

# ASX Announcement.

1 May 2023

## Judo Technology, CTI and Trading Update

Judo Bank (ASX:JDO) is today hosting a virtual investor update on its technology strategy and its cost to income ratio (CTI). Judo has also provided an update on its financial performance for the nine months to 31 March 2023. The presentation, including the trading update, is attached to this announcement.

Judo Bank's CEO and co-founder, Joseph Healy, said: "We are pleased to confirm that Judo has delivered another strong quarter of financial performance. We continue to run our own race and successfully execute our strategy. We are upgrading our underlying NIM guidance for the second half of FY23 to an expected range of 3.3 – 3.5% and we are on track to achieve the rest of our FY23 guidance metrics.

"Our profit before tax for the nine months to 31 March 2023 was \$86.7 million<sup>1</sup>, demonstrating the superior economics of our pure-play specialist SME-focused business model.

"We are pleased that our loan book at the end of March reached \$8 billion. We expect the June quarter to be a typically seasonally strong period for lending growth, which will take us through to our goal of greater than \$9 billion of Gross Loans and Advances (GLA) by the end of the financial year. Our confidence in achieving this growth is underpinned by our AAA<sup>2</sup> lending pipeline, which now stands at \$1.5 billion, up from \$1.3 billion in December.

"Our asset quality remains strong, with no write-offs during the quarter. Our provision coverage now sits at 1.11% of GLA.

"Notwithstanding a significant amount of competition in deposit markets, we have seen continued strong demand for our term deposits over the quarter. Our market leading rates are driving an increase in the average number of retail TD applications we receive each day. The average cost of new term deposits over the past month has been at the top end of our through-the-cycle expectation of 80 – 90 basis points over BBSW.

"We have also reached our targeted \$2.5 billion of committed warehouse capacity, having recently signed agreements with two financiers for an additional \$750 million of capacity. The drawn balance of our warehouses currently sits at approximately \$600 million, leaving an additional \$1.9 billion of committed capacity which provides a significant amount of flexibility as we manage through the TFF repayment period.

"We are now well into the second horizon of our growth, which involves investing in technology, digital and data to support a continued increase in our lending as well as deliver a sector leading CTI approaching 30% at scale." Mr Healy said.

Chief Operating Officer (COO), Lisa Frazier, said: "As a cloud-native bank with a strong technology team in place, we are well positioned to deliver our ambition of building a world class SME business bank. Our purpose guides our investment decisions and by continuing to invest in technology, data and insights, and digitisation, we are enabling our relationship bankers to continually improve the experience we offer to our SME customers."

Chief Financial Officer (CFO), Andrew Leslie, said: "We are committed to delivering an at-scale ROE in the low to mid-teens, underpinned by a sector leading CTI. Our planned technology investments will enable us to continue scaling our loan book and continue to improve the quality of Judo's cost base."

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<sup>1</sup> 3Q23 performance metrics are unaudited

<sup>2</sup> Loans in application, approved and accepted status, but not yet settled

A live video webcast of the presentation and Q&A will commence at 10:30am and can be viewed on the [Judo Bank website](#). A recording will be made available following the presentation.

Authorised for release by Yien Hong, Company Secretary.

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**About Judo Bank**

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



# Technology and CTI Update.

1 May 2023



Topic	Presenter
Building a world-class SME business bank	Joseph Healy
Technology strategy and investments	Lisa Frazier
CTI ratio and trading update	Andrew Leslie
The power of specialisation	Joseph Healy
Q&A	Joseph Healy, Lisa Frazier, Andrew Leslie



**Joseph Healy**  
*Chief Executive Officer*



**Lisa Frazier**  
*Chief Operating Officer*



**Andrew Leslie**  
*Chief Financial Officer*

# Building a world-class SME business bank.

Joseph Healy, CEO and co-founder

## Our purpose

To be the **most trusted**  
SME business bank in Australia.

## Our vision

To build a **world-class**  
SME business bank.



# Judo is a unique, pure play, specialist SME business bank that is producing exceptional outcomes.

*“There is a long list of challengers taking on Australian banks, but none is as dangerous or as unique as Judo Bank.”  
The Australian, 24 January 2020*

## Culture

- Deep domain management expertise with >200 cumulative years of banking experience
- Equity ownership a core principle to reinforce an owner’s mindset to running the company
- ~8% of issued capital held by directors and staff



## Customer

- Relationship/experience based customer value proposition
- 26 customers per banker – *low vs industry*
- Delivering stand out customer NPS +66<sup>1</sup>
- Multi award-winning term deposits



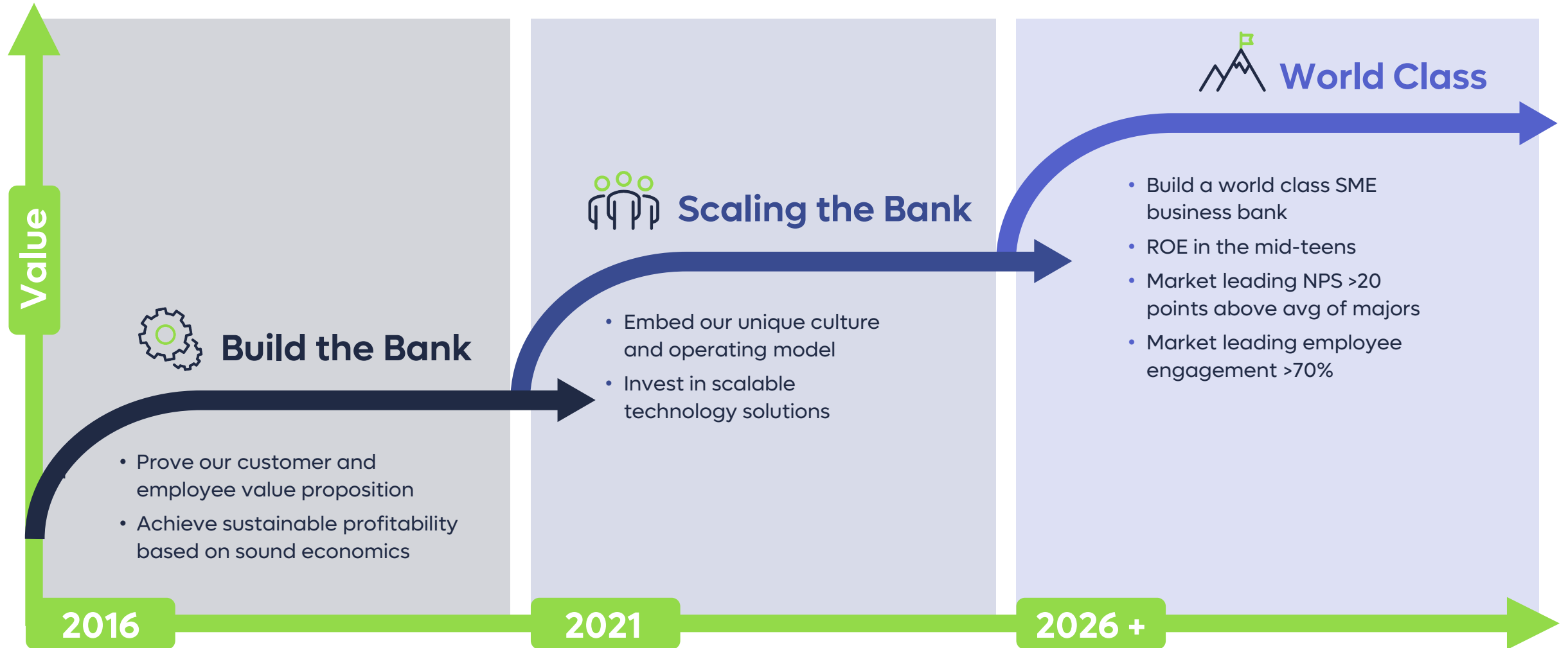
## Growth

- Fastest challenger bank to reach profitability
- FT’s 4<sup>th</sup> highest growing company in Asia-Pac
- Grown lending book to >\$8bn in 4 years
- 18 locations nationally



**HIGH-GROWTH  
COMPANIES  
ASIA-PACIFIC 2023**

# Building a World Class Bank.

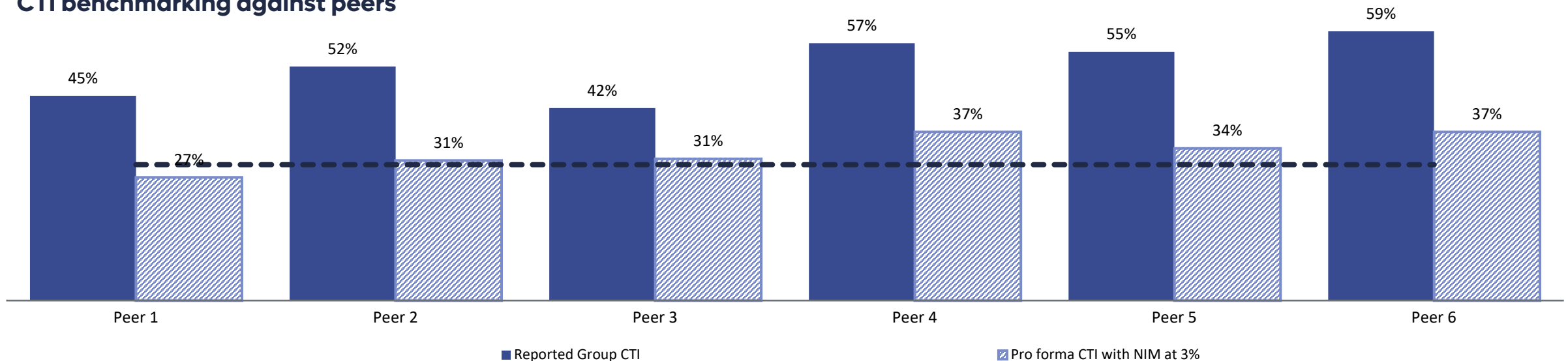


# At scale CTI driven by growth and lack of legacy.

Judo CTI to be driven by revenue growth (scale) and cost discipline

- CTI benchmarking analysis shows a 30% CTI on a 3% NIM is equivalent to a 45% CTI on a 2% NIM, which is the experience of the industry encumbered by legacy tech and branch networks
- This benchmarking analysis provides support for Judo’s metric at-scale of approaching 30% CTI
- Lack of legacy results in higher quality of costs: an estimated 15%, and up to 30%, of other banks’ costs will not apply to Judo at-scale

## CTI benchmarking against peers





# Technology strategy and investments.

Lisa Frazier, Chief Operating Officer

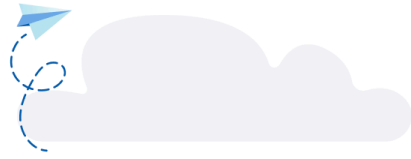
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# Recap: Our strategy prioritises experience ahead of product and platform.



## Experience

Customer facing processes, expertise provided to customers, recommendations and collaborations.



### Product

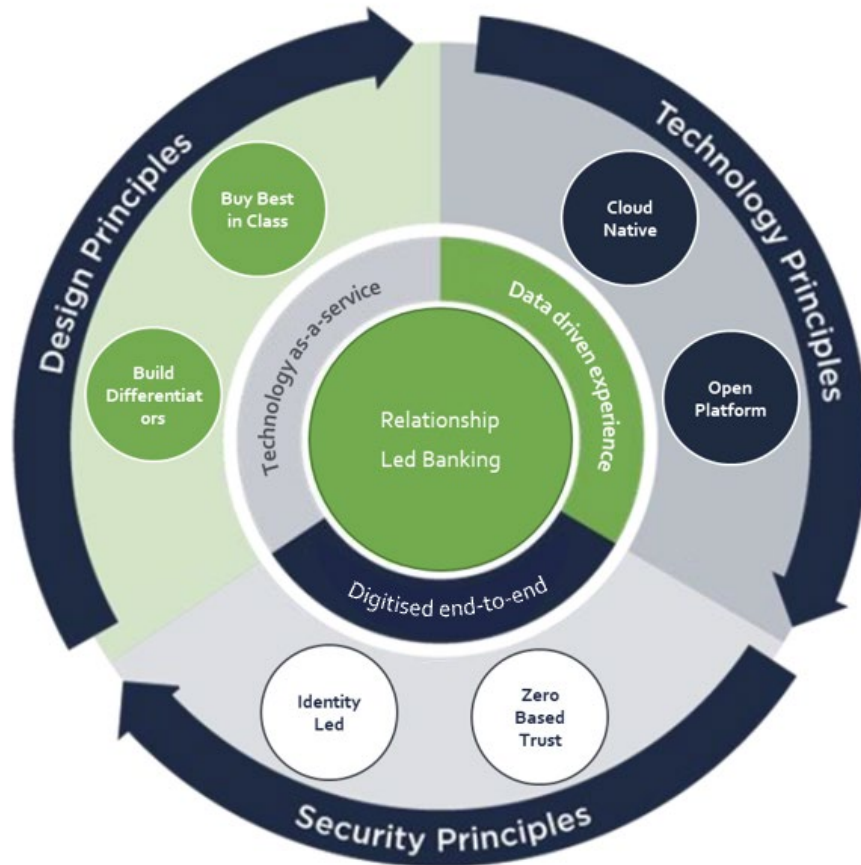


### Platform



# Our Technology strategy, updated for scaling.

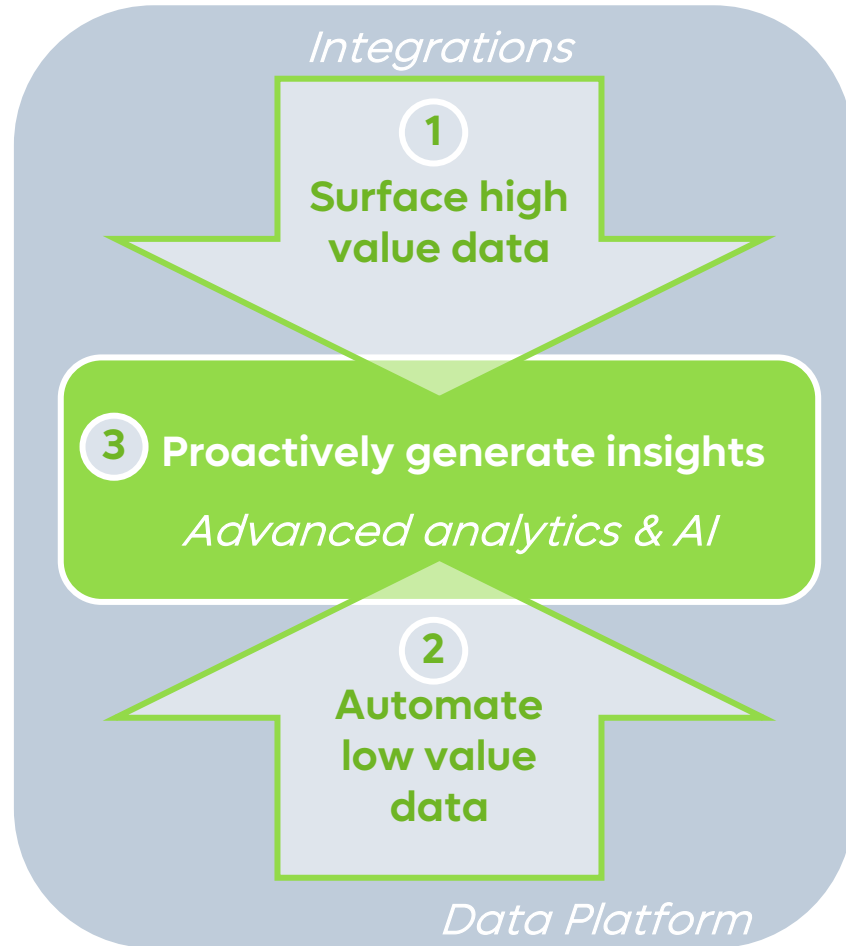
## Our guiding technology principles



Result: A flexible tech stack, a structural competitive advantage

1. Build new tech **capabilities**
2. Optimise our **cost of delivery**
3. Consolidate **what's working well**
4. Deliver our **integrated banker experience**

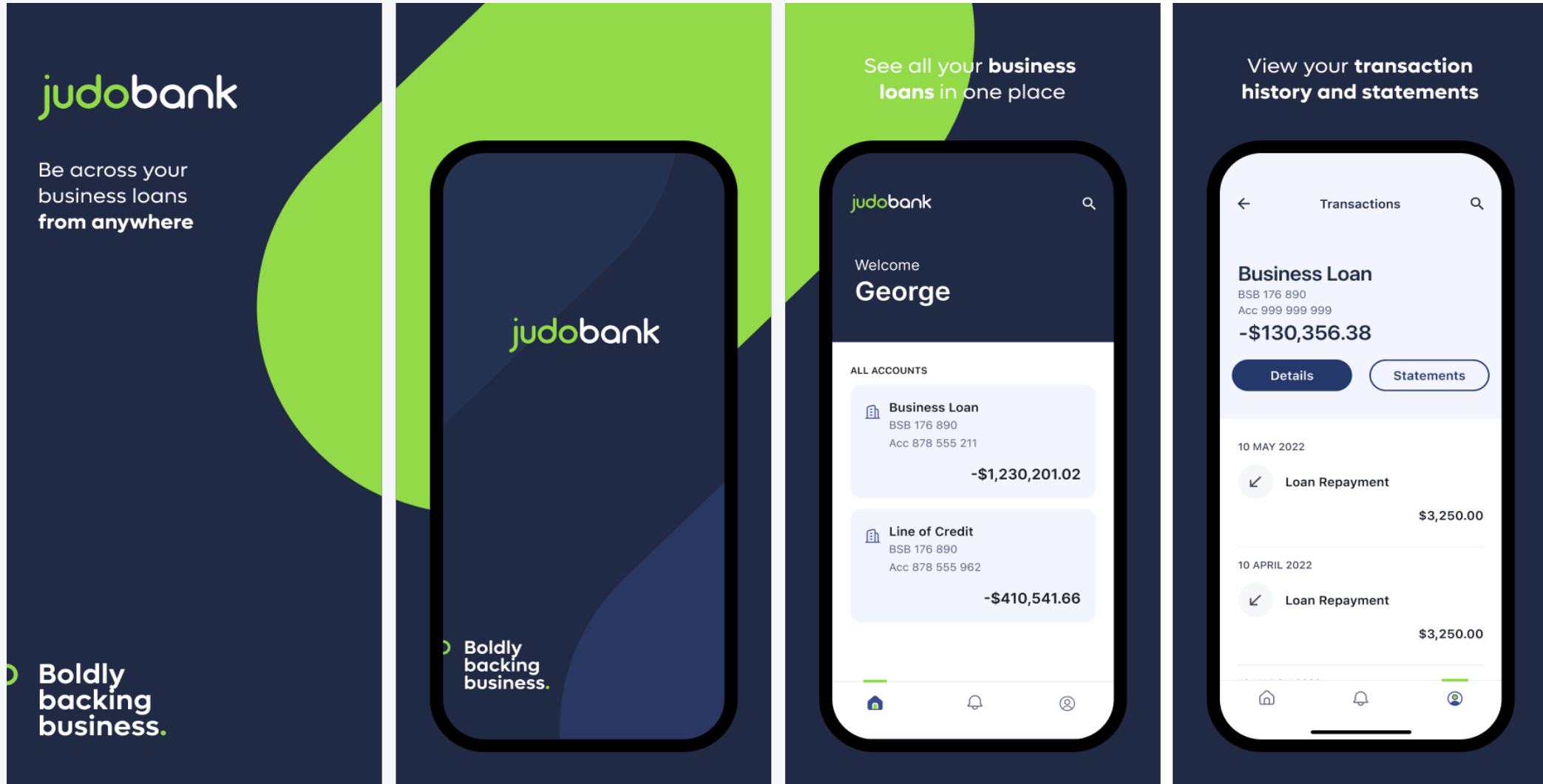
# Our Data strategy, power of insights close to the front line.



## Banker example

- 1 *"Give me the information I need to get things done for our customers"*
- 2 *"Make things easy for me"*
- 3 *"Help me to prioritise where I need to focus...  
...by identifying where the value is"  
...by predicting my customers' needs"  
...by highlighting changes in customer and sector risk"*

# Our Digital Strategy, a necessary and proven contributor to NPS and lower cost to serve.



# Our bank is young. We are now building for scale.

## New opportunities on the horizon



To date, we have achieved our results with systems *required to operate a bank*. In the future, we will invest in systems *to scale*.

1. Various research studies and publications such as Forrester and technology provider case studies



- **Building for scale started in 2021.**  
Investments in existing capabilities will continue



**Platform focus areas over the last two years have laid the foundations and are delivering value**

# Continue to invest in existing capabilities.

## nCino originations for TDs

Nov 2022

### Transitioned origination of direct Retail TDs to nCino

- Redesigned origination experience
- Built two new direct products: SMSF TDs (November) and Business TDs (March)

#### Outcome:

- **\$1bn** of Retail deposits and **\$160m** of SMSF deposits
- **+9** point increase in Net Promoter Score from +54 (2022) to +63 (Q1 2023)
- **+5%** increase in application completion rate
- **-80%** decline in origination issues leading to calls to our customer support team

## New Data Platform

Ongoing

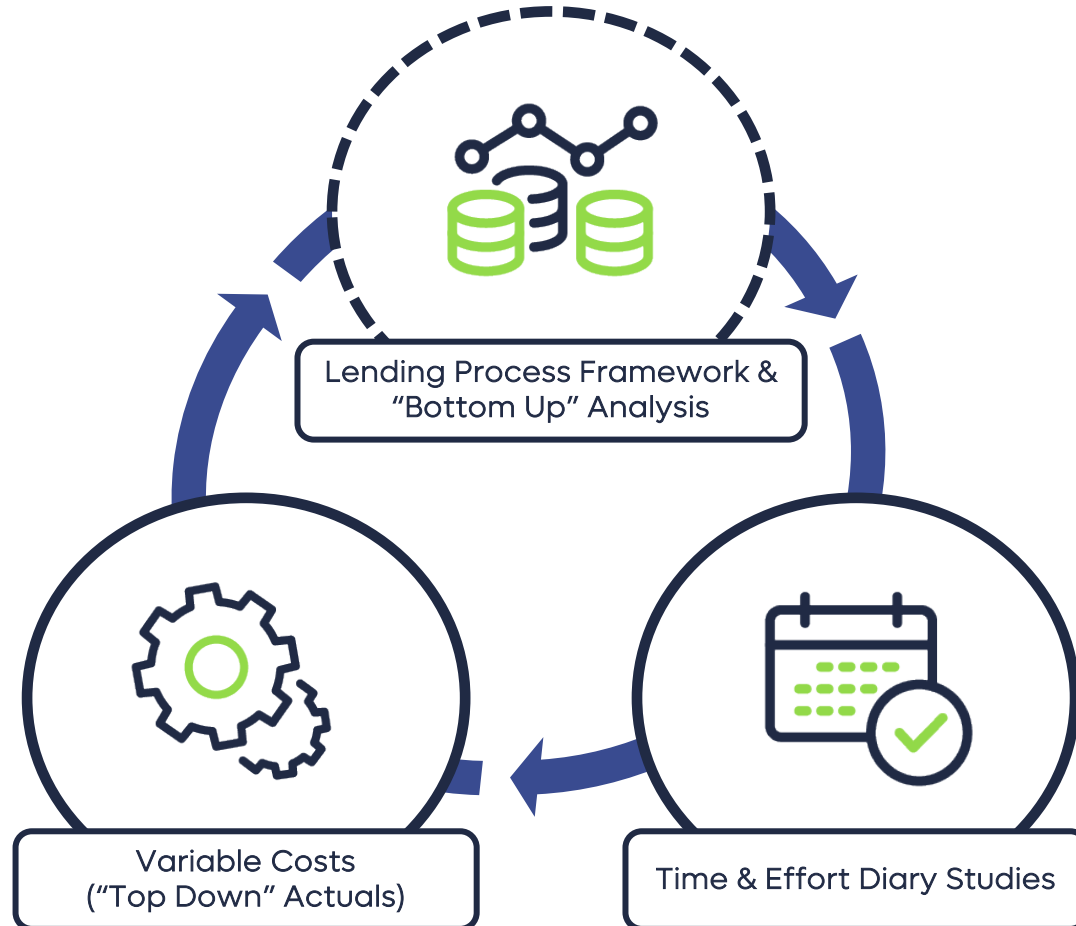
**Rebuilt our entire Data Platform inhouse** in Azure and now have a single data platform (total investment of \$2.8m)

#### Outcome:

- Reduces Total Cost of Ownership **by ~50%**
- Enables further efficiencies in executing our Data Strategy – (accelerated Open Banking build in FY23)
- **Operational improvements** in data availability and reliability

# Our path to scale is measured by Unit Economics.

## Overview of Key Components



## Objective

Unit Economics defines the variable cost per loan or customer: the cost of a 'Judo widget'

### Optimise Processes

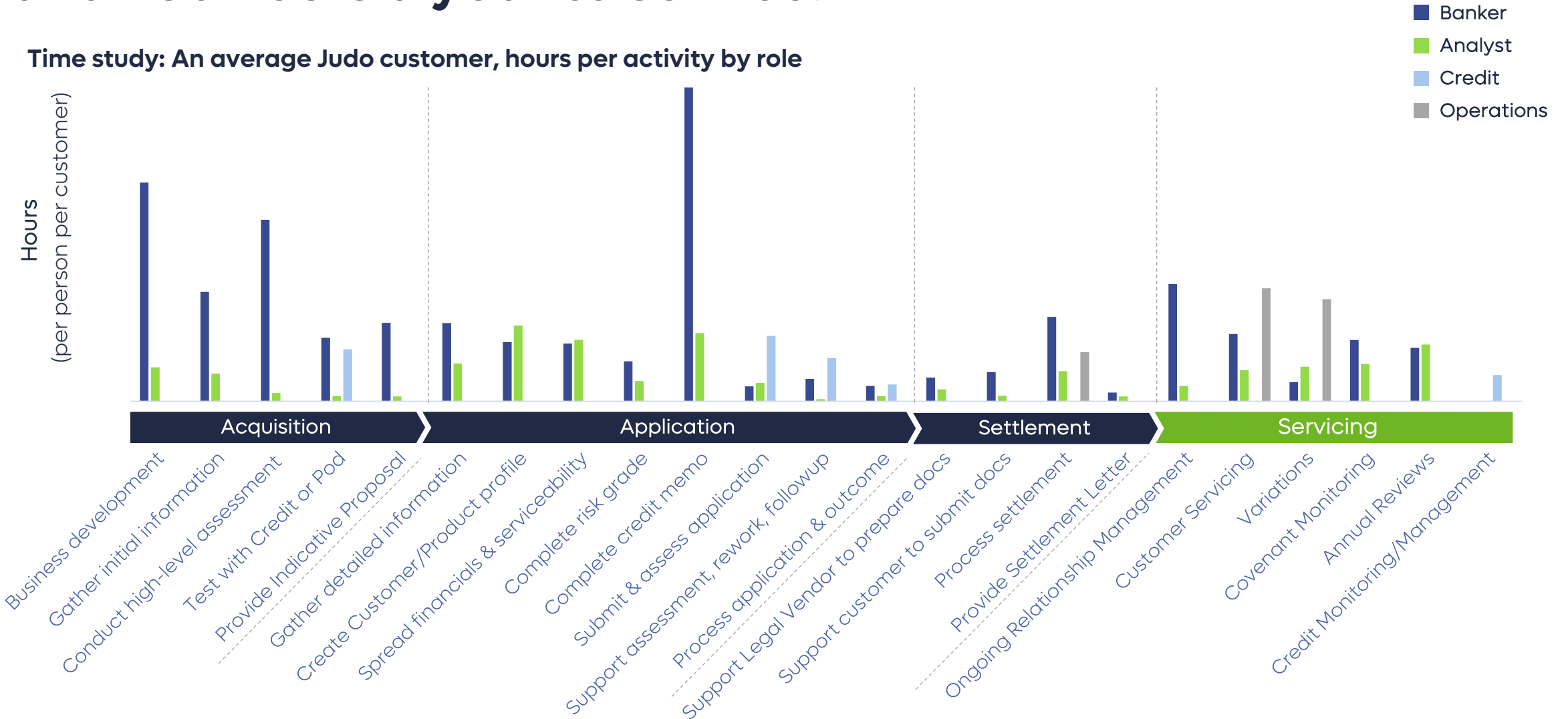
- Define an end-to-end lending process framework
- Identify improvement opportunities end-to-end
- Effectively prioritise strategic initiatives

### Measure Scale

- Build a mechanism to measure impact
- Demonstrate improved scale outcomes

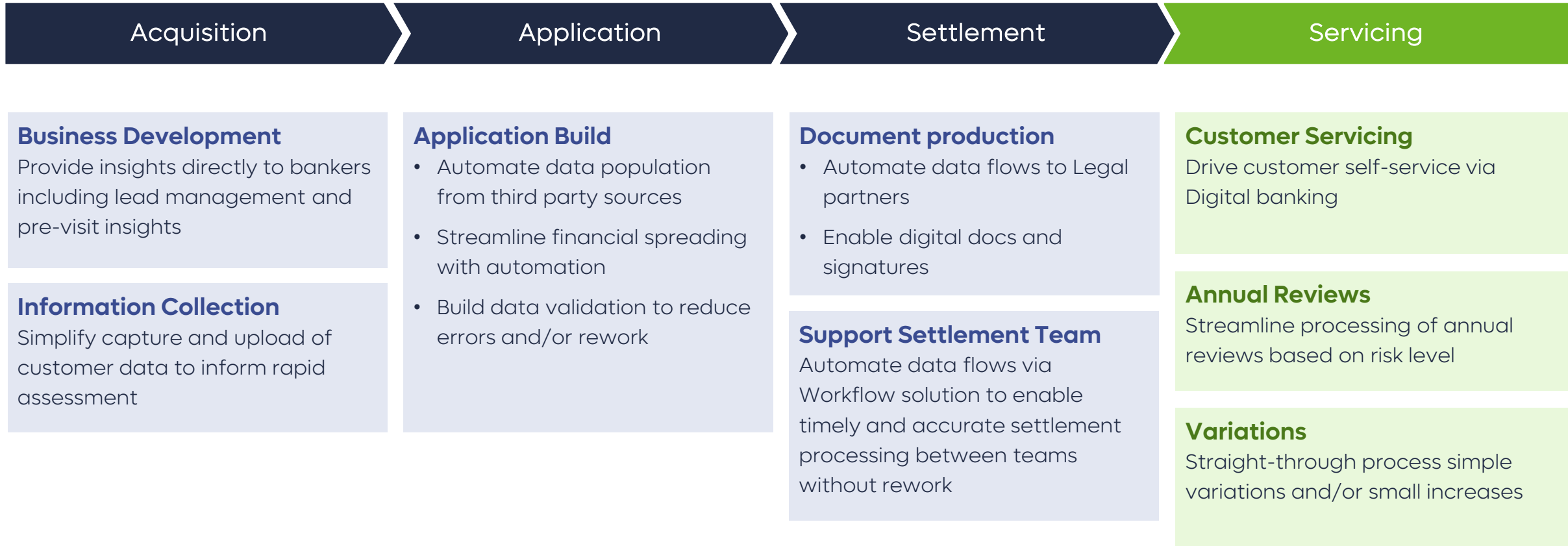
# An average Judo loan<sup>1</sup> requires ~60 hours to originate and ~30 hours a year to service.

Time study: An average Judo customer, hours per activity by role



1. An 'average Judo loan' includes all Judo products (Commercial Loan, Construction Loan, Line of Credit, Home Loan, Asset Finance, Bank Guarantee). Source: Bottom-up unit economics time study (February 2023)

# Unit Economics: Identified opportunities.



# We are already seeing the benefits.

Aug-22

Feb-23

## Settlements<sup>1</sup>



-15%

Document production  
straight-through-processing

Jan  
2023

Significant 'low-value' time was being spent to provide legal vendors with information via email to generate loan documents.

- › Automated data transfer via industry standard LIXI file
- › Eliminated data file preparation step

### Outcome (observed in February 2023 Unit Economics):

- ~1 hour of Banker and Analyst time saved per app.
- ~ 45 minutes of Operations time saved per app.
- Improved loan data quality reducing rework

## Servicing<sup>2</sup>



-23%

Upcoming: Annual Reviews and reporting

May  
2023

Reported time spent on Annual Reviews suggested an opportunity to reduce banker time on the administration of annual reviews.

- › Currently revamping the Annual Review process to include a simplified workflow and new reporting tools

### Outcome (expected):

- ~30 – 45 minutes of Banker time and Analyst time saved per Annual Review
- ~1 hour of Banker time and ~2 hours of Analyst time saved per month in managing and tracking Annual Review requirements

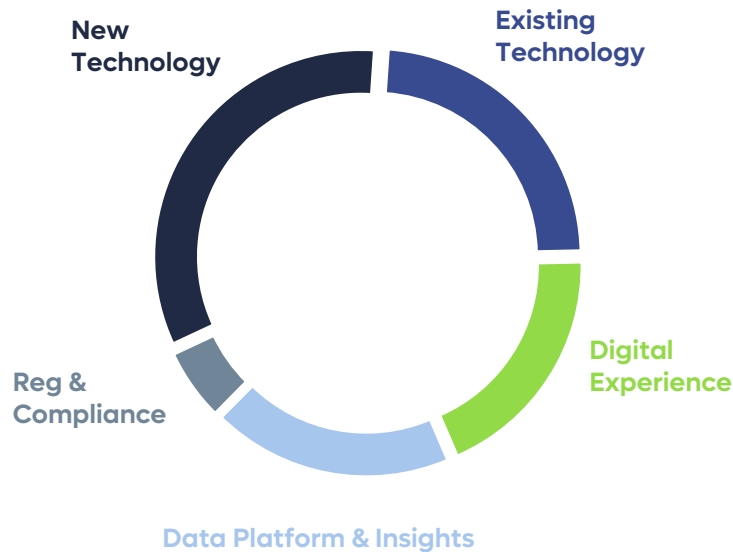


# Judo's investment slate to scale.

Expected CAPEX investment of ~\$100m over five years from IPO

## Indicative profile of investment spend

Per investment theme



## Example initiatives

### New Technology to scale the bank

- Workflow tools to deliver on process optimisation across the bank
- CRM to provide bankers with a 360 customer view and leads management tooling
- Enterprise Resource Planning including General Ledger, HR & Employee Planning

### Data Platform & Insights

- Single data platform for seamless data creation & consumption – largely complete
- Data insights to facilitate higher quality interactions between bankers and customers
- Credit decisioning & monitoring capabilities

### Regulatory & Compliance

- Build and maintain functionality required as an ADI (e.g., Open Banking)
- Ongoing investments in information security

### Existing Technology for growth and optimised for efficiency

- Adding functionality to our origination platform
- Upgrades to existing platforms such as core banking
- Uplifting payment capability

### Digital Experience

- Enable customer self-service
- Internet Banking and App rollout, and incremental feature build

# Tech investments to drive capability and scale.

● Major
◐ Material
◑ Moderate
◒ Minor

Investment areas		Customer & Banker Experience	Customer & Banker Support	Technology & Data	Risk	Corporate Functions	Timing of build	
New Technology	Workflow	◑	●	◑	◑		FY24 – 25	
	CRM	◑	◑				FY25 – 26	
	ERP					◑	FY24 – 25	
Existing Technology	Application origination	◑	◑	◑	◑		Ongoing	
	Core platforms & other	◑	◑	◑	◑	◑	Ongoing	
Data Platform & Insights		◑	◑	◑	◑	◑	Ongoing	
Digital Experiences		◑	◑				Ongoing	
Reg & Compliance		Allow us to meet our obligations effectively						Ongoing

# We have the team in place.

## 2021-2022 hires to establish Technology, Data, Digital, and InfoSec capability



**Lisa Frazier**  
COO

**25+ years of experience** using technology, digital & data to build disruptive businesses. Roles includes leading Innovation at Wells Fargo and numerous leadership roles in FinTech start-ups, both in San Francisco. Former Partner at McKinsey & company in New York and Digital leader at CBA



**Euan Walker**  
Chief  
Technology  
Officer

**20+ years in technology** including founding CTO of Verrency, a high performance payments solution for banks and card schemes globally. 10+ years at ANZ in executive delivery and transformation roles, including CIO of Transaction Banking, and running the bank's data, CRM and Corporate platforms



**Peet Vermeulen**  
Chief Data &  
Analytics Officer

**20+ years experience** in driving data and analytics solutions, including most recently as Group Head of Data Science & Analytics at Woolworths and previously as GM of Digital Channel Optimisation at CBA



**Ada Caguin**  
GM Digital  
Experience

**15+ years experience** in digital strategy, product management and finance at CBA in in Retail, Wealth, Business and Institutional businesses



**Michael Collins**  
Chief  
Information  
Security Officer

**20+ years of experience** as a cyber security expert, working internationally across SMEs and Fortune 50 global corporations, including GM of Information Security at HESTA



**Patrick Nolan**  
GM Deposits &  
Operations



**Ryan Marchant**  
GM Product,  
Lending



**Kate Schade**  
Head of Strategy  
& VMO

# CTI ratio and trading update.

Andrew Leslie, CFO

## Our purpose

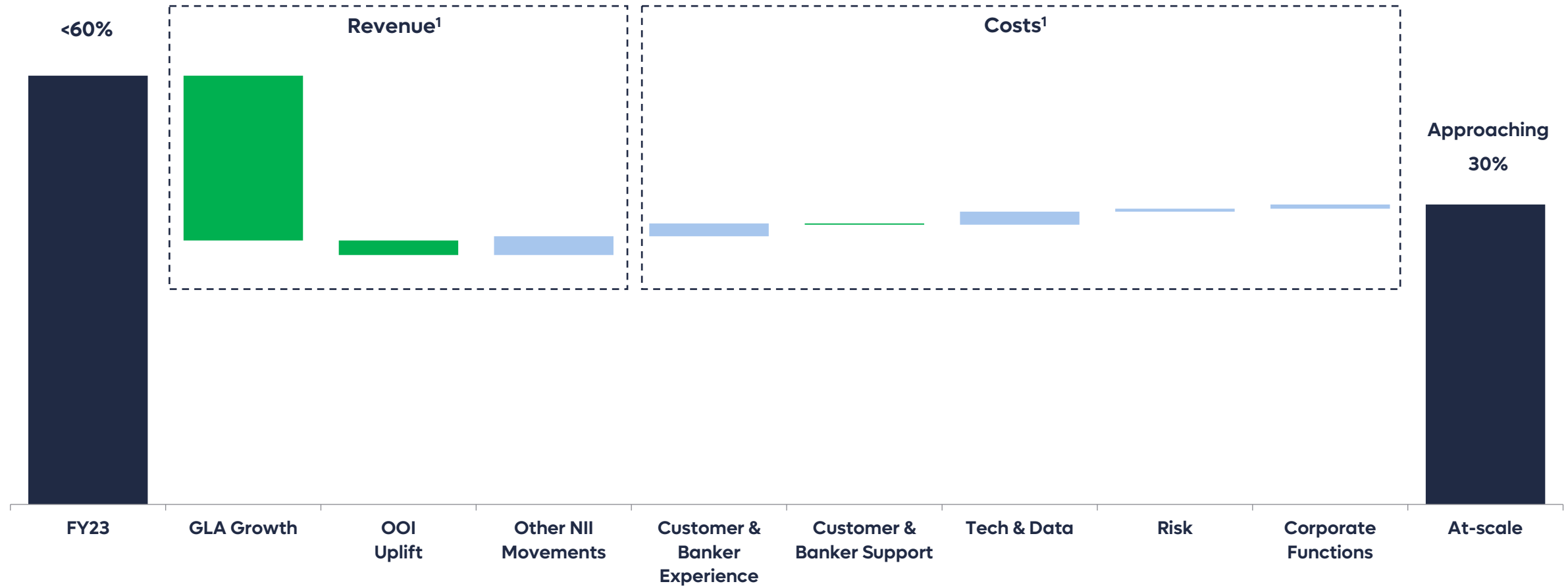
To be the **most trusted** SME business bank in Australia.

## Our vision

To build a **world-class** SME business bank.

# Lending growth is the key driver of at-scale CTI.

CTI improvement materially driven by growth and as investment benefits are realised

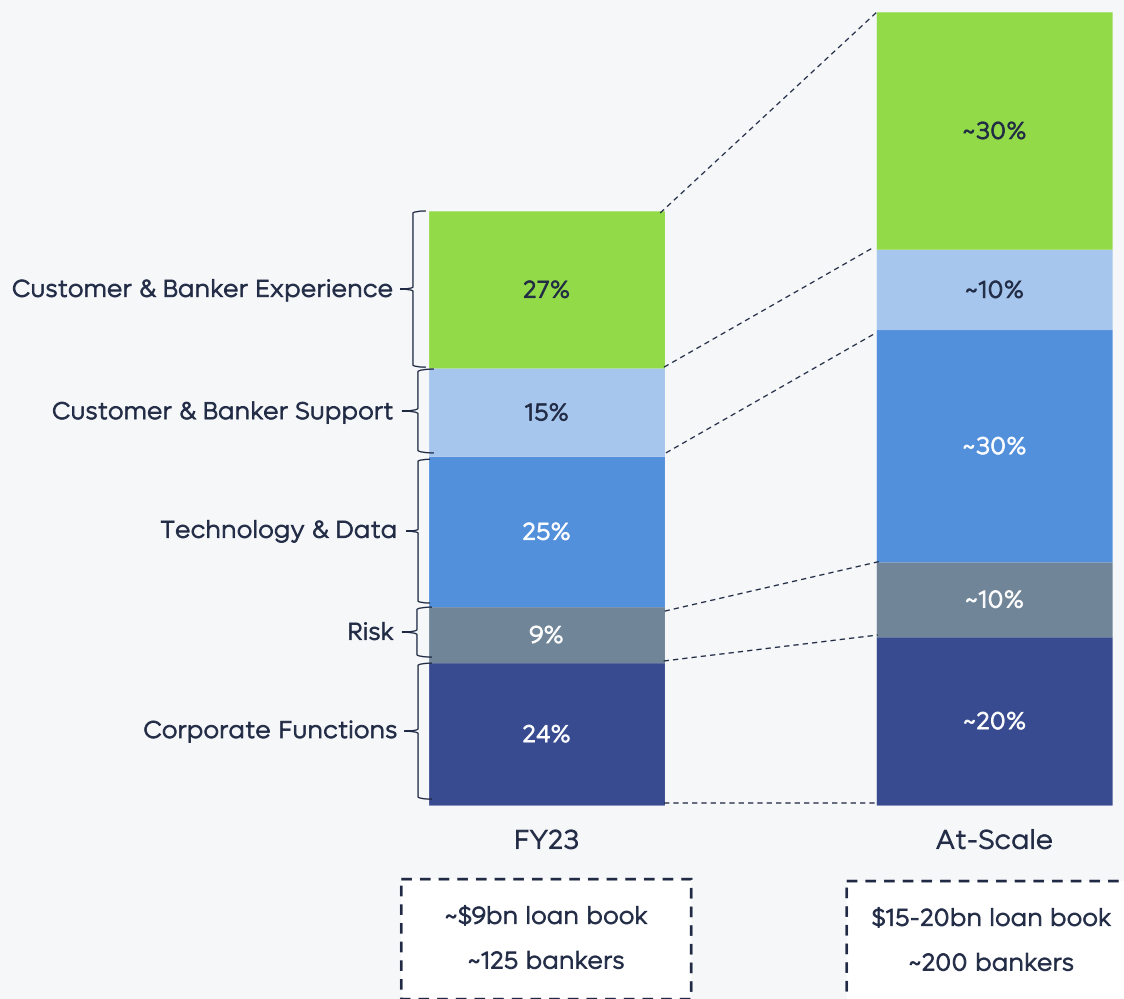


# Judo's cost base composition.

## Our cost growth will slow and the mix will change

- Costs will grow as we scale – focus is on managing costs prudently and slowing cost growth as benefits of investments are realised
- As benefits from technology are delivered, a greater proportion of our cost base will focus on high value add activity that directly benefits our customers
- Customer and banker support cost mix will reduce as we realise efficiencies across operations, servicing and settlements
- Technology and data costs to increase, driven by higher FTE, licensing, vendor costs and amortisation
- We are nearing the peak level of FTE required in risk and corporate functions, to support at-scale business
- Significant ROI on investment as we build scale

## Estimated evolution of the cost base<sup>1</sup>





# The quality of Judo's cost base.

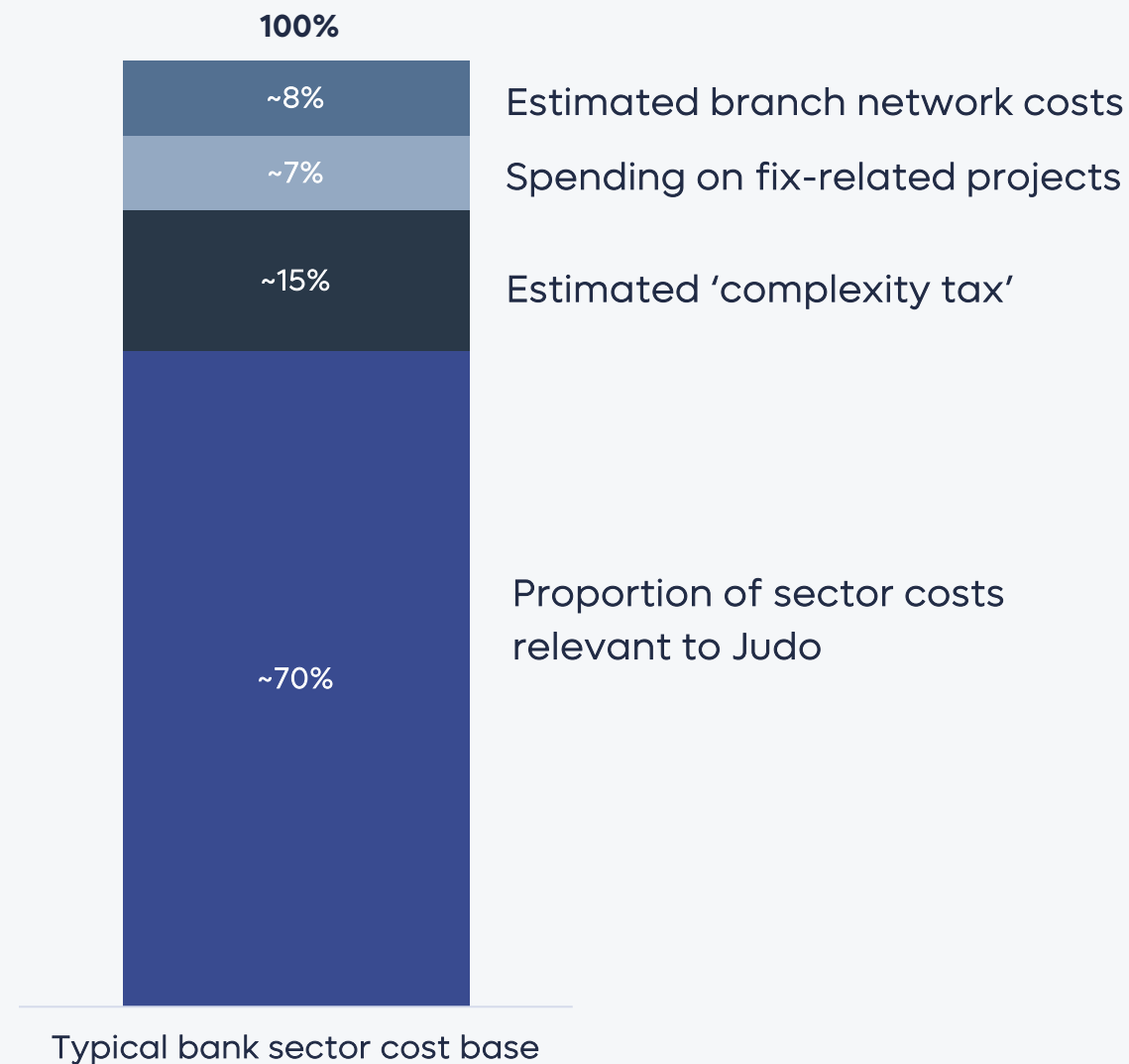
## Our spending is on value adding activity

- We estimate at least 15%, and up to 30%, of other banks' costs will not apply to Judo at scale
  - Judo's investment spend is focused on strategic projects, with limited 'fix' spending
  - Judo's occupancy costs are lower than the sector as we do not carry costs of a branch / ATM network and related FTE
  - 'Complexity tax' for the rest of the sector includes costs to maintain legacy systems & products, duplicative teams and costs of operating in multiple segments and jurisdictions

## We have benchmarked ourselves against other UK challenger banks

- UK challenger banks spend 20 – 30% of their cost base in technology, broadly in line with Judo
- UK challenger bank CTIs are in the high 20s% or 30s%, providing a helpful benchmark for Judo

## Typical bank sector cost base



# Strong FYTD results despite uncertain environment.

Metric	FYTD to 31 March 2023 <sup>1</sup>
Profit before tax	\$87m
ROE	5.5% annualised
Underlying NIM	3.57%
CTI	53%
Lending portfolio	\$8.0bn
AAA (Application, Approved, Accepted) Pipeline	\$1.5bn
Relationship Bankers	124
90+ days past due (% of GLA)	0.22%
Impaired assets (% of GLA)	0.41%
Total provision coverage (% of GLA)	1.11%
CET1 Ratio	19.0%

# On track to meet or better FY23 guidance.

Metric	FY23 drivers	FY23 guidance	Progress	Trajectory to metrics at scale
<b>Gross loans and advances</b>	Strong growth to continue within risk appetite, driven by our relationship-led CVP	>\$9bn	✓ GLAs of \$8.0b at 31 March	\$15-20bn ✓
<b>Underlying NIM</b>	U.NIM to benefit from temporary tailwinds, and 2H23 U.NIM expected to be higher than previously guided	>3%	✓ 2H23 U.NIM to be within 3.3% - 3.5% range	>3% ✓
<b>Cost to income ratio</b>	CTI improvement driven by revenue growth more than offsetting ongoing investment in growth	Below 60%	✓ FYTD CTI <60%	Approaching 30% ✓
<b>Cost of risk</b>	Cost of risk driven by loan growth, higher provision coverage, and forecast write-offs	\$50-60m	✓ Credit quality remains robust	~50bps ✓
<b>Return on Equity</b>	Demonstrating continued progress towards key business metrics at scale	Low to mid single digits	✓ FYTD ROE >5.5% Annualised	Low to mid-teens ✓

# The power of specialisation.

Joseph Healy, CEO and co-founder

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# The power of specialisation.

Specialisation and focus yields better return than generalisation from the perspective on individual challenges and tasks, as this Olympic example demonstrates.



Event	The Specialists	The Generalists	Specialist Premium
100m	10.16 s	10.87 s	7%
110m Hurdle	13.64 s	14.34 s	5%
400m	41.16 s	47.82 s	14%
1500m	3 min 42 s	4 min 38 s	20%
Discus	62.76 m	47.17 m	33%
Shotput	19.86 m	15.18 m	31%
Long Jump	8.16 m	7.68 m	6%
High Jump	2.24 m	2.04 m	10%
Pole Vault	5.33 m	4.69 m	14%
Javelin	83.38 m	64.23 m	30%

Average Outperformance

17 %

**THE GENERALIST**

Men's Decathlon Gold Medal Winner



**Specialist Premium 17%**

**THE SPECIALIST**

Men's Individual Event Gold Medal Winner



## Conclusion.

- **We continue to successfully execute our clear and simple strategy**
- We are building a world class SME bank committed to a Relationship/Experience based business philosophy
- Our legacy-free, specialist model means we can deliver a high touch customer value proposition, whilst also sustainably delivering superior economics
- **We are well into our second horizon of scaling the bank** making the necessary investments to support continued loan book growth and improve quality of costs
- Our purpose guides our investment priorities to improve the experience for our customers and our relationship bankers
- **At scale, our CTI will be approaching 30%. We do not see this as heroic**



# Questions.

# • Important Information.

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