

APS 330 Remuneration Disclosure – Judo Capital Holdings Ltd and Judo Bank Pty Ltd (JUDO or the JUDO GROUP)

Reporting Period: July 1st, 2019 – June 30th, 2020

Introduction and Remuneration Disclosure Requirements

Pursuant to its obligations under the Australian Prudential Regulation Authority (APRA) Prudential Standard APS 330 – Public Disclosure, Judo Capital Holdings Ltd and Judo Bank Pty Ltd (Judo or the Judo Group) make the following remuneration disclosures for the period July 1st, 2019 – June 30th, 2020 (the Period) inclusive.

This represents the period in FY20 in which the Judo Group was an Authorised Deposit-Taking Institution (ADI) and thus regulated by APRA and the associated Prudential Standards. The quantitative information in this disclosure relates to Senior Managers and Material Risk Takers of the Judo Group for the Period.

Senior Managers for the purpose of this disclosure include those persons defined in the Judo Group's Fit & Proper Policy, excluding the Judo Group's independent and shareholder directors and external auditor. The Judo Group's Co-Chief Executive Officers (Co-CEO) and Management Board members who report to the Co-CEOs are included within the definition of the Senior Managers. During the Period there were 8 persons within this group, however only six remained at the end of the Period.

Material Risk Takers are persons whose role and accountabilities may affect the financial soundness of the company (either individually or collectively) and who have a significant portion of total remuneration based on performance. Based on this definition, there are no employees outside of the Senior Managers group that are considered Material Risk Takers.

Remuneration Governance

The Judo Board is responsible for the governance of remuneration arrangements at Judo and it has established a Remuneration and Nominations Committee (Committee) which makes recommendations to the Board in respect of the remuneration arrangements for the Co-CEOs, and, on behalf of the Board, oversee the variable remuneration decisions for the direct reports of the Co-CEOs and other groups of specified employees or groups of employees whose roles may affect the financial soundness of the Bank.

The Committee's purpose is to advise and assist the Board to fulfil its responsibilities in relation to Judo's culture and remuneration matters to support the broader company strategy, including:

- Judo's cultural and remuneration objectives, including remuneration strategies, policies, frameworks;
- the implementation of these remuneration arrangements as well as ensuring alignment to Judo's strategy, culture and risk management framework and its operational effectiveness;

- review, apply judgement and endorse recommendations made by management and submit to the Board for approval; and
- an annual review and assessment of Judo's Remuneration Policy.

The Committee meets at least three times per year and during the Period the Committee held three scheduled meetings and one out of cycle meeting called for a specific purpose. The Committee must comprise at least three Directors, a majority of whom shall be independent. The Chair of the Board may be a member of the Committee but cannot be the Chair of the Committee.

As at the end of the Period, the Committee comprises six Directors, four of whom are independent Non-Executive Directors (NED's) and two of whom are Shareholder Representative Directors. The Independent NED's are remunerated by way of a base fee of \$85,000 per annum (exclusive of superannuation). Additional fees are paid for Chairs and Members of Board Committees, depending on the number of other Committees they either Chair or are a Member of. Directors who Chair two or more Committees receive an additional fee of \$10,000; Directors who are a Member of two or more Committees receive an additional fee of \$5,000; and where a Director is the Chair of a Committee and Member of another Committee, an additional fee of \$7,500 is provided (all figures are exclusive of superannuation). The Chairman of the Board receives no additional payment for his membership of any Committees. The Shareholder Representative Directors receive no remuneration. The total fees paid to the Committee for the Period are set out in the table below:

The Period	1/07/2019 – 30/06/2020	24/04/2019 – 30/06/2019
Committee Members (inclusive of the Committee Chairman) (1) (2)	6	6
Meetings (3)	4	0
Total fees including the Committees members and Committee Chairman (3)	428,862	62,618

(1). There were 6 Committee members during the period.

(2) There was a resignation of one Shareholder Representative Committee member and appointment of a replacement Shareholder Representative Committee member in February Board Meeting with no gap in membership.

(3) There were 3 scheduled Committee meetings and 1 additional meeting called for a specific purpose during the Period.

(4). Fees quoted include superannuation.

Where necessary, the Committee may seek advice from independent experts and advisors including remuneration consultants. The Committee may also arrange for their attendance at relevant Committee meetings. During the Period the Committee did not directly engage any independent advisors. During the Period, Management engaged PwC to advise on the development of its Long-Term Incentive Plan, Remuneration Policy and APS330 Remuneration Disclosure for the previous Period. No remuneration recommendations were made by PwC as part of their engagement.

The Judo Groups Remuneration Policy, Framework & Components

During the Period the revised Board approved Remuneration Policy was communicated to employees. The policy changes focused on reaffirming the purpose of remuneration at Judo and ensuring the Policy complied with APRA Prudential Standards and applicable legislative and regulatory remuneration requirements, namely the Banking Executive Accountability Regime (BEAR). Revised remuneration principles and a remuneration framework, as outlined below, were introduced in Fy20 via an employee roadshow conducted by the Chief People and Culture Officer (CPCO).

Policy coverage

Judo's Remuneration Policy applies to all directors and employees of the Judo Group.

Remuneration objectives and principles

A foundation belief in the establishment of Judo was that human capital would ultimately define its' competitive advantage. Judo views remuneration as a critical human capital and performance management instrument to help achieve this competitive advantage and has developed the following remuneration design principles to support this goal:

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- Attract & retain highly talented people passionate about building & growing a challenger bank;
 - Drive outperformance & a customer-first/humanistic banking mindset and unified team culture;
 - Create an equity owners' mindset;
 - Encourage a commitment to the fundamentals of banking;
 - Be simple and fair enough to explain to family and friends; and
 - Ensure remuneration is one of the many reasons people work and stay at Judo.
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Risk and Financial Control Personnel

Risk and Financial Control Personnel are employed in centralised functions across the Judo Group. Remuneration outcomes for these individuals are based on the performance of the Judo Group as a whole and their own performance objectives, instead of a focus on the outcomes in areas of the Bank they oversee.

FY20 Remuneration Framework

Judo’s remuneration framework consists of fixed and variable components of remuneration. The fixed and variable remuneration mix is such that variable remuneration can meaningfully drive performance without encouraging inappropriate risk taking.

Changes to the remuneration framework

Following a review of the Remuneration Framework, the Board approved the following changes to variable remuneration arrangements for FY20:

- Removed the STI plan for all employees;
- Introduced a Discretionary Profit-Share Plan;
- Closed the MIP, while still retaining the Mirror MIP; and
- Introduced a Long-Term Incentive (LTI) Plan.

An overview of all remuneration elements, including those that have been newly introduced for FY20 are detailed in the table below.

Element	Description
Fixed remuneration	<ul style="list-style-type: none"> • Fixed remuneration is comprised of base salary and superannuation. Other benefits such as car allowance may also be provided. • Fixed remuneration is typically set at industry competitive levels and provides sufficient remuneration to take into account the possibility of paying no variable remuneration.
Management Incentive Plan (MIP)	<ul style="list-style-type: none"> • MIP awards are designed to retain and reward initial founding employees and management for building and growing a successful and sustainable bank, and to create value for shareholders. • There are two plans approved by the Board: the MIP, and a Mirror MIP (which replaced the MIP once it was exhausted). Awards are delivered in Performance Rights matched to an underlying B Class Share. • Employees eligible to participate in the MIP and Mirror MIP are limited to the initial founding management team, founding NED’s, and select team members and NEDs who have since joined Judo. • Typically, a single grant of awards that vests annually over a five-year period, subject to performance and service conditions. 50% of the award is subject to service conditions to assist with the retention of key talent to facilitate the sustainable growth of the business; and 50% of the award is subject to performance criteria including Net Profit After Tax (NPAT) or Loan Book Targets, plus a Board overlay of the Risk Management Considerations (RMCs), in relation to the performance conditions, which is outlined below.

Element	Description
	<ul style="list-style-type: none"> ● The five-year period commenced on 1 July 2018.
<p>Discretionary Profit-Share (New)</p>	<ul style="list-style-type: none"> ● Introduced to recognise group-wide beyond budget out-performance against core areas of Judo’s business, including: customer-first outcomes, risk management, people objectives and financial performance. ● All employees are eligible to participate in the profit-share plan. ● There is no target opportunity expressed. ● Payouts are completely subject to Board discretion and are assessed and paid annually. ● Mandatory performance, risk management and behavioural requirements objectives must be met to be eligible to receive an award. ● The profit-share pool is based on performance against financial and non-financial goals designed to support long-term financial soundness and risk management framework. Adjustments may be made to reflect business risks, quality of financial results and customer outcomes. ● The Board reserves the right to cancel or reduce the profit-share plan at any time in its absolute discretion. This includes, but is not limited to, where the Judo Group faces material adversity or to respond to significant unexpected or unforeseen events.
<p>Long-term incentive (LTI) (New)</p>	<ul style="list-style-type: none"> ● Introduced to retain and reward employees for contributing to the long-term sustainable success of the bank. ● Eligible ‘founding’ employees and some critical/senior team members were granted an LTI in FY20 ● LTI may be delivered in the form of: <ul style="list-style-type: none"> ○ Loan-funded shares; ○ options; and/or ○ cash award upon exercise. ● The FY20 LTI grant was delivered in the form of Share Options ● LTI awards are subject to meeting the same service conditions (50%) and performance criteria (50%), and RMC’s overlay as outlined below. ● The FY20 LTI award is a four-year plan. ● The design and grant of LTI in subsequent years will be subject to Board approval.

Deferral of remuneration in FY20

In FY20, Judo continued to ensure that an appropriate amount of remuneration is deferred over the longer term.

The final payment for the FY19 STI plan was made in November 2019. Judo determined that the quantum and subsequent materiality of this award was low, and sufficient deferral was achieved through the MIP and Mirror MIP.

The LTI award granted in FY20 are deferred over a four year period. Judo may adjust any unvested portion of LTI awards downwards to zero, if appropriate, as per the RMC's described in this disclosure. Additionally, the Board may clawback LTI awards or resulting shares in circumstances such as serious misconduct, fraud, a wilful breach of Judo's Code of Conduct, a wilful breach of any of their obligations to a Group entity, and/or acts, or fails to act, in a way which contributes to a Group entity incurring significant reputational harm, unexpected financial loss, a significant breach of a legal or regulatory requirement, or making a material financial misstatement.

Consistent with FY19, should any Mirror MIP award be made, it will be deferred, and the performance-based component will be subject to adjustment downwards to zero, if appropriate, as per the RMCs described above.

Alignment of remuneration with risk management and the Risk Management Considerations (RMCs)

Judo actively manages risk, including the risks associated with delivering and measuring performance and remuneration. Risk management is built into the remuneration framework and assessment of performance by:

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- Ensuring risk and compliance are part of the performance management process for all employees
 - Assessing each employee against Judo's values of trust, teamwork, performance and accountability; and
 - Adjustments to performance-based components of remuneration for business and risk outcomes, which may include paying no variable remuneration to any employees in any given year.
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The Board, with input from the Board Remuneration Committee and the Board Risk Committee, reserves the right to adjust the variable remuneration downwards to zero, including deferred unvested and unpaid awards. The Board considers long-term financial soundness and a number of Risk Management Considerations (RMC's), which have regard for both current and future risks, when it considers the payment or vesting of variable remuneration. The Board will also review additional financial and non-financial considerations when assessing whether any variable remuneration should be adjusted for risk. The RMCs include:

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- Measurement of the performance of Judo against the Board approved Risk Appetite Statement (RAS) for all key risks and extent to which the measures within the RAS are deemed to be within Risk Appetite;
 - Assessment of Judo's compliance with all applicable risk management and compliance frameworks as well as statutory reporting and controls;
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- Assessment of Judo’s risk culture and demonstrated willingness to raise issues, risks and unethical behaviours;
- Assessment of Judo’s regulatory compliance including no evidence of any significant or systemic regulatory breaches;
- Assessment of Judos approach to identifying and managing any potential conduct issues;
- Assessment of any significant financial loss that may have occurred due an event or failure of risk management; and
- Assessment of Judo’s timeliness in response to audit matters raised.

The table below provides an overview of Judo’s key risk and a sample of possible measures taken into account in the RMC’s.

Risk	Measures
Credit Risk	<ul style="list-style-type: none"> • Loan portfolio and portfolio mix KPI’s • Credit quality KPI’s • Diversification of industry and asset exposure
Balance Sheet and Liquidity Risk (includes liquidity risk, capital risk and interest rate risk in the banking book)	<ul style="list-style-type: none"> • Regulatory and Board Liquidity Requirements • Regulatory and Board Capital Requirements including: Common Equity Tier 1 capital, Tier 1 Capital, Total Capital • Concentration risk within Investment Portfolio • Interest Rate Risk parameters
Operational Risk	<ul style="list-style-type: none"> • Operational Loss events within Judo’s Operational Risk Profile • Compliance with Judo’s operating procedures • Control effectiveness • Risk assessment and monitoring of outsourcing providers • Data quality and risk reporting
Technology Risk (including cyber risk)	<ul style="list-style-type: none"> • Reliability of core services for credit facilities, debt facilities and other operational services • IT security (including protection of customers information) • Reporting of Technology and Cyber risks • Control effectiveness, including testing of third parties • Security compliance
Compliance and Regulatory Risk	<ul style="list-style-type: none"> • Compliance with internal rules • Compliance with regulatory requirements and audit outcomes

When making the assessment the Board would also consider:

- The maturity of Judo and its systems;
 - What proactive action was taken throughout the assessment period to mitigate any identified risk issues in the monthly reporting against Board approved RAS by strengthening the risks and control environments; and
 - What advice and guidance has been provided by the Board throughout the year in response to identified issues in monthly reporting against the Board approved RAS, and Managements response.
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A reduction in the performance-based components of variable remuneration would occur if any of the following conditions were evident during the testing period:

- An Enforceable Undertaking
 - Judo incurring remediation costs that were the result of a systemic breakdown in the Risk Management Framework and control environment
 - Implementation of the Recovery Plan at any point during the vesting period
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Senior Manager Quantitative Remuneration for the Period

The table below summarises the requirements under paragraph (h) in Table 22 of APS 330 and provides details of the various payments made to the Senior Managers and Material Risk Takers for the Period.

	SENIOR MANAGERS 1/07/2019 – 30/06/2020 (1)	SENIOR MANAGERS 24/04/2019 – 30/06/2019 (2)
Number receiving a variable award	1	1
Guaranteed bonuses awarded	Nil	Nil
Sign-on awards	Nil	Nil
Termination payments (3) (4)	301,392	Nil

(1). There were eight Senior Managers during the period, with six remaining at the end of the Period. There were no employees considered to be Material Risk Takers outside of the Senior Managers during the Period.

(2). There were eight Senior Managers during the Period. There were no employees considered to be Material Risk Takers outside of the Senior Managers during the Period.

(3). Two Senior Managers departed Judo during the Period, however only one received a termination payment in the Period. The second payment was made after the end of the period and will be reported in FY21.

(4). Payment amount includes termination payment and other payments associated with termination.

The table below provides a summary of deferred cash and equity-based remuneration including the total of outstanding awards, and those that vested during the Period, including any reductions due to explicit and implicit adjustments. It summarises the requirements under paragraphs (i) and (k) in Table 22 of APS 330 for the Period.

	SENIOR MANAGERS 1/07/2019 – 30/06/2020 (1)	SENIOR MANAGERS 24/04/2019 – 30/06/2019 (2)
Number of Incumbents	8	8
<i>Outstanding Deferred Remuneration</i>		
Cash based awards	Nil	Nil
Shares and share linked instruments (3)	19,262,184	10,596,387
Total outstanding deferred remuneration	15,430,811	9,536,748
Total outstanding remuneration vesting during the Period	3,831,373	1,059,639
Total amount of reductions during the Period due to explicit adjustments	Nil	Nil
Total amount of reductions during the Period due to implicit adjustments	Nil	Nil

(1). There are no employees considered to be Material Risk Takers outside of the Senior Managers during the period.

(2). There are no employees considered to be Material Risk Takers outside of the Senior Managers during the period.

(3). Share and share linked instruments are expressed at fair value using the Share Price as at June 30, 2020 for the Period.

The table below (formatted as per Table 22A of APS 330) summarises the requirements under paragraph (j) in Table 22 of APS 330 and provides a breakdown of the value of fixed and variable remuneration for Senior Managers for the Period.

	SENIOR MANAGERS 1/07/2019 – 30/06/2020 (1)	SENIOR MANAGERS 24/04/2019 – 30/06/2019 (2)
Number of Incumbents	8	8
Fixed Remuneration (Non-Deferred)		
Cash based (3)	3,632,910	712,261
Shares and share-linked instruments	Nil	Nil
Other (4)	313,933	66,660
Variable Remuneration		
Cash based (Non-Deferred)	Nil	Nil
Cash based (Deferred)	Nil	Nil
Share-linked instruments (Deferred) (5)	280,851	167,745
Other	Nil	Nil

- (1). There are no employees considered to be Material Risk Takers outside of the Senior Managers during the period.
- (2). There are no employees considered to be Material Risk Takers outside of the Senior Managers during the period.
- (3). Represents actual fixed remuneration received, including salary sacrificed benefits, employer superannuation and any car parking benefits (including associated benefits tax).
- (4). This includes annual leave and long service leave accruals.
- (5). Share and share linked instruments are expressed at fair value using the Share Price as at June 30, 2020 for the Period.