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Presentation

Gregori Karamouzis

Thank you. Good morning, everyone, and thank you for joining us on this presentation of Swedbank's Q2 financial result. With me in the room, I have our CEO, Jens Henriksson, our CFO, Anders Karlsson, and our Chief Credit Officer, Lars-Erik Danielsson. Following on their introductory remarks, we will open up for questions. Jens, please.

Jens Henriksson

Thank you, Gregori, and welcome to this presentation of our Q2 results, and it is a strong result in uncertain times. The second quarter was completely dominated by the pandemic that has affected individuals, societies, economies and Swedbank. When I met you here three months ago, I stated that the economies and the economic policy would go through three phases, mitigation, restart and the inevitable budget consolidation, and we are somewhere between the mitigation and the restart phase in Sweden. The big question now is how quickly will we recover from the pandemic? Will the recovery graph look a 'U', a 'V', an 'L' or a Nike swoosh? My favourite is the Victorian bathtub. According to the economic research, financial crises tend to be more severe and to have more long-term effects compared to other crises, but what happens when there is a pandemic? One difference compared to financial crises is that the credit channel remains open, and one proof-point of that is how we, as a bank, faced this crisis, with increased lending, primarily demand from large enterprises. But social distancing has a negative impact on both supply and demand. A restaurant can suffer from both reduced demand when guests don't want to come, and reduced supply as a consequence of more space between the tables.

Another issue to consider is how global value chains will be affected by the fact that some countries have shut down completely, and we do know that the pandemic will have an enormous global impact. On June 20th, the IMF updated its April forecast and it paints a very dark picture. More than 100 countries have applied for support from the IMF, or as they call it, a crisis like no other. The global growth rate is revised from -3% to -5%, and the recovery in 2021 will be slower. The IMF expects a deeper and more protracted crisis. The full year eurozone growth is estimated at -10% this year, and in the US, we're talking -8%. France, Spain and Italy are all expected to have over 12% negative growth. Sweden is affected as well, and the crisis will be deeper and last longer than we previously thought. Our economists at the banks, they believe in a negative growth of around 5% during 2020, and this is 1% lower, compared to their outlook in April, and the recovery in 2021 is estimated to be 2% weaker than projected in April. As a result, unemployment rates will grow by 0.7% between '20 and '21, instead of being reduced with the same number as previously predicted, and this naturally affects provisions for future credit impairments. At the same time, there are clear signs of a turnaround. In our home markets, Estonia, Latvia, Lithuania and Sweden, the forecast predicts that the decline in retail sales will be levelled out or turned around in the next quarter and the real-estate values are resilient.

Looking at the rest of the year, it's very hard to predict the development in Sweden, with a summer of historically low revenues in many industry sectors. Now, in this difficult economic situation, Swedbank has stood by its customer. As the bank for the many households and businesses, we have offered advice about various governmental measures response to COVID-19. We've given individual advice to both private customer and enterprises. We've also supported lending and liquidity to business. I'll give you some examples. In Sweden and the Baltics, we have approved together some 56,000 applications for amortisation grace periods, and close to 10,000 applications from enterprises. Our web corona page has had 1 million visits, and the social media 'Ask Swedbank' programme has had more than 6 million views, and the crisis accelerates development trends in our society that would have taken place without corona. Now they happen at a faster pace. The use of our digital financial service is increasing and we are focussing on the fact that our customers' digital integrity must be carefully handled. It is just as important to manage and safeguard customers' data as it is to manage their assets. A growing number of financial services providers want to gain access to our customers' data, and we are clear on the fact that we will be restrictive in the best interest of our customers.

Another area is financial advice, where demand is growing. However, we have identified a great potential for improvement within this area, and a lot of effort is being spent internally on a concept we call 'financial health'. Well, now over to the beef, let's look at the result for the second quarter. As I said, it's a strong result in uncertain times. Revenues amounted to 12 billion kronor, and we had a strong net interest income, which increased by 200 million compared to the first quarter, and this was due both to higher average lending volumes in the quarter and deposit growth. Net commission income was 300 million lower compared to last quarter as a result of reduced income from card payments, lower values on assets under management, especially during the beginning of the corona crisis, resulted in lower commissions. Net gains and losses were unusually strong due to valuation effects from Visa and Asiakastieto. We also recovered our losses in the trading portfolio from the first quarter, and other income which is getting more and more important for us, for example insurance operations and our savings banks' holdings were stronger than last quarter. Our costs were lower compared to Q1, and mainly because then, well, you know, we were fined 4 billion by the Swedish FSA, but also because of the pandemic, and as we understand it, that has led to fewer requests for information from the relevant US authorities.

On the other hand, the underlying cost for developing and operating the bank were according to plan, and we see no reason to adjust the cost guidance of 21.5 billion for 2020. Now, this quarter we made credit provisions of 1.2 billion. Last quarter we made credit impairments of 2.2 billion kronor, and this was because we adhere to the revised IFRS rules, both in letter and in spirit, but let me also remind you that actual credit losses during Q1 was only 130 million, and actual credit losses during this quarter has only been 107 million kronor. So, we made credit provisions for future credit loss. In the quarter, Swedbank had a 13.5% return on equity, and the cost/income ratio amounted to 0.40, and this means that our common equity tier one capital was 16.4% at the end of the quarter, giving us a healthy buffer to regulatory requirements of 340 basis points. On May 28th, Swedbank held its annual general meeting, and a new board of directors was elected. The AGM refrained from deciding on a dividend for 2019 upon the recommendation from the board of directors, and the board will revisit the dividend matter when the consequences of the pandemic can be properly assessed. Swedbank's position, with strong earnings and stable capital, liquidity buffers of 21 billion and 600 billion respectively is comforting in the midst of this crisis. This means that we can continue to be there for our customers and support the economy in the future.

I could not have a call like this without talking to you about our AML, anti-money laundering, shortcoming. My belief is that during Q2, we entered the beginning of the end of Swedbank's money laundering crisis. The FSA in both Estonia and Sweden have completed their investigations, and the report from the international law firm, Clifford Chance, has been published and it is available for those who want to read it. The Estonian FSA gave us a precept, which we have until November to remedy, but there are still US authorities that continue their investigation, and our US legal advisor assists us. Now we know what shortcomings the bank has. We know how to remedy them and we know what we want to achieve, an industry-leading AML standard, and as I know that you all know, we have an action plan, and I promise to keep on talking this and report on its progress on each quarterly briefing. When I started, we had 132 action points. It has now grown to 245. This is primarily because investigations by FSAs and Clifford Chance have generated new actions. You know, the slides I've shown now shows the summary of the actions we implement divided into the different areas, and the major areas are monitoring, internal regulation and customer knowledge. Of the 245 action points, 117 are completed, 87 are ongoing and 41 have not yet been started. According to plan, 100 action points will be completed during the rest of the year, and 28 are planned to continue in '21.

Now, one of the questions I've struggled with since I took office is our corporate culture, and this is what I decided to appoint the consultancy firm, Oliver Wyman, to investigate the matters. Now, they've talked to more than 8,000 employees that have participated, and let me start with a positive, Swedbank fundamentally has a sound culture and strong values, having roots that are 200 years old is a strength. When our employees are asked to talk about what characterises the bank, it is a very positive picture that emerges, but that doesn't mean that everything is good. We have problem areas that we need to deal with. Things have not always been organised as they should have been, and during the year, we are assessing the group's governance. We need to strengthen governance and control, and our subsidiaries must be given proper prerequisites to comply with legal and regulatory requirements. We are also in the process of assessing our ability to manage risk, and we aim to have an updated enterprise risk management system for all type of risks during the year. We need to have an atmosphere where all employees feel welcome to raise issues, shortcomings and ambiguities, and finally, we need to be clearer about our wanted position and how to reach it. This is why I recently launched an initiative with the purpose of clarifying our strategic direction. All 15,000 employees in the bank will be involved, and this is an important action on the roadmap towards having a more open and inclusive culture. It will be easier to set long-term goals and to reward good and sustainable performance as we clarify the way forward for the bank. The corporate culture in Swedbank is fundamentally positive and gives strength, and our values, open, simple and caring, are deeply rooted in the bank and all its employees. What we need to improve is internal governance and control, which is exactly what caused the Swedish Financial Supervisory Authority to fine us. Now, the past quarter was unlike anything any of us have ever seen. It is deeply satisfying to see how Swedbank and our customer work to alleviate the effects of the COVID-19 pandemic. Together with our customers, we create the prerequisite for a strong recovery. Now, Anders, now you have the luxury to present this strong result.

Anders Karlsson

Thank you, Jens, and as Jens already mentioned, we are presenting a strong result in the quarter, in many regards, quite a contrast to last quarter. I will first walk you through the P&L in detail, and then ask our Chief Credit Officer, Lars-Erik Danielsson, to talk about asset quality and credit provisioning, before I sum things up with a few comments on capital and forward-looking drivers. In contrast to last quarter, the loan portfolio declined somewhat. The main reason was that Swedish krona strengthened against the euro and US dollars, but when we look through the FX impact, there are a couple of interesting developments in the quarter. Firstly, we are again capturing new lending in Swedish mortgages, close to our back-book market share, and I'm very happy with this development. Secondly, we saw large repayments from Swedish corporates, mainly in LC&I during June. Some of our clients even repaid the liquidity loans they took during March and April. This is, of course, a sign of strength. We did however see a continued increase in committed revolving credit facilities, as more corporates take precautionary steps to secure liquidity in case needed in the future. We saw an increase of 20 billion in committed revolving credit facilities, ending at 220 billion in the quarter. At the same time, utilisation decreased by 10 billion, and stands currently around 30%, which is back to average levels. Thirdly, lending in our Baltic subsidiaries is stable in euro terms, and customer deposit inflows continued this quarter, increasing by 39 billion.

Now, let us look at the result in more details, starting off with net interest income, which is higher quarter over quarter. Higher average lending volumes and deposit volumes contributed to the increase. As mentioned last quarter, the loan growth in March and April generated income in Q2. Margins overall were stable. Market rates were again quite volatile during the quarter, with hefty movements. All in all, this led to deposit margins expanding and mortgage margins in Sweden declining. Corporate lending margins were stable. We received the final fee level for the resolution fund. We have to pay slightly more than anticipated, resulting in a negative delta in NII of 73 million this quarter, as we also adjusted for the fee booked in Q1. In total, we will pay 842 million in 2020, which is roughly 275 million lower than last year. Group treasury supporting NII this quarter, as maturing debt securities were primarily replaced by deposit inflows and funds from central banks' liquidity programmes, resulting in lower funding costs.

Over to net commission income, which was weaker this quarter. As expected, and mentioned last quarter, the lower card transaction activity due to COVID-19 resulted in lower income in Q2. It is primarily the absence of foreign transactions that hurt income. The asset management business was also negatively impacted, following the sharp stock market declines in March, leading to significantly lower assets under management entering into Q2. On the positive note, we did see strong private customer inflows in our mutual funds during the quarter, mostly in equity and mixed funds. Turning to net gains and losses, most of the negative valuation effects from Q1 were reversed this past quarter, tighter CDS and credit spreads in the quarter led to positive valuation effects in derivatives and in corporate bond inventories. In addition, the share price development in the Visa and Asiakastieto holdings resulted in around 470 million of positive effects. As importantly, the volatility in the quarter triggered higher climb trading activity in primarily FX and fixed income. Other income was also better. Insurance saw lower claims that anticipated, and income from the partly owned savings banks was higher as their business performed better. Entercard had a stable quarter. Lastly, before I hand over to Lars-Erik, let's look at expenses. Underlying expenses are developing according to plan, both the investment agenda and the measures taken to address the AML shortcomings are making progress in line with our schedule. On the other hand, the COVID-19 situation, as we understand it, has led to lower activity in our interactions with the US authorities, and delayed AML investigation expenses.

We maintain our full year guidance, as we expect activity to pick up again after the summer. Having said that, even though we had much firmer control over the spend, it is highly difficult to forecast the expenses related to investigations. Let us now look at asset quality and the credit provisions that were made in the quarter. Lars-Erik, please.

Lars-Erik Danielsson

Thank you, Anders. The COVID-19 situation and the effects in society have been, from a risk perspective, the most important topic to handle together with our clients during the quarter. There have been considerable interactions between our staff and our customers, to get a better understanding on how and to what extent the current situation impacts their specific business, and how Swedbank can help out. Based on our decentralised business model, all of the assessments, as re-rating and watch-list exposures, has been initiated by our local case managers. Our assessment is that our overall asset quality remains strong, despite COVID-19. However, some of our customers are facing challenges. On this next slide, I just wanted to remind you that over 90% of our total exposures are in sectors that are not significantly impacted by COVID-19. In addition, our lending is cash flow based, and we see good repayment capability amongst our customers. We also have a well-collateralised loan portfolio with more than 90% of the exposures covered by collaterals. We still expect the main part of our lending, in sectors such as mortgages, agriculture, commercial real estate, to be insignificantly or slightly impacted. The major impact so far is seen in the oil-related sectors, which I will talk more about in a few minutes.

Let us take a moment and look at the specific sectors classified as considerably impacted. I think it's important to say a few words, since there is a varying degree of impact, even within these sectors. Sectors such as hotels, restaurants, retailers, transportation and manufacturing are sectors where consumption behaviour has a huge and important impact on the risk. However, there are some sectors that are less negatively impacted. Some are even not impacted at all, or even positively impacted, such as food, home electronics and do-it-yourself. Sectors where the impact is negative are clothing, hotels, restaurants, sports and leisure and travel. The impact is, however, not yet seen in terms of overdue loans or payment delays to the bank. I would also like to remind you that our shipping and offshore exposures remain limited, and that half of them are in run-off. The gross exposure stood at 21 billion SEK. The oil-related part, 9 billion SEK, as per Q2, are in run-off and the provisioning level for the stage three exposures are 50%. Let me now walk you through, in more detail, the credit provisions we took in the quarter. Firstly, as I mentioned last quarter, we have, during Q2, conducted a thorough individual assessment of most of our large corporates and large SMEs. This has taken place through customer meetings and a subsequent analysis by our client manager and sector analysts. This exercise led to rating migrations equalling to 950 million SEK of provision. As you probably remember, we had already provision for close to 700 million SEK in Q1. When utilising the Q1 expert overlay, the net additional provisioning in Q2 became around 270 million SEK.

In addition, we still see very limited inflows to stage three loans, as bankruptcies, restructuring cases and overdues are at low numbers. In Q2, only 210 SEK in individually assessed provisioning was needed. This is still mainly oil-related counterparties, where we see minor add-ons onto already impaired clients. The macroeconomic outlook has worsened compared to Q1, and we have added 557 million SEK of provision in this quarter. Let's take a closer look at the macro-adjustment made. We expect GDP decline to be somewhat higher, and also that unemployment figures will raise compared to our Q1 forecast. This, in conjunction with that expected recovery, will be somewhat postponed in time. To summarise the 1.2 billion SEK credit impairments in Q2, macroeconomic update 557, individual assessments 210, rating migrations 271, and other minor changes in total 197 million SEK. Finally, as Jens mentioned, in the quarter, we have made write-offs at only 107 million SEK. Thank you, and I'll hand over back to you, Anders.

Anders Karlsson

Thank you, Lars-Erik. Let me now turn to capital. The CET1 capital ratio increased to 16.4%, and the buffer to the Swedish FSA's minimum requirement stands at around 340 basis points. The profit in the quarter impacted the capital base positively but the pension liability valuation, following higher inflation expectations and lower discount rates, impacted negatively. The risk exposure amount increased by 1.3 billion in the quarter. The main drivers were the lending growth, negative PD migrations from our re-rating exercise and the stronger krona. The PD migrations were primarily seen in the manufacturing, offshore and retailer sectors. Before I spend some time on forward-looking aspects, I would like to remind you of the strong financial position that Swedbank entered this crisis with. The robust liquidity, funding and capital position that Swedbank has built over the past ten years is allowing us to both support our customers and protect our P&L. We discussed our asset quality a few moments ago. Swedbank's loan portfolio mainly consists of well-collateralised exposures, with collateral primarily in real estate, but also in other types of assets. As you all know, Swedbank's stable earnings from retail banking and SME segments is the foundation in our ability to generate strong pre-provision income. This foundation remains intact and plays an important role in any crisis. These are strong fundamentals, both from an income and balance sheet perspective, and provide us with the ability to continue to support our customers.

Let us now look ahead and provide you with some forward-looking comments. With the second quarter behind us, we all have a better understanding of how the crisis behaves and how it impacts the real economy and banks, but having said that, the uncertainty is still very high, which makes any predictions of trends difficult. When we look at the income trends, we still see loan and deposit volumes as the main drivers going forward. The corporate lending volume growth outlook looks somewhat weaker compared to last quarter. On the other hand, we should expect some compensation from free incomes stemming from committed RCFs and recovering debt capital market activity. Corporate demands for long-term investment loans are still not taking off but that could change later in the year if confidence comes back. Lending and deposit margins are, combined, stable, and will develop more or less in tandem with market rates. Looking into next quarter, for example, Swedish mortgage margins should expand, while deposit margins will decline. The lower funding costs seen in Q2 should also provide some benefit for the remainder of the year, everything else being equal. Furthermore, we have seen card transaction volumes recovering in June, but the mix of type of transactions is not back to pre-crisis pattern. Basically, this means that income will be lower, as long as international transactions have not recovered. When the stock market rebounds strongly in Q2, we expect assets under management to recover nicely in Q3. Reminding you that Swedbank Robur has about 75% of its assets in equities. So, if the stock markets increase by 10%, the assets under management will increase by 7.5%. As you all know, our Visa shareholding has been causing some volatility in NGL, as the share price has been experiencing hefty ups and downs. We have now hedged this position and should therefore not see the same swings going forward. As discussed earlier on the call with regards to asset quality, we are closely monitoring the development but here, I ask Lars-Erik to give you further insights.

Lars-Erik Danielsson

The overwhelming majority of our customers are so far, from a financial point, limited affected by the crisis. Some of them have, by the government, support packages. We will continue to closely monitor individual customers that are significantly exposed to the crisis and have utilised external support, especially after support measures will be approaching an end at some point. This is standard procedure, and will most likely lead to additional provisions, either based on rating migration or that risks are materialising with individual provisioning as a result. A positive development in the quarter was that the capital markets are open again for companies that, for a few months, couldn't access funding on their own merits. The macroeconomic outlook is still unusually uncertain, but where we stand now, I feel we have captured this in our assessment and the largest part of our asset quality remains robust. Back to you, Anders.

Anders Karlsson

Thank you, Lars-Erik, and now we are at the end of the monologue. The Swedish mortgage and housing markets are performing well, despite the circumstances. Housing prices are almost back to pre-crisis levels and transaction volumes are even increasing. One should, however, remain humble about this development, as sentiment can shift very quickly. When it comes to capital, as mentioned earlier, negative PD migrations in the quarter increased risk exposure amount. The net effect was, however, quite a bit smaller than anticipated. We can therefore not exclude additional negative migrations going forward. As Jens mentioned earlier, the AGM did not make any decision on the dividend for 2019 in May. Meanwhile, the bank's financial performance is strong. Capital buffers are comfortable and we are able to continue supporting our customers. It is prudent, however, to have a clearer view of the COVID-19 consequences before the board revisits the question. I believe we are now ready to take any questions you might have.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press zero, one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero, two to cancel. Our first question comes from the line of Magnus Andersson from ABG. Please go ahead.

Magnus Andersson

Yes, hi, good morning, guys. If I start off with costs, we all see that your 10.2 billion in costs in the first half is way below your full year guidance of 21.5. So, just on that note, obviously the second half will be then very heavy, is there reason to believe that you might not be able to invest everything you thought you would, and that some would spill over into 2021? That's the first cost question. Secondly, if I look at your slide fourteen, where you provide your underlying cost rate since Q2 '20. If I take the 4.8 times 4, I end up at 19.2, and with some kind of cost inflation, you would still be below 20 billion versus the current Infront consensus number, closer to 21. I know that you will not guide for costs in 2021 until the second half this year, but am I missing anything in that analysis?

Anders Karlsson

Okay, thank you, Magnus. To start with the first one, I think that, as we alluded to and were quite clear about, 1.6 billion of the cost guidance is related to investigations. I think it is extremely difficult to forecast that. We tried that a couple of times, as you know, then we came out with a forecast that was much lower than the actual outcome, which was disappointing to everyone, including us. So, I refrain from changing that guidance at this point. When it comes to your second question, which I think is much more important going forward, namely the underlying run rate, I agree with you at the first glance, but what you have to have in the back of your mind is that a significant part of the run rate is based on us hiring people. So, run rate will gradually creep into the second half of the quarter. As I stated, Magnus, underlying costs are developing according to plan. So, my best estimate is that it will end up close to the 20 billion that we have indicated before.

Magnus Andersson

Okay, thank you very much, and then just on NII, which was quite strong in the quarter, and you mentioned, yourself, your inflows of house and mortgages. Can you say, has the behaviour of the independent savings banks had an important role in this? I remember that was one reason for your weak inflows in the first quarter, if that has been an important contributor to your flows. Secondly, is there anything in the NII in Q2, except for the 73 million that is not sustainable, looking to the second half.

Anders Karlsson

Yes, Magnus. The savings banks are providing us larger flows in this quarter compared to Q1, but also on our own merits, the business is performing quite good. As far as you second question on if there is more than the 73, of one-off nature, in the NII, the answer is no.

Magnus Andersson

Okay, excellent, and then just on capital, you mentioned several factors building up your RWAs quarter on quarter. Did you then say anything about the SME's supporting factor, which other banks have taken in in the second quarter? I guess you have not. Can you tell us, will that come in Q3, and if so, what kind of magnitude are we talking about?

Anders Karlsson

Yes, thank you, Magnus. We have not implemented the SME's supporting factor, as you rightly point out. We will most likely implement that during Q4, not Q3, the best estimate of the impact on the buffer is around 30 basis points, as we stand now.

Magnus Andersson

Okay, thank you very much, and then finally, as just since I'm the first guy on the line, take the opportunity to thank you Gregori for all the support over many, many years to several CEOs, CFOs etc., and welcome you on board in your new role, Annie. Thanks, that's all.

Jens Henriksson
You have to say something, Gregori.

Gregori Karamouzis
Thank you, Magnus, we'll for sure stay in touch going ahead as well.

Anders Karlsson
I would like to remind you that Gregori is not disappearing. He's changing to Group Treasury, so I will hold him accountable for the quarters coming as well.

Magnus Andersson
Okay, good.

Operator
The next question comes from the line of Andreas Håkansson from Danske Bank, please go ahead.

Andreas Håkansson
Yes, good morning, everyone. Two questions, if we start with your loan loss provisions, they were still relatively high in the quarter but you're taking, of course, a lot of more general type provisions. Jens, you said that really acting in the spirit of IFRS9, and that means you should take things upfront of course. When I look at consensus, consensus seems to believe that you're going to have roughly the same amount of loan loss provisions in Q3 and Q4, compared to Q2 but if you are really following the spirit of IFRS9, shouldn't you really be at a much lower level in the second half? That's my first question.

Anders Karlsson
Thank you, Andreas. I think we will ask Lars-Erik to answer that question, but before he does that, we are not guiding, as you are aware, of any cost of risk.

Lars-Erik Danielsson
No, and the answer to that question will be that it's very unusual times. It's low visibility out there. So, to try to guide the second half of the year, we don't do that. We will continue to be close to our clients. We will follow their development and I will come back to the topic in Q3, but now, it's too uncertain out there.

Andreas Håkansson
Okay, fair enough. Then next question, when it comes to capital distribution, you have, of course, a healthy capitalisation today, both above the current capital requirement, but also with one before, when we had buffers in place. You have a high profitability, you build capital as well, so could you see any reason why you shouldn't pay the 2019 dividend, unless it's that the regulator basically tells banks that you can't do it?

Jens Henriksson
Well, as we said, this is a board decision, and they've said that they want to see, sort of, clearer visibility before they revisit that, the question, but you're right, we have a strong position.

Andreas Håkansson
Okay, and finally, there was a reprice in the mortgages done in June, were those changes included in the guidance, Anders, about your flat rate in margins is up a bit on mortgages and down on deposits, more following the Stibor?

Anders Karlsson
Yes.

Andreas Håkansson
Okay, that's it, thank you.

Anders Karlsson
Thank you, Andreas.

Operator
Just as a reminder, if you do wish to ask a question, please press zero, one on your telephone keypad now. Our next question comes from the line of Sofie Peterzéns from JP Morgan, please go ahead.

Sofie Peterzéns
Yes, hi, morning. Yes, it's Sofie from JP Morgan. I was just wondering, you sound quite cautious on the macro outlook in Sweden and globally as well. When do you expect growth of stage three loans and NPLs and bankruptcies to be in Sweden and the Baltics, and how should we think about this?

Lars-Erik Danielsson
During the quarter, the stage three migration was close to zero. It was actually negative, with a couple of millions, so stage three did not grow. As I mentioned during my speech, we don't see yet, in our system, any signs of overdue increases. We don't see the bankruptcies increasing. We don't see that official restructuring is taking place. So, during the quarter, we did not have an increase in stage three. The increase was in stage one and in stage two.

Sofie Peterzéns
I mean, this was more, I realise that you have very low level of stage three exposures, but when do you expect them to peak? Do you expect them to peak in 2021, 2022? Do you have any kind of visibility on when we could potentially start to see some stress there, or maybe not stress, but a little bit more stress among your customers? Maybe related to that, kind of, how should we think about the 56,000 of payment holidays that you have? When do these expire, and do you expect some of these clients-, do you see increased financial pressure once they have to start amortising again?

Lars-Erik Danielsson
I'm a little bit unwilling to give forecasts on the impairment levels in the future. Your question is a little bit hard to answer. It depends on how will the government packages and support packages be going forward, and still the visibility is expected to be a little bit more clearer in Q3 than what it is today. So, I have, not really, a specific answer to your question, when we will see this and if we will see this materialised.

Sofie Peterzéns
Okay, that's clear then, and just following up on the previous question on the dividend, you mentioned it's a board decision, and we fully understand that, but are there any regulatory approvals? Do you need to ask any approval from the Swedish FSA or the Swedish Finance Ministry in order to be able to pay a 2019 dividend, or is it a purely board decision?

Jens Henriksson
No, if I understand you correctly, there are no formal rules, but of course you can hear the voice, what they're saying, but there are no formal sort of decisions taken on this. So, there is board discretion on what to, sort of, give solutions or give advice to the AGM, because the AGM take the decision, sorry.

Sofie Peterzéns
Okay, and this is my final question. A few weeks ago, there was an article, I think in one of the newspapers, where the Swedish Finance Minister was still alluding to that we could get a banking tax, and that they want to move ahead with this. Have you heard anything? How should we think about. other than the Swedish banking tax?

Jens Henriksson
No, we haven't heard anything more that's in the news. So, please contact the Minister of Finance, and they will let you know what their plans are.

Sofie Peterzéns
Okay, great, thank you.

Operator
The next question comes from the line of Martin Leitgeb from Goldman Sachs, please go ahead.

Martin Leitgeb
Yes, good morning. I've just got a question on your merchant payments business, given the disclosure from this morning. I was wondering if you could comment on what the, kind of, merchant volumes per sector are, what kind of EBITDA margin this business is earning, thank you.

Anders Karlsson
Okay, thank you. You're referring to the specific section or a paragraph in the interim report. I think we have been talking about this being an important part of our business, and as you are aware of, we acquired PayEx a couple of years ago, in order to complement what we had in ourselves. We have also been very clear that this is an issue of strategic importance, and we are looking to that as… it's what you should read into it.

Martin Leitgeb
Then on dividends, just broader, because obviously the dividend discussion is broader across the European bank space at the moment, would you expect Sweden eventually to broadly follow what EPB, EBA might do in terms of dividends going forwards? Or when there's more clarity on the continent, that you would also expect to have similar improved visibility in Sweden, and obviously, given the capital position and the capital buffer, the ability to recommence in a way or shape?

Jens Henriksson
I'm sorry but that's a question we cannot answer. I mean, you have to ask the regulators and the politicians and the central bank for this. It's a question for them, sorry.

Martin Leitgeb
Okay, no, no problem, understood, thank you.

Operator
The last question comes from the line of Nick Davey from Exane, please go ahead.

Nick Davey
Good morning, everyone, just two quick questions actually. The first one, I think I heard the comment earlier that it's anticipated that lower funding costs should provide a benefit for the rest of the year. Can I just ask for a clarification as to whether you mean the funding costs you've seen in Q2 stick around, or you're saying that this overall trend of lower funding costs will help in the second half incrementally? The second one, do you see any SME lending repricing going on at the moment? Thanks.

Anders Karlsson
Thank you, Nick. On your first question, since the funding mix has shifted during primarily Q2, we will benefit from that for the remainder of the year, but then again, all other things being equal. On your second question, the answer is no.

Nick Davey
Okay, thank you, all else equal, before Gregori gets in there and ekes out a bit of value maybe.

Anders Karlsson
I have high expectations on the Group Treasury for the rest of the year, I can promise you that.

Gregori Karamouzis
Thank you, Nick. Operator, I think we have one more question?

Operator
Yes, the last question comes from the line of Riccardo Rovere from Mediobanca, please go ahead.

Riccardo Rovere

Good morning to everybody. I had to connect, a little bit of delay. So, sorry if this question has already been answered. It's just more of a curiosity, when it comes to your provisioning approach in the quarter, or actually in the first half, can you share with us if there has been a sort or a kind of supervision by regulators on the approach used? Or has this been only your, let's say, your judgment, with no, let's say, no kind of, I don't know how to call it, maybe coordination from someone outside each bank, just for curiosity for me?

Andres Karlsson

Thank you, Riccardo, the answer to your question is no, having said that though, since we have seen such high degree of difference between the different banks, both in outcome and, I would suspect, in approach, I would expect regulators to look into the issue and try to understand how the different banks have applied and understood the IFRS9 rules, both from a rule perspective but also from a spirit perspective, but the answer to your question is no.

Riccardo Rovere

Very clear, thank you very much, thanks.

Jens Henriksson

With that, it seems like there are not that many questions left. I just want to say thank you all for covering Swedbank. It's been quite a tough year, but it feels good to go to a summer vacation with such a strong result as today, in very uncertain times. Thank you very much, and you know we are there, so call us. Otherwise, I wish everyone a nice summer, and looking forward to the autumn, and then it's time to roll up the sleeves and work even harder. So, thank you very much, bye-bye.