

ASX Announcement 2022 Half Year Result.

22 February 2022



Judo Bank Continues To Scale – Reports Strong 2022 First Half Result

Financial Highlights 1H22 results versus 2H21

Pro Forma Profit Before Tax (PBT) \$3.0m ↑ from \$(0.7)m	Statutory Net Profit/(Loss) After Tax \$(16.1)m ↓ from \$1.9m
Gross Loans & Advances (GLA) \$4.85bn ↑ 37.8%	Underlying Net Interest Margin (NIM)¹ 2.73% ↑ 8bps
Net Interest Income (NII) \$73.5m ↑ 48.5%	Common Equity Tier 1 ratio (CET1) 23.3% ↓ from 24.5%

Judo Capital Holdings Limited (ASX:JDO) (“Judo Bank” or “Judo”) today announced 1H22 pro forma profit before tax of \$3.0 million, up from \$(0.7) million in 2H21.

Judo reported a 1H22 statutory net loss after tax of \$16.1 million due to one-off costs associated with the IPO. A reconciliation between the pro forma and statutory results is included in the 2022 Half Year Report.

Judo Bank reported **Gross Loans and Advances (GLA)** of \$4.85 billion, up 37.8%, and **Net Interest Income (NII)** of \$73.5 million, up 48.5%.

Underlying NIM¹ of 2.73% is up 8 basis points and ahead of prospectus guidance of 2.69%.

CEO Commentary.

Judo's CEO and co-founder, Joseph Healy, said that **Judo's half year result reflects the Bank's rapid progress to becoming a scale player in Australian banking.**

"Judo has delivered a strong first half result underpinned by growth in our loan book together with an improvement in underlying margins.

"Judo's purpose is clear – to be the most trusted SME business bank in Australia. We are confident that we have the right strategy in place with a clear aim of expanding the reach of our banking services so that more SMEs across Australia have access to a relationship bank that listens, understands, and boldly backs business.

"I am proud of our team and the customer-obsessed culture we have at Judo. This is supporting our ability to grow by attracting and retaining top bankers who are passionate about bringing back the craft of relationship banking. Banking as it used to be, banking as it should be.

"We are delivering on our plans and running the business with discipline and focus. Our relationship-focused lending model has proved particularly valuable in the current environment and allowed our bankers a more complete understanding of our customers and their businesses as they continue to adapt.

"While the impacts of COVID-19 continue to create uncertainty, our customers are adapting and are in good financial health."

Commenting on the outlook, Mr Healy said that Judo Bank is well positioned.

"We are expecting 2022 to deliver the strongest business credit growth in 14 years.

"We have great momentum across the business and are making good progress in the delivery of our key priorities to grow, recruit and invest in technology.

"Our 4 Cs of credit – character, capacity, capital and collateral – underpin the quality of our lending and the sustainability of our business.

"We are resolutely focused on achieving our key business metrics at scale. To build a scaled, sustainable bank, we are targeting a lending portfolio of between \$15 billion and \$20 billion, with a NIM that exceeds 3%, a cost-to-income ratio approaching 30%, and ROE in the mid-teens. We are well on our way to achieving these metrics.

"It continues to be an exciting time for Judo. We are highly focused on strengthening our relationships with our existing high quality SME customers, as well as servicing new customers."

"A strong first half result underpinned by growth in our loan book together with an improvement in underlying margins."

Financial Overview.

A statutory net loss after tax of \$(16.1) million, impacted by one-off costs in relation to the IPO.¹

Pro forma profit before tax was \$3.0 million.

Judo's **gross loans and advances** were \$4.85 billion at 31 December 2021, up from \$3.52 billion in June 2021. The average size of new loans remains over \$2.0 million.

Underlying NIM² of 2.73% improved by 8 basis points over the half and is ahead of prospectus guidance of 2.69%.

Net interest income of \$73.5 million increased by 48.5%, as targeted growth was delivered.

Pro forma operating expenses of \$61.3 million were consistent with prospectus forecast expenses for FY22 of \$126.3 million. The movement in expenses was largely driven by planned recruitment.

Impairment expense of \$9.6 million was driven by growth in the lending portfolio.

¹ A reconciliation of statutory to pro forma profit is provided in the 2022 Half Year Report.

² Underlying NIM is adjusted to remove the temporary impacts of excess liquid assets attributable to Judo's TFF preservation strategy.

Net Interest Income.

Net interest income was \$73.5 million, up 48%, driven by an increase in GLAs and an improvement in Underlying NIM³.

GLAs were \$4.85 billion, up 38%, with growth in all lending products and geographies underpinned by Judo’s strong customer value proposition and ongoing recruitment of experienced relationship bankers.

Underlying NIM³ was 2.73%, an increase of 8 basis points. The improvement was driven by reduced funding costs, which more than offset the full period impact of lower lending margins in the prior half, and the modest impact of lower treasury yields.

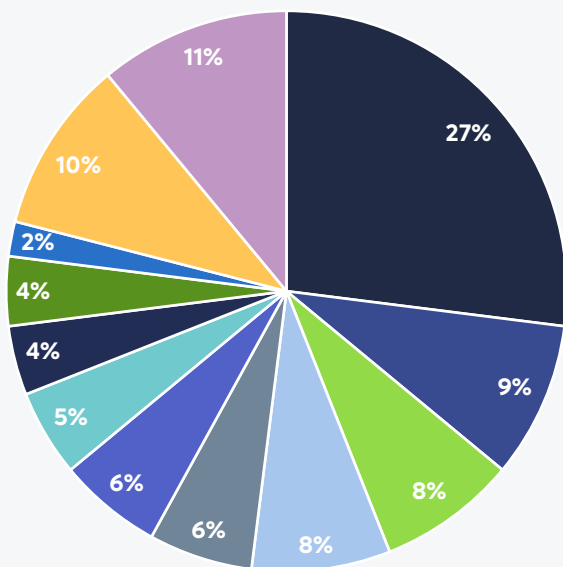
Term deposits remained a key funding source. Judo has also continued to evolve and diversify its funding during 1H22, with growth in existing channels and establishment of new channels.

Judo received an investment grade credit rating from S&P in September 2021, which has enabled Judo to access **new forms of wholesale funding** and a broader universe of term deposit investors.

Judo has drawn \$2.9 billion from the RBA’s Term Funding Facility (TFF) which will continue to provide a benefit to funding costs over the remainder of FY22. Judo is well positioned to refinance its TFF drawings before expiry in June 2024.

Credit Quality.

Loan book composition by industry – 31 December 2021



- Rental, Hiring & Real Estate Svcs
- Accomodation and Food
- Manufacturing
- Retail Trade
- Construction
- Financials
- Wholesale Trade
- Professional and Technology
- Health
- Transport
- Residential Mortgage
- Other

Judo’s Loan Portfolio is diversified across industries and geographies, with around 42% in New South Wales, 36% in Victoria, 13% in Queensland, 7% in WA and 2% in other states and territories.

Judo has provided a range of support and assistance to its customers, including those directly impacted by COVID-19. No customers are currently receiving COVID-19 support. A review of the portfolio has been completed since 1 January 2022 and no new requests for assistance have been received.

Judo’s exposure to sectors considered to be of high risk to COVID-19 impacts was less than 9% of the total GLAs.

Judo has maintained low levels of **arrears** with 0.10% of GLA being 30 days or more past due at 31 December 2021, including only one customer more than 90 days past due.

Provisioning remains prudent reflecting Judo’s expectation of continued uncertainty from COVID-19.

³ Underlying NIM is adjusted to remove the temporary impacts of excess liquid assets attributable to Judo’s TFF preservation strategy.

Strategic Priorities.

Judo's relationship-led business model is unique. Judo focuses solely on the SME lending segment of the market, and has established a legacy free, cloud native, technology-as-a-service platform.

Judo has set goals for its key business metrics at scale, and is demonstrating great progress towards achieving these metrics.

Key Business Metric	At Scale Target	
Lending portfolio	\$15-\$20bn	<ul style="list-style-type: none"> Current lending <1% market share / at \$15-\$20bn market share ~3%
Net Interest Margin	>3%	<ul style="list-style-type: none"> Reflects lending margins, premium services; investment grade credit rating, diverse funding
Cost-to-income ratio	Approaching 30%	<ul style="list-style-type: none"> Driven by revenue growth and investment in technology
Cost of risk (p.a.)	~0.5%	<ul style="list-style-type: none"> Conservative estimate compared to experience of segment over 30 years
Return on Equity	Low to mid-teens	<ul style="list-style-type: none"> Outcome of at-scale metrics above

Judo has a strong balance sheet to support organic growth. With 23.3% of CET1 capital, which remains the highest of any listed ADI, there is ample funding to support the execution of current organic growth plans.

To drive growth, Judo continues to invest in bankers and capability. There is a deep talent pool of relationship bankers across the market and Judo continues to attract the top talent as a result of its unique and compelling relationship-led lending model.

Judo's focus on customers is evidenced by a market-leading Net Promoter Score of +74 in an industry where single-digit NPS is considered aspirational.

FY22 Outlook.

The Australian economy continues to navigate the residual impacts of COVID-19 including inflation and supply chain disruptions. Judo is confident of navigating these challenges and delivering its financial and strategic goals.

With significant leverage to a rising rate environment, Judo will benefit from any increase in interest rates and is also well positioned to benefit from growth in business credit.

Judo is confident of achieving its prospectus FY22 GLA forecast of \$6.0 billion and of modestly exceeding revenue and profit forecasts.

Progress against prospectus guidance is summarised below:

	Prospectus FY22 Forecast	1H22 Progress	Outlook
Lending portfolio (\$bn)	6.00	4.85	On track
Risk Weighted Assets (\$bn)	6.59	5.52	On track
Net Interest Income (\$m)	160.5	73.5	Expect to exceed
Pro Forma PBT (\$m)	7.4	3.0	Expect to exceed
Underlying NIM ⁴	2.69%	2.73%	Expect to exceed
Front Book Lending Margin	4.3%	4.4%	Expect to exceed
Impairment Expense (\$m)	28.5	9.6	On track
Provision Coverage	0.90%	0.92%	On track
Pro Forma Cost-to-income ratio	77.8%	82.9%	On track
Relationship Bankers	98	91	On track

⁴ Underlying NIM is adjusted to remove the temporary impacts of excess liquid assets attributable to Judo's TFF preservation strategy.

Investor Conference Call.

Chief Executive Officer, Joseph Healy, and Deputy CEO & Chief Financial Officer, Chris Bayliss, will host an investor conference call at 10.30am (AEDT) on 22 February 2022, to present Judo Bank's Half Year Results.

Dial-in details are available on the website www.judo.bank/investor or via the ASX.

About Judo Bank

Judo Bank www.judo.bank is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and the first fully licensed Australian bank to IPO in 25 years. Judo was founded by a small group of experienced banking professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led model, which brings back the craft of relationship banking, is enabled by its legacy free, cloud native, technology-as-a-service platform. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital.

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