judobank

Half Year Report
2023
Incorporating the requirements of Appendix 4D

Boldly backing business.

ASX Appendix 4D.

Reporting period	
Reporting period – 6 months ended:	31 Dec 2022
Prior corresponding period – 6 months ended:	31 Dec 2021

Results for announcement to the market	Direction	%		$m
Statutory Operating Income from Ordinary Activities	up	145%	to	244
Statutory Profit from Ordinary Activities attributable to Shareholders	up	Large	to	36.1
Statutory Profit attributable to Shareholders	up	Large	to	36.1

Dividends

The Group does not propose to pay interim or final dividends for the reporting period ended 31 December 2022.

Net tangible assets per ordinary share	Dec 22	Dec 21
Net tangible assets per share	$1.27	$1.25

Appendix 4D Cross Reference Index

Disclaimer and basis of preparation.

Disclaimer

This document consisting of Appendix 4D, Results Overview, Analyst Pack and Statutory Financial Report ("2023 Half Year Report") has been prepared for Judo Capital Holdings Limited ABN 71 612 862 727 ("parent entity") and its controlled entities (variously described as "Judo", "the Group", "the consolidated entity", "us", "we" or "our").

This 2023 Half Year Report contains statements that are, or may be deemed to be, forward-looking statements. When used in this 2023 Half Year Report the words "estimate", "projects", "believe", "will", "forecast", "likely", "targeted", "may" and similar expressions, as they relate to Judo and its management, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and comments about future events. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

To the extent that the information may constitute forward-looking statements, the information reflects Judo's intent, belief or current expectations with respect to the business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices at the above date. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, assumptions and uncertainties, many of which are beyond Judo's control, which may cause actual results to differ materially from those expressed or implied. Undue reliance should not be placed on any forward-looking statement and other than as required by law, Judo does not give any representation, assurance or guarantee that the occurrence of the events, results and outcomes expressed or implied in any forward-looking information will actually occur. Subject to any continuing obligations under applicable law, Judo expressly disclaims any obligation to provide any updates or revisions to any forward-looking statements in this presentation to reflect events or circumstances after the above date.

There are a number of other important factors which could cause actual results to differ materially from those set out in this presentation, including the risks and uncertainties associated with the ongoing impacts from COVID-19.

Basis of preparation

Judo Bank is comprised of Judo Capital Holdings Limited and its subsidiaries. The Group's results and historical financial information are reported as a single function.

The half year ended 31 December 2021 (1H22) financials include pro forma adjustments. These include incremental costs incurred upon becoming a publicly listed company (to reflect a full 12 months), removal of non-recurring costs related to the IPO, the elimination of non-recurring, non-cash share-based payment expenses associated with existing employee incentive plans, incremental costs related to new incentive plans introduced post the IPO (to reflect a full 12 months) and the tax impact of these adjustments where applicable.

Pro Forma Financial Information for the 1H22 period is aligned to the financial information disclosed in Section 5 of Judo's IPO Prospectus dated 14 October 2021. A reconciliation between Pro Forma and Statutory Results is detailed in Section 2.1 of the 2022 Annual Report dated 25 August 2022.

All figures relate to the half-year ended 31 December 2022 (1H23) and comparatives are for the half-year ended 30 June 2022 (2H22), unless otherwise stated.

All figures are presented in Australian dollars ('A$' or '$') and, unless otherwise noted, are rounded to the nearest A$0.1 million. Calculations within tables, percentage movements and movements with the commentary have been calculated from underlying source information and hence may not reconcile with rounded calculations.

Movements within the financial tables have been labelled 'large' where there has been a percentage movement greater than 300%, or 'NM' if a line item changes from negative to positive (or vice versa) between periods.

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COMMITTED TO OUR VALUES
Trust, Teamwork, Accountability and Performance.
CULTURE
steps ahead.
judobank

1.0 Results Overview.

Profit Before Tax (PBT)

$53.2m

2H22: $12.6m

Gross Loans and Advances (GLA)

$7.5bn

Jun 22: $6.1bn

Underlying Net Interest Margin

3.56%

2H22: 2.84%

Cost to Income ratio (CTI)

54%

2H22: 71%

Total Provision Coverage (GLA%)

1.04%

Jun 22: 0.91%

Common Equity Tier 1 ratio (CET1)

17.3%

Jun 22: 20.5%

Return on Equity (ROE)

5.05% annualised

2H22: 1.21% annualised

GLA Pipeline (AAA)

$1.3bn

Jun 22: $1.1bn

1.1 1H23 Results summary

Judo Bank is a specialist, pure play SME business bank with a clear purpose: To be the most trusted SME business bank in Australia.

Judo's 1H23 results clearly demonstrate the benefit of the bank's specialist, pure play business model. Over the half year to 31 December 2022, Judo successfully grew its loan book by 23 per cent to $7.5 billion, with the continued strong growth in lending underpinned by demand for the bank's compelling customer value proposition and workforce of experienced relationship bankers. The strong growth also demonstrates the advantage of being a small player in a large addressable market.

The 1H23 result demonstrates the benefits of scale that are inherent within Judo's business model, with profit before tax increasing by over 300 per cent compared with the prior half. The strong profit result signifies Judo's step change to now generating a significant and growing amount of organic capital. Going forward, organic capital generation will increasingly support lending growth, in addition to the Bank's existing strong capital base.

Judo's profit before tax for 1H23 was $53.2 million, up from $12.6 million, driven by continued strong lending growth, higher underlying net interest margin (underlying NIM) and continued investment in growth.

Net profit before impairments was $75.5 million, up from $28.4 million, demonstrating the significant operating leverage the business has as the loan book continues to grow.

Net interest income was $163.0 million, up 69 per cent, primarily driven by an increase in gross loans and advances and an improvement in underlying NIM.

GLAs at 31 December 2022 were $7.5 billion, up 23 per cent, with growth in all lending products and geographies underpinned by Judo's strong customer value proposition and workforce of experienced relationship bankers.

Underlying NIM[1] was 3.56 per cent, exceeding the Bank's guidance for 1H23 underlying NIM of 3.3 - 3.5 per cent. The 1H23 Underlying NIM was also above the Bank's key business metrics at scale of 'above 3 per cent'. Underlying NIM increased 72 basis points from the prior half, up from 2.84 per cent, driven by a lower effective hedged cost[2] of deposits and the benefit of fixed rate TFF funding, more than offsetting a modest decline in lending margins. Underlying NIM adjusts for the impact of Judo's Term Funding Facility (TFF) preservation strategy. The Underlying NIM calculation is described in detail in section 2.3 of this report.

NIM was 3.23 per cent, an increase of 100 basis points from 2.23 per cent. Drivers of NIM are the same as Underlying NIM, plus the impact of the TFF preservation strategy. The variance between NIM and Underlying NIM of 33 bps was the relatively low yield achieved on the excess treasury securities collateralising the preserved component of the TFF.

Operating expenses were $89.7 million, up 27 per cent from $70.7 million, driven by continued recruitment and growth-related expenditure, and the impact of inflation.

Cost to income ratio (CTI) was 54 per cent, a 17-percentage point improvement, driven by strong net interest income growth and the emerging leverage of Judo's operating model across both people and technology.

Impairment expense was $22.3 million, up from $15.8 million. The increase was due to loan book growth, associated upfront recognition of expected credit losses, and the raising of a $3.7 million economic overlay for vulnerable sectors. No write offs were incurred during the period.

ECL provisions on loans and advances increased to $77.5 million, up 40 per cent, from $55.2 million. Underlying credit performance remained strong. Coverage levels increased reflecting adjustments to economic assumptions to reflect the economic outlook, as well as the additional economic overlay raised for vulnerable sectors. Provision coverage of 1.04 per cent increased 13 basis points, primarily reflecting an increase in collective provision coverage from 88 to 98 basis points.

Capital remained strong with a CET1 ratio of 17.3 per cent, down 3.2 per cent from 20.5 per cent. The key driver of CET1 was the growth in lending assets, offset by organic capital generation of 70 basis points. Pro forma CET1 based on APRA's revised APS 112 capital standard, introduced on 1 January 2023, was 19.2 per cent.

Judo uses certain non-IFRS financial measures to manage and report on its business that are not recognised under Australian Accounting Standards. These include pro-forma and underlying metrics.

1 *Underlying NIM is net interest margin adjusted to remove the temporary impacts of excess liquid assets attributable to Judo's TFF preservation strategy.*
2 *Judo's approach to treasury management of interest rate risk is detailed in section 2.7.*

2.0 Analyst Pack.

2.1 Income statement

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Interest income	241.8	122.9	99.0	97%	144%
Interest expense	(78.8)	(26.6)	(25.5)	196%	large
Net interest income	**163.0**	**96.3**	**73.5**	**69%**	**122%**
Other operating income	2.2	2.8	0.4	(21%)	large
Net banking income	**165.2**	**99.1**	**73.9**	**67%**	**124%**
Employee benefits expense	(56.3)	(42.7)	(36.8)	32%	53%
Other expenses	(33.4)	(28.0)	(24.5)	19%	36%
Total operating expenses	**(89.7)**	**(70.7)**	**(61.3)**	**27%**	**46%**
Net profit/(loss) before impairment	**75.5**	**28.4**	**12.6**	**166%**	**large**
Impairment	(22.3)	(15.8)	(9.6)	41%	132%
Net profit/(loss) before tax	**53.2**	**12.6**	**3.0**	**large**	**large**
Income tax (expense)/benefit	(17.1)	(4.2)	(2.3)	large	large
NPAT	**36.1**	**8.4**	**0.7**	**large**	**large**

2.2 Operating metrics

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
GLA					
GLA (end of period)	7,485	6,092	4,848	23%	54%
GLA (average)	6,781	5,387	4,169	26%	63%
Performance					
Net interest margin (%)	3.23%	2.23%	1.90%	100 bps	133 bps
Underlying NIM (%)	3.56%	2.84%	2.73%	72 bps	83 bps
Cost-to-income ratio (%)	54.3%	71.3%	82.9%	(17%)	(29%)
Capital adequacy					
Total RWAs	7,734	6,311	5,520	23%	40%
Lending RWAs on lending assets (%)	84%	83%	88%	153 bps	(387 bps)
Common Equity Tier 1 capital ratio (%)	17.3%	20.5%	23.3%	(322 bps)	(602 bps)
Total capital ratio (%)	18.6%	21.9%	24.9%	(334 bps)	(634 bps)
Asset quality					
Impairment expense on average GLA	0.66%	0.59%	0.46%	7 bps	20 bps
Losses ratio (%)	0.00%	0.10%	0.00%	(10 bps)	0 bps
Collective provision/GLA (%)	0.98%	0.88%	0.81%	10 bps	17 bps
Specific provision/GLA (%)	0.06%	0.03%	0.12%	3 bps	(6 bps)
Total provision/GLA (%)	1.04%	0.91%	0.92%	13 bps	11 bps
Operations (end of period)					
Total staff	518	465	359	11%	44%
Number of relationship bankers	125	115	91	9%	37%

2.3 Net interest income

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Interest income	241.8	122.9	99.0	97%	144%
Interest expense	(78.8)	(26.6)	(25.5)	196%	large
Net interest income	**163.0**	**96.3**	**73.5**	**69%**	**122%**
Average gross loans and advances	6,781	5,387	4,169	26%	63%
Average trading and investment securities	3,222	3,303	3,520	(2%)	(8%)
Average interest earning assets	**10,003**	**8,690**	**7,689**	**15%**	**30%**
Net interest margin (%)	3.23%	2.23%	1.90%	100 bps	133 bps
Underlying net interest margin (%)	3.56%	2.84%	2.73%	72 bps	83 bps
Yield on treasury assets (%)	1.55%	0.26%	0.24%	128 bps	131 bps

Net interest income

Net interest income of $163 million increased by 69%. Net interest income (NII) is the sum of:

- interest income received on interest-earning assets;
- establishment fees and facility-related fees received from customers;
- less brokerage-related costs incurred in relation to the origination of interest-earning assets;
- less interest expense on debt facilities, customer deposits and balances held with the Reserve Bank of Australia (RBA); and
- less debt and deposit-related establishment fees, commission expenses and line fees.

Average interest earning assets

Average interest earning assets increased to $10.0 billion, up 15% from 2H22.

Average gross loans and advances increased to $6.78 billion, up 26% from 2H22, discussed in more detail in Section 2.6.

Trading and investment securities reduced moderately due to the replacement of treasury securities with self-securitisation assets as part of Judo's use of the RBA's TFF.

Net interest margin

Comparison of Underlying NIM and NIM

Judo discloses Underlying NIM and NIM. NIM is calculated as net interest income divided by average total interest earning assets. Underlying NIM reflects NIM adjusted for the impacts of the Judo's Term Funding Facility (TFF) preservation strategy, discussed below, which Judo believes is a better representation of the core performance of the business while the temporary impacts of the preserved TFF are in effect.

Judo is participating in the TFF, which was established as part of the RBA's policy response to the pandemic. The TFF offered low-cost funding to authorised ADIs to support lending to businesses. The RBA requires lenders to collateralise their TFF funding with eligible securities, including self-securitisation assets and other instruments. At the time the TFF was established, Judo did not have sufficient lending assets to collateralise its full TFF limit with self-securitisation notes. Judo subsequently 'preserved' an amount of TFF funding using treasury securities as collateral. These treasury securities are being progressively replaced with self-securitisation assets as Judo's lending book grows.

At 31 December 2022, the amount of TFF collateralised with self-securitisation assets was $2.28 billion, out of Judo's total TFF funding of $2.86 billion.

Judo's Underlying NIM does not remove all impacts of the TFF, which would require assumptions to be made about the alternative sources of funds. The Underlying NIM includes the cost of funding associated with the RBA's TFF, which is 10 basis points, but excludes the temporary impact of excess treasury assets which are relatively low yielding.

As Judo progressively replaces its holding in liquid treasury investments, securing the preserved component of the TFF with self-securitisation notes, the gap between NIM and Underlying NIM will narrow.

Reporting of Underlying NIM will cease when the measures converge, which will be at the earliest of the full utilisation of the preserved component of the TFF, or repayment of the TFF in its entirety.

Underlying NIM

Underlying NIM for 1H23 was 3.56%, an increase of 72 basis points, from 2.84% in 2H22. The key drivers of the movement are outlined below.

Cost of deposits contributed a 39 basis points increase in Underlying NIM reflecting the lower cost of new deposits across 1H23 on a hedged basis, with new deposits originated at an average margin above 1m BBSW of 47 bps.

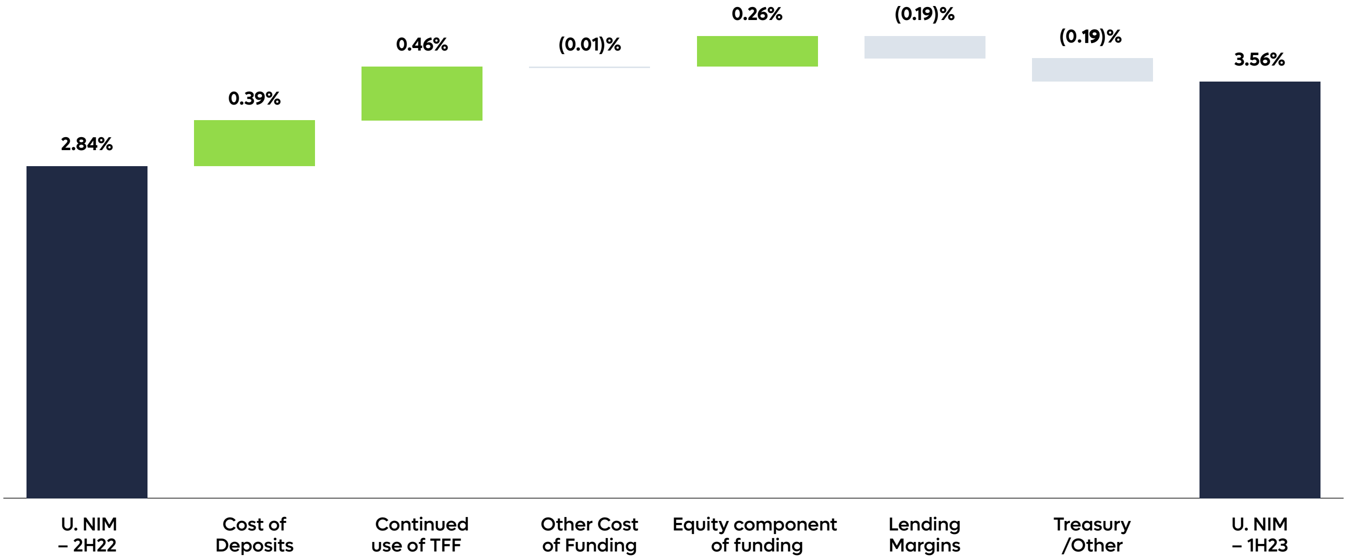
Continued use of the TFF contributed a 46 basis points increase in Underlying NIM due to the increased benefit of fixed rate TFF funding in a rising rate environment. Part of the preserved TFF allocation was also replaced with self-securitisation notes during the half, resulting in the average proportion of self-securitisation TFF funding, out of the total funding mix, remaining in line with 2H22.

Lending margins contributed a 19 basis points negative impact to Underlying NIM arising from:

- 12 basis points from the impact of fixed rate loans, predominantly asset finance, that do not reprice as rates rise;
- 7 basis points from the combined impact of internal refinances at lower rates as customer credit improves, and lower new lending margins in 1H23 driven by the competitive pricing environment.

Equity contributed a 26 basis points favourable movement to Underlying NIM due to the impact of rising rates on the equity component of the funding base, which is assumed to be zero cost.

Treasury/Other contributed a 19 basis points unfavourable movement to Underlying NIM, largely due to lower margins above 1m BBSW on fixed rate treasury assets as interest rates rise. A higher average liquidity position (excluding the preserved component of the TFF) was also a drag on Underlying NIM in 1H23.



2.4 Other operating income

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Fee income	1.6	1.7	0.4	(6%)	large
Other income	0.6	1.1	–	(45%)	–
Total other operating income	**2.2**	**2.8**	**0.4**	**(21%)**	**large**

Other operating income consists of fee income and other income.

- Fee income is largely derived from fees charged on Bank Guarantee products, undrawn lines of credit, and term deposit break costs. Fee income was broadly stable compared with the prior half.
- Other income includes mandate fees and other one-off items of non-interest income in nature.

Other operating income in the current period was $2.2 million, a reduction of 21% from 2H22 which benefitted from the final instalment of a government grant.

2.5 Operating expenses

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Employee benefits expense	56.3	42.7	36.8	32%	53%
IT expense	10.4	9.9	8.5	5%	22%
Marketing expense	3.0	4.1	1.7	(27%)	76%
Occupancy and depreciation	3.2	2.4	2.2	33%	45%
Other expenses	16.8	11.6	12.1	45%	39%
Total operating expenses	**89.7**	**70.7**	**61.3**	**27%**	**46%**
Total FTEs	518	465	359	11%	44%
Total bankers	125	115	91	9%	37%
CTI (%)	54.3%	71.3%	82.9%	(17%)	(29%)

Operating expenses were $89.7 million, up 27% from 2H22. CTI fell 17 percentage points to 54.3 per cent, with revenue continuing to grow more rapidly than expenses.

Employee benefits expense increased 32% to $56.3 million due to continued recruitment during the half and the full-period impact of recruitment completed during FY22. Judo also observed some wage inflation over the half, particularly for specialist roles.

IT expense was up moderately to $10.4 million, largely due to an increase in licence costs.

Marketing expense was $3.0 million, a decrease of $1.1 million from 2H22 due to planned phasing of brand and deposit marketing over the year.

Occupancy and depreciation expense was $3.2 million, up 33% due to new office openings and investment in the new Melbourne office.

Other expenses were $16.8 million, up 45% from 2H22, reflecting the growing organisational scale and impact of inflation on a number of expense categories. Unit costs for travel and entertainment to support banker engagement with customers increased during the period. 'Other expenses' also captures the amortisation of the bank's IT asset base during the period.

2.6 Gross loans and advances

Gross loans and advances were $7,485 million, an increase of 23% from 2H22. This has been supported by growing banker portfolios, continued recruitment of high-quality relationship bankers and national footprint expansion.

The product mix of gross loans and advances remained broadly in line with prior periods.

GLA by product

	Dec 22 $M	Jun 22 $M	Dec 21 $M	Dec 22 % GLAs	Jun 22 % GLAs	Dec 21 % GLAs
Business loans	5,793	4,716	3,730	77%	77%	77%
Equipment loans	466	380	295	6%	6%	6%
Line of credit	457	374	332	7%	7%	7%
Home loans	770	622	491	10%	10%	10%
Gross loans and advances	**7,485**	**6,092**	**4,848**	**100%**	**100%**	**100%**
Allowance for credit losses	(78)	(55)	(45)			
Total loans and advances	**7,408**	**6,037**	**4,803**			

GLA by geography

	Dec 22 %	Jun 22 %	Dec 21 %	HoH %	PcP %
NSW	40%	41%	42%	(1%)	(2%)
VIC	32%	34%	36%	(2%)	(4%)
QLD	15%	14%	13%	1%	2%
WA	8%	8%	7%	(0%)	1%
Other	5%	3%	2%	2%	3%
Gross loans and advances	**100%**	**100%**	**100%**	**0%**	**0%**

GLA by industry – percentage of total lending

	Dec 22 %	Jun 22 %	Dec 21 %	HoH %	PcP %
Rental, Hiring and Real Estate Services	27%	26%	27%	1%	(0%)
Property operators (Property investment)	22%	*22%*	*22%*	*0%*	*0%*
Other rental, hiring and real estate services	5%	*4%*	*5%*	*1%*	*0%*
Accommodation and Food Services	10%	9%	9%	1%	1%
Manufacturing	8%	8%	8%	(0%)	(0%)
Retail Trade	8%	8%	8%	(0%)	(0%)
Construction	7%	7%	6%	0%	1%
Financial and Insurance Services	6%	6%	6%	(0%)	(0%)
Wholesale Trade	5%	5%	5%	(0%)	(0%)
Professional, Scientific and Technical Services	4%	4%	4%	0%	0%
Health Care and Social Assistance	3%	3%	4%	0%	(1%)
Transport, Postal and Warehousing	3%	2%	2%	1%	1%
Residential Mortgages	10%	10%	10%	0%	0%
Other	10%	12%	11%	(2%)	(1%)
Gross loans and advances	**100%**	**100%**	**100%**	**0%**	**0%**

2.7 Funding

	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Customer Deposits					
Direct Retail/SMSF Term Deposits	3,271	2,346	1,589	39%	106%
Intermediated SMSF/Retail Term Deposits	1,476	1,123	850	31%	74%
Intermediated Middle Markets Term Deposits	512	622	800	(18%)	(36%)
Total customer deposits	**5,259**	**4,091**	**3,239**	**29%**	**62%**
Wholesale Funding					
TFF self-securitisation drawn	2,276	1,536	1,264	48%	80%
Warehouse facilities	402	317	452	27%	(11%)
Senior unsecured debt	200	80	80	150%	150%
Tier 2 subordinated debt	50	50	50	0%	0%
Negotiable certificates of deposit	459	332	124	38%	270%
Total Wholesale Funding	**3,387**	**2,315**	**1,970**	**46%**	**72%**
Other					
TFF preserved component	584	1,324	1,596	(56%)	(63%)
Repurchase agreements	20	196	180	(90%)	(89%)
Total Other	**604**	**1,520**	**1,776**	**(60%)**	**(66%)**
Total Funding	**9,251**	**7,926**	**6,985**	**17%**	**32%**
Customer Deposits – Average tenor at origination (days)					
Direct Retail/SMSF Term Deposits	474	458	443		
Intermediated SMSF/Retail Term Deposits	284	277	270		
Intermediated Middle Market Term Deposits	285	281	225		

Funding strategy

Key elements of Judo's funding strategy include:

- Achieve surety of funding sources to support the Bank's growth strategy;
- Attain diversified sources of funding by product, tenor, and channel;
- Manage funding risk, including maturity profile and counterparty concentrations; and
- Optimise the cost of funds.

Judo has established diversified sources of funding in the form of deposits and wholesale funding to support growth in the loan book.

Deposits

Deposits are a core part of Judo's funding strategy, with a long-term goal of about 70-75 per cent of total asset funding to be sourced through this channel.

Judo is licensed as an authorised deposit-taking institution from APRA, enabling the Bank to raise deposits that are covered by the Australian Government Guarantee scheme, providing protection to depositors of up to $250,000 per account holder.

Judo currently offers term deposits directly and via intermediaries to a wide range of deposit customers including individuals, charities, universities, government bodies, SMSFs and corporates. All deposits are term deposits, with limited overlap between the SME lending customer and deposit customer base.

Judo's deposit market expansion strategy focuses on continuing to develop additional deposit gathering capabilities. Over the half, Judo launched its direct SMSF term deposit product with pricing consistent with its direct retail term deposit channel, which has been relatively cheaper than the intermediated segment.

Customer deposits were $5,259 million as of 31 December 2022, up 29 per cent from 30 June 2022. The growth predominantly came from the direct retail channel and to a lesser extent the intermediated SMSF/retail channel. Judo reduced its exposure to intermediated middle market term deposits in response to increased competitive pressure in this channel through the period.

Judo actively manages its exposure to interest rate risk by entering into interest rate swaps. The swaps effectively match the cashflows of the bank's lending and funding payments, so that both are floating over the 1m BBSW. This reduces volatility in Judo's realised NIM during periods of movement in 1m BBSW.

Under hedge accounting rules, these arrangements are treated as swapping the variable interest received on the Bank's loans to a fixed rate receipt. For treasury management purposes, this can also be considered as effectively swapping the interest paid on the Bank's funding liabilities from fixed to variable. In this way, interest payments on funding are matched with interest received on loans, with both cashflows floating over the 1m BBSW.

As at 31 December 2022, 80% of Judo's term deposit book had been swapped back to variable rates.

Judo's headline term deposit rates have moved in response to movements in the RBA cash rate. Swap rates steepened at a faster rate than the cash rate during 1H23, particularly in the period between June to September 2022.

As a result, while the unhedged cost of Judo's newly originated term deposits increased throughout the half, Judo's hedged cost of newly originated deposits have reduced.

For 1H23, Judo's hedged cost of newly originated term deposits was 47 basis points over the 1m BBSW. This was well below both the long run assumption for the Group's term deposit funding of 80-90 basis points and the equivalent cost over 2H22 of 66 basis points.

The overall net blended cost of deposits (comprising all hedged and unhedged deposits) increased over the half to 2.45% for the direct channel, up 128 basis points, and 2.55% for the intermediated channels (including SMSF, retail and middle markets), up 157 basis points.

Wholesale funding

Wholesale funding is an important part of Judo's funding strategy, providing diversification. The composition of wholesale funding is expected to shift over time as the TFF is repaid by June 2024. Over the longer term, wholesale funding is expected to represent about 15 to 20 per cent of total asset funding, across diversified forms of debt: warehouse and term securitisation funding, senior unsecured bonds, hybrid capital instruments and NCDs.

Total wholesale funding was $3,387 million at 31 December 2022, up 46 per cent from 2H22. The drivers of this movement are set out below.

TFF self-securitisation funding increased from $1,536 million in 2H22 to $2,276 million in 1H23 as new loans were originated, with a corresponding reduction in the non-MLH eligible assets required to be held as collateral as part of the TFF preservation strategy. The self-securitisation is Aaa rated. Judo expects peak utilisation of the self-securitisation component of its $2,860 million TFF allowance during 2H23.

Funding for TFF repayment will be progressively raised ahead of contractual maturities, to ensure an orderly and efficient transition.

Committed warehouse funding capacity has increased to $1.75 billion as the warehouse optimisation program progresses. Judo has negotiated limit increases for the two existing committed warehouses, added an additional financier to one of the facilities, and established a new committed facility with an Australian bank. Providers are well diversified and include a number of domestic and international banks and the AOFM. The drawn component has increased slightly to $402 million as the new facilities were established, leaving $1.35 billion of committed headroom available.

Judo is in advanced commercial discussions with a number of other Australian and international banks to provide additional committed facilities to support the existing committed warehouse lines. The Bank is targeting ~$2.5 billion in committed warehouse capacity by the end of FY23.

Judo executed its inaugural public senior unsecured benchmark deal in 1H23 that was well supported by fixed income investors, raising $175 million. A further $25 million private placement was executed with investors who were willing but not able to participate in the benchmark deal. The inaugural $80 million senior unsecured issuance matured in November 2022.

NCDs increased by 38%, from general growth in this channel following launch in November 2021.

2.8 Asset quality

Impairment on loans, advances and treasury investments

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Impairment expense – specific	2.6	1.4	(0.2)	86%	n.a.
Impairment expense – collective	19.7	14.3	9.9	38%	99%
Impairment on loans and advances	22.3	15.7	9.7	42%	130%
Impairment on treasury investments	–	0.1	(0.1)	(100%)	(100%)
Impairment on loans, advances and treasury investments	**22.3**	**15.8**	**9.6**	**41%**	**132%**
Impairment expense/average GLA (%)	0.66%	0.59%	0.46%	7 bps	20 bps

Lending provisions and coverage

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Specific provision – individually assessed ($m)	4.3	1.7	5.6	153%	(23%)
Collective provision ($m)	73.2	53.5	39.1	37%	87%
Total provisions ($m)	**77.5**	**55.2**	**44.7**	**40%**	**73%**
Specific provision/impaired assets (%)	29.1%	25.2%	55.7%	4%	(27%)
Total provisions/impaired assets (%)	525%	594%	445%	(69%)	80%
Specific provision/GLA (%)	0.06%	0.03%	0.12%	3 bps	(6 bps)
Collective provision/GLA (%)	0.98%	0.88%	0.81%	10 bps	17 bps
Total provisions/GLA (%)	1.04%	0.91%	0.92%	13 bps	11 bps
Total provisions/Credit RWAs (%)	1.11%	0.97%	0.90%	13 bps	20 bps

Days Past Due ("DPD") and Impaired Assets

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
30-89 DPD but not impaired ($m)	26.1	20.4	4.9	28%	large
90+ DPD but not impaired ($m)	13.0	0.7	0.2	large	large
Impaired assets ($m)	14.8	9.3	10.1	59%	47%
30+ DPD and impaired assets ($m)	**53.9**	**30.4**	**15.2**	**77%**	**large**
30-89 DPD but not impaired/GLAs (%)	0.35%	0.33%	0.10%	2 bps	25 bps
90+ DPD but not impaired/GLAs (%)	0.17%	0.01%	0.00%	16 bps	17 bps
Impaired assets/GLAs (%)	0.20%	0.15%	0.21%	5 bps	(1 bps)
30+ DPD and impaired assets/GLA (%)	**0.72%**	**0.49%**	**0.31%**	**23 bps**	**41 bps**

Impairment on loans, advances, and treasury investments

Impairment expense for 1H23 was $22.3 million, up from $15.8 million for 2H22. The 1H23 impairment expense relates entirely to increased provisioning, with no new write-offs incurred during the period.

Provision coverage

Total lending book provisions were $77.5 million as at 31 December 2022, up 40% from 2H22.

Judo's collective provision was $73.2 million, up 37% from 2H22. The key drivers of the increase in the provision include:

- growth in the loan book, which drives an increase in forward-looking provisions under accounting standards;
- changes in the Bank's expectations for the economic outlook, which have resulted in an increase in the weighting towards its downside economic scenario, up 5% to 30%, and a corresponding reduction in the base case weighting of 5%, to 50%; and
- a new $3.7 million economic overlay, which has been raised for specific sectors considered more vulnerable to a reduction in consumer discretionary spending arising from a rapidly rising interest rate environment and inflation.

The specific provision was $4.3 million, an increase of $2.6 million from 2H22 due to a small number of new impaired customers in 1H23.

Total provision coverage was 1.04% of gross loans and advances (GLA) at 31 December 2022, an increase of 13 basis points from 0.91% at 30 June 2022.

Collective provision coverage increased by 10 basis points, to 98 basis points of GLA.

Further detail on the process of measuring the group's expected credit losses (ECL) can be found in Section 8 (Loans and advances) of the Financial Statements.

Days past due and impaired assets

Judo's 30-89 days past due loans were $26.1 million or 0.35% of GLA, broadly stable from 30 June 2022 of 0.33 per cent. Judo's 90+ days past due loans (but not impaired) were $13.0 million or 0.17 per cent of GLA, up 16 basis points from 30 June 2022, due to a small number of customer defaults. As of 31 December 2022, there were seven customer groups with loans equal or greater than 90 days past due.

Judo's gross impaired assets to GLA was up 5 basis points to 0.20 per cent during 1H23, an increase of $5.5 million due to a small number of new impaired customers. As of 31 December 2022, there were eight customer groups in impaired status from a range of different industries.

2.9 Capital management and liquidity

Capital adequacy	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
CET1 Capital	1,336	1,292	1,289	3%	4%
Tier 2 Capital instruments	50	50	50	0%	0%
General reserve for credit losses	49	40	35	24%	40%
Tier 2 capital	99	90	85	10%	17%
Total capital	**1,435**	**1,382**	**1,374**	**4%**	**4%**
Total Credit RWAs ($m)	7,012	5,662	4,943	24%	42%
Total RWA ($m)	7,734	6,311	5,520	23%	40%
Average RW on lending (%)	84%	83%	88%	1.5%	(3.9%)
CET1 ratio (%)	17.3%	20.5%	23.3%	(3.2%)	(6.0%)
Total capital ratio (%)	18.6%	21.9%	24.9%	(3.3%)	(6.3%)

Liquidity

	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Total liquid assets balance	3,238	3,126	3,497	4%	(7%)
Less liquid assets ineligible for MLH	(826)	(1,657)	(1,994)	(50%)	(59%)
Total adjusted MLH balance	**2,412**	**1,469**	**1,502**	**64%**	**61%**
Total adjusted MLH balance (%)	23.9%	16.8%	19.3%	7.1%	4.6%

Judo maintains a strong capital position in order to satisfy regulatory capital requirements and provide financial security to depositors while balancing adequate return to shareholders.

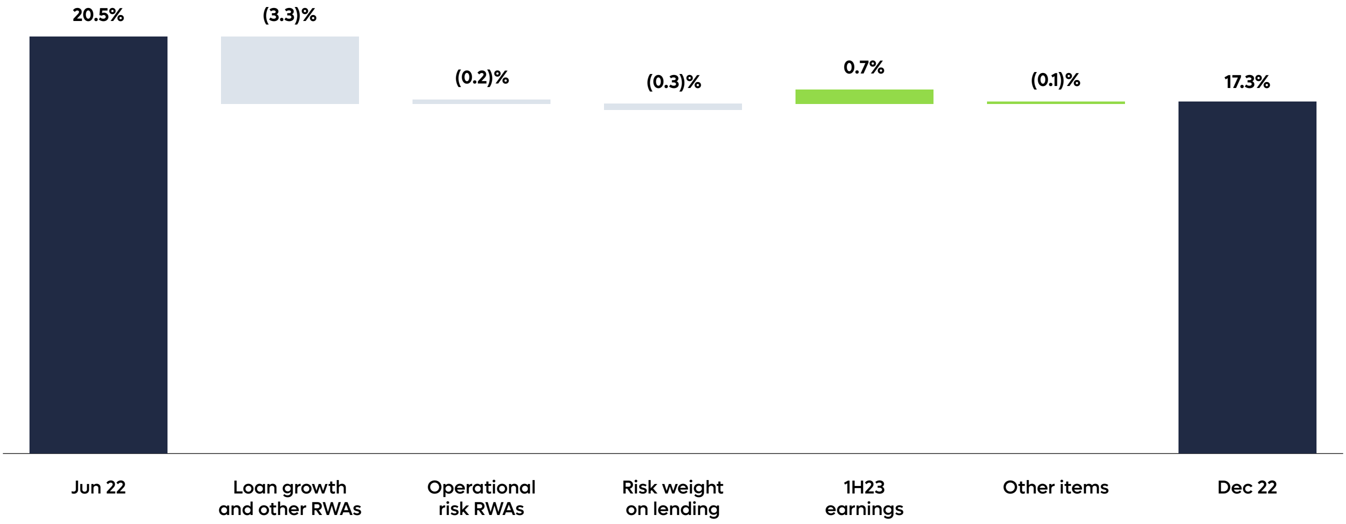
Judo's capital ratios throughout the half remained well above both APRA's minimum capital adequacy requirements and Board-approved limits.

Judo is a high-growth business, and the current dividend policy is to reinvest all cash flows, and any excess capital generated by its activities, into the business to support and maximise future growth. Accordingly, Judo does not expect to pay any dividends to shareholders in the near term.

Judo's minimum liquidity holdings (MLH) position ended the half at 23.9 per cent, an increase of 7.1 per cent from 16.8 per cent at the end of June 2022. This was primarily driven by pre-funding of deposits towards the end of 1H23 to take advantage of favourable term deposit market dynamics, as well as the seeding of new warehouse facilities. The average MLH for 1H23 was 21.6%.

Judo's liquidity holdings throughout the half were in compliance with both APRA's minimum liquidity holding requirements and Board-approved thresholds.

CET1 waterfall – June 2022 to December 2022 (%)



As of 31 December 2022, the Bank's CET1 ratio was 17.3% down 3.2% from 20.5% as of 30 June 2022. The key drivers of the movement were:

- Loan book growth and other RWAs included growth across both drawn and undrawn lending commitments.
- 1H23 earnings consist of after-tax profit for the period net of utilising the deferred tax asset, described further in Section 2.10.

The introduction of APRA's revised APS 112 capital standard, effective 1 January 2023, provides a reduction in risk weights on lending. The pro forma benefit to the Dec-22 CET1 based on the revised standard is 1.9%, resulting in a pro forma capital position of 19.2%.

2.10 Tax

	Half Year to				
	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Net profit/(loss) before tax	**53.2**	**12.6**	**3.0**	**large**	**large**
At the corporate tax rate (30%)	16.0	3.7	1.0	large	large
Add tax effect of:					
Prior year under/(over) provision	0.5	0.3	0.5	67%	0%
Share-based payments	0.5	0.7	0.2	(29%)	150%
Permanent differences	0.1	(0.5)	0.6	(120%)	(83%)
Income tax expense/(benefit)	**17.1**	**4.2**	**2.3**	**large**	**large**
Effective tax rate	32%	33%	77%	(1%)	(45%)

	Dec 22 $M	Jun 22 $M	Dec 21 $M	HoH %	PcP %
Tax losses[1]	–	13.5	18.5	(100%)	(100%)
Capital raising costs[2]	6.3	7.3	8.4	(14%)	(25%)
Share based payments[3]	15.4	15.8	19.3	(3%)	(20%)
Allowance for credit losses[4]	23.4	16.7	13.5	40%	73%
Other[5]	5.4	5.2	4.6	4%	17%
Deferred tax assets	**50.5**	**58.5**	**64.3**	**(14%)**	**(21%)**
Other[5]	(0.4)	(1.9)	(2.1)	(79%)	(81%)
Deferred tax liabilities	**(0.4)**	**(1.9)**	**(2.1)**	**(79%)**	**(81%)**
Net deferred tax assets	**50.1**	**56.6**	**62.2**	**(11%)**	**(19%)**

Notes

1. *Accumulated income tax losses available for use, to be applied against any future taxable income.*
2. *Capital raising costs are deducted over a 5-year period from the year in which they are incurred, commencing in FY22.*
3. *Share-based payments primarily includes the settlement of a legacy incentive plan, which is deductible over 5 years.*
4. *Allowances for credit losses are deductible only during the year in which the associated asset is formally written off.*
5. *All other deferred tax balances reflect temporary timing differences between the accounting and tax treatment, which are expected to unwind as the tax benefits/liabilities are realised. This includes loss allowances for financial assets.*

Judo's effective tax rate for 1H23 was 32%.

As at 31 December 2022, Judo had $50.1 million in deferred tax assets, primarily relating to allowances for credit losses and share-based payment deductions.

The Group's profitability in 1H23 resulted in the utilisation of all deferred tax assets relating to income tax losses brought forward from prior periods. As such, the Group anticipates being in a tax payable position for the first time for the income tax year ending 30 June 2023, with a provision for income tax recognised as at 31 December 2022 for $8.0 million.

2.11 Average Balance Sheet

	Half year ended 31 December 2022			Half year ended 30 June 2022		
	Avg Bal $M	Interest $M	Avg Rate %	Avg Bal $M	Interest $M	Avg Rate %
Assets						
Interest Earning Assets						
Trading and Investment Securities	3,222	25.1	1.55%	3,303	4.3	0.26%
Gross Loans and Advances	6,781	216.7	6.34%	5,387	118.6	4.44%
Total Interest Earning Assets	**10,003**	241.8	4.80%	8,689	122.9	2.85%
Non-Interest Earning Assets						
Other Assets (incl. loan provisions)	99	NM	NM	100	NM	NM
Total Non-Interest Earning Assets	**99**	–	NM	100	–	NM
Total Assets	**10,102**	**241.8**	**NM**	**8,789**	**122.9**	**NM**
Liabilities						
Interest Bearing Liabilities						
Direct Retail/SMSF Term Deposits	2,814	34.7	2.45%	1,864	10.8	1.17%
Intermediated Term Deposits	1,921	24.7	2.55%	1,744	8.5	0.98%
TFF self-securitisation drawn	1,941	(1.0)	(0.10%)	1,473	(0.5)	(0.07%)
Warehouse facilities	284	8.6	6.00%	383	5.5	2.90%
Senior unsecured debt	167	3.9	4.62%	80	0.5	1.26%
Tier 2 subordinated debt	50	1.8	7.14%	50	1.2	4.84%
Certificates of deposit	422	5.8	2.73%	237	1.0	0.85%
TFF preserved component	919	(0.4)	(0.10%)	1,387	(0.5)	(0.07%)
Repurchase agreements	60	0.7	2.32%	113	0.1	0.18%
Other Interest Bearing Liabilities	3	–	0.00%	2	–	0.00%
Total Interest Bearing Liabilities	**8,581**	78.8	1.82%	7,332	26.6	0.73%
Non-Interest Bearing Liabilities						
Other Liabilities	101	NM	NM	54	NM	NM
Total Non-Interest Bearing Liabilities	**101**	–	NM	54	–	NM
Total Liabilities	**8,682**	**78.8**	**NM**	**7,386**	**26.6**	**NM**
Average Net Assets	1,419		NM	1,403	NM	NM
Average Shareholder Equity	1,419		NM	1,403	NM	NM

2.12 Outlook

Judo confirmed that it is on track to achieve its FY23 guidance and key business metrics at scale, as outlined below. Both the FY23 guidance and key business metrics at scale remain unchanged.

Metrics	2H23 Drivers	FY23 Guidance	At Scale Metrics
GLAs	Strong growth to continue within risk appetite, driven by our relationship led CVP	>$9 billion	$15-20 billion
Underlying NIM	Underlying NIM of 3.1-3.3% in 2H23 with term deposit margins increasing to ~85 bps	>3%	>3%
CTI	2H23 CTI to rise 2-3% HoH, driven by normalising UNIM and ongoing investment in growth	Below 60%	Approaching 30%
Cost of risk	Cost of risk driven by loan growth, higher provision coverage, and potential write-offs	$50-60 million	~50 bps of average GLA
ROE	Demonstrating continued progress towards key business metrics at scale	Low to mid single digits	Low to mid-teens

Additional 2H23 considerations:

- Interest revenue is expected to be higher in 2H23, reflecting higher lending volumes, partly offset by moderation of NIM towards long run assumption of >3%, due to assumed normalisation of TD margins, undrawn facility fees on new warehouses and higher liquids balance
- Other Operating Income to scale with fees charged on bank guarantees, undrawn component of lines of credit, and TD break costs
- Expenses in 2H23 to increase about 10% from the Dec 22 run rate of $15m and 2H23 CTI to increase ~2-3% vs 1H23 before continuing the trajectory to approaching 30%
- CET1 proforma benefit of 1.9% from the implementation of APRA's revised APS 112 capital framework

Judo Capital Holdings Limited

Interim financial report for the half year ended 31 December 2022

ABN 71 612 862 727

3.0 Interim financial report.

for the half year ended 31 December 2022

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 half-year ended 31 December 2022.

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 period and up to the date of this report, unless otherwise specified:

- Peter Hodgson (*Chairman*)
- Jennifer Douglas
- John Fraser
- David Hornery
- Malcolm McHutchison
- Mette Schepers
- Manda Trautwein

Company Secretaries

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

- Yien Hong
- Liam Williams

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

Review of operations

The profit of the Group for the period after providing for income tax amounted to $36.1 million (June 2022: $8.4 million), up $27.7 million. The improvement was primarily driven by an increase in net interest income, partially offset by continued investment in growth and ongoing increases in expected loss provisions, consistent with the growth in the loan book.

Net interest income was $163.0 million, an increase of $66.7 million or 69.3% half on half, which has been driven by strong growth in loans and advances and an increase in lending interest rates attributable to the rising market rate environment. Interest expenses increased in line with growth across the Group's funding channels, primarily due to an increase in term deposits funding, in order to facilitate growth across the lending book.

Operating expenses increased by $19.0 million or 26.9% half on half as the Group continues to invest in additional resources to support growth in operations. The key drivers of higher expenses were higher employee benefits, including incentives, due to recruitment and wage inflation, depreciation on right-of-use assets and travel & entertainment.

Credit impairment charges increased by $6.5 million or 41.1% half on half, largely reflecting forward-looking loss estimates for new lending originations during the period and increased provisioning reflecting economic conditions, as well as interest rate and inflationary pressures. There were no write-offs of loans and advances during the period.

Total assets increased by $1,423.9 million or 15.1% as compared to 30 June 2022, mainly due to an increase in loans and advances of $1,382.7 million or 22.8% as the Group continues to grow its loan portfolio, and an increase in cash and cash equivalents. Right-of-use assets increased by $9.6 million reflecting the commencement of a seven-year property lease following the relocation of the Group's Melbourne office.

Total liabilities of $9,396.5 million increased by $1,386.5 million or 17.3% compared to 30 June 2022. This was primarily driven by an increase in term deposits of $1,168.6 million or 28.6% arising from growth across retail and wholesale channels, and also included expansion into the direct SMSF deposit channel. Other borrowings increased by $156.2 million or 4.1% largely through the issuance of the Group's inaugural public senior unsecured bond. The new seven-year property lease for the Group's Melbourne office resulted in an increase in lease liabilities of $8.4 million.

Total equity increased by $37.4 million or 2.7% from 30 June 2022, driven by the current period's statutory profit, and reflecting movements in the share-based payments reserve and changes to fair values in the cash flow hedge reserve.

During the period, the Group implemented changes to its Management Board, with Chris Bayliss appointed to the role of Deputy CEO and Chief Relationship Officer, Andrew Leslie appointed as Chief Financial Officer and Jessica Lantieri appointed as Chief People & Culture Officer.

Significant changes in the state of affairs

There were no significant changes in the Group's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report.

Events since the end of the interim period

There are no matters or circumstances that have arisen since the end of the interim period that 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 financial periods.

Management attestations

In line with Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations, the Board has received a joint declaration from both the Chief Executive Officer and Chief Financial Officer that, in their opinion, the financial statements and accompanying notes for the interim period comply with the appropriate accounting standards, and give a true and fair view of the financial position and performance of the Group.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 27.

Rounding 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 and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with the instrument to the nearest hundred thousand dollars, and presented in the form of a whole number of millions of dollars and one place of decimals representing hundreds of thousands of dollars.

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

Peter Hodgson
Chair

Manda Trautwein
Director

21 February 2023

Auditor's Independence Declaration.

Auditor's Independence Declaration

As lead auditor for the review of Judo Capital Holdings Limited for the half-year ended 31 December 2022, 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 review; and

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

This declaration is in respect of Judo Capital Holdings Limited and the entities it controlled during the period.

Sam Garland
Partner
PricewaterhouseCoopers

Melbourne
21 February 2023

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

Condensed consolidated statement of profit or loss and other comprehensive income

		For the six months ended		
	Notes	31 December 2022 $M	30 June 2022 $M	31 December 2021 $M
Effective interest income	3	**241.8**	122.9	99.0
Interest expense	3	**(78.8)**	(26.6)	(25.5)
Net interest income		**163.0**	96.3	73.5
Other operating income	4	**2.2**	2.8	0.4
Net banking income		**165.2**	99.1	73.9
Depreciation and rental expenses	5	**(3.2)**	(2.4)	(2.2)
Employee benefits expense	5	**(56.3)**	(42.7)	(47.8)
Other operating expenses	5	**(30.2)**	(25.6)	(34.1)
Total operating expenses		**(89.7)**	(70.7)	(84.1)
Net operating profit/(loss) before impairment		**75.5**	28.4	(10.2)
Credit impairment	8	**(22.3)**	(15.8)	(9.6)
Net profit/(loss) before income tax		**53.2**	12.6	(19.8)
Income tax (expense)/benefit	6	**(17.1)**	(4.2)	3.7
Profit/(loss) after income tax		**36.1**	8.4	(16.1)
Other comprehensive income				
Items that may be reclassified to profit or loss				
(Loss)/Gain on revaluation of cash flow hedge		**(4.9)**	(0.3)	2.4
Other comprehensive income for the period, net of tax		**(4.9)**	(0.3)	2.4
Total comprehensive profit/(loss) for the period		**31.2**	**8.1**	**(13.7)**

	Cents	Cents	Cents
Earnings per share			
Basic earnings per share	**3.3**	0.8	(1.8)
Diluted earnings per share	**3.2**	0.8	(1.8)

The accompanying notes form part of these financial statements.

Condensed consolidated statement of financial position

	Notes	31 December 2022 $M	30 June 2022 $M	31 December 2021 $M
		As at		
ASSETS				
Cash and cash equivalents		**793.4**	407.1	454.0
Investments	7	**2,454.1**	2,794.0	3,025.1
Loans and advances	8	**7,452.5**	6,069.8	4,803.7
Derivative assets	9	**10.6**	19.3	6.7
Property, plant and equipment		**8.2**	2.6	2.1
Right-of-use assets	10	**11.1**	1.5	2.0
Intangible assets		**31.0**	23.8	17.3
Deferred tax assets	6	**50.1**	56.6	62.2
Other assets		**27.5**	39.9	39.2
Total assets		**10,838.5**	9,414.6	8,412.3
LIABILITIES				
Deposits	11	**5,259.1**	4,090.5	3,238.8
Borrowings	12	**3,989.4**	3,833.2	3,743.5
Current tax liabilities	6	**8.0**	–	–
Derivative liabilities	9	**8.5**	7.4	–
Lease liabilities	10	**10.1**	1.7	2.3
Provisions		**52.5**	40.2	6.6
Other liabilities		**68.9**	37.0	26.0
Total liabilities		**9,396.5**	8,010.0	7,017.2
Net assets		**1,442.0**	**1,404.6**	**1,395.1**
EQUITY				
Share capital	13	**1,518.2**	1,518.2	1,513.3
Other reserves	13	**(31.0)**	(32.3)	(28.5)
Accumulated losses		**(45.2)**	(81.3)	(89.7)
Total equity		**1,442.0**	**1,404.6**	**1,395.1**

The accompanying notes form part of these financial statements.

Condensed Consolidated statement of changes in equity

	Notes	Share capital $M	Other reserves $M	Retained earnings $M	Total equity $M
Balance at 1 July 2021		**1,146.3**	**3.0**	**(73.6)**	**1,075.7**
Loss after tax for the half-year		–	–	(16.1)	(16.1)
Other comprehensive income, net of tax		–	2.4	–	2.4
Total comprehensive income for the half-year		–	2.4	(16.1)	(13.7)
Transactions with owners in their capacity as owners:					
Issued share capital		373.6	–	–	373.6
Equity raising costs, net of tax		(6.6)	–	–	(6.6)
Movement in share-based payments reserve, net of tax		–	10.9	–	10.9
Settlement of performance rights, net of tax		–	(44.8)	–	(44.8)
		367.0	(33.9)	–	333.1
Balance at 31 December 2021		**1,513.3**	**(28.5)**	**(89.7)**	**1,395.1**
Profit after tax for the half-year		–	–	8.4	8.4
Other comprehensive income, net of tax		–	(0.3)	–	(0.3)
Total comprehensive income for the half-year		–	(0.3)	8.4	8.1
Transactions with owners in their capacity as owners:					
Equity raising costs, net of tax		(0.1)	–	–	(0.1)
Movement in share-based payments reserve, net of tax		–	1.5	–	1.5
Transfer from share-based payments reserve		5.0	(5.0)	–	–
		4.9	(3.5)	–	1.4
Balance at 30 June 2022		**1,518.2**	**(32.3)**	**(81.3)**	**1,404.6**
Profit after tax for the half-year		**–**	**–**	**36.1**	**36.1**
Other comprehensive income, net of tax		**–**	**(4.9)**	**–**	**(4.9)**
Total comprehensive income for the half-year		**–**	**(4.9)**	**36.1**	**31.2**
Transactions with owners in their capacity as owners:					
Movement in share-based payments reserve, net of tax		**–**	**6.2**	**–**	**6.2**
Balance at 31 December 2022		**1,518.2**	**(31.0)**	**(45.2)**	**1,442.0**

The accompanying notes form part of these financial statements.

Condensed consolidated statement of cash flows

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Cash flows from operating activities			
Interest received	**253.0**	122.8	98.7
Interest paid	**(40.4)**	(19.5)	(21.6)
Payments to suppliers and employees	**(84.0)**	(62.4)	(68.3)
Fees and other income received	**2.2**	2.7	0.4
Cash flows from operating activities before changes in operating assets and liabilities	**130.8**	43.6	9.2
Changes in operating assets and liabilities			
Net movement in balance of loans and advances	**(1,395.5)**	(1,250.3)	(1,331.1)
Net movement in balance of deposits	**1,168.7**	851.7	691.1
Net movement in collateral paid on interest rate swaps	**2.8**	(5.8)	–
Net cash (outflow) from operating activities	**(93.2)**	(360.8)	(630.8)
Cash flows from investing activities			
Movement in investments			
Purchases of investments	**(1,116.3)**	(132.6)	(103.3)
Proceeds from investments	**1,456.3**	366.6	337.4
Payments for property, plant and equipment	**(6.2)**	(0.8)	(0.9)
Payments for intangible assets	**(9.7)**	(8.4)	(3.0)
Net cash inflow from investing activities	**324.1**	224.8	230.2
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	**–**	–	373.6
Proceeds from borrowings	**386.7**	282.8	423.0
Repayments of borrowings	**(230.6)**	(193.1)	(208.0)
Payments for vesting of performance rights	**–**	–	(64.0)
Payments for capital raising transaction costs	**–**	–	(13.4)
Principal portion of lease payments	**(0.7)**	(0.6)	(0.6)
Net cash inflow from financing activities	**155.4**	89.1	510.6
Net increase/(decrease) in cash and cash equivalents	**386.3**	(46.9)	110.0
Cash and cash equivalents at the beginning of the period	**407.1**	454.0	344.0
Cash and cash equivalents at the end of the period	**793.4**	407.1	454.0

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements.

1. Summary of significant accounting policies

This interim financial report for the half-year reporting period ended 31 December 2022 has been prepared in accordance with AASB 134 *Interim Financial Reporting*, the Corporations Act 2001 and the Australian Securities Exchange (ASX) Listing Rules.

The financial report covers Judo Capital Holdings Limited and its controlled entities ("the Group"), as detailed in Note 15. Judo Capital Holdings Limited is a Company limited by shares, incorporated and domiciled in Australia. Judo Capital Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies and methods of computation applied in this report are consistent with those applied in the Group's 2022 Annual Financial Report, unless otherwise specified below.

a) Basis of preparation

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Group's 2022 Annual Financial Report.

Condensed financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* which include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements and selected explanatory notes as required by the standard.

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.

b) Use of critical judgements and estimates

The preparation of this interim financial report requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Except as explained below, there have been no significant changes to the accounting estimates, judgements and assumptions used in preparing the interim financial report compared to those applied in the preparation of the 2022 Annual Financial Report.

Measurement of expected credit losses

While the methodology utilised in determining the Group's expected credit losses remains consistent with those applied in the 2022 Annual Financial Report, there are a number of judgements and estimates made by management in relation to the underlying assumptions that are continuously reviewed and revised on a periodic basis which include, but are not limited to:

- Probability of default, loss given default and exposure at default estimates
- Forward-looking macroeconomic conditions
- Macroeconomic scenario weightings

Further, the Group applies overlays for model risks and other external factors that cannot be adequately accounted for through expected credit loss models. Overlays are determined based on a range of techniques, including stress testing, benchmarking, scenario analysis and expert judgement. Overlays are subject to internal governance and applied as an incremental expected credit loss top-up to the impacted portfolio segments. Refer to Note 8 for further details.

Measurement of income taxes

Throughout its development, the Group has incurred significant tax losses that may be available to utilise against taxable profit in future periods. The availability of these losses to the Group depend on the satisfaction of the relevant tax loss utilisation tests prescribed under the income tax legislation.

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.

Uncertainty over income tax treatments

The Group estimates the amount expected to be paid to tax authorities based on its understanding and interpretation of relevant tax laws which may require the exercise of judgement.

c) 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 hundred thousand dollars, and presented in the form of a whole number of millions of dollars and one place of decimals representing hundreds of thousands of dollars.

2. Segment information

a) Overview

For the half-year ended 31 December 2022, the Group's segment information is presented based on a single reportable segment, being Small and Medium Enterprise lending. The Group considers the allocation of revenues and costs to a single reportable segment as this best aligns with the Group's current organisational structure and information that is presented to Key Management Personnel (including the chief operating decision makers).

Prior period segment information has also been presented on this basis. Reportable segments are therefore consistent with the financial information presented in the financial statements and notes contained within this report.

b) Major customers

No single customer contributes revenue greater than 10% of the Group's revenues.

3. Net interest income

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Interest on cash and cash equivalents	**6.3**	0.5	1.0
Interest on investments	**18.8**	3.8	3.3
Interest on loans and advances	**216.7**	118.6	94.7
	241.8	122.9	99.0
Interest expense on deposits	**(59.4)**	(19.3)	(15.9)
Interest expense on borrowings	**(19.4)**	(7.2)	(9.5)
Interest expense on lease liabilities	**(0.0)**	(0.1)	(0.1)
	(78.8)	(26.6)	(25.5)
Net interest income	**163.0**	**96.3**	**73.5**

a) Average balances and related interest

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

	Average balance $M	Interest $M	Average interest %
Half year ended 31 December 2022			
Interest income			
Cash and cash equivalents	**613.6**	**6.3**	**2.04**
Investments	**2,799.9**	**18.8**	**1.33**
Loans and advances	**6,760.6**	**216.7**	**6.36**
	10,174.1	**241.8**	**4.71**
Interest expense			
Deposits	**4,735.9**	**59.4**	**2.49**
Borrowings	**3,829.1**	**19.4**	**1.01**
	8,565.0	**78.8**	**1.83**
Half year ended 30 June 2022			
Interest income			
Cash and cash equivalents	467.2	0.5	0.21
Investments	2,825.8	3.8	0.27
Loans and advances	5,352.4	118.6	4.40
	8,645.4	122.9	2.82
Interest expense			
Deposits	3,600.9	19.3	1.06
Borrowings	3,708.9	7.2	0.39
	7,309.8	26.5	0.72
Half year ended 31 December 2021			
Interest income			
Cash and cash equivalents	328.3	1.0	0.60
Investments	3,228.1	3.3	0.20
Loans and advances	4,156.1	94.7	4.52
	7,712.5	99.0	2.55
Interest expense			
Deposits	2,878.5	15.9	1.10
Borrowings	3,653.9	9.5	0.52
	6,532.4	25.4	0.77

4. Other operating income

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Fee income	**1.6**	1.7	0.4
Sundry income	**0.6**	1.1	–
	2.2	**2.8**	**0.4**

5. Operating expenses

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Depreciation and rental expenses			
Depreciation of property, plant and equipment	**0.5**	0.4	0.4
Depreciation of right-of-use assets	**1.1**	0.5	0.5
Rental expenses	**1.6**	1.5	1.3
	3.2	2.4	2.2
Employee benefits			
Salaries, superannuation and related on-costs	**45.0**	37.5	33.8
Performance-based compensation	**9.1**	4.8	13.7
Other employee benefits	**2.2**	0.4	0.3
	56.3	42.7	47.8
Other operating expenses			
Amortisation of intangible assets	**1.8**	1.9	1.6
Consultants	**0.9**	0.4	10.8
Information technology	**10.4**	9.9	8.5
Marketing	**3.0**	4.1	2.3
Professional fees	**2.1**	1.6	2.6
Travel and entertainment	**3.1**	2.1	1.5
Write-down of intangible assets	**1.5**	–	–
Other	**7.4**	5.6	6.8
	30.2	**25.6**	**34.1**

6. Income tax

a) Numerical reconciliation of income tax expense to prima facie tax payable

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows:			
Profit/(loss) from operations before income tax expense	**53.2**	12.6	(19.8)
Tax at the Australian tax rate of 30% (2021 – 30%)	**16.0**	3.7	(5.9)
Add tax effect of:			
Share-based payments	**0.5**	0.7	1.1
Other permanent differences	**0.1**	(0.5)	0.6
Changes in estimates relating to prior years	**0.5**	0.3	0.5
Income tax expense	**17.1**	4.2	(3.7)
Effective tax rate	**32.1%**	33.3%	18.7%

b) Deferred tax assets

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Deferred tax assets			
Tax losses	**–**	13.5	18.5
Allowance for credit losses	**23.4**	16.7	13.5
Employee benefits	**2.0**	1.6	1.5
Capital raising costs	**6.3**	7.3	8.4
Share-based payments	**15.4**	15.8	19.3
Intangibles	**0.9**	2.0	1.6
Other	**2.5**	1.6	1.5
Total deferred tax assets	**50.5**	58.5	64.3
Deferred tax liabilities			
Cash flow hedges	**–**	(1.9)	(2.0)
Other	**(0.4)**	–	(0.1)
Total deferred tax liabilities	**(0.4)**	(1.9)	(2.1)
Net deferred tax assets	**50.1**	56.6	62.2

c) Current tax liabilities

During the half-year ended 31 December 2022, the Group's reported statutory profits resulted in the utilisation of all deferred tax assets relating to income tax losses brought forward from prior periods. As such, the Group anticipates being in a tax payable position for the first time for the income tax year ending 30 June 2023, with a provision for income tax recognised as at 31 December 2022 for $8.0 million.

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Current tax liabilities	**8.0**	–	–

7. Investments

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Financial assets measured at amortised cost			
Floating rate notes	**224.5**	163.4	228.4
Bonds	**2,036.3**	2,545.2	2,668.6
Residential mortgage backed securities	**44.9**	50.9	58.5
Negotiable certificates of deposit	**148.7**	34.9	69.9
	2,454.4	2,794.4	3,025.4
Allowance for credit losses	**(0.3)**	(0.4)	(0.3)
	2,454.1	**2,794.0**	**3,025.1**

Investments pledged as collateral

The following investments included in the above have been pledged as collateral under repurchase agreements in order to secure the RBA's Term Funding Facility:

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Floating rate notes	**53.9**	56.4	81.7
Bonds	**556.6**	1,242.5	1,463.6
Residential mortgage backed securities	**41.6**	51.0	63.0
	652.1	**1,349.9**	**1,608.3**

In addition to the investments detailed above, the Group also pledges its Aaa-rated self-securitisation notes as collateral under the repurchase agreements to secure the TFF, the proportion of which has increased during the period in line with securitisation activity to $2,276.2 million at 31 December 2022 (30 June 2022: $1,536.0 million).

8. Loans and advances

	As at		
	31 December 2022 $M	30 June 2022 $M	31 December 2021 $M
Business loans	**5,792.6**	4,716.3	3,729.8
Equipment loans	**465.8**	379.5	294.9
Line of credit	**456.6**	374.2	331.9
Home loans	**770.3**	621.8	491.0
Gross loans and advances	**7,485.3**	6,091.8	4,847.6
Adjusted for:			
Capitalised net transaction costs	**44.7**	33.2	0.8
Allowance for credit losses	**(77.5)**	(55.2)	(44.7)
	7,452.5	**6,069.8**	**4,803.7**

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 and advances:

	Stage 1 collectively assessed $M	Stage 2 collectively assessed $M	Stage 3 collectively assessed $M	Specific provision $M	Total $M
Loss allowance at 1 July 2021	**11.7**	**15.4**	**2.1**	**5.8**	**35.0**
Net transfer between stages	0.9	0.2	(1.2)	0.1	–
Increase in provision for new loans and advances	7.8	3.5	2.4	–	13.7
Net remeasurement of loss allowance	–	5.0	1.1	–	6.1
Write-back of provisions no longer required	(2.9)	(4.5)	(2.4)	(0.3)	(10.1)
Amounts written off, previously provided for	–	–	–	–	–
Loss allowance at 31 December 2021	17.5	19.6	2.0	5.6	44.7
Net transfer between stages	0.3	(0.7)	0.3	0.1	–
Increase in provision for new loans and advances	10.2	3.4	0.2	–	13.8
Net remeasurement of loss allowance	5.0	6.1	8.3	0.5	19.9
Write-back of provisions no longer required	(4.5)	(6.3)	(6.6)	(0.1)	(17.5)
Amounts written off, previously provided for	(1.3)	–	–	(4.4)	(5.7)
Loss allowance at 30 June 2022	27.2	22.1	4.2	1.7	55.2
Net transfer between stages	**0.9**	**(0.3)**	**(1.0)**	**0.4**	**–**
Increase in provision for new loans and advances	**13.1**	**1.9**	**0.5**	**0.6**	**16.1**
Net remeasurement of loss allowance	**2.0**	**7.3**	**5.4**	**2.0**	**16.7**
Write-back of provisions no longer required	**(4.5)**	**(5.2)**	**(0.4)**	**(0.4)**	**(10.5)**
Amounts written off, previously provided for	**–**	**–**	**–**	**–**	**–**
Loss allowance at 31 December 2022	**38.7**	**25.8**	**8.7**	**4.3**	**77.5**

The Group accounts for its credit risk by appropriately providing for Expected Credit Losses (ECL). In calculating ECL, the Group considers the amortisation profile of the exposure, the customer's probability of default, loss given default and exposure at default.

The Group's ECL measurement is derived from a probability-weighted average of three macroeconomic scenarios, representing base case, upside and downside scenarios. The probability of each scenario is determined by considering relevant forward-looking macroeconomic conditions and their expected impact on the Group's credit portfolios.

Key estimates and assumptions

Through the process of measuring the Group's ECL, management judgement is applied in considering forward-looking macroeconomic conditions, current portfolio composition, and other information, including peer benchmarking, to inform the probability of default and loss given default.

The Group has incurred limited credit loss experience to date and therefore references external experience and expectations to inform management judgement.

In determining the macroeconomic scenarios to be applied to the probability-weighted average, assumptions are made in relation to macroeconomic inputs that include (but are not limited to) GDP growth rates, interest rates, unemployment rates, inflation and property price indices. The base case Australian macroeconomic assumptions used to measure the ECL are as follows:

Base case Australian macroeconomic inputs	June 2023 Forecast
Gross domestic growth (annual)	2.80%
RBA cash rate	3.85%
Unemployment rate	3.50%
Consumer price index (annual)	6.10%
House price change (annual)	(18.0)%

During the period, the probability weighting for the Group's macroeconomic downside scenario was increased by 5% as compared to 30 June 2022, with a corresponding reduction in the base case scenario, reflecting an adjustment to the Group's forward-looking macroeconomic assumptions and resulting in an increase to the total collective provision.

Probability weightings	December 2022	June 2022	December 2021
Base case	**50%**	55%	60%
Upside	**20%**	20%	20%
Downside	**30%**	25%	20%

The key features of each of the macroeconomic scenarios are as follows:

- Base case – an optimal path for the economy, where the official cash rate plateaus between 3.5-4% and inflationary pressures continue to subside, moving towards the RBA's long term target range of 2-3%. Wage growth remains contained between 3-4% per annum with unemployment drifting up towards 4%, driving lower annual GDP and continued pressure on house prices.
- Upside – an upside path for the economy, where the official cash rate plateaus at 3.5% and inflationary pressures continue to subside, moving towards the RBA's long term target range of 2-3%. Wage growth remains contained between 3-4% per annum with unemployment drifting up towards 4%, driving lower annual GDP and whilst there is distress in households and businesses, it is easily managed.
- Downside – a sub-optimal path for the economy, where the economy proves to be stronger than anticipated and inflationary pressures remain, particularly where wage growth per annum continues to threaten inflation stability. The RBA's official cash rate keeps rising to a peak of 4-5.5%, inducing a recession and substantial distress on businesses and households with unemployment rising.

The following table details the difference in ECL coverage, based on a 100% base case and 100% downside probability weighting.

Collective coverage	**Weighted average**	**100% base case**	**100% downside**
Collective provision ($)	$73.2m	$62.9m	$103.5m
Collective provision/GLAs (%)	0.98%	0.84%	1.38%

Management overlay

Management overlays are subject to internal governance and are applied where model risk and other external factors cannot be appropriately accounted for through ECL models and are incorporated in overall collective provisions.

The Group continues to carry an overlay for large exposures within the loan book, reflecting the potential volatility in ECL if a larger customer cohort was to incur a significant increase in credit risk. The overlay takes into consideration the probability of default and loss given default profile of large customers to offset the unexpected movement in credit quality.

An economic overlay was raised during the period, reflective of heightened economic uncertainty, interest rate and inflationary pressures, and expected asset quality deterioration across the 2023 calendar year related to specific industries expected to be more adversely impacted from reduced retail discretionary consumer spending.

Industries captured by the economic overlay include retail trade, accommodation, food services, arts and recreation services. The Group has adopted techniques including stress testing, scenario analysis and expert judgement for the identified vulnerable industries, in order to inform the measurement of the management overlay taken for the half year ended 31 December 2022.

The addition of the economic overlay of $3.7 million resulted in total overlays incorporated in the collective provision increasing to $8.4 million (30 June 2022: $3.0 million).

9. Derivatives

The Group utilises derivative instruments in managing its exposure to risk. At inception of all hedge relationships, the Group documents the relationship between the hedging instrument and hedged item, the risk being hedged, the Group's risk management objective and strategy, and how effectiveness will be measured throughout the hedge relationship.

Trading derivatives are not in a qualifying hedging relationship, and as such are measured at fair value through the profit or loss. The Group has not held any instruments treated as trading derivatives for the financial year ended 31 December 2022.

a) Derivative assets and liabilities

The table below sets out total derivative assets and liabilities treated as hedging derivatives:

			31 December 2022		30 June 2022		31 December 2021	
			Fair value $M	Notional value $M	Fair value $M	Notional value $M	Fair value $M	Notional value $M
Derivative assets	**Hedging instrument**	**Risk**						
Cash flow hedges	Interest rate swaps	Interest	**10.6**	**803.4**	19.3	584.0	6.7	187.9
Derivative liabilities	**Hedging instrument**	**Risk**						
Cash flow hedges	Interest rate swaps	Interest	**(8.5)**	**4,715.0**	(7.4)	2,075.0	–	–

The fair values disclosed above are presented net of any collateral pledged on derivative liabilities or received on derivative assets. As at 31 December 2022, a total of $10.7m in collateral had been pledged on derivative liabilities, with $7.7m received on derivative assets.

The weighted average fixed interest rate of interest rate swaps hedging interest rate risk as at 31 December 2022 was 2.92% (30 June 2022: 2.34%).

The following table shows the maturity profile of hedging instruments based on their notional amounts:

	0 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total $M
31 December 2022				
Interest rate swaps	**3,995.0**	**1,523.4**	**–**	**5,518.4**
30 June 2022				
Interest rate swaps	1,190.0	1,419.0	50.0	2,659.0
31 December 2021				
Interest rate swaps	–	137.9	50.0	187.9

b) Risk management strategy for hedge accounting

The Group manages interest rate risk exposure across financial instruments including Term Deposits, Class A warehouse notes, and the RBA Term Funding Facility via interest rate derivatives. The interest rate risk arises due to the mismatch of repricing on the variable lending book against repricing of the Group's liabilities, which can lead to volatility in the Group's earnings for recognition of net interest income.

Interest rate derivatives are executed and designated into a qualifying cash flow hedge relationship on inception, swapping out floating rate interest derived on a portion of the Group's variable lending book and floating rate interest payable on a portion of the Group's variable warehouse debt. The gross exposures are allocated to time buckets based on expected repricing dates for each financial instrument, of which interest rate derivatives are then allocated against to hedge changes to future expected cash flows. The applicable benchmark interest rate that the Group is exposed to across the time period (1-month BBSW) is hedged as this represents the largest component of changes in future expected cash flows.

c) Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in Note 13. The movements in hedging instruments recognised in other comprehensive income are reported in the Group's Statement of Profit or Loss and Other Comprehensive Income.

The following table shows the carrying amount of hedged items that are in hedged relationships, and the fair value of the hedging instruments in the hedging relationship. The Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amount disclosed in other notes.

	31 December 2022		30 June 2022		31 December 2021	
	Carrying amount $M	Fair value of hedging instruments $M	Carrying amount $M	Fair value of hedging instruments $M	Carrying amount $M	Fair value of hedging instruments $M
Borrowings						
Debt warehouse – variable rate	**178.4**	**16.6**	184.0	17.6	187.9	6.7
Loans and advances						
Loans and advances – variable rate	**5,340.0**	**(14.5)**	2,475.0	(5.7)	–	–
	5,518.4	**2.1**	2,659.0	11.9	187.9	6.7

10. Leases

a) The Group's leasing activities and how these are accounted for

The Group leases various offices across Australia, which can range from a fixed period of six months to seven years, and may have additional extension options included.

Upon inception of a lease, a lease liability is recognised equal to the present value of lease payments over the life of the lease, discounted using the Group's incremental borrowing rate, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the associated right-of-use asset.

This lease liability is progressively unwound over the life of the lease, as cash payments are made and the associated interest expense is recognised through the statement of profit or loss.

A right-of-use asset is recognised for the future economic benefits the Group is to derive from use of the leased asset, which is measured upon inception of the lease as equal to the discounted lease liability, adjusted for any lease incentives received and estimated make good costs to restore the asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated over the shorter of the asset's useful life and lease term, on a straight line basis through the statement of profit or loss.

On 1 December 2022, the Group commenced a lease on a new Melbourne office for a seven year term. Upon inception, a $9.0 million lease liability was recognised as well as a $1.2 million provision for estimated make good costs. A corresponding right-of-use asset was recognised for $10.2 million, to be depreciated over the life of the lease.

b) Amounts recognised in the statement of financial position

The Statement of Financial Position shows the following amounts relating to leases accounted for under AASB 16 *Leases*:

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Right-of-use assets			
Property leases – buildings	**11.1**	1.5	2.0
Lease liabilities			
Property leases – buildings	**10.1**	1.7	2.3
Provisions			
Make good provision	**1.2**	–	–

c) Amounts recognised in the statement of profit or loss

The Statement of Profit or Loss shows the following amounts relating to leases accounted for under AASB 16 *Leases*:

	For the six months ended		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Depreciation of right-of-use assets	**1.1**	0.5	0.5
Interest expense on lease liabilities	**0.0**	0.1	0.1

11. Deposits

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Retail/direct term deposits	**3,270.7**	2,345.6	1,588.5
Wholesale/intermediated term deposits	**1,988.4**	1,744.9	1,650.3
	5,259.1	**4,090.5**	**3,238.8**

12. Borrowings

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Secured			
Debt warehouse	**401.1**	316.2	450.2
Repurchase agreements	**2,879.9**	3,055.6	3,039.7
	3,281.0	3,371.8	3,489.9
Unsecured			
Negotiable certificates of deposit	**459.4**	331.7	123.9
Senior unsecured debt	**199.2**	80.0	80.0
Subordinated notes	**49.8**	49.7	49.7
	708.4	461.4	253.6
Total borrowings	**3,989.4**	**3,833.2**	**3,743.5**

a) Senior unsecured debt

During the period ended 31 December 2022, the Group issued its inaugural public senior unsecured bond, being a three-year fixed rate note priced at 265 basis points over the three-year swap rate, which matures on 25 September 2025. Proceeds from the initial bond issuance totalled $175 million, plus an additional follow on issuance of $25 million.

13. Share capital and reserves

a) Share capital

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Ordinary Shares paid in full	**1,534.1**	1,534.1	1,529.1
Capital raising costs	**(15.9)**	(15.9)	(15.8)
	1,518.2	**1,518.2**	**1,513.3**

i) Ordinary Shares paid in full

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Balance at beginning of period	**1,534.1**	1,529.1	–
Conversion of A Class Shares to Ordinary Shares	**–**	–	1,180.8
Shares issued through IPO	**–**	–	348.3
Transfer from share-based payments reserve	**–**	5.0	–
Balance at end of period	**1,534.1**	**1,534.1**	**1,529.1**

ii) A Class Shares paid in full

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Balance at beginning of period	**–**	–	1,155.5
Issue of new shares	**–**	–	19.6
Conversion of options and warrants to A Class Shares	**–**	–	5.7
Shares converted to Ordinary Shares	**–**	–	(1,180.8)
Balance at end of period	**–**	**–**	**–**

b) Reserves

	As at		
	31 December 2022 $M	**30 June 2022** $M	**31 December 2021** $M
Cash flow hedges	**(0.6)**	4.3	4.6
Share-based payments	**(30.4)**	(36.6)	(33.1)
	(31.0)	**(32.3)**	**(28.5)**

c) Dividends paid

No dividends were declared or paid during the half-year ended 31 December 2022.

14. Fair value measurements

a) Fair value of financial instruments carried at amortised cost

The financial instruments detailed below are carried at amortised cost, which is the value at which the Group expects the instruments to be realised. The table below details the respective fair values of each item at the period end:

	As at					
	31 December 2022		30 June 2022		31 December 2021	
	Carrying Amount $M	Fair Value $M	Carrying Amount $M	Fair Value $M	Carrying Amount $M	Fair Value $M
Financial assets						
Cash and cash equivalents	**793.4**	**793.4**	407.1	407.1	454.0	454.0
Investments	**2,454.1**	**2,396.8**	2,794.0	2,747.4	3,025.1	3,035.8
Loans and advances	**7,452.5**	**7,452.5**	6,069.8	6,069.8	4,803.7	4,803.7
	10,700.0	**10,642.7**	**9,270.9**	**9,224.3**	**8,282.8**	**8,293.5**
Financial liabilities						
Deposits	**(5,259.1)**	**(5,241.3)**	(4,090.5)	(4,074.4)	(3,238.8)	(3,240.9)
Borrowings	**(3,989.4)**	**(3,989.4)**	(3,833.2)	(3,833.2)	(3,743.5)	(3,743.5)
	(9,248.5)	**(9,230.7)**	**(7,923.7)**	**(7,907.6)**	**(6,982.3)**	**(6,984.4)**

b) Fair value hierarchy

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. Each level is explained below.

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 which 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.

Financial assets and liabilities carried at fair value

The table below details financial instruments carried at fair value, by classification per the Statement of Financial Position and hierarchy level:

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
At 31 December 2022				
Financial assets				
Hedging derivatives – interest rate swaps	–	10.6	–	10.6
Total financial assets	**–**	**10.6**	**–**	**10.6**
Financial liabilities				
Hedging derivatives – interest rate swaps	–	(8.5)	–	(8.5)
Total financial liabilities	**–**	**(8.5)**	**–**	**(8.5)**
At 30 June 2022				
Financial assets				
Hedging derivatives – interest rate swaps	–	19.3	–	19.3
Total financial assets	**–**	**19.3**	**–**	**19.3**
Financial liabilities				
Hedging derivatives – interest rate swaps	–	(7.4)	–	(7.4)
Total financial liabilities	**–**	**(7.4)**	**–**	**(7.4)**
At 31 December 2021				
Financial assets				
Hedging derivatives – interest rate swaps	–	6.7	–	6.7
Total financial assets	**–**	**6.7**	**–**	**6.7**
Financial liabilities				
Hedging derivatives – interest rate swaps	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**–**

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

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.

Financial assets and liabilities carried at amortised cost

The table below details the fair value of financial instruments carried at amortised cost, by classification per the Statement of Financial Position and hierarchy level:

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
At 31 December 2022				
Financial assets				
Cash and cash equivalents	**–**	**793.4**	**–**	**793.4**
Investments	**–**	**2,396.8**	**–**	**2,396.8**
Loans and advances	**–**	**–**	**7,452.5**	**7,452.5**
Total financial assets	**–**	**3,190.2**	**7,452.5**	**10,642.7**
Financial liabilities				
Deposits	**–**	**(5,241.3)**	**–**	**(5,241.3)**
Borrowings	**–**	**(3,989.4)**	**–**	**(3,989.4)**
Total financial liabilities	**–**	**(9,230.7)**	**–**	**(9,230.7)**
At 30 June 2022				
Financial assets				
Cash and cash equivalents	–	407.1	–	407.1
Investments	–	2,747.4	–	2,747.4
Loans and advances	–	–	6,069.8	6,069.8
Total financial assets	**–**	**3,154.5**	**6,069.8**	**9,224.3**
Financial liabilities				
Deposits	–	(4,074.4)	–	(4,074.4)
Borrowings	–	(3,833.2)	–	(3,833.2)
Total financial liabilities	**–**	**(7,907.6)**	**–**	**(7,907.6)**
At 31 December 2021				
Financial assets				
Cash and cash equivalents	–	454.0	–	454.0
Investments	–	3,035.8	–	3,035.8
Loans and advances	–	–	4,803.7	4,803.7
Total financial assets	**–**	**3,489.8**	**4,803.7**	**8,293.5**
Financial liabilities				
Deposits	–	(3,240.9)	–	(3,240.9)
Borrowings	–	(3,743.5)	–	(3,743.5)
Total financial liabilities	**–**	**(6,984.4)**	**–**	**(6,984.4)**

c) Valuation techniques used to determine fair value

Valuation techniques used to value financial instruments carried at fair value include:

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

Valuation techniques used to value financial instruments carried at amortised cost include:

- for cash and cash equivalents – the carrying value is considered a reasonable approximation of fair value, as they are short-term in nature and receivable on demand;
- for investments – the fair values are based on quoted closing market prices at balance date;
- for loans and advances – the carrying value net of provisions for impairment and capitalised net transaction costs for loans and advances that are priced based on a variable or fixed rate, with no contractual repricing tenor, is considered a reasonable approximation of fair value;
- for deposits – the carrying value net of capitalised transaction costs for deposits is considered a reasonable approximation of fair value, except where the use of discounted cash flow analysis is adopted;
- for borrowings – the carrying value net of capitalised transaction costs for borrowings that are priced based on a variable rate, with no contractual repricing tenor, is considered a reasonable approximation of fair value. The carrying value of borrowings related to the Term Funding Facility is considered to approximate fair value due to the unique features of the facility, and unavailability of an appropriate comparable discount rate.

15. Interests in other entities

a) Material subsidiaries

The Group's principal subsidiaries at 31 December 2022 are set out below. Unless otherwise stated, they have equity consisting solely of ordinary shares or units 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.

		Ownership interest held by the Group		
Name of entity	**Country of incorporation**	**31 December 2022** %	**30 June 2022** %	**31 December 2021** %
Judo Bank Pty Ltd	Australia	**100**	100	100
Judo Capital Securitisation Trust 2018 – 3	Australia	**100**	100	100
Judo Securitisation Warehouse Trust 2020 – 1	Australia	**100**	100	100
Judo Securitisation Trust 2020 – 2	Australia	**100**	100	100
Judo Securitisation Trust 1R	Australia	**100**	100	100
Judo Capital Holdings Limited Employee Share Trust	Australia	**100**	100	100
Judo Securitisation Trust 2022 – 1	Australia	**100**	–	–
Judo Securitisation Trust 2023 – 1	Australia	**100**	–	–
Judo Capital Markets Trust 2023 – 1	Australia	**100**	–	–

Judo Capital Securitisation Trust 2018-2 was closed during the current period, and as such there will be no balances recognised for this entity in the consolidated financial statements of subsequent periods.

Judo Securitisation Trust 2022-1, Judo Securitisation Trust 2023-1 and Judo Capital Markets Trust 2023-1 were all created during the period, with all units held directly by the Group.

16. Commitments and contingencies

a) Contingent liabilities

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including claims on income taxes and the amount expected to be paid to tax authorities. Such matters require the exercise of judgement and can be uncertain.

Contingent tax risk

The tax affairs of the Group are subject to regular reviews by the Australian Taxation Office as well as the Revenue Offices of the various Australian States and Territories. Risk reviews are also being undertaken by tax authorities as part of normal tax authority review activity. The Group continues to respond to any notices and requests for information it receives from relevant tax authorities. The potential outcome and total costs associated with these activities remain uncertain.

17. Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Directors' declaration.

In the Directors' opinion:

a) the financial statements and notes set out on pages 28 to 50 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 31 December 2022 and of its performance for the half-year ended on that date, and

b) there are reasonable grounds to believe that Judo Capital Holdings Limited and its controlled entities will be able to pay its debts as and when they become due and payable.

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

Peter Hodgson
Chair

Manda Trautwein
Director

21 February 2023

Independent auditor's review report.

to the members of Judo Capital Holdings Limited and its controlled entities

Independent auditor's review report to the members of Judo Capital Holdings Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Judo Capital Holdings Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the Condensed consolidated statement of financial position as at 31 December 2022, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Judo Capital Holdings Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true

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and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

Sam Garland
Partner

Melbourne
21 February 2023

4.0 Appendices.

Glossary

Term	Meaning
AAA pipeline	Loans in application, approved and accepted status, but not yet settled
bps	Basis points
Capex	Capital expenditure
CET1	Common Equity Tier 1 capital
CET1 ratio	Common Equity Tier 1 capital divided by total RWAs
CRO	Chief Risk Officer
CTI ratio	Cost-to-income ratio
ECL	Expected credit losses
FTE	Full-time equivalent
FY	Financial year
HoH	Half on half
Leverage ratio	Leverage ratio is Tier 1 Capital as a percentage of total exposures. Total exposures are the sum of both balance sheet and off-balance sheet exposures (including treasury investments) and net of any Tier 1 regulatory reductions
Losses ratio	Losses ratio is the write-off expense experienced over a period, divided by the average loan balance of the period
LTI	Long-term incentive plan
MLH	Minimum Liquidity Holdings under the Minimum Liquidity Holdings regime where APRA requires Judo to hold a minimum buffer in cash and eligible securities
n.m.	Not meaningful
NCD	Negotiable certificates of deposit
Net interest margin	Net interest margin is net interest income divided by the average of the month-end closing balance of interest-earning assets
NPS	Net promoter score

Term	Meaning
PcP	Prior comparative period
pp	Percentage points
Preserved TFF	The component of Judo's allocation of the RBA Term Funding Facility which is collateralised with eligible treasury investments. It is intended that the preserved component will be replaced with additional self-securitisation notes as they are generated through new loans and advances to customers
ROE	Return on equity
RWA	Risk-weighted asset
Share	A fully paid ordinary share in the capital of the Company
SME	Small and Medium Enterprise
Tenor	The length of time that will be taken by the borrower to repay the loan along with the interest
TFF	Term Funding Facility
Tier 2 capital	As defined by APRA
Total capital ratio	Total regulatory capital including CET1 capital, Additional Tier 1 capital and Tier 2 capital, divided by total RWAs
Total provision coverage ratio	Total impairment provision balance divided by the end-of-period loan book.
Underlying NIM	Net interest margin adjusted to remove the impact of the Judo's preservation strategy with respect to the RBA's Term Funding Facility
Warehouse Facility	A revolving credit facility extended by a financial institution to a loan originator for the funding of loans

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Boldly backing business.