Virgin Money UK PLC Interim Financial Results 2021 – Presentation Transcript

Hosted by David Duffy (CEO) and Clifford Abrahams (CFO)

David Duffy, Virgin Money UK PLC

Good morning everyone and of course, good evening to those of you who are in Australia. Welcome to our H1 results presentation and thank you for taking the time to join us.

Before we begin, I'd like to welcome Clifford, our new Group CFO who joins me today to deliver his first set of Virgin Money results. Our presentation today will take approximately 30 minutes and will be followed as usual by a live Q&A session. Let me begin our presentation with a summary of our performance which you can find on slide 4.

Our financial performance for the first half of '21 improved across the franchise and we delivered a statutory profit of £72m and our underlying profit more than doubled to £245m, due to lower than anticipated impairment charges which is similar to the industry. Our NIM improved in the early part of the year from 152bps in Q4 to 160bps in the second quarter, and that translates into a 156bps for the first half. And this improvement reflects our continued success in reducing the cost of term deposits and also improving our mix and we have benefited from some improved lending spreads. I think we are pleased to announce that given this performance, we are upgrading our FY21 NIM guidance and now expect NIM to be around 160bps for the full year.

Our deposits have also grown, up 1.5% in the first half of the year, and particularly importantly we have seen our relationship deposits rise 12% as consumers and businesses continued to maintain higher balances during the lockdown. As you also know, we have managed our loan book cautiously through the early part of the year, and this has been particularly true in mortgages where we prioritised price over volume. Our business lending has remained stable and frankly personal lending performed solidly, despite a reduced demand for unsecured lending.

Our H1 costs of £460m were down 1% year on year, however, during the lockdown we have had to re-phase some of our activity and our cost initiatives and we now expect to deliver slightly below £890m for the full year. We will deliver these re-phased cost reductions in the first half of 22, as well as other opportunities that have arisen as a result of the pandemic and I will come back to those shortly.

Our asset quality has remained very resilient across the book, and we have not incurred any material specific provisions or experienced a deterioration in asset quality across any of our portfolios to date. Our H1 charge for the cost of risk was therefore 11bps and we expect that the cost of risk will remain subdued for the rest of this year but is likely to trend higher next year for obvious reasons. Although we have refreshed our economic scenarios to reflect this more positive economic outlook, we have not yet experienced the pandemic without government support, and so we have decided to maintain our prudent provision levels of £721m, with coverage remaining broadly stable at 100bps.

And finally, CET1 strengthened in the first half to 14.4%, which is 13.9% if you exclude the software adjustment, and this leaves us with a management buffer of circa £1.3bn above our minimum regulatory requirements.

So, let's turn to the future. I've set out here the latest economic outlook from Oxford Economics and you'll see that the economic backdrop has improved markedly from the time we announced our full year results, and this has been driven by a few factors. The biggest driver of all is that the vaccination programme roll-out has exceeded expectations, but also that the Government has continued to extend support well beyond the original plans which has had a big impact and finally, we have also seen material injections of stimulus in the major economies of the world.

The Oxford Economics outlook for GDP has therefore improved, and their base case now suggests that the economy will recover back to pre-pandemic levels within 12 months. We are also seeing that consumer spending levels are recovering, and it is likely that that spending will continue to increase as restrictions are eased further. In April, credit card spending started to exceed the same period last year, rising to finish nearly 90% higher in recent weeks.

Equally, it's very important to understand the expectations for peak unemployment levels and these have reduced in the latest forecast, but we believe there will still be an economic impact from the forecast unemployment levels when government support ends. Another key indicator to watch closely will be how consumer behaviours will evolve around spending the large pools of savings that have been built up during the lockdown.

Whilst this improving backdrop does provide some scope for greater optimism, the recovery is still in its initial stages, and we think it is right to remain cautious until the full effect of the removal of Government support is understood. We are also a little bit conscious that we will be living with variants of the current pandemic for a period of time. Of course we hope that the vaccination will prevent further lockdowns, but I don't think at this stage that that can be guaranteed.

However, given this more optimistic economic backdrop and the strength of our capital, our funding, and our provision profile, our top priorities going forward will be to reduce the operating costs of the business, to accelerate our digital transformation, and finally, to build our customer franchise and experience. Let me now turn to the implications of COVID on the operating costs of our business.

As you will recall, at Capital Markets Day in June 2019, we outlined our intent to become a purpose-led digital bank. The lessons we have learned during COVID have led us to conclude that we need to accelerate our ambitions around digital and in addition to improving digital service delivery, we see an opportunity to further reduce our costs using cloud-based technologies and faster and more effective tools and we see the opportunity arising in a number of ways.

Firstly, our customers have changed their behaviours materially. They have learnt how to be more productive using obviously new technologies and to optimise their time using video techniques, and this is true especially for small business owners who are often "time poor". COVID has provided these customers with a significant opportunity to become more efficient and better connected. And as a result of that trend, we are expanding our FinTech ecosystems and adding a wide range of services and in-app products to support those customers.

Secondly, following employee feedback, we will implement a predominantly remote working model. This "Life More Virgin" model as we call it, will offer our employees substantial flexibility and an ability to "live their best lives" both at work and at home. This approach will impact on the use of our head offices and our branch network and we expect that this will naturally lead to a reduction in the operating cost of the bank.

Thirdly, the delivery of technology solutions has been transformed by the pandemic as you know, and like many others, we have been able to deliver solutions in days and weeks rather than months and years but based on what we have learnt, there is a real opportunity to go further and faster and the key areas of focus will be the digitisation of our customer journeys and the automation of key internal processes.

I believe that if you look at the combination of our customers migrating to digital, the emergence of a more efficient bank operating model and the availability of these technologies and new ways of working, this will allow us to deliver a far more efficient cost outcome over the medium term.

So, what does it all mean? Well, as a result of COVID, we have had to re-phase some of our delivery on cost this year. But we will deliver this saving again in the first half of 22 and equally, we have identified the potential for additional cost savings in excess of our guidance, and we are confident that we will be able to deliver these savings in ‘22 and beyond. We have some work to do and we will complete that analysis of those costs in the coming months and will provide more detail of the impact of our cost guidance at the year end.

So, let me now turn to progress in the different areas of our business. As we focus on growth, it has been helpful that many large-scale projects like rebranding and integration and PPI are nearing completion and that allows us to focus management and resources towards the growth agenda.

As we return to this growth model, digital sales capabilities will be critical to our success and I’m pleased to say we are making good progress in this area, and the vast majority of our sales are now digital and we are well on the way to achieving our ambition which is to be at close to 100% digital sales in all products over time.

In addition, most of these sales are now Virgin branded and incorporate Virgin lifestyle propositions. We first launched our Brighter Money Bundles to retail customers, and we have seen a 90% increase in like for like growth in current accounts and this is a very encouraging sign of what the product and brand combination can achieve, and we will be developing similar propositions across our entire product suite during this year.

Partnerships are also a key driver of our growth momentum, and we’re making good progress in developing our technology partner ecosystem. We already work with a number of fintechs as you know in our retail area and in our business bank, we have signed up 7 fintechs and have a target of building to 20 partners by FY22. And lastly, we launched our Mortgage coach fintech app with 22,000 downloads to date and early signs indicate that there is quite a lot of potential to generate significant additional lending via this tool.

As we emerge from this phase of the pandemic, I am confident that the combination of our technology, brand, and unique propositions will allow us to build real growth momentum as we come out of the pandemic. That being said, we will be prudent in our origination in the short term until we understand how the pandemic will play out without government support, but we are optimistic about growing the balance sheet in the medium term.

Our loyalty and rewards programme is key to this growth strategy and we are working closely with Virgin Red, and the Virgin Group loyalty programme has now been launched and is expanding quickly. Customers who sign up now have the ability to earn and spend points across an ever-increasing range of companies and services. And encouragingly, more than 100,000 customers have signed up within the first two months, with plans by Virgin Red to grow to over 1 million customers within a year of launching, on this programme.

At the same time, we are working on our Virgin wine and charity bundles and I have already mentioned that these propositions delivered impressive growth in our current accounts. Virgin Red is also offering points incentives to the Virgin Group customer base to open a Virgin Money current account and the early signs have been very positive, and we’ll continue to explore that type of cross-selling opportunity with others, and target the 17 million Virgin customer relationships who have a strong affinity for the brand.

In addition to these bundles, we are also constantly adding new functionality to our products and our recent credit card cashback launch has seen more than 100,000 customers register already. The credit card has averaged a 10% cashback on purchases over the past few months and that’s industry leading and we are now expanding cashback to our personal and business debit cards later in the year and we believe that the combination of the Virgin Red loyalty programme and our loyalty strategies will provide very strong support for our growth ambitions.

Following the launch of our refreshed ESG strategy in November, the Board and I remain firmly focused on laying the foundations this year to become a leader in this area. It is probably worth highlighting a couple of recent deliverables; earlier in the year, we launched our Poverty Premium strategy and introduced Macmillan guides to support customers with cancer. These types of initiatives will enable us to support our customers when they are most vulnerable.

From an energy perspective, we recently switched to biogas. This means that all of our energy is now 100% sourced from renewable sources and this gives us a strong platform to continue building the momentum towards a greener future with our colleagues and our customers.

As we look forward to the second half of the year, we are delivering some innovative new products. For instance, we will be the first bank in Europe to have developed a framework to offer Sustainability-Linked Loans in commercial banking to all companies regardless of size and we are also on track to pilot a new green mortgage product in the coming months. Diversity also remains a key priority for me and I am absolutely committed to delivering gender and ethnicity equality and I will provide some revised targets at year end.

Overall I am very encouraged that we have been able to build momentum across a wide range of ESG initiatives, and as we build more momentum in this area, I expect to provide more detailed commentary in future presentations.

That concludes my overview of the business so let me now hand you over to Clifford to take you through the results in detail.

Clifford Abrahams, Virgin Money UK PLC

Thanks, David. I joined as CFO in March and I’m delighted to be here. I bring to Virgin Money considerable experience of UK retail financial services and more recently of banking in the Netherlands, which in many ways, is ahead of the UK in digital adoption. It’s great to be back.

What attracted to me to Virgin Money is the strength of our brand and its unique position to disrupt UK banking. The Bank has strong fundamentals and real momentum in our strategic delivery. We have a clear path to delivering double digit returns and profitable growth.

Turning to slide 11, as you know, we have followed a consistent strategy since our Capital Markets Day in 2019. Despite the distractions of COVID, we have made good progress on our four pillars and, as David described, we are now accelerating further our ambitions around digital. I’m convinced our strategic execution will deliver value to investors over time in three phases set out here.

Short term, we maintain our resilience through the tail-end of COVID, and you see that in our first half results. We continue to manage the balance sheet prudently with our defensive portfolio, stable provision coverage and a healthy CET1 ratio. We are now moderating our growth in lending until COVID is fully behind us.

Through next year, you will see improved returns, as our digital transformation lowers costs further and growth in our relationship deposit propositions supports NIM. As market conditions normalise in the medium term, we will tap into lending growth opportunities and deploy capital profitably.

I'm confident we will achieve lending growth medium term by utilising the power of our brand and our improving digital customer propositions, as David described earlier.

So in summary, our strategy will deliver value over time, through a phased approach that will first see continued resilience followed by further cost reduction. We have a clear roadmap to double digit returns, with the key elements of that improvement within our control, and the necessary foundations for a profitable, growth-led future.

Now turning to our results for the half year as set out from page 12. I'll comment on profitability first. David has given you the highlights and I'm pleased to report a strong performance, with underlying profits more than doubling year-on-year. That performance reflects improved NII, as NIM increased relative to the second half of last year by 7 basis points. Clearly, impairments are significantly reduced from this time last year when we first booked COVID related charges and with limited loss emergence in the portfolio this year to date. Other income at £66m reflects ongoing reduced activity levels, and costs are relatively flat. So taken together, this delivered a solid improvement in underlying return on tangible equity to 10%.

Moving now to statutory profit on slide 13. It's good to see a return to statutory profit for the Group in the first half of this year. You'll recall we took a £49 million charge related to PPI in the first quarter. There was an additional £10m charge in the second quarter and pleasingly that programme is now drawing to a close with no further charges expected. There was an £8m tax credit which reflects a deferred tax credit for historical losses that were recognised in the period, which more than offset the tax charge on profits.

I will now talk you through the details of our balance sheet, income, costs, provisions and capital. Turning to funding on slide 14. We saw customer balances continue to grow during the first half as customers saved more and businesses carry additional liquidity. As David mentioned, a large proportion of that growth was in current accounts, and as a result, relationship deposits increased 12% across the half. We improved our funding mix, reducing more expensive term funding during the period, which alongside repricing drove the overall reduction in cost of funds and our NIM expansion. We also reduced our wholesale funding given the growth in customer deposits, as maturing secured funding has not needed to be replaced. Taken together, we expect to see a continued reduction in the overall cost of funds during the second half of the year.

Moving now to lending on slide 15. You will see here that we're managing volumes prudently though this year as we navigate the pandemic. In our mortgage business, we entered the year more cautious on HPI and chose to prioritise margin amid strong market conditions with balances broadly flat during the half year. Business lending balances were also stable during the period as growth in government guaranteed lending offset lower BAU lending, where we remain focused on managing margin over volume. Personal lending continues to be impacted by tougher market conditions and declined by 3% over the half year. This was a resilient performance given the market context as we continue to benefit from a high proportion of balance transfer card balances, which are typically more stable then revolving credit facilities that rely on consumer spending.

As restrictions have started to ease in recent weeks, we have seen some encouraging signs in customer spending patterns, which we expect will support card balances in the second half of the year. And as we navigate the tail end of COVID and for the remainder of the year, we will continue to be focused on maintaining pricing discipline and underwriting criteria in what continues to be an uncertain environment. Looking ahead, we expect customer lending to remain stable during the second half of the year, and to grow after that.

Moving now to net interest margin performance on slide 16. I'm pleased with our net interest margin performance of 156 basis points in the first half. This reflects a strong improvement compared with the Q4 2020 exit rate of 152 basis points and with the second quarter of this year rising to 160 basis points, we are clearly showing good momentum. Deposits continue to be a big driver in that margin improvement, as the impact of deposit repricing actions play through and we continue to improve our mix. This resulted in the overall cost of deposits declining 20 basis points to 61 basis points.

From a customer lending perspective, the lower interest rate environment has contributed to a reduced gross contribution, with asset yields declining in the half. That is primarily influenced by reductions in headline mortgage pricing, lower yielding government-backed lending and competitive personal loan pricing. And as David mentioned, we are upgrading our guidance for this year, and expect NIM of around 160 basis points for the full year. That improvement also includes a modest benefit from our structural hedging programme, which we have restarted in Q2 and I'll now talk more about this on slide 17.

You'll recall, in Q3 last year, the Bank unwound the structural hedging position - we have now restarted. I'll explain why we changed and the positive financial impact. We unwound the hedge last year for two reasons. The yield curve was flat and so there was no benefit of extending maturity. At the same time, the Bank of England hadn't started consulting on negative rates and our view was therefore that the lower bound floor had been reached.

So, we saw neither a pick-up nor a need to extend duration last year. This year, things changed and so we have reintroduced the hedge. That is, the yield curve has steepened, and the MPC have made it clear that negative rates are in the policy tool kit. So by re-hedging, we benefit from extending duration and mitigate the downside risk of negative rates.

Now turning to the financial impact. Our decision to unwind the hedge last year locks in NII contributions as the previously hedged position unwinds. To remind you, our previous hedge was around £24 billion of notional and has been locked in at around 80 basis points since Q3 2020. 1/60th of this rolls off each month, the 2020 contribution was around £210m and that is gradually reducing out to FY25.

That existing contribution is unaffected by our decision to restart the structural hedging programme. The Group's hedging capacity is now around £26 billion, higher than last year, reflecting growth in current account balances. We have very largely fully re-hedged using swaps with an average duration of 2.5 years at an average yield of around 30 basis points. We expect that at current rates, there would be a benefit of around £60m in FY 2022 with a more modest contribution this year.

I'll now move on to non-interest income on slide 18. Our non-interest income during the first half remained subdued. Relative to H1 2020, non-interest income declined by £49m although that includes £16m from one-off gilt sales last year. When compared with the second half of last year, performance has been much more stable.

In our Personal division, our performance relative to last year has been impacted by lower credit card transaction fees as spending reduced significantly under lockdown. The removal of some overdraft fees following the High Cost of Credit Review also had an impact. Business was a bit more resilient but still lower than last year reflecting reduced activity levels. Mortgage income has been broadly stable and improved relative to the second half of last year with increased mortgage activity.

In the near term, we expect non-interest income will remain subdued until lockdown restrictions are fully eased and recover after that towards the end of the current financial year. We are working hard to develop further non-interest income opportunities over the medium term, including progress from our joint venture with Aberdeen. We are also working hard on building out our business banking fee-earning services.

Turning now to costs on slide 19. At FY20, we reported underlying costs of £917 million and targeted less than £875m for FY21. You can see for the half year, we have reported £460 million of underlying costs, in line with last year and relative to the second half of last year, our first half performance was broadly stable. We saw a continued good delivery on our cost saving programmes, however we have also had some one-off costs in the half year and increased our investment in cost saving programmes which will support our cost reduction through the remainder of the year and beyond.

So as we move into the second half of the year, we expect reducing costs, reflecting a good exit rate from the first half, together with additional cost savings as our transformation programme continues to deliver, including the benefit of that additional investment from H1. We will also see reduced investment spend and D&A relative to H1 and no expected one-offs. Given the COVID restrictions, we have seen delays in the delivery of some of our planned cost reductions and so whilst we remain confident of our trajectory, we are now targeting less than £430 million for the second half, which will result in less than £890m for the full year but with a strong exit trajectory into next year.

Looking ahead, we are accelerating our digital transformation activity to take further costs out of the business. We are of course striking an appropriate balance between cost reduction, the cost to deliver this, and investment back into the business. Consequently, we are raising our guidance on integration and transformation costs this year to around £100m. We will talk more about the longer-term cost outlook at our full year results later this year.

Now moving to asset quality on slide 20. As David mentioned, credit quality has remained stable in the quarter and the proportion of stage 3 loans remained at 1%. Arrears and default levels remain low across all portfolios, and forbearance levels remain stable. We continue to support customers with payment holidays where appropriate, although we are only seeing around 1% of portfolio balances on a payment holiday, with the vast majority of those that have expired returning to making payments.

We have maintained prudent credit provisions of £721m and broadly maintained coverage ratios across portfolios with our total coverage ratio at 100 bps. This produces a £38m income statement impairment charge, equivalent to a cost of risk of 11bps. During the second quarter, we updated our economic scenarios in order to reflect greater optimism and also refreshed scenario weights to include a higher upside weighting. As a result, our stage 2 balances reduced in the second quarter. Nonetheless, we remain prudent facing into an uncertain outlook, particularly as support measures are withdrawn and as a result, reductions in modelled ECL from improved staging have been offset by increases in post model adjustments, reflecting economic uncertainty. We expect the Group’s near-term cost of risk through FY21 to remain subdued, likely increasing into FY22 as government COVID related support measures are removed.

I’ll now turn to capital on slide 21. I am pleased with our capital position of 14.4% at half year. This includes the benefit of software intangibles of 46 basis points and IFRS 9 transitional relief of around 120 basis points. We saw strong capital generation during the period reflecting 100 basis points of underlying profits and 22 basis points from lower RWAs, offset by 12 basis points of AT1 distributions and 55 basis points of exceptional items.

Looking into the remainder of the year, we are confident we will be in excess of our previous guidance of around 13%, excluding software. We expect credit risk RWA inflation to be pushed out; as it emerges, we expect it to be modestly dampening to CET1 progression. Our full year RWA expectation does not now include benefits from RWA initiatives, including the move to IRB for our credit cards portfolio and the adoption of hybrid mortgage models. Both of these are dependent on regulatory approval and if delivered this financial year, would be incrementally beneficial.

Finally, I want to finish on our full year guidance and medium-term outlook on slide 22. We are making good progress on driving the key pillars of our strategy as David spoke to earlier, which forms the foundation of delivering double digital statutory returns, and then profitable growth in the medium term. We have given guidance on KPIs throughout our presentation and set this out on the right-hand side, which in general reflect upgrades. I will now hand back to David for his concluding remarks.

David Duffy

Thank you very much, Clifford. Let me just make a few comments now before we turn to questions to close things out. I think you'll agree it has been a very difficult year for all of us, both professionally and personally and I hope that, like some of us, you are beginning to see light at the end of the tunnel and perhaps seeing family and friends and enjoying a bit more of an involvement in your community. I believe that as a bank we have responded well to the pandemic and in particular, I think we have really delivered for our customers and I am also very proud of the results that the team and our staff have delivered for this half year given the circumstances.

From my own perspective, I think that the bank is in a good place - we are well capitalised and funded, we have good quality assets and are well positioned for the next phase of the pandemic. We also have a clear line of sight to a medium-term growth strategy which I think is very important. The other key factor, in my view, is that we are leaving legacy issues behind us now, and we are close to completing our rebranding and integration activities, and also we have built unique products and propositions as I mentioned earlier. And these plans are all supported by a strong digital capability and a powerful loyalty strategy.

As I said, it has been a difficult journey, but the Leadership Team and I are looking forward and focusing on growth in the future as a purpose-led digital bank. We're confident that Virgin Money is probably at an inflection point and we are looking forward to delivering for our shareholders and other key stakeholders over the next few years. So let me just bring this to a close, thank you all for your time, and for those of you that have been following on the webcast, the live Q&A conference call will begin shortly.

Operator

Our first question comes from Ed Henning of CLSA. Ed, your line is now open, please go ahead.

Ed Henning, CLSA

Thank you and thank you for taking my questions. A couple from me. Firstly, can you just touch on the cost savings you've identified going forward beyond your previous guidance? Were you talking about the previous guidance of £780m as the first question?

David Duffy

Sure, Ed. Hi, it's David. The basic situation is this - previous guidance was £780m; we would look to deliver beyond or below £780m when we give you details at year end of what we're going through right now and analysing.

So we will improve on that guidance and we will also deliver what is a phased delay to some of the savings for this year. So, think of it as our £780m still stands, we have a slight delay. We're going to deliver that in the first half of 22[1] and we are going to deliver further improvements in our guidance once we have the full detail worked out this year, if that makes sense Ed.

Ed Henning

Yes, that does. And then the second question just on NIM, now in the second half implies a NIM of 164bps, if we look forward from there, do you have more deposit tailwinds or repricing you can do in FY '22?

Clifford Abrahams

Yes, it’s Clifford here, look I won't comment on future pricing. What I can say is we've got good momentum on NIM, going into the second half of the year, from the repricing that we've done already. So, you see our Q2 is obviously stronger than our Q1. The structural hedge is now pretty much implemented and that will be a strong tailwind into the second half of the year. We retain a little bit of caution because on the asset side, for example, the mortgage market remains competitive, got more competitive over the last few months and you know, also some uncertainty around the deposit market. We're sitting, together with many other banks, on quite a bit of deposits and as the consumer comes out of lockdown, it's possible that the deposit market becomes a little bit more competitive. So that's the balanced picture but we're sufficiently confident to give you that guidance of around 160 basis points, which will obviously be a strong exit rate at that second half of the year.

Ed Henning

And then I know FY '22 is a long way away, but you've got an increased benefit from the hedge in '22 and then it's about, you know, the question is more around, can you see more on the deposit side or it's just a little bit unsure at this point in FY ’22?

Clifford Abrahams

Yeah, that's too far off, that's too far off. I think there'll be a whole balance of things. As David talked about, we're very confident in our relationship deposits, our current account propositions, really coming through, getting real commercial momentum. You see the structural hedge and we've guided to £60 million full year benefit that will come through that year, that's five basis points and on the lending side, I think we're looking forward to growing into FY ‘22 and clearly that will have a, we’re reopening jaws at that point and we'll look forward to that. But this year we've got a bit of work to do as you know, based on the themes we've discussed earlier today.

Ed Henning

Okay, thanks, I'll leave it there. Thank you.

Operator

Our next question comes from Grace Dargan of Barclays. Grace, your line is now open.

[1] Referring to earlier comment on ‘phased delay in some of our savings for this year’

Grace Dargan, Barclays

Hi, good morning, thank you for taking my questions. So, just a couple from me, I think, firstly on the costs, how do you see costs evolving into 2022, particularly bearing in mind obviously the guidance from today, and what items do you think will be driving a delta in costs say from '21 to '22? And then secondly, just picking up on the NIM, I guess just very quickly, what mortgage spreads are you assuming in that NIM guidance and maybe if you could add any colour on what spreads you're currently seeing on your mortgages. Thank you.

Clifford Abrahams

Yeah, so starting with the second and then I'll talk about costs. I think, on NIM, look, we don't guide to our spreads on mortgages, I know other banks do, but we've not done that and I don't propose we start. But what I can say is that NIM spreads have come down somewhat, Q1 into Q2, as we've seen the market become a little bit more competitive. That may well continue and give rise to some modest dilution in NIM, but we are sufficiently confident in the round to confirm the guidance of around 160 basis points.

I think on costs, you've seen page 19 in our deck that we're expecting quite a step down from H1 to H2. As David indicated, I started as CFO towards the tail end of the second quarter of the year and you can imagine I spent quite a bit of time looking at costs and our cost plans and am sufficiently confident to confirm the guidance you've heard today, the less than £430m for the second half of the year. We've got good momentum, David talks about phasing issues, and that means you'd expect to see cost savings really coming through the second half of the year, which means we'll have a good exit rate from full year, '21 to '22. And we'll update on the three drivers of cost savings that David indicated really around digital and the post-COVID world that gives us confidence to indicate the long-term guidance that David gave earlier of less than £780m. We'll update you on the time frame for that, the specific plans and any costs associated with delivering it.

Grace Dargan

Okay, thank you.

Operator

Our next question comes from Rob Noble of Deutsche Bank. Rob, your line is now open.

Rob Noble, Deutsche Bank

Morning, can I ask a couple of questions? One of them is on structural hedge - why don't you go further down the yield curve; the weighted average life is pretty low? How are you going to manage it going forward? Are you back to purely mechanical or can we expect you flipping it around again if the yield curve changes sufficiently? And then Clifford as you've just started, is there anything you would like to see done differently at Virgin going forward having been there for not so long now? Thanks.

Clifford Abrahams

Yeah, I'll answer those two questions, especially the second one. I think in terms of the structural hedge, we made a strategic decision driven by the two things I mentioned on my presentation. One is we've now got an upward sloping yield curve and secondly, the possibility of negative rates in the policy toolkit. That was a, I'd call that a strategic decision, albeit one different from last year, when conditions changed, we changed our strategy. I don't foresee us changing our strategy again, it's not a trading position. Our duration is set by our behavioural duration of the relationship deposits; so you can model that out. We think that duration is two to three years so I don't expect that to change materially; we won't change it. I expect that we will continue to mechanically roll that as we've done in the past. So that means we'll lock in the five-year rate and as each month goes by, we'll roll one-sixtieth of that position.

So I think coming in, coming in new, I mean, I used to work in a bigger bank. What attracted me to Virgin Money was, you know, we've got scale, we're a full-service digital bank across products, both assets and liabilities but we're small enough to be agile and you really see that coming through in our results - really quite resilient during a tough year or so that the whole sector has had. We've also got the ability to drive double digit returns through further cost reduction, which we talked about earlier, and importantly, profitable growth. So as a medium sized bank, we can continue to grow profitably in this market. So that was the attraction.

We're doing a lot of good things. I think you can see that in the results today and we have ambitious plans. I think cost is clearly something that will be a big focus for me. We continue to make progress but also have all the possibilities that David talked about earlier, particularly for a bank of our scale, to really deliver. We're a national bank that can deliver digitally, cost-efficiently and we'll talk some more about that at the full year. I think capital gets a lot of focus for any CFO and I'm pleased coming in with the strength of the capital position. We've got our first solvency stress test this year with the PRA so that's clearly a lot of focus. But what I'm excited about is the prospects for the franchise; we're now very largely digital, we've very largely rebranded. I think we've only just started in terms of the commercial momentum behind our new products, so there's exciting times to come.

Rob Noble

Great, thanks a lot.

Operator

Our next question comes from John Cronin of Goodbody. John, your line is now open.

John Cronin, Goodbody

Good morning and thanks for taking my questions, and the first one is a point of detail on the acquisition accounting unwind charges. I know you said previously that we should expect circa £150 million of unwind charges over the next five years, I think you said that at the full year results stage. £57 million in H1 so just wondering, is the guidance still intact there and if not, why not?

Second question and just on loan growth, and look, I hear your point in terms of prioritisation of margin over volume, but I guess this is the second time we'll probably see consensus downgrades to loan growth following an update and we're hearing some very bullish commentary from your peers in terms of volumes. Look, I appreciate the desire to keep NIM up, but from a risk adjusted returns perspective, could there be an argument that you could go faster on loan growth in the current environment, in mortgages particularly?

And then thirdly, on capital guidance, look, I know that your guidance is for in excess of 13 percent, which leaves it open to interpretation, but that 13 percent number does tend to anchor people towards that level. You know, just working through the numbers and in light of your comments, particularly Clifford's on subdued cost of risk for the remainder of FY '21, albeit rising thereafter potentially, it strikes me that about 14 percent would be more appropriate guidance given where capital is perched around H1 and various moving parts through H2 - is there something I'm missing, or is my assessment broadly correct in your view? Thank you.

David Duffy

Maybe, John, I'll pick up just on the growth point that you make, and Clifford will pick up on the other two. I think we were, as you say, we were cautious coming in and the outlook has improved and so, we are very thoughtful about that. You can take it as read that we're still a little bit conservative in the short term, but absolutely confident about growth of the balance sheet in the medium term, that's our overlay. Underneath that, you will see us probably stable overall with the balance sheet for this year but building momentum in growth. So you will see in the mortgages which you mentioned specifically, you know, our March lending was up circa 50 percent from previous levels and that's moving along to the stock levels, which we've indicated we would like to hold around four percent, so I see that progressing stronger as well to the full year.

We have, in the business bank – it's really a function of the government lending, but we've also gone national on the digital bank now as of the last few weeks, and that will build a BCA driven growth model for customers. You've seen that in the personal level, we're 90 percent up in our personal accounts. So what I would see is we're looking at, still an element of conservatism and I know people want us to just charge out there in an environment where frankly, mortgages as we predicted, are coming down in margins quite significantly. So we've protected the margin, we still defend that and that's why we have the NIM we have. But we are starting to grow now, but we're laying the foundations across every single type area, including with the propositions and the loyalty programmes and we're expecting to come through the pandemic next year and deliver in '22 above market growth. So that's the sort of trajectory that you should be thinking about when looking at growth John. But let me hand over to Clifford just on the other two points you raised.

Clifford Abrahams

Yeah, thanks, John. You talked about two questions, one was accounting, acquisition accounting unwind and the other was CET1 ratio guidance. I think on the acquisition accounting, we said at the full year 2020 that we would have roughly £150 million of acquisition accounting unwind over the next five years with the bulk of that in the next two years and we've seen £47 million in the first half of this year. There was, I would say, a little bit more than we expected, reflecting the slight shrinkage in the card book; I'd call that a technical phenomenon, and we expect the bulk of the remainder of around £100 million in the second half of this year and next year. So I don't think anything has materially changed but just an update and a reminder of the dynamics there.

I think around the 13 percent, I take your point around anchors. We wanted to refer back to our previous guidance of 13 percent. So we're feeling good, I'm not capping it, capping our ambition at any at any level. I think just to remind you that, that guidance excludes the benefit of software intangibles, which we expect to reverse. We also have not included in that guidance, the benefit of the hybrid model -- mortgage model, which we think is unlikely this financial year, you know, our year ends in September. And then finally on RWA inflation, whilst we've seen little of that today, we, you know, we just remain cautious. It's possible we get some RWA inflation, although we think in all likelihood that will be into next year. So that's the background on our caution in terms of our guidance, but overall, we're feeling good about our capital position, and that puts us in a position to take advantage of moderate profitable growth opportunities for lending as the economy continually recovers from the lockdown.

Operator

Our next question comes from Rohith Chandra-Rajan of Bank of America. Your line is now open.

Rohith Chandra-Rajan, BAML

Thank you very much. Good morning. I wondered if I could ask and return to costs please, a few questions. The first one is really just to understand what changed in terms of your 2021 cost expectations between Q1 and now, and then sort of following on from that, I know you'll be giving us a fuller update on 2022 and beyond at the full year results but could you sort of help us just scale, I guess, the relationship between underlying costs, which you said less than £780m, but you're also indicating an increase in sort of investment spend, so if I take the underlying cost transformation and investment spend together, how should we be thinking about the 2022 costs overall?

And then on that sort of digital acceleration programme, what sort of timescale do you envisage that being over? So I appreciate on costs, you'll give us more of an update, but if you could give us some sense of how you think that would play out now, that that would be very helpful. Thank you.

Clifford Abrahams

Yeah, so in terms of costs, I think that, actually that guidance pre-dated me personally, but in terms of our cost plans, you know, it was always clear we were expecting a step down in costs in the second half of the year, of this year and we've been in lockdown consistently; I'm calling from my kitchen, and I'm sure you are, too. So, I think that's meant some phasing in our cost saving plans but those plans remain very much in progress, so I'm expecting to deliver on the guidance we announced this morning, which gives us a good entry rate into next year. I think in terms of overall ambition, time frame and costs, don't think I've got a lot to add, maybe David can. We have signaled higher integration and transformation costs this year, you know, from our previous guidance of £75m to around £100m, and that's, if you like, some guidance ahead of what to expect at our full year results when we'll be more specific about our plans, phasing and necessary costs.

David Duffy

And Rohith, maybe just to provide some context; the digital side of this is really to continue the transformation that we've been doing where we see the potential to accelerate. Now that can come in terms of the way we have an operating model on a remote basis, which we think is a significant opportunity. It comes in terms of transformation of some of the space that we have in terms of total real estate footprint, but it also comes in the sweet spot of providing services to customers online. So, as you saw we have in the presentation, we have a very strong level of progress in terms of digital sales and that's key and behind that, we want to make sure that the customer experience we're delivering is at the same level of digital functionality and so, we're joining up to two to create an end state, which is almost seamless and straight through. An example just being by the end of the year, being able to deliver straight through mortgages in '21 and then it is in a similar way, looking at the process behind every digital delivery of service in '22 to make sure that's the same level and in effect, offering a Fintech equivalent model in terms of how we provide services to our customers and the level of experience they should expect.

So that's the framework of what we're doing right now Rohith, which I know it's a little unclear right now, but what we're doing is doing the detailed work on all of the different elements of the remote model, the service provision, the real estate, so that we can provide you with what you would expect, which is reasonably detailed science to underpin our medium term cost output, but also the level of digital capability that will underpin our growth agenda, which is what we're very focused on in that medium term. So, I'm very confident that we'll deliver that cost agenda, but I'm also very ambitious about delivering the digital agenda to ensure that underpins our growth strategy.

Rohith Chandra-Rajan

Thank you, could I just come back on the 2022 costs? So if I take the £780m existing guidance and then consensus has about £40 million I think for restructuring or transformation costs, so £820m in total. I appreciate the plans aren't fully formed, but should we be thinking about something higher or lower than that, I don't know if you are able to comment?

Clifford Abrahams

Yeah, that £780m, you know, we backed off that guidance for full year '22 at the start of the pandemic, just to remind you, but I'm not in a position to give specific guidance. I note consensus for costs for full year '22, which is materially in excess of £780m, so I would cross count that. And on exceptionals, again I've guided to full year '21, this year. That will be investments to, among other things, take out costs for the next few years but I'm afraid you'll have to wait until November for further specific guidance on numbers on full year '22.

Rohith Chandra-Rajan

Understood. Thank you.

Operator

Our next question comes from Benjamin Toms of RBC. Benjamin, your line is now open. Please go ahead.

Ben Toms, RBC

Thank you. Welcome Clifford and thank you for taking my questions. Just in relation to the re-introduction of the hedge, how close does the structural hedge come to speculation versus risk management? Speculation versus risk management is obviously kind of a spectrum, but I imagine that one could argue that new...

Clifford Abrahams

We lost you there. We lost you there, Ben, that last bit.

Ben Toms

Can you hear me now?

Clifford Abrahams

Yeah, I think you talked about, is the structural hedge speculation or risk management and then you went on to something else.

Ben Toms

The crux of my question is, should we expect something in terms of your CET1 regulatory target, an add-on of some kind because you're switching on and off the hedge? I guess that's the crux of my first question. And then on non-interest income, I think you've given guidance before, for full year '21 of £150 million. It's probably fair to say probably that you'll come in well below that guidance, but is the £150 million now a more achievable number for full year ‘22? Thank you.

Clifford Abrahams

I'll tackle that. So that £150m as guidance for OOI, is that what you mean Ben?

Ben Toms

Yes, for OOI.

Clifford Abrahams

Yeah. I think the – that we've been pretty vague about our current guidance for OOI and I think as of today, and any previous guidance I think isn't relevant when you go through a pretty tough lockdown and now we're emerging from it. So I would say as of today, that £66 million has reached a sort of, I would say a stable low, reflecting low activity levels - you know, England was in lockdown right the way through that period. So I'm hopeful that we'll see growth from here; it may take some time to come through, but we'll see that particularly on our credit card business, activity levels on current accounts and business accounts. We’ll also have launched some fee-earning products that you've seen that David talked about, which gives us medium term confidence in fees, but I'm not going to give specific guidance for next year.

I think in terms of the hedge, look, I think it's sensible risk management in the light of the current environment. So, I indicated further, this was a strategic step, I think we are in unprecedented times, so the extremely flat yield curve that we saw last year together with negative rates not being, not really being a possible was very unusual, and in those unusual circumstances the bank unwound the hedge. We've made the strategic decision to put it back on in quite a mechanical way, so you should not expect us to be trading that. I think both measures were, let's call it sensible risk management. I think I'm very comfortable with our approach now because it gives stability to our earnings outlook and really allows the commercial momentum of the bank to deliver earnings going forward rather than movements in the curve, at least over time. And as you know, the hedge is more a smoothing mechanism than a hedge per se. I think that's -- yeah, I think on the capital side of things, I don't really want to speculate on that and how the PRA may or may not react. We’re obviously in close dialogue with the PRA, we're going through our first solvency stress testing. I think that's the, you know, that'll be an important driver of our capital framework, which we've indicated we will update on once those, once the results of that testing are clear.

Ben Toms

Thank you.

Operator

Our next question comes from Guy Stebbings of Exane BNP Paribas. Your line is now open.

Guy Stebbings, Exane

Good morning, David and Clifford. Just a couple of follow-ups from me. Firstly on margins, just on the deposit side of things, just trying to gauge how much more of a tailwind this can be. You’re still priced quite competitively in some areas, so I guess you could adjust down on those but then equally you've hinted at competition potentially coming back. So I'm just trying to sense how much more we could see there, is it more now just about kind of mix effects and moving more towards current accounts and away from term still, or is there sort of still actual repricing within individual products still to come as well?

And then secondly, on macro assumptions, just to understand the timing of how these get made and flow through into the models, because they're still quite a lot more conservative than some of your peers, certainly the forecasts you set out on slide five. So I'm just trying to gauge the sort of conservative, is that a sense of your sort of conservative perception of risk and driving some of your actions on mortgage risk appetite, for instance? Or was it more about timing of when things get signed off because it looks like there could be some sort of sizeable revisions still to come? Thank you.

Clifford Abrahams

Yeah, thanks, Guy, I'll take those two. I think on deposits, so I won't talk about future pricing; what I would note is you've seen the decline in the cost of deposits half year to half year to 61 basis points. Clearly the Q2 cost of deposits, you know, was lower than 61 basis points, so in the mid-50s, that's the exit rate. So we are, you know, really benefiting from the growth in relationship deposits. Some of that is the effect of the lockdown and people being at home, some of it is our proposition. So I think what will drive the cost of deposits going forward is how quickly people spend those deposits as they come out of lock down, not just the money they hold with us, but obviously the money they hold across the sector, which will drive how competitive the market is for deposits, including NS&I - that's been big, has been a big player in this market in the past. So I think there's some benefit of, let's call it the exit rate earnings through into the second half of the year, but clearly some other uncertainties there, underpinned by some strong propositions in the medium term.

In terms of macro assumptions, yeah, it does take time IFRS9, it takes time to crank the handle on models. So the macro economic forecasts that underpin IFRS 9 were set in the early part of Q2, you know, before March. I mean, we're comfortable that they reflect a realistic view of the balance sheet date on which we published our accounts. But clearly, they're a little bit dated versus what you're seeing today in terms of economic outlook, whether that's our own provider, Oxford Economics or the market generally. So, we'll clearly keep that under review.

What you've seen in terms of our provisioning at the half year is while we have reflected the more positive economic outlook that's in our economic forecast, we've also strengthened the post model adjustments because we are uncertain as to how borrowers will behave when the support mechanisms wind down and that wind down is expected to take place I would say around, maybe a little bit after our full year balance sheet date because we have a September balance sheet date, as you know. So that maybe gives you a bit of a feel for how we're thinking about economic forecasts and how it might affect provision levels.

Guy Stebbings

Very clear. Thank you.

Operator

Our next question comes from Chris Cant of Autonomous Research. Chris, your line is now open.

Chris Cant, Autonomous

Good morning. Thank you for taking my questions. If I could just come back on costs, I'm afraid. I just wanted to come back on what you were saying about your momentum through the second half of this year, so £430m run rate for the second half, then with a strong exit, so presumably below £430m as the sort of December exit level. Consensus for 2022, if I look at the operating costs number is at £820m. Do you think you'll kind of have that run rate at the end of this year, there or thereabouts before you take additional cost actions looking into next year? I'm cognizant that you don't want to talk about the quantum of those additional actions, but just in terms of where you think you get to by the end of this year versus 2022, that would be helpful?

And then just to come back on capital as well I'm afraid. So, I'm also a bit confused by your greater than your 13%. You're at 13.9% ex-software, provisions are expected to be low, you're not expecting to grow the balance sheet much, you're not expecting pro-cyclicality or anything significant from pro-cyclicality, you've guided us on the transformation costs, which is within line with the first half. Am I missing something there? I mean, is that sort of a big upside risk to that transformation charge number when you give us the new cost plan, is that what you're trying to communicate there? Because like others I was also struggling a bit with the number.

Then looking into 2022, could you give us an update, please, on the quantum of the RWA benefits you expect to come through from the card IRB and the hybrid mortgage models? I think in the past you've guided that to be five to 10 percent of RWA's, I guess that may be a little bit stale now given that we haven't had the pro-cyclicality, but an update there would be appreciated. Thank you.

Clifford Abrahams

Yeah, maybe I'll take those. I think we're kind of drilling into some of the detail and you'll forgive me if I hold back a little bit. I think the £430m you know, we're confident in at or less than that figure and that will be a lower exit rate and I'm not going to quantify it further. I think around the 13 percent, I think what you might be missing is our caution in a very uncertain environment. So, I think we've guided to for example, transformation costs this year already, we'll refine our plans and announce those. But I think, I think we're still a bit cautious around the environment around the timing of RWA inflation and we don't want to give capital guidance to one decimal point.

I think in terms of the RWA initiatives, I think the -- I don't want to give a very specific figure, but I think the effect is likely to be a little bit more muted than perhaps we thought a little while ago. I think HPI has been strong since then in particular and the guidance we've given of above 13% actually excludes these benefits. So, we do see it as incrementally beneficial, but we'll just see how it plays out, in particular, in our dialog with the PRA around the hybrid models in common with the rest of the sector. I think that deals with your three questions, Chris.

Chris Cant

Okay, thanks.

Operator

Our next question comes from Victor German of Macquarie. Your line is now open.

Victor German, Macquarie

Good morning. Thank you. I was hoping just to follow up actually on the hedges again. It looks like a material upside or material change to guidance for margins is actually coming from that new hedge that's in place if my interpretation is correct. And also as we look into the second half rather than full years, but from a second half perspective, going into 2022, if you can just perhaps, from a total hedging perspective, would it be fair to assume that margins are kind of broadly flat, kind of second half, going into first half '22?

Clifford Abrahams

I think the structural hedge will deliver around five basis points next year, when we get a full year benefit, assuming the yield curve remains in place. That translates to roughly two basis points this year. So it's helpful, but it's not the only driver of our upgrade on NIM this year. The other primary driver was our cost of deposits, the way we performed very well. I think in terms of full year '22, I'm not going to provide any further guidance other than to say that our exit NIM for the Q4, if you like, we expect to be above the around 160 given that guidance we provide for the full year. And that was clearly lower at the start of the year. So we've got good momentum going into next year, and next year's NIM dynamics will play out, driven by the factors I mentioned earlier.

Victor German

Yeah, I appreciate that. Maybe I didn't come across particularly clearly, I get what you're saying. Based on your current guidance it sounds like your margins in the second half should be 163 or so. And that five basis points makes sense it's just I guess -- would I be right to interpret that five basis points would largely come through in the second half, and so if I look at the second half kind of margins going into '22 margins, the structural hedge should probably be neutral. Is that the right way to look at it?

Clifford Abrahams

Yeah, that's right. That's the right way because it's fully on now, or very largely --

Victor German

And it will be in the second half?

Clifford Abrahams

Yeah. So, so we gave the -- we indicated £25 million for this year and it came on at the beginning of the second half. So, it's now earning at a steady run rate through to full year '22. We're basically over 95 percent done. So, I think the short answer to your question is yes.

Victor German

Okay, understood. And comparatively speaking, kind of similar to the past, sort of every, the hedge will effectively roll off, every month one-sixtieth rolls off?

Clifford Abrahams

That's right. That's right. So we've slightly upsized it, reflecting the strength of the deposit book and it'll be one-sixtieth and you should model it at the five year, so the average duration is two and a half, with the marginal is five years. And because you've got an upward sloping yield curve, so you should expect the benefit of the structural hedge to creep up over time, assuming the yield curve is fixed.

Victor German

Understood. And then, just to confirm something on non-interest income. I mean, it looks like the big delta in the half at least came through the fair value line, appreciate it's a very difficult line to guide on. But I mean, would you say the easiest way to think about it is just assume zero and then kind of see where it lands? Or is there any kind of indication on the fair value line?

Clifford Abrahams

Yeah, I think that's broadly right. I mean, it's pretty if you look at it over time, you know, we've got a consistent hedging strategy. You know, you get some noise through there, it's been modest negative, modest positive and the swing we've had this half year, it's been unfortunate. So, I mean, we disclose it so that you can really look through to the underlying fees, which have been pretty stable half year to half year. So I think, you know, I think we should have reason to feel optimistic on that line coming out of lockdown and as our propositions develop, I think the challenge is what's the timing?

Victor German

Thank you.

Operator

Our final question comes from Jason Napier of UBS. Jason, your line is open, please go ahead.

Jason Napier, UBS

Good morning. Thank you for taking my questions. I had three quite simple ones, actually, if that was okay. The first one, David and Clifford, just to check; David, you said that the expectation ought to be for around stable loans at the full year period, I think you said, I just wanted to confirm that that was the case?

David Duffy

Yes, Jason.

Jason Napier

Thank you. That’s handy and it leads on to the second one, which is the strategy as previously shared, was one in which the business is looking to maximise spreads and shift mix to sort of a greater share of SME and higher-spread business. And I just wonder in the light of the fact that despite very strong HPI, you know, consistently upgraded macro, further government assistance and so on, you know, the bank is not growing its mortgage book where the best, we would think, the best return on risk weighted assets are. So, I'm just wondering, going forward, even if the economy rebounds strongly, given how cautious you've been in the crisis, does it make sense for us still to be expecting you to pivot towards other things?

And then lastly, tomorrow's the Holyrood elections in Scotland, I just wondered whether you could talk to the exposure of the loan book to Scotland and sort of strategic thoughts around what a potential drive for independence would mean for the bank. Thank you.

David Duffy

Sure, maybe I'll pick up some growth and Clifford can come back on Scotland. I think the position we have is we were overweight versus our peers in mortgages as a business and so we were looking at, not short term, but long-term rebalancing of that. That's not a one quarter, or one-year type mix issue at all, it's multi-years clearly. We, at the same time were reacting to and can react to what we see in the market and so, as I mentioned earlier, we are stepping up in mortgages now with a 50 percent increase on last month in terms of volumes, but still keeping a careful eye on the margin gain, but we are able to build that mortgage capability.

And the same with personal, we've seen the credit cards return to probably 94 percent in April of pre-pandemic level and then on the personal side, that would be a function of activity and on the business side, we have launched the digital bank. So we're waiting to see what the economy gives us as an opportunity, but what we're doing is accelerating in all areas of our plan with an element of caution, as we said, but don't overdo that. We've built all the propositions around the products, the digital capabilities, and we're now leaving behind a legacy period and stepping into a growth curve. It's the pace of growth which we're trying to gauge for the short term correctly, but if I make myself very clear, the medium term is stronger.

So that's the way to think about it, if that makes sense. When you look at five months left in a year, that's why we talk about stable for this year, because our step ups will bring us activity to the mortgages for instance to 4 per cent stock. So I think this year is stable. We don't manage the business by quarter, but this year will be stable and then there's an acceleration of our growth and coming out with strong October momentum as the pandemic becomes more in the past. But maybe just turn to Clifford on the subject of Scotland.

Clifford Abrahams

Yeah, but just to build on that though, I, Jason, I joined the bank because it was a growth bank, or it is a growth bank in terms of the overall business, but also the opportunity to broaden the product range. So I'm convinced the opportunity is there. It's just on the timescale, that David referred to, clearly, you know, we're cautious in this very uncertain environment coming out of the pandemic, cautiously optimistic. But we are -- let there be no doubt we are a growth bank. We can open the jaws, which we'll do over time.

I think in terms of Holyrood elections, I mean, I've be following the polls and the newspapers as we all have. I think the -- in terms of our loan portfolio, since the acquisition of Virgin Money, very much a national business, so mortgages, cards is around 10 percent of our portfolio in Scotland. Business and personal current accounts are a bit more than that, reflecting the heritage of former Clydesdale. So, you know, I think we clearly like other banks, we have a Scottish exposure, but perhaps it's a little bit more modest than people might think given our given our history. We have around 4,000 staff working in Scotland, so around half of the team based in Scotland, which we think is actually a great location for a UK bank. So we're clearly monitoring the situation closely and we'll, you know, we'll follow the implications, such as they may be in due course.

Jason Napier

Thanks very much.

Operator

I'll now hand back to the management team for closing remarks.

David Duffy

Okay, thanks. And thank you, everybody, for the time today. Just to wrap up maybe, I think from our perspective, as I said in the presentation, I think we're in a strong position from capital and funding perspectives, we really feel good about that hence the upside there. We do have real confidence and I know you have plenty of questions about costs – but we see this as a temporary phasing of costs, and then a double down on cost drives, which will lead us to getting below the target – we're very confident about that, but we just need a bit of time to get the details together so that we can present that to everyone.

We have a tremendous amount of progress being made on the rebrand and the integration that allows us to put our products and our propositions out there with the Virgin Red loyalty scheme and we've launched the business digital bank. So, we see ourselves making a lot of progress in terms of capability and emerging signs of growth in that, from the personal accounts at 90%. And so, we have a powerful digital agenda at work with all of those propositions and all of those product capabilities and we are therefore really quite optimistic about the medium-term and growing our balance sheet. So we believe it's kind of the next evolution phase for this bank, but very confident about that future.

So we will close there. Obviously, you know how to reach us and the IR team if you need any further information, but thank you all for your time today and we will close our call now. Thank you.

[ENDS]