Half-Year Report

For the half-year ended 30 June 2020

APPENDIX 4D

Half-Year Report

Under ASX listing rule 4.2A.3

Moelis Australia Limited ABN 68 142 008 428

Reporting period: 1 January 2020 to 30 June 2020

Previous corrresponding period: 1 January 2019 to 30 June 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET	Half-year ended 30 Jun 2020 $m	Half-year ended 30 Jun 2019 $m	Up/Down	Movement %
Revenues from ordinary activities	64.7	50.5	Up	28.1%
Net income	74.2	61.4	Up	20.8%
Profit after tax from ordinary activities attributable to members	8.9	7.5	Up	19.4%
Net profit after tax attributable to members	8.9	7.5	Up	19.4%
Total comprehensive income	1.8	9.8	Down	-81.4%

DIVIDEND PER ORDINARY SHARE	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
2019 final dividend per share (paid 4 March 2020)	10.0	10.0	30.0%

OTHER DISCLOSURE REQUIREMENTS	30 June 2020	30 June 2019
Net tangible assets per ordinary share	$1.24	$1.38

Additional Appendix 4D disclosure requirements and commentary on significant events relating to operating performance and results are included in the Half-Year Financial Report for the half-year ended 30 June 2020 and the Directors' Report for the half-year ended 30 June 2020.

This information should be read in conjunction with the 2019 Annual Financial Report, the Half-Year Financial Report for the half-year ended 30 June 2020 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

This report is based on the interim consolidated financial statements for the half-year ended 30 June 2020 which have been reviewed by Deloitte Touche Tohmatsu.

MOELIS AUSTRALIA

Consolidated Half-Year Financial Report
30 June 2020

MOELIS AUSTRALIA LIMITED

MOELIS
AUSTRALIA

Directors' Report

for the half-year ended 30 June 2020

The Directors of Moelis Australia Limited (Company) submit their report together with the consolidated financial report of the Company and its subsidiaries (Group) for the half-year ended 30 June 2020.

The names of the Directors of the Company during or since the end of the period are:

Jeffrey Browne	Independent Chairman and non-executive Director	
Andrew Pridham	Group Vice Chairman	
Kenneth Moelis	Non-executive Director	
Joseph Simon	Non-executive Director	
Julian Biggins	Joint Chief Executive Officer	
Christopher Wyke	Joint Chief Executive Officer	Appointed 2 March 2020

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

Review of operations and results

Principal activities

The Group is a financial services provider with offices in Sydney, Melbourne and Shanghai. The Group's principal activities are providing asset management, corporate advisory and equities services.

Results

The financial report for the half-year ended 30 June 2020 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

In accordance with Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS), the total comprehensive income attributable to ordinary equity holders of the Group for the half-year ended 30 June 2020 was $1.8 million (half-year ended 30 June 2019: $9.8 million) and the profit after tax for the half-year ended 30 June 2020 was $8.9 million (half-year ended 30 June 2019: $7.5 million).

Coronavirus (COVID-19) impact

COVID-19 was declared a world-wide pandemic by the World Health Organisation in March 2020 and has had a significant impact on global economies. The Group's response to this unprecedented event was to take rapid and decisive action to protect the business and retain our key assets, being our people. As a result of our actions and resilient business model, the Group is well positioned to navigate the future and continue to execute on its long-term growth strategy.

Key actions undertaken by the Group during the period included:

- Stress testing the business, managed funds and assets to identify and respond to any areas of risk;
- Focusing attention on maximising and preserving cash by implementing working capital optimisation strategies, reducing non-essential expenditure and realising non-core assets;
- Investigating all government support packages and applying for those that the Group qualified for;
- Issuing a new $40.0 million unsecured note (MOE Bond IV) with a maturity date of September 2024, with the proceeds to be used to repay the $32.2 million MOE Bond I notes maturing in September 2020;
- Managing staff costs through a temporary reduction in fixed compensation of 25% for senior executives, including Board members and Joint-Chief Executive Officers, as well as the majority of the Group's staff agreeing to the same or smaller reductions in salary, and the deferral of pay increases until the second half of 2020; and
- Seamlessly transitioning to a working from home capability with enhanced wellbeing programs and communications provided to support staff.

During the period the Group recognised other income of $1.5 million, related to COVID-19 government wage subsidies. In addition, at the reporting date, the Group has been granted deferral of $18.5 million of payments to the Australian Tax Office which will be predominantly extinguished in the second half of 2020.

The Group continues to monitor and respond to the evolving impact of COVID-19 on the operational and financial performance of the Group. Further details of the Group's operating performance during the period are provided below.

Non-IFRS Underlying Results

The Group also utilises non-IFRS "Underlying" financial information in its assessment and presentation of Group performance. In particular, the Group references Underlying Revenue, Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Underlying Earnings Per Share (EPS) and Underlying Net Profit After Tax (NPAT).

The Directors place great importance and value on the IFRS measures. As such, the Directors believe that, when read in conjunction with the IFRS measures, the Underlying measures are useful to the reader as:

- The Underlying measures reveal the underlying run rate business economics of the Company;
- The Underlying measures are used by management to allocate resources and make financial, strategic and operating decisions. Further, all budgeting and forecasting is based on Underlying measures. This provides insight into management decision making; and
- The Underlying adjustments have been consistently applied in all reporting periods, regardless of their impact on the Underlying result.

The Underlying financial information is not prepared in accordance with Australian Accounting Standards and IFRS and is not audited. Adjustments to the IFRS information align with the principles by which the Company views and manages itself internally and consist of both differences in classification and differences in measurement.

Directors' Report (cont.)

for the half-year ended 30 June 2020

Differences in classification arise because the Company chooses to classify some IFRS measures in a different manner to that prescribed by IFRS.

Differences in measurement principally arise where the Company prefers to use non-IFRS measures to better:

- Align with when management has greater certainty of timing of cash flows;
- Regulate the variability in the value of key strategic assets, specifically the investment in Japara Healthcare Limited;
- Normalise for the impacts of one-off transaction costs; and
- Recognise staff share-based bonus expense when granted as opposed to over the vesting period.

The adjustments between Underlying and IFRS measures are provided in the reconciliation below:

	Note	Revenue[1] $'000	EBITDA[2] $'000	NPAT $'000	Comprehensive Income $'000
Statutory results for the period ended 30 June 2020		**74,174**	**24,558**	**8,923**	**1,822**
Differences in measurement					
Business acquisition adjustments	(a)	–	695	1,613	1,613
Equity issued to staff	(b)	–	460	460	460
Net unrealised (gains)/losses on investments	(c)	–	–	–	7,415
Adjustments relating to associates	(d)	(1,003)	(1,003)	(1,003)	1,601
Credit loss allowance	(g)	(119)	2,348	2,348	2,348
Differences in classification					
Adjustments relating to Master Credit Trust	(h)	(2,424)	(2,346)	–	–
Interest income	(i)	(3,079)	(3,079)	–	–
Net unrealised (gains)/losses on investments	(j)	(125)	(125)	(125)	–
Tax on adjustments		–	–	(109)	(3,152)
Total adjustments		**(6,750)**	**(3,050)**	**3,184**	**10,285**
Underlying results for the period ended 30 June 2020		**67,424**	**21,508**	**12,107**	**12,107**
Statutory results for the period ended 30 June 2019		**61,419**	**18,349**	**7,473**	**9,773**
Differences in measurement					
Business acquisition adjustments	(a)	–	1,991	2,574	2,574
Equity issued to staff	(b)	–	(1,637)	(1,637)	(1,637)
Net unrealised (gains)/losses on investments	(c)	–	–	–	(75)
Adjustments relating to associates	(d)	2,963	2,826	2,366	131
Deferred performance fees	(e)	6,400	6,400	6,400	6,400
Profit on sale of joint venture	(f)	2,221	2,221	2,221	2,221
Credit loss allowance	(g)	(122)	(171)	(171)	(171)
Differences in classification					
Adjustments relating to Master Credit Trust	(h)	(597)	(460)	–	–
Interest income	(i)	(3,765)	(3,765)	–	–
Net unrealised (gains)/losses on investments	(j)	976	976	976	–
Credit loss allowance	(k)	(1,501)	–	–	–
Tax on adjustments		–	–	(3,164)	(2,178)
Total adjustments		**6,575**	**8,381**	**9,565**	**7,265**
Underlying results for the period ended 30 June 2019		**67,994**	**26,730**	**17,038**	**17,038**

1. Statutory revenue refers to total income in the condensed consolidated statement of profit or loss and other comprehensive income.
2. Statutory EBITDA is not an IFRS measure but has been presented to provide a comparable measure to the Underlying result.

Directors' Report (cont.)

for the half-year ended 30 June 2020

Differences in measurement

(a) The acquisition of Armada Funds Management in 2017 for cash and shares continues to give rise to non-cash IFRS expenditure. Accordingly, the Underlying measure reverses the impact of these expenses, being $0.9 million (2019: $0.6 million) relating to the amortisation of intangible assets and $0.7 million (2019: $2.1 million) relating to the share-based payments to the vendors, who are now employees of the Company.

(b) The Underlying measure expenses the full value of the share-based payment equity awards issued to staff as part of the annual bonus awards in the year of grant as opposed to over the vesting period (up to 5 years) per IFRS.

(c) Adjustment to remove unrealised gains / losses on the Group's strategic investment in Japara Healthcare Ltd.

(d) The Underlying measure records dividends and distributions received from associates in Underlying Revenue as opposed to the IFRS treatment of recording the Group's share of accounting profit or loss of an associate. Underlying Revenue further recognises gains/losses associated with management's assessment of the movement in the underlying value of the associate.

(e) Performance fees relating to Redcape Hotel Group recorded in the 2018 statutory results but deferred to 2019 in the Underlying result to closely align with transaction settlement and cash flows.

(f) The profit on sale of the Group's interest in Acure Asset Management was recorded in the 2018 statutory results but deferred to 2019 to closely align with transaction settlement and cash flows.

(g) The Underlying treatment excludes the movement in AASB 9 Expected Credit Loss provisions relating to receivables and loans receivable. Where there is an increased likelihood of credit loss, specific provisions individually assessed against loans receivable are included in both the statutory and Underlying results. See note (k) for treatment of specific provisions that are reclassified by management.

Differences in Classification

(h) The Underlying treatment records the distributions received from the MA Master Credit Trust (MCT) in Underlying Revenue as opposed to the IFRS treatment of consolidating MCT into the Group's results. See note 15(c) for more detail on the MCT.

(i) The Group consolidates the assets and liabilities of a fund related credit investment initiative. The interest expense of $2.7 million (2019: $2.9 million) relating to the liabilities is reclassified to Underlying Revenue to offset against the interest income derived from the related loans receivable to reflect the total net return to the Group. Further, interest income on cash and bank balances of $0.4 million (2019: $0.9 million) is reclassified to Underlying net interest expense.

(j) Unrealised (gains)/losses on investment, other than those identified in (c) above, are reclassified from Other Comprehensive Income to Underlying Revenue.

(k) The specific provision for impairment of a loan receivable is reclassified from statutory expense to Underlying Revenue, to be consistent with how management view the movement in value of investments.

Segment overview

The Group recognises two operating segments: Asset Management and Corporate Advisory and Equities (CA&E). The costs associated with the central executives and corporate support functions are separately shown as Unallocated.

The Group's Underlying measures described above directly align with the segment measures required by AASB 8 *Operating Segments*. Further information and reconciliations are provided in Note 2 *Segment Information*.

The table below shows the contributions to Underlying NPAT of the Group's key business segments:

	Half-year ended 30 Jun 2020 $'000	Half-year ended 30 Jun 2019 $'000
Asset Management	20,672	30,635
Corporate Advisory and Equities	5,431	481
Unallocated	(4,595)	(4,386)
Underlying EBITDA	**21,508**	**26,730**
Depreciation and amortisation	(1,791)	(1,517)
Net interest expense	(2,420)	(873)
Income tax expense	(5,190)	(7,302)
Underlying NPAT	**12,107**	**17,038**

Directors' Report (cont.)

for the half-year ended 30 June 2020

Segment overview (cont.)

Asset Management

Asset Management performance for the period has been resilient. Stable Asset Under Management position has assisted in the growth in recurring revenue, with overall revenue down on prior comparative period (pcp) as a result of reduced performance fees and the impacts of COVID-19 through limited new fund launches and the temporary effect of Government imposed trading restictions on the managed hospitality venues. Client communications and active relationship management resulted in limited client outflows and were countered by gross client inflows, including strong foreign investor fund inflows. New fund initiatives were limited, with highlights being the growth in credit initiatives and the successful acquisition of the Beach Hotel in Byron Bay.

Expense growth compared to pcp was driven by the prior period investment in new team members across credit strategies, distribution and support teams.

Corporate Advisory and Equities

The Corporate Advisory business benefited in the period from elevated Equity Capital Markets (ECM) activity and the completion of transactions that had commenced in 2H19. Market uncertainty has led to an increased number of restructuring mandate appointments, which typically have longer lead times than ECM engagements.

The Equities business performed well in the period driven by increased market volatility and trading volumes in the months of March and April.

Expense growth compared to pcp was mainly driven by the 2019 investment in three new Managing Directors and associated teams which have shown encouraging performance during the period. Corporate advisory revenue is typically seasonal with, on average, a stronger weighting to the second half. However, given the uncertain market conditions, forecasting second half activity at this time is difficult.

Unallocated

The Unallocated segment represents the cost of the executive and central support functions.

Net interest expense

The increased interest expense is primarily associated with the part-term impact of the MOE Bond III unsecured notes in pcp and the $40.0 million MOE Bond IV issuance, that the Group brought forward during the period, as a conservative approach to COVID-19 risk management.

Financial position

	30 Jun 2020 $'000	31 Dec 2019 $'000
Cash and cash equivalents	165,179	128,800
Loans receivable	229,213	199,767
Listed investments	65,062	75,777
Unlisted investments	28,607	28,060
Goodwill and other intangibles	36,004	32,587
Receivables	28,798	32,258
Other	5,932	16,693
Total assets	**558,795**	**513,942**
Borrowings	249,315	189,202
Redeemable preference shares	25,500	25,500
Other	70,715	72,114
Total liabilities	**345,530**	**286,816**
Net assets	**213,265**	**227,126**
Net tangible assets	**177,261**	**194,539**

Directors' Report (cont.)

for the half-year ended 30 June 2020

Financial position (cont.)

Notable movements in the Group's financial position during the period were as follows:

Total assets

Total assets have increased by $44.9 million predominantly in the following areas:

- Cash and cash equivalents have increased by $36.4 million as a result of increased borrowings.
- Total loan receivables have increased by $29.4 million due to the net increase in loans written and further drawdowns on existing faciliities.
- Listed investments have decreased by $10.7 million mainly related to movements in the value of investments in Japara Healthcare Ltd and Redcape Hotel Group.

Total liabilities

Total liabilities have increased by $58.7 million predominantly in the following areas:

- Total borrowings have increased by $60.1 million as a result of the issue of a new $40.0 million unsecured note (MOE Bond IV). Key terms of MOE Bond IV include an interest rate of 5.85% per annum and a maturity date of September 2024. The proceeds of MOE Bond IV are to be used to repay the MOE Bond I notes of $32.2 million that mature in September 2020.
- Additional $20.1 million of Fund Preferred Units were issued by the Master Credit Trust, a fund consolidated by the Group.

Dividends

A dividend of $14.5 million (10.0 cents per share) was paid on 4 March 2020. This dividend was fully franked.

Earnings per share

	Half-year ended 30 Jun 2020		Half-year ended 30 Jun 2019	
	Underlying	Statutory	Underlying	Statutory
Basic earnings per share (cents/share)	8.5	6.2	11.1	4.9
Diluted earnings per share (cents/share)	8.2	6.1	10.8	4.7

Subsequent events

Subsequent to the period end the Group entered into an agreement to purchase a real estate asset for $63.1 million. Prior to settlement in December 2020 the Group's obligations under the purchase agreement are expected to be assigned to a fund managed by the Group. There were no other material events subsequent to the period end.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191* amounts in the Directors' Report and the Half-Year Financial Report have been rounded off to the thousand dollars unless otherwise indicated.

Directors' Report (cont.)

for the half-year ended 30 June 2020

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001* (Cth).

Jeffrey Browne
Independent Director and Chairman

Sydney

19 August 2020

Julian Biggins
Director and Joint Chief Executive Officer

Sydney

19 August 2020

Auditor's independence declaration

for the half-year ended 30 June 2020

Deloitte Touche Tohmatsu
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The Board of Directors
Moelis Australia Limited
Governor Phillip Tower
L27/1 Farrer Place
SYDNEY NSW 2000

19 August 2020

Dear Board Members

Moelis Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Moelis Australia Limited.

As lead audit partner for the review of the financial statements of Moelis Australia Limited for the half year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
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Independent Auditor's Review Report to the Members of Moelis Australia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Moelis Australia Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2020, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Moelis Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Moelis Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Moelis Australia Limited is not in accordance with the *Corporations Act 2001*, including:

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

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants
Sydney, 19 August 2020

Directors' declaration

In the Directors' opinion:

(a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) the financial statements and notes thereto set out on pages 14 to 34 are in accordance with the *Corporations Act 2001* (Cth) including:

   (i) complying with the Australian Accounting Standards; and

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

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001* (Cth).

Jeffrey Browne
Independent Director and Chairman

Sydney

19 August 2020

Julian Biggins
Director and Joint Chief Executive Officer

Sydney

19 August 2020

Half-Year Financial Report

MOELIS AUSTRALIA LIMITED

Half-Year Financial Report

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 30 June 2020

	Note	Half-year ended 30 Jun 2020 Consolidated $'000	Half-year ended 30 Jun 2019 Consolidated $'000
Fee and commission income	3	64,676	50,490
Fee and commission expense		(5,623)	(2,864)
Net fee and commission income		**59,053**	**47,626**
Share of (losses)/profits of associates		(1,930)	2,308
Investment income	4	15,357	11,483
Other income	5	1,694	2
Total income		**74,174**	**61,419**
Personnel expenses		38,078	34,668
Marketing and business development expenses		1,834	1,842
Communications, data and information technology expenses		2,444	1,926
Occupancy expenses		610	443
Interest expense		7,844	4,638
Depreciation and amortisation		2,710	2,100
Credit loss allowance		2,588	1,451
Other expenses		4,062	2,739
Total expenses		**60,170**	**49,807**
Profit before tax	2	**14,004**	**11,612**
Income tax expense		(5,081)	(4,139)
Profit for the period		**8,923**	**7,473**
Other comprehensive income, net of income tax			
Items that will not be classified subsequently to profit or loss:			
Net unrealised (loss)/gain on investments		(5,280)	736
Share of other comprehensive (loss)/income of associates		(1,821)	1,564
Total comprehensive income for the period		**1,822**	**9,773**
Profit attributable to:			
Owners of the Company		**8,923**	**7,473**
Total comprehensive income is attributable to:			
Owners of the Company		**1,822**	**9,773**
Earnings per share			
From continuing operations			
Basic (cents per share)		6.2	4.9
Diluted (cents per share)		6.1	4.7

The above condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position

as at 30 June 2020

	Note	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
Assets			
Current assets			
Cash and cash equivalents		165,179	128,800
Receivables	8	28,798	32,258
Loans receivable	11	137,666	80,723
Other assets		1,755	12,158
Total current assets		**333,398**	**253,939**
Non-current assets			
Restricted cash		2,552	2,650
Loans receivable	11	91,547	119,044
Other financial assets	12	21,412	26,886
Property, plant and equipment		1,625	1,885
Right-of-use asset		6,184	7,181
Investments in associates and joint ventures	7	72,257	76,951
Intangible assets	13	12,838	13,356
Goodwill	14	9,827	9,827
Deferred tax asset		7,155	2,223
Total non-current assets		**225,397**	**260,003**
Total assets		**558,795**	**513,942**
Liabilities			
Current liabilities			
Trade and other payables		29,438	22,951
Borrowings	15	67,180	67,180
Lease liabilities		1,525	2,459
Income tax payable		6,339	2,479
Provisions		15,914	29,451
Total current liabilities		**120,396**	**124,520**
Non-current liabilities			
Trade and other payables		11,686	8,990
Borrowings	15	182,135	122,022
Lease liabilities		5,275	5,526
Provisions		538	258
Redeemable preference shares	16	25,500	25,500
Total non-current liabilities		**225,134**	**162,296**
Total liabilities		**345,530**	**286,816**
Net assets		**213,265**	**227,126**
Equity			
Contributed equity	9	155,029	156,972
Reserves		18,656	24,965
Retained earnings		39,580	45,189
Total shareholders equity		**213,265**	**227,126**

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity

for the half-year ended 30 June 2020

Consolidated	Contributed equity $'000	Retained earnings $'000	Share based payment reserve $'000	Investments revaluation reserve $'000	FVTOCI reserve $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance as at 1 January 2019	189,924	35,320	16,198	9,473	(8,927)	241,988	(1,161)	240,827
Profit for the period	–	7,473	–	–	–	7,473	–	7,473
Other comprehensive income/(loss) for the period	–	–	–	1,564	736	2,300	–	2,300
Payment of dividends	–	(12,558)	–	–	–	(12,558)	–	(12,558)
Treasury shares	1,765	–	(1,765)	–	–	–	–	–
Share based payments	–	–	3,484	–	–	3,484	–	3,484
Non controlling interests on disposal of subsidiaries	–	(1,161)	–	–	–	(1,161)	1,161	–
Balance as at 30 June 2019	**191,689**	**29,074**	**17,917**	**11,037**	**(8,191)**	**241,526**	**–**	**241,526**
Balance as at 1 January 2020	156,972	45,189	22,888	11,598	(9,521)	227,126	–	227,126
Profit for the period	–	8,923	–	–	–	8,923	–	8,923
Other comprehensive income/(loss) for the period	–	–	–	(1,821)	(5,280)	(7,101)	–	(7,101)
Payment of dividends	–	(14,532)	–	–	–	(14,532)	–	(14,532)
Issue of Ordinary Shares	14,126	–	–	–	–	14,126	–	14,126
Treasury shares	(16,044)	–	(4,547)	–	–	(20,591)	–	(20,591)
Capitalised buyback costs	(25)	–	–	–	–	(25)	–	(25)
Share based payments	–	–	5,339	–	–	5,339	–	5,339
Balance as at 30 June 2020	**155,029**	**39,580**	**23,680**	**9,777**	**(14,801)**	**213,265**	**–**	**213,265**

The above condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Condensed consolidated statements of cash flows

for the half-year ended 30 June 2020

	Half-year ended 30 Jun 2020 Consolidated $'000	Half-year ended 30 Jun 2019 Consolidated $'000
Cash flows from operating activities		
Receipts from customers	70,229	43,495
Interest and dividends received	3,310	2,569
Amounts received from affiliates	8	2,372
Payments to suppliers and employees	(46,486)	(49,787)
Cash generated from operations	**27,061**	**(1,351)**
Interest paid	(4,797)	(4,289)
Income taxes paid	(2,915)	(10,308)
Net cash generated by/(used in) operating activities	**19,349**	**(15,948)**
Cash flows from investing activities		
Payments to acquire financial assets	(2,067)	(1,586)
Proceeds on sale of financial assets	–	39
Proceeds from disposal of associates	–	5,000
Receipts for employee loans	7	119
Amounts advanced to third parties	(25,175)	(6,039)
Payments to acquire property, plant and equipment	(113)	(396)
Amounts received from disposal of other assets	5,200	–
Distributions received from investments	1,292	2,143
Net cash used in investing activities	**(20,856)**	**(720)**
Cash flows from financing activites		
Purchase of treasury shares	(7,560)	–
Proceeds from exercise of share options	1,094	–
Cash transferred from restricted cash accounts	331	166
Payments of lease liabilities	(1,342)	(1,168)
Proceeds from borrowings	60,113	49,314
Dividends paid to shareholders	(14,764)	(12,558)
Net cash generated by financing activities	**37,872**	**35,754**
Net increase in cash and cash equivalents	**36,365**	**19,086**
Cash and cash equivalents at the beginning of the period	128,800	86,652
Effects of exchange rate changes on the balance of cash held in foreign currencies	14	(2)
Cash and cash equivalents at the end of the period	**165,179**	**105,736**

The above condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

for the half-year ended 30 June 2020

1 Significant accounting policies

Statement of compliance

The Half-Year Financial Report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The principal accounting policies adopted in the preparation of this Half-Year Financial Report are consistent with those adopted and disclosed in the Group's 2019 Annual Financial Report for the financial year ended 31 December 2019, except for the impact of amendments to Accounting Standards described below. The accounting policies are consistent with Australian Accounting Standards and International Financial Reporting Standards.

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/91* and in accordance with that Corporations Instrument amounts in the Half-Year Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

All amounts are presented in Australian dollars.

Critical accounting estimates and significant judgements

The preparation of the Half-Year Financial Report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Group are the same as those disclosed in the Group's 2019 Annual Financial Report for the financial year ended 31 December 2019. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Coronavirus (COVID-19) impact

COVID-19 was declared a world-wide pandemic by the World Health Organisation in March 2020 and has had a significant impact on global economies. While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by management, within those identified areas, in preparing the Half-Year Financial Report. Any significant changes during the period to management's accounting estimates or judgements, as a result of COVID-19, have been disclosed in the notes to the Half-Year Financial Report.

Management believes that the estimates used in preparing this Half-Year Financial Report are reasonable. Given the dynamic and evolving nature of COVID-19 and limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Group's assets and liabilities may arise in the future that could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

During the period the Group recognised other income of $1.5 million, related to COVID-19 government wage subsidies, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Grants*. At the reporting date the Group has been granted deferral of $18.5 million of payments to the Australian Tax Office which will be predominantly extinguished in the second half of 2020.

Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to the Group's operations and mandatorily effective on or after 1 January 2020, including:

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the effect of new IFRS standards not yet issued in Australia

The new and revised Standards and Interpretations adopted during the period do not materially affect the Group's accounting policies or any of the amounts recognised in the condensed consolidated financial statements.

1 Significant accounting policies (cont.)

Amendments to Accounting Standards that are mandatorily effective for the current reporting period (cont.)

Standards and interpretations not yet adopted

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions	1 June 2020	31 December 2020
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2022	31 December 2022
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022	31 December 2022
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2022	31 December 2022

2 Segment information

AASB 8 *Operating Segments* requires the 'management approach' to disclose information about the Group's reportable segments. The financial information is reported on the same basis as used by senior management and the Board of Directors for evaluating operating segment performance and for deciding how to allocate resources to operating segments. The segment note is prepared on the same basis as the Group's non-IFRS (Underlying) financial measures. Please refer to the Directors' Report for an explanation of why the Directors believe these measures are useful.

The Board of Directors is considered to be the Chief Operating Decision Maker (CODM).

The Group is organised into the following business segments:

- Asset Management
- Corporate Advisory and Equities (CA&E)

2.1 Services from which reportable segments derive their revenues

The asset management segment incorporates the provision of asset management services and principal co-investment and strategic investments.

The corporate advisory and equities segment provides corporate advice, underwriting and institutional stockbroking services.

The unallocated segment represents the cost of the executive and central support functions.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's reporting policies.

The main items of profit or loss and other comprehensive income used by management to assess each business are Underlying net income and Underlying earnings before interest, tax, depreciation and amortisation (EBITDA).

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

2 Segment information (cont.)

2.2 Segment results

Assets, liabilities, depreciation and amortisation and net interest expense are not disclosed by segment as they are not provided to the CODM and are only reported on a Group basis. The following is an analysis of segment performance:

	Asset Management $'000	CA&E $'000	Unallocated $'000	Total Underlying segment $'000	Adjustments $'000	Statement of comprehensive income $'000
30 June 2020						
Revenue[1]	**41,073**	**26,351**	**–**	**67,424**	**6,750**	**74,174**
Expenses	(20,401)	(20,920)	(4,595)	(45,916)	(3,700)	(49,616)
EBITDA[2]	**20,672**	**5,431**	**(4,595)**	**21,508**	**3,050**	**24,558**
Depreciation and amortisation				(1,791)	(919)	(2,710)
Net interest expense				(2,420)	(5,424)	(7,844)
Profit before tax				**17,297**	**(3,293)**	**14,004**
Income tax expense				(5,190)	109	(5,081)
NPAT				**12,107**	**(3,184)**	**8,923**
Other comprehensive income				–	(7,101)	(7,101)
Total comprehensive income				**12,107**	**(10,285)**	**1,822**
30 June 2019						
Revenue[1]	**49,195**	**18,799**	**–**	**67,994**	**(6,575)**	**61,419**
Expenses	(18,560)	(18,318)	(4,386)	(41,264)	(1,806)	(43,070)
EBITDA[2]	**30,635**	**481**	**(4,386)**	**26,730**	**(8,381)**	**18,349**
Depreciation and amortisation				(1,517)	(582)	(2,099)
Net interest expense				(873)	(3,765)	(4,638)
Profit before tax				**24,340**	**(12,728)**	**11,612**
Income tax expense				(7,302)	3,163	(4,139)
NPAT				**17,038**	**(9,565)**	**7,473**
Other comprehensive income				–	2,300	2,300
Total comprehensive income				**17,038**	**(7,265)**	**9,773**

(1) Revenue refers to total income on the condensed consolidated statement of profit or loss and other comprehensive income.
(2) Statutory EBITDA is not an IFRS measure but has been presented to provide a comparable measure to the Underlying result.

2 Segment information (cont.)

2.2 Segment results (cont.)

A reconciliation of the Underlying segment measures to the statutory measures is as follows:

	Note	Revenue[1] $'000	EBITDA[2] $'000	NPAT $'000	Comprehensive Income $'000
Statutory results for the period ended 30 June 2020		**74,174**	**24,558**	**8,923**	**1,822**
Differences in measurement					
Business acquisition adjustments	(a)	–	695	1,613	1,613
Equity issued to staff	(b)	–	460	460	460
Net unrealised (gains)/losses on investments	(c)	–	–	–	7,415
Adjustments relating to associates	(d)	(1,003)	(1,003)	(1,003)	1,601
Credit loss allowance	(g)	(119)	2,348	2,348	2,348
Differences in classification					
Adjustments relating to Master Credit Trust	(h)	(2,424)	(2,346)	–	–
Interest income	(i)	(3,079)	(3,079)	–	–
Net unrealised (gains)/losses on investments	(j)	(125)	(125)	(125)	–
Tax on adjustments		–	–	(109)	(3,152)
Total adjustments		**(6,750)**	**(3,050)**	**3,184**	**10,285**
Underlying results for the period ended 30 June 2020		**67,424**	**21,508**	**12,107**	**12,107**
Statutory results for the period ended 30 June 2019		**61,419**	**18,349**	**7,473**	**9,773**
Differences in measurement					
Business acquisition adjustments	(a)	–	1,991	2,574	2,574
Equity issued to staff	(b)	–	(1,637)	(1,637)	(1,637)
Net unrealised (gains)/losses on investments	(c)	–	–	–	(75)
Adjustments relating to associates	(d)	2,963	2,826	2,366	131
Deferred performance fees	(e)	6,400	6,400	6,400	6,400
Profit on sale of joint venture	(f)	2,221	2,221	2,221	2,221
Credit loss allowance	(g)	(122)	(171)	(171)	(171)
Differences in classification					
Adjustments relating to Master Credit Trust	(h)	(597)	(460)	–	–
Interest income	(i)	(3,765)	(3,765)	–	–
Net unrealised (gains)/losses on investments	(j)	976	976	976	–
Credit loss allowance	(k)	(1,501)	–	–	–
Tax on adjustments		–	–	(3,164)	(2,178)
Total adjustments		**6,575**	**8,381**	**9,565**	**7,265**
Underlying results for the period ended 30 June 2019		**67,994**	**26,730**	**17,038**	**17,038**

(1) Revenue refers to total income in the condensed consolidated statement of profit or loss and other comprehensive income.

(2) Statutory EBITDA is not an IFRS measure but has been presented to provide a comparable measure to the Underlying result.

2 Segment information (cont.)

2.2 Segment results (cont.)

Differences in measurement

(a) The acquisition of Armada Funds Management in 2017 for cash and shares continues to give rise to non-cash IFRS expenditure. Accordingly, the Underlying measure reverses the impact of these expenses, being $0.9 million (2019: $0.6 million) relating to the amortisation of intangible assets and $0.7 million (2019: $2.1 million) relating to the share-based payments to the vendors, who are now employees of the Company.

(b) The Underlying measure expenses the full value of the share-based payment equity awards issued to staff as part of the annual bonus awards in the year of grant as opposed to over the vesting period (up to 5 years) per IFRS.

(c) Adjustment to remove unrealised gains / losses on the Group's strategic investment in Japara Healthcare Ltd.

(d) The Underlying measure records dividends and distributions received from associates in Underlying Revenue as opposed to the IFRS treatment of recording the Group's share of accounting profit or loss of an associate. Underlying Revenue further recognises gains/losses associated with management's assessment of the movement in the underlying value of the associate.

(e) Performance fees relating to Redcape Hotel Group recorded in the 2018 statutory results but deferred to 2019 in the Underlying result to closely align with transaction settlement and cash flows.

(f) The profit on sale of the Group's interest in Acure Asset Management was recorded in the 2018 statutory results but deferred to 2019 to closely align with transaction settlement and cash flows.

(g) The Underlying treatment excludes the movement in AASB 9 Expected Credit Loss provisions relating to receivables and loans receivable. Where there is an increased likelihood of credit loss, specific provisions individually assessed against loans receivable are included in both the statutory and Underlying results. See note (k) for treatment of specific provisions that are reclassified by management.

Differences in classification

(h) The Underlying treatment records the distributions received from the MA Master Credit Trust (MCT) in Underlying Revenue as opposed to the IFRS treatment of consolidating MCT into the Group's results. See note 15(c) for more detail on the MCT.

(i) The Group consolidates the assets and liabilities of a fund related credit investment initiative. The interest expense of $2.7 million (2019: $2.9 million) relating to the liabilities is reclassified to Underlying Revenue to offset against the interest income derived from the related loans receivable to reflect the total net return to the Group. Further, interest income on cash and bank balances of $0.4 million (2019: $0.9 million) is reclassified to Underlying net interest expense.

(j) Unrealised (gains)/losses on investment, other than those identified in (c) above, are reclassified from Other Comprehensive Income to Underlying Revenue.

(k) The specific provision for impairment of a loan receivable is reclassified from statutory expense to Underlying Revenue, to be consistent with how management view the movement in value of investments.

3 Fee & commission income

Fee and commission income is accounted for in accordance with AASB 15 *Revenue - Contracts with Customers.*

	Half-year ended 30 Jun 2020 Consolidated $'000	Half-year ended 30 Jun 2019 Consolidated $'000
Timing of revenue recognition		
At a point in time		
Advisory success fees	20,327	13,265
Commission and brokerage income	5,333	3,614
Facilitation and transaction fees	5,408	3,101
Total revenue earned at a point in time	**31,068**	**19,980**
Over time		
Advisory retainer fees	1,124	2,134
Performance fees	2,933	2,556
Distribution fees	4,812	3,234
Management fees	24,739	22,586
Total revenue earned over time	**33,608**	**30,510**
Total fee and commission income	**64,676**	**50,490**
Fee & commission income by segment		
At a point in time		
Corporate advisory & equities	25,502	16,728
Asset management	5,566	3,252
Total revenue earned at a point in time	**31,068**	**19,980**
Over time		
Corporate advisory & equities	1,124	2,134
Asset management	32,484	28,376
Total revenue earned over time	**33,608**	**30,510**
Total fee and commission income	**64,676**	**50,490**

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

	Half-year ended 30 Jun 2020 Consolidated $'000	Half-year ended 30 Jun 2019 Consolidated $'000
4 Investment income		
Interest income on cash and bank balances	425	880
Interest, dividends and distributions from investments	14,932	10,603
	15,357	**11,483**
5 Other income		
Other income	1,706	26
Net foreign exchange gains/(losses)	7	(13)
Realised gains/(losses) from investments	159	(11)
Unrealised losses from investments held at fair value through profit or loss (FVTPL)	(178)	–
	1,694	**2**

6 Dividends

During the period, Moelis Australia Limited made the following fully franked dividend payments:

	Half-year ended 30 Jun 2020 Consolidated $'000	Half-year ended 30 Jun 2019 Consolidated $'000
Fully Paid Ordinary shares		
2018 dividend (paid on 6 March 2019)	–	12,558
2019 dividend (paid on 4 March 2020)	14,532	–
	14,532	**12,558**

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
7 Investments in associates and joint ventures		
Infinite Care Group	1,992	2,774
MA Aged Care Fund	2,609	3,833
MA Kincare Fund	9,037	8,721
MA Senior Secured Credit Fund II	2,354	2,275
Redcape Hotel Group	56,265	59,348
	72,257	**76,951**

7 Investments in associates and joint ventures (cont.)

Impairment of investments in associates and joint ventures

In line with the Group's accounting policies, after application of the equity method of accounting, the Group's investments in associates and joint ventures were assessed for impairment at the reporting date, which included consideration of the impact of COVID-19. The Group performs an assessment to determine whether there is any objective evidence that its investments in associates and joint ventures are impaired. The main indicators of impairment are significant financial difficulty of the investee, significant changes in the technological, market, economic or legal environment and a significant or prolonged decline in fair value below cost. Refer to 7.2 below for further information on the Group's investment in the Redcape Hotel Group.

7.1 Details of ownership interest

			Proportion of ownership interest and voting power held by the Group	
Associate	**Place of Incorporation**	**Principal activity**	**2020**	**2019**
Infinite Care Group	Australia	Aged care facility operator	5.2%	5.2%
MA Aged Care Fund	Australia	Investor in aged care facility operator	10.1%	10.1%
MA Kincare Fund	Australia	Credit funds management	25.5%	25.5%
MA Senior Secured Credit Fund II	Australia	Credit funds management	13.0%	13.0%
Redcape Hotel Group	Australia	Owner & operator of hotels	9.4%	9.4%

7.2 Details of investment in Redcape Hotel Group

Redcape Hotel Group

At 30 June 2020, the Group has a 9.4% direct equity investment in Redcape Hotel Group (Redcape) and funds managed by the Group own a further 29.4% of Redcape. The Group earns asset manager and hotel operator fees from Redcape, as well as investment returns on its direct investment. The Group is considered to have significant influence over Redcape as a result of participating in the financial and operating policy decisions of Redcape through its roles as responsible entity, asset manager and hotel operator.

Redcape owns or operates 32 hotels in New South Wales and Queensland and was forced to temporarily close its hotels during the period due to Government restrictions as a result of COVID-19. Redcape's hotels subsequently reopened progressively from June 2020. Redcape assessed their assets for impairment at 30 June 2020, including considering the impact of COVID-19 on their operations. The Directors are satisfied that the impairment testing performed by Redcape is reasonable, and that no additional impairment is required for the Group’s investment in Redcape. Per the Redcape audited financial statements, Redcape has recognised a reduction in its net assets at 30 June 2020, of which the Group's share of the reduction has been equity accounted.

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
8 Receivables		
Accounts Receivable	1,917	1,869
Fees Receivable	11,588	16,167
Interest Receivable	11,882	9,193
Sundry Debtors	648	359
Affiliates Receivable	3,994	5,078
Loss allowance	(1,231)	(408)
	28,798	**32,258**

In response to COVID-19 the Group undertook a review of its receivables balances and expected credit losses. The review considered the macroeconomic outlook, counterparty credit quality, the type of collateral held and exposure of default as at the reporting date. While the model inputs and forward-looking information were revised, the accounting policies of the Group remained consistent with prior periods. The Group's loss allowance provisions are a determination of probabilities of default and a determination of losses that may be incurred should a default occur. As a result of a deterioration in the global macroeconomic environment the Group placed further weighting to its downside scenario that was determined utilising economic forecasts available at the end of the period resulting in a $0.8 million increase in loss allowance on receivables being recognised during the period.

9 Contributed equity

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
Ordinary shares - fully paid	155,029	156,972

The Company had authorised share capital at 30 June 2020 amounting to 151,141,070 ordinary shares (31 December 2019: 147,641,070).

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

Shares purchased on-market for the purpose of an employee incentive scheme

During the period, the Group purchased 1,494,326 shares on-market (year ended 31 Dec 2019: 159,868 shares) and 378,030 shares via an off-market transfer from its employees during the staff trading window (year ended 31 Dec 2019: 2,000,000 shares via an off-market selective buy-back) in order to meet the Group's shared based payments award requirements. The average price of all share purchases during the period was $4.04 (year ended 31 Dec 2019: $3.43).

Shares issued for the Loan Funded Share Plan

On 13 March 2020 the Company issued 3,500,000 fully paid ordinary shares in order for eligible employees of the Group to acquire shares in the Company as part of the Loan Funded Share Plan (LFSP) employee equity incentive scheme. The issue price of the shares was $4.04, being the volume weighted average price of the Company's shares over the 5 business days to 11 March 2020. The purchase price of the shares acquired by eligible employees under the LFSP was fully funded by a limited recourse loan provided by the Company. The shares are subject to vesting conditions, including performance conditions and continuous employment, and carry the same rights as other fully paid ordinary shares.

Share Options

On 25 February 2020, the Chairman and non-executive Director, Jeffrey Browne, exercised 390,625 options at an exercise price of $2.80 per option for 390,625 fully paid ordinary shares of the Company.

10 Key management personnel

Remuneration arrangements of key management personnel (KMP) are disclosed in the annual financial report. Bonuses accrued in December 2019 consisted of restricted shares and cash. The cash component was fully paid in March 2020. The remaining equity components of the bonus were granted to KMP in March 2020 and are subject to vesting conditions.

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000

11 Loans receivable

Current		
Loans to third parties	144,470	85,737
Loss allowance	(6,804)	(5,014)
	137,666	**80,723**
Non-current		
Loan to employees	445	450
Loans to third parties	91,391	118,908
Loss allowance	(289)	(314)
	91,547	**119,044**

Loans to third parties comprises commercial loans provided to Australian corporates. The loans have terms of between one month and four years and six months, and are either fully or partially secured against the assets of the borrowers.

Loss allowance

By providing loans to customers, the Group bears the risk that the future circumstances of customers might change, including their ability to repay their loans in part or in full. While the Group's credit lending policies and procedures aim to minimise this risk, there will always be instances where the Group will not receive the full amount owed and hence a provision for impaired loans will be necessary. The calculation of both the collectively and individually assessed expected loss allowance contains various factors that require judgement and estimates by management.

11.1 Movement in loss allowance on loans receivable

Current		
Collectively assessed loss allowance		
Balance at the beginning of the period	(464)	(391)
Loss allowance movement for the period	(1,790)	(73)
Balance at the end of the period	**(2,254)**	**(464)**
Individually assessed loss allowance		
Balance at the beginning of the period	(4,550)	–
Loss allowance movement for the period	–	(4,550)
Balance at the end of the period	**(4,550)**	**(4,550)**
Non-current		
Collectively assessed loss allowance		
Balance at the beginning of the period	(314)	(295)
Loss allowance movement for the period	25	(19)
Balance at the end of the period	**(289)**	**(314)**
Total loss allowance at the end of the period	**(7,093)**	**(5,328)**

Movement in loss allowance during the period

The Group periodically assesses exposures to determine whether the credit risk of a loan receivable has increased significantly since initial recognition. The assessment, which requires judgement, considers both quantitative and qualitative information that is based on the Group's historical experience and informed credit assessment including forward-looking information, such as economic forecast and outlook, GDP growth, unemployment rates and interest rates.

11 Loans receivable (cont.)

11.1 Movement in loss allowance on loans receivable (cont.)

Movement in loss allowance during the period (cont.)

In response to COVID-19 the Group undertook a review of its loans receivable portfolio and expected credit losses. The review considered the macroeconomic outlook, counterparty credit quality, the type of collateral held and exposure at default as at the reporting date. While the model inputs and forward-looking information were revised, the accounting policies of the Group remained consistent with prior periods. The Group's loss allowance provisions are a determination of probabilities of default and a determination of losses that may be incurred should a default occur. As a result of deterioration in the global macroeconomic environment the Group placed further weighing to its downside scenario that was determined utilising economic forecasts available at the end of the period, resulting in a $1.8 million increase in loss allowance on loan receivable.

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
11.2 Loans receivable which were past due and impaired		
Past due 180 days or more	**7,865**	**7,865**

An individually assessed loss allowance of $4.6 million has been recognised at 30 June 2020 (31 Dec 2019: $4.6 million) against a loan receivable which is past due by greater than 180 days. None of the remaining loans receivable are past due.

11.3 Loans receivable by industry (net of loss allowance)

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
Professional services	91,342	88,747
Aged care	23,905	25,207
Construction & real estate	33,247	21,283
Financial Services	72,998	56,536
Other	7,721	7,994
	229,213	**199,767**

11.4 Loss allowance on loans receivable by industry

Industry	Stage 1 12 months ECL Collectively assessed $'000	Stage 3 Lifetime ECL Individually assessed $'000	Total $'000
30 June 2020			
Professional services	135	–	135
Aged care	1,826	–	1,826
Construction & real estate	94	–	94
Financial Services	158	–	158
Other	330	4,550	4,880
	2,543	**4,550**	**7,093**
31 Dec 2019			
Professional services	263	–	263
Aged care	298	–	298
Construction & real estate	12	–	12
Financial Services	142	–	142
Other	63	4,550	4,613
	778	**4,550**	**5,328**

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
12 Other financial assets		
Financial assets - non current		
Financial assets held at fair value through other comprehensive income (FVTOCI)	20,730	26,204
Financial assets held at FVTPL	682	682
	21,412	**26,886**
13 Intangible assets		
Carrying amounts of:		
Identifiable intangible assets	12,838	13,356
Cost		
Balance at the beginning of the period	18,676	16,542
Additions	860	2,134
Disposals	(172)	–
Balance at the end of the period	**19,364**	**18,676**
Accumulated amortisation and impairment		
Balance at the beginning of the period	(5,320)	(3,144)
Amortisation expense	(1,206)	(2,176)
Balance at the end of the period	**(6,526)**	**(5,320)**

Identifiable intangible assets comprised $10.4 million (31 Dec 2019: $11.3 million) relating to those recognised as part of the 2017 acquisition of Armada Funds Management (Armada). $2.4 million (31 Dec 2019: $2.1 million) related to software and trademarks purchased. Included in the deferred tax liability of the Group as at 30 June 2020 is an amount of $3.1 million (31 Dec 2019: $3.4 million) relating to the intangible asset recognised from the Armada acquisition.

Identifiable intangible assets recognised as part of the Armada acquisition were determined as the net present value of the forecast management fees less operating expenses, based on the expected lives of each fund which ranged from 2 years and 7 months to 7 years and 9 months at the time of acquisition. As at 30 June 2020, the Armada funds have remaining expected lives ranging from 11 months to 4 years and 8 months.

Amortisation of Armada intangible assets

The amortisation of the aggregate value of the intangible assets over their useful lives is based on the forecast profile of the profit generated by the management rights, and is reassessed at the end of each reporting period.

Impairment assessment of Armada intangible assets

At 30 June 2020, the Group has assessed the Armada intangible asset for impairment, which included consideration of the impact of COVID-19. A value-in-use model was used that incorporated inputs for post-tax cash flow projections based on financial budgets over five years, a terminal growth rate of 1% and a discount rate of 12.5%. The values assigned to the inputs represent the Group's assessment of future trends and have been based on historical data from both internal and external sources and include an assessment of the likely lives of the management rights, expectations about variations to management fee rates and amount and timing of transaction fees. In addition, the assessment includes consideration of expected changes to operating costs and discount rates that reflect the relative security of the cashflows and the market pricing for similar management rights.

No impairment charge was recognised in relation to Armada intangible assets during the period as the recoverable amount was determined to be in excess of the carrying amount. A sensitivity analysis was performed on the value-in-use calculation, stress testing the model inputs for reasonably possible changes in assumptions, such as discount rates and post-tax cash flows, to test for impairment and no additional indicators of impairment were identified.

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
14 Goodwill		
Cost	9,827	9,827
Goodwill is allocated to the following cash-generating units:		
Asset management	8,501	8,501
Corporate advisory and equities	1,326	1,326
	9,827	**9,827**

Goodwill with indefinite lives relates to the Group's integrated acquisitions. Goodwill is not amortised but reviewed for impairment at least annually.

Impairment of goodwill

At 30 June 2020, the Group has assessed goodwill for impairment, which included consideration of the impact of COVID-19. A value-in-use model of the cash-generating unit (CGU), to which goodwill has been allocated, was used that incorporated inputs for post-tax cash flow projections based on financial budgets over five years, a terminal growth rate of 1% and a discount rate ranging from 11% to 12.5%. The values assigned to the inputs represent the Group's assessment of future trends and have been based on historical data from both internal and external sources and include an assessment of the estimated future cash flows the Group expects to derive from the asset and the time value of money, represented by a market risk-free rate of interest. In addition the assessment considers of other factors that market participants would reflect in pricing the future cash flows the Group expects to derive from the asset.

No impairment charge was recognised in relation to goodwill during the period as the recoverable amount was determined to be in excess of the carrying amount. A sensitivity analysis was performed on the value-in-use calculation, stress testing the model inputs for reasonably possible changes in assumptions, such as discount rates and post-tax cash flows, to test for impairment and no additional indicators of impairment were identified.

15 Borrowings

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
Current		
Unsecured notes	32,150	32,150
Unsecured notes - Limited recourse	35,030	35,030
	67,180	**67,180**
Non-current		
Unsecured notes	65,000	25,000
Fund preferred units	117,135	97,022
	182,135	**122,022**

Except for the obligation to pay periodic interest and repay the principal at end of the term, the terms of the unsecured notes, including the limited recourse notes, do not include any material undertakings or obligations which, if not complied with, would result in an acceleration of the amount owing.

(a) Unsecured notes

	MOE Bond I	MOE Bond II	MOE Bond IV
Classification	Current	Non-current	Non-current
Issue	2017	2018	2020
Maturity Date	Sep 2020	Sep 2022	Sep 2024
Amount ($m)	32.2	25.0	40.0
Interest rate per annum	5.25%	5.75%	5.85%
Issue costs ($000's)	24.2	6.5	9.0

During the period the Group raised $40.0 million through the issue of a new unsecured note (MOE Bond IV). The proceeds of MOE Bond IV are expected to be used to repay the MOE Bond I notes that mature in September 2020.

(b) Unsecured notes - limited recourse notes

	MOE Bond III
Classification	Current
Issue	2019
Maturity Date	May 2024
Amount ($m)	35.0
Interest rate per annum	Variable

The limited recourse notes constitute unsecured, unsubordinated obligations of an issuing special purpose Group entity (issuing entity). The issuing entity was capitalised by the Group and invests the proceeds of the note issuance in a diversified portfolio of cash and loans. The notes have sole recourse to the assets of the issuing entity and are not guaranteed by the Company. Whilst the notes have a five year stated maturity, they can be redeemed at the option of the note holders subject to a minimum 12 month holding period following issue. The limited recourse notes are held for investors under the Significant Investor Visa (SIV) programme and, given the nature of the investors, the Group anticipates that redemptions may be requested by the note holders prior to the stated maturity of the notes, as investors receive their permanent residency status. The interest rate is calculated at a margin of 4.35% over the RBA cash rate at the time of issue per tranche and then resets in February and August of each year.

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

15 Borrowings (cont.)

(c) Fund Preferred Units

The Group manages the MA Fixed Income Fund (MAFIF). MAFIF provides investors with exposure to a diversified portfolio of credit investments via an investment in Class A Units (Fund Preferred Units) in the MA Master Credit Trust (Master Credit Trust). As a 10% co-investment, the Group holds Class B Units in the Master Credit Trust. The Master Credit Trust is a consolidated entity of the Group.

The Fund Preferred Units held by MAFIF receive a preferential distribution from the realised profit of Master Credit Trust, up to a maximum equal to the RBA Cash Rate plus 4.00%. The Class B Units receive any excess distributable profits after paying the preferential distribution to the Fund Preferred Units and fund expenses. The Class B units further provide a maximum 10% "first loss" capital buffer which affords the Fund Preferred Units preferential treatment on distribution and wind-up of the Master Credit Trust. As such the Group's maximum economic exposure is limited to the value of the Class B Units which at 30 June 2020 amounted to $11.7 million (31 Dec 2019: $9.7 million).

Redemptions of the Fund Preferred Units are at the discretion of the Master Credit Trust Trustee and require the consent of the Group. Therefore the units are treated as non-current liabilities as the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

	30 Jun 2020 Consolidated $'000	31 Dec 2019 Consolidated $'000
16 Redeemable preference shares		
Redeemable preference shares	25,500	25,500

A wholly owned special purpose Group entity has issued redeemable preference shares (RPS) to a fund managed by the Group. All RPS proceeds were used to acquire a loan asset in order for the fund investors to participate in the economics of that loan asset. The loan asset is recognised as a loan receivable in the consolidated statement of financial position. A summary of the RPS terms and conditions are as follows:

	RPS
Issue date	2017
Issue price	$1
Dividend rate	15%
Maturity date	Dec 2022

The RPS have no voting rights unless when dividends are in arrears and there is a proposal to reduce capital or approve terms of a buy-back agreement and the proposal affects the rights of RPS holders.

17 Financial instruments

(a) Fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes is determined on such a basis except for measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the condensed consolidated financial statements (cont.)

for the half-year ended 30 June 2020

17 Financial instruments (cont.)

Valuation processes

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation function that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer. The valuation function regularly reviews significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to the Group's Audit and Risk Committee.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table summarises the levels of the fair value hierarchy and provides information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used):

	Mandatorily at FVTPL	FVTOCI-equity instruments	Total	Level 1 (a)	Level 2 (b)	Level 3 (c)	Total
30 Jun 2020							
Loan receivables	29,211	–	29,211	–	–	29,211	29,211
Non-equity securities	682	–	682	–	682	–	682
Equity securities	–	20,730	20,730	8,797	11,933	–	20,730
Financial assets measured at fair value	**29,893**	**20,730**	**50,623**	**8,797**	**12,615**	**29,211**	**50,623**
31 Dec 2019							
Loan receivables	9,158	–	9,158	–	–	9,158	9,158
Non-equity securities	682	–	682	–	682	–	682
Equity securities	–	26,204	26,204	16,430	9,774	–	26,204
Financial assets measured at fair value	**9,840**	**26,204**	**36,044**	**16,430**	**10,456**	**9,158**	**36,044**

The carrying amount of the Group's cash and cash equivalents, restricted cash, trade receivables, redeemable preference shares, unsecured notes, Fund Preferred Units and trade payables approximate to their fair value at the current and prior reporting periods.

The Group reviewed its valuation techniques and key inputs for its Level 2 and Level 3 assets during the period, including a consideration of the impact of COVID-19 on the estimated fair values. The review considered the most recent independent valuations, quoted unit prices of recent equity transactions, expected duration the assets are likely to be held for and the macroeconomic outlook for the industries each asset operates in. As a result of the review, no significant change in the fair values of the assets was identified and the Group considers the fair values adopted to be appropriate at the end of the period.

Valuation techniques and key inputs

(a) Quoted bid prices in an active market.

(b) Inputs other than quoted prices, that are observable, such as unit prices or based on recent transactions.

(c) Short-term held assets or valued using a discounted cash flow valuation technique with inputs that are not based on observable market data (unobservable inputs) but are based on assumptions by reference to historical company and industry experience. Discount rate inputs range between 6.65% – 14.50%.

17 Financial instruments (cont.)

Reconciliation of balances in Level 3 of the fair value hierarchy

During the period there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies. The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value by the Group:

	Loan assets $'000
Balance as at 1 January 2019	–
Additions	9,163
Disposals and repayments	(5)
Balance as at 31 December 2019	**9,158**
Balance as at 1 January 2020	9,158
Additions	21,023
Disposals and repayments	(792)
Fair value movements recognised in profit or loss	(178)
Balance as at 30 June 2020	**29,211**

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not significantly change amounts recognised in profit or loss, total assets, total liabilities or total equity.

18 Acquisitions and disposals of subsidiaries

Acquisitions

There were no individual significant entities or businesses where control was gained during the period ended 30 June 2020.

Disposals

On 3 February 2020, the Group disposed of its remaining interest in Golden Corridor Management Pty Ltd with no gain or loss recognised on disposal. There were no other entities or businesses where control was lost during the period ended 30 June 2020.

19 Commitments

At 30 June 2020, the Group had undrawn loan commitments of $26.7 million (31 December 2019: $40.7 million). Subsequent to 30 June 2020, $0.7 million of this commitment was either cancelled or drawn upon.

At 30 June 2020, the Group has the following capital commitments:

- The Group has committed to a 10% co-investment in Class B Units in Master Credit Trust, a consolidated entity of the Group. At 30 June 2020, $11.7 million has been invested by the Group in Master Credit Trust. Refer to further information in Note 15(c).

20 Subsequent events

Subsequent to the period end the Group entered into an agreement to purchase a real estate asset for $63.1 million. Prior to settlement in December 2020 the Group's obligations under the purchase agreement are expected to be assigned to a fund managed by the Group. There were no other material events subsequent to the period end.

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