

Newcastle Permanent Building Society Limited

Modern Slavery Statement

Under the *Modern Slavery Act 2018* (Cth)

Reporting period: 1 July 2019 - 30 June 2020

Message from the CEO

At Newcastle Permanent, our driving purpose is the success and wellbeing of our customers, our people and our community.

As Australia's second-largest customer-owned financial institution we have a responsibility to lead by example to protect the human rights of those we employ directly and those whose employment we support through our supply chain.

In the past year we have made great strides in the review and analysis of our operations, investments and supply base and have made further progress on mitigating modern slavery risks within our footprint. However there is more to be done and we are committed to delivering a program that is proactive and supports human rights deep into our supply chain.

Our first modern slavery statement reflects our progress to date and showcases our commitment to continue to evolve to support the rights of decent work for all.



Bernadette Inglis
Chief Executive Officer

This statement was approved by the Board of Newcastle Permanent Building Society.



Jeffrey Eather
Chair

Who we are

Newcastle Permanent Building Society Limited

- a. ABN 96 087 651 992/ACN 087 651 992
- b. Australian Financial Services Licence/Australian Credit Licence: 238273

Our structure, operations and supply chains

Newcastle Permanent Building Society Limited (“Newcastle Permanent”) is an Australian Public Company and mutual building society that is customer-owned and therefore without shareholders. Newcastle Permanent returns its profits to its customers and the regional communities it operates in through better interest rates, competitive fees and financial support through its community involvement and extensive sponsorship program.

Newcastle Permanent employs nearly 900 staff, none of which are skilled foreign workers, and its customer base exceeds 323,000 individuals.

Newcastle Permanent is physically based in Newcastle with a branch network spanning the Central Coast, Hunter Region, Mid and Central West and the Northern NSW Coastal areas.

While the majority of Newcastle Permanent’s customer base is located within this physical geographical footprint, Newcastle Permanent continues to expand its digital footprint and its broader broker engagement with customers spanning Australia. Over the last calendar year, Newcastle Permanent has expanded into the Queensland market through the broker network.

Newcastle Permanent’s offices and physical facilities include its Head Office in Newcastle West, NSW, and nearly 50 branches across the Hunter Region and throughout regional NSW.

Newcastle Permanent provides a full range of individual banking products and services, with a primary focus on home lending and customer deposit accounts.

The Newcastle Permanent Charitable Foundation (“Foundation”) forms an important part of Newcastle Permanent’s community-focused business. By way of overview, in 2019/20 Newcastle Permanent provided over \$1.57 million in charitable community grants through the Foundation.

The below graph provides a high level overview of the top three spend categories in the first tier of Newcastle Permanent’s supply chain being:

- Computer & Technical (Information Technology);
- Market Research (market research and other business management services); and
- Ownership of dwellings (includes properties and ATMs that are owned or leased).

The graph furthermore illustrates the main economic inputs by industry feeding into those top three spend categories in the second and third tier of the supply chain:



Modern slavery risks in our operations, supply chains and investments

Newcastle Permanent has carried out a global risk assessment of all of its current supplier data for the relevant reporting period of July 2019 – June 2020.

Newcastle Permanent carried out an initial internal review of its supply chains against recognised modern slavery indicators by matching goods and services and country of origin against risk using information from;

- a. Alliance 8.7 Global estimates of Modern Slavery, Global Index Survey; and
- b. 2018 Global Index Survey – Prevalence of Modern Slavery – Top 50 Countries.

Newcastle Permanent furthermore subsequently engaged external subject matter experts to undertake in-depth analysis of our complete supply chains and operations, including the supply chains of our investment portfolios.

Due to the nature of Newcastle Permanent's core business, the relative scarcity of raw materials and manufacturing in its supply chains, and its geographical area of operation, Newcastle Permanent has an overall risk of modern slavery that is relatively low. However, Newcastle Permanent still fully recognises the reality of modern slavery throughout international trade and commerce of all types, and has thus comprehensively assessed its own risk factors as a result.

Newcastle Permanent's external experts' initial assessment process has a complex methodology based on cutting-edge supply-chain analysis and technology, an extract of the process is provided below:

Newcastle Permanent has utilised the proprietary technology of external consultants, which incorporates company spend data with information obtained from global markets, to trace the economic inputs required to produce products and services sourced from Tier 1 suppliers to Tier 2 suppliers, Tier 2 suppliers to Tier 3 suppliers, and so on, all the way to Tier 10 suppliers of the supply chain of Newcastle Permanent's suppliers.

This supply chain mapping was performed using a balanced, global Multi-Regional Input-Output (MRIO) table which links supply chain data from 190 countries, and in relation to 15,909 industry sectors. This MRIO table is assembled using the following sources:

- a. *The United Nations' (UN) System of National Accounts;*
- b. *UN COMTRADE databases;*
- c. *Eurostat databases;*
- d. *The Institute of Developing Economies, Japan External Trade Organisation (IDE/JETRO); and*
- e. *Numerous National Agencies including the Australian Bureau of Statistics.*

The MRIO is then examined against the following international standards:

- a. *The UN Guiding Principles on Business and Human Rights;*
- b. *The Global Slavery Index;*
- c. *International Labour Organisation (ILO) Global Estimates of Modern Slavery; and*
- d. *The United States' Reports on International Child Labour and Forced Labour.*

A proprietary algorithm has then been applied to synthesise publicly available risk data against the exclusively licensed MRIO table. The result of this process is the creation of a modern slavery risk profile to Tier 10 for each supplier for Newcastle Permanent.

All supplier risk profiles are then aggregated to define a total cumulative theoretical footprint for Modern Slavery in Newcastle Permanent's supply chain.

Newcastle Permanent recognises that a complex web of factors interact to create relative modern slavery risks, including:

- a. total spend amount;
- b. industry group;
- c. geographic area; and
- d. depth within the supply chain(s) – [e.g. 3rd tier, 5th tier, etc.]

In the first tier of Newcastle Permanent's supply chain the industry categories with the most elevated relative risk of modern slavery are:

- a. Printing and Stationery (Australia);
- b. Textile products (Australia);
- c. Technical services and other related businesses (Singapore);
- d. Pulp, paper and paper services (Australia);
- e. Other engine equipment and manufacturing (USA);
- f. Accommodation (Australia);
- g. Hotel, clubs, restaurants and cafes (Australia);
- h. Non-building construction (Australia);

- i. Advertising and signage (Australia); and
- j. Electrical equipment (Australia).

The above supply chains, many of which have the most significant risks at the higher raw materials and manufacturing tiers, are related to the following aspects of Newcastle Permanent's operations:

- a. Accommodation and hospitality services while staff travel for business;
- b. Employee uniforms;
- c. Advertising and signage;
- d. Security services for branches;
- e. Software, publication and information subscriptions; and
- f. Electrical services.

Newcastle Permanent recognises that the risk of modern slavery is often hidden deep within its supply chain. Accordingly, and as stated above, Newcastle Permanent has engaged external subject matter experts with the necessary technology to analyse its spend data to Tier 10 of its supply chains.

Some of the identified elevated risks of modern slavery for Australian industry categories potentially located within the deeper tiers of the supply chain are:

- a. Computer and technical services;
- b. Ownership of dwellings (includes properties and ATMs that are owned or leased);
- c. Business services;
- d. Advertising services;
- e. Management services;
- f. Domestic telecommunication services;
- g. Cleaning services;
- h. Non building construction;
- i. Printing and stationery; and
- j. Wholesale trade.

Newcastle Permanent's assessment analysis results showed that overall the modern slavery risk is **low**, however the most elevated risk within its supply chain occurred at Tier 3 for Newcastle Permanent's suppliers.

Understanding that the highest risk of modern slavery is aggregated at Tier 3, going forward, Newcastle Permanent intends to focus its supplier engagement (through Tier 1) on understanding the Tier 3 suppliers that are in the higher industry risk categories. The focus for supplier engagement in the coming reporting period will be targeted at the following industry categories:

- a. Australian computer and technical services;
- b. Australian cleaning services; and
- c. Non-building construction.

In relation to Newcastle Permanent's investment-related modern slavery risk assessment activities, it is to be noted that Newcastle Permanent only invests in Minimum Liquidity Holdings (MLH) High Quality Liquid Asset (HQLA) assets (as defined under APS210) as follows:

- a. notes and coin and settlement funds;
- b. Commonwealth Government and semi-government securities;
- c. debt securities guaranteed by the Australian Government, or foreign sovereign governments;
- d. debt securities issued by supranationals and foreign governments;
- e. bank bills, certificates of deposits (CDs) and debt securities issued by Authorised Deposit-Taking Institutions (ADIs);
- f. deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by other ADIs; and
- g. any other securities approved by the Australian Prudential Regulation Authority (APRA).

Newcastle Permanent's internal policy requires that all of its investments must also be eligible for repurchase by the Reserve Bank of Australia. Newcastle Permanent investments are limited to the following types of counterparties:

- a. Australian Government;
- b. Australian State/Territory Governments;
- c. Australian ADI's;
- d. Foreign Banks (Full Branch Status) that have been approved by APRA as Australian ADI's;
- e. Australian Settlements Limited (ASL - also an ADI); and
- f. Residential Mortgage Backed Securities secured by Australian residential mortgages.

For the subject reporting period, Newcastle Permanent had no investments that fell outside of the above criteria. This, again, means that overall the modern slavery risk for Newcastle Permanent is **relatively low** due to the inherent nature of its business operations and financial services products.

Nonetheless, Newcastle Permanent has also adopted the same methodology as with its operational supply chains to identify modern slavery risks in the supply chains of its investment portfolios.

The most notable risk of modern slavery in Newcastle Permanent's investment portfolio arise from investments in Australian branches of foreign ADIs, particularly China. It should be noted that investments in **Australian branches** of Chinese banks represent approximately **1.4%** of Newcastle Permanent's total assets.

Newcastle Permanent Charitable Foundation (the Foundation) is an entity controlled by Newcastle Permanent. The Foundation has a liquid asset portfolio which represents approximately **1%** of total group liquid assets. The Foundation invests in cash and fixed income investment (approximately **70%** of the portfolio), international equities (approximately **10%** of the portfolio) and domestic growth assets (approximately **20%** of the portfolio). The portfolio is managed by an Investment Adviser under an Investment Services Management Agreement.

Actions we have taken to assess and address modern slavery risks

Newcastle Permanent is committed to continuing to undertake, over subsequent reporting periods, concrete actions to address the assessed modern slavery risks, both internally and externally.

The following is a brief overview of key **externally** focused actions set out for the next reporting period:

- a. Newcastle Permanent understands that meaningful supplier engagement is necessary in order to effectively address modern slavery risk and undertake due diligence aligned with the UN Guiding Principles on Business and Human Rights. Newcastle Permanent intends, during its second reporting period, to make communication and education materials on modern slavery available to selected suppliers. These materials have been uniquely developed for Newcastle Permanent's smaller suppliers who may not be aware of the Modern Slavery Act and Newcastle Permanent's reporting obligations under the Act;
- b. all new procurement activities that are registered with the Procurement department assessed against modern slavery indicators;
- c. due diligence in the form of reviews of reporting entities' statements and/or targeted supplier self-assessment questionnaires for suppliers that are identified as having a potentially elevated risk of modern slavery in their supply chains and/or operations;
- d. updating of new supplier contracts to incorporate specific provisions imposing obligations with direct suppliers relating to proactively addressing modern slavery in their own supply chains and operations; and
- e. due diligence on investment providers that are identified as having a potentially elevated risk of modern slavery.

The following is a brief overview of key **internally** focused actions:

- a. review of internal governance policies to address modern slavery as required;
- b. desktop auditing of publicly available information and data relating to suppliers that are identified as having a potentially elevated risk of modern slavery in their supply chains and/or operations;
- c. the rollout of specially developed online education modules amongst key personnel; and
- d. development and rollout of the internal process to be followed should the suspicion of modern slavery within our supply chain or investments arise.

Implementing modern slavery into corporate governance

Leading corporate governance is an important part of Newcastle Permanent's internal culture. For example, although Newcastle Permanent is not bound by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles), its Board has elected to strive to adopt a best practice governance approach and will apply them where possible.

Newcastle Permanent has transitioned to reporting its corporate governance practices against the fourth edition of the ASX Principles as at 18 September 2020, when the most recent Corporate Governance Statement was approved by the Board.

This commitment to industry benchmark corporate governance extends to Newcastle Permanent's ongoing modern slavery response.

Newcastle Permanent has commenced reviewing its internal governance structures and policy framework to expressly address modern slavery risks in its supply chains and operations.

The following key governance bodies have been involved, including in an oversight capacity, in the processes described in this statement, including Newcastle Permanent's future plans and commitments to ongoing remediation and due diligence activities for upcoming reporting periods:

- a. Executive Committee;
- b. Executive Risk Committee;
- c. Board Risk Committee; and
- d. Board of Directors.

In 2019, Newcastle Permanent established a Modern-Slavery Working Group, which is comprised of the following strategically selected members:

- a. Manager, Procurement and Stores;
- b. Risk Advisor, Operational Risk;
- c. Senior Compliance Advisor;
- d. Corporate Lawyer – Regulatory; and
- e. Regulatory Affairs Manager.

The Working Group has also sought key input from the following senior positions:

- a. Liquidity Manager, Treasury;
- b. Manager, Learning, Wellbeing & People Services; and
- c. Manager, Talent and Performance.

The initial focus of the Working Group was the compilation of information for the preparation of this inaugural Modern Slavery Statement. Going forward, the Working Group will have oversight by Executive and Board Risk Committees to maintain a steering role in the future direction of Newcastle Permanent's modern slavery response, including implementation of a framework for measuring effectiveness.

Assessing the effectiveness of our actions

Newcastle Permanent recognises that, particularly due to the inherent complexities of modern slavery detection and remediation, it is crucial to constantly be monitoring the performance of anti-slavery measures and seeking to update them to reflect current best practice.

Newcastle Permanent has developed **internal KPIs** that set the following targets in addressing Modern Slavery over the next reporting period:

- a. Number of suppliers assessed for modern slavery risk;
2021 Goal: To undertake desktop reviews, and further investigation where increased risk is identified, for suppliers that are also reporting entities under Act. In addition, to undertake further due diligence on suppliers that are not reporting entities under the Act through targeted questionnaires.
- b. Number of investments assessed for modern slavery risk;
2021 Goal: To undertake desktop reviews, and further investigation where increased risk is identified, for investment providers that are also reporting entities under the Act. In addition, to undertake further due diligence on suppliers that are not reporting entities under the Act through targeted questionnaires.
- c. Supplier uptake on education materials provided by Newcastle Permanent;
2021 Goal: For all suppliers on which Newcastle Permanent expects to spend more than \$100K in total to undertake modern slavery training.
- d. Number of employees completing internal education on modern slavery;
2021 Goal: For all contract owners to undertake modern slavery training.
- e. Continuous monitoring of Modern Slavery obligations at the Executive and Board Risk Committees;
2021 Goal: Reporting on a periodic basis of activities of the Modern Slavery Working Group and ongoing compliance obligations.

Although the level of investment Newcastle Permanent has made into international diversified banks in China is immaterial relative to the overall level of liquid assets, targeted due diligence will be undertaken in upcoming reporting periods to ensure, to the fullest extent practicable, that those international banks are taking adequate steps to address modern slavery.

With respect to the investments of the Foundation, Newcastle Permanent will continue to work with the Investment Adviser to ensure that adequate steps are being taken to address the risk of modern slavery within the investment supply chain.

Consultation with related entities

Newcastle Permanent has several associated entities, which are consolidated into the group for annual accounting reporting and auditing purposes¹. These associated entities are:

- **Newcastle Friendly Society Limited** was a provider of financial products and services approved under the Life Insurance Act 1995 and is in the process of formally winding up its operations.
- **Newcastle Permanent Community Foundation Company Limited** is the trustee of Newcastle Permanent Charitable Foundation, a community support fund which distributes grants to local charities and not-for-profit organisations for the purpose of assisting disadvantaged, marginalised and isolated people across regional NSW.
- **Newcastle Permanent Charitable Foundation** is the charitable arm of Newcastle Permanent's activities, as outlined above.
- **Newcastle Permanent Funding Trust No.1** is a securitisation trust program established under a master trust deed.

Although none of these entities are reporting entities under the Act, their data has been taken into account in the modern slavery risk assessments undertaken. Newcastle Permanent's approach to addressing modern slavery has also been communicated to all relevant group entities.

Other Relevant Information

Newcastle Permanent is aware that COVID 19 has impacted the risk of modern slavery in its supply chains especially in relation to the procurement of PPE and hand sanitiser which necessitated the use of alternative sources to those normally used. Newcastle Permanent has resumed usual procurement procedures where appropriate risk assessment and due diligence is undertaken in relation to modern slavery risk.

Any enquires regarding the Newcastle Permanent Modern Slavery statement should be directed to the Public Enquiries Mailbox enquiries@newcastlepermanent.com.au

¹See 2020 Annual Report, available at <https://www.newcastlepermanent.com.au/about-us/financial-performance>