N1 Holdings

23 December 2022

Accounting, business risk and operational update

N1 Holdings Limited (ASX: **N1H**) ("**N1H** or **Company**") is pleased to provide the following update.

Operational Update

Noting that the Company is in the business of property financing, the board and management of N1H believes it is imperative to provide market and operational updates in light of the RBA's rate rises and resulting increases to the cost of borrowing that have had a significant impact on the property and mortgage market. N1H has pivoted its business model since its IPO into becoming an alternative non-bank lender in the SME market. As disclosed in the Company's latest annual report, management has sought to further strengthen the group's funding source resilience.

N1H is in the process of extending its existing $55 million debt facility to 5 July 2025 (currently the facility expires in July 2023). Currently, the total committed lending capacity that N1H is able to access and manage is approximately $100 million, which consists of approximately $22 million of balance sheet capital raised from private debt, $55 million under the aforementioned debt facility and approximately $23 million of mortgage funds under management. (Please note: the mortgage funds are not consolidated into the Company's financial statements. These mortgage funds are managed by N1 Venture Pty Ltd, a 100% owned subsidiary of N1H).

The management acknowledges the rate rising environmental has impacted market sentiment, including valuations, level of purchase activity and appetite to borrow. The Company, however, has seen a spike in refinance activity.

As of time of this disclosure, the Company has approximately $75 million in loan receivables. The average loan term is approximately 220 days, with an average loan size of approximately $1 million and at an average LVR below 65%. It should be noted that these figures can vary from time to time subject to the Company's loans pipeline.

Adoption of new accounting policy and further material business risks disclosure

N1H advises that the Company has been corresponding with the Australian Securities & Investments Commission ("ASIC") to clarify the accounting treatment of the commercial loan establishment fee and disclosure of the material business risks that may affect the Company in its FY22 Annual Report.

Following its discussions with ASIC, the Company would like to update shareholders with the following:

Accounting policy and restatement on loan establishment fee

In accordance with the Company's previous accounting policy, loan establishment fee revenue was recognised when the underlying loan facility is established. After recent analysis, based on the evolution of the commercial lending business, the Company has subsequently formed an opinion that the loan establishment fee is an integral part of generating commercial loan receivables and therefore is to be accounted for using the effective interest method in accordance with paragraph B5.4.2(a) of *AASB 9 Financial Instruments* (AASB 9).

This is a change in accounting policy effective from 1 July 2022 and will be disclosed in the interim financial report for the six month period ending 31 December 2022. A change in accounting policy has been applied retrospectively and the Company has calculated the impact for the FY22 corresponding period and have restated the FY22 Annual Report as below.

	Note	**2022 Restated $**	**2022 Annual report $**	**Difference**
Commercial lending interest	1	6,188,975	6,594,277	(405,302)
Management fees from funds under management	2	1,209,182	1,209,182	-
Loan processing and administration service fees	3	807,636	807,636	-
Other service fees relating to commercial lending	4	282,667	282,667	-
Total commercial lending fee and interest		**8,488,460**	**8,893,762**	**(405,302)**
Profit after income tax expense for the year	5	**697,067**	**1,102,369**	**(405,302)**

1. Commercial lending interest

Interest income (including loan establishment fee received) from commercial lending loans is recognised using the effective interest method.

2. Management fees from funds under management

Management fees received from funds under management are recognised when the fund's performance results exceed its performance target for the period and the Company is entitled to the performance fee.

3. Loan processing and administration service fees

Loan processing and administration service fees are recognised when the service is delivered.

4. Other service fees relating to commercial lending

Other service fees include discharge fee, break fee, and monthly line fee. Other service fees are recognised when the services are delivered.

5. Profit after income tax expense for the year

The profit of $405,302 will be recognised in FY23 due to the short term (less than 12 months) nature of the loan product.

Material business risks to strategy and financial performance in future periods

The Company seeks to provide further comments on its material business risks that may affect the financial performance of the Company's strategy and the ability to continue generating revenue for future years, including risks which are not directly within the Company's control. The Company's risk management approach involves the ongoing assessment, monitoring and reporting of risks which could impede the Company's progress in delivering the Company's strategic priorities. The material business risk profile evolves along the growth trajectory of the Company as well as potential regulatory and other changes.

The material business risks affecting the Company are set out below.

- Compliance risk

The Company is required to comply with various laws, regulations, industry standards, licence conditions and internal policies that are applicable to its business activities. The Company is exposed to risks of failure to act in accordance with all the requirements.

Key actions: The Company maintains a robust internal control and governance framework by conducting ongoing reviews and compliance risk assessments, utilising internal and external education as well as working closely with external consultants to ensure continuing compliance.

- Credit risk

The core business of the Company is to lend commercial loans to borrowers. There is a risk of being unable to recoup the capital in default loans, which may be caused by deficiency in collateral value, adverse market sentiment or other unforeseen circumstances.

Key actions: The Company applies a disciplined execution of its comprehensive credit policy guideline with strong focus on the strength of collateral as well as overall credit history of borrowers and guarantors. The short term nature of our loan product also allows the Company to undertake regular reviews and adjustments of pricing and valuation.

- Liquidity and funding risk

The continuity and resilience of the Company's funding sources, and capital liquidity is crucial for its business activities. The timing mismatch between the disbursement and repayment of funding may impact the Company's capacity to lend and may subsequently impact the Company's financial performance.

Key actions: The Company focuses on developing a set of diversified funding sources to divest from relying solely on a single set of funding sources.

- Interest rate movements risk

The Company relies on funding sources that are subject to interest rates movements, which directly impact on the cost of funds.

Key actions: The Company ensures viable lending rates that are aligned to market sentiment. Meanwhile the Company continues to limit exposure to interest rate fluctuations by sourcing funding that provides stability in cost.

- Market risk

The Company's business is subject to the macroeconomic impacts including across multiple segments of the market, namely, the property market, the lending market and Small and Medium Enterprises (SME) business sentiment.

Key actions: The Company mitigates the risks through the monitoring of key risk indicators and market conditions and conducting regular reviews of current exposures, lending parameters and pricing to enhance its business capabilities.

- Financial crime and fraud risks

Financial crime has devastating human impacts. Accordingly, the Company has full awareness of the importance of protecting its customers, the community and the integrity of the financial system. The Company is also cognisant of the heightened risks caused by increasingly sophisticated technologies used by criminals targeting financial systems and conducting fraud.

Key actions: The Company continues to work closely with experts to develop a set of monitoring systems that aim to minimise the risks of financial crime and fraud. Meanwhile, the Company provides continuous education and training for staff and business partners focusing on how to detect and deter risk early in the process.

- Cybersecurity risks

A cyber-attack on the Company can significantly disrupt its operations and compromise customer data privacy. Cyber criminals are becoming increasingly sophisticated, taking advantage of the adoption of the internet and remote working.

Key actions: The Company continues to educate staff and business partners on cybercrime risks and enhances the management of third parties to better understand and mitigate risks associated in digital communications. The company follows protocol by providers such as Amazon Web Services and Google. The Company also makes use of local server, not relying solely on web cloud settings.

- Climate change and social risks

Frequent and severe weather conditions in climate patterns in Australian major cities may impact the Company's borrowers and clients. Certain climate and social events might result in impairment of collateral valuation.

Key actions: The Company consistently develops understanding of climate change and social risks exposures across our existing loan portfolio and scrutinise nature of lending scenarios that might be exposed to such risks and adopt a prudent approach.

Authorised for release by the Chairman.

For more information, please contact:
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About N1 Holdings Limited (ASX: N1H)
N1 Holdings provides strategic advice to businesses, project developers and property investors seeking new capital/debt or refinancing existing debt. We assist borrowers through the complex application processes of Australian major banks, private funds, and offshore debt capital providers. With the growth in lending from non-traditional sources, such as alternative banks and non-bank funders and lenders, N1H's domestic and foreign strategic relationships perfectly places it to advise its clients through this changing lending environment and debt market. N1H's core services include business lending, crossborder corporate financing, project funding, fund trustee services and vendor finance solutions.