Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ben Koo of Goldman Sachs.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

I just want to ask a question on capital when you look at this period quarter-on-quarter. I just want to understand if there's any particularly noisy items besides Basel 2.5 adoption on the market side. Because if you exclude that it looks like there wasn't much capital generation at all. And in particular, IRRBB impact on your capital position, what's the outlook for that given the continued volatility but then offset by interest rates starting to decline. I just want to try and get a sense of whether or not capital generation we can expect that to improve? What are the drivers going forward?

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes, Ben, I think that this period, this is the trouble with looking at quarterly capital, frankly. This period because it was volatile in the markets was volatile otherwise as well, so interest-rate risk in the banking book capital penalized us by 10 basis points. And of course, as well as the Basel 2.5 that Ian referred to, there's also been as I think most of the other banks have called out, some changes in methodology around operational risk which has also knocked 7 basis points off capital. So you take those relatively small amounts, but reflect them against the quarters' result and then suddenly it looks all right. So capital generation -- normal capital generation is in line with normal practice but then there's this -- quite odd seems this quarter that have just sort of stabilized the capital level.

Operator

Your next question comes from the line of Victor German from Nomura.

Victor German
Nomura Securities Co. Ltd., Research Division

My question relates to your quarterly performance. And I completely understand the volatility and not necessarily focusing too much on quarterly trends, but looking at the numbers and perhaps if I average out the 2 quarters to get rid of some volatility. Most banks have been an increase in the quarterly in that average of 2 quarters of around 4% to 5%. Your performance is broadly flat. Are you able to perhaps give us an idea if there's any of the business units that performed below your expectation and you expect a rebound in next quarter? Or is it just your more conservative setting relative to peers that's driving this underperformance relative to your peer group.

Ian Mark Narev
Former Executive

Well, Victor, the one thing I'd call out and I'll ask Dave if he wants to add to anything to this afterwards. In my mind, clearly, one of the key drivers here of the business in this kind of environment is margin. I call out the fact that, that continues to be under pressure. There are probably a couple of aspects to this. Number one, in terms of your comment about the trend and this also reflects different periods. The actions that we have taken to make sure that we are able to improve the margin, i.e., offset some of the cost pressures on the funding, really haven't come through at all in this quarter. So there's a month of what we did in February and nothing of what we announced in any of this month. So that is a key aspect of how I would think about this. So I wouldn't say that overall the retail banking results are disappointing, but I would say it's clearly feels the impact of this margin pressure and that's an action that's already been taken about there. And number two, as you highlighted, we will continue to exit short-term depression on the result in order to get the funding settings right. And my view is what we're seeing in Europe this week is again emphasizing the importance of doing that. And when you think about things like pre-funding weighted average tenure of new wholesale funding, these are decisions which as you take conservative settings have a short-term impact on margin and that's something you see somewhat in these results, and we're willing to be at it.

David Paul Craig
Former Group Executive, Financial Services & CFO

Victor, I just add to that, that perhaps the other difference between our results and the others and this is by the way consistent over a number periods is we have relatively less trading income and our trading income accounting is relatively more stable than some of our peers. So some peers had a big hit back in August and had a bounce bank in this quarter. As we've said, our trading income is broadly in line with first half run rate.

Victor German
Nomura Securities Co. Ltd., Research Division

And that includes treasury income as well?

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes, it does.

Operator

Your next question comes from the line of Jarrod Martin from Crédit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

Two questions. First of all, just a follow up on capital. Could you give us an indication of what the basis point impact of going from Basel II to Basel 2.5, just more clarity around that. Secondly, just on the impairment expense of 18 basis points which is pretty low, I just wanted to understand whether that included some hilliness [ph] in the third quarter or whether that is a fourth quarter impact or is there already been taken so just to understand what the short-term outlook is BDDs?

David Paul Craig
Former Group Executive, Financial Services & CFO

No we don't -- let me answer 2 separate questions. Firstly, 12 basis points Basel 2.5. On the question of an individual customer, we don't talk about -- we don't tend to talk about individual customers, but what I can say is that we're very, very comfortable and are fully provided against anything that you've read about in the press.

Ian Mark Narev
Former Executive

Yes, the key point here, Jarrod, is the estimates of the overall level of exposures that have been talked about publicly are significantly off the mark.

Operator

Your next question comes from the line of James Freeman from Deutsche Bank.

James Freeman
Deutsche Bank AG, Research Division

Just 2 questions. Firstly, if I actually make a crude estimate of what you're Basel III core equity numbers is, it's around 7%. I'm just wondering -- the other guy may be pushing to 8%. I understand that there is a potential to convert to hybrids in October. Just wondering how you bridge the gap from 7% to 8% and why you guys so comfortable on that? Because that doesn't seem to fit with the conservative settings that you're running for the bank. And then the second question, I guess, on that conservative settings, are you pretty much there in your liquids and other bits and pieces how much more of a drag do you think there will be as we get to where you see conservative setting remaining today.

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, firstly on capital. Not all capital is created equally and when you look at how capital on a Basel III fully harmonized basis, you'll find that we're very much in line with our peers. And when you consider the different mix of assets on our balance sheet, again, we're very comfortable with our settings. We now know, James, what APRA requirements for capital. We now know what our own prudential -- know our own separate prudential capital ratio is and in no doubt the other banks know this as well and it's with great confidence, therefore, that we can say that we're very well set up for the arrival of Basel III. So although you guys may have in your mind particular capital targets, they're not necessarily ours. However, we will be coming out with a clear statement of what our board capital target is when we announce our results at full year.

James Freeman
Deutsche Bank AG, Research Division

Basically, you laid that just -- you haven't confirmed what the actual APRA super equivalence Basel III quarter...

Ian Mark Narev
Former Executive

No, we would be providing that at the half -- at the half year. I'm sure, James, that you're aware that in the capital calculation for Basel III, when you take a point in time like a quarter -- in this quarter for Basel III, you only accrue a quarters income but you deduct a half year dividend. So Basel III really wasn't ever sort of tuned as it were for quarterly reporting. Now, coming back to your second question on liquids. Really, liquids has an effect on NIM but is doesn’t have an effect on profit. So basically, you borrowed that you invest and you get a small return for that. So you do actually by carrying more liquid assets end up with fractionally more profit. But it has a negative impact on that one statistic of NIM. As far as where we are on the journey towards liquidity, as I recorded, when we actually took half year, we're very comfortable with where we are on that journey. The way -- the reason we're moving liquidity around is because of our concern about Europe and how the capital -- how the debt markets may freeze over. So you're going to see us moving liquids turn around much more to be conservative in our balance sheet settings rather than to be preparing for Basel III.

Operator

The next question comes from the line of Mike Wiblin from Macquarie.

Michael Wiblin
Macquarie Research

My question is just on the capital as well. I just wanted to ask, there was an impact from the change in reserves last half. Just on the available for sale side and my understanding was they have less trading profit volatility on the line just on the fact that a lot of the liquid assets sort of sit in the banking book. So of the $410 million hit last half, did that reverse this quarter or they partially reverse this quarter? And as a result, the capital ratio actually benefited by that reversal?

David Paul Craig
Former Group Executive, Financial Services & CFO

No, I mean because we take -- we amortize any gains and losses on the larger part of our liquid asset book and this is one of the differences between us and a couple of our competitors, who may carry and trade their liquid asset portfolios fully in the trading book, we don't trade most of our liquids. We hold them as a security. And so that any gain or loss on those just amortizes through over a longer period. As I mentioned to you interest rate risk in the banking book was hit by 10 basis points because of changes and repricing in terms of loans and deposits and state of the embedded gains on -- that were caused previously by higher interest rates.

Michael Wiblin
Macquarie Research

Okay, and just one follow-up question just on revenue growth. Can you give us some sense of where that's sort of sitting on a quarter-on-quarter basis and whether your JAWS are positive?

David Paul Craig
Former Group Executive, Financial Services & CFO

On JAWS, I'll just repeat the statement that I made at the half year. You know that our half-year JAWS were broadly flat when we said through targeting for flat JAWS for the full year and I if we get too flat JAWS for the full year, I said at the time that would be a good outcome and that would still be our view.

Operator

The next question comes from the line of Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Ian, I just had a question. If we go back to May, NAB moved down its house prices -- it's variable rate very quickly. And said at that time that they are committed to actually be the lowest, you guys moved shortly thereafter and the capital to the standard variable rate NAB is 6.99% to 7.01So. NAB a little bit cheaper. But could you just run us through the strategic thinking of that move? Is it an effort to basically reduce the package discount rates that have been offered and get the SBR to more closely align with it or could you just run us through the strategic thinking behind that move?

Ian Mark Narev
Former Executive

It's very important to bear in mind here that the standard variable rate is primarily a benchmark against which the bank book is priced. And what it seems to be misunderstood is that it is somehow as it's moved an indication of a strategic intent to do more or do less than -- of home lending. Now obviously, to some extent there's a signal value to customers through that but that's not what is primarily goal of. And I think you're aware of it, Brian. So our overall attitude towards home lending, the need to do more of it with its good margin less but when it lower margins it remains absolutely as it has for a quite a long period of time. What I will say generally about our philosophy on the standard variable rate is that you constantly balancing short term and long term and volume and margin. And I don't believe that customers in the long term trust an organization which tries to bring them in cheap and aggressively reprice the bank book. And we've seen examples of this in all sorts of industries over a long period of time and that is not something that we believe in. So we always look at what our competitors are doing, we also balance the right thing to do by all our customers and our shareholders, and that's why we ended up with a number that we ended up in May. There are a bunch of people who say, gosh, you left too much on the table. There are bunch of other people who said you kept too much. That's always the dynamic. And as we made the decision around the group which starts where it should in the pricing committee of the retail bank near the market and then comes up for final approval, all of us were very much aligned around that number.

David Paul Craig
Former Group Executive, Financial Services & CFO

I just want to clarify from a strategic point of view, I would have thought you're better off to have a low SBR and be embedding lower package discounts. Is that -- would you agree strategically that make sense?

Ian Mark Narev
Former Executive

I think you need to be careful about making sure that the new business that you bring on to the book is profitable business. And that would probably give you an idea that my view is fairly close to where your head is at.

Operator

Your next question comes from the line of TS Lim from Bell Potter Securities.

T.S. Lim
Southern Cross Equities Limited, Research Division

I just wanted to find out how your funding targets are -- I mean, are you guys close to achieving the targets for the year? And also, is it a plan to keep on providing quarterly updates?

David Paul Craig
Former Group Executive, Financial Services & CFO

On the funding, we basically -- I mean, obviously, it depends on credit growth in theory but in practice we're basically done for the year. In terms of a target, however, we're going to continue to look at this conservatism and the conservative settings and obviously the reactions in Europe and that may mean that we may do a couple of more deals between now and year end to state well, well pre-funded.

Ian Mark Narev
Former Executive

On the quarterly update, look we know how much you all love us. We, obviously, will keep this things under review, but we got no plans at the moment to change what we're doing.

Operator

The next question comes from the line of Wes Nason from Citigroup.

Wes Nason
Citigroup Inc., Research Division

Couple of questions on expenses. Firstly, I guess FTE is always a bit of a tricky one to ask about. But could you give any sort of sense of how things are I guess trending currently and I guess where we might end up broadly I guess at the full year?

Ian Mark Narev
Former Executive

We've made clear that we haven't set any FTE target reduction numbers or headcount target in the group and we still haven't. Through the work that we're doing ongoing on productivity, which we discussed -- we've discussed and we've updated on both February and April, what you will see when we give the detail on this in June, your expectation should be -- they'll be -- FTE numbers will be down by someone from what they were in December and certainly, the previous June. And that's through the product initiatives, largely through attrition that has not been replaced. And to some extent, by a few redundancies, again, consistent with what we've been saying for a while.

Wes Nason
Citigroup Inc., Research Division

Okay, all right. The second question I guess around the capital, like software balances and amortization. I think you've seen in recent halfs, the amortization has been relatively stable. When might we anticipate that to start to ratchet up a bit?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, certainly -- it will certainly progressively pickup next year as both core banking and some of our other initiatives have been kicking in.

Operator

Your next question comes from the line of Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

Question just relating to the Pillar 3 and around the mortgage NPLs. Ian, if we look at both the impaired mortgage loans and also the past due mortgage loans, you've obviously had quite a big gap absolutely in ratio-wise to your peers for a while but also probably not quite seeing improvement in the last quarter. So I'm just interested in have you done a real deep dive on that portfolio? Are you 100% comfortable with the reasons behind those differences? And also have you done any cleanups that have affected the Genworth outcome in the last 6 months?

Ian Mark Narev
Former Executive

On the first part, yes, absolutely. We do a deep dive in this given, a, the environment we're in; and b, the importance of home lending for us as a business; and c, the fact that APRA quite appropriately is interested as John Laker said again I think early this week in lending standards. We put a lot of attention on this and we're very comfortable that we understand all dynamics in the home lending book as it reflected here. They reflect the current environment and beyond that don't worry us unduly at all. I don't want to really make any comment on the Genworth aspect.

Matthew Davison
BofA Merrill Lynch, Research Division

Okay, just in terms of the aggregates, do you put that down to just some differences in how you recognize problem lines or would you say that overall that portfolio -- the aggregate ratio is past due lines?

David Paul Craig
Former Group Executive, Financial Services & CFO

Look, I think it's more seasonality than anything else. So this quarter is always the highest quarter.

Operator

Your next question comes from the line of Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

Ian, you commented a little bit about repricing in the retail business. I'm wondering if you could make some comment on whether the funding pressure is as acute in the business in private bank as it is in retail banking services? And how much line repricing you've done BPB to offset some of that funding pressures?

Ian Mark Narev
Former Executive

Yes, the principles that we applied clearly in business are exactly the same as in retail. A small proportion of the business book is effectively cash funded. And as we think about that, that has a very similar dynamics to what the home loan do in terms of the funding costs. A larger proportion of our business book is linked expressly to bank bill swap rates and so the basis risk problem you have here with the difference between BBSW and OIS doesn't exist in that part of the book. And therefore, one of the most significant parts of both the increase and the fluctuation in funding cost is not there. So in the business book, there's still sustained upward pressure wholesale funding cost, deposit pricing, et cetera, but it's more clearly linked to a benchmark which is a better alignment with our overall funding cost and it tends to sort of move up and down a little bit more about.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes, of course, and reprices every time...

Ian Mark Narev
Former Executive

And therefore reprices every time the BBSW. What I can say explicitly is that we have no view here at all that we ought to be trying to capture margins somewhere in cross-subsidizing other parts of the book. These are all done by the supply-demand dynamics of individual markets as they should be.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And ANZ there was pointed to some quite significant downward trends in margins in the institutional book, particularly on the lending side. Are your expectations or recent experience similar to that?

Ian Mark Narev
Former Executive

It's a competitive market, but we are not seeing significant margin pressures in that part of the book. Obviously, it's a pretty transparent market. The forces that set pricing there are pretty clear. Our experience that has not been any significant margin pressure in that part of the book.

Operator

The next question comes from the line of Brett Le Mesurier from BBY.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

For the last few years, the quarterly income in the second quarter of the half has been greater than the first quarter of the half. Can you comment on the factors that create that situation or is that just a random event that typically happens that way?

David Paul Craig
Former Group Executive, Financial Services & CFO

I think as much as anything else, it's seasonality. It maybe fraction is to do a number of days in the quarter as well, but you know January is quiet month and Easter is in the first quarter as well -- in this quarter as well. So I think that as you say, it's been fairly consistent that, that fourth quarter and indeed, the second quarter of our years tend to be just a little more active.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

And in the quarter that we're currently in, given that you've taken repricing action, we should -- more likely than not we'll see that recur because that NIM probably won't fall. It's unlikely to fall again in the fourth quarter, particularly as it has in the March quarter.

Ian Mark Narev
Former Executive

Brett, you'll appreciate that I am not able to make any comment about forward pricing intentions, including the likelihood of repricing.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

No, I was actually commenting the outcome of the pricing actions you have taken that you were referring to.

Ian Mark Narev
Former Executive

Oh yes, obviously, I mean to the extent that you can do the math certainly the impact of it on the margin. And as I said, part of that was only a month and the other part of it was not at all in the results of this quarter. So I think you are able to do the math on that.

Operator

Your next question comes from the line of Scott Manning from JPMorgan.

Scott Robert Manning
JPMorgan Chase & Co, Research Division

Just after some more commentary on the bad and doubtful debt charge for the period coming in where it did just whether there was some element of write backs of prior exposures or whether there was a few and new impaired assets during the period or there was a genuine improvement in the underlying collective book, just some more details around the sustainability of the provisioning charge in this quarter.

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, again, Scott, looking at any one individual, again quarters a very short period of time and you only need one large account to topple and you can mark a statistic up. But certainly, the 18 basis points reflects the fact that this was an incredibly benign from our point of view, incredibly benign quarter with no significant accounts falling over the impaired as you can tell from the Pillar 3 information in the impaired loans drop again, in general, the seasonally adjusted arrears continue to be fairly flat. So from our point of view, nothing unusual either favorably or unfavorably just a continuation of the trend. But as I warn you, a quarter is a short period and a basis point isn't very many dollars.

Warwick Bryan
Former Investor Relations Contact

We might now move, Jacob, if we can't go to questions from the media. If we have time, we'll come back and see if there any second questions on the -- from the analyst.

Operator

You're next question comes from the line of George Leonidis from the Australian Financial Review.

George Leonidis

Ian, I'm just wondering if you can give us a few more thoughts about the threat post what's happening in Europe and in particular Greece at the moment, for example, what is it mean for your funding costs? We saw the ACB stop lending to some of the Greek banks overnight. Are we worried that that's going to lead to sort of the freeze on credit markets as we saw at the end of last year before the ACB started lending a bit more in Europe? Any sort of commentary on that would be fantastic.

Ian Mark Narev
Former Executive

George, there are probably really 3 effects I'll call out primarily here. One is obviously when these sort of things happen and you start seeing downgrading of some banks, et cetera, by various rating agencies, I think number one we look at it just their counter-party exposure with European financial institutions. That's something that we've really been looking at for a long period of time now. We're very comfortable with our settings on that. That doesn't change dramatically as a result of what's happening. Number two is funding costs and really, that every time you get recurring events like those, you do get increased volatility and increased volatility and uncertainty tends to mean the credit market, I wouldn't say so much is freezing up, but the price goes up and in particular, you see a steepening of the yield curve in terms of the providing of funding to banks and when your bank like us, who says we need solid term funding notwithstanding that by being safety you are incurring higher funding costs. And that's just life. Although as David said, we feel pretty good about the amounts of term funding that we've got at the moment and we're very well positioned on that. And the third effect is I said at strategy briefing how that we a, are very confident about Australia's long-term economic prospects; and b, actually seeing the economy at the moment is being fundamentally pretty good. But confidence as expressed in people's willingness to borrow, likelihood to save and lack of willingness to spend gets exacerbated every time you get these sorts of uncertainty. And we are in that environment again at the moment and I expect you'll see some of that uncertainty continue to flow through the Australian economy because of that.

Operator

Your next question comes from the line of the Samantha Hodge from InvestorDaily.

Samantha Hodge

I'm interested in the performance of your Wealth Management business in particular. I was wondering if you can clarify some numbers for me such as cash earnings or profit for the division over the quarter. And also, I was hoping you can comment on how you think the division has performed over this period?

Ian Mark Narev
Former Executive

We won't give a lot more detail on what's on the second page of the media release, which does say that we -- there were slightly improvement in investment markets over the period and investment performance we were pretty happy with. So overall, too, did have good growth in the quarter and we said that there are 6.2% and good net flows into both FirstChoice and Custom Solutions. As I said at the half, and David said the same, we need to tap businesses in these markets. They are impacted by the volatility that we just talked about in response to George's question. So we feel pretty good about the performance of the business but recognizes that while there's volatility in the market, there will be volatility in this business.

Operator

Your next question comes from the line of Stephen McMahon from Herald Sun.

Stephen McMahon

Just looking to get a follow-up on the European situation, sorry to press the point, but I do expect -- do you expect the European problem to continue rolling on sort of with many crisis and then a solution over the next couple of years or are you're more optimistic than that, Ian?

Ian Mark Narev
Former Executive

Look, our base case here, Stephen, is that in a kind of little spike and volatility and uncertainty are going to be around for a little while. There are a lot of people who speak a lot more eloquently on the subject than I do. But as we look at it, the fundamental issue of the stock of sovereign indebtedness isn't being solved at the moment. I mean, clearly, with the -- what the ECB move in the trillion euro, et cetera, it seems that the liquidity overall and the impact on the price of sovereign bonds and the sovereign's ability to pay the interest on those bonds. That got back better for a while, but we still left with this fundamental problem. And every time you get a little bit of change like an uncertain election result in Greece or a market reaction to elections elsewhere in Europe, you're going to keep getting those volatility because the problem remains unsolved. And the problem depends on a degree of political action which people get more or less certain is going to happen. So our base case is that we keep bumping along this road for a little while longer. And every softness, a little bit of spike in the volatility. There could be better outcomes in that, there could be worse outcomes than that but that's our base case. And I do reiterate I believe that everyone's legitimate expectations of us is to take a fairly conservative outlook on what will happen and that's the direction that we keep the institution in.

Stephen McMahon

Can I just a follow-up and just trying to get a little bit -- a little while. Can I get any more specific sort of time frame on that. Do you see that as a 3-, 5-, 10-year problem?

Ian Mark Narev

Former Executive

It depends on what problems you're talking about. All I can say is in our view it's not weeks and it's not months. Does that help?

Stephen McMahon

A little bit.

Operator

The next question comes from the line of Andrew Cornell from the Australian Financial Review.

Andrew Cornell

I was just interested in that comment you made, Ian, about what John Laker is keen on. He gave a speech on Friday where he talked about some of these issues if capital with op risk and things and particularly, he drew attention to outsourcing and offshore activities. From what you were saying, when you've got more offshore activities, is that automatically incurring more op risk capital or how is that process playing out?

Ian Mark Narev
Former Executive

No, not necessarily but a, we don't know enormous amount about this in terms of APRA's position because we don't do offshoring, and won't be doing offshoring. But APRA certainly has a view overall and John's best to comment on this himself that they do want a degree of confidence in the operational stability of all the banks that they regulate as you would expect. And I inferred from what he had said or both directly that I have with him and in discussions he had more publicly that where there are things in Australia that they can see and visit and know well, et cetera, they probably get that degree of confidence a bit faster than these things or in other places...

Andrew Cornell

And as far as -- sorry, as far as your Indonesian operations go, does that require something different to what traditionally you've had?

Ian Mark Narev
Former Executive

What is very important to us is to make sure that the levels of operational risk practices are strong wherever our businesses are situated and I had a discussion yesterday about the op -- literally on the operational risk platform that we need to support a very small county banking investment we've got in China. We just had one of our local people up there in that area for a couple of weeks reviewing that and we hold all the businesses to the same standards and operational risk. That we certainly don't describe it further way from the head office you get to have more lax standards.

Andrew Cornell

And does that [indiscernible] in to capital too for the offshore operations?

Ian Mark Narev
Former Executive

Yes, but the impact is really pretty minor given the scale of those operations.

Operator

Your next question comes from the line of Richard Gluyas from The Australian.

Richard Gluyas

I have 2 quick questions. One on Europe as well. I'm just wondering whether in your view, a potential Greek default could loom as a Lehman like event in terms of its ability to a cause a long-term and deeper spasm in markets? And could you just explained in that context what do you mean by you "move liquids around" and you're doing that much more? The second question is, with the JPMorgan loss, I'm just interested to know whether Commonwealth Bank engages in any of that kind of business as much as you understand what the JPMorgan situation was about. And from what I understand, it seems to be a kind of aggressive hedging policy that sometimes morphs into trading?

Ian Mark Narev
Former Executive

Richard, on your 2 questions. Number one on Europe. There are scenarios resulted in a Greek default and scenarios. We've all read them in terms of how -- what might happen if Greece leaves the euro and what would that mean for Spain, Italy et cetera. I think we kind of all know those potential scenarios. What I would say and this is probably relative to the Lehman position and I'm giving you a personal view, not particularly scientific, is that the world and the financial markets have for some time been looking at what might happen here and for some time, been seeing a Greek default and a Greek exit from the euro as a possibility. And an organization like ours and there would be many others around the world planning for that scenarios and know what would happen. So I think with the degree of forward planning for that possibility that would soften any impact, but the impact would still be material, I think.

What David meant by moving liquids around the overall level of liquidity that we hold, there's no point committing to targets a month, 6 months and a year out given our volatile environment. And it depends on a whole lot of factors, your balance sheet forecasting, your view on what kind of lending, you're going to be putting on, your view on what kind of deposits you're going to get, your view on the world. And David was saying in terms of moving liquids around is that in that kind of environment we don't -- with the long-term target on liquidity, we work, we talk about this regularly in some cases daily, in some cases, weekly and formally, at least once a month reviewing all these key settings and that process will continue and it could result in that $132 billion moving around here and there. On JPMorgan, look, our view, my view, I think JPMorgan is an exceptionally strong and well-run institution, number one. As you would expect when these things happen, the first thing that we all do and we would do it over the weekend, whenever we learn about these things happening to any financial institution or in some cases other businesses, my first call is to the Chief Risk Officer and to say, look, based on everything we know, have a look around and see what sorts of comparable things we do that could lead to that. And we do not see having any concern about that here. The sort of specifics things that may did a quite some distance from what we do. Apparently, I already know from what I've read in newspapers like you do. But we always try and learn from the experience of any other institution and really look internally and make sure similar things couldn't occur here.

Operator

Your next question comes from the line of Eric Johnson [ph] from Vet Tech Media [ph].

Unknown Attendee

Just there was a big name commercial problem -- commercial property developer rather went down this week. And I was wondering, are you doing anything in terms of reviewing your business book in terms of the external environment, so is there anything unusual happening in your lending book there?

Ian Mark Narev
Former Executive

Nothing unusual happening in our lending book. I won't comment in the individual case but I can say that since and I recall this because I started in 2009 in January, running the business bank so back then and even further in these kinds of environments, we are always taking a very close look at all parts of the business banking books and commercial properties one of those. Clearly, in the case of BankWest for one-off reasons we had a really deep dive there, but actually based on what we learned from that deep review of BankWest book. We also went back through our business and product bank and our institutional bank and market books here. And we still have continued to do good quality property lending, which has performed really well. And in terms of all the markets of credit quality in that sector like the others at the moment, we feel good about them.

Unknown Attendee

Okay. So it's not a matter of you see coming in reviewing the book?

Ian Mark Narev
Former Executive

No, these are processes which as you can imagine with the knowledge of our previous CEO, the Chief Risk Officer who's the same, the Chief Financial Officer who's the same and the board who is the same. All these people took this pretty seriously before I was in the chair.

Operator

The next question comes from the line of John Durie from The Australian.

John Durie

Following on Rich's question about JPMorgan. Firstly, do you guys have any counter-party exposure to JPMorgan which may be affected? Secondly, given as you said is a well-run bank and you can still drop that sort of money, what sort of can one read into that in terms of how banks around and regulate it and whether maybe they should be re-regulated once again?

Ian Mark Narev
Former Executive

On those 2 questions. Yes, we clearly have counter-party activity with JPMorgan. They are major financial institution nothing relating to the event that's happened there has influenced our view on the quality of that counter-party exposure so we're very comfortable with that. I, like you, have read a lot of discussions about whether this would mean banks are too big to manage, et cetera, including, I think, something that wrote over the last couple of days. What I will say and I'll repeat again you haven't heard from here any comments about regulation not being appropriate banks being overregulated, et cetera. So that hasn't come from here and won't come from here. We have a lot of discussions with APRA about the specifics of their regulation and areas where we feel it might be a bit too tight, et cetera. We have good dialogue with them. But I -- my own view is that given what we've gone through, regulators have a role to play and are playing that role. I -- based on what we've seen there, even the fact that they're well-managed and this happened, what you will see if you read -- if you watch what I thought was pretty interesting interview that Jamie Diamond did on NBC's Meet the Press at the weekend, what he does emphasizes is that sometimes you have these big losses because you're an enormous institution. And the large -- if they lose $2 billion, it's okay but what if a smaller institutions loss $2 billion, the reality is smaller institutions don't take those positions or at least shouldn't be taking those positions. And what I think, I think he did a reasonably good job of doing is explaining the magnitude of that loss which is a big amount of money in the context of the overall operation that, that group does and the fact that actually for this quarter, is still going to be significantly profitable. So none of us running these institutions should ever be callous about losing a dollar, but we've also got to be careful not to overreact when these sorts of things happen.

Warwick Bryan
Former Investor Relations Contact

Okay. I think we might wind up now. Thank you, Jacob, so for Ian. Thank you, ladies and gentlemen.

Ian Mark Narev
Former Executive

Thank you, all very much.

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