Question and Answer

Operator

[Operator Instructions] Your first question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

George, just interested in, firstly, your thoughts on how much further you think you can take out of deposit rates. I note that TD rates for BOQ are still somewhat above the peers, which is largely always been the case. But just interested in how much room you think you have to go there. And just as a related point to that, do you need to run any sort of different funding settings in the lead up to the ME Bank acquisition?

George Frazis
MD, CEO & Executive Director

Thanks, Andrew. I'll start off on touching on both questions and then hand over to Ewen to fill that -- provide more detail.

Starting point is that we have been actually very conservative in terms of how we price deposits. And that's enabled us to have a deposit-to-loan ratio of 74%. And as you've seen, we've had very strong asset growth. In terms of our outlook on the second half margin, we have taken into account some more upside in deposits. And there's probably more after that second half.

On the funding settings with ME Bank, obviously, we've got to wait for the completion before we provide any further detail on the ME Bank acquisition. There was quite a detailed [BD]. From our perspective, there is upside in terms of the funding profile at ME Bank, but there's probably no more that we could add than what we did at the capital raising.

But on that note, I'll hand over to Ewen.

Ewen Stafford
CFO & COO

Yes. I mean thanks, George.

And we're obviously continuing to balance between customer outcomes, margin outcomes and just keeping an eye on where we sit competitively. Having said that, we definitely feel -- to your specific question, we definitely feel there's further scope. And in fact, last week, we reduced deposit rates a further 15 basis points.

In terms of that scope for the second half, that's been included in that NIM outlook statement that both George and I provided. I think importantly over the medium to longer term, we see significant opportunities to enhance -- to continue to enhance our mix, grow transaction accounts. And obviously, the digital strategy will really help that. And the VMA announcements today are a really important part of that.

To your question about settings, heading into completion of the ME transaction, we feel we're in a really strong position at the moment from a funding, liquidity and capital perspective. So we're not deliberately adjusting any settings in the lead up to that. We feel we go in with a -- in a strong position and opportunity, as I said, to continue to build out those lower cost deposits.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Can I just ask a second question, a quick one, just on broker flow or broker share of new originations? Slide 39 has -- I think it's a stock which has risen from 21% of the book in the broker channel to 23% this half. You have the number for the flow during the half, please?

George Frazis
MD, CEO & Executive Director

Yes. Andrew, the flow of brokers increased to around about 35%. I mean as you can see from that number, at the market level, it's probably closer to 60%. So this is still a channel that we've got quite a bit of opportunity for further growth. And as you know, broker -- the broker channel for us is really important. We made a huge amount of improvements in terms of how we deal with brokers, and we've also extended the broker network that we're operating with. So we see this as a potential going forward in terms of growth.

Operator

Your next question comes from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Congratulations on a great result. Just if we have a look at Slide 36, just going back to the previous question, a lot of the narrative today is about basically, you've done an amazing job in collecting home loans, which you have, it's much improved. But when we actually have a look at the result, it's just hard not to conclude, from Slide 36, that it's entirely driven by basically the repricing down of the deposits. When we look at the contraction on the housing side, it's pretty steep. So this is really about the repricing on the deposits. George, do you get to a point where basically it's not appropriate to continue to discount at the level that we're seeing in the housing book?

And the second one is that when I go to the slides at the back end, there's a slide which shows the maturity profile. And we've seen the term "funding facility" probably doesn't work as well for major banks as it does for regional banks for a whole lot of reasons. But when we have a look at it in the second half of 2024, we see a pretty chunky refi bold building. Could I just get some comments on how you manage that? So that's Slide 50.

George Frazis
MD, CEO & Executive Director

Right. I might let Ewen deal to the Slide 50 one, but let me just touch on your first question and Ewen might want to add to that as well.

I mean one of the key capabilities we've built up in the bank, which was really important and we did this fairly on, was our pricing capability. And as you know, success in retail banking is all about how well you make those margin and volume trade-offs on a daily and a weekly basis. I'll have -- so I'm really pleased with how we've been able to manage growth and margin.

There's no doubt it's a competitive environment. As we said, there is some further upside in deposits. And what we've managed to do is make sure that we're not leading on asset pricing because basically, the way we've achieved that growth in mortgages is really fundamental changes in our time to yes. And being able to maintain a -- really leading service levels whilst -- so as you know, like we've gone from 3 halves being negative growth in mortgages to now growing at 1.6x. So we've been able to actually scale up our business and keep service levels high, which means that it's not all about price.

But I'll let Ewen kind of add to both of your questions.

Ewen Stafford
CFO & COO

Yes. Brian, just on the term "funding facility," and as mentioned, we do have more to draw down in the order of $800 million, and we are being sort of careful and thoughtful in drawing that down in very orderly amounts. And obviously, with an eye to those maturity profiles that you referenced.

So the sort of $600 million to $800 million drawdown, so that is a -- that's a standard refinancing maturity profile for us. We don't see any issues with that. And we -- and there are a number of tools we have in the kit bag to cover that and to refinance all the way from our covered bonds, and we'll have increased capacity with the ME acquisition, the sort of the senior unsecured and through our securitization programs.

So your point is taken, but we are very conscious of that and drawing down in a very orderly fashion.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And just, George, going back to you, I asked that question about the slide, the average balance sheet slide. So I just want to get my head around -- and perhaps I didn't express this clearly, but we've seen the yield on basically your gross loans and advances, and interest rates were 10 basis points lower, but it's gone from 3.62% down to 3.35%. Should we expect that to continue? I suppose that's the other way I should ask the question. Is it the same margin map going forward where do a lot better on deposits, but we see the housing side of it really continue to be smashed?

George Frazis
MD, CEO & Executive Director

That's -- yes, right. So actually, I'll get Racheal. Brian, I'll get Racheal just to provide a bit more color on that. [Racheal, if you could.]

Racheal Kellaway
Deputy CFO

Brian, there's a couple of things going on, obviously, within the housing portfolio within the period. And there are obviously questions on -- to whether those things continue. The first being the implications of the front to back book rate pricing we've talked about in the context of impact on margin. And within that, interestingly, is this customer switching that's occurring between variable to fixed. So your question around sort of outlook really depends on -- and you're making this point is where does the -- where is competition going to continue? And are we going to continue to see that really aggressive pricing from a fixed rate perspective particularly.

George Frazis
MD, CEO & Executive Director

And Brian, just to add to Racheal's comments. I mean the way we look at growth is to maximize revenue, so we're not about going after just asset growth. So our objective has been, if we take on the fixed perspective to be just under market in terms of volumes and to be just over market in terms of what we're getting margin on that.

And you've probably just seen a most recent change on the 4-year fixed rate. We went from 1.99 and increased that to 2.29. So this is all about making sure that we're getting that maximizing revenue objective right. And then the other key thing that we've managed to do is positive jaws. So they're kind of the 2 key levers in terms of how we've been able to deliver these results half-on-half for the last 3 halves.

Operator

Your next question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just 2 questions for me. Firstly, on expenses. You said you're expecting expenses to be broadly flat in the second half of this year, supported by $17 million of additional productivity. I was hoping you could maybe give some thought on expenses into FY '21, which will be the third year of the productivity program. Can you perhaps just provide a bit of an update on what your productivity expectations are in FY '21? And whether you think that will be sufficient to deliver flat expenses in that year?

And then just a second question just around how you're thinking about business lending growth into the second half and then into FY '21. I think at the time of the ME Bank acquisition, you said you expected business lending to be down a bit in the half. But it's -- you've had some albeit small amounts of growth in the half. Is momentum in that business a little bit better than what you thought? Just be keen to get your thoughts on that.

George Frazis
MD, CEO & Executive Director

Yes. Thanks, Andrew. Maybe I'll touch on your second question and then hand over to Ewen for the expense question.

I'll have to say, Andrew, we've been very pleased with the green shoots we're seeing in the small business space. There's a couple of things that have benefited that. If we think about housing growth, and we normally kind of consider the benefits that housing growth has on people that own houses. But the other key benefit is on small businesses because it does create confidence, people are more willing to spend and we're just starting to see that. And importantly, small businesses do use their housing to effectively support the growth in their businesses.

But what we've seen is there's been a number of sectors that have done well through this. And our kind of niche segment focus is paying off. So just to give you an example of that, agri's gone really strongly and so has construction. And it's not just those industries, then it's all the supporting services that support those 2 industries. And as you know, we provide both traditional business lending, but we're also quite strong on providing leasing for tools of trade. So that's enabled us to see those green shoots.

My sense is that we will continue to see a steady increase in our portfolio because of its segment focus. It will depend on the vaccine rollout because that will open up the economy further and increase confidence. But we're confident that, that will occur in some time.

Ewen?

Ewen Stafford
CFO & COO

Yes. Thanks, George.

And Andrew, just on expenses, I think where I'd start the conversation on that and particularly with an eye to the sort of more medium term, which I think was the essence of your question, is that we're really setting the business for positive jaws. So that's the first point. And it is -- as well as the transformation agenda, it is also a growth agenda. And so we'll -- as we get to the end of this year and we'll provide a sort of outlook statement with the full year results, but it will be a balance against that.

Having said all of that, the productivity program is critical to us. We'll be in -- and we are committed to a third year, which will deliver the full $90 million that we committed to at the Strategy Day last year.

So what we're starting to see and anticipating through the second half and into '22, starting to see benefits of simplified product offering starting to come through. There's some benefits of automation and productivity in the middle office. The more strategic side of the supply chain review and particularly as it relates into the technology areas and some of our key partners there. And we'll continue to look at our branch composition as well and conversions from corporate to owner managed also will help deliver benefits.

So the -- it's a critical part of the agenda certainly, as we move into FY '22, but we'll provide that outlook statement as we get to the full year and look at balancing that against the revenue growth aspirations.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

So extending the question, I guess, to the -- to jaws, would you be willing to sort of say whether you can -- you're targeting 1% for this year. Do you think, with all the productivity coming through, you can do better next year? Or is 1% sort of a good starting point?

George Frazis
MD, CEO & Executive Director

Andrew, I mean, obviously, we can't provide an outlook beyond this year. I think the thing to think through is if you look at our digital transformation, which is more where will we be in, let's say, 3 years' time, when we've got all of our retail brands on a cloud-based common platform, I mean, that's a real game changer for us.

Basically, what we're saying is the Retail Bank is digital from front to back with really compelling, innovative digital services at the front end for customers. That really then transforms our cost structure, but we do have to go through that period. Obviously, managing through that, we've done that quite carefully because effectively, you're kind of building while you still have the old. So -- but we'll continue doing that carefully and really excited about where we will be, let's say, in 3 years' time.

Ewen Stafford
CFO & COO

Yes. That's right.

Andrew, the only other thing I would add to George's answer, more medium term. Obviously, the ME Bank integration as well provides us with another opportunity just to step back and assess the operating model of the combined business as well. And so we're very conscious to make the most of that opportunity right across the organization.

Operator

Your next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I have a couple of questions. Firstly, Slide 9 includes composition and growth in housing, and it shows that BOQ Retail had a strong half, but Virgin and BOQ Specialist slowed. So can you explain why Virgin's growth seems to have stalled and what you think drives the overall growth from here?

George Frazis
MD, CEO & Executive Director

Thanks, Richard. Starting point is, you're right, we're really pleased about the turnaround of the retail Blue brand. That was fundamental in terms of fixing the Retail Bank. Virgin Money actually has continued to grow quite strongly. In fact, if you look at where we're at in terms of exit rates on Virgin, they're approaching back to their strong levels. So we're really pleased with how that brand is going. And the additional launch of the Digital Bank for Virgin, and particularly once we get home loans onto that over the next 12 months or so, it's going to be really exciting.

On BOQ Specialist, as you know, the medical profession, we've got really sound customers in that sector, but they were impacted by COVID. So we had to see through and support those customers through COVID.

Now that is -- we're starting to see growth return on the housing side in BOQ Specialist. They're still quite cautious on commercial. But as I said, we're really comfortable with that portfolio. We're very comfortable with the customers, and it's just going to take a bit more time for them to recover.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And just my second question, George, you talked about housing growth at 1.6x in the half just gone, 1.6x system. We can all see the improvement that's coming through in the system growth rates. Is that sort of growth rate versus system around about 1.5x the sort of level that you're targeting? Or do you actually have ambitions to grow even more strongly relative to system?

George Frazis
MD, CEO & Executive Director

Richard, where -- our growth rate is accelerating from that 1.6x. I do want to stress the way we manage the business is optimizing revenue. Obviously, we want to assist as many customers into their house -- homes, but it is about revenue optimization and also ensuring that we're scaling up the middle office to support that growth. We're very comfortable with what we've put in place. So the current run rate is above 1.6. We don't have a specific number we target. It is all about optimizing revenue.

Operator

Your next question comes from Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc. Exchange Research

I just have a couple of questions. Firstly, on the NIMS, and particularly, the movement in the funding costs. Obviously, it's been the big swing movement in your net interest margin from period to period. Can you discuss what sort of licensed values you have in this deposit book now, noticing the mix shift has continued towards transaction accounts and to savings and investments and away from term deposits, which I imagine are cheaper deposits. And also, you've mentioned that you've continued to pull down your -- some of your absolute deposit rates. Could we expect to see a similar impact for the second half NIM on that funding cost? And then I have a second question on loan provisioning, please.

George Frazis
MD, CEO & Executive Director

Yes. Thanks, Brendan. I mean as already mentioned in our outlook for the half, we have taken into account some more improvements on deposit pricing.

But I'll hand over to Ewen to give you a bit more color.

Ewen Stafford
CFO & COO

Yes, Brendan, I think as we look into the second half, we're seeing an outlook very similar to what we've just delivered in the first half. And there's definitely funding tailwinds coming through. As I mentioned earlier, we've just repriced the TD book. And we're also expecting further upside on the wholesale funding and just a little more benefit coming through from the term funding facility in the second half than we experienced in the first half.

So to your specific question, I think the first half outcome is a good indication of what to expect in the second.

Brendan Sproules
Citigroup Inc. Exchange Research

And just a question on loan provisioning, if I could. I mean we've seen a couple of the larger banks start to write-back their collective provisions that they built up during the COVID period. Now your impaired assets and other asset quality indicators seem reasonably strong. So what sort of indicators should we look for that may give rise to maybe reducing some of those elevated collective provisions over the next 6 to 12 months?

George Frazis
MD, CEO & Executive Director

Thanks, Brendan. Again, I'll start off and then maybe hand over to Adam to give you a bit more color.

The starting point would be, we are really pleased with how the economy is recovering. We think the recovery is sustainable. But there are still uncertainties around the COVID vaccine rollout. We have no doubt -- if you think about how well the governments have managed this in the past, we have no doubt National Cabinet will do a good job to ensure the vaccine is rolled out, but that's still an uncertainty. So we've been cautious in terms of our provisioning.

We have actually no concerns in terms of the underlying asset quality. In fact, we're extremely pleased with how well our SMEs have gone back to performing and also our housing customers. And the fact that house prices are going up also provides encouraging buffers for our customers.

This is something we'll probably be looking at a quarterly basis to assess when and if and how much release the provision. But at this stage, we're comfortable being quite conservative in terms of our provisioning to date.

But Adam, I don't know if there's -- I've probably covered everything you wanted to say, but...

Adam McAnalen
Chief Risk Officer

Yes, you have, George.

The only other point I would add is that 2 major milestones have just passed with the expiry of banking relief as well as the JobKeeper package only concluding at the end of March. So they are 2 significant support packages that really did a great job during COVID that we now just need to see how that sort of unwinds out of the system. And then, of course, just stability around borders or other milestones that we'll look at over the next half.

Operator

Your next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Can you just touch on how you guys think about using the TFF with fixed rates and therefore, an easier ability to reprice once it rolls off? And also then just going back to some questions on the growth in the housing lending. If we look forward, can we expect the majority of the growth in the next little while to come through that broker channel with your improvements there?

George Frazis
MD, CEO & Executive Director

Thanks, Ed. What I might do is touch on the second one and hand over to Ewen for the TFF discussion.

The starting point for housing is, obviously, we're very pleased with the housing growth. As I said, we kind of optimize revenue, so we're very comfortable with the growth and margin and also the cost outcome that's associated with that. One of the critical things we've done is with time to yes. And also, we've reset effectively the remuneration model for our owner manager channel, which has been a big positive in terms of how we performed in housing. The positive -- and the unusual thing about our housing growth is that it actually started with a turnaround in our owner manager and corporate branches as opposed to driven by brokers. That continues to improve. And now it's gone into positive territory, and our objective would be, over time, to get that to system.

As you said, broker has accelerated. Still only represents 35% of our flow, so we would like that to increase, and that will continue. And once we're able to put mortgages on the new digital platform, then it opens up a whole new channel for us that we haven't tapped into. So effectively, we'll be growing across all of our channels and just ensuring whilst we're growing that we're optimizing revenue.

So I'll hand over to Ewen.

Ewen Stafford
CFO & COO

Thanks, George. And I'm going to start on this one and see if there's anything Tim would like to add more in terms of the nuts and bolts of managing the roll-off of the fixed book.

But I think the important point here is we're really deploying that TFF for growth right across our portfolio. And to Brian's question earlier, we're also drawing -- being very careful in terms of how we draw it down with our eye to the refinancing implications 3 years down the track.

We have a further $800 million to come, and we will take the full amount of that by 30th of June. And as mentioned, just to reiterate, we're also starting to see those benefits come through in the margin and increasingly so in -- expected in the second half margin.

But Tim, I don't know, is there anything else you would add?

Tim Ledingham
Treasurer

Ewen, probably the only thing I'd add is, obviously, the TFF flows into a natural hedge for fixed rate, so it does assist. But assists through lower cost of funds coming through the portfolio. It does help us manage the rollover of fixed rate housing loans in those buckets. But I guess we actually do convert all of our fixed rates back into floating rate as we're managing it. So it really is -- one of the drivers is just the lower cost of funds.

Operator

Your next question comes from Azib Khan from Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

George, there's been a lot of talk about your home loan growth and the improvement there and it has been very commendable. My question is, whilst you are increasing your volume growth, there has been some slippage in your time to yes from 1 day to 2 days in -- through your branch network, through the branch channel. Is this slippage purely due to the larger volumes that you're now processing? And if so, should we expect more slippage of volumes increase from here? Because you have pointed out that you will look to continue to accelerate your home loan growth from here.

George Frazis
MD, CEO & Executive Director

Yes. Thanks, Azib. And as you correctly state, one of the key drivers of our performance was effectively to have a leading time to yes. So we will be in the -- my estimate is probably in the top 3 in terms of that performance. What we've done as we've grown is we've been really conscious of the need to scale up our middle office, and I'll get Ewen to kind of talk to that in more detail. And we're really pleased with how we've been able to do that. So that slippage from 1 to 2 days still is kind of leading -- a leading market position in the top 3 or so, so we're pleased with that. And that continues to be a very compelling service level for our customers through all channels. So we'll continue. As I said, momentum has increased. The service levels are being maintained at that level, but I'll pass over to Ewen.

Ewen Stafford
CFO & COO

Azib, just a few comments on the sort of productivity and efficiency within the middle office, the macro point and where I'd start is that we are seeing the additional costs that we're investing in to support growth. So the $3 million in this half, it is coming on at a lower cost-to-income ratio. So that's a really positive place to start from. And then more specifically, the productivity agenda is really critical. So we're definitely starting to see benefits coming from greater utilization of automation and artificial intelligence.

We've partnered with a local Brisbane company around assessment of loan applications. There's automated verification around income information in the context of responsible lending obligations, and there's also a proof-of-concept underway to really combine AI and Open Banking to really help enable and also get more productivity into digital mortgage assessment.

So it's an ongoing journey for us. And then as we get more into the medium term, the benefits will start to come through from this core banking system replatform for the Retail Bank and straight-through processing. So we're really excited and looking forward to that as well.

George Frazis
MD, CEO & Executive Director

Yes. So as you can see from Ewen, the time to yes for us is an ongoing focus and really important for both the customer service, productivity and also growth.

Azib Khan
Morgans Financial Limited, Research Division

Just a quick follow-up on that, George. So can we expect the scaling up of the middle office to be complete by the end of year 3 of the productivity program? Or do you anticipate the need to continue to scale it up beyond that period?

And just one slightly different question. Can you also tell us what your current time to yes is in the broker channel?

Ewen Stafford
CFO & COO

I'll answer the first one.

George Frazis
MD, CEO & Executive Director

Yes.

Ewen Stafford
CFO & COO

I mean the job is never done is what I would say, as if in terms of ongoing push for productivity. And I think they'll be -- the work we're doing at the moment around automation and artificial intelligence, robotics, we'll continue to -- a big part of this is the ongoing simplification of the product offering and really streamlining ongoing process simplification and capability uplift.

And as mentioned, as we get further into year 3 and beyond, so if we're not -- certainly all be done, but we're really starting to see the benefits of the investment in the technology starting to come through. And I might just get Craig to add a couple of comments on that.

Craig Ryman
Chief Information Officer

Yes. It's Craig Ryman. Just in terms of our transformation pathway, what we're doing is effectively building a new Digital Bank that we will leverage first at Virgin and then into the BOQ brand. As we stand that new capability up, we will start to write our new business onto that platform. And that will happen within the 3 years. So it will happen within the next 12 months, 12 to 18 months.

So you'll progressively see a more automated end-to-end solution around lending as well as our asset processes progressively come on for new business in the back end of that transformation. Ultimately, we'll look to the migration of our existing book onto the new platform as well. So in addition to the work that Ewen talked about, we will see our new business writing as those products get enabled on the platform progressively take up the new volumes that we will secure.

George Frazis
MD, CEO & Executive Director

And Azib, just to answer your -- the broker question. The thing to note is one is we've had significant and good growth through the broker channel. The NPS of our broker channel continues to improve. So we're really pleased about that. The turnaround times in terms of conditional time to yes is around 3 days. And our understanding is that, that's market-leading, and we're getting a really good response from our broker channel.

Operator

Your next question comes from Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

Congratulations on the results. Just a couple of quick questions for me. So first question is just on the BOQ Blue retail brand. So if I recall correctly, and I could be wrong, but the BOQ Blue retail brand has actually returned to growth for the first time since first half '16. I know you guys have spent a lot of time here talking about sort of the overarching housing trends, but are you able to expand on what you think really drove that growth specifically in the BOQ Blue brand?

And then the second question is with respect of your provisions. So your provision level remains relatively conservative from a collective provision to credit risk-weighted asset ratio. Given the improving economic outcomes, just on a longer term, I'm just interested in how we should consider the correct level of provisioning. Is FY '19 that level? Or have accounting standards really changed that?

George Frazis
MD, CEO & Executive Director

Thanks, Josh. And I'll start off and then a combination of Ewen and Adam in terms of the provisions. And as you state correctly, we're just really pleased with how the BOQ Blue brand has turned around. And as I've already stated, a key driver of that was really our owner managers and our corporate branches.

The 2 key things that enabled that was one is we established a new revenue sharing model with our owner managers, which aligns our 2 incentives towards profitable and sustainable quality growth. And then the other critical thing that actually enabled us to grow in all channels was the time to conditional yes. So they're the 2 key things that drove that.

I'll have some -- I'm just really excited about our owner manager channel. This is a channel that we want to grow going forward. What we've got is, as small business owners in communities, that average about 11 years. So they're very, very connected in their communities. And that assess both home loans and small business.

And just to mention this, this is a real differentiator for us in terms of being connected, really connected to those communities, which is hard for anyone else to replicate.

So on that, I'll hand over to Ewen to give you some commentary on the provisions.

Ewen Stafford
CFO & COO

Thanks, George.

Josh, I think it has been commented on already, we really feel now is an appropriate time to remain prudently provisioned. So notwithstanding, we're really happy with the portfolio quality and the impairment and arrears position, we do feel it's appropriate just to remain prudently provisioned. And there's still a little bit -- there's just that uncertainty, and there's still a bit to play out.

In terms of -- I think it's a bit early under AASB 9 to really make a definitive statement about an underlying or normalized level of provisioning. I think there's just -- it's a relatively new thing, got tested in the middle of a global pandemic, which we weren't expecting. It's very much a forward-looking provision. And the other factor is our asset mix is changing, and we're changing that organically and inorganically. And that will have a real impact as well.

And Adam, is there...

Adam McAnalen
Chief Risk Officer

Nothing else. I think you covered it, Ewen.

Operator

Your next question comes from Nathan Zaia from Morningstar.

Nathan Zaia
Morningstar Inc., Research Division

Just I had 2 questions. The first one on housing arrears without sitting end of February. Has there been a material change since given land deferrals have come to an end now?

And the second one, I was just keen to hear your thoughts on where you feel BOQ ranks in terms of functionality and features with mobile banking apps. And all the banks are making investments around budgeting tools and buy now, pay later. George, do you think that's going to be something that differentiates banks? Or it's just going to be a nice to have and won't really drive customer choice?

George Frazis
MD, CEO & Executive Director

Thanks, Nathan. And -- well, I'll just -- I'll cover off both fairly quickly and then hand over to Craig to talk about some of the great features and how we're thinking about the Digital Bank and the launch of the new Digital Bank of Virgin Money Australia.

Just on housing arrears, we're not seeing any uptick on housing arrears. They're still a little elevated from historical levels, but we're seeing just a gradual improvement on those. So we're comfortable with where that's at. And as you know, the important thing around that is, one, what's happening to unemployment. So we're really pleased with how employment is recovering. And the second thing is house prices are strong. So again, our customers have got quite substantial equity in their homes, which is great to see.

On the functionality and mobile banking, I mean, there's absolutely no doubt in my mind what's going to be critical is, number one, how good you are in mobile banking. And number two, how connected and personal your banking is to the customer segments you focus on. So our absolute focus is to be one of the most connected banks with our customers, both from a personal perspective. And I just talked about our owner managers is a real differentiator. And then the other key element is how we connect with our customers digitally. What's going to be really important on that is how we develop our data capability. And again, we're -- I'm really pleased with how we've progressed on that.

And then the other key element to note is we're quite different from many other banks in the sense that we're going all-in with a cloud-based system, which will be API and Open Banking, which means we can continue to add services for the customer segments that we target. And we then leverage global players in terms of their innovation. So that's how we're able to make sure we're providing the most innovative services to our customers on an ongoing basis and enables us to compete with the majors and, in fact, redefine banking in Australia.

But on that, I'll hand over to Craig, and you might want to cover off loyalty and things like that.

Craig Ryman
Chief Information Officer

Yes, certainly. Thanks, George.

And I think, George, has covered a lot of points, but just to reinforce, what we're deploying is truly differentiated. Market-leading technology, API first in design and it has been developed as a cloud-based, scalable solution with continuous upgrade path, which does mean we will be able to continuously offer our customers the latest innovation.

What the research showed and what we have implemented is a proposition that is data-driven, allows the connected and personal experience with financial business at the heart of it for our customers. And importantly, at the core of our proposition is state-of-the-art technology and loyalty proposition, which means we'll be able to provide ongoing value for our customers through the life cycle of that.

So that will be over -- have over 100 rewards partners and that will continue to evolve. But importantly, it is differentiated, and we'll continue to be able to implement the latest in innovation for our customers.

Operator

Your next question comes from Matthew Wilson from E&P.

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

I have 2 questions, if I may. Firstly, on digitalization. Once you are fully digital, where do you see the unit cost of originating a mortgage ultimately falling to? And where are you today?

George Frazis
MD, CEO & Executive Director

Thanks, Matthew. I mean we probably haven't disclosed that information. I think probably 2 things to note. Ewen's comment on effectively the cost income ratio of the middle office improvement even before we get to that end state. But you're right in the sense that as we effectively execute on this digital transformation. And when we get to the end state, where all our 3 retail brands are on a common cloud-based platform with mortgages being part of that, that's an absolute game changer for us.

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

Yes. So when we sort of think about and talk about this with the major banks, they're sort of originating a mortgage at around $2,000, $3,000 unit cost. Are you at that level today? And then when you think about the opportunity with pure digital banks globally, they're sort of more around $100 to $200 unit cost.

George Frazis
MD, CEO & Executive Director

Yes, Matthew, the way we kind of run the business is through targeting positive jaws. And effectively through that, a big part of it is our productivity program and also our digital transformation.

The difference, I would say, in terms of where, let's say, the majors are and many other players versus where we will be is that we're not fixing the old. We have the choice to effectively build a new, fully digital bank that's at scale with 3 very compelling and loved brands. So that is very unique, and you're right. When we execute on that, let's say in 3 years' time, that does fundamentally change our cost profile.

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

Yes. Okay. That's good. And then one final question. Just on Slide 13, where you talk about ME Bank. There was a footnote historically that referred to the exclusion of the ME Bank capital note distributions from the EPS calculation. Have you revised that calculation?

George Frazis
MD, CEO & Executive Director

No, no.

Craig Ryman
Chief Information Officer

There's been no...

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

So you are still excluding the $30 million in capital notes that are paid to those holders from your EPS calculations?

Craig Ryman
Chief Information Officer

That's the interest. Yes, we are.

Operator

Your next question comes from Brett Le Mesurier from Velocity Trade.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

Your wholesale funding costs fell by only 5 basis points from the second half '20 to first half '21 according to the average balance sheet, which is a very small reduction based on what happened in average bill rates over the period. And I thought you said that you swapped any fixed rate into floating. So could you explain why there was only a 5 basis point reduction in wholesale funding costs during the period?

George Frazis
MD, CEO & Executive Director

Thanks, Brett. I'll hand it over to Ewen. I'll start, and then I'm sure Tim will have something to add.

Look, I think it's a fair observation. We have seen that average come down in the first half. But I think the key point is we're absolutely expecting that will now start accelerating. And the -- in terms of impact on NIM, what was 1 basis point in the first half will be 3 basis points in the second half. So we're really starting to see that accelerate.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

What is the actual funding costs at the moment on your new wholesale funding?

George Frazis
MD, CEO & Executive Director

Tim, did you want to pick that one up in terms of what you're expecting with some of the refinancing in the second half?

Tim Ledingham
Treasurer

Yes. So on, say, 5 year as a benchmark, it's somewhere around sort of the high 50s to low 60s, above 3 months' bill.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

Right. So the actual -- so the average you had in first half '21, the average interest rate is 2.1%, and you're heading to an average of around 60 to 70 basis points. Is that correct?

Tim Ledingham
Treasurer

That's on a 5-year point. Obviously, we don't fund everything at the one duration, but it's a combination of durations. Part of the reason that we haven't had the drop in wholesale funding is obviously, we've got $1.1 billion of retail deposit growth through which covered a lot of the GLA growth. And then we, early on, drew down on the TLF -- the TFF. And we issued a covered bond in May '21. And we haven't -- sorry, May

'20. And we haven't had the need to actually issue a lot in the wholesale market since. And we do have some maturities that are coming up. And obviously, we have the TFF to draw down by the end of June.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

But 5 years would be a fair average for your wholesale funding? What you're targeting, right? Across a broad range in maturities, 5 would be about the middle?

Tim Ledingham
Treasurer

3 to 5 is about the middle.

Cherie Bell
General Manager of Investor Relations

Thanks, ladies and gentlemen. That concludes the Q&A session this morning. I'll just pass to George for some closing remarks.

George Frazis
MD, CEO & Executive Director

Thanks, Cherie, and thanks, everyone, for joining us this morning. We really do appreciate your time. Hopefully, we'll be able to see you face-to-face at some time.

As you can see, this has been a big 6 months for BOQ. We're really pleased with the results and the progress we've made on the digital transformation. We've got another big 6 months ahead of us. The way we've managed this business is to each 6 months improve our performance, deliver on the financials and also show real progress in terms of our digital transformation.

So once again, thank you, and stay safe.

Operator
Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.