Annual Review
2020

judobank™

Table of contents

Our purpose

judobank™

Our purpose is to be the most trusted SME business bank in Australia.

Judo Bank is Australia's challenger business bank.

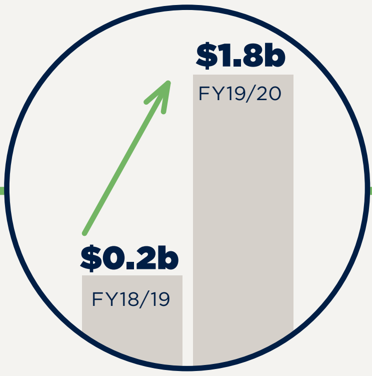
We provide Australian small and medium enterprises (SMEs) with the funding they need to operate and grow their businesses.

We believe that each SME is unique, and that relationships are built on deep understanding and trust.

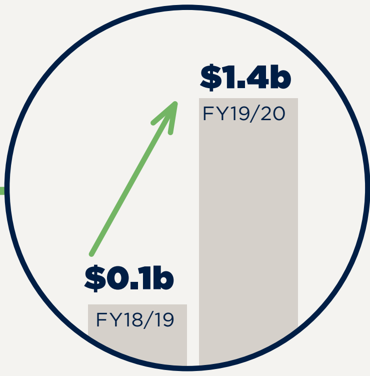
Through our unique, "high-touch, high-tech" model, we aim to provide Australian SMEs with an industry-leading value proposition that the big banks simply can't deliver.

Business banking as it used to be, business banking as it should be.

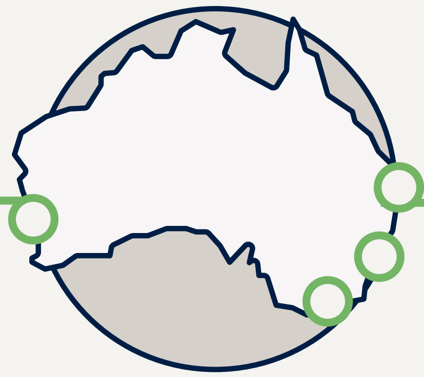
2020 key highlights



$1.8b
LOAN BOOK



$1.4b
DEPOSIT BOOK



197
STAFF

9,700+
CUSTOMERS

+71
NET PROMOTER SCORE

$1.3b
WAREHOUSE FACILITIES

“We have found our experience dealing with Judo to be a breath of fresh air.

After many years in business, I have seen nothing but a decline in service standards for commercial lenders, both in terms of the quality of service and response times. This has been no less evident during the recent COVID-19 pandemic. Our traditional lender came back with a response to our loan request 5 days after we had done the deal with Judo – and that was to simply fill out an application form.

It’s pleasing to see that traditional SME business banking relationships are back through Judo. Keep up the good work.”

Michael Biddle, Managing Director, RIGCOM

Our business

Who we are

Built from the ground up by a team of deeply experienced and highly credentialed business banking professionals, Judo Bank is Australia's only bank dedicated to SMEs. Our relationship-based model and legacy-free platform uniquely positions us against the major banks – particularly in the current environment, where our service proposition to SMEs has never been more important.

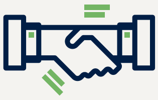
SME lending

Since Judo obtained its banking licence in April 2019, we have provided over $1.8 billion of funding into the SME sector. We have invested heavily in attracting and recruiting the country's best relationship bankers, and currently have 75 bankers and analysts across Australia. In addition, we have developed strong relationships with over 500 accredited third-party brokers.

Term deposits

Judo provides term deposits to both retail and wholesale customers, who have invested over $1.4 billion in our term deposits, providing valuable funding to support Aussie SMEs. Our term deposits have received industry recognition, winning the 'Bank of the Year 2020 – Term Deposits Award' from Canstar, and 'Experts Choice 2020 for Term Deposits' from Mozo.

Our values



Trust

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

Teamwork

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

Accountability

Make the decision and own it.
Keep your promises.

Performance

Make today better, stronger and faster than yesterday.

Our people

Judo has 197 talented and passionate employees spread across four offices in Melbourne, Sydney, Brisbane and Perth. We are committed to building a business that attracts great talent, by fostering a collaborative and inclusive environment where employees feel a strong connection and commitment to our purpose. Professionalism and ongoing development are key tenets of Judo's culture.

197
EMPLOYEES

59%
CUSTOMER FACING

35%
FEMALE

59%
BORN IN AUSTRALIA

4
OFFICES

41%
ENABLING FUNCTIONS

65%
MALE

41%
BORN OUTSIDE OF AUSTRALIA

Our approach

What we do

We are bringing back the craft of relationship banking to SMEs, with our specialised, purpose-built, relationship-centric service proposition. This is in contrast with most other lenders, who are focused on volume, a one-size-fits-all risk assessment, and an industrialised, cost-driven customer philosophy.

How we do it

Judo's approach goes back to basics. Relationship banking requires a deep insight into the purpose and values of each business in question, and we get to know each customer and their finance requirements in detail.

1

Dedicated

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

2

Direct

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

3

Personal

Our relationship bankers have a smaller portfolio of clients than the big banks, enabling them to spend more time with customers and offer a higher level of service, deeper engagement, better solutions and higher value-add.

4

Responsive

We offer customers a fast turnaround time – delivering certainty, reliability and speed when accessing finance.

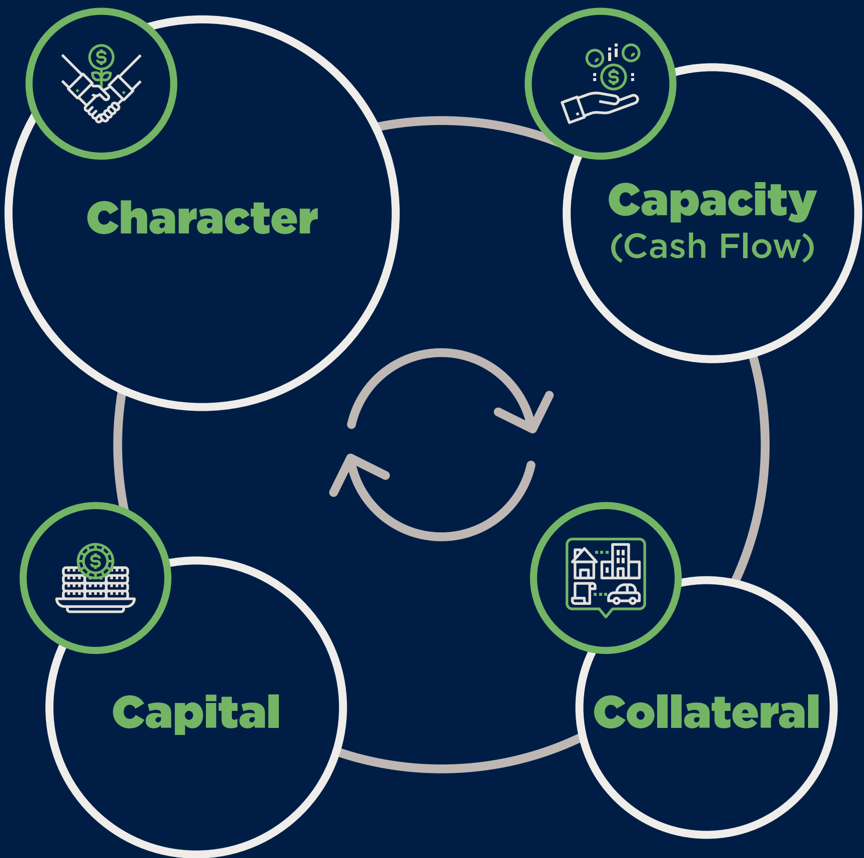
5

Transparent

Consistent, transparent, lending decisions based on a holistic understanding of each customer.

4 Cs of credit

Judo is bringing back the fundamentals of business banking with an emphasis on the 4 Cs of credit – Character, Capacity, Capital and Collateral. We prioritise Character first, going against the wider industry default of Collateral-focused lending assessments.



Chairman's report

Peter Hodgson
Chairman

On behalf of the board and staff of Judo, I am delighted to present our third annual report, combining, for the first time this year, both a review of our activities and our audited accounts.

Writing this report and commenting on what made the year to 30 June 2020 unique hasn't been hard of course, with our life now blighted by the COVID-19 virus – a circumstance that just twelve months ago would have been hard to imagine. It is in these troubling times that the culture of an organisation, and its mettle in dealing with what started as a health crisis but soon became an economic crisis, is vitally important.

When we established Judo and applied for our banking licence, I had no doubt we had the team to run a bank. But, what we really have is the team to run a different bank; one that's focused on the corporate customer, with an approach that emphasised not just credit, but character and competence that defines the culture of the organisation.

Culture has become an increasingly conscious matter for regulators and others with respect to financial services – perhaps with good reason, as seen from the travails outlined in multiple industry reports. Culture was never an afterthought at Judo.

As a starting point, all of our key management personnel – along with many of our staff – are shareholders, and thus owners of the bank. Each of our Directors signed The Banking and Finance Oath, joining with our staff in this commitment to good conduct in the industry.

Early on we piloted a program for continuous education with the Financial Services Institute of Australasia (FINSIA) for our bankers, none of whom were employed without passing a stringent examination around credit assessment in conjunction with the interview process. The Board goes through a self-assessment process, which also involves our staff. We assess each Board meeting, and have also conducted an independent third-party culture survey of the bank.

How we deal with our customers is as important as how we deal with each other. When we came to discuss how to deal with the negative outcomes for our customers from the COVID-19 crisis and government-imposed lockdowns, we were guided by the principle of supporting good businesses that had encountered issues outside of their control. These are the businesses that stand the best chance of survival and recovery. Knowing which businesses should recover is an outcome of our relationship banking model, through which we have a sound knowledge of our customers and their businesses. When the COVID-19 crisis hit, we were able to quickly assess and put in place measures to help our customers withstand the environment and survive.

Twelve months ago, we could not have guessed the year that would unfold. At the time, Judo was a newly-licensed Authorised Deposit-Taking Institution (ADI) with $238 million in loans, $104 million in deposits and 109 staff. By March, we were pitched into crisis mode with lockdowns in every state and many businesses left without any revenue.

“It is testament to Judo’s business model that we have continued to grow”

In such an environment, it is testament to Judo’s business model that we have continued to grow – and indeed to successfully expand interstate into Brisbane and Perth. Crisis aside, it has been a year of some significant achievement.

We have provided $1.8 billion in loans to over 800 customers across a range of industries. Our deposit products have been particularly successful, and have enabled us to largely fund our loan book through deposits. At 30 June 2020, we had almost 9,000 deposit customers who had invested $1.4 billion in our term deposit products, which all help to support Australian SMEs. Our continued growth necessitated a capital issue in May 2020. We were delighted with the support from our existing shareholder base and indeed our staff who contributed to the $228 million raising.

To be able to garner investor support in the midst of the pandemic and market disruption is a testament to the soundness of our business proposition and a credit to the team and all involved.

We continue to maintain strong and consistent contact with a range of our regulators, including the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and the Australian Transaction Reports and Analysis Centre (AUSTRAC). Being open, receptive and forthright is key to regulator engagement.

Our staff are actively engaged in developing new products and offerings for our customers, and we expect to see these rolled out progressively in the coming financial year. It has been an extraordinarily busy year for everyone at Judo, and while the short term has its issues, we can look forward with confidence.

I am indebted to our staff, my fellow Directors, our investors and our customers for their support over the past year, and as we continue the exciting journey Judo has begun.

Peter Hodgson
Chairman

Chief Executive Officers' report

Joseph Healy & David Hornery
Co-Chief Executive Officers

As the Chairman's Report highlights, we have had another very full year. Despite challenging market conditions, we have continued building momentum in the business, achieving several milestones, including undertaking a $228 million equity raising during the largest dislocation to markets in decades. This took our total equity raising to approximately $770 million and valued Judo at over $1 billion. It also underscores the unwavering support of our investors for the relationship proposition we are delivering, and the clear momentum already achieved. We were thrilled with this outcome, given the business was just a PowerPoint presentation only three years ago.

There were a range of other highlights this year, including the launch of our online deposit capability which has performed above our expectations, attracting close to 9,000 deposit customers. We won several awards including the 'Bank of the Year 2020 – Term Deposits Award' from Canstar. We were also the first Australian bank to receive securitisation facilities ($500 million) from the Federal Government's Office of Financial Management.

Growth is one thing, but over time it must demonstrate the ability to transition to scalable, meaningful and sustainable profitability. We have always been conscious of the valuation hype attached to the fintech or 'neobank' sector, on business models that have no apparent path to sustainable profitability. By contrast, we expect to turn a profit early in the new financial year and be one of the very few 'new banks' anywhere in the world to achieve profitability in such a short timeframe.

A central theme of this financial year has been the impact of COVID-19 on so many individuals, families, and businesses. From March 2020, everyone's lives have been impacted by both a health crisis and an economic crisis. While the tragedy of the health impact is more immediate, the magnitude of the economic and social costs will not be known for some time. Throughout all this, our priority has been the safety and wellbeing of our staff and the provision of support to our customers.

For our customers, the value of having highly skilled and passionate relationship bankers has never been clearer or more important. Judo's commitment to a market leading customer experience is underscored by a Net Promoter Score (NPS) of 71. This places Judo in an elite category globally, and significantly ahead of every competitor in the finance sector locally, for whom negative NPS outcomes are commonplace. The value of our relationship centricity is evidenced by APRA lending volume statistics as of 30 June 2020, showing that Judo is the fastest growing SME bank in the market by a significant margin.

As detailed in this report, the role of risk management remains central to how we think, talk, and act as a bank. Risk management has always been central to banking, but the story of the industry over the last decade, if not longer, has been one of progressive decline in risk management standards. In Australia, this has been disguised to some extent by a benign environment over several decades. As we manage through the economic consequences of the COVID-19 world, we are concerned that there will – to paraphrase Warren Buffet – be poor lending practices evident as the tide goes out, which will predictably tempt many to 'close their eyes' to avoid blushes and embarrassment.

“We could not be any prouder of the ‘Judo Family”

We recently opened an office in Perth, adding to our offices in Melbourne, Sydney, and Brisbane. As we diversify geographically, making sure that the ‘Judo Family’ operates as one team is important. We think of our state-based offices as ‘different floors in the same building’ rather than regional silos. This way we make sure that the customer-centric culture that is central to our purpose and reason for existing is consistent across the country.

The Chairman’s Report highlights the emphasis we have placed on culture, and how as a new bank – in an industry criticised for its systemically poor culture, professional values, and standards – Judo had a unique opportunity to develop a bank that role-modelled the interconnected nature of culture and professionalism; both key tenets of what Judo stands for.

Apart from an unwavering 100% employee and Board member commitment to The Banking and Finance Oath, we have also continued our commitment to the Chartered Banker qualification. Many of our senior executives have obtained, or are in the process of obtaining, ‘Chartered Banker’ status through the Chartered Banker Institute in the UK, administered in Australia by the Financial Services Institute of Australasia (FINSIA).

Central to Judo’s strategy is the provision of a relationship banking service to the SME economy, which is enabled but not defined by the application of state-of-the-art technology. The emphasis on our cloud-based technology, hosted by Amazon Web Services (AWS), has been of significant benefit during COVID-19, as it has allowed the bank to function smoothly and readily adapt to a new reality of remote working. How we deploy technology and our commitment to the application of Artificial Intelligence (AI) will be a defining element of our future.

Finally, whilst everyone connected with Judo has much to be proud of, we are not complacent nor satisfied by our success. The challenge will be that of continuing the strong growth and momentum already evident in our business, and in doing so, navigating some dangerous waters in the year ahead. In the world in which we find ourselves, forecasting is a futile exercise. But, the importance of our values, our ability to remain agile, the wonderful team we have at Judo, and our strong financial footings position us well in making sure that 2021 is another successful year.

We could not be any prouder of the ‘Judo Family’.

Joseph Healy
Co-Chief Executive Officer

David Hornery
Co-Chief Executive Officer

Chief Financial Officer's report

Chris Bayliss
Chief Financial Officer and Chief Operating Officer

FY20 has been an extremely successful year for Judo Bank despite the challenging environment. Our lending book grew to $1.8 billion which we attribute to the strong foundations set in 2019, that afforded us success even as the impacts of the COVID-19 pandemic were felt. This was supported by another successful capital raise in May 2020, which enabled Judo to maintain a robust capital position throughout the year. Alongside strong deposit growth and diversification of our debt funding sources, Judo has maintained a robust capital position and healthy levels of liquidity through the year. Both have proven to be particularly critical during times of uncertainty, and set us up well for an even more successful FY21.

Strong growth in lending

FY20 saw a substantial increase in lending originations compared to the previous year, increasing by $1.6 billion to finish FY20 at $1.8 billion (FY19: $0.24 billion). A notable achievement was our ability to support customers by continuing to lend, despite the difficult economic backdrop created by the COVID-19 pandemic. This welcome support is evidenced by the fact that 24% of the lending book growth was achieved in the last 3 months of the financial year. Originations were predominantly via our third-party brokers (approximately 74%), but pleasingly for a new entrant like Judo, 26% of lending came via direct channels.

Deposit growth and diversifying our funding base

The funding base has grown significantly during FY20, aided by the launching of retail term deposits to personal customers as well as growing the wholesale term deposit customer base. Term deposits remain the largest source of funds for Judo attracting close to 9,000 customers and increasing to $1.39 billion in FY20 (FY19: $0.1 billion). Wholesale term debt funding increased in FY20 to $0.5 billion (FY19: $0.1 billion) which included the onboarding of two new committed SME securitisation warehouses with Citibank and the Federal Government's Office of Finance Management. A total of $1.3 billion in wholesale credit facilities are now available to support growth in lending to the SME sector, providing additional diversity and tenor in the funding mix.

Maintaining strong capital and liquidity foundations

As at 30 June 2020 Judo was well capitalised, with a total capital ratio of 23.8% (FY19: 44.2%) and a common equity tier 1 ratio of 23.1% (FY19: 43.6%). Capital ratios were maintained comfortably in excess of regulatory requirements and Board targets throughout the year, with proceeds from capital raising activities (remaining proceeds from the 2019 Round 2 equity raising and $114 million in new settled proceeds from the first tranche of the successful $228 million Round 3 equity raising in May 2020) being used to support the strong growth in risk-weighted assets of $1.8 billion.

Judo has managed liquidity prudently in the current year, maintaining significant surplus Minimum Liquidity Holdings (MLH), whilst also seeking to optimise the returns on our liquid asset portfolio. At 30 June 2020 MLH was comfortably ahead of targeted levels at 23.4% (FY19: 46.0%).

The increasing capability and sophistication of Judo's Treasury function has enabled us to explore new opportunities for funding and capital optimisation. This includes consideration of various options for the utilisation of Judo's large allocation received under the Reserve Bank of Australia's Term Funding Facility, as a result of the strong growth in our SME lending book during the last 3 months of FY20.

> **"FY20 has been an extremely successful year for Judo Bank despite the challenging environment"**

Key Performance Indicators	2020 $M	2019 $M	% Change
Selected Assets and Liabilities			
Loan Book	**1,788.8**	238.3	651%
Customer Deposits	**1,386.3**	104.4	1,228%
Term Wholesale Funding	**495.3**	85.1	482%
Profit & Loss			
Interest Income	**52.4**	6.2	745%
Interest Expense	**(24.5)**	(5.4)	354%
Net Interest Income	**27.9**	**0.8**	**3,388%**
Other Income	**0.3**	0.5	-40%
Total Revenue	**28.2**	**1.3**	**2,069%**
Employee Benefits Expense	**(34.9)**	(15.6)	124%
All Other Expenses	**(20.6)**	(11.8)	75%
Total Operating Expenses	**(55.5)**	**(27.4)**	**103%**
Cost of Risk	**(23.5)**	(1.9)	1,137%
Loss Before Income Tax Expense	**(50.8)**	**(28.0)**	**81%**
Liquidity			
Minimum Liquidity Holdings (%)	**23.4**	46.0	-49%
Capital			
Common Equity Tier 1 Capital Ratio (%)	**23.1**	43.6	-47%
Total Tier 1 Capital Ratio (%)	**23.1**	43.6	-47%
Total Capital Ratio (%)	**23.8**	44.2	-46%
Risk Weighted Assets ($m)	**2,286.6**	443.8	415%

Chief Financial Officer's report

Profit & loss performance – progressing towards profitability

In line with our initial investment thesis, losses have peaked in our second year of trading at $50.8 million (FY19: $28.0 million), which is well ahead of the profile most start up challenger or neobanks can achieve. We are now rapidly approaching our first month of profitability, which is expected to occur in H1 FY21. The FY20 loss was also impacted by the large cost of risk charges that were recognised later in the year due to the expected impacts of the COVID-19 pandemic.

Total revenue grew from just $1.3 million in FY19 to $28.2 million in FY20. Interest income grew strongly in line with loan book growth, while interest expense also increased as Judo grew its term deposit book and increased its debt funding. Judo's net interest margin (NIM) has been increasing month on month as our lending margins continue to leverage our superior customer value proposition, and our funding costs reduce in line with the scale and maturity of the business.

Operating expenses grew by 103% to $55.5 million (FY19: $27.4 million) reflecting the significant investment made in people, core banking technology assets, and risk management infrastructure required to support our strategic business priorities. Total FTEs almost doubled in FY20 to 197 FTEs (FY19: 109), as bankers were onboarded to manage relationships with SME customers. Key roles were also filled across the organisation to support Judo's new operating direction as a bank.

While the cost of risk charge for FY20 was greatly inflated by provisions raised for the anticipated impacts of the COVID-19 pandemic, the underlying cost of risk was in line with expectations, reflecting Judo's robust approach to credit risk management. At 30 June 2020 the cost of risk provisions stood at $25.4 million, which includes a significant management overlay for potential losses.

Outlook

Despite losses in the current year and an uncertain economic outlook due to COVID-19, we are confident that Judo is well positioned for the coming financial year. Judo's relationship banking model and robust approach to risk management have positioned us well to achieve stronger lending book growth and financial performance in FY21. We anticipate Judo will turn profitable during FY21, which will be a significant milestone given the relatively short time since the bank was founded.

Chris Bayliss

Chris Bayliss
Chief Financial Officer
and Chief Operating Officer

“I knew it was the right time for me to step outside of my comfort zone, join Judo and be part of a revolution in the SME sector in Australia. At Judo, it’s really apparent that everyone works together towards the same goal. This can be seen and felt as soon as you walk through the door.

Our connection to our purpose and each other is really strong. The culture at Judo is like no other, and even if we are not physically in the office at the moment, we are more connected than ever to make today’s craft of relationship banking for SMEs better, stronger and faster than yesterday.”

Jessica Lokhun, Settlements Manager, Judo Bank

“Relationship banking at its best. Hats off to the Judo team for its commercial approach taken to settling a complicated transaction with many moving parts.

The genuine commitment to the client and willingness to find a solution were reminiscent of old-fashioned relationship banking, long forgotten by the big 4 banks.

Thanks Judo, you’ve got one happy client.”

Maurice Heading, Founder and Director, Heading & Associates

Risk management

Jacqui Colwell
Chief Risk Officer

Strong risk management is a critical element of any bank, and Judo is no different. With a commitment to ensuring that 'everyone is a risk manager', effective understanding of risk management is embedded in Judo's values, behaviours and decision making processes.

In a fast growing business, a focus on risk management is critical. It enables the business to identify the risks it wants to take, apply appropriate controls to manage the risks, and ensure an appropriate reward that reflects the level of risk both now and through the business cycle.

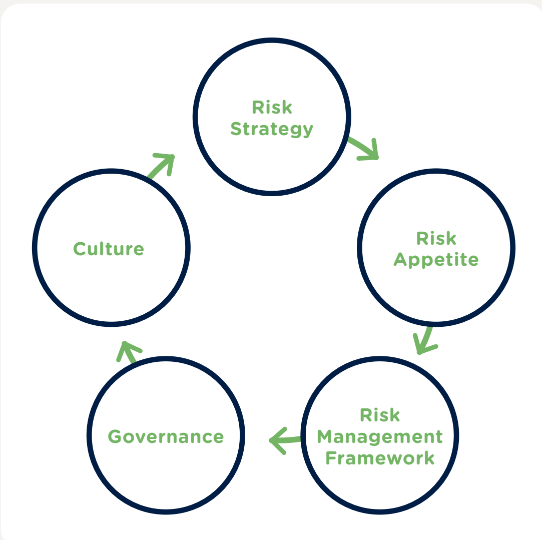
This has never been more critical than during the last three months. Judo's strong focus on risk management has enabled us to continue to support our customers during these unprecedented times, while continuing to grow the business.

During the financial year, Judo has strengthened and matured its approach to risk management, supporting the Risk Management Framework through additional investment in both people and technology resources, including:

- doubling the resources in our credit risk decision-making team to support the continued growth of the business and our customers;
- increasing the resources that focus on non-financial risks, including compliance and operational risk and uplifting our policies and controls;
- enhancing data analytics with a focus on risk appetite and portfolio monitoring; and
- development of foundation core risk systems that support us in monitoring and measuring our risk and our regulatory obligations. These systems are considered advanced for a bank of our size and complexity.

Judo's approach to risk management

Judo's approach to managing risk involves five interconnected elements:



Judo’s Risk Management Framework

Judo’s risk culture

Risk Management Framework

Business plan | **Risk Appetite Statement**

Risk Management Strategy
Judo’s approach to managing risk

A. Judo’s key risk categories

- Credit risk
- Funding & liquidity risk
- IRRBB
- Operational risk
- Compliance risk
- Capital risk
- Regulatory risk
- Technology risk

B. Key operational elements

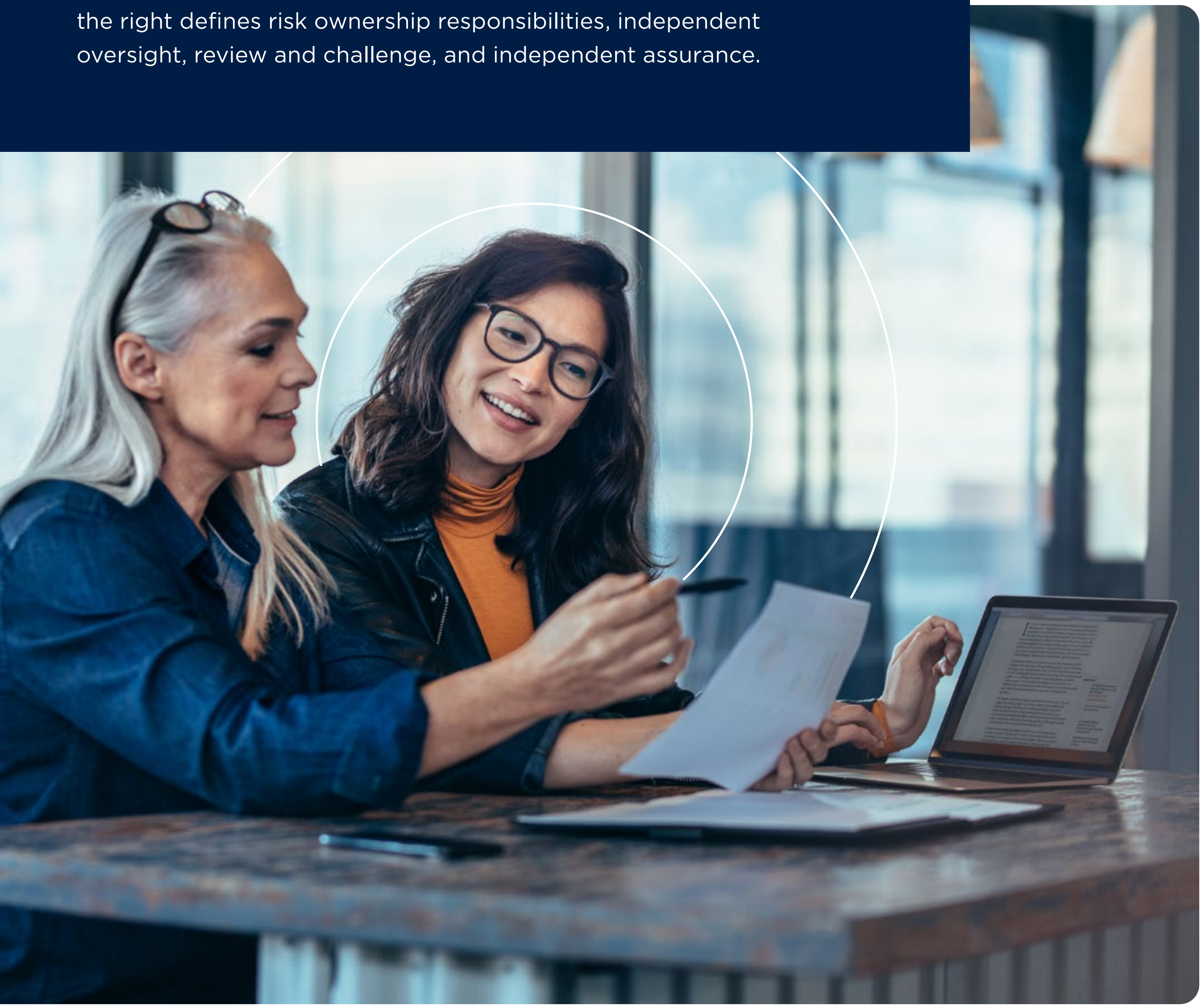
- Risk governance
- Risk policies
- Risk reporting
- Risk infrastructure

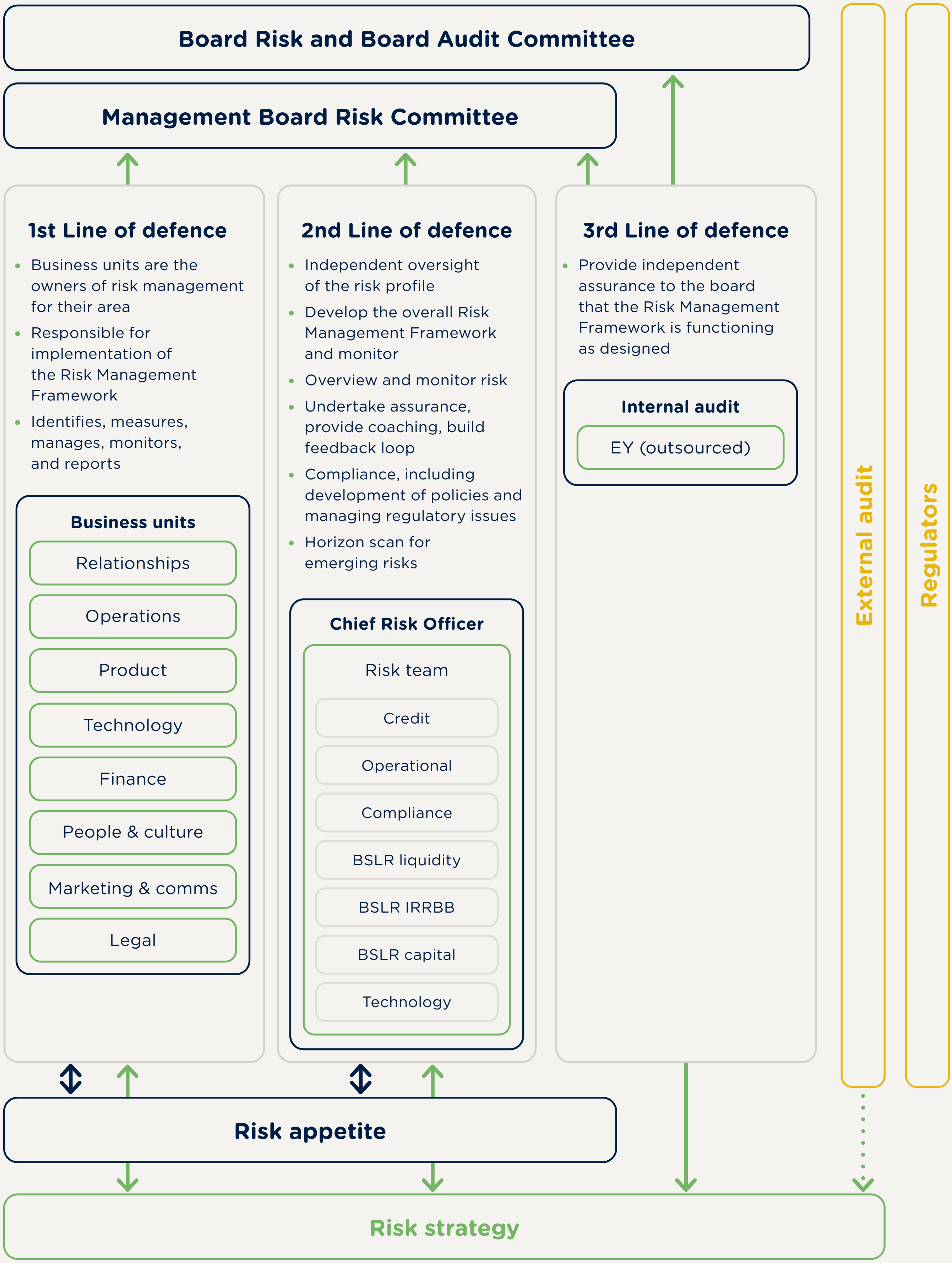
C. Supporting key risk frameworks

Risk management

Judo's Risk Management Framework is appropriate for our size, current business mix and complexity of operations, and ensures there is adequate oversight and management of the risk profile.

To support the management of risk and the Risk Management Framework, Judo has established a risk governance architecture that defines how accountability, responsibility and authority is delegated from the Board to the organisation as a whole. The Three Lines of Defence model outlined in the diagram on the right defines risk ownership responsibilities, independent oversight, review and challenge, and independent assurance.





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

Risk management

COVID-19

With the rapid onset of COVID-19 in March 2020, Judo found itself in a situation where many of our customers required some form of financial assistance. Judo was in a unique position, given our relationship model and size, and was able to proactively contact every customer to ascertain their position and determine if assistance was required. The credit risk and relationship teams worked closely together to determine bespoke solutions in terms of type of assistance and duration for our customers. During the year to 30 June 2020, Judo provided some form of assistance to ~20% of our customers.

In addition, Judo has undertaken a full review of the credit portfolio, including scenario analysis and stress testing to project potential future credit losses which may result from ongoing economic impacts.

The pandemic enabled Judo to test its operational resiliency and the accuracy of our pandemic plan and business continuity planning. Our cloud-based technology systems, combined with the implementation of our incident management plan, enabled us to quickly activate operating structures that ensure an ongoing ability to service and support our customers.

The ongoing impacts of COVID-19 and potential impacts on the economy, our customers, our operational resilience and financial position continues to be monitored very closely with oversight by the Board.

Conclusion

The first full year since Judo gained its banking licence has been a period of significant growth, with embedding of frameworks and policies designed to support Judo as a new bank. During this period, our external auditor has also undertaken a review of our Risk Management Framework and its application within Judo operations, and we have undertaken a review of our risk culture. The outcomes of these reviews will continue to inform continuous improvement in risk management.

"Joining Judo as a banker has been a breath of fresh air. I feel completely empowered to deliver a high service quality to my customers and am able to properly leverage my banking skills by applying judgement to the unique customer circumstance. This contrasts with the mainstream of the industry where you were constantly getting caught in the web of big bank policy and bureaucracy. Judo has created a truly unique employment proposition for its relationship bankers."

Brett Buccilli, Regional Director, Judo Bank

"At Judo, the credit function is genuinely sympatico with the relationship team and our joint problem solving always keeps the customer front of mind. For me, it's been such a contrast to the outdated and narrow culture of other banks I have worked for and where I never felt free to be myself or offer my opinions. By contrast, at Judo having diversity in views, true collaboration and openness is encouraged and embraced. The opportunities to learn and thrive at Judo aren't just something that were promised in the job interview – Judo has actually delivered on this for me."

Anna Mackay, Director Customer Credit, Judo Bank

People & culture

Megan Collins
Chief People and Culture Officer

Judo people are the cornerstone of our business. How our people feel and behave at work drives their focus and commitment towards our purpose – to be the most trusted SME business bank in Australia. A key aspect of our value proposition to customers is built on our focus on cultural and human capital, and our people and culture vision is therefore very simple: to be the most trusted employer in Australian banking. We want to nurture our employees, to the point they are raving fans, working in the best job they have ever had.

Judo's people priorities

In order to help realise our vision, our people priorities are defined within four main categories:

Culture

An independent review of our risk culture confirmed a number of key strengths that have been the driving force behind our significant growth, in addition to some points for us to keep in mind as we continue to scale.

The creation of a senior Leadership Forum has enabled our leadership group to come together to connect and share ideas. In FY20, we also launched our refreshed Judo performance management tool, **Judo Tracks**, along with new recognition cards, both of which are linked to our values. There remains a consistent focus on employee wellbeing and mental health, both prior to and during the COVID-19 period, and programs have been consistently delivered to foster a collaborative and connected organisation.

Talent

Talent selection and development has remained a key focus as Judo grows. Our recruitment process has consistently involved three to five different stages, assessing values, risk management, technical capability, and suitability for a start-up environment. In addition, during FY20, personality profiling was introduced to the selection process to further assess fit for the role and to our organisation.

We continued to recruit significantly via employee referrals, with ~69% sourced through this channel over the last 12 months. Pleasingly, we also saw 19 employees promoted internally to new roles during FY20, with a focus on building succession and addressing capability gaps. We also reviewed our overall organisational structure for the next phase of growth, which resulted in:

- the consolidation of our technology, operations and finance teams into a single shared services group;
- creation of a new role on the Management Board for a Chief Relationship Officer, to drive greater co-ordination and consistency across our national relationship team;
- external appointment of a new Chief Marketing Officer;
- appointment of a General Counsel and Company Secretary; and
- the opening of a new office in Perth.

Our commitment to professional development remains strong, with ~30 employees completing Financial Services Institute of Australasia (FINSIA) qualifications and 12 senior bankers working towards receiving their Chartered Banker qualification.

Reward

During FY20, we developed six core remuneration principles, and launched our first long-term incentive share option plan, with a second plan well underway. Founding employees remain incentivised through a long-term performance rights plan.

We also launched our employee benefits program, **Judo Perks**, with an extra week of annual leave and an annual cash benefit to spend on family, community, health or personal development.

A new recognition program, **Judo Masters**, was also developed, with peer recognition for employee commitment to Judo values.

Efficiency and governance

Our new Human Resources Information Portal, **J-Po**, was selected to improve people processes and the employee experience. Judo's Governance, Culture, Remuneration and Accountability (GCRA) strategy was developed, while revised and updated Banking Executive Accountability Regime (BEAR) statements were completed, and Judo's People Guidelines were redrafted to reflect a modern and socially conscious workplace. Most of these initiatives will be more formally launched and communicated as **J-Po** goes live in FY21.

People & culture

COVID-19

The rapid onset of COVID-19 in March 2020 saw Judo play a critical role in helping our customers deal with significant and unprecedented challenges. Our staff's ability to respond quickly to customer needs and concerns amidst the rapidly changing landscape has been critical. To support our people both professionally and personally, our guiding principle has been to ensure our team has genuine concern and care for their own wellbeing and mental health. In addition, we have been committed to timely, relevant and consistent communications as an organisation.

We were able to quickly implement multiple initiatives to support our team with the transition to working remotely, and in dealing with new ways of working. This has included:

- multi-channel formal and informal communication;
- team activities to stay connected;
- expanded mental health, wellbeing and coaching services and programs for employees and their immediate families;
- paid pandemic leave as needed;
- flexible working options to support the many individual circumstances our team has been dealing with;
- virtual education and learning sessions; and
- a series of small 'joys' for employees, to treat themselves and their families.

We have been mindful during this time that it is often the smallest actions or the 'one percenters' that can have the biggest impact. The way we treat our people during this period will be long-remembered, and if done well, will help us continue to grow successfully, whilst embedding the culture we want to be known for.

Conclusion

Judo's organisational growth over the last 12 months has been significant. We have doubled our headcount, continued to expand our capabilities in Sydney and Brisbane, and opened our Perth office, whilst implementing some key changes to support our business as we continue to grow.

The way in which we support our people will be reflected in the way they support our customers. These relationships will ultimately underpin our continued growth and success, and help us become the most trusted employer in Australian banking, and the most trusted SME business bank in Australia.


THIS IS JUDO
OUR PURPOSE...
TO BE THE most trusted
SME BUSINESS BANK in AUSTRALIA
MIGRANT MINDSET
ENERGY/ ATTITUDE
DECISIVE
INQUISITIVE
COURAGEOUS
HUNGRY
PASSIONATE
RESILIENT
ADAPTIVE
OUR VALUES
TRUST
TEAMWORK
ACCOUNTABILITY
PERFORMANCE

"Joining Judo has enabled me to obtain a much broader banking experience by providing significant opportunities for personal and professional development, which would not have been possible at other organisations. I was able to join Judo in the operations team and then quite quickly move across to the Relationship team as a Regional Director, allowing me to gain exposure to all areas of the business and really understand the full customer experience. I have been able to work closely with some really fantastic people which has considerably enhanced my capabilities on a number of levels."

Sara Hernandez Vicario
Regional Director, Judo Bank

Our people.

"My time at Judo has actually been life changing and provided me with skills and experiences that I would never have imagined. Having joined the organisation from the early days and to see it grow to what it is today has been amazing to watch and even better to be part of. My journey has pushed me to learn and develop, which ultimately led to my appointment as the Managing Director – WA. In this role I am now fortunate enough to be building our Perth office from scratch whilst bringing the Judo culture and our strong values of Trust, Performance, Teamwork and Accountability to life in the West, all whilst delivering exceptional results for our customers."

Ben Tuszynski
Managing Director WA, Judo Bank

Corporate governance

The Board and management of Judo share a common belief that effective governance and valuable oversight are key to a successful enterprise. Our Directors and management team work together to provide the accountability that ensures Judo can continue to be the most trusted SME business bank in Australia.

The Board consists of six independent Directors and four shareholder-appointed Directors as is permitted under the terms of the Shareholders Agreement. The Chairman of the Board and all the Chairs of all the Board Committees are independent Directors.

Board committees

Committee Membership as at 30 June 2020

	Board Risk Committee	Board Audit Committee	Board Remuneration and Nominations Committee
Chair	**John Fraser**	**The Hon Bruce Bilson**	**The Hon Bruce Bilson**
	Peter Hodgson	Peter Hodgson	Peter Hodgson
	Mette Schepers	Manda Trautwein	John Fraser
	The Hon Bruce Bilson	Geoff Lord	Hui (Tony) Diao
	David Fite		Stanislav Kolenc
			Mette Schepers
Observers	Manda Trautwein	Mette Schepers*	

** From July 2020, Mette Schepers became a member of the Board Audit Committee to replace Geoff Lord*

Board priorities

During FY 2020, the Board's priorities were to:

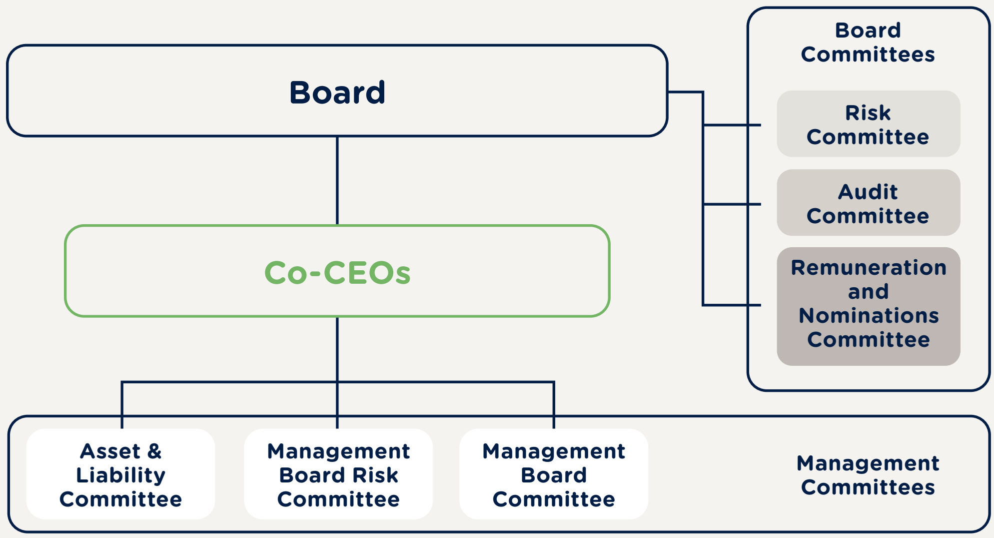
- Implement semi-annual and in-session deep dive strategy discussions to ensure dedicated time to explore, debate and consider broader strategic conversations;
- Develop a Board assessment framework to continue to drive a continuous improvement mindset and assist the Board and the Chairs of the Board and the Board Committees to develop areas of specialisation required as Judo continues to grow and diversify its product offering; and
- Update Board and Board Committee charters to refine and improve the articulation of the roles and responsibilities of the Board, the Board Committees and the management team.

Board responsibilities

The Board has the following responsibilities:

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

Judo governance framework



Corporate governance

Role of Judo Board Committees

Board Risk Committee

Risk Committee provides oversight and advice to the Board on:

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

Board Audit Committee

Audit committee provides oversight and advice to the Board on:

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

Board Remuneration and Nominations Committee

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

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

"I adore the culture, the people, what we are building and what we are bringing to SME businesses. There is a sense of belonging at Judo; you never feel alone."

Elena Khatountseva, First Line Risk Manager, Judo Bank

"Everybody comes with different ideas and backgrounds, but they really come together to build a totally unique solution for our customers."

Patrick Nolan, General Manager – Deposits, Judo Bank

"Judo Bank has been more responsive than other lenders during the COVID-19 pandemic, and has proven well-placed to provide Mortgage Link's clients with a very viable alternative financier. In one instance, we were at documentation with Judo, whereas the alternate major bank lender was still to decision the transaction. In addition, having an experienced Judo banker to deal with, regardless of the deal size, is invaluable in the current environment.

Judo Bank has proven to be nimble, and will only benefit further going forward. There will be many good opportunities arising in the next year or two, and Judo is well-placed to participate in the finance needs that arise."

Chris Lloyd, Director, Mortgage Link

Corporate governance

Directors

Peter Hodgson
Independent Chair

Peter is an experienced Director and Chairman and holds a number of board positions including Chairman of Paranta Biosciences Ltd and Save the Children Australia. Peter is also a Director of Save the Children International and a member of Trinity College and Drummond Capital Investment Management Committees. Peter was also the Chair of Greengate Aged Care until August 2020.

The Hon Bruce Billson
Independent Non-Executive Director

Bruce brings to the Judo Board the energy and reputation of being a 'champion of small business' and 'Australia's best Minister for Small Business'. Bruce is the founder of his own strategic advisory consultancy, a partner and chair of a retail and franchising business development 'one stop shop' firm, the independent Chair of the Australian Property Institute and has recently become a City Administrator of the City of Whittlesea.

Hui (Tony) Diao
Non-Executive Director

Tony is a senior advisor to Zhong Yi Investment, the SPV of one of the largest private family offices (3L Alliance) in Melbourne. Tony has extensive business management and investment experience in both Australia and China. This includes over 10 years as a Director of IAC Group where he was responsible for business development and providing property and investment consulting services to high net worth clients.

David Fite
Non-Executive Director

David is an international investor focused on financial services and credit exposures. He has significant operating experience in financial services and turnarounds including roles at Shinsei Bank (formerly known as The Long-Term Credit Bank of Japan) and Westpac Banking Corporation. David has served as a Board Director or Chairman of financial services and fast-growing technology companies.

John Fraser
Independent Non-Executive Director

In addition to being the Treasury Secretary between 2015 and 2018, John has also been a member of the Board of the Reserve Bank of Australia, a member of the Australian Council of Financial Regulators, and the Chair of the G20 Global Infrastructure Hub. Currently, John is a Guardian of the Future Fund.

Stanislav Kolenc
Non-Executive Director

Stan is Managing Director, Head of APAC of OPTrust – one of Canada's largest pension funds. He is also a non-executive member of the Board of Directors of a number of companies including Globalvia, Kinetic, Ararat Wind Farm, Aviator Group and Flow Power.

Geoffrey Lord
Independent Non-Executive Director

In addition to creating the Belgravia Group, a privately-owned investment group, Geoff is the owner of Belgravia Health and Leisure Group. Geoff has also held a number of Chairman or Director positions of several public listed companies, including ex-Chairman and Founder of UXC Limited – Australia's largest IT Services Company.

Malcolm McHutchison
Non-Executive Director

Mal is currently the Chief Executive of Interactive, one of Australia's largest IT services companies. Prior to joining Interactive, Mal led the Macquarie Capital Asset Management function, responsible for the operating performance of an $800 million portfolio of equity investments across Australia, China and New Zealand. During this time, he served on several Boards, most notably Domino's Pizza China, Quadrant Energy and Mine Site Technology.

Mette Schepers
Independent Non-Executive Director

Mette is an experienced international financial and professional services executive with extensive experience working in, and with, highly regulated companies. Mette is a Chartered Accountant and holds a Graduate Diploma in Applied Finance and Investment from FINSIA, and is currently the Chair of the Finance and Risk Committee for the Public Interest Journalism Initiative.

Manda Trautwein
Independent Non-Executive Director

Manda is a Chartered Accountant and CPA who works in public practice with a specific focus on advising SME businesses as a Director of William Buck. Manda is currently the National Chair of Chartered Accountants ANZ's Business Valuation Community and is an Adjunct Fellow at Macquarie University where she lectures to postgraduate students in Applied Finance.

Corporate governance

Management Board

The Judo Management Board comprises eight members consisting of the two Co-Chief Executive Officers, the Chief Financial Officer and Chief Operating Officer*, the Chief Risk Officer, the Chief Product Officer*, the Chief Relationship Officer*, the Chief People and Culture Officer, and the General Counsel and Company Secretary.

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

Role of Judo Management Board Committees

Asset & Liability Committee	Management Board Risk Committee
Asset and Liability Committee is responsible for: • advising on capital, liquidity, funding, interest rate risk management and balance sheet management strategy (ALM) as defined in the Risk Appetite Statement • monitoring the effectiveness of the ALM Programme and to provide Management Board and the Board with assurance that all key liquidity, funding and balance sheet risks relevant to Judo have been appropriately identified, managed and reported • approving management action in respect to capital, liquidity, funding, interest rate and balance sheet risks • invoking the Contingent Funding Plan (CFP) and supporting the specific actions required under the CFP	**Management Board Risk Committee is responsible for:** • monitoring and assessing the effectiveness of the execution and implementation of the Risk Management Framework and whether key risks have been identified and managed • monitoring risk appetite, changes to the risk profile and tolerance levels • monitoring and assessing risk management and control systems

**Following the departure of Alex Twigg (Judo's former Chief Information Officer) at the end of June 2020, on 1 July 2020 Chris Bayliss took on the additional role of Chief Operating Officer, which enabled the consolidation of our operations, technology and finance teams into a new shared services team. In addition, on 1 July 2020 Tim Alexander moved from the Chief Operating Officer role to focus solely on product as our Chief Product Officer, and Frank Versace was promoted from Managing Director – Relationships Victoria to join the Management Board in the newly created role of Chief Relationship Officer.*

"I have dealt with Judo on numerous transactions over the past couple of years. Many banks and lenders preach that they take a true 'relationship' approach to both the client and broker, but generally most fail to deliver on this commitment.

Judo, however, is the lender that the small to medium size market greatly needs – by reverting back to a commercial approach to banking, taking time to understand the client's business and vision, and taking a 'long-term' view.

The first class service and genuine relationships which my clients have experienced with Judo is market-leading."

Chris Hall, Managing Director, Blue Crane Capital

Corporate governance

Management Board

Joseph Healy
Co-Chief Executive Officer

Joseph is a career international banker with deep experience in relationship banking, risk management, capital markets and private equity. Joseph was an adjunct professor at University of Queensland and holds an MSc (Finance), MBA, MSc International Management (China), MA in Contemporary Chinese Studies and MBA (Banking) degrees from School of Oriental and African Studies, University of London, London Business School and University of Nottingham in China. He is a Fellow of the Chartered Institute of Bankers in Scotland and is a Fellow of the Financial Services Institut of Australasia (FINSIA).

David Hornery
Co-Chief Executive Officer

David is a highly experienced international banker with 30 years' experience across some of Australia's leading investment and business banks. These included National Australia Bank (NAB) as the Head of Corporate Institutional and Specialised Banking, ANZ as Global Head of Capital Markets and then CEO Asia, and Macquarie Bank as Global Head of Capital Markets. David holds a Bachelor of Economics degree from Sydney University. He has been a board member of the Australian Financial Markets Association, Chair of its Dealer Accreditation Taskforce, a board member of both the Asian Bankers Association, and the European Australian Business Council and Chairs The Hornery Institute in the not for profit sector.

Chris Bayliss
Chief Financial Officer
and Chief Operating Officer

Chris is a career international banker with 35 years' experience. His career has spanned many global banks and markets, including Barclays, Halifax Bank of Scotland (HBOS), Clydesdale/Yorkshire Bank, Bank of New Zealand (BNZ), National Australia Bank (NAB) and most recently Standard Chartered Bank in Singapore. Chris is an Associate of the British Bankers Association (ACIB) and has a specialised Financial Service MBA from Sheffield Hallam University, UK.

Jacqui Colwell
Chief Risk Officer

Jacqui is a career banker with 33 years' experience in risk, distribution and operations. Jacqui has an economics degree and was previously a Board Director for the Australian Retail Credit Association. She is a member of the Australian Institute of Company Directors, a member of the Risk Management Association and a Fellow of FINSIA.

Tim Alexander
Chief Product Officer

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

Megan Collins
Chief People and Culture Officer

With over 22 years' experience in human resources across multiple industries and geographies, Megan has held senior HR leadership positions at Treasury Wine Estates and GE Capital. Megan holds a Bachelor of Arts (Major in Business Development and Politics) and a Post Grad. Dip. in HR and IR from the University of Melbourne. Megan is a member of Chief Executive Women (CEW) and a member of the Women for Women Fundraising Committee, part of the Sacred Heart Women's Mission.

Frank Versace
Chief Relationship Officer

Frank is a career banker with 20 years' experience in the Australian banking industry. Frank's career has incorporated commercial, corporate and retail banking experience at ANZ and Macquarie Bank. Frank holds a Bachelor of Commerce, an Honours Degree of Bachelor of Economics from Monash University, and has recently completed his Chartered Banker accreditation.

Yien Hong
General Counsel
and Company Secretary

Yien is an accomplished General Counsel and Company Secretary with over 20 years' experience. She has held senior legal roles at Deutsche Bank, London Branch and National Australia Bank (NAB) and more recently as General Counsel and Company Secretary at Growthpoint Properties Australia Limited. Yien holds an LLB (Hons), BCom (Hons) and BA from the University of Adelaide and is a Fellow of the Governance Institute.

Tough times need unorthodox solutions, like COVID hybrid equity.

As our political leaders grapple with the immediacy of the COVID-19 crisis, it is important that they move from a very crowded dance floor of current issues onto the balcony to think strategically about the measures needed to support our economy when it starts the journey of recovery.

This is particularly urgent in the case of our small and medium-sized enterprises, the vast majority of which have been weakened by the pandemic - a weakness that could be a heavy handbrake on the potential for recovery.

Thousands of SMEs will find themselves saddled with increased liabilities, conservatively estimated at $40bn, by March 2021. No poor management here, just sheer bad luck that goes beyond any description of a "Black Swan" event.

The $40bn of incremental liabilities could be described as COVID or unproductive liabilities in that they were incurred without creating any corresponding value. More accurately, SMEs will have been hit with a "Triple U virus" of unplanned, unwanted and unproductive liabilities.

While medium-term reform supporting SMEs is important, the most urgent task facing many is survival.

Most SMEs will come out of this crisis saddled with bank debt, lessor, landlord, tax office and other creditor liabilities, and the fact that interest rates are at an all-time low is irrelevant given the magnitude of this liability mountain.

Among the many challenges facing our battle-weary SMEs will be navigating their relationship with their banks, which have so far played an admirable role as part of Team Australia. It is fair to assume, however, that the tone from the banks will be different when freed from the politically charged COVID environment.

In thinking about this problem, there are two broad options: the orthodox or the unorthodox.

Banks are orthodox institutions and solving the problems facing their SME customers is not something that they are equipped to do. It has been many years since our major banks have faced conditions remotely close to what we see today and since then, banks have become very different institutions, as the royal commission highlighted.

Many banks are working frantically to beef up their distressed debt teams, hurriedly training staff in this complex craft. The danger is, given the scale of pressure placed on banks, the result will be an industrialised, one-size-fits-all policy with an emphasis on recovery rather than turnaround.

Although mindful of reputation risk, inexperienced bankers will have targets to "churn" files, force asset sales in the hope of recovery before asset prices weaken. The result is a classic "prisoner's dilemma" problem caused by a lack of a co-ordinated industry approach: each bank looking after their interests with no regard for system-wide considerations, let alone national interest, and ultimately causing an avoidable market correction in asset prices.

The unorthodox approach is based on the premise that in extraordinary times, extraordinary measures are needed.

We are in extraordinary times and market forces will not solve these problems. Hence, a public policy intervention is essential, first to ensure industry co-ordination and avoid the carnage that can result from the prisoner's dilemma problem, but also to take a more strategic and national-interest approach. This is what is being considered by the British government and it is what should be considered here.

There are a few options to solving the issues faced by SMEs as a result of the pandemic, but the most pragmatic one is to convert some portion of the unplanned, unwanted and unproductive debt to a private-public sector COVID hybrid equity vehicle.

This will provide inherently viable SMEs access to hybrid equity capital, so minimising the deadweight of "zombie" firms and avoiding damaging the future borrowing prospects of entrepreneurs through damaged credit data. Absent this, many viable businesses may be subject to effective foreclosure.

Those who argue that no SME will want government as an equity investor are simply out of touch. They miss the point and provide little by way of an alternative.

The investing entity can be at arm's length from government and mandated to support viable SMEs that might otherwise struggle. The nature of the hybrid equity instrument would allow the SME to redeem it when its finances return to a stronger position.

Some will argue that government should not interfere with how our banks operate in a market economy. This argument is deeply flawed as banks largely fund themselves on the back of taxpayer-guaranteed deposits, and they look to government should they ever get into difficulty. Banks are essentially quasi-nationalised institutions, so it is legitimate that they play their part in addressing this problem.

Extraordinary times need extraordinary solutions, and this means unorthodox policy.

The Australian government has to date been decisive, substantive and targeted, but this next phase, framed from the balcony in the national interest, will be every bit as important. Otherwise the post-COVID world will see SMEs trapped by the prosecution of individual interests, in an unhelpful triangulation of higher debt, lower profits and reduced investment.

Joseph Healy
Co-CEO, Judo Bank

Published in
The Australian, 27 July 2020

Annual financial report

For the year ended 30 June 2020

Judo Capital Holdings Limited and its controlled entities

ABN 71 612 862 727

Directors' report

The Directors present their report on the consolidated entity consisting of Judo Capital Holdings Limited and its controlled entities (collectively, 'the Group') for the year ended 30 June 2020.

Directors and company secretary

Directors

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

- Peter Hodgson
- The Hon Bruce Billson
- David Fite
- John Fraser
- Stanislav Kolenc
- Geoffrey Lord
- Mette Schepers
- Manda Trautwein

Hui (Tony) Diao and Malcolm McHutchison were appointed as Directors on 27 February 2020 and continue in office at the date of this report.

Abdul Khalil Bin Ali was a director from the beginning of the financial year until his resignation on 27 February 2020.

Haijin (Robert) Zhang was a director from the beginning of the financial year until his resignation on 27 February 2020.

Company secretaries

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

- Liam Williams (Appointed 25 March 2020)
- David McNabb (Appointed 25 March 2020)
- Yien Hong (Appointed 10 September 2019)
- Malcolm Hiscock (Resigned 19 December 2019)
- Andrew Gibson (Resigned 27 April 2020)

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

Meetings of Directors

The number of meetings of the company's Board of Directors and of each Board Committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Directors' meetings		Meetings of committees					
			Audit		Risk		Remuneration	
	A	B	A	B	A	B	A	B
Peter Hodgson	11	11	4	4	6	6	5	5
Abdul Khalil Bin Ali	5	3	2	-	-	-	-	-
The Hon Bruce Billson	11	11	4	4	6	6	5	5
David Fite	11	10	-	-	6	6	-	-
John Fraser	11	10	-	-	6	6	5	4
Stanislav Kolenc	11	10	-	-	-	-	5	4
Geoffrey Lord	11	9	4	-	-	-	-	-
Mette Schepers	11	11	-	-	6	6	5	5
Manda Trautwein	11	11	4	4	-	-	-	-
Haijin (Robert) Zhang	5	5	-	-	-	-	3	2
Hui (Tony) Diao	6	6	-	-	-	-	2	2
Malcolm McHutchison	6	6	-	-	-	-	-	-

A= Number of meetings held during the time the Director held office or was a member of the committee during the year

B= Number of meetings attended

Directors' report

Review of operations

The loss of the Group for the year after providing for income tax amounted to $50,844,290 (2019: $27,966,050).

The operating result for the period reflects the activities undertaken by the Group during the period. This includes the second full year of operations as a lender, further investment in systems and processes to support the planned growth of the business, further equity raising activities, and the impacts of the COVID-19 pandemic which resulted in a significant increase to allowances for credit losses.

Impact of COVID-19

During the 2020 financial year the Group has been impacted by the COVID-19 pandemic. The Group has responded to this by proactively contacting every customer to ascertain their position and determine if assistance was required. Various types of assistance have been provided to customers during this period, including payment deferrals, capitalisation of interest and conversion of Principal & Interest loans to Interest Only loans for a period. In addition, the Group has undertaken a full review of the loan book, including scenario analysis and stress testing to project potential future credit losses which may result from ongoing economic impacts. This review has informed the significant increase made to allowances for expected credit losses in the 2020 year. The Group has put in place a system to track, monitor and manage its customer base going forward, during this period of uncertainty.

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.

Principal activities

During the year the principal continuing activities of the Group consisted of the operation of a banking business, specifically focused on providing finance to small to medium sized companies (SMEs) in Australia, offering the following key products:

a. Asset finance

b. Business loans

c. Lines of credit

d. Residential mortgages (for business loan customers)

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

There was no significant change in the nature of the activity of the Group during the period.

Events since the end of the financial year

No matters or circumstances have arisen since the end of the financial year, other than those separately disclosed in 'Impact of COVID-19' above, 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 years.

Likely developments and expected results of operations

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

Environmental regulation

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

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2019: $nil).

Shares under option

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

(a) Warrants

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

(b) Option agreements

An option letter agreement is in place with Geoffrey Lord (Non-Executive Director) to subscribe for $2,000,000 in fully paid A Class Shares in the Company at $1.00 per A Class Share. This option expires on 31 December 2020.

(c) Obligations to issue shares

The Company has no obligations to issue shares.

Insurance of officers and indemnities

(a) Insurance of officers

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

Further disclosure required under section 300(9) of the corporations law is prohibited under the terms of the contract.

(b) Indemnity of auditors

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

Proceedings on behalf of the group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Auditor's independence declaration

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

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. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Peter Hodgson
Chairman
24 September 2020

The Hon Bruce Billson
Director
24 September 2020

Auditor's Independence Declaration

As lead auditor for the audit of Judo Capital Holdings Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
24 September 2020

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

Consolidated statement of profit or loss and other comprehensive income

	Notes	2020 $'000	2019 $'000
Interest income	2	**52,360**	6,262
Interest expense	2	**(24,520)**	(5,404)
Net interest income		**27,840**	858
Other operating income		**310**	498
Net banking income		**28,150**	1,356
Consultants expense		**(587)**	(809)
Depreciation and amortisation expense	3	**(2,622)**	(494)
Employee benefits expense	3	**(34,914)**	(15,609)
Information technology expense		**(5,911)**	(3,674)
Legal expense		**(756)**	(990)
Marketing expense		**(3,023)**	(1,039)
Occupancy expense		**(959)**	(836)
Outsourced lending costs		**(405)**	(131)
Professional fees		**(1,925)**	(1,322)
Recruitment costs		**(686)**	(797)
Travel expense		**(1,632)**	(766)
Other expenses		**(2,070)**	(939)
		(55,490)	(27,406)
Net operating loss before impairment		**(27,340)**	(26,050)
Impairment on loans and advances, and treasury investments	8	**(23,504)**	(1,916)
Net loss before income tax		**(50,844)**	(27,966)
Income tax expense	5	**-**	-
Loss after income tax		**(50,844)**	(27,966)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Loss on revaluation of cash flow hedge	21(e)	**(100)**	-
Other comprehensive income for the period, net of tax		**(100)**	**-**
Total comprehensive loss for the period		**(50,944)**	**(27,966)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

	Notes	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	6	**210,147**	92,342
Investments	7	**452,879**	58,673
Loans and advances	8	**1,763,398**	236,307
Property, plant and equipment	9	**2,197**	1,040
Right-of-use assets	10	**3,647**	-
Intangible assets	11	**5,383**	2,490
Other assets	12	**4,000**	1,846
Total assets		**2,441,651**	392,698
Liabilities			
Accounts payable and other liabilities	13	**10,967**	4,936
Derivative liabilities	21	**100**	-
Deposits	14	**1,386,281**	104,414
Borrowings	15	**495,297**	85,143
Lease liabilities	10	**4,055**	-
Provisions	16	**1,933**	742
Total liabilities		**1,898,633**	195,235
Net assets		**543,018**	**197,463**
Equity			
Share capital	17	**644,884**	248,847
Other reserves	18	**415**	53
Accumulated losses	19	**(102,281)**	(51,437)
Total equity		**543,018**	**197,463**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Share Capital $'000	Other Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2018	**52,081**	**342**	**(23,471)**	**28,952**
Loss for the period	-	-	(27,966)	(27,966)
Share options granted	-	51	-	51
Total comprehensive income for the period	-	51	(27,966)	(27,915)
Transactions with owners in their capacity as owners:				
Issued share capital	180,791	-	-	180,791
Conversion of convertible notes to share capital	18,374	-	-	18,374
Equity raising costs	(2,399)	-	-	(2,399)
Share options converted to capital	-	(340)	-	(340)
	196,766	(340)	-	196,426
Balance at 30 June 2019	**248,847**	**53**	**(51,437)**	**197,463**

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

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Payments to suppliers and employees		**(52,762)**	(25,793)
Interest received		**51,137**	6,252
Interest paid		**(16,814)**	(5,103)
Net movement in loans and advances		**(1,550,519)**	(227,737)
Net movement in term deposits		**1,281,866**	104,649
Net cash (outflow) from operating activities		**(287,092)**	(147,732)
Cash flows from investing activities			
Payments for property, plant and equipment		**(1,917)**	(321)
Proceeds from sale of property, plant and equipment		**60**	-
Payment for investments		**(394,283)**	(58,846)
Payment for intangible assets		**(3,960)**	(1,924)
Net cash (outflow) from investing activities		**(400,100)**	(61,091)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**398,465**	180,463
Proceeds from borrowings		**409,904**	85,142
Payments for convertible notes		**-**	(479)
Capital raising transaction costs		**(2,428)**	(2,398)
Principal portion of lease payments		**(944)**	-
Net cash inflow from financing activities		**804,997**	262,728
Net increase in cash and cash equivalents		**117,805**	53,905
Cash and cash equivalents at the beginning of the financial year		**92,342**	38,437
Cash and cash equivalents at end of year		**210,147**	92,342

The accompanying notes form part of these financial statements.

1

Summary of significant accounting policies

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

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Judo Capital Holdings Limited and its controlled entities is a for-profit entity for the purpose of preparing the financial statements.

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

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

(iii) Presentation format

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

(iv) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

AASB 16 *Leases*

AASB 16 replaces AASB 117 Leases and introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

(a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for on a cost basis unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:

  (i) investment property, the lessee applies the fair value model in AASB 140 Investment Property to the right-of-use asset; or

  (ii) property, plant or equipment, the lessee applies the revaluation model in AASB 116 Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and

(b) lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of

1

Summary of significant accounting policies (cont.)

a) Basis of preparation (cont.)

(iv) New and amended standards adopted by the group (cont.)

the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the Group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (i.e. at 1 July 2019). Accordingly, comparative information has not been restated.

The Group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to recognise each right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;
- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value;
- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to adjust each right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- to exclude initial direct costs from the measurement of each right-of-use asset at the date of initial application; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of $4,608,409 and corresponding lease liabilities with an aggregate carrying amount of $4,999,366. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 3.88%.

(v) Impact of Coronavirus (COVID-19)

The Group has carefully considered the impacts of COVID-19 in preparing its financial statements for the year ended 30 June 2020. The key impacts on the financial statements, including the application of critical estimates and judgements are:

- impairment charges on loans and advances

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

The Group's assessment of forecast conditions incorporates the effects of COVID-19 and government support measures on a reasonable and supportable basis. The AASB 9 impairment methodology, and the definition of default remains consistent with prior periods. A range of plausible economic and industry stress factors are taken into account in order to determine any forward looking adjustments, including the impacts of government and industry assistance packages, including loan repayment deferral arrangements. A review of every credit file has been undertaken since the start of the pandemic including stress testing scenarios to inform the level of provisioning required as the situation evolves. The circumstances are unique in that most of the deferral loans were performing prior to COVID-19, and either continue to perform, or have genuine prospects of recovery once government restrictions are eased and lockdowns discontinued. Although COVID-19 repayment deferrals are borrowing specific they have not been classified automatically as Stage 2 loans. Exposures have been treated as Stage 2 loans where the individual loan has been assessed as being a Watch loan.

(b) Going concern

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

(c) Principles of consolidation and equity accounting

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

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

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

(d) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Loan interest revenue is calculated on the daily loan balance outstanding and charged in arrears to the customer's loan account. Loan interest revenue is recognised as it accrues in accordance with the effective interest method which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset.

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

Interest income on investments is recognised using their effective interest rates.

Fees and commissions are recognised on an accrual basis once a right to receive consideration has been attained or when service to the customer has been rendered.

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

(e) Income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

1

Summary of significant accounting policies (cont.)

(e) Income tax (cont.)

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

(i) Tax consolidation

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

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

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

(f) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, bank overdrafts, and funds held in trust by third party service providers for the purposes of fulfilling loan settlements. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(g) Investments and other financial assets

(i) Classification

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

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

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

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

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

(ii) Measurement

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

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

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

Investments

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

(iii) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 21(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 21(b) for further details.

(h) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes measured at amortised cost using the effective interest method. Interest related to the financial liability is recognised in profit or loss. On conversion the financial liability is reclassified as equity and no gain or loss is recognised. Convertible notes are wholly recognised as financial liabilities due to the fair value of the shares available on conversion of the notes on the date of issue of the convertible notes determined to be $NIL.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

(i) Property, plant and equipment

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

Plant and equipment

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

Depreciation

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

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements at cost	20% - 58%	Straight line & diminishing value
Office equipment at cost	20% - 67%	Straight line & diminishing value
Furniture, fixtures and fittings at cost	10% - 20%	Straight line & diminishing value

(j) Intangible assets

Intangible asset development costs are capitalised when the Group can demonstrate all of the following:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditure is recognised as an expense when incurred.

1

Summary of significant accounting policies (cont.)

(j) Intangible assets (cont.)

Amortisation of intangible assets

Patents, trademarks and licences are not amortised.

Capitalised information technology costs are not amortised throughout the development stage. Once software under development is ready for use management will determine a suitable amortisation rate between 2 and 5 years.

(k) Impairment of assets

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

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

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

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

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

(l) Leases

Accounting policy applied to the information presented for the current period under AASB 16 Leases

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

(i) Lease assets

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

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

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

(ii) Lease liabilities

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

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

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

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

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

Accounting policy applied to the information presented for the prior period under AASB 117 Leases.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

(i) Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rate is used. Interest expense on finance leases is included in finance costs in the statement of profit or loss and other comprehensive income. Lease assets are depreciated on a straight line basis over their estimated useful lives where it is likely the Group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period in accordance with the effective interest method.

(ii) Operating leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease. Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

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

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 22. Movements in the hedging reserve in shareholders' equity are shown in note 21(e).

(i) Cash flow hedge that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow

1

Summary of significant accounting policies (cont.)

(m) Derivatives and hedging activities

(i) Cash flow hedge that qualify for hedge accounting (cont.)

hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

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

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

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

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

Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

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

(iii) Retirement benefit obligations

Defined contribution superannuation plan

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

(o) Borrowing costs

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

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

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

(q) Rounding of amounts

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

(r) Comparatives

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

2

Net interest income

	2020 $'000	2019 $'000
Interest on cash and cash equivalents	1,121	846
Interest on treasury investments	3,412	282
Interest on loans and advances	47,827	5,134
	52,360	6,262
Interest expense on derivative financial instruments	(7)	-
Interest expense on deposits	(17,345)	(268)
Interest expense on borrowings	(7,011)	(5,136)
Interest expense on lease liabilities	(157)	-
Net interest income	**27,840**	**858**

	Average balance $'000	Interest $'000	Average Interest %
Interest revenue 2020			
Cash and cash equivalents	132,290	**1,121**	0.85
Treasury investments	265,810	**3,412**	1.28
Loans and advances	947,239	**47,827**	5.05
	1,345,339	**52,360**	3.89
Interest expense 2020			
Customer deposits	821,482	**17,345**	2.11
Borrowings	134,969	**7,011**	5.19
	956,451	**24,356**	2.55

	Average balance $'000	Interest $'000	Average Interest %
Interest revenue 2019			
Cash and cash equivalents	56,945	**846**	1.49
Treasury investments	12,227	**282**	2.31
Loans and advances	82,879	**5,134**	6.19
	152,051	**6,262**	4.12
Interest expense 2019			
Customer deposits	8,939	**268**	3.00
Borrowings	55,615	**5,136**	9.23
	64,554	**5,404**	8.37

3

Operating loss

	2020 $'000	2019 $'000
Profit / (losses) before income tax has been determined after:		
Depreciation and amortisation		
Amortisation	**691**	155
Depreciation	**1,931**	339
	2,622	494
Foreign currency translation gains / (losses)	**6**	(10)
Employee benefits		
Salary and wages	**28,793**	12,439
Share based payments	**462**	51
Superannuation guarantee contributions	**2,593**	1,123
Other employee benefits	**3,066**	1,996
	34,914	15,609

The total value of share based payments to employees for the 2020 financial year is $461,603 (2019: $51,295).

	2020 $	2019 $

Remuneration of auditors for:

PricewaterhouseCoopers Australia is the external auditor for the year ended 30 June 2020. During the year the following fees were paid or payable for the services provided by the auditor of the Company.

Audit or review of the financial report	**432,195**	242,000
Other regulatory and audit services	**223,686**	104,709
Other non-audit services	**102,211**	516,115
	758,092	862,824

4

Key management personnel compensation

	2020 $	2019 $
Compensation received by key management personnel of the group		
Short-term employee benefits	**4,374,386**	3,102,567
Post-employment benefits	**212,816**	148,586
	4,587,202	3,251,153
Compensation received by non-executive directors of the group		
Short-term employee benefits	**503,667**	329,578
Post-employment benefits	**32,381**	22,428
	536,048	352,006
	5,123,250	3,603,159

5

Income tax expense

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

	2020 $'000	2019 $'000
The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows:		
Loss from operations before income tax expense	**(50,844)**	(27,966)
Tax at the Australian tax rate of 30% (2019 - 27.5%)	**(15,253)**	(7,691)
Add tax effect of:		
Permanent differences	**(396)**	(82)
Timing differences not brought to account	**7,432**	924
Carried forward tax losses not brought to account	**8,217**	6,849
Income tax expense	**-**	-

(b) Deferred tax assets not brought to account

The following deferred tax balances have not been brought to account due to the Group currently being in a start up phase of operations. When it is probable that future taxable amounts will be available to utilise those temporary differences and losses, management intend to bring deferred tax balances to account.

	2020 $'000	2019 $'000
Temporary differences	**8,826**	1,394
Operating tax losses	**21,088**	12,871
	29,914	14,265

6

Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank	**194,583**	80,322
Cash on deposit	**110**	12,020
Funds in trust pre-settlement	**15,454**	-
	210,147	92,342

The cash and cash equivalents disclosed above and in the statements of cash flows include $15,454,090 which are held in trust by third party service providers for the purposes of fulfilling loan settlements. These deposits are therefore not available for general use by Judo Capital Holdings Limited or its controlled entities.

7

Investments

	2020 $'000	2019 $'000
Financial assets measured at amortised cost		
Floating rate notes (Corporate/State and Federal Government)	**336,252**	43,693
Bonds (Corporate/State and Federal Government)	**116,702**	-
Negotiable certificates of deposit	**-**	14,980
Allowance for credit losses	**(75)**	-
	452,879	58,673

8

Loans and advances

	2020 $'000	2019 $'000
Business loans	**1,436,540**	186,194
Equipment loans (net of unearned income)	**90,247**	19,261
Line of credit	**110,162**	10,808
Home loans	**151,843**	22,009
	1,788,792	238,272
Allowance for credit losses	**(25,394)**	(1,965)
	1,763,398	**236,307**

(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 and other receivables:

	Stage 1 collectively assessed $'000	Stage 2 collectively assessed $'000	Stage 3 collectively assessed $'000	Specific Provision $'000	Total $'000
Loss allowance at 1 July 2019	932	1,033	-	-	1,965
Net transfer between stages	(160)	158	2	-	-
Net re-measurement on transfers between stages	(2)	1,420	309	-	1,727
Net movement in provision due to new financial assets	4,157	10,172	791	1,118	16,238
Movement due to risk parameters and other changes	(448)	(404)	-	-	(852)
Additional collective overlay provision	6,438	-	(122)	-	6,316
Loan impairment expense for the year	**9,985**	**11,346**	**980**	**1,118**	**23,429**
Write-offs	-	-	-	-	-
Loss allowance at 30 June 2020	**10,917**	**12,379**	**980**	**1,118**	**25,394**
Reconciliation of impairment expense to statement of profit or loss and other comprehensive income					
Loan impairment expense for the year	9,985	11,346	980	1,118	23,429
Treasury investments impairment expense for the year	75	-	-	-	75
Total impairment expense for the year	**10,060**	**11,346**	**980**	**1,118**	**23,504**
Loss allowance at 1 July 2018	49	-	-	-	49
Net transfer between stages	(4)	4	-	-	-
Net re-measurement on transfers between stages	-	27	-	-	27
Net movement in provision due to new financial assets	913	1,002	-	-	1,915
Movement due to risk parameters and other changes	(26)	-	-	-	(26)
Loan impairment expense for the year	**883**	**1,033**	**-**	**-**	**1,916**
Write-offs	-	-	-	-	**-**
Loss allowance at 30 June 2019	**932**	**1,033**	**-**	**-**	**1,965**
Reconciliation of impairment expense to statement of profit or loss and other comprehensive income					
Loan impairment expense for the year	883	1,033	-	-	**1,916**
Treasury investments impairment expense for the year	-	-	-	-	**-**
Total impairment expense for the year	**883**	**1,033**	**-**	**-**	**1,916**

8

Loans and advances (cont.)

(a) Allowance for credit losses (cont.)

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

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

At 30 June 2020 the exposure to Close Monitoring customers was $424m. While most of these customers are expected to remain performing, the overlay has been determined based on a management estimate of the proportion of these customers that are expected to become non-performing. The proportion has been determined as 18%, with reference to the extent to which the customers are operating in high risk industries such as accommodation and food services, arts and recreation services, retail trade and rental hiring and real estate service.

The following table provides information about the risk profile of receivables from contracts with customers using a provision matrix. The information in the below table does not distinguish between customer or product types as the Group's historical credit loss experience does not show different patterns for different customer or product types.

	Not past due $'000	< 30 $'000	30 – 90 $'000	90–180 $'000	> 180 $'000
2020					
Estimated total gross carrying amount	1,783,226	5,289	277	-	-
Expected credit loss rate	1.42%	0.70%	4.69%	-	-
Expected credit loss	25,344	37	13	-	-
2019					
Estimated total gross carrying amount	237,859	-	413	-	-
Expected credit loss rate	0.81%	-	7.02%	-	-
Expected credit loss	1,936	-	29	-	-

Refer to note 21(b) for an explanation of key assumptions applied in determining the allowance for expected credit losses.

9

Property, plant and equipment

	Furniture, fittings and equipment $'000	Office equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2018				
Cost or fair value	130	187	897	1,214
Accumulated depreciation	(7)	(94)	(52)	(153)
Net book amount	**123**	**93**	**845**	**1,061**
Year ended 30 June 2019				
Opening net book amount	123	93	845	1,061
Additions	46	197	78	321
Disposals	-	(2)	-	(2)
Depreciation charge	(28)	(103)	(209)	(340)
Closing net book amount	**141**	**185**	**714**	**1,040**
At 30 June 2019				
Cost or fair value	176	382	975	1,533
Accumulated depreciation	(35)	(197)	(261)	(493)
Net book amount	**141**	**185**	**714**	**1,040**
Year ended 30 June 2020				
Opening net book amount	141	185	714	1,040
Additions	299	199	1,419	1,917
Disposals	-	(165)	-	(165)
Depreciation charge	(48)	(93)	(454)	(595)
Closing net book amount	**392**	**126**	**1,679**	**2,197**
At 30 June 2020				
Cost or fair value	474	213	2,394	3,081
Accumulated depreciation	(82)	(87)	(715)	(884)
Net book amount	**392**	**126**	**1,679**	**2,197**

10

Leases

Lease arrangements (30 June 2020)

The following information relates to the current reporting period only, and is presented in accordance with AASB 16 Leases (which was applied by the Group for the first time in the current reporting period).

(a) Right of use assets

	2020 $'000
Property leases	4,608
Accumulated depreciation	(961)
Total carrying amount of right of use assets	**3,647**

(b) Lease liabilities

	2020 $'000
Property leases	4,055
Total carrying amount of lease liabilities	**4,055**

(c) Lease expenses and cashflows

	2020 $'000
Lease expenses	
Depreciation expense on right-of-use assets	961
Interest expense on lease liabilities	157
Expense relating to lease payments made for leases of low value assets (for which a lease asset and a lease liability has not been recognised)	229
	1,347
Total cashflow in relation to leases	**1,330**

(d) Non-cancellable operating lease arrangements (30 June 2019)

The following information relates to non-cancellable operating lease arrangements of the prior reporting period only, and is presented in accordance with the predecessor accounting standard AASB 117 *Leases*.

	2019 $'000
Future minimum lease payments to be made:	
– Not later than 1 year	405
– Later than 1 year and not later than 5 years	1,040
– Later than 5 years	-
Aggregate lease payments contracted for at reporting date	**1,445**

Straight-line lease liabilities associated with lease incentives on property leases are included in the carrying amount of accounts payables and other liabilities in the statement of financial position. Refer to Note 13 for further information about the Group's payables.

11

Intangible assets

	Patents, trademarks and other rights $'000	Capitalised information technology $'000	Total $'000
At 1 July 2018			
Cost	-	721	721
Accumulated amortisation and impairment	-	(8)	(8)
Net book amount	**-**	**713**	**713**
Year ended 30 June 2019			
Opening net book amount	6	713	719
Additions	3	1,922	1,925
Amortisation charge	-	(154)	(154)
Closing net book amount	**9**	**2,481**	**2,490**
At 30 June 2019			
Cost	9	2,643	2,652
Accumulated amortisation and impairment	-	(162)	(162)
Net book amount	**9**	**2,481**	**2,490**
Year ended 30 June 2020			
Opening net book amount	9	2,481	2,490
Additions	-	3,960	3,960
Amortisation charge	-	(1,067)	(1,067)
Closing net book amount	**9**	**5,374**	**5,383**
At 30 June 2020			
Cost	9	6,603	6,612
Accumulated amortisation and impairment	-	(1,229)	(1,229)
Net book amount	**9**	**5,374**	**5,383**

12

Other assets

	2020 $'000	2019 $'000
Prepayments	**1,282**	701
Accrued interest receivable	**1,349**	173
Other receivables	**966**	544
Security deposit	**403**	428
	4,000	1,846

13

Accounts payable and other liabilities

	2020 $'000	2019 $'000
Unsecured liabilities		
Trade creditors	**329**	911
Accrued interest payable	**7,689**	235
Lease liability	**-**	391
Bonus and wages accrual	**-**	811
Sundry creditors and accruals	**2,949**	2,588
	10,967	4,936

14

Deposits

	2020 $'000	2019 $'000
Retail term deposits	**707,232**	-
Wholesale term deposits	**679,049**	104,414
	1,386,281	104,414

15

Borrowings

	2020 $'000	2019 $'000
Secured		
Debt warehouse	**410,508**	37,734
Borrowing costs	**(3,732)**	(2,087)
Repurchase agreements	**88,521**	-
	495,297	35,647
Unsecured		
Corporate debt	**-**	50,088
Borrowing costs	**-**	(592)
	-	49,496
Total Borrowings	**495,297**	85,143

(a) Terms and conditions of borrowings

Secured loan facilities

The secured loan facilities represent borrowings under the Group's Warehouse Securitisation program, which currently comprises the Judo Capital Securitisation Trust 2018-2, Judo Capital Securitisation Trust 2018-3, Judo Securitisation Warehouse Trust 2020-1 and Judo Securitisation Trust 2020-2 entities. Facility limits are in place for each trust agreed with the relevant Financier, with the borrowings in each trust secured by individual receivables owned by the trust (which comprise of Business Loans, Equipment loans and Home loans). Borrowings are to be repaid in accordance with the Trust agreement, calculated by the Trustee using the cash flow waterfall calculation specific to each trust.

Corporate debt

The Corporate Debt was a fully drawn unsecured term debt facility which was repaid in November 2019.

16

Provisions

	2020 $'000	2019 $'000
Annual leave	**1,496**	544
Long service leave	**437**	198
	1,933	742

17

Share Capital

	Notes	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares					
A Class Shares paid in full	17(a)	**505,580,784**	223,894,306	**653,130**	254,665
B Class Shares paid to $0.01	17(b)	**15,000**	14,471	**-**	-
Equity raising costs		**-**	-	**(8,246)**	(5,818)
Total share capital		**505,595,784**	223,908,777	**644,884**	248,847

(a) A Class Shares paid in full

	Notes	Number of shares (thousands)	Total $'000
Details			
Opening balance 1 July 2018		55,500	52,080
Issue of new shares		147,978	180,792
Conversion of Convertible Notes		20,416	18,374
Less: Transaction costs arising on share issues		-	(2,399)
Balance 30 June 2019		**223,894**	**248,847**
Issue of new shares		281,687	398,465
Less: Transaction costs arising on share issues		-	(2,428)
Balance 30 June 2020		**505,581**	**644,884**

(b) B Class Shares paid to $0.01

	Notes	Number of shares (thousands)	Total $'000
Details			
Opening balance 1 July 2018		13	-
Rights issue		1	-
Balance 30 June 2019		**14**	**-**
Opening balance 1 July 2019		14	-
Rights issue		1	-
Balance 30 June 2020		**15**	**-**

17

Share capital (cont.)

Rights attaching to A Class Shares and B Class Shares

The Company has two classes of ordinary shares on issue:

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

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

Conversion

On the Conversion Date, being the earlier of 5 years after the grant of the ADI Licence (24 April 2024) a time and date determined by the Board to give effect to the implementation of an Exit Event which includes an IPO, Share Sale or Asset Sale (or change of control transaction which the Board and shareholders determine in accordance with the Shareholders Deed is in substance an Exit Event), A Class Shares and B Class Shares automatically convert into unclassed ordinary shares which rank pari passu thereafter:

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

Dividends

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

During the 2020 financial year, no dividends were paid.

Voting Rights

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

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

Maximum Number of B Class Shares

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

Amount to be Paid Up at Issue

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

Capital management

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

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

Management incentive plan

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

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

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

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

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

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

17

Share capital (cont.)

Management incentive plan (cont.)

Performance Rights Granted

As at 30 June 2020 a total of 15,000 B Class Shares and Performance Rights over B Class Shares had been issued to the Trustee and issued to employees and non-executive directors under the MIP and Mirror Management Incentive Plan. These were issued for $NIL consideration with an exercise price of $1.00 per underlying B Class Share based upon independent valuations commissioned by the Company.

During the financial year ended 30 June 2020, for accounting purposes, a total of 59 Performance Rights were granted to employees in the Group. The value of Performance Rights granted during the financial year was based upon independent valuations commissioned by the Group as at the relevant grant dates.

Vesting Conditions – Employees and Non-Executive Directors

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

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

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

Leaver Provisions

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

Equity warrants

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

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

18

Reserves

	2020 $'000	2019 $'000
Cash flow hedges	**(100)**	-
Share-based payments	**515**	53
	415	53

Share based payments reserve

Management Incentive Plan

The nature of the Management Incentive Plan is described in detail in Note 17 (Share Capital). The assessed fair value at grant date of Performance Rights granted under the Management Incentive Plan during the year ended 30 June 2020 was $86,609 (2019: $293,388). The fair value at grant date for each performance right granted was determined by an independent valuation.

The charge to profit and loss relating to Performance Rights on issue was $196,779 (2019: $51,295), amortising monthly over 5 years with a corresponding amount being recorded in the Share Based Payments Reserve.

Long Term Incentive Plan

In the year ended 30 June 2020 the Company established a Long Term Incentive Plan (LTIP) as a means of promoting the long term success of the Company, providing a strategic value based reward to participants and to align management interests with interests of its shareholders. The options issued under the LTIP are subject to rules set out in the Long Term Incentive Plan Rules agreement and vest over a 4 year period based on service and performance hurdles.

Options were granted on 9 December 2019 and 10 March 2020 with an assessed fair value at grant date of $1,743,406 (2019: $0). The charge to profit and loss relating to the options issued was $264,825 (2019: $0), amortising monthly over 4 years with a corresponding amount being recorded in the Share-Based Payments Reserve.

19

Accumulated losses

	2020 $'000	2019 $'000
Accumulated losses at beginning of period	**(51,437)**	(23,471)
Net loss	**(50,844)**	(27,966)
	(102,281)	(51,437)

20

Cash flow information

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

	Notes	2020 $'000	2019 $'000
Loss for the period		**(50,844)**	(27,966)
Adjustments for			
Depreciation and amortisation		**2,622**	494
Charges for impairment on financial assets held at amortised cost		**23,504**	1,916
Capitalised convertible note coupon interest		**-**	320
Performance Rights granted		**462**	39
Accrued interest expense		**7,707**	-
Net loss on sale of non-current assets		**105**	-
Changes in operating assets and liabilities			
(Increase) in loans and advances		**(1,550,519)**	(227,737)
(Increase) in other assets		**(2,159)**	(812)
Increase in customer deposits		**1,281,866**	104,649
(Decrease) / increase in payables		**(1,027)**	1,031
Decrease in other liabilities		**-**	(85)
Increase in provisions		**1,191**	419
Net cash outflow from operating activities		**(287,092)**	(147,732)

21

Financial risk management

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

- Interest rate risk
- Credit risk
- Liquidity risk
- Fair values compared with carrying amounts
- Derivatives

The board of directors have overall responsibility for identifying and managing operational and financial risks.

The Group holds the following financial instruments:

	Notes	2020 $'000	2019 $'000
Financial assets			
Amortised cost			
Cash and cash equivalents		**210,147**	92,342
Loans and advances		**1,763,398**	236,307
Investments		**452,879**	58,673
Other assets		**4,000**	1,846
		2,430,424	389,168
Financial liabilities			
Amortised cost			
Accounts payable and other liabilities		**10,967**	4,936
Borrowings		**495,297**	85,143
Deposits		**1,386,281**	104,414
Lease liabilities		**4,055**	-
		1,896,600	194,493

(a) Interest rate risk

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

Although the Group does not operate a securities trading book, the business is exposed to interest rate risk due to a gap in the repricing dates for assets (predominantly loans and liquid assets held to satisfy regulatory liquidity holdings requirements) and liabilities (predominantly customer deposits and debt with other financial institutions). Because of the proportion of equity funding, the Group runs a net-asset interest rate exposed position (i.e. Balance of interest rate sensitive assets exceeds the balance of interest rate sensitive liabilities).

Where exposure approaches limits, the Group manages this risk through the use of hedging instruments such as interest rate swaps.

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

Sensitivity

If interest rates were to increase/decrease by 100 basis points from the rates prevailing at the reporting date, assuming all other variables remain constant, then the impact on the loss for the year and equity would be as follows:

	2020 $'000	2019 $'000
Increase of 100 basis points		
Impact on loss after tax	**3,889**	859
Impact on equity	**3,889**	859
Decrease of 100 basis points		
Impact on loss after tax	**(3,889)**	(859)
Impact on equity	**(3,889)**	(859)

21

Financial risk management (cont.)

(b) Credit risk

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

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

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

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to financial statements. The Group holds collateral against loans and advances to customers in the form over mortgagee interest over real property, other registered securities over assets and guarantees. To mitigate credit risk, the Group can take possession of the collateral held against the loans and advances as a result of customer default. To ensure reduced exposure to losses, the collateral held by the Group as mortgagee in possession is realised promptly.

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

For financial assets, the following credit risk modelling applies:

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

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

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

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

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

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

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

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

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

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

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

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

- Credit Growth;
- Gross Domestic Product ("GDP");
- Interest Rates;
- House Price Index; and
- Unemployment rate.

21

Financial risk management (cont.)

(b) Credit risk (cont.)

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

Group internal credit rating	Basis for recognition of expected credit loss provision	2020 Estimated gross carrying amount at default $'000	2020 Impairment provision $'000	2019 Estimated gross carrying amount at default $'000	2019 Impairment provision $'000	Basis for calculation of interest revenue
Performing - Stage 1	12 month expected losses	1,580,663	10,917	232,691	932	Gross carrying amount
Underperforming - Stage 2	Lifetime expected losses	199,905	12,379	5,613	1,033	Gross carrying amount
Non-performing - Stage 3	Lifetime expected losses	8,224	2,098	-	-	Amortised cost carrying amount (net of credit allowance)
Write-off	Asset is written off through P&L to the extent of expected losses	-	-	-	-	None
		1,788,792	25,394	238,304	1,965	

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

Collateral held against loans and advances

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

	2020 $m	2020 %	2019 $m	2019 %
Maximum exposure	2,128	100.00	354	100.00
Collateral classification				
Fully secured	1,091	51.27	223	62.99
Partially secured	575	27.02	61	17.23
Unsecured	463	21.76	71	20.06

Impact of COVID-19

With the rapid onset of COVID-19 in March 2020, the Group found itself in a situation where many of its customers required some form of financial assistance. Given the Group's relationship model and size it has been able to proactively contact every customer to ascertain their position and determine if assistance was required. The Group has provided various types of assistance to customers during this period, including payment deferrals, capitalisation of interest and conversion of Principal & Interest loans to Interest Only loans for a period. In addition to this the Group has undertaken a full review of the loan book, including scenario analysis and stress testing to project potential future credit losses which may result from ongoing economic impacts. The outputs from this review and analysis have been used to determine the level of Stage 1 provisions and Stage 2 expected credit loss provisions required. The Group has put in place a system to track, monitor and manage its customer base going forward, during this period of uncertainty.

Repayment deferrals provided to customers

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

	Fully secured $'000	Partially secured $'000	Unsecured $'000
Repayment deferrals at 30 June 2020			
Performing – Stage 1	74,024	87,542	17,791
Underperforming – Stage 2	41,473	21,431	24,314
Non-performing – Stage 3	1,724	1,331	496
Write-off	-	-	-
Total	**117,221**	**110,304**	**42,601**
Repayment deferrals at 30 June 2019			
Performing – Stage 1	-	-	-
Underperforming – Stage 2	-	-	-
Non-performing – Stage 3	-	-	-
Write-off	-	-	-
Total	**-**	**-**	**-**

(c) Liquidity risk

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

(i) Maturities of financial instruments

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

a. all non-derivative financial liabilities, and
b. net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

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

21

Financial risk management (cont.)

(c) Liquidity risk (cont.)

Contractual maturities of financial instruments

	Less than 6 months $'000	6-12 months $'000	Between 1-5 years $'000	Over 5 years $'000	Carrying amount (assets)/ liabilities $'000
30 June 2020					
Non-derivatives					
Cash and cash equivalents	210,147	-	-	-	210,147
Loans and advances	72,225	104,889	1,098,672	487,612	1,763,398
Investments	32,162	20,309	400,408	-	452,879
Other assets	4,000	-	-	-	4,000
Deposits	(909,511)	(274,763)	(202,007)	-	(1,386,281)
Accounts payable and other liabilities	(10,967)	-	-	-	(10,967)
Borrowings	(119,816)	(13,459)	(362,022)	-	(495,297)
Lease liabilities	(549)	(571)	(2,935)	-	(4,055)
Total non-derivatives	**(722,309)**	**(163,595)**	**932,116**	**487,612**	**533,824**
Derivatives					
Interest rate swaps	(10)	(10)	(80)	-	(100)
Total derivatives	**(10)**	**(10)**	**(80)**	**-**	**(100)**
30 June 2019					
Non-derivatives					
Cash and cash equivalents	92,342	-	-	-	92,342
Loans and advances	13,440	12,427	161,737	48,703	236,307
Investments	14,823	-	43,850	-	58,673
Other assets	1,846	-	-	-	1,846
Deposits	(61,439)	(36,361)	(6,614)	-	(104,414)
Accounts payable and other liabilities	(4,936)	-	-	-	(4,936)
Borrowings	(51,254)	(1,008)	(27,718)	(5,163)	(85,143)
Lease liabilities	-	-	-	-	-
Total non-derivatives	**4,822**	**(24,942)**	**171,255**	**43,540**	**194,675**
Derivatives					
Interest rate swaps	-	-	-	-	-
Total derivatives	**-**	**-**	**-**	**-**	**-**

(d) Fair values compared with carrying amounts

Except as outlined in the following table, the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair value as at the reporting date.

	2020 $'000	2019 $'000
Net carrying amount		
Financial assets		
Treasury investments	**452,879**	58,673
	452,879	58,673
Net fair value		
Financial assets		
Treasury investments	**456,490**	58,966
	456,490	58,966

(e) Derivatives

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

	2020 $'000	2019 $'000
Hedging derivative liabilities		
Interest rate swap contracts – cash flow hedges	**100**	-
	100	-

(i) Classification of derivatives

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

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

(ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 22.

21

Financial risk management (cont.)

(e) Derivatives (cont.)

(iii) Hedging reserves

The Group's hedging reserves disclosed in note 18 relate to the following hedging instruments:	Interest rate swaps $'000	Total hedge reserves $'000
Opening balance 1 July 2019	-	-
Add: Change in fair value of hedging instrument recognised in OCI for the year	(100)	(100)
Closing balance 30 June 2020	**(100)**	**(100)**

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

There was no recognised ineffectiveness during 2020 or 2019 in relation to the interest rate swaps.

22

Fair value measurements

(a) Fair value hierarchy

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

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

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

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

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

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques 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.

(b) Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include:

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

23

Related party transactions

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

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

(i) Balance sheet transactions

	2020	2019
	$	$
Convertible notes repaid in cash	**-**	126,385
A Class shares issued on conversion of convertible notes	**-**	3,886,367
A Class shares subscribed for and issued	**2,606,393**	-
Loans and advances made	**793,766**	54,141

(ii) Profit or loss transactions

	2020	2019
	$	$
Interest paid on convertible notes	**-**	41,514
Interest charged on loans and advances	**52,247**	54,141

(b) Transactions with non-executive directors

(i) Balance sheet transactions

	2020	2019
	$	$
A Class shares issued on conversion of convertible notes	**-**	2,223,499
A Class shares issued for services provided by Directors in prior year	**-**	150,000
A Class shares subscribed for and issued	**267,731,035**	86,563,977
Loans and advances made to Director related entities	**6,751,176**	2,303,511

(ii) Profit or loss transactions

	2020	2019
	$	$
Interest paid on convertible notes	**-**	17,570
Interest charged on loans and advances	**165,334**	30,736
Establishment fees charged on loans and advances	**40,500**	-
Payments for suppliers	**316,587**	14,190

(c) Additional related party transactions

In 2018 Geoffrey Lord, for valuable consideration, acquired an option expiring on 31 December 2019 to subscribe $2,000,000 in Fully Paid A Class Shares in the Company at $1.00 per A Class Share. In 2019, the Company made a change to the existing option letter agreement with Geoffrey Lord (Non-Executive Director). Specifically, for valuable consideration, the expiry date for the option was changed from 31 December 2019 to 31 December 2020.

24

Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of Entity	Country of incorporation	Ownership interest held by the group	
		2020 %	2019 %
Judo Bank Pty Ltd	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 1	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 2	Australia	**100**	100
Judo Capital Securitisation Trust 2018 – 3	Australia	**100**	100
Judo Securitisation Warehouse Trust 2020 – 1	Australia	**100**	-
Judo Securitisation Trust 2020 – 2	Australia	**100**	-

Judo Capital Securitisation Trust 2018-1 was closed during the current financial year, and as such there will be no balances recognised for this entity in the consolidated financial statements of subsequent periods.

25

Parent entity financial information

(a) Summary financial information

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

(i) Statement of financial position

	2020 $'000	2019 $'000
Net assets		
Total assets	**642,399**	247,593
Total liabilities	**(15)**	**(1,267)**
Net assets	**642,384**	**246,326**
Shareholders' equity		
Issued capital	**644,884**	248,847
Reserves		
Share-based payments	**515**	53
Retained earnings	**(3,015)**	(2,574)
Total equity	**642,384**	**246,326**

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

Loss for the year	**(441)**	(485)

26

Commitments

(a) Customer funding commitments	2020 $'000	2019 $'000
Undrawn line of credit facilities	**67,869**	10,549
Approved but not settled loans and advances	**341,081**	112,792
	408,950	123,341

In the normal course of business, the Group makes commitments to extend credit to its customers. Credit risk is accounted for as part of the expected loss calculation in Note 21. The credit risks of such facilities are similar to the credit risks of loans and advances.

27

Events occurring after the reporting period

The outlook surrounding the COVID-19 pandemic remains highly uncertain, particularly with regards to the severity and duration of the pandemic, and also the speed of the economic recovery. In accordance with AASB 110 Events after the Reporting Date, the Group considered whether events after the reporting date confirmed conditions existing before the reporting date. Consideration was given to the deteriorating condition across Victoria as stricter restrictions were imposed, the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the level of uncertainty that remains around COVID-19, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

28

Entity details

The registered office of the Group is:

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

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 51 to 103 are in accordance with the Corporations Act 2001, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

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

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

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

Peter Hodgson
Chairman
24 September 2020

The Hon Bruce Billson
Director
24 September 2020

Independent auditor's report

To the members of Judo Capital Holdings Limited

Our opinion

In our opinion:

The accompanying financial report of Judo Capital Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

pwc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

CJ Heath
Partner

Melbourne
24 September 2020

Contact us

Judo Bank
Judo Capital Holdings Limited ABN 71 612 862 727
Judo Bank Pty Ltd ABN 11 615 995 581

T: 13 JUDO (13 58 36)

www.judo.bank

Our locations

MELBOURNE
Level 3, 40 City Road
Southbank VIC 3006 Australia

SYDNEY
Level 4, 28 Margaret Street
Sydney NSW 2000 Australia

BRISBANE
Level 4, 40 Creek Street
Brisbane QLD 4000 Australia

PERTH
Level 32, 152 St Georges Terrace
Perth WA 6000 Australia

Investor relations

E: company.secretary@judo.bank

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