

ASX Announcement.

28 October 2022

Judo 2022 AGM Chair and CEO Addresses and Operational Update

Judo's 2022 AGM will be held at 9.30am today (Australian Eastern Daylight Time) on the 28th of October 2022. This will be a physical AGM held at Dexus Place, Level 14, 385 Bourke St, Melbourne VIC 3000. A live webcast will also be available and can be accessed at <https://webcast.openbriefing.com/9096/>

The Chair's and CEO's addresses to be delivered at the AGM are enclosed.

More information on the AGM, including the 2022 Notice of Meeting, is available on the Judo Bank website. A recording will be made available shortly after the conclusion of the meeting on the Judo Bank website.

Judo has also provided an operational update today, with details provided in the additional slides attached. Judo's profit before tax for 1Q23 was over \$23 million, supported by continued strong lending growth and favourable funding costs. Judo now expects 1H23 underlying net interest margin to be at the upper end of the previously advised guidance range of 3.3 – 3.5%. Judo remains well capitalised and asset quality metrics remain strong.

Authorised for release by Yien Hong, Company Secretary.

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Judo 2022 AGM Chair Address

Welcome to the 6th annual general meeting for Judo Capital Holdings Limited and the first as a public company. I am your Chair, Peter Hodgson.

I'd like to begin by acknowledging the Traditional Owners of the lands on which we meet today. I would also like to pay my respects to Elders past and present.

I would also like to introduce our directors, who are in the room with me in Melbourne today, with the exception of John Fraser, who is unable to join us here in Melbourne but is dialling in from Sydney.

The directors here with me are:

- Manda Trautwein,
- Mette Schepers,
- Mal McHutchison,
- David Hornery and
- Jennifer Douglas.

We are also joined by Yien Hong, our company secretary, and by our auditors, Price Waterhouse Coopers, represented by Sam Garland.

I would also like to introduce the members of the Executive Management Team:

- Our CEO - Joseph Healy,
- Our deputy CEO and CFO – Chris Bayliss,
- Our COO - Lisa Frazier,
- Our CRO – Frank Versace,
- Our Chief Marketing Officer - Kevin Ramsdale,
- Our Chief Relationship Officer – Angelo Manos,
- Our Chief Third-Party Officer - George Obeid, and
- Our newly appointed Chief People and Culture Officer – Jessica Lantieri.

Finally, I'd like to welcome our Judo Bank employees who are also present virtually.

Next Tuesday, November 1, marks the first anniversary of Judo's floating on the ASX and thus becoming publicly listed. This was a noteworthy accomplishment, providing an opportunity to welcome a whole new set of shareholders. But it was just one step in a transformational year for your company.

In August, we announced our full year results, exceeding all the targets we set in our IPO Prospectus and indeed, exceeding the budgets that we had set management. These results reflect the benefits of Judo's transition to a public company – and the great momentum the business has built towards delivering our key strategic commitments. We believe the simplicity and focus of our strategy is even more relevant today than it was five years ago when we set out the basis and rationale for Judo.

Our strategy and our growth have been built on a clear, unwavering focus on SMEs and a personalised relationship model that is unique in the Australian market. We now stand as a team of over 465. Our team provides specialised financial services to more than 2,800 SME customers across numerous industries nationwide. And we have grown to over 20,000 deposit customers.

Our unique funding model allows us to offer highly attractive deposit rates across a range of maturities while still offering our borrowing customers attractive lending rates. We have continued to rapidly scale our operations, with a presence in 16 locations across Australia, including two new specialisations in the Agriculture and Health sectors.

We know from feedback and our Net Promoter Scores that we are seen as a bank that listens, a bank that learns and a bank that boldly backs business.

There is thus no doubt in my mind that Judo has brought much needed competition to the SME market. And that competition has brought lasting benefit to the Australian economy.

The last three years have seen us overcome a range of major challenges, in particular, scaling our growth business through a global pandemic.

There is also no denying that today's uncertain geopolitical and economic environment continues to confront SMEs.

While we are conscious of headwinds for some businesses, I am encouraged by the energy, ingenuity, and absolute adaptability of our customers

I also recognise that for us all as shareholders, the volatile outlook and rapidly rising interest rates have resulted in a disappointing share price performance since the IPO. However, set against this, we remain optimistic about our performance and the ability for our specialist model to continue to thrive.

We have demonstrated a clear competitive advantage in uncertain times.

That's what makes Judo different – and that is why we are so confident of our future. In fact, now more than ever, the direct relationships our bankers have with our SME customers, and the in-depth knowledge this brings to their businesses, has proved vital.

As our customers adapt to the challenges and opportunities facing them, we are with them every step of the way. We know our customers. Our strategy remains unchanged - and we continue to make progress on our clear path to becoming a scale player in Australian banking.

With public listing comes additional responsibility in reporting and an increased focus from investors, equity analysts, proxy advisors and of course the media. This is in addition to the extensive regulatory environment in which we operate. The deep expertise of our management - supported by an outstanding broader team - has seen us meet these rigorous requirements, whether that be market updates or investor presentations, through to refining Judo's position and approach to areas such as environmental social and governance standards.

I want to pay tribute to our people who have worked hard over the past year in often difficult circumstances. Their health and wellbeing are an area of key focus for your Board.

Our governing framework is now well embedded across the organisation from the Board down. A culture of robust risk management is also entrenched in everything we do, and it will continue to be the measure of our model.

While we still have a lot to do, we have created solid foundations for growth.

We continue to build a team that is passionate about working with and supporting the SME economy. We believe we have the right model and the right culture to deliver our strategy and to build for the long term.

I am particularly proud of the contribution we are making, and the competition we have brought, to the SME sector in Australia.

I thank you – our shareholders – for your continuing support.

I now invite our CEO to provide his insights for the year.

Judo 2022 AGM CEO Address

Thank you Chair, and may I also extend a very warm welcome to everyone.

This is a highly symbolic day for Judo - our first AGM as a public company.

I would like to echo the Chair's comments and say how delightful it is to be meeting with some of our shareholders in person today.

Unique specialist SME business bank

While many of you are familiar with our business, allow me to recap on our purpose and the key elements of our model.

Judo is a unique, pure-play SME business bank dedicated to servicing Australia's SME economy. Our purpose is to be the most trusted SME business bank in Australia, and our vision is to be a world class SME Bank.

One of the unique characteristics of Judo is that we are a specialist. We believe passionately that specialists outperform generalists. Being a unique specialist bank allows us to focus all our attention and resources on SME banking. It is all that we think about, and it is all that we talk about.

Judo's reason for being

Judo was born out of the belief that SMEs were being poorly served by a banking industry that had increasingly industrialised SME lending. There had been a clear market failure, with many good quality SMEs unable to access credit on sensible terms and conditions. Where they could get credit, the process was slow and often torturous.

Not surprisingly, SMEs were universally dissatisfied with the way that banking system was meeting their needs. The industrialised operating model of the banking industry is one of expediency rather than one of service; it is product and sales centric rather than relationship led. The high levels of dissatisfaction were evidenced by universally low levels of customer satisfaction and net promoter scores for SME customers that are consistently negative. Now, there is no doubt that the major banks have re-energised their passion for SME lending, and this is welcome. Re-energising a strategy, however, does not mean cultural habits and values will change. Such change does not occur easily, if at all, in organisations where the cultural concrete is firmly and rigidly set.

In architecting Judo Bank, we wanted to go back to the fundamentals of SME Banking or the craft of SME Banking, where relationships trump products. We call this "SME banking as it used to be, banking as it should be."

Three must haves

Building a successful bank from a PowerPoint is not easy. This is underscored by the fact that all three of the other neo banks that were granted licences by APRA in 2019 have not survived.

We believe the reason Judo has succeeded where others have not, is the emphasis we placed on the "Three Must Haves" which we identified at the beginning of our journey:

First, we determined a five-year view on capital needs, and a path to profitability inside three years. We were very clear on the resources we needed and the flight path and timeline we would follow, rather than taking a piecemeal approach. This approach resulted in our blue-chip shareholder register made up of sophisticated institutional investors who were willing and able to support our significant capital needs, which we had determined to be \$1.5bn back in 2016.

Second, we had absolute clarity on the market failure we were seeking to solve and how sustainable our competitive advantage was. Adjacent to this, was a 'measure twice, cut once' approach to building a robust and sustainable technology enabled business model.

Third, we recruited a high calibre management team who were passionate about the purpose of the business and were willing to contribute material amounts of their own personal capital in order to have strong alignment to the success of the business. Building an 'owner-mindset' or founder centric culture was viewed then, as it is now, as central to our culture.

Pitfalls of Growth

As we have grown, we also have been mindful of the pitfalls that have undermined other fast-growing banks in the past, including an inadequate or inappropriate funding mix and poor risk management.

From the beginning, we have avoided reliance on short-term funding, building a stable funding base consisting largely of long-dated term deposits. As SME lending delivers superior margins, we have more headroom to provide attractive term deposit rates, while maintaining our net interest margins. This is a significant, and sustainable, competitive advantage.

A robust risk appetite strategy also informs our business strategy and incorporates the cumulative commercial banking expertise of our leadership team, which exceeds 200 years! It is a leadership team that sees banking as, fundamentally, in the business of risk management.

Culture

Central to risk management within a bank, is culture, which is far more important than volumes of policies.

The power of culture as a foundation and driver of competitive advantage and superior performance is often underestimated by businesses, but not at Judo. One of my top priorities as CEO is to preserve our unique culture as we grow.

Culture, as Peter Drucker, famously said "eats strategy for breakfast". We would add "lunch and dinner." A great culture combined with a strong competitive advantage is a powerful combination in driving shareholder economics.

We recently surveyed our people and asked them why they joined Judo, and whether we had lived up to our promises. Pleasingly, our people and culture were the two most highly valued elements of our company. This is very exciting as it says a lot about the future of the business, our ability to differentiate and deliver superior economics.

Financial performance

As the Chair has pointed out, it is almost a year since we successfully completed our IPO. Pleasingly at our Full Year results in August we reported that we exceeded all the financial targets that we had set in our IPO prospectus.

This included achieving 73% growth in our loan book, which resulted in total gross loans of \$6.1 billion at 30 June.

We also passed the important milestone of becoming profitable, delivering pro-forma profit before tax of \$15.6 million, which is more than double our prospectus target of \$7 million.

This is a remarkable achievement as there are no other examples, globally, of a new bank going from a PowerPoint to sustainable operational profitability within five years. Scale is now our best friend, and we believe that our profitability will improve significantly as we continue to grow.

I am pleased to inform you that in the first quarter of the current financial year, we continued to perform strongly.

Our profit before tax for the September quarter was over \$23 million – this was more than our full year FY22 proforma profit of \$15.6m. The growth in our profit clearly demonstrates the operational leverage in our business model.

Year to date lending growth and our pipeline activity has been solid, and our closing loan balance at the end of September is on track with our FY23 guidance.

Our net interest margin has also been strong, and we expect our 1H underlying NIM to be towards the upper end of our guidance range of 3.3 – 3.5%. Our funding costs have continued to benefit from favourable term deposit margins throughout the first quarter. While conditions are currently favourable, we do expect this favourable funding environment to normalise somewhat in coming months and as a result we expect our 2H

underlying NIM will trend back towards a sustainable level closer to 3%.

We have also made significant headway in recent weeks in wholesale funding markets, issuing our inaugural senior unsecured notes, and finalising terms on two new committed warehouse facilities. These extra funding channels demonstrate our impressive treasury capability.

On lending rates, 91% of our loans are floating rate and these have repriced with the increase in the cash rate.

Credit quality and capital

In the current climate, perhaps the most topical issue is that of credit quality. Our customers are in good financial health and our arrears at the end of September have improved compared with the strong position at 30 June.

Whilst the external environment is undoubtedly volatile, we remain confident that our 4C's – Character, Capacity/Cash flow, Capital and Collateral – approach to credit will continue to hold us in good stead.

While a major economic shock is not our base case, we also believe we are exceptionally well placed from a capital perspective to withstand a severe downturn.

By focusing on our 'game', playing to our unique strengths, and not being distracted by others, we are confident in achieving our FY23 guidance, and longer term, in achieving our key business metrics at scale. We remain confident on our trajectory to a low 30% CTI at scale and look forward to providing the market detail on this early in 2023.

Shareholders will find some accompanying slides in our ASX announcement this morning providing some details on what I've just discussed.

Outlook

Let me turn to the outlook.

We are enormously proud of our success to date but are by no means complacent. The Judo management team is alive to the risks for the economy. However, we remain positive about the outlook for our business. In terms of the interest rate environment, we see this as very much a return to 'normal' following the ultra-low rates of recent years.

We believe our operating model has an embedded 'strategic hedge'. Our relationship bankers maintain small portfolios of customers, which means they can maintain a close eye on emerging issues and respond quickly in times of need. We also have the capacity in our relationship teams to capitalise on opportunities when the operating environment improves.

Our judgement-based lending model, and our focus on the '4 Cs' of credit means that we place greater emphasis on the outlook for an SME, rather than relying on backward-looking historical financials. We believe our robust credit assessment processes enable us to select the right customers to do business with. As mentioned at our full-year results back in August, some 45% of all transactions that we see are declined at the outset because they don't fit our risk appetite, and a further 25% fail to satisfy our 4C's risk assessment following closer scrutiny.

This strategic hedge embedded in our business has given us the confidence to provide clear guidance for our key financial metrics for FY23. When we achieve our guidance of a loan book of over \$9 billion, we will effectively be half-way to achieving our medium-term metrics at scale, proving our CVP beyond doubt. In conclusion,

We remain focused on our purpose – to be the most trusted SME business bank in Australia – and our vision – to build a world-class SME business bank.

Finally, I would like to thank the Judo team, and our Board, for their passion and hard work over the past year, and to thank you, our shareholders for your ongoing support as we continue executing against our plan.

Judo 2022 AGM.

Additional information

1Q23 profit demonstrating benefits of scale.

Metric	1Q23	FY22
Profit before tax	>\$23m	\$15.6m pro forma
Return on Equity	>4% annualised	~1% pro forma
Lending portfolio	\$6.8bn	\$6.1bn
Relationship Bankers	124	115
90+ days past due (% of GLA)	3 bps	1 bp
Impaired assets (% of GLA)	14 bps	15 bps
Total provision coverage (% of GLA)	95 bps	91 bps
CET1 Ratio	19.5%	20.5%
Total Capital Ratio	20.8%	21.9%

On track to achieve FY23 guidance.

Metric	FY23 drivers	FY23 guidance	Progress	Trajectory to metrics at scale
Gross loans and advances	Strong growth to continue within risk appetite, driven by our relationship-led CVP	>\$9bn	✓ GLAs of \$6.8b at 30 Sep	\$15-20bn ✓
Underlying NIM	Underlying NIM to benefit from temporary tailwinds in 1H23 and return to sustainable levels in 2H23	>3%	✓ 1H23 U.NIM to be at top end of 3.3% - 3.5% range	>3% ✓
Cost to income ratio	CTI improvement driven by revenue growth more than offsetting ongoing investment in growth	Below 60%	✓ 1Q23 CTI <60%	Approaching 30% ✓
Cost of risk	Cost of risk driven by loan growth, higher provision coverage, and forecast write-offs	\$50-60m	✓ Credit quality remains robust	~50bps ✓
Return on Equity	Demonstrating continued progress towards key business metrics at scale	Low to mid single digits	✓ 1Q23 ROE >4% Annualised	Low to mid-teens ✓

Continued progress with funding strategy.

Ongoing focus on increasing funding flexibility

- Judo's loan growth is supported by access to diversified funding sources
- Term deposits remain Judo's primary funding source. Current term deposit pricing is favourable however is assumed to return through-the-cycle pricing of 80-90 basis points over 1m BBSW
- Additional funding capacity has been added in FY23 with the inaugural senior unsecured transaction and continued progress with the warehouse optimisation program (see opposite)
- The launch of Direct SMSF and Direct Business term deposits are expected before 2022 calendar year end
- Deposit platforms and term securitisation remain key near term opportunities

Wholesale funding milestones achieved in 1Q23

Inaugural senior unsecured transaction (Sep-22)

- Benchmark deal of \$175 million, well supported by fixed income investors
- Leverages the Bank's investment grade credit rating from Standard & Poor's
- First step in building a senior unsecured curve

Continued progress with warehouse optimisation

- Additional warehouse lines have been executed with two new banks (domestic and international) taking committed warehouse capacity to \$1.6 billion (Oct-22).
- Terms agreed for a further \$500 million in committed lines, to be executed by early CY23
- Committed warehouse lines are largely undrawn, providing additional flexibility for TFF repayment
- We anticipate having ~\$2.5 bn of renegotiated warehouse lines by mid CY23

Loan portfolio stress testing.

Background

- Consistent with other financial services companies, we conduct regular stress tests of our loan portfolio to meet risk management and regulatory requirements
- Whilst we do not expect it, we have modelled a stress test scenario which results in expected credit losses (before recoveries) of ~3% of average FY23 GLAs
- In reality, Judo's rigorous 4Cs approach to credit assessment should produce a less adverse outcome, however was not considered in this analysis

Outcomes

- Our starting point is that we have extremely high capital levels (CET1 of 19.5% at 30 Sep 22)
- Our current high levels of capital are maintained to support future growth
- In this stress test scenario, we have the option to reduce the rate of growth, together with other actions (e.g. reduce costs, adjust risk settings) to manage capital and continue growing

Economic Indicators	Stress Test Scenario	Judo Base Case ¹
Annual GDP Growth	3.5% peak to -1.5% trough	3.5% peak to +1.6% trough
CPI	Peak of 10.0%	Peak of 6.0%
RBA Cash Rate	Peak of 5.0%	Peak of 4.5%
Unemployment	Peak of 8.2%	Peak of 4.0%
Commercial Property Prices	Decline of 34%	Decline of 14%
Residential Property Prices	Decline of 30%	Decline of 20%

1. Judo's expected credit loss calculation is based on a weighted average of base/downside/upside economic scenarios. Judo applies 60%/30%/20% weightings to the base/downside/upside scenarios respectively.

• Important Information.

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