Virgin Money UK PLC Full Year Financial Results 2022 – Call Transcript

David Duffy, Virgin Money UK PLC

Good morning. I think that video sets the tone for how we're going to have a conversation today, and, good evening to those in Australia as well. Clifford and I are going to do a presentation of the results as usual, but let me start out by saying that I'm very pleased with the performance of the bank and our positioning for the future despite the macroeconomic environment, and I think you see that come through today. So, let's jump straight in with headlines on slide 3.

In the middle column, you will see that we've delivered a RoTE of 10.3%. This was a pretty good outcome in a difficult environment and is underpinned by a cost-income ratio of 52%. On the left-hand side, you will see that we've also delivered NIM of 1.85%, our target cost savings of £69 million, and a broadly cost outcome in line with the guidance that we gave.

I think given the benefits of the higher interest rates on NIM and the progress on our cost saving program, I'm actually pretty confident that we will deliver on our cost income ratio strategy over the next few years. Our Unsecured and BAU business lending have grown by an average of 7%, and our mortgage business has now returned to a net growth model in H2. It's also pleasing to note that our relationship deposits have grown 13% year on year. Our balance sheet, as you can see, is robust with a very low arrears profile, and a strong coverage ratio of 62 basis points, and I believe we are appropriately provisioned for the next phase of the economic cycle. Our CET1 ratio of 15% in full year '22 is also in a strong position and reflects the ongoing delivery of statutory profitability.

Given the overall strong performance and this capital surplus, the Board intends to recommend a dividend of 10p per share, and a further buyback of £50 million, bringing the total buyback for 2022 to £125 million. That brings the combined dividends and buybacks to a total distribution for 2022 of £267 million.

I'm also pleased, if you look at the right, to be able to revise our guidance upwards. You can see our 2024 RoTE increasing to c.11%, and this increase will be underpinned by a cost income ratio of less than 50%. We will move to our CET1 range of 13 to 13.5% by 2024, and our shareholder distributions will reflect that outcome. In short, we're delivering on growth, delivering on costs, and delivering on our digital initiatives, and we have a robust balance sheet that I think will support our delivery of targeted growth going into 2023.

So, let me now turn to slide 4 and touch on the broader macro environment that will influence our performance next year. As you can see from these slides, the macroeconomic environment has deteriorated over the course of the year, and I've highlighted the impact of the recent events on current economic forecasts, compared to earlier in the year. I think you can see that the revisions show a deterioration in activity levels and a significant reduction in GDP expectations, and inflation is expected to peak in 2022, but decline thereafter. Rates, however, will remain higher for longer, and therefore, GDP shows a downward trend. Although unemployment is forecast to rise, it remains low by historical standards. We have also noted, as you have, the recent updates from the Bank of England and from the OBR last Thursday, all of which -- the outputs of which, remain within the range of expectations set out amongst our IFRS 9 scenarios.

So, despite the negative forecast, one thing I would remind you of, there are businesses that are performing and need to grow, homes that will be refinanced and purchased, and

consumers will still consume goods. This is the sixth-largest economy in the world. And as I said, although this is a tough environment and despite our tightened credit criteria, I still expect our balance sheet to grow in 2023.

Let me now turn to slide 5 and talk about this year's growth. We've seen good growth across our unsecured business, and as we had forecasted at the half-year, our business bank, and mortgage business both returned to net asset growth in the second half of the year. Starting on the top left, our credit card originations are up 49%, using tighter affordability assessments, and we now have an 8% market share. Moving down the slide, overall Business lending was stable half-on-half with net growth in BAU lending in H2, equating to a 5% annualised growth rate. M-Track and the launch of the Marketplace has supported this business growth by offering time poor SME's insights and services to help them manage their business.

On the top right, you will see that our mortgage business returned to an annualised growth rate of 1.2% in H2, and we're entering 2023 with a prudently positioned portfolio, which is largely fixed-rate, has an average LTV of 53%, and an average LTI of 3.2 times.

On the bottom right, PCA sales have continued to benefit from the Virgin Brighter Money Bundles which we deployed, and our cashback offers for customers have been very competitive. I'm particularly pleased with the strong growth in relationship deposits, which have increased from 33% in 2019 to 53% of the overall deposit base. For businesses, our digital BCA proposition has generated 70% growth in our BCAs year on year. And I think our rebranding of the legacy SME business is proving to be very successful, and we've seen 46 weeks of net inflows as of September, which is the longest period of continued growth in the last five years.

So, let me turn to slide 6. Over the past year, we have successfully implemented our purpose-driven flexible model, the working model, and we are now rolling out our agile delivery model. I think, this combination of flexibility and agility has led to an 11% increase in colleague engagement and has really helped us to deliver the cost targets and to launch new digital customer propositions and of course, to achieve profitable growth. Now, just as we're supporting our customers in the challenging economic environment, we're doing likewise for colleagues. We provided most of our colleagues with a £1,000 cost-of-living adjustment and recently announced a significant pay rise of 10%, which will be delivered in two instalments throughout 2023.

Given the impact, as we know, of the higher energy costs and the cost-of-living dynamics, we've launched a dedicated cost-of-living hub for our customers and this hub is very practical. It supports customers who are worried about repayments, and we're also proactively engaging with customers if they are exhibiting any signs of stress. And as part of our effort to help customers, we're addressing what we've seen as a recent escalation in calls to contact centres, typically across our savings and mortgage products, and we're investing in adding surge capacity to service this need, both in terms of staffing and, of course, technology solutions. Now, it's important to say that all of these colleague and customer initiatives are fully embedded in our cost investment plans for 2023 and 2024, so all are priced into the model.

So, let me just turn to the future on slide 7. We intend to deliver several new innovative propositions in 2023, and the slide sets out some key highlights. Following an initial launch of Virgin Slyce, with a waitlist of 40,000, our new 'buy now pay better' proposition will be made available to the wider public starting this month. This proposition has been designed exclusively by Gen-Z customers, this is to suit their credit needs as first-time entrants to the credit market. It's different to others because it demonstrates responsible lending by testing

for real affordability. It provides transparency around the cost of credit and helps build credit customer scores, and that's key. This is in stark contrast to many other offerings in the marketplace.

The other key is we are expanding our product profile and in Q1, we will launch an ESG-focused wealth proposition offering customers a simple digital platform to manage their investments, and we will add to our travel insurance, which we recently launched, with a proposition for home insurance in Q1. And then lastly, in mortgages, we'll improve customer experiences through an end-to-end digitisation and that will drive benefits from greater flexibility on pricing, and we roll out the direct digital model in Q1 and the broker digital model in Q2.

Finally, as we announced last year, I'm pleased to update that we intend to launch our digital wallet in 2023, and we will launch also a new Virgin app which offers an integrated view of all of our products and digital propositions, and I'll provide a little bit more detail on these developments later in the presentation. For now, let me pause there, and hand over to Clifford who will take you to the financials in more detail. Thank you.

Clifford Abrahams, Virgin Money UK PLC

Thanks David. I joined us here at Virgin Money during the lockdown last March, and it's great to be present for the first time to present to you all, in person, alongside David.

You'll recognise this slide from our half-year results last year, around the time I started, which sets out our equity story. As you've heard from David, we've made great progress on our strategic delivery underpinning this story. We've managed our balance sheet prudently, maintaining strong provision coverage and capital, and we've now restarted shareholder distributions. Alongside resilience, we're making good progress digitising the bank, delivering cost savings, and launching new digital customer propositions. And finally, we started to demonstrate our growth potential, accelerating from here, driving further profitable growth. You're seeing the results of this strategic progress in our developing financial track record, set out on the next slide, 10.

David explained the growth in our targeted margin accretive propositions, set out at the top-left. This, together with the improving rate environment, has enabled a sustained expansion in our net interest margin, top-right. With costs broadly stable, we've delivered strong statutory returns, double-digit for the last two years, bottom-left. And as a consequence, we're generating capital and have restarted distributions through dividends and, more recently, sustainable buybacks, bottom-right.

Now, turning to the details of our full year 2022 performance. I'll comment on profitability first, then the balance sheet, capital, and finally our guidance.

I am pleased to report here, on slide 11, our strong underlying performance. Income improved 12%, reflecting the COVID recovery and higher rates, while costs remained broadly stable, reducing our cost income ratio to 52%, from 57% last year. Together, this resulted in a substantial improvement in our pre-provision profit of 26%. Underlying profit was flat in the year, given the impairment release last year.

Moving now to statutory profit on slide 12. You can see here we've delivered another year of strong statutory profit. Adjusting items were down, year-on-year, and included a £60 million charge for intangible assets, following a further review of capitalisation practices aligned to our digital agile model.

Restructuring charges were £82 million, less than initially planned, as we've delayed the phasing of certain projects from ‘22 to '23. I'll discuss this in more detail later.

The £58 million tax charge equates to an effective tax rate of around 10%. This was low due to our recognising previously unrecognised, historical losses. Going forward, we expect an effective tax rate in the mid-20s from from full year '23, onwards, as there are now no more unrecognised historical trading losses.

Finally, it's particularly pleasing to see the step-up in tangible net asset value, to 383 pence per share, reflecting the statutory profit in the period, a lower share count given our share buyback, and positive reserve movements. These positive movements reflect the fact that our cash flow hedge swaps are currently net pay fixed, meaning the sharp rise in rates in the second half has resulted in large gains on the swaps flowing through to equity. We're including additional details on this in the appendix.

I'll now talk through the key balance sheet items from slide 13. David updated on our strategy to grow the relationship customer base further, with deposits now 53% of total deposits. Our strong performance has helped us maintain our cost of deposits year-on-year, despite much higher policy rates. We've also successfully accessed the wholesale markets this year, despite challenging market conditions. The combination of our ability to grow our relationship franchise while maintaining our presence in the wholesale markets gives me confidence that we will emerge a winner in the post-QE environment.

Looking ahead, we'll continue to target growth in our relationship deposits. We'll also participate in the market for term deposit funding where and when it's advantageous to do so, and we'll continue to access the wholesale market to maintain a diversified funding base.

Now, moving on to lending on slide 14. David explained our targeted growth in Unsecured and Business-as-Usual Business lending, and I am pleased with our progress this year, shown by the details on this slide. You'll see here that we have increased overall volumes with strong growth in Unsecured, offsetting a modest reduction in Business, and with Mortgages stable.

In our Mortgage business, we took advantage of stronger spreads in Q4 to grow, prior to the September rate volatility. You can see that we also delivered growth in the Business-as-Usual Business book in the second half of the year, offsetting ongoing reductions in the government-backed balances.

I am particularly pleased with our growth in Unsecured, reflecting prudent growth in our high-quality cards book. Looking forward, we'll continue to diversify the balance sheet and grow overall lending balances in full year '23. Having grown the mortgage book in the second half of this year, we expect to deliver further modest growth in full year '23. In Business, we expect to grow in the Business-as-Usual book next year, whilst government-backed balances will continue to run off. Finally, in Unsecured, we'll look to take further market share, but expect growth to slow, reflecting our tightened affordability criteria.

Moving now onto our margin performance on slide 15. I am really pleased with our net interest margin performance shown here. Over the year, we have added 23 basis points to NIM, reflecting our gearing to higher rates -- in particular, the benefit of our structural hedge, where we have reinvested balances that roll off each month at higher rates, and also improved deposit margins, from a low level of rate pass-through on our deposit balances. Set against that, this year, we've written mortgage business at spreads below the back book, which is a headwind to margin.

In full year '23, we expect NIM to be between 185 to 190 basis points. This guidance incorporates higher average interest-earning assets, as we expect to hold an extra £2 billion of liquidity through full year '23 for collateral inflows and higher requirements.

So, our guidance reflects current rate expectations, which have stabilised at a lower level since September and following the Chancellor's Autumn Statement last week, with five-year swaps currently around 4% and base rates expected to peak at around 4.5% next year.

In terms of moving parts to that guidance, they reflect tailwinds from the structural hedge reinvestment, deposit margins, and asset mix; offsetting these by headwinds from mortgage spreads, which we expect to remain tight, higher wholesale funding costs, and the additional liquidity I talked about earlier.

I will now talk through our rate sensitivity further, on the next slide. We've set out here our structural hedge alongside our rate sensitivities. You can see on the left that our structural hedge has driven and will continue to drive sustainable NIM expansion, as 1/60th of the hedge rolls off per month and is reinvested at current high rates. The yield on the hedge increased, from 30 basis points at the start of the year to around 70 basis points at the end. So, with reinvestment rates around 4%, the total yield will continue to rise.

On the right, we've set out our current interest rate sensitivity, using our standard pass-through assumptions. The Year 1 impact reflects the benefit of reinvesting the structural hedge at higher rates, since we assume a parallel shift in rates. There's also some additional benefit in Year 1 from lead lag, as managed rate assets contractually reprice before managed rate liabilities.

The benefit in Years 2 and 3 relates entirely to the rollover of the structural hedge, which builds up meaningfully over time. In practice, we've benefited more significantly from recent rate rises, as deposit pass-through has been lower than that assumed in these sensitivities. You'll note our rate sensitivity remains positive in Year 1, even in the 25bps down scenario, and this reflects our assumptions on product pricing from more elevated rates today.

I'll now move on to non-interest income on slide 17. Our non-interest income performance was strong, up £20 million year on year, excluding fair value and one-off gains. This performance was supported by higher customer activity, including interchange and account fees, following the easing of lockdown restrictions. Over time, we're targeting further growth in OOI as we see contributions from the various initiatives we've set out on this slide, including the new digital propositions which David mentioned earlier.

Turning now to costs on slide 18. I'll first update on our cost performance and then on our restructuring costs. We delivered broadly stable underlying costs this year as promised, a good performance given the challenging backdrop. Our cost programmes are delivering savings as we digitise the bank, enabling us to absorb inflation, grow the business, as well as incur digital development spend. We set out our multi-year investment programme last year, and you can see on the right, we've made good progress this year, delivering around £70 million of annualised gross savings at a cost of around £80 million.

We have shifted some initiatives into full year '23, which has reduced the level of restructuring spend this year and related savings. As David described, following COVID and given interest rate volatility, we've seen more customers in our stores and wanting support from our contact centre staff. Longer term, our digitisation plans remain in place, but we're here to support and reassure our customers, and that's reflected in the pace of our change as well as our cost outlook, which I've set out on slide 19.

We've updated this outlook slide from last November. As a reminder, our primary target is to deliver a cost income ratio of less than 50% by full year '24. In November last year, we set our ambition to deliver around £175 million of gross cost savings between '22 and '24, and at that time, expected to reinvest around half in growth and inflation, then expected at low single digits per annum. It's clear that inflation and inflation expectations have stepped up since November last year. In addition, we face cost headwinds due to increased customer activity, reflecting interest rate volatility and cost of living challenges. Nonetheless, we have considerable cost headroom. That is, we expect cost savings will continue to offset inflation and grow through full year '24, and for full year '23 specifically, we expect costs to be broadly stable relative to full year '22, notwithstanding double-digit inflation.

At the same time, our outlook for income has strengthened relative to our expectations last year, supported by the higher rate environment. So taken together, we're confident in achieving our full year 24 cost income ratio target and for full year '23, expect to deliver around a 50% cost income ratio.

Now moving on to asset quality on slide 20. You saw we reported a modest cost of risk this year of around seven basis points. That performance reflects our solid credit quality, which has remained resilient with low arrears and default levels through the financial year, with some normalisation more recently.

On the left, we've set our ECL over time. You can see that we started the year retaining significant COVID related post model adjustments. Given our experience through the year, we've now released these. At the same time, we've increased our modelled provision, reflecting the deterioration in the macro environment. We also now have in place targeted PMAs relating to potential cost of living impacts for both our retail and business customers. The net impact of all of this is that at a headline level, total provisions have reduced somewhat from full year '21. Nonetheless, we remain very well provisioned with coverage above pre-pandemic levels, as you can see on the chart on the right. At this stage, our best judgment for full year '23 is for our cost of risk to normalise around the through the cycle level, which we consider to be 30 to 35 basis points. So, while our credit quality indicators remain benign, we're well positioned for uncertainty that lies ahead as I'll now explain on slide 21.

David has spoken about the quality of our book, and you can see here why we're comfortable with our resilience. So, starting with our overall portfolio top left and cycling through. Our total portfolio is defensively positioned with balances strongly weighted to mortgages, which comprise around 80% of loans. Our mortgage book is a low-risk prime book weighted towards owner occupied, originated with strict affordability assessments and with only 3% above 80% loan to value and largely on fixed rates.

In Unsecured, underwriting criteria are prudent and we've tightened further during the second half of '22 to reflect affordability stresses on our customers. Our Unsecured customers are generally more affluent. Their retail spend has picked up over the last year and continues to be weighted to discretionary or luxury items. Their repayment rates have remained stable; all indicators of credit quality.

Finally, our Business portfolio remains well-diversified with strong collateral levels and skew to lending to resilient sectors. We've provided additional details in the appendix demonstrating the underlying strength of each of our portfolios, which gives us confidence in the current economic climate.

Turning now to capital generation on slide 22. Our capital generation has been robust this year, reflecting solid statutory profits and stable RWAs with 195 basis points of underlying capital generation. Excluding the software benefit from the opening capital position, we grew

our CET1 capital by around 60 basis points, achieved despite 90 basis points of shareholder distributions. We were very pleased to announce our capital framework at half year and started buybacks alongside our 30% dividend payout.

In full year '22, we've announced total distributions equivalent to 57% of statutory profits after AT1, through a combination of dividends and buybacks, including the additional £50 million buyback announced today. Altogether, we finished the year at a 15% CET1 ratio, well above our target range, which I've set out on the next slide.

On this slide, you can see our target capital range of 13 to 13.5% CET1 ratio, and we expect to stay above 14% in full year '23 reflecting current economic uncertainties. That includes an expected £1 to £1.5 billion additional risk weighted assets from the implementation of the hybrid mortgage models in the first half of '23. We expect to operate within our target range at full year '24. Relative to the top end of our range, we currently have around £375 million of surplus capital before future capital generation. So that means further sustainable buybacks alongside dividends through full year '23 and '24, starting with the £50 million buyback extension that we announced today.

We expect any further buybacks beyond that in full year '23 to be aligned to Q4, given the stress testing timetable this year. Clearly, the extent of further buybacks will depend on profitability, RWA growth through full year '24 and regulatory approval.

Finally, I'll conclude with our guidance on slide 24. We've summarised here our guidance for full year '23 on the left and upgraded our outlook for full year '24 on the right. We've mentioned the various details through the course of this presentation. Our guidance reflects a realistic and up to date outlook for inflation being elevated through '23 and possibly beyond, as well as interest rates, where medium term swap rates have reduced and stabilised in recent weeks, despite rising base rates.

So, in full year '23, we expect NIM to remain strong on a larger balance sheet with further improvements in the cost income ratio alongside higher impairments to around through the cycle levels. We remain committed to distributing surplus capital and will maintain a CET1 ratio greater than 14% during full year '23.

Now turning to the medium term and full year '24 on the right. We're committing to our targets, which we set out in November 2021, including a return on equity target of above 10% for full year '24 and a cost income ratio of less than 50%. Inflation and rates are clearly structurally higher than last year, and the macro-outlook is weaker. While we're not specifically guiding, it's fair to say that our income outlook for full year '24 is stronger than we thought last year. And with our cost programmes on track, we remain confident that we'll deliver a less than 50% cost income ratio in full year '24, notwithstanding higher cost inflation. And finally, we expect to operate within our target capital range by full year '24, enabling further buybacks. Taken together, while our return on equity target remains greater than 10%, we're pleased to confirm our statutory RoTE guidance in full year '24 of around 11%. Overall, it's been a strong year for Virgin Money and our outlook is positive. I'll now hand back to David.

David Duffy, Virgin Money UK PLC

Great, thank you, Clifford. And as I mentioned earlier, we intend to launch our digital wallet and begin to roll it out across the wider Virgin ecosystem. We're working closely with the team at Virgin Group and I'm very excited about the potential of this initiative. So just to put it in context, let me now introduce a short video to help bring it to life.

[Video playing: The Digital Wallet Opportunity]

David Duffy, Virgin Money UK PLC

This video is intended to show you the design that we have and how it's going to be deployed across the Virgin Group. When we acquired Virgin Money and created a single brand across Clydesdale and Yorkshire banks, we knew the potential of the brand and its application in the U.K. and I think we've seen that realised over the past four years, especially as we've delivered our digital products. Now we intend to unlock the Virgin Money brand across the wider Virgin Group of companies. To date, our customers have already benefited from partnerships with the likes of Virgin Experience Days, Virgin Wines, Virgin Media and of course, Virgin Red. But this new digital wallet capability is the next logical step in deepening those relationships and leveraging the wider Virgin ecosystem.

Our partnership with Virgin Red and the broader Virgin Group, in my mind, represents a significant competitive advantage. Ultimately, we will aim to deliver the digital wallet capability to as many of the 47 million customers across the Virgin Group as possible, with a focus initially on the Virgin U.K. 18 million customers. The other side of this is we also expect to be able to acquire new customers as the Virgin Group itself grows and expands their businesses. We expect that we will have several group companies using a fully functional wallet by late 2023, and we will publish some anticipated growth metrics at that time.

Let me now turn to slide 27. This slide sets out how our digital strategy is taking shape to try and bring it all together. We have delivered a wide range of products and propositions this year and have a busy delivery agenda in 2023. On the left, you can see how we're growing our customer base with digital delivery. In the middle, you can see the new initiatives that are going to accelerate this growth. And on the right, you will see our plan to develop a new Virgin app, which we are now calling the V app. In the future, this Virgin FinTech style app will house the wallet, which you've seen, and the existing apps like Virgin Money, the Credit Card and the Mortgage Coach etc. This app will also house any new products like Slyce, which you've seen as well as our wealth and insurance products. And simply put, our customers will be able to access all services, products and benefits and offers from Virgin Money and other Virgin Group companies in one simple app.

The V app and the new wallet are funded within our current investment profile, and the wallet is in beta testing with our customers. The V app is currently under development, and we expect to launch the beta version later this year. So, our journey to delivering on our digital first strategy is well underway, and this next phase will create a unique competitive capability which combines our technology, the Virgin brand, and the opportunity to grow our customer base by leveraging the worldwide Virgin companies in addition to those in the U.K.

So let me now turn to the final slide. So, as we bring this presentation to a close, just a quick recap. As I said, we have a strong balance sheet and good momentum going into 2023. We will of course maintain a prudent risk appetite, as Clifford has talked about, and we will engage on a proactive basis to support any customers that face difficulties. Although the environment we all know will be challenging, we remain of the view that we can deliver targeted growth across all of our products. And this is especially true, I think, given our brand, our digital momentum and the partnership with Virgin Group.

We are accelerating our digital capabilities, as you can see, to support this targeted growth. And we expect strong NIM performance from a combination of higher rates and mix optimisation. And at the same time, though, we will continue to manage our costs to deliver, as Clifford said, on a net cost income ratio of below 50% in '24. We're obviously also on target to deliver a statutory RoTE of circa 11%, as Clifford said, and we will return to our target CET1

range of 13 to 13.5% over the next two years. It's our intention to maintain our distribution strategy and mix as we return excess capital.

Okay, so after our questions today, you'll be able to pick up a QR code from the lobby and that will provide access to demo videos of the wide range of digital products we have, including the digital wallet. But we'll also make them available to those who aren't in the room via email shortly.

So that concludes the presentation. Thank you for your attention. And we'll now open up to questions.

Rohith Chandra-Rajan, Bank of America

Thank you. Thank you very much for the presentation. I wondered if I could ask a couple of questions just on the guidance for next year, because there's clearly a lot of moving parts in a lot of the P&L lines. So firstly, on the margins, Clifford, you mentioned you expect tight mortgage spreads. Those have been quite volatile, particularly in the last two months. So I guess firstly, you know, the Virgin Money brand has pulled out of the market for a short period of time. So if you could explain a little bit exactly what was going on there and then what's happened to spreads over the last couple of months and then what's embedded in your margin guidance in terms of mortgage spreads for 2023? So that would be the first one.

And then on costs, again, if you could help us break down, I guess, the moving parts. So, for example, you mentioned 10% wage increases implemented through the course of 2023. So how should we think about underlying inflation moves in terms of costs? And then how much of the remaining £105 million cost savings do you expect to deliver in '23? And then offsetting that, how much to be reinvested? Thank you.

David Duffy, Virgin Money UK PLC

Thanks. Clifford, maybe I'll make one comment, but if you cover the mortgages and the cost dynamics.

You mentioned there that we've pulled out of the market and what was going on there. I think the entire market had pulled out within three days. So I don't think we were exceptional. And then we were among the first back in and then the entire market was in within three days. So I think that was just market behaviour at the time. So nothing specific drove that at all. But maybe on the margins, Clifford, and on the cost dynamics as well?

Clifford Abrahams, Virgin Money UK PLC

We've seen strong margins in mortgages maybe a year or two ago, and then margins really quite squeezed, up until the summer as swap rates moved up and customer rates struggled to keep up. We saw that margin squeeze. I think encouragingly, we saw some normalisation of spreads during the summer ahead of the September volatility. So spreads really quite low prior to the summer, maybe low tens; spreads normalising through the summer towards three figures and then spreads really tightened as swap rates spiked around the mini budget. And that caused that volatility in the market and the behaviour that David indicated.

Now, as swap rates have come down, you've seen mortgage rates start to come down, but at a slower pace, so spreads normalising. So our expectation for full year '23 is I'd call it more normal spreads, you know, plus or minus about 100 basis points, getting towards that level. Still a dilution on our book mortgage spreads, which are in excess of that, I think in common with the industry. So I think that gives you a feel for what we're seeing on spreads. I think as

swaps have stabilised, I think that gives time for the market to normalise so all players deliver appropriate returns.

I think, around costs, you know, we're pleased to announce our 10% pay review figure - that's paid in two instalments, 5% and 5%. And the net impact of that is an average of a 5% pay rise in our full year '23. And that's a primary driver of, I'll call it inflation for us and others, which is pay. A number of our other costs are fixed at least in the short term, so property, for example, some of our longer-term contracts. But we do see inflation coming through some of our third-party suppliers, which will phase in over time.

So what we're expecting in '23 and '24 is continued progress on our cost income ratio and we're really focused on cost:income. As we said last year, that's our primary target and I've reconfirmed this today. So it’s cost income ratio where inflation and rates move somewhat in tandem. That's what we're focused on and that's what underpins our ROE guidance for full year '24.

Now having said that, we did indicate broadly stable costs in full year '23 because we wanted to give a feel for where we're coming out. And you can see for us, that means plus or minus low single digits. But we're comfortable, given the progress we're making on our cost savings, the momentum, the pipeline we've built up, we're comfortable that we can absorb growth and that wage inflation at least for full year '23.

Rohith Chandra-Rajan, Bank of America

Thank you very much for that. So just on the on the cost savings, you’ve generated £70 million so far, the target's £175 million. And I think previously you said you'd expect to reinvest about half of it.

Clifford Abrahams, Virgin Money UK PLC

That's right.

Rohith Chandra-Rajan, Bank of America

You've done a little bit more than that so far, but I guess that includes inflation. But how should we think about that £70 million progressing in '23?

Clifford Abrahams, Virgin Money UK PLC

I won't give a guide on that phase. I mean, we did say last year that costs would be broadly stable, full year '22. So we're very clear on that given the shifts in our amortisation. We're making good progress on our cost savings. The figure of £175m where we quote it, is gross annualised. Now that earns through and you can see it's earned through £70 million already in full year '22. We expect to earn through further savings in '23 from the work we've done previously as well as future work and that gives us confidence regarding our cost income ratios. We won't be guiding specifically on nominal costs for '24.

Rohith Chandra-Rajan, Bank of America

Okay. Thank you.

David Duffy, Virgin Money UK PLC

Thank you. Over here to the left.

Andrew Coombs, Citi

Good morning, it's Andrew Coombs from Citi. One slightly technical question, one much simpler question. Cash flow hedges - can you give us an idea of the pull to par effect and what's baked into your 2024 ROTE for the cash flow hedges? That's the first question. Second question is much simpler. Fifteen per cent core tier one ratio. You're guiding to 13 to 13.5% in '24. Why have you only announced a 50 million buyback, why not a lot more?

David Duffy, Virgin Money UK PLC

Great, thank you, Andrew. Did you want to pick up the first one, Clifford?

Clifford Abrahams, Virgin Money UK PLC

Yes. So I'd point you to page 48 in the presentation pack. So we've indicated that the cash flow hedge reserve increased around £700 million year on year. We've also guided in the penultimate bullet that we expect average balances in the cash flow hedge to decline to less than £250 million. So there's some dilutive effect of the cash flow hedge in '24, around 50 basis points, but it's much more modest. Now, clearly, that could decline quicker or slower depending on where rates are and we've used current rates in how we've guided here.

David Duffy, Virgin Money UK PLC

If I just pick up on the buybacks, Andrew. I think it's a judgement call. We're in an uncertain environment. We're very clear that we will get to our target rate of capital in '24. And we are clear that we are migrating there with 14% in '23. So we're sort of saying let's take a path to a very substantial distribution, but we felt that this was the right judgement at this time on that journey.

Andrew Coombs, Citi

And I guess in your judgement, when you're talking about potential for substantial distributions, just to use your own words there, what would you need to see either in the second half or going into next year in order to pull the trigger on the substantial potential?

Clifford Abrahams, Virgin Money UK PLC

I think there are a few things. We thought it was helpful to say, frankly, our expectations remain above 14%. So we wanted to sort of bracket expectations because the current world is uncertain. I think all the usual things that you'd expect, we want to be confident regarding RWAs, we flag hybrid and the Basel 3.1 consultation and will have made, you know, very good progress on all of that through the back end of this year. We flag the stress testing which is well underway. I think IFRS9 is something we're all still working with, although it's been in operation for a number of years. I think the expectation is IFRS9 will look ahead in terms of booking provisions. You can see we've seen some of that already and I think a stable outlook, perhaps even a positive outlook, is something that would give any Board confidence in meaningful buybacks. But we've given this two-year time frame because we feel that there's every expectation that this next recession will have run its course, and particularly with IFRS 9, we will have crystallized those impairments up front. And, you know, the surplus -- we've given you guidance on ROE; we've given you guidance in RWAs. So I think that should give you a feel for what will likely be substantial buybacks over the course of this next two years.

Andrew Coombs, Citi

Thank you.

David Duffy, Virgin Money UK PLC

Thank you. I think we have one over here just in the third row.

Grace Dargan, Barclays

Thank you. Hi. Grace Dargan from Barclays. Just on your RoTE for '24, why could that not have been in 23? And I guess what are the key risks maybe to that happening sooner aside from just backdrop?

And maybe secondly, just touching back on the capital and buybacks and thinking about RWAs, are you concerned about pro cyclicality into next year? And is that part of the uncertainty? And I guess if so, how should we be thinking about that? Thank you.

David Duffy, Virgin Money UK PLC

Thanks. Clifford?

Clifford Abrahams, Virgin Money UK PLC

Yeah, I think -- we've guided to '24 consistently from last year because we see that as a normal year. I think there are two things. One is the -- our restructuring program, which will be very largely done by '24. So we said the substantial part of the remaining restructuring costs will be incurred in '23. So expect some in '24, but meaningfully more normal. That's one factor. I think the other factor is, look, impairments. So we've guided to 30 to 35 basis points cost of risk in '23. I would say we're not going to guide to '24 as of today, but there's, you know, there's real uncertainty around what '23 would be. I think it's reasonable to assume cost of risk would normalise in '24. That's the basis of our 11% guidance.

Grace Dargan, Barclays

Thank you.

David Duffy, Virgin Money UK PLC

Thanks, Grace. Do you have a follow up?

Grace Dargan, Barclays

RWAs?

Clifford Abrahams, Virgin Money UK PLC

Yeah, I think on RWAs we, given our approach, we feel that our RWAs are quite resilient. We're not expecting material sort of credit migration. I think the hybrid model by design is more resilient and we've guided to some step up there and I expect it to be resilient after that. We're on the standardized approach for Unsecured cards, we're on the foundation approach for Business. And so while our RWA intensity might be a bit higher than some other banks, the consequence is it's a bit more resilient to adverse movements in the credit environment. So we're not immune but that should give you a bit more confidence in sizing that -- those possible buybacks.

Grace Dargan, Barclays

Perfect. Thank you.

David Duffy, Virgin Money UK PLC

Thanks, Grace.

Martin Leitgeb, Goldman Sachs

Yes, good morning, Martin Leitgeb from Goldman Sachs. Could I ask two questions, please. One on risk to loan growth and second on pricing in unsecured. And I was just wondering, I mean, thank you for the disclosure about the affluence in terms of your cards book. And I was just wondering, could there be a situation or a risk that part of this cohort of more affluent clients use some of the excess savings which have built up since the pandemic to repay some of the mortgage debt, some of the credit card debt? And could this impact the outlook for loan growth in '23, '24?

And secondly, I was just wondering if you could comment on how pricing trends have evolved in terms of Unsecured so both personal lending and credit cards? Thank you.

David Duffy, Virgin Money UK PLC

Great. Maybe I'll pick up the first point and then Clifford can talk about pricing. I think the reality is we haven't seen any of those behaviours in terms of a prepayment model. We see the affluent customers in the cards book, the substance of their spend is on discretionary and more luxury items. So they may taper back some of the luxury end or make a little bit of a cut. But I would see slower growth, which is how we've targeted it next year, rather than repeating what was a very high growth rate last year. So I think we're anticipating that slowdown in growth, but still net growth. And to date, none of those behaviours have manifested throughout the book, but we'll watch it closely.

Clifford Abrahams, Virgin Money UK PLC

Yeah. On cards we have seen some repricing today and we've done some. So we're a big player in the balance transfer business, as you know, and our leading rate now is two years down from over 30 months before the summer. We've seen the competition sticking around there, but I expect it to come down to the sorts of levels that we've been delivering. We've also seen some pickup in the headline APR rates from some of our competitors, including us. So I think it's fair to say, though, that the unsecured market clearly responds slower than the mortgage market.

Martin Leitgeb, Goldman Sachs

Thanks very much.

Ed Firth, KBW

Sorry. Thanks so much. Ed Firth from KBW. Can I ask you about acquisitions because obviously you've got a lot of surplus capital now. There are a number of banks around that don't have a lot of capital. And then there are other books available and various other bits and pieces and we're starting to see a lot of talk of inorganic growth among other banks. I just wondered how you look at that. You know, are you interested if other books that are available, particularly books trading at a discount or other banks that are available? You know, what's your general sort of feel internally?

David Duffy, Virgin Money UK PLC

Yeah, I think we've tried to be relatively consistent, Ed, on this over the past. And I think what we're not a fan of or focused on is large, complex acquisitions. I think the value of the Virgin acquisition was a more simplistic integration without all the current accounts etc. And we sort of would be open minded if we saw small bolt on or things which were, you know, specialist

which were complementary to our portfolio, but it's very much that spectrum. Right now, even with that said, we're not actually focused on that. We're really focused on the digital leverage and the performance which we have as an underlying momentum. So not a big focus for us and certainly not at the complex end.

Shall we go to the phone lines now?

Operator

Our first question comes from Ed Henning of CLSA. Ed, please go ahead.

Ed Henning, CLSA

Thank you for taking my questions. Can I ask a couple of questions on the margin? Clifford thank you for the disclosure today. Can you just give us a little bit more on the deposit pass through rate? You talked about it being low obviously in this half, but you know, how much are you anticipating that to pick up in '23? Also, what have you assumed for the yield curve rolling through there in '23? That's the first question, please, and then I'll get onto a second one.

David Duffy, Virgin Money UK PLC

Thanks, Ed. Clifford?

Clifford Abrahams, Virgin Money UK PLC

So, in terms of interest rate assumptions, I would say we're bang up to date in terms of consensus. So, our view on base rates is peaking at 4.5% next year, next calendar year. And the five-year swap rate around 4%, so it's a little bit lower than that today - it's anticipated by the market to be sort of flattish and then come down at the end of next year. So I think you can run your own assumptions and models based on the sensitivities we've given. My view is things will stabilize, or have stabilised at this level and you know, it will depend on news flow, but I think it's clear that the Chancellor is looking for stability.

In terms of pass through, we set out the sensitivities. Our pass-through assumption in those sensitivities is around a third. We evolve our pass-through assumptions depending on where rates are, so rates are a little bit higher than they were last year. I think it's fair to say our pass through has been less than that in this last phase of the cycle. I'm not going to speculate on whether we'd catch up or meet or exceed those pass-through assumptions, but I think you can make your own assumptions.

David Duffy, Virgin Money UK PLC

Ed, any more questions?

Ed Henning, CLSA

Yeah, I do. Thank you. Sorry, the phone line just broke up there. The second question is, you look at slide 19, you can see, you know, strong income growth rolling through in FY24. And then if you look at slide 24, you run through income driven by NIM-expansion, non-interest income growth rolling through there. Can you just give us a little bit of a breakdown of how you're thinking about that and how you're thinking about the expansion, especially if you're using the yield curve? I imagine the yield curve starting to come back in '24. So that would create a headwind on your margin. But you think that's going to be offset by your product mix? Is that correct?

Clifford Abrahams, Virgin Money UK PLC

I think broadly, yes. I think -- if you look at page 15, we've highlighted the drivers through '23. I think while the swap curve went up and it's come back down again; the five-year rate went up higher than 5% and it's come back down to 4%, there's still a very considerable pick up between the roll-off of our structural hedge that we talked about in my script, of 50 basis points versus the around 4% that we're currently seeing. Now even rolling that forward, if that 4% starts coming down, there's still quite a pickup. So we expect the NIM expansion to play through the structural hedge really for quite some time. So that's very much a tailwind.

I think we've also talked about average interest earning assets, those 2 billion, and that's worth around four basis points. So the 185 to 190, although our exit NIM of 186 is in the range, will be at the low end, we think is an upgrade on exit rate because the 185 to 190 absorbs that four basis points of dilution from the liquidity.

So we've talked about deposit pass through. The deposit margins reflect the pass through that’s in our assumptions of around a third. So that will continue to be a tailwind as base rates rise through next year. Now, I think the risk issues, I think we've discussed, mortgage spreads are likely to be dilutive through that period given the solid spreads that we've got on the back book. But we have confidence that we can grow some of those higher margin areas that David talked to throughout. So I think that should give you a feel for our income and why we're comfortable reconfirming the less than 50% cost income ratio, notwithstanding cost inflation that we expect certainly in '23 but also likely in '24.

Ed Henning, CLSA

No, that's great. Thank you for your time.

David Duffy, Virgin Money UK PLC

Thanks, Ed. Any other questions?

Operator

Our next question comes from Benjamin Toms of RBC. Benjamin, the line is yours.

Benjamin Toms, RBC

Morning both, thank you for taking my questions. Just one for me please on regulation. You flagged Basel 3.1 as a potential RWA headwind. Could you give any color on the range of potential outcomes from Basel 3.1? I think one of your peers, namely Paragon, has put a number on it based on certain assumptions, and which parts of the regulation represent the biggest risk, is it the treatment of buy-to-let? If it is the treatment of buy-to-let, should we think about you as being less impacted than some of the specialist peers as you have less landlords with five or more properties, which is the best guess of where this regulation could be rolled out at. Thank you.

David Duffy, Virgin Money UK PLC

Thanks, Benjamin. Clifford?

Clifford Abrahams, Virgin Money UK PLC

Yeah. We've given guidance on the hybrid, the £1-1.5 billion possible uplift. Now that I think, for those folks who have been around a few years, we thought that was more benign impact

a few years ago but we have since seen the benefit of HPI reduce our RWA intensity. So that £1-1.5 billion, effectively I would call it, normalises RWA intensity mortgages. I mean, that's yet to go through the final regulatory process. I think it's fair to say buy-to-let is an area of risk that we, the regulator, are all focused on, certainly in this current cycle. So I think buy-to-let is a headwind; our book is roughly a quarter buy-to-let to give you give you a feel.

In terms of Basel 3.1, we're expecting the consultation paper out shortly. I think that would be implemented in a couple of years. There are some pluses and minuses in what's mooted in terms of the individual initiatives that are proposed. I mean, we are hopeful that they net themselves out, but we don't know. We don't know particularly what the regulators view on capital might be going into this next cycle.

I think also -- I think as you're aware, there's an output floor proposed in terms of a phasing in of the percentage of standardised versus IRB and the higher of that, and it's possible that that would become the binding constraint for us in a few years' time, but we'll guide to that over the next year or two as details become clear. In a previous role, we were constantly anticipating Basel IV, as we called it then. And I think what gives me comfort at Virgin Money is our RWA intensities are pretty moderate. I talked about our standardised approach. The hybrid model will also restore it to a moderate, a more moderate RWA intensity. So we're less vulnerable than perhaps some other banks, either here in the U.K. or in Europe, to substantial change from Basel 3.1.

Aman Rakkar, Barclays

Thank you, it's Aman from Barclays. Just one on capital. I think I was surprised last year to hear it and to hear it again today. Could you just help me understand exactly what it is about the stress test that holds the key for distributions? Is it around your PRA buffer and how big that is? Because I think when I look at your MDA, even fully factoring in the 2% countercyclical buffer, there is a big gap between your target. So what exactly is it that the stress test unlocks for you?

David Duffy, Virgin Money UK PLC

I mean, one comment is that the stress test results don't come out until the summer and you're front running the regulator if you jump ahead of that. So whatever our judgment will be, I'm never that comfortable front running a regulator. So I think it's more of a logistics and timing. We tried to flag over the last time that the delay in the stress test means that the results are in September. So we've guided to a full year disclosure of the buyback. There's nothing more than that.

Aman Rakkar, Barclays

Is there any sense that the regulator needs to sign off on these kinds of discretionary distributions? Do you need to get express permission from the regulator to do the buyback?

Clifford Abrahams, Virgin Money UK PLC

Yes. I mean so David's summarised it very well. We're very pleased with the results of our inaugural stress test. We said in June that we'd like to align buybacks to May after we have the stress test results, then the Bank of England changed the timetable. We need explicit approval from the regulator for discretionary buybacks. As David said, the time to get that approval is when the stress test is being completed or we're way early in the process, which is where we are now.

Aman Rakkar, Barclays

Thank you.

Operator

Our next question comes from Chris Cant of Autonomous. Chris, please go ahead.

Chris Cant, Autonomous

Good morning. Thanks for taking my questions. I just wanted to think a little bit more about your 2024 RoTE guidance, please. A few niggly points about the TNAV to CET1 bridge if I may. So Clifford you indicated on slide 48 that the sub £250 million cash flow hedge reserve you expect in '24 is based on current rates. Just wondered if you could clarify if you mean current market path for interest rates or 3% rates within that?

And related to that point, on slide 47, you give us some disclosure around your pension. I think you're effectively telling us that it's already known, the Triennial for the end of '22 and that that's now an actuarial surplus. So should we be assuming that there's no further funding contributions to be made now, given that you're in an actuarial surplus? Just trying to think about what the pension deduction might be in 2024.

And then finally, within the capital bridge, intangibles obviously have another IT adjustment. What should we be thinking about in terms of a capex rate from here? Should we be expecting intangible assets to be growing on the balance sheet between full year '22 and '24? And if you could give us an indication of how much that might be? That will be very helpful. Thank you.

David Duffy, Virgin Money UK PLC

Thanks, Chris. So three questions there, Clifford?

Clifford Abrahams, Virgin Money UK PLC

Yeah. So in terms of the cash flow, page 48, that reflects current yield curves. So I gave the example of the five-year swap at 4% coming down; so not the base rate.

I think on page 47, we're pleased with our trustee valuation basis and you can see that purple bar of roughly £250 million. So that gives us sort of headroom, if you like, on valuation, but we need to see where that process lands. So not prejudging, but we are comfortable and we haven't made pension contributions this last year reflecting the strong position of the pension fund.

I think the final question - yeah, I think we won't give specific guidance. What I can say is that over the last two years, we've very materially changed our approach to capitalisation and amortisation. I mean, we've done the write-off this year and the one prior year and in the small print, you can see we've made it much harder to capitalise projects. We still will be capitalising some projects, but they need to be very large projects, meaningfully more than our limits, which is around £5 million. What I can say is that intangibles will be well controlled going forward and we are also currently completing at least one big project which we flagged, which is our mortgage re-platforming and a number of other changes that David flagged today are really around evolving the overall technology landscape, which is built into our opex plans.

Chris Cant, Autonomous

That's really helpful. Thank you. If I could just ask one follow up just in terms of the impact of your capital return plans, when we're thinking about the shape of your balance sheet into 2024. You're essentially telling us there is going to be quite a big step down in the CET1 ratio into full year '24 because all of your capital return for this year is going to be pretty back-end loaded into the fourth quarter potentially. I'm not sure how your buyback is on the summaries, I think there's still a little bit that was running into November, this £50 million is presumably going to play out over a similar kind of period. Any buyback that you're announcing in 4Q of '23 in the wake of the stress test, in order to get CET1 ratio down into that range to operate in the 13 to 13.5% in '24, that could be quite a large programme and take quite a long time to play out.

So presumably your guidance into '24 is 11% RoTE. Are you factoring in there running with quite large foreseeable capital deductions or foreseeable distribution deductions within that bridge from CET1 to TNAV? So if you announce a big buyback in full 4Q of '23, it will hit your CET1 for the beginning of '24, but actually that deduction is probably going to be in place for quite a lot of that year just in terms of the pace in which you've been doing these buyback programmes so far. Is that fair? Thanks.

Clifford Abrahams, Virgin Money UK PLC

That's broadly right. I think just listening carefully, I think, you know, we've flagged that we will consider buybacks at the end of full year '23, so around 12 months from now and we've set that 14% as the sort of lower limit. So there's a possibility there, notwithstanding RWA headwinds. When we announce a buyback, we will book the full impact of that on CET1 and I think that's becoming the more common treatment. We've guided to getting into the range at the end of full year '24. I mean, we're hopeful the recession will have played itself out between now and then but that can't be sure, and our ROE guidance with reflect that.

So you can see that we are, you know, we're confident to upgrade our ROE guidance from 10 to 11%, that we have -- we've absorbed, if you like, the dilutive impact of the cash flow hedge. And, you know, rates are materially above what they were this time last year when we were guiding to a floor of 10%. So we think that's balanced guidance. We don't have a crystal ball, but we're confident in the sort of earnings power of the franchise into '24.

Chris Cant, Autonomous

Okay. Sorry, maybe I misheard you earlier in the presentation. I thought you are planning to be operating in the range during '24?

Clifford Abrahams, Virgin Money UK PLC

It's effectively end of '24.

Chris Cant, Autonomous

Okay. Thank you.

Operator

Our next question comes from John Cronin, of Goodbody. John, the line is yours.

John Cronin, Goodbody

Morning. Thanks for taking my questions. Just a quick one from me. It's on the buy-to-let book. Can you give us a sense of where interest coverage ratios currently reside broadly? Understanding that the portfolio is predominantly biased towards individuals with one property or fewer than four properties, I guess, can you give us any kind of sense of the distribution of that or the percentage of the book that relates to professional landlord lending, for example? Thank you.

Clifford Abrahams, Virgin Money UK PLC

Yeah, I mean, the average buy-to-let interest cover is around 150%. In terms of our weighting, you know, our franchise is very much focused on those sorts of smaller portfolios. And we'll pick up the details separately, I think.

John Cronin, Goodbody

Okay, thanks.

David Duffy, Virgin Money UK PLC

Should we come into the room here?

Perlie Mong, KBW

Hi, it's Perlie Mong from KBW. Can I just ask you one quick question on funding profile, really? So I guess customer deposits came down in the half, but wholesale funding has gone up, and of which, actually the biggest increase looks to be TFS and TFSME. So obviously, that is subsidised funding.

And I guess in this environment, there have been, you know, talks about, you know, banks taking subsidised funding on the one hand and then not passing it on to customers on the other hand, etc. So I guess in the case that, you know, if that is, you know, run down or cut short or whatever it is and you have to find more funding, and I know you've increased relationship deposits a lot, but historically I think Virgin Money is relatively high up on the various league tables when it comes to sort of fixed term savings, that sort of thing. So just wondering what your thoughts are on funding cost going forward?

David Duffy, Virgin Money UK PLC

Great. Thank you. I'll make one comment and Clifford can take you through how we've done. But actually, funding is one of the things I'm most pleased with in the bank, in the sense that our agility and tactical capability in the marketplace has been really strong. We did a significant amount of funding in the wholesale side through a very difficult market at very effective pricing. And secondly, our sort of normal funding, we did over a billion last month, which is, you know, a record in terms of our capability. So I think the encouraging thing is that we have a very powerful funding capability, but maybe, Clifford, you want to describe some of the dynamics for the question?

Clifford Abrahams, Virgin Money UK PLC

Yeah, a few things going on in '22, so I'll talk about that and then talk about the future. So looking at slide 13, as David said, we've been really pleased with the growth of our relationship deposits. So that's current accounts, business, retail, and linked savings. And there the cost of funds is quite modest and we've let our non-relationship term deposits come down. You can

see from September to September that's come down and as a result, the total stock of deposits has come down and we've let the wholesale market take the strain there. We have seen, I think, choppy market conditions through the fourth quarter and I've talked about the requirement for incremental liquidity - so we put the number on it - £2 billion extra liquidity required; some of that coming in the form of collateral, but some of it reflecting increased liquidity requirements in the context of that. So accessing TFSME where markets are choppy is a sensible thing to do. We've also accessed the wholesale markets a number of times last year, whether that's AT1, RMBS or Covered. We've been keen to demonstrate, you know, our wholesale franchise and have successfully done that and I think differentiated from many of the smaller banks; and we're very much by the wholesale markets, considered part of the bigger banks.

So this reflects a September '22 position. I think going forward, I think we've talked about our wholesale, we will be regular wholesale funding issuers - £1.5-£2.5 billion. We don't need more capital issuance in the short term. We'll have MREL to refinance. I think we are more cautious around wholesale market spreads, really post QE and all of that we've factored into our NIM guidance and our ROE guidance.

Operator

Our next question comes from Victor German of Macquarie. Victor, please go ahead.

Victor German, Macquarie

Hi, it's Victor German here. I was hoping to see if you could maybe give us a little bit more clarity on the strategy around the two observations you've made earlier throughout this call. One, on your conservatism around not returning capital given an uncertain environment and then at the same time, your desire to continue to grow your credit card book. Appreciate that you're saying that you're writing better quality loans, but still it's a risky part of the book. Is this the right time to continue growing this part of the book?

And also, if you're thinking about sort of the return profile, presumably, given where the stock is trading at, it would be much more accretive for you to do the buyback as opposed to grow credit cards. So maybe if you could give us a little bit of a sense of what sort of franchise value do you see in growing that part of the book. Thank you.

David Duffy, Virgin Money UK PLC

Sure. I'll take up some on the credit cards and maybe on capital, Clifford will follow on from that. So the credit card book, just to be very clear, is going to grow at a much lower level in our planning. So we're not planning to achieve the levels that we had last year. You talk it being a much riskier book; it's actually a very affluent profile of homeowners with high incomes, and 80% of their spending is in the discretionary / luxury category. So we see a steady growth, but small growth in that as opposed to very significant growth. So I'm less concerned about that in terms of risk and also its impact on the overall buyback strategy. But Clifford?

Clifford Abrahams, Virgin Money UK PLC

We're serious about our capital targets that we announced in June this year. So we're committed to returning to within those guardrails, but we need to do that over what we call a sensible time frame given everything going on; I think that's well understood. We've announced our second buyback today, so you can see that the Board, David and I are committed to buybacks. In terms of the returns we see on new business, we see good returns

in the areas that we're targeting for growth in terms of SME business and Cards. We talked about repricing earlier. We'll pursue moderate growth there given the credit environment, but we do see growth opportunity at attractive returns. And importantly, we see the business as a real growth franchise following the integration and rebranding. We've demonstrated some of that growth; we'll be realistic about growth, but I think the thing that perhaps marks Virgin Money out in an inflationary environment is that it's important to see some top line growth, notwithstanding our efforts and progress around costs, maintaining costs stable which we've indicated in '23. We're working quite hard. We'll continue to work hard in '24 and beyond. But it's important to continue to open the JAWS and we see opportunities to do that and that will underpin our ROE guidance of 11% in '24.

Victor German, Macquarie

And do you see much in terms of the cross-sale opportunities from growing your book?

David Duffy, Virgin Money UK PLC

I think that that's part of the mix for the future. We haven't quantified anything yet, but as we look at the Wallet rollout and look at the scale of the Group and we look at the opportunities that we see there over the next couple of years, certainly we're bringing the full offering of the Group into our universe and similarly our universe into the full Group ecosystem. So there will be much more visibility in both directions, and I think there will be a cross-sale lift quite significantly over time, but we just haven't quantified that at this stage yet.

Operator

Our next question comes from Jonathan Pierce of Numis. Jonathan, please go ahead.

Jonathan Pierce, Numis

Hello. Good morning, both. Couple of questions. The first one, please, on the forward-looking provision. The base case has still got a little bit of GDP growth into 2023. Accepting the weighted average is more negative, if you were to revise lower some of the base case assumptions in the first or second quarter of this financial year, how are you thinking about that regarding the interplay with PMAs? I mean, I note in the footnote on page 45, I think it is in the press release, you talk about how the PMAs have been scaled to some extent and take account of more recent economic deterioration. And I just want to check within your 30 to 35 basis point cost of risk expectation for 2023, that is taking into account presumably any modest changes you may need to make to those forward-looking provisions in the nearer term. That's question one.

Question two, the DTA stock as it relates to carry forward losses clearly remains huge at just over £300 million. And you repeated again in the release today that you expect that to come back over six years. Aside from profit growth, is there any reason why the release of those DTAs and the benefit they will bring to capital over and above your accounting earnings would be anything other than fairly linear? So circa £50 million additional boost per year to the CET1 base from the DTAs unwinding. Thanks a lot.

David Duffy, Virgin Money UK PLC

Thank you, Jonathan. Clifford?

Clifford Abrahams, Virgin Money UK PLC

You can tell we're toward the end of the questions can't we, when we're talking about tax. On page 38 in our presentation, I would focus on the weighted average in terms of our scenarios where you can see actually -1.5% GDP contraction in '23 and then recovery in '24. And we've looked at this versus the OBR. We're more or less in line with the OBR, we think. The Bank of England is a bit more cautious. Your figures are right. If you if you look through the details of our disclosures, you'll see that the delta on the ECL between weighted average and downside is around £80 million. So on that page 38, that downside is a pretty scary downside and if you run that through our models, that would result in another £80 million of ECL provisions and you've noted our PMAs of around £80 million and actually as we noted on the slide. So that should give you a feel. I mean, you've seen other banks, including us, releasing COVID provisions when they're not -- when they're not needed. And PMAs, you know, from experience, those things are there to be either released or used. You wouldn't keep them for many years. So all of that is behind our expectation of 30 to 35 basis points. We think, as of today, that's the sort of best sort of guidance we can give for '23, and that's the basis of our ROE guidance for '24 as well.

On DTAs, I think that's a decent assumption. You know, we will not go through modeling that, but we think that's a decent assumption around capital.

Jonathan Pierce, Numis

Okay. Thank you.

Operator

With that, I'll hand back to David for closing remarks.

David Duffy, Virgin Money UK PLC

Okay, great. Well, don't worry, I'm not going to speak for long, but thank you for the time. And as you know, we're around and you can contact Richard for any questions. And for those of you in Australia, look forward to seeing you next week. Thank you all.

[end of transcript]