

Banking union and the long wait for cross-border integration



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BANKING UNION

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Abstract

The banking union project has achieved European-level policy integration of microprudential supervision but not of crisis intervention. This largely explains the disappointing progress in the cross-border integration of the banking sector, which we document using data on banks' assets and also specifically on their sovereign exposures.

In a capital markets union, there is no equivalent of the banking crisis intervention framework and related public financial safety net, and therefore supervisory integration can have more direct catalytical impact in that context than in banking.

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LIST OF ABBREVIATIONS

BRRD	Bank Recovery and Resolution Directive
BUA	Banking Union Area
CEBS	Committee of European Banking Supervisors
CMDI	Crisis Management and Deposit Insurance
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DGSD	Deposit Guarantee Scheme Directive
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
FSB	Financial Stability Board
G-SIB	Global Systemically Important Bank
IFRS	International Financial Reporting Standard
IPS	Institutional Protection Scheme
LSI	Less Significant Institution
MREL	Minimum Requirement for own funds and Eligible Liabilities
SCC	Sovereign Concentration Charge
SI	Significant Institution
SRMR	Single Resolution Mechanism Regulation
SSM	Single Supervisory Mechanism

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EXECUTIVE SUMMARY

This paper is a contribution to debates about Europe's banking union, understood here as the project to eliminate the bank-sovereign vicious circle in the euro area by pooling the prudential framework at European level¹. The prudential framework, in turn, is understood as comprising prudential supervision as well as crisis intervention. We explain in the introduction why this stylised description is preferable to the widespread reference to three pillars of supervision, resolution and deposit insurance. As for prudential supervision, it is divided into microprudential and macroprudential.

By this yardstick, microprudential supervision² is the only complete piece of the banking union. By contrast, macroprudential supervision and the crisis intervention framework (which includes resolution, normal insolvency proceedings in the individual member states, deposit insurance, state aid and its control) still involve unwieldy combinations of national and European decision-making processes, policy instruments and, for crisis management, financial resources.

The paper is mainly devoted to empirical analysis of the level of European integration of the banking system.³ It focuses on two areas of observation.

The first is the politically sensitive but critical issue of banks' sovereign exposures. We present detailed individual time series of home bias and of capital coverage for most significant banks, starting where possible in the early 2010s. The data supports the claim that most banks' sovereign exposures remain highly concentrated in their home countries, and are a major threat to their solvency in scenarios of sovereign credit stress, with greater granularity than any prior publicly available analysis we are aware of.

The paper's second contribution is a point-in-time mapping, at the end of 2023, of all assets of significant institutions in the banking union, disaggregating them on a country-by-country basis to the (considerable albeit imperfect) extent allowed by publicly available information. The mapping dataset enables some analysis of both the skewedness of national banking systems towards domestically-headquartered banks and, conversely, of the asset home bias of large banking groups towards their home country. Both are high.

We complement this empirical analysis with suggestions for further research on obstacles to cross-border banking integration other than the main one, which is the unfinished nature of the banking union project itself. We call for a more in-depth analysis of national barriers to integration; greater transparency by banks on the location of their assets within the banking union; identification and possible removal of the obstacles to the conversion of subsidiaries into branches; and further integration of the macroprudential toolkit. We conclude with a brief reflection on the differences between banking union and capital markets union. Since capital markets do not rely on a quasi-fiscal public safety net as the banking sector does, it can be expected that the catalytic impact of European supervisory policy integration on actual cross-border financial integration may be more direct in that area than in banking.

¹ This definition of banking union is based directly on European leaders' statements (e.g. Euro Area Summit, 2012). It may be viewed as somewhat minimalistic, as opposed to a definition that would equate banking union with the elimination of all national differences in a fully integrated European banking market. On the distinction between the two definitions, see Schnabel and Véron (2018).

² In line with ECB practice, microprudential supervision in the banking union is referred to in the paper as 'European banking supervision', practically a synonym for the Single Supervisory Mechanism (SSM). On these semantics, see Véron (2024b, footnote 75 on page 57).

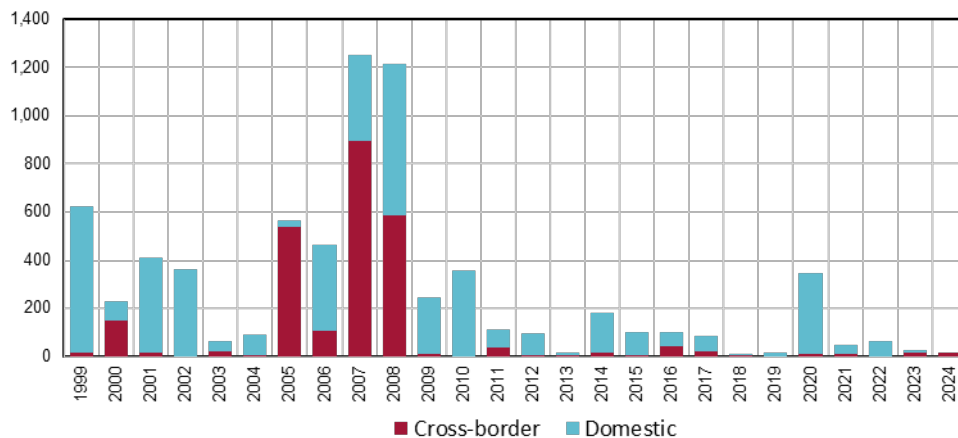
³ One of the authors has recently authored a book that reviews the banking union project holistically and analyses its incompleteness (Véron, 2024b). The paper refers repeatedly to that book, to which it provides an empirical complement.

1. INTRODUCTION

The extent to which banking activity has crossed borders between European nations has waxed and waned over time. Medieval and Renaissance lenders could operate in multiple jurisdictions, such as through the branch networks of the Medici or the Fuggers. By contrast, the first central banks were tied to particular cities and often owned by its municipal institutions (Bindseil, 2019). The great banking entrepreneurs of the nineteenth century, such as the Rothschilds, Pereires or Bischoffsheims, sponsored new banks throughout Europe. The First World War, however, marked an era of exchange controls and associated ‘nostrification’ of banks (transfer of ownership to domestic shareholders), compounded by nationalisations and government rescues in the 1930s. Further nationalisations and expropriations followed in the 1940s, not least in European countries east of the Iron Curtain. The resulting structure of largely closed national banking systems extended well into the post-Second World War period (Drach and Feiertag, 2018).

In yet another trend reversal, the financial globalisation that restarted in the 1960s and 1970s was compounded in Europe by a wave of bank privatisations (starting in the 1980s) and cross-border banking consolidation (starting in the 1990s), in part driven by the prospect of monetary unification and, in central and eastern Europe, the post-Communist transition. But in the late 2000s, that trend was cut short by the financial fragmentation along national lines brought about by the great financial and euro-area crises (Emter *et al*, 2018). Figure 1 illustrates the near-complete stop of cross-border bank mergers and acquisitions after 2008.

Figure 1: Euro-area bank mergers and acquisitions (total assets of target bank, € billions)



Source: Bruegel based on ECB (2024). Note: Transactions are reported by announcement date. We complement the ECB data with transactions involving distressed banks, which their figure omits. The largest of these by far is the purchase of Fortis by BNP Paribas in 2008.

The start of Europe’s banking union, decided in mid-2012 and implemented in late 2014 with the effective start of European banking supervision centred on the European Central Bank, marked the end to the spiral of fragmentation that had engulfed the euro area in the previous half-decade (Véron, 2024b, chapter 3). In that sense, the start of banking union has powerfully buttressed the single market. It has not yet, however, led to a resumption of the cross-border consolidation dynamic of the 1990s and early 2000s, as Figure 1 document. This is attributable to two main reasons.

The first reason is that the banking union remains far from finished as a policy framework. Its initial component, the system of European banking supervision that designates the ECB as licensing authority

for all banks in the banking union area (BUA)⁴, is essentially complete and has appeared to perform effectively so far⁵. By contrast, the crisis intervention framework remains an unwieldy halfway house that combines European-level components (such as the Single Resolution Board and Fund) with multiple national ones. As long as that remains the case, EU prudential legislation⁶ keeps allowing the imposition of ‘solo’ solvency, liquidity and/or loss-absorbency requirements on individual entities of banking groups that operate in multiple BUA countries⁷, sometimes referred to as ‘ringfencing’, even when these entities are fully owned by the group holding entity⁸. The multi-layered prudential framework resulting from fragmented crisis intervention framework prevents those groups from allocating their capital and liquidity freely across intra-BUA borders, thus reducing the benefits to them of activity in multiple BUA countries and the incentives for cross-border consolidation. As a consequence, the fact that banking union has not resulted in the emergence of an integrated European banking system⁹ appears fundamentally linked to its unfinished status.

This view is widespread among market participants and analysts. For example, Goldman Sachs in 2019 published an equity research note that noted that completing the banking union *“would reduce systemic risk, remove barriers to cross-border flow of funds, and introduce incentives for cross-border banking. We see completion [of the banking union] as a precondition for the EU to construct a stronger, safer and profitable banking system, able to compete globally”* (Goldman Sachs, 2019). Similarly, a recent note from bank equity analysts at Autonomous Research noted that the *“continued absence of a pan-European deposit guarantee scheme (EDIS) and (well-known) investor scepticism on cross-border deals continue to lean against large scale cross border M[ergers] & A[cquisitions], in our view”* (Schmidt, Cant and Pratas, 2024).

To illustrate this unfinished state, the European Commission, followed by most other authorities and observers, has invoked since 2012 the metaphor of the banking union being ultimately supported by three pillars, of which the first two (supervision and resolution) are now standing and the third (deposit insurance) is missing. This metaphor was politically useful in the early phase of the banking union project; it does not correctly capture, however, the gaps and trade-offs involved¹⁰. Instead of the artificial separation between the second and third pillars, it is more helpful to think holistically of the bank crisis intervention framework, encompassing resolution (defined in the Bank Recovery and Resolution Directive (BRRD), with implementation in the BUA set by the Single Resolution Mechanism Regulation or SRMR), deposit insurance (partially harmonized in the Deposit Guarantee Scheme Directive, DGSD), the variegated national processes referred to in BRRD as normal insolvency

⁴ The BUA refers to the geographical scope of the banking union, which is (as of 2024) the euro area plus Bulgaria. Bulgaria has pegged its currency (the lev) at the constant rate of 1.95583 lev per euro (the level of the former Deutsche Mark) for more than two decades. The 2013 SSM Regulation is the legal basis for European banking supervision.

⁵ See among others Véron (2024b, chapter 4).

⁶ EU prudential legislation includes the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Scheme Directive (DGSD).

⁷ ‘Microprudential’ solvency requirements (i.e. those intended to ensure the safety and soundness of individual banks) include those for capital (set in the CRR) and additional loss-absorbing capacity known in EU law as Minimum Requirements for own funds and Eligible Liabilities (MREL), defined in the BRRD. Liquidity requirements are set in the CRR. These are complemented by ‘macroprudential’ requirements (intended to strengthen the resilience of the system as a whole) defined in the CRR and CRD. Throughout this paper, ‘bank’ and ‘banking group’ are generally used as synonyms for readability.

⁸ As noted by Enria (2021), allowing solo entity requirements is a choice of the EU legislators and is not required by the global Basel framework, which only sets out requirements at the consolidated banking group level.

⁹ ‘European’ here refers to the BUA, as in much of this paper for the sake of readability.

¹⁰ The former chair of the Supervisory Board of the ECB (and thus head of European banking supervision) similarly observed that *“looking at the banking union as three separate and almost independent pillars, at least from a political perspective, has not so far allowed us to advance towards an integrated approach ensuring its completion (...) the Greek temple approach prevailing in the current debate tends to cloud the perspective and hugely complicate political discussions aimed at achieving an overall agreement”* (Enria, 2022).

proceedings (often referred to in Europe as ‘liquidation’, by contrast to resolution under BRRD), and state aid control applied to banking crisis management¹¹.

Fully pooling this crisis intervention framework at BUA level is feasible without EU treaty change, but has not happened yet because of multiple political obstacles. One of these is that a BUA-level banking crisis public safety net could be taken advantage of by member states to facilitate their own financing, a reality that the three-pillars metaphor fails to convey. This possibility calls for a new regulatory treatment of sovereign exposures to ensure their proper diversification, namely sovereign concentration charges (SCCs)¹². In sum, the main missing pieces of the banking union are SCCs and a consistent crisis intervention framework, with the latter including but not limited to a European deposit insurance mechanism integrated with the resolution mechanism¹³. This stylised description of the unfinished state of banking union, calling for sovereign exposures diversification (within the BUA) and an integrated BUA-level crisis intervention framework, is more useful for policy thinking at the present juncture than the three-pillar narrative¹⁴.

The second reason for the lack of cross-border consolidation in the last 15 years is less structural in nature, and relates to the generally depressed valuations of European banks during the period, as illustrated by Figure 2. As starkly summarized in 2016 by banker Tidjane Thiam, European banks were viewed as “not really investable as a sector”¹⁵, implying that – leaving aside government-encouraged rescue operations – those that would engage in M&A, especially cross-border M&A that is intrinsically more complex, would likely be punished by their investors.

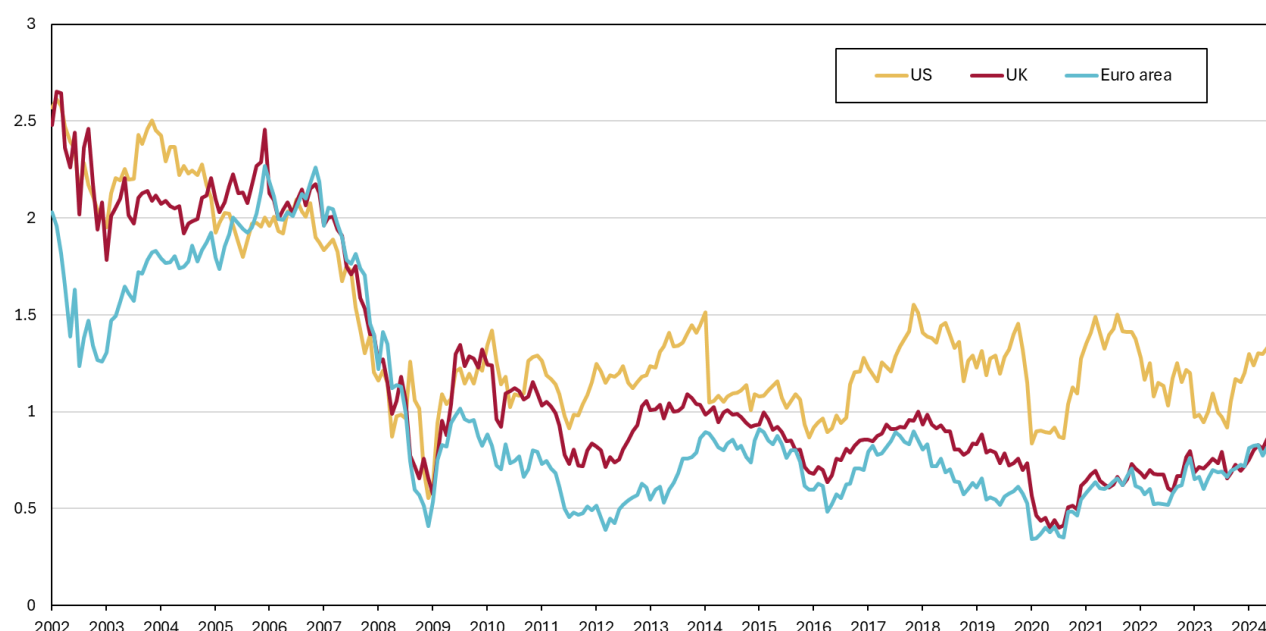
¹¹ The European Commission in 2023 took an important step towards a more holistic approach to crisis intervention by publishing a legislative proposal dubbed Crisis Management and Deposit Insurance (CMDI), which was intended to allow the resources of national deposit guarantee schemes to help finance resolution schemes in certain circumstances. This project, however, has been watered down in discussions in the Council of the EU to the point of being potentially counterproductive (McGuinness, 2024).

¹² The possible design of SCCs, including considerations of calibration and transitional arrangements, is detailed in Véron (2017). They would be applied at the consolidated banking group level, not on individual (solo) entities.

¹³ The Draghi Report has promoted the idea of an integrated crisis intervention framework that would only be established for the largest banking groups, leaving arrangements for smaller banks untouched (Draghi, 2024, page 61; original proposal in Angeloni, 2024). We are sceptical of this scheme’s feasibility, given the associated challenges of policy arbitrage and adverse selection among the multiple resulting deposit insurance schemes.

¹⁴ The argument summarised here is developed at greater length in Véron (2024b, chapters 5 and 6). As indicated in section 4 of this paper, the integration of the macroprudential framework at European level would be an additional component of a completed banking union.

¹⁵ “European Banks not Really Investable As A Sector Says Credit Suisse Chief”, *European Business Magazine*, 19 August 2016, at <https://europeanbusinessmagazine.com/business/european-banks-not-really-investable-as-a-sector-says-credit-suisse-chief/>

Figure 2: Price-to-book ratios of major banks in the EU, UK and United States

Source: Bruegel based on Bloomberg.

As it happens, the long period of market disinterest in cross-border consolidation may be nearing its end right now. In September 2024, the market reacted positively to UniCredit's purchase of a significant stake in Commerzbank. This episode suggests that cross-border M&A may no longer be penalized by investors as a matter of principle, or perhaps that bank executives had overestimated investors' distaste for it until now.

At the time of writing, the endgame of UniCredit's interest for Commerzbank remains undetermined. If it succeeds, it could plausibly mark the start of a new cycle of cross-border consolidation, even without policy reform to complete the banking union.

This paper contributes to discussions about banking union and banking market integration by providing specific empirical and analytical perspectives, with no attempt to address all relevant aspects of such a multifaceted theme.

Section 2 documents the evolution of individual banks' sovereign exposures since they became observable at the beginning of the 2010s, and highlights the persistently high 'home bias' in that part of European banks' balance sheets. Section 3 broadens the scope to banks' total assets and provides a rough end-2023 snapshot of the BUA banking system that allows for the analysis of patterns of cross-border integration (or the lack thereof) at a disaggregated, bank-specific level. Section 4 suggests further avenues for policy-relevant analysis. Section 5 succinctly explores the read-across from banking union to debates about capital markets union.

2. SOVEREIGN EXPOSURES: THE HOME BIAS REMAINS ENTRENCHED

When banking union was initiated in mid-2012, the stated intent was to “*break the vicious circle between banks and sovereigns*” (Euro Area Summit, 2012). The identification of the bank-sovereign nexus as a key driver of the euro-area crisis had by then gained widespread acceptance, and played a major role in the decision to initiate European banking supervision and the broader project of banking union (Schäfer, 2017)¹⁶. Banks’ exposures, through loans and bonds, to home-country sovereign borrowers represented one of the most direct contributors to the bank-sovereign nexus, and when conditions deteriorated, to the bank-sovereign vicious circle. These sovereign exposures were first disclosed for a subset of banks as part of the stress test conducted in 2010 by the Committee of European Banking Supervisors (CEBS), the first-ever exercise in Europe in which such bank-level data were made publicly available. CEBS’s successor, the European Banking Authority (EBA) established on 1 January 2011, then carried out similar stress tests and transparency exercises on a regular basis, covering an increasingly comprehensive and consistent scope of banks. EBA data forms the basis for this section’s analysis¹⁷.

The home bias in the following charts is defined as the ratio of a banking group’s domestic sovereign exposures – to its home country, generally defined as the country of registration of the group’s parent entity¹⁸ – to the group’s aggregate exposures to euro-area sovereigns, thus not taking into account the exposures to sovereign issuers outside the euro area (e.g. American, British or Swedish government bonds)¹⁹. This definition of home bias reflects the fact that banks can diversify their exposures across the euro area without taking any foreign-exchange risk (absent an anticipation of euro area breakup, or redenomination risk)²⁰. Sovereign debt markets are generally characterised by low credit risk (associated with the spread or yield differential of a country’s bonds over that of the country perceived as least risky, which in the euro area has continuously been Germany), high liquidity and low information asymmetries. As documented by a body of literature, drivers of the home bias are complex and can include moral suasion, a euphemism for informal pressure by governments on banks to provide more favourable financing than what would result from pure market mechanisms. The extent of such moral suasion is not publicly observable and thus inherently hard to quantify (e.g. Altavilla *et al*, 2017).

¹⁶ The corresponding process of collective discovery and decision-making is detailed in Véron (2024b, chapter 3).

¹⁷ The data has been published by the EBA for all such exercises, starting with the first in 2011 based on end-2010 data. The end-2009 data for the 2010 stress test led by CEBS, by contrast, was only published on a country-by-country basis by the respective national supervisory authorities. We were able to retrieve the corresponding data for Italy and Spain, but not the other euro-area member states.

¹⁸ There are five exceptions, for which we follow the home country classification used by the ECB in its latest list of supervised entities as of 1 May 2024: Aareal Bank in Germany (parent holding company: Atlantic Lux HoldCo Sàrl in Luxembourg); Crédit Commercial de France in France (parent: Promontoria 19 Coöperatie UA in the Netherlands); Bank of Cyprus in Cyprus (parent: Bank of Cyprus Holdings plc in Ireland); Novo Banco in Portugal (parent: LSF Nani Investments Sàrl in Luxembourg); and Gorenjska Banka in Slovenia (parent: Agri Europe Cyprus Ltd in Cyprus).

¹⁹ We could alternatively have defined the denominator as including all BUA countries (i.e. euro area plus Bulgaria). The difference, however, is immaterial for non-Bulgarian banks, and there were no Bulgarian banks in the EBA sample in recent years. In accordance with this convention, the rest of this section refers to the euro area rather than the BUA.

²⁰ This possibility of cross-border diversification sets monetary unions such as the euro area apart in global debates about banks’ sovereign exposures. In most jurisdictions, the territorial scope of fiscal policy and monetary policy is the same (national) and banks’ high-quality liquid assets are largely coterminous with national sovereign exposures. In the euro area, banks can satisfy the requirements for high-quality liquid assets by building up exposures to any euro-area sovereign, but having these exposures concentrated in one country adds (concentration) risk in comparison with a diversified portfolio. In the United States, for example, banks typically have most or all their sovereign exposures at the federal level; the bank-state sovereign nexus has been non-existent since at least the 1990s. The challenge of concentrated domestic exposures, therefore, has no equivalent outside of the euro area, except in the (by most metrics much smaller) other monetary unions in Western Africa, Central Africa and the Eastern Caribbean. These distinctions are further explored in Véron (2017).

With this context in mind, we have collected home bias data for 104 banks and banking groups designated as Significant Institutions (SI) by European banking supervision²¹ and included in the EBA data exercises²². To enhance chart readability, these are allocated into nine groups, each comprising between seven and fifteen banks, using various ownership and geography criteria.

Figure 3 displays the home bias for the seven euro-area banking groups designated by the Financial Stability Board (FSB) as significant on a global scale (G-SIBs, for Global Systemically Important Banks). The levels of home bias are very variable: lower for BNP Paribas and ING, higher for BPCE and Cr dit Agricole. They have tended to increase over time for the four French G-SIBs, and to decrease for the others (Deutsche Bank, ING, Santander). A causal explanation of these differences would require in-depth analysis of the bank-government relationship across euro area countries, and across banks in individual countries, which would go far beyond the descriptive purpose adopted in this paper, and is therefore not attempted here.

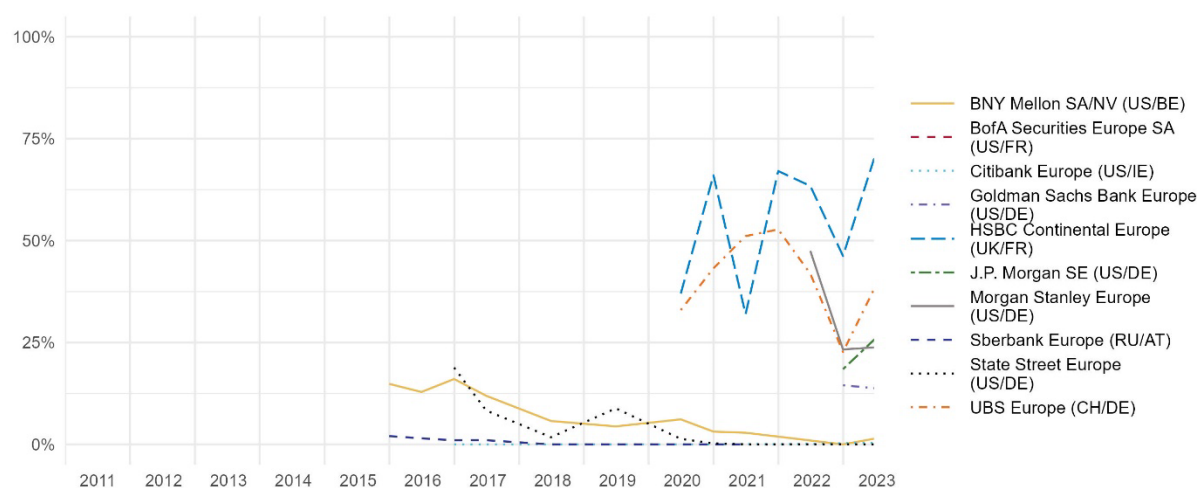
²¹ European banking supervision differentiates between Significant Institutions (SIs), which are supervised by the ECB and Less Significant Institutions (LSIs), which are supervised by the relevant national supervisory authority under the ECB's oversight. Nearly all banks with more than €30 billion in total assets are designated as SIs, as are also a number of other banks under different criteria, e.g. the largest banks in smaller countries. The list of SIs and LSIs has been updated and published by the ECB several times a year since the beginning of European banking supervision in 2014, at <https://www.bankingsupervision.europa.eu/banking/list/html/index.en.html>.

²² We only included data for banks that were included in several consecutive EBA exercises, and discarded some for which the time series were too short (except at the end of the period); those SIs that do not appear at all in the charts are generally smaller ones. We made linear interpolations in case of missing data between two points of disclosure. In case of mergers, we connected data from one of the prior entities with that of the merged entity (e.g. Banco Popolare SC and Banco BPM). The EBA data only includes consolidated exposures within the scope of banking supervision, namely not including insurance activities of diversified banking groups (see section 4.2).

Figure 3: Home bias of euro-area-based G-SIBs


Source: EBA, Bruegel calculations.

Figure 4 shows home bias for euro-area banks that are owned by non-euro-area banking groups. For each of these, the legend indicates the home country of the parent group and that of the euro-area subsidiary: for example, BNY Mellon SA/NV is a Belgian bank owned by US group Bank of New York Mellon. The sovereign exposure allocation of most of these appears largely decorrelated to their choice of euro-area home: notably, BNY Mellon SA/NV, Citibank Europe (in Ireland) and State Street Europe (in Germany) have negligible exposures to the respective sovereigns, especially at the end of the period. Table 1 details the varying sovereign exposure allocation practices of these foreign groups, as observed at end-2023. Here again, a causal analysis of the observed differences is not attempted, and would need to take into account the highly diverse business models of these non-euro-area banks.

Figure 4: Home bias of non-euro-area banking groups' subsidiaries


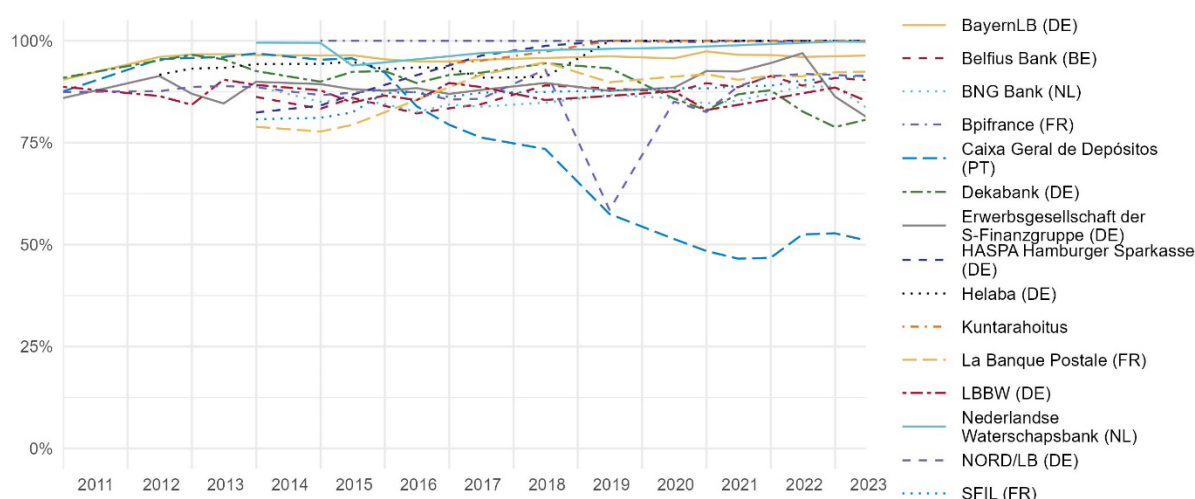
Source: EBA, Bruegel calculations.

Table 1: Euro-area sovereign exposures of non-euro-area banking groups' subsidiaries

Bank	Home country	Host country	Total euro-area sovereign exposures (€m)	1st largest exposure		2nd largest exposure		3rd largest exposure		All other euro-area exposures % of total
				Country	% of total	Country	% of total	Country	% of total	
UBS Europe	CH	DE	2,210.24	DE	39%	IT	21%	FR	18%	22%
State Street Europe Holdings Germany	US	DE	3,839.73	AT	21%	ES	21%	FR	19%	39%
Morgan Stanley Europe Holding	US	DE	4,212.30	FR	34%	IT	33%	DE	24%	9%
BofA Securities Europe	US	FR	10,461.04	IT	26%	DE	24%	FR	17%	33%
Citibank Holdings Ireland	US	IE	16,424.55	IT	64%	ES	26%	FR	3%	6%
J.P. Morgan SE	US	DE	27,801.26	DE	26%	IT	19%	FR	18%	36%
Goldman Sachs Bank Europe	US	DE	12,041.50	IT	27%	ES	19%	DE	14%	40%
HSBC Continental Europe	UK	FR	5,978.49	FR	71%	MT	14%	DE	11%	4%
Bank of New York Mellon SA/NV	US	BE	1,743.07	DE	52%	FR	22%	NL	15%	12%

Source: EBA, Bruegel calculations.

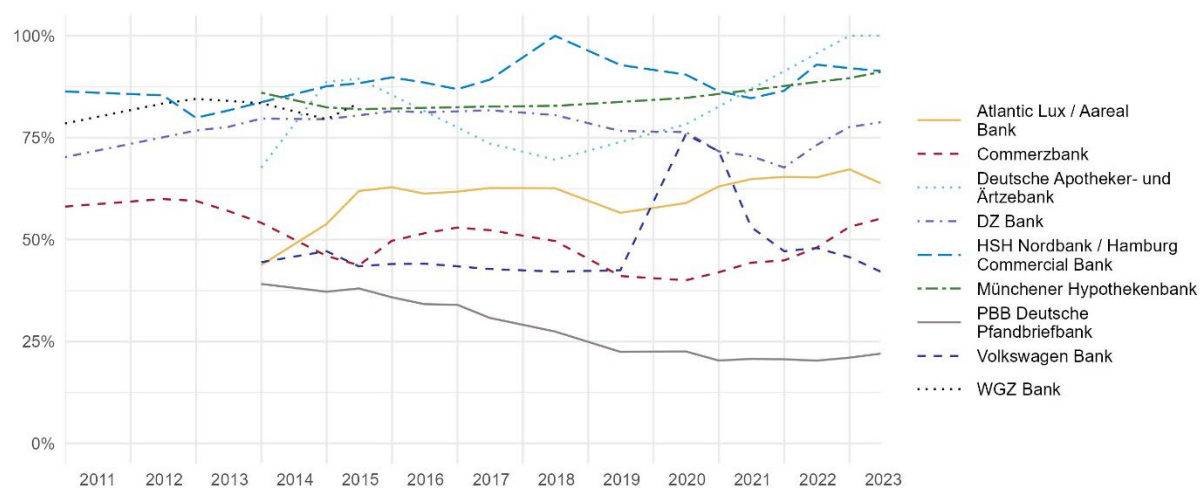
Figure 5 shows home bias for government-owned banks, some of which, such as the German *Landesbanken*, are owned by subnational governments. With the notable exception of Portugal's CGD in recent years, these public banks tend to have very concentrated or even exclusively domestic sovereign exposures. This is less intriguing for banks whose only business is to lend to local government (e.g. BNG in the Netherlands, Kuntarahoitus in Finland or SFIL in France) than for the *Landesbanken* which do not have such a targeted a business model.

Figure 5: Home bias of government-owned banks

Source: EBA, Bruegel calculations.

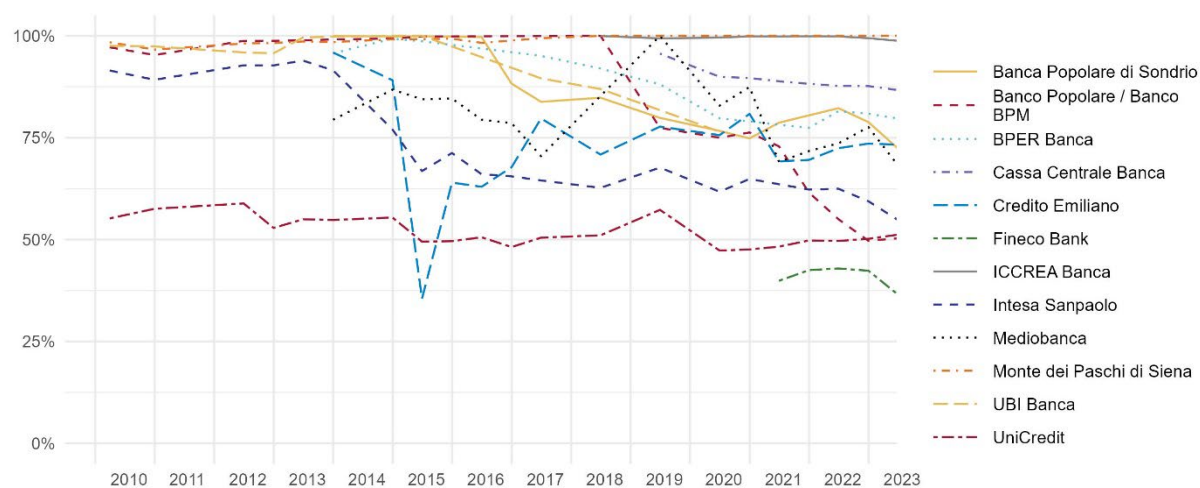
Figures 6, 7 and 8 show the home bias, respectively, of German, Italian and Spanish banks not included in the previous charts. Home bias is heterogeneous and fairly stable over time for (nonpublic) German banks. For Italian and Spanish banks, by contrast, home bias was generally high in the early 2010s (with the only exception of UniCredit, which has large operations in Germany and central and eastern Europe), but a trend towards diversification is observable in recent years for at least some banks, including groups with nearly exclusively domestic activity (e.g. Abanca, Banco BPM, ICCREA, Cajamar, Unicaja). Even so, the home bias remains very high. Here again, an identification of causal drivers would require granular understanding of the respective bank-government relationships and also possibly of supervisory actions which are not documented in the public domain; it is therefore not attempted in this paper.

Figure 6: Home bias of (non-government-owned) German banks

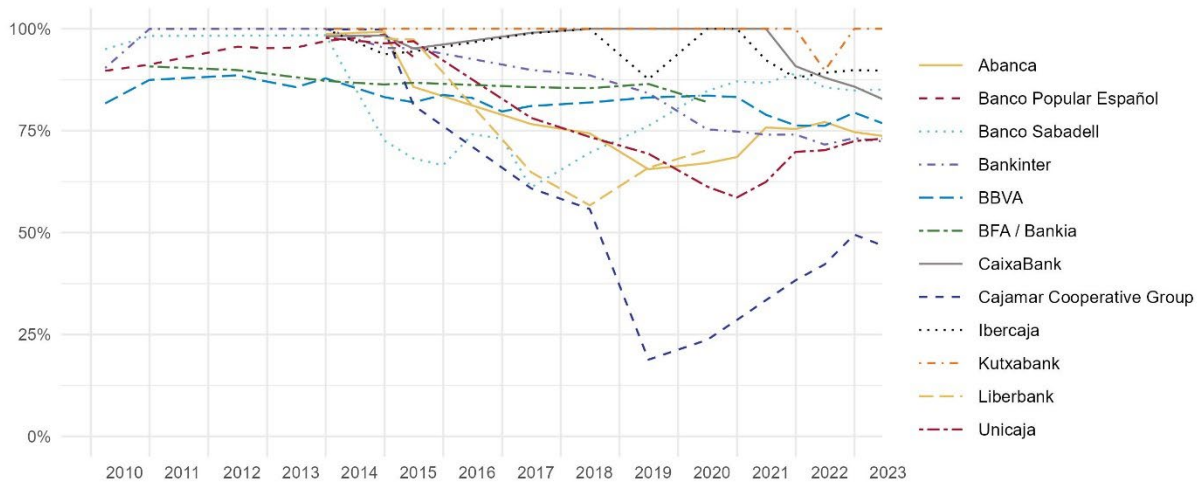


Source: EBA, Bruegel calculations.

Figure 7: Home bias of Italian banks

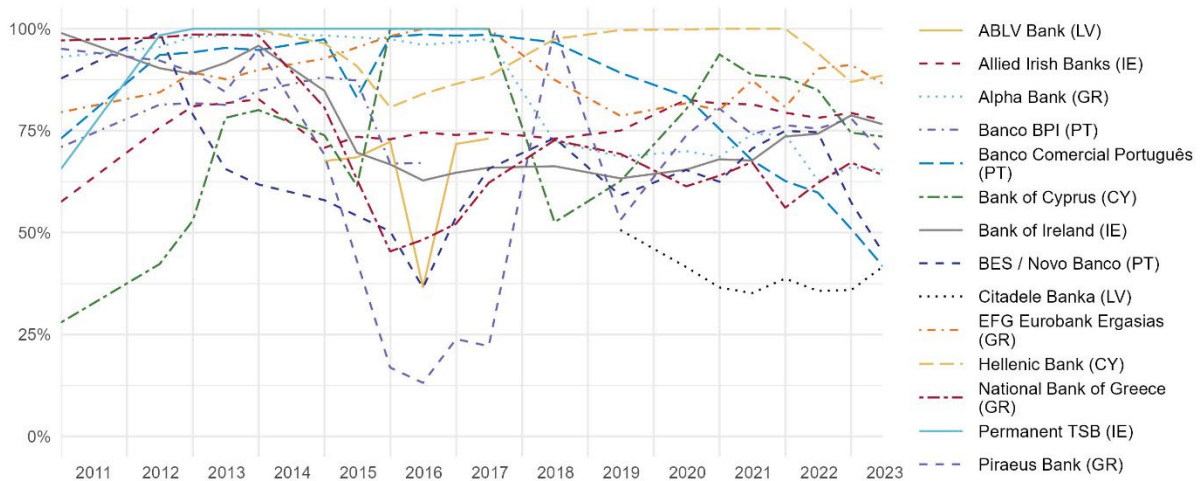


Source: EBA, Bruegel calculations.

Figure 8: Home bias of Spanish banks

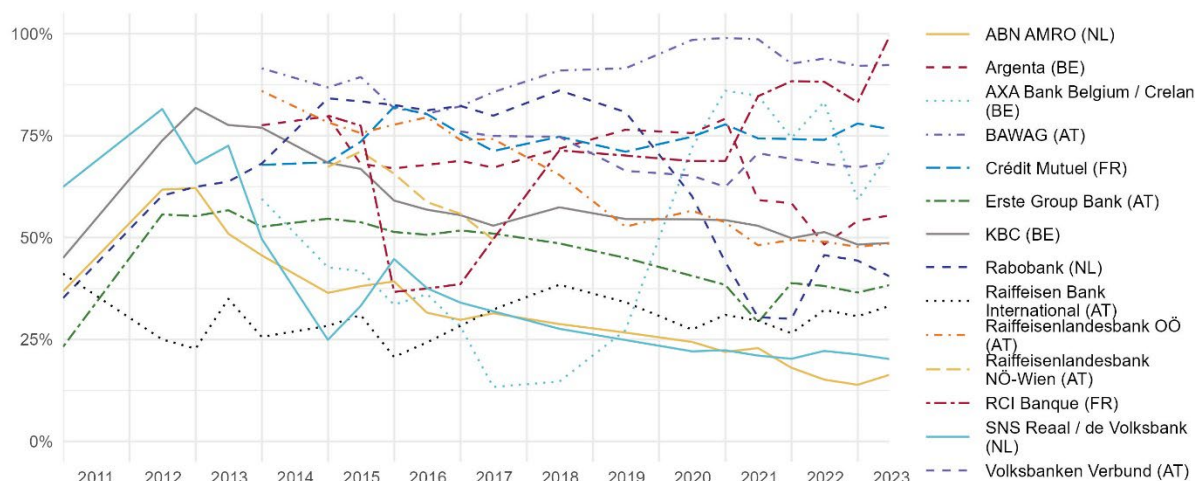
Source: EBA, Bruegel calculations.

Figure 9 groups banks from the euro-area countries (other than Spain) that received an assistance programme during the crisis, namely Latvia (2008-2012), Greece (2010-2018), Ireland (2010-2013), Portugal (2011-2014) and Cyprus (2013-2016). Banks in these countries have generally high homebias, albeit with some variations.

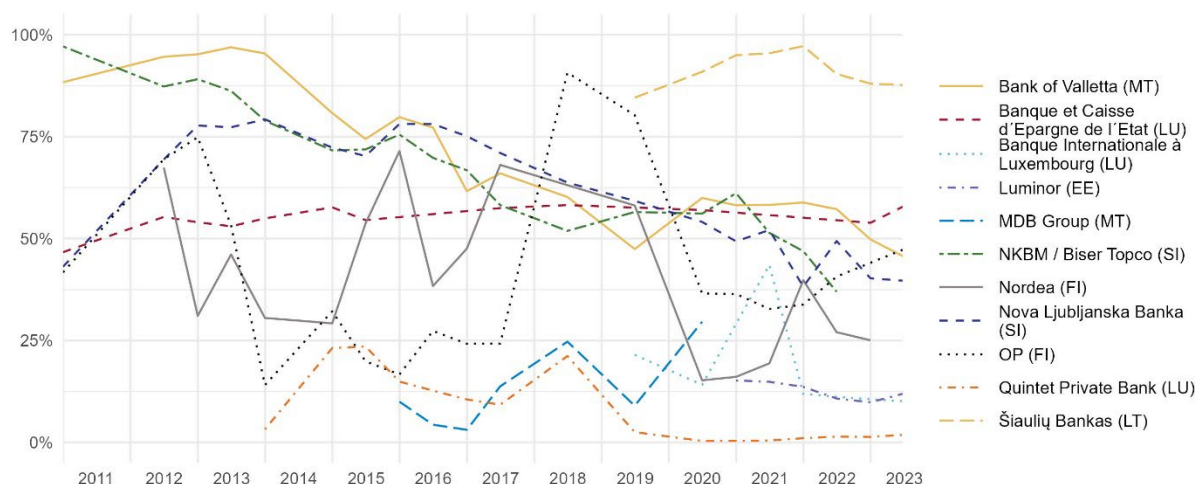
Figure 9: Home bias of banks in former programme countries (except Spain)

Source: EBA, Bruegel calculations.

The remaining banks are shown in Figures 10 and 11: respectively, those in comparatively larger and smaller countries. While both charts show great variability and volatility, the home bias in these samples is less generally evident than in Italy, Spain, former programme countries or government-owned banks.

Figure 10: Home bias of other banks (medium-sized countries)


Source: EBA, Bruegel calculations.

Figure 11: Home bias of other banks (smaller countries)


Source: EBA, Bruegel calculations.

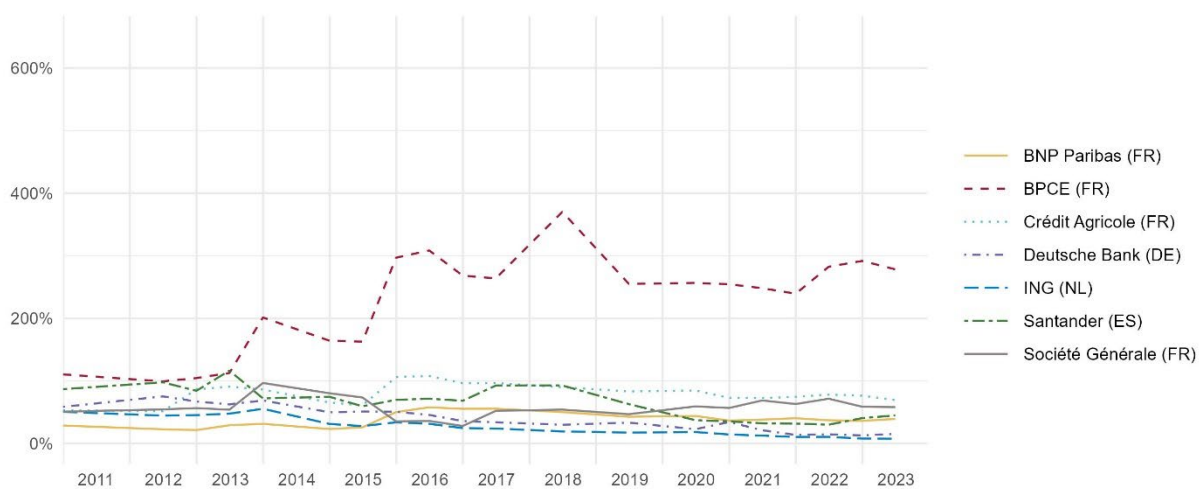
Taken together, the data shown in this section supports the view that euro-area banks' sovereign exposures are often highly concentrated in their home countries, thus contributing to the bank-sovereign nexus. Of those banks in the sample for which the EBA has data at the end of the period, about two-thirds (60 out of 91) exhibit a home bias above 50 percent; only ten are below 20 percent. A decade of European banking supervision may have contributed to a marginal erosion of home bias, (Véron, 2024b, page 93) but not to an extent that would significantly alter the magnitude of the concentration challenge – and as has been observed in this section, the home-bias reduction trend has been far from universal among euro area banks.

The following charts show the significant institutions' capital coverage ratios instead of home bias, using the same groupings of banks and similarly based on EBA data. The capital coverage ratio, another

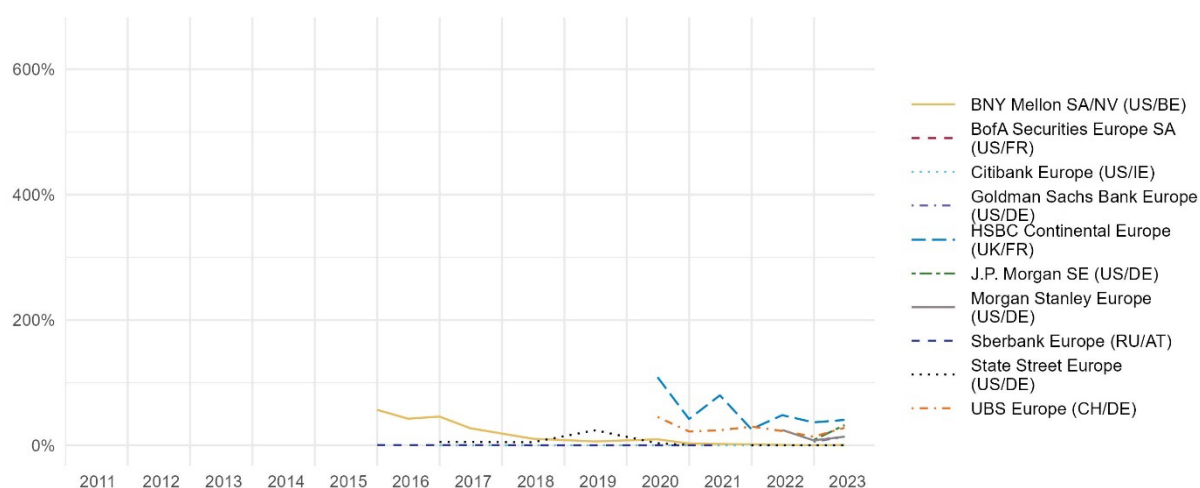
key metric in debates about sovereign exposures, is defined as domestic sovereign exposures over tier 1 capital, the latter being the yardstick of regulatory capital used for large exposure limits in the Basel framework. A capital coverage ratio of 200 percent means that the bank's entire (tier 1) capital would be wiped out by a sovereign credit event involving a haircut of 50 percent, comparable to that of Greece in 2012. A capital coverage ratio under 50 percent can be considered moderate; ratios above that level may raise concerns about the financial stability impact of the bank-sovereign nexus.

As the charts show, capital coverage ratios have been generally on a downward trend since 2011, though with multiple exceptions. Their level, however, remains elevated, with only two-fifths of the banks in the sample (37 out of 92) under the 50 percent threshold as of mid-2023, and an equal number above 100 percent.

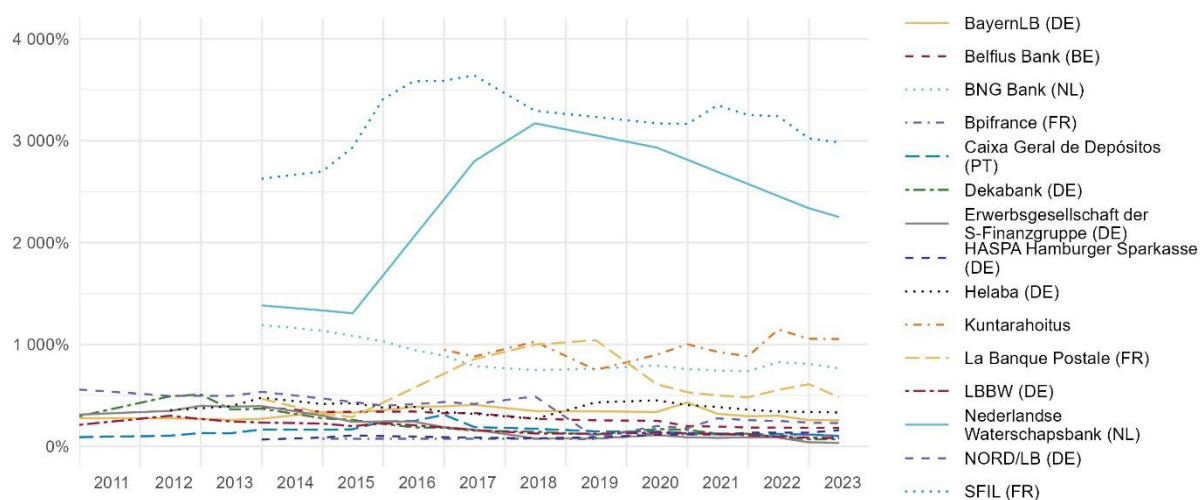
Figure 12: Capital coverage ratio of euro-area-based G-SIBs



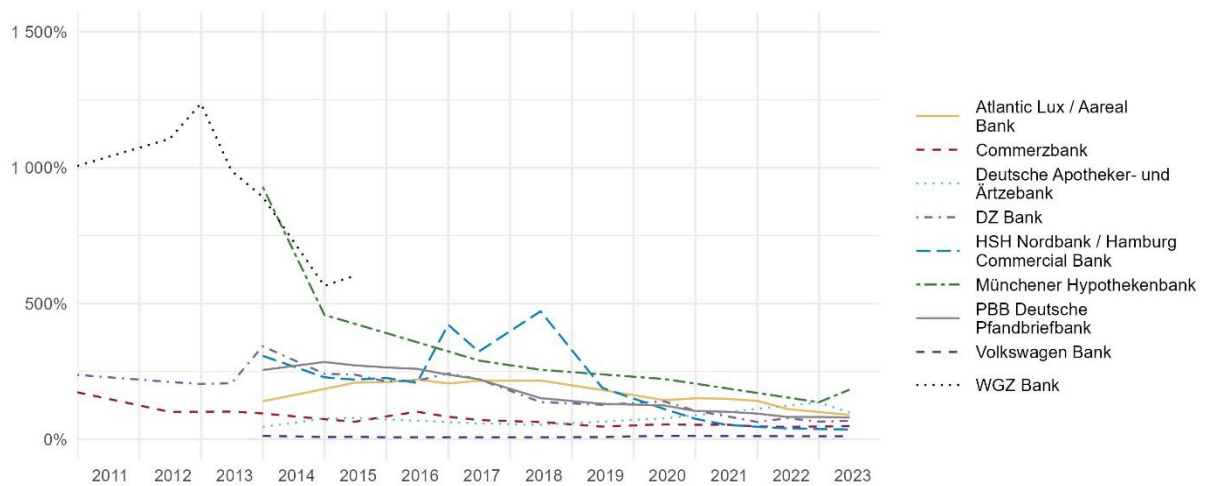
Source: EBA, Bruegel calculations.

Figure 13: Capital coverage ratio of non-euro-area banking groups' subsidiaries


Source: EBA, Bruegel calculations.

Figure 14: Capital coverage ratio of government-owned banks


Source: EBA, Bruegel calculations.

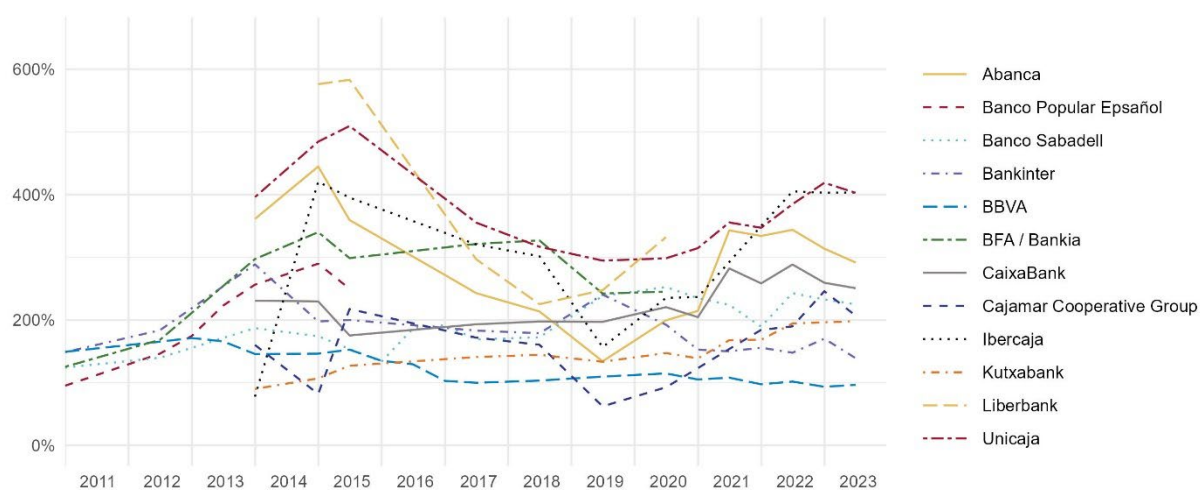
Figure 15: Capital coverage ratio of (non-government-owned) German banks

Source: EBA, Bruegel calculations.

Figure 16: Capital coverage ratio of Italian banks

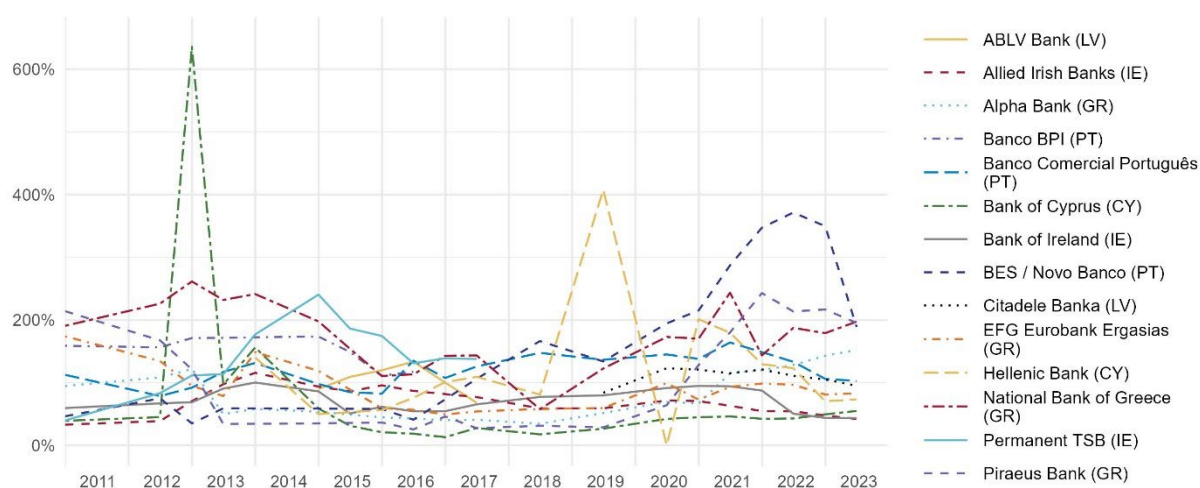
Source: EBA, Bruegel calculations.

Figure 17: Capital coverage ratio of Spanish banks

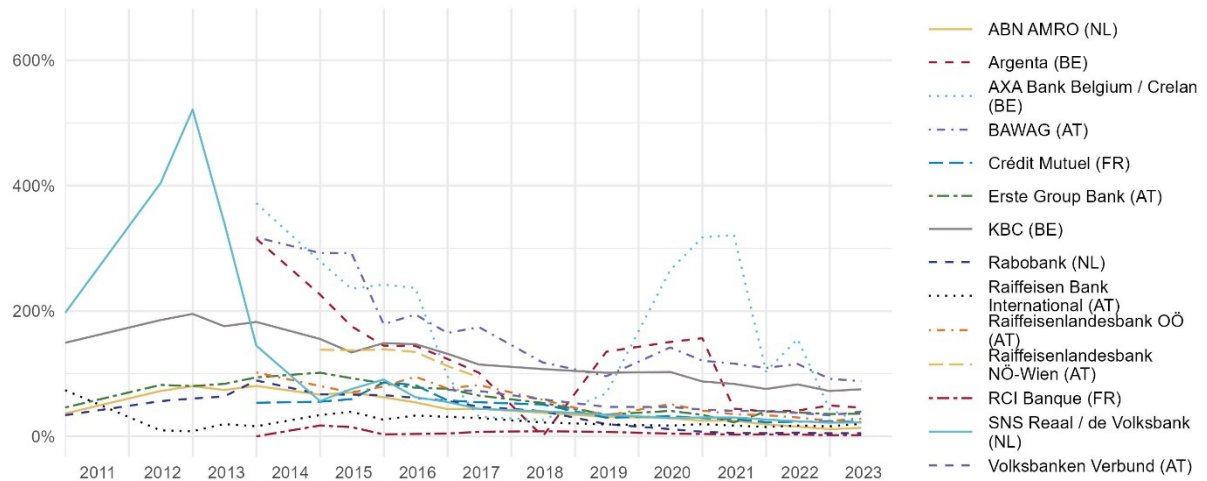


Source: EBA, Bruegel calculations.

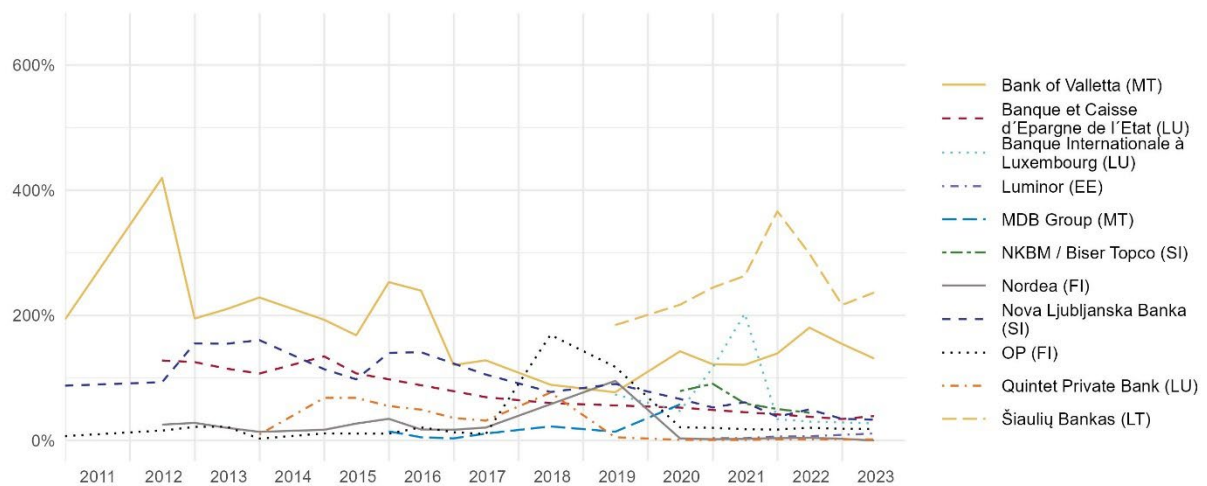
Figure 18: Capital coverage ratio of banks in former programme countries (except Spain)



Source: EBA, Bruegel calculations.

Figure 19: Capital coverage ratio of other banks (medium-sized countries)

Source: EBA, Bruegel calculations.

Figure 20: Capital coverage ratio of other banks (smaller countries)

Source: EBA, Bruegel calculations.

3. CROSS-BORDER OPERATIONS: STILL UNDERDEVELOPED

In the previous section, we observed the geographical breakdown of BUA banks' sovereign assets. In this section, we expand the observation to their entire balance sheets. For that, we have built a rough map of all national entities of SIs in the BUA²³. We are confident that it provides a fair overall picture, even though some details are certainly less than fully accurate because of the lack of sufficiently detailed disclosures by most banks²⁴. The full map, a list of individual national entities, is provided in Table 2, ranked by decreasing volume of total assets²⁵. The details of sources and calculations are available on the [Bruegel website](#).

²³ Comparable analysis on LSIs is not feasible at this point because of lack of publicly available data. That may change in the near future with the EBA Pillar 3 data hub set to become operational in 2025.

²⁴ Nearly all SIs report their total consolidated assets, either on their own or through the regular EBA transparency exercises, which have included that metric in recent years. Where things are trickier is in disaggregating these assets by BUA country. For this, we have relied on two main sources. The first is separate asset reporting by some of the subsidiary entities, for which we generally relied (as with consolidated assets) on the data compiled by *The Banker*, a service of the Financial Times Group, complemented in a few cases by the subsidiary entities' own public financial reports. The second main source is the disclosures made by banking groups of their activity, disaggregated by geographical segments, a requirement under most applicable accounting standards (e.g. IFRS 8) but which is implemented very unevenly. Some banks (e.g. Deutsche Bank, Intesa Sanpaolo, UniCredit) do not report any geographical breakdown of their assets; others (e.g. Santander) use a mix of geographical and non-geographical segments. Moreover, the assets of cross-border branches are almost never reported separately, ING and Nordea being significant but rare exceptions (pages 261-262 and page 119 of their respective 2023 annual reports). For Danske Bank in Finland, a rare case of a non-BUA banking group operating in the BUA through a branch designated as an SI, we have somewhat arbitrarily estimated assets at one-tenth of the group total, since this proportion roughly applies to most other parameters for which the group provides a geographical breakdown.

²⁵ To an overwhelming extent, these entities are either parent holdings or subsidiaries, or combinations thereof, with additional complexities in cooperative and mutual groups. For example, what we refer to as Crédit Agricole in France, the largest single item in our list, is actually the combination of all of the Crédit Agricole Group's French regional banks and its central French entities, including Crédit Agricole SA. The only separately listed branches are those of Danske Bank and ING (as mentioned above), plus the subtraction from Nordea's total assets of those of its branches outside of the BUA (Denmark, Norway and Sweden). In general, branch activity is not indicated separately in our mapping, which generates distortions. For example, the assets of the Portuguese branch of BBVA, the German branch of BNP Paribas and the British branch of Deutsche Bank, all of which are likely significant, are included in our mapping within the respective assets of BBVA in Spain, BNP Paribas in France and Deutsche Bank in Germany. The latter are unduly inflated as a consequence, even though we are unable to assess by how much.

Table 2: Significant Institutions in the Banking Union Area, country-level entities

Name of entity	Country	Entity type	Group (if any)	Entity assets (€m)	Source
Credit Agricole France	France	Consolidating entity	Credit Agricole	1,977,941	Authors' calculations
BNP Paribas France	France	Consolidating entity	BNP Paribas	1,528,931	Authors' calculations
BPCE France	France	Consolidating entity	BPCE	1,428,142	Authors' calculations
Deutsche Bank Germany	Germany	Consolidating entity	Deutsche Bank	1,110,742	Authors' calculations
Societe Generale France	France	Consolidating entity	Société Générale	1,046,664	Authors' calculations
Credit Mutuel France	France	Consolidating entity	Credit Mutuel	1,026,789	Authors' calculations
Intesa Sanpaolo Italy	Italy	Consolidating entity	Intesa	868,722	Authors' calculations
La Banque Postale	France	Solo entity/ group		738,225	The Banker
DZ Bank Germany	Germany	Consolidating entity	DZ Bank	618,989	Authors' calculations
Rabobank Netherlands	Netherlands	Consolidating entity	Rabobank	593,307	Authors' calculations
CaixaBank Spain	Spain	Consolidating entity	CaixaBank	568,596	Authors' calculations
Banco Santander Spain	Spain	Consolidating entity	Santander	535,415	Authors' calculations
BBVA Spain	Spain	Consolidating entity	BBVA	468,070	Authors' calculations
Commerzbank Germany	Germany	Consolidating entity	Commerzbank	460,016	Authors' calculations
J.P.Morgan SE	Germany	Solo entity/ group	J.P.Morgan	421,048	The Banker
ABN AMRO	Netherlands	Solo entity/ group		377,947	The Banker
BNP Paribas Fortis	Belgium	Subsidiary	BNP Paribas	373,917	The Banker
Landesbank Baden Württemberg (LBBW)	Germany	Solo entity/ group		333,338	The Banker
ING Netherlands	Netherlands	Consolidating entity	ING	292,815	Authors' calculations
Goldman Sachs Bank Europe SE	Germany	Solo entity/ group	Goldman Sachs	291,159	The Banker
UniCredit Bank GmbH (ex HVB)	Germany	Subsidiary	UniCredit	283,320	The Banker
HSBC Continental Europe	France	Consolidating entity	HSBC	283,005	The Banker
UniCredit Italy	Italy	Consolidating entity	UniCredit	273,750	Authors' calculations
Bayerische Landesbank (BayernLB)	Germany	Solo entity/ group		273,391	The Banker
Banco de Sabadell	Spain	Solo entity/ group		235,196	The Banker
KBC Belgium	Belgium	Consolidating entity	KBC	224,821	Authors' calculations
Banco BPM	Italy	Solo entity/ group		202,152	The Banker
Landesbank Hessen-Thüringen (Helaba)	Germany	Solo entity/ group		202,092	The Banker
Erste Bank Austria	Austria	Consolidating entity	Erste	189,451	Authors' calculations
Belfius	Belgium	Solo entity/ group		179,197	The Banker
ICCREA Banca	Italy	Solo entity/ group		174,530	The Banker
ING DiBa	Germany	Subsidiary	ING	168,991	Company disclosure
OP Financial Group	Finland	Solo entity/ group		160,407	The Banker
Credit Agricole Italia	Italy	Subsidiary	Credit Agricole	159,762	Authors' calculations
Bank of Ireland	Ireland	Solo entity/ group		155,724	The Banker
Barclays Bank Ireland plc	Ireland	Solo entity/ group	Barclays	142,658	The Banker
BPER Banca	Italy	Solo entity/ group		142,143	The Banker
Citibank Europe plc	Ireland	Solo entity/ group	Citigroup	139,185	The Banker
Nordea Finland	Finland	Solo entity/ group		137,000	Company disclosure
ING Bank Belgium	Belgium	Subsidiary	ING	128,437	Company disclosure
AIB Allied Irish Banks	Ireland	Consolidating entity		125,004	Authors' calculations
Banca Monte dei Paschi di Siena	Italy	Solo entity/ group		122,626	The Banker
Bank Nederlandse Gemeenten	Netherlands	Solo entity/ group		115,552	The Banker
Bankinter	Spain	Solo entity/ group		113,023	The Banker
Morgan Stanley Europe Holding SE	Germany	Solo entity/ group	Morgan Stanley	106,722	The Banker
NORD/LB Germany	Germany	Consolidating entity	NORD/LB	104,177	Authors' calculations
Banca Nazionale del Lavoro	Italy	Subsidiary	BNP Paribas	103,089	The Banker
Bank of America Securities Europe SA	France	Solo entity/ group	Bank of America	102,982	Company disclosure
UniCredit Bank Austria	Austria	Subsidiary	UniCredit	102,755	The Banker
Bpifrance	France	Solo entity/ group		100,367	Company disclosure
Caixa Geral de Depósitos	Portugal	Solo entity/ group		99,304	The Banker
Unicaja	Spain	Solo entity/ group		97,162	The Banker
Raiffeisen Bank International Austria	Austria	Consolidating entity	Raiffeisen	92,944	Authors' calculations
Cassa Centrale Banca	Italy	Solo entity/ group		89,579	Company disclosure
DekaBank	Germany	Solo entity/ group		84,808	The Banker
Mediobanca Italy	Italy	Consolidating entity	Mediobanca	84,079	Authors' calculations
Banco Mediolanum	Italy	Solo entity/ group		77,839	The Banker

Table 2 (continued)

Name of entity	Country	Entity type	Group (if any)	Entity assets (€m)	Source
Piraeus Bank	Greece	Solo entity/ group		76,458	The Banker
Nederlandse Waterschapsbank	Netherlands	Solo entity/ group		75,917	The Banker
Abanca	Spain	Solo entity/ group		74,836	The Banker
National Bank of Greece	Greece	Solo entity/ group		74,591	The Banker
Volkswagen Bank	Germany	Solo entity/ group		72,084	The Banker
SNSBank / de Volksbank	Netherlands	Solo entity/ group		71,067	The Banker
Alpha Bank Greece	Greece	Consolidating entity	Alpha	70,282	Authors' calculations
SFIL	France	Solo entity/ group		69,648	Company disclosure
Bank of America Europe	Ireland	Solo entity/ group	Bank of America	68,334	The Banker
Credito Emiliano	Italy	Solo entity/ group		68,024	The Banker
Société Générale Luxembourg	Luxembourg	Subsidiary	Société Générale	66,370	The Banker
Banco Comercial Português	Portugal	Solo entity/ group		65,859	Authors' calculations
RCI Banque	France	Solo entity/ group		65,196	Company disclosure
Santander Portugal	Portugal	Subsidiary	Santander	64,543	Authors' calculations
Kutxabank	Spain	Solo entity/ group		63,719	The Banker
BGL BNP Paribas	Luxembourg	Subsidiary	BNP Paribas	63,274	The Banker
Eurobank Ergasias Greece	Greece	Consolidating entity	Eurobank	61,602	Authors' calculations
Argenta	Belgium	Solo entity/ group		60,329	The Banker
Grupo Cooperativo Cajamar	Spain	Solo entity/ group		60,162	The Banker
HASPA-Hamburger Sparkasse	Germany	Solo entity/ group		59,624	Company disclosure
Banca Popolare di Sondrio	Italy	Solo entity/ group		57,728	The Banker
Banque et Caisse d'Epargne de l'Etat	Luxembourg	Solo entity/ group		56,190	The Banker
BAWAG	Austria	Solo entity/ group		55,454	The Banker
Ibercaja Banco	Spain	Solo entity/ group		54,522	The Banker
Citigroup Global Markets Europe AG	Germany	Solo entity/ group	Citigroup	54,517	Company disclosure
Munchener Hypothekenbank	Germany	Solo entity/ group		54,066	The Banker
Crelan	Belgium	Solo entity/ group		53,993	The Banker
UBSEurope SE	Germany	Solo entity/ group	UBS	53,931	Company disclosure
Santander Consumer Bank Germany	Germany	Subsidiary	Santander	53,255	The Banker
Deutsche Pfandbriefbank (PBB)	Germany	Solo entity/ group		50,888	The Banker
Deutsche Apotheker- und Ärztebank	Germany	Solo entity/ group		50,733	The Banker
Danske Bank Finland (branch)	Finland	Branch	Danske Bank	50,590	Authors' calculations
Kontarahoitus (Municipality Finance)	Finland	Solo entity/ group		49,736	Company disclosure
Raiffeisenlandesbank Oberösterreich AG	Austria	Solo entity/ group		47,843	The Banker
Aareal Bank	Germany	Solo entity/ group		46,838	The Banker
Landesbank Berlin Holding	Germany	Solo entity/ group		45,457	Company disclosure
State Street Europe Holdings Germany Sàrl & Co KG	Germany	Solo entity/ group	State Street	43,707	EBA Transparency Exercise
Novo Banco	Portugal	Solo entity/ group		43,505	The Banker
Targobank AG	Germany	Subsidiary	Credit Mutuel	41,900	Company disclosure
BNY Mellon SA/NV	Belgium	Solo entity/ group	Bank of New York	39,659	Company disclosure
Banco Portugues de Investimento (BPI)	Portugal	Subsidiary	CaixaBank	38,632	The Banker
LBSLandesbausparkasse Süd	Germany	Solo entity/ group		38,065	Company disclosure
FinecoBank	Italy	Solo entity/ group		33,319	The Banker
ING Spain (branch)	Spain	Branch	ING	33,083	Company disclosure
Deutsche Bank Italy	Italy	Subsidiary	Deutsche Bank	32,546	The Banker
Deutsche Bank Luxembourg	Luxembourg	Subsidiary	Deutsche Bank	32,338	The Banker
Wüstenrot Bausparkasse AG	Germany	Solo entity/ group		31,766	Company disclosure
Hamburg Commercial Bank	Germany	Solo entity/ group		31,544	The Banker
Banque Internationale a Luxembourg	Luxembourg	Solo entity/ group		30,538	The Banker
Volksbanken Verbund	Austria	Solo entity/ group		30,482	Company disclosure
RBSHoldings / NatWest Markets NV	Netherlands	Solo entity/ group	NatWest	28,191	The Banker
Bank of Cyprus	Cyprus	Solo entity/ group		26,631	The Banker
Slovenska Sporitel'na	Slovakia	Subsidiary	Erste	26,462	The Banker
DZPrivatbank Luxembourg	Luxembourg	Subsidiary	DZBank	25,665	The Banker
Zagrebacka Banka	Croatia	Subsidiary	UniCredit	24,594	The Banker
Vseobecná Uverova Banka	Slovakia	Subsidiary	Intesa	24,389	The Banker
Findomestic Banca	Italy	Subsidiary	BNP Paribas	22,998	The Banker

Table 2 (continued)

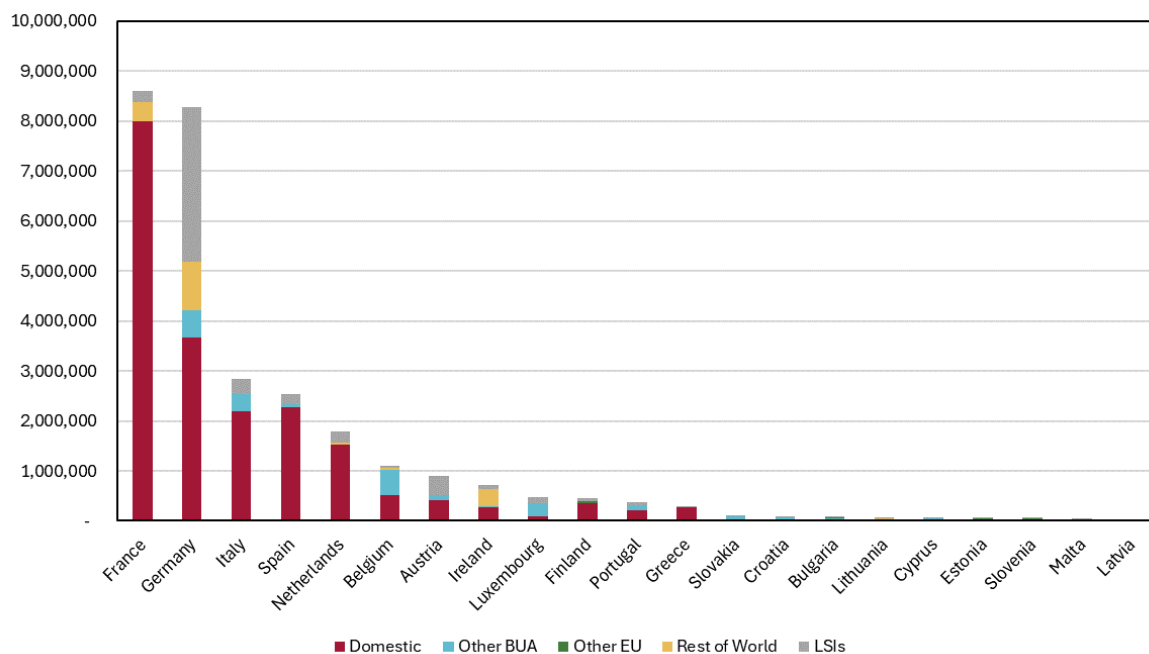
Name of entity	Country	Entity type	Group (if any)	Entity assets (€m)	Source
Deutsche Bank Spain	Spain	Subsidiary	Deutsche Bank	22,328	The Banker
Tatra Banka	Slovakia	Subsidiary	Raiffeisen	22,233	The Banker
Intesa Sanpaolo Bank Luxembourg	Luxembourg	Subsidiary	Intesa	22,175	The Banker
Privredna Banka Zagreb	Croatia	Subsidiary	Intesa	21,689	The Banker
Nova Ljubljanska Banka (NLB)	Slovenia	Solo entity/ group		20,936	Authors' calculations
Hellenic Bank	Cyprus	Subsidiary	Eurobank (in 2024)	20,064	The Banker
Swedbank Lithuania	Lithuania	Subsidiary	Swedbank	18,502	The Banker
United Bulgarian Bank	Bulgaria	Subsidiary	KBC	17,353	The Banker
DSK Bank	Bulgaria	Solo entity/ group	OTP	16,787	The Banker
UniCredit Bulbank	Bulgaria	Subsidiary	UniCredit	16,507	The Banker
Luminor	Estonia	Solo entity/ group		15,494	The Banker
Swedbank Estonia	Estonia	Subsidiary	Swedbank	15,392	The Banker
CSOB Slovakia	Slovakia	Subsidiary	KBC	15,046	The Banker
ING Italy (branch)	Italy	Branch	ING	14,836	Company disclosure
Erste&Steiermarkische Bank	Croatia	Subsidiary	Erste	14,753	The Banker
Bank of Valletta	Malta	Solo entity/ group		14,508	The Banker
ING Luxembourg	Luxembourg	Subsidiary	ING	14,392	Company disclosure
Banque de Luxembourg	Luxembourg	Subsidiary	Credit Mutuel	14,102	Company disclosure
SEB Bankas	Lithuania	Solo entity/ group	SEB	13,888	The Banker
Revolut Bank	Lithuania	Solo entity/ group	Revolut	12,091	Company disclosure
Quintet Private Bank	Luxembourg	Solo entity/ group		12,050	The Banker
Nova Kreditna Banka Maribor / OTP Slovenia	Slovenia	Solo entity/ group	OTP	10,809	The Banker
Eurobank Bulgaria (Postbank)	Bulgaria	Subsidiary	Eurobank	9,914	Company disclosure
Beobank	Belgium	Subsidiary	Credit Mutuel	9,845	thebanks.eu
Swedbank Latvia	Latvia	Consolidating entity	Swedbank	9,300	The Banker
SEB Pank	Estonia	Solo entity/ group	SEB	8,649	The Banker
ING France (branch)	France	Branch	ING	8,322	Company disclosure
Eurobank Cyprus	Cyprus	Subsidiary	Eurobank	8,273	The Banker
Crédit Commercial de France	France	Solo entity/ group		8,206	Company disclosure
Norddeutsche Landesbank Luxembourg	Luxembourg	Subsidiary	NORD/LB	7,815	The Banker
HSBC Bank Malta	Malta	Subsidiary	HSBC	7,662	The Banker
Raiffeisenbank Croatia	Croatia	Subsidiary	Raiffeisen	7,002	The Banker
LHV Pank	Estonia	Solo entity/ group		6,384	Authors' calculations
GarantiBank International	Netherlands	Subsidiary	BBVA	5,783	The Banker
SEB Banka	Latvia	Solo entity/ group	SEB	5,605	Company disclosure
Mediobanca Internationale	Luxembourg	Subsidiary	Mediobanca	5,577	Company disclosure
Commerzbank Finance & Covered Bond S.A.	Luxembourg	Subsidiary	Commerzbank	5,348	Company disclosure
MDB Group	Malta	Solo entity/ group		4,984	Company disclosure
Citadele Banka	Latvia	Solo entity/ group		4,863	Company disclosure
Saulius Bankas	Lithuania	Solo entity/ group		4,623	Company disclosure
Banka Intesa Sanpaolo	Slovenia	Subsidiary	Intesa	3,991	Company disclosure
ING Ireland (branch)	Ireland	Branch	ING	3,907	Company disclosure
Unicredit Banka Slovenia	Slovenia	Subsidiary	UniCredit	3,576	Company disclosure
Alpha Bank Cyprus	Cyprus	Subsidiary	Alpha	3,388	Company disclosure
Natixis CIB Luxembourg	Luxembourg	Subsidiary	BPCE	3,239	Company disclosure
Natixis Pfandbriefbank AG	Germany	Subsidiary	BPCE	3,163	Company disclosure
Grenjska Banka	Slovenia	Solo entity/ group		2,442	Company disclosure
Addiko Bank Croatia	Croatia	Subsidiary	Addiko	2,205	Company disclosure
Ulster Bank Ireland	Ireland	Subsidiary	NatWest	2,184	The Banker
Addiko Bank Slovenia	Slovenia	Subsidiary	Addiko	1,448	Company disclosure
Addiko Bank Austria	Austria	Consolidating entity	Addiko	1,116	Company disclosure
NatWest Bank Europe GmbH	Germany	Consolidating entity	NatWest	-	No data available

Source: The Banker, EBA, company reports, Bruegel.

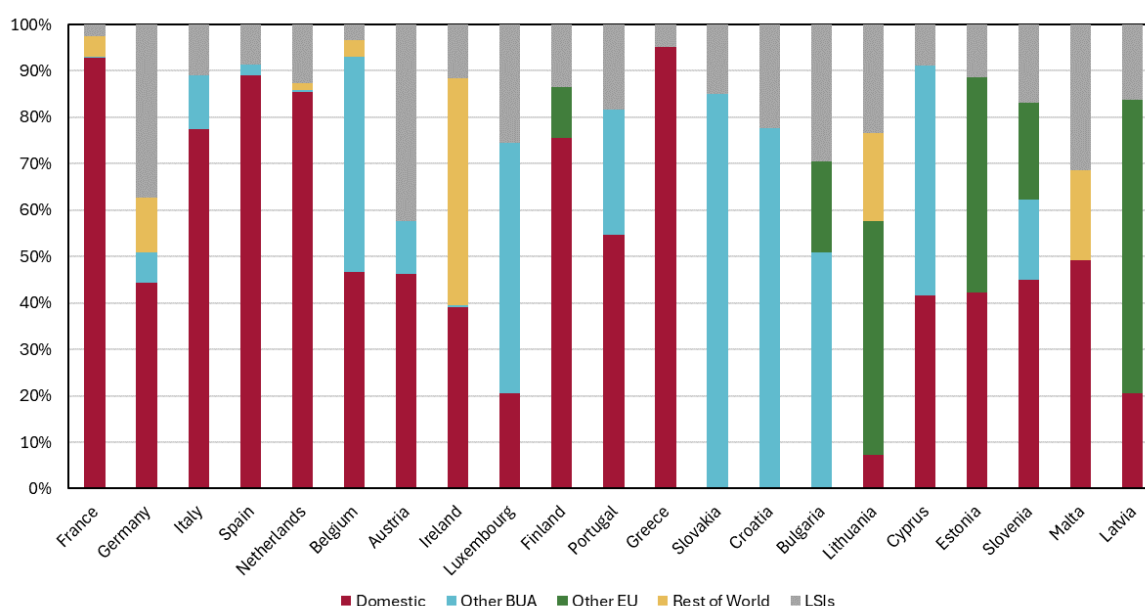
As is evident from a cursory glance at the table, most of the largest national entities are the home entities of large banking groups whose activity is very far from evenly distributed across the BUA. This is mirrored by the fact that the bulk of banking assets in the largest countries (though not in smaller ones) is held by domestic banks. Figures 21 and 22 illustrate this other form of home bias, while also giving an indication of the volume of assets held by LSIs, for which our mapping does not provide a similar breakdown. Even though it is not evident in these charts, the home bias is similarly high in Germany and Austria as in other larger countries, because the bulk of German and Austrian LSI assets are in entities that participate in the respective Institutional Protection Schemes (IPSSs) of public and

cooperative banks (Lehmann and Véron, 2021), and these small IPS banks are all entirely domestic. Of the first twelve countries, which together represent no less than 98 percent of the BUA's total banking assets, per our mapping, only three (Belgium, Luxembourg and Portugal) exhibit significant shares of banks from the rest of the BUA in their system – and none of these countries are in the top five, which together represent 83 percent of total assets.

Figure 21: Total banking assets in each BUA country, by home category (€m)



Source: The Banker, EBA, company reports, Bruegel. N.B. As explained in the text, the available public data does not allow for disaggregation of LSI assets by home category.

Figure 22: Breakdown of banking assets in each BUA country, by home category (%)

Source: *The Banker*, EBA, company reports, Bruegel.

Figures 21 and 22 also show the extent to which the BUA has become host to a number of non-EU banks, mostly from the US and primarily domiciled in Germany and Ireland, even though their operations are spread out in other financial centres including Amsterdam, Luxembourg and Paris²⁶. These 'Brexit banks', as the ECB calls them informally (Enria, 2022), add up to nearly €1.3 trillion total assets in our mapping just for the American ones, to be compared with less than €200 billion pre-Brexit²⁷. It remains to be seen whether this number increases further as the ECB implements the findings of the 'desk-mapping review' it conducted in 2020-2022 to check the consistency of these banks' booking practices with their operational controls²⁸.

Echoing our findings in the previous section about sovereign exposures, it is notable that American banks, as well as Barclays, HSBC and UBS, appear to have integrated their operations across intra-BUA borders more actively than most BUA-headquartered banks. For example, in May 2016, BNY Mellon, JP Morgan, State Street and UBS all had separate subsidiaries in Luxembourg, but these had disappeared by 2024. Similarly, HSBC in May 2016 had subsidiaries in Germany and Spain; by 2024, their activity had

²⁶ US banks have generally centralised all their BUA banking operations in a single entity (and, for some of them, a separate one for the securities business). Since they do not disclose the breakdown within the BUA, our mapping counts all their assets in the country where that entity is located, e.g. Germany for Goldman Sachs, JP Morgan and Morgan Stanley. On the flexibility these banks have to change their geographical footprints within the BUA without adjusting legal structures, see e.g. Iain Withers, "[Barclays explores moving EU headquarters from Dublin to Paris](#)", *Reuters*, 3 August 2023.

²⁷ The latter number is derived from the size brackets indicated by the ECB in its list of supervised entities on the eve of the Brexit vote (31 May, 2016, at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/list_of_supervised_entities_20160531en.pdf): no more than €75 billion for Bank of New York in Belgium; €50 billion for State Street in Germany; and €30 billion each for JP Morgan and State Street in Luxembourg (the latter two have subsequently been merged into German entities).

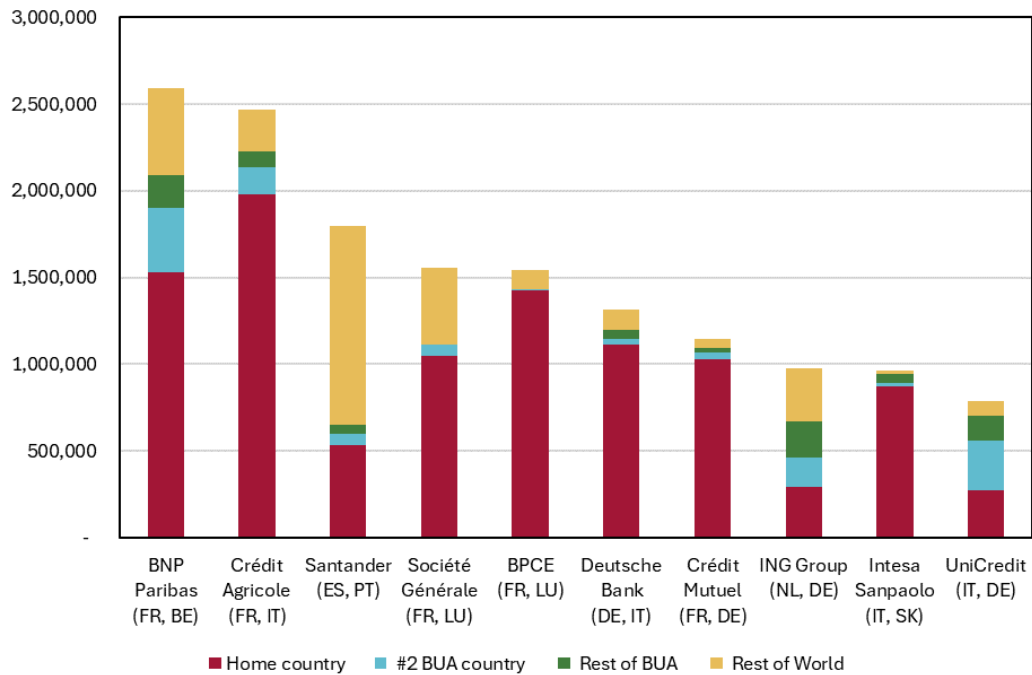
²⁸ See Huw Jones, "ECB push to prevent post-Brexit 'empty shells' enters new phase", *Reuters*, 15 November 2023, at <https://www.reuters.com/markets/europe/ecb-push-prevent-post-brexit-empty-shells-enters-new-phase-2023-11-15/>.

been taken up by Paris-based HSBC Continental Europe, as had that of the former branches of UK-based HSBC plc in Belgium, Greece, Ireland, Italy and the Netherlands²⁹.

The above picture of operational home bias is mirrored in the observation of individual BUA banking groups. Figure 13 shows the breakdown of total assets in our mapping for the ten largest of these. The only two that do not exhibit a dominant home bias within the BUA are ING and UniCredit³⁰.

²⁹ The sources for these observations are the previously mentioned ECB lists of supervised entities, respectively as of 31 May 2016 and 1 May 2024. In the same period and based on the same sources, some BUA banking groups have streamlined their organisations too. For example, ABN AMRO, Commerzbank, Credito Emiliano, DekaBank and Santander have absorbed their prior subsidiaries in Luxembourg; BBVA has converted its subsidiary in Portugal into a branch, as have BNP Paribas in Germany, the Netherlands, Portugal and Spain, and Deutsche Bank in Austria.

³⁰ In the case of UniCredit, the assets we map in the home country (Italy) are slightly smaller than those in Germany. The Italian figure is inferred by subtracting from the UniCredit Group's total assets those in the Austrian, Bulgarian, Croatian, Czech, German, Hungarian, Romanian, Russian, Serbian and Slovenian subsidiaries, all as of end-2023, from *The Banker* database except the latter for which we used their separate corporate disclosures in Slovenia.

Figure 23: Assets of the BUA's ten largest banking group by geography (€m)

Source: *The Banker*, EBA, company reports, Bruegel calculations and assumptions.

Those BUA groups that have significant activities in the BUA outside of their home country overwhelmingly owe them to acquisitions made from 1998 to 2008. Table 3 shows the largest such host entities in our map, outside of Luxembourg. The latter is a special case, where banks from around the world have been encouraged to establish subsidiaries by government policy since the 1960s and even before – the Luxembourg subsidiary of Société Générale goes back to 1893³¹.

³¹ Source: corporate history website, at <https://www.societegenerale.lu/en/societe-generale-luxembourg/societe-generale-luxembourg-glance/history/>.

Table 3: largest BUA subsidiaries of BUA banking groups, excl. Luxembourg

Acquisition	Country	Acquirer	Country	Acquisition date	Assets at end-2023 (€m)
Fortis Belgium	Belgium	BNP Paribas	France	2008	373,917
HypoVereinsBank	Germany	UniCredit	Italy	2005	283,320
Deutsche Direktbank (DiBa)	Germany	ING	Netherlands	2002	168,991
Cariparma	Italy	Credit Agricole	France	2007	159,762
Bank Brussels Lambert	Belgium	ING	Netherlands	1998	128,437
Banca Nazionale del Lavoro	Italy	BNP Paribas	France	2006	103,089
Bank Austria	Austria	HypoVereinsBank	Germany	2000-2002	102,755
Banco Totta	Portugal	Santander	Spain	2000	64,543
Bankhaus Centrale Credit	Germany	Santander	Spain	1987	53,255
Citibank Germany	Germany	Credit Mutuel	France	2008	41,900

Source: *The Banker*, company reports, Bruegel.

4. CROSS-BORDER INTEGRATION IN AN UNFINISHED BANKING UNION

In a farewell interview with the *Financial Times*, Andrea Enria, the head of European banking supervision between 2019 and 2023, noted that *“the area in which the banking union has not been delivering [...] is to strengthen the integration of the banking market in the banking union”*. He added wistfully: *“this has been also for me an element of disappointment and personal regret because I hoped I could have done more”*³².

As suggested in this paper’s introduction, the lack of cross-border integration has two main causes: EU legislation that underpins the banking union, namely the CRR, CRD, BRRD, DGSD and SRMR³³, which maintain too large a role for individual-entity requirements (in supervision) and national authorities (in crisis management and resolution) for the main barriers to cross-border integration to be lifted; and low market valuations of European banks throughout the period 2008-2024. The correction of the first of these features would require a broad-ranging legislative package to pool the crisis intervention framework entirely at the European level and simultaneously to introduce SCCs to ensure the diversification of sovereign exposures. Only then would it be appropriate to persuade host member states that their financial stability interests are properly covered by the European framework, and to correspondingly bring an end to their ring-fencing proclivities³⁴. As one of us has argued in more detail (Véron, 2024b, sections 5 and 6), such a legislative package to *“complete the banking union”* is politically challenging but should by no means be viewed as unattainable. It is in many ways less radical than the legislative reforms the EU was able to pass in 2013-2014, including the establishment of European banking supervision³⁵.

In this section, rather than reiterating what is needed to complete the banking union, we focus on policy avenues for consideration short of completion. Since we are unable to identify obvious low-hanging fruit, we mostly call for further study and analysis.

4.1. National barriers and single market enforcement

While prudential legislation is now essentially harmonised at EU level, there still exist a number of legacy national requirements that act, intentionally or not, as obstacles to cross-border banking market integration. For example, between 2017 and 2023, a national legal provision empowered the National Bank of Belgium to impose capital requirements on national subsidiaries. While this particular provision has now been reversed, others are likely to still exist. These may go beyond the formal scope of prudential requirements and include provisions about corporate governance and the vetting of mergers and/or other transactions. A systematic study of such national legislative provisions across all BUA countries could be useful to support the European Commission’s role as the enforcer of the internal market framework.

³² Interview conducted by Martin Arnold and Laura Noonan, 30 October 2023, available at <https://www.bankingsupervision.europa.eu/press/interviews/date/2023/html/ssm.in231030~b10454da57.en.html>.

³³ In line with the more detailed analysis in Véron (2024b, chapter 4), we don’t view the SSM Regulation as a contributor to market fragmentation.

³⁴ A similar point is made in the conclusion of a study published by the EBA in 2020 on obstacles to cross-border consolidation in the EU banking sector (Gardella *et al*, 2020, page 50).

³⁵ As noted by ECB President Mario Draghi in a brief but notable speech on the first anniversary of European banking supervision: *“Supervision had to come first, not because it was the easiest to establish, but because it was the necessary condition to proceed with the other pillars of Banking Union”* (Draghi, 2015).

4.2. Transparency

The crucial significance of bank-sovereign linkages for euro-area financial stability was revealed during the euro-area crisis, and the primary motivation of the banking union project has been to break the bank-sovereign vicious circle. Nevertheless, a number of significant blind spots remain in publicly available data. These prevent a broad-based understanding of the bank-sovereign nexus and how it could be mitigated. As highlighted in section 2, the regular and increasingly comprehensive publication by the EBA of data on individual banks' sovereign exposures has brought major improvement, but more needs to be done. Our research for this paper has highlighted two areas.

First, the understanding of banking groups' sovereign exposures remains incomplete as long as their insurance operations are exempted from the disclosure framework. The EBA data relates only to the scope of banking prudential supervision, in which insurance undertakings are not included. The European Insurance and Occupational Pensions Authority (EIOPA), the EBA's sister EU authority for insurance supervision, does not publish similar disaggregated data. The gap can be significant, at least for some entities. For example, in the case of Cr dit Agricole, according to the company's own financial statements as of mid-2024, domestic (French) sovereign exposures were larger in the group's insurance activities than in its banking activities, at €47.9 billion versus €44.9 billion³⁶. Closing that information gap would be worthwhile, under the authority of the EBA or EIOPA or both.

Second, the probable inaccuracies in our mapping (section 3 of this paper) illustrate the difficulty of observing banks' assets (not to mention liabilities) on a country-by-country basis within the BUA, even for very large banking groups. This is despite the evident financial-stability relevance of such observation as long as the crisis intervention framework is not fully pooled at the BUA level, as it would be in a completed banking union (in which case a country-by-country observation would no longer be needed). The examples of ING and Nordea show that reporting these numbers is entirely possible, not only for subsidiaries but also for branches.

Mandatory public disclosure of banks' assets on a country-by-country basis within the BUA would greatly contribute to the public understanding of bank-sovereign linkages, and should be considered by policymakers. To be sure, banks can be expected to protest the additional reporting requirements – but well-managed large banking groups must know the location of their assets anyway, so it is not plausible that such reporting would be particularly onerous (in many cases, moreover, this information is already reported by banks to their supervisors). As for smaller banks, most have assets overwhelmingly or entirely in their home country (with the possible exception of sovereign exposures if SCCs should be introduced), implying that country-by-country reporting would be straightforward for them.

An additional potentially useful element of transparency would be about the capital, liquidity and other loss-absorbency buffers (i.e. MREL) 'trapped' inside individual national components of a banking group by solo-entity requirements. In 2021, the ECB assessed at around €250 billion the volume of high-quality liquid assets that was prevented by such requirements from being moved freely within the BUA (Enria, 2021). A more granular understanding of these requirements would helpfully inform the public debates about the economic trade-offs involved in the current framework versus a complete banking union.

³⁶ Cr dit Agricole presentation of half-year 2024 Group results, slide 48, at <https://www.credit-agricole.com/en/pdfPreview/203769>.

4.3. Branchification

‘Branchification’ refers to the conversion of a subsidiary into a branch, or more broadly, the absorption by one legal entity in a banking group of activity that was previously conducted in another separate legal entity in the same group. As mentioned in the previous section, this has been done by several of the so-called Brexit banks in the course of their post-Brexit reorganisations within the BUA, and also to a lesser extent by some, though far from all, BUA banking groups, as our mapping indeed illustrates. The limited extent of branchification, despite its evident advantages in terms of integrated management of capital and liquidity, deserves attention. Even the head of European banking supervision, despite having access to considerable non-public supervisory information, has described himself as “puzzled as to why banks have made little use of the basic freedoms of establishment and remote provision of services” that are provided under the EU internal market framework (Enria, 2021).

Branchification is not inherently impossible. It happened under stress, for example, during the Portuguese crisis of the early 2010s: some banks converted their Portuguese subsidiaries into branches of an entity located in a less financially stressed country, so that the Portuguese clients’ deposits would be covered by the latter country’s deposit insurance system, which was viewed as more reliable (Bonfim and Santos, 2023). Impediments to branchification may involve issues of corporate law and governance, taxation, deposit insurance, relations with host-country authorities and more. Better public understanding of this theme would be highly beneficial.

4.4. Macprudential instruments

Macroprudential instruments are intended to enhance financial stability from the perspective of the entire financial system, as opposed to the safety and soundness of individual supervised institutions. They have been advocated for several decades, for example at the Bank for International Settlements (Clement, 2010), and were given greater emphasis following the Great Financial Crisis of 2007-2009. Presently, most macroprudential instruments are in the hands of national authorities within a framework set by EU law.

It is not evident that this framework ensures that the use of macroprudential instruments benefits European financial system stability and efficiency. The head of European banking supervision has noted cases of possible counterproductive impact, singling out restrictions on intragroup dividends during the COVID-19 pandemic³⁷. An in-depth study of macroprudential practices across all BUA countries could shed light on the associated trade-offs.

More fundamentally, the fact that macroprudential authority is divided between the national and European levels appears increasingly questionable as the ECB accumulates experience and knowledge of financial systems across the BUA. In 2013, the text of the Capital Requirements Regulation noted that “Member states retain a leading role in macroprudential oversight because of their expertise and their existing responsibilities in relation to financial stability”³⁸. After a decade of European banking supervision, both the expertise and the financial stability responsibilities have moved decisively to the

³⁷ “At ECB Banking Supervision, we saw this issue in sharp relief when, during the pandemic, we implemented our recommendation on dividend distribution restrictions. The recommendation specified that it applied only at the consolidated level, given that our supervisory concern was one of preventing capital resources from leaving the banking system in times of extreme uncertainty. Transferring resources from one group entity to another was not – and, I would say, could not be – in our supervisory scope, especially within European banking supervision. But several Member States stopped subsidiaries within cross-border banking groups from paying dividends to their parent entity in line with macroprudential national measures that had been taken to make the national financial system more resilient. In some cases, this led to situations where the restrictions were applied to subsidiaries of foreign banks which already had solvency buffers far higher than the regulatory requirements and any reasonable solvency projections” (Enria, 2021).

³⁸ Regulation (EU) 575/2013, Recital 16.

European level. This, of course, is directly related to the broader debate about completing the banking union, as referred to previously in this paper.

5. CAPITAL MARKETS UNION IS DIFFERENT

This brief concluding section responds to the terms of reference for this paper, which ask for a discussion of *“what lessons can be learned from ten years of banking union for the development of the capital markets union and the integration of capital markets.”*

In a separate study for the European Parliament earlier in 2024 (Véron, 2024a), one of us argued that the policy effort to make a reality of the EU capital markets union project should focus primarily on the reform and empowerment of the European Securities and Markets Authority (ESMA), which could have a catalytic impact on cross-border integration of capital markets over the medium term.

This begs an obvious question. The one piece of the banking union project that is widely viewed as complete and effective is supervisory integration: European banking supervision with the ECB as its central hub. If that has not delivered cross-border banking market integration, why would equivalent reform of integrating capital markets supervision, with ESMA as its hub, have a greater effect?

The answer to this question is what we have referred to earlier in this paper as the crisis intervention framework, which has no direct equivalent in capital markets. As a matter of necessity linked to their central role in the monetary system, banks benefit from a quasi-fiscal public safety net, the most explicit (but far from only) component of which is deposit insurance. The corresponding contingent involvement of public financial resources shapes the banking sector policy framework and banking market structures. As we have argued earlier in this paper, it is precisely the fact that this safety net has been kept largely at national level that has justified policies that entrench banking market fragmentation, such as solo-entity-level requirements for capital, liquidity and loss-absorbing capacity. In the absence of a similar safety net for capital markets, the market-transforming impact of supervisory integration at the European level is likely to be greater for capital markets union than it has been, so far at least, for banking union.

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The banking union project has achieved European-level policy integration of microprudential supervision but not of crisis intervention. This largely explains the disappointing progress in the cross-border integration of the banking sector, which we document using data on banks' assets and also specifically on their sovereign exposures.

In a capital markets union, there is no equivalent of the banking crisis intervention framework and related public financial safety net, and therefore supervisory integration can have more direct catalytical impact in that context than in banking.

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