Question and Answer

Operator

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

Andrew Lyons
Goldman Sachs Group Inc., Research Division

I just wanted to ask some questions just around the CP modeling that you've provided quite a lot of detail around, just on Slide 35. If we look at the industry impact assessment and the subsequent impact that, that has on the probability of default multipliers, across the portfolio, the portfolio that you stress tested implied about a 3x increase in the probability of default and then across the whole portfolio, if we sort of assume across the whole portfolio, it's about a 1.5 times increase in the PD. I'm just wondering, just in light of the extent of the slowdown, which has been described as the greatest since the depression, I'm just wondering if you think that, that PD, just from a very high level, really catches the extent of the likely weakness we're going to see in the portfolio.

And I guess just related to that within the retail book, the assumption around property price movements are just down 5% in the second quarter and then for the full year as well, just sort of how you're thinking about how you came up with that number.

George Frazis
MD, CEO & Director

Thanks, Andrew. I might start off and then hand over to Adam to provide some more detail. I think there are 2 things to note here. I mean, obviously, this is a very uncertain environment, and what we're presenting is a range of scenarios to the best of the information we've got at the time. So there are views on, number one, how deep will this decline be; and number two, the uncertainty around how quickly this will recover and what the recovery will look like. Our view is that -- the way we've done this is, number one, looked at what we thought in terms of how deep the impact will be. And we have looked at adjustments to GDP and property prices beyond that. But one of the key things that drives this is unemployment. And I'll have to say, when we look at the government packages, that really does provide a cushion to that unemployment rate, which we've got there peaking at 9%. Now you could argue that they may be a bit higher than that. But that's one of the key measures that really drives the results of the provisioning.

The other impact that we've done on this is effectively determine the impact of the stimulus. And as we know, the government stimulus is close to -- into the double-digit when it comes to a proportion of GDP, so it is significant. The critical question will be how long this takes to recover. And as I said, the likelihood is that we are potentially going to see a V-cut recovery. But then for some industries where there's going to be more structural change and more permanent change, you're likely to see an experience of more of a U shape. So what's going to be important for us going forward is really taking an industry-by-industry view of our portfolio.

And then the only other point I'd like to make before handing over to Adam is that we've got a very diversified portfolio now in terms of geography and industry. And in fact, even though we've got quite a specialized niche segment approach, the balances within each of those niches is quite modest outside of the health care sector.

But I'll hand over to Adam.

Adam McAnalen
Chief Risk Officer

Thank you, George. I think you've covered off that question very well. The only element I would add would be where our assessment is applied across the respective industries. It is reflective of our own customer but not the industry more broadly.

And I'll hand back to you, George.

George Frazis
MD, CEO & Director

Thanks, Adam. Thanks.

Operator

Your next question comes from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

George, can you hear me?

George Frazis
MD, CEO & Director

Yes, Brian.

Brian D. Johnson
Jefferies LLC, Research Division

George, I'm just intrigued on 2 things. The first one is that can we get a feeling -- so the sensitivity, I'm on to the Slide 30, you said unemployment could be anywhere between 8.5% to 10%. You've done it on 9%. Could we get a feeling as to what the upper band would basically do to that loan loss assumption?

George Frazis
MD, CEO & Director

Yes. So Brian, the way -- we haven't actually disclosed the further scenario analysis that we've done. But what -- the scenario analysis that we've done to date, the critical thing we're looking at is what is the impact on our CET1 ratio. And the type of scenarios that we've looked at today -- and as I said, it's a very uncertain environment, and so -- and critical, how deep does this go, I could argue that the depth of it in the second quarter will be what it will be. It's all about then how quickly does it recover that really makes the impact. And what we've seen on our broader scenario testing is that we still maintain our management down on CET1 of 9% to 9.5%. So we're very comfortable with our capital position and also our liquidity position. So we've got a strong position.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And George, the second one was, if we have a look, yesterday, we've got our noble leaders basically not only saying that landlords can't evict their tenants but now are talking about a mandatory waiving of rent. I'm just intrigued, what would it do to your earnings if you were basically mandated to actually waive interest on that similar proportion of model that they're suggesting the landlords.

George Frazis
MD, CEO & Director

Yes Brian, look, obviously, the one thing I've been really pleased about is how well government, the regulators and the banks have been working together to make sure that as the government has pointed out, this is all about building a bridge across this and also kind of cushioning the impact. Now in those discussions, which have been extremely fruitful, this has been all about how do we, particularly on the smaller end of the business customers, which is where really the balance sheets are not as strong, how do we support those. So there's been no indication or talk about not charging interest, et cetera, or not being able to capitalize interest because I'll have to say that would be a huge dislocation in terms of how the whole economy works and will create flow-in effect that would not be great. The whole emphasis has been on how do we support customers through this.

If you look at the programs that we've got in place, up to $10 million for business customers, that effectively covers off 99% of our customer, our business banking customers, and 72% of our business banking book. So what it does is it really gives us an opportunity over that period as the information gets better to, in a very measured way, be able to assist our customers to adjust their businesses to get through this as best they can.

And again, that's a similar program in terms of mortgages where there's a program of deferring payments for 3 months with an option of extending that for a further 3 months. Again, that then covers off a big part of our lending book. The critical thing on this, by the way, Brian, is the fact that APRA does not require us to increase the risk weights as we do these deferments. So that period doesn't actually chew up valuable capital support.

Brian D. Johnson
Jefferies LLC, Research Division

So George, just to clarify, if we were to get the powers that be to come out and talk about a mandatory waiving of interest for landlords on the same proportional model, that would actually be quite significantly bad for you guys?

George Frazis
MD, CEO & Director

I think it would be, Brian. It would be bad for the industry as a whole and the market as a whole as it works because remember, the other thing we need to do -- banking really is what helps us get back to normality in terms of markets. So the quicker we can get back to open markets where they operate as opposed to requiring support from the RBA, the better. So those type of initiatives would not help getting us to that point. But I have to stress, there's been no implication or discussions or even suggestions down that line that I'm aware of.

Operator

Your next question is from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

George, can you hear me?

George Frazis
MD, CEO & Director

Richard, yes.

Richard E. Wiles
Morgan Stanley, Research Division

Good. So I just want to ask a couple of questions on your decision around the dividend. Does your -- does deferral of the dividend mean you certainly won't pay an interim dividend? Or might you still pay one? When are you going to have a discussion with APRA on stress testing? And does your 70% to 80% payout ratio target for the medium term still stand? Or do you think it's no longer appropriate?

George Frazis
MD, CEO & Director

Thanks, Richard. Starting point is we definitely recognize the importance of dividends to our shareholders. And we've got a very large retail shareholder base, which particularly in these times where many other income streams are under pressure, the dividend is important. But I'll have to say, I'm supportive of APRA's move on this. They've been very consistent in the sense that they're about conserving capital to ensure the banks are in a position to really lean into assisting customers get through this. It's evident by the fact that the risk weights don't increase as we provide deferrals. They've talked about the potential of going into our buffers. And now really, what they're saying is, given the uncertainty, and they've been pretty clear that their view would be that potentially will become more certain over the coming months. So I don't think this is all about us doing a stress test today. It's really getting certain in terms of how we think the recovery options may look and then agree a stress test with APRA and then determine if we're able to pay a dividend given that stress test.

The thing I would say is that we've got a very strong capital position. As you saw, our CET1 ratio is at 9.91%. We're very confident about our business. It is uncertain at the moment, so we would have to think through what are the potential stress test scenarios, agree those with APRA and then conduct the analysis and then go from there.

Now in terms of the short term, the other thing that APRA has stated is that their expectations on any dividend that is paid is reduced. What that would mean is that, obviously, in the short term, the 70% to 80% were both on the profit test criteria, and the new guidance from APRA would mean it would be below that if there was a dividend determined.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. So your comments around the timing of the stress test discussion with APRA suggests that you still might pay an interim dividend if these discussions could be completed before the end of the year and the timing of the final dividend? So deferral means -- doesn't mean cancellation. It currently means deferral.

George Frazis
MD, CEO & Director

It absolutely means deferral, Richard. But I do want to stress, it will depend on is the clarity in what we're leaning into over the next couple of months. So if there's clarity around that, then an agreement of what a stress test scenario -- or a range of stress test scenarios could look like and then obviously going through that process with APRA. And given that we're confident with our strong capital position, obviously, we would go through that process once there's clarity around the environment.

Operator

Your next question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JP Morgan Chase & Co, Research Division

A couple of questions, please, along, I guess, a similar theme. So firstly, just hoping to get some more details on commercial property exposure. I think it showed -- that the presentation disclosed that 35% of the business lending portfolio sat in property and construction. In the past, that's an area where BOQ has, I guess, seen significant losses in downturns. What -- I note that it's not listed as one of the sort of the key high-impact or medium-impact areas, just your thoughts around the property cycle to come around.

And then just a follow-up on the modeling. What -- where do you expect mortgage loan losses to run at in your sort of base case assumptions, please?

George Frazis
MD, CEO & Director

Okay. Thanks, Andrew. I'll hand over to Adam to give you a bit more detail on both of those. But just before I do, if you look at the commercial portfolio exposure and the makeup of our business during the last global financial crisis versus now, it is completely different. So we've got a much more diversified business both in geography and in segment, but I can let Adam detail that.

The other thing to note, just on housing, is that the LVR, in terms of the customers that are requesting assistance on this, is quite low at 59%, as we've stated in the presentation. Obviously, our objective is going to be to help our customers through this. Both -- basically, the job keeper may assist in that in some way in terms of dampening the level of unemployment. But the real impact really is where does unemployment get to, number one, but more importantly, how does it actually recover to something a bit more normal because -- and then effectively seeing through customers through that period as opposed to forcing any action.

But I'll hand over to Adam to provide some detail.

Adam McAnalen
Chief Risk Officer

Thank you, George. I might just firstly turn to the question around the commercial portfolio and just reflect on the diversification or the composition of that portfolio today versus the sort of time period that you referred to, which was back in 2012. The composition is substantially different to that point in time, both in terms of the geography and asset mix. The bank was over-indexed in retail commercial property. And in fact, 90% of the impairments in 2012 were originated post GST, with 70% of those in Queensland.

Since 2012, risk appetite has diversified away from particularly land banking and retail property, with the majority of our assets now in commercial property. So at this point, we see the impact in commercial property different to that of retail. Obviously, the retail component is the substantial topic of conversation that we stare into at this point in time.

In terms of the housing portfolio, George, I think, has covered that off quite well. In terms of the main driver of impairment that would come across the housing portfolio is actually driven by unemployment and then, of course, the time that it actually takes for a recovery to come back. But with the average LVR of 66%, the portfolio is rather well shaped to withstand any downturn or some downturn in the property market.

I'll hand back to you, George.

Ewen Stafford
CFO & COO

It's Ewen, I'll just jump in quickly there to Andrew's kind of specific question and just to talk to the range, the $49 million to $71 million range in the subsequent event note, Andrew. So the housing book of that range is about 40%; commercial was about 20%; finance was about 25%; and then the specialist business was about 15%. So hopefully, that gives you some sense of the orders of magnitude across the portfolio as we see it across that range at the moment.

Operator

Your next question comes from Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just wanted to follow up on, I think, B.J.'s question when he asked about the sort of downside scenario, you were talking about the CET1 still selling at that 9% to 9.5% range. Just wanted to follow up on that. That would assume that you didn't pay a dividend in that half, you'd still have underlying profit of, say, $250 million that you generate. And on top of that, you'll be losing at least 50 basis points of risk-weighted assets. So have you been talking to that scenario sort of $500 million to $700 million in loss to the CET? Is that the number that you're talking about in that stress scenario?

George Frazis
MD, CEO & Director

Thanks, Jon. Look, under the stress scenario, obviously, it's not business as usual. So there's a number of factors that we've considered in that. Firstly, we've already talked about the deferral of noncritical investments, but that -- and in fact, the program, the plans on that are already underway, so in the order of around about 30% of our capital investment. The other thing that occurs under a stress scenario is, obviously, the risk-weighted asset growth is not there. So that has an impact on capital as well. So they're kind of the dynamics that play to that.

Jonathan Mott

UBS Investment Bank, Research Division

Okay. But I just wanted to make sure, to get your capital to go backwards, you're in a loss-making situation. So you'd have to lose your preprovision profit, which is currently at $250 million per half and then you'd have to chew out between 50 and 100 basis points of risk-weighted assets, which is probably another $150 million to $300 million. So you're talking of 0.5 million -- $0.5 billion-plus of losses, so I just wanted to make sure; and then on top of this, pulling back another noncritical investment as well, so probably make it an even larger loss. So when you're giving us a base case, which is an unbiased probability weighted, which is the one you're going to here, and you've disclosed on Page 35, you also gave us some scenarios where you land at 9% to 9.5% CET1 that you mentioned to Brian. I just wanted to make sure, to get to that 9% to 9.5%, you're taking a very large loss. So can you just confirm that is correct?

George Frazis
MD, CEO & Director

Yes. So the starting point would be to say, if you look -- there's 2 ways of looking at this, Jon, right? So one is -- number one, how deep is it; and then secondly, how long the recovery is. So the scenario analysis that we've done to date still does -- still has us in a profitable outcome in terms of our business, and there's very limited growth. We have taken actions, however, to make sure that we're optimizing the business and we're within that range. So we're not at the bottom end of that range, we're in that range. And we're also assuming that we're paying a dividend but a much reduced dividend.

Ewen Stafford
CFO & COO

And we're continuing to invest, albeit at a lower rate.

George Frazis
MD, CEO & Director

Much lower rate.

Jonathan Mott
UBS Investment Bank, Research Division

So is it realistic that you pay a dividend in that scenario than what APRA came out with yesterday?

George Frazis
MD, CEO & Director

Well, back to what -- it's just how we've modeled it, right? So even if we're paying a low dividend, we're still within that range. So now what decision the Board takes or the discussions with APRA, if that stress scenario occurred, that's a different discussion. And the main thing about that -- so Jon, if you did go through those type of scenarios, my point is -- and would you pay a dividend or not, the point when you're kind of into that type of scenario is not necessarily the outcome of that scenario because actually, when we look at the numbers, when we model those scenarios, the outcome's still quite strong. So we -- and the 9% to 9.5% is quite a healthy buffer above the unquestionably strong. The issue is when you're into that type of scenario, it creates a whole lot of uncertainty of the outcome going forward. So you do actually conserve capital further as a result of that uncertainty.

Ewen Stafford
CFO & COO

Yes. And George, the only other point, Jon, I would make -- I mean APRA only came out after the market closed yesterday. Obviously, we did all our modeling and the scenario work in the 10 days leading up to these. Well, really since balance date and leading up to these results. So we now need to go back and reassess that modeling.

Operator

Your next question is from Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

I hope you are safe in this current setting and fine. Just a couple of questions from me. First off, in Slide 7, you disclosed the material decrease in the growth rate of asset finance. And you called out a focus on margin management. Would you mind just providing a bit more color in this area?

And then secondly, you did note some flexibility in your investment slate with regard to the economic environment. Just with that in mind, I just wanted to check how you're progressing with your investment agenda. And would you consider delaying it, including some of the transformation programs just to preserve capital and reinstate dividends?

George Frazis
MD, CEO & Director

Yes. I'll hand over to Ewen to talk about the investment slate. But let me cover off on the first question which is the asset finance business. So it was quite a deliberate strategy to make sure we broadened our mix of growth in terms of industries and geographies and product types when it came to business banking. So as you can see in first half '19, there was a considerable reliance on asset finance. In the first half '20, we've considerably shifted that.

Now -- and the focus on asset finance there has been on ensuring that we optimize our margins. And in fact, the big emphasis on all of the business bank growth has been on margin management. Now what that's enabled us to do in terms of our more balanced growth and also the growth in our mortgages, it's meant that we've been able to generate 6 basis points of organic capital in the half compared to -- if you look at first half '19, that mix of growth really chewed up 7 basis points of capital.

The other thing to note on asset finance is that market as a whole has declined quite significantly, but we're still not losing share in it. And we're just making sure that it's good growth with the required returns that we should be achieving. But I'll hand over to Ewen to talk about how we're thinking about the investment portfolio.

Ewen Stafford
CFO & COO

Thanks, George. So on Feb 27, we -- as part of the Investor Day, the Strategy Day, we laid out that clear strategy and then the investment profile to support that. But we're also clear that we do have a lot of strategic flexibility. We're quite fortunate in a lot of ways that there are a number of significant pieces of work that have either completed in the first half or the more significant ones will deliver into the second half. So the carryforward inflight into '21 and beyond is low. The notable exception to that is obviously the critical VMA stages 2 and 3.

We've had a strong first half in project delivery, and I took you through some of that, and George spoke to some of those deliverables. Having said that, what we are doing now is just really sitting back and looking at that investment slate. And I think you can expect to see the number come down in the second half of this year and certainly into 2021, certainly and probably even more so in the first half of 2021. And the advantage of the strategy is we have a really clear view on the critical path through the delivery, being those large digital projects as well as the risk and reg. And that's going to enable us, I think, very quickly.

I mean we've already done the high-level work, and we're now just doing the detailed work around what smaller projects we will put on hold for a period and changing in the sequencing of the regulatory projects. Perhaps we won't be pushing out some of the acceleration as much as we'd previously considered in terms of the digital projects. But I think you can expect to see a lower number than we had originally planned in the second half and probably even a smaller number into the first half of '21, and then we'll obviously assess market conditions and the environment from there.

Operator

Your next question is from Ed Henning from CLSA.

George Frazis
MD, CEO & Director

Ed, we can't hear you. You might be on mute. We still can't hear Ed.

[Technical Difficulty]

Cherie Bell
General Manager of Investor Relations

Operator, we might need to take the question from Brett Le Mesurier.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Did I hear you say that in your stress scenario, there would be no risk-weighted asset growth?

George Frazis
MD, CEO & Director

So what we have assumed -- now these are not in the current scenarios that we presented. So the scenarios you've got in the pack do assume that there's risk-weighted asset growth. We have looked at more severe scenarios where growth will be subdued, yes.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So the -- what would be the increase in risk-weighted assets in that stress scenario that you're talking about? It has to be something, right, because you've got a reduction in credit rating, a few notches down for different categories.

George Frazis
MD, CEO & Director

I see what you mean. Yes, sorry. So when we said there's no increase in risk-weighted assets, we're talking about growth of new business as opposed to movement in the risk weights due to downgrades.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So could you give an indication as to what that increase in risk-weighted assets would be in that scenario, that stress scenario you've identified?

George Frazis
MD, CEO & Director

Well, we haven't really disclosed at this stage the more stressed scenario. So what we're saying -- or what we are saying is that when we look at a number of those scenarios, and it's very unclear at the moment what a stress scenario would look like, so we have had a go at that. What we're saying is with even in those scenarios at this stage, we stay well within our management capital ratios. What will happen over the next couple of months is for us to get clarity of what likely stress case scenarios are, agree those with APRA and then do the work, if that makes sense.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Right. And you've not allowed for an increase in the LGD in you stress scenario, if we looked at it, it's just the PD you've increased. Is that correct?

George Frazis
MD, CEO & Director

Let me just -- I might hand over to Adam. The other thing to note on this, before I hand it over to Adam, is that if you look at the first 6 months of the deferrals, right, so we've got about 90% -- as I said, 99% of our customers are covered by that deferral, and all of our mortgage customers are covered by that referral. And then at an asset level, that represents something in the order of 72% covered by the deferral in terms of our business lending book. What that means is during that deferral process, we don't need to adjust the risk weight as we get through this, right? So that's an APRA change to their requirements.

But I'll hand over now to Adam to provide some color -- more color on your question.

Adam McAnalen
Chief Risk Officer

Thank you, George. Yes, I can confirm that we have applied an LGD impact through the model, obviously, after the housing portfolio, that is driven by property prices. When we consider that our commercial portfolio is predominantly well secured and with the conservative lending values that we use to secure those assets, the property downturn does not have a material impact on the commercial profit. For BOQ Finance, of course, where it is secured by assets, that obviously does have an impact. But it's not linked directly to property prices, obviously because it's secured by other assets.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

And lastly, I gather from what you're saying, you've had no contact with APRA at all on stress testing.

George Frazis
MD, CEO & Director

No. So the APRA notice came out late last night. So there was a requirement to do some scenario analysis early on, but that was quite early on in this whole crisis.

Ewen Stafford
CFO & COO

First week of March.

George Frazis
MD, CEO & Director

The first week of March, which all banks were required -- all ADIs were required to do. All I have to say, that was even a more uncertain period in terms of what the outlook would have been.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

All right. So you really have no idea whether or not your stress test would be satisfactory to APRA?

George Frazis
MD, CEO & Director

No, I think I would state to -- the answer to that is no. So we haven't had a conversation in terms of taking APRA through our stress test notes. But I would take 2 things, Brett. My sense -- a clear sense from the conversations I've had with APRA and the letter is that their viewpoint would be that it would be a couple of months or more before there's clarity on what a likely stress case scenario might be, and then you'd have to undertake the stress case scenario, would be my sense.

Operator

Your next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

George, can you hear me?

George Frazis
MD, CEO & Director

Yes. Ed, sorry about that.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

No, that's fine. I don't know what happened there. Look, a couple of questions from me, please. Just looking at your business assistance package and obviously, a lot of people asking for help and you're talking about repayment holidays on that. Can you just run through the impacts of those people taking repayment holidays or moving to interest-only on the second half profit, for the first question?

George Frazis
MD, CEO & Director

Yes. And have you got another question or...

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Yes. The second question, I just wanted to dive into

[Technical Difficulty]

just to run through what you're exposed to there. And also, when you talk about security against the assets, is that just the assets of the business? Or is it housing that's backing up some of these lines?

George Frazis
MD, CEO & Director

Sorry, can you repeat your second question, Ed? You just cut out.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. Sorry. The second question was just around the health care segment. Can you just run through a little bit more on your exposure there of the individual businesses? And when you talk about LDR and the security of these business assets, is it just the business assets that is secured by?

George Frazis
MD, CEO & Director

Right. So I might hand over to Adam to give you a bit more information on your second question. On the first one, I'll start off, and Ewen might want to add onto that. So what happens on deferrals is, effectively, you're deferring both your capital and -- so your P&I payments and your interest. And then that's capitalized at the end of the 6-month deferral. So effectively, you're still accruing income for that. So it doesn't actually change your P&L in any way. What it does do at the end of that period -- and then that's the other important point about the fact that the risk weights don't change either because then it's not chewing up your capital as a result of all those deferrals.

What would happen at the end of that 6-month process is you would then re-contract with the customer to either extend the loan in the order of 6 to 12 months or if they able to -- are able to pay at a higher rate, so it'll be up to them in terms of what their business can, then the loan can stay as it is, right, with a higher repayment. But that's effectively how that's treated.

Ewen Stafford
CFO & COO

Now that's correct. So we're just continuing to accrue interest. So the NII line, no impact. I did comment, though, on the -- there will be some impact on the noninterest income line, particularly around those waiving their business banking fees. But that is a continuation of -- I mean, more broadly, a continuation of the trend that we've seen over the last number of halves.

George Frazis
MD, CEO & Director

Yes. Good. If you look at the last -- just to add a bit more on that, if you look at the last rate reduction by the RBA, effectively, the way we've treated that is by not passing on that rate to mortgages, we were able then to provide better rates for business customers and also be more competitive on deposits. So those 2 things kind of net each other out. You will see a slight decline in volumes as a result of the activity being lower. But at the same time, you'll also get a significant reduction in turnover and churn. But -- and that's really what's going to be driving the reduction in noninterest income.

And a final point, obviously, the low-cost term funding facility from the RBA, that benefit really starts kicking in, in FY '21. So there'll be a tailwind as a result of that.

But I'll hand over to Adam to add to the second question.

Adam McAnalen
Chief Risk Officer

Yes. Thank you, George. Just in response to your question around the security of those loans, so the term debt is secured by our property. And then the asset finance, which for some of the customers is obviously equipment, and that is obviously secured by the equipment in its own rights.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

And is that property a bit like a -- of the business or of someone's house?

Adam McAnalen
Chief Risk Officer

It will be a combination of both, depending on the customer. But if we think about BOQ Specialists, the majority of that will be their residential property as security.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And can you just run through the split of the health care like dentists, GP doctor, specialists, if you can?

Adam McAnalen
Chief Risk Officer

I'd need to come back to you specifically on that answer.

George Frazis
MD, CEO & Director

But Ed, just to add to that, if you look at the request for assistance from that sector, the majority of that has been from dentists because basically, where they're at, at the moment, as you can imagine in this environment, not too many people are going in to get their either elective dentistry stuff done or cleaning. And in fact, the only emergency work is allowed to be done going forward. So you can see those businesses, without a doubt, once we get through this, the majority, if not all of them, will be back up running strongly. So we don't have any concerns of that sector.

I think we've got time for one more question given the timing or 2 questions.

Operator

Your next question is from Tom Strong from Citi.

Tom Strong;Citi;Senior Research Associate

Just a couple of quick questions on costs, if I may. Just want to understand how confident you are of keeping costs managed in FY '20 given the pretty seismic shift away from home and the disruptions. We've seen a pretty big demand on technology. And also I would imagine you'd be directing a lot of resources into contact centers to deal with the customer inquiries. So I guess, how deep is the offset elsewhere in the cost base to sort of keep your comfort of keeping costs relatively well maintained?

George Frazis
MD, CEO & Director

Yes. I'll hand over to Ewen to say a few words. But you're right in the sense that our absolute priority has been to make sure that we've moved resources where the needs are. So our branches are open for business, our call centers have got extra staff to make sure that we're dealing with the increased volume on that business. And obviously, all our specialist relationship bankers are working quite hard in this period.

But I'll hand over to Ewen.

Ewen Stafford
CFO & COO

Yes. Tom, I think there's -- it's fairly finely balanced. And as I commented on the expense slide, as we sit here today, we still think that 8% year-on-year expense guidance is right. But as you pointed out, and George just commented on, there's definitely additional costs coming through in certain areas but on the flip side, some of the discretionary travel, entertainment accommodation. And also if we -- as we slow down the project portfolio, there will be project operating costs associated with that capital investment as well. So we feel net-net second half and then the full year will land as we have previously guided. I think then as we -- just more on costs and as we look to '21, and as the COVID-19 situation unfolds and we get more clarity on the issues around timing and so on, obviously, we will be then looking at what is the appropriate cost structure to take into FY '21. And we've previously guided on less than 1%, but we just need to make an assessment on that as the next months unfold.

Operator

Your last question comes from Matthew Wilson from Evans & Partners.

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

Just a question on liquidity coverage ratios. Could you walk us through the impact the mortgage and business deferrals will have given the coverage ratio assumes contractual cash flows, and obviously, those contracts are not being met for at least 6 months? So the impact of the deferrals on the LCR.

And then secondly, do you have to refinance and complete that refinance, the wholesale capital note, before you buy back on the 26th of May? Obviously, it's a difficult market, and we've seen some of those refis not complete.

George Frazis
MD, CEO & Director

Thanks, Matthew. I might hand over to Tim, our Treasurer, to answer both of those questions. I mean, obviously, our regulators on both of these fronts have been extremely helpful, both APRA and the Reserve Bank of Australia. So I'll hand over to Tim.

Tim Ledingham
Treasurer

Yes, Matthew. Look, in terms of the effective deferments on the calculation of the LCR, really, the LCR has driven off the required stable funding against -- and the runoff factors against those mortgages. So the deferment as such doesn't really change those runoff factors. So it has very immaterial impact on the LCR.

In terms of your second question, obviously, we have gained approval from APRA to redeem the additional Tier 1 -- the wholesale additional Tier 1 note on the 26th of May. In terms of the refinance, that has been deferred until after -- well, until markets become more functional and less disruptive. There is a condition on that approval that we will need to refinance the wholesale note at some stage.

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

Okay. So just to confirm, that buyback consumes about 48 basis points of capital.

Tim Ledingham
Treasurer

Correct. 48 basis points of total Tier 1 capital. So it's not [for the Tier 1].

Cherie Bell
General Manager of Investor Relations
Thank you. Ladies and gentlemen, that concludes our results presentation this morning.