Mortgage Advice Bureau (Holdings) plc

Interim Report
for the six months ended 30 June 2019

Mortgage Advice Bureau

Contents

Mortgage Advice Bureau is one of the UK's leading consumer intermediary brands and specialist appointed representative networks for mortgage intermediaries. MAB's advisers specialise in providing mortgage advice to customers, as well as advice on protection and general insurance products. Providing customers with the right advice is at the heart of everything we do.

Our strategy remains focused on securing further growth through technology, lead generation and specialisation which will increase our market share and the number of mortgage completions in all market conditions, enabling us to continue to deliver strong returns to our investors. Technology is integral to our business. Importantly, we are building our new technology platform to enhance the advice process and enable more choice for our customers in terms of how they research, receive advice and transact. Our platform is designed to improve the customer and adviser experience.

We are pleased to have completed the first development phase of our new platform, which we are continuing testing with a number of our business partners, before rolling out to the remainder of our firms over the course of this year and into 2020. Our technology developments will ensure MAB is able to maintain and build upon its leading position in the intermediary sector. We continue to invest in our core business model with our plans for 2020 and beyond designed to secure sustainable long-term growth whilst continuing to deliver strong results in the meantime.

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For more information please visit our website
www.mortgageadvicebureau.com/investor-relations

Front Cover: Re-mortgage customers, Bude

Peter Brodnicki, Chief Executive Officer commented:

"I am delighted to report another set of strong results. Despite continued uncertainty, we have achieved strong revenue growth of 9% on an underlying basis to £61m, which has translated into adjusted EPS being up 5% to 12.3p. Our mortgage completions increased by 6% and our market share by 7%. Accordingly, the Board is pleased to declare an increased interim dividend of 11.1p per share, up 5% on the prior year. MAB continues to deliver on its strategy to grow market share in all market conditions whilst maintaining a strong financial position."

"In addition to our strong growth achieved in H1 and into H2, through both advisers joining existing ARs and the addition of new ARs, adviser numbers have further increased since the period end through the acquisition of one of the very best performing and highly respected UK brokers, First Mortgage Direct Limited, in July. This has been a tremendous addition to the MAB Group, adding to the growing number of exceptional firms choosing to partner with MAB, that will play a major role in our plans to grow our market share through increasing both adviser numbers and productivity. Against this backdrop, I remain confident of delivering further growth in line with our strategic plans."

"We are pleased to have completed the first development phase of our new platform, which we are continuing testing with a number of our business partners, before rolling out to the remainder of our firms over the course of this year and into 2020."

"We are focused on delivering sustainable long-term growth by providing the best solutions and outcomes for our customers, largely driven by our significant focus on technology developments. We plan to continue growing our market share and mortgage completions, whilst leading the evolution of intermediary distribution."

Peter Brodnicki
Chief Executive Officer

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Mortgage Advice Bureau

Financial highlights

- Revenue up 5% to £60.9m (H1 2018: £57.9m); 9% on an underlying basis[1]
- Gross profit up 9% to £14.2m (H1 2018: £13.0m)
- Gross margin of 23.3% (H1 2018: 22.5%)
- Overheads ratio (before acquisition costs[2]) of 11.2% (H1 2018: 10.9%)
- Profit before tax and acquisition costs[2] up 6% to £7.4m (H1 2018: £7.0m)
- Statutory profit before tax up 3% to £7.2m (H1 2018: £7.0m)
- Profit before tax margin pre acquisition costs[2] of 12.2% (H1 2018: 12.0%)
- Profit before tax margin of 11.8% (H1 2018: 12.0%)
- Adjusted[2] EPS up 5% to 12.3p (H1 2018: 11.7p)
- Basic EPS up 1% to 11.9p (H1 2018: 11.7p)
- Continued high operating profit to adjusted cash conversion[3] of 99% (H1 2018: 108%)
- Interim dividend up 5% to 11.1p (H1 2018: 10.6p), (payout ratio of 91%)

Operational highlights

- Average number of Advisers during the period up 13% to 1,242 (H1 2018: 1,103)
- Adviser numbers up 7% to 1,293[4] at 30 June 2019 (31 December 2018: 1,213), which excludes c. 90 Advisers from the acquisition of First Mortgage Direct Limited which completed post period end
- Underlying revenue per Adviser down 4%[5], due to lower banked productivity in Q1 2019 (in line with expectations for Q2 2019)
- Gross mortgage lending arranged (including product transfers) up 6% to £6.9bn (H1 2018: £6.5bn)
- Gross mortgage lending arranged with new lenders up 7% to £6.3bn (H1 2018: £5.9bn)

Post period end

- Completion of acquisition of 80% of First Mortgage Direct Limited (“First Mortgage”) on 2 July 2019 adding c. 90 Advisers (not included in H1 2019 adviser growth)
- Initial cash consideration paid for First Mortgage of £16.5m, valuing First Mortgage at £20.6m
- The acquisition of First Mortgage is expected to be significantly earnings accretive in the first full year following completion and thereafter
- Adviser numbers have increased to 1,433 as at 20 September 2019

	H1 2019	H1 2018	Change
Revenue	£60.9m	£57.9m	+5%
Gross profit	£14.2m	£13.0m	+9%
Gross profit margin	23.3%	22.5%	
Profit before tax and acquisition costs[2]	£7.4m	£7.0m	+6%
Statutory profit before tax	£7.2m	£7.0m	+3%
PBT margin before acquisition costs[2]	12.2%	12.0%	
PBT margin	11.8%	12.0%	
Adjusted EPS[2]	12.3p	11.7p	+5%
Basic EPS	11.9p	11.7p	+1%
Interim dividend per share	11.1p	10.6p	+5%
Operating profit to headline cash conversion[6]	113%	123%	
Operating profit to adjusted cash conversion[3]	99%	108%	

[1] Underlying basis excludes a one-off adjustment in H1 2018 of £1.7m for procuration fees awaiting processing.
[2] Costs associated with the acquisition of First Mortgage of £0.2m.
[3] Adjusted cash conversion is headline cash conversion adjusted for increases in restricted cash balances of £1.0m in H1 2019 (H1 2018: £1.0m) as a percentage of adjusted operating profit.
[4] This figure excludes the c. 90 advisers within First Mortgage that joined the Group on 2nd July 2019 when the acquisition completed.
[5] Based on Average number of Advisers.
[6] Headline cash conversion is cash generated from operating activities adjusted for movements in non-trading items, including loans to Appointed Representative firms (“ARs”) and loans to associates, totalling £1.6m in H1 2019 (H1 2018: £0.8m) as a percentage of adjusted operating profit.

Introduction

"We are pleased with MAB's performance overall in this half year, particularly given the slower than expected start to the year in Q1 2019. Both revenue and profits have continued to grow and outperform the wider market, meaning that once again, MAB has increased its market share.

Our growth in mortgage lending arranged is set out below:

	H1 2019 £bn	H1 2018 £bn	Increase
New mortgage lending	6.3	5.9	+7%
Product Transfers	0.6	0.6	+5%(1)
Gross mortgage lending	**6.9**	**6.5**	**+6%**

(1) Roundings

Our total gross mortgage lending arranged (including Product Transfers) increased by 6% to £6.9 billion (H1 2018: £6.5 billion). Gross mortgage lending arranged through new lenders[1] (specifically excluding Product Transfers) increased by 7% to £6.3 billion (H1 2018: £5.9 billion). This growth in new mortgage lending during the period means our overall share of UK new mortgage lending has risen from 4.7% to 5.1%.

Our success to date with Product Transfers lags the market average for intermediaries due to MAB historically operating primarily a purchase focused model. Our technology developments this year will start to impact positively on our penetration rate of these opportunities, and we expect to steadily increase our share of this market segment.

The political uncertainty continues to hit consumer confidence and dampen demand. Housing transactions for the period were a further 2% down versus the same period in 2018, with new mortgage lending broadly flat. The latest UK Finance statistics indicate that the product transfer market is likely to continue to increase from the c. £160bn for 2018; with product transfers in H1 2019 increasing by 8% versus the comparative period last year.

Recruitment of new advisers into MAB has been strong, especially given that there has been no noticeable growth in estate agency distribution. We are very pleased to report net growth of 80 new advisers (which excludes the First Mortgage advisers), a better performance than the same period in 2018, of 60 new advisers. It is also very positive to note that our pipeline of potential new AR firms and advisers also looks very strong as we progress through the second half of 2019.

In addition to strong recruitment performance in H1, we acquired a majority stake in First Mortgage after the period end, which brings a further c. 90 high performing advisers into our numbers for H2 on top of our budgeted growth. This is a highly complementary, strategic acquisition, that will result in First Mortgage becoming an AR of MAB. The business strengthens MAB's omni-channel capability, along with having real scale potential and a broad mix of business, as well as specialism in the new homes market. We are excited about the growth and new opportunities that this acquisition brings to MAB.

We have also continued to progress our technology developments and associated testing. We will enter the pilot stage in the second half of the year, with rollout to all AR Firms due at the end of the year and into 2020, in line with our original delivery timetable."

Peter Brodnicki
Chief Executive Officer

[1] 'Gross mortgage lending arranged with new lenders' means either a new mortgage in connection with a house purchase or a re-mortgage with a different lender to the customer's existing lender.

Market environment

Housing transactions fell by a further 2% over the reporting period versus the comparative period in 2018. Gross new mortgage lending was broadly flat, but within that residential purchase mortgages and residential re-mortgages increased by 3% and 4% respectively. Consumer confidence continues to be subdued in the light of political uncertainty. Whilst it is likely that any potential reductions in the levels of stamp duty, combined with mortgage rates remaining highly competitive and at all-time lows, will drive activity in the housing market, it is the return of consumer confidence that would in all likelihood trigger a more positive picture, leading to an increase in housing transactions. Political and economic certainty will normalise at some stage, but until then, the housing market feels like it is operating at a lower, albeit fairly predictable, level in terms of transactions.

In terms of outlook, UK Finance originally forecast a slight upturn in new lending. In the absence of updated forecasts from UK Finance, MAB now anticipates that total gross new mortgage lending for 2019 will be below the figure of £268bn for 2018. This figure excludes product transfers. The latest UK Finance statistics indicate that the product transfer market is likely to continue to increase from the c. £160bn for 2018; with product transfers increasing by 8% in H1 2019 versus the comparative period last year.

Delivering on our strategy

■ Recruitment of advisers

The recruitment of new advisers into MAB has been pleasingly strong over the period, with numbers rising from 1,213 to 1,293 over the period.

Previously we had noted that Estate Agents in particular had not been recruiting new advisers at the levels they had in recent years and in some instances, they had not been replacing leavers. Over the last year or so this has slowed growth in new adviser numbers and productivity, meaning we have had to generate stronger activity in other market segments to ensure continued growth, which is what we have achieved.

We are very pleased with the rate of organic growth overall, especially within our business partners that have telephone hubs or are running our Regional Networks, with strong growth in these areas of distribution set to continue for the remainder of 2019 and into 2020 and beyond.

We set up a dedicated AR recruitment team a year ago and the associated strategy and heightened activity has clearly had a positive impact with its targeted approach. Importantly, not only have we enjoyed strong growth in high quality and sustainable distribution in the first half of 2019 despite a slower than expected start in Q1, we also have a very healthy pipeline of new prospective AR firms and advisers for the second half of the year and into 2020.

Our academy for new advisers has also been highly successful in growing our telephone advice hubs. In some parts of the country, the recruitment of experienced advisers can be difficult and hence recruiting new advisers via our academy has proven to be the best approach. Within MAB we currently have c. 270 advisers who joined MAB through this academy.

We continue to make investments in new and existing distribution partners that are key to our strategy. With the addition of First Mortgage we have investments in firms with 231 Advisers, representing 16% of our adviser numbers as at 20 September 2019.

Although the housing market is subdued, our targeted approach to market share growth and the strength of our proposition (and in particular the growth potential we can help our partner firms to realise), means we continue to attract high quality firms and advisers to join MAB.

■ Technology

Our technology developments have come a long way as we continue to build and test, moving into a fuller pilot and rollout to our distribution as planned by the end of the year and into 2020.

Our technology developments will deliver clear benefits for the business. Our new platform will deliver far more to customers whilst asking less of them. It will increase business efficiency and over time adviser productivity, and will be a major driver of lead generation and optimisation. Our plans for the platform will also help increase income opportunities from a wider range of products and services.

Delivering technology that meets our AR partners' specific needs for their target markets will also be a key driver in continuing to attract high quality firms and advisers to the Group.

MAB is very strongly placed to ensure that customers continue to receive full advice as, when and how they need it. We are ensuring that MAB is fully equipped with technology that helps customers and advisers alike, to transact more expediently and meet the changing way in which some customers might want to engage and interact in the future.

Part of our technology developments has involved laying the foundations to enable MAB advisers to have direct end-to-end connectivity with major lenders. We are already live with a limited number of small lenders and look forward to a wider rollout with a number of the larger lenders from the end of this year and into 2020. This level of connectivity, once rolled out in full will enable greater adviser efficiencies and productivity, and of course a better customer experience too.

We will use technology to simplify the mortgage process with customers and advisers, and we intend to make meaningful reductions to time spent transacting, for both parties.

■ Lead generation

Customer lead generation is a key area of focus for MAB which alongside technology developments will drive adviser growth and productivity. Consequently, we are increasing our focus on new ways of acquiring customers cost effectively and at scale. Additionally, we will continue to self-generate leads centrally within MAB, to pass on to our partner firms and advisers.

We recently announced a significant strategic partnership with Charles Cameron & Associates, who are the market leaders for workplace mortgage advice in London and the South East. This partnership enables Charles Cameron & Associates to offer a truly national service, with MAB benefiting from immediate access to a large number of blue-chip employees across the UK.

This is a very exciting opportunity and an example of the types of partnerships MAB intends to form using our unique business model to widen our reach and continue to extend our market share.

■ Broadening our addressable market

Currently MAB typically interacts with customers aged between 35 and 65 whilst they are buying their first homes and then moving and/or re-mortgaging, with many first-time buyers having previously been renting properties between the ages of 20 and 35. Through our strong estate agency relationships we intend to nurture these younger customers many of whom will become homeowners.

During the period, we successfully piloted a new initiative where we are now providing protection solutions to tenants who rent prior to home ownership, as well as to those renting on a permanent basis. This means that our AR firms and advisers will now be able to engage a market segment we haven't previously been active with and ultimately positions MAB well to help tenants become home-buyers. This initiative, through the help of our partner AR firms, will help us to generate new protection business for MAB, and enable us to engage with potential first time buyers far earlier.

Additionally, we are looking to better serve our customers who are aged 60 and over. A new market segment is emerging related to lending into retirement, or, so-called 'Later Life Lending'. The most specialist part of this market is "Equity Release" where no repayments of capital or interest are made. Some lenders have already expanded their mortgage portfolios to include interest only products that help customers to borrow money at older ages, and, to borrow that money until they are much older. This relaxation or innovation is in response to demand from an ageing population, and those that want to provide intergenerational assistance to help family members to fund university or a first home, for example.

It is estimated that Later Life Lending will represent c. £80bn of additional outstanding mortgage lending by 2027[1]. It is also estimated that the housing wealth of the 'over-55s' is worth £2.5 trillion[2]. Again, the anticipated growth in this market presents MAB with incremental opportunities, as a direct result of a new and growing market segment which we expect will be highly intermediated, with customers requiring the full advice that we traditionally see as our core market opportunity.

We continue to explore the opportunities that exist within this market segment as new opportunities emerge, but similar to the tenant segment, this is an area of the market that we haven't been previously involved in, and yet complements what we have traditionally seen as our core market opportunity.

■ Home-moving process

We have been piloting a new way to help customers more broadly in their home-moving process. Our current model usually means that advisers help customers with mortgages, protection and general insurance. We are now testing a new platform as part of our technology build, that enables us to offer mortgage customers assistance with organising other parts of their home-moving process, such as their utilities and telecoms.

The initial response from customers and from our firms and advisers is very encouraging and potentially enables us to help make the home-moving process more straightforward.

This is a deliberate strategic move that positions our advisers as being able to offer differentiation versus the wider competition, and provide a fuller and more rounded service and assistance throughout the home-moving process to customers.

[1] Centre for Economics and Business Research and more 2 life.
[2] Swiss Re Term and Health Watch 2017.

■ The acquisition of First Mortgage Direct Limited ("First Mortgage")

MAB has acquired an 80% stake in First Mortgage, the largest independent mortgage broker in Scotland. The business comprises c. 90 advisers who are all employed by First Mortgage. The business arranged c. £2 billion of new mortgages through its advisers in 2018. First Mortgage has very strong repeat business. Over half of First Mortgage's new customers come through referrals from existing customers, with much of the remainder coming from house-builders, mortgage shops and the strong brand awareness it has built, thereby increasing MAB scale and expertise in these areas of specialisation.

First Mortgage continues to grow strongly in Scotland and is also attracting increasingly more customers UK wide. It has started to form its own omni-channel strategy, through building a new telephone hub in Scotland. This hub can be scaled, along with traditional face to face distribution, as First Mortgage continues to expand beyond Scotland with MAB.

Integration of First Mortgage is proceeding well and as planned and under this new relationship, First Mortgage will become an AR of MAB. We expect First Mortgage to grow substantially from its already-strong position, as part of MAB, over the coming years.

The acquisition is expected to be significantly earnings accretive in the first full year of ownership and thereafter, and fits very well within the MAB model, adding to our robust organic/recruitment success.

■ Australia

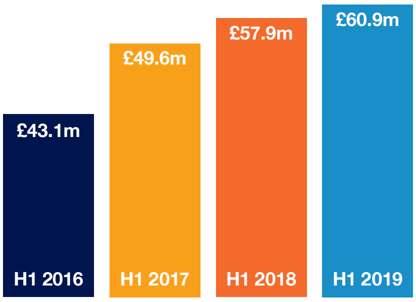
We are in the final stages of research and testing aspects of the MAB UK model in Australia, with new strategic partnerships being formed. We remain excited by the potential in this country for MAB, with our technology developments also being key to scaling our operation in Australia in 2020 and beyond.

Financial review

We measure the development, performance and position of our business against a number of key indicators.

Revenue (£m)

£60.9m

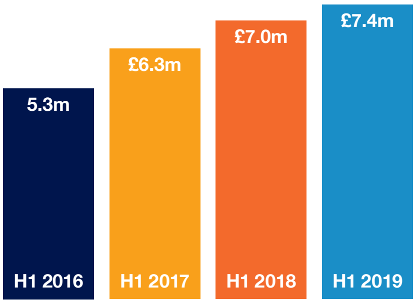


Total income from all revenue streams.

Strategy/objective
Shareholder value and financial performance.

Profit before tax

£7.4m

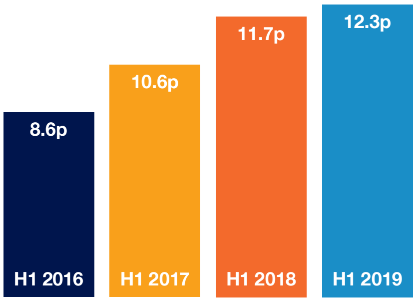


Profit before tax, adjusted to add back £0.2m of acquisition costs.

Strategy/objective
Shareholder value and financial performance.

Adjusted earnings per share

12.3p

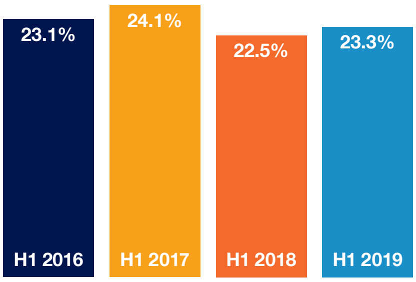


Total comprehensive income, attributable to equity holders of the Company, adjusted to add back non-recurring costs, divided by the number of ordinary shares.

Strategy/objective
Shareholder value and financial performance.

Gross profit margin

23.3%

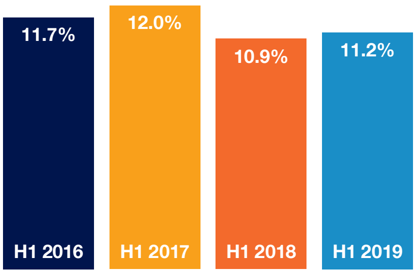


Gross profit generated as a proportion of revenue.

Strategy/objective
Managing gross margins.

Overheads % of revenue

11.2%

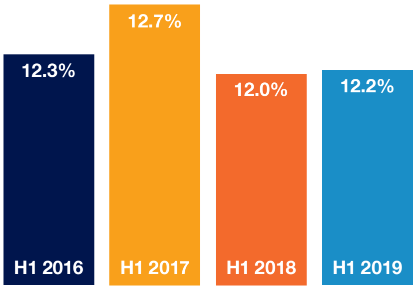


Group's administrative expenses as a proportion of revenue, adjusted for £0.2m of acquisition costs.

Strategy/objective
Operating efficiency.

Profit before tax margin

12.2%

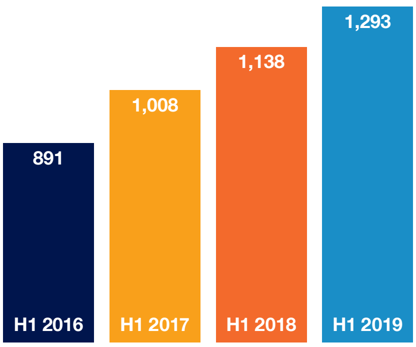


Profit before tax as a proportion of revenue adjusted to add back £0.2m of acquisition costs.

Strategy/objective
Shareholder value and financial performance.

Adviser numbers

1,293

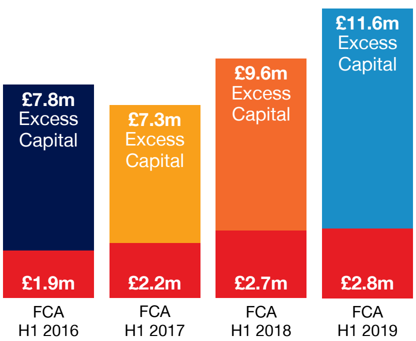


The average number of advisers over the last six months at 30.06.19 was 1,242 (30.06.18: 1,103)

Strategy/objective
Increasing the scale of operations.

Capital adequacy (£m)

£14.4m

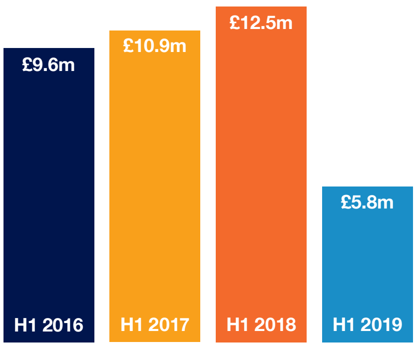


Excess capital requirements over amounts required by the Financial Conduct Authority (FCA).

Strategy/objective
Financial stability.

Unrestricted cash balances

£5.8m



Bank balances available for use in operations. Excludes £5.5m held in escrow ahead of acquisition, post period end.

Strategy/objective
Financial stability.

Summary

This period has seen a strong performance from MAB, given the uncertain political and economic environment, and the associated fall in consumer confidence. Our targeted recruitment approach augments the quality of our market share growth.

Our principal focus is to ensure we grow our adviser base, through having a compelling and differentiated strategy and proposition, both for AR firms as well as the end consumer.

Significant developments in technology, broadening our addressable market, becoming more involved with customers in the home-moving process, and of course accessing more customers by leveraging our unique business model are all central to our clear and deliberate growth strategy.

Consolidation is highly likely in the intermediary sector and we expect this to be beneficial for MAB. Whatever customers choose in terms of how they wish to research, receive advice, and transact, MAB intends to deliver the best in class solution, whilst using specialisation to ensure we remain at the forefront of new opportunities.

Due to continued investment and innovation in our strategic initiatives, MAB's market reach and customer proposition continues to strengthen to deliver year on year sustainable market share and profit growth regardless of market conditions.

Housing transactions remain lower than longer term averages and at some point, most likely when consumer confidence returns, it would be reasonable to expect activity levels to increase, along with new business.

Notwithstanding this, we plan for a flat market and have a strategy that enables MAB to continue growing in a subdued environment.

Business review of the year

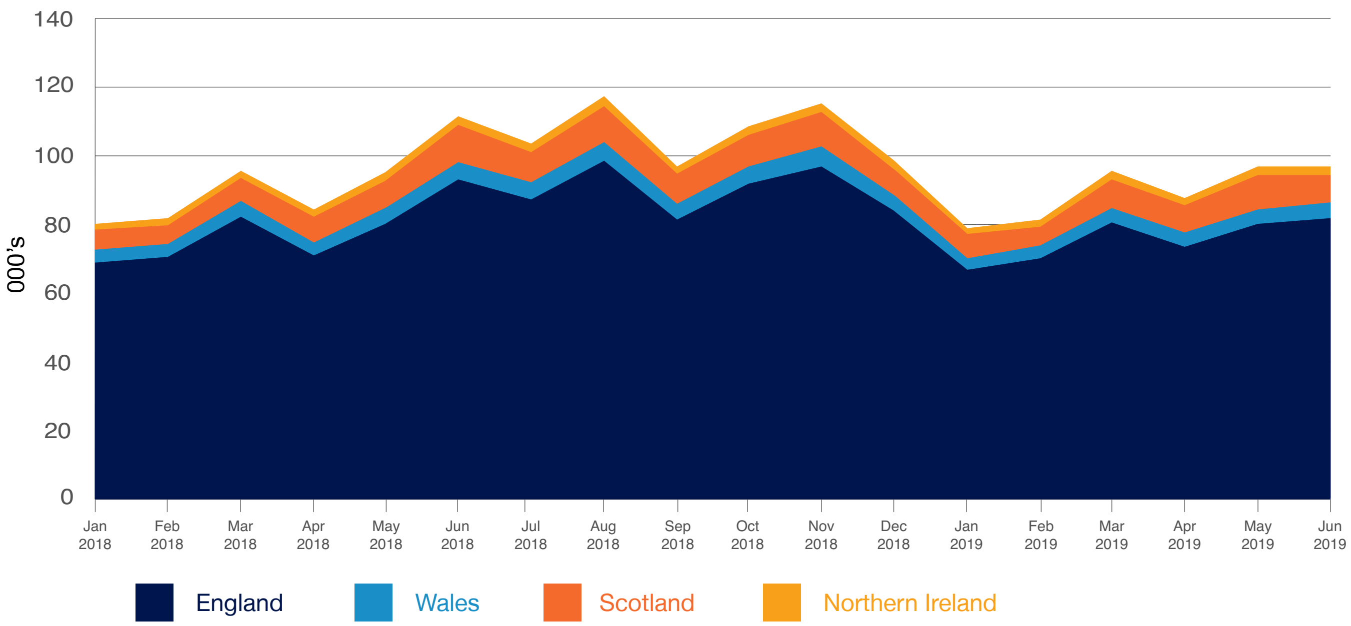
I am pleased to report further strong growth in underlying revenue of 9% to £60.9m with profit before tax and acquisition costs rising by 6% to £7.4m. MAB's gross mortgage lending (including product transfers) increased by 6% to £6.9bn in H1 2019 (H1 2018: £6.5bn) with the average number of Advisers increasing by 13%. MAB's overall share of UK new mortgage lending increased by 7% to 5.1% (H1 2018: 4.7%).

Industry data and trends

Gross new mortgage lending activity in H1 2019 was broadly flat at £125bn (H1 2018: £126bn). In the absence of updated forecasts from UK Finance, MAB now anticipates that total gross new mortgage lending for 2019 will be below the figure of £268bn for 2018. This figure excludes Product Transfers. The latest UK Finance statistics indicate that the product transfer market is likely to continue to increase from the c. £160bn for 2018 with product transfers increasing by 8% in H1 2019 versus the comparative period.

UK housing transactions fell by a further 2% over the reporting period versus the comparative period in 2018 as illustrated in the graph below.

Property transactions in the UK by volume



Source: HM Revenue and Customs

Increases in residential purchase and residential re-mortgage volumes of 3% and 4% respectively offset the fall in other advances and ("BTL") purchase transactions of 9% and led to UK gross new mortgage lending for the period to be broadly flat, as illustrated in the graph below.

UK gross mortgage lending in H1 2019 for home-owner purchases (including first time buyers) and re-mortgages grew by 3% and 4% respectively. UK gross mortgage lending in H1 2019 for BTL re-mortgages increased by 2%, with BTL purchases reducing by 9% and other advances also reducing considerably.

Approximately 77% of UK mortgage transactions (excluding buy to let, where intermediaries have a higher market share, and Product Transfers where intermediaries have a lower market share) were via intermediaries in H1 2019, which is slightly above that of H1 2018. MAB expects this position to remain broadly stable in the near term.

Financial review

We measure the development, performance and position of our business against a number of key indicators.

See KPIs on page 06

Revenue

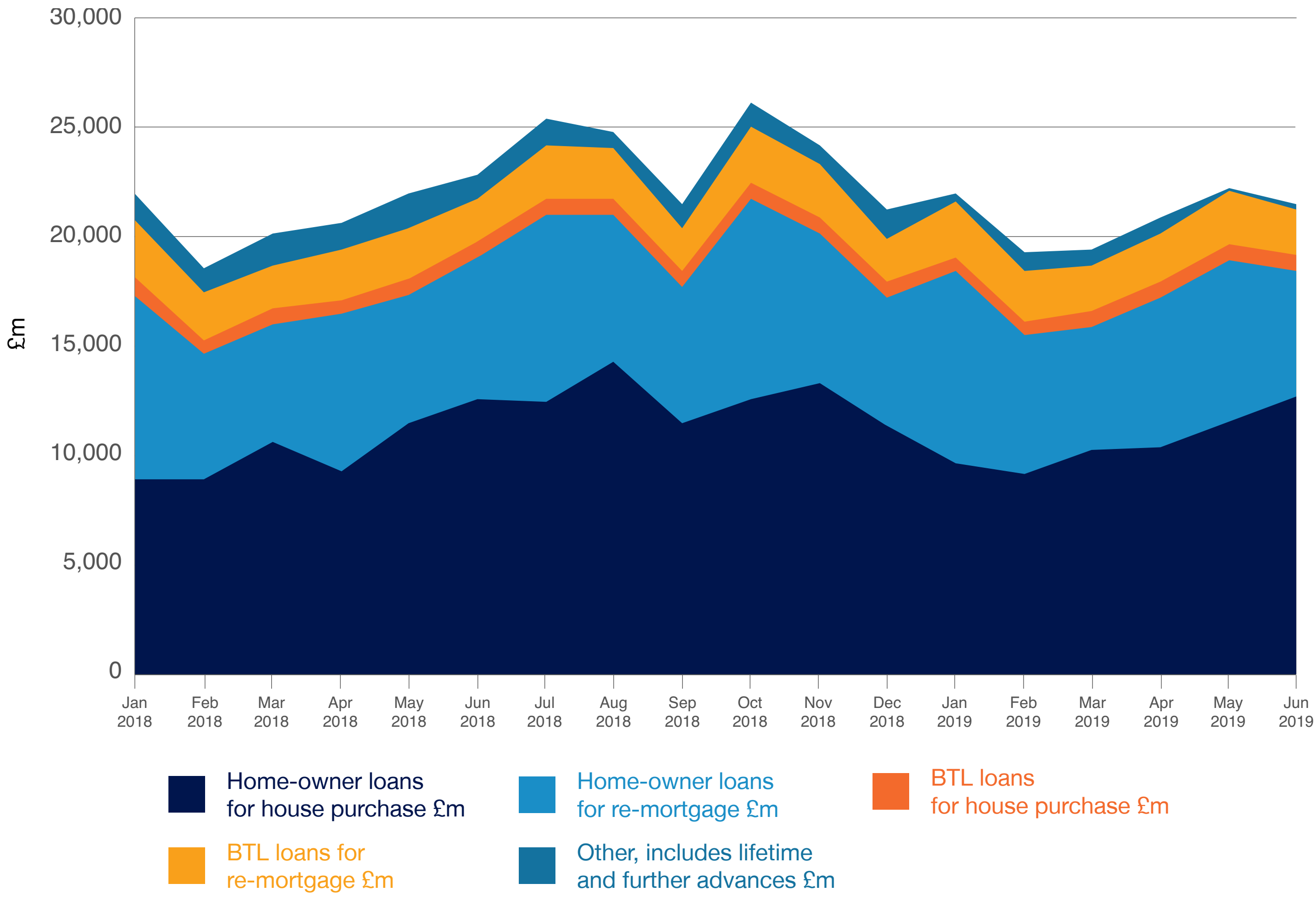
Revenue increased by 5% to £60.9m (H1 2018: £57.9m), 9% on an underlying basis. A key driver of revenue is the average number of Advisers during the period. Our business model continues to attract forward thinking ARs who are seeking to expand and grow their own market share. Average adviser numbers increased by 13% to 1,242 (H1 2018: 1,103) due to a combination of expansion by existing ARs and the recruitment of new ARs.

The Group generates revenue from three core areas, summarised as follows:

Income source	H1 2019 £m	H1 2018 £m	Change
Mortgage procuration fees	26.7	26.8	See note[(1)]
Protection and general insurance commission	23.6	21.3	11%
Client fees	9.7	8.9	9%
Other income	0.9	0.9	–
Total	**60.9**	**57.9**	**5%**

[(1)] Increase in mortgage procuration fees was 6% on an underlying basis

New mortgage lending by purpose of loan



Source: UK Finance Regulated Mortgage Survey (excludes product transfers with the same lender), Bank of England, UK Finance BTL data (used for further analysis)

All key income sources continued to grow strongly with the average number of Advisers in the period increasing by 13% on last year, with a 4% decrease in average revenue per adviser on an underlying basis, reflecting a slower Q1 both in banked and written productivity, followed by a flatter Q2.

With gross mortgage lending arranged (including Product Transfers) increasing by 6% in the period, mortgage procuration fees increased by 6% on an underlying basis. The increase of 11% in protection and general insurance commission reflects a slight increase in both protection and general insurance attachment rates with MAB's mortgage mix remaining relatively stable. Client fees rose by 9% in the period, reflecting an increase in attachment rates.

MAB's revenue, in terms of proportion, is split as follows:

Income source	H1 2019	H1 2018
Mortgage procuration fees	44%	46%
Protection and general insurance commission	39%	37%
Client fees	16%	15%
Other income	1%	2%
Total	**100%**	**100%**

We expect client fees to become increasingly dependent upon the type and complexity of the mortgage transaction, as well as the delivery channel. This will lead to a broader spread of client fees on mortgage transactions, which, by their nature, are our lowest margin revenue stream.

Gross profit margin

Gross profit margin increased to 23.3% (H1 2018: 22.5%), mostly due to the revenue mix being more in favour of protection and general insurance commission resulting from a slight increase in attachment rates due to the initiatives we have been undertaking. The Group typically receives a slightly reduced margin as its existing ARs grow their revenue organically through increasing their Adviser numbers. In addition, larger new ARs typically join the Group on lower than average margins due to their existing scale, which therefore impacts upon the Group's gross margin.

Going forward, we expect to see some further erosion of our underlying gross profit margin due to the continued growth of our existing ARs and the addition of new larger ARs.

Overheads

Overheads pre one-off acquisition costs as a percentage of revenue were 11.2% (H1 2018: 10.9%). This increase in underlying overheads as a percentage of revenue results from increased IT costs in H1 2019, in part offset by the scalable nature of the majority of the cost base as well as our regulatory costs being below that of the prior year due to Pure Protection Intermediation moving from the Life and Pensions Intermediation funding class of FSCS to the General Insurance Distribution funding class.

Certain costs, primarily those relating to compliance personnel, which represent approximately 20% of our cost base, are closely correlated to the growth in the number of Advisers, due to the high standards we demand and the requirement to maintain regulatory spans of control. The majority of the remainder of MAB's costs typically rise at a slower rate than revenue which will, in part, counter the expected erosion of MAB's underlying gross margin as the business continues to grow.

As a result of MAB's IT plans, and as previously indicated, we expect our IT costs and amortisation on IT capital expenditure to increase in 2019 and then grow at a slower rate in 2020. All development work on MIDAS Pro is treated as revenue expenditure.

Share of profit from associates, net of tax

MAB's underlying share of profits from associates net of tax was £0.11m. In accordance with IFRS 9 the Group increased the value of investments by £0.15m to reflect the increased present value adjustment to an interest free loan, and this amount was immediately written off since the relevant entity is currently loss making, causing the overall share of profits from associates, net of tax, to be £(0.04)m.

Profit before tax and margin thereon

Statutory profit before tax rose by 3% to £7.2m (H1 2018: £7.0m) with the margin thereon being 11.8% (H1 2018: 12.0%). Profit before tax and acquisition costs rose by 6% to £7.4m (H1 2018: £7.0m) with the margin thereon being 12.2% (H1 2018: 12.0%).

Finance revenue

Net finance revenues of £0.08m (H1 2018: £0.03m) reflect continued low interest rates and interest income accrued on loans to associates.

Taxation

The effective rate of tax rose to 15.3% (H1 2018: 14.1%), principally due to the tax deduction arising from the exercise of share options being slightly lower than the prior year. Going forward we expect our effective tax rate to be marginally below the prevailing UK corporation tax rate subject to tax credits for MAB's research and development expenditure on the continued development of MIDAS Pro, MAB's proprietary software, still being available and further tax deductions arising from the exercise of share options.

Earnings per share and dividend

Basic earnings per share rose by 1% to 11.9 pence (H1 2018: 11.7 pence). Adjusted earnings per share (adjusted for one-off acquisition costs) rose by 5% to 12.3 pence (H1 2018: 11.7 pence).

The Board is pleased to confirm an interim dividend for the year ending 31 December 2019 of 11.1 pence per share (H1 2018: 10.6 pence per share), amounting to a cash outlay of £5.7m. Following payment of the dividend, the Group will continue to maintain significant surplus regulatory reserves. This interim dividend represents c. 90% of the Group's post-tax profits for H1 2019. MAB requires c. 10% of its profit after tax to fund increased regulatory capital and other regular capital expenditure.

The record date for the interim dividend is 4 October 2019 and the payment date is 25 October 2019. The ex-dividend date will be 3 October 2019.

■ Cash flow and cash conversion

The Group's operations produce positive cash flow. This is reflected in the net cash generated from operating activities of £5.4m (H1 2018: £6.4m). The reduction on prior period is mainly due to an increase in prepayments resulting from FCA invoices being raised and paid that were partially credited after the period end once the adjustments had been made for pure protection intermediation moving from the Life and Pensions Intermediation funding class of FSCS to the General Insurance Distribution funding class.

Headline cash conversion[1] was:
H1 2019: 113%
H1 2018: 123%

Adjusted cash conversion[2] was:
H1 2019: 99%
H1 2018: 108%

The Group's operations are capital light with our most significant ongoing capital investment being in computer equipment. Only £0.1m of capital expenditure on office and computer equipment was required during the period (H1 2018: £0.6m, included software licences of £0.5m). Group policy is not to provide company cars, and no other significant capital expenditure is foreseen in the coming year. All development work on MIDAS Pro is treated as revenue expenditure.

The Group had no bank borrowings at 30 June 2019 (30 June 2018: £nil) with unrestricted bank balances of £5.8m (31 December 2018: £13.9m). At 30 June 2019, £5.5m of cash was held in escrow with MAB's solicitors, in advance of the acquisition of First Mortgage which completed on 2 July 2019.

The Group has a regulatory capital requirement amounting to 2.5% of regulated revenue. At 30 June 2019 this regulatory capital requirement was £2.8m (31 December 2018: £2.8m), with the Group having a surplus of £11.6m.

[1] Headline cash conversion is cash generated from operating activities adjusted for movements in non-trading items including loans to Appointed Representative firms ("ARs") and loans to associates totalling £1.6m in H1 2019 (H1 2018: £0.8m) as a percentage of adjusted operating profit.

[2] Adjusted cash conversion is headline cash conversion adjusted for increases in restricted cash balances of £1.0m in H1 2019 (H1 2018: £1.0m) as a percentage of adjusted operating profit.

The following table demonstrates how cash generated from operations was applied:

	£m
Unrestricted bank balances at the beginning of the year	13.9
Cash generated from operating activities excluding movements in restricted balances and dividends received from associates	5.3
Issue of shares	1.0
Dividends received from associates	0.2
Dividends paid	(6.5)
Tax paid	(1.2)
Capital expenditure (including software)	(0.1)
Investments in associates	(1.3)
Unrestricted bank balances and cash held in escrow at the end of the period	11.3

The Group's treasury strategy is to reduce risk by spreading deposits over a number of institutions rather than to seek marginal improvements in returns.

■ Financial effects of the acquisition of First Mortgage

First Mortgage has a higher gross margin than MAB of c. 65% because it employs its advisers. However, overheads as a proportion of revenue are also higher than MAB's, resulting in First Mortgage's profit before tax margin being slightly above that of MAB's. The effect of First Mortgage's operating model on the enlarged Group will be to slightly increase gross profit margin, which will be partially offset by an increase in overheads as a proportion of revenue.

MAB has entered into an agreement with NatWest in respect of a new revolving credit facility for £12m. It is MAB's intention to repay the drawn down proportion of this debt facility as quickly as practicable. MAB's practice over recent years has been to pay out approximately 90% of its profit after tax as dividends. In order to repay the drawn down facility, MAB will reduce its dividend payout on the enlarged Group from 90% to a minimum of 75%. This will be effective from MAB's final dividend payable in respect of the year ending 31 December 2019. However, MAB's intention is to materially maintain growth in its dividend per share as it would have done without completion of this acquisition.

■ Current Trading and Outlook

In the absence of any updates to estimates from UK Finance, and with gross new mortgage lending for H1 2019 of £125bn, MAB anticipates that total gross new mortgage lending for 2019 could be below the figure of £268bn for 2018. This figure excludes Product Transfers. The latest UK Finance statistics indicate that the product transfer market is likely to continue to increase from the c. £160bn for 2018; with product transfers increasing by 8% in H1 2019 versus the comparative period.

Due to the uncertainty resulting from the extended Brexit negotiations current trading for our estate agency based ARs continues to be muted and similar to our experience towards the end of 2018 and H1 2019. Following a slower than expected start to the year in Q1 2019 in written and banked business, and despite productivity being in line with expectations for Q2 2019, we expect overall revenue per adviser for the year to be slightly below that of 2018.

Current trading is in line with the Board's expectations. Adviser numbers have continued to grow since the period end with the Group having 1,433 Advisers at 20 September 2019, including the Advisers at First Mortgage. We have good visibility that supports our anticipated growth in Adviser numbers from new ARs. The majority of our existing ARs continue to have strong growth plans for 2019 and 2020, however those that operate primarily in the estate agency sector continue to pause their expansion plans and delay filling vacancies. Despite this, growth in Adviser numbers, both from existing and new ARs, remains strong. Due to the many focused initiatives that MAB has in place, we expect the growth in revenue per adviser to return to normal levels in 2020. This assumption is based on no noticeable improvement in the housing market in 2019 and 2020. We then expect to see further productivity growth starting to come through in 2021 and beyond due to our technology and lead generation initiatives.

When overall consumer confidence returns we expect some pent-up demand in the housing market to be released and our estate agency focused ARs to respond in terms of delivering adviser growth. We are confident that our strategy, driven by our advisers, their customers and their changing expectations, will continue to drive growth in MAB's market share year on year and deliver attractive returns to investors.

Independent review report to Mortgage Advice Bureau (Holdings) plc

■ Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of financial position, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and notes to the interim condensed consolidated financial statements.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

■ Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM, which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

■ Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

■ Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information 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 International Standards on Auditing (UK) 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.

■ Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

■ Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
London
United Kingdom

23 September 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial statements

Interim condensed consolidated statement of comprehensive income
for the six months ended 30 June 2019

	Note	2019 Unaudited £'000	2018 Unaudited £'000
		Six months ended 30 June	
Revenue	2	**60,893**	57,854
Cost of sales	2	**(46,730)**	(44,822)
Gross profit		**14,163**	13,032
Administrative expenses		**(6,993)**	(6,307)
Share of profit from associates, net of tax		**112**	263
Amount written off associates		**(155)**	(57)
Operating profit		**7,127**	6,931
Analysed as:			
Operating profit before charging		**7,330**	6,931
Acquisition costs	3	**(203)**	–
Operating profit		**7,127**	6,931
Finance income	4	**77**	31
Profit before tax		**7,204**	6,962
Tax expense	5	**(1,100)**	(980)
Profit for the period attributable to equity holders of parent company		**6,104**	5,982
Earnings per share attributable to the owners of the parent	6		
Basic		**11.9p**	11.7p
Diluted		**11.7p**	11.3p

Interim condensed consolidated statement of financial position

as at 30 June 2019 and 31 December 2018

	Note	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Assets			
Non-current assets			
Property, plant and equipment		**2,592**	2,616
Goodwill	8	**4,114**	4,114
Other intangible assets		**621**	645
Investments in associates and joint ventures	9	**2,698**	1,573
Investments in non-listed equity shares	10	**75**	–
Other receivables	11	**2,987**	2,296
Deferred tax asset		**971**	878
Total non-current assets		**14,058**	12,122
Current assets			
Trade and other receivables	11	**4,937**	4,603
Cash and cash equivalents	14	**24,068**	25,589
Total current assets		**29,005**	30,192
Total assets		**43,063**	42,314
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	15	**51**	51
Share premium	15	**5,088**	4,094
Capital redemption reserve		**20**	20
Share option reserve		**1,872**	1,675
Retained earnings		**14,559**	14,829
Total equity		**21,590**	20,699
Liabilities			
Non-current liabilities			
Provisions		**1,810**	1,704
Deferred tax liability		**52**	54
Total non-current liabilities		**1,862**	1,758
Current liabilities			
Trade and other payables	12	**18,543**	18,690
Corporation tax liability		**1,068**	1,197
Total current liabilities		**19,611**	19,887
Total liabilities		**21,473**	21,645
Total equity and liabilities		**43,063**	42,314

Financial statements

Interim condensed consolidated statement of changes in equity
for the six months ended 30 June 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share option reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 January 2018	51	3,574	20	1,450	13,071	18,166
Profit for the period	–	–	–	–	5,982	5,982
Total comprehensive income	–	-	–	–	5,982	5,982
Transactions with owners						
Issue of shares	–	520	–	–	–	520
Share based payment transactions	–	–	–	225	–	225
Deferred tax assets recognised in equity	–	–	–	291	–	291
Reserve transfer	–	–	–	(67)	67	–
Dividends paid	–	–	–	–	(6,082)	(6,082)
Total transactions with owners	–	520	–	449	(6,015)	(5,046)
As at 30 June 2018 (unaudited)	51	4,094	20	1,899	13,038	19,102
As at 1 January 2019	51	4,094	20	1,675	14,829	20,669
Profit for the period	–	–	–	–	6,104	6,104
Total comprehensive income	–	–	–	–	6,104	6,104
Transactions with owners						
Issue of shares	–	994	–	–	–	994
Share based payment transactions	–	–	–	253	–	253
Deferred tax asset recognised in equity	–	–	–	76	–	76
Reserve transfer	–	–	–	(132)	132	–
Dividends paid	–	–	–	–	(6,506)	(6,506)
Total transactions with owners	–	994	–	197	(6,374)	(5,183)
As at 30 June 2019 (unaudited)	**51**	**5,088**	**20**	**1,872**	**14,559**	**21,590**

Interim condensed consolidated statement of cash flows
for the six months ended 30 June 2019

	Six months ended 30 June	
	2019 Unaudited £'000	2018 Unaudited £'000
Cash flows from operating activities		
Profit for the period before tax	**7,204**	6,962
Adjustments for		
Depreciation of property, plant and equipment	**104**	97
Amortisation of intangibles	**24**	20
Share based payments	**253**	225
Share of profit from associates	**(112)**	(263)
Dividends received from associates	**243**	176
Finance income	**(77)**	(31)
	7,639	7,186
Changes in working capital		
Increase in trade and other receivables (other than accrued interest income)	**(979)**	(884)
(Decrease)/Increase in trade and other payables	**(147)**	1,426
Increase in provisions	**106**	84
Cash generated from operating activities	**6,619**	7,812
Income taxes paid	**(1,248)**	(1,398)
Net cash generated from operating activities	**5,371**	6,414
Cash flows from investing activities		
Purchase of property, plant and equipment	**(80)**	(51)
Purchase of intangibles	**–**	(537)
Acquisitions of associates	**(1,256)**	–
Acquisition of unlisted investments	**(75)**	–
Net cash used in investing activities	**(1,411)**	(588)
Cash flows from financing activities		
Interest received	**31**	26
Issue of shares	**994**	520
Dividends paid	**(6,506)**	(6,082)
Net cash used in financing activities	**(5,481)**	(5,536)
Net increase in cash and cash equivalents	**(1,521)**	290
Cash and cash equivalents at the beginning of the period	**25,589**	22,551
Cash and cash equivalents at the end of the period	**24,068**	22,841

1. Accounting policies

Corporate information

The interim condensed consolidated financial statements of Mortgage Advice Bureau (Holdings) plc and its subsidiaries (collectively, "the Group") for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 23 September 2019.

Mortgage Advice Bureau (Holdings) plc (the Company) is a limited company incorporated and domiciled in England whose shares are publicly traded on the Alternative Investment Market ("AIM"). The registered office is located at Capital House, Pride Place, Pride Park, Derby, DE24 8QR. The Group's principal activity is the provision of financial services.

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, other than as noted below.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's IFRS financial information as at 31 December 2018.

The information relating to the six months ended 30 June 2019 and the six months ended 30 June 2018 is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2018 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not draw attention to any matters by way of emphasis, or contain a statement under section 498(2) or (3) of the Companies Act 2006.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2018.

Significant accounting policies

The accounting policies applied are consistent with those described in the Annual Report and Group financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 and the policy for Investments in non-listed equity shares which were acquired in the period.

IFRIC Interpretation 23 – Uncertainty over income tax treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- the Group to contemplate whether uncertain tax treatment should be considered separately, or together as a group, based on which approach provides better prediction of the resolution.
- the Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment.
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

There was no impact on the Group as a result of the application of this standard.

Other new or amended standards effective in the period have not had a material impact on the condensed consolidated interim financial statements.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Investment in non-listed equity shares

The Group measures financial instruments such as investment in non-listed equity shares at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Movements in fair value are recognised in the statement of comprehensive income.

1. Accounting policies (continued)

■ Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual and interim periods and, therefore, have not been applied in preparing these condensed consolidated interim financial statements. At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
Amendments to IFRS 3	Definition of a business	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an Investor and its Associates or Joint Ventures	This has been deferred indefinitely

Amendments to IFRS 3 – Definition of a business. The amendments to the definition of a business are to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have ‘the ability to contribute to the creation of outputs’ rather than ‘the ability to create outputs’. This amendment is not expected to have any impact on the Group.

IFRS 17 – Insurance contracts. IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure was issued in May 2017. Once effective, IFRS 17 will replace IFRS 4. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 10 and IAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between IFRS 10, Consolidated Financial Statements and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

■ Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle.
- held primarily for the purpose of trading.
- expected to be realised within twelve months after the reporting date.

All other assets are classified as non-current.

Assets included in current assets which are expected to be realised within twelve months after the reporting date are measured at fair value which is their book value. Fair value for investments in unquoted equity shares is the net proceeds that would be received for the sale of the asset where this can be reasonably determined.

1. Accounting policies (continued)

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Entities that are not subsidiaries but where the Group has significant influence (i.e. the power to participate in the financial and operating policy decisions) are accounted for as associates. The results and assets and liabilities of the associates are included in the consolidated accounts using the equity method of accounting.

Segment reporting

An operating segment is a distinguishable segment of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are reviewed regularly by the entity's chief operating decision maker ("CODM"). The Board reviews the Group's operations and financial position as a whole and therefore considers that it has only one operating segment, being the provision of financial services operating solely within the UK. The information presented to the CODM directly reflects that presented in the financial statements and they review the performance of the Group by reference to the results of the operating segment against budget.

Operating profit is the profit measure, as disclosed on the face of the consolidated statement of comprehensive income that is reviewed by the CODM.

During the six month period to 30 June 2019, there have been no changes from the prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

2. Revenue

The Group operates in one segment being that of the provision of financial services in the UK.

	Six months ended 30 June	
Revenue is derived as follows:	**2019 Unaudited £'000**	2018 Unaudited £'000
Mortgage related products	**36,385**	35,671
Insurance and other protection products	**23,612**	21,308
Other income	**896**	875
	60,893	57,854

Costs of sales are as follows:	**2019 Unaudited £'000**	2018 Unaudited £'000
Commissions paid	**45,747**	43,945
Wages and salary costs	**983**	877
	46,730	44,822

There is no significant seasonality to income, which arises fairly evenly throughout the year and therefore profits also arise fairly evenly throughout the financial year.

3. Acquisition costs

As set out in note 17, "Events after the reporting date", on 18 June 2019 Mortgage Advice Bureau (Holdings) plc announced that it had agreed to acquire 80% of the entire issued share capital of First Mortgage Direct Limited ("First Mortgage" or the "Business") and the acquisition completed on 2 July 2019. Costs incurred in the period in relation to the acquisition amounted to £0.2m.

4. Finance income

	Six months ended 30 June	
	2019 Unaudited £'000	2018 Unaudited £'000
Interest income	**31**	26
Interest income accrued on loans to associates	**46**	5
	77	31

5. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed statements of comprehensive income are:

	Six months ended 30 June	
	2019 Unaudited £'000	2018 Unaudited £'000
Current tax expense		
UK corporation tax charge on profit for the period	**1,119**	1,021
Total current tax	**1,119**	1,021
Deferred tax expense		
Origination and reversal of timing differences	**(7)**	–
Temporary difference on share based payments	**(12)**	(41)
Total deferred tax	**(19)**	(41)
Total tax expenses	**1,100**	980

For the period ended 30 June 2019, the deferred tax recognised in equity was £75,516.

6. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company, Mortgage Advice Bureau (Holdings) plc, as the numerator. No adjustments to profits were necessary during the six month period to 30 June 2019 and 30 June 2018.

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Weighted average number of shares used in basic earnings per share	**51,223,905**	50,938,611
Potential ordinary shares arising from options	**992,609**	1,848,634
Weighted average number of shares used in diluted earnings per share	**52,216,514**	52,787,245

Adjusted earnings per ordinary share is also presented to eliminate the effects of one-off acquisition costs. This presentation shows the trend in earnings per ordinary share that is attributable to the underlying trading activities of the Group.

The reconciliation between the basic and adjusted figures is as follows:

	Six months ended 30 June		Six months ended 30 June			
	2019 Unaudited £'000	2018 Unaudited £'000	2019 Basic earnings per share pence	2018 Basic earnings per share pence	2019 Diluted earnings per share pence	2018 Diluted earnings per share pence
Profit for the period	**6,104**	5,982	11.9	11.7	11.7	11.3
Adjustments:						
Acquisition costs	**203**	–	0.4	–	0.4	–
Tax effect of adjustments	**–**	–	–	–	–	–
Adjusted earnings	**6,307**	5,982	12.3	11.7	12.1	11.3

The Group uses adjusted results as key performance indicators, as the Directors believe that these provide a more consistent measure of operating performance. Adjusted profit is therefore stated before one-off acquisition costs.

7. Dividends

	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Dividends paid and declared during the period:			
On ordinary shares at 12.7p per share (2018: 11.9p)	**6,506**	6,082	6,082
Interim dividend for 2018: 10.6p per share	**–**	–	5,417
	6,506	6,082	11,499

Equity dividends on ordinary shares:			
Declared:			
Interim dividend for 2019: 11.1p per share (2018: 10.6p)	**5,711**	5,417	–
Proposed for approval:			
Final dividend for 2018: 12.7p per share	**–**	–	6,490
	5,711	5,417	6,490

The record date for the interim dividend is 4 October 2019 and the payment date is 25 October 2019.

8. Goodwill

The goodwill relates to the acquisition of Talk Limited in 2012, and in particular its main operating subsidiary Mortgage Talk Limited. The goodwill is deemed to have an indefinite useful life. It is currently carried at cost and is reviewed annually for impairment.

Under IAS 36, "Impairment of assets", the Group is required to review and test its goodwill annually each year or in the event of a significant change in circumstances. The impairment review conducted at the end of 2018 concluded that there had been no impairment of goodwill.

The key basis for determining that there was no impairment to the carrying value of goodwill was disclosed in the annual consolidated financial statements for the year ended 31 December 2018. There are no matters which have arisen in the period to 30 June 2019 which indicated that an impairment review was required at that date.

9. Investments in associates and joint ventures

The investment in associates and joint ventures at the reporting date is as follows:

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
At start of the period	1,573	1,339
Additions	1,411	265
Credit/charge to statement of comprehensive income		
Share of profit	112	494
Amount written off	(155)	(133)
	(43)	361
Dividends received	(243)	(392)
At period end	**2,698**	1,573

The Group acquired a 25% interest in The Mortgage Broker Group Limited on 20 May 2019 at a cost of £1,256,250.

In accordance with IFRS 9 the Group increased the value of investments by £155,072 to reflect the present value adjustment to an interest free loan.

10. Investment in non-listed equity shares

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
At start of the period	–	–
Additions	75	–
At period end	**75**	–

The Group acquired a 3.33% interest in Yourkeys on 5 February 2019 at a cost of £75,000.

11. Trade and other receivables

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Trade receivables	**1,893**	2,047
Less provision for impairment of trade receivables	**(298)**	(284)
Trade receivables – net	**1,595**	1,763
Receivables from related parties	**22**	29
Loans to related parties	**2,797**	2,257
Less provision for impairment of loans to related parties	**(221)**	(290)
Total financial assets other than cash and cash equivalents classified as amortised costs	**4,193**	3,759
Prepayments and accrued income	**3,731**	3,140
Total trade and other receivables	**7,924**	6,899
Less: non-current portion – Loans to related parties	**(2,425)**	(1,560)
Less: non-current – Other receivables	**(562)**	(736)
Current portion	**4,937**	4,603

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. At 30 June 2019 the lifetime expected loss provision for trade receivables is £0.3m. The movement in the impairment allowance for trade receivables has been included in cost of sales in the consolidated statement of comprehensive income.

Impairment provisions for loans to associates are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised. In determining the lifetime expected credit losses for loans to associates, the Directors have considered different scenarios for repayments of these loans and have applied percentage probabilities to each scenario for each associate where applicable.

11. Trade and other receivables (continued)

At 30 June 2019 the lifetime expected loss provision for loans to associates is £0.2m. One of these receivables has been subject to a significant increase in credit risk since initial recognition and, consequently, lifetime expected credit losses have been recognised. For the remainder, 12 month expected credit losses have been recognised. (There are no non-current receivable balances lifetime expected credit losses.)

The movement in the impairment allowance for receivables for loans to associates has been included in cost of sales in the consolidated statement of comprehensive income.

Also included in trade receivables are amounts due from Appointed Representatives relating to commissions that are refundable to the Group when policy lapses or other reclaims exceed new business. As these balances have no credit terms, the Board of Directors consider these to be past due if they are not received within seven days. In the management of these balances, the Directors can recover them from subsequent new business entered into with the Appointed Representative or utilise payables that are owed to the same counterparties and included within payables as the Group has the legally enforceable right of set off in such circumstances. These payables are considered sufficient by the Directors to recover receivable balances should they default, and, accordingly, credit risk in this respect is minimal.

In light of the above, the Directors do not consider that disclosure of an aging analysis of trade and other receivables would provide useful additional information.

12. Trade and other payables – current

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Appointed Representatives retained commission	**12,749**	11,711
Other trade payables	**4,194**	4,658
Trade payables	**16,943**	16,369
Social security and other taxes	**382**	783
Other payables	**22**	42
Accruals and deferred income	**1,196**	1,496
	18,543	18,690

As at 30 June 2019 and 31 December 2018, the book value of trade and other payables approximates their fair value given that they are short term in nature.

13. Financial Instruments – risk management activities

Credit risk

Credit risk is the risk of financial loss to the Group if a trading partner or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from advanced loans to its trading partners which are classified as trade receivables. It is Group policy to assess the credit risk of trading partners before advancing loans or other credit facilities. Assessment of credit risk utilises external credit rating agencies. Personal guarantees are generally obtained from the Directors of its trading partners. Further disclosures regarding trade and other receivables are given in note 11.

Financial assets – maximum exposure

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Cash and cash equivalents	**24,068**	25,589
Trade and other receivables	**4,193**	3,759
Total financial assets	**28,261**	29,348

The carrying amounts stated above represent the Group's maximum exposure to credit risk for trade and other receivables. An element of this risk is mitigated by collateral held by the Group for amounts due to them.

Trade receivables consist of a large number of unrelated trading partners and therefore credit risk is limited. Due to the large volume of trading partners the Group does not consider that there is any significant credit risk as a result of the impact of external market factors on their trading partners. Additionally, within trade payables are amounts due to the same trading partners as those included in trade receivables; this collateral significantly reduces the credit risk.

The Group's credit risk on cash and cash equivalents is limited because the Group places funds on deposit with several UK banks all of whom are A or BBB+ rated where applicable.

14. Cash and cash equivalents

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of:

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Unrestricted cash and bank balances	**5,819**	13,878
Bank balances held in relation to retained commissions	**12,749**	11,711
Restricted cash	**5,500**	–
Cash and cash equivalents	**24,068**	25,589

Bank balances held in relation to retained commissions earned on an indemnity basis in relation to life policies are held to cover potential future lapses in Appointed Representatives commission. Operationally, the Group does not treat these balances as available funds. An equal and opposite liability is shown within Trade Payables (note 12).

The restricted cash balance of £5.5m above, represents cash held in escrow by our solicitors at 30 June 2019, in advance of the acquisition of First Mortgage Direct Limited which completed on 2 July 2019.

15. Share capital

Issued and fully paid

	30 June 2019 Unaudited £'000	31 December 2018 Audited £'000
Ordinary shares of 0.1p each	51	51
Total share capital	**51**	51

During the period 348,709 ordinary shares of 0.1p each were issued following partial exercise of the third tranche of options issued at the time of the Initial Public Offering of the Company and partial exercise of options issued in May 2016 at a total premium of £0.9m. See also note 17.

16. Related party transactions

The following details provide the total amount of transactions that have been entered into with related parties during the six months ended 30 June 2019 and 2018, as well as balances with related parties as at 30 June 2019 and 31 December 2018.

At 30 June 2019 there was a loan outstanding from Buildstore Limited, an associated company, of £51,205 (2018: £15,000) included in trade and other receivables. During the period the Group paid commissions of £228,013 (2018: £397,321) to Buildstore Limited.

During the period the Group received introducer commission from MAB Wealth Management Limited, an associated company of £nil (2018: £527). There is no balance outstanding with MAB Wealth Management Limited at 30 June 2019 (2018: £nil).

During the period the Group received introducer commission from Sort Limited, a subsidiary of an associated company of £389,157 (2018: £329,798). There was an amount of £220,575 outstanding with Sort Group Limited at 30 June 2019 (2018: £18,288) included in trade and other receivables.

During the period the Group paid commission to Clear Mortgage Solutions Limited, an associated company, of £1,968,486 (2018: £1,492,133). There is no balance outstanding with Clear Mortgage Solutions Limited at 30 June 2019 (2018: £nil).

During the period the Group paid commission to Freedom 365 Mortgage Solutions Limited, an associated company, of £313,418 (2018: £401,954). At 30 June 2019 there was a loan outstanding from Freedom 365 Mortgage Solutions Limited of £1,279,198 included in trade and other receivables (2018: £910,000).

During the period the Group paid commission to Vita Financial Limited, an associated company, of £407,059 (2018: £412,793). At 30 June 2019 there was a loan outstanding of £12,000 included in trade and other receivables (2018: £27,000).

At 30 June 2019 there was a loan outstanding from MAB Broker Services PTY Limited, an associated company, of £882,223 (AUD1,600,000) included in trade and other receivables (2018: £427,226, AUD945,000).

During the period the Group paid commission to Eagle & Lion Limited, an associated company, of £108,952. At 30 June 2019 there was a loan outstanding of £375,000 included in trade and other receivables (2018: £365,000).

During the period the Group paid commission to The Mortgage Broker Group Limited, an associated company, of £148,873. At 30 June 2019 there was a loan outstanding of £120,000 included in trade and other receivables.

During the period the Group received dividends from associated companies as follows:

	Six months ended 30 June	
	2019 Unaudited £'000	2018 Unaudited £'000
CO2 Commercial Limited	243	176

17. Share based payments

No options were granted during the period.

Options exercised in April 2019 resulted in 128,315 ordinary shares being issued at an exercise price of £1.60. The price of the ordinary shares at the time of exercise was £5.50 per share.

Options exercised in May 2019 resulted in 220,394 ordinary shares being issued at an exercise price of £3.58. The price of the ordinary shares at the time of exercise was £5.82 per share.

For the six months ended 30 June 2019, the Group has recognised £442,490 of share based remuneration expense in the statement of comprehensive income (2018: £429,988) which includes the charge for equity-settled schemes of £371,717 (2018: £357,941) and the matching element of the Group's Share Incentive Plan for all employees of £37,037 (2018: £19,485).

18. Events after the reporting date

On 18 June 2019 Mortgage Advice Bureau (Holdings) plc announced that it had agreed to acquire 80% of the entire issued share capital of First Mortgage Direct Limited ("First Mortgage" or the "Business") for an initial cash consideration of £16.5m (the "Acquisition"), valuing the Business at £20.6m. The Acquisition completed on 2 July 2019, and the cash consideration was funded from a mix of MAB's own cash resources and a partial drawdown on its new debt facilities. First Mortgage is one of the UK's leading omni-channel, independent mortgage brokers, with a particularly strong presence in Scotland, where the Business was originally established over two decades ago. The Scottish based business now comprises c. 90 highly productive employed mortgage and protection advisers and has already commenced its expansion south of the border.

The principal reason for the Acquisition is the significant additional growth opportunities that it presents for MAB. The Acquisition will enable MAB to further grow its adviser numbers and market share, in addition to its core growth plans, and will also add another highly respected and leading mortgage broker to the Group. First Mortgage's omni-channel growth strategy, and particularly its telephony strategy, will be leveraged further through the planned deployment and roll-out of MAB's new technology, building on the expertise in both businesses and enabling the acceleration of the respective businesses' ambitious growth plans.

MAB has also entered into an option agreement (structured as a put and call option), to acquire the remaining 20% of the entire issued share capital of First Mortgage between 2024 and 2030, at a valuation for the Business of eight times the prior year's audited profit before tax, adjusted for distributable reserves and regulatory capital requirements, for a minimum of £4m and up to a maximum total consideration of £10m. Under the terms of the option agreement, MAB can, at its discretion, satisfy up to 75% of the consideration through the issue of new ordinary shares in MAB. Any new ordinary shares issued to satisfy this consideration will be subject to orderly market provisions.

MAB also entered into an agreement on 18 June 2019 with NatWest, conditional upon completion of the Acquisition, in respect of a new revolving credit facility for £12m, in order to part fund the cash consideration payable in relation to the Acquisition. It is MAB's intention to repay the drawn down proportion of this debt facility as quickly as practicable. MAB's practice over recent years has been to pay out approximately 90% of its profit after tax as dividends. In order to repay the drawn down facility, MAB will reduce its dividend pay-out on the enlarged Group from 90% to 75%. This will be effective from MAB's final dividend payable in respect of the year ended 31 December 2019.

The book value of the net assets acquired is £3.2m.

At the date of authorisation of these interim financial statements a detailed assessment of the fair value of the identifiable net assets has not been completed.

Fair value of consideration paid	£'000
Cash	16,500

Whilst fair value adjustments will result in recognised goodwill of less than £17.4m, it is expected that some goodwill will be recognised. This goodwill represents items, such as the assembled workforce, which do not qualify for recognition as assets.

There were no other material events after the reporting period, which have a bearing on the understanding of the consolidated interim financial statements.

Company information

Company:	**Mortgage Advice Bureau (Holdings) plc**	
Directors:	**Katherine Innes Ker**	Non-Executive Chairman
	Peter Brodnicki	Chief Executive Officer
	Ben Thompson	Deputy Chief Executive Officer
	Lucy Tilley	Chief Financial Officer
	Nathan Imlach	Senior Independent Non-Executive Director
	Stephen Smith	Independent Non-Executive Director
	David Preece	Non-Executive Director
Company secretary:	**Lucy Tilley**	
Registered office:	**Capital House** Pride Place Pride Park Derby DE24 8QR	
Registered number:	4131569	
Nominated adviser and broker:	**Numis Securities Limited** 10 Paternoster Square London EC4M 7LT	
Auditor:	**BDO LLP** 150 Aldergate Street London EC1A 4AB	
Solicitors:	**Norton Rose Fulbright LLP** 3 More London Riverside London SE1 2AQ	
Principal bankers:	**NatWest Bank plc** Cumberland Place Nottingham NG1 7ZS	
Registrars:	**Equiniti Limited** Aspect House Spencer Road Lancing West Sussex BN99 6DA	

Financial calendar

24 September 2019	Announcement of interim results for the six months ended 30 June 2019
3 October 2019	Ex-dividend date for ordinary shares
4 October 2019	Record date for interim dividend
25 October 2019	Payment of interim dividend on ordinary shares
31 December 2019	2019 Financial year end

Mortgage Advice Bureau (Holdings) plc
Capital House
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Derby
DE24 8QR