



# **APS 330 Remuneration Disclosure. 2022**

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

Reporting Period: July 1<sup>st</sup>, 2021 – June 30<sup>th</sup>, 2022

### 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 1<sup>st</sup>, 2021 – June 30<sup>th</sup>, 2022 (the Period) inclusive.

This represents the disclosures for the FY22 period, given that 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 responsible 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 Chief Executive Officer (CEO) and Management Board members who report to the CEO are included within the definition of the Senior Manager for the purposes of these disclosures. During the Period there were nine persons within this group<sup>1</sup>.

Material Risk Takers are defined as 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 that met Judo's definition of Material Risk Takers.

#### Remuneration Governance

The Board Remuneration and Nominations Committee (RNC) supports the Board to manage Judo's people and remuneration matters. The Board RNC is responsible for the oversight and implementation of Judo's remuneration strategy and policy and its consistency with Judo's Risk Management Framework.

The Management Board is responsible for implementing and maintaining appropriate people and remuneration policies designed to ensure compliance with internal policies, applicable laws and regulations, to foster a positive culture and to identify and address any issues of risk for Judo. The Management Board may provide recommendations to the Board RNC on people and remuneration matters, which the Board RNC reviews, challenges and validates, prior to making recommendations to the Board.

The Board RNC will work with relevant committees during the year as it relates to remuneration practices.

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<sup>1</sup> In FY21, there were 10 Senior Managers and no persons outside of the Senior Managers group who were considered Material Risk Takers.

For example, to ensure that all remuneration outcomes are reflective and consistent with risk management performance at Judo, the Board will consider the assessment of the Risk Management Considerations as outlined in the Remuneration Policy, following year-end performance assessment. The Board Risk Committee and the Board RNC review the Risk Management Considerations in assisting the Board to determine remuneration outcomes.

The Board RNC'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 of Judo's Remuneration Policy.

The Board RNC meets at least three times per year and during the Period the Board RNC held four scheduled meetings. The Board RNC must comprise at least three Directors, a majority of whom shall be independent. The Chair of the Board may be a member of the Board RNC but cannot be the Chair of the Board RNC. As at the end of the Period, the Board RNC comprised four Directors, including one Chair and two independent Non-Executive Directors (NEDs).

The Independent NEDs are remunerated by way of a base fee of \$135,000 per annum (inclusive of superannuation contributions required by law and any tax amounts which must be deducted). If they are either a Chair or Member of any Board sub-Committee an additional fee will be payable on the effective date the sub-Committee was joined. Additional fees are below:

- Committee Chair - \$25,000
- Committee Member - \$15,000

All fees are paid inclusive of superannuation contributions and any tax amounts which must be deducted.

The total fees paid to the Board RNC for the Period are set out in the table below:

	FY22	FY21
<b>Board RNC Membership<sup>2</sup></b>	4	5
<b>Meetings</b>	4	4
<b>Total fees including the Board RNC Chair and Members<sup>3</sup></b>	<b>613,168</b>	<b>402,020</b>

<sup>2</sup> This includes the Chair and three Members at the end of the period. The Chair changed on 1 January 2022.

<sup>3</sup> Fees include superannuation guarantee contributions.

The Board RNC may seek and consider advice from external advisers from time to time to assist with discharging its duties. Any advice from consultants is used as a reference point and does not serve as a substitute for thorough consideration by the Board RNC.

During the year, the Board RNC did not seek or receive any remuneration recommendations from external advisers. Management engaged remuneration consultants during FY22 to provide advice, but no remuneration recommendations were made.

# Judo's Remuneration Policy

## Policy Coverage

Judo's Remuneration Policy applies to all directors and employees of the Judo Group. All forms of remuneration are captured by this Policy.

## 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 instrument to help achieve this competitive advantage and has developed the following remuneration design principles to support this goal:

- Reward inspires talented people to build and grow a sustainable challenger bank;
- Drive performance and a customer centric approach;
- Enable a long-term shareholder mindset;
- Support an ongoing commitment to the fundamentals of banking;
- It's not all about the money; and
- Ensure a simple and consistent approach.

## 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 instead of a focus on the outcomes in areas of the Bank they oversee.

## Judo's FY22 Remuneration Framework

Judo's remuneration framework is focused on encouraging long-term sustainable decision-making and supporting our purpose to be the most trusted SME business bank in Australia.

Judo's remuneration framework also strongly incorporates risk management and aligns to both the letter and the spirit of applicable remuneration regulations.

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.

Remuneration element	What's included
<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>• Base salary and superannuation</li> <li>• Benchmarked to peers</li> </ul>
<b>Judo Grows (short-term incentive)</b>	<ul style="list-style-type: none"> <li>• To reward employees for Judo Group's performance.</li> <li>• The plan is based on Group balanced scorecard of financial and non-financial measures, that reflect Judo's key strategic priorities.</li> <li>• An annual award delivered using a mix of cash and/ or equity</li> <li>• All awards are subject to risk, conduct and values gateway requirement</li> </ul>
<b>Judo Grows+ (long-term incentive)</b>	<ul style="list-style-type: none"> <li>• A long-term incentive program for senior leaders<sup>4</sup>.</li> <li>• Drives a long-term shareholder mindset</li> <li>• Focuses key leaders on long-term value creation</li> <li>• Creates strong alignment between participants and shareholders</li> <li>• Premium Priced Options (PPOs) with a long term vesting period (up to 5 years)</li> </ul>
<b>Other awards</b>	<ul style="list-style-type: none"> <li>• Made at the discretion of the Board and the CEO in limited circumstances</li> <li>• Where awards are made they will be aligned to performance, company strategy and risk management considerations, as well as consider regulatory requirements for the period of deferral, where relevant</li> <li>• All awards will be subject to malus and clawback</li> </ul>

Underpinning all performance-based remuneration outcomes at Judo is the consideration of risk management performance in the form of a qualitative overlay applied by the Board in relation to Risk Management Considerations. This helps to reinforce the fundamentals of banking and our core values of Trust, Performance, Teamwork and Accountability.

### Legacy Arrangements

During FY22 and in connection with Judo's listing on the ASX in November 2021, legacy incentive plans, which were plans that were in operation at Judo as a private company, have ceased. The legacy plans, the Management Incentive Plan (MIP), Mirror MIP (MMIP) and the LTI Option Plan (Legacy plan), assisted the company to incentivise employees since inception.

<sup>4</sup> Which includes Senior Managers.

The cessation of these plans during FY22 either resulted in:

- 1) full vesting (MIP and MMIP), or
- 2) continuation (LTI Option Plan (Legacy plan)) for select individuals with no further awards to be made.

### **Deferral of remuneration in FY22**

In FY22, Judo continued to ensure that an appropriate amount of remuneration is deferred over the longer term. Senior leaders have their short-term incentive deferred for up to two years post the end of the performance period, providing strong alignment between employee reward and shareholder returns. Under the long-term incentive, reward is deferred into equity for at least four years.

Judo may adjust any unvested portion of LTI awards downwards to zero, if appropriate, as per the Risk Management Considerations (RMCs) 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.

### **Linking performance and remuneration**

Both fixed and variable remuneration are linked to performance. Fixed remuneration is reviewed annually and considers role requirements, individual skill and experience, market relativity and pay equity considerations. Variable reward programs are designed to promote and recognise team-based performance.

For Judo's annual short-term incentive plan, the Board assesses performance against a balanced scorecard comprising financial and non-financial measures aligned to Judo's short-term strategic priorities – the focus for FY22 was on core customer, employee and risk culture measures, as well as and underlying profit as a core financial measure.

For Judo's long-term incentive, the premium exercise price on the option plan provides strong performance alignment between senior leaders and shareholders.

For all incentive programs, high standards of risk, conduct and values are embedded as an eligibility requirement to allow vesting of entitlements.

Final variable reward outcomes are subject to a Board discretionary adjustment based on the company's Risk Management Considerations and to meet other regulatory obligations where applicable, whereby the Board may make downward adjustments (including to zero) for a range of financial and non-financial considerations.

## 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:

- 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.

The Board, with input from the RNC and the Board Risk Committee, reserves the right to adjust the variable remuneration downwards to zero, including deferred unvested and unpaid awards, in its absolute discretion (i.e. malus). The Board considers long-term financial soundness and Judo's RMCs, 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:

- 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;
- 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 Judo's approach to identifying and managing any potential conduct issues;
- Assessment of any significant financial loss that may have occurred due to 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 risks and a sample of possible measures taken into account in the RMCs.

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

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 Management's response.

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.

## 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.

	FY22	FY21
	Senior Manager	Senior Manager
Number receiving a variable award	9	4
Guaranteed bonuses awarded	Nil	Nil
Sign-on awards	Nil	Nil
Termination payments <sup>5</sup>	753,168	563,439

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 and Material Risk Takers for the Period.

	FY22	FY21
	Senior Manager	Senior Manager
Number of Incumbents	9	10
Cash based <sup>6</sup>	5,018,422	4,362,702
Shares and share-linked instruments	Nil	Nil
Other <sup>7</sup>	451,102	346,566
Cash based (non-deferred)	Nil	Nil
Cash based (deferred)	Nil	Nil
Share-linked instruments (deferred) <sup>8</sup>	10,895,247	3,140,049
Other	Nil	Nil

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

<sup>5</sup> Includes termination payment and other payments associated with termination. No Senior Managers departed Judo during the Period; however, three employees who were Senior Managers in the previous Period received termination payments in this Period. Payment amount includes termination payment and other payments associated with termination.

<sup>6</sup> Represents actual fixed remuneration received, including salary sacrificed benefits, employer superannuation, any car parking benefits, FBT amounts.

<sup>7</sup> Includes annual leave and long service leave accruals.

<sup>8</sup> Includes equity awarded in FY22 calculated using the fair value of the award at grant date. For FY21 includes the value of awards made under the mirror MIP and the LTI Option Plan.

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.

	FY22	FY21
	Senior Manager	Senior Manager
Number of Incumbents	9	10
Cash based awards	Nil	Nil
Shares and share linked instruments	8,971,247	39,156,765
Total outstanding deferred remuneration <sup>9</sup>	8,971,247	39,156,765
Total outstanding remuneration vesting during the Period <sup>10</sup>	24,087,049	19,035,032
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

<sup>9</sup> Includes grant date fair value of unvested FY22 Judo Grows+, FY22 IPO Retention Options and Legacy Options that remain unvested. For FY21, includes the fair value of remaining unvested awards as at 30 June 2021.

<sup>10</sup> Includes the vested entitlements of current Senior Managers as at the value of Judo closing share price at 30 June 2022. For all vested amounts relating to FY21, the vested value is calculated as at 30 June 2021.