Annual Review 2021

Boldly backing business.

judobank

Table of Contents

Our Purpose

To be the most trusted SME business bank in Australia.

Judo Bank is Australia's only purpose-built, challenger business bank, dedicated to boldly backing small and medium enterprises (SMEs).

SMEs are the engine room of the Australian economy, and Judo Bank provides SMEs across a wide range of sectors with the funding they need to capitalise on opportunities, to scale and to grow.

We believe that each SME is unique, and that each deserves a relationship with their bank that is built on a deep understanding of their business, professionalism, trust and exceptional customer service – something that has been lacking in the banking industry for decades.

Through our relationship-centric model, Judo Bank provides Australian SMEs with an industry-leading value proposition that the big banks simply can't deliver.

judobank™

2021 Key Highlights

Through the challenges and uncertainty brought upon the Australian economy by the COVID-19 pandemic, Judo Bank has remained steadfast in its commitment to boldly back SMEs.

Our compelling SME value proposition and the long-term growth orientation of our customers have resulted in a $1.7 billion, or 97%, increase in our loan book over FY21.

Net Promoter Score[1]

+85

Arrears

0.36%

Judo locations

Total equity raised[2]

$1.2bn

Inaugural T2 issue

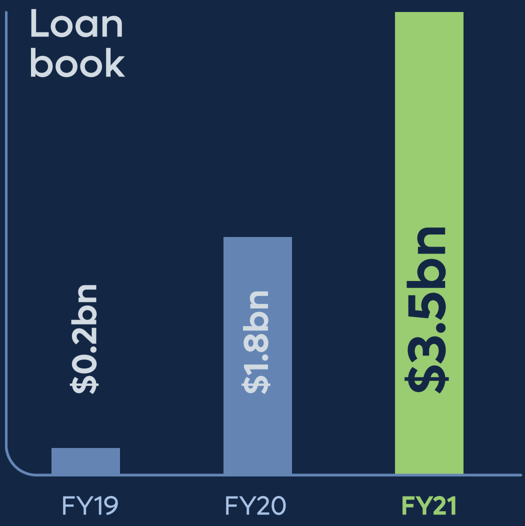
$50m

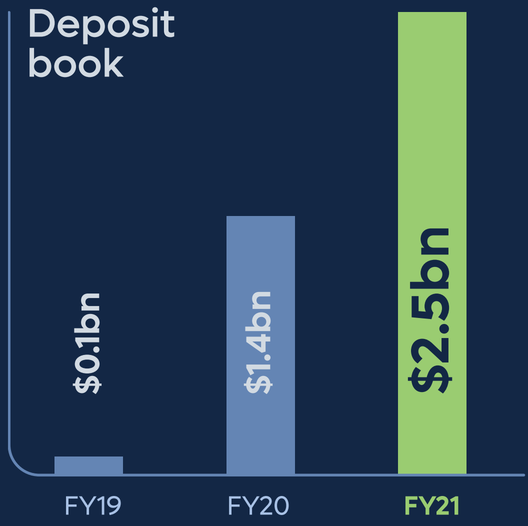
Warehouse facilities

$1.3bn

[1] *Based on Net Promoter Score results registered on the Evolved Human Listening insights platform as at 30 June 2021*
[2] *Relates to total equity funding commitments received as at 30 June 2021*

Size





Customers

SME customers

AS AT JUNE 2021

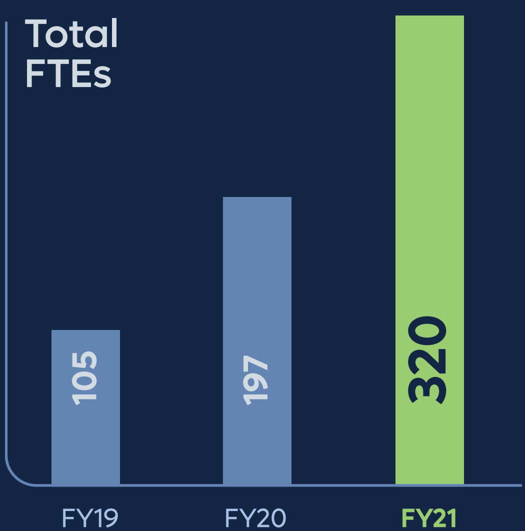
1,650

Deposit customers

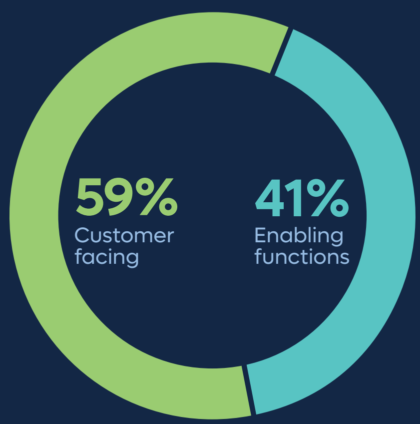
AS AT JUNE 2021

11,505

Team



Workforce



Our Business

Built from the ground up by a team of deeply experienced and highly credentialed business banking professionals, Judo is Australia's only bank dedicated to boldly backing SMEs.

Founded on the principle of 'banking as it used to be, banking as it should be', our approach combines relationship-based lending with a legacy-free platform that continues to differentiate us from the major banks. In the wake of a global pandemic, our service proposition and commitment to SMEs has never been more critical to recovery and growth.

SME lending

Since obtaining our banking licence in April 2019, Judo has provided over $3.5 billion in funding to the SME sector. We have invested heavily in attracting and recruiting the country's best relationship bankers, and currently have more than 114 relationship bankers and analysts across Australia, in addition to strong relationships with over 745 accredited third-party brokers.

Term deposits

As at 30 June 2021, Judo's deposit customers have invested over $2.5 billion in our term deposits, providing valuable funding that supports Australian SMEs. Our term deposits are available to retail, self-managed superannuation fund (SMSF) and middle market customers including charities, universities and high-net-worth individuals. We are proud to have continued to receive industry recognition, winning the 'Bank of the Year 2021 – Term Deposits Award' from Canstar, 'Experts Choice 2021 for Term Deposit' from Mozo and '2021 Gold Award Winner' from RateCity.

mozo EXPERTS CHOICE 2021 TERM DEPOSIT

RateCity Gold Award 2021 Best 12-month Term Deposit

BANK OF THE YEAR CANSTAR 2020 TERM DEPOSITS

Since opening the doors in Western Australia some 12 months ago, we have been able to take a different approach to supporting SMEs by having local, on-the-ground decision-making capabilities through our highly-experienced bankers, delivering on our promise of making common-sense decisions.

Ben Tuszynski | Relationship (WA)

Our values

Trust

The foundation of our purpose, the core of our relationships.

Teamwork

We're not a team of champions. We are a champion team.

Accountability

Make the decision and own it. Keep your promises.

Performance

Make today better, stronger and faster than yesterday.

Our people

In the past year, Judo has expanded its national presence by adding eight new locations, bringing the total to 12 across Australia. We now have a team of 320 talented and passionate employees across the country, enabling us to serve more SMEs, more often.

We are committed to building a business that attracts great talent, by fostering a collaborative and inclusive environment where employees feel a strong connection and commitment to our purpose.

Professionalism and ongoing development are key tenets of Judo's culture. Our management team has deep expertise in the banking industry with an average of over 25 years of experience. Our employees are committed to The Banking and Finance Oath and to their professional development through the Financial Services Institute of Australia (FINSIA) administered Chartered Banker qualification, with the vast majority of our senior bankers having the Chartered Banker accreditation.

320 Employees[1]

63% Male

59% Born in Australia

59% Customer facing

12 Locations

37% Female

41% Born outside of Australia

41% Enabling functions

[1] *Employee figures based on full-time equivalents (FTEs) including third-party employees*

Our Approach

Since the concept for Judo was developed in 2015, we have set out to bring back the craft of relationship banking to the SME sector through our specialised, purpose-built service proposition.

This is in contrast to most other lenders that remain focused on a volume-oriented approach, with a one-size-fits-all risk assessment philosophy and industrialised customer engagement practices. After several years of significant and sustained growth, our priority now is to accelerate this trajectory by reinforcing our differentiated position as the bank that is boldly backing Australian SMEs.

How we do it

Judo's relationship-centric approach to lending is at the core of how we deliver lending solutions for SMEs. We pride ourselves on our ability to see and understand the business opportunities and potential that our customers see. We know that every SME is unique, each with its own aspirations and challenges. SME business owners have an intimate understanding of their business and capabilities, and we seek to back them with highly experienced relationship bankers who can make tailored, judgement-based lending decisions that will help support, build and grow their business.

Dedicated

We recruit only the best banking talent – those with the skills and experience to truly understand an SME's business.

Direct

Customers deal directly with the decision-maker, who is empowered to assess each application on its merits.

Personal

Our relationship bankers have a smaller portfolio of clients than the major banks, enabling them to spend more time with their customers and offer a higher level of service, deeper understanding, tailored solutions and a value-added banking relationship.

Responsive

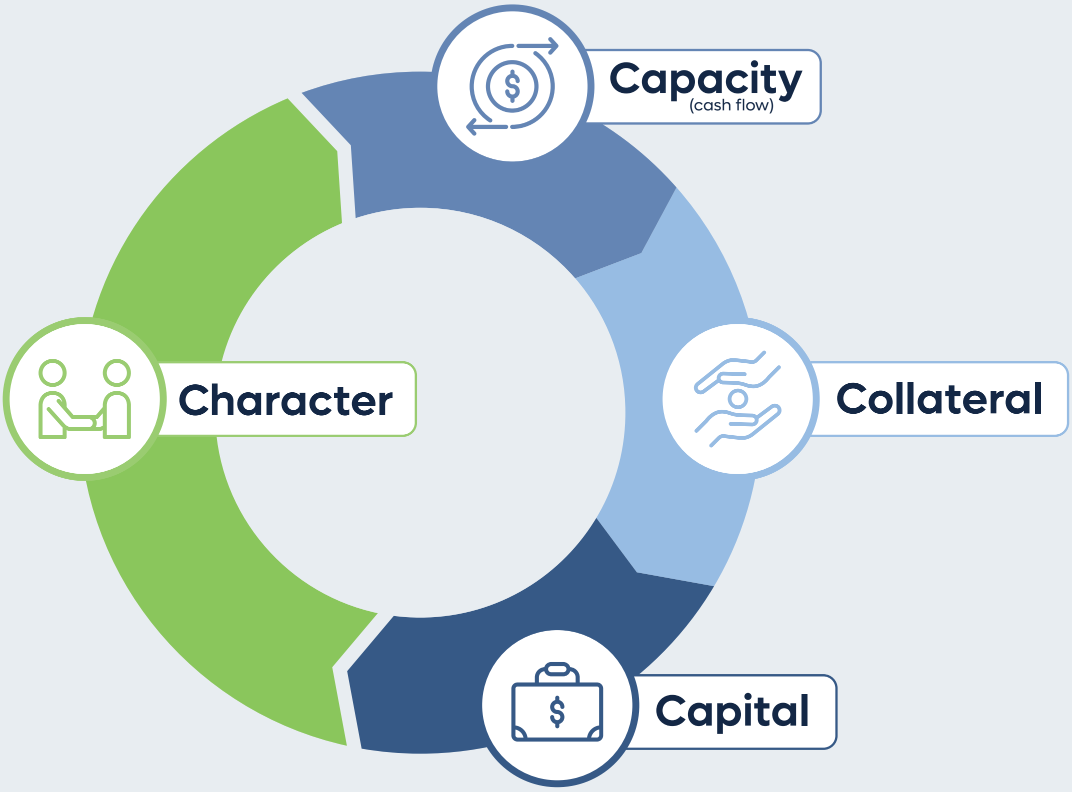
We offer customers a fast turnaround time – delivering greater certainty, reliability and speed when accessing funding for their business.

Transparent

We deliver consistent, transparent lending decisions based on a holistic understanding of each customer.

4 Cs of credit

Judo is bringing back the fundamentals of business banking with an emphasis on the 4 Cs of credit, to facilitate a deeper and more tailored understanding of each business, including the character of the principals, and their cash flow and capital needs.



SME customer insights

Our third annual SME Banking Insights report[2] highlighted a widening gap in the unmet funding needs of Australian SMEs of $119.2 billion, with one in four SMEs being unsuccessful in obtaining finance in the past year. Major banks fell further on customer trust, with the trust index score declining from an already low 2.40 in 2019 to 2.26 in 2020 on a 10-point scale. Despite the challenges of the COVID-19 pandemic, 45% of SMEs defined themselves as being in growth mode and only 15% described the interaction with their bank as high quality, highlighting the significant relationship gap experienced by these businesses.

[2] *Research conducted by East & Partners and released in March 2021; sample of 1,753 SMEs with turnover between $1 million and $50 million*

Chairman's Report

Peter Hodgson
Chairman

On behalf of the Board and staff of Judo, I am delighted to present our fourth annual review for the financial year ending 30 June 2021 (FY21).

It is pleasing to be able to comment on a year of significant achievement for Judo, notwithstanding that at times it seemed events were conspiring against us. With headquarters in Melbourne, we have operated with many of our staff members working from their homes for a significant portion of the year – which presented an unprecedented and extraordinary working environment.

Many of our customers were significantly impacted by the COVID-19 pandemic and related government lockdowns during the year. Border restrictions, both within and between states and territories, impacted our ability to manage a national business as we faced an inability to travel.

The fact that Judo has continued to flourish in this environment is a great credit to all involved.

There is, however, no doubt that the actions of the Federal Government, through the JobKeeper payment and other measures, helped to support our economy and, when combined with significant fiscal stimulus, has left it in a far better position than might otherwise have been expected.

Our people have gone to extraordinary efforts this year on many fronts. In particular, I want to mention those involved in our data migration program, as we moved onto new technology platforms that will support Judo's next phase of growth. This activity, undertaken during a pandemic, is a prime example of our continued investment in technology to empower our bankers. Our entire workforce has contributed to Judo's continued growth this year, and we have sought to recognise their efforts through our ongoing employee rewards and recognitions programs, including 'Judo Perks' and 'Judo Masters'.

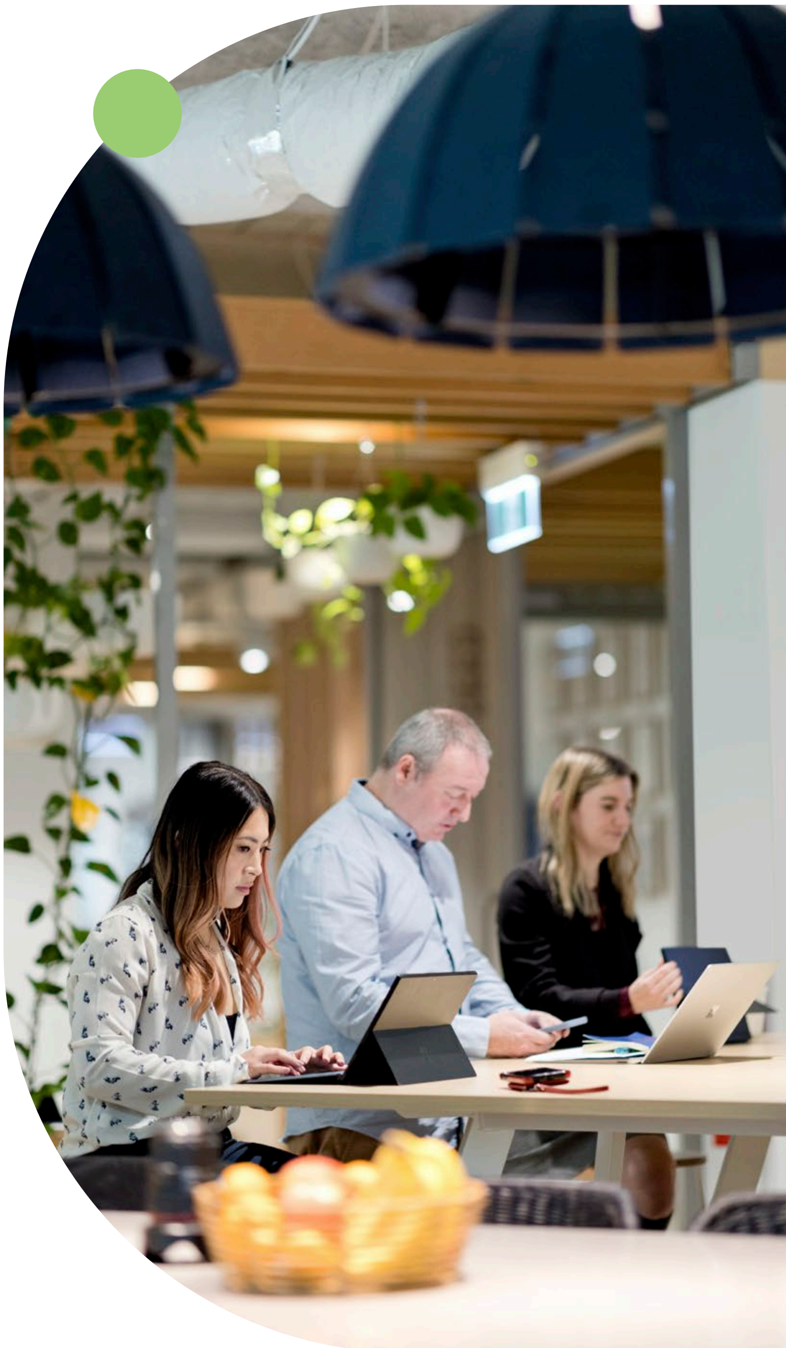
Our business model emphasises the importance of the direct relationships our bankers have with our SME customers. The importance of this has been amply demonstrated during the COVID-19 lockdowns, where practical measures, through our close knowledge of our SME customer base, proved beneficial. Direct and prompt contact resulted in Judo being able to offer a variety of support initiatives to our SME customers, which enabled them to navigate through these challenging times and to be well-positioned for the economic recovery.

We have been delighted with the readiness with which depositors have taken up our award-winning term deposit offering, which has seen strong volume growth, including across longer-term deposits. As at 30 June 2021, Judo had $2.5 billion in term deposits, with over 11,500 deposit customers, and an average tenor of approximately 12 months.

Consistently raising deposits and, indeed, use of our wholesale warehouse facilities have been important in allowing us to maintain a significant lending growth trajectory, reaching some $3.5 billion by year end. This represents an increase of roughly 97% over the 12 months to 30 June 2021 – all of which has helped support Australian SMEs, which are the engine of our economy.

Regulatory capital to support our growth during the year was sourced via two funding rounds, with a range of existing shareholders and new investors contributing over $400 million in equity capital. In addition, in June 2021, we raised an additional $50 million in regulatory capital through our inaugural Tier 2 issue. We are incredibly grateful for the support granted to us by our shareholders and investors.

It is pleasing to be able to comment on a year of significant achievement for Judo, notwithstanding that at times it seemed events were conspiring against us.



In establishing Judo, we were determined to build a large but strategically focused business bank that would become a permanent feature of the Australian banking landscape.

While we are some years into that journey, we still have much to do in the years ahead. Some change along the way will always be inevitable – during the year we farewelled Bruce Billson from the Board, as he moved on to a new role with government. We also took the decision to appoint Joseph Healy as sole CEO, with Co-CEO, David Hornery, to move onto the Board in the coming months.

We continue to explore other capital-raising opportunities, but remain convinced that an independent path is best for our future.

Finally, I am acutely conscious of the pace and intensity of work that our people have put in during a difficult year. I am indebted to them.

I thank my fellow Directors, our customers and our staff for their support during the year.

Peter Hodgson
Chairman

Chief Executive Officers' Report

Joseph Healy and David Hornery
Co-Chief Executive Officers

The past 12 months have been unlike anything either of us have ever experienced.

In the first half of the year, with the whole country battling COVID-19 via rolling lockdowns that impacted us all, and Victoria particularly hard hit, our first concern has been the ongoing health and wellbeing of our staff, and the unwavering support of our customers. In parallel, we have had to adapt the bank to run remotely, with offices closed and our staff working from home for a significant portion of the year. The impact at a personal and family level is ongoing and is not to be underestimated. But as governments become more proficient in managing outbreaks, and lockdowns become less frequent, we simply could not be more proud of the resilience of the Judo team, nor more appreciative of their dedication.

In an economic and commercial sense, it has also been an unprecedented year, with predictions of double-digit unemployment, a sustained drop in gross domestic product (GDP), high levels of bad debt and material falls in residential property prices proving to be well wide of the mark. As we come to the end of the financial year, we find ourselves in an environment where unemployment has dropped below pre-pandemic levels, GDP has bounced back strongly, housing prices are surging and business confidence is at all-time highs. A large portion of this links directly to the decisive, substantial and targeted intervention of the Federal Government, with the largest post-war stimulus packages in Australian history. While this is a hugely positive outcome, particularly from where we were at the beginning of the year, we both see real and emerging risks of inflation starting to appear. Businesses across the country are citing rapidly growing labour shortages, input price rises and supply chain disruptions, all acting as bottlenecks in the economy.

In short though, Judo's positioning as we went into the pandemic, and the resurgence of the economy in response to the sustained stimulus packages, has meant that we have had an outstanding year. As the major banks predictably pulled back from lending into the SME sector at the onset of the pandemic, Judo stepped up. Our relationship banker coverage levels, our ability to engage deeply and respond quickly and our commitment to supporting the SME sector – through tough times as well as good – saw us show the strongest growth and commitment to the SME economy of any bank. Our lending to the SME economy grew by 97% in the 12 months to 30 June 2021, when the broader banking system saw a reduction in business lending. This has seen our Net Promoter Score (NPS) lift to an industry leading +85, and the lending book grow to $3.5 billion, up from $1.8 billion at the start of the financial year.

This growth demonstrates the strong market demand for our offering, as well as the significant operating leverage inherent in our legacy-free business model. Going forward, we are excited about the continued expansion of our relationship banker network as well as our ongoing investment in technology and data to support the delivery of our core value proposition in even more effective and innovative ways.

On the funding side, we have complemented that growth with a deposit book that has grown to $2.5 billion and is continuing to win awards from Canstar and others, as well as creating Australia's first ever $1 billion+ SME securitisation, receiving an Aaa rating from Moody's and accessing the 3-year Term Funding Facility (TFF) established by the Reserve Bank of Australia (RBA).

Judo's positioning as we went into the pandemic, and the resurgence of the economy in response to the sustained stimulus, has meant that we have had an outstanding year.

The central role of risk management at Judo continues, with significant further investment during the year in technology and capability across credit, operational and cyber risk. We have been particularly pleased with the performance of the loan book, given the stress that the SME sector has faced during the pandemic. In May last year, at its peak, 21% of the lending book required some level of support, including moving from principal and interest to interest only and capitalisation of interest. This progressively ran off to zero by the end of FY21. Nonetheless, lending inevitably incurs some losses over time, and we remain alert to the risks attendant to the removal of JobKeeper and of potential further outbreaks.

With Judo's value proposition resonating strongly, we have taken the opportunity this year to continue to build out our geographic footprint to eight new locations across Australia. These new locations span capital cities including Adelaide, Canberra and Hobart, and also regional areas including the Gold Coast, the Sunshine Coast, Launceston, Newcastle and Geelong, where on-the-ground business bankers have, until now, been scarce.

As the business has grown, so too has the number of people who are now part of the 'Judo Family'. With over 300 people now working at Judo (up from 197 some 12 months ago), we have maintained our commitment to professionalism in the industry as we continue to invest in the training and development of our workforce.

As we came to the end of the financial year, many of you will have seen that we announced a series of changes to the Management Board of Judo. As a fast-growing organisation, it is important that we continue to evolve the structure and staffing of the company proactively, to set us up in the best possible position for the next phase of our growth.

The first of these changes was David moving out of the Co-CEO role, to be appointed in due course to the Board, and Joseph assuming the single-CEO role, effective from 1 July 2021. The Co-CEO model has worked tremendously well for us over the six years that have passed between the original idea of Judo and today. Having discussed it at great length over the past year, we both felt that, given the momentum of the business and with a first-class leadership team in place, the time was right to move to a simpler, more intuitive and more conventional single-CEO model, but with David remaining actively involved by stepping up onto the Board.

During the year, we also announced two new leaders to the Management Board. We welcomed Lisa Frazier (who commenced in April 2021) and Angelo Manos (who commenced in July 2021). Jacqui Colwell and Tim Alexander both stepped down from the business on 1 July 2021 after five years of outstanding and dedicated service to the company.

Finally, while we have made tremendous progress this year, there remains no complacency at Judo. We will continue to focus on consolidating the gains we have made, while maintaining the agility needed to grow and operate. Our priority now is to sharpen the delivery of our proposition to Australia's SME sector that resonated so strongly in the past 12 months, and has allowed us to continue to build on the momentum we have achieved to date.

Joseph Healy
Co-Chief Executive Officer

David Hornery
Co-Chief Executive Officer

Chief Financial Officer's Report

Chris Bayliss
Chief Financial Officer

FY21 has been an extremely successful year for Judo, with our lending book growing by 97% to $3.5 billion, highlighting the strength of our relationship-centric model.

This growth saw us move to monthly profitability for the first time in September last year; something we are very proud of achieving within less than two years of receiving our banking licence.

In addition to our impressive growth, we have continued to strengthen our financial position with successful capital raisings completed in December 2020 and June 2021. The recent capital raisings, including the issuance of our inaugural $50 million Tier 2 capital subordinated debt security, demonstrate the significant support and belief our investors have in us.

Alongside strong deposit growth and diversification of our funding sources, Judo was able to participate in the Term Funding Facility (TFF), which provided access to $2.9 billion in low-cost funding that has supported healthy liquidity levels and further reduced our cost of funds. Both capital and liquidity initiatives have proven to be particularly critical during times of uncertainty and have set us up well to maintain momentum into FY22.

Strong momentum in lending growth

FY21 saw a substantial growth in our lending activity, increasing our loan book by $1.7 billion to finish FY21 at $3.5 billion (FY20: $1.8 billion). The momentum was supported by Judo's expanding national footprint and greater investment in our relationship banking teams.

During FY21, third-party brokers continued to be an important source of originations for Judo (approximately 73%). We were also pleased with the growth of lending opportunities originated through our direct offerings as Judo's brand and reputation gain more prominence in the market.

Deposit growth and diversifying our funding base

Funding has grown significantly during FY21 through term deposits to retail customers as well as an expanding SMSF and middle market deposit customer base. Term deposits remain the largest source of funds for Judo to support our lending growth, attracting over 11,500 deposit customers totalling $2.5 billion invested in FY21 (FY20: $1.39 billion). Wholesale term debt funding increased to $3.5 billion in FY21 (FY20: $0.5 billion), which included utilisation of the RBA's TFF to secure low-cost funding fixed at 10 basis points (bps) over a 3-year term. As of 30 June 2021, a total of $2.9 billion of the TFF has been drawn (of which $2.2 billion was drawn in advance to fund future loan growth), further supported by $1.3 billion in wholesale credit facilities, providing additional diversity and tenor to our funding mix.

Judo's relationship banking model has underpinned strong momentum in lending book growth throughout FY21, against a backdrop of economic uncertainty and anticipated impacts of the COVID-19 pandemic.

Maintaining solid capital and liquidity foundations

As at 30 June 2021, Judo is well capitalised, with a Total Capital Ratio of 26.4% (FY20: 23.8%) and a Common Equity Tier 1 ratio of 24.5% (FY20: 23.1%). Capital ratios are maintained in excess of regulatory requirements and Board targets, given the significant forward momentum in our pipeline of future lending opportunities.

Proceeds from various capital-raising activities during the year were used to support the growth in risk-weighted assets (RWAs) of $4.1 billion. Capital-raising activities that settled during FY21 totalled $502 million, comprising the second tranche of the Round 3 capital raising ($114 million), the Round 4 capital raising ($284 million) and the Round 5 capital raising ($104 million, with the balance of that raising settling post year-end in July 2021).

During the year, Judo also issued its inaugural Tier 2 Capital subordinated notes of $50 million, adding further diversification and sophistication to our capital sources.

Judo has managed liquidity prudently in the current year, maintaining significant surplus in Minimum Liquidity Holdings (MLH), while also seeking to optimise returns on our liquid asset portfolio. As at 30 June 2021, Judo's MLH was comfortably ahead of targeted levels at 19.6% (FY20: 23.4%).

The increasing capability and sophistication of Judo's Treasury function has enabled the bank to introduce new channels of funding and capital optimisation, as demonstrated by the issuance of our first Tier 2 capital subordinated notes and substantial utilisation of the RBA's TFF.

Credit quality

Judo's relationship banking model has underpinned strong momentum in lending book growth throughout FY21, against a backdrop of economic uncertainty and anticipated impacts of the COVID-19 pandemic. Cost of risk for FY21 was $10.0 million (FY20: $23.5 million), reflecting estimates of future expected losses, noting that no loans were written off during the year. The credit quality of the lending book has steadily improved with the onset of Federal Government support and industry assistance packages, such as loan repayment deferral arrangements, mitigating the economic stresses brought on by COVID-19.

The bank's coverage ratio – the ratio of total provisions to total risk-weighted assets – decreased to 0.87% in FY21 (FY20: 1.11%) reflecting Judo's robust approach to credit risk management. We continue to monitor our lending portfolios closely and reassess the level of provisioning as the COVID-19 situation continues to evolve.

Chief Financial Officer's Report

Despite an uncertain economic outlook due to COVID-19, we are confident that Judo is well positioned for the coming financial year.

Profit and loss performance – scaling to profitability

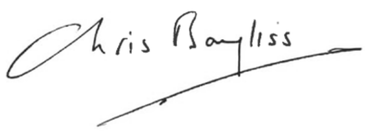
Judo recorded its first monthly net profit result in September 2020, which continued throughout the remainder of the year. The net profit result before tax for FY21 saw a loss of $4.3 million (FY20: $50.8 million), including approximately $3 million in one-off items recognised at year end. The underlying performance of the business has been strong, with cash profit closing at $9.4 million and net profit after tax closing at $28.8 million (driven by tax assets recognised on prior year losses).

Total revenue increased to $89.8 million in FY21 (FY20: $28.3 million) with significant growth across interest income in line with loan book growth, while interest expense increased in line with growth in the term deposit book and debt funding. Judo's net interest margin (NIM) has increased over consecutive months as lending margins continue to benefit from the superior customer value proposition we offer. Our funding costs have reduced in line with market, and were also influenced by various funding initiatives undertaken during the year, as well as utilisation of the RBA's TFF.

Operating expenses grew by 51% to $84.1 million (FY20: $55.6 million) reflecting the significant investment made in people, core banking technology assets and risk management infrastructure required to support our strategic business priorities. Total FTE employees increased in FY21 to 320 (FY20: 197), as relationship bankers were onboarded to manage our growing SME customer base.

Outlook

Despite an uncertain economic outlook due to COVID-19, we are confident that Judo is well positioned for the coming financial year. Judo's relationship-centric model and robust approach to risk management set us up well to continue the strong momentum in our lending book, and to pursue opportunities to further diversify and strengthen our capital and liquidity funding base.



Chris Bayliss
Chief Financial Officer

Key Performance Indicators	2021 $m	2020 $m	% Change
Selected assets and liabilities			
Loan book	**3,517.2**	1,788.6	97%
Customer deposits	**2,547.7**	1,386.3	84%
Term wholesale funding	**3,528.6**	494.9	613%
Profit and loss			
Interest income	**126.4**	52.4	141%
Interest expense	**(41.9)**	(24.5)	71%
Net interest income	**84.5**	**27.9**	**203%**
Other income	**5.3**	0.4	1,184%
Total revenue	**89.8**	**28.3**	**218%**
Employee benefits expense	**(50.9)**	(35.5)	43%
All other expenses	**(33.2)**	(20.1)	65%
Total operating expenses	**(84.1)**	**(55.6)**	**51%**
Cost of risk	**(10.0)**	(23.5)	(58%)
Loss before income tax expense	**(4.3)**	**(50.8)**	**(92%)**
Liquidity			
Minimum Liquidity Holdings (%)	**19.6**	23.4	(16%)
Capital			
Common Equity Tier 1 Capital Ratio (%)	**24.5**	23.1	6%
Total Tier 1 Capital Ratio (%)	**24.5**	23.1	6%
Total Capital Ratio (%)	**26.4**	23.8	11%
Risk Weighted Assets ($m)	**4,094.0**	2,286.6	79%

Risk Management.

Judo manages the risks inherent in its business activities and operations through close and disciplined risk management.

The big four banks haven't supported us and it's important for me to then say, 'well, here's how you do it' – and Judo Bank was the key.

Paul Docherty
3D MediTech

Judo manages the risks inherent in its business activities and operations through close and disciplined risk management.

This is critical in any bank, and particularly one operating in a dynamic environment. This approach enables us to identify the risks we want to take, apply appropriate controls to manage the risks, and seek to ensure an appropriate return that reflects the level of risk both now and through the business cycle.

Judo's approach to risk management continued to evolve and mature during FY21, with further investment in key areas such as:

- improved financial crime controls
- additional information security controls and resourcing
- improvements to our reporting and data framework
- development of a credit risk engine which conducts RWAs and expected loss calculations
- expanded stress testing, with outputs used to inform capital management and risk appetite setting
- additional assurance resources and improved processes
- refinements to the way we manage third-party risk
- additional resources to support activities associated with impaired assets, in anticipation of potential challenges arising from the COVID-19 pandemic.

During the financial year, Judo also strengthened and matured its approach to risk management by undertaking several external reviews and actioning recommendations, including:

- a review of Judo's credit risk management via the Australian Prudential Regulation Authority (APRA) Prudential Credit Review in addition to an external independent review of our credit portfolio
- reviews of information security and cyber-related risks
- an independent review of risk culture
- an external audit of our Risk Management Framework.

I love working at Judo because my colleagues are innovative and inspiring to work with which, in turn, challenges and motivates me every single day.

Karen Bowmer | Compliance (VIC)

Judo's approach to risk management

Judo's approach to managing risk is executed within the parameters of our Risk Management Framework. We enhanced our approach further in 2021, reflecting the annual review of risk strategy, risk appetite and recommendations arising from external reviews. Judo's Risk Management Framework remains appropriate for our size, current business mix and complexity of operations, and seeks to ensure there is adequate oversight and management of the risk profile, by:

- Identifying and understanding the material risks we face.
- Adopting appropriate policies, controls practices and mitigation strategies.
- Providing appropriate and meaningful risk information to the Board, Management Board and Judo's people more broadly so that 'everyone is a risk manager'.
- Providing effective oversight of the risk profile.
- Supporting a proactive risk culture.

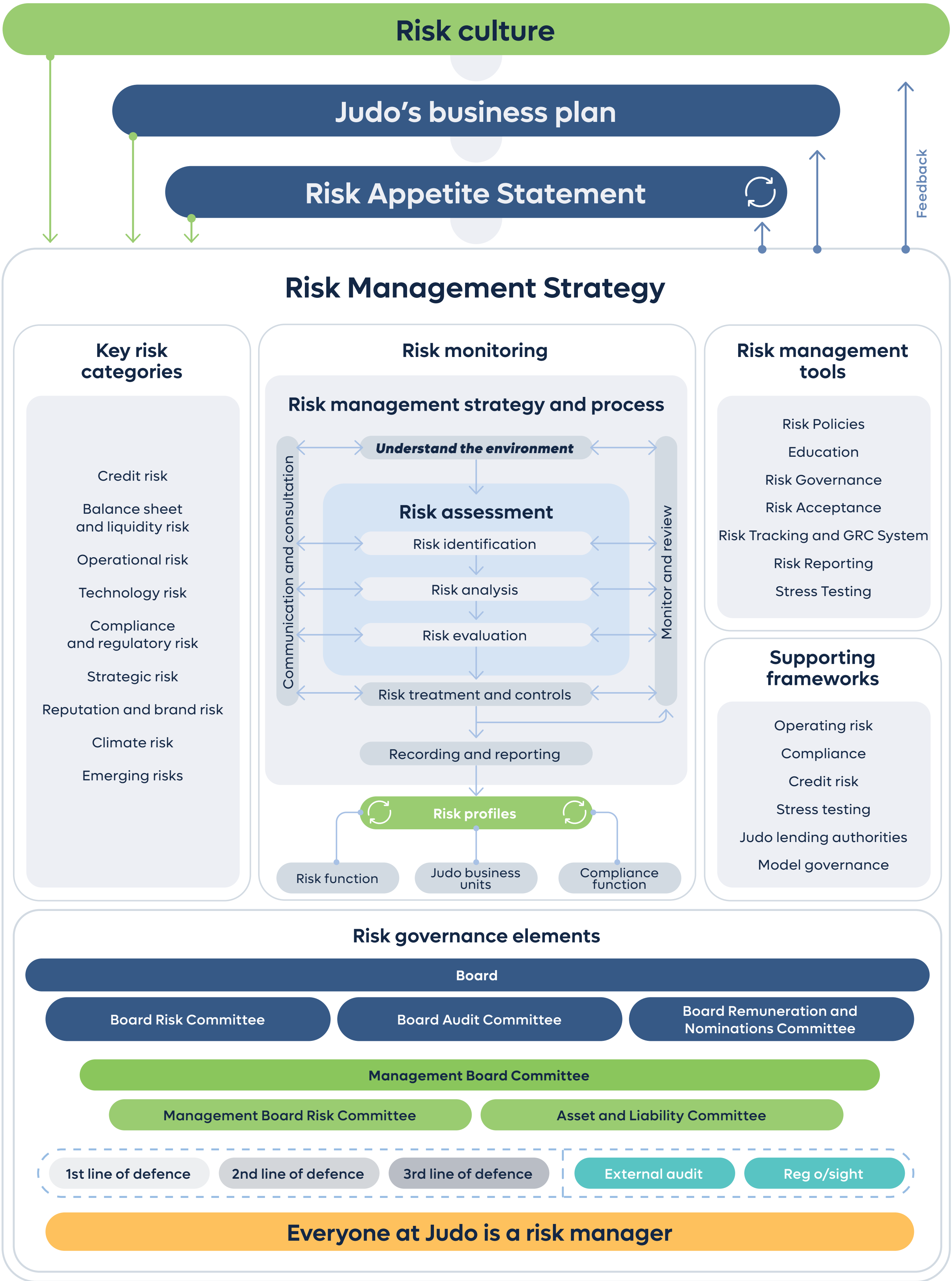
Our Risk Management Framework is described below and shown opposite.

We have continued to develop the Risk Management Framework during the past 12 months, in line with our expected maturity profile and our continued focus on risk culture as a key differentiator. Having a positive and healthy risk culture is a core component of our the framework and is the most important aspect of our operational model. 'Everyone is a risk manager' is the foundation of Judo's risk culture, supported by an environment of 'review and challenge'. The key dimensions are detailed in Judo's Risk Management Strategy and are led by an experienced management team with strong experience in financial services. This background provides the platform for a set of values and behaviours where business units are held fully accountable for risk performance.

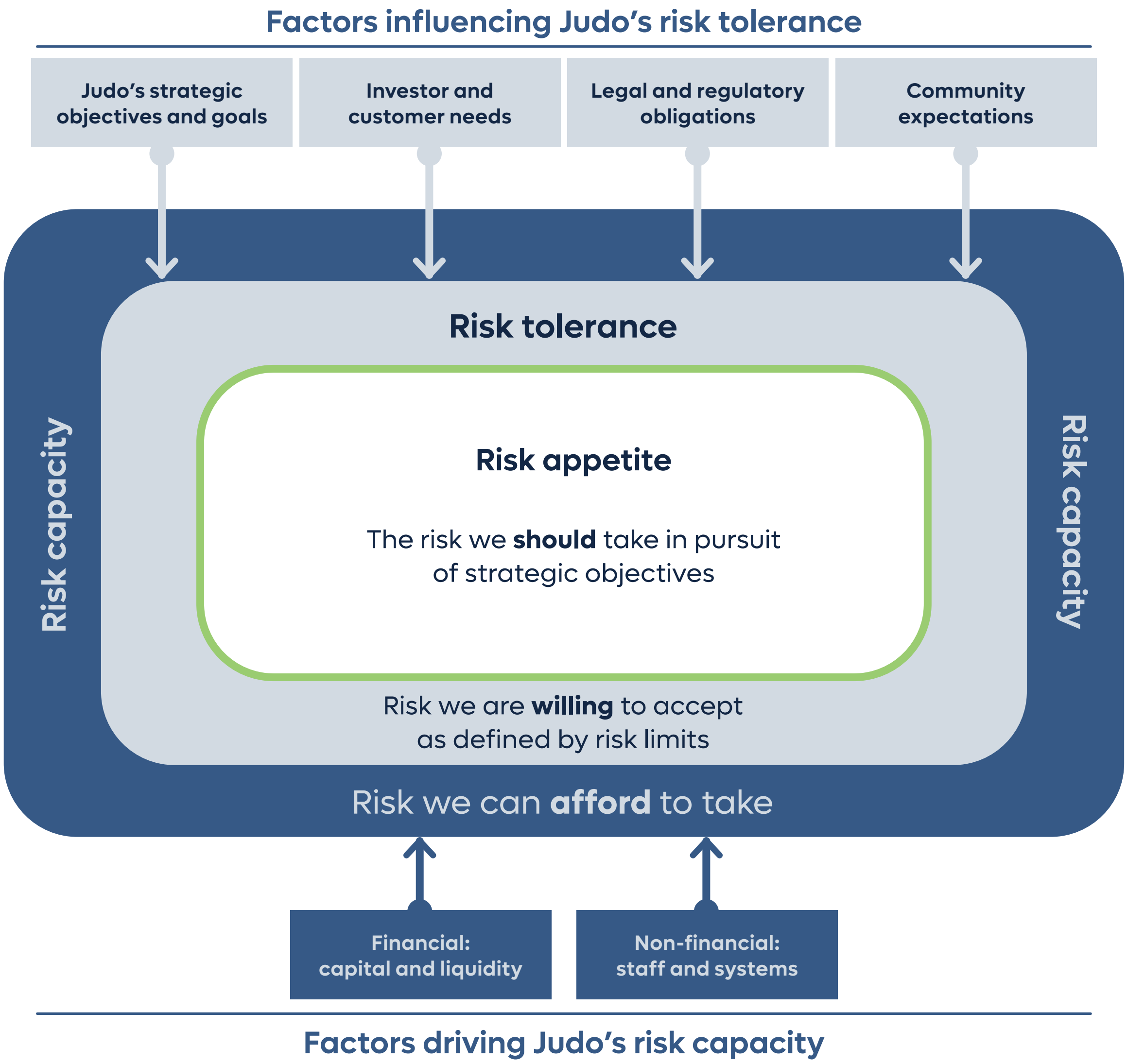
One of the key elements of Judo's risk culture is evidenced by a well-defined Risk Appetite Statement that clearly aligns to Judo's value proposition, supports our business growth objectives and establishes the boundaries within which the business and growth are to be managed. Judo's Risk Appetite Statement articulates the Board's appetite and tolerance for risk and is translated into risk settings that provide the guardrails for management to operate within the agreed risk appetite limits and tolerances.

As Judo grows, it has started to develop a risk appetite for some of the emerging environmental, social and governance (ESG) risks, in particular, climate risk.

Judo's Risk Management Framework

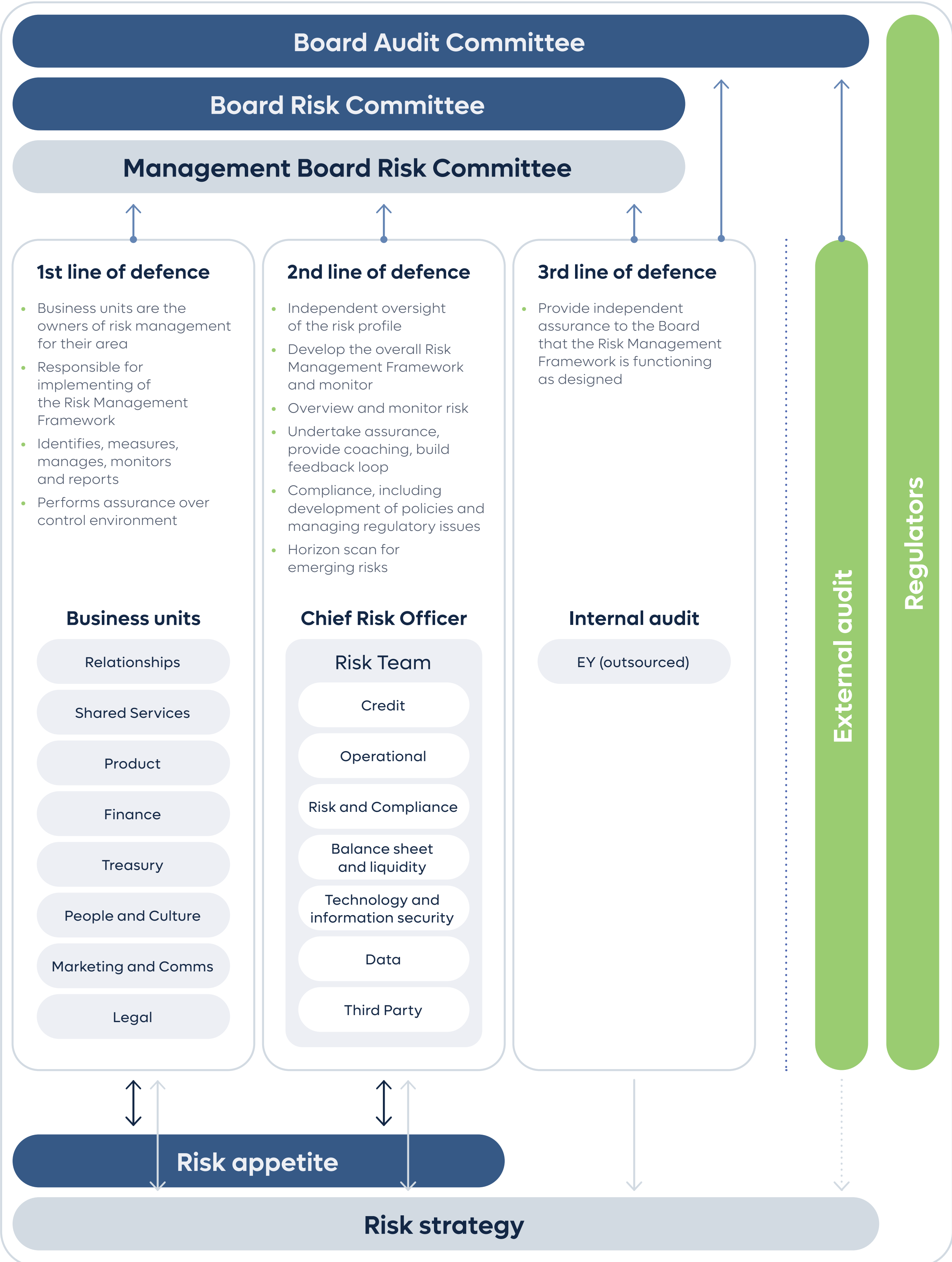


Judo's Risk Appetite Statement concepts



To support the management of risk and the Risk Management Framework, Judo has established a risk governance architecture that defines how accountability, responsibility and authority is delegated from the Board to the organisation as a whole.

The Three Lines of Defence model outlined below defines risk ownership responsibilities, independent oversight, review and challenge, and independent assurance.



Current key business risks

COVID-19

Without a doubt, the biggest risk Judo faced during the past financial year was the impact of the global pandemic. While the immediate impact was centred around the potential increase in the cost of risk due to a reduction in business incomes, the pandemic also had the potential to increase operational risk as a result of forced changes to operational processes for Judo and our third-party providers. Judo managed the risk during the pandemic by modelling potential COVID-19 scenarios to identify and evaluate financial impacts on the business, third parties, operations and its staff, conducting risk assessments to identify potential strategic, operational and regulatory exposures. Stress testing and scenario analysis was applied, projecting potential future credit loss, which informed a conservative approach to provisioning and capital.

Judo was able to support all SME customers that required access to support mechanisms, whether via loan payment deferral, capitalisation of interest, loan conversion from principal and interest to interest only, access to government guaranteed loans, allowing the early breaking of term deposits for hardship or other measures. During the period, we were able to balance our risk appetite with the needs of both our existing and new SME customers, while continuing to grow our loan portfolio in line with our strategy. The addition of experienced impaired assets managers facilitated strong management of the portfolio, and while the majority of our SME customers have returned to making full repayments, it is expected that a small portion will require longer-term support. The pandemic also enabled us to test our operational resiliency and the accuracy of our pandemic plan and business continuity planning. Our cloud-based technology systems, combined with the implementation of our incident management plan, meant we could quickly activate operating structures capable of servicing and supporting our customers and our teams over the long term.

Emerging environment and social risks

Climate change, as one element of environment and social risks, and society's response to it, presents financial risks that could impact Judo's objectives. The risks arise through two primary channels – the physical effects of climate change and the impact of changes associated with the transition to a lower-carbon economy.

Regulatory guidance for climate risk is increasing, and Judo is considering how best to embed the management of climate risk proportionately within its key risk categories with high materiality areas, including strategic risk and creditworthiness risk.

As Judo expands, it could be exposed to financial losses or brand damage from the adverse impacts of environmental and social risks (including climate change-related risks impacting Judo, its customers, suppliers or the broader economy, such as increases in temperature, sea levels or the frequency or severity of adverse events including fires, storms, floods, droughts or pandemics) or from failing to meet community or regulatory expectations in relation to environmental and social issues, such as operating or lending more sustainably, or developing and offering more sustainable products and services.

These risks, whether acute or chronic, may directly impact Judo and its customers through reputational damage, environmental factors, insurance risks and business disruption, and may have an adverse impact on financial performance (including through an increase in defaults in credit exposures, or an increased risk that Judo's assets, including those held as collateral or investments, could become impaired or become increasingly higher risk over time). While our product design and lifecycle management processes reflect our drive to improve customer financial wellbeing, inclusion and resilience, and our employment and supply chain policies have a focus on diversity and inclusion and the avoidance of human rights harm, there is a risk that Judo may fail to keep pace with employee, customer, community or regulatory expectations, or fail to develop attractive products and services with an appropriate sustainability focus.

Judo has a willingness to take the time to understand and structure an offering that allows customers to grow.

Lindsay Heaven | Risk (NSW)

Disruption is also likely to occur to Judo's business or assets from any adjustment to a lower-carbon economy, including through the nature and volume of regulatory policy or market, technological or community-led transition requirements. Any increased regulatory focus on Judo may also increase the risk of compliance breaches or litigation (including enforcement or class actions).

Any initiatives to mitigate or respond to the adverse impacts of climate change by Judo or its suppliers, competitors or customers may in turn impact market and asset prices, economic activity and behaviours; particularly in geographic locations and industry sectors adversely affected by climate change. Failure to effectively manage these risks could adversely impact Judo's business, prospects, reputation, financial performance or condition, including Judo's ability to recover amounts owing to it.

We recognise that risk from climate change is just one of a range of potential environmental and social risks that could adversely impact Judo, and that it is systemic in nature, and a significant long-term driver of financial, non-financial and strategic risk to Judo. A failure to respond adequately to the potential and expected impacts of, or opportunities presented by, climate change is likely to affect Judo's long-term performance.

Conclusion

The past 12 months, while challenging from an external environment perspective, have enabled us to stress test our Risk Management Framework and capabilities. It is pleasing to note that this has strengthened and accelerated the maturity of our frameworks. The next 12 months will see further development of the Three Lines of Defence model to further embed this within Judo, a continuation of the maturity of our risk management function, and further work to identify, assess and mitigate environmental and social risks that may adversely impact Judo.

People and Culture.

If there was any time in Judo's history where our focus on being a values-led organisation was crucial, it was during FY21.

One of the best things about working at Judo is having the opportunity to deliver and make a tangible impact, no matter your role or experience level. The Judo culture encourages collaboration, rejects hierarchy, and gives you the autonomy to have your say and take action.

Zoe Walker | People and Culture (VIC)

If there was any time in Judo's history where our focus on being a values-led organisation was crucial, it was during FY21.

Our purpose, to be Australia's most trusted SME business bank, drives our culture and shapes the experience of everyone working at Judo. As a result, our People and Culture (P&C) priorities continue to focus on our simple, yet enduring, vision – to become the most trusted employer in Australian banking. To achieve this, we continue to operate with four main priorities in mind: culture, talent, reward, and efficiency and governance.

Culture

This year we launched a unique way of tracking and understanding the culture at Judo. The **Judo Employee Delight Index (JEDI)** is a real-time engagement tracking tool where every employee receives a short weekly text-based survey to understand their overall engagement, emotional connection to Judo, physical energy and mental agility. These quick questions present the opportunity to chat to an AI-enabled bot, which not only holds a conversation but also identifies 'trigger words' that offer the employee a direct route into our Employee Assistance Program provider or People and Culture team. JEDI has been well received and continues to yield a strong response rate each week. Early insights have included the impact of certain events, both internal (for example, relationship banker bootcamps) and external (for example, COVID-19 lockdowns). With time, the trends and insights uncovered through JEDI will grow and enable us to change the way we communicate and set policy.

FY21 introduced a 'post-COVID' way of working, as we continued to promote flexibility for our people while ensuring they maintained a sense of belonging to Judo and a focus on relationships. Relationships are at the heart of what we do, and it is important that, even when working remotely, our people build trusted relationships internally and externally. When permitted to do so, we were excited to reintroduce our face-to-face induction program for new starters and to welcome those into the office who had started from home.

When starting at Judo, we ask our people to write a one-page 'Who Am I?' document about themselves and who they really are as a person, which is then published on the Judo intranet. We have received great feedback on this initiative as a way to get to know those who may be in a different team or state. We also held many face-to-face and virtual events and workshops focusing on 'topics of the day' to ensure that, wherever our people are in Australia, they feel part of the Judo family. A few examples of these have been coffee mornings with our executive team members, in-house leadership training for current and emerging leaders, and company-wide 'lunch and learns' delivered by key leaders across the business.

As well as promoting a sense of belonging and engagement, and building relationships, another top priority during FY21 has been the health and wellbeing of our people. We have delivered programs and initiatives to foster a collaborative and connected organisation, while subsequently promoting team get-togethers and social activities.

In the pursuit of our purpose to be the most trusted SME business bank in Australia, Judo is driven by a mindset best encapsulated in the spirit of the generations who built and continue to grow our nation. This spirit and passion is important to Judo, as we too are forging a new path.

This is underpinned by our enduring organisational values of trust, teamwork, accountability and performance. These are core to how we operate with each other, our customers and our stakeholders.

People and Culture

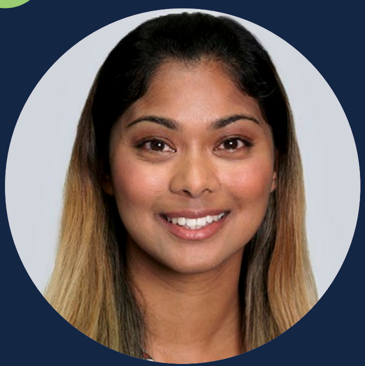
Talent

Recruitment continued to grow in FY21 with over 120 new Judo team members hired. Our selection process remains consistent and intensive, with candidates moving through three to five stages during the recruitment process that assess alignment to our values, technical capability and suitability for a fast-growing business. A significant percentage of our recruitment sourcing comes from employee referrals (approximately 40%).

We were also pleased to announce the external appointment of a new Chief Operating Officer, Lisa Frazier, who started in April 2021. Lisa is responsible for growing a large team across Product, Operations and Technology. Lisa and the team will be working to ensure our technology vision is fit for purpose for the next phase of our growth, while simultaneously driving technological innovation.

Our ongoing commitment to professional development has continued in FY21 – our partnership with FINSIA, in conjunction with the Chartered Banker Institute in the United Kingdom, being a particular highlight. This partnership also allows us to offer training for entry-level roles via the Professional Banking Fundamentals program.

We have also invested in one of our core leadership groups, the Regional Directors, who are the front-line managers of our relationship banker 'pods'. This is a critical group that helps drive performance and shape our culture and working environment. To support their development, we partnered externally with a well-regarded performance consultancy to design and roll out a specific work-based project. We have also internally designed a program to develop our analysts into bankers, called **The J Factor**. This program can run from three to 18 months, with four analysts promoted into relationship banker roles at the end of the pilot launch. We have also partnered with **Women in Banking and Finance** to offer our people networking opportunities, bespoke education courses and development programs that help promote diversity and innovation.



At Judo, you always feel that your input is valued, and you can really see your work and efforts come to life on a day-to-day basis, which strongly connects you to Judo's purpose. Judo's approach is refreshing, and allows the bank to continue to evolve rapidly and focus on providing exceptional service to its customers.

Inakshi Rajadurai | Legal (VIC)

Reward

One of our core remuneration principles is to drive a long-term shareholder mindset. In FY21 we successfully launched our second long term incentive share option plan, which was offered to a further 80 employees. Our founding employees remain incentivised in the long-term by a performance share rights plan (The Management Incentive Plan). We will continue to investigate options for the remainder of our people to gain equity.

We have begun planning for the implementation of our performance management process, **Judo Tracks**, to be automated and streamlined via our newly launched Human Resources Information System, **J-PO**. Judo Tracks will be closely aligned to our values and subsequently linked to employee reward. In conjunction, we continue to recognise our people via our successful recognition program, **Judo Masters**, which celebrates peer-nominated employees for their commitment to our values. In addition, we introduced an annual award in recognition of the late Tracey Plowman, an early-stage employee, for internal recognition of employees who display attributes Tracey was well known for – authenticity, care and resilience.

We also offer Judo's employee benefits program, Judo Perks, to permanent staff, which includes two extra weeks of annual leave and an annual cash benefit to spend on family, community, health or personal development.

During FY21, we submitted our first compliance report to the Workplace Gender Equality Agency. For FY22, as part of a review of Judo's remuneration strategy, we plan to implement an ongoing remuneration review process that includes both a gender equity lens, as well as internal and external peer analysis to ensure Judo's pay remains competitive while also recognising performance. Judo is a member of the Financial Institutions Remuneration Group, utilising insights from the industry-specific remuneration survey to create appropriate pay levels for Judo.

Efficiency and governance

As mentioned earlier, the launch of **J-PO** in FY21 has allowed us to start the process of digitising our people processes and, in turn, improve the employee experience. To date, we have configured payroll, recruitment and learning – the latter allowing us to transition all compliance and continuing professional development tracking under the People and Culture remit. Our focus for FY22 will be to roll out the J-PO onboarding and performance capability.

Judo's Governance, Culture, Remuneration and Accountability Steering Committee and Working Group focuses on ensuring that emerging regulatory and governance changes are monitored and reflected in processes across Judo, in particular where cross-functional collaboration is required.

In line with our new organisational model, revised and updated Banking Executive and Accountability Regime (BEAR) statements were completed and continue to evolve as Judo grows. Finally, Judo's People Guidelines were written to reflect a modern and socially conscious employer, and we continuously evolve them as the ways of working and expectations of employees change.

People and Culture

COVID-19

As the effects of COVID-19 continue to impact our customers, our people play a critical role in providing them with the support and assistance they need. To do this, we want to ensure that our people are equipped to look after their own and their teammates' wellbeing. We have initiatives to promote the importance of looking after physical and mental health, while understanding and appreciating that each employee has their own individual needs.

Even as we grow, we reject the one-size-fits-all approach and have offered numerous initiatives to our people, including leadership training, coaching services, counselling services and flexible working conditions.

For our people, COVID-19 has changed the way they think about how and where they work, and we listened. Flex@Judo provides a framework for people who prefer a more hybrid working model (part home, part office).

We strongly believe that the way in which we have supported our people during FY21, and through the ongoing uncertainties of living through a pandemic, will be reflected in the way they support our customers, and will ultimately determine the success of our bank.

Conclusion

Judo's growth over the past 12 months has been significant. Our FTE employees increased by over 60% and we continued to expand our proposition regionally. The development, engagement and wellbeing of our people remains a key focus as we continue to grow.

As a team, our aim is to ensure that all people are aligned to our core values, with a strong focus on building relationships based on trust. Our people, and the relationships they have with each other, and in turn with our customers, vendors and other stakeholders, are the cornerstone of our business.

We are very proud of the culture we have built since we were established, and believe our people truly live and embody Judo's values.

Judo is a great place to work and the team really believe in what we are doing and how our business helps customers set themselves up for a better tomorrow.

Patrick Nolan | Product (VIC)

People and Culture

Our people

Environmental, Social and Governance.

Our purpose is to be the most trusted SME business bank in Australia, and our core values of trust, teamwork, accountability and performance underpin our approach to ESG issues including climate change related risks and opportunities.

A small to medium bank that gives that support, that gives that understanding, that gives the personal relationship is just so required.

Nathalie Reymond
Reymond Group

Karen Thieu
Judo Banker

Environmental, Social and Governance

Environment

Commitment to sustainability

Social

Diversity and inclusion

Our purpose is to be the most trusted SME business bank in Australia, and our core values of trust, teamwork, accountability and performance underpin our approach to ESG issues including climate change-related risks and opportunities.

We believe in sustainable and responsible business practices that will also bring long-term benefits to our employees, customers, partners and key stakeholders. We are committed to operating more sustainably in our own right, and to offering more sustainable and innovative products and services in the future to support the continued resilience of our customers and the communities in which we live and operate.

At Judo, our values are not just written on the walls, but are part of our daily life and enacted across all parts of the organisation. To me, this is the true definition of a great culture – one based on people's behaviours, and not just words on a wall – and is something that I admire most about working at Judo.

Aaron Lee | Relationship (WA)

Governance

Board diversity and
corporate governance

Environment

Consistent with our purpose, we are focused on supporting Australian SMEs to operate more sustainably, and offering more sustainable products and services to Australian SMEs in future. We recognise the critical role SME businesses play in the community in bringing about progressive change to meet the challenges of environmental risks. We stand with our customers and our communities to play our part in being responsible corporate citizens.

In line with our core values, we acknowledge that rapidly evolving environmental issues require an understanding of the environmental impact of our operations (both directly and indirectly, across our supply chains) and taking steps to measure that impact, make appropriate disclosures and reduce our carbon emissions.

Being an agile, digitally-enabled challenger bank without physical bank branches, Judo has a relatively low carbon footprint for an authorised deposit-taking institution (ADI). That said, we continually strive to do better, and have commenced reviewing our physical infrastructure and operational requirements to determine where and how we can reduce our greenhouse gas emissions.

Environmental, Social and Governance

Social

Judo was formed to meet the credit needs of Australian SMEs, and address the significant funding gap they face, by providing greater financial inclusion for these businesses and their owners.

People and SME businesses are at the heart of everything we do. Our product design and lifecycle management processes reflect our drive to improve customer financial wellbeing, inclusion and resilience. We also aim to conduct our business responsibly and transparently by way of a diverse and inclusive workforce that operates flexibly, as well as from a number of small-footprint offices in locations across Australia.

Considering social issues and criteria is part of Judo's fabric, as demonstrated in some of the following ways:

- by focusing on SMEs with strong management and good underlying creditworthiness, who may fall outside the rigid credit policies of the incumbent banks
- by delivering a value proposition to deposit customers (including councils, schools, not-for-profit organisations, other ADIs, trusts, businesses, SMSFs and individuals based in Australia) that is centred around highly-competitive pricing, and a customer experience that meets or exceeds market expectations (as evidenced by the numerous awards received for our deposit product)
- by offering a broad package of staff benefits, including volunteering leave and home loans for permanent Judo employees (whether full time or part time).

Governance

We are committed to the highest standards of corporate governance across our Boards and Committees, the Judo Risk Management Framework, our policies and our business practices. We believe that strong corporate governance can only lead to better outcomes for our customers, employees, partners and stakeholders.

Everyone at Judo is expected to be a risk manager and everyone is accountable for implementing our Risk Management Framework. Judo aims to be defined by our risk culture as a key differentiator.

It is a core component of our Risk Management Framework, and is the most important aspect of our operational model. 'Everyone is a risk manager' is the foundation of Judo's risk culture, supported by an environment of 'review and challenge'. This ensures risk issues are identified and debated with a focus on transparency and values, and designed to improve both risk management and customer outcomes.

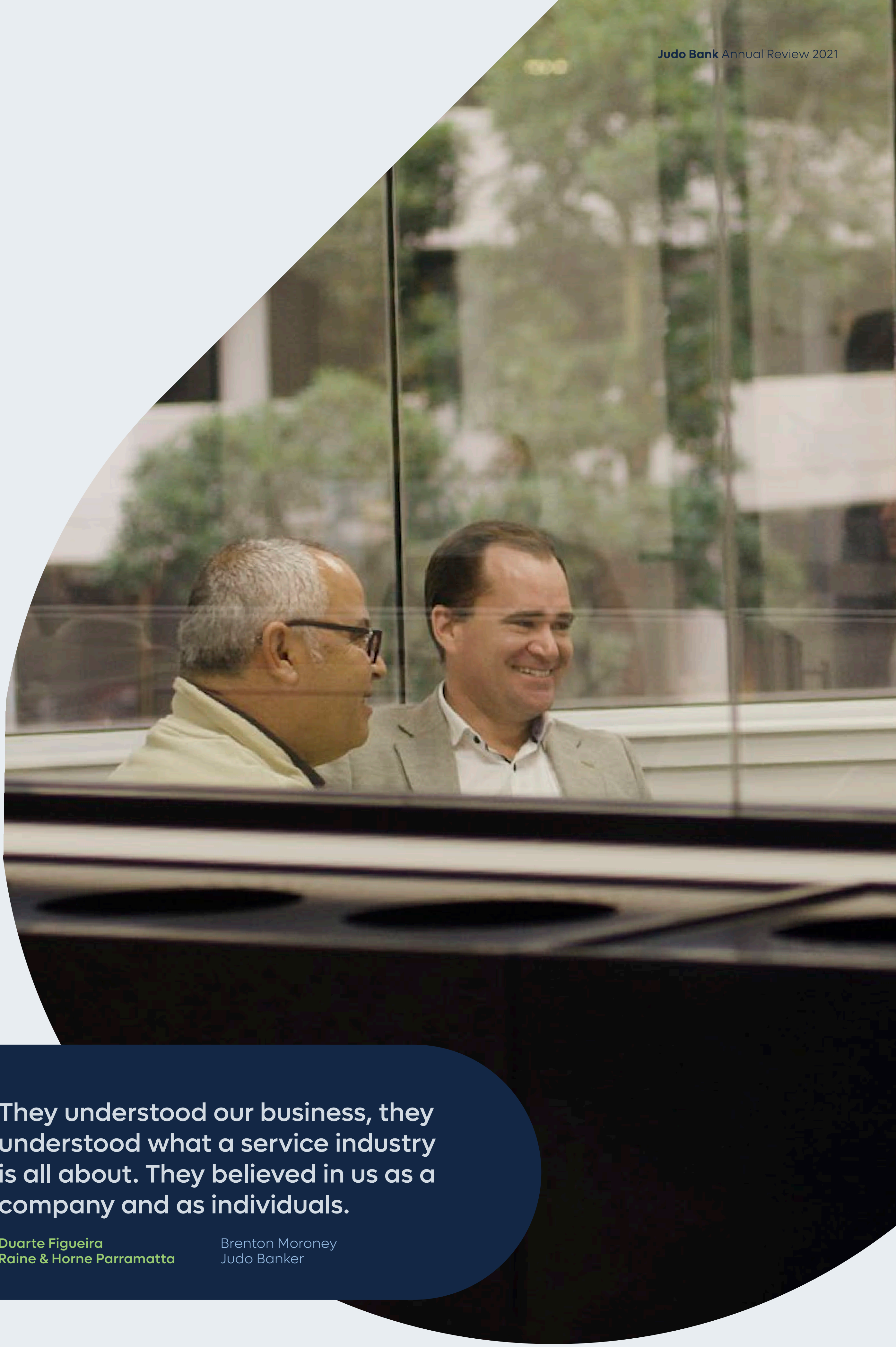
The Board consists of a majority of independent Directors, with the Chairman of the Board and each Chair of each Board Committee being independent Directors.

At Judo, you always feel that your input is valued, and you can really see your work and efforts come to life on a day-to-day basis, which strongly connects you to Judo's purpose. Judo's approach is refreshing, and allows the bank to continue to evolve rapidly and focus on providing exceptional service to its customers.

Nishant Kamdar | Shared Services (VIC)

Corporate Governance.

The Board and management of Judo share a common belief that effective governance and valuable oversight are key to a successful enterprise.



They understood our business, they understood what a service industry is all about. They believed in us as a company and as individuals.

Duarte Figueira
Raine & Horne Parramatta

Brenton Moroney
Judo Banker

The Board and management of Judo share a common belief that effective governance and valuable oversight are key to a successful enterprise.

Our Directors and management team work together to provide the accountability that ensures Judo can continue to be the most trusted SME business bank in Australia.

The Board consists of five independent Directors and four shareholder-appointed Directors, as is permitted under the terms of the Shareholders Agreement. The Chairman of the Board, and each Chair of each Board Committee, are independent Directors.

Board Committees

Committee membership as at 30 June 2021

	Board Risk Committee	Board Audit Committee[1]	Board Remuneration and Nominations Committee[1]
Chair	**John Fraser**	**Manda Trautwein**	**Mette Schepers**
Members	David Fite	Peter Hodgson	Hui (Tony) Diao
	Peter Hodgson	Mette Schepers	John Fraser
	Mette Schepers		Peter Hodgson
			Stanislav Kolenc
Observers	Manda Trautwein		

Board priorities

During FY21, the Board priorities were to:

- implement an enterprise-level policy governance framework ensuring appropriate policies and processes are in place to support Judo's regulatory and legislative requirements and operating environment
- implement a Board education program, to provide timely and relevant training to ensure the Directors have the necessary skills, knowledge and experience to understand the risks facing Judo
- develop a BEAR reasonable steps framework across Judo to refine all relevant accountabilities under the Banking Executive and Accountability Regime
- refine and extend meeting agendas to embed the culture of challenge and debate.

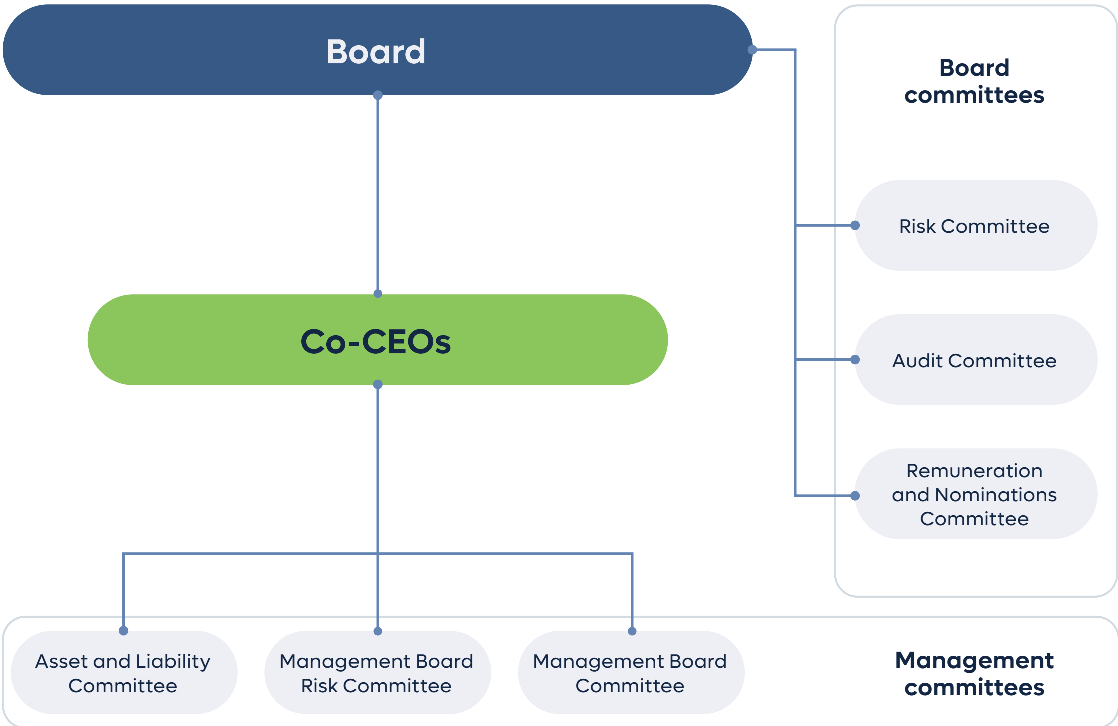
Board responsibilities

The Board has the following responsibilities:

- setting and approving the strategic direction, financial objectives and appropriate operating frameworks of Judo Bank
- considering and approving Judo Bank's overall risk appetite and framework for managing risk
- monitoring the financial solvency of Judo Bank
- developing Judo Bank's risk culture and the extent to which the risk culture supports our ability to operate consistently within our risk appetite.

[1] *The Honourable Bruce Billson resigned from the Board and as Chair of the Board Audit Committee and Chair of the Board Remunerations and Nominations Committee during FY21*

Judo governance framework



Role of Judo committees

Board Risk Committee

The Risk Committee provides oversight and advice to the Board on:

- the approval of the Risk Appetite Statement, Risk Management Framework and the Risk Management Strategy
- the effectiveness of the Risk Management Framework
- current and emerging risk issues and management actions
- the independence of the risk management function.

Board Audit Committee

The Audit Committee provides oversight and advice to the Board on:

- the effectiveness of the internal audit plan and the outcomes
- approval of the internal audit plan
- the effectiveness of the external auditors
- the effectiveness of Judo's financial controls
- integrity of Judo's financial statements and external reporting.

Board Remuneration and Nominations Committee

The Remuneration and Nominations Committee provides oversight and advice to the Board on:

- the effectiveness and regulatory compliance of the Remuneration Policy
- the annual remuneration review and incentive schemes
- the terms of any share or option schemes for Directors and employees.

Corporate Governance

Directors[3]

Peter Hodgson
Independent Chair

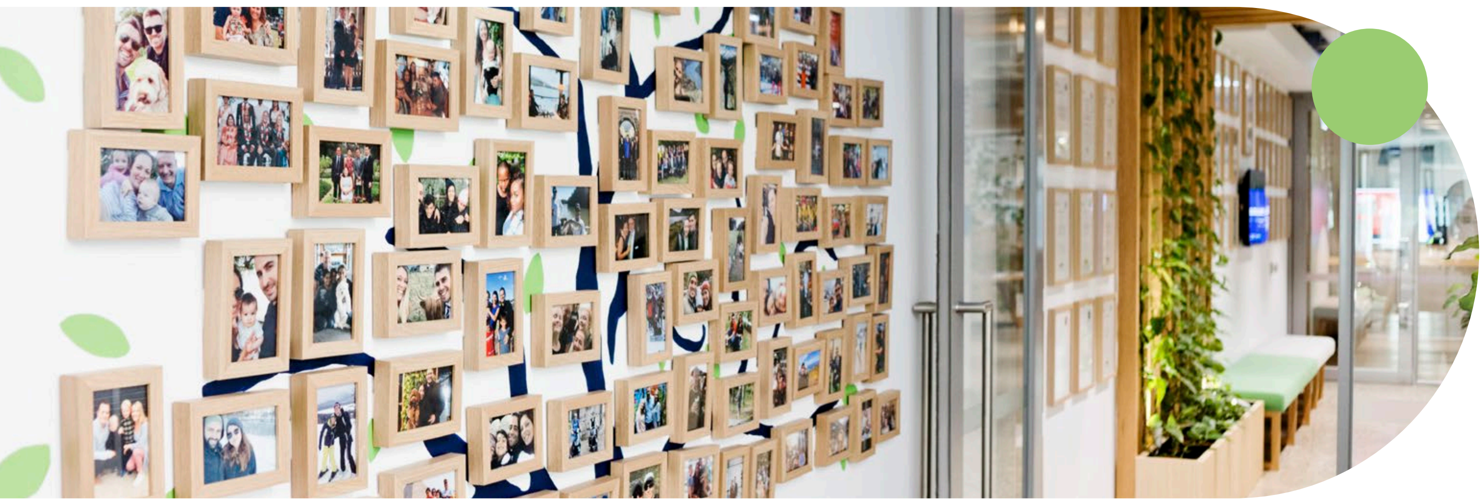
Peter joined the Board in January 2017

- Peter has over 37 years of experience in financial services in Australia and overseas and holds a number of Board positions, including as a Director and Chair. He is currently on the advisory boards of Drummond Capital Partners and Planum Partners and is also a member of Trinity College Investment Management Committee. He is Chair of the Centre of Evidence and Implementation; Chair of Paranta Biosciences Limited; and was appointed to the Board of Fintech for International Development, representing Save the Children International. Peter was previously Chair of Save the Children Australia for nine years, and Chair of Greengate Aged Care Partnership. He was also a Trustee and Director of Save the Children International and chaired the Audit and Risk Committee of the organisation.
- Peter holds a Master of Arts (Hons) in Law from Cambridge University and is a member of the Australian Institute of Company Directors.

John Fraser
Independent Non-Executive Director

John joined the Board in October 2018
and is Chair of Judo's Board Risk Committee

- John has more than 40 years of experience in leadership roles in economics, public policy, capital markets and asset management in Australia and overseas. He was Secretary to the Treasury from 2015 to 2018, serving as a member of the Board of the Reserve Bank of Australia, a member of the Australian Council of Financial Regulators and Chairman of the G20 Global Infrastructure Hub. John is currently on the Board of the Guardians of the Australian Future Fund and the Advisory Board of Accountability in New York and the Advisory Board of Credi Consulting in Sydney. He is also currently the Australian Observer for the G7 Panel on economic resilience. Prior to this, John was Chairman and CEO of UBS Global Asset Management, based in London; a member of the UBS Group Executive Board; and Chairman of UBS Saudi Arabia. He has also served as an Australian Stock Exchange Board Director and as Chairman of Victorian Funds Management Corporation.
- John holds a Bachelor of Economics (Hons) from Monash University.



[2] *The Honourable Bruce Billson resigned from the Board of Judo during FY21*

Manda Trautwein
Independent Non-Executive Director

Manda joined the Board in April 2019 and is Chair of Judo's Board Audit Committee

- Manda has over 22 years of experience as an accountant in public practice, with a specific focus on advising SMEs. She is currently a Partner of William Buck in Sydney. Manda was previously the National Chair of the Chartered Accountants Australia and New Zealand Business Valuation Community and an Adjunct Fellow at Macquarie University, where she lectured to postgraduate students in Applied Finance.
- Manda holds a Bachelor of Commerce from Macquarie University, a Master of Applied Finance from Macquarie University and a Master of Applied Taxation from UNSW. She is a Fellow of Chartered Accountants ANZ and a Member of CPA Australia.

Mette Schepers
Independent Non-Executive Director

Mette joined the Board in April 2019 and is Chair of Judo's Board Remuneration and Nominations Committee

- Mette has over 30 years of international experience in banking and professional services, and is a Chartered Accountant. Mette has held senior executive roles at Mercer, ANZ, Esanda and FleetPartners, and has extensive experience serving large corporates, small to medium businesses and retail customers. Prior to this, Mette worked internationally with PwC. Mette is currently a Board member of the Public Interest Journalism Initiative. Previously, Mette served on the boards of a variety of private and for-purpose companies, and a statutory authority.
- Mette holds a Bachelor of Commerce from the University of Melbourne, a Graduate Diploma of Applied Finance and Investments from the Securities Institute of Australia (now FINSIA), a Graduate Diploma of Mobile Banking from Illinois Institute of Technology and an Associate Degree in Design (Furniture) from RMIT. Mette is a Graduate of the Australian Institute of Company Directors.

Corporate Governance
Directors

Hui (Tony) Diao
Non-Executive Director

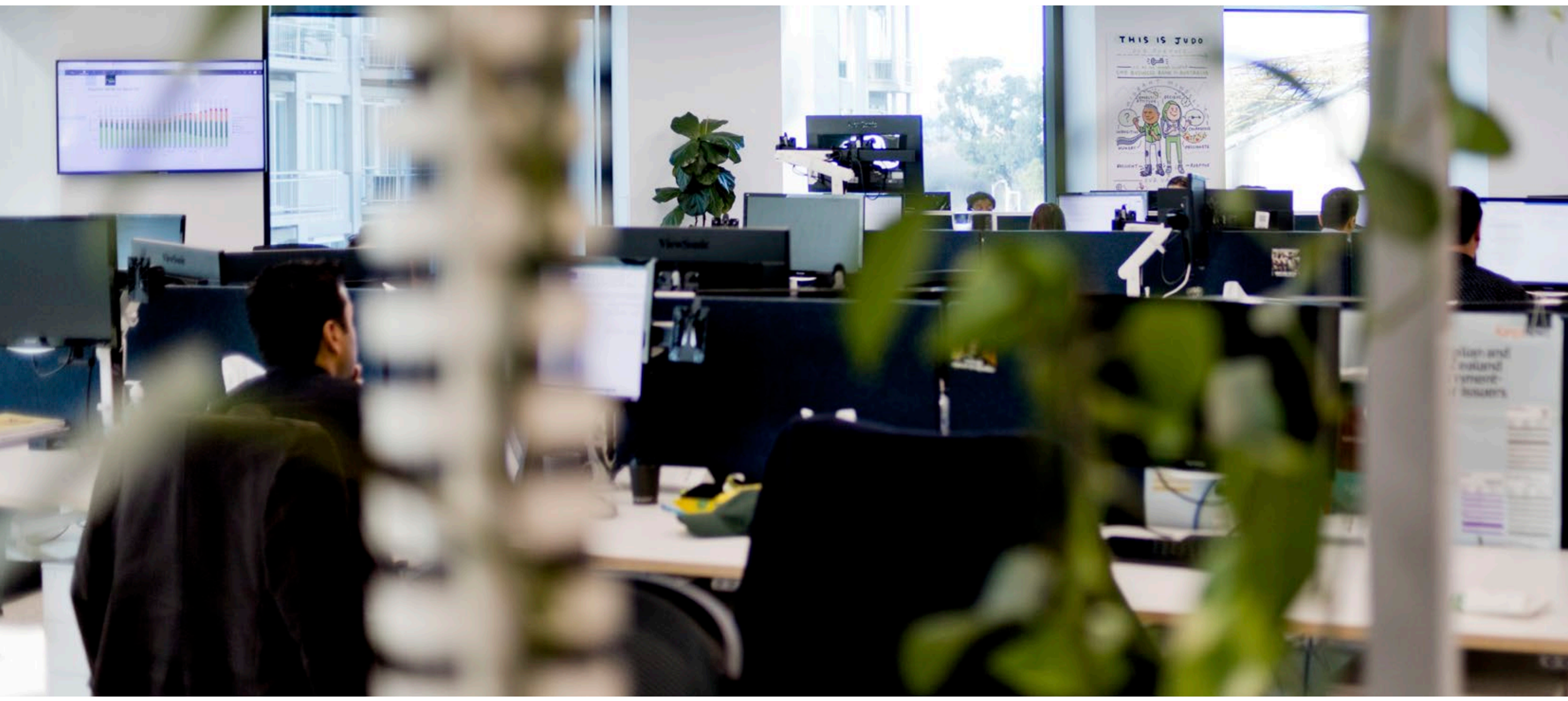
Tony joined the Board in February 2020

- Tony is a senior advisor to Zhong Yi Investment, the special-purpose vehicle of one of the largest private family offices (3L Alliance) in Melbourne. Tony has extensive business management and investment experience in Australia and China of more than 18 years. This includes over 10 years as a Director of IAC Group, where he was responsible for business development and providing property and investment consulting services to high-net-worth clients.
- Tony holds a Bachelor of Accounting degree from Henan Finance and Economics University in China, and a Double Masters degree in Business Information Systems and Commerce from RMIT.

David Fite
Non-Executive Director

David joined the Board in April 2018

- David is an international investor focused on financial services and credit exposures. He has significant operating experience in financial services and turnarounds, including over 25 years of experience in the financial services industry. David has held various roles at Westpac Banking Corporation, including Treasurer, Assistant Chief Financial Officer and the Group Executive responsible for all retail and business banking products in Australia. David has also worked at Japan's Shinsei Bank (formerly known as The Long-Term Credit Bank of Japan) as Senior Corporate Executive Officer, Chief Financial Officer and as a member of its Board. David has also served as a Board Director or Chairman of various financial services businesses and fast-growing technology companies.
- David holds a Bachelor of Arts in Government (magna cum laude) from Harvard College, and a Master of Business Administration and Master in Economics from Stanford University.



Stanislav Kolenc
Non-Executive Director

Stanislav joined the Board in June 2018

- Stanislav has over 20 years of experience in financial services. He is Managing Director, Head of APAC of OPTrust, one of Canada's largest pension funds. He is also a non-executive member and Chairman of the Board of Directors of a number of companies including Globalvia, Kinetic, Ararat Wind Farm, Aviator Group, Flow Power and Zenith Energy.
- Stan holds a Bachelor of Engineering Science (Distinction) from the University of Western Ontario.

Geoffrey Lord
Independent Non-Executive Director

Geoffrey joined the Board in January 2017

- Geoff has over 46 years of experience in leadership roles across a range of businesses. He created the Belgravia Group, a privately owned investment group that owns Belgravia Leisure, Genesis Fitness Gyms, Novofit, Belgravia Technologies, Australian Sports Camps, Community Sports Games, Belgravia Kids, Belgravia Clothing and Profile Corporate Clothing (NZ). Geoff has also held a number of Chairman and Director positions with several public listed companies, including as Founder and former Chairman of UXC Limited, one of Australia's largest IT services companies; Chairman of TerssERENT Ltd; Chairman of Salvest; and Director of Melbourne Business School.
- Geoff holds a Master of Business Administration (Distinction) from the University of Melbourne, a Bachelor of Economics (Hons) from Monash University and is a Fellow of the Australian Institute of Company Directors and a member of the Australian Security Industry Association.

Malcolm McHutchison
Non-Executive Director

Malcolm joined the Board in February 2020

- Malcolm has over 25 years of experience in business and financial services. He is currently the Group Chief Executive of Modern Star, Australia's market-leading education resources business. Prior to this, Malcolm was the Chief Executive of Interactive, one of Australia's largest IT services companies and prior to Interactive, Malcolm led the Macquarie Capital Asset Management function, responsible for the operating performance of an $800 million portfolio of equity investments across Australia, China and New Zealand. During this time, he served on several Boards, most notably Domino's Pizza China, Quadrant Energy and Mine Site Technology.
- Malcolm holds a Bachelor of Economics from Monash University, a Master of Business Administration from the Australian Graduate School of Management at UNSW and is also a Graduate of the Australian Institute of Company Directors.

Management Board

As at 30 June 2021, the Judo Management Board comprised 10 members, including Co-Chief Executive Officers*, the Chief Financial Officer*, the Chief Operating Officer*, the Chief Risk Officer*, the Chief Product Officer*, the Chief Relationship Officer*, the Chief People and Culture Officer, the Chief Marketing Officer* and the General Counsel and Company Secretary.

In addition to the Management Board, there is also the Management Board Risk Committee and the Asset and Liability Committee, which assist the Management Board and the Board of Directors in running Judo Bank.

Role of Judo committees

Asset and Liability Committee

The Asset and Liability Committee is responsible for:

- advising on capital, liquidity, funding, interest rate risk management and balance sheet management strategy as defined in the Risk Appetite Statement
- monitoring the effectiveness of the ALM program and providing the Management Board and the Board with assurance that all key liquidity, funding and balance sheet risks relevant to Judo have been appropriately identified, managed and reported
- approving management action in respect to capital, liquidity, funding, interest rate and balance sheet risks
- invoking the Contingent Funding Plan (CFP) and supporting the specific actions required under the CFP.

Management Board Risk Committee

The Management Board Risk Committee is responsible for:

- monitoring and assessing the effectiveness of the execution and implementation of the Risk Management Framework and whether key risks have been identified and managed
- monitoring risk appetite, changes to the risk profile and tolerance levels
- monitoring and assessing risk management and control systems.

** On 21 September 2020, Kevin Ramsdale commenced at Judo as Chief Marketing Officer and on 5 April 2021, Lisa Frazier commenced at Judo as Chief Operating Officer. As of 1 July 2021, David Hornery stepped down as Co-CEO and Joseph Healy assumed the role of sole CEO. David Hornery will transition to a Non-Executive Director role on the Board. On 1 July 2021, Jacqui Colwell stepped down as Chief Risk Officer, Chris Bayliss assumed the role of Deputy CEO, in addition to his role as Chief Financial Officer, Frank Versace assumed the role of Chief Risk Officer and George Obeid joined the Management Board as Chief Third Party Officer. In addition, on 1 July 2021, Tim Alexander (Chief Product Officer) departed from Judo. On 30 July 2021, Angelo Manos commenced as Chief Relationship Officer.*

Joseph Healy
Co-Chief Executive Officer

- Joseph is a co-founder of Judo and a career international banker with over 35 years of experience in banking across a range of roles.
- Joseph has held executive positions at Lloyds Bank, CIBC World Markets, Citibank, Australian and New Zealand Bank (ANZ) and National Australia Bank (NAB) including as Group Executive/Divisional CEO Business Banking for NAB from 2008 to 2014 where he was responsible for SME, Corporate, Institutional, Financial Institutions, Private Banking and Asia.
- Joseph was an Adjunct Professor at the University of Queensland and holds a Master of Science (Finance), an MBA, a Master of Science in International Management (China), a Master of Arts in Contemporary Chinese Studies, a Master of Science in Psychology & Neuroscience of Mental Health and an MBA (Banking) from institutions including the School of Oriental and African Studies, University of London; London Business School; Kings College, London; and the University of Nottingham in China. He is a Fellow of the Chartered Institute of Bankers in Scotland and a Fellow of FINSIA.

David Hornery
Co-Chief Executive Officer

David stepped down as Co-CEO in July 2021, and will transition to a Non-Executive Director role on the Board.

- David is a co-founder of Judo and is a highly experienced international banker with 35 years of experience across some of Australia's leading investment and business banks. These include National Australia Bank as the Head of Corporate Institutional and Specialised Banking; ANZ, as their Global Head of Capital Markets, and then as CEO Asia spanning 13 countries across the region; and Macquarie Bank, as Global Head of Capital Markets.
- David has been a Board member of the Australian Financial Markets Association, and Chair of its Dealer Accreditation Taskforce. He has served as a Board member of the Asian Bankers Association and the European Australian Business Council. He currently chairs StudioTHI, in the not-for-profit sector.
- David holds a Bachelor of Economics degree from Sydney University.

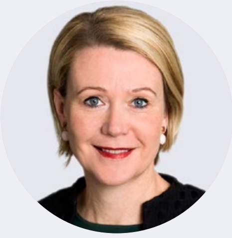
Chris Bayliss
Chief Financial Officer

Chris assumed the role of Deputy CEO and Chief Financial Officer as of July 2021.

- Chris is a co-founder of Judo and a career international banker with over 35 years of experience across all facets of retail and business banking in the Asia Pacific, UK and Europe.
- Chris's career has spanned many global banks and markets, including executive positions at Clydesdale/Yorkshire Bank, Bank of New Zealand, National Australia Bank, and Standard Chartered Bank in Singapore. Chris has held various positions, including Chief Risk Officer, Chief Relationship Officer, Chief Operating Officer and Chief Financial Officer.
- Chris is the Chairman of the Retail and Business Banking Council FINSIA, a Fellow of FINSIA, an Associate of the UK Chartered Institute of Bankers and has a Financial Services Master of Business Administration from Sheffield Hallam University in the UK.

Corporate Governance

Management Board



Megan Collins
Chief People and Culture Officer

- Megan joined Judo in May 2019 and has over 22 years of experience in human resources across multiple industries, operating models and geographies, including Australia, New Zealand, Asia and the United States.
- Megan is an experienced Chief People Officer and has held executive roles across multiple divisions of General Electric and within the Business Bank of NAB. She was previously Chief People & Communications Officer at Treasury Wine Estates, where she led the people, culture and communications strategy for ~3,500 people globally.
- Megan holds a Bachelor of Arts (Major in Business Development and Politics) and a Post Graduate Diploma in Human Resources and Industrial Relations from the University of Melbourne. Megan is a member of the Women for Women Fundraising Committee, part of the Sacred Heart Women's Mission.

Lisa Frazier
Chief Operating Officer

- Lisa joined Judo in April 2021 and has over 25 years of international experience across the banking, investing, media, telecom and technology industries.
- Lisa's prior roles include Chief Innovation Officer at Wells Fargo, where she built and operated new enterprise technology platforms such as Artificial Intelligence and Blockchain; Chief Digital Officer at Commonwealth Bank, where she established digital for the bank; and Partner at McKinsey & Company in New York and San Francisco. She was also Founder and CEO of a media start-up in San Francisco and has operated and advised multiple start-up companies in the Silicon Valley region. Lisa was an Independent Non-Executive Director of OFX Group and a Digital and Technology Advisor to ANZ's Board.
- Lisa holds a Bachelor of Engineering from the University of Melbourne, a Master of Business Administration from the Kellogg Graduate School of Management, Illinois USA, and a Graduate Diploma in Applied Finance and Investment from FINSIA. She is a Graduate of the Australian Institute of Company Directors.

Yien Hong
General Counsel and Company Secretary

- Yien joined Judo in September 2019 and is an accomplished General Counsel and Company Secretary with over 20 years of experience.
- Yien has held senior legal roles at Deutsche Bank, NAB, and was General Counsel and Company Secretary at Growthpoint Properties Australia Limited. She was a Managing Associate at Linklaters (London) and worked at Herbert Smith Freehills for a number of years.
- Yien holds Bachelor of Laws (Hons), Bachelor of Commerce (Hons) and Bachelor of Arts degrees from the University of Adelaide and is a Fellow of the Governance Institute.

Angelo Manos
Chief Relationship Officer

Angelo joined the Management Board in July 2021.

- Angelo joined Judo in July 2021 and is a career banker with over 27 years of experience in the banking industry.
- Prior to Judo, Angelo worked at ANZ in various senior roles including General Manager (Commercial Broker) in which he led a national team (~150 bankers) to support aggregators and brokers navigate through regulatory reforms in the mortgage broking industry and COVID-19 and contributed to ANZ's response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Angelo also led ANZ's Specialist Segments national team and developed market-leading propositions in Health, Commercial Property and Emerging Corporate. He was also responsible for ANZ's Financial Institutions – Banks portfolio in New York and managed its fallout, restructure and recovery during the global financial crisis.
- Angelo holds a Bachelor of Business (Banking and Finance) and a Master of Practicing Accounting from Monash University.

George Obeid
Chief Third Party Officer

George joined the Management Board in July 2021.

- George joined Judo in February 2017 and is a career banker with over 20 years of experience in financial services.
- Prior to joining Judo, George worked at ANZ in various senior roles and functions, including risk management, leadership, and senior relationship roles within the Corporate and Commercial division. While at ANZ, George headed up the bank's strategic relationships with national aggregator groups and major brokers with annual turnover of $10 billion, ensuring synergies across the business were maximised and aligned with the bank.
- George is President of the Mortgage & Finance Association of Australia's Commercial and Asset Finance Forum, and a Chartered Banker with the Chartered Bankers Institute in Scotland. He holds a Diploma of Management from Deakin University.

Kevin Ramsdale
Chief Marketing Officer

- Kevin joined Judo in September 2020 and has over 25 years of experience in marketing, digital, product, sales and service across a diverse range of industries and operating environments.
- Prior to joining Judo, Kevin was the Executive General Manager of Membership at RACV with responsibility for Digital, Data and Analytics, Marketing, Corporate Affairs, Communications and Community. Kevin has held senior positions in marketing at JB Hi-Fi and NAB, including as Chief Marketing Officer.
- Kevin holds a Bachelor of Commerce from the University of Melbourne and an MBA (Distinction) from Melbourne Business School. He is also a fellow of Leadership Victoria's Williamson Leadership Program.

Frank Versace
Chief Relationship Officer

Frank assumed the role of Chief Risk Officer as of July 2021.

- Frank joined Judo in January 2017 and is a career banker with over 20 years of experience in the banking industry.
- Frank's career includes commercial, corporate and retail banking experience through executive and leadership roles at ANZ and Macquarie Bank, which have included an extensive focus on managing business risks of all forms. He has experience running large relationship distribution businesses such as ANZ Mobile Lending, which is a scaled retail and commercial franchise system of over 500 staff, the Northern Melbourne Region for ANZ Business Bank and was Judo's Chief Relationship Officer prior to assuming his current role. Frank has obtained extensive risk experience over his career across various disciplines including a deep understanding of transactional credit risk, portfolio risk management, risk strategy development and policy design.
- Frank is a Chartered Banker with the Chartered Bankers Institute in Scotland and holds a Bachelor of Commerce and a Bachelor of Economics (Hons) from Monash University.

Corporate Governance

Management Board

Tim Alexander
Chief Product Officer

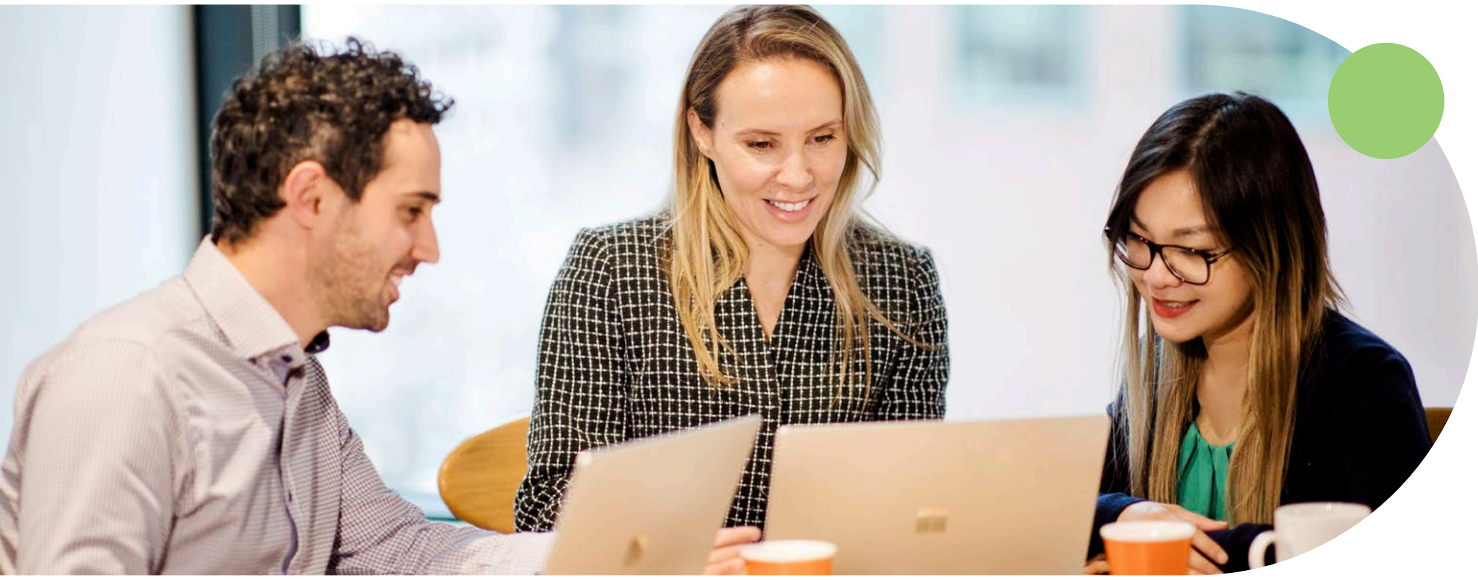
Tim retired from the Management Board as of July 2021.

- Tim is a co-founder of Judo and has 24 years of commercial banking experience at NAB, beginning in retail and growing to span a broad range of senior leadership roles across SME banking.
- Tim holds a Graduate Diploma in Management from La Trobe University and has completed Leadership Journey with the Australian Graduate School of Management and the Competitive & Political Advantage, Formulation & Implementing Strategic Change Program with Harvard University.

Jacqui Colwell
Chief Risk Officer

Jacqui retired from the Management Board as of July 2021.

- Jacqui is a career banker with 33 years of experience across a range of disciplines including operational risk, credit risk (both business and consumer), retail credit portfolio management, call centre operations, SME, institutional and retail banking.
- Jacqui was previously the Chief Risk Officer for the Personal Bank division of NAB, which comprised Retail Banking, Micro and Small Business, Broker Channels and Digital and Direct Business.
- Jacqui has an economics degree and was previously a Board Director for the Australian Retail Credit Association. She is a member of the Australian Institute of Company Directors, a member of the Risk Management Association and a Fellow of FINSIA.



What we liked about Judo Bank when we were introduced to them is that the banker himself had an understanding of our business and our needs. He had a passion about our vision and was prepared to support that.

Stephen Holt | Hydraulic Steels Australia

Annual Financial Report

For the year ended 30 June 2021

Judo Capital Holdings Limited
and its controlled entities

ABN 71 612 862 727


judobank

Directors' Report

The Directors present their report on the consolidated entity consisting of Judo Capital Holdings Limited and its controlled entities (collectively, 'the Group') for the year ended 30 June 2021.

Directors and company secretaries

Directors

The following persons were Directors of Judo Capital Holdings Limited and its controlled entities during the whole of the financial year and up to the date of this report:

Peter Hodgson

David Fite

John Fraser

Stanislav Kolenc

Geoffrey Lord

Mette Schepers

Manda Trautwein

Hui (Tony) Diao

Malcolm McHutchison

Jennifer Douglas was appointed as a Director on 23 August 2021 and continues in office at the date of this report.

The Hon. Bruce Billson was a Director from the beginning of the financial year until his resignation on 26 February 2021.

Company secretaries

The names of the Secretaries in office at any time during or since the end of the year are:

Liam Williams

David McNabb

Yien Hong

The Secretaries have been in office since the start of the period to the date of this report unless otherwise stated.

Meetings of Directors

The numbers of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2021, and the numbers of meetings attended by each Director were:

	Directors' meetings		Meetings of committees					
			Audit		Risk		Remuneration	
	A	B	A	B	A	B	A	B
Peter Hodgson	12	12	4	4	6	6	4	4
The Hon. Bruce Billson	8	7	2	2	3	3	2	2
David Fite	12	12	–	–	6	6	–	–
John Fraser	12	12	–	–	6	6	4	4
Stanislav Kolenc	12	11	–	–	–	–	4	3
Geoffrey Lord	12	12	1	–	–	–	–	–
Mette Schepers	12	12	3	3	6	6	4	4
Manda Trautwein	12	12	4	4	6	6	–	–
Hui (Tony) Diao	12	12	–	–	–	–	4	4
Malcolm McHutchison	12	12	–	–	–	–	–	–
Jennifer Douglas	–	–	–	–	–	–	–	–

Jennifer Douglas was appointed as a Director on 23 August 2021.
A = Number of meetings held during the time the Director held office or was a member of the committee during the year
B = Number of meetings attended

It is noted that Manda Trautwein's attendance at Risk Committee meetings was in the capacity of an observer, and not an official member.

Review of operations

We are one of Australia's leading providers of financial services focusing on the small to medium sized enterprises (SME's) operating throughout Australia. The profit of the Group for the year after providing for income tax amounted to $28.8 million (2020 loss: $50.8 million).

The operating result for the period reflects the activities undertaken by the Group during the period. This includes our third full year of operations as a lender to the SME market, further investment in systems and processes to support the significant growth and scale of the business, further equity-raising activities and our first issuance of Tier 2 Capital subordinated notes.

Impact of COVID-19

During the financial year, the Group has been impacted by the COVID-19 pandemic, with the depth and duration of an economic downturn dependent on the effectiveness of containment measures and government, prudential and industry response and support measures. The Group has responded to this by proactively contacting a substantial number of customers, including all customers with large exposures or within industries at high risk from the effects of COVID-19, to ascertain their position and determine if assistance was required. Various types of assistance have been provided to customers during this period, including payment deferrals, capitalisation of interest and conversion of principal and interest loans to interest only loans for a period. In addition, the Group has undertaken a full review of the loan book, including scenario analysis and stress testing to project potential future credit losses that may result from ongoing economic impacts. This review has informed the level of provisioning held as allowances for expected credit losses in the 2021 year. The Group has put in place a system to track, monitor and manage its customer base, during this period of uncertainty.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- changes to the Board, as outlined in Directors and company secretaries
- COVID-19 related impairment provisions, as outlined in Note 20(b)
- During the financial year, the Group participated in the Reserve Bank of Australia's (RBA's) Term Fund Facility (TFF) scheme to access long-term funding to help support Australian businesses during this unprecedented time. The TFF is a three-year facility with a fixed interest rate of 0.10% per annum.

As at 30 June 2021, the Group has drawn $2.86 billion of its total available TFF allocation of $8.65 billion, composed of a $0.03 billion initial allowance, a $0.04 billion supplementary allowance and $8.58 billion of additional allowance. Of this $2.86 billion, $0.70 billion was secured by Aaa-rated self-securitisation notes and $2.20 billion by repo-eligible treasury assets (predominantly Commonwealth and state government debt securities) in anticipation of the Group's continued strong origination profile and future self-securitisation note uplift. The availability to access the TFF for additional drawdowns expired on 30 June 2021.

Other than the changes outlined above and discussed in this Annual Report, there have been no other significant changes in the state of affairs during the financial year.

Principal activities

The principal continuing activities of the Group consisted of the operation of a banking business, specifically focused on providing finance to SMEs throughout Australia, offering the following key products:

- asset finance
- business loans
- lines of credit
- residential mortgages (for business loan customers).

To date, the Group has funded its lending activity through a variety of sources that optimise its cost of funds and liquidity preferences, including equity, senior debt, subordinated debt, securitisation programs, utilisation of the RBA's TFF, and retail and wholesale deposits. The Group will continue to diversify its sources of funding in accordance with its funding plan.

Events since the end of the financial year

The Group completed a capital raise in June 2021, with a portion of the capital raised being received subsequent to balance date totalling $19.6 million due to regulatory approvals required by the relevant investors.

In July 2021, the Board dispatched a shareholder circular resolution seeking approval to pursue a potential initial public offering (IPO) of the Group, which has since passed. At the date of this report, a final decision on any IPO remains uncertain, and is subject to market conditions, as well as Board and regulatory approvals.

There are no other items, transactions or events of a material or unusual nature that have arisen in the period between 30 June 2021 and the date of this report, other than those separately disclosed in 'Impact of COVID-19' above, that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Likely developments and expected results of operations

Likely developments in the operations of the Group, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2020: $nil).

Shares under option

Except as set out below, no options over unissued shares or interests in the Group were granted during, or since the end of, the period.

(a) Warrants

A total of 16,685,000 warrants have been issued to investors who were holders of convertible notes. Warrants are exercisable at $1.00 per A Class Share at any time prior to 8 August 2025.

(b) Option agreements

An Option Letter of Agreement is in place with Geoffrey Lord (Non-Executive Director) to subscribe for $2,000,000 in fully paid A Class Shares in the Company at $1.00 per A Class Share. This option expires on 31 December 2022.

(c) Obligations to issue shares

The Company has no obligations to issue shares.

Insurance of officers and indemnities

(a) Insurance of officers

During or since the end of the year, the Group has given indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums in order to indemnify the Directors of the Group against all liabilities to another person that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving lack of good faith.

Further disclosure required under section 300(9) of the *Corporations Act 2001* (Cth) (Corporations Act) is prohibited under the terms of the contract.

(b) Indemnity of auditors

No indemnities have been given, or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the Group.

Proceedings on behalf of the group

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 68.

Rounding off of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, 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.

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

Peter Hodgson
Director — 2 September 2021

Manda Trautwein
Director — 2 September 2021

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Judo Capital Holdings Limited for the year ended 30 June 2021, 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 Judo Capital Holdings Limited and the entities it controlled during the period.

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
2 September 2021

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated statement of profit or loss and other comprehensive income

	Notes	2021 $'000	2020 $'000
Effective interest income	2	**126,380**	52,389
Interest expense	2	**(41,927)**	(24,549)
Net interest income		**84,453**	27,840
Other operating income	3	**5,343**	416
Net banking income		**89,796**	28,256
Employee benefits expense	4	**(50,924)**	(35,504)
Other operating expenses	4	**(29,542)**	(17,470)
Depreciation and amortisation expense	4	**(3,653)**	(2,622)
Total operating expenses		**(84,119)**	(55,596)
Net operating profit/(loss) before impairment		**5,677**	(27,340)
Impairment on loans and advances and treasury investments	9	**(9,983)**	(23,504)
Net loss before income tax		**(4,306)**	(50,844)
Income tax benefit	6	**33,114**	–
Profit/(loss) after income tax		**28,808**	(50,844)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Gain/(loss) on revaluation of cash flow hedge	20(e)	**2,329**	(100)
Other comprehensive income for the period, net of tax		**2,329**	(100)
Total comprehensive profit/(loss) for the period		**31,137**	**(50,944)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

	Notes	2021	2020
		$'000	$'000
Assets			
Cash and cash equivalents	7	**344,045**	210,147
Investments	8	**3,259,735**	452,879
Loans and advances	9	**3,482,172**	1,763,199
Derivative assets	20	**3,185**	–
Property, plant and equipment	10	**1,665**	2,197
Right-of-use assets	11	**2,574**	3,647
Intangible assets	12	**16,018**	5,383
Deferred tax assets	6	**32,158**	–
Other assets	13	**34,646**	4,199
Total assets		**7,176,198**	**2,441,651**
Liabilities			
Accounts payable and other liabilities	14	**17,394**	11,389
Derivative liabilities	20	**–**	100
Deposits	15	**2,547,653**	1,386,281
Borrowings	16	**3,528,575**	494,875
Lease liabilities	11	**2,935**	4,055
Provisions	17	**3,749**	1,933
Total liabilities		**6,100,306**	**1,898,633**
Net assets		**1,075,892**	**543,018**
Equity			
Share capital	18	**1,146,321**	644,884
Other reserves	18	**3,044**	415
Accumulated losses	18	**(73,473)**	(102,281)
Total equity		**1,075,892**	**543,018**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Share Capital $'000	Other Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2019	**248,847**	**53**	**(51,437)**	**197,463**
Loss for the period	–	–	(50,844)	(50,844)
Share options granted	–	462	–	462
Other comprehensive income	–	(100)	–	(100)
Total comprehensive income for the period	**–**	**362**	**(50,844)**	**(50,482)**
Transactions with owners in their capacity as owners:				
Issued share capital	398,465	–	–	398,465
Equity raising costs	(2,428)	–	–	(2,428)
	396,037	–	–	396,037
Balance at 30 June 2020	**644,884**	**415**	**(102,281)**	**543,018**

	Share Capital $'000	Other Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2020	**644,884**	**415**	**(102,281)**	**543,018**
Profit for the period	–	–	28,808	28,808
Share options granted	–	1,660	–	1,660
Cash payments on Performance Rights settled	–	(1,360)	–	(1,360)
Other comprehensive income	–	2,329	–	2,329
Total comprehensive income for the period	**–**	**2,629**	**28,808**	**31,437**
Transactions with owners in their capacity as owners:				
Issued share capital	502,349	–	–	502,349
Equity raising costs	(912)	–	–	(912)
	501,437	–	–	501,437
Balance at 30 June 2021	**1,146,321**	**3,044**	**(73,473)**	**1,075,892**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

	Notes	2021	2020
		$'000	$'000
Cash flows from operating activities			
Payments to suppliers and employees		**(69,626)**	(52,762)
Interest received		**126,059**	51,041
Interest paid		**(39,278)**	(16,814)
Net movement in loans and advances		**(1,728,642)**	(1,550,423)
Net movement in term deposits		**1,161,372**	1,281,866
Net cash (outflow) from operating activities	19	**(550,115)**	**(287,092)**
Cash flows from investing activities			
Payments for property, plant and equipment		**(134)**	(1,917)
Proceeds from sale of property, plant and equipment		**5**	60
Payment for investments		**(2,835,967)**	(394,283)
Payment for intangible assets		**(12,548)**	(3,960)
Net cash (outflow) from investing activities		**(2,848,644)**	**(400,100)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	18(a)(i)	**502,349**	398,465
Proceeds from borrowings		**3,033,700**	409,904
Payments for vesting of Performance Rights		**(1,360)**	–
Capital raising transaction costs	18(a)(i)	**(912)**	(2,428)
Principal portion of lease payments		**(1,120)**	(944)
Net cash inflow from financing activities		**3,532,657**	**804,997**
Net increase in cash and cash equivalents		**133,898**	117,805
Cash and cash equivalents at the beginning of the financial year	7	**210,147**	92,342
Cash and cash equivalents at end of year	**7**	**344,045**	**210,147**

The accompanying notes form part of these financial statements.

Notes to the financial statements

1

Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Judo Capital Holdings Limited and its controlled entities.

(a) Basis of preparation

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. Judo Capital Holdings Limited and its controlled entities is a for-profit entity for the purpose of preparing the financial statements.

Judo Capital Holdings Limited is a Company limited by shares, incorporated and domiciled in Australia.

The financial report was approved by the Directors as at the date of the Directors' report.

(i) Compliance with IFRS

The consolidated financial statements of the Judo Capital Holdings Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

(iii) Presentation format

The consolidated financial statements have been prepared in order of liquidity.

(iv) Critical accounting judgements and estimates

In the process of applying the Group's accounting policies, management have made a number of judgements and assumptions and applied estimates of future events. Some of these areas include:

- impairment charges on loans and advances
- determination of income tax.

Impact of COVID-19

COVID-19 is a respiratory illness caused by the novel coronavirus and was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19 and related measures to slow the spread of the virus have since had a significant impact on the Australian and global economy, supply chains and financial markets. The Group has carefully considered the impacts of COVID-19 and related market volatility in preparing these financial statements. Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECLs).

The IASB has published *IFRS 9 and Covid-19*, a document identifying the requirements within *IFRS 9 Financial Instruments* as they are relevant to the impact of COVID-19 on the recognition of expected credit losses. The guidance provided re-emphasises that IFRS 9 does not provide a mechanistic approach in accounting for impairment provisions.

The Group's assessment of forecast conditions incorporates the effects of COVID-19 and government support measures on a reasonable and supportable basis. The AASB 9 impairment methodology and the definition of default remain consistent with prior periods. A range of plausible economic and industry stress factors are taken into account in order to determine any forward-looking adjustments, including the impacts of government and industry assistance packages, including loan repayment deferral arrangements. A review of every credit file has been undertaken throughout the financial year including stress-testing scenarios to inform the level of provisioning required as the situation evolves. The circumstances are unique in that most of the deferral loans were performing

1

Summary of significant accounting policies (cont.)

(a) Basis of preparation (cont.)

prior to the onset of COVID-19, and either continue to perform, or have genuine prospects of recovery once government restrictions are eased and lockdowns discontinued.

The terms and conditions related to the deferrals were considered to be non-substantial modifications and accounted for as a continuation of the existing loan agreements. No material modification gains or losses have been recognised in respect of loans on deferral.

Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(b) New standards and amendments applicable 1 January 2020

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2020:

Title	Key requirements	Effective date*
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material [AASB 101 and AASB 108]*	The AASB has made amendments to AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which use a consistent definition of materiality throughout IFRSs and the *Conceptual Framework for Financial Reporting*, clarify when information is material, and incorporate some of the guidance in AASB 101 about immaterial information. In particular, the amendments clarify: • that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and • the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.	1 January 2020
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – [AASB 7, AASB 9 and AASB 139]*	The amendments made to AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and *AASB 139 Financial Instruments: Recognition and Measurement* provide certain reliefs in relation to interest-rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving interbank offered rate (IBOR)-based contracts, the reliefs will affect companies in all industries.	1 January 2020

Title	Key requirements	Effective date*
AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia [AASB 1054]*	The standard amends AASB 1054 by adding a new requirement for entities to disclose the potential impact of IFRSs that have not yet been issued by the AASB. This disclosure is necessary for entities that wish to state compliance with IFRS, but not required for entities reporting under tier 2 of the reduced disclosure regime. The disclosure is an extension of the requirement in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to explain if there are any accounting standards and interpretations which are not yet applied but are expected to have a material effect on the entity in the current period and on foreseeable future transactions. It applies where there are any international standards or interpretations (or amendments thereof) that have not yet been endorsed by the AASB at the time of the completion of the entities' financial statements.	1 January 2020
AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*	AASB 2020-4 amends AASB 16 *Leases* to provide an optional practical expedient to lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met: • the change in lease payments results in revised consideration for the lease that is substantially the same, or less than, the consideration for the lease immediately preceding the change • any reduction in lease payments affects only payments due on or before 30 June 2021, and • there is no substantive change to other terms and conditions of the lease. AASB 2020-4 mandatorily applies to annual reporting periods commencing on or after 1 June 2020.	1 June 2020

* *Applicable to reporting periods commencing on or after the given date*

1

Summary of significant accounting policies (cont.)

(c) Accounting standards issued but not yet effective

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*

AASB 2020-8 aims to provide financial statement users with useful information about the effects of the interest rate benchmark reform on those entities' financial statements. As a result of the amendments, an entity:

- will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate
- will not have to discontinue hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria, and
- will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

AASB 2020-8 mandatorily applies to annual reporting periods commencing on or after 1 January 2021 and is available for earlier application. It will be applied by the Group in the financial year commencing 1 July 2021. This accounting standard is not expected to have a material impact on the financial statements of the Group.

AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

AASB 2021-2 amends AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 134 *Interim Financial Reporting* and AASB Practice Statement 2 *Making Materiality Judgements* to make narrow scope amendments to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates.

AASB 2021-2 mandatorily applies to annual reporting periods commencing on or after 1 January 2023 and will be first applied by the Group in the financial year commencing 1 July 2023.

(d) Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

(e) Principles of consolidation and equity accounting

The consolidated financial statements are those of the consolidated entity ('the Group'), comprising the financial statements of the parent entity and the entities the parent controls. The Group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The financial statements of the subsidiary are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-recognised from the date that control ceases.

(f) Effective interest income

Loan interest revenue is calculated on the daily loan balance outstanding and charged in arrears to the customer's loan account. Loan interest revenue is recognised as it accrues in accordance with the effective interest method, which is the rate that exactly discounts estimated cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset. For financial assets classified within Stage 1 and 2 of Expected Credit Loss Provisions, interest income is calculated by applying the effective interest rate to the gross carrying amount of the assets. Interest income on financial assets in Stage 3 is recognised by applying the effective interest rate to the gross carrying amount net of provisions for impairment.

Interest income on equipment loans is recognised on a time proportion basis using the effective interest method.

Interest income on investments, along with all interest expenses, are recognised using their effective interest rates.

All revenue is measured net of the amount of goods and services tax (GST).

(g) Other operating income

Fees and commissions are recognised typically upon execution of a contract with a customer, at the point where the performance obligation relating to the contract has been met.

Gains/(losses) on the disposal of property, plant and equipment are determined through the difference between the carrying value of the asset and the proceeds received.

Realised gains/(losses) on investments measured at amortised cost are recognised in the period in which they are crystalised.

(h) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination 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 substantively enacted by the end of the reporting period 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Tax consolidation

Judo Capital Holdings Limited and its controlled entities have implemented the tax consolidation legislation and have formed a tax-consolidated group. The Group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only
- the controlled entities recognise current or deferred tax amounts arising in respect of their own transactions, events and balances
- current tax liabilities and deferred tax assets arising in respect of tax losses are transferred from the controlled entity to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax-sharing agreement in place to limit the liability of the controlled entities in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(i) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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, bank overdrafts and funds held in trust by third-party service providers for the purposes of fulfilling loan settlements. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

Summary of significant accounting policies (cont.)

(j) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

All financial liabilities, including deposits and borrowings, are recognised by the Group initially at fair value net of any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Investments

Subsequent measurement of investments is at amortised cost. Assets that are held for collection of contractual cash flows, where those cash flows solely represent payments of principal and interest, are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost, and is not part of a hedging relationship, is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in effective interest income recognised using the effective interest rate method.

(iii) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 20(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See Note 20(b) for further details.

(k) Property, plant and equipment

Each class of plant and equipment is measured at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Plant and equipment

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements at cost	20% to 50%	Straight line and diminishing value
Office equipment at cost	20% to 50%	Straight line and diminishing value
Furniture, fixtures and fittings at cost	10% to 20%	Straight line and diminishing value

The residual value and the useful life of an asset is reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, each change is accounted for as a change in an accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(l) Intangible assets

Intangible assets are identifiable non-tangible, non-monetary assets. They are recognised when the Group can demonstrate its intention to complete the development for use or use the asset to generate future economic benefits and the costs of the development can be reliably measured. IT software development costs that can be reliably measured and where control can be established are recognised as an intangible asset.

IT software development costs incurred are categorised into buckets, being either research, which may include discovery activities, formulation and design of new systems, and development, which may include construction, coding and testing. Research costs are expensed as incurred, whereas development costs are capitalised as an intangible asset where control has been established. All other development costs that cannot be reliably measured or where control cannot be established are expensed as incurred.

Software as a Service (SaaS)

Configuration and customisation costs of a SaaS arrangement are expensed when incurred, where control has not been established. Development costs are capitalised where control of an asset in relation to a SaaS arrangement has been established. Under this arrangement, configuration and customisation costs have been capitalised where control has been established, otherwise costs are recognised as a prepaid service and amortised over the life of the contract – or in certain instances are immediately expensed as incurred.

Amortisation of intangible assets

Patents, trademarks and licences are not amortised.

Capitalised information technology costs are not amortised throughout the development stage. Once software under development is ready for use, management will determine a suitable amortisation rate between two and five years.

(m) Impairment of assets

Intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash-generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level.

Assets other than intangible assets not yet ready for use and intangible assets with indefinite useful lives, are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds the asset's or cash-generating unit's recoverable amount. The recoverable amount of an asset or cash-generating unit is defined as the higher of its fair value less costs to sell and value in use.

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is carried at a revalued amount, such as property, plant and equipment, in which case the impairment loss is treated as a revaluation decrease. Impairment losses in respect of cash-generating units are allocated first against the carrying amount of any goodwill attributed to the cash-generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash-generating unit.

Summary of significant accounting policies (cont.)

(n) Leases

At the commencement date of a lease (other than leases of 12 months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

(i) Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, and any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Group, and an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

(ii) Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e. the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e. the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

(iii) Leases of 12 months or less and leases of low-value assets

Lease payments made in relation to leases of 12 months or less and leases of low-value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. 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 Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At the inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

To the extent that these instruments do not qualify for hedge accounting, the movements in fair value are recognised through profit and loss.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 21. Movements in the hedging reserve in shareholders' equity are shown in Note 20(e).

(i) Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

(p) Borrowings

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 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.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly 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 liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

The equity-based compensation record is recorded as part of the share-based payments reserve and is calculated as the value of equity benefits provided to employees as part of their remuneration. The calculation is based on independent valuation in line with AASB 2.

(iii) Share-based payments

The Group operates share-based-payment employee share schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares expected to vest is reviewed and adjusted at each reporting date. See Note 18 for further details.

1

Summary of significant accounting policies (cont.)

(q) Employee benefits (cont.)

(iv) Retirement benefit obligations

Defined contribution superannuation plan

The Group makes superannuation contributions to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period that the related employee services are received. The Group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the consolidated statement of financial position.

(r) Borrowing costs

Borrowing costs include interest expense calculated using the effective interest method and finance charges in respect of finance leases.

(s) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the 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 with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(t) Rounding of amounts

The company complies with ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(u) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

2

Net interest income

	2021	2020
	$'000	$'000
Interest on cash and cash equivalents	**815**	1,121
Interest on treasury investments	**4,923**	3,441
Interest on loans and advances	**120,642**	47,827
	126,380	52,389
Interest expense on derivative financial instruments	**(337)**	(7)
Interest expense on deposits	**(27,910)**	(17,374)
Interest expense on borrowings	**(13,546)**	(7,011)
Interest expense on lease liabilities	**(134)**	(157)
	(41,927)	(24,549)
Net interest income	**84,453**	**27,840**

(a) Average balances and related interest

The tables below are products of Profit and Loss and Balance Sheet financial statement areas. These detail the key assets responsible for deriving interest income and interest-bearing liabilities, along with their respective interest earned or paid and subsequent average interest rate. The averages listed are primarily daily averages.

	Average balance	Interest	Average interest
	$'000	$'000	%
Interest income 2021			
Cash and cash equivalents	150,461	815	0.54
Treasury investments	1,209,360	4,923	0.41
Loans and advances	2,552,917	120,642	4.73
	3,912,738	**126,380**	**3.23**
Interest expense 2021			
Customer deposits	1,954,302	27,910	1.43
Borrowings	1,204,671	13,546	1.12
	3,158,973	**41,456**	**1.31**

2

Net interest income (cont.)

	Average balance	Interest	Average interest
	$'000	$'000	%
Interest income 2020			
Cash and cash equivalents	132,290	1,121	0.85
Treasury investments	265,810	3,441	1.29
Loans and advances	947,239	47,827	5.05
	1,345,339	52,389	3.89
Interest expense 2020			
Customer deposits	821,482	17,374	2.11
Borrowings	134,969	7,011	5.19
	956,451	24,385	2.55

3

Other income

	2021	2020
	$'000	$'000
Other operating income		
Realised gains on sale of investments	**4,317**	17
Fees and commissions	**619**	116
Other income	**407**	283
	5,343	**416**

4

Operating expenses

	2021 $'000	2020 $'000
Depreciation and amortisation		
Amortisation	1,874	691
Depreciation	1,779	1,931
	3,653	**2,622**
Employee benefits		
Salary and wages	40,429	28,793
Share-based payments	1,660	462
Superannuation guarantee contributions	3,571	2,593
Other employee benefits	5,264	3,656
	50,924	**35,504**
Other operating expenses		
Consultants expense	1,071	587
Information technology expense	12,662	5,911
Marketing expense	4,412	3,023
Occupancy expense	1,225	959
Professional fees	1,978	1,536
Travel expenses	1,636	1,637
Other expenses	6,558	3,817
	29,542	**17,470**

	2021 $	2020 $
Remuneration of auditors for:		

PricewaterhouseCoopers Australia is the external auditor for the year ended 30 June 2021. During the year the following fees were paid or payable for the services provided by the auditor of the Company.

	2021	2020
Audit or review of the financial report	650,228	432,195
Other regulatory and audit services	129,996	223,686
Other non-audit services	127,935	102,211
	908,159	**758,092**

5

Key management personnel compensation

	2021	2020
	$	$
Compensation received by key management personnel of the Group		
Short-term employee benefits	**3,062,583**	4,374,386
Post-employment benefits	**135,589**	212,816
	3,198,172	**4,587,202**
Compensation received by non-executive directors of the Group		
Short-term employee benefits	**530,264**	503,667
Post-employment benefits	**22,998**	32,381
Share-based payments	**1,359,891**	-
	1,913,153	536,048
	5,111,325	**5,123,250**

Key management personnel are reassessed every period, and changes to those included within this disclosure can occur from time to time.

6

Income tax expense

(a) Income tax expense

	2021
	$'000
Deferred income tax	
Decrease/(increase) in deferred tax assets	**(33,154)**
(Decrease)/increase in deferred tax liabilities	**40**
Total deferred tax benefit	**(33,114)**
Income tax benefit	**(33,114)**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2021	2020
	$'000	$'000
The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows:		
Loss from operations before income tax expense	**(4,306)**	(50,844)
Tax at the Australian tax rate of 30% (2020: 30%)	**(1,292)**	(15,253)
Add tax effect of:		
Share-based payments	**498**	-
Entertainment	**82**	-
Net deferred tax assets first brought to account	**(30,881)**	-
Other permanent differences	**(1,521)**	(396)
Timing differences not brought to account	**-**	7,432
Carried forward tax losses not brought to account	**-**	8,217
Income tax expense	**(33,114)**	**-**

(c) First time recognition of deferred tax assets

The following deferred tax balances have been brought to account as at 30 June 2021 and are reflected in the Profit and Loss Statement as an income tax benefit. The Group has generated its first taxable profits in the current financial year and is satisfied that it is probable that future taxable amounts will be available to utilise the temporary differences and losses. This view is further evidenced by the financial forecasts for FY22 to FY23, which indicate that the tax losses will be fully utilised within a reasonable time period.

Key assumptions underpinning the expected future taxable amounts include, but are not limited to, anticipated growth on the lending book, funding channels and lower cost of funds, returns on the treasury liquids portfolio, economic outlook with regards to expected credit loss performance, and an increasing cost base albeit in a disciplined and controlled manner to support the Group's expanding operations.

Key assumptions underpinning the financial outlook are reviewed on a periodic basis. Further consideration has been given to the Group's satisfaction of the Business Continuity Test, a legal requirement that must be satisfied in order to utilise prior year tax losses. In this respect, management has engaged third-party consultants to perform a review of the Group's operations and material business activities across the relevant loss period, which concluded that the requirements of the Business Continuity Test have been met for the current financial year ended, and that the outlook of the Group's operations would not change this opinion. As a proportion of the tax losses will be utilised across future reporting periods, satisfaction of the Business Continuity Test will be re-assessed at regular intervals, until all tax losses have been utilised.

The deferred tax assets recognised are in relation to all tax losses available to the Group, dating back to the commencement of its operations.

6

Income tax expense (cont.)

	2021	2020
	$'000	$'000
Deferred tax assets		
Tax losses	19,387	-
Loss allowances for financial assets	10,636	-
Employee benefits	1,125	-
Plant and equipment	991	-
Other	1,015	-
Total deferred tax assets	**33,154**	**-**
Deferred tax liabilities		
Cash flow hedges	(956)	-
Other	(40)	-
Total deferred tax liabilities	**(996)**	**-**
Net deferred tax assets	32,158	**-**

(d) Deferred tax assets previously not brought to account

The following deferred tax balances have previously not been brought to account due to the Group being in a start-up phase of operations. As disclosed in Note 6(c) above, these deferred tax balances have now been brought to account at 30 June 2021.

	2021	2020
	$'000	$'000
Temporary differences	-	8,826
Operating tax losses	-	21,088
	-	**29,914**

(e) Amounts recognised directly in equity

	2021	2020
	$'000	$'000
Aggregate deferred tax arising in the reporting period and recognised directly against other comprehensive income		
Increase in deferred tax liabilities	(956)	-

7

Cash and cash equivalents

	2021	2020
	$'000	$'000
Cash at bank	**311,884**	194,583
Cash on deposit	**10,907**	110
Funds in trust pre-settlement	**21,254**	15,454
	344,045	**210,147**

The cash and cash equivalents disclosed above and in the statements of cash flows include $21,253,308 that is held in trust by third-party service providers for the purposes of fulfilling loan settlements. These deposits are therefore not available for general use by Judo Capital Holdings Limited or its controlled entities.

8

Investments

	2021	2020
	$'000	$'000
Financial assets measured at amortised cost		
Floating rate notes (corporate and state or federal government)	**214,890**	336,252
Bonds (corporate and state or federal Government)	**2,855,540**	116,702
Residential mortgage backed securities	**64,848**	-
Negotiable certificates of deposit	**124,846**	-
	3,260,124	452,954
Allowance for credit losses	**(389)**	(75)
	3,259,735	**452,879**

9

Loans and advances

	2021	2020
	$'000	$'000
Business loans	**2,720,231**	1,436,375
Equipment loans (net of unearned income)	**194,291**	90,247
Line of credit	**241,984**	110,144
Home loans	**360,729**	151,827
	3,517,235	1,788,593
Allowance for credit losses	**(35,063)**	(25,394)
	3,482,172	**1,763,199**

	Maturing 1 year or less	Maturing between 1 and 5 years	Maturing after 5 years	Total
	$'000	$'000	$'000	$'000
Maturity at 30 June 2021				
Business loans	**295,281**	**1,835,223**	**589,727**	**2,720,231**
Equipment loans (net of unearned income)	**3,033**	**184,231**	**7,027**	**194,291**
Line of credit	**239,199**	**2,785**	**-**	**241,984**
Home loans	**2,536**	**22,126**	**336,067**	**360,729**
Gross loans and advances	**540,049**	**2,044,365**	**932,821**	**3,517,235**

	Maturing 1 year or less	Maturing between 1 and 5 years	Maturing after 5 years	Total
	$'000	$'000	$'000	$'000
Maturity at 30 June 2020				
Business loans	82,091	986,169	368,115	1,436,375
Equipment loans (net of unearned income)	472	70,664	19,111	90,247
Line of credit	106,012	4,132	-	110,144
Home loans	3,105	7,174	141,548	151,827
Gross loans and advances	**191,680**	**1,068,139**	**528,774**	**1,788,593**

(a) Allowance for credit losses

The following table provides a reconciliation from the opening balance to the closing balance of the loss allowance for loans, advances and other receivables:

	Stage 1 collectively assessed	Stage 2 collectively assessed	Stage 3 collectively assessed	Specific provision	Total
	$'000	$'000	$'000	$'000	$'000
Loss allowance at 1 July 2020	10,917	12,379	980	1,118	25,394
Net transfer between stages	1,557	(1,189)	(81)	(287)	-
Net remeasurement on transfers between stages	(2,367)	4,550	44	2,877	5,104
Net movement in provision due to new financial assets	8,378	5,524	1,252	2,337	17,491
Movement due to risk parameters and other changes	(2,203)	(6,133)	(99)	(237)	(8,672)
Other movements	(671)	297	-	-	(374)
Additional collective overlay provision	(3,880)	-	-	-	(3,880)
Loan impairment expense for the year	814	3,049	1,116	4,690	9,669
Write-offs	-	-	-	-	-
Loss allowance at 30 June 2021	**11,731**	**15,428**	**2,096**	**5,808**	**35,063**

Reconciliation of impairment expense to statement of profit or loss and other comprehensive income

	Stage 1 collectively assessed	Stage 2 collectively assessed	Stage 3 collectively assessed	Specific provision	Total
Loan impairment expense for the year	814	3,049	1,116	4,690	9,669
Treasury investments impairment expense for the year	314	-	-	-	314
Total impairment expense for the year	**1,128**	**3,049**	**1,116**	**4,690**	**9,983**

	Stage 1 collectively assessed	Stage 2 collectively assessed	Stage 3 collectively assessed	Specific provision	Total
Loss allowance at 1 July 2019	932	1,033	-	-	1,965
Net transfer between stages	(160)	158	2	-	-
Net remeasurement on transfers between stages	(2)	1,420	309	-	1,727
Net movement in provision due to new financial assets	4,157	10,172	791	1,118	16,238
Movement due to risk parameters and other changes	(448)	(404)	-	-	(852)
Other movements	-	-	(122)	-	(122)
Additional collective overlay provision	6,438	-	-	-	6,438
Loan impairment expense for the year	9,985	11,346	980	1,118	23,429
Write-offs	-	-	-	-	-
Loss allowance at 30 June 2020	**10,917**	**12,379**	**980**	**1,118**	**25,394**

9

Loans and advances (cont.)

Reconciliation of impairment expense to statement of profit or loss and other comprehensive income

	Stage 1 collectively assessed	Stage 2 collectively assessed	Stage 3 collectively assessed	Specific provision	Total
	$'000	$'000	$'000	$'000	$'000
Loan impairment expense for the year	9,985	11,346	980	1,118	23,429
Treasury investments impairment expense for the year	75	-	-	-	75
Total impairment expense for the year	**10,060**	**11,346**	**980**	**1,118**	**23,504**

The collectively assessed overlay above has been determined as appropriate given the uncertainty that exists as to the impacts of COVID-19 on customers. The Group has undertaken a full review of the loan book to project potential future credit losses that may result from ongoing economic impacts. Based on this review, the customers have been classified as either Performing, Close Monitoring, Watch or Impaired.

A file identified as requiring Close Monitoring is one where early warning signs indicate possible future concerns and current contract loan terms (including any Health Indicators) are insufficient to mitigate or manage those concerns. These loans require closer attention than Performing loans due to the issues/difficulties these customers are experiencing, but which are not expected to be long term and, as such, they are still predominately treated as Stage 1 exposures. In some instances, these customers have been provided with support, including payment deferrals. Customers that are performing but are exhibiting substantial signs of distress are classified as Watch loans and treated as Stage 2 exposures for the purposes of the expected loss calculation. Where the customer is considered in default they are classified as Impaired and a specific provision assessment is performed.

At 30 June 2021, the exposure to Close Monitoring customers was $108 million. While most of these customers are expected to remain performing, the overlay has been determined based on a management estimate of the proportion of these customers that are expected to become non-performing.
The proportion has been determined as 10% across New South Wales and Victoria, resulting in an additional collective overlay provision of $0.6 million. In the prior year, this proportion was assumed to be 18%, resulting in an additional collective overlay provision of $6.4 million, hence representing a reduction of $5.8 million across FY21.

At 30 June 2021, the final expected loss number also includes a component to deal with the concentration risk of larger exposures in the portfolio. As at the end of June, this equated to $1.9 million (2020: $nil) and was included as part of the Stage 1 overlay. Methodology approach for Large Exposure Concentration Risk will remain in place until the concentration risk is disseminated as the loan book continues to grow.

	2021	2020
	%	%
Provision ratios		
Total provisions for impaired assets as a % of gross impaired assets	**47.90**	28.40
Total provisions for impairment losses as a % of gross loans and advances	**1.00**	1.40

Gross impaired assets include non-performing facilities, restructured facilities and facilities 90 days or more past due.

10

Property, plant and equipment

	Furniture, fittings and equipment	Office equipment	Leasehold improvements	Total
	$'000	$'000	$'000	$'000
At 1 July 2019				
Cost or fair value	176	382	975	1,533
Accumulated depreciation	(35)	(197)	(261)	(493)
Net book amount	**141**	**185**	**714**	**1,040**
Year ended 30 June 2020				
Opening net book amount	141	185	714	1,040
Additions	299	199	1,419	1,917
Disposals	-	(165)	-	(165)
Depreciation charge	(48)	(93)	(454)	(595)
Closing net book amount	**392**	**126**	**1,679**	**2,197**
At 30 June 2020				
Cost or fair value	474	213	2,394	3,081
Accumulated depreciation	(82)	(87)	(715)	(884)
Net book amount	**392**	**126**	**1,679**	**2,197**
Year ended 30 June 2021				
Opening net book amount	392	126	1,679	2,197
Additions	10	92	32	134
Depreciation charge	(53)	(63)	(550)	(666)
Closing net book amount	**349**	**155**	**1,161**	**1,665**
At 30 June 2021				
Cost or fair value	484	305	2,426	3,215
Accumulated depreciation and impairment	(135)	(150)	(1,265)	(1,550)
Net book amount	**349**	**155**	**1,161**	**1,665**

11

Leases

(a) Right-of-use assets

	2021	2020
	$'000	$'000
Property leases	4,608	4,608
Accumulated depreciation	(2,034)	(961)
Total carrying amount of right-of-use assets	2,574	3,647

Reconciliation of the carrying amount of lease assets at the beginning and end of the financial year

	Properties	Total
	$'000	$'000
Carrying amount at 1 July 2019	-	-
Additions	4,608	4,608
Depreciation	(961)	(961)
Carrying amount at 30 June 2020	3,647	3,647
Carrying amount at 1 July 2020	3,647	3,647
Additions	-	-
Depreciation	(1,073)	(1,073)
Carrying amount at 30 June 2021	2,574	2,574

(b) Lease liabilities

	2021	2020
	$'000	$'000
Property leases	2,935	4,055
Total carrying amount of lease liabilities	2,935	4,055

(c) Lease expenses and cashflows

	2021	2020
	$'000	$'000
Lease expenses		
Depreciation expense on right-of-use assets	1,074	961
Interest expense on lease liabilities	134	157
Expense relating to lease payments made for leases of low-value assets (for which a lease asset and a lease liability has not been recognised)	701	230
	1,909	1,348
Total cash flow in relation to leases	1,955	1,331

12

Intangible assets

	Patents, trademarks and other rights	Capitalised information technology	Total
	$'000	$'000	$'000
At 1 July 2019			
Cost	9	2,643	2,652
Accumulated amortisation and impairment	-	(162)	(162)
Net book amount	**9**	**2,481**	**2,490**
Year ended 30 June 2020			
Opening net book amount	9	2,481	2,490
Additions	-	3,960	3,960
Amortisation charge	-	(1,067)	(1,067)
Closing net book amount	**9**	**5,374**	**5,383**
At 30 June 2020			
Cost	9	6,603	6,612
Accumulated amortisation and impairment	-	(1,229)	(1,229)
Net book amount	**9**	**5,374**	**5,383**
Year ended 30 June 2021			
Opening net book amount	9	5,374	5,383
Additions	-	12,548	12,548
Amortisation charge	-	(1,913)	(1,913)
Closing net book amount	**9**	**16,009**	**16,018**
At 30 June 2021			
Cost	9	19,151	19,160
Accumulated amortisation and impairment	-	(3,142)	(3,142)
Net book amount	**9**	**16,009**	**16,018**

Capitalised information technology includes costs incurred in the development of software that supports the Group's core banking operations and risk management processes. Development costs incurred under a Software as a Service (SaaS) arrangement including configuration and customisation costs are capitalised where control of the underlying software is established in accordance with AASB 138 *Intangible Assets*. In the event control cannot be established, costs are either recognised as a prepaid service and amortised over the life of the contract, or expensed directly to profit and loss (refer to Note 13).

13

Other assets

	2021 $'000	2020 $'000
Prepayments	**678**	397
Prepayments – IT licensing	**1,738**	885
Prepayments – software development costs	**301**	-
Accrued interest receivable	**30,713**	1,595
Other receivables	**1,216**	1,322
	34,646	**4,199**

14

Accounts payable and other liabilities

	2021 $'000	2020 $'000
Unsecured liabilities		
Accrued interest payable	**10,761**	8,112
Trade creditors and accruals	**6,633**	3,277
	17,394	**11,389**

15
Deposits

	2021 $'000	2020 $'000
Retail term deposits	**1,381,056**	707,232
Wholesale term deposits	**1,166,597**	679,049
	2,547,653	**1,386,281**

	2021 $'000	2020 $'000
Deposits by state or territory		
New South Wales	**1,014,996**	603,884
Victoria	**677,520**	344,907
Queensland	**373,999**	194,009
Western Australia	**233,831**	113,774
South Australia	**179,102**	93,886
Australian Capital Territory	**35,061**	17,051
Tasmania	**28,845**	14,342
Northern Territory	**4,299**	4,428
Total deposits	**2,547,653**	**1,386,281**

16

Borrowings

	2021	2020
	$'000	$'000
Secured		
Debt warehouse	**621,705**	410,104
Repurchase agreements	**2,860,101**	88,503
Establishment costs	**(2,417)**	(3,732)
	3,479,389	**494,875**
Unsecured		
Subordinated notes	**50,000**	-
Establishment costs	**(814)**	-
	49,186	**-**
Total borrowings	**3,528,575**	**494,875**

(a) Terms and conditions of borrowings

Secured loan facilities

The secured loan facilities represent borrowings under the Group's warehouse securitisation programs, which currently includes the Judo Capital Securitisation Trust 2018-2, Judo Capital Securitisation Trust 2018-3, Judo Securitisation Warehouse Trust 2020-1 and Judo Securitisation Trust 2020-2 entities. Facility limits are in place for each trust agreed with the relevant financier, with the borrowings in each trust secured by individual receivables owned by the trust (which comprise Group-originated business loans, lines of credit, equipment loans and home loans). Since these loans have been securitised but retained by the Group, the assets remain on the balance sheet. Borrowings are to be repaid in accordance with the Trust agreement, calculated by the Trustee using the cash flow waterfall calculation specific to each trust.

In March 2020, the Reserve Bank of Australia (RBA) announced the establishment of the Term Funding Facility (TFF), a three-year facility with a fixed interest rate of 0.10% per annum. The TFF was introduced by the RBA to reinforce the benefits to the economy of a lower cash rate and to encourage ADI's to support businesses during a difficult period.

As at 30 June 2021, the Group's drawdown on the TFF totalled $2.86 billion. The Group had been assigned an available drawing balance under the TFF of $8.6 billion, which expired on 30 June 2021.

The drawdown is secured by RBA-eligible collateral including the Group's Aaa-rated self-securitisation notes and Australian Commonwealth Government Securities (ACGS) and Semi Government Securities.

Unsecured loan facilities

In June 2021, the Group issued floating-rate subordinated notes to support the Group's capital management. The notes constitute direct and unsecured subordinated obligations of the Group. These notes constitute Tier 2 Capital of the Group as defined by APRA.

As at 30 June 2021, the Group's subordinated notes totalled $50 million.

17
Provisions

	2021 $'000	2020 $'000
Annual leave	**3,091**	1,496
Long service leave	**658**	437
	3,749	**1,933**

Annual leave provisions are expected to be settled within 12 months, while long service leave provisions are currently expected to be settled after 12 months.

18
Share capital, equity and reserves

Capital adequacy

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's shareholders equity includes issued ordinary shares, retained earnings and reserves.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 Capital and Tier 2 Capital. CET1 primarily consists of shareholders' equity, less deferred tax assets and other prescribed adjustments. Additional Tier 1 Capital is comprised of high-quality capital providing a permanent and unrestricted commitment of funds that is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors, and provides for fully discretionary capital distributions. Tier 1 Capital is the aggregate of CET1 and Additional Tier 1 Capital. Tier 2 Capital includes hybrid and debt instruments that fall short of necessary conditions to qualify as Additional Tier 1 to APRA. Total Capital is the aggregate of Tier 1 and Tier 2 Capital.

Capital adequacy is measured by means of risk-based capital ratios. The capital ratios reflect capital (CET1, Additional Tier 1, Tier 2 and Total Capital) as a percentage of total RWAs. RWAs represent an allocation of risks associated with the Group's assets and other related exposures. The Group's capital provision is monitored on a continuous basis and reported monthly to the Management Board, the Asset and Liability Committee and the Board.

The Group's capital ratios throughout the year were in compliance with both APRA minimum capital adequacy requirements and Board-approved minimums. The Group is required to inform APRA immediately of any breach or potential breach of its minimum prudential capital adequacy requirements, including details of remedial action taken or planned to be taken.

18

Share capital, equity and reserves (cont.)

Capital management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility.

- The capital adequacy objective seeks to ensure sufficient capital is held in excess of internal risk-based required capital assessments and regulatory requirements and is within the Group's balance sheet risk appetite.
- The efficiency objective seeks to ensure capital is deployed as efficiently as possible and surplus is kept to a minimum.
- The flexibility objective ensures the Group is able to adapt the capital structure to the environment the Group is operating in, including in response to changing RWA profiles and prudential capital ratio requirements.

(a) Share capital

	Notes	2021	2020	2021	2020
		Shares	Shares	$'000	$'000
Ordinary shares					
A Class Shares paid in full	18(a)(i)	**801,375,657**	505,580,784	**1,155,479**	653,130
B Class Shares paid to $0.01	18(a)(ii)	**15,000**	15,000	**-**	-
Equity raising costs		**-**	-	**(9,158)**	(8,246)
Total share capital		**801,390,657**	**505,595,784**	**1,146,321**	**644,884**

(i) A Class Shares paid in full

Details	Number of shares (thousands)	Total $'000
Opening balance 1 July 2019	223,894	248,847
Issue of new shares	281,686	398,465
Less: Transaction costs arising on share issues	-	(2,428)
Balance 30 June 2020	505,580	644,884
Issue of new shares	295,795	502,349
Less: Transaction costs arising on share issues	-	(912)
Balance 30 June 2021	**801,376**	**1,146,321**

(ii) B Class Shares paid to $0.01

Details	Number of shares (thousands)	Total $'000
Opening balance 1 July 2019	14	-
Rights issue	1	-
Balance 30 June 2020	15	-
Opening balance 1 July 2020	15	-
Balance 30 June 2021	**15**	**-**

Rights attaching to A Class Shares and B Class Shares

The Company has two classes of ordinary shares on issue:

- Class A Shares – which have been issued to third-party investors and which qualify for treatment as Common Equity Tier 1 regulatory capital under Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (CET1); and
- Class B Shares – which are held by a trustee under the Judo Employee Share Trust(s) to satisfy the exercise of Performance Rights issued under the Company's Management Incentive Plan(s) and which do not qualify for, and are excluded from, regulatory capital for reporting to APRA.

The full terms of the A Class Shares and B Class Shares are set out in Schedules 1 to 2 of the Constitution and summarised below.

Conversion

On the Conversion Date, being the earlier of five years after the grant of the ADI Licence (24 April 2024) or a time and date determined by the Board to give effect to the implementation of an Exit Event, which includes an IPO, Share Sale or Asset Sale (or change of control transaction which the Board and shareholders determine in accordance with the Shareholders' Deed is in substance an Exit Event), A Class Shares and B Class Shares automatically convert into unclassed ordinary shares which rank pari passu thereafter:

- each A Class Share converts into one unclassed ordinary share on the Conversion Date, and
- the number of unclassed ordinary shares that each B Class Share will convert into on the Conversion Date is determined by the Conversion Ratio which, in aggregate, will not exceed 15% of the total number of unclassed ordinary shares on issue immediately following conversion. The maximum 15% conversion will be adjusted downwards if the Vested Proportion, being the percentage of Performance Rights that have vested by the Conversion Date, is less than 100%.

Dividends

All dividends paid in respect of A Class Shares or B Class Shares are paid at the absolute discretion of the Directors of the Company.

During the 2021 financial year, no dividends were paid.

Voting Rights

Through to the Conversion Date, the A Class Shares in aggregate will carry 85% (and the B Class Shares in aggregate will carry 15%) of the voting rights attached to the shares in the Company.

Under the Management Incentive Plan Rules, voting rights attaching to the B Class Shares will be controlled by the Management Representatives (initially being the co-founders Mr Joseph Healy and Mr David Hornery, who have each been appointed proxies by the Trustee in respect of 50% of the B Class Share voting rights).

Maximum Number of B Class Shares

The Company may not issue any B Class Shares if the total number of B Class Shares that would be on issue, when aggregated with the number of B Class Shares already on issue, would exceed 15,000 B Class Shares.

Amount to be Paid Up at Issue

Each A Class Share may be issued as fully paid or partly paid. Each B Class Share issued by the Company will be issued as partly paid, paid up to $0.01 per B Class Share.

Management Incentive Plan

The Management Incentive Plan (MIP) is a long-term incentive plan administered by the Board of the Company and has been put in place to strongly align long-term remuneration of Co-Founders, Senior Management, Non-Executive Directors and other employees with value creation for all shareholders.

The MIP represents contingent interests in 15% of the Company's issued capital from inception through to the Conversion Date, being a time and date determined by the Board to give effect to the implementation of an Exit Event, which includes an IPO, Share Sale or Asset Sale.

The MIP is represented by the issue of B Class Shares not to exceed 15,000, which are held by One Managed Investment Funds Limited, being the Trustee of the Judo Employee Share Trust (Trust). Performance Rights equal to the number of B Class Shares issued to the Judo Employee Share Trustee have been issued to Participants for no consideration. Performance Rights represent contingent interests in B Class Shares. They are not transferable and not able to be exercised by Participants unless the vesting conditions are satisfied (or waived by the Board).

18

Share capital, equity and reserves (cont.)

(a) Share capital (cont.)

Management Incentive Plan (cont.)

Vested Performance Rights are not able to be exercised except during an Exercise Period, which is defined as:

- a period specified by the Board when a Participant can exercise Vested Performance Rights prior to an Exit Event (e.g. IPO, Share Sale, Asset Sale or another transaction), or
- any time after the Board notifies Participants of the satisfaction of the Performance Targets in respect of the fifth and final Vesting Period.

Any forfeited Performance Rights will be available to be allocated for the benefit of existing or future employees of the Company as determined by the Board.

Performance Rights Granted

As at 30 June 2021, a total of 15,000 B Class Shares and Performance Rights over B Class Shares had been issued to the Trustee and issued to employees and non-executive directors under the MIP and Mirror Management Incentive Plan. These were issued for $NIL consideration with an exercise price of $1.00 per underlying B Class Share based upon independent valuations commissioned by the Company.

During the financial year ended 30 June 2021, for accounting purposes, a total of 327 Performance Rights were granted to employees in the Group. The value of Performance Rights granted during the financial year was based upon independent valuations commissioned by the Group as at the relevant grant dates.

Vesting Conditions – Employees and Non-Executive Directors

Half of Employee Performance Rights will vest on a Service/Tenure basis and the other half will vest on a Performance basis subject to meeting specified financial performance targets by reference to the annual budgets and the Group's business plan, or other measures specified from time to time by the Board. Customary carry-over and catch-up provisions apply during the five-year vesting period and catch-up provisions also apply in the case of an Exit Event.

The first annual Vesting Period was in respect of the financial year ended 30 June 2019 and the fifth and final Vesting Period will be in respect of the financial year ended 30 June 2023 (Last Vesting Date). The Board retains discretion under the MIP Rules to determine Performance Targets or to waive vesting conditions.

Non-Executive Director Performance Rights will vest upon an Exit Event provided they are a director of the Company at the time of the Exit Event or under other circumstances described in the plan.

Leaver Provisions

The MIP contains customary Good Leaver retention of Performance Rights provisions and Bad Leaver forfeiture of any unexercised Performance Rights provisions. Good Leavers and Bad Leavers are defined in the MIP Rules and impact the rights of participants when a termination occurs.

Equity warrants

Settlements under the June 2018 equity capital raise triggered the right to an award of equity warrants to convertible note holders equal in number to the principal drawn on the note at issuance, divided by the weighted average issue price paid by external investors under the Round 1 Equity Raising (being $1.00 per A Class Share). At the time of capital raising, the equity warrants awarded were valued at $NIL based on the conditions of the warrants and the position of the Group at the dates at which the warrants were awarded. The Warrant Terms are set out in a Warrant Deed Poll and are summarised below:

- non-transferable
- each warrant exercisable into a fully paid A Class Share upon payment of $1.00 exercise price
- exercisable at any time before 8 August 2025, after which time any unexercised warrants will lapse
- customary acceleration on Exit Events (warrant holders have 20 business days to exercise the warrants after which time any unexercised warrants will lapse), and
- warrant holder must accede to the Shareholders' Deed in place at the time of exercise.

Loan capital

As at 30 June 2021, the Group had A$50 million in Tier 2 Capital securities issued in the form of subordinated notes. These securities qualify as Tier 2 Capital of the Bank under the Basel III requirements as implemented by APRA.

(b) Reserves

	2021 $'000	2020 $'000
Cash flow hedges (net of tax)	**2,229**	(100)
Share-based payments	**815**	515
	3,044	**415**

Share-based payments reserve

Management Incentive Plan

The nature of the MIP is described in detail above. The assessed fair value at grant date of Performance Rights granted under the MIP during the year ended 30 June 2021 was $995,026 (2020: $86,609). The fair value at grant date for each Performance Right granted was determined by an independent valuation.

The charge to profit or loss relating to Performance Rights on issue was $574,195 (2020: $196,779), amortising monthly over the estimated vesting period with a corresponding amount being recorded in the Share-Based Payments Reserve. The estimated vesting period was revised during the year and brought forward by 12 months to 30 June 2022, which resulted in an acceleration of the charge to the profit or loss, to the value of $188,151.

During the year ended 30 June 2021, a payment was made to a participant in the MIP who the Board agreed to treat as a Good Leaver. The amount of this payment was $1,359,891 and was recorded in the Share-Based Payments Reserve.

Long-Term Incentive Plan

The Company established a Long-Term Incentive Plan (LTIP) in the year ended 30 June 2020 as a means of promoting the long-term success of the Company, providing a strategic value-based reward to participants and to align management interests with the interests of its shareholders. The options issued under the LTIP are subject to rules set out in the Long-Term Incentive Plan Rules agreement and vest over a period based on service and performance hurdles.

In the year ended 30 June 2021 further options were granted under this plan on 29 October 2020, 1 March 2021 and 10 May 2021, with an assessed fair value at grant date of $1,274,380 (2020: $1,743,406). The charge to profit or loss relating to the options issued was $1,085,440 (2020: $264,825), amortising monthly over the estimated vesting period with a corresponding amount being recorded in the Share-Based Payments Reserve.

The estimated vesting period for a specified number of options was revised during the year and brought forward by 12 months to 30 June 2022, which resulted in an acceleration of the charge to the profit or loss to the value of $403,478.

(c) Accumulated losses

	2021 $'000	2020 $'000
Accumulated losses at beginning of period	**(102,281)**	(51,437)
Net profit/(loss)	**28,808**	(50,844)
	(73,473)	**(102,281)**

19

Cash flow information

Reconciliation of profit after income tax to net cash inflow from operating activities

	Notes	2021	2020
		$'000	$'000
Profit/(loss) for the period		**28,808**	(50,844)
Adjustments for:			
Depreciation and amortisation	4	**3,653**	2,622
Charges for impairment on financial assets held at amortised cost	9(a)	**9,983**	23,504
Performance Rights granted		**1,660**	462
Accrued interest income		**(321)**	(1,271)
Accrued interest expense		**2,648**	7,707
(Gain)/loss on sale of non-current assets		**(5)**	105
Changes in operating assets and liabilities:			
Increase in loans and advances		**(1,728,642)**	(1,550,423)
(Increase) in other assets		**(1,328)**	(984)
Decrease/(increase) in deferred tax assets		**(33,114)**	-
Increase in customer deposits		**1,161,372**	1,281,866
Increase/(decrease) in payables		**3,355**	(1,027)
Increase in provisions		**1,816**	1,191
Net cash outflow from operating activities		**(550,115)**	**(287,092)**

20

Financial risk management

The Group is exposed to the following financial risks in respect to the financial instruments that it held at the end of the reporting period:

- interest rate risk
- credit risk
- liquidity risk
- fair values compared with carrying amounts
- derivatives.

The Board of Directors has overall responsibility for identifying and managing operational and financial risks.

The Group holds the following financial instruments:

	2021 $'000	2020 $'000
Financial assets		
Amortised cost		
Cash and cash equivalents	**344,045**	210,147
Loans and advances	**3,482,172**	1,763,199
Investments	**3,259,735**	452,879
Other assets	**34,646**	4,199
	7,120,598	**2,430,424**
Financial liabilities		
Amortised cost		
Accounts payable and other liabilities	**17,394**	11,389
Borrowings	**3,528,575**	494,875
Deposits	**2,547,653**	1,386,281
Lease liabilities	**2,935**	4,055
	6,096,557	**1,896,600**
Derivative financial instruments designated as hedging instruments		
Derivative financial assets (measured at fair value)		
Interest rate swap contracts – cash flow hedges	**3,185**	-
	3,185	**-**
Derivative financial liabilities (measured at fair value)		
Interest rate swap contracts – cash flow hedges	**-**	100
	-	**100**

20

Financial risk management (cont.)

(a) Interest rate risk

The Group is exposed to interest rate risk in relation to its lending assets, treasury portfolio and borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Group manages its interest rate risk by maintaining a mix of variable rate and fixed rate borrowings.

Although the Group does not operate a securities trading book, the business is exposed to interest rate risk due to a gap in the repricing dates for assets (predominantly loans and liquid assets held to satisfy regulatory liquidity holding requirements) and liabilities (predominantly customer deposits and debt with other financial institutions). Across the financial year, the Group ran a net asset interest rate exposed position where the balance of interest rate-sensitive assets exceeded the balance of interest rate-sensitive liabilities. Where exposure approaches limits, the Group manages this risk through the use of hedging instruments such as interest rate swaps.

The Group's policy is to manage interest rate risk in the Banking Book which is set at a level reflective of the Group's current size and complexity. The Group has a low appetite for this risk and risk appetite limits for net interest income at risk and economic value sensitivity have been developed consistent with the Group's size and complexity.

Sensitivity

The figures in the following table represent the potential changes to the Group's after tax profits due to changes in interest rates to which the Group's Balance Sheet is exposed. As the official cash rate in Australia was 0.10% as at 30 June 2021, a downward shift in interest rates of 0.50% would imply a 0.40% negative interest rate. As a significant majority of the Group's lending book and external borrowings are on floating rates with a zero floor of 0.00%, the below analysis has factored in these conditions, however does not take into account management actions that may be taken to mitigate the unfavourable impact of falling interest rates.

	2021	**2020**
	$'000	$'000
Increase of 50 basis points		
Impact on profit after tax	**5,258**	2,719
Impact on equity	**5,258**	2,719
Decrease of 50 basis points		
Impact on profit after tax	**(111)**	(911)
Impact on equity	**(111)**	(911)

(b) Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their obligations in accordance with the agreed terms of credit. The Group actively seeks credit risk to generate net interest income within the constraints of acceptable risk and appropriate return in accordance with the Group's risk appetite statement and credit risk policy.

The Group takes a responsible approach to the origination of credit risk for customers and considers their character and capacity to repay. The Group only takes credit risks that are transparent, well understood and appropriately assessed. The Group seeks to diversify credit risk to minimise customer and portfolio concentrations. The Group records, regularly monitors, understands and manages credit risks, including regular engagement with customers to understand their circumstances.

Adherence to these credit-risk principles, supported by our credit risk management framework, lending guidelines and a delegated lending authority framework, support an expansionary risk appetite. Key metrics such as Probability of Default, Loss Given Default and Exposure at Default are used to measure whether the Group's credit risk is within appetite.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to financial statements.

The Group holds collateral against loans and advances to customers in the form of mortgagee interest over real property, other registered securities over assets and guarantees. To mitigate credit risk, the Group can take possession of the collateral held against the loans and advances as a result of customer default. To ensure reduced exposure to losses, the collateral held by the Group as mortgagee in possession is realised promptly.

The Group does not have any material credit risk exposure to any single counterparty or group of counterparties under financial instruments entered into by the Group.

For financial assets, the following credit risk modelling applies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date, with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. In particular, the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower, and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Following the emergence of the COVID-19 pandemic and the government response in relation to the pandemic, we have performed a review of our loan book to assess each facility for a potential significant increase in credit risk. This has been used to inform the calculation of our expected credit losses in accordance with our methodology or to inform our estimation of a credit overlay.

During the pandemic, Judo actively assisted its customers with payment deferrals of up to 10 months with all forms of support finalised in terms of regulatory guidance by the 31 March 2021.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal methodology.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the customer is:

- considered unlikely to pay their credit obligations in full without recourse actions such as realising security, and/or
- the customer is at least 90 days past due on their credit obligations.

The Group's policy is for financial assets to be written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. If loans or receivables were to be written off, the Group would continue to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss. In the current financial year, there have been no write-offs.

For credit-risk management purposes, the Group applies credit-risk rating grades to its financial assets. The credit-risk rating grade is the Group's rating of credit-risk based on the risk of a default occurring on the financial instrument within the next 12 months.

20

Financial risk management (cont.)

(b) Credit risk (cont.)

The Group's credit risk rating grades are outlined in the following table:

Credit risk rating grade	Criteria applied by the Group	Basis of recognising allowance for credit losses
Performing (Stage 1)	Customers have a low risk of default and a strong capacity to meet contractual cash flows or have not had a significant increase in credit risk since initial recognition.	12-month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Increasing risk (Stage 2)	Loans for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/ or principal repayments are 30 days past due.	Lifetime expected losses.
High risk (Stage 3)	Customer meets Judo's definition of default including when interest and/ or principal repayments are 90 days past due.	Lifetime expected losses.
Severe financial difficulty	There is no reasonable expectation of recovery.	Asset is written off.

Over the term of the loans, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers the amortisation profile of the exposure, the customers probability of default and the facility-level collateral coverage. Both the probability of default and loss-given default are adjusted for forward looking macroeconomic conditions. Adjustment for forward looking macro economic conditions is based on expert judgement after considering current economic conditions which include, but are not limited to, the following economic indicators:

- credit growth
- gross domestic product (GDP)
- Federal Government support (fiscal stimulus) in response to the pandemic
- interest rates
- house price index
- unemployment rate, and
- state-based political dysfunction (border closures).

The following table outlines the Group's exposure to credit risk, by credit risk rating grade, arising from the Group's financial assets.

Group internal credit rating	Basis for recognition of expected credit-loss provision	2021		2020		Basis for calculation of interest revenue
		Estimated gross carrying amount at default	Impairment provision	Estimated gross carrying amount at default	Impairment provision	
		$'000	$'000	$'000	$'000	
Performing – Stage 1	12-month expected losses	**2,792,438**	**11,731**	1,580,663	10,917	Gross carrying amount
Underperforming – Stage 2	Lifetime expected losses	**687,229**	**15,428**	199,905	12,379	Gross carrying amount
Non-performing – Stage 3	Lifetime expected losses	**37,567**	**7,904**	8,224	2,098	Amortised cost carrying amount (net of credit allowance)
Write-off	Asset is written off through P&L to the extent of expected losses	**-**	**-**	-	-	None
		3,517,234	**35,063**	1,788,792	25,394	

Estimated gross carrying amount at default includes loans and advances outstanding at balance date as disclosed in Note (8). The Group's maximum credit risk exposure includes loans and advances outstanding at balance date plus loans in the pipeline that have not yet settled at balance date.

20

Financial risk management (cont.)

(b) Credit risk (cont.)

Collateral held against loans and advances

The following disclosure provides the proportion of total credit risk exposure of the Group falling within each classification of collateral held:

	2021	2021	2020	2020
	$m	%	$m	%
Maximum exposure	**3,921**	**100.00**	2,128	100.00
Collateral classification:				
Fully secured	**2,127**	**54.25**	1,091	51.27
Partially secured	**1,064**	**27.14**	575	27.02
Unsecured	**730**	**18.62**	463	21.76

Impact of COVID-19

With the rapid onset of COVID-19 in March 2020, the Group found itself in a situation where some of its customers required some form of financial assistance. Given the Group's relationship model and size during the 2021 financial year, it has been able to proactively contact a substantial number of customers to ascertain their position and determine if assistance was required. The Group has provided various types of assistance to customers during this period, including payment deferrals, capitalisation of interest and conversion of principal and interest loans to interest only loans for a period. The Group has put in place a system to track, monitor and manage its customer base going forward during the period of uncertainty, with oversight of expected credit loss adequacy provided every month by an overlay approval and every quarter by the Expected Loss Governance forum.

In March 2020 an overlay was approved, bringing the Group's overall expected credit loss value to $25 million. This was later increased to $34 million as at the end of August 2020, due to the worsening situation in Victoria and the closure of the New South Wales/Victorian border.

Periods of initial support provided to our customers were generally for three months, with several accounts availing of a second deferral period. In some cases in Victoria, files were repatriated but then returned for a second round of support on the back of the second wave of the virus in Victoria.

As at the end of June, overlay specific to the impact of COVID-19 has been reduced to $560,227.

Repayment deferrals provided to customers

The following disclosure provides the value of repayment deferrals granted at year end, by classification of collateral held:

	Fully secured $'000	Partially secured $'000	Unsecured $'000
Repayment deferrals at 30 June 2021			
Performing – Stage 1	-	-	-
Underperforming – Stage 2	-	-	-
Non-performing – Stage 3	-	-	-
Write-off	-	-	-
Total	-	-	-

As at 30 June 2021, there were no COVID-19-related repayment deferrals outstanding, with all relevant deferral agreements dealt with by 31 March 2021 in line with APRA requirements.

	Fully secured $'000	Partially secured $'000	Unsecured $'000
Repayment deferrals at 30 June 2020			
Performing – Stage 1	74,024	87,542	17,791
Underperforming – Stage 2	41,473	21,431	24,314
Non-performing – Stage 3	1,724	1,331	496
Write-off	-	-	-
Total	**117,221**	**110,304**	**42,601**

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

(i) Maturities of financial instruments

The tables below analyse the Group's financial instruments into relevant maturity groupings based on their contractual maturities for:

a. all non-derivative financial liabilities, and

b. net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows, allocated to time bands based on the earliest date on which the Group can be required to pay. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

20

Financial risk management (cont.)

(c) Liquidity risk (cont.)

Contractual maturities of financial instruments

	Less than 6 months	6–12 months	Between 1 and 5 years	Over 5 years	Carrying amount (assets)/ liabilities
	$'000	$'000	$'000	$'000	$'000
30 June 2021					
Non-derivatives					
Cash and cash equivalents	344,045	-	-	-	344,045
Investments	276,440	315,003	2,419,454	248,838	3,259,735
Loans and advances	244,518	292,637	2,015,181	929,836	3,482,172
Other assets	34,646	-	-	-	34,646
Deposits	(1,549,715)	(609,382)	(388,251)	(304)	(2,547,653)
Accounts payable and other liabilities	(17,394)	-	-	-	(17,394)
Borrowings	(20,460)	(71,622)	(3,231,979)	(204,514)	(3,528,575)
Lease liabilities	(598)	(621)	(1,717)	-	(2,935)
Total non-derivatives	**(688,518)**	**(73,985)**	**812,688**	**973,856**	**1,024,041**
Derivatives					
Interest rate swaps	-	-	1,113	2,071	3,185
Total derivatives	**-**	**-**	**1,113**	**2,071**	**3,185**
30 June 2020					
Non-derivatives					
Cash and cash equivalents	210,147	-	-	-	210,147
Investments	32,162	20,309	400,408	-	452,879
Loans and advances	72,026	104,889	1,098,672	487,612	1,763,199
Other assets	4,199	-	-	-	4,199
Deposits	(909,511)	(274,763)	(202,007)	-	(1,386,281)
Accounts payable and other liabilities	(11,389)	-	-	-	(11,389)
Borrowings	(119,394)	(13,459)	(362,022)	-	(494,875)
Lease liabilities	(549)	(571)	(2,935)	-	(4,055)
Total non-derivatives	**(722,309)**	**(163,595)**	**932,116**	**487,612**	**533,824**
Derivatives					
Interest rate swaps	(10)	(10)	(80)	-	(100)
Total derivatives	**(10)**	**(10)**	**(80)**	**-**	**(100)**

The Group accepts some risk in the nature of the maturity transformation process of banking. While deposit markets remain traditionally short-term and lending remains a longer-term asset base, the differential of maturity timings will continue with the growth of the balance sheet. The Group has already completed derivative swaps to align some current maturity mismatching and will continue to manage within acceptable limits set by the Board.

In relation to the RBA's TFF, as detailed previously in Note 16, the following key factors are to be considered in relation to the associated liquidity risk:

- Participants may terminate any TFF repo before its maturity date.
- The Group updates its three-year funding strategy and contingency funding plan annually, which outlines the base case and contingency plans for funding the Group's balance sheet for the period FY2022 to FY2024, including the approach for refinancing its existing liabilities, which includes the TFF.

(d) Fair values compared with carrying amounts

Except as outlined in the following table, the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair value as at the reporting date. Treasury investments are carried on the balance sheet as held to maturity.

	2021	**2020**
	$'000	$'000
Net carrying amount		
Financial assets		
Treasury investments	**3,259,735**	452,879
	3,259,735	**452,879**
Net fair value		
Financial assets		
Treasury investments	**3,271,698**	456,490
	3,271,698	**456,490**

20

Financial risk management (cont.)

(e) Derivatives

The Group has the following derivative financial instruments in the following line items in the consolidated statement of financial position:

	2021	2020
	$'000	$'000
Hedging derivative assets		
Interest rate swap contracts – cash flow hedges	3,185	-
	3,185	-
Hedging derivative liabilities		
Interest rate swap contracts – cash flow hedges	-	100
	-	100

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss.

The Group's accounting policy for its cash flow hedges is set out in Note 1(o). Further information about the derivatives used by the Group is provided in the note below.

(ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to Note 21.

(iii) Hedging reserves

The Group's hedging reserves disclosed in Note 18 relate to the following hedging instruments:

	Cash flow hedge reserve	
	Notional value	Fair value recognised through OCI
	$'000	$'000
Opening balance at 1 July 2019	-	-
Interest rate swaps	(23,330)	(100)
Closing balance at 30 June 2020	**(23,330)**	**(100)**
Opening balance at 1 July 2020	(23,330)	(100)
Interest rate swaps	(155,046)	2,329
Closing balance at 30 June 2021	**(178,376)**	**2,229**

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument and that the critical terms are matched. At the same time a hedging ratio is established by matching the notional of the derivatives with the principal of the financial instruments being hedged. In most cases the ratio is 100%.

Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80% to 125% of each other. Should the result fall outside this range, the hedge would be deemed ineffective and recognised immediately through the profit and loss.

Current hedging relationships are related to fixed assets where there is not a natural offsetting hedge in the banking book. These assets are hedged back to floating, to align more closely with the overall portfolio and reduce risk associated with a change in rates.

The Group performs hedging to protect net interest income losses arising from adverse interest rate movements. The Group applies hedging to current positions in the balance sheet at inception. Over time, as the balance sheet grows, these positions remain effective as the underlying notional position of the balance sheet remains or has increased. To ensure proper mitigation against the risk of future losses, the Group will continue to engage in hedging activities as appropriate to balance sheet growth and as approved by the Board.

Interest rate benchmark reform

For annual periods beginning on or after 1 January 2020, entities are required to consider the effect of cash flows due to the change in Inter-Bank Offered Rates (IBORs) and IBOR replacement rates.

Reliefs have been provided by the IASB under amendments to IFRS 9, IAS 39 and IFRS 7 in connection to the interest rate benchmark reform, in which an entity assumes the cash flows on which a hedged item, hedged instrument or hedged risk are based are not altered by IBOR reform.

21

Fair value measurements

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

At 30 June 2021	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets					
Hedging derivatives – interest rate swaps	20(e)	-	3,185	-	3,185
Total financial assets		**-**	**3,185**	**-**	**3,185**

At 30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Hedging derivatives – interest rate swaps	-	(100)	-	(100)
Total financial liabilities	**-**	**(100)**	**-**	**(100)**

There were no transfers between levels for recurring fair value measurements during the year.

The Group's policy is to recognise any transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities. The Group does not hold any Level 3 investments.

(b) Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include:

- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves.

22

Related-party transactions

(a) Transactions with key management personnel of the Group and their personally related entities

Key management personnel are considered to comprise the Management Board of the Group.

(i) Balance sheet transactions

	2021 $	2020 $
A Class Shares subscribed for and issued	**3,914,609**	2,606,393
Loans and advances made	**2,249,537**	793,766

Loans and advances provided to key management personnel are on commercial terms and are provided in the normal course of business. As at 30 June 2021 there was no specific loss allowance allocated to these loans. The closing balance of loans and advances outstanding at year-end with key management personnel is $3,780,871 (2020: $1,485,272).

(ii) Profit or loss transactions

	2021 $	2020 $
Interest charged on loans and advances	**128,750**	52,247

(b) Transactions with Non-Executive Directors

(i) Balance sheet transactions

	2021 $	2020 $
A Class Shares subscribed for and issued	**115,650,133**	267,731,035
Loans and advances made to Director-related entities	-	6,751,176

Loans and advances provided to Non-Executive Directors or Director related entities are on commercial terms and are provided in the normal course of business. As at 30 June 2021 there was no specific loss allowance allocated to these loans. The closing balance of loans and advances outstanding at year-end with Non-Executive Directors is $8,068,246 (2020: $10,548,807).

22

Related-party transactions (cont.)

(ii) Profit or loss transactions

	2021	2020
	$	$
Interest charged on loans and advances	**495,370**	165,334
Establishment fees charged on loans and advances	-	40,500
Payments for suppliers	**69,954**	316,587

(c) Additional related-party transactions

In 2018 Geoffrey Lord (Non-Executive Director), for valuable consideration, acquired an option expiring on 31 December 2019 to subscribe $2,000,000 in Fully Paid A Class Shares in the Company at $1.00 per A Class Share. In 2019, the Company made a change to the existing option letter agreement with Mr Lord that extended the expiry date for the option from 31 December 2019 to 31 December 2020. In the current financial year, the Board approved a further extension of this option to 31 December 2022, the consideration for which is Mr Lord forgoing all Director fees payable to him through to 31 December 2022.

23

Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

	Country of incorporation	Ownership interest held by the Group 2021 %	2020 %
Judo Bank Pty Ltd	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 1	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 2	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 3	Australia	**100**	100
Judo Securitisation Warehouse Trust 2020 – 1	Australia	**100**	100
Judo Securitisation Trust 2020 – 2	Australia	**100**	100
Judo Securitisation Trust 1R	Australia	**100**	-

24

Parent-entity financial information

(a) Summary of financial information

The individual financial statements for the parent entity, Judo Capital Holdings Limited, show the following aggregate amounts:

(i) Statement of financial position

	2021	2020
	$'000	$'000
Net assets		
Total assets	**1,144,090**	642,398
Total liabilities	**(15)**	(15)
Net assets	**1,144,075**	**642,383**
Shareholders' equity		
Issued capital	**1,146,321**	644,884
Reserves		
Share-based payments	**815**	515
Retained earnings	**(3,061)**	(3,015)
Total equity	**1,144,075**	**642,384**

(ii) Statement of profit or loss and other comprehensive income

	2021	2020
Loss for the year	**(45)**	(441)

25

Commitments

(a) Customer funding commitments

	2021	2020
	$'000	$'000
Undrawn line of credit facilities	**144,072**	67,869
Approved but not settled loans and advances	**153,637**	341,081
	297,709	**408,950**

In the normal course of business, the Group makes commitments to extend credit to its customers. Credit risk is accounted for as part of the expected loss calculation in Note 20. The credit risks of such facilities are similar to the credit risks of loans and advances.

(b) Contingent liabilities

As at 30 June 2021, the Group does not have any contingent liabilities.

26

Events occurring after the reporting period

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. Consideration was given to the macroeconomic impact of sustained state lockdowns, the closure of state borders, and limited government support measures. Significant emphasis has been placed on the Expected Credit Loss provision for loans and advances held at year-end, and the Group did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements.

The Group completed a capital raise in June 2021, with a portion of the capital raised being received subsequent to balance date totalling $19.6 million due to regulatory approvals required by the relevant investors.

In July 2021, the Board dispatched a shareholder circular resolution seeking approval to pursue a potential IPO of the Group, which has since passed. At the date of this report, a final decision on any IPO remains uncertain, and is subject to market conditions, as well as Board and regulatory approvals.

27

Entity details

The registered office of the Group is:

Judo Capital Holdings Limited
Level 3, 40 City Road
Southbank VIC 3006

Directors' Declaration

In the Directors' opinion:

a. the financial statements and notes set out on pages 69 to 121 are in accordance with the *Corporations Act 2001*, including:

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

   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date, and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Peter Hodgson
Director 2 September 2021

Manda Trautwein
Director 2 September 2021

Independent Auditor's Report to the Members

pwc

Independent auditor's report

To the members of Judo Capital Holdings Limited

Our opinion

In our opinion:

The accompanying financial report of Judo Capital Holdings 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 Group's financial position as at 30 June 2021 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2021
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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 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 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

CJ Heath
Partner

Melbourne
2 September 2021

Contact us

Judo Bank

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ABN 11 615 995 581

Judo Capital Holdings Limited
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Canberra

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Gold Coast

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Melbourne

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