EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

5 June 2020

ECB concludes comprehensive assessment of UBS and Bank of America subsidiaries

- Comprehensive assessment required following Brexit-related relocations
- Asset quality review and stress test conducted for each bank
- Exercise did not reveal any capital shortfalls

The European Central Bank (ECB) has today published the results of a comprehensive assessment of UBS Europe SE and Bank of America Merrill Lynch International Designated Activity Company. Both banks were required to undergo the assessment following the relocation of business activity to the euro area from the United Kingdom after that country's exit from the European Union. The relocations led to both banks meeting the size criterion for being directly supervised by ECB Banking Supervision.

All banks that become or are likely to become subject to direct ECB supervision are required to undergo a comprehensive assessment, consisting of a stress test and an asset quality review (AQR).

The comprehensive assessment shows that both banks do not face any capital shortfall as they did not fall below the relevant thresholds used in the AQR and the stress test. However, the banks will be expected to follow up on the outcome of the exercise and undertake actions to address the findings of the AQR.

The AQR is a prudential rather than an accounting exercise, and provides the ECB with a point-in-time assessment of the carrying values of a bank's assets on a particular date (30 June 2019 in the case of the UBS and Bank of America subsidiaries). The AQR also determines whether there is a need to strengthen a bank's capital base. The AQR for the banks was carried out on the basis of the ECB's latest version of the AQR methodology, which was published in June 2018.

The AQR was complemented by a stress test exercise, which looked at how the banks' capital positions would evolve under a baseline scenario and an adverse scenario over the three-year period from mid-2019 to mid-2022. That stress test was conducted using the methodology applied in the European Banking Authority's 2018 stress test. The baseline scenario was updated with the most recent

European Central Bank
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu

projections at the start of the exercise (mainly the June 2019 ECB staff macroeconomic projections for the euro area and the IMF's April 2019 World Economic Outlook).The assumptions used for the stress test scenarios could not take into account the current COVID-19 crisis, which only started to evolve in the first quarter of 2020. The ECB is currently working on a consistent approach for all supervised entities in order to monitor the impact of the COVID-19 crisis.

The threshold ratios applied for identifying capital shortfalls were maintained at the same levels as in previous exercises: a Common Equity Tier 1 (CET1) ratio of 8% for the AQR and the stress test's baseline scenario, and a CET1 ratio of 5.5% for the stress test's adverse scenario. The CET1 ratio is a key measure of a bank's financial soundness.

Both banks consented to the disclosure of the results.

Table 1
Evolution of CET1 ratios and resulting capital needs

Bank name	Initial CET1 ratio(1)	CET1 ratio post-AQR(1)	CET1 ratio in baseline scenario(2)	CET1 ratio in adverse scenario(2)	CET1 shortfall
	(%)	*(%)*	*(%)*	*(%)*	*(EUR millions)*
UBS Europe SE	26.07%	26.07%	25.59%	18.96%	0
Bank of America Merrill Lynch International Designated Activity Company	18.86%	18.55%	18.34%	13.37%	0

(1) CET1 ratio as at 30 June 2019.
(2) Lowest CET1 ratio over the three-year horizon of the stress test.

Detailed results and information on the outcome of this exercise can be found on the ECB's banking supervision website.

For media queries, please contact Elizabeth Tepper, tel.: +49 174 3086 505

European Central Bank
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu