Metro Bank

H125 results

Banks

Solid H1 sets up FY25 delivery

22 September 2025

Metro Bank's H1 results provided strong evidence of its strategy's effectiveness. With momentum building, it has a firm base for further progress in FY25 and beyond. Profitability increased substantially in H125, 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. Finally, management expects to be reclassified as a transfer firm in January 2026, under the changed Bank of England's (BoE's) MREL regime, which it believes could add c £60m to net interest income (NII) in future years. We have slightly increased our estimates for FY25–27, but remain within guidance.

Year end	PBT (£m)	TBVPS (p)	ROTE (%)	DPS (p)	P/TBV (x)	Yield (%)
12/24	(14.0)	121.3	4.7	0.00	1.02	N/A
12/25e	94.7	166.4	7.5	0.00	0.74	N/A
12/26e	164.8	182.1	11.2	0.00	0.68	N/A
12/27e	234.6	207.4	14.5	0.00	0.59	N/A

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

Strong underlying profit driven by positive jaws ratio

H125 underlying PBT of £45m (+252% half-on-half), a 22% increase in total revenue, an exit net interest margin (NIM) of 2.95% and costs down by 8% y-o-y all drove the group's positive jaws ratio. The repositioning of the business model towards higher-return commercial and specialist mortgage lending, coupled with the lowest exit cost of deposits on the UK high street (1.02%), has proved effective.

Guidance reiterated, positive capital development

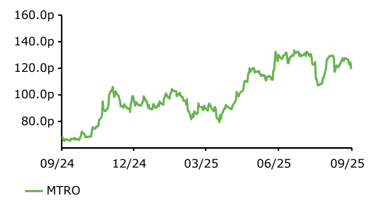
Metro continues FY25 with strong momentum. We expect further deposit optimisation, loan growth in the higher-return target areas and cost discipline to contribute to strong earnings growth over the next four years. Management expects revenue growth to continue apace in H225, with an £800m pipeline already in place. Overall, Metro expects further NIM expansion to 4.0–4.5% by end-FY27. With continued tight cost management in H125, Metro is well positioned to deliver full-year cost benefits in H225. Credit quality has remained benign. Loan origination in Metro's targeted corporate, commercial and SME lending increased significantly, providing a NIM-accretive partial offset to loan book run-off, and the pipeline is strong. Metro finished H125 with a CET1 capital ratio of 12.8%, and expects reclassification as a transfer firm in January 2026, following the BoE's policy statement on MREL. This could add c £60m in NII annually over the medium term, supporting future shareholder dividends for the first time.

Valuation: Further upside potential

Shares fell c 10% on the day of results as the market unwound unreasonable takeover speculation. Since then Metro rebounded strongly, as confidence in its strategy has grown. On valuation, Metro trades on a consensus FY26 price-to-book ratio of c 0.8x versus UK banks' average of c 1.0x. Given the prospect of a mid- to high-teens return on tangible equity (RoTE), we view the fair value of the shares at or above the UK banks' average multiple, equating to a 150–160p share price.

Price	**123.40p**
Market cap	**£831m**
Shares in issue	673.3m
Code	MTRO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.8	(5.1)	90.1
52-week high/low		137.6p	64.3p

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 76 'stores' in prime locations, a key source of new lending and low-cost deposits. Metro Bank is undertaking a strategic repositioning towards a mid- to upper-teens return business model focused on commercial, corporate and SME lending and specialist mortgages.

Next events

Q325 announcement	5 November 2025

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Edison profile page

H125 ahead of guidance; Metro well positioned

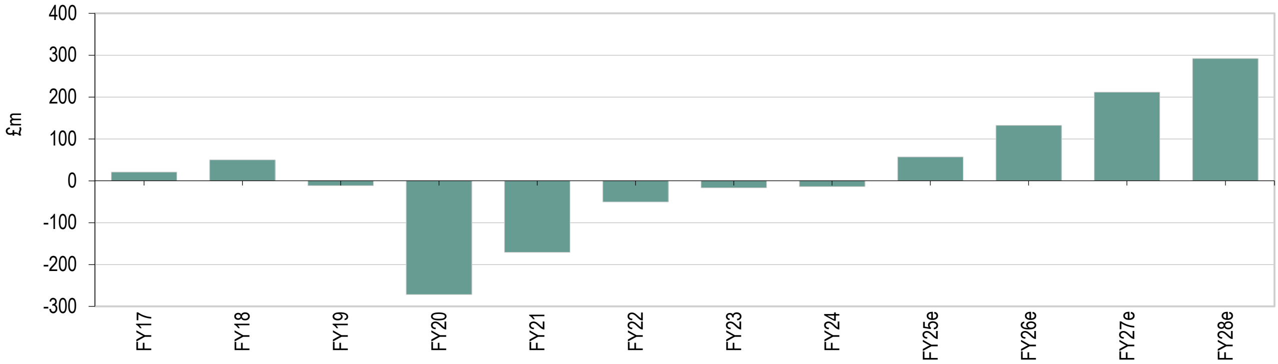
As we discussed in detail in our October 2024 initiation report, Metro Bank was founded in the wake of the financial crisis as a 'challenger bank' to bigger, more traditional lenders. While it has adapted to market conditions over time, its store-based, deposit-led, relationship-driven community banking 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 via:

- 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[1] 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. 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

Given the progress made in H125, management confidently reconfirmed guidance, which includes the impacts of the AT1 issuance, and assumes no changes to the Minimum Requirement for Own Funds and Eligible Liabilities (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 2027. 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) guidance is between 3.00% and 3.25%, which compares favourably to the exit NIM of 2.95% at the end of H125. 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

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%.

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: Management reiterates guidance

	2025	2026	2027	2028
NIM	Exit NIMs to be between 3.00%-3.25% H1 2025: 2.95% exit NIM	Exit NIMs to be between 3.60%-4.00%	Exit NIMs to be between 4.00%-4.50%	
Costs	4%-5% year-on-year cost reduction H1 2025: 8% HoH reduction	Cost-to-income to be between 75%-70%	Cost-to-income to be between 65%-60%	Cost-to-income to be between 55%-50%
RoTE	Mid-to-upper single digit H1 2025: 7%	Double digit	Mid-to-upper teens	

Clear path to delivering mid-to-upper teens RoTE by 2027

Source: Metro Bank

Growing lending in targeted areas

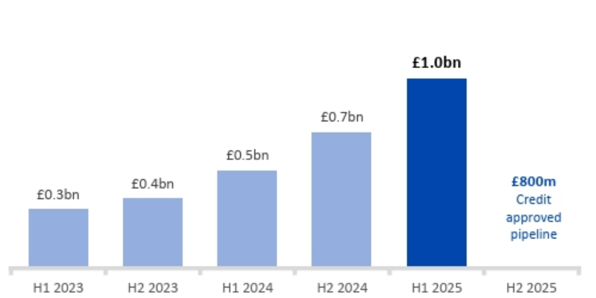
H125 new loan originations in Commercial were more than £1.0bn, with Metro expecting continued momentum in H225, supported by a strong credit approved pipeline of c £800m.

Exhibit 3: Increased lending in core areas

Lending balances £bn	H2 2024	H1 2025	HoH %	HoH
Commercial	2.7	3.1	16%	0.4
Specialist mortgages	0.7	1.2	78%	0.5
Core business lines	**3.4**	**4.3**	**29%**	**0.9**
Government backed	0.7	0.5	(21%)	(0.1)
Consumer	0.7	0.1	(82%)	(0.6)
Prime mortgages	4.4	3.9	(12%)	(0.5)
Run-off books	**5.8**	**4.6**	**(22%)**	**(1.2)**
Total	**9.2**	**8.9**	**(3%)**	**(0.3)**

Source: Metro Bank

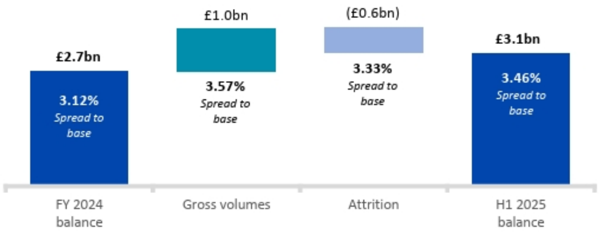
Exhibit 4: Strong corporate lending with a large H225 pipeline



Source: Metro Bank

Overall the commercial book spread increased to 3.46% from 3.12% at the end of FY24. Mortgage origination of £0.6bn was at an average 5.77% yield compared with the average yield on the business running off of 4.6%. The targeting within the mortgage book allowed the total yield to increase to 4.59% from 4.51% at the end of FY24. As with corporate, commercial and SME lending, there is good momentum behind specialist mortgage lending, with a pipeline that includes mortgages for limited company buy-to-let and for the homes of multiple occupation markets.

Exhibit 5: £1bn commercial >350bp over base rate



Source: Metro Bank

Exhibit 6: Targeted mortgage mix increases yield

Source: Metro Bank

Core deposit strength

Metro's strong retail and SME deposit franchise is a key strategic advantage and, with a loan-to-deposit ratio of 65% at end-H125, 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 8% in H125, this was due to deliberate action taken to run down high-cost, fixed-term deposits that had been strategically built. As these ran off, the average cost of deposit funding reduced substantially, from a high of 2.3% in February 2024 to 1.02% at end-H125. With such a low cost of funding in FY25, the benefit of the reduction will be felt in future years. 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, achieving c £80m, including a 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. 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 impact of the c £80m of annualised cost savings achieved at the end of FY24 will have a full-year effect in FY25. These actions will result in a 4–5% total reduction in underlying expenses in FY25, moving the company closer to its target cost-to-income ratio of 50–55% by FY28.

Summary of the H125 results

On an underlying basis, the H125 PBT performance exceeded our expectations as well as company guidance. In particular, we highlight:

- H1 underlying PBT of £45m (+252% half-on-half), which was a large increase from the H224 level due to a 22% increase in total revenue, an exit NIM of 2.95% and costs down by 8% y-o-y all drove the group's positive jaws ratio.
- The exit NIM during the half was 2.95% compared with 1.78% in H124, and is already nearing FY25 guidance of 3.00–3.25%. The increase consisted of +0.45% asset rotation, +0.91% cost of deposits, and -0.20% other factors.
- Underlying costs were c £235m, £21m or 8% lower half-on-half, due to the cost reduction programme. The full impact of the c £80m per year savings will continue to be felt in H225.
- The expected credit loss was low at £6m, reflecting a continued benign credit environment.

Positive MREL reclassification

Metro expects to be reclassified as a transfer firm as of January 2026, following the BoE's recent policy statement on MREL, meaning its MREL requirements would be equal to its minimum capital requirements. Given this, there are no plans to raise future MREL, simplifying the group's future capital needs. This change could add c £60m of NII per year over the medium term, which should support a return to shareholder dividends. Over the medium term, as profitability and the equity base increase, Metro will look at shareholder distributions.

Capital flexibility and opportunities

In terms of capital, Metro finished the period with a CET1 capital ratio of 12.8%, a Tier 1 (T1) capital ratio of 16.6% (reflecting the recent £250m AT1 issuance at a coupon of 13.875%) and a total capital ratio of 18.9%. Its liquidity ratios were strong, with the 30 June liquidity coverage ratio (LCR) at 315% and the net stable funding ratio (NSCR) at 165%.

Our initiation note contains more detail 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 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.

More generally across the sector, the 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 slightly 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 the macroeconomic backdrop, the competitive landscape and potential changes to bank capital requirements. With momentum brought through H125, the 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 FY25 to end FY28, 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% per year, reflected in a steady rise in the loan-to-deposit ratio to 80%, which remains conservative compared with the current positions of peers.
- A progressive increase in NIM to an annualised rate of c 4.10% 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 55–60bp of gross outstanding loans by end-FY28 (the upper end of management's 40–60bp guidance).
- A steady increase in RoTE to c 17% by 2028, consistent with management guidance of mid-to-upper teens.
- Well-controlled administrative expenses, with a 2028 cost-to-income ratio of 56%, slightly 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 we view both as highly possible once the January 2026 reclassification is confirmed.

Exhibit 7: Forecast changes

	New forecasts				Previous forecasts			
£m unless shown otherwise	FY25e	FY26e	FY27e	FY28e	FY25e	FY26e	FY27e	FY28e
Net interest income	476.6	606.8	704.3	806.5	459.3	562.8	657.9	757.5
NIM	2.95%	3.67%	4.11%	4.54%	2.78%	3.33%	3.78%	4.21%
Total revenue	596.5	706.8	806.3	910.5	570.3	672.8	777.9	887.5
Total operating expenses	(485)	(494)	(499)	(507)	(491)	(501)	(510)	(518)
Cost: income ratio	81%	70%	62%	56%	86%	75%	66%	58%
Expected credit loss	(16.7)	(52.1)	(73.3)	(89.9)	(11.4)	(39.2)	(56.4)	(77.0)
Underlying PBT	94.7	164.8	234.6	313.5	57.0	132.4	211.7	292.0
RoTE	7.5%	11.2%	14.5%	16.6%	7.0%	12.3%	16.6%	18.7%
Net loans	9,861.5	10,322.0	10,684.3	12,544.0	9,861.5	10,322.0	10,684.3	12,544.0
Loan: deposit ratio	67%	68%	69%	79%	67%	69%	70%	80%
RWA	7,084.4	7,931.2	8,671.4	9,934.9	7,100.4	7,947.2	8,687.5	9,902.4
Tier 1 ratio	16.0%	15.7%	16.5%	16.9%	15.9%	15.8%	16.9%	17.8%
Total capital ratio	18.1%	17.6%	18.2%	18.4%	18.0%	17.7%	18.6%	19.3%
MREL	25.5%	24.2%	24.3%	23.7%	25.4%	24.3%	24.7%	24.6%

Source: Edison Investment Research

Exhibit 8: Financial summary

Year to 31 December (£m)	2022	2023	2024	2025e	2026e	2027e	2028e
INCOME STATEMENT							
Net interest income	404.1	411.9	377.9	476.6	606.8	704.3	806.5
Net fee & commission income	81.8	90.4	93.2	95.8	100.0	102.0	104.0
Other income	37.6	146.6	(65.8)	24.1	0.0	0.0	0.0
Total income	523.5	648.9	405.3	596.5	706.8	806.3	910.5
General operating expenses	(467.6)	(502.9)	(489.0)	(420.6)	(422.9)	(431.4)	(440.1)
Depreciation	(77.0)	(77.7)	(77.3)	(64.5)	(67.0)	(67.0)	(67.0)
Impairments & write-offs of PPE and intangibles	(9.7)	(4.6)	(44.0)	(0.2)	(4.1)	(0.2)	(0.2)
Total operating expenses	(554.3)	(585.2)	(610.3)	(485.3)	(494.0)	(498.6)	(507.3)
Expected credit loss	(39.9)	(33.2)	(7.1)	(16.7)	(52.1)	(73.3)	(89.9)
Profit before tax	(70.7)	30.5	(212.1)	94.5	160.7	234.4	313.3
Adjust for:							
Impairment & write-off PPE & intangibles	9.7	4.6	44.0	0.2	4.1	0.2	0.2
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	(0.0)	0.0	0.0	0.0
Company basis underlying PBT	(50.6)	(16.9)	(14.0)	94.7	164.8	234.6	313.5
Tax	(2.0)	(1.0)	254.6	(25.5)	(40.2)	(58.6)	(78.3)
Net profit	(72.7)	29.5	42.5	68.9	120.5	175.8	235.0
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	10.2	17.9	26.1	34.9
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Loan assets	13,102	12,297	9,013	9,861	10,322	10,684	12,544
Cash	1,956	3,891	2,811	2,595	3,605	4,313	3,159
Other treasury assets	5,914	4,879	4,490	3,675	2,660	2,129	2,056
Other assets	1,147	1,178	1,268	1,324	1,304	1,275	1,236
Total assets	22,119	22,245	17,582	17,455	17,891	18,401	18,994
Customer deposits	(16,014)	(15,623)	(14,458)	(14,772)	(15,121)	(15,489)	(15,883)
Deposits from central banks	(3,800)	(3,050)	(400)	0	0	0	0
Debt securities	(571)	(694)	(675)	(685)	(685)	(685)	(685)
Other liabilities	(778)	(1,744)	(866)	(522)	(522)	(522)	(522)
Total liabilities	(21,163)	(21,111)	(16,399)	(15,979)	(16,328)	(16,696)	(17,090)
Net assets	956	1,134	1,183	1,477	1,563	1,704	1,904
Book value per share (p)	554.3	168.6	175.7	219.6	232.4	253.3	283.1
Tangible book value per share (p)	429.1	139.9	121.3	166.4	182.1	207.4	243.0
RATIOS							
Loan: deposit ratio	81.8%	78.7%	62.3%	66.8%	68.3%	69.0%	79.0%
Net interest margin	1.92%	1.98%	1.91%	2.95%	3.67%	4.11%	4.54%
ECL as % gross lending	0.3%	0.3%	0.1%	0.1%	0.4%	0.4%	0.5%
Cost: income ratio	106%	90%	151%	81%	70%	62%	56%
Return on tangible equity (RoTE)	-9.7%	3.7%	4.7%	7.5%	11.2%	14.5%	16.6%
Risk weighted assets (RWA)	7,990	7,533	6,442	7,084	7,931	8,671	9,935
Common equity tier 1 ratio (CET1)	10.3%	13.1%	12.5%	12.5%	12.6%	13.6%	14.4%
Tier 1 ratio (T1)	10.3%	13.1%	12.5%	16.0%	15.7%	16.5%	16.9%
Total capital ratio	13.4%	15.1%	14.9%	18.1%	17.6%	18.2%	18.4%
MREL	17.7%	22.0%	23.0%	25.5%	24.2%	24.3%	23.7%

Source: Metro Bank historical data, Edison Investment Research forecasts

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