Australians; and
- be a beacon for the industry, our customers and our people.

The performance of Newcastle Permanent was measured during the year against a balanced scorecard of key performance indicators (KPIs) across each of the customer / community, capability / capacity, strategic initiatives and financial focus areas. The main KPIs were:
- *customer / community:* customer satisfaction and advocacy levels and brand consideration;
- *capability / capacity:* employee engagement, people capability and culture;
- *strategic initiatives:* effectiveness of our transformation design and roadmap;
- *financial:* capital position, net profit after tax, return on equity and the cost to income ratio.

PRINCIPAL ACTIVITIES

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 the core business or activities of Newcastle Permanent during the year ended 30 June 2020.

To support the achievement of its objectives, Newcastle Permanent's key focus was to develop, launch and progress a suite of strategic initiatives designed to:

- sustainably grow the fundamental home loan and deposit portfolios;
- enhance customers' experience through improved digital sales and service capability;
- deliver a competitive product offering and customer value proposition;
- foster employee wellbeing, engagement, culture and competency;
- strengthen the risk and compliance frameworks, including management of regulatory changes; and
- continue giving back to heartland communities, with more than $1.5m in sponsorships, events and donations.

REVIEW OF OPERATIONS

The financial performance of the consolidated entity was materially impacted by the change in the economic environment as the effects of the COVID pandemic (actual and forward looking) occurred. The material direct impacts for the consolidated entity in the 2019/20 financial statements include:

- A decrease in net profit after tax to $30.1 million (2019: $35.7 million) primarily due to an increase in impairment provisions for loans and advances to members of $5.5 million and a reduction in the fair value of investments held in the charitable trust. Excluding these items, profitability remained relatively consistent with the prior year as net interest margin levels were maintained and lower non-interest income was largely offset by reduced operational expenditure.
  The impairment provisions represent an estimate of the future potential expected lifetime losses on our lending portfolios determined in accordance with the accounting standards and key assumptions regarding the forward looking macro-economic environment. The early impact of the pandemic combined with the weak outlook for economic growth, house prices and employment resulted in an increase in the impairment provisions to $8.5 million (2019: $3.0 million) representing 0.08% of total lending assets. This remains a substantially stronger credit quality position than the vast majority of Australian Authorised Deposit Taking Institutions (ADIs) and Newcastle Permanent retains ample capital to absorb these losses should they occur over the coming years. Note 3.1 of the full financial statements details the approach taken to the impairment provisions.
  Despite the reduction in profit generated during the year, total equity of the consolidated entity increased to $1,018 million (2019: $983 million) and the regulatory capital adequacy ratio of the parent entity increased to 21.2% (2019: 20.2%). This makes Newcastle Permanent one of the best capitalised ADIs in Australia and provides a stable base off which to navigate the uncertain forward environment.

- A moderate growth performance with total assets increasing by 2.5% to $11.1 billion (2019: $10.8 billion). This consisted of strong growth in assets used to manage liquidity requirements of $0.5 billion (30.7%) partially offset by a reduction in lending assets of $0.3 billion (2.78%).
  Newcastle Permanent's primary lending assets (home loans) reduced by $0.3 billion (2.5%) with the impact of the pandemic in the latter part of the year on customer repayment behaviour, credit growth and competitive dynamics contributing materially to this outcome offsetting total loan approvals of $1.66 billion.
  From a funding perspective, Newcastle Permanent recorded strong growth ($0.3 billion or 2.5%) in customer deposits which ended the year at $8.5 billion (2019: $8.2 billion). Borrowings were reduced deliberately given the moderate growth in assets and strong liquidity position.
  As a result, Newcastle Permanent's liquidity position strengthened materially through the pandemic and it recorded a regulatory liquidity ratio of 20.2% (2019: 15.3%) as at 30 June 2020.

Looking forward, the environment remains uncertain and subject to change. The notes to the financial statements set out all the critical accounting estimates and judgments that have been made in preparing the 2019/20 financial statements and to account for known risks at present. Further to those risks, the weaker economic environment, specifically the lower interest rate and credit growth environment, will continue to place pressure on profitability.

The Directors consider that these financial statements and the exceptional capital, liquidity and credit profile of Newcastle Permanent demonstrate that the consolidated entity is well positioned to navigate the forward environment and the consolidated entity expects to remain profitable and well capitalised over the coming year.

Wind up of Newcastle Friendly Society Limited

In 2019, the Board of Directors of Newcastle Friendly Society Limited, an entity in the consolidated group that previously provided insurance bond, savings bond and pre-paid funeral bond products to customers, approved a plan to wind up its operations. This process has involved:

- detailed engagement with customers, stakeholders and regulators;
- regulatory approval for the termination of the insurance bond, savings bond and pre-paid funeral bond products being received in December 2019, and these benefit funds being terminated in March 2020;
- the impacted customers of Newcastle Friendly Society Limited that were able to be contacted either receiving the monies that were held on their behalf or being assisted with the transfer of this entitlement to an alternative product; and
- the deregistration of Newcastle Friendly Society Limited as a life insurance company.

It is anticipated that the wind up of Newcastle Friendly Society Limited's operations and the deregistration of that entity as a company will occur within 12 months from the date of this report.

At 30 June 2020, the business of Newcastle Friendly Society Limited comprised total net assets of $46,800 (2019: $1.1 million), and the wind up of this entity will not have a material impact on the net assets or net earnings of the consolidated Newcastle Permanent group.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
DIRECTORS' REPORT
30 JUNE 2020

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 2020, the total amount that the members of Newcastle Permanent were liable to contribute if it was wound up was $198,790.

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

Subsequent to the end of the financial year Newcastle Permanent has established a whole of loan sale arrangement with Athena Home Loans Pty Limited (Athena), a mortgage focused FinTech, through which Newcastle Permanent will be entitled to purchase high quality residential mortgage assets. Newcastle Permanent will own the purchased assets through an equitable assignment arrangement, has perfection of title rights such that legal title will transfer to Newcastle Permanent in certain circumstances and will outsource ongoing servicing of the loans to Athena who retains ownership of the customer relationship. Newcastle Permanent will be entitled to the revenue generated from interest charged on the assets and will pay fees to Athena for the purchase and ongoing servicing. The purchased assets will be recognised as residential mortgage assets for regulatory and financial reporting purposes in the next financial year. As at the date of this report Newcastle Permanent intends to purchase approximately $300m in assets and has optionality for future purchases. The arrangement does not have a material impact on the financial statements as at the date of this report but is expected to contribute positively to future financial performance.

The establishment of the arrangement reflects Newcastle Permanent's strategic focus on developing key partnerships, including with FinTech's, to complement its organic growth strategies and support both organisational resilience and customer value objectives.

With the exception of the matter outlined above, there have been no other matters or circumstances that have arisen since 30 June 2020 that have significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the consolidated entity's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no likely developments that would be expected to have a material impact on the operations of the consolidated entity as at the date of this report. As detailed in the 'Review of Operations' above:

- the economic environment remains uncertain as a result of the COVID pandemic and this will impact the operating environment. However the consolidated entity expects to continue to operate profitably during the next financial year whilst continuing to undertake its principal activities; and

- subsequent to the end of the financial year, the operations of Newcastle Friendly Society Limited have continued to proceed towards the wind up of its corporate structure. It is anticipated that the wind up of Newcastle Friendly Society Limited's operations and the deregistration of that entity as a company will occur within 12 months from the date of this report, however the wind up of this entity will not have a material impact on the consolidated entity's operations, results or state of affairs in future financial years.

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:

- every liability incurred by them in their respective capacities (except a liability for legal costs); and
- 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:

- Deeds of Indemnity with each current Director and a number of former Directors; and
- employment or other agreements with the CEO, Company Secretary, current and former Executives, 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 intervene in any proceedings to which Newcastle Permanent is a party, for the purpose of taking responsibility on behalf of Newcastle Permanent for all or part of those proceedings.

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

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration, as required under Section 307C of the Corporations Act 2001 (Cth), and the name of the Audit Partner are set out on page 7.

DISCLOSURE OF PRUDENTIAL INFORMATION

Newcastle Permanent is an Authorised Deposit-taking Institution regulated by the Australian Prudential Regulation Authority (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 **https://www.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

Date: 18 September 2020
Newcastle

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Newcastle Permanent Building Society Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Craig Stafford
Partner
PricewaterhouseCoopers

Sydney
18 September 2020

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NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
Interest revenue	**2.1(a)**	**356,114**	425,593	**324,499**	382,780
Interest expense	**2.1(a)**	**(161,854)**	(230,581)	**(129,500)**	(186,853)
Net interest income		**194,260**	195,012	**194,999**	195,927
Fee and commission revenue	**2.1(b)**	**15,500**	17,198	**15,361**	17,086
Fee and commission expense*		**(9,243)**	(8,133)	**(9,243)**	(8,133)
Net fee and commission income		**6,257**	9,065	**6,118**	8,953
Other operating income*	**2.1(c)**	**1,399**	1,355	**2,572**	2,489
Other net gains/(losses)	**2.1(d)**	**246**	618	**(952)**	1,566
Impairment losses on loans and advances to members	**3.2(a)**	**(5,578)**	(505)	**(5,578)**	(505)
Impairment gains/(losses) on financial assets at amortised cost	**4.1(b), 4.2(d)**	**47**	(125)	**54**	(123)
Depreciation and amortisation expense	**2.2(a)**	**(17,431)**	(8,699)	**(17,431)**	(8,699)
Personnel related expenses	**2.2(b)**	**(91,476)**	(90,410)	**(91,492)**	(90,428)
Operating expenses*	**2.2(c)**	**(41,859)**	(53,763)	**(44,324)**	(56,002)
Profit before income tax		**45,865**	52,548	**43,966**	53,178
Income tax expense	**2.3(a)**	**(13,837)**	(17,429)	**(13,837)**	(17,491)
Profit for the year		**32,028**	35,119	**30,129**	35,687
Attributable to:					
Non-controlling interests		**-**	-	**(1,899)**	568
Members of Newcastle Permanent Building Society Limited		**32,028**	35,119	**32,028**	35,119

**Prior year has been restated. Refer Note 7.1(i) for details.*

The above income statements should be read in conjunction with the accompanying notes.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
Profit for the year		**32,028**	35,119	**30,129**	35,687
Other comprehensive income, net of tax					
Items that may be reclassified to profit or loss:					
Changes in the fair value of cash flow hedges	**6.8(a)(ii)**	**6,940**	(5,972)	**6,940**	(5,972)
Changes in the fair value of available-for-sale financial assets	**6.10(b)(i)**	**-**	-	**-**	-
Items that will not be reclassified to profit or loss:					
Changes in the fair value of property	**6.8(a)(iii)**	**1,695**	-	**1,695**	-
Other comprehensive income for the year, net of tax		**8,635**	(5,972)	**8,635**	(5,972)
Total comprehensive income for the year		**40,663**	29,147	**38,764**	29,715
Attributable to:					
Non-controlling interests		**-**	-	**(1,899)**	568
Members of Newcastle Permanent Building Society Limited		**40,663**	29,147	**40,663**	29,147

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
BALANCE SHEETS
AS AT 30 JUNE 2020

		Parent Entity		Consolidated Entity	
		2020	2019	2020	2019
	Note	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	4.1	584,015	400,039	800,002	477,119
Prepayments and other receivables	6.4	20,684	29,690	10,538	9,115
Derivative financial instruments	4.3	5,595	2,371	5,595	2,371
Financial assets at amortised cost	4.2	1,316,167	1,141,703	1,318,481	1,144,125
Financial assets at fair value through profit or loss (FVTPL)*	4.2	2,664,020	1,348,723	25,943	27,112
Loans and advances to members*	3.1	8,847,195	9,100,307	8,847,195	9,100,307
Net deferred tax assets	2.3	6,071	8,279	6,071	8,279
Current tax assets		-	407	-	407
Intangible assets	6.1	12,802	13,444	12,802	13,444
Property, plant and equipment	6.2	73,015	48,336	73,015	48,336
Investment properties	6.3	1,702	1,715	1,702	1,715
Total assets		13,531,266	12,095,014	11,101,344	10,832,330
Liabilities					
Payables	6.5	15,307	23,964	10,923	20,411
Derivative financial instruments	4.3	-	7,364	-	7,364
Deposits	4.4	8,773,693	8,483,469	8,773,603	8,478,794
Life investment contract liabilities	6.6	-	-	-	296
Life insurance contract liabilities	6.6	-	-	-	14,153
Borrowings	4.5	3,706,524	2,610,580	1,253,648	1,311,647
Lease liability	7.3(e)	27,969	-	27,969	-
Current tax liabilities		1,583	-	1,583	-
Provisions	6.7	15,232	16,989	15,232	16,995
Total liabilities		12,540,308	11,142,366	10,082,958	9,849,660
Net assets		990,958	952,648	1,018,386	982,670
Equity					
Reserves	6.8	35,681	27,180	35,681	27,180
Retained profits	6.9	955,277	925,468	955,277	925,468
Parent entity interest		990,958	952,648	990,958	952,648
Non-controlling interests	6.10	-	-	27,428	30,022
Total equity		990,958	952,648	1,018,386	982,670

**Prior year has been restated. Refer Note 7.1(i) for details.*

The above balance sheets should be read in conjunction with the accompanying notes.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

		Attributable to members of Newcastle Permanent Building Society Limited				
		Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Consolidated entity	**Note**	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2019		27,180	925,468	952,648	30,022	982,670
Changes on initial application of AASB 16	7.3(c)	-	(2,353)	(2,353)	-	(2,353)
Profit/(loss) for the year	6.9	-	32,028	32,028	(1,899)	30,129
Other comprehensive income		8,635	-	8,635	-	8,635
Total comprehensive income for the year		8,635	29,675	38,310	(1,899)	36,411
Extraordinary bonuses credited to life insurance contracts	6.6(a)	-	-	-	(640)	(640)
Extraordinary bonuses credited to life investment contracts	6.6(a)	-	-	-	(55)	(55)
Transfers between reserves and retained earnings	6.8(a)	(134)	134	-	-	-
Balance at 30 June 2020		35,681	955,277	990,958	27,428	1,018,386
Balance at 1 July 2018		32,313	892,454	924,767	29,526	954,293
Changes on initial application of AASB 9		-	(1,266)	(1,266)	(8)	(1,274)
Profit for the year	6.9	-	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 contracts	6.6(a)	-	-	-	(60)	(60)
Increase in death benefit reserve for life insurance contract liabilities	6.6(a)	-	-	-	(4)	(4)
Transfers between reserves and retained earnings	6.8(a)	839	(839)	-	-	-
Balance at 30 June 2019		27,180	925,468	952,648	30,022	982,670

		Reserves	Retained earnings	Total equity
Parent entity	**Note**	$'000	$'000	$'000
Balance at 1 July 2019		27,180	925,468	952,648
Changes on initial application of AASB 16	7.3(c)	-	(2,353)	(2,353)
Profit for the year	6.9	-	32,028	32,028
Other comprehensive income		8,635	-	8,635
Total comprehensive income for the year		8,635	29,675	38,310
Transfers between reserves and retained earnings	6.8(a)	(134)	134	-
Balance at 30 June 2020		35,681	955,277	990,958
Balance at 1 July 2018		32,313	892,454	924,767
Changes on initial application of AASB 9		-	(1,266)	(1,266)
Profit for the year	6.9	-	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	6.8(a)	839	(839)	-
Balance at 30 June 2019		27,180	925,468	952,648

The above statements of changes in equity should be read in conjunction with the accompanying notes.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
		Inflows (Outflows)	Inflows (Outflows)	**Inflows (Outflows)**	Inflows (Outflows)
Cash flows from operating activities					
Interest received		**362,615**	426,342	**331,054**	383,525
Other income		**688**	1,360	**1,790**	1,854
Fees and commissions received		**18,941**	20,519	**18,802**	20,407
Interest paid		**(145,902)**	(233,482)	**(128,174)**	(187,022)
Donations paid		**-**	-	**(1,535)**	(1,413)
Payments to suppliers and employees (inclusive of GST)		**(149,096)**	(148,414)	**(150,077)**	(153,082)
Income tax paid		**(12,328)**	(18,361)	**(12,328)**	(18,404)
(Increase)/decrease in operating assets:					
Net movement in financial assets at amortised cost and FVTPL		**(1,489,476)**	(229,406)	**(174,098)**	(232,588)
Net movement in loans and advances to members		**244,285**	(35,751)	**247,694**	(35,744)
Increase/(decrease) in operating liabilities:					
Life insurance contract contribution receipts		**-**	-	**9**	4
Life insurance contract withdrawal payments		**-**	-	**(14,802)**	(1,691)
Life investment contract contribution receipts		**-**	-	**-**	3
Life investment contract withdrawal payments		**-**	-	**(351)**	(383)
Net increase in deposits		**358,998**	235,373	**363,584**	236,492
Net cash inflow/(outflow) from operating activities	**4.1(c)**	**(811,275)**	18,180	**481,568**	11,958
Cash flows from investing activities					
Payments on unwinding of interest rate swaps		**(7,232)**	(5,516)	**(7,232)**	(5,516)
Payments for intangible assets		**(3,674)**	(4,137)	**(3,674)**	(4,137)
Payments for property, plant and equipment		**(3,137)**	(4,398)	**(3,137)**	(4,398)
Payments for investment property		**(22)**	-	**(22)**	-
Proceeds from sale of property, plant and equipment		**85**	468	**85**	468
Net cash outflow from investing activities		**(13,980)**	(13,583)	**(13,980)**	(13,583)
Cash flows from financing activities					
Net increase/(decrease) in borrowings		**1,017,968**	(136,744)	**(135,975)**	(157,555)
Payments for lease liabilities		**(8,855)**	-	**(8,855)**	-
Net cash inflow/(outflow) from financing activities		**1,009,113**	(136,744)	**(144,830)**	(157,555)
Net increase/(decrease) in cash and cash equivalents		**183,858**	(132,147)	**322,758**	(159,180)
Cash and cash equivalents at the beginning of financial year		**400,206**	532,353	**477,293**	636,473
Cash and cash equivalents at the end of financial year (excluding provision for expected credit losses)	**4.1**	**584,064**	400,206	**800,051**	477,293

The above statements of cash flows should be read in conjunction with the accompanying notes.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. Basis of preparation

1.1 Corporate information

Newcastle Permanent Building Society Limited is a mutual organisation, incorporated and domiciled in Australia. Its registered office and principal place of business is 307 King Street, Newcastle West, NSW, 2302.

Newcastle Permanent is a for-profit entity for the purposes of preparing the financial statements. The financial statements cover both Newcastle Permanent Building Society Limited ("Newcastle Permanent") as an individual entity and the consolidated entity consisting of Newcastle Permanent and its controlled entities ("consolidated entity"). Newcastle Permanent is a public company limited by shares and guarantee.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 18 September 2020.

1.2 Basis of accounting

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* .

These financial statements have been prepared in accordance with the historical cost basis, except for the following assets and liabilities which have been stated at their fair value:

- derivative financial instruments;
- financial assets designated at fair value through profit or loss;
- certain classes of property, plant and equipment; and
- life insurance and life investment contracts.

The consolidated financial statements of the Newcastle Permanent group and the separate financial statements of Newcastle Permanent also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

1.3 Significant accounting judgements and estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying the consolidated entity's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below, with details outlined in the respective notes.

	Reference
Provision for expected credit losses	Note 3.2
Financial assets at amortised cost	Note 4.2(a)
Securitisation	Note 4.6
Fair value measurement	Note 5.8
Provision for customer remediation	Note 6.7(d)
Leases accounted for under AASB 16	Note 7.3

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2. Financial performance					
2.1 Income					
(a) Net interest income					
Interest revenue:					
Loans and advances to members		**296,805**	346,244	**298,584**	348,122
Cash and liquid assets	2.1(a)(i)	**59,309**	79,349	**25,915**	34,658
		356,114	425,593	**324,499**	382,780
Interest expense:					
Deposits		**100,208**	140,007	**94,785**	139,638
Borrowings		**60,983**	90,574	**34,052**	47,215
Other interest expense	2.1(a)(ii)	**663**	-	**663**	-
		161,854	230,581	**129,500**	186,853
Total net interest income		**194,260**	195,012	**194,999**	195,927

(i) Interest revenue - Cash and liquid assets

Cash and liquid assets include cash and cash equivalents, financial assets at fair value through profit or loss and financial assets at amortised cost. Refer to Notes 4.1 and 4.2 for further details of the composition of cash and liquid assets.

(ii) Other interest expense

Other interest expense includes interest expense on lease liabilities due to the adoption of AASB 16. Comparatives have not been restated. Refer to Note 7.3 for further details.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2.1 Income (continued)					
(b) Fee and commission income					
Fee revenue		**13,016**	13,577	**12,877**	13,465
Commission revenue		**2,484**	3,537	**2,484**	3,537
Government subsidies		**-**	84	**-**	84
		15,500	17,198	**15,361**	17,086
(c) Other operating income					
Rental income		**140**	200	**140**	200
Partnership income		**750**	750	**750**	750
Other income		**509**	405	**1,682**	1,539
		1,399	1,355	**2,572**	2,489
(d) Other net gains and losses					
Net gain/(loss) on disposal of property, plant and equipment		**(109)**	362	**(109)**	362
Net loss on disposal of investments		**-**	-	**(3)**	-
Net fair value gains/(losses) on financial assets at FVTPL	4.2(b), 5.8	**355**	256	**(840)**	1,204
		246	618	**(952)**	1,566

(e) Recognition and measurement

Interest revenue and expense
Interest revenue and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the consolidated entity estimates cash flows considering all fees paid or received between parties, transaction costs, premiums incurred or discounts received in relation to the contract that are an integral part of the effective interest rate.

Government subsidies
No Government subsidies were received during the year.

Fee and commission revenue and expense
Fees and commissions are generally recognised on an accruals basis when the service has been provided or incurred. Loan fees received in relation to the origination of loans are deferred and recognised as an adjustment to the effective interest rate on loans. The outstanding balance of the deferred origination income is recognised in the balance sheet as a decrease in the value of loan balances outstanding.

Fee income includes transactional based fees charged to customer accounts in accordance with the terms and conditions of the particular account type. Commission income is received from third parties as a result of the provision of services to customers, or where the consolidated entity acts as an intermediary in providing a service to customers on behalf of third parties.

Revenue from contracts with customers
Commission revenue includes $0.59m (2019: $1.24m) of revenue from contracts with customers recognised under AASB 15. The consolidated entity receives insurance commissions from partner organisations for distributing and placing general and consumer credit insurance products. Trail commission revenue previously recognised over time is now recognised at the time the consolidated entity distributes the underlying product to the customer, where it is highly probable the revenue will not need to be reversed in future periods. The consolidated entity acts as an agent in the provision of consumer credit insurance products. Performance obligations in contracts with customers are satisfied prior to receiving trail commission revenue.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term (Note 6.3).

Partnership income
The consolidated entity receives income from business partners to fund mutually beneficial business improvement initiatives.

Other income
Other income includes managed fund distributions held by a charitable trust. Revenue is recognised when the trust's right to receive the payment is established, which is generally when the fund manager approves the distribution.

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2.2 Expenses				
(a) Depreciation and amortisation				
Buildings	**600**	595	**600**	595
Plant and equipment	**4,246**	3,949	**4,246**	3,949
Leasehold improvements	**495**	698	**495**	698
Investment properties	**35**	34	**35**	34
	5,376	5,276	**5,376**	5,276
Right-of use assets	**8,003**	-	**8,003**	-
Intangible assets	**4,052**	3,423	**4,052**	3,423
	17,431	8,699	**17,431**	8,699

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2.2 Expenses (continued)					
(b) Personnel related expenses					
Employee salaries and directors' fees		**73,898**	73,453	**73,912**	73,468
Employee related on-costs		**12,349**	12,270	**12,351**	12,272
Other personnel related expenses		**5,229**	4,687	**5,229**	4,689
		91,476	90,410	**91,492**	90,428
(c) Operating expenses*					
Rental expense relating to operating leases - minimum lease payments		**933**	9,857	**933**	9,857
Ineffectiveness on cash flow hedges		**58**	64	**58**	64
Impairment of land and buildings		**17**	-	**17**	-
Marketing and communication costs		**8,729**	9,225	**8,729**	9,225
Donations paid by controlled entity		**-**	-	**1,535**	1,413
Administration and other operating expenses		**32,122**	34,617	**33,052**	35,443
		41,859	53,763	**44,324**	56,002

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2.3 Income tax expense					
(a) Amounts recognised in income statements					
Current tax		**14,480**	17,515	**14,480**	17,554
Deferred tax:					
Increase in deferred tax assets		**1,488**	(394)	**1,488**	(371)
Decrease in deferred tax liabilities		**(2,131)**	308	**(2,131)**	308
		(643)	(86)	**(643)**	(63)
		13,837	17,429	**13,837**	17,491
(b) Reconciliation of tax expense					
A reconciliation between the tax expense and accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:					
Accounting profit before income tax		**45,865**	52,548	**43,966**	53,178
At Australia's statutory income tax rate of 30% (2019: 30%)		**13,760**	15,764	**13,190**	15,953
Adjust for tax effect of:					
Non-deductible expenses		**15**	(1)	**15**	(1)
Non-assessable income of exempt entities		**-**	-	**460**	(221)
		13,775	15,763	**13,665**	15,731
Other reconciling items:					
Income tax (over)/under provided in prior years		**62**	(292)	**62**	(254)
Amendment of prior year capital works deductions		**-**	145	**-**	145
Amendment of prior year refundable tax offsets		**-**	1,813	**-**	1,813
Deferred tax asset no longer recoverable		**-**	-	**-**	23
Tax losses not recognised as a deferred tax asset		**-**	-	**110**	33
		13,837	17,429	**13,837**	17,491
Deferred income tax related to items charged or credited to other comprehensive income during the year					
Gain on revaluation of land and buildings	**6.8(a)(iii)**	**727**	-	**727**	-
Net loss on cash flow hedges	**6.8(a)(ii)**	**3,132**	(1,129)	**3,132**	(1,129)
Net gain on unwound swaps	**6.8(a)(ii)**	**(157)**	(1,430)	**(157)**	(1,430)
		3,702	(2,559)	**3,702**	(2,559)
(c) Deferred tax balances					
(i) Deferred tax liabilities					
Amounts recognised in profit and loss:					
Prepayments		**52**	46	**52**	46
Provision for contract assets		**308**	288	**308**	288
Right of Use Assets		**7,438**	-	**7,438**	-
		7,798	334	**7,798**	334
Amounts recognised directly in other comprehensive income:					
Revaluation of property		**5,690**	5,481	**5,690**	5,481
		5,690	5,481	**5,690**	5,481
Total deferred tax liabilities		**13,488**	5,815	**13,488**	5,815

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
2.3 Income tax expense (continued)				
(c) Deferred tax balances (continued)				
(ii) Deferred tax assets				
Amounts recognised in profit or loss:				
Provision for expected credit losses	**2,540**	924	**2,540**	924
Employee leave entitlements	**3,815**	3,695	**3,815**	3,695
Retirement benefit obligations	**74**	142	**74**	142
Accrued expenses	**37**	145	**37**	145
Employee benefits	**990**	723	**990**	723
Lease incentives	**14**	28	**14**	28
Cash flow hedges	**52**	34	**52**	34
Property, plant and equipment	**4,535**	5,474	**4,535**	5,474
Provision for remediation costs	**681**	1,260	**681**	1,260
Unrealised gains on financial assets at FVTPL	**99**	206	**99**	206
Lease Liabilities	**8,391**	-	**8,391**	-
	21,228	12,631	**21,228**	12,631
Amounts recognised directly in other comprehensive income:				
Cash flow hedges	**(1,669)**	1,463	**(1,669)**	1,463
Total gross deferred tax assets	**19,559**	14,094	**19,559**	14,094
Less: Offset of deferred tax liabilities pursuant to set-off provisions	**(13,488)**	(5,815)	**(13,488)**	(5,815)
Total net deferred tax assets	**6,071**	8,279	**6,071**	8,279
(d) Deferred tax balance movements				
(i) Deferred tax liability				
Opening balance at 1 July	**5,815**	5,507	**5,815**	5,507
Reallocation to DTA	**(518)**	-	**(518)**	-
Charged/(credited) to the income statement	**(2,131)**	308	**(2,131)**	308
Credited to other comprehensive income	**727**	-	**727**	-
Transition to new accounting standard	**9,595**	-	**9,595**	-
	13,488	5,815	**13,488**	5,815
Maturity analysis:				
Deferred tax liabilities to be settled within 12 months	**2,885**	165	**2,885**	165
Deferred tax liabilities to be settled after more than 12 months	**10,603**	5,650	**10,603**	5,650
	13,488	5,815	**13,488**	5,815
(ii) Deferred tax asset				
Opening balance at 1 July	**14,094**	12,028	**14,094**	12,052
Reallocation from DTL	**(518)**	-	**(518)**	-
(Charged)/credited to the income statement	**(1,488)**	394	**(1,488)**	370
Credited/(charged) directly to other comprehensive income	**(3,132)**	1,130	**(3,132)**	1,130
Transition to new accounting standards	**10,603**	542	**10,603**	542
Closing balance at 30 June	**19,559**	14,094	**19,559**	14,094
Maturity analysis:				
Deferred tax assets to be recovered within 12 months	**8,004**	4,329	**8,004**	4,329
Deferred tax assets to be recovered after more than 12 months	**11,555**	9,765	**11,555**	9,765
	19,559	14,094	**19,559**	14,094

(e) Recognition and measurement

Income tax expense comprises current and deferred tax. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax is recognised in profit and loss in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
3. Loans and advances to members					
3.1 Classification					
Overdrafts		**4,238**	6,627	**4,238**	6,627
Credit cards		**26,868**	33,211	**26,868**	33,211
Personal loans		**35,825**	45,137	**35,825**	45,137
Retail mortgages*		**8,733,924**	8,947,147	**8,733,924**	8,947,147
Commercial loans		**54,309**	70,719	**54,309**	70,719
Gross loans and advances		**8,855,164**	9,102,841	**8,855,164**	9,102,841
Provision for expected credit losses*	**3.2 (b)**	**(7,969)**	(2,534)	**(7,969)**	(2,534)
Net loans and advances		**8,847,195**	9,100,307	**8,847,195**	9,100,307

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(a) Maturity analysis

Details on the expected maturity of loans and advances to members based on historical behaviour is outlined in the table below. The amounts will differ from the table in Note 5.9, which presents the contractual maturity of loans and advances to members.

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Expected maturities within 12 months*	**2,009,519**	1,894,366	**2,009,519**	1,894,366
Expected maturities greater than 12 months*	**6,845,645**	7,208,475	**6,845,645**	7,208,475
Total gross loans and advances to members	**8,855,164**	9,102,841	**8,855,164**	9,102,841

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

3.2 Provision for expected credit losses

(a) Loan impairment expense

	Parent and Consolidated Entity 2020 $'000	2019 $'000
Impaired loans written off	**454**	699
Impaired loans recovered	**(311)**	(362)
Movement in provision for expected credit losses	**5,435**	168
	5,578	505

(b) Analysis of the movement in the provision for expected credit losses

The following table presents the total provisions on lending assets by ECL stage:

Parent and Consolidated Entity	Stage 1 12 mths ECL Collectively assessed $'000	Stage 2 Lifetime ECL Collectively assessed $'000	Stage 3 Lifetime ECL Collectively assessed $'000	Stage 3 Lifetime ECL Individually assessed $'000	Total $'000
As at 1 July 2019	961	571	443	559	**2,534**
New loans originated during the year	154	-	-	-	**154**
Net remeasurement on transfers between stages	(172)	3,944	1,726	548	**6,046**
Loans derecognised during the year	(93)	(69)	(44)	(105)	**(311)**
Write-offs	-	-	-	(454)	**(454)**
As at 30 June 2020	**850**	**4,446**	**2,125**	**548**	**7,969**
As at 1 July 2018*	1,092	298	441	705	**2,536**
New loans originated during the year*	176	-	-	-	**176**
Net remeasurement on transfers between stages*	(211)	305	39	544	**677**
Loans derecognised during the year*	(96)	(32)	(37)	9	**(156)**
Write-offs	-	-	-	(699)	**(699)**
As at 30 June 2019	**961**	**571**	**443**	**559**	**2,534**

* The prior year reconciliation of movements in the provision for expected credit losses was restated to align with a simplified and refined approach developed during the 2020 financial year. The new approach was retrospectively applied to the 2019 financial year provisioning data to ensure consistency in presentation.

3.3 Loans to related parties and key management personnel

Further information in relation to loans to related parties and key management personnel is set out in Note 6.11.

3.4 Accounting policies

(a) Classification, recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the consolidated entity provides money directly to a debtor with no intention of trading the receivables.

Loans and advances to members are recognised when cash is advanced. Loans and advances to members are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment losses. Interest is calculated using the effective interest rate method and is recognised in profit or loss (refer to Note 2.1).

(b) Impairment of financial assets

The consolidated entity applies an expected credit loss (ECL) impairment model that reflects an unbiased, probability weighted method and evaluates a range of scenarios taking 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.

(i) Three-stage approach to determining the provision for expected credit loss

The three-stage approach for impairment measures expected credit losses over 12 months or the expected lifetime of the financial asset. The assets migrate through the following three stages based on credit deterioration since origination of the loan:

- Stage 1: On origination and where there has not been a significant increase in credit risk (SICR) since origination, a provision equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from defaults occurring over the next 12 months.

- Stage 2: Financial assets that have experienced SICR since origination are transferred to Stage 2. A provision equivalent to lifetime ECL is recognised to reflect the credit losses expected to arise from defaults occurring over the remaining life of the financial asset. If credit risk were to improve in a subsequent period such that the increase is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.

- Stage 3: Where there is objective evidence of impairment, a provision equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective and individual basis when transferred to Stage 3.

(ii) Measurement of expected credit loss

ECL is a probability weighted credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. ECL is calculated as the product of the following credit risk factors at a facility level:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;

- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest and accrued interest; and

- Loss given default (LGD) - the amount that is not expected to be recovered following default.

(iii) Definition of default, credit impaired assets and write-offs

Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the consolidated entity in full, or the exposure is 90 days past due.

Facilities are classified as credit impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner.

Loans are written-off when there is no realistic probability of recovery. Loans are written off against the related impairment allowance on completion of the consolidated entity's internal processes and when all reasonable expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to the income statement.

(iv) Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The consolidated entity considers the expected lifetime over which it is exposed to credit risk. For retail portfolios, the expected lifetime is determined using the behavioural term, taking into account expected prepayment behaviour.

3.4 Accounting policies (continued)

(c) Significant accounting estimates and judgements

The calculation of the provision for expected credit losses requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g.: the likelihood of customer default and resulting losses). The significant judgements made in the determination of the provision for expected credit losses are outlined in the following sections:

(i) Significant increase in credit risk (SICR)

A financial asset moves from Stage 1 to Stage 2 when there is significant increase in credit risk since origination. The consolidated entity considers all available qualitative and quantitative information in determining whether there has been evidence of SICR. Further details on the determination of SICR are outlined below:

- *Non-retail portfolios (cash equivalents and financial assets at amortised cost)*
  For non-retail lending portfolios, the consolidated entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low credit risk (for example, investment grade financial instruments). All non-retail financial instruments held by the consolidated entity are of investment grade and hence no SICR is observed for these portfolios. The non-retail portfolios are subject to review at least annually to ensure the portfolios have remained at investment grade and hence no SICR has been observed. More frequent reviews may occur, for instance, upon the external credit rating of a counterparty being revised.

- *Retail portfolios (retail mortgages)*
  The consolidated entity applies the rebuttable presumption that the credit risk on financial assets has increased significantly since initial recognition when contractual payments are more than 30 days past due. In addition, any retail exposure entering a financial hardship status (excluding COVID-19 repayment deferrals) is also an indicator of SICR. Where exposures enter financial hardship, they are required to demonstrate 6 months of good payment behaviour prior to being allocated back to Stage 1.

  The granting of loan deferrals to customers in financial hardship due to the COVID-19 pandemic is not automatically assumed to represent an indicator of SICR. Rather, the model allows for the additional inherent risk of SICR not fully captured by the rebuttable presumption and non-COVID financial hardship, through a Forecast SICR Adjustment. This adjustment factor is designed to respond to a deterioration in the economic outlook by shifting an additional portfolio of loans from Stage 1 to Stage 2, thus increasing the provision recognised on these exposures to a lifetime expected credit loss. The consolidated entity has made a judgement that the Forecast SICR Adjustment has been sufficient to respond to the heightened risks associated with the COVID-19 pandemic, including those inherent in repayment deferrals approved during the year.

- *Simplified portfolios (overdrafts, personal loans, credit cards and commercial loans)*
  For small lending portfolios (comprising those less than 2% of the total lending portfolio), which are not considered significant individually or in combination, the consolidated entity applies simplified provisioning approaches. 30 days past due is used as the primary indicator of SICR on exposures in these portfolios.

(ii) Forward-looking information

In applying forward looking information for estimating ECL for retail portfolios, the consolidated entity considers three probability-weighted forecast economic scenarios as follows:

- *Base case scenario*
  This scenario reflects the entity's base case assumptions using a market consensus view of the macroeconomic environment to ensure an unbiased estimate of expected credit losses. The consolidated entity has applied a weighting of 80% to the base case scenario.

- *Upside and downside scenarios*
  The upside and downside scenarios are not based on the economic conditions prevailing at balance date, instead they are based on a more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons. The consolidated entity has applied a weighting of 10% to the upside scenario and 10% to the downside scenario, reflecting its views of the forward economic outlook.

  The impacts of the COVID-19 pandemic have resulted in a worsening of forward looking economic conditions. The consolidated entity has considered this and has formed a view that it is more likely that the downside scenario would eventuate over the forward economic outlook. The scenario weightings are unchanged however, due to the presence of other assumptions and weightings in the model assumptions which provide an appropriate overall probability-weighted ECL estimate.

Each of the three scenarios include a 12 month forecast of relevant macroeconomic variables which include unemployment rates, GDP growth rates, house price index and lending rate changes.

Model inputs for the Retail Portfolios			Unweighted ECL	Probablity Weighting	Reportable Collectively Assessed ECL
30 June 2020					
Unemployment	10.00	**Upside Scenario**	1,939,040	10%	
Real GDP Change	-6.00	**Baseline Scenario**	4,227,677	80%	5,397,051
HPI Change	-10.00	**Downside Scenario**	18,210,056	10%	
30 June 2019					
Unemployment	4.75	**Upside Scenario**	649,777	10%	
Real GDP Change	2.75	**Baseline Scenario**	1,303,959	80%	1,498,064
HPI Change	-4.44	**Downside Scenario**	3,899,188	10%	

For the simplified portfolios, the ECL model is simplified in the sense that no probability weighted scenario analysis outcomes are incorporated. This is a key judgement for the consolidated entity, and is made on the basis of the materiality of the simplified portfolios.

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
4. Funding and liquidity					
4.1 Cash and cash equivalents					
Cash at financial institutions and on hand*		**315,076**	48,948	**531,063**	114,523
Investment securities		**268,988**	266,081	**268,988**	266,581
Deposits at call*		**-**	85,177	**-**	96,189
		584,064	400,206	**800,051**	477,293
Provision for expected credit losses	4.1(b)	**(49)**	(167)	**(49)**	(174)
		584,015	400,039	**800,002**	477,119

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(a) Accounting policies

(i) Recognition and measurement

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with other financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Restrictions over cash and cash equivalents

There are $NIL cash and cash equivalents held in the consolidated entity (2019: $15,670,000) relating to life insurance and life investment operations carried on by a controlled entity.

In addition, cash and cash equivalents of the consolidated entity includes an amount of $1,005,000 (2019: $1,313,000) relating to the activities of a charitable trust which are only available to be utilised in accordance with the respective trust deed.

Cash and cash equivalents of the consolidated entity includes an amount of $208,890,000 (2019: $58,462,000) relating to the activities of a self-securitisation trust which operates as a contingent liquidity facility. This cash balance is restricted for specific purposes within the self-securitisation structured entity.

(iii) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the cash flow statement:

- customer deposits to and withdrawals from deposit accounts;
- borrowings and repayments on loans and advances to members;
- short term funds; and
- proceeds from and repayment of borrowings.

(b) Analysis of the movement in the provision for expected credit losses

The following table presents the total provisions on cash and cash equivalents by ECL stage:

	Stage 1 12 mths ECL Collectively $'000	Stage 2 Lifetime ECL Collectively $'000	Stage 3 Lifetime ECL Collectively $'000	Stage 3 Lifetime ECL Individually $'000	Total $'000
Parent Entity - 2020					
As at 1 July 2019	167	-	-	-	**167**
Movement due to change in composition of investments	(58)	-	-	-	**(58)**
Write-back of provisions no longer required	(60)	-	-	-	**(60)**
As at 30 June 2020	**49**	**-**	**-**	**-**	**49**
Consolidated Entity - 2020					
As at 1 July 2019	174	-	-	-	**174**
Movement due to change in composition of investments	(58)	-	-	-	**(58)**
Write-back of provisions no longer required	(67)	-	-	-	**(67)**
As at 30 June 2020	**49**	**-**	**-**	**-**	**49**
Parent Entity - 2019					
As at 1 July 2018	176	-	-	-	**176**
Movement due to change in composition of investments	(9)	-	-	-	**(9)**
As at 30 June 2019	**167**	**-**	**-**	**-**	**167**
Consolidated Entity - 2019					
As at 1 July 2018	185	-	-	-	**185**
Movement due to change in composition of investments	(11)	-	-	-	**(11)**
As at 30 June 2019	**174**	**-**	**-**	**-**	**174**

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
4.1 Cash and cash equivalents (continued)					
(c) Notes to the statement of cash flows					
Reconciliation of profit for the year to net cash provided by/(used in) operating activities:					
Profit after tax from continuing operations		**32,028**	35,119	**30,129**	35,687
Non-cash adjustment to reconcile profit before tax to net cash flows:					
Amortisation and depreciation expense		**17,431**	8,699	**17,431**	8,699
(Gain)/loss on sale of property, plant and equipment		**109**	(362)	**109**	(362)
Movement in provision for expected credit losses - loans and advances		**5,435**	168	**5,435**	168
Impairment expense/(reversal) - investments		**(46)**	123	**(53)**	121
Impairment expense on land and buildings		**17**	-	**17**	-
Net (gain)/loss on financial assets at FVTPL		**(355)**	(256)	**840**	(1,204)
Unwound swap losses		**6,708**	749	**6,708**	749
Hedge ineffectiveness		**58**	64	**58**	64
Movement in death benefit provision		**-**	-	**(1)**	(5)
Changes in operating assets and liabilities:					
Increase/(decrease) in provisions		**(1,756)**	3,729	**(1,763)**	3,730
Increase/(decrease) in tax liability		**1,922**	(2,024)	**1,922**	(2,028)
Increase in deferred tax liability		**4,979**	2,868	**4,979**	2,868
Increase in deferred tax asset		**(5,393)**	(1,523)	**(5,393)**	(1,500)
Increase in derivatives		**(207)**	(168)	**(207)**	(168)
(Increase)/decrease in prepayments and other receivables		**12,956**	(5,641)	**(1,333)**	(3,586)
Increase/(decrease) in payables		**(8,277)**	5,750	**(8,657)**	1,964
Increase in lease liabilities		**663**	-	**663**	-
Increase in investments		**(1,489,476)**	(229,406)	**(174,098)**	(232,588)
Increase/(decrease) in loans and advances to members		**243,726**	(35,082)	**247,135**	(35,075)
Increase in deposits		**368,203**	235,373	**372,789**	236,492
Decrease in life investment and life insurance contracts		**-**	-	**(15,142)**	(2,068)
Net cash inflow/(outflow) from operating activities		**(811,275)**	18,180	**481,568**	11,958
4.2 Financial assets					
(a) At amortised cost					
Certificates of deposit		**89,678**	267,602	**89,678**	267,602
Fixed and floating rate notes		**1,097,051**	717,162	**1,097,051**	717,162
Government and semi-government securities		**129,888**	157,317	**129,888**	157,317
Interest bearing deposits		**-**	-	**2,314**	2,422
		1,316,617	1,142,081	**1,318,931**	1,144,503
Provision for expected credit losses	**4.2(d)**	**(450)**	(378)	**(450)**	(378)
		1,316,167	1,141,703	**1,318,481**	1,144,125
(b) At fair value through profit or loss (FVTPL)					
Mortgage-backed securities		**2,663,481**	1,348,185	**2,179**	2,162
Unlisted securities*		**539**	538	**539**	538
Investments in managed funds		**-**	-	**23,225**	24,412
		2,664,020	1,348,723	**25,943**	27,112

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(c) Accounting policies

(i) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the consolidated entity settles the instrument with the counterparty. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

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4.2 Financial assets (continued)

(c) Accounting policies (continued)

(ii) Classification and Measurement

The consolidated entity classifies its financial assets in the following categories: amortised cost and fair value through profit or loss. The classification depends on the purpose for which the investments were acquired.

Financial assets - debt instruments
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 asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The classification models based on the criteria above for financial assets are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely of payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows;
- Fair value through other comprehensive income (FVOCI): Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows or sell them; and
- Fair value through profit or loss (FVTPL): Any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets
A financial asset may be irrevocably designated at fair value through profit or loss on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - equity instruments
Non-traded equity instruments can be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. The gains or losses may be reclassified within equity. Impairment provisions are not recognised on these investments.

(iii) Reclassification

Financial assets can only be reclassified when there is a change to the consolidated entity's business model for managing financial assets. The reclassification is applied prospectively from the reclassification date with no restatement of any previously recognised gains or losses (including impairment gains or losses) or interest. The consolidated entity has not reclassified any financial assets under AASB 9.

(iv) Impairment of financial assets

Impairment is assessed and provisions are recognised in accordance with the AASB 9 expected credit loss impairment model. The details of the critical accounting judgements and estimates involved in calculating impairment under the expected credit loss impairment model are provided in Note 3.2.

(d) Analysis of the movement in the provision for expected credit losses

The following table presents the total provisions on financial assets by ECL stage:

Parent and Consolidated Entity	Stage 1 12 mths ECL Collectively assessed $'000	Stage 2 Lifetime ECL Collectively assessed $'000	Stage 3 Lifetime ECL Collectively assessed $'000	Stage 3 Lifetime ECL Individually assessed $'000	Total $'000
As at 1 July 2019	378	-	-	-	**378**
New and increased provisions	72	-	-	-	**72**
As at 30 June 2020	**450**	**-**	**-**	**-**	**450**
As at 1 July 2018	245	-	-	-	**245**
New and increased provisions	160	-	-	-	**160**
Write-back of provisions no longer required	(27)	-	-	-	**(27)**
As at 30 June 2019	**378**	**-**	**-**	**-**	**378**

	Note	Parent and Consolidated Entity 2020 $'000	Parent and Consolidated Entity 2019 $'000
4.3 Derivative financial instruments			
Interest rate swap contracts - cash flow hedges	**4.3(a)**	**5,595**	(4,993)
Disclosed in the balance sheet as:			
Assets		**5,595**	2,371
Liabilities		**-**	(7,364)
		5,595	(4,993)

4.3 Derivative financial instruments (continued)

(a) Interest rate swap contracts - cash flow hedges

The consolidated entity enters into either receive fixed/pay variable or pay fixed/receive variable interest rate swap contracts to meet its risk management objectives. Derivatives are used only for economic hedging purposes and not as speculative investments. These interest rate swaps are designated in cash flow hedging relationships. These hedging relationships are described below:

(i) Receive fixed/pay variable interest rate swap contracts

It is the policy of the consolidated entity to protect interest rate sensitive assets from exposure to decreasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at fixed rates and to pay interest at variable rates. The contracts require settlement of net interest receivable or payable each 30 days in line with the maturity of the assets being hedged. The contracts are settled on a net basis.

(ii) Pay fixed/receive variable interest rate swap contracts

It is the policy of the consolidated entity to protect interest rate sensitive liabilities from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts require settlement of net interest receivable or payable each 90 days in line with the maturity of the liabilities being hedged. The contracts are settled on a net basis.

(iii) Maturity profile of notional principal amounts

	Parent and Consolidated Entity	
	2020	2019
	$'000	$'000
Receive fixed/pay variable contracts:		
Less than 1 year	**800,000**	1,916,000
1 - 5 years	**520,000**	-
	1,320,000	1,916,000
Pay fixed/receive variable contracts:		
1 - 5 years	**-**	385,000
	-	385,000

(iv) Fair value of interest rate swap contracts

At balance sheet date for both the consolidated entity and the parent entity, the carrying amount of the derivatives equals their fair value. Valuation adjustments in determining the fair value of derivatives include a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default.

(b) Recognition and measurement

The consolidated entity has exercised an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The consolidated entity only hedges particular risks associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions, and therefore designates all hedges as cash flow hedges.

The consolidated entity documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items. The actual results of the hedge must remain within the range of 80-125% (retrospective effectiveness) to remain highly effective. The consolidated entity enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The consolidated entity does not hedge 100% of its loans/deposits, therefore the hedged item is identified as a proportion of the outstanding loans/deposits up to the notional amount of the swaps.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated reserves in equity, net of tax. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The ineffectiveness recorded during the year was an expense of $57,568 (2019 expense: $63,895).

When a hedging instrument expires, is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

4.4 Deposits

	Parent Entity		Consolidated Entity	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Deposits from other financial institutions	**4,351**	-	**4,351**	-
At call deposits	**5,287,270**	4,803,633	**5,287,180**	4,803,401
Term deposits	**3,213,049**	3,411,728	**3,213,049**	3,411,728
Other deposits	**269,023**	268,108	**269,023**	263,665
	8,773,693	8,483,469	**8,773,603**	8,478,794

(a) Recognition and measurement

Deposits are initially recognised at fair value (being fair value of consideration received) and are subsequently measured at amortised cost using the effective interest rate method (refer to Note 2.1).

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
4.5 Borrowings					
Secured					
Interest bearing notes issued by securitisation SPVs	**4.5(a)**	**2,583,263**	1,473,450	**130,387**	174,517
Term Funding Facility	**4.5(b)**	**77,980**	-	**77,980**	-
Unsecured					
Short and medium term floating rate notes		**1,045,281**	1,137,130	**1,045,281**	1,137,130
		3,706,524	2,610,580	**1,253,648**	1,311,647

(a) Details of interest bearing notes

Secured borrowings of the consolidated entity are secured by the underlying mortgages held in the consolidated entity's structured entities. Refer to Note 4.6 for further details on the consolidated entity's securitisation programs.

Interest bearing notes of the consolidated entity have been issued from external funding warehouse facilities that expire on 15 October 2020. The process to renew the warehouse facilities with the warehouse providers has commenced and is intended to be completed prior to this date. 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 12 month period ending 15 October 2021.

In the unlikely event that the existing funding providers did not extend the facilities, the Trust would seek to refinance the facilities with another provider. If the funding warehouse was not refinanced, then an event of default would be declared and the security trustee would be appointed to realise the assets of the Trust for the benefit of the secured and unsecured creditors.

(b) Details of Term Funding Facility

During the current financial year, a Term Funding Facility (TFF) was offered by the Reserve Bank of Australia (RBA) which provides access to a three-year secured funding facility at an annual rate of 0.25%. The Initial Allocation is based on 3% of credit outstanding, which NPBS was advised its allocation was $267,939,600. Participants are able to draw down on the Initial Allocation until 30 September 2020, and are required to provide eligible collateral in return. NPBS had only partially drawn this facility at year end, with the undrawn amount being a source of contingent liquidity at 30 June 2020. The remaining amount was fully drawn in September 2020.

On 1 September 2020, a Supplementary Allowance of $176,751,000 became available for inclusion in the TFF funding allowance of the consolidated entity following the end of the Initial Allocation draw down period. The Supplementary Allowance can be drawn from 1 October 2020 until 30 June 2021.

(c) Accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

4.6 Securitisation

(a) Summary of securitisation activities

Newcastle Permanent sponsors the formation of structured entities primarily for the purpose of raising funding through securitisation of mortgage loans and accessing a contingent liquidity facility with the Reserve Bank of Australia. Newcastle Permanent does not consolidate a structured entity that it does not control. In determining whether Newcastle Permanent does control a structured entity, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In all instances, elements are present that indicate control over structured entities and therefore Newcastle Permanent has consolidated the results, assets and liabilities of the structured entities.

Due to the securitisation structures adopted by the consolidated entity, mortgage loans selected for sale in securitisation tranches do not qualify for derecognition. Only mortgage loans which meet selection criteria are eligible for selection in securitisation tranches. The selection criteria requires review of loan serviceability profiles, maximum loan terms, loan valuation ratios, level of interest rates charged, adequacy of loan documentation, quality and valuation of collateral. The consolidated entity is still exposed to the credit and interest rate risks associated with securitised loans, and is entitled to receive all interest and principal payments in relation to these loans.

(b) Carrying amounts of assets and liabilities related to securitisation

The carrying amount of assets transferred by Newcastle Permanent to structured entities and that are consolidated by the group at balance sheet date was $2,583,265,473 (2019: $1,473,450,735). The underlying liabilities of the consolidated entity issued as a result of the securitisation of assets at balance sheet date was $130,388,099 (2019: $174,517,133).

(c) Recognition and measurement

Equitably assigned mortgage loans relating to Newcastle Permanent's securitisation programs are recognised in the balance sheet of the parent with a corresponding loan payable to the relevant structured entity. The associated liabilities arising from the securitisation program include trust notes, secured over the securitised mortgage loans. Income relating to the equitably assigned mortgage loans is recognised in the income statement of Newcastle Permanent and measured at amortised cost using the effective interest rate method. Interest expense on the loan to the structured entity is recognised in the profit or loss using the effective interest rate method which equates to the coupon payable on the loan from the structured entity and includes terms and conditions of the arrangements and services between Newcastle Permanent and the structured entity adjusted for fees paid directly by the structured entity to external party providers. These fees include servicing, liquidity fees and residual income.

5. Financial risk management

This note explains the nature and extent of risks arising from financial instruments and how these risks could affect the consolidated entity's financial performance. The consolidated entity's major risk categories are detailed below:

Nature of Risk	Exposure arising from	Measurement	Governance	Refer Note
Lending Credit Risk	• Loans and advances • Financial guarantees • Undrawn loan commitments	• Ageing and arrears analysis • Lending credit stress testing • Monitoring of portfolio risk metrics and concentrations	• Lending Credit Risk Policy • Lending Policy Manuals and Delegations • Reporting to Board and Management Committees • Risk Appetite Statement and Risk Management Strategy	**5.2(a)**
Investment Credit Risk	• Cash and liquid assets • Financial assets at amortised cost • Financial assets at FVTPL • Other receivables • Derivative financial instruments	• Counterparty credit ratings • Large exposure monitoring • Portfolio tolerances • Stress testing • Collateral management	• Investment Credit Risk and Large Exposures Policy • Reporting to Board and Management Committees • Risk Appetite Statement and Risk Management Strategy	**5.2(b)**
Liquidity Risk	• Retail deposits from customers • Wholesale borrowings • Derivative financial instruments • Financial guarantees • Undrawn loan commitments	• Scenario analysis and stress testing • Minimum liquidity ratios and risk limits • Daily monitoring of liquidity metrics relative to tolerances • Maintenance of contingent liquidity sources	• Liquidity Risk Policy • Funding Strategy • Liquidity Management Strategy • Contingency Funding Plan • Reporting to Board and Management Committees • Risk Appetite Statement and Risk Management Strategy	**5.3**
Market Risk - Foreign Exchange Risk	• Purchases and creditors denominated in foreign currency	• Sensitivity analysis	• Liquidity Risk Policy • Risk Appetite Statement and Risk Management Strategy • Reporting to Board and Management Committees	**5.4**
Interest Rate Risk	• Cash and liquid assets • Financial assets at amortised cost • Loans and advances • Financial assets at FVTPL • Other receivables • Derivative financial instruments • Retail deposits from customers • Wholesale borrowings	• Modelling impact due to movements in interest rates on Net Interest Income (NII) and Economic Value (EV) • Repricing and Maturity Gap Analysis • Stress testing	• Interest Rate Risk Policy • Use of derivative financial instruments • Reporting to Board and Management Committees • Risk Appetite Statement and Risk Management Strategy	**5.5**
Non-Financial Risk (e.g.: operational, compliance, conduct and legal risk)	• Operational risks, being the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events • Strategic risks, being those that threaten to disrupt the assumptions at the core of the organisation's strategy	• Corporate and Business Unit Risk matrices and profiles • Key Risk Indicators • Incident and breach reporting • Scenario analysis	• Non-Financial Risks Policy • Business Continuity Management Policy • Strategic Plan • Reporting to Board and Management Committees • Risk Appetite Statement and Risk Management Strategy	**5.1**

5.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated entity's risk management framework. The Board sets and approves the risk appetite, risk management strategy and a framework for the management of each material business risk.

(a) Risk management strategy

The Risk Appetite Statement (RAS) documents the types and levels of risks that the Board considers acceptable in pursuit of the consolidated entity's strategic objectives. The Risk Management Strategy (RMS) sets out the strategy and approach to managing the risks associated with its activities by establishing and documenting a set of high level Board approved risk management principles, the risk governance framework, risk culture expectations and the high level strategy for the management of each material business risk.

Detailed risk policies for each material risk support the RAS and RMS by setting out a range of specific requirements for the measurement, management, monitoring and reporting of each material risk. All elements of the risk management framework are reviewed regularly (at least annually) to reflect changes in market conditions and/or the consolidated entity's operations, with changes approved by the Board.

(b) Risk governance framework

The risk governance framework refers to the formal structure that has been established by the Board to support risk-based decision making and oversight across all operations of the consolidated entity and to support the Board's desired risk culture. Oversight of the risk management framework is facilitated by the Risk Committee (RC), Remuneration and People Committee (RAP) and Audit Committee (AC). Each operates in accordance with a Board approved Charter and plays an integral role in the governance framework to support the Board to fulfil its responsibilities in respect of the risk management framework.

At a management level, the consolidated entity has established a number of Committees to provide effective oversight and governance of risk management. These primarily include the Executive Committee (ExCo), Executive Risk Committee (ERC), Asset, Liability and Credit Committee (ALCCO), Information and Cyber Security Oversight Committee (ICSOC), Product Committee and Executive Steering Group (ESG).

5.1 Risk management framework (continued)

(b) Risk governance framework (continued)

The consolidated entity has established a **Three Lines of Defence** risk governance model:

- The **First Line** of defence consists of the consolidated entity's business divisions which are responsible for making material business decisions and who assume ownership of, and accountability for the management of, the material risks faced by the consolidated entity and the effective implementation of the risk management framework.
- The **Second Line** of defence consists of independent Risk Management and Compliance functions that are responsible for assisting the Board, RC and Senior Management to develop and maintain the risk management and compliance frameworks. The Chief Risk Officer (CRO) is designated as the person responsible for the Risk Management function. The second line of defence also includes an independent Legal function whose role is to assist Senior Management and provide expert advice in relation to the management of legal risks.
- The **Third Line** of defence consists of an independent Internal Audit function which regularly reviews, tests and validates the operation and effectiveness of the risk management framework and supporting systems and controls.

5.2 Credit risk

Credit risk arises from the consolidated entity's lending and pre-settlement activities, which includes residential mortgages, commercial loans, personal loans, credit cards and overdrafts. Credit risk also arises from the financial instruments held for liquidity management purposes and to hedge interest rate risk.

The maximum exposure to credit risk, after taking into consideration of collateral or other credit enhancements, is capped to the carrying value reported on the balance sheet for the related assets, or the maximum contractually committed amount for undrawn loan commitments and financial institution guarantees.

(a) Lending credit risk

The Board has established and approved policies that together form the consolidated entity's lending credit risk management framework. These policies set out the approach to managing lending credit risks including effective governance structures, delegations, responsibilities, systems, controls, procedures and specific limits that support compliance with the Board's risk appetite.

The independent Risk Management function form part of the framework and support the Board approved policies. These policies set out the consolidated entity's lending standards including credit assessment and verification procedures, acceptable borrower types and minimum loan servicing standards, delegation structures for credit approval, collateral requirements and reporting and escalation procedures.

The primary means of reducing the potential loss given borrower default on these loans is through obtaining collateral, as follows:

- *for residential mortgage loans* : charges over borrowers' residential property, other properties or cash and lenders mortgage insurance for loans with higher loan-to-valuation (LVR) ratios; and
- *for commercial loans* : charges over specified assets such as commercial and residential property, inventory, trade receivables or cash and guarantees.

The primary means of reducing the probability of borrowers to default is through the application of prudent minimum lending standards and assessment of each borrower's capacity to meet their obligations and withstand periods of stress. Loan serviceability is assessed using a net surplus income model, defined as the ratio of total income (after income haircuts, taxation and living expenses) to total sensitised commitments.

All loans are subject to ongoing review for impairment in accordance with the consolidated entity's provisioning policies which comply with AASB 9 *Financial Instruments* . Refer to Note 3.2, 4.1, and 4.2 for further information in respect of the consolidated entity's provisioning and impairment policies.

(i) Distribution of loans and advances by expected credit loss stage

The table below presents the total provisions on lending assets by ECL stage:

	Parent and Consolidated Entity				
	Stage 1	Stage 2	Stage 3		
	12 mths ECL	Lifetime ECL	Lifetime ECL		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
As at 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans and advances to members*					
Overdrafts	3,576	-	662	-	**4,238**
Credit cards	25,791	184	471	422	**26,868**
Personal loans	34,345	124	1,250	106	**35,825**
Retail mortgages	8,339,862	389,085	4,957	20	**8,733,924**
Commercial loans	45,800	-	8,509	-	**54,309**
Total exposure	**8,449,374**	**389,393**	**15,849**	**548**	**8,855,164**
Provision for expected credit losses	**850**	**4,445**	**2,126**	**548**	**7,969**
ECL coverage %	**0.01%**	**1.14%**	**13.41%**	**100.00%**	**0.09%**
Provision for expected credit losses					
Overdrafts	-	-	47	-	**47**
Credit cards	138	10	355	422	**925**
Personal loans	54	-	897	106	**1,057**
Retail mortgages	651	4,436	310	20	**5,417**
Commercial loans	6	-	516	-	**523**
Total	**850**	**4,445**	**2,126**	**548**	**7,969**

* The provisioning model applies certain assumptions to recognise lifetime ECL for exposures that are expected to transition to Stage 2 or 3 based on forward looking factors. The disclosure of loans and advances by ECL stage therefore does not necessarily correlate to the ageing of individual exposures.

5.2 Credit risk (continued)

(a) Lending credit risk (continued)

(i) Distribution of loans and advances by expected credit loss stage (continued)

	Parent and Consolidated Entity				
	Stage 1	Stage 2	Stage 3		
	12 mths ECL	Lifetime ECL	Lifetime ECL		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
As at 30 June 2019					
Loans and advances to members					
Overdrafts	6,321	306	-	-	**6,627**
Credit cards	32,464	415	40	292	**33,211**
Personal loans	44,874	61	-	202	**45,137**
Retail mortgages	8,877,826	63,203	6,055	63	**8,947,147**
Commercial loans	70,719	-	-	-	**70,719**
Total exposure	**9,032,204**	**63,985**	**6,095**	**557**	**9,102,841**
Provision for expected credit losses	**961**	**570**	**446**	**557**	**2,534**
ECL coverage %	**0.01%**	**0.89%**	**7.32%**	**100.00%**	**0.03%**
Provision for expected credit losses					
Overdrafts	10	3	-	-	**13**
Credit cards	201	16	99	292	**608**
Personal loans	101	-	36	202	**339**
Retail mortgages	639	551	311	63	**1,564**
Commercial loans	10	-	-	-	**10**
Total	**961**	**570**	**446**	**557**	**2,534**

(ii) Loans and advances subject to COVID-19 deferrals

In March 2020, the consolidated entity announced support packages for borrowers impacted by the COVID-19 pandemic. The primary form of support offered was a repayment deferral of up to six months, with a check-in after three months. During this period, interest continues to be accrued on loans and advances, and at the conclusion of the deferral period the borrower's monthly repayment is recalibrated to repay the outstanding amount over the remaining original term. As at the end of the financial year, the following loan balances were subject to COVID-19 repayment deferrals.

Loan classification at 30 June 2020	**Parent and Consolidated Entity**	
	No. of Loans	**$'000**
Retail mortgages	813	**227,806**
Personal loans	36	**427**
Commercial loans	37	**6,848**
Credit cards	40	**246**
	926	**235,327**

(iii) Concentration of loans and advances by geography

The consolidated entity's loans and advances can be analysed by the following geographical regions. Where the loan is secured, the geographical location disclosed is based on the location of the security:

	2020		2019	
Parent and Consolidated Entity	**$'000**	**$'000**	$'000	$'000
	New South Wales	**Other Australian States**	New South Wales	Other Australian States
Credit cards	26,868	-	33,211	-
Personal loans	34,876	949	44,062	1,075
Retail mortgages	8,002,002	731,922	8,209,509	737,638
Commercial loans and overdrafts	57,985	562	76,571	775
	8,121,731	**733,433**	8,363,353	739,488
Total gross loans and advances		**8,855,164**		9,102,841

(iv) Repossessed collateral

Repossessed property is sold as soon as practicable, with proceeds used to reduce the outstanding balance. As at 30 June 2020 the consolidated entity was not in possession of any properties (2019: 1 property in possession with a valuation of $120,000).

5.2 Credit risk (continued)

(b) Investment credit risk

The Board has established and approved the Investment Credit Risk and Large Exposures Policy which sets out the approach to managing investment credit risks including effective governance structures, delegations, responsibilities, systems, controls and procedures. Specific limits are contained in the RAS. This policy addresses credit risk arising from investment securities held for the purpose of maintaining a liquid asset portfolio (refer Note 5.3) and derivative transactions undertaken for the purpose of hedging exposure to market risks (refer Note 4.3).

The Board's risk appetite for investment credit risk is expressed through a range of specific limits that address acceptable investment and counterparty types, minimum acceptable counterparty credit quality, maximum individual counterparty concentrations and portfolio concentrations. These limits are based on individual counterparty credit ratings issued by recognised external credit rating bodies. Investment in debt securities is limited to high quality liquid assets and to APRA regulated institutions. Derivative transactions are limited to recognised financial intermediaries, regulated by APRA and with acceptable credit ratings.

Investment credit risk is managed by the Treasury Department in accordance with the limit framework approved by the Board. The operations of the Treasury department in respect of investment credit risk, and the investment credit risk profile are subject to oversight by the Chief Financial & Transformation Officer (CFTO), Risk Management function and ALCCO.

The following table presents an analysis of debt securities by rating agency designation, based on Standard & Poor's long term rating or their equivalent, except where otherwise stated:

(i) Distribution of debt securities by credit quality

Credit Rating	**Certificates of Deposit and Interest bearing deposits**	**Mortgage Backed Securities**	**Fixed and Floating Rate Notes**	**Australian Government and Semi-Government Securities**	**Investment Securities**	**Due from Financial Institutions**	**Total**
Consolidated Entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
As at 30 June 2020							
AAA	-	-	-	169,928	-	232,102	**402,030**
AA- to AA+	806	-	533,978	89,945	39,037	220,027	**883,793**
A- to A+	91,186	-	461,437	-	94,968	1,000	**648,591**
BBB to BBB+	-	2,179	101,636	-	4,999	-	**108,814**
Unrated	-	-	-	-	-	43,668	**43,668**
Total	**91,992**	**2,179**	**1,097,051**	**259,873**	**139,004**	**496,797**	**2,086,896**
As at 30 June 2019							
AAA	-	-	-	-	-	18,303	**18,303**
AA- to AA+	21,203	-	255,833	178,818	10,481	126,419	**592,754**
A- to A+	248,820	2,162	360,000	-	214,612	40,851	**866,445**
BBB to BBB+	-	-	101,329	-	19,990	-	**121,319**
Unrated	-	-	-	-	-	36,328	**36,328**
Total	**270,023**	**2,162**	**717,162**	**178,818**	**245,083**	**221,903**	**1,635,149**
Parent Entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
As at 30 June 2020							
AAA	-	-	-	169,928	-	232,102	**402,030**
AA- to AA+	-	-	533,978	89,945	39,037	5,040	**668,000**
A- to A+	89,678	-	461,437	-	94,968	-	**646,083**
BBB to BBB+	-	2,179	101,636	-	4,999	-	**108,814**
Unrated	-	2,661,302	-	-	-	43,668	**2,704,970**
Total	**89,678**	**2,663,481**	**1,097,051**	**259,873**	**139,004**	**280,810**	**4,529,897**
As at 30 June 2019							
AAA	-	-	-	-	-	18,303	**18,303**
AA- to AA+	19,999	-	255,833	178,818	9,979	50,645	**515,274**
A- to A+	247,603	2,162	360,000	-	214,612	40,042	**864,419**
BBB to BBB+	-	-	101,329	-	19,990	-	**121,319**
Unrated	-	1,346,023	-	-	-	36,328	**1,382,351**
Total	**267,602**	**1,348,185**	**717,162**	**178,818**	**244,581**	**145,318**	**2,901,666**

(ii) Concentration of risk by geography

In determining the geographical concentration of other financial assets, the consolidated entity allocates exposures based on the country of regulation of counterparties. As at the balance sheet date, all exposures of the consolidated entity are to counterparties regulated within Australia.

5.3 Liquidity risk

Liquidity risk is the risk that the consolidated entity is unable to meet its obligations as they fall due during normal operating conditions and stressed conditions. The Board has established and approved a Liquidity Risk Management Framework, being the totality of the strategies, policies, plans and operating standards that document how the consolidated entity identifies, measures, monitors and mitigates its liquidity risk to a prudent level. It has been formulated to ensure the consolidated entity maintains sufficient liquidity to deliver its strategic objectives and to withstand a prolonged period of stress. The framework consists of:

- the *Liquidity Risk Policy*, which defines the Board's liquidity risk appetite and funding diversification requirements. All tolerances are in the RAS. It details the roles, responsibilities and delegated authorities for managing, monitoring and reporting liquidity risk; as well as the liquidity risk stress testing framework, and methodologies used to measure liquidity risk;
- the *Liquidity Risk Management Strategy*, which documents the strategies, processes and policies implemented by management to ensure that liquidity risk is managed in accordance with the Liquidity Risk Policy and the Board's risk tolerance;
- a *Funding Strategy* that supports the business strategy and objectives over a three year time horizon, provides for appropriate diversification in the funding base and ensures the consolidated entity maintains a presence in its chosen funding markets; and
- a *Contingency Funding Plan*, which sets out the strategies, processes and procedures the consolidated entity employs to manage liquidity shortfalls in a range of stressed liquidity scenarios.

All elements of the Liquidity Risk Management Framework are reviewed on a regular (at least annual) basis and are approved by the Board. A centralised Treasury department is responsible for implementing the liquidity risk management strategies approved by the Board, subject to oversight by the Chief Financial & Transformation Officer (CFTO), Risk Management function, ALCCO, RC and Board.

(a) Maturity analysis of monetary liabilities

The following tables present the cash flows payable by the consolidated entity by remaining contractual maturities, at balance sheet date. The balances in the tables will not necessarily agree to amounts presented on the face of the balance sheet as amounts in the table incorporate cash flows on an undiscounted basis and include both principal and associated future interest payments.

Consolidated Entity	At call & up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
On balance sheet future cash flows						
Payables	10,677	-	-	-	-	**10,677**
Deposits from other financial institutions	4,351	-	-	-	-	**4,351**
Deposits due to members						
Call deposits	5,287,156	-	-	-	-	**5,287,156**
Term deposits	509,089	938,160	1,694,707	93,705	-	**3,235,661**
Other deposits						
Corporate wholesale deposits	1,975	76,553	58,546	96,475	-	**233,549**
11am deposits	40,012	-	-	-	-	**40,012**
Other	-	1	3	19	-	**23**
Borrowings						
Debt issuance	62,095	60,277	402,586	681,181	-	**1,206,139**
Term funding facility	-	-	-	78,551	-	**78,551**
Lease liabilities	735	1,469	6,413	14,268	7,179	**30,064**
	5,916,090	**1,076,460**	**2,162,255**	**964,199**	**7,179**	**10,126,183**
Off balance sheet future commitments						
Loans approved not advanced	254,619	-	-	-	-	**254,619**
Guarantees	2,241	-	-	-	-	**2,241**
	256,860	**-**	**-**	**-**	**-**	**256,860**
Derivatives settled on a net basis						
Cash flow hedges	529	949	2,974	2,229	-	**6,681**
As at 30 June 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
On balance sheet future cash flows						
Payables	20,119	-	-	-	-	**20,119**
Deposits due to members						
Call deposits	4,803,374	-	-	-	-	**4,803,374**
Term deposits	373,548	1,023,944	1,806,507	231,403	-	**3,435,402**
Other deposits						
Corporate wholesale deposits	2,590	60,179	102,394	107,477	-	**272,640**
Other	-	1	4	23	-	**27**
Life insurance & investment contracts	14,449	-	-	-	-	**14,449**
Borrowings						
Debt issuance	38,633	127,470	552,009	645,289	-	**1,363,401**
	5,252,712	**1,211,594**	**2,460,914**	**984,192**	**-**	**9,909,412**
Off balance sheet future commitments						
Loans approved not advanced	197,186	-	-	-	-	**197,186**
Guarantees	2,260	-	-	-	-	**2,260**
Operating lease commitments	774	1,563	6,744	18,031	440	**27,552**
	200,220	**1,563**	**6,744**	**18,031**	**440**	**226,998**
Derivatives settled on a net basis						
Cash flow hedges	280	478	(2,041)	(2,966)	-	**(4,249)**

5.3 Liquidity risk (continued)

(a) Maturity analysis of monetary liabilities (continued)

Parent Entity	At call & up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
On balance sheet future cash flows						
Payables	15,061	-	-	-	-	**15,061**
Deposits from other financial institutions	4,351	-	-	-	-	**4,351**
Deposits due to members						
Call deposits	5,287,246	-	-	-	-	**5,287,246**
Term deposits	509,089	938,160	1,694,707	93,705	-	**3,235,661**
Other deposits						
Corporate wholesale deposits	1,975	76,553	58,546	96,475	-	**233,549**
11am deposits	40,012	-	-	-	-	**40,012**
Other	-	1	3	19	-	**23**
Borrowings						
Debt issuance	61,958	60,011	421,118	681,181	2,434,234	**3,658,502**
Term funding facility	-	-	-	78,551	-	**78,551**
Lease liabilities	735	1,469	6,413	14,268	7,179	**30,064**
	5,920,427	**1,076,194**	**2,180,787**	**964,199**	**2,441,413**	**12,583,020**
Off balance sheet future commitments						
Loans approved not advanced	254,619	-	-	-	-	**254,619**
Guarantees	2,241	-	-	-	-	**2,241**
	256,860	**-**	**-**	**-**	**-**	**256,860**
Derivatives settled on a net basis						
Cash flow hedges	529	949	2,974	2,229	-	**6,681**
As at 30 June 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
On balance sheet future cash flows						
Payables	23,672	-	-	-	-	**23,672**
Deposits due to members						
Call deposits	4,803,606	-	-	-	-	**4,803,606**
Term deposits	373,548	1,023,944	1,806,507	231,403	-	**3,435,402**
Other deposits						
Corporate wholesale deposits	2,590	60,179	102,394	107,477	-	**272,640**
11am deposits	4,434	-	-	-	-	**4,434**
Other	-	1	4	23	-	**27**
Borrowings						
Debt issuance	38,257	126,715	569,787	645,289	1,281,022	**2,661,070**
	5,246,106	**1,210,839**	**2,478,692**	**984,192**	**1,281,022**	**11,200,851**
Off balance sheet future commitments						
Loans approved not advanced	197,186	-	-	-	-	**197,186**
Guarantees	2,260	-	-	-	-	**2,260**
Operating lease commitments	774	-	-	-	-	**774**
	200,220	**-**	**-**	**-**	**-**	**200,220**
Derivatives settled on a net basis						
Cash flow hedges	280	478	(2,041)	(2,966)	-	**(4,249)**

(b) Contingent sources of liquidity

To ensure that the consolidated entity is able to meet liquidity requirements to cover unexpected levels of demands, the consolidated entity has credit standby arrangements and contingent sources of liquidity as follows:

- An uncommitted facility of $20,000,000 (2019: $20,000,000). This is an uncommitted line of credit with a major Australian bank (overnight facility). Access to the facility is immediate, but subject to approval processes from the facility provider. This facility was not used during the current or previous financial year.

- An internal securitisation program which provides potential access to a significant amount of contingent liquidity. At 30 June 2020, the parent entity has sold loans of $2.6 billion (2019: $1.3 billion) into a related special purpose vehicle for the purposes of internal securitisation. The financial performance and financial position of the special purpose vehicle is included within the financial performance and financial position of the consolidated entity. The related special purpose vehicle, in turn, has issued $2.6 billion (2019: $1.3 billion) of notes to the parent entity which are eligible for repurchase with the Reserve Bank of Australia. As at 30 June 2020, $92,600,000 was provided as collateral under a three-year funding facility. Refer to Note 4.5(b).

- During the current financial year, a Term Funding Facility (TFF) was offered by the Reserve Bank of Australia (RBA) which provides access to three-year secured funding facility at an annual rate of 0.25%. The key goal of the facility is to continue the flow of credit in the market. The Initial Allocation is based on 3% of credit outstanding, which NPBS was advised its allocation was $267,939,600. Participants are able to draw down on the Allocation until 30 September 2020, and are required to provide eligible collateral in return. The Reserve Bank will apply haircuts (including through margin ratios) to the collateral as set out on the Reserve Bank website. As at 30 June 2020, the outstanding amount able to be drawn was $189,974,291.

  On 1 September 2020, a Supplementary Allowance of $176,751,000 will be available for inclusion in the TFF funding allowance of the consolidated entity following the end of the Initial Allocation draw down period. The Supplementary Allowance can be drawn from 1 October 2020 until 30 June 2021.

5.3 Liquidity risk (continued)

(c) Off-balance sheet items

(i) Loan commitments

The dates of the contractual amounts of the consolidated entity's off balance sheet financial instruments are summarised in the table in section (a) above. These amounts commit the consolidated entity to extend credit to customers and other facilities in line with the relevant contracts.

(ii) Financial guarantees and other financial facilities

The consolidated entity offers financial institution guarantees for members to external parties. The guarantees are secured over assets of the member unless specific authorisation from the Board is obtained. The guarantees held by the consolidated entity at year end on behalf of the members is outlined in section (a) above, based on the earliest contractual maturity date. Of this amount $NIL (2019: $NIL) is unsecured. A fee is charged to the member on the balance of these guarantees semi-annually at 1.5% per annum subject to a minimum fee. No losses are anticipated in respect of the above guarantees.

5.4 Market risk - foreign exchange risk

Foreign currency risk is the potential loss in earnings arising from changes in foreign exchange rates. Foreign currency risk arises for the consolidated entity when it procures goods and services denominated in a foreign currency.

The Board has approved a Liquidity Risk Policy which includes the approach to managing foreign currency risk including effective governance structures, responsibilities, systems, controls, measurement methodologies and limits. This policy requires an assessment of the potential foreign exchange rate risk arising from any proposed offshore transaction prior to the execution of the transaction. The objective of this policy is to ensure all significant foreign currency risks are fully hedged and that the consolidated entity does not have any material residual exposure to foreign currency risk.

At 30 June 2020, the consolidated entity did not have any material exposure to a foreign currency denominated payable.

5.5 Market risk - interest rate risk

Interest rate risk is the potential change in the consolidated entity's net interest income and capital position arising from the impact of movements in interest rates.

The Board has approved an Interest Rate Risk Policy that sets out the approach to managing interest rate risk including effective governance structures, responsibilities, systems, controls and measurement methodologies. Limits are contained in the RAS. The objective of this policy is to maintain stable interest income and capital in the long term to preserve member value.

The consolidated entity measures and manages interest rate risk exposure using simulation modelling to project the potential short and longer-term impacts of severe, but plausible, movements in market interest rates on the consolidated entity's balance sheet. *Short-term* interest rate risk exposure is measured by modelling the sensitivity of the projected Net Interest Income (NII) at Risk over a twelve month time horizon following a range of severe, but plausible, instantaneous shocks to market interest rates. *Longer term* impacts are measured by modelling the sensitivity of the net present value of the balance sheet (Economic Value Sensitivity (EVS)) over the estimated life of the balance sheet to a range of severe, but plausible, interest rate shock scenarios. The shock can be instantaneous and dynamic through the particular scenario.

The Board have approved limits for the maximum tolerable NII at Risk and EVS measures under each of these scenarios that define the interest rate risk appetite. The results of each simulation are calculated and compared against these limits on a daily basis by the Risk Management function to ensure that the consolidated entity operates within the defined risk appetite. Results relative to appetite are reported to management daily, and to ALCCO and the Board monthly.

ALCCO is charged with the responsibility for oversight of the development and implementation of the strategies used to manage interest rate risk. The strategies used to manage interest rate risk by ALCCO include:

- reducing the repricing mismatch between assets and liabilities by altering the mix, structure and repricing profile of existing assets and liabilities and the composition and mix of balance sheet growth; and

- the use of derivative financial instruments to hedge identified sources of interest rate risk. To support ALCCO in evaluating and deriving appropriate hedging strategies in a timely manner, ALCCO, under delegation from the Board, authorised the Treasury department to evaluate the need for, and transact, derivative instruments for interest rate risk management purposes, upon approval from the Chief Financial & Transformation Officer.

5.5 Market risk - interest rate risk (continued)

(a) Repricing analysis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest Bearing	Total
Consolidated Entity - 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash and cash equivalents	712,635	64,952	-	-	-	22,415	**800,002**
Other receivables	-	-	-	-	-	10,538	**10,538**
Derivatives	5,595	-	-	-	-	-	**5,595**
Financial assets at amortised cost	393,468	744,513	180,486	-	-	14	**1,318,481**
Financial assets at FVTPL	2,179	-	-	-	-	23,764	**25,943**
Loans to members	6,065,602	175,597	819,344	1,783,628	3,024	-	**8,847,195**
	7,179,479	**985,062**	**999,830**	**1,783,628**	**3,024**	**56,731**	**11,007,754**
Liabilities							
Payables	-	-	-	-	-	10,923	**10,923**
Deposits	5,149,593	1,044,201	1,836,881	742,904	-	24	**8,773,603**
Borrowings	375,413	698,672	101,696	77,867	-	-	**1,253,648**
Lease Liabilities	687	1,377	6,059	13,355	6,491	-	**27,969**
	5,525,693	**1,744,250**	**1,944,636**	**834,126**	**6,491**	**10,947**	**10,066,143**
Interest repricing gap	**1,653,786**	**(759,188)**	**(944,806)**	**949,502**	**(3,467)**		

Consolidated Entity - 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash and cash equivalents	296,214	161,104	-	-	-	19,801	**477,119**
Other receivables	-	-	-	-	-	9,115	**9,115**
Derivatives	2,371	-	-	-	-	-	**2,371**
Financial assets at amortised cost	318,418	628,113	197,594	-	-	-	**1,144,125**
Financial assets at FVTPL*	2,163	-	-	-	-	24,949	**27,112**
Loans to members*	5,974,866	166,979	850,324	2,104,786	3,352	-	**9,100,307**
	6,594,032	**956,196**	**1,047,918**	**2,104,786**	**3,352**	**53,865**	**10,760,150**
Liabilities							
Payables	-	-	-	-	-	20,411	**20,411**
Derivatives	2,850	4,514	-	-	-	-	**7,364**
Deposits	4,611,679	1,125,865	1,962,464	778,758	-	28	**8,478,794**
Life investment & insurance contract liabilities	14,449	-	-	-	-	-	**14,449**
Borrowings	650,207	560,112	101,328	-	-	-	**1,311,647**
	5,279,185	**1,690,491**	**2,063,792**	**778,758**	**-**	**20,439**	**9,832,665**
Interest repricing gap	**1,314,847**	**(734,295)**	**(1,015,874)**	**1,326,028**	**3,352**		

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

Parent Entity - 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash and cash equivalents	496,648	64,952	-	-	-	22,415	**584,015**
Other receivables	-	-	-	-	-	20,684	**20,684**
Derivatives	5,595	-	-	-	-	-	**5,595**
Financial assets at amortised cost	392,661	744,513	178,979	-	-	14	**1,316,167**
Financial assets at FVTPL	2,663,481	-	-	-	-	539	**2,664,020**
Loans to members	6,065,602	175,597	819,344	1,783,628	3,024	-	**8,847,195**
	9,623,987	**985,062**	**998,323**	**1,783,628**	**3,024**	**43,652**	**13,437,676**
Liabilities							
Payables	-	-	-	-	-	15,307	**15,307**
Deposits	5,149,683	1,044,201	1,836,881	742,904	-	24	**8,773,693**
Borrowings	2,862,111	664,850	101,696	77,867	-	-	**3,706,524**
Lease Liabilities	687	1,377	6,059	13,355	6,491	-	**27,969**
	8,012,481	**1,710,428**	**1,944,636**	**834,126**	**6,491**	**15,331**	**12,523,493**
Interest repricing gap	**1,611,506**	**(725,366)**	**(946,313)**	**949,502**	**(3,467)**		

5.5 Market risk - interest rate risk (continued)

(a) Repricing analysis (continued)

Parent Entity - 2019	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Non-interest Bearing $'000	Total $'000
Assets							
Cash and cash equivalents	219,127	161,104	-	-	-	19,808	**400,039**
Other receivables	-	-	-	-	-	29,690	**29,690**
Derivatives	2,371	-	-	-	-	-	**2,371**
Financial assets at amortised cost	318,417	628,113	195,173	-	-	-	**1,141,703**
Financial assets at FVTPL*	1,348,184	-	-	-	-	539	**1,348,723**
Loans to members*	5,974,867	166,979	850,324	2,104,786	3,352	-	**9,100,308**
	7,862,966	**956,196**	**1,045,497**	**2,104,786**	**3,352**	**50,037**	**12,022,834**
Liabilities							
Payables*	-	-	-	-	-	23,964	**23,964**
Derivatives	2,851	4,514	-	-	-	-	**7,365**
Deposits	4,616,354	1,125,865	1,962,464	778,758	-	28	**8,483,469**
Borrowings	1,994,195	515,057	101,328	-	-	-	**2,610,580**
	6,613,400	**1,645,436**	**2,063,792**	**778,758**	**-**	**23,992**	**11,125,378**
Interest repricing gap	**1,249,566**	**(689,239)**	**(1,018,295)**	**1,326,027**	**3,351**		

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(b) Sensitivity analysis - interest rate risk

As at the balance sheet date, NII sensitivity to an instantaneous, downward parallel shift in market interest rates of 1%, is a reduction of $14.9m (2019: $7.7m) with a corresponding decrease in profit before tax and retained profits.

An instantaneous upward parallel shift in market interest rates of 2% would reduce the net present value of net assets (EVS) as at the balance sheet date by $62.6m (2019: $36.7m).

5.6 Capital management

The consolidated entity is regulated by APRA. As a result, the consolidated entity must, for capital adequacy purposes, hold the minimum levels of capital as required by ADI Prudential Standard (APS) 110 *Capital Adequacy*. As part of these requirements, the consolidated entity must hold Tier 1 Capital and may also include Tier 2 Capital as part of its required capital holdings up to certain prescribed limits.

Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the following essential characteristics:

- provide a permanent and unrestricted commitment of funds;
- are freely available to absorb losses;
- do not impose any unavoidable servicing charge against earnings; and
- rank behind the claims of depositors and other creditors in the event of winding up.

For the purpose of calculating the consolidated entity's capital base, Tier 1 Capital consists of retained earnings, general reserves (excluding the general reserve for credit losses) and current year earnings. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an institution and its ability to absorb losses. Tier 2 Capital for the consolidated entity consists of the general reserve for credit losses.

The consolidated entity is subject to a Prudential Capital Ratio (PCR) as determined by APRA. The consolidated entity, must at all times, maintain a risk based capital ratio in excess of its PCR. The consolidated entity has complied with both external and internal capital requirements during the current and previous financial years.

The consolidated entity has in place a Capital Adequacy Risk Policy and an Internal Capital Adequacy Assessment Process (ICAAP), which are both subject to review on an at least an annual basis. The ICAAP includes:

- policies, procedures, systems and controls to identify, measure, monitor and manage the risks arising from the consolidated entity's activities on a continuous basis to ensure that capital is held at a level consistent with the consolidated entity's risk profile;
- Board approved limits for the quality, source and level of capital it considers necessary to absorb unanticipated losses and support its strategic objectives;
- a capital management plan which includes:

  (i) the consolidated entity's strategy for maintaining capital over time, including outlining its capital target for providing a buffer against the risks involved in the ADI's activities, how the target level of capital is to be met and the means available for sourcing additional capital where required; and

  (ii) actions and procedures for monitoring the consolidated entity's capital adequacy requirements, including the setting of trigger ratios to alert management to, and avert potential breaches of these requirements.
- stress testing and scenario analysis relating to potential risk exposures and available capital resources;
- processes for reporting on the ICAAP and its outcomes to the Board and senior management of the consolidated entity, and for ensuring that the ICAAP is taken into account in making business decisions; and
- policies to address the capital impact of material risks not covered explicitly by regulatory capital requirements.

5.7 Life insurance risk

(a) Risks related to life insurance and investment contracts

The consolidated entity was exposed to risks related to life insurance and investment contracts through Newcastle Friendly Society Limited (NFS), a controlled entity up until the date of termination of the contracts (refer to Note 6.6(e)(i)). The financial condition and operating results of the life insurance and life investment contracts were affected by a number of key financial and non-financial risks, the results of which have been incorporated into the consolidated entity reporting in Notes 5.2 to 5.5 above. Information presented within this note has been retained to to assist in understanding comparative data and transactions undertaken by NFS during the financial year.

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent and are provided to assist in understanding the comparative balances of life insurance and life investment

Key Variables	Insurance Bond	Savings Bond	Pre-arranged Funeral Bond
Details of contract workings	Provides a benefit of the current account balance on member withdrawal or death. An additional death benefit is also payable, being 30% of contributions for members aged under 60 and 5% otherwise.	Provides a benefit of the current account balance on member withdrawal or death.	Pre-arranged funeral fund policies allow individuals to contract with a funeral director to provide pre-arranged funeral services upon death at a fixed price. The individual makes a contribution to the Funeral Fund to which bonuses are added over the course of the policy. The proceeds of the policy are then used to pay the funeral director for the pre-arranged funeral. NFS does not guarantee that the proceeds will be sufficient to pay the cost of the contracted funeral services.
Nature of compensation for claims	Benefits arising from the discretionary participation feature are based on the realised investment returns on a specified pool of assets.	Members' account balances increase over time with bonus declarations. These bonuses are calculated in accordance with the rules for this benefit fund that are contained in NFS's constitution. There is little discretion in this formula, and therefore this benefit fund is not considered to have a significant discretionary participating feature.	Members' account balances increase over time with bonus declarations. On a six monthly basis, the Board, in accordance with the Funeral Funds Act 1979 distribute as bonuses any increase in the value of the fund (after payment of fees) between the members' accounts in proportion to the amount in each members' account and the period for which the amount has been invested since the last distribution.
Key variables that affect the timing and uncertainty of cash flows	Mortality Morbidity Interest rates Discontinuance	Mortality Morbidity Interest rates Discontinuance	Mortality Morbidity Interest rates Discontinuance

(b) Life insurance capital management

The consolidated entity's life insurance operations (NFS) are subject to regulatory capital requirements which prescribe the amount of capital to be held, depending on the risks applicable to NFS. These regulatory capital requirements are established and monitored by APRA.

NFS is required to maintain a Prudential Capital Amount (PCA), which is applicable to both an individual fund and for the life insurance entity as a whole. The PCA allocates capital to a range of risk charges and is intended to ensure that if a fund was to start the year with a capital base equal to the PCA, and losses occurred within the 99.5 per cent confidence level, then the assets remaining would be at least sufficient to provide for the fund liabilities at the end of the year. NFS applies the Standard Method in calculating its PCA.

The required level of capital for regulatory purposes is the Prudential Capital Requirement (PCR), which is intended to take account of the full range of risks to which a fund or life company is exposed. The PCR equals the PCA plus any supervisory adjustments determined by APRA. At all times, NFS must ensure that each fund, and the company as a whole, maintains a capital base in excess of its PCR.

(c) Life insurance regulatory capital requirement

In both the current and prior financial years, the Society's capital adequacy ratio has been below the regulatory minimum requirement of 100%. As a result of the approval of the wind up plan in 2019, the prescribed capital requirement has increased materially due to the insurance risk component requiring sufficient capital to cover three times the operating deficit over a 12-month operating horizon. The Society expects that the Management Fund will operate at a deficit due to the costs required to be incurred to execute the wind up plan. However, while there is sufficient capital to cover the operating deficit, there is insufficient capital to cover three times the operating deficit, as required by the Prudential Standards. The Society has reported this breach to APRA and outlined the wind up plan to address the breach.

5.8 Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The consolidated entity complies with the requirements of AASB 7 *Financial Instruments: Disclosures* which requires disclosure of the fair value measurements by level of the following fair value measurement hierarchy:

- *Level 1* : Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

- *Level 2* : Valued by using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

- *Level 3* : Valued in whole or in part using valuation techniques or models that use inputs that are not based on observable market data (unobservable inputs).

A description of the valuation technique(s) and the inputs used in the fair value measurement for each item categorised as a Level 2 or Level 3 valuation is outlined below:

(i) Financial assets at FVTPL

The investment portfolio held by Newcastle Permanent Charitable Foundation (a subsidiary entity) is comprised of units held in a range of managed funds. Investments are valued using current prices obtained from independent external pricing sources. The portfolio is managed under an outsourced arrangement with a professional investment advisory firm. Asset prices are reviewed and verified in line with valuation policies in place by specialised investment teams.

In addition to the investment portfolio held by the subsidiary entity, the consolidated entity also holds subordinated notes in securitisation vehicles which are classified as financial assets at FVTPL. There is no active market for these securities, and hence their fair value is determined using a net present value calculation. In practice, the fair value is equivalent to the carrying value at the balance sheet date.

(ii) Derivative financial instruments

Derivatives consist of interest rate swaps. The fair value of these financial assets is calculated as the present value of estimated future cash flows. Cash flows are calculated and discounted using observable market yield curves and exchange rates at the end of the reporting period. The fair value of derivatives also incorporates the credit risk associated with default by the swap counterparty (where the derivative is a financial asset) or associated with the consolidated entity's own credit risk (where the derivative is a financial liability).

(iii) Property, plant and equipment

A description of the valuation technique(s) and the inputs used in the fair value measurement is outlined at Note 6.2(a)(ii).

(iv) Life investment and insurance contracts

A description of the valuation technique(s) and the inputs used in the fair value measurement is outlined at Note 6.6.

(v) Financial assets at amortised cost

The disclosed fair value of financial assets at amortised cost that are short-term (i.e. holdings with an original maturity less than three months) is calculated with reference to current Bank Bill Swap Rate (BBSW) curves and the remaining term to maturity of the investment. The disclosed fair value of financial assets at amortised cost that are long-term is calculated by multiplying the current capital price (sourced from market data) of the security by the face value.

(vi) Loans and advances to members

The disclosed fair value of loans and advances to members is calculated by discounting future cash flows on fixed rate loans at market interest rates. Variable rate loans are measured at amortised cost and the carrying value reflects the fair value of the loans at balance date.

(vii) Investment properties

A description of the valuation technique(s) and the inputs used in the fair value measurement is outlined at Note 6.3.

(viii) Borrowings

The disclosed fair value of borrowings is calculated by discounting future cash flows on fixed rate liabilities at market interest rates. Variable rate liabilities and short-term liabilities are measured at amortised cost and the carrying value reflects the fair value of the borrowings at balance date.

5.8 Fair Value Measurements (continued)

The following table provides the fair value measurement hierarchy of the consolidated entity's assets and liabilities:

Parent and Consolidated Entity		**Level 1**	**Level 2**	**Level 3**	**Total**
As at 30 June 2020	**Note**	**$'000**	**$'000**	**$'000**	**$'000**
Items that are measured at fair value					
Assets					
Financial assets at FVTPL	**4.2**	-	25,943	-	**25,943**
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	**4.3**	-	5,595	-	**5,595**
Property, plant and equipment					
Land and buildings	**6.2**	-	-	32,569	**32,569**
Items not measured at fair value, for which fair value is disclosed					
Financial assets at amortised cost	**4.2**	-	1,329,203	-	**1,329,203**
Loans and advances to members	**3.1**	-	-	9,103,611	**9,103,611**
Investment properties	**6.3**	-	-	3,073	**3,073**
As at 30 June 2019	**Note**	**$'000**	**$'000**	**$'000**	**$'000**
Items that are measured at fair value					
Assets					
Financial assets at FVTPL*	**4.2**	-	27,112	-	**27,112**
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	**4.3**	-	2,371	-	**2,371**
Property, plant and equipment					
Land and buildings	**6.2**	-	-	30,729	**30,729**
Liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	**4.3**	-	7,364	-	**7,364**
Life investment contract liabilities	**6.6**	-	-	296	**296**
Life insurance contract liabilities	**6.6**	-	-	14,153	**14,153**
Items not measured at fair value, for which fair value is disclosed					
Financial assets at amortised cost	**4.2**	-	1,147,506	-	**1,147,506**
Loans and advances to members	**3.1**	-	-	9,309,237	**9,309,237**
Investment properties	**6.3**	-	-	2,932	**2,932**

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

There have been no transfers of any financial assets or financial liabilities between the fair value measurement hierarchy levels during the year.

5.9 Maturity analysis

The maturity analysis based on the contractual maturity of financial assets and liabilities is set out in the following tables.

Cash and cash equivalents that are disclosed within the "No specified maturity" column include at-call balances that do not have a contractual maturity.

Consolidated entity	Not longer than one month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity specified	Total
As at 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets							
Cash and cash equivalents	204,987	64,952	-	-	-	530,063	**800,002**
Other receivables	2,666	-	-	-	-	-	**2,666**
Derivative financial instruments	51	79	1,447	4,018	-	-	**5,595**
Financial assets at amortised cost	59,875	149,891	244,780	863,935	-	-	**1,318,481**
Financial assets at FVTPL	-	-	-	-	2,179	23,764	**25,943**
Loans and advances to members	50,856	4,339	16,238	145,681	8,521,932	108,149	**8,847,195**
Total	**318,435**	**219,261**	**262,465**	**1,013,634**	**8,524,111**	**661,976**	**10,999,882**
Financial liabilities							
Payables	10,881	8	26	8	-	-	**10,923**
Deposits from other financial institutions	4,351	-	-	-	-	-	**4,351**
Deposits due to members	5,898,806	1,330,281	1,116,900	154,242	-	-	**8,500,229**
Other deposits	41,922	76,128	55,884	95,089	-	-	**269,023**
Life investment contract liabilities	-	-	-	-	-	-	**-**
Life insurance contract liabilities	-	-	-	-	-	-	**-**
Borrowings	60,970	57,972	393,650	741,056	-	-	**1,253,648**
Lease Liabilities	686	1,377	6,059	13,355	6,492	-	**27,969**
Total	**6,017,616**	**1,465,766**	**1,572,519**	**1,003,750**	**6,492**	**-**	**10,066,143**
Net financial assets/(liabilities)	**(5,699,181)**	**(1,246,505)**	**(1,310,054)**	**9,884**	**8,517,619**	**661,976**	**933,739**

As at 30 June 2019	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Cash and cash equivalents	202,340	161,104	-	-	-	113,675	**477,119**
Other receivables	2,097	-	-	-	-	-	**2,097**
Derivative financial instruments	19	749	1,603	-	-	-	**2,371**
Financial assets at amortised cost	55,104	117,712	361,279	589,969	20,061	-	**1,144,126**
Financial assets at FVTPL*	-	-	-	-	2,163	24,949	**27,112**
Loans and advances to members*	29,926	1,853	10,436	142,075	8,775,536	140,481	**9,100,307**
Total	**289,486**	**281,418**	**373,318**	**732,044**	**8,797,760**	**279,105**	**10,753,132**
Financial liabilities							
Payables	20,322	8	35	46	-	-	**20,410**
Derivative financial instruments	-	-	51	7,313	-	-	**7,365**
Deposits from other financial institutions	-	-	-	-	-	-	**-**
Deposits due to members	5,159,509	993,895	1,835,129	226,596	-	-	**8,215,129**
Other deposits	2,516	59,541	98,129	103,479	-	-	**263,665**
Life investment contract liabilities	-	-	-	-	-	296	**296**
Life insurance contract liabilities	-	-	-	-	-	14,153	**14,153**
Borrowings	34,475	123,550	536,160	617,462	-	-	**1,311,647**
Total	**5,216,822**	**1,176,994**	**2,469,504**	**954,896**	**-**	**14,449**	**9,832,665**
Net financial assets/(liabilities)	**(4,927,336)**	**(895,576)**	**(2,096,186)**	**(222,852)**	**8,797,760**	**264,656**	**920,467**

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

6 Other notes

6.1 Intangible assets

Parent and Consolidated Entity	Note	Internally generated software $'000	Computer Software $'000	Capital Works in progress $'000	Total $'000
Year ended 30 June 2020					
Opening net book amount		4,580	7,089	1,775	**13,444**
Additions		-	414	2,996	**3,410**
Disposals		-	-	-	**-**
Transfers to/(from) capital work in progress		489	2,862	(3,351)	**-**
Amortisation charge	**2.2(a)**	(1,351)	(2,701)	-	**(4,052)**
Closing net book amount		**3,718**	**7,664**	**1,420**	**12,802**
At 30 June 2020					
Cost		7,008	23,614	1,420	**32,042**
Accumulated amortisation and impairment		(3,290)	(15,950)	-	**(19,240)**
Net book amount		**3,718**	**7,664**	**1,420**	**12,802**
Year ended 30 June 2019					
Opening net book amount		4,839	5,107	2,740	**12,686**
Additions		-	717	3,466	**4,183**
Disposals		-	(2)	-	**(2)**
Transfers to/(from) capital work in progress		965	3,466	(4,431)	**-**
Amortisation charge	**2.2(a)**	(1,224)	(2,199)	-	**(3,423)**
Closing net book amount		**4,580**	**7,089**	**1,775**	**13,444**
At 30 June 2019					
Cost		6,519	20,629	1,775	**28,923**
Accumulated amortisation and impairment		(1,939)	(13,540)	-	**(15,479)**
Net book amount		**4,580**	**7,089**	**1,775**	**13,444**

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(a) Maturity analysis

All amounts are expected to be recovered or settled more than twelve months after the reporting period.

(b) Internally generated software

During the 2020 financial year, additional functionalities relating to the internet banking platform were finalised and launched. Amounts previously carried in capital work in progress have been transferred to intangible assets and amortised in accordance with the accounting policy below. At 30 June 2020, the carrying amount of the internet banking software was $2,488,668 (2019: $2,882,000) with a remaining amortisation period ranging from 1.92 to 4.92 years.

(c) Recognition and measurement

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and services. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset.

Amortisation is calculated on a straight-line basis over periods generally ranging from 2 to 8 years.

6.2 Property, plant and equipment

Property, plant and equipment comprises of owned and leased assets that do not meet the definition of investment property.

		Parent and Consolidated Entity	
		2020	2019
	Note	**$'000**	$'000
Plant and equipment owned	**6.2(a)**	**48,222**	48,336
Plant and equipment leased (right of use assets)	**6.2(b)**	**24,793**	-
		73,015	48,336

The consolidated entity applied AASB 16 *Leases* for the first time in the 2020 financial year. This has resulted in the recognition of a right of use asset associated with lease liabilities. Refer to Note 7.3 for details of the impact of applying AASB 16 for the first time.

6.2 Property, plant and equipment (continued)

(a) Property, plant and equipment owned

Parent and Consolidated Entity	Note	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Plant and Equipment $'000	Capital Works in Progress $'000	Total $'000
Year ended 30 June 2020						
Opening net book amount		30,729	1,741	14,264	1,602	**48,336**
Revaluation increment		2,423	-	-	-	**2,423**
Impairment		(17)	-	-	-	**(17)**
Additions		34	-	218	2,762	**3,014**
Disposals		-	-	(193)	-	**(193)**
Transfers to/(from) capital work in progress		-	-	2,690	(2,690)	**-**
Depreciation charge	**2.2(a)**	(600)	(495)	(4,246)	-	**(5,341)**
Closing net book amount		**32,569**	**1,246**	**12,733**	**1,674**	**48,222**
At 30 June 2020						
Fair value/cost		32,671	14,556	38,643	1,674	**87,544**
Accumulated depreciation		(102)	(13,310)	(25,910)	-	**(39,322)**
Net book amount		**32,569**	**1,246**	**12,733**	**1,674**	**48,222**
Year ended 30 June 2019						
Opening net book amount		31,249	2,454	13,257	1,335	**48,295**
Revaluation increment		-	-	-	-	**-**
Additions		40	(15)	2,287	3,076	**5,388**
Disposals		-	-	(105)	-	**(105)**
Transfers to/(from) capital work in progress		35	-	2,774	(2,809)	**(0)**
Depreciation charge	**2.2(a)**	(595)	(698)	(3,949)	-	**(5,242)**
Closing net book amount		**30,729**	**1,741**	**14,264**	**1,602**	**48,336**
At 30 June 2019						
Fair value/cost		31,373	14,556	36,659	1,602	**84,190**
Accumulated depreciation		(644)	(12,815)	(22,395)	-	**(35,854)**
Net book amount		**30,729**	**1,741**	**14,264**	**1,602**	**48,336**

** Prior year has been restated. Please refer to Note 7.1(i) for details.*

(i) Fair value of land and buildings

The fair value of land and buildings was determined by a registered valuer and Fellow of the Australian Property Institute. The last valuation was completed in April 2020. The Directors have updated their assessment of the fair value of each property at the balance sheet date, taking into account current market evidence. This included reviewing a letter from the registered valuer considering market movements during May and June 2020, including the potential impacts on commercial properties as a result of the COVID-19 pandemic. It was concluded that although significant uncertainty remains as to the future impact of COVID-19 on the commercial property market, no specific market evidence had arisen to amend the valuations completed in April 2020.

The fair value of land and buildings was based on the capitalisation of fair market rental returns. This method adopts capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence. In all valuations, a net rent has been applied to owner occupied properties. The key inputs under this approach are the rental rates per square metre and the capitalisation rate.

(ii) Significant unobservable valuation inputs

The following table summarises the quantitative information about the significant unobservable inputs used in determining the recurring "Level 3" fair value measurements of land and buildings.

Description	Fair value at 30 June 2020 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Land and buildings	32,569	Net rental per square metre	$99/m^2 to $481/m^2	The higher the net rental per square metre, the higher the fair value.
		Capitalisation rate	5.01% to 7.53%	The higher the capitalisation rate, the lower the fair value.

6.2 Property, plant and equipment (continued)

(a) Property, plant and equipment owned (continued)

	Parent and Consolidated Entity 2020 $'000	2019 $'000
(iii) Carrying amounts that would have been recognised if land and buildings were stated at cost		
Cost	**27,347**	27,313
Accumulated depreciation	**(13,640)**	(12,885)
Net book amount	**13,707**	13,322

(iv) Maturity analysis

All amounts are expected to be recovered or settled more than twelve months after the reporting period.

(v) Recognition and measurement

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent Valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset. All other decreases are charged to profit or loss during the period in which they are incurred.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, or, in the case of leasehold improvements, the shorter lease term as follows:

Buildings	40 years	Motor vehicles	5 - 7 years
Plant and equipment	2 - 25 years	Leasehold improvements	2 - 10 years

Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital expenditure incurred by the consolidated entity which is not yet available for use is recognised as capital works in progress. Amounts recognised in capital works in progress are subsequently transferred to the appropriate class of property, plant and equipment and depreciated when they are first deemed to be available for use.

The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss. When revalued assets are sold, it is the policy of the consolidated entity to transfer the amounts included in the property revaluation surplus in respect of those assets to retained earnings.

(b) Property, plant and equipment leased

Parent and Consolidated Entity	Note	Branches $'000	ATMs $'000	Other $'000	Total $'000
Year ended 30 June 2020					
Opening net book amount		-	-	-	**-**
Adjustments on transition to AASB16*		29,932	2,043	8	**31,983**
Remeasurements		87	(79)	0	**8**
Additions		782	23	-	**805**
Depreciation charge	**2.2(a)**	(7,286)	(714)	(3)	**(8,003)**
Closing net book amount		**23,515**	**1,273**	**5**	**24,793**

** Refer to Note 7.3 for explanation of transition to AASB 16.*

6.3 Investment properties

		Parent and Consolidated Entity	
		2020	2019
	Note	**$'000**	$'000
Opening balance at 1 July		**1,715**	1,749
Additions		**22**	-
Depreciation	**2.2(a)**	**(35)**	(34)
Closing balance at 30 June		**1,702**	1,715
Cost		**2,192**	2,170
Accumulated depreciation		**(490)**	(455)
Net book value		**1,702**	1,715

(a) Amounts recognised in profit and loss for investment properties

Rental income	**2.1(c)**	**140**	200
Direct operating expenses from property that generated rental income		**(217)**	(234)
Depreciation charge	**2.2(a)**	**(35)**	(34)
		(112)	(68)

(b) Fair value of investment properties

The consolidated entity measures investment properties at cost. Accounting standard AASB 140 *Investment Property* requires the consolidated entity to disclose the fair value of investment property where it is measured at cost. At the balance date, the fair value of investment properties was $3,073,000 (2019: $2,932,000).

(c) Description of valuation techniques and inputs used in fair value measurement

The fair value of investment properties was determined by a registered valuer and Fellow of the Australian Property Institute. The last valuation was completed in April 2020. The Directors have updated their assessment of the fair value of each property at the balance sheet date, taking into account current market evidence. This included reviewing a letter from the registered valuer considering market movements during May and June 2020, including the potential impacts on commercial properties as a result of the COVID-19 pandemic. It was concluded that although significant uncertainty remains as to the future impact of COVID-19 on the commercial property market, no specific market evidence had arisen to amend the valuations completed in April 2020.

The fair value of investment property was based on the capitalisation of fair market rental returns. This method adopts capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence. In all valuations, a net rent has been applied to owner occupied properties. The key inputs under this approach are the rental rates per square metre and the capitalisation rate.

(d) Leasing arrangements

Some of the investment properties are leased to tenants under fixed term operating leases with rentals payable monthly. Operating leases relate to the investment properties owned by Newcastle Permanent at branch offices with lease terms of between one to five years, with an option to extend for up to five years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The lessee does not have an option to purchase the properties at the expiry of the lease period.

Minimum lease payments receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are as follows:

Within one year	**75**	109
Later than one year but not later than 5 years	**39**	122
Later than 5 years	**-**	5
	114	236

(e) Maturity analysis

All amounts are expected to be recovered or settled more than twelve months after the reporting period.

(f) Recognition and measurement

Investment properties are properties held for long-term rental yields which are not occupied by the consolidated entity and are depreciated on a straight-line basis over 40 years. The consolidated entity does not actively trade in the investment property market.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the consolidated entity has elected to measure its investment properties at cost less depreciation. Depreciation is calculated on a straight line basis over a period of 40 years. Investment property is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

The consolidated entity is required to disclose the fair value of its investment properties. The fair value of investment properties is determined on an annual basis and is generally based on current market prices in an active market for similar properties in the same location and condition.

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6.4 Prepayments and other receivables

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
Prepayments		**6,829**	6,045	**6,845**	6,058
Other receivables		**1,748**	1,195	**2,666**	2,097
Contract assets		**1,027**	960	**1,027**	960
Amounts due from related parties	**6.14(d)**	**11,080**	21,490	**-**	-
		20,684	29,690	**10,538**	9,115

(a) Maturity analysis

Amounts expected to be settled within:				
Less than 12 months	**16,887**	27,483	**6,741**	6,908
Greater than 12 months	**3,797**	2,207	**3,797**	2,207
	20,684	29,690	**10,538**	9,115

(b) Expected credit losses

As at 30 June 2020 and 2019, under AASB 9 the expected credit loss has been calculated on other receivables and amounts due from related parties and has an immaterial impact on the accounts.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to be the same as their fair value. Information about the consolidated entity's exposure to credit risk is outlined in Note 5.2.

(d) Recognition and measurement

Other receivables
Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Other receivables are generally due for settlement within 30 days, with the exception of contract assets arising under AASB 15.

Impairment
The consolidated entity has applied the simplified methodology in AASB 9 for all trade receivables as they do not contain a significant financing component. The impairment loss allowance is measured at an amount equal to the lifetime expected credit losses (stage 2) for these financial assets, which is typically 12 months or less.

Expected credit losses are recognised by applying a provision matrix to receivables based on their days past due. Specific provisions identified for individually impaired facilities are added to the collective provision when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recorded in Other Income.

Contract assets
Revenue arising from contract assets is recognised over the terms of contract between the consolidated entity and the partner organisation under a single, principal-based five-step recognition and measurement model. The model 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.

The consolidated entity receives insurance commissions from partner organisations for distributing and placing general insurance products. Trail commission revenue is recognised at the time the consolidated entity distributes the underlying product to the customer, where it is highly probable the revenue will not need to be reversed in future periods. The consolidated entity acts as an agent in the provision of general insurance products. Performance obligations in contracts with customers are satisfied at the time of policy sale, where the consolidated entity has transferred control over the insurance policy in it's entirety, prior to receiving trail commission revenue.

The consolidated entity recognises a contract asset for insurance commission revenue, representing the full lifetime revenue expected for contracts on hand at the balance date, for which the consolidated entity has satisfied the required performance obligations for the recognition of the revenue. The contract asset is regularly assessed against the performance of actual policy retention data.

Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. The consolidated entity estimates revenue based on analysis of the group's insurance portfolio metrics, with commission based policy percentages assessed in relation to the probability of year on year retention of policy holders. At the balance date, the consolidated entity assesses the recoverability of contract assets recognised for insurance policy commissions, and applies cumulative catch-up adjustments where:

- the projected revenue recognised for the relevant income year is less than actual receipts, the contract asset balance will be adjusted upwards; and
- the projected revenue recognised for the relevant income year is greater than actual receipts, the contract asset balance will be adjusted downwards.

The consolidated entity does not expect to have any contracts where the period between transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such it has concluded that no discount of future cash flows will be required, as the contracts do not include a significant financing component.

6.5 Payables

		Parent Entity		Consolidated Entity	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
Other payables		**10,507**	19,933	**10,677**	20,119
Deferred income		**246**	292	**246**	292
Amounts due to related parties	**6.14(d)**	**4,554**	3,739	**-**	-
		15,307	23,964	**10,923**	20,411

(a) Recognition and measurement

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

6.6 Life insurance and life investment contract liabilities

		Consolidated Entity			
		Life investment contract liabilities		Life insurance contract liabilities	
		2020	2019	**2020**	2019
	Note	**$'000**	$'000	**$'000**	$'000
(a) Reconciliation of movements					
Gross contract liabilities at 1 July		**296**	672	**14,153**	15,785
Movement in death benefit provision		**-**	-	**(1)**	(5)
Contributions recognised in policy liabilities		**-**	3	**9**	4
Bonus credited to policyholders		**-**	-	**-**	-
Extraordinary bonuses credited to policy holders		**55**	4	**640**	60
Withdrawals recognised in policy liabilities		**(148)**	(383)	**(1,000)**	(1,691)
Termination of policy liabilities	**6.6(e)(i)**	**(203)**	-	**(13,801)**	-
Gross contract liabilities at 30 June		**-**	296	**-**	14,153

Included within life insurance contract liabilities are amounts in respect of contracts with discretionary participating features. The amount of policy liabilities that relate to the guaranteed element of these contracts is $NIL (2019: $11,067,000).

(b) Fair value measurement

The carrying value of life insurance contract and life investment liabilities are a reasonable approximation of fair value.

(c) Disclosures on asset restrictions

Restrictions over cash and cash equivalents refer to Note 4.1.

	Consolidated Entity	
	2020	2019
	$'000	$'000
(d) Operating expenses of life insurance and life investment operations		
Administration expenses, including costs of termination	**315**	238

(e) Accounting policies

(i) Wind up of life insurance business

In May 2019, Newcastle Friendly Society's ("the Society" or "controlled entity") Board of Directors approved a plan to wind up the operations of all three benefit funds and the Management Fund. The plan was approved having regard to the best interests of the members of the Society and the following factors:

- the viability of the Management Fund given the declining membership base and funds under management which will ultimately result in management fees charged being less than sufficient to fund the operating costs of the entity;
- the future viability of the benefit funds and impacts to members of continuing to operate as the membership base declines; and
- there being no realistic alternative options available to the Society in terms of a business transfer to another friendly society.

On 20 December 2019, APRA formally approved the termination of the Pre-arranged Funeral Fund, Insurance Bond Fund and Savings Bond Fund under subsection 53(1) of the *Life Insurance Act 1995* (the Life Act) and paragraph 74 of Prudential Standard LPS 700 Friendly Society Benefit Funds (LPS 700).

Following a detailed engagement process with all affected stakeholders, the benefit funds were formally terminated on 31 March 2020. All assets of the benefit funds were distributed to the members of those funds in accordance with calculations performed by the Appointed Actuary.

On 20 July 2020, APRA approved amendments to the Society's benefit fund rules pursuant to paragraph 86 of LPS 700. As a result, the benefit funds cease to exist and the Society will apply for deregistration as a life insurance entity under the Life Insurance Act. Following this, the Society will proceed with completing the wind up of its corporate structure and will cease operations.

6.6 Life insurance and life investment contract liabilities (continued)

(e) Accounting policies (continued)

(ii) Principles for life insurance business

The accounting policies relating to the Society's life insurance business have been retained in the financial statements to assist in understanding the comparative balances and transactions conducted during the year up until the date the benefit funds were terminated.

The life insurance operations of the consolidated entity are conducted by the Society (a controlled entity) within separate funds as required by the Life Act and are reported in aggregate in the income statement and statement of comprehensive income, balance sheet and cash flow statement of the consolidated entity. The life insurance operations of the consolidated entity comprise the selling and administration of life insurance and life investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk and are contracts with a discretionary participating feature. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the consolidated entity and the financial risks are substantially borne by the consolidated entity.

Life insurance and life investment contract liabilities are valued at fair value, subject to a minimum of the current surrender value. Details of the actuarial methods used to calculate fair value are disclosed below.

(iii) Contributions and claims

Contributions and withdrawal components of life insurance contracts are not revenues and expenses respectively, and are treated as movements in life insurance contract liabilities.

There are no contributions revenue or claims expenses in respect of life investment contracts. Contributions to, and surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted to.

(iv) Expenses

Expenses of the consolidated entity in relation to life insurance and life investment operations are considered to be maintenance costs incurred to administer existing life insurance and life investment contracts. There are no expenses incurred by the consolidated entity in relation to the acquisition of life insurance and life investment contracts.

(v) Product classification

The accounting treatment of certain transactions varies depending on the nature of the contract underlying the transaction. The major contract classifications are insurance contracts and investment contracts.

(vi) Assets backing policy liabilities

The consolidated entity has determined that all assets held by its controlled entity in relation to life insurance and life investment contracts are assets backing policy liabilities. As all assets of the controlled entity are managed on a fair value basis and reported to the Board on this basis, all assets have been valued at fair value through profit or loss where available. Fair value is determined as follows:

- cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value; and
- receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

(f) Critical accounting estimates and assumptions

(i) Actuarial assumptions for life insurance and life investment operations

As at 30 June 2020, the Society had terminated its benefit funds. As at 30 June 2019, the following actuarial assumptions and methods were applied to life insurance and life investment contract liabilities based on a report prepared by Mr J Nicholls FIAA. The actuarial report indicated that Mr Nicholls is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Life insurance contract liabilities and life investment contract liabilities in the prior year were calculated in accordance with relevant actuarial guidance. The actuarial assumptions have been outlined below to assist in understanding the prior year balances.

Insurance Bond Fund

The calculation of the policy liability was performed in two parts:

- **Base liability:**
  The base liability was taken as the account balance at the valuation date. Section 26 of Life Insurance Prudential Standard (LPS) 340 allows for alternative approaches, such as the accumulation method, to be used for determining the liability where the results comply with the principles of the standard. For this fund, the account balance is equivalent to the discounted value of future surrender benefit payments, where the discount rate is the expected earning rate net of tax and on-going fees (payable to the Management Fund). As a result, basing the liability on the account balance gives a result that is equivalent to the best estimate liability determined using a projection approach with an allowance for the emergence of future fees (and the payment of those fees to the Management Fund) over time. Accordingly, the account balance has been adopted as the base liability.

- **Additional death benefit:**
  The liability for this component was taken as the discounted value of future additional death benefits less the discounted value of future mortality charges. This involved a projection of the future death claims and mortality charges on a policy by policy basis. This projection allows for current bonuses plus provision for expected future bonuses (although this has no impact on the result). As no mortality charges are currently being deducted for this benefit, the best estimate liability is equal to the discounted value of future additional death benefits.

6.6 Life insurance and life investment contract liabilities (continued)

(f) Critical accounting estimates and assumptions (continued)

(i) Actuarial assumptions for life insurance and life investment operations (continued)

The calculation of the life insurance contract liability in respect of the Insurance Bond product is consistent with the methodology used in the previous valuation for policy liability calculations. Assumptions were only required for the calculation of the best estimate liability for the additional death benefit, as the accumulation approach used for the investment component requires no assumptions.

Mortality was assumed to be 100% of Australian Life Table ALT 95-97 (unchanged from the prior year), with no allowance for future improvement. This table reflects the mortality of the general population, which is appropriate for this product as there is no underwriting or other initial selection.

The future bonus rate, which has no impact on the additional death benefit policy liability calculation, has been calculated using the rules specified in the Constitution of the Society and the projected results of the fund. No future special distributions of surplus have been assumed.

The surrender rate assumed was 12.5% per annum (by both funds under management and number of policies). This rate has been derived from experience investigations into the policy and fund surrender rates in recent years.

Pre-Arranged Funeral Fund

The life insurance contract liability was taken as the account balance at the valuation date. Section 26 of LPS 340 allows for alternative approaches, such as the accumulation method, to be used for determining the liability where the results comply with the principles of the standard. For this fund, the account balance is equivalent to the discounted value of future death benefit payments, where the discount rate is the expected earning rate net of tax and on-going fees (payable to the Management Fund). As a result, basing the liability on the account balance gives a result that is equivalent to the best estimate liability determined using a projection approach with an allowance for the emergence of future fees (and the payment of these fees to the Management Fund) over time. Accordingly, the account balance has been adopted as the base liability.

Mortality was assumed to be 100% of Australian Life Table ALT 95-97, with no allowance for future improvement. This table reflects the mortality of the general population, which is appropriate for this product as there is no underwriting or other initial selection.

The future bonus rate has been calculated using the rules specified in the Constitution of the Society.

The surrender rate assumed was 0.25% per annum (by number of policies). This rate has been derived from experience investigations into the policy and fund surrender rates in recent years. This assumption has remained unchanged from the prior valuation.

Savings Bond Fund

The life investment contract liability was taken as the account balance at the valuation date. No management services element has been recognised for the Savings Bond Fund and surrender penalties are now trivial for this fund. The calculation of the life investment contract liability using the accumulation method is consistent with the methodology used in the previous valuation for policy liability purposes.

Mortality was assumed to be 100% of Australian Life Table ALT 95-97, with no allowance for future improvement. This table reflects the mortality of the general population, which is appropriate for this product as there is no underwriting or other initial selection.

The future bonus rate has been calculated using the rules specified in the Constitution of the Society.

The surrender rate assumed was 25% per annum (by funds under management and number of policies). This rate has been derived from experience investigations into the policy and fund surrender rates in recent years. There was no change in the surrender rate from the previous valuation.

	Parent Entity		Consolidated Entity	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
6.7 Provisions				
Employee benefits	**12,718**	12,315	**12,718**	12,315
Directors' retirement provision	**246**	474	**246**	480
Customer remediation	**2,268**	4,200	**2,268**	4,200
	15,232	16,989	**15,232**	16,995
(a) Maturity analysis				
Amounts expected to be settled within:				
Less than 12 months	**9,175**	10,670	**9,175**	10,676
Greater than 12 months	**6,057**	6,319	**6,057**	6,319
	15,232	16,989	**15,232**	16,995

(b) Movements in provisions

Parent entity	Employee Benefits $'000	Directors' Retirement provision $'000	Customer Remediation $'000	Total $'000
Carrying amount at beginning of the year	12,315	474	4,200	**16,989**
Additional provisions made in the period	6,816	-	-	**6,816**
Amounts used during the period	(6,417)	(233)	(1,932)	**(8,582)**
Movements during the period due to changes in the discount rate applied	142	5	-	**147**
Movements during the period due to remeasurement of the liability	(138)	-	-	**(138)**
Carrying amount at end of the year	**12,718**	**246**	**2,268**	**15,232**

6.7 Provisions (continued)

(b) Movements in provisions (continued)

Consolidated entity	Employee Benefits $'000	Directors' Retirement provision $'000	Customer Remediation $'000	Total $'000
Carrying amount at beginning of the year	12,315	480	4,200	**16,995**
Additional provisions made in the period	6,816	-	-	**6,816**
Amounts used during the period	(6,417)	(240)	(1,932)	**(8,589)**
Movements during the period due to changes in the discount rate applied	142	6	-	**148**
Movements during the period due to remeasurement of the liability	(138)	-	-	**(138)**
Carrying amount at end of the year	**12,718**	**246**	**2,268**	**15,232**

(c) Accounting policies

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave, annual leave and other employee benefits which are not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to present value using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The liability for director retirement benefits is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by the directors up to the reporting date. Consideration is given to expected future benefit levels and anticipated timing of retirement of directors. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iv) Termination benefits

Termination benefits are recognised as a liability at the earlier of: when the entity can no longer withdraw the offer of those benefits; and when the entity recognises costs for a restructuring and involves a payment of termination benefits.

(v) Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The consolidated entity has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(vi) Customer remediation

This provision relates to the cost of customer remediation programs and is recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably measured. The provision requires significant levels of estimation and judgement and the amount raised depends on a number of different assumptions. These assumptions are outlined in section (d) below.

(d) Significant judgements and estimates

During the prior year, the consolidated entity raised a provision for customer remediation in relation to accounts that may not have been correctly linked as an eligible offset account to an eligible mortgage loan. The resulting impact was that interest was overcharged to mortgage loans. A remediation program has been established to comprehensively identify all potentially affected customers, and determine the amount of interest to be refunded. This program also involves the rectification of any systems or processes that led to the overcharging of interest.

The estimate of the provision for customer remediation has been determined in two stages. In cases where the remediation amount has been calculated for a customer with a high level of certainty, but has yet to be settled, a full provision has been recognised. For the remainder of cases, further investigation is required and as such the provision is based on an estimate of the customers and accounts which have been impacted. The consolidated entity has estimated a time horizon of 10 years over which customers may have been affected. Remediation amounts have been compounded to reflect the time value of money, with the actual mortgage interest rate over the period used (where the customer's mortgage remains open), and if applicable using the highest NPBS savings account rate of interest available (after a customer's mortgage is closed).

The remediation program continued during the financial year, with payments made to several affected cohorts of customers. At 30 June 2020, the provision represents the consolidated entity's estimate of remaining payments to complete the remediation program, including additional affected customers identified during the financial year. It is anticipated that the customer remediation program will be completed during the 2021 financial year.

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
6.8 Reserves					
General reserve for credit losses	**6.8(a)(i)**	**22,446**	22,897	**22,446**	22,897
Cash flow hedges	**6.8(a)(ii)**	**(42)**	(6,982)	**(42)**	(6,982)
Revaluation surplus - property, plant and equipment	**6.8(a)(iii)**	**13,277**	11,265	**13,277**	11,265
		35,681	27,180	**35,681**	27,180
(a) Movements					
(i) General reserve for credit losses					
Balance at 1 July		**22,897**	22,058	**22,897**	22,058
Transfer from/(to) retained profits		**(451)**	839	**(451)**	839
Balance at 30 June		**22,446**	22,897	**22,446**	22,897
(ii) Hedging reserve - cash flow hedges					
Balance at 1 July		**(6,982)**	(1,010)	**(6,982)**	(1,010)
Revaluation - gross		**10,439**	(3,764)	**10,439**	(3,764)
Deferred tax on cash flow hedges		**(3,132)**	1,129	**(3,132)**	1,129
Losses on swaps unwound during the year		**(7,232)**	(5,516)	**(7,232)**	(5,516)
Unwound swap losses released to the income statement		**6,708**	749	**6,708**	749
Deferred tax on unwound swaps		**157**	1,430	**157**	1,430
Balance at 30 June		**(42)**	(6,982)	**(42)**	(6,982)
(iii) Revaluation surplus - property, plant and equipment					
Balance at 1 July		**11,265**	11,265	**11,265**	11,265
Revaluation - gross		**2,422**	-	**2,422**	-
Deferred tax		**(727)**	-	**(727)**	-
Transfer to retained earnings		**317**	-	**317**	-
Balance at 30 June		**13,277**	11,265	**13,277**	11,265

(b) Nature and purpose of reserves

(i) General reserve for credit losses

For prudential purposes, APRA requires that Newcastle Permanent maintains a General Reserve for Credit Losses (GRCL) in accordance with Prudential Standard APS 220 *Credit Quality* to safeguard against potential future losses that may occur across the credit portfolios, together with any exposure to overdrawn retail savings. The GRCL is separate to the provision for expected credit losses recognised under AASB 9 directly in the income statement for loans and advances to members (Note 3.1), cash and cash equivalents (Note 4.1) and financial assets at amortised cost (Note 4.2).

The GRCL is reviewed on a regular basis and includes an assessment of credit risk policies and procedures, the requirements of APRA Prudential Standards in relation to provisioning for credit risk, the current and past level of arrears and losses and expected future losses based on current and expected market trends and fluctuations.

(ii) Cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described by Note 4.3. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iii) Revaluation surplus - property, plant and equipment

The property revaluation surplus is used to record increments and decrements on the revaluation of property as described in Note 6.2.

6.9 Retained profits attributable to members of Newcastle Permanent

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Balance at 1 July		**925,468**	892,454	**925,468**	892,454
Opening balance adjustment for AASB 16	**7.3(c)**	**(2,353)**	-	**(2,353)**	-
Opening balance adjustment for AASB 9		**-**	(1,266)	**-**	(1,266)
Transfer to/(from) the general reserve for credit losses		**451**	(839)	**451**	(839)
Transfer from revaluation surplus - property, plant and equipment		**(317)**	-	**(317)**	-
Net profit for the year		**32,028**	35,119	**32,028**	35,119
Balance at 30 June		**955,277**	925,468	**955,277**	925,468

6.10 Non-controlling interests

	Note	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Interests in:					
Reserves	**6.10(b)(i)**			**-**	-
Retained profits				**27,428**	30,022
				27,428	30,022

6.10 Non-controlling interests (continued)

(a) Nature and purpose of reserves

(i) Available-for-sale financial assets

On adoption of AASB 9 at 1 July 2018, the available-for-sale investments reserve was transferred to retained earnings. This reflects the fact that the classification of the investments has changed, and gains and losses are now recognised through the profit or loss, and hence flow to the accumulated surplus. There was no overall increase in equity at the transition date. Future gains and losses arising from the measurement of the investments at fair value will be recorded in the income statement.

(b) Movements

(i) Available-for-sale financial assets

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Balance at 1 July			**-**	343
Opening balance adjustment for AASB9			**-**	(343)
Balance at 30 June			**-**	-

6.11 Key management personnel disclosures

(a) Key management personnel compensation

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Short-term employee benefits	**5,666**	5,612	**5,953**	5,898
Post-employment benefits	**550**	424	**580**	448
Termination benefits	**81**	411	**81**	411
Long-term benefits	**559**	25	**561**	3
	6,856	6,472	**7,175**	6,760

(b) Transactions with key management personnel

Loans to key management personnel of Newcastle Permanent, including their personally related parties, are secured unless the loan product does not require security (e.g credit cards). Loans are on normal terms and conditions applicable to members generally, unless the individual is eligible for a discounted interest rate in accordance with Newcastle Permanent staff benefit policies. These benefits have been grandfathered and are no longer offered. No provision for impairment has been recognised in respect of these loans, and there are no arrears existing on these loans. Deposits from key management personnel including their personally related parties are on the same terms and conditions as applicable to members generally. The sale of Newcastle Permanent property and other assets to key management personnel totalled $33k and were made on terms equivalent to those that prevail at arm's length.

(c) Loans to key management personnel

Details of loans made to directors and other key management personnel of the consolidated entity, including their personally related parties, are set out in aggregate below:

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Loans and advances receivable at end of financial year	**3,095**	2,825	**3,877**	3,233
Loans advanced during the year	**345**	1,039	**345**	1,039
Interest received on loans and advances	**148**	114	**173**	126

(d) Deposits from key management personnel

Details of deposits held by directors and other key management personnel of the consolidated entity, including their personally related parties, are set out in aggregate below:

	Parent Entity 2020 $'000	Parent Entity 2019 $'000	Consolidated Entity 2020 $'000	Consolidated Entity 2019 $'000
Deposits held at end of financial year	**590**	636	**591**	1,487
Interest expense on deposits to key management personnel	**2**	3	**2**	8

6.12 Remuneration of auditors

During the year the following fees were incurred for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Parent Entity 2020 $	Parent Entity 2019 $	Consolidated Entity 2020 $	Consolidated Entity 2019 $
(a) Assurance Services				
(i) Audit services				
Audit of financial statements	**347,341**	517,112	**397,684**	582,549
(ii) Other assurance services				
Audit of regulatory returns	**56,519**	73,156	**56,519**	73,156
Total remuneration for assurance services	**403,860**	590,267	**454,203**	655,704
(b) Other Services				
Tax compliance	**28,741**	37,716	**35,317**	44,056
Advisory services	**49,664**	44,066	**49,664**	44,066
Total remuneration for other services	**78,405**	81,782	**84,981**	88,122

6.13 Interests in other entities

(a) Material subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 7.1(a).

Name of Entity	Principal Activities	Country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling interests	
			2020	2019	**2020**	2019
Newcastle Friendly Society Limited	The provision of financial products and services approved under the *Life Insurance Act 1995.*	Australia	**-**	-	**100%**	100%
Newcastle Permanent Community Foundation Company Limited	Incorporated in New South Wales, Australia. Trustee of Newcastle Permanent Charitable Foundation.	Australia	**100%**	100%	**-**	-
Newcastle Permanent Charitable Foundation	Community support fund established for the purpose of raising funds to be provided to other deductible gift recipients. Newcastle Permanent contributed $100 in settlement capital to establish the fund.	Australia	**-**	-	**100%**	100%
Newcastle Permanent Funding Trust No.1	Securitisation Trust program established under a Master Trust Deed dated 21 December 2011. Newcastle Permanent is the holder of the participation unit and nine residual units for which a total issue price of $100 was paid on the establishment of the Trust. Solution Capital Pty Limited is the holder of the remaining residual unit of $10.	Australia	**91%**	91%	**9%**	9%

(b) Voting rights of the group

The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held, is disclosed in the table below:

	Voting rights held by the group	
	2020	2019
Newcastle Permanent Funding Trust No.1	**100%**	100%

The consolidated entity has made the judgement that it controls the non-controlling interests through consideration of the following factors:

(i) the consolidated entity exercises power over the investee through existing rights that give it the ability to direct the relevant activities that significantly affect the entity's returns;

(ii) the consolidated entity is exposed, or has rights, to variable returns from its involvement with the investee and that the returns from its involvement have the potential to vary as a result of the investee's performance; and

(iii) the consolidated entity has the ability to use its power over the investee to affect its returns from its involvement with the investee.

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6.13 Interests in other entities (continued)

(c) Non-controlling interests

	Note	Newcastle Friendly Society Limited		Newcastle Permanent Charitable Foundation	
		2020	2019	**2020**	2019
		$'000	$'000	**$'000**	$'000
(i) Summarised balance sheet					
Total assets		**90**	15,684	**27,384**	28,916
Total liabilities		**(43)**	(14,575)	**(3)**	(3)
Net assets		**47**	1,109	**27,381**	28,913
Accumulated non-controlling interest		**47**	1,109	**27,381**	28,913
Total material non-controlling interests				**27,428**	30,022
Other non-controlling interests				**-**	-
Total non-controlling interests	**6.10**			**27,428**	30,022
(ii) Summarised statement of comprehensive income					
Total income		**88**	243	**1,238**	2,185
Profit/(loss) for the period		**(366)**	(168)	**(1,532)**	736
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income		**(366)**	(168)	**(1,532)**	736
Profit/(loss) allocated to non-controlling interests		**(366)**	(168)	**(1,532)**	736
Total profit/(loss) allocated to material non-controlling interests				**(1,898)**	568
Other non-controlling interests				**-**	-
Total profit/(loss) allocated to non-controlling interests				**(1,898)**	568
(iii) Summarised cash flows					
Cash flows from operating activities		**(15,585)**	(2,207)	**(344)**	(299)
Cash flows from investing activities		**-**	-	**36**	(3,446)
Cash flows from financing activities		**-**	-	**-**	-
Net decrease in cash and cash equivalents		**(15,585)**	(2,207)	**(308)**	(3,745)

6.14 Related party transactions

(a) Parent entity

The ultimate parent entity and ultimate controlling entity is Newcastle Permanent Building Society Limited (Newcastle Permanent).

(b) Controlled entities

Interest in controlled entities are set out in Note 6.13.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 6.11.

(d) Transactions with other related parties

The following transactions and year end balances occurred with related parties. Unless otherwise stated, all transactions occurred on an arm's length basis.

	2020	2019
	$	$
(i) Newcastle Permanent Charitable Foundation (the Foundation)		
Transactions		
Interest paid to the Foundation on funds on deposit with Newcastle Permanent	**409**	1,890
Newcastle Permanent does not charge a fee to provide administrative, accounting and marketing services to the Foundation, nor does it seek to recover the direct expenditure incurred. Direct expenditure incurred by Newcastle Permanent in providing these services includes:		
Salaries and wages allocation - management, administration and marketing	**355,922**	519,064
Direct costs incurred - marketing and advertising (including one-off production cost)	**327,571**	453,291
Direct costs incurred - administration	**50,136**	57,760
Year end balances		
Foundation funds on deposit with Newcastle Permanent	**4,468**	1,148

6.14 Related party transactions (continued)

(d) Transactions with other related parties (continued)

		2020 $	2019 $
(ii)	***Newcastle Friendly Society Limited (Newcastle Friendly Society)***		
	Transactions		
	Management fee paid to Newcastle Permanent for the provision of administrative support	**150,333**	121,000
	Interest paid to Newcastle Friendly Society on funds on deposit with Newcastle Permanent	**29,946**	68,967
	Newcastle Permanent provides accounting and secretarial services to Newcastle Friendly Society for which a management fee is paid. The management fee charged by Newcastle Permanent is set out in the *Investment and Other Services Agreement* between the parties at the estimated market value of services provided.		
	Year end balances		
	Newcastle Friendly Society funds on deposit with Newcastle Permanent	**85,520**	4,674,870
(iii)	***Newcastle Permanent Funding Trust No.1 (the Funding Trust)***		
	A controlled entity, Newcastle Permanent Funding Trust No.1 purchased equitably assigned residential mortgage loans originated by Newcastle Permanent. However, equitably assigned loans relating to the same securitisation program continue to be recognised in the balance sheet of Newcastle Permanent with a corresponding increase in Newcastle Permanent's payable to the Trust.		
	Transactions		
	Interest expense on imputed loan payable to the Funding Trust	**58,796,130**	66,776,434
	Service fees paid by the Funding Trust to Newcastle Permanent in its capacity as Manager, Servicer and Trust Administrator	**3,217,824**	3,063,276
	Distribution paid by the Funding Trust to Newcastle Permanent as the participation unit-holder and residual income unit-holder	**17,656,134**	11,115,052
	Net movement in loans and receivables (imputed loan) to the Funding Trust	**1,105,336,425**	(33,950,390)
	Interest received by Newcastle Permanent on trust notes held with the Funding Trust	**33,965,155**	46,282,565
	Year end balances		
	Amount payable by Newcastle Permanent to the Funding Trust for imputed loans	**2,583,265,473**	1,473,450,735
	Other receivables due from Newcastle Permanent	**4,553,651**	3,738,781
	Amount payable to Newcastle Permanent by the Funding Trust at the balance sheet date	**11,079,615**	21,460,117
	Newcastle Permanent holds trust notes at the balance sheet date issued by the Funding Trust	**2,661,302,042**	1,346,022,236
(e)	**Other arrangements with related parties**		
	Newcastle Permanent Funding Trust No.1		
	During the year, Newcastle Permanent paid a sub-trust manager fee to Perpetual Limited which remunerates them for performing services outlined in the sub-manager agreement. The fee was paid on behalf of Newcastle Permanent Funding Trust No.1. The duties are administrative functions of the Trust and are performed at the direction of Newcastle Permanent as the trust manager of the Trust. The expenditure paid by Newcastle Permanent has been disclosed.	**323,068**	312,555

6.15 Matters subsequent to the end of financial year

Subsequent to the end of the financial year Newcastle Permanent has established a whole of loan sale arrangement with Athena Home Loans Pty Limited (Athena), a mortgage focused FinTech, through which Newcastle Permanent will be entitled to purchase high quality residential mortgage assets. Newcastle Permanent will own the purchased assets through an equitable assignment arrangement, has perfection of title rights such that legal title will transfer to Newcastle Permanent in certain circumstances and will outsource ongoing servicing of the loans to Athena who retains ownership of the customer relationship. Newcastle Permanent will be entitled to the revenue generated from interest charged on the assets and will pay fees to Athena for the purchase and ongoing servicing. The purchased assets will be recognised as residential mortgage assets for regulatory and financial reporting purposes in the next financial year. As at the date of this report Newcastle Permanent intends to purchase approximately $300m in assets and has optionality for future purchases. The arrangement does not have a material impact on the financial statements as at the date of this report but is expected to contribute positively to future financial performance.

The establishment of the arrangement reflects Newcastle Permanent's strategic focus on developing key partnerships, including with FinTech's, to complement its organic growth strategies and support both organisational resilience and customer value objectives.

With the exception of the matter outlined above, there have been no other matters or circumstances that have arisen since the end of the financial period, 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.

6.16 Member guarantee

In the event of winding up Newcastle Permanent, the liability of the members of Newcastle Permanent is limited to $1.00. Upon winding up if there are undistributed funds, members will receive these monies in proportion to the amounts invested by members in Newcastle Permanent.

7. Accounting policies and new accounting standards

7.1 Accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Newcastle Permanent and its subsidiaries and structured entities (as outlined in Note 6.13) as at and for the period ended 30 June each year. Control is achieved when the consolidated entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the consolidated entity has less than a majority of the voting or similar rights of an investee, the consolidated entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the consolidated entity's voting rights and potential voting rights.

Structured entities are those entities over which the consolidated entity has no ownership interest but in effect the substance of the relationship is such that the consolidated entity controls the entity so as to obtain variable returns from its involvement with the entity.

Controlled entities are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the consolidated entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Intercompany transactions, balances and unrealised gains on transactions between entities within the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated income statements, statements of comprehensive income, statements of changes in equity and balance sheets respectively.

Investments in subsidiaries are accounted for at cost, less any impairment loss in the separate financial statements of Newcastle Permanent.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

(c) Goods and Services Tax (GST)

Newcastle Permanent is treated as an input-taxed entity for GST purposes. This means that in most circumstances, GST is not chargeable on services provided and GST incurred by Newcastle Permanent is not recoverable from the Australian Taxation Office. Accordingly in respect of Newcastle Permanent, the amount of GST incurred that is not recoverable is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within other receivables or payables in the balance sheet.

(d) Financial liabilities

Financial liabilities include payables, deposits from members and other financial institutions, certificates of deposit, interest bearing trust notes and life insurance and life investment contracts.

The consolidated entity classifies its financial liabilities at amortised cost, unless it is required to measure liabilities at fair value through profit or loss (for example for derivatives, or where such financial liabilities are held-for trading). It may also designate liabilities at fair value through profit and loss where such a designation will eliminate or significantly reduce a measurement or recognition inconsistency. The consolidated entity recognises all financial liabilities at amortised cost under AASB 9.

7.1 Accounting policies (continued)

(e) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the balance sheet as the consolidated entity retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated balance sheet as an asset with a corresponding obligation to return it, including accrued interest as a liability within payables, reflecting the transaction's economic substance as a loan to the consolidated entity. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the consolidated entity reclassifies those securities in its balance sheet to "Financial assets pledged as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. The consideration paid, including accrued interest, is recorded in the balance sheet within "Cash collateral on securities borrowed and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the consolidated entity. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities held-for-trading" and measured at fair value with any gains or losses including in "Net trading income".

(f) Financial institution guarantees

The consolidated entity extends credit commitments, guarantees, commercial and standby letters of credit to ensure funds are available to a customer as required. These are instruments that are written undertakings by the consolidated entity on behalf of a customer authorising a third party to draw drafts on the consolidated entity up to a stipulated amount under specific terms and conditions.

(g) Fair value measurement

The consolidated entity measures financial instruments such as derivatives, and non-financial assets such as land and buildings, at fair value at each balance sheet date. Also, certain assets and liabilities measured at cost or amortised cost are required to have their fair value disclosed in the financial statements. Where disclosures of fair value are made for items measured at cost or amortised cost, the principles outlined below are applied.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the consolidated entity.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The consolidated entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the consolidated entity determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External Valuers are involved for the valuation of significant assets, such as land and buildings. Involvement of external Valuers is decided upon annually by management after discussion with and approval by the Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

(h) Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

7.1 Accounting policies (continued)

(i) Reclassifications and restatements

During the current period, the consolidated entity has reclassified comparative data to ensure a consistent presentation with the current year results. All comparative changes made have been footnoted throughout the Financial Statements. The restatements presented below are not considered to have a material impact on the Financial Statements (with no impact on total net profit after tax or net assets).

	30 June 2019 as originally presented	Reclass-ifications	30 June 2019 Restated
	$'000	$'000	$'000

(i) Partnership income

Comparative amounts for partnership income of $446k was restated as a reduction to fee and commission expense ($310k) and operating expenses ($136k) relating to Visa incentive payments. This adjustment allows the consolidated entity to more accurately reflect the rebates received as an offset in expenses rather than a revenue stream.

Parent entity			
Other operating income - Partnership income	1,196	(446)	**750**
Fee and commission expense	(8,443)	310	**(8,133)**
Operating expenses	(53,899)	136	**(53,763)**
Consolidated entity			
Other operating income - Partnership income	1,196	(446)	**750**
Fee and commission expense	(8,443)	310	**(8,133)**
Operating expenses	(56,138)	136	**(56,002)**

(ii) Subordinated loan

The comparative balance of a subordinated loan previously reported in Loans and advances to members has been reclassified as a Financial asset at FVTPL after the loan was converted into shares. The effect of this was to decrease the balance of Retail mortgages within Loans and advances to members by $244k and increase the balance of Unlisted securities within Financial assets at FVTPL.

Parent entity			
Loans and advances - retail mortgages	9,100,551	(244)	**9,100,307**
Financial assets at FVTPL	1,348,479	244	**1,348,723**
Consolidated entity			
Loans and advances - retail mortgages	9,100,551	(244)	**9,100,307**
Financial assets at FVTPL	26,868	244	**27,112**

(iii) Deposits at call

The comparative amount for cash on hand at financial institutions previously reported as deposits at call of $809k was restated to reflect a consistent classification with similar items across the group. This related to the cash management account held within the Charitable Foundation.

Consolidated entity			
Cash at financial institutions and on hand	113,714	809	**114,523**
Deposits at call	96,998	(809)	**96,189**

(iv) Property, plant and equipment

During the current financial year, the consolidated entity completed a stock take of its fixed asset register and identified a number of assets that had a $NIL written down value, but which had been disposed or scrapped in prior years. As these assets had no impact on the income statement in the current or prior year, they have been adjusted by reducing the value of cost and accumulated depreciation. In some cases, the precise date of disposal or scrapping could not accurately be determined, and hence the adjustments have been made to the earliest comparative period.

Intangible assets			
Computer software - cost	27,239	(6,610)	**20,629**
Computer software - accumulated amortisation	(20,150)	6,610	**(13,540)**
Property, plant and equipment			
Leasehold improvements - cost	15,227	(671)	**14,556**
Leasehold improvements - accumulated depreciation	(13,486)	671	**(12,815)**
Plant and equipment - cost	48,290	(11,631)	**36,659**
Plant and equipment - accumulated depreciation	(34,026)	11,631	**(22,395)**

7.2 Accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting periods. These standards are not expected to have a material impact on the consolidated entity in future financial reporting periods and on foreseeable future transactions. Therefore, they have not been disclosed in this note.

7.3 Changes in accounting policies and disclosures

This note explains the impact of the adoption of AASB 16 *Leases* on the consolidated entity's financial statements.

(a) Summary of changes

On 1 July 2019 the consolidated entity adopted the requirements of AASB 16 *Leases* which replaced the existing standard AASB 117 *Leases*. AASB 16 aims to improve transparency on financial leverage and capital employed by bringing the value of contracts that were previously classified as operating leases onto the balance sheet. Lease contracts that fall within the scope of the standard are recognised as a lease liability, along with a corresponding right-of-use asset.

The majority of leases recognised by consolidated entity under AASB 16 relate to the rental of branch offices and ATM locations with lease terms of between one to fifteen years, with an option or options to extend for up to fifteen years. Former operating leases that are identified by the consolidated entity as being low-value, or having a lease term of less than 12 months from the date of initial application continue to be recognised as an expense in the income statement.

(b) Assumptions and practical expedients applied

In applying AASB 16 for the first time, the consolidated entity has applied the following practical expedients as permitted by the standard:

- In accordance with the transitional provisions of AASB 16, adopting the cumulative retrospective method subject to practical expedients. Under this approach the cumulative effect of initially applying the standard was recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Comparatives have not been restated.
- Electing not to apply the standard to short-term leases or leases for which the underlying asset is of low-value.
- A single discount rate will be applied to a portfolio of leases with similar characteristics.
- The standard was not applied to existing contracts which did not contain a lease as defined by AASB 117. This included 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.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Key judgements and assumptions that have been used by the consolidated entity in applying AASB 16 are:

- Consistent with historical behaviour, it has been assumed that all future lease options will be exercised.
- The incremental borrowing rate implicit in each lease has been calculated based on the consolidated entity's cost of funds, adjusted to reflect the term of lease and level of security.

(c) Opening balance sheet adjustments

On adoption the consolidated entity has recognised a right-of-use asset which has been included in property, plant and equipment and a lease liability on the balance sheet. The reclassifications and adjustments arising from the application of AASB 16 have been recognised in the opening balance sheet on 1 July 2019.

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 the notes following the table.

Balance Sheet Extract	Note	30 June 2019 as originally presented $'000	Transition Adjustments $'000	1 July 2019 Restated $'000
Assets				
Property, plant and equipment	**7.3(c)(i)**	48,336	31,983	**80,319**
Deferred tax assets		8,279	1,008	**9,287**
Lease liability	**7.3(c)(ii)**	-	35,344	**35,344**
Equity				
Retained profits		925,468	(2,353)	**923,115**

(i) Measurement of right-of-use assets

The consolidated entity has elected to present the right-of-use asset within property, plant and equipment in the balance sheet. The restated balance of property, plant and equipment at 1 July 2019 incorporates the recognition of the right-of-use asset on transition to AASB 16.

The right-of-use asset has been measured at its carrying amount assuming AASB 16 had been applied from the commencement of the lease and is depreciated on a straight line basis.

(ii) Measurement of lease liability

The lease liability has been measured at the present value of the lease payments unpaid at commencement date, discounted using the consolidated entity's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest charged. It is remeasured to reflect any reassessment or modification made to the lease contract with a corresponding adjustment reflected in the right-of-use asset. On transition to AASB 16 the weighted average incremental borrowing rate applied to the portfolio of lease liabilities recognised was 2.15%.

7.3 Changes in accounting policies and disclosures (continued)

(d) Reconciliation of opening balance of lease liability

The following table reconciles the operating lease commitments disclosed under AASB 117 at 30 June 2019 to the opening lease liability recognised under AASB 16 at 1 July 2019:

Parent and Consolidated Entity	Total $'000
Operating lease commitments as at 30 June 2019 under AASB 117	**27,552**
Changes to undiscounted lease payments due to the application of AASB 16*	**10,536**
Effect of discounting at the weighted average incremental borrowing rate of 2.15%	**(2,744)**
Total lease liability recognised at 1 July 2019	**35,344**

* The predominate reasons for changes to undiscounted lease payments relates to the inclusion of lease options under AASB 16 where it is reasonably certain they will be exercised by the consolidated entity.

(e) Lease liability balance at year end

The following table discloses the balance of lease liabilities at year end, compared to the opening balance recognised on transition to AASB 16. The maturity analysis of the lease liability, based on contractual maturity, is included within the disclosures at Note 5.9.

	Parent and Consolidated Entity 30 June 2020 $'000	Parent and Consolidated Entity 1 July 2019 $'000
Lease liability	**27,969**	35,344

(f) Leasing activities

The table below describes the nature of the consolidated entity's leasing activities by type of right-of-use asset recognised on the balance sheet:

Right-of-use (RoU) asset	No. of RoU Assets	Range of remaining term	Average remaining term	No. of leases with options
Parent and Consolidated Entity				
Branch offices	43	2 - 25 years	9 years	15
ATMs	45	2 - 15 years	5 years	7
Other	3	4 - 10 years	8 years	-

(g) Lease payments not recognised as a liability

The consolidated entity has elected not to recognise a lease liability for short-term leases (leases of an expected term of 12 months or less) or for leases of low value assets (leased assets with a value of less than USD$5,000 when new). Payments made under such leases are expensed on a straight-line basis.

The expense payments relating to payments not included in the measurement of the lease liability are as follows:

Parent and Consolidated Entity	Total $'000
Short-term leases	**268**
Leases of low value assets	**98**

As at 30 June 2020 the consolidated entity was committed to short term leases and the total commitment at that date was $5,410.

NEWCASTLE PERMANENT BUILDING SOCIETY LIMITED
DIRECTORS' DECLARATION
30 JUNE 2020

The Directors of Newcastle Permanent Building Society Limited declare that in their opinion:

(a) the financial statements and notes to the financial statements set out on pages 8 to 57 are in accordance with the *Corporations Act 2001*, including:

i) complying with the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

ii) giving a true and fair view of Newcastle Permanent's and the consolidated entity's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Newcastle Permanent will be able to pay its debts as and when they become due and payable.

Note 1.2 to the financial statements includes a statement of compliance with the International Financial Reporting Standards as made by the International Accounting Standards Board.

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

J.R. Eather Chair

J.M. Leslie Director

Newcastle
18 September 2020

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Independent auditor's report

To the members of Newcastle Permanent Building Society Limited

Our opinion

In our opinion:

The accompanying financial report of Newcastle Permanent Building Society Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2020 and of their financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company balance sheets as at 30 June 2020
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company income statements for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the financial report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

C Stafford

Craig Stafford
Partner

Sydney
18 September 2020

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Here for good.

NEWCASTLE PERMANENT