

# Metro Bank

## Delivery on all targets

FY24 results update

Metro Bank's FY24 results provided strong evidence of the effectiveness of its strategy. With momentum building through the year, it has a firm base for further progress in the current year and beyond. Profitability was achieved in H224, much earlier than the bank had guided, and management confidently reaffirmed all previous guidance. This includes a mid- to upper-teens percentage return on tangible equity from 2027 as the transition to higher-return corporate, commercial and SME lending and specialist mortgage lending continues.

| Year end | PBT (£m) | TBVPS (p) | ROTE (%) | DPS (£) | P/TBV (x) | Yield (%) |
|----------|----------|-----------|----------|---------|-----------|-----------|
| 12/24    | (14.0)   | 121       | 4.7      | 0.00    | 0.77      | N/A       |
| 12/25e   | 57.0     | 131       | 7.0      | 0.00    | 0.71      | N/A       |
| 12/26e   | 132.4    | 151       | 12.3     | 0.00    | 0.62      | N/A       |
| 12/27e   | 211.7    | 183       | 16.6     | 0.00    | 0.51      | N/A       |

Note: PBT is on an underlying basis. TBVPS is tangible book value per share. ROTE is return on tangible equity.

## Profitability building through the year

H224 underlying PBT of c £13m (statutory PBT was higher at c £77m) exceeded guidance of a return to profitability in Q4. Reflecting asset rotation (including the £2.5bn sale of lower-margin prime retail mortgages) and lower deposit costs, net interest margin (NIM) ended the year at 2.65%, well above guidance of 'approaching 2.50%'. Metro expects further expansion to 4.0–4.5% by end-FY27. Meanwhile, £80m pa of targeted cost savings were delivered in full, with the full-year benefit in FY25, and further efficiencies to follow. Credit quality has remained benign. Loan origination in Metro's targeted areas of corporate, commercial and SME lending increased significantly, providing a NIM-accretive partial offset to the impact of non-core loan disposals and run-off, and the pipeline for further growth is strong.

## Growth estimates increased

Metro enters FY25 with strong momentum. We expect further deposit optimisation, loan growth in the higher-return target areas, the recycling of low-margin treasury assets and continued cost discipline will contribute to strong earnings growth over the next four years. Our forecasts over this period remain broadly consistent with guidance. The post-FY24 sale of £584m of non-core unsecured personal loans is capital accretive and supports the rotation into higher-yielding assets. The issue of £250m of additional tier 1 (AT1) debt capital is aimed at optimising the capital structure and providing further flexibility for targeted growth and, we expect, medium-term shareholder distributions. Importantly, the cost of the AT1 issuance is built into management's existing guidance. Not within this guidance is the potential for changes in the minimum requirement for own funds and eligible liabilities (MREL) regime. This remains uncertain but has the potential to meaningfully enhance return on tangible equity (RoTE).

## Valuation: Further re-rating potential

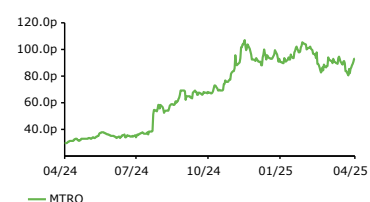
Although Metro shares (and bonds) have performed strongly over the past year, as investor confidence in its strategy has grown, the FY25 P/TBVPS is just 0.7x. Even without an expansion in the TBV multiple, despite the prospect of a mid- to high-teens RoTE, the share price implies a 14% pa return up to FY28e.

Banks

16 April 2025

|                    |               |
|--------------------|---------------|
| <b>Price</b>       | <b>93.40p</b> |
| <b>Market cap</b>  | <b>£629m</b>  |
| Shares in issue    | 673.0m        |
| Code               | MTRO          |
| Primary exchange   | LSE           |
| Secondary exchange | N/A           |

### Share price performance



|                  |     |        |       |
|------------------|-----|--------|-------|
| %                | 1m  | 3m     | 12m   |
| Abs              | 1.7 | (0.6)  | 188.3 |
| 52-week high/low |     | 108.6p | 30.6p |

### Business description

Metro Bank is a community bank that serves both retail and commercial customers in major cities in the UK. It operates a network of more than 70 'stores' in prime locations, a key source of new lending and low-cost deposits. Metro is in the process of a strategic repositioning towards a mid- to upper-teens return business model focused on commercial, corporate and SME lending and specialist mortgages.

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## Successfully transitioning

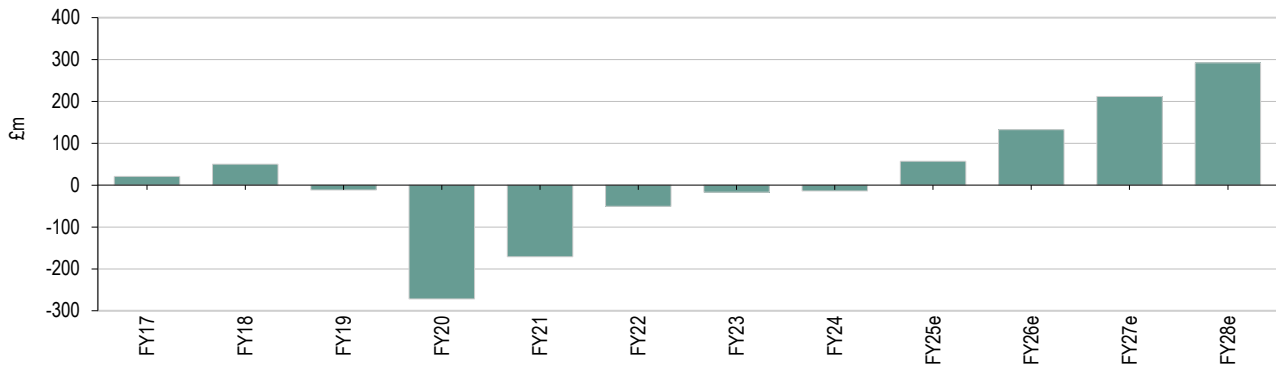
As we discussed in detail in our October 2024 [initiation report](#), Metro Bank was founded in the wake of the financial crisis as a 'challenger bank' to bigger, more traditional lenders. While it has adapted to market conditions over time, its stores-based, deposit-led, relationship-driven community banking strategy has been a constant. It has been a bumpy road in terms of profitability, but Metro has built a robust and scalable platform and, from its strong capital base and ample liquidity, has a focused strategy to deliver strong profitability. Although it was a year of transition, FY24 showed clear progress in four key areas, and we expect this to continue:

- cost discipline;
- exploiting its strong deposit franchise to optimise funding costs;
- repositioning its loan book towards higher-return corporate, commercial and SME lending and specialist mortgages; and
- capital recycling from low-yielding treasury assets.

We expect significant further progress in FY25 and beyond.

Management guidance also builds in measures to optimise its capital structure. Most immediately, the additional capital provided by the issue of £250m of 13.875% AT1 debt<sup>1</sup> provides a strong base from which to pursue the targeted strong lending growth, in areas that are higher return but more capital consumptive than those in run-off. On a pro-forma basis the tier 1 ratio was increased by 4.1% (410bps) to 17.5%, well ahead of the 10.8% required minimum. Over the medium term, as profitability and the equity base increase, the addition of non-equity capital should provide scope for shareholder distributions.

**Exhibit 1: Underlying PBT history and Edison forecasts**



Source: Metro Bank historical data, Edison Investment Research

## Confidently reiterating guidance

With its interim results in July 2024, Metro substantially upgraded the financial targets it had set at the time of its refinancing (completed in November 2023) and extended the horizon of guidance. Given the progress made in FY24, and especially in the second half of the year, management confidently reconfirmed guidance, which includes the impacts of the AT1 issuance, and assumes no changes to the MREL regime. Guidance is for a continuing expansion of NIM, which, combined with strong cost discipline, will drive an increase in the RoTE to a level of mid- to upper teens from

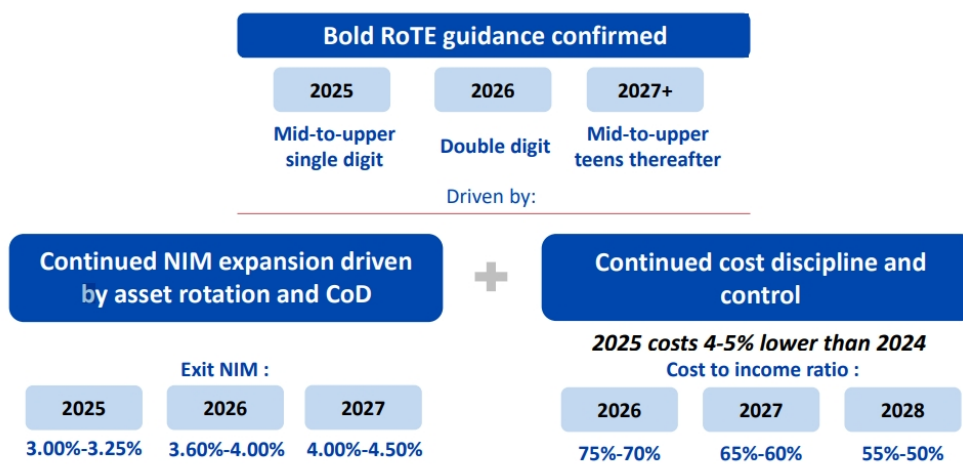
*1. Fixed-rate reset perpetual subordinated contingent convertible capital securities. They are first callable any time in the period commencing on and including the fifth anniversary of the 19 March 2025 issue date and ending on 26 September 2030, subject to conditions that include prior regulatory consent. They include a conversion trigger of the Common Equity Tier 1 to risk-weighted assets ratio falling below 7.00%. Fitch has assigned an expected credit rating of 'CCC+' for the Capital Securities. An application has been made for the Capital Securities to be admitted to trading on the International Securities Market of the London Stock Exchange.*

2027 and beyond. Metro expects this to be one of the highest RoTEs of any UK high street bank.

The year-end exit NIM (ie the year-end run rate) was 2.65%, compared to a low of 1.52% in February 2024, ahead of the earlier guidance that it would be approaching 2.50%. The continued expansion in NIM that Metro expects (to 4.0–4.5% by the end of 2027) is likely to include a further reduction in the average cost of funding, but more substantially reflects the ongoing repositioning of its balance sheet. The core of this repositioning is a move away from lower-margin lending, such as retail mortgages, to focus on the targeted areas of higher-yielding corporate, commercial and SME lending and specialist mortgages. NIM will also benefit from the run-off of low-yielding treasury assets, enabling redeployment to the targeted lending areas. Metro is making good progress with this balance sheet shift and the associated NIM expansion should result in a strong increase in net interest income without dramatically growing the asset base.

## Exhibit 2: Increasing confidence in forward guidance

### Guidance building to best-in-class performance



By 2027, Metro Bank will be generating **one of the best RoTE of any High Street bank**

Source: Metro Bank

## Good progress with repositioning the balance sheet

### Growing lending in targeted areas

As previously reported, during H224, the bank completed the sale of a £2.5bn portfolio of lower-margin prime retail mortgages, using the proceeds for the early repayment of higher-cost drawings on the Bank of England's TFSME facility.<sup>2</sup>

Since the end of FY24, Metro has agreed the sale of a portfolio of c £584m performing unsecured personal loans, which is expected to complete before mid-year. The transaction will generate a gain on disposal, estimated at c £11m, enhance capital ratios (see below) and support lending growth in the targeted areas of commercial, corporate and SME lending and specialist mortgages.

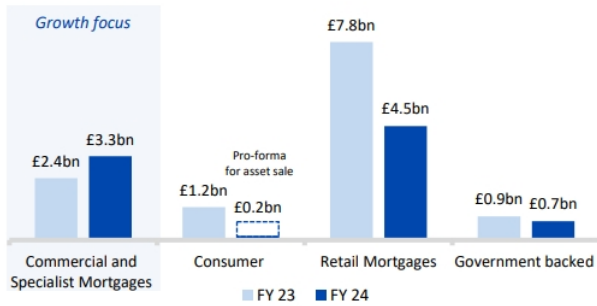
Despite the H224 portfolio sale, for now, retail mortgages remain the largest component of the lending book, but should fall further through natural attrition or further sales. The remainder of the consumer book is in run-off, as are government-backed lending schemes arising from the COVID-19 pandemic within the commercial book.

Adjusting for the post-period unsecured personal loan sale, end-FY24 gross loans outstanding were c £8.6bn, of which £5.3bn were in run-off and £3.3bn were in those areas targeted for future growth, split between commercial loans

*2. The Term Funding Scheme with additional incentives for SMEs (TFSME) was introduced in March 2020. During a period of very low interest rates, it provided low-cost funding, tied to the base rate, to encourage banks to pass the benefits on to SME borrowers while maintaining an appropriate spread over deposit funding costs. Metro had TFSME drawings of £3bn at end-H124, which was due to be repaid by end H125.*

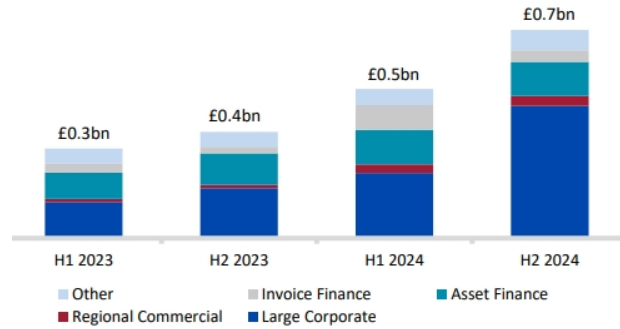
(£2.6bn) and specialist mortgages (£0.7bn). In aggregate, these core target areas of lending saw very strong growth of £0.9bn in FY24.

**Exhibit 3: Loan book shifting to focus areas**



Source: Metro Bank

**Exhibit 4: Strong commercial origination**



Source: Metro Bank

## Growth in targeted areas

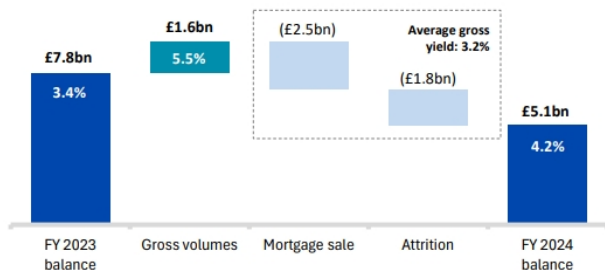
FY24 new loan originations in corporate, commercial and SME lending were £1.2bn, up 71% versus FY23, and accelerated in the second half of the year with 40% growth versus H1. Metro expects continued momentum in each half moving forward, supported by a very strong pipeline. The credit approved pipeline for corporate, commercial and SME lending at the start of FY25 was twice the level at the start of FY24 and represents more than 50% of all the lending originated in FY24.

The new lending in target areas is achieving a spread over base rate of more than 350bp or an average yield of 8.6%, compared with an average 7.5% yield on the assets running off.

Mortgage origination of £1.6bn was at an average 5.5% yield compared with the average yield on the business running off of 3.2%. Allowing for the prime mortgage, total mortgage lending outstanding reduced to £5.1bn, with an average 4.2% yield, compared with £7.8bn at the start of the year, with an average 3.4% yield. As with corporate, commercial and SME lending, there is good momentum behind specialist mortgage lending, with a pipeline that is almost 50% up year-on-year, and with new product launches, including mortgages for limited company buy-to-let and for the homes of multiple occupation markets.

**Exhibit 5: Specialist mortgage lending at higher margins**

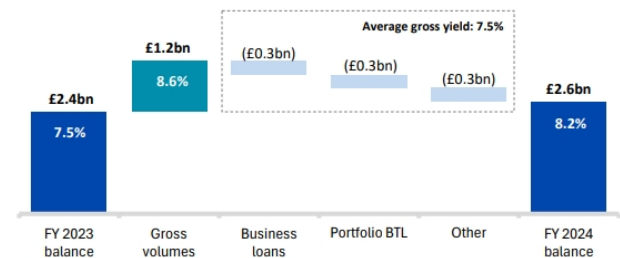
### Targeted Mortgage mix shift to optimise returns



Source: Metro Bank

**Exhibit 6: Corporate, commercial and SME lending at higher margins**

### New Commercial originations >3.5% over base rate drive YoY improvements in yield



Source: Metro Bank

In addition to the pivot in lending, by end-FY27, more than £2.0bn of fixed-rate treasury assets will mature at an average blended yield of just over 1%. These will be replaced by assets with yields in line with or greater than the prevailing base rate. Based on the market rate in February, that represents a 38bp uplift in NIM, £63m of additional net interest and pre-tax profits, equivalent to a 7.7pp increase in RoTE.

## Core deposit strength

Metro's strong retail and SME deposit franchise is a key strategic advantage and, with a loan-to-deposit ratio of 62%

at end-FY24, it has significant funding flexibility. Non-interest-bearing current accounts represent c 40% of its deposit book, roughly twice the average of peers. Although overall deposits reduced by 7% in FY24, this was due to deliberate action taken to run down high-cost, fixed-term deposits that had been strategically built in late 2023. As these ran off, the average cost of deposit funding reduced substantially, from a high of 2.3% in February 2024 to 1.4% at end-FY24. With an average cost of funding of 1.95% in FY24, the benefit of the reduction will be felt in H125. The bank continues to see strong account openings, both retail and business and, in growing its corporate, commercial and SME franchise, Metro expects to increase the number of business customers and take a larger share of their deposits. Metro's store-based, relationship-driven community banking strategy is core to its continued access to competitively priced funding and a key plank of its NIM and RoTE targets.

## Cost discipline while building the franchise

Metro has taken significant costs out of the business, amounting to £80m per year, including a 15k or c 30% reduction in headcount and reduced store opening hours. The level of service within the stores remains key to the bank's relationship-led model and deposit-raising franchise and, encouragingly, account openings have remained strong. During the year, 110k new personal current accounts were opened and 36,000 business current accounts, the majority through the stores but also online. Metro has entered into a strategic collaboration with Infosys, a digital operations technology leader, to drive the bank's own digital automation, data processing and AI capabilities. The advantages will be seen in ongoing cost efficiencies, as well as enhanced customer service and product capabilities.

The positive effect of the £80m annualised cost saving achieved in FY24 will have a full-year impact in FY25 and, as further efficiencies are realised, Metro expects another 4–5% reduction in underlying expenses, moving it closer to its target cost-to-income ratio of 50–55% from FY28 (on underlying basis, H224 was 95%).

## Summary of the FY24 results

On an underlying basis, the FY24 PBT performance exceeded our expectations as well as company guidance. In particular, we highlight:

- H2 underlying PBT of c £13m represented a strong turnaround from the H1 loss of c £27m, reflecting a strong improvement in net interest income (up 20% vs H1). For the year as a whole, net interest income was 5% lower and the underlying PBT loss was £14m compared with our forecast of a c £28m loss.
- Average NIM during the year was 1.91% compared with 1.98% in FY23 but up from 1.64% in H1. The H2 increase in NIM reflected the continued transition towards higher-yielding assets and a reduction in cost of deposits, but is yet to reflect the full improvement already achieved (exit margin of 2.65%).
- The 5% decline in FY24 underlying net fee and other income versus FY23 primarily reflected increased competition in FX markets.
- Underlying costs were c £20m or 4% lower, due to the cost reduction programme. The full impact of the £80m pa savings will only be felt in FY25.
- The expected credit loss was de minimis at £7.1m.
- The statutory PBT loss of c £212m included the c £102m loss booked on the prime mortgage portfolio disposal, the £21m remediation costs announced in November<sup>3</sup> and a number of non-recurring expenses.
- The statutory profit after tax included a tax credit of £255m (FY23: £1.0m charge) reflecting the recognition of a deferred tax asset (DTA) in respect of historical unused tax losses. The DTA recognition is a further sign of the bank's growing confidence in future profitability. Including an existing DTA of £13m and the additional £255m recognised in FY24, the total recognised DTA is now £268m in respect of cumulative unused tax losses totalling £1,073m. The amount recognised is supported by the bank's projections for future profitability and as there is no time limit on the utilisation of tax losses, further recognition is possible. The DTA can be used to offset the tax liability arising on future profitability to the benefit of after tax earnings.

3. Related to the resolution of Financial Conduct Authority enquiries into legacy transactions monitoring systems and controls.

### Exhibit 7: Summary of FY24 financial performance

| Underlying basis             | FY24    | FY23    | FY24/FY23 | H124    | H224    | H224/H124 | Edison forecast FY24 |
|------------------------------|---------|---------|-----------|---------|---------|-----------|----------------------|
| £m unless stated otherwise   | Dec-24  | Dec-23  |           | Jun-24  | Dec-24  |           | Dec-24               |
| Net fee & other income       | 377.9   | 411.9   | -8%       | 171.9   | 206.0   | 20%       | 370.9                |
| Non-interest income          | 125.4   | 131.9   | -5%       | 62.0    | 63.4    | 2%        | 117.0                |
| Net gain on sale of assets   | 0.2     | 2.7     |           | 0.1     | 0.1     |           | 10.1                 |
| Total income                 | 503.5   | 546.5   | -8%       | 234.0   | 269.5   | 15%       | 498.0                |
| Operating expenses           | (510.4) | (530.2) | -4%       | (254.6) | (255.8) | 0%        | (506.9)              |
| Expected credit loss         | (7.1)   | (33.2)  |           | (6.2)   | (0.9)   |           | (19.3)               |
| Underlying profit before tax | (14.0)  | (16.9)  | -17%      | (26.8)  | 12.8    |           | (28.2)               |
| Refinancing                  |         | 74.0    |           |         | 0.0     |           |                      |
| Sale of mortgage portfolio   | (101.6) |         |           |         | (101.6) |           |                      |
| Remediation                  | (21.3)  |         |           |         | (21.3)  |           |                      |
| Asset impairment             | (44.0)  | (4.6)   |           | (0.3)   | (43.7)  |           |                      |
| Transformation costs         | (31.1)  | (20.2)  |           | (4.5)   | (26.6)  |           |                      |
| Other                        | (0.1)   | (1.8)   |           | (1.9)   | 1.8     |           |                      |
| Total non-underlying items   | (198.1) | 47.4    |           | (6.7)   | (191.4) |           | (121.7)              |
| Statutory profit before tax  | (212.1) | 30.5    |           | (33.5)  | (178.6) |           | (149.9)              |
| Tax                          | 254.6   | (1.0)   |           | 0.4     | 254.2   |           | 0.0                  |
| Statutory profit after tax   | 42.5    | 29.5    |           | (33.1)  | 75.6    |           | (149.9)              |

Source: Metro Bank reported data, Edison Investment Research

Customer loans were £3.3bn or 27% lower in the year, with the decline primarily reflecting the H2 sale of a prime residential mortgage portfolio. Customer deposits were 7% lower in the year, reflecting the deliberate run down in expensive fixed-term deposits. Shareholders' equity increased by £0.1bn and included the benefit of the £0.2bn deferred tax credit. Book value per share increased to 176p from 169p in FY23. Tangible book value was 121p and excludes the deferred tax credit. The decline in the year (FY23: 140p) reflects the pre-tax statutory loss.

### Exhibit 8: Balance sheet summary

|                                   | FY24   | FY23   | FY24/FY23 | H124   | FY24/H124 |
|-----------------------------------|--------|--------|-----------|--------|-----------|
| £bn unless stated otherwise       | Dec-24 | Dec-23 |           | Jun-24 | June      |
| Customer loans (net)              | 9.0    | 12.3   | -27%      | 11.5   | -22%      |
| Treasury assets                   | 7.3    | 8.8    | -17%      | 8.8    | -17%      |
| Other assets                      | 1.3    | 1.2    | 8%        | 1.1    | 13%       |
| Total assets                      | 17.6   | 22.2   | -21%      | 21.5   | -18%      |
| Customer deposits                 | 14.5   | 15.6   | -7%       | 15.7   | -8%       |
| Central bank deposits (TFSME)     | 0.4    | 3.1    | -87%      | 3.1    | -87%      |
| Debt securities                   | 0.7    | 0.7    | -3%       | 0.7    | 0%        |
| Other liabilities                 | 0.9    | 1.7    | -50%      | 0.9    | -7%       |
| Total liabilities                 | 16.4   | 21.1   | -22%      | 20.4   | -20%      |
| Shareholders' equity              | 1.2    | 1.1    | 4%        | 1.1    | 7%        |
| Book value per share (p)          | 176    | 169    | 4%        | 164    | 7%        |
| Tangible book value per share (p) | 121    | 140    | -13%      | 137    | -11%      |

Source: Metro Bank data, Edison Investment Research

## Balance sheet remains strong and liquid

Metro's capital position remains strong and the balance sheet continues to be highly liquid. This has been reinforced by the post-period sale of the unsecured personal loan portfolio and the first-time introduction of AT1 capital in an amount of £250m. The AT1 issue provides a solid base for Metro's growth momentum in its target areas of lending and opens up additional opportunities to optimise the balance sheet over time. The loan sales increased the Tier 1 ratio (T1) by c 0.9% or 90bp on a 2024 pro-forma basis, by reducing risk-weighted assets (with an additional small gain on disposal). The AT1 issuance adds a further 4.1% or 410bp, taking the pro-forma T1 to 17.5%, well above the 11.4% minimum required from April 2025.

**Exhibit 9: Pro forma capital ratios**

|                             | FY24         | FY24 pro-forma     |              | Minimum requirement including buffers |                 |
|-----------------------------|--------------|--------------------|--------------|---------------------------------------|-----------------|
|                             |              | Personal loan sale | AT1 issuance | 31-Dec-24                             | From April 2025 |
| Common Equity Tier 1 (CET1) | 12.5%        | 13.4%              | 13.4%        | 9.2%                                  | 9.7%            |
| Additional Tier 1 (AT1)     |              |                    | 4.1%         |                                       |                 |
| <b>Tier 1</b>               | <b>12.5%</b> | <b>13.4%</b>       | <b>17.5%</b> | <b>10.8%</b>                          | <b>11.4%</b>    |
| Total Capital               | 14.9%        | 15.9%              | 20.0%        | 12.9%                                 | 13.7%           |
| Total MREL                  | 23.0%        | 24.5%              | 28.5%        | 21.2%                                 | 22.5%           |

Source: Metro Bank, Edison Investment Research

## Capital flexibility and opportunities

Our [initiation note](#) contains a section on the complex area of regulatory capital requirements. Prior to the AT1 issuance, Metro's T1 capital was all common equity (CET1). Also in its capital structure it has two traded loan notes, comprising £150m of tier 2 loan notes with a 14% coupon and the £525m MREL notes with a coupon of 12%. The prices of both loan notes have more than doubled in the past year and both now trade at above par. The yields to maturity are c 12% and c 9%, respectively.

To qualify as T1 capital, it was necessary for the newly issued AT1 securities to be mandatorily convertible into, or exchanged for, new ordinary shares if for some reason the CET1 ratio were to fall below a minimum required level, in this case 7.0%. To allow for this contingency, shareholders recently approved the issue of new shares, free from pre-emption rights, in an amount of up to £450m nominal value, or approximately two-thirds of the currently issued share capital. Other than in the unlikely event of mandatory AT1 conversion, Metro has no intention of issuing new equity.

While we expect the T1 ratio to ease down from the pro-forma post AT1 issuance level, we expect it to remain well above the required minimum. The easing down is driven the higher risk-weighting attached to the targeted lending mix rather than the absolute size of the loan book. Over the medium term, we expect higher profitability and more moderate loan growth to begin to generate excess capital and provide scope for shareholder distributions. Our forecasts do not include distributions but, by FY27/28, we think this is possible.

More immediately, the Bank of England (BoE) is currently consulting with the industry on possible changes to the MREL regime, which could include an increase in the threshold for assets above which banks like Metro fall into its scope. The threshold has been set at a range of £15–25bn for many years and the BoE has consulted on a potential increase to £20–30bn. At face value, and if applied, this would appear to remove Metro from within the scope of the regime. Metro's total assets were £17.6bn at end-FY24 and we forecast they will remain below £20bn through FY28. The interest cost on Metro's £525m of MREL-qualifying debt amounts to £63m pa and a simple removal of the MREL requirement would increase our forecast FY28 RoTE by 400bp to 22.7%, none of which is included in the bank's forward guidance. However, the outcome remains uncertain, as does the way that any change may be applied. Any reduction or removal of the requirement could be phased over a period of time and the fact that Metro's assets are likely to remain close to (albeit below) the possible new threshold could have a bearing on this.

**Exhibit 10: Illustrative impact of MREL removal**

| £m unless stated otherwise                | FY25e        | FY26e        | FY27e        | FY28e        |
|---|--------------|--------------|--------------|--------------|
| Underlying PBT                            | 57.0         | 132.4        | 211.7        | 292.0        |
| MREL note coupon                          | (63.0)       | (63.0)       | (63.0)       | (63.0)       |
| Underlying PBT excluding MREL note coupon | 120.0        | 195.4        | 274.7        | 355.0        |
| <b>RoTE</b>                               | <b>7.0%</b>  | <b>12.3%</b> | <b>16.6%</b> | <b>18.7%</b> |
| <b>RoTE excluding MREL note coupon</b>    | <b>13.5%</b> | <b>18.1%</b> | <b>21.5%</b> | <b>22.7%</b> |

Source: Edison Investment Research

More generally across the sector, implementation of Basel 3.1, which sets new standards for assessing risks of all types, was recently delayed until January 2027, although it remains scheduled to be fully phased in by 2030. The impacts remain uncertain, but Metro currently expects it will have no material impact on its capital requirements.

## Forecast revisions

We have increased our estimates for each of the next four years to FY28, although these continue to sit within the range of guidance provided by Metro. It is important to note that Metro operates within a dynamic environment, in terms of

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the macroeconomic backdrop, the competitive landscape and potential changes to bank capital requirements. Given the momentum brought into FY25, in terms of balance sheet repositioning, lending volumes and cost reduction, we can be more confident of the nearer-term outlook. Looking further out, Metro benefits from an ability to respond nimbly to a changing environment across a broad range of product capabilities.

The key variation between our forecasts and Metro's guidance continues to be the cost-to-income ratio (ours is higher in the later years). In particular, we expect:

- Compound growth in lending of 9% from FY24 to end 2028 (10% adjusted for the unsecured personal loan sale), with specialist mortgages representing c 30% of the FY28 book and corporate, commercial and SME lending the balance.
- Compound growth in customer deposits of 1% pa, reflected in a steady rise in the loan-to-deposit ratio to 86%, which remains conservative compared with the current position of peers.
- A progressive increase in NIM to an annualised rate of c 4.20% by the end of FY27 (reflected on a full-year basis in FY28), reflecting an expansion in both lending and deposit margins compared with current levels.
- A well-contained expected cost of risk, representing 60bp of gross outstanding loans by end-FY28 (the upper end of management's 40–60bp guidance).
- A steady increase in RoTE to around 19% by 2028, consistent with management guidance of mid-to-upper teens.
- Well-controlled administrative expenses, with a 2028 cost-to-income ratio of 58%, a little above the guided 50–55%.
- The cost of the recently issued AT1 is reflected in our forecasts, but we have assumed no change in Metro's MREL requirements or any commencement of shareholders distributions as profitability grows, although both are possible and discussed below.
- We expect the deferred tax asset to shield 50% of the tax liability generated by rising profitability over the forecast period equivalent to a c 12.5% effective tax rate.

#### Exhibit 11: Summary of forecasts

| £m unless shown otherwise | New forecasts |        |        |        | Previous forecasts |        |        |        |
|---------------------------|---------------|--------|--------|--------|--------------------|--------|--------|--------|
|                           | FY25e         | FY26e  | FY27e  | FY28e  | FY25e              | FY26e  | FY27e  | FY28e  |
| Net interest income       | 459           | 563    | 658    | 758    | 468                | 552    | 651    | 704    |
| NIM                       | 2.78%         | 3.33%  | 3.78%  | 4.21%  | 2.97%              | 3.52%  | 3.94%  | 4.01%  |
| Total revenue             | 570           | 673    | 778    | 888    | 588                | 682    | 791    | 854    |
| Total operating expenses  | (491)         | (501)  | (510)  | (518)  | (489)              | (499)  | (508)  | (516)  |
| Cost: income ratio        | 86%           | 75%    | 66%    | 58%    | 83%                | 73%    | 64%    | 60%    |
| Expected credit loss      | (11)          | (39)   | (56)   | (77)   | (33)               | (53)   | (60)   | (67)   |
| Underlying PBT            | 57            | 132    | 212    | 292    | 66                 | 130    | 223    | 270    |
| RoTE                      | 7.0%          | 12.3%  | 16.6%  | 18.7%  | 7.8%               | 14.0%  | 20.1%  | 19.8%  |
| Net loans                 | 9,861         | 10,322 | 10,684 | 12,544 | 9,652              | 10,726 | 11,979 | 13,535 |
| Loan: deposit ratio       | 67%           | 69%    | 70%    | 80%    | 70%                | 75%    | 80%    | 85%    |
| RWA                       | 7,100         | 7,947  | 8,687  | 9,902  | 6,920              | 7,923  | 8,987  | 10,204 |
| Tier 1 ratio              | 15.9%         | 15.8%  | 16.9%  | 17.8%  | 12.8%              | 12.8%  | 13.8%  | 14.8%  |
| Total capital ratio       | 18.0%         | 17.7%  | 18.6%  | 19.3%  | 15.0%              | 14.7%  | 15.5%  | 16.3%  |
| MREL                      | 25.4%         | 24.3%  | 24.7%  | 24.6%  | 22.6%              | 21.3%  | 21.3%  | 21.4%  |

Source: Edison Investment Research

**Exhibit 12: Financial summary**

| Year to 31 December (£m)                        | 2022            | 2023            | 2024            | 2025e           | 2026e           | 2027e           | 2028e           |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>INCOME STATEMENT</b>                         |                 |                 |                 |                 |                 |                 |                 |
| Net interest income                             | 404.1           | 411.9           | 377.9           | 459.3           | 562.8           | 657.9           | 757.5           |
| Net fee & commission income                     | 81.8            | 90.4            | 93.2            | 100.0           | 110.0           | 120.0           | 130.0           |
| Other income                                    | 37.6            | 146.6           | (65.8)          | 11.0            | 0.0             | 0.0             | 0.0             |
| <b>Total income</b>                             | <b>523.5</b>    | <b>648.9</b>    | <b>405.3</b>    | <b>570.3</b>    | <b>672.8</b>    | <b>777.9</b>    | <b>887.5</b>    |
| General operating expenses                      | (467.6)         | (502.9)         | (489.0)         | (412.5)         | (422.9)         | (431.4)         | (440.1)         |
| Depreciation                                    | (77.0)          | (77.7)          | (77.3)          | (78.4)          | (78.4)          | (78.4)          | (78.4)          |
| Impairments & write-offs of PPE and intangibles | (9.7)           | (4.6)           | (44.0)          | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>Total operating expenses</b>                 | <b>(554.3)</b>  | <b>(585.2)</b>  | <b>(610.3)</b>  | <b>(490.9)</b>  | <b>(501.3)</b>  | <b>(509.8)</b>  | <b>(518.5)</b>  |
| Expected credit loss                            | (39.9)          | (33.2)          | (7.1)           | (11.4)          | (39.2)          | (56.4)          | (77.0)          |
| <b>Profit before tax</b>                        | <b>(70.7)</b>   | <b>30.5</b>     | <b>(212.1)</b>  | <b>68.0</b>     | <b>132.4</b>    | <b>211.7</b>    | <b>292.0</b>    |
| <b>Adjust for:</b>                              |                 |                 |                 |                 |                 |                 |                 |
| Impairment & write-off PPE & intangibles        | 9.7             | 4.6             | 44.0            | 0.0             | 0.0             | 0.0             | 0.0             |
| Holding company costs                           | 1.8             | 1.8             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Non-recurring costs                             | 8.6             | 20.2            | 52.4            | 0.0             | 0.0             | 0.0             | 0.0             |
| Other non-recurring items                       | 0.0             | (74.0)          | 101.7           | (11.0)          | 0.0             | 0.0             | 0.0             |
| <b>Company basis underlying PBT</b>             | <b>(50.6)</b>   | <b>(16.9)</b>   | <b>(14.0)</b>   | <b>57.0</b>     | <b>132.4</b>    | <b>211.7</b>    | <b>292.0</b>    |
| Tax   | (2.0)           | (1.0)           | 254.6           | (8.5)           | (16.5)          | (26.5)          | (36.5)          |
| <b>Net profit</b>                               | <b>(72.7)</b>   | <b>29.5</b>     | <b>42.5</b>     | <b>59.5</b>     | <b>115.8</b>    | <b>185.2</b>    | <b>255.5</b>    |
| Period-end number of shares (m)                 | 172.5           | 672.7           | 672.7           | 672.7           | 672.7           | 672.7           | 672.7           |
| Average number of shares (m)                    | 172.5           | 214.3           | 672.7           | 672.7           | 672.7           | 672.7           | 672.7           |
| Diluted average number of shares (m)            | 172.5           | 220.8           | 672.7           | 672.7           | 672.7           | 672.7           | 672.7           |
| EPS (p)   | (42.2)          | 13.4            | 6.3             | 8.8             | 17.2            | 27.5            | 38.0            |
| DPS (p)   | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>BALANCE SHEET</b>                            |                 |                 |                 |                 |                 |                 |                 |
| Loan assets                                     | 13,102          | 12,297          | 9,013           | 9,861           | 10,322          | 10,684          | 12,544          |
| Cash  | 1,956           | 3,891           | 2,811           | 2,661           | 3,644           | 4,327           | 3,141           |
| Other treasury assets                           | 5,914           | 4,879           | 4,490           | 3,995           | 2,980           | 2,449           | 2,376           |
| Other assets                                    | 1,147           | 1,178           | 1,268           | 1,260           | 1,243           | 1,216           | 1,180           |
| <b>Total assets</b>                             | <b>22,119</b>   | <b>22,245</b>   | <b>17,582</b>   | <b>17,777</b>   | <b>18,189</b>   | <b>18,677</b>   | <b>19,241</b>   |
| Customer deposits                               | (16,014)        | (15,623)        | (14,458)        | (14,749)        | (15,045)        | (15,347)        | (15,656)        |
| Deposits from central banks                     | (3,800)         | (3,050)         | (400)           | 0               | 0               | 0               | 0               |
| Debt securities                                 | (571)           | (694)           | (675)           | (925)           | (925)           | (925)           | (925)           |
| Other liabilities                               | (778)           | (1,744)         | (866)           | (864)           | (864)           | (864)           | (864)           |
| <b>Total liabilities</b>                        | <b>(21,163)</b> | <b>(21,111)</b> | <b>(16,399)</b> | <b>(16,538)</b> | <b>(16,834)</b> | <b>(17,136)</b> | <b>(17,445)</b> |
| <b>Net assets</b>                               | <b>956</b>      | <b>1,134</b>    | <b>1,183</b>    | <b>1,239</b>    | <b>1,355</b>    | <b>1,540</b>    | <b>1,796</b>    |
| Book value per share (p)                        | 554.3           | 168.6           | 175.7           | 184.5           | 201.8           | 229.3           | 267.3           |
| Tangible book value per share (p)               | 429.1           | 139.9           | 121.3           | 131.4           | 151.1           | 182.5           | 225.9           |
| <b>RATIOS</b>                                   |                 |                 |                 |                 |                 |                 |                 |
| Loan: deposit ratio                             | 81.8%           | 78.7%           | 62.3%           | 66.9%           | 68.6%           | 69.6%           | 80.1%           |
| Net interest margin                             | 1.92%           | 1.98%           | 1.91%           | 2.78%           | 3.33%           | 3.78%           | 4.21%           |
| ECL as % gross lending                          | 0.3%            | 0.3%            | 0.1%            | 0.2%            | 0.4%            | 0.5%            | 0.5%            |
| Cost: income ratio                              | 106%            | 90%             | 151%            | 86%             | 75%             | 66%             | 58%             |
| Return on tangible equity (RoTE)                | -9.7%           | 3.7%            | 4.7%            | 7.0%            | 12.3%           | 16.6%           | 18.7%           |
| Risk weighted assets (RWA)                      | 7,990           | 7,533           | 6,442           | 7,100           | 7,947           | 8,687           | 9,902           |
| Common equity tier 1 ratio (CET1)               | 10.3%           | 13.1%           | 12.5%           | 12.3%           | 12.7%           | 14.0%           | 15.3%           |
| Tier 1 ratio (T1)                               | 10.3%           | 13.1%           | 12.5%           | 15.9%           | 15.8%           | 16.9%           | 17.8%           |
| Total capital ratio                             | 13.4%           | 15.1%           | 14.9%           | 18.0%           | 17.7%           | 18.6%           | 19.3%           |
| MREL  | 17.7%           | 22.0%           | 23.0%           | 25.4%           | 24.3%           | 24.7%           | 24.6%           |

Source: Metro Bank historical data, Edison Investment Research forecasts

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