Question and Answer

Operator

[Operator Instructions] Our first question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just a question on your guidance for FY '21. The combination of your 2 to 4 basis point of NIM decline, greater-than-system growth and flat jaws and 2% expense growth implies 1 of 2 things: either quite strong balance sheet growth or very strong growth in noninterest income.

Just with that in mind, can you just talk through, is there any reason to believe you should see a turnaround in the performance of your noninterest income versus recent year trends where it has been in decline? Or is the guidance more about fairly strong balance sheet growth? And just with that in mind, how do you expect the change to responsible lending announced by the treasurer recently will impact system growth in 2021?

And then just a second question just around Slide 53 and the SME deferrals. I'm quite surprised to see Bank of Queensland has any lending in New Zealand with 5% of your SME deferrals coming from New Zealand. Can you just provide a little bit more guidance around that?

George Frazis
MD, CEO & Executive Director

Thanks, Andrew. It's George here. So I'll start off with your first question and then hand over to Ewen, and I'll ask Adam to cover off on your second question.

The first point to make is the way we're looking at managing our business is to make sure we're carefully making the correct trade-offs between growth and margin. And as you can see in the last 12 months, that's been a key way in terms of how we've managed the business.

If I look at growth, the outlook on growth is improving. So though -- and it's partly driven by the substantial economic stimulus that the government announced, but also there's just increased confidence given how well the health crisis has been managed in Australia. So we've got very low COVID cases.

You've also -- and we're also -- yes, in terms of housing prices, we're being a little bit more positive about that as well. So our sense is that housing growth will be stronger than most previously predicted and where initially, there was a view that business lending will be in decline, a sense that that's going to be broadly flat.

Now our objective, given our niche segment approach -- and you can see that basically, we're very selective on the segments we're after. And the fact that we are a smaller player in the market means that we can actually grow ahead of market whilst managing our margins carefully.

So that's my broad comments, and I'll hand over to Ewen to add to that.

Ewen Stafford
CFO & COO

Thanks, George. And Andrew, I think your specific question was around the outlook for noninterest income.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Yes.

Ewen Stafford

CFO & COO

So just on that point, I mean it's really quite challenging or hard to be too definitive at the moment given the situation. But I do think it's fair to say that we are starting to see some signs of noninterest -- of the decline moderating.

And if you look at the -- if you get down to the underlying nature of our number in FY '20, so I'll just quickly walk you through that. I mean it was down $18 million year-on-year, but $4 million of that was a result of the sale of debtor finance business in the second half '19. And we -- I also called out earlier sort of circa $10 million of COVID impact. So that does get you down to an underlying trend of $4 million down. So that is starting to see it moderate.

So yes, it will still be a drag in '21 as those macro trends continue. But it won't be to the -- we don't believe it will be to the extent that we have seen it over more recent years, but I sort of just finish where I started with that caveat, it is a little hard to be too definitive and whether some of those -- that COVID impacts will repeat in '21 or not.

Probably the only other point I'd note and with the sale of St Andrew's that George spoke to earlier being announced this morning, obviously, that income -- insurance income will be out next year, but there will be a comparative PCP restatement.

And Adam, can you touch on the second question?

Adam McAnalen
Chief Risk Officer

Yes, certainly. So just in relation to our exposure in New Zealand, our BOQ Finance company does have a leasing business in New Zealand. And our exposure there is rather small in contrast to our overall portfolio. And we did extend the same banking relief terms to our customers in New Zealand as we did in Australia. It's fair to say that, that portfolio is a consistent representation of our broader portfolio in Australia, focusing on equipment to main industry in New Zealand.

Operator

Our next question comes from Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

So congratulations on the results in a challenging environment. Just a couple of questions from me. Just in the guidance, you guys mentioned margin decline of 2 to 4 basis points. Would you be able to provide a bit more color on some of the moving parts of that, maybe perhaps front-to-back book gap as well in there?

And just on the second question, you guys noted dividend of $0.12, but you guys disclosed it sort of $0.06 within each half of FY '20. Just looking forward, how should we really consider that from a dividend growth perspective? Should we be considering it from $0.12 or from $0.06 that you've kind of allocated to each half?

George Frazis
MD, CEO & Executive Director

It's George. I might touch on the second question first and then hand over to Ewen to talk about our margin.

The first point to make is that obviously, dividend is a decision that the Board takes each year. We -- however, we clearly understand the importance of dividends to our shareholders. The way to look at the $0.06 and the $0.06 is that there are a number of APRA guidance around dividend payments at the moment in terms of profit tests and how much of statutory profit you can pay out. And that is worked out on a rolling 12-month basis. So to think about how we then manage and provide flexibility around that,

$0.06 of the dividend, which is allocated to the second half, then gets included in any assessment of that guidance from APRA. So it does provide us a bit more flexibility.

And the way I would see it is we're looking at sustainably growing our profitability and our returns. And our objective over the long term is to make sure we're creating shareholder value through both dividends and the share price.

Ewen Stafford
CFO & COO

Yes. So Josh, thank you for the question. And as you say, we have guided to 2 to 4 basis points decline in the outlook statements. Clearly, quite a few uncertainties, just the macro environment, given COVID, whether there will be or not another rate cut. And just to be clear, we have not assumed that in our -- any of our outlook statements. And there's obviously significantly intense competition at the moment. And also just trying to anticipate customer behaviors through this highly unusual time.

But having said all that, let me unpack the key moving parts for you at a high level. So just from an asset pricing and mix perspective, we see that to be neutral outcome for the year. So a continuation of that front-to-back book drag of 4 to 5 basis points per half but largely offset by the full year impacts of the repricing that occurred in the second half '20. Definitely seeing funding cost benefits both in terms of customer deposit repricing and also through the TFF, positive impact from hedging costs. The capital and low-cost deposits will continue to be a drag through FY '21. And then in a lot of respects, the significant unknown is just what will be the impact of the elevated liquidity levels. I mean we're clearly seeing it as a negative, but just exactly where that will land remains to be seen.

Operator

Our next question comes from Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Yes. George, I had a question, following on from Andrew Lyons really about the credit growth. If you look at the second half, the housing book was dead flat and the total loans were dead flat as well. And what we're seeing is that with rates going down, people are taking the opportunity to accelerate the paydown and the amortization of the back book. So to get credit growth, you really need a large acceleration of the front book. And I think you said mortgage applications are now back to pre-COVID levels.

So to get credit growth accelerating, your front book has to accelerate to a very, very large amount, well above where you were pre-COVID. So you're effectively assuming a housing boom going through. Just wanted to make sure that's kind of what you're anticipating and obviously Queensland better than other parts of Australia. But is that correct, you're really expecting new applications to be well above pre-COVID record levels?

George Frazis
MD, CEO & Executive Director

Yes. Jon, it's George again. It's a good question. If you look at -- I suppose I did temper what's happening to applications because of the exact point you raised. What we are seeing is that offset accounts are increasing and also prepayments are also increasing. So what's happening with the increased government stimulus primarily, that extra liquidity is being used against housing for those who have got home loans.

If you look at our actual applications compared to pre-COVID, they are quite a bit up from where they were. And I was really adjusting that for that prepayment. It's fair to say that our sense is that some of that prepayment will abate as the government stimulus rolls off during the next 12 months. We haven't assumed that in any significant amount, but that's upside. So we are, at the moment, running at rates that will -- that provide us with confidence in terms of our volume growth.

Just to give you a sense of the levers that we're pulling, we've made significant progress on our owner-manager branches. And our expectation is that, that will get to breakeven at least next year in terms of a net basis. So that is a big drag on our numbers to date. Our Virgin Money growth now has reverted back to pre-COVID. And as you know, we're launching our Virgin Money digital bank later this year and fully rolled out early next year. So again, that's providing us opportunity.

And then the third thing to note is -- I'm sorry, BOQ Specialist at the moment is running slightly below, but we've taken that into account. We will see that slowly recovering as the medical profession continues to come back on stream.

But then the other important lever is at the moment, our flows from broker, including Virgin Money, is around about 30%. So we've put in a number of initiatives that are going to start increasing that flow over the next 12 months. So that's a big opportunity for us in terms of driving growth.

So we're able, through the increased productivity in those distribution channels, to achieve that growth whilst also managing margin.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And a second question if I could. It really relates to Slide 17. Another year passes where BOQ has very, very large numbers of below-the-line noncash items being put through, including the $8 million of staff underpayment, which you've considered a noncash item. Given that statutory profit at the moment is a key driver of the dividends that you can pay, should we expect this to continue? It's been going on for more than a decade now, this trend. Are there other items that will come through below the line next period?

And can we have a commitment that we can stop this practice? If any other large and lumpy items come through, as you've seen in the major banks and now are just taken to cash profit declared through cash, will you follow that lead and no longer be putting these large and lumpy items through below the line especially given the dividend treatment here?

George Frazis
MD, CEO & Executive Director

Yes. Jon, I'll start off on it and then hand over to Ewen just to add a bit more color on it. We always stated that the year that's just passed was going to be a transitional year for us. One of the things we did in February, we clearly laid out a strategy. And what we've been able to do in the second half of that is, number one, become increasingly confident on the pathway to that strategy, which -- and we've been able to ensure that all of our investment going forward is aligned to the strategic pathway of that strategy.

So we're very comfortable that the cleanup has been completed, but I'll hand over to Ewen now to discuss that.

Ewen Stafford
CFO & COO

Look, I don't have a lot more to add other than to say our absolute intent moving forward is to deliver this cleaner set of numbers as we can. I did -- but I think that strategic context that George just outlined is really important. I did note your earlier comments, Jon, on the employee pay and entitlements review. I mean that does relate to a historic and legacy issue, and it relates to 3 enterprise agreements that go back almost 10 years. So I think that is a legitimate one to have out of current year cash earnings. But nevertheless, take -- we take your point. And the intent moving forward is to be as clean a set of numbers into the market as we possibly can.

Operator

Our next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just looking at the St Andrew's sale, can you just confirm you'll lose the full $11 million of revenue there? And then looking at the cost side, how much costs are associated with that? And then can you just tie that in with your cost guidance, which has increased? And then potentially some costs associated with St Andrew's rolling off as well, what that increased cost guidance is built -- is for, please.

George Frazis
MD, CEO & Executive Director

Thanks, Ed. I'll ask Ewen to cover that off.

Ewen Stafford
CFO & COO

So Ed, yes. And as previously mentioned, once this settles, and bearing in mind, that will be at some point through FY '21, that $11 million of revenue will disappear. In terms of your cost point, at the moment -- and we've never particularly disclosed this. But we do see it as broadly neutral to just a slight drag from a group perspective. But that will take some time.

I mean we clearly -- we have transition agreements to work through for 6 to 12 months as that business works towards -- well, firstly, we need to complete. And then there are transition service agreements beyond that. So I think it's really a '22 issue where we'll see the full impacts of St Andrew's being out of our numbers, but it's not likely to have any material impact.

Operator

Our next question comes from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Congratulations on a great underlying result. Ewen, I just want to come back to the question that Ed asked. I'm just intrigued, on St Andrew's -- and I have 2 questions, but the first one is, in the annual report, you can see that you've got $30 million invested, but you're basically saying that you'll take a $27 million to $30 million loss. You're also saying that you've given a vendor loan for this. I'm intrigued as, one, as to why this isn't accounted for as a discontinued business. But also, I think we need some more detail on how this mirrors in with the cost guidance of 2%. And the other thing, I suppose, about it is, if you are vendor finance, basically the person coming in, have you effectively sold it? And then I have another question.

George Frazis
MD, CEO & Executive Director

Brian, it's George. I'm going to ask Racheal, our Deputy CFO, to provide some more detail around the financial impacts of St Andrew's. But just on the vendor loan, it's broadly on commercial terms. So it is a business line effectively. But apart from that, I'll hand over to Racheal just to give you a bit more flavor on the revenue and cost impact we've seen, which as we said, is not material. Hopefully, the technology works because she's in another state.

Racheal Kellaway
Deputy CFO

Racheal Kellaway. So the first part of your question was around why it's not considered discontinued. The answer to that is that the test for that is actually as at the 31st of August. Now this is a very recent deal. As you saw, we only released the ASX announcement today. And so the test is that it wasn't at that point probable, not -- and definitely not highly probable that we would have a sale. So it is currently held for -- sorry, it is currently within our operations. And in FY '21, it will be reported as a discontinued operation. So that's the question around the sort of why is it still in the result.

The question around sort of financials, I think Ewen has given a good overview on the impact to the group results. So that's the $11 million worth of revenue that will come out. In terms of the loss on sale, that represents the purchase consideration, some consolidation entries and then also the fact that we, as you said, had an investment in that business. So...

Brian D. Johnson
Jefferies LLC, Research Division

But Racheal, sorry. What I want to get my head around is, I know the revenue line is $11 million. How much is the cost line? And how does that factor within the 2% cost guidance?

And the second one is, if you're recognizing a loss of $27 million to $30 million, but we can see note 6.5, you've only got a $30 million investment in it, is that implying that you're really selling it for nothing?

Racheal Kellaway
Deputy CFO

So the question on costs within the business, that's -- as Ewen said, we don't have and haven't disclosed the cost of running St Andrew's. There are some direct costs, as you would imagine, and then some shared service costs that we will transition out from a group perspective. As Ewen pointed out, that won't impact our results until FY '22. So it's not particularly in our guidance for FY '21. We still don't know exactly when that will transition, so when we will actually complete the transaction.

Brian D. Johnson
Jefferies LLC, Research Division

So it will be treated -- not really. So it will be treated as a discontinued business in '21, whereas it's not in '20? And the cost guidance includes the discontinued business. Am I right in thinking that's what you said?

Racheal Kellaway
Deputy CFO

Correct.

George Frazis
MD, CEO & Executive Director

Yes, that's correct.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And then the second one is, the point is that note 6.5 says you've got a $30 million investment in this. We can see you recognizing a $27 million to $30 million statutory loss with a vendor finance loan. Can I just confirm that means that you're basically selling it for next to nothing?

Racheal Kellaway
Deputy CFO

So we are selling it for a loss obviously. That's why we're having a statutory loss. So that's -- technically, that -- you're absolutely right.

I think the one point is that whilst there's the investments in St Andrew's that you're pointing out within the notes to the financials, we have $44 million worth of net assets. And so that's how you get -- so you've got consideration of $23 million, some transaction costs obviously, and then we have net assets that actually are $44 million, which you can see in the accounts. So that's how you get the statutory loss. So you're right. And we've clearly disclosed the transaction as that's hitting our result as a statutory loss.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. The second question I had, George, and I really want to preface this by saying well done on the result. But I just want to go back to one of the issues that is really smacking around sell-side analysts at the moment is Austrac. In this result, we can see an uplift in your regulatory and compliance costs. In July

2018, Austrac actually did an on-site review, which they said unearthed significant shortcomings. We can see an uplift in the compliance spend.

I suppose what I'd be intrigued about -- and I think full disclosure is a very important point. What did the Austrac review find? Did it find some problem in the owner-managed branches? What did it actually find? And are you confident that you have basically avoided any civil penalty?

George Frazis
MD, CEO & Executive Director

Yes. So Brian, I'll start off on that and then hand over to Adam who has been running our overall improvement program.

So the starting point is that we don't have any incidence of non-reporting or -- that we know of or incidence of non-reporting that have been investigated to see if there's any activity behind that, that should have been known by Austrac, just to be clear. So it's a totally different scenario to some other cases that have been recently reported by other banks.

What we had through the review was identified elements on how we can strengthen our existing processes and procedures. We had quite a comprehensive program to achieve that. That program, by the way, is on track and we're close to completing that program. We have had regular contact with Austrac on a quarterly basis and ensuring that they're totally up to date in terms of what we're doing. And nothing material has come out of those.

Adam, I've probably stolen all your thunder, but is there anything else that you would add to that?

Adam McAnalen
Chief Risk Officer

No. I think, George, you certainly covered off the key components. The element I would add is the review that was done in 2018 was a scheduled review of part of our program that Austrac undertook. And your point around ongoing engagement is a critical one that we continue to engage with Austrac to show how we continue to invest in our program of work. The program is extensive and beyond the scope of what Austrac reviewed just as part of our underlying investment in improving our processes and procedures around regulatory compliance.

Brian D. Johnson
Jefferies LLC, Research Division

So can I just confirm, so what you've said is -- as I said, at the time, Austrac said they had unearthed significant shortcomings. So I'm taking it from the commentary today, it's not a reporting problem. It's basically processes, but it's not specific incidences of malfeasance. So it's just the system wasn't quite up to scratch. Am I correct in thinking that?

George Frazis
MD, CEO & Executive Director

Correct, Brian. So if you think about it -- well, if you think about our total digital transformation, it's all about getting to a digital bank where we're more automated. It just reduces the probability of errors. It just makes the controls more robust. So there was nothing that was missing. This is basically strengthening what we had. And there was no incident -- known incidence of not reporting.

Operator

Our next question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

I had a couple of questions, please. So on the deferral data, looking at the APRA stats for August, it suggested BOQ had a higher percentage of both home loan and SME loans under deferral. Can you talk to some of the drivers you think are behind that? And obviously, this week, we've also seen CBA report a large decline in deferral balances in the month of September. Could you please give us some thoughts on what you're seeing with customers over the last month or so?

George Frazis
MD, CEO & Executive Director

Yes. Andrew, probably the first thing to note is, obviously, retail banking and business banking is something I understand really well. And what this process has enabled us to do is really get under the covers of our book. So it has been a good process.

As stated already -- and I'm going to hand over to Adam to give you more flavor straight after these initial comments. A big part of what impacted our book was the fact that we've got a good market share in the medical profession. The medical profession was impacted quite severely, particularly the dentists. Now as they're coming back on stream, which we're seeing that happening at the moment, things are looking good.

And just to give you a sense of that, the GPs were impacted through telehealth. They really stayed open throughout that whole thing. Interestingly, we're now seeing our specialist medical professions busier than ever, and people are taking the opportunity to actually do some elective surgery because of the time they've got on their hands. Now dentistry outside of Victoria, by the way, is coming back to pre-COVID levels. Victoria still has some issues in terms of their lockdown. And there's other parts of our business that are coming back strongly.

Now September has been a better month as well, but I'll hand over to Adam to give you the detail.

Adam McAnalen
Chief Risk Officer

Yes. Thank you, George. So yes, certainly, September, we saw another month of reductions on banking requests. It's probably important to reference that Bank of Queensland really made the banking relief available to customers from March, but there was no backdating in that offer, which means that the majority of our customers will mature during the month of late September, but October and November. So we won't start to see, in a volumist way, the reportable outcome of the customers rolling off.

But what we have observed, which is absolutely encouraging, is the way that particularly Queensland has started to perform. So we do obviously have a reasonable exposure to Queensland, which, in light of the pandemic, that's probably proven to be a good position because Queensland, whilst we did see an early take-up of banking relief, it was more so in that initial month where there was a lot of uncertainty around how the government would play a role and what the longer-term outlook has been. What that has translated to, though, is that we are seeing for Queensland a reasonably higher return for customers back to full repayment compared to the national average, which if we think about the national average, we're seeing, in the very small sample, around 60% of customers going immediately back to repayments. For Queensland, that's just nudging over 70%. So there's a much more confident position than what we thought before.

The other aspect is for us in Queensland, most of the exposure's in the Southeast Queensland corner, which, as we have observed, continues to perform quite well on a macro sense.

George Frazis
MD, CEO & Executive Director

So Andrew, maybe just to add to that, if you look at our disclosure to August, we had a decrease of 18.8% in balances on deferral. That now, by the end of September, is at 23.8% reduction in balances on deferral.

Andrew Triggs
JPMorgan Chase & Co, Research Division

And just a follow-up on the BOQ Specialist business, if you look at your home loan growth over recent years, it's been fairly concentrated in that book. And you mentioned that VMA is a maturing portfolio. How penetrated are you within the BOQ Specialist customer base on home loans now? Is that a limitation to growth going forward?

George Frazis
MD, CEO & Executive Director

I might hand over to Fiamma to add to that. But just before I do that, if you look at our BOQ Specialist, as you can imagine, in the second half, a big impact was the reduction in growth in that segment, particularly in our segment on dentistry. Now that has come back to around about 75% of pre-COVID applications and is steadily increasing. So we're quite confident that, that will come back to pre-COVID over the next 3 or so months and also potentially exceed that.

But I'll hand over to Fiamma who heads our business bank to give you a bit more color around that.

Fiamma Morton

Andrew, thanks for the question. And yes, within resi, the residential portfolio and BOQ Specialist, we have seen continued application growth in these recent weeks. One of the challenges we're facing is a supply challenge within the resi portfolio, which is reflective across the housing market more generally.

And the bigger challenges that we see in the softness that George is referring to in applications is coming through Victoria, which understandably is reflective of the situation of the lockdown in Victoria. We actually are forecasting that resi will return -- the residential portfolio and specialists will return to its pre-COVID application and settlements in the coming months.

George Frazis
MD, CEO & Executive Director

And Andrew, just to finalize that question, if you look at the key value proposition we provide to that sector, the personal side lending is a key component of that. So that will continue as it comes back on stream.

Operator

Our next question comes from Matthew Wilson from Evans & Partners.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

First question, with respect to deferrals, what is the balance of capitalized interest? And secondly, on the margin guidance, does it include the likely removal of the committed liquidity facility in 2021? And if that facility does go, can you quantify the impact on the margin given we've got more than ample levels of government debt in our system? And also on the margin, is the spirit of the TFF to provide a bank with a margin benefit? Or is it to pass on lower cost of funding to business and households?

George Frazis
MD, CEO & Executive Director

Matthew, thank you for the questions. What I'll do is I'll touch on the second 2 questions just briefly. When you look at the -- we have taken into account the likely changes to the CLF when we're looking at margin. So that's fully in our guidance.

In terms of the TFF, obviously, what that is doing is providing well-priced liquidity to the market. So our objective -- without discussing pricing, which we're unable to do, our objective is to remain competitive and also to make sure that we're supporting our key segments, which are specialized, SME, business segments, family-owned businesses. So that's definitely going to be our approach.

And on the first question, Ewen will touch on that.

Ewen Stafford
CFO & COO

Yes. So I mean obviously, we are still accruing interest, and we continue to work with our -- and support our customers to get back on their feet. I mean in terms of your reference to that in terms of the outlook, we have built into our forecast some of those customers moving into an arrears situation and the impact that, that would have on our NII. But I think it's fair to say that it's -- just given the time when this will unfold and then obviously the time -- and depending on when they went in, depending on when they come out and the time to get to 90 days past due, there is some minor impact that we have modeled into that outlook for '21, but it's likely to be more of a '22 issue. It's certainly not material.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

But in your FY '20 accounts, you would have had 4 months at least of capitalized interest recognized in your P&L, which is just an accounting entry. And I said, what is the balance, the other banks provide us with the balance.

And just, George, to draw on your experience, the wealth of experience you've had in retail and business banking over the last decade and so, do you think deferrals was a sensible way to approach this issue given interest rates are very low? When you were learning about banking, the conventional approach would have been to migrate people to interest only. I think it's the policy era.

George Frazis
MD, CEO & Executive Director

Yes. Matthew, I think it was absolutely the right thing to do on deferrals because if you recall, we did have situations where effectively demand in small businesses just shut down completely, right? And that will shut down due to a health crisis, not shut down to any mismanagement of those businesses. So the deferrals -- and as the reserve bank governor mentioned, this was all about providing a bridge to the other side as we came out of this.

Now the pleasing thing is that the health crisis has been well managed. The other thing is, as I speak to our customers, and I've been having Zoom meetings close to -- frequent Zoom meetings with a variety of our customer group. It's interesting how innovative they are in terms of tilting towards making sure that, that can actually create some activity within their business.

If you then look at the payments either partially or fully that businesses have been making in the order of 25%, effectively, what's happening there was a large part of our customer base that took the deferral as a precaution. And where they did have the cash, that cash went into offset accounts and things like that. So it was all about providing them with really insurance in case of multiple shutdowns or issues around their business.

So now where -- what we've been doing at the 3-month and the 6-month check-ins -- and by the way, we have called all of our deferred SME customers in the 3-month check-in and the 6-month. It wasn't required at the 3, but we did it at the 3. Where possible, we have encouraged customers to either go on interest-only or to actually increase their offset accounts, which they've done. So people have not spent any extra liquidity. They really have saved it. So they've done the prudent thing. And in terms of how we deal to those customers, it will be an element of extending those loans in the order of about 6 months to deal with that.

Operator

Our next question comes from Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc., Research Division

I just got a couple of questions around your NIM forecast for '21. Just on the asset side, in this year, you have called out some expansion on the commercial lines of business and also positive mix. I was wondering what you're expecting on that in FY '21.

And then secondly, on the funding side, a large part of your funding now and historically has come from high rate term deposits. We have seen quite a fall in the public rates that we can see over the last 6 months. To what extent is that going to be a big tailwind for you in '21, please?

George Frazis
MD, CEO & Executive Director

It's George. I'll touch on the funding and then hand over to Ewen to give a bit of flavor on both of those questions.

The -- if you look at BOQ historically, historically, we've had low transaction banking accounts, so we have had to rely on more expensive term deposit funding. Given the liquidity, we've actually been able to grow our transaction banking accounts quite strongly and we've become less reliant on term deposit funding. I think there's still opportunity for us to continue down that path. And importantly, when the Virgin Money digital bank gets launched -- soft launch by December and then a full launch early next year, the key component of that is really in a growth segment that we can't actually offer transaction banking. This is going to provide us really with state-of-the-art technology and mobile banking app that will enable us to grow in transaction banking.

So again, I think from a margin perspective, number one, it's interesting, we're not -- if there is an official rate decline, we're not -- we're relatively well-placed compared to the other banks because we don't have that large transaction existing base. But at the same time, with the launch of our new digital mobile app in Virgin Money, it gives us the opportunity to grow our transaction banking accounts.

And I'll hand over to Ewen to just add to that answer.

Ewen Stafford
CFO & COO

Yes. So just on the funding cost, when I spoke through it earlier, I called out that it would be a tailwind both from the customer deposit pricing and also on the wholesale side. To be a bit more specific on the wholesale side, which I think is your question, at this stage, we're anticipating an additional benefit of 1 to 2 basis points across the year because of that funding cost, including the TFF. And then also, there's a positive mix benefit of about 1 basis point. So that fits within that broader tailwind for overall funding costs that I spoke to.

And in terms of your question on the asset pricing, again, the sort of headline that I provided was that it was a broadly neutral outcome with the continuation of the front-to-back book drag of 4 to 5 per half, but then we have some offsetting benefits from full year impact of repricing that occurred in the second half '20. The question there, I think, was more around the business banking side of the portfolio. And we definitely see some benefit coming through, particularly on the asset financing. And we've been very clear that there was a lot of work done in FY '20 to manage that business for improved returns. But then there's also -- it's also a highly competitive market in terms of the consumer -- or commercial side, sorry. So we're expecting that to be broadly net-net neutral.

Operator

Our next question comes from Azib Khan from Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

A couple of questions from me, both relating to provisioning and asset quality. Firstly, on Slide 31, you've said "that there's a less likelihood of downside scenarios." Are you suggesting that you're likely to reduce the probability weightings that you're currently applying to the downside scenarios going forward?

And the second question relates to deferrals. So APRA has obviously provided the bank with an option to restructure the loans of borrowers in hardship leading up to 31 March next year. Do you think the reforms proposed to the responsible lending obligations will make it easier or make you more comfortable taking up that option? And does that improve the outlook for arrears?

George Frazis
MD, CEO & Executive Director

Thanks, Azib. I'll cover both of those, and if someone else wants to add anything to that, that's fine.

If you look at the way we've thought about our scenario planning and the provision COVID overlay of $133 million, our objective was, number one, to take a very prudent approach to the assumptions and the scenario planning that we did. The second point to note is that we have a very strong capital position. And even under the various scenario planning that we did and testing, our capital position remains in a very strong position.

Now what we've seen more recently is that there are some common traders around in terms of potential upside on some of those assumptions that we've got even in our base case. And that's a fair reflection. The critical issue from our perspective, however, is that this environment is a very difficult environment to forecast. Global pandemics are really hard to forecast. And a key component of that uncertainty abating is really a viable vaccine or medication that is more effective in terms of after you've caught it. So from our perspective, until we see a viable vaccine, that uncertainty stays there. And my preference is that we manage this business in a prudent way. And what we've done is taken a provision that ensures that any lifetime losses are sort of covered by that provision.

Now if you also see, we have taken some probabilities around a downside and extreme. And that's really just recognizing there is a scenario where a vaccine isn't easily discovered. Now most commentators have it as a high probability that a vaccine will be around in the next 12 months, but it's not 100%. So we've just been very prudent on that.

On the responsible lending side, although responsible lending really deals to personal customers, at the small end of SME banking, that distinction does blur. So I think the change that the federal government is recommending on responsible lending is a very positive one. Number one, it simplifies the regulatory oversight. So you go from 2 regulators to really APRA determining that. And then the second thing, you're able then to take a much more risk-based approach. And thirdly -- and you can also take into account the fact that you know the customer well, whereas the previous regime made that difficult, and it became more of an issue of the smaller end where basically your personal banking and your business banking became blurred. So from my perspective, you're right, this is going to make it a lot easier for us to be able to do the right thing by the customer.

Cherie Bell
General Manager of Investor Relations

Thank you. Ladies and gentlemen, that concludes the Q&A session this morning. I'll just pass to George now for closing comments.

George Frazis
MD, CEO & Executive Director

Thanks, Cherie. And thank you all for joining us on this call. As you can see, our objective today -- our objective in terms of running the business was to be really well balanced and also making sure that we're well positioned to, number one, take any shocks that may occur but also be able to lean into the opportunity as the economy recovers. Key points for me is that we've got a very strong capital position. And the second point is that our provisioning is -- has taken prudent assumptions. And the third point is that effectively, we are seeing good business momentum in a quality way. And it's -- as a result of our commitment to our strategic transformation, we have absolutely upgraded our execution capability and that's coming through the results.
Once again, thank you all for joining us today.