Question and Answer

Operator

[Operator Instructions] Please note, due to legal restrictions, we are unable to discuss any details around the equity raising other than the basic terms referred to in the announcement and results presentation. Please refrain from asking questions beyond the specific details of the equity raising as we are legally restricted from answering those questions on this call.

Our first question comes from the line of Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

Congratulations on the headline results. Just a couple of questions from me. Firstly, would you guys mind providing some further color just on the hedging benefit for the half? And second question, you did call out the additional capital raised as a key support for stronger residential mortgage growth. I do note, however, that after the raising, your pro forma capital is about 9.8%. So could you guys share perhaps what you plan to spend additional capital on, given you have a stronger position now?

Travis Crouch
Chief Financial Officer

Thanks, Josh. It's Travis here. So it's around the 6-point benefit or impact on margin. As I said when I went through that NIM slide, with interest rates falling in anticipation of the cash rate reduction. So in the year, we had July and October, we were positioned long, both through a combination of physical but also derivative positions, that meant we did benefit from that repricing. And that really reflected that our view ahead of those cash rate changes, which proved to be correct and the positioning through the derivatives there. That, as I said, was really the benefit we saw in the first 4 months of the half.

But when I look forward into second half '20 to have a think about that impact on NIM moving forward, the market certainly got the -- a next cash rate reduction fully priced in, I think, really around August 2020. So we don't see that hedging benefit. We don't expect that hedging benefit in the second half based on the market view at the moment. So that's how we looked at it last 6 months, and that's how we look at it moving forward. We don't expect that to repeat in this second 6 months.

But I think your other question was around the capital. And as you said, we did talk about supporting the growth. I think what we also talked about at a high level was that it does give us the flexibility to manage our capital levels so that we can look to invest. Marnie and I both spoke about the increased technology investment that we'll look to make. It also gives us that additional capacity to respond to any industry-wide APRA capital changes. So industry-wide, we've got the capacity there. But importantly, it provides that increased buffer above APRA's unquestionably strong capital requirements. So I think it really is a combination of all of those.

Joshua Freiman
Macquarie Research

Just a quick follow-up on the first question. Does that include impact from BBSW?

Travis Crouch
Chief Financial Officer

There will be some impact on BBSW in there.

Operator

Our next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning

CLSA Limited, Research Division

Could we just start on the costs? And can you confirm year 3 as FY '23? And then if you look at the cost out program and the investment you're actually making, what are you going to have by the end of that third year? And why do you think your cost will continue -- will drop out from there?

Travis Crouch
Chief Financial Officer

So Ed, we're looking at year 3 around that FY '22. That's what year 3 is in the way we're thinking about it. Obviously, we're halfway through the financial year at the moment. So -- but when I'm talking about in 3 years' time, I'm talking financial years, so somewhere around the '22 or right in the first half in '22.

And then I think your second question was more around the trajectory of costs after that period. So what we are looking at is that accelerated investment over these next few years. And then as we get through the bulk of that program as we see it now, then that investment will actually reduce back down and reduce quite quickly over the next couple of years as we trend towards that 50% over the medium term. So we see this phase as accelerated investment. And then once we get through that, then we will continue to get the revenue benefits over time, and then the efficiencies will start to come through as well.

I think, importantly, what Marnie and I both spoke about, though, that investment is predicated on the need or the continuing growth in revenue. And it is certainly not committed spend. It is our intent. And that will be something that we, as we both said, worked through at an initiative-by-initiative basis. But that's how -- the way we're looking at it at the moment.

Marnie A. Baker
CEO, MD & Director

And Ed, I'll just add something there, too. We are talking about actually getting more efficient as an organization. So the investment that we are making goes to that efficiency. Probably one thing that we hadn't mentioned, but I'll mention now to everyone on the call, is that we have been variablizing our cost base. So in a sense of actually supporting costs and especially in those areas that go directly to supporting the growth, like the processing center, the new staff or the new people that have come on there have been under contract. So that as we get the changes in technology and the automation through, we are able to quickly reduce the costs.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. So what you're going to have after this is a bit of more automation in your processing center. Is there any other systems that will be fully up and running by that end of year 3?

Marnie A. Baker
CEO, MD & Director

Yes. Yes, there will be. I think part of this detail, Ed, we will actually be coming back to the market with later in the year. That actually does look and give more illustration of the timing of the different components of that. So I just hesitated there just because of the time frame you placed on that, whether I can categorically say the pieces of work that are being done before that time frame or after because we are still looking at the sequencing.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay, that's fine. And just one follow-up on the NIM. In the half, there was a 2 basis point benefit from a lower contribution from the Community Bank and Alliance model. Can you just talk about the mix of your business going forward as you grow that third-party channel beyond the Community branch model, that there's no difference in the NIM there going forward? And also, do you anticipate any more mix benefit from running down your TDs going forward?

Travis Crouch
Chief Financial Officer

Ed, so I think the main driver behind the change in the margin share contribution there or the margin share impact, as you said, there are couple of ones. As you said, the proportion of growth through other channels, obviously plays into that. But over the half, just with community banks, the strength in our Community Bank model is deposits and, particularly, the at-call. Now from a revenue share, that margin reduced over the half just based on the changes in the underlying rates and interest rates and the way we share revenue with our Community Bank and Alliance Bank partners. So that really reflected just the mix of their business and then the impact on rates over the half. So that contribution changed by 2 basis points.

Looking forward, we don't see any change in the way we think about that Community Bank model and our partners there and, actually, the value they provide to the business. So I think it really reflected just the change in the underlying rates rather than a change in strategy.

And then your other question was around the impact we saw, I think, on the funding mix side. So yes, look, I think with what we saw over the half, where at-call was certainly strong growth, term deposits were -- actually went backwards, I could see something like that continuing as at-call growth continues. I think the hard bit is to forecast or to foresee is just the impact on TDs with -- as we fund our growth, how much we actually would like to use term deposits for that. But all else being equal, we actually do see another small benefit from funding mix.

Operator

Our next question comes from the line of Andrew Triggs from JPMorgan.

Andrew Triggs
JP Morgan Chase & Co, Research Division

Two questions, please. First one, could you disclose what gap exists between your front book and back book in the mortgage book? CBA disclosed last week theirs is less than 30 basis points. But I note that your half-filling NIM waterfall includes a lot more pressure here at 6 basis points versus Com Bank at 2 basis points.

The second question, just on -- a follow-on, on third bank party banking. Slide 14 shows that settlements are now much higher in this channel versus your first-party channel? Just some comments on whether you're comfortable with that mix shift? And whether you expect any change there in the near term? And how much of that relates to new white label arrangements?

Travis Crouch
Chief Financial Officer

Thanks, Andrew. I might talk on the front book/back book first of all. I think what we're seeing -- so this is -- the way we monitor that is on a month-by-month basis, the new business settlements versus the portfolio. And it does move around. I would have said, though, for -- what we are experiencing on average is probably closer to 40 rather than 30. So to your point there, it probably is showing a little bit more of an impact through what we're seeing. But that also reflects the significantly stronger growth in those, what I called before, lower interest rate products in our core strength around owner-occupied and P&I. So that's probably where we're seeing it at the moment. It does move around each month. But on average, that's how I think about it.

And then I think your other question was around the increased flows or the increased activity for third-party. Look, I think that did probably reflect a seemingly stronger half through third-party as we invested with our partners more. What I will say, though, is we started to see some really good activity through the retail channel in that last half of the half, so the last quarter. And they both remain key strategic areas for us. But Marnie, did you want to add?

Marnie A. Baker
CEO, MD & Director

Yes. I think we need to -- just remember, we're sort of just getting back to the levels that we were a decade ago. So there was work that we needed to do to ensure that the service proposition was right. That work has been undertaken. We've put in that investment in, which -- and we'll continue to do more investment going forward. But it does open up to get back to the sort of levels that we were approving and settling a decade or so ago.

Andrew Triggs
JP Morgan Chase & Co, Research Division

And Marnie, just a follow-on. Are you satisfied with the ROE in that channel compared to retail?

Marnie A. Baker
CEO, MD & Director

Yes, yes. We're about sustainable and profitable growth, Andrew.

Operator

Our next question comes from the line of Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc, Research Division

Just in terms of the investment spend that you said would peak at $80 million by year 3. What is the total amount that you plan to spend over the whole program? And secondly, how much of that spend do you expect to capitalize on the balance sheet as you've done with previous investment spend in the past?

Travis Crouch
Chief Financial Officer

Thanks, Brendan. So what we're talking about there is we want to provide the market with some visibility with how we're thinking about the pieces of work that we've got coming. That indicative $80 million is the net impact of capitalization and also some direct efficiencies. We're not looking at, at the moment, as a total spend because we're actually not committed to spending anything in total. We are looking at this as an initiative-by-initiative basis that we will progress as -- if the revenue there continues to be there upfront. So that indicative up to $80 million in 3 years' time really is just to give the market some guidance around what we think the OpEx impact will be.

To your question around how much we capitalize, we obviously need to make some assumptions when we're looking at this. But that piece of work obviously happens at an initiative-by-initiative. It could depend -- it will obviously depend on the use for life. It could be 3, it could be 5, could be 7, could even be 10 if it was a core banking piece of work. So I think that's the -- it would be hard to say on average for that one because it really is an initiative-by-initiative. But importantly, that $80 million gives some guidance around where we think that the spend or the OpEx impact could get to. And as I said, after that first 3 years, it will then drop off after that, given that accelerated phase that we're going through, but it will go through at the moment.

Operator

Our next question comes from the line of Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just following on from that topic. I think, Marnie, you said obviously the investment is predicated on revenue growth coming through. In the event that the RBA is forced to cut rates once, twice more, or even go to quantitative aging and the margin would obviously come down pretty quickly in that environment, would you then have to delay this investment spend because the revenue environment wasn't as strong?

Marnie A. Baker

CEO, MD & Director

Yes. I think we tried to illustrate through the presentation that it is all predicated on a number of things. And any changes to the environment, we are not locked into or committed to any of this. It is our -- it is part of the plan that we have in place, but of course, we'll need to take into account any changes to the environment and adjust ourselves depending on what those changes are.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And a follow-up question. The risk-weighted assets were lower-than-expected, partly because of the securitization that came through. Is that becoming a better economic alternative as a funding and capital option in this environment?

Travis Crouch
Chief Financial Officer

Jon, it certainly is attractive from, definitely, from a capital and then from a funding point of view. So it is something that we will -- and I've said this before, we look to continue to do every half subject to market conditions. But it is quite an attractive option at the moment given the capital and the funding. But I'll say that -- I'll also say we balance that with the importance of our customer deposits. So it really gives us a balanced way of thinking about our funding moving forward. It gives us a number of options there. But it certainly is -- continues to be an attractive way of funding.

Jonathan Mott
UBS Investment Bank, Research Division

So how large could this program become?

Travis Crouch
Chief Financial Officer

Well, I guess, Jon, that depends on the uptake in lending growth as well. So it's not something that I probably got a view on at the moment. But we will continue to look to do a transaction every half with -- subject to market conditions.

Operator

Our next question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just a follow-on question from Jon's, just around the investment acceleration being predicated on revenue growth. Can you maybe just sort of talk about what you're expecting as far as system growth is concerned over the next couple of years? And the extent to what -- the extent to which you expect it to either accelerate or even slow a bit further.

And then just a second question, just around the decision to take the write-down and the accelerated amortization below the line. We have increasingly been seeing your major bank peers taking the equivalent above the line. Can you just maybe talk about the thinking there? And then maybe what the impact on the amortization expense might be going forward? Was that already touching the P&L? And so you will see a reduction in the amortization expense as a result?

Travis Crouch
Chief Financial Officer

Thanks, Andrew. I think I've got all those questions here. But around our outlook for systems, I think, importantly, we start the other way. What do we think our outlook for our own lending growth is? And the momentum that we've seen coming into that -- into this half gives us confidence that we should be able to continue that residential lending growth somewhere where we're seeing at the moment. I -- my view is that systems will probably maybe trend a little bit lower, but I don't think as low as I probably thought 6 months ago when we were looking at the outlook for resi lending.

Importantly, though, we spoke about earlier that we do see some growth coming back into our business in commercial book. That's something that's obviously continued to run down over the last 18 months. So we are looking for positive growth in that, both through the property portfolio and our SME area. And agri is strong and it is seasonal. So we do see that reduction in the first half. But coming into the end of this financial year, that seasonal growth will certainly be there.

And then I think your second question was then around the write-off and our treatment now. We believe this is a material one-off item that is significant enough for us to actually recognize in the way we did as below the line. We are comfortable with that treatment. And we think that recognizes the significance of the change. When I think about the software amortization moving forward, the bulk of the software assets that we wrote off was obviously the Basel II asset. Now that had some amortization already through the P&L, but the bulk of that was sort of back ended. So we weren't seeing that come through the P&L yet.

What I do think, though, if you would have seen that amortization for the half was down about $1.5 million from the prior 6 months, so that reflects some of that change going through. When I look forward, I would expect that second half amortization would be probably another $1 million lower. And then I think as the -- some of the initiatives that we're working on at the moment or have finished recently, that will start to step the amortization up back a little bit, whether it's $1.5 million. So I'm not looking at this as a significant savings in the P&L. This change reflects the view of the value in those assets and, hence, why we needed to make a decision on them.

Operator

Our next question comes from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Two questions. And I think you might have gone a little way to answering them, but I'd still be intrigued. Just on the credit risk-weighted asset, where we saw no growth during the period. Going back to Jon's question, can I just get a feeling on the drivers because we have not yet got the Pillar 3? So just to put -- if we have a look on Page 23 of the result, it was $33.4 billion. At June, it's $33.2 billion. Could you just step us through the various components and the move in the credit risk-weighted assets?

Travis Crouch
Chief Financial Officer

Yes, Brian. So I haven't got the detail in front of me, but what I will say is that would have been influenced by the $1 billion RMBS transaction that we spoke about. So that would have been a resi mortgage reduction there through that transaction. The continued decline that we did see in the commercial and then even the seasonal agri lending growth, all at 100% risk-weighted, would have impacted that and reduced the RWA. And then obviously, offsetting that was the strong residential lending growth, albeit at a lower risk weight compared to the commercial and the agri. So -- and yet without having the Pillar 3 in front of me, that would be the drivers behind the risk weight change.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And then a question for Marnie. Marnie, when we have a look at this result, I mean, it is what it is, but we can see a fairly substantial write-down of a capitalized expense. And yet you're asking the market to basically tolerate aiding -- well, a rising capitalized spend going forward over the next 3 years. How should we be responding to the historic practice of the big write-down? I'd just be intrigued to get some comments for you on that -- from you on that?

Marnie A. Baker
CEO, MD & Director

Yes. I think like Travis outlined before, Basel II or the Advanced Accreditation is a big component of that write-down. So I think there's some extraordinary circumstances around that. And the assessment that we needed to make based on the capital standard is still being unclear between standardized and IRB. So we started with that review and looking at Basel II and whether we did need to make an impairment and decided that we did need to make an impairment there. We then actually followed through and looked and reviewed across our total portfolio of software assets on the balance sheet and decided to make some adjustments to some other slightly smaller scale. But where things had actually -- the benefits hadn't flowed through or where, we had decided not to move forward with an initiative. So I think that sort of -- hopefully, that goes, Brian, to your question. I think Basel II was quite a big lump there and like I said, a bit extraordinary to everything else that we do.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And just a final one, if I may. I'm still a little bit confused. So we're seeing operating costs in the second half versus the first half will be up 2% to 3%. And then -- what are you saying? And then in 3 years' time, we'll start to get the benefits. What happens in years 2 and 3 from this point?

Travis Crouch
Chief Financial Officer

So Brian, what I was saying -- so you're right in the first point, that we did expect second half operating expenses, obviously, excluding that write-off, but underlying operating expenses to be up in the order of 2% or 3%. Now that would include some additional spend. So we called out that there was $17 million of initial investment in the first half. That would include the additional, look, somewhere around the $25 million in the second half. And then what we expect is that then steps up to year 3 where that number looks like about $80 million of additional spend. Then we get -- have got through the bulk of this first phase or this phase of the accelerated investment, and we expect it to drop off. So I think it's fair to say that we expect it to just step up to that $80 million and then drop down once we get through that investment.

Brian D. Johnson
Jefferies LLC, Research Division

Sorry, Travis, is this the amount that you're investing? Or is this the expensed amount?

Travis Crouch
Chief Financial Officer

No, Brian, that is the impact on operating expenses that we're talking about. That's what we've referenced that $80 million.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. So we're talking costs up in the second half versus the first half next year and the year after, and then we get the payoff in the fourth year. Is that incorrect?

Travis Crouch
Chief Financial Officer

Yes. And that is a combination of the investment actually being a lot -- most of the way through, and then as we start to see even stronger revenue growth because of that work and as we start to see some cost efficiencies that we think we can drive.

Operator

Our next question comes from Victor German from Macquarie.

Victor German
Macquarie Research

Two questions, if I could. The first one on mortgage growth. Obviously, you've improved your growth quite significantly. But when we look at -- on Slide 14, it looks like a bulk of the increase is coming through the third-party channel. And you don't provide flow versus balance sheet, I think. But it looks like from a balance sheet perspective, the third-party is around 44%. And from a flow perspective, it's over 50%. Just interested in -- when you talk about the outlook for still strong growth going forward if that's predicated on these trends continuing? And what impact it would have on margins? And the second question is, putting together everything you talked about, some revenue pressures from margins and also expense being still elevated, at least in the medium term. I just would like to maybe get a little bit more thoughts on your payout. So you reduce your dividend, but your ROE is declining as a result of both earnings pressures and additional share count. Just how you're thinking about sustainability of that dividend from here?

Travis Crouch
Chief Financial Officer

Thanks, Victor. I might start with the growth question. So we actually do -- so you're right, there's a slide that I spoke to, Slide 14, around the activity. That does show stronger activity through third-party, through our mortgage brokers and our mortgage partners. There is a slide in the appendix that actually calls out the portfolio balance between the 2, I think it's Slide 41. Now that will show that both third-party and retail grew above systems. But you are right, the bulk of the growth there came through our third-party business. What I -- what we were seeing, though, in -- particularly in that last quarter is, again, an improvement in the retail activity through applications and then starting to flow through settlements.

So when we look at our growth moving forward, yes, we continue to expect strong growth in third party. But equally, we continue to see an improvement in how we look at the retail business and actually expect an improvement there as well. So we've also got -- things with our mortgage partners, with Tic:Toc, we've got plans for -- up in the future around lending products. So there's a number of things that we're looking to drive that will continue -- we believe, will continue that momentum in lending activity.

Victor German
Macquarie Research

Travis, just -- sorry, just on that. I appreciate everything you said. And then growing at sort of the 50% range is not pretty similar from the industry. So that all makes sense. I'm just -- from a profitability perspective, from margins perspective, what's the difference between the third-party and retail? I mean what sort of drag does that have?

Travis Crouch
Chief Financial Officer

Yes. So that's where -- when I spoke about the margin impact that we saw and then looking forward from a headline margin, there is more of an impact as that growth comes through in the third-party owner-occupied. Obviously, it's got different costs behind it to support it, so that comes through in different line items. But that's where I said that I'd expect that 6 points that we saw in the first half to continue and possibly be slightly more of an impact as the mix of that growth, the full impact of the mix of that growth, comes through. But it is a different model and it is supported by other cost lines. But I would expect that back book -- front book/back book to be slightly higher if we see that growth trajectory continue or that growth mix.

Victor German
Macquarie Research

And on dividend?

Travis Crouch
Chief Financial Officer

So from a dividend point of view, we did say that we've reset it to a sustainable level based on the environment. So I think that's the way the Board thinks about it, and we are comfortable with how we've reset that.

Victor German
Macquarie Research

And just so we're clear, does your current dividend payout policy also incorporate the fact that you may need to leave the DRP in place or would discount it. Kind of what's the thinking about potential DRPs given the rebased dividend?

Travis Crouch
Chief Financial Officer

That is a decision for the Board every 6 months, obviously, Victor. But yes, our payout ratio of 60% to 80% will be maintained. And obviously, we've used the DRP discount previously. So I think that's something that has to be looked at every 6 months, but the policy is in place -- sorry, remains in place as it has been.

Operator

Our next question comes from Brett Le Mesurier from Shaw.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

A couple of questions. Firstly, how do you plan to deal with that front-to-back book pricing differential to limit the impact on your margin? And secondly, what does a good outcome look like in that context? And then finally, you said the cost-to-income ratio is going to increase moderately in the short term. Presumably, that means there's very little profit growth in the short-term as well. Can you comment on that, too, please?

Travis Crouch
Chief Financial Officer

So Brett, your question around front book/back book, what can we do about it? Look, I think my first comment would be it is a good problem to have. It does reflect some strong and improving growth in the core segments. So we need to be conscious of that. We need to think about what that means. But it is an outcome of stronger growth in those core segments. So that really is -- there's not a lot we can do from a competitive pressure and when we've actually got the mix of that growth going there.

I think what we've done in the past and what we'll continue to do is see how we can manage that impact overall from an overall NIM point of view. Whether that's through our retail customer TD pricing, we have to try and balance it that way. So it is what it is. It reflects the strong growth in those core segments, and we need to manage that as best we can, probably through some of the other line items that we see in NIM.

And obviously, the CTI guidance we spoke about, we did talk about investing more in that short term. And really, that's how we think about the outlook is through that CTI number. So we do expect it to go up in that short term and then be back towards where we are at the moment in that year 3 and then improve. So -- I mean that's probably all I'll say around that.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Right. And you don't want to comment on what a good outcome looks like, dealing with your front-to-back book?

Travis Crouch
Chief Financial Officer

Right. Yes. Let's say, I think a good outcome is probably being able to maintain it. Like I said, we are seeing that stronger growth stepped up again in the owner-occupied interest-only. So I would see a strong result as being able to maintain that front book/back book at 6.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Right. But I mean the -- what's a good outcome to the margin then if you've got that 6 every 6 months?

Travis Crouch
Chief Financial Officer

So I think that the outlook for the margin -- I mean I think CBA spoke last week around their view on sort of second half and financial year margin. With what you say and what you can control, you would expect margin to have a similar impact for us, somewhere in that 4 to 5 basis points for the financial year, given where our exit NIM is from a December point of view. So I think that's where we will work and continue to work as hard as we can on balancing that up and do everything we can to look really at that funding side to make sure we've got the balance right.

Operator

Our next question comes from T.S. Lim from Bell Potter.

T.S. Lim
Bell Potter Securities Limited, Research Division

Just a question on Homesafe investment portfolio. So it's turned the corner. Does it mean you're going to be happy with it going forward? Or are you -- you still have plans to derisk this portfolio?

Travis Crouch
Chief Financial Officer

Thanks, T.S. So yes, it has turned the corner. It's always interesting to see which 6 months we'll be talking about with Homesafe and the performance. But look, we are really pleased with the performance. We're really pleased with the product that it offers our customers. But equally, it is something that we continue to look for partners. And the performance in a half doesn't change our view on looking for someone to partner with on that. So it does continue to be something that we work through.

Operator

Our next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

Slide 25 shows that the -- I think Slide 25 shows the deposit mix and that 50% of your deposits now have interest rates of less than 25 basis points. That was 35% last result. It's obviously been impacted by the rate cuts. But if we get another rate cut, what proportion of the deposits would have rates of less than 25 basis points?

Travis Crouch
Chief Financial Officer

Richard, I haven't got that change or that forecast if we got another cut. But it's fair to say you would expect -- I mean, you're right. In the half, we had 2 rate cuts because most of that -- that one back in June would have been reflected in the rates as at the end of June. So that reflects the change with 2 more. I would have thought another proportional change if we had another one would probably shift down. But there's obviously a wide band there of the rates.

So it's a bit hard to work out with the information I've got in front of me. But we're definitely seeing another proportion moving into it, and that is the pressure that the margin would be under with another cut in the short term. I think the view -- our view at the moment is probably more August if it does happen. But we need to be prepared and we need to do everything we can ahead of that.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And could I just ask you, you've flagged that the exit margin is 6 basis points lower than the first half margin. You've also confirmed that the front book/back book headwind will be at least 6 basis points in the second half. If you get another rate cut, what do you think is the margin sensitivity? Is that about 6 or 7 basis points as well?

Travis Crouch
Chief Financial Officer

Probably. Richard so much depends on how we're actually able to balance up that lending and the deposit side. I would have thought the timing of that in the half wouldn't have that 6 to 7. I would have thought it would be that much with one more. But look, that one is a really difficult one to call. We would need to work through what it meant from a lending rate and also our funding side. So -- but it would have an impact on margin, without a doubt.

And as I said, that funding benefit -- sorry, the hedging benefit we got through margin, we believe the market is fully factored in another rate cut. So we don't expect that to help balance out some of that impact. So -- but that's something we'd have to work through at the time, Richard.

Richard E. Wiles
Morgan Stanley, Research Division

So -- but obviously, you will -- if there is another rate cut, you will think about ways you can respond. And we know from past practice that mortgage repricing is one option. Clearly, pricing around different types of deposits is another option. But if you exclude any efforts to offset the margin impact, just on a stand-alone basis, what would be the impact of a lower -- of another 25 basis point cut in the cash rate before any action you might take to offset that?

Travis Crouch
Chief Financial Officer

Richard, I think we would need to be conscious of market competitive pricing with our decision there. So as you said, though, we -- in the past, we have made sure we balance up our obligations and the way we think about our -- both our lending and our deposit customers. So look, I think that one is a hard one. It really depends on our outlook on growth and how we're going with flows and how we'd want to respond. But you're right, as you said, we have always looked to balance all our stakeholders when we've made those decisions in the past, and it is something we would do again. But to call out a stand-alone impact is too hard.

Operator

Our final question comes from the line of Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Two small ones. The $80 million of investment spend that hits the P&L, can we get a feeling about what actually -- how much of that you're actually capitalizing and the trajectory on the capitalized software?

Travis Crouch
Chief Financial Officer

So Brian, because we haven't worked through every initiative as part of that, that is the way we're thinking about it, that we could afford to spend up to that. So we -- to Marnie's point, we will look to provide more color later in the year once we work out maybe some of those key initiatives. But as I said, we would look to capitalize the work that's appropriate and amortize that over the 3 to 5 to 7 years. So it is our intent for our operating expense to look like that in 3 years' time. We don't have that detail around what -- at what level will be capitalized, but that's something that we'll continue to work through. But that's the OpEx or the P&L impact that we're expecting.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And just a final question, if I may. In this result, you benefited from quite a substantial uplift from hedging. And as I listened to you talk about it, Travis, it feels to me more it's just to position the balance sheet. It's just a trading view. It's -- would you dissuade me from that?

Travis Crouch
Chief Financial Officer

I wouldn't say it's a trading view, but it's definitely how we have positioned the balance sheet given our longer-term fixed assets, given our at-call. So we're positioned ahead of those cash rate changes. Obviously, we've got significant earnings and economic value at risk limits that we run our hedging positions against. So that is the view going into any sort of rate outlook, certainly very well-governed by the risk limits that we've got in place.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. So the real question is then if we've got negative forward delta on basically the NIM, the trading profits, the operating costs, the loan losses, and we got more shares on issue, can we be confident that you've cut the dividend enough?

Travis Crouch
Chief Financial Officer

We're also talking, Brian, around some improved lending activity and lending growth to continue. So I think that one is part of the equation as well. And as both Marnie and I said, the Board has considered the dividend and reset it to what we think is a sustainable level.

Operator

There are no further questions. So I'll pass back to Marnie for any final comments.

Marnie A. Baker
CEO, MD & Director
Thank you. Look, we're really pleased with the result that we have put forward today. And I just want to thank you all for your interest in our company. And I look forward to -- Travis and I look forward to seeing you over this next week. Thanks, everyone.