judobank

ASX Announcement.

25 October 2023

Judo 2023 AGM Chair and CEO Addresses

Judo's 2023 AGM will be held at 9:30am (Australian Eastern Daylight Time) today (25 October 2023). This will be a physical AGM held at Level 26, Queen and Collins, 376-390 Collins Street, Melbourne VIC 3000. A live webcast will also be available and can be accessed from Judo's website: https://www.judo.bank/annual-general-meeting-2023.

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

More information on the AGM, including the 2023 Notice of Meeting, is available on the Judo Bank website. A recording will be made available shortly after the conclusion of the meeting on the Judo Bank website.

Authorised for release by Yien Hong, Company Secretary.

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About Judo Bank

Judo Bank **www.judo.bank** is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and on 1 November 2021, was the first commercial bank to list on the Australian Stock Exchange (ASX) in 30 years. Judo was founded by a small group of experienced lending professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led lending model, which brings back the craft of relationship banking, is enabled by its legacy-free, digital, cloud-based technology architecture. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital.

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Judo 2023 AGM Chair Address

Good morning ladies and gentlemen.

I am very pleased to welcome you to today's AGM. We also take the opportunity to welcome shareholders who are watching this AGM via live stream. A recording of the AGM will be available on our website after the meeting for those shareholders who are unable to join us today.

Shareholders who are in the room today will have the opportunity to ask questions during the AGM.

As we have a quorum for this meeting, I am pleased to declare the meeting officially open.

I would like to start this meeting by acknowledging the traditional custodians of the land on which we are meeting.

I will start by recognising our directors, who are in the room with me in Melbourne today. They are:

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

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

Of course, you all know the Executive Management Team:

- Our CEO - Joseph Healy,
- Our Deputy CEO and Chief Relationship Officer – Chris Bayliss,
- Our CFO – Andrew Leslie,
- Our COO - Lisa Frazier,
- Our CRO – Frank Versace,
- Our Chief Third-Party Officer - George Obeid, and
- Our Chief People and Culture Officer – Jessica Lantieri.

I'd also like to welcome our Judo Bank employees who are present in this room and virtually.

It has been another year of growth and momentum for our company, as we continue on our path of building a world-class business bank.

At our full year results in August, we announced that Judo had achieved or exceeded the targets set by the Board, including profit before tax of $107.5 million and a loan book of over $9 billion, with depositors providing $6 billion for us to lend back to Australian businesses. This clear progress demonstrates that our model resonates with our customers and that we have the trust of the SME community as we continue to deliver on our key strategic commitments.

However, as a Board, we express our disappointment at the market's reaction and the performance of our share price against these solid achievements.

It is important to note that our culture at Judo is supported by very high levels of equity ownership across the company. Your Board and management team hold a significant amount of equity in the business, with some members making the decision to purchase more on top of this. Management's variable compensation is largely delivered in equity, and together, management, directors and employees own around 8% of Judo's stock. Judo's ownership mindset is a fundamental tenet of our culture.

We are thus highly aligned with you, our shareholders, in wanting to see the business deliver for us all, and like you, we are frustrated with the current share price against what we have achieved since gaining our banking licence in April 2019.

When we presented what I and the Board considered a sound full year result in August, we were all taken aback by the fall in our share price.

We asked ourselves, was this a verdict on strategy, the results themselves or what some may perceive as uncertain times ahead.

Over the past weeks I have met with Judo's substantial shareholders to listen to their feedback and views on this, and I welcome your additional perspectives today. While there are a range of views, no one took fault with our singular core strategy of a small business focussed bank. It has been noted in some of these meetings that Judo is often viewed through the lens of a traditional bank financial 'model'. That is not how we run our bank. Judo is unique and more agile in so many ways, and we have a range of levers we control to ensure we manage returns against our risk appetite, always considering the dynamics and operating environment of our business.

What came across loud and clear in these meetings is that our clear strategy, our uncomplicated business model, our specialist offering with a focus on relationship banking - are absolutely resonating but that we must continue to focus on delivery.

It's important to note that the fundamentals and economics of our business model have remained firmly as we set them at the outset. We remain clear on how we will achieve our core financial targets whilst taking acceptable levels of risk.

We continue to have very strong belief that over time, the fundamental economics of our business are capable of delivering a return on equity in the low to mid-teens. We have a clear customer value proposition which is differentiated by service, speed and judgement. We offer a simple set of products that meet the needs of a large addressable market. Equally we have a robust funding strategy with term deposits at the core, complemented by wholesale funding through a sophisticated Treasury function.

What we must not do, is react to the short-term vicissitudes of the market, but rather listen to where we might need to do better in either explaining or reporting our plans and progress and improving the clarity of our numbers.

We have been fortunate to have strong support from a number of blue-chip investors, many of whom have supported us from well before the IPO and some before we even had a banking licence. We thank these investors for their support and patience. It is essential for us to continue engaging with the investment community to find more long-term investors to support us as we continue building our business to scale and beyond.

This year we welcomed 78 new team members, and now employ over 550. Our team provides personalised services to more than 3,800 SME customers across numerous industries nationwide, as well as over 35,000 deposit customers, the latter benefiting from highly attractive deposit rates across a range of maturities.

I also want to highlight today our dedicated people in technology, cyber security, operations, finance and treasury - those behind our digital face who provide support to our deposit customers as well as our bankers, through a range of capabilities and functions that combined, make up a dynamic bank.

There is no doubt in my mind that our presence has had an outsized impact on competition in the banking market whether it be in small business, now being rediscovered by the major banks, or in term deposits, where the inertia tax still rules. We have definitely shaken things up!

We know from feedback and our high Net Promoter Scores that we are seen as a bank that consistently backs business. Our relationship-centred model is a competitive advantage in these uncertain economic times. The value of the direct relationships our bankers have with our SME customers and the in-depth knowledge of their businesses, help our customers navigate the current economic challenges, as well as the opportunities they face.

Maintaining our strong risk management framework and robust governance practices is crucial to the sustainability and success of our bank as we operate in a complicated regulatory environment. Our experienced management team deeply understands the inherent risks in banking and the importance of risk management is a key function of every team member across the business, from the Board down. This will continue to be the measure of our model.

FY23 has been a foundational year for Judo's environmental, social and governance strategy. Sustainability and social responsibility will continue to sit firmly on the leadership agenda, particularly as we face into the ongoing evolution of climate risk disclosures. A large part of sustainability at Judo means supporting our customers in the changing landscape. Although early in our journey, we are committed to the ongoing alignment of our business practices with sound ESG principles.

I want to pay tribute to the team at Judo who are committed to our purpose of being the most trusted SME business bank in Australia and every day, deliver exceptional banking services for this critical sector of the economy.

While we still have a lot to do, we have the right model and the right culture to deliver our strategy and to build for the long term.

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

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

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

Judo 2023 AGM CEO Address

Thank you Chair, and may I also extend a very warm welcome to everyone in the room and online today to our second AGM as a public company.

I want to start by thanking all of our shareholders for their support.

In just four years since being granted our banking licence, Judo Bank has reached profitability faster than any other challenger bank globally. We have now established ourselves as a viable alternative to the incumbent banks, having brought back the craft of SME banking to the Australian market.

As our Chair highlighted, we have met or exceeded all of the financial metrics we have set for ourselves since our IPO in November 2021.

Like you, as significant shareholders in this company, management and the Board are incredibly frustrated and disappointed that none of this progress is being reflected by the equity market. We want nothing more than to see the share price improve. We are working hard to help the market to better understand our unique business model.

The current share price implies our return on equity will never improve from what we reported in FY23. I want to emphasise that we have a clear path to a return on equity above our cost of capital, and we are making strong progress with this plan.

We continue to have very high conviction that as we deliver and show ongoing improvements in returns, that our share price will reflect the value we have created through our unique business model.

FY23 was an exceptional year for Judo.

As well as exceeding our guidance, we celebrated several major milestones:

As our Chair mentioned, we grew our team to over 550 employees in 18 locations nationally.

The strength of our employment brand is exceptional. We continue to recruit among the best bankers in the market and continue to be pulled by customers into new regions.

We grew our loan book to $9 billion, or 46%, to 3,800 customers.

Our deposit book grew to $6 billion, also up 46%, with over 35,000 Term Deposit customers.

We signed committed warehouse capacity of $3 billion, exceeding our target of $2.5 billion, giving us significant flexibility from a funding perspective.

We completed our first benchmark senior unsecured transaction, our first term securitisation transaction, and our second Tier 2 transaction.

We have also just announced our inaugural AT1 transaction. This is a long-planned capital initiative that is only possible now that we have reached sufficient scale.

We are delivering on our strategy.

The Judo management team and Board consists of very experienced business bankers with first-hand experience navigating through all parts of the economic cycle. We are drawing on our collective experience to prudently manage the business now for continued growth and returns.

We have also recruited among the most experienced business bankers in the market, whose credit skills are tested extensively and, on average, have 15 years of experience, supported by credit executives who have, on average, 25 years of experience.

We understand the challenges facing SME's better than anyone and have been proactively adapting our appetite for lending in certain sectors as the economic environment evolves.

We are cautious about sectors that will potentially be impacted by reduced household discretionary spending, however we have a more positive view on other sectors within the economy, such as agriculture and health.

In line with the broader banking industry, we saw some pressure on lending margins through FY23. Pleasingly however, our pipeline margins are improving. At our recent results, we indicated that pipeline margins were 25bps on average above our existing book.

This positive trend in pipeline margins has continued as a result of a disciplined focus on risk/reward pricing.

There is also evidence that risk-based pricing pressures have somewhat eased in the SME market as banks address NIM deterioration driven by higher funding costs and intense competition in the household mortgage market.

While there is a renewed focus from some banks on the SME sector, we are confident that our differentiated CVP, our size, being less than 2% of the market, and the power of our specialisation, gives us the ability to be nimble, with levers available to adapt quickly to changing conditions.

There is no question in our minds of our ability to achieve a gross lending margin of 450bps, which underpins our at-scale NIM target of above 3%, operating at all times within Board approved risk settings.

The impact of return to normal interest rate settings is still working its way into the economy as household budgets adjust. We anticipate the transmission of higher interest rates has another 12 months to play through.

We have given extensive disclosure on the credit quality in the portfolio and whilst it is inevitable that we see an increase in arrears and impaired loans as our book seasons, we reported in August that as of 30 June, we have 34, or 1%, out of our 3,800 customers in 90-day arrears or impaired. Our credit quality metrics remain comfortably below industry benchmarks. It is also important to note that arrears do not automatically translate to losses, given our proactive approach to working with customers and our strong security coverage.

We are monitoring the financial health of our customers very closely and an advantage of a high touch model is that we engage at "point easy" to assist with any issues. This is in contrast with other banks that do not have the resources to engage with customers until much later, at either "point hard" or "point complex". I do want to emphasise we have consciously built diversification of our customers across industries and geographies with an average loan size of $2.3 million.

In terms of funding, we have a robust funding strategy underpinned by term deposits and complemented by a range of wholesale funding channels.

Term deposits are a highly commoditised, price-driven product and we are uniquely positioned to sustainably pay competitive rates for term deposits. Our major competitors for term deposits are largely mortgage banks, with a 2% NIM or lower. As a specialist SME business lender, we have much higher spread on our assets enabling us to pay attractive TD rates without sacrificing our long-term economics.

Our term deposit base is now over $6 billion, and the strength of our brand continues to improve, evidenced by the customer retention rates and net promotor scores.

We have complemented our term deposit strategy with a comprehensive wholesale funding strategy. We now have largely the same tools in our tool kit as other more established banks, with warehouses, NCDs, senior unsecured debt, term securitisation and hybrid capital.

The higher funding costs across the sector in part reflect the banking industry having to replace $188 billion of the RBA's Term Funding Facility (TFF). The refinancing of the TFF was always going to place pressure on deposit pricing, but we believe this is temporary rather than a structural adjustment. While term deposit margins have been somewhat volatile since the beginning of the calendar year, as the sector has been repaying the TFF, we have seen strong inflows and our recent TD margins have been largely in line with our long run expectations. We expect industry NIM pressures will see deposit rates return to historical settings once the TFF is no longer a feature of bank funding models.

From a Judo perspective, we are well advanced in refinancing the TFF and this will be completed in June 2024. Today we have more undrawn capacity in our warehouse facilities than our outstanding TFF commitment, meaning we could repay the TFF at will, if desired.

To continue scaling, we are making a number of strategic investments. We have clear visibility of our cost base and how it will continue to grow as we invest in technology. While we are still growing our employee base into FY24, beyond this we expect cost growth to moderate. We remain very confident in our ambition of a CTI that is approaching 30 percent, with many domestic business banks and international challenger banks peers reporting similar ratios.

On capital, as many of you know, we have raised $1.5 billion of equity capital as part of a carefully sculpted plan which will enable us to reach the point of being capital self-sustained. Hybrid capital and capital-relief term-securitisation are both options available to us to augment our capital and fund our growth.

Before concluding, I do want to say a word on the myth that all smaller banks are competitively disadvantaged. This one-size-fits-all framing ignores the specialist and unique nature of Judo Bank and the fact that we are legacy free. I have already touched on some of the characteristics and metrics that make Judo unique and not a 'mini-me' of the larger banks. Being a smaller, more agile and nimble bank, soundly funded, with a deeply experienced management team, and a crystal-clear strategy, is a strength not a weakness of this very special bank. In time, the market will come to better understand this, of that I am very confident.

Our conviction in the long-term prospects for our business is as strong as ever and the opportunity for Judo remains vast. It is difficult for any of the incumbent banks to replicate our model.

We will continue to run our own race and continue to execute our strategy, working towards our vision of becoming a world class SME business bank.

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

Thank you, Chair, and back to you.