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Banking Union: measuring progress and identifying implementation gaps

September 2025

Association for Financial Markets in Europe
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Foreword

On behalf of AFME, I am proud to present this report on the progress made and the remaining implementation gaps of the European Banking Union. More than a decade since its inception, the EU's Banking Union has delivered a more resilient European banking sector with substantially increased capital and liquidity ratios, reduced credit risk, and enhanced supervisory and resolution frameworks. Nevertheless, the Banking Union is still not functioning to its full potential.

This report offers a clear diagnosis: the Banking Union remains resilient but deeply fragmented, and this is exacerbated by a burdensome and fragmented regulatory framework prevailing across key dimensions of the Banking Union architecture. These gaps, whether in resolution funding, ringfencing of capital and liquidity, or macroprudential buffers are not merely technical. They are structural impediments that constrain the ability of European banks to operate efficiently across borders, scale their operations, and compete globally.

The findings presented in this report are both timely and highly relevant for policymakers. With renewed momentum around the European Commission's Savings and Investment Union (SIU) programme, there is a unique opportunity to address these pressing shortcomings. The European Commission's upcoming 2026 competitiveness review will be a critical moment to align regulatory ambition with market realities.

This report also provides a clear roadmap for reform that prioritises further building up trust between supervisors, allows the movement of capital and liquidity within the Union's borders, and the removal of structural barriers to cross-border banking. These are not abstract goals. They are prerequisites for a more integrated, competitive, and resilient European financial system.

I would like to thank AFME members for their valuable contributions to the evidence presented in this report. Their insights have helped identify the most pressing challenges that continue to hinder the completion of an internationally competitive and efficient Banking Union.

It is my hope that this report will serve as a catalyst for renewed engagement among policymakers, supervisors, and market participants to complete the Banking Union and unlock its full potential.

Adam Farkas
Chief Executive
Association for Financial Markets in Europe

"This report offers a clear diagnosis: the Banking Union remains resilient but deeply fragmented"

Executive summary

The European banking system has strengthened its resilience over the last decade, but its institutional framework remains deeply fragmented and its integration remains incomplete.

This report evaluates the current state of the European Banking Union (BU) project, highlighting achievements and persistent challenges that require policy attention. It provides evidence on existing implementation gaps and compiles a set of Key Performance Indicators to measure where fragmentation challenges are more problematic at the EU and Member State (MS) level.

There is a prevailing narrative that the BU is functioning well and "merely" requires the addition of the European Deposit Insurance Scheme (EDIS) to complete it. However, this report seeks to bring to the fore, once again, other relevant barriers to its completion which are often compounded by regulatory overconservativeness. These barriers are predominantly due to MS discretions embedded in the BU single rule book and a tendency to harmonise based on stricter national rules that, while easier to agree on, often lack a BU rationale and reduce EU banks' competitiveness.

The European competitiveness gap creates urgency to complete the BU

As highlighted in the Mario Draghi report, a well-functioning BU is essential to improve the EU's competitiveness. By enabling banks to operate more efficiently across borders, a well-functioning BU strengthens the role of banks in financing the green transition, supporting capital markets, and enhancing economic resilience.

The IMF estimates that fragmentation and the numerous intra-EU financial services barriers are equivalent to a 100% internal tariff on its own EU financial services, more than double the intra-EU barriers to trade goods with a tariff-equivalent of 44%. This is a self-imposed handicap that only harms EU competitiveness.

The EU banking regulatory framework is also uniquely more complex and burdensome than international standards. As this report finds, it takes longer to complete banking M&As in the EU than in any other major banking centre. The EU designates more systemically important institutions than any other global banking centre (by far). The EU exceeds the Basel framework with measures like the Systemic Risk Buffer and imposes higher MREL requirements on more banks than the UK or US. The unique EU prudent valuation framework and ESG disclosure rules (albeit now being reviewed) are also examples of a tendency of the EU to overregulate, further exacerbating the banking sector's competitiveness challenge.

European banks' valuations are affected by an incomplete BU and a burdensome regulatory framework. Two studies commissioned by the EU Parliament indicate that European banks, although they have improved their cost efficiency, continue to trade (as of late August 2025) at about 70% of US banks' valuation due to limited growth potential from a fragmented and burdensome banking framework, which is often perceived as unduly complex and often unpredictable by investors.

The renewed interest from policymakers in completing the BU in the context of the Savings and Investment Union (SIU) presents a key opportunity to enhance Europe's competitiveness. In anticipation of the EU Commission's 2026 report on Single Market banking competitiveness, this AFME report also aims to support the Commission's evaluation of structural challenges in the banking sector.

Among the key findings:

The banking sector has significantly improved its resilience: Banks have substantially increased their capital and liquidity ratios since 2015, while credit risks in the sector have reduced with non-performing loans dropping from €1 trillion to below €400 billion over the last decade. State aid to banks has significantly decreased, indicating enhanced self-sufficiency and use of own funds by banks. Banks' resilience has visibly helped the EU navigate multiple major crises (Brexit, COVID-19, Ukraine war, regional US banks' and Credit Suisse turmoil in early 2023).

However, there is persistent fragmentation within the BU: Cross-border banking services remain minimal, with only marginal increases in cross-border banking (intra-BU) lending and deposit taking. Cross-border M&A of banks has consistently declined over the last two decades, limiting consolidation and efficiency gains. We show that banking M&As take significantly longer to conclude in the BU than in all other major global banking centres, due to cumbersome authorisation processes involving multiple authorities coupled with a market perception of policymakers' resistance to the consolidation of the banking sector.

Supervisory frameworks remain inconsistent, and some Member States exhibit relatively large local participation of less systemically important (LSI) institutions and therefore not under ECB direct supervision. Furthermore, AFME estimates indicate that banking groups struggle to achieve economies of scale beyond €450bn in assets, likely due to regulatory fragmentation and ongoing barriers to seize the benefits of greater scale within the BU.

This report identifies a number of critical implementation gaps of the BU framework which currently hinder competitiveness and are crucial to address to facilitate the capacity of the banking sector to support growth:

- **Due to the lack of cross-border waivers, over €225bn of capital and €250bn of liquidity are trapped in subsidiaries of EU banking groups.** This regulatory ring-fencing discourages banks to engage in cross-border operations as it prevents transfer of resources between parent and subsidiary in times of stress. It also visibly limits the scale and competitiveness of banks operating in the EU.

  The absence of waivers is often attributed to a trust deficit between national supervisors, with the concern that in stress periods home/host tensions could resurface where Home supervisors may prioritise the parent bank and Host supervisors focus on the local subsidiary. However, for the BU to function effectively, national supervisors must develop and maintain trust and support the use of the single supervision and single resolution system which they are themselves part of. Supervisors themselves should recognise the structural progress made over the last decade, including the revised resolution framework.

  To tackle this, the Draghi report suggests creating a set of cross-border banking norms specifically for the largest banks with intra-BU operations. While it is unknown if the Commission may consider the Draghi proposal , several elements may need to be considered. These include ensuring a level playing field between banking institutions by creating a separate 'country blind' jurisdiction from a regulatory, supervisory and crisis management perspective, as well as avoiding the introduction of further complexity to the already too complex BU framework.

- **Excessive MREL requirements compared to US and UK banks:** The weighted average target level in 2024 for BU entities was 28% of Risk Weighted Assets (RWAs), compared with 22% for US entities (where only TLAC applies, to US GSIBs only, and not MREL) and 27% in the UK. The stringent MREL requirements in the EU place the BU at a competitive disadvantage relative to other major banking jurisdictions, significantly increasing funding costs for BU banks. Moreover, EU GSIBs are simultaneously subject to both MREL and TLAC requirements, effectively with overlapping loss-absorbing capacity obligations, reinforcing the need for a comprehensive review of the current framework.

- **Inconsistent intragroup large exposure limits:** National competent authorities make use of their discretion to apply varying limits on intra-group cross-border exposures, leading to an unharmonised and inconsistent BU supervisory approach which ECB supervision has to contend with and further preventing banks' optimal use of capital.

- **Opaque and unpredictable Single Resolution Fund (SRF) contributions:** The calculation methodology for contributions to the SRF is complex and lacks transparency, making it difficult for banks to predict future commitments. The fund itself was designed and its target level was set at a time when banks had no loss absorbing capacity. Now that banks have built up their MREL capacity any further increases should be carefully considered and reviewed.

- **Supervisory complexity and national interference in banking consolidation:** In case of cross-border M&A transactions, lengthy authorisation process involving the national competent authorities of the acquirer and target bank prolong the timeline of the acquisitions, increasing the execution risk and representing a further obstacle to banking sector consolidation.

  Banking is the economic sector in BU countries where it takes longest to complete a M&A with 285 days between announcement and completion dates, compared to 203 days in other financial services activities, or 132 days in the technology sector. Globally, banking M&As take longer in the BU than those in the US (219 days), China (187 days), and Switzerland (85 days). Furthermore, the time it takes to complete a banking M&A has increased by more than 100 days since 2014 (prior to the BU).

- **Deposit Guarantee Schemes:** A report on the BU would be incomplete without mentioning the European Deposit Insurance Scheme (EDIS) and recognising national differences in Deposit Guarantee Schemes (DGS). Although EDIS remains unimplemented, the longstanding lack of political consensus on EDIS should not be a roadblock to advance on other impactful BU initiatives where political agreement could be more feasible. This report highlights other significant areas that can drive a more integrated and competitive BU, alongside the long- term EU ambitions to establish EDIS.

- **Macroprudential buffers:** AFME is committed to support the undergoing work in this area, in line with Commission's work on simplification. This report presents some initial findings related to the complexity of the buffer framework, which will be later further developed by AFME and its Members along with new findings that may arise from future analysis.

  Our initial findings suggest that the O-SII buffer implementation differs between countries, resulting in varying buffers for banks with similar scores, as some national authorities set requirements well above those required by the ECB's new BU floor for O-SII buffers. Furthermore, the EU might be designating too many banks as O-SIIs, far more than other region with 175 O-SIIs, 3x more than the UK, China and the US combined, or about c70% of the O-SIIs[1] worldwide, hurting Europe's competitiveness.

  Countercyclical buffers (CCyB) are inconsistently applied with diverging and unpredictable methodologies, with MS using between 1 to 27 different input metrics to assess their national CCyB. The Systemic Risk buffer introduces a cumbersome requirement outside the Basel standard and further amplifies divergences at the sectoral level due to the heterogeneous use that MS make of it. The Capital Conservation buffer fails to function as intended during periods of stress due to its lack of releasability.

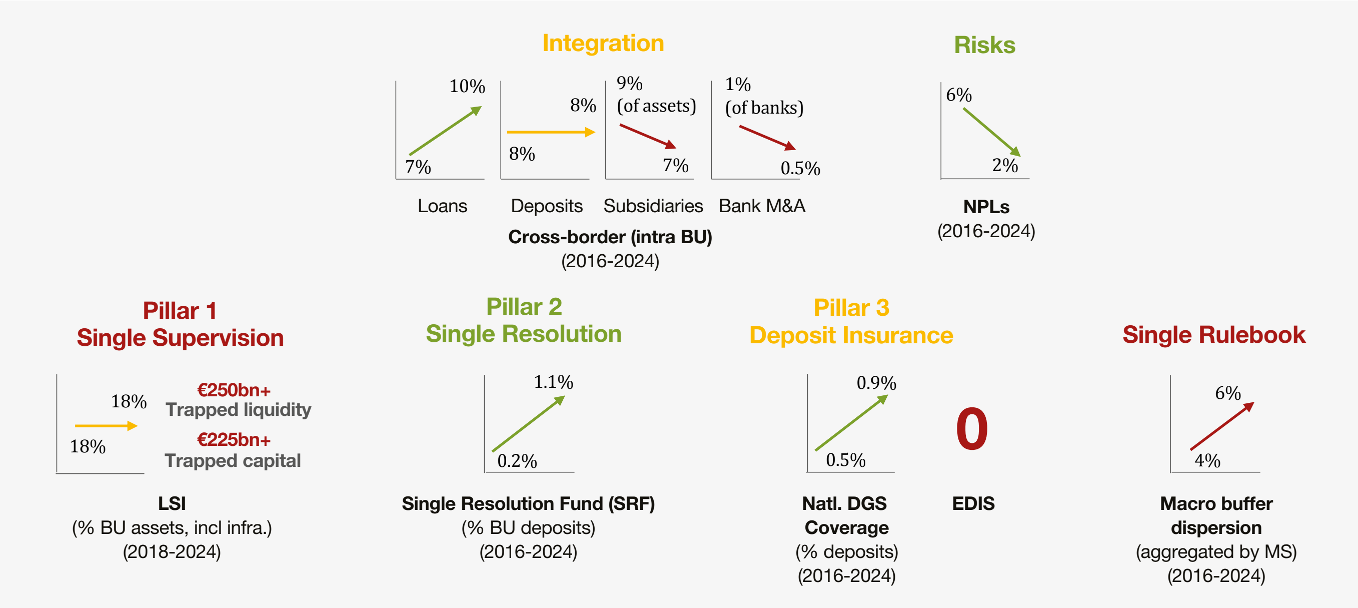
  Regarding the GSIB buffer (of global application), it is worth noting that because the BU is still perceived as insufficiently complete, it is not fully recognised in the GSIB cross border activity indicator and penalises the intra Eurozone activity compared to domestic one. As such, it also creates a further disincentive to cross-border integration of EU banking groups.

1 Excluding GSIBs. Based on D-SIB designation in SGP, SK, AUS, ZA, BRA, JP, CHN, CND, TWN, IND, UK (OSIIs), and US (subject to stress tests).

Banking Union progress dashboard

The last section of the report presents a Dashboard which evaluates the evolution of the BU as measured by a set of Key Performance Indicators at the Union and MS level. Their evolution of the indicators further supports some of the previous observations on reduced systemic risks and some persistent challenges in banking integration and consolidation.

Figure 1: **Banking Union Dashboard: Key Performance Indicators across various dimensions (2016-24)**



Cross-border metrics refer to cross-border loans and deposits provided within the BU relative to total loans and deposits. Subsidiaries refers to the assets held by EU cross-border subsidiaries relative to total BU assets; M&A refers to total intra-BU banking M&As as a percentage of banking institutions. NPLs is the EU NPL ratio. Macrobuffer dispersion refers to the gap between the minimum and the maximum aggregate average macroprudential buffer by Member States. LSI refers to the percentage of BU banking assets from Less significant institutions (LSI). Trapped liquidity and capital are measures of the amount of liquidity and capital held by cross-border subsidiaries from other BU banks, the amount of liquidity is based on a 2021 ECB estimate which considers liquidity needed to meet both LCR and large exposures regime, while the capital amount is an AFME estimate of total capital amount sourced from Pillar 3 disclosures of BU subsidiaries of the largest BU banking groups (assets above €500bn). SRF metric refers to the size of the SRF fund relative to BU deposits, National DGS is the average BU-wide coverage of national DGS relative to total deposits. EDIS refers to the number of EDIS in the BU. Unless otherwise specified, the time range for these indicators covers the period from 2016 to 2024. Note that the metrics for Trapped Capital and Liquidity provide a snapshot as of the start of 2024.

Banking Union policy recommendations

Having addressed the evolution of the BU project and highlighting some pressing implementation gaps, we encourage policymakers to consider the following targeted recommendations:

1. Implement cross-border waivers to unlock trapped capital, MREL and liquidity;

2. Harmonise MS discretion in intra-group exposure limits;

3. Undertake a comprehensive review of the SRF target level and contributions methodology;

4. Revise MREL requirements to ensure European banks remain globally competitive; and

5. Simplify the macroprudential buffer framework to improve its usefulness and efficiency without raising capital requirements

Without addressing these implementation gaps, the BU risks remaining permanently fragmented, undermining its objectives of enhanced financial stability, market integration, and to a greater extent, the European competitiveness agenda.

A diagnosis of the Banking Union: Resilient but deeply fragmented

A diagnosis of the Banking Union: Resilient but deeply fragmented

The BU was formed to ensure that banks operate in a robust and integrated European framework. As a response to the 2008 financial crisis and the sovereign debt crisis, it became clear that the banking sector needed a more resilient and interconnected framework to support growth.

The foundation of the BU and its three institutional pillars[2] (Single Supervisory Mechanism, Single Resolution Mechanism, European Deposit Insurance Scheme) in addition to a cross-pillar of a Single Rulebook, have sought to enhance the resilience of banks, ensuring they can withstand crises, facilitate the resolution of failing banks without relying on taxpayer funds, and reduce market fragmentation by harmonising banking regulations and supervision.

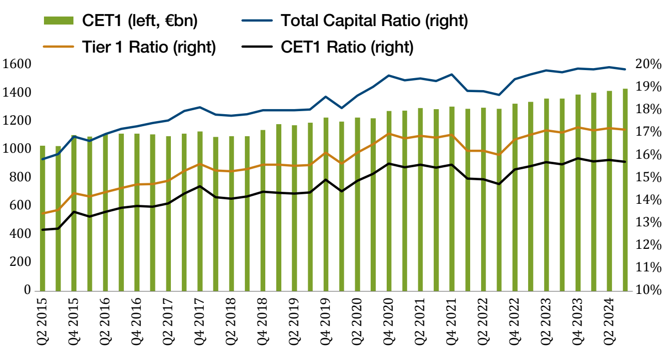
The Banking Union has contributed to develop a more resilient banking system

Following the post-financial crisis global regulatory initiatives, the European risk reduction initiatives and the various BU institutional improvements, the European banking sector has remained resilient and has withstood large and sudden shocks in the past few years.

BU banks have significantly improved their capital and liquidity resilience. Figure 1.1 shows a steady upward trajectory in capital ratios from 2015 to 2024, with the CET1 amount increasing from approximately €1,000 billion to over €1,400 billion. The Liquidity Coverage Ratio (chart 1.2) has increased to consistently remain around 160% from 2020 onwards, with a peak of 180% in 2021.

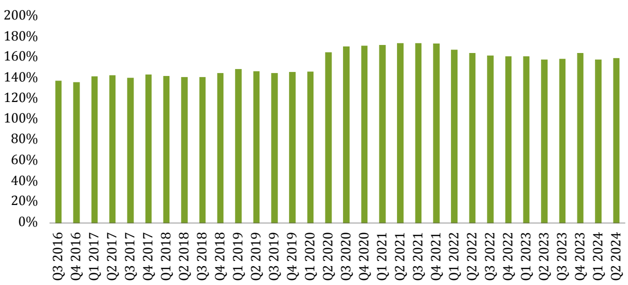
Over the last decade, abrupt shocks have not significantly destabilised the EU banking system and the wider financial ecosystem. These major shocks include, for example, the withdrawal of the UK from the EU (2019), the COVID pandemic (2020-22), the Russian invasion to Ukraine and the subsequent inflation surge (2022), the forced merger of the two largest Swiss banks (March 2023), or the 2023 US regional banks crisis.

Figure 1.1: **Capital Ratios for BU significant institutions (SI)**



Source: ECB

Figure 1.2: **Liquidity Coverage Ratio (SI)**



Source: ECB

However, the stringent requirements of the ECB and the multiple layers of macroprudential requirements have led to a capital level that is not commensurate and can put BU banks at a disadvantage compared to their international competitors.

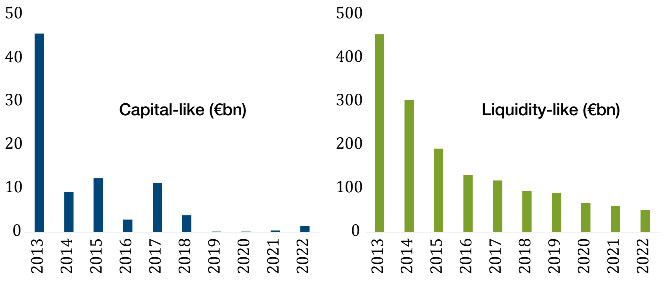
Furthermore, as discussed in section 2 of this report, the lack of a fully operating BU has meant that capital and liquidity is trapped and ring-fenced within national boundaries, preventing banks from allocating resources effectively where most needed. This issue persists beyond simply increasing capital and liquidity ratios. Likewise, the un-harmonised and unpredictable use of capital buffers also adds a layer of complexity for capital management.

2 We acknowledge the view of some scholars that pillar II and pillar III fall within the same bank crisis intervention framework - for clarity, we will adhere to the conventional three-pillar categorisation.

The banking sector is better equipped to absorb financial shocks

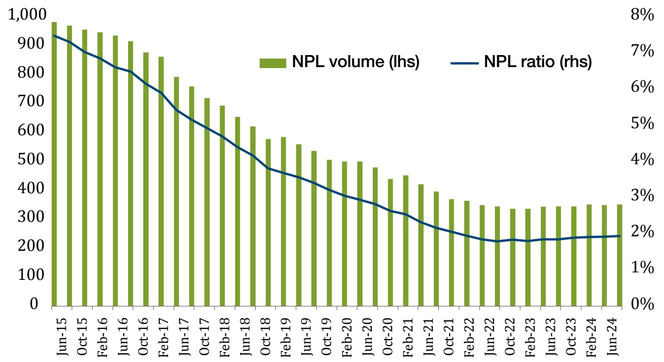
Banking resilience in the BU has improved, evidenced by the diminishing need for state aid (figure 1.3) and enhanced asset quality (figure 1.4). State aid to banks has declined across both capital and liquidity support measures, reflecting decreased reliance on public funds to maintain stability.

Figure 1.3: **State aid to banks used in the EU (€bn)**



Source: European Commission

Figure 1.4: **Non-Performing Loans (€bn ; percentages)**



Source: ECB

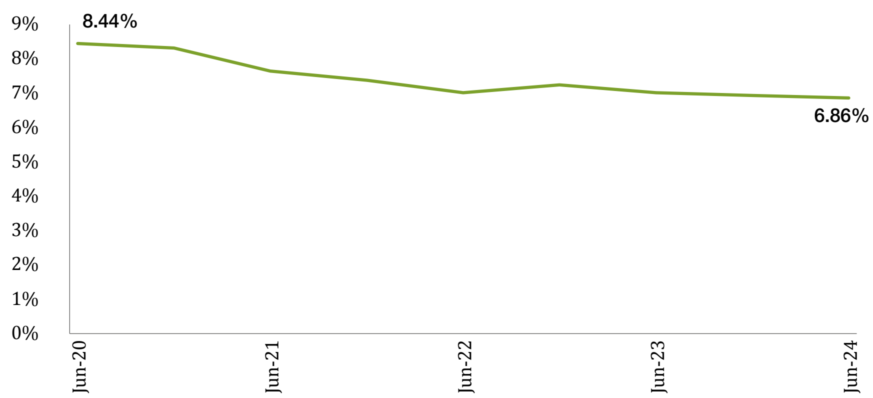
This trend is complemented by the reduction in Non-Performing Loans (NPL), which have fallen from approximately €1,000 billion in 2015 to below €400 billion in 2024, with the NPL ratio decreasing from around 7% to just 2%, indicating a higher asset quality. The decline was largely supported by securitisation and NPL portfolio sales of c€900bn (including secondary transactions), highlighting how capital markets enable banks to free up their balance sheet and contribute to provide further lending to the economy.

Bank-sovereign nexus: lower holdings while linkages continue to support liquidity management

Soon after the start of the great financial crisis, the first diagnosis of the link between national banking sectors and sovereigns began to emerge, where the sovereign credit quality deterioration eroded the asset quality of BU banks as a significant portion of government debt was held by banks.

Since 2020, BU bank's exposure to their local sovereign has decreased from 8.44% of total BU banking assets to 6.86% in 2024, with some differences between Member States with Portugal (18.7%) with the highest exposure and Ireland (1.3%) with the lowest portion.

Figure 1.5: **Aggregate banking exposure to domestic sovereign assets (% of banking assets)**

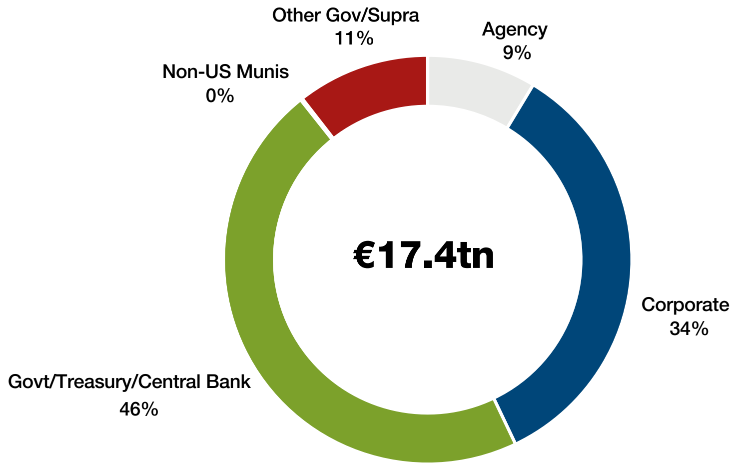


Source: ECB

While this trend suggests progress toward mitigating the sovereign-bank nexus, it does not fully capture the various linkages between the sovereign and banks.

Banks and institutional investors rely on high-grade sovereign debt for collateral in central bank operations and market transactions, making minimal holdings of sovereign debt unrealistic. As shown in chart 1.6, half of the EU investment-grade fixed income assets (and thus eligible for central bank collateral) are issued by sovereigns, indicating the necessity for banks to hold a significant portion of these assets for liquidity operations.

Figure 1.6: **EU Investment Grade bonds outstanding by issuer sector (2025)**



Source: LSEG Workspace

More structurally, the linkages between sovereign entities and banks are also relevant in the credit ratings granted to financial institutions. A bank's credit rating usually does not exceed that of its national sovereign, as credit rating agencies view the sovereign as the primary local creditor, outranking any local bond issuer[3].

Going forward, it is likely that Europe will exhibit an increase in sovereign issuance as a result of increased investment in Europe's defence capabilities. The evolution of the sovereign-bank nexus should be therefore evaluated in this context going forward, bearing in mind that while this could strengthen direct sovereign-bank linkages, the banking sector is better prepared to manage such exposures even during periods of sovereign stress. Regulatory reforms have improved capital and liquidity buffers, and regular stress testing ensures that banks are more resilient to shocks, including those originating from sovereign credit events.

European banking integration remains limited and fragmented

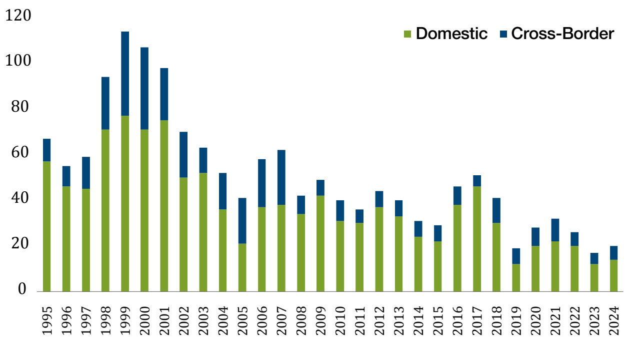
Consolidation activity has declined, with banking M&A deals dropping from over 100 transactions to fewer than 20 in recent years (see Figure 1.7). However, when adjusting for the total number of credit institutions, M&A activity has slightly decreased but has remained volatile over time (see Figure 1.8).

The lack of consolidation results in limits to make use of euro-wide economies of scale. A study commissioned by the European Parliament found that the top 5 banks in the US hold c50% of total banking assets, compared to 30% by the top 5 banks in the Euro area. However, within individual Euro countries, concentration is higher (60-80%), indicating that banks can leverage national but not euro-wide economies of scale.

Most recently, high-profile deals such as BPCE's planned acquisition of Novo Banco, and UniCredit's intention to acquire Commerzbank, reflect a renewed interest in cross-border consolidation among large banking groups. The number of these proposed acquisitions, however, continues to be below that observed historically both when estimated on aggregate (chart 1.7) and relative terms as a share of total credit institutions (chart 1.8).

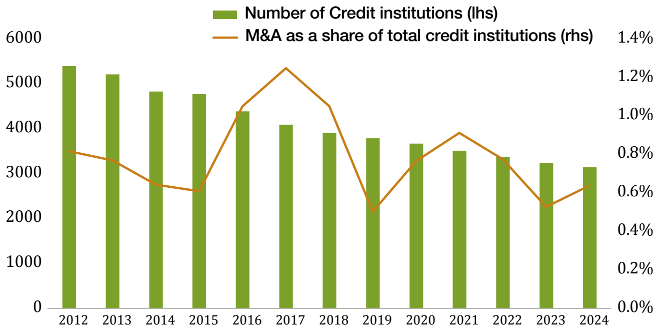
3 A European safe asset could mitigate this linkage by reducing banks' exposure to solely their domestic government. This would also offer a more EU-wide rating benchmark and a sovereign investment option for banks.

Figure 1.7: **Number[4] of M&A banking deals between BU banks**



Source: Dealogic

Figure 1.8: **Intra-BU M&A deals completed as a share of total banks in the BU**



Source: Eurostat, Dealogic

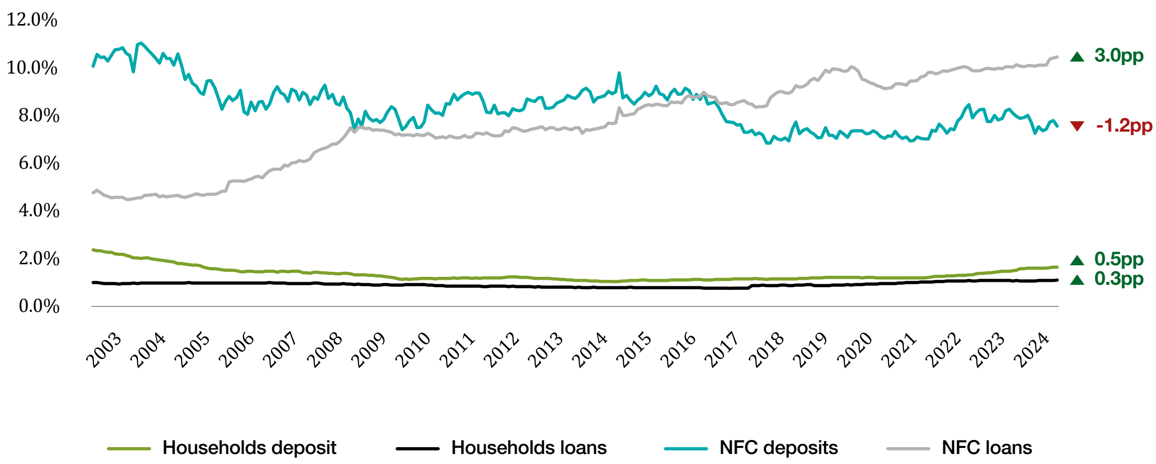
A challenge further discussed in section 3 of this report, is the persistent delay and cumbersome process for the authorisation of banking M&A in the BU. Banking is the economic sector in the EU where it takes longer to complete M&A with 285 days between announcement and completion dates. Furthermore, the time it takes to complete a banking M&A has increased by more than 100 days since 2014 (prior to the start of the BU). The data also shows that it takes significantly longer to complete a banking M&A in the BU compared to any other global banking competitor regions.

Lack of cross-border activity within the Banking Union

There has been very limited progress in the provision of cross-border banking services across the BU.

Since March 2013, date of the political agreement to establish the first pillar of the BU, the share of non-domestic retail deposits has increased by just 0.5 pp, while non-domestic retail loans have grown by 0.3 pp. At the same time, non-financial corporate (NFC) deposits have declined by 1.2 pp, while NFC loans have increased by only 3.0 pp. This shows that the banking sector continue to be largely domestically concentrated.

Figure 1.9: **Provision of cross-border banking activities within BU (% of total)**



Source: ECB

4 Within the BU, banking M&A deal value since 1995 amounts to $645bn, of which only $53bn has been recorded since the inception of the BU in 2014.

A closer inspection by country shows that only very few countries exhibit high levels of cross-border integration (chart 1.10). Among them, Luxembourg stands out, with a significant share of deposits and loans originating from non-domestic sources, largely due to the incentives created by the local fiscal framework, incentives for financial services to locate there, and the international nature of its labour force. The favourable fiscal framework may also explain the large portion of cross-border NFC Loans in Ireland.

One of the key objectives of the BU was to foster a more integrated European banking market, reducing fragmentation and ensuring that capital and liquidity could flow freely across Member States. However, the data suggest that progress has been slow, with most national banking systems still primarily serving domestic markets, although the use of cross-border branches by BU banking groups has partially allowed the cross-border provision of banking services.

It must be acknowledged, however, that other barriers not related to the BU may limit the full integration of a cross-border banking market. These include, for example, language differences and the difficulty and search cost (e.g. legal, compliance costs) incurred by debtors and creditors to engage in a cross-border transaction, as well as unharmonised insolvency laws.

Figure 1.10: **Non domestic banking Activity (% of total)**

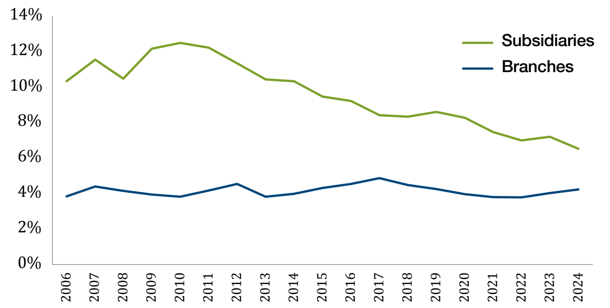
as a % of total Dep/Loans	HH Deposits	HH Loans	NFC Deposits	NFC Loans
Luxembourg (LU)	36.94%	26.44%	47.74%	60.24%
Austria (AT)	2.34%	4.30%	8.25%	12.56%
Belgium (BE)	2.39%	3.03%	4.30%	15.78%
Lithuania (LT)	16.51%	3.67%	12.65%	1.46%
Ireland (IE)	1.66%	0.46%	6.14%	50.17%
Malta (MT)	9.01%	4.17%	1.51%	11.66%
Netherlands (NL)	2.18%	0.32%	16.05%	22.91%
France (FR)	1.56%	1.16%	10.14%	5.99%
Cyprus (CY)	4.39%	0.37%	3.71%	11.87%
Latvia (LV)	6.17%	0.52%	2.80%	6.52%
Germany (DE)	0.65%	0.57%	4.85%	14.14%
Portugal (PT)	2.47%	1.47%	1.80%	1.96%
Spain (ES)	0.94%	0.63%	4.36%	5.10%
Estonia (EE)	20.71%	0.36%	1.49%	2.91%
Finland (FI)	0.72%	0.23%	14.90%	1.92%
Slovakia (SK)	0.52%	0.08%	5.93%	4.75%
Slovenia (SI)	0.67%	0.33%	0.28%	7.33%
Greece (GR)	0.79%	0.33%	3.05%	0.69%
Italy (IT)	1.16%	0.13%	0.93%	1.94%
Croatia (HR)	1.58%	0.17%	0.89%	1.42%

Source: ECB

Prior to the BU, in the absence of cross-border banking lending and deposits, European banks established subsidiaries in other (now BU) countries. The presence of subsidiaries, however, has declined since the end of the European sovereign debt crisis from 12% of total euro area banking assets in 2010 to 6.5% in 2024. The participation of branches by cross-border banks has continued relatively unchanged representing c4% of total euro area assets since 2006.

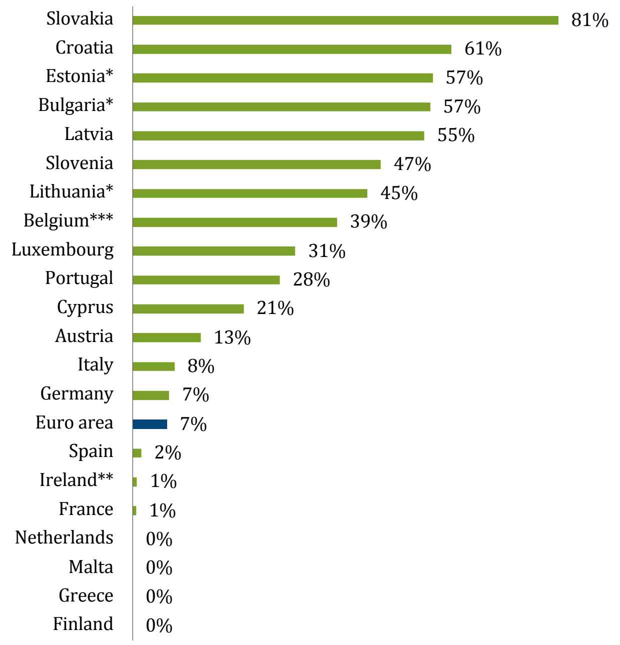
The participation of cross-border subsidiaries in BU countries, however, significantly varies by country. ECB data indicates that in Slovakia, c81% of total banking assets are from cross-border subsidiaries of other EU countries. This contrasts with the EU subsidiaries in France (2% of banking assets), or Spain (1%) were cross-border participation via subsidiaries is relatively minor.

Figure 1.11: **Cross-border EU banks' subsidiaries and branches assets in the euro area (% euro area banking assets)**



Source: ECB (SSI.A.U2.122C.T12.1.L0.Z01.E and BSI.Q.U2.N.R.T00.A.1.Z5.0000.Z01.E.

Figure 1.12: **Participation of cross-border EU subsidiaries in the local banking system (% assets)**

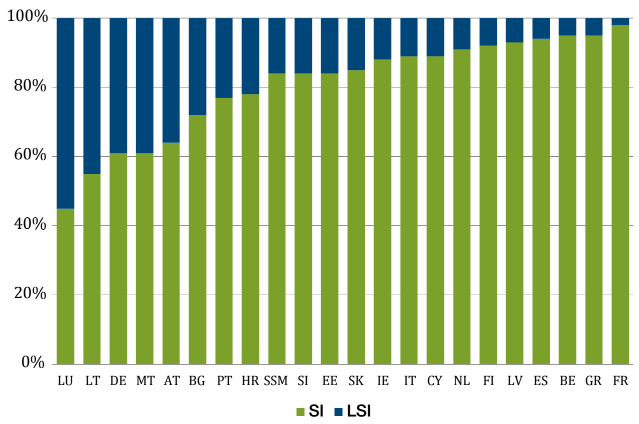


Source: ECB. In Estonia, Bulgaria, Lithuania, the large participation is due to subsidiaries of EU non-BU countries (Sweden and Hungary). Belgium based on ING and BNPP Fortis. Ireland based on Intesa

Unharmonised supervision contributes to fragmentation

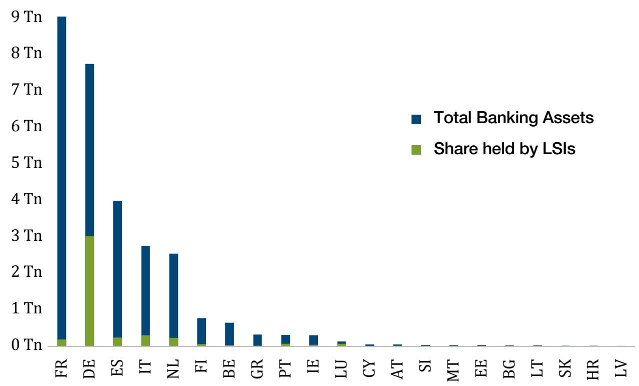
A key aspect of the BU's supervisory framework is the distinction between Significant Institutions (SIs) and Less-Significant Institutions (LSIs). While the ECB directly supervises SIs, LSIs remain under the authority of their national supervisors, albeit under the ECB's oversight. As a result, the supervisory structure inherently retains a degree of fragmentation.

Figure 1.13: **Percentage of banking assets by SIs (2024)**



Source: ECB

Figure 1.14: **Total banking assets (2024 - €)**



Source: ECB

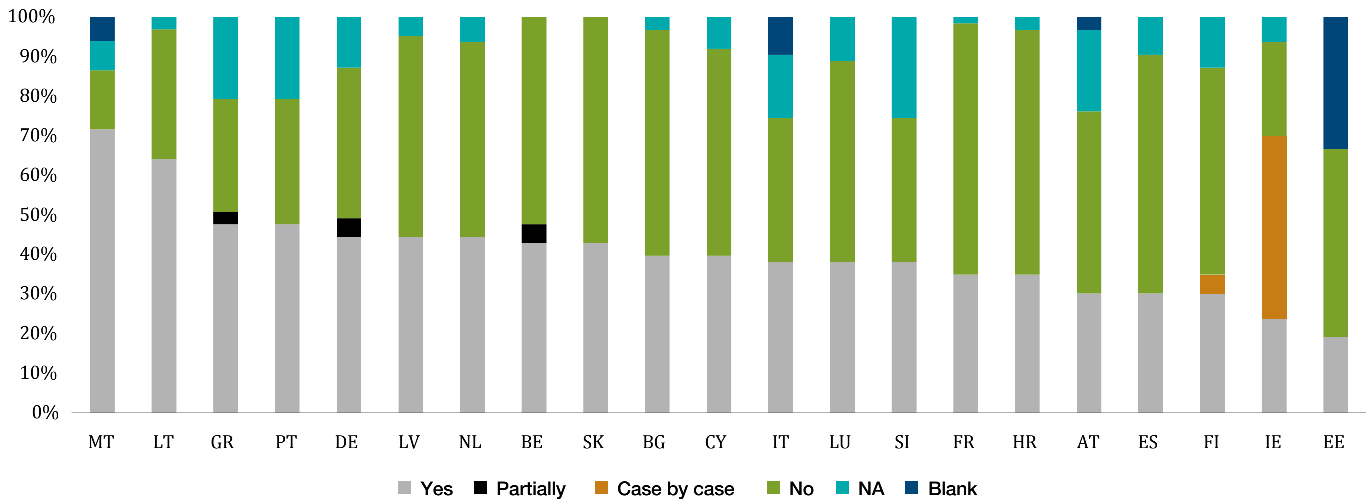
Figure 1.13 illustrates the share of banking assets held by LSIs within the BU. While some countries have less than half of their assets held by SIs (e.g., 45% in Luxembourg), others are almost entirely dominated by SIs (e.g., 98% in France and 95% in Belgium).

Figure 1.14 highlights structural fragmentation within the Banking Union. While French banks hold around €9 trillion in assets (with just €180 billion in LSIs) Germany's €7.7 trillion banking sector is far more decentralised. Around €3 trillion are held by LSIs, largely driven by the Sparkassen-Finanzgruppe and the network of regional Landesbanken. Furthermore, as these are consolidated figures, they do not reflect the further fragmentation that persists within banking groups.

Veron (2020) notes how Germany is unique in its LSI/SI structure resulting in being "partly sheltered from uniform rules and disciplines that now apply to nearly all the area's other banks." For consistency reasons, it should be considered that LSI that are linked within structures ensuring a certain level of solidarity should rather be regarded as a group and be subject to ECB's supervision and fall within the remit of the SRB as resolution authority.

Moreover, numerous national Options and Discretions (O&Ds) still apply. Although the ECB has a harmonised approach to O&Ds under its control for SIs under its supervision (the vast majority of EU banking assets), other O&Ds remain under the control of national supervisory authorities and are applied for LSIs. Yet others are Member State options enshrined in national legal frameworks by which all EU banking supervisors, ECB or NCAs must abide . Outside of the EU supervisory community, it remains challenging to make an overall quantitative assessment of this persisting situation. Chart 1.15 below offers a count of O&Ds under NCA control for LSIs, based on EBA reporting of O&Ds.

Figure 1.15: **Use of Options and Discretions exercised by NCAs Member States for LSIs (2024)**



Source: EBA

This dual system creates a mix of BU-wide consistency and local variation, where some regulatory treatments are unified while others still differ across countries, especially for less significant banks or in areas explicitly (or implicitly) reserved to national discretion and therefore also applied to SIs. This additional layer of fragmentation limits the full convergence of supervisory practices within the BU.

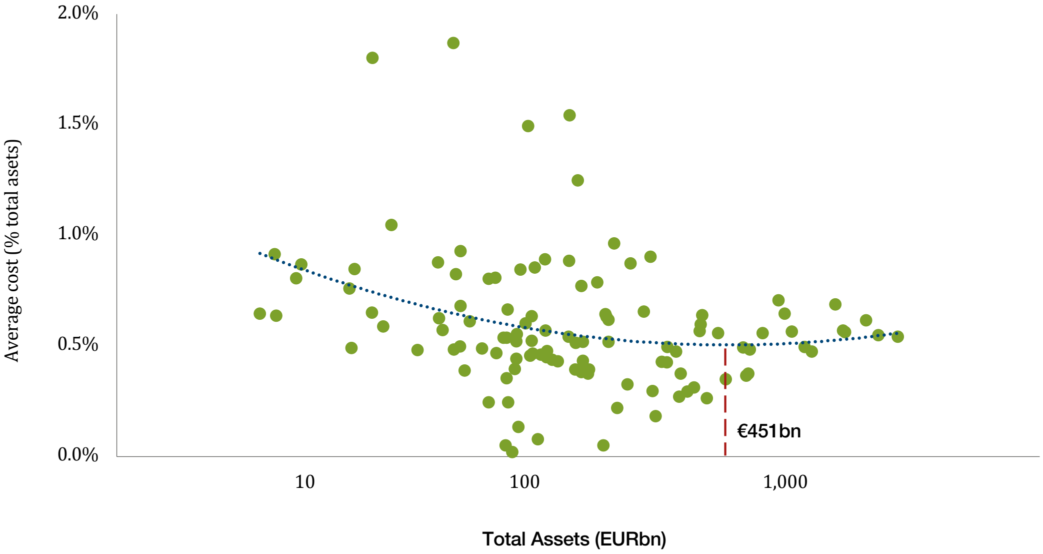
Cross-border Banking groups face limits to economies of scale

The fragmented BU regulatory landscape poses significant challenges for large cross-border financial institutions. Specifically, banks operating across multiple BU countries must navigate a complex set of different regulatory requirements in each jurisdiction. This regulatory heterogeneity, coupled by the absence of waivers to move freely capital and liquidity, prevent these institutions from fully capitalising on economies of scale.

Specifically, we estimate that average operational costs (administrative expenses relative to total assets) decrease up to €451bn total assets, beyond which average costs begin to rise. This inflection point indicates that larger banking groups may struggle to achieve further efficiency gains without regulatory change.

As noted by the Draghi report, the limits to economies of scale and the lack of a completed BU means that EU banks cannot match the size and profitability of their US counterparts.

Figure 1.16: **Fragmentation prevents large banking group of making use of economies of scale: economies of scale of EU banks by average operational costs (2023)**



Average Cost = Admin. expense / Total Assets
Each dot represents a bank. AFME estimates with EBA data. Total assets in logs.

Banking Union Implementation Gaps

Implementation Gaps: Pillar I - Single Supervisory Mechanism

The first pillar of the BU, the Single Supervisory Mechanism (SSM), was established in response to the euro area financial crisis to ensure consistent and robust supervision of banks across participating EU MS.

Operational since 2014, the SSM grants the European Central Bank (ECB) direct supervisory authority over significant institutions while working alongside national competent authorities (NCAs) for the oversight of smaller banks. Its primary objective is to enhance financial stability by enforcing uniform prudential standards, mitigating systemic risks, and fostering market confidence.

Gap 1: Regulatory ring-fencing: Waivers and trapped capital

Bank capital and liquidity is effectively "trapped" within subsidiaries of cross-border banking groups.

The EU legal framework allows supervisors to waive certain prudential requirements at the level of individual subsidiary banks, enabling banking groups to meet these requirements on a group-wide basis instead of holding them separately at each subsidiary entity. In theory, such waivers could enhance cross-border banking by allowing an optimal transfer of capital and liquidity resources between legal entities within the same group.

However, as currently provided for by CRR, capital waivers can only be granted to subsidiaries within the same Member State, not across borders within the BU. And while on the contrary, cross-border liquidity waivers are actually allowed by CRR, in practice AFME bank members consulted for the production of this report continue to note that they have made multiple requests for authorisation of cross-border liquidity waivers, which have not resulted in any concrete outcomes; this is the case even within the Eurozone for SI supervised by the SSM

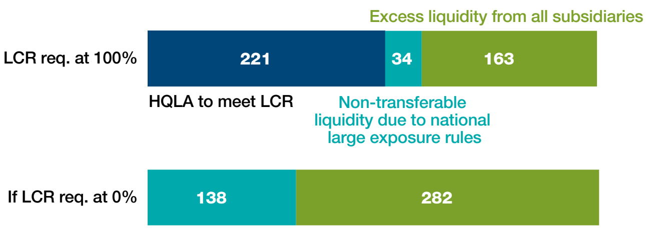
These restrictions severely limit competitiveness, discourages banks from operating cross-border, and reduce efficiency gains from a truly integrated banking framework.

The wider financial repercussions are major. In a 2021 speech at the Eurofi Financial Forum, Andrea Enria[5] (then Chair of the ECB Supervisory Board) noted that the absence of cross-border liquidity waivers meant that c€250bn of high-quality liquid assets (HQLA) were effectively trapped and unable to move freely within the Union.

The estimate, as shown on chart 2.1, is based on the amount of HQLA that non-domestic subsidiaries of SSM significant institutions must hold to meet the domestic liquidity coverage ratio (LCR) minimum 100% required level (€221bn) in addition to further limits due to the large exposure regime (equivalent of €34bn) which also limits the capacity of banks to transfer resources between institutions of the same banking group (see Gap 3 on page 24 for further detail). As shown on chart 2.1, even if the LCR requirement for subsidiaries was fully waived, around €140bn of HQLA would still not be transferable and would continue to be trapped due to the large exposures regime further constraining liquidity allocation in the system.

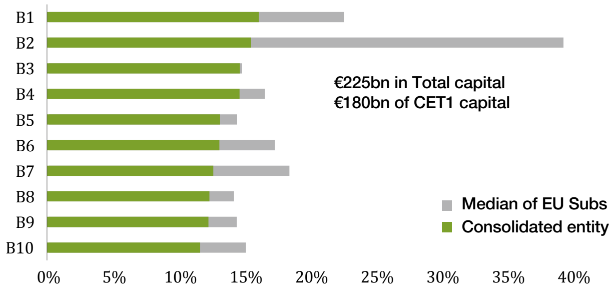
5 https://www.bankingsupervision.europa.eu/press/speeches/date/2021/html/ssm.sp210909~18c3f8d609.en.html

Figure 2.1: **EUR 250bn in trapped liquidity: Excess liquidity held in the euro area by non-domestic subsidiaries of SSM SIs under minimum LCR at 100% and hypothetical case of LCR at 0%**



Source: ECB

Figure 2.2: **Trapped capital: CET1 ratio for SI non-domestic subsidiaries and their consolidated entity**



Source: Banks' annual reports, 2023

The amount of trapped capital is also not minor. In the same speech, Enria noted that risk-weighted assets (RWA) resulting from the requirements of cross-border subsidiaries are approximately 25% higher than the consolidated RWA contribution of these subsidiaries at the group level.

AFME estimates from earnings reports of the largest BU banking groups (assets above €500bn) show that their cross-border subsidiaries (within the BU) have consistently higher CET1 ratios than their consolidated entity (see chart 2.2). For these large banking groups, there is a total of €225bn in trapped capital (and €180bn of CET1 capital) held at the subsidiary level[6].

The competitive disadvantage is further exacerbated by internal MREL requirements that apply at the level of all subsidiaries and cannot be waived cross-border (see for further detail Gap 6 of this report on MREL).

This raises the important question that if cross-border waivers on requirements for subsidiaries would be used, how much of these €225bn could be re-purposed in a more productive manner for banks.

A pure balance sheet approach likely underestimates the full cost of trapped capital and liquidity for banks, as the opportunity cost of restricted resource mobility must also be considered. An extra additional opportunity cost based on European banking RoE of 10% for SSM banks in 2024 can be a fair assumption of additional opportunity cost of preventing the free movement of capital and liquidity cross-border.

Why have cross-border waivers not been approved?

A key barrier to cross-border waivers is the persistent trust deficit between national supervisors, where in cases of distress, there is general concern that Home supervisors may prioritise the parent bank while Host supervisors focus on the stability of the local subsidiary.

For this reason, it has so far not been possible to introduce a reasonably workable framework for cross-border capital waivers in the Level 1 legislation, similar to the national capital waiver system that has been effectively implemented in some Member States in the pre-SSM era.

As regards liquidity, although the ECB/SSM has ultimate authority to approve cross-border waivers, National Competent Authorities (NCAs) still influence decisions due to NCA involvement in the ECB Banking Supervision's governance structure. A similar structure applies to the EBA.

6 AFME estimate of total capital amount sourced from Pillar 3 disclosures of BU subsidiaries of the largest BU banking groups (assets above €500bn). Banks included are ING, CA, DB, BPCE, SAN, BNPP, UC, SocGen, BBVA, Commz, CaixaBank, DZ Bank, Credit Mutuel, Intesa, Rabobank

This regulatory ring-fencing is not only suboptimal but also discourages banks from operating cross-border, contrary to the BU's goal of servicing clients across borders.

Supervisors should acknowledge the substantial institutional progress achieved over the last decade, with a revised resolution framework and significantly improved banking sector resilience. For example, the SRF has reached its target level, the MREL shortfall has nearly been eliminated, the sovereign-bank nexus has reduced, and asset quality has improved. These developments should be leveraged to build trust between Supervisors.

The European Banking Authority (EBA) offers a binding mediation mechanism to resolve disputes between NCAs, including cross-border waiver requests. However, to our knowledge, it has never been used to discuss a cross-border waiver approval.

To tackle this, the Draghi report suggests creating a set of cross-border banking norms specifically suited for the largest banks with cross-border BU operations . While it is unknown if the Commission may consider the Draghi several elements may need to be considered. These include ensuring a level playing field between banking institutions by creating a separate 'country blind' jurisdiction from a regulatory, supervisory and crisis management perspective, as well as avoiding the introduction of further complexity to the already too complex BU framework.

Gap 2: Intragroup exposure limits and fragmentation within group entities

The discretionary application of the intra-group large exposure framework is another layer of fragmentation that impedes capital mobility and limits BU competitiveness. This fragmentation is compounded by the interaction with Internal MREL requirements, which creates additional capital efficiency challenges for cross-border banking groups.

CRR allows national competent authorities to fully or partially exempt from the large exposure limit or reduce risk weights applied to intragroup exposures. The underlying rationale of setting such exposure limits is to avoid banking groups concentrating risks in certain subsidiaries and isolate operations from potential financial distress in other BU Member States.

The national implementation has led to some Member States imposing stringent limits on intragroup exposures within banking groups. Other MS, on the contrary, maintain a more flexible approach.

Table 2.3 below illustrates the example of a European credit institution and the variety of intragroup exposure limits set by each country with subsidiary participation. Some countries set a strict percentage limit on T1 and RWA, while others allow discretion and judge exposure on a case-by-case basis.

Figure 2.3: **Example of Regime for a European Bank**

	Large exposure limit	Risk weights to intragroup exposure
Austria	25%	0%
Bulgaria	25% with exceptions at 20% and 10%	0-100%
Croatia	25%	0-100%
Germany	25%	0-25%
Italy	25%	0%
Slovenia	25%	0%

Source: European bank

The lack of harmonisation creates inefficiencies in capital allocation for cross-border banking groups and introduces an uneven playing field where banking groups face different constraints based solely on the location of their subsidiary exposure.

These inefficiencies are further exacerbated by the interaction between intra-group large exposure rules and Internal MREL requirements, which creates a "liquidity trap" effect. When parent companies are required to provide capital to BU subsidiaries through internal MREL instruments, this liquidity becomes effectively locked within those subsidiaries due to large exposure limits, preventing optimal capital redeployment across the group even when other entities may need additional resources.

For purposes of resolution planning, in countries that apply intra-group exposure limits, banking groups must treat their subsidiaries effectively as external counterparties with no consideration from being part of the same banking group. Resolution plans must therefore account for potential constraints on moving funds between entities during a crisis, potentially undermining the effectiveness of resolution strategies.

Furthermore, banking groups face disincentives to pursue cross-border mergers and acquisitions when intra-group exposures would be subject to restrictive limits in certain jurisdictions. It can act as a natural barrier to entry in countries where the national supervisor sets more stringent discretionary limits, further preventing banking consolidation and competitiveness across the Union.

The restriction further prevents optimal capital allocation within cross-border groups and limits the capacity of banking groups to make use of economies of scale.

Gap 3: Supervisory complexity and national involvement in banking consolidation

The authorisation process in case of cross-border M&A transactions involving a BU based institution is generally lengthy and complex due to the involvement of different NCAs (i.e., the NCA of the proposed acquirer and the NCA of the target institution) and the ECB.

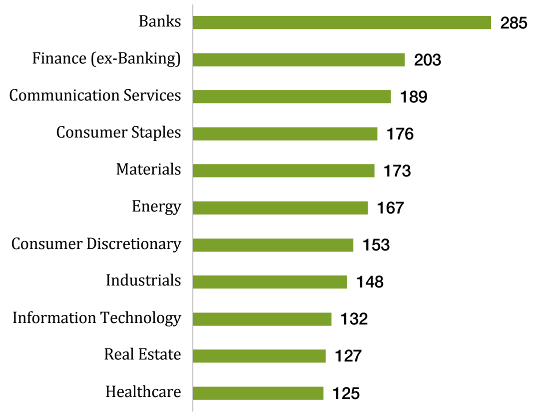
Despite the ECB efforts on their role and expectations in M&As and the fact that both the ECB and the NCAs are open to dialogue before and in the course of the authorisation procedure, there is still room for simplification of the ECB authorisation process, in terms of information and certifications requested to banks.

When the M&A transaction involves a non-euro-area based institution, although the ECB has signed cooperation agreements with most of the NCAs out of the euro-area and out of EU, often there are complex and unclear national procedures. These lengthy processes prolong the timeline of the acquisitions, with impacts in terms of cost and resources allocated. To reduce the execution risk, an overall reduction of the time of the authorisation processes is fundamental, particularly in the case of M&A transactions involving ECB supervised institutions.

The evidence of an inefficient authorisation procedure is clear.

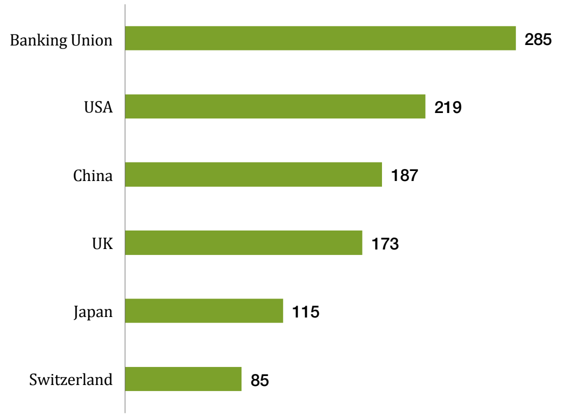
Dealogic data on M&A transactions show an underwhelming record for banking sector M&As: banking is the economic sector in the EU where it takes longer to complete M&A with 285 days between announcement and completion dates on average for the last three years (2022-2024). Furthermore, the time it takes to complete a banking M&A has increased by more than 100 days since 2014 (prior to the start of the BU). The data also shows that it takes significantly longer to complete a banking M&A in the BU compared to any other global banking competitor region.

Figure 2.4: **Time it takes to complete an M&A in Banking Union countries by economic sector (days, 3Y average 2022-24)**



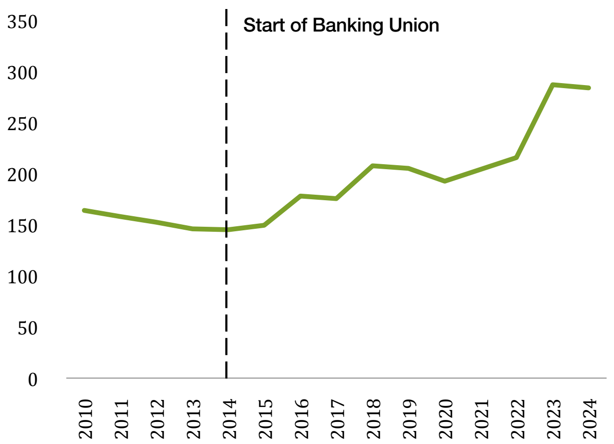
Source: Dealogic, time between announcement and completion dates. Includes deals with deal value above €20mm and excludes deals where completion dates are below 30 days for statistical consistency

Figure 2.5: **Time it takes to complete a banking M&A globally (days, 3Y average 2022-24)**



Source: Dealogic, time between announcement and completion dates. Includes deals with deal value above €20mm and excludes deals where completion dates are below 30 days

Figure 2.6: **Time it takes to complete a banking M&A in the Banking Union (days, 3Y rolling average)**



Source: Dealogic

Mergers among national institutions designated as significant institutions under the SSM need prior authorisation by the ECB and the European Commission under competition law (when certain thresholds are met). The European Merger Regulation allows Member States to invoke national exceptions to concentrations to protect legitimate interests such as national security, provided that such measures are compatible with EU law.

In recent domestic proposed takeovers, including the UniCredit-Banco Bpm acquisition, national governments exercised their powers of preventive control and, while formally authorising the transactions, subjected them to a series of conditions which are incompatible with EU competition legislation, undermining the economic rationale of the mergers, and eroding the role of shareholders, who should have the final say in these processes[7].

These national policies added a more restrictive layer of decision which runs counter to the ECB's supervisory role, may be contrary to EU law, and lead to a potential clash between national and European institutions. National governments seem increasingly to be enacting their power of preventive control to obstruct cross-border mergers, further endangering EU banking consolidation.

7 See for further detail Claudia Buch's public hearing ahead of her 15 July ECON Committee hearing in https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/773693/ECTI_IDA(2025)773693_EN.pdf

Implementation Gaps: Pillar II - Single Resolution Mechanism

The Single Resolution Mechanism (SRM) ensures an orderly resolution of failing banks with minimal costs to taxpayers and the real economy. The SRM provides a common approach for BU Member States.

The SRM consists of the Single Resolution Board (SRB) and the Single Resolution Fund (SRF).

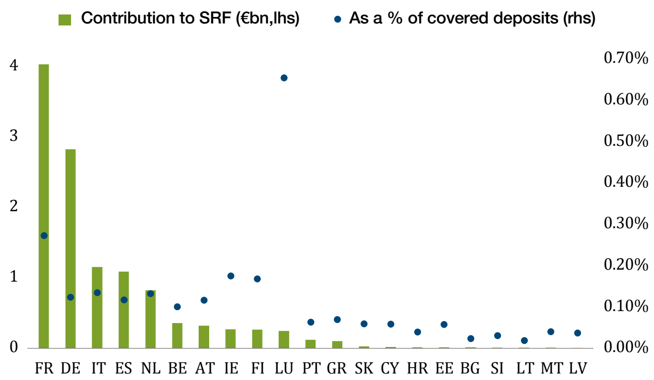
Gap 4: Contributions to the Single Resolution Fund are unpredictable and onerous

The SRF, as a pool of funds to be used in times of stress, if necessary, after the use of MREL of the failing bank, is funded by contributions from banks operating in the BU. This ensures that the financial industry bears the cost of bank failures rather than taxpayers. There are, however, significant concerns regarding the SRF contribution system and its disproportionate burden to banks operating in certain MS. SRF contributions are calculated on the basis of each bank's liabilities, excluding own funds and covered deposits, adjusted according to the institution's risk profile and other wider market considerations.

The methodology leads to disproportionate contributions from banks concentrated markets creating an uneven playing field based on market structure which focuses too much on the size of an institution rather than the actual risks a given bank represents and the probability it ever need to use the SRF. Market concentration reflects the structure of economies and doesn't necessarily indicate higher BU systemic risk and even less the probability of ever using the SRF.

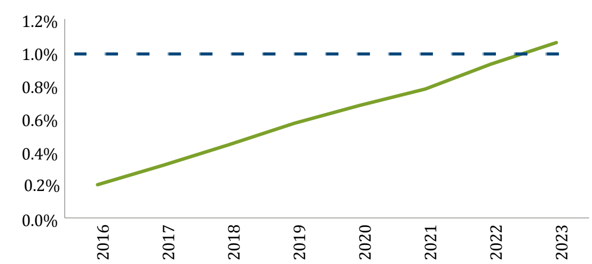
Chart 3.1 illustrates the 2023 SRF contributions, classified by MS. France and Germany[8] are the largest contributors with c€4bn and €3bn respectively, followed by Italy, Spain, and the Netherlands with significant though lesser amounts.

Figure 3.1: **Contribution to the SRF (2023)**



Source: SRB

Figure 3.2: **Size of SRF as % Banking Union deposits**



Source: SRB

Additionally, the calculation methodology is complex and lacks transparency, making it hard for banks to predict future contributions. CEPS (2021) notes that the methodology is "not replicable" because the underlying data for the 3,000 contributing institutions are not available for individual institutions to plan future commitments.

It should also be noted that the Eligible Liabilities (EL) part of MREL are not excluded from the total liability base used to compute the contributions, while the more EL, the less the probability the bank would ever need to use the SRF if it ever fails. In other words, the more EL a bank accumulates, shielding the SRF, the higher its contributions which is rather counterintuitive.

A ruling by the General Court in 2020 highlighted concerns over the transparency of the contribution calculation process, describing it as inherently opaque[9]. While the SRB might have since then improved transparency, there are still numerous cases of banks suing the SRB over past SRF invoices[10]. Between 2016 and 2023, the SRB's decisions on the ex-ante contributions led to 126 legal actions being filed.

8 In Austria, Germany, Italy and Spain, Institutional Protection Schemes (IPS) provide an additional layer of support and managing the resolution of ailing entities with various national specificities and ex-ante contributions to a mutual protection fund by participating banks.

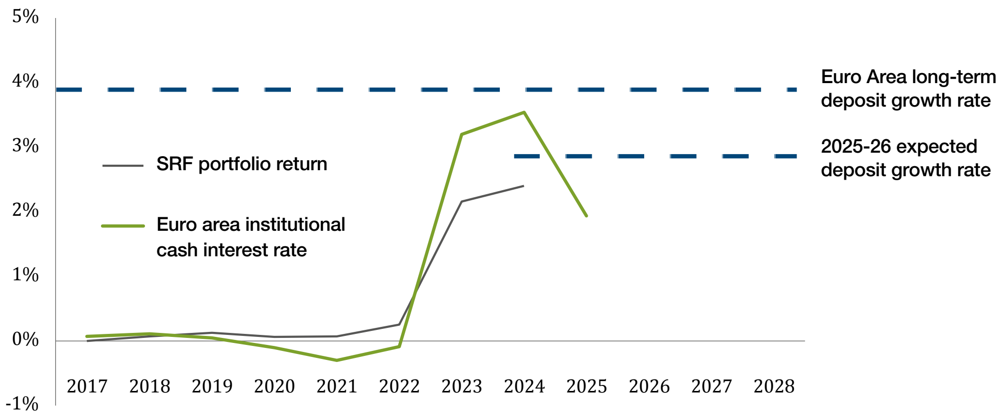
9 https://www.eca.europa.eu/lists/ecadocuments/srm_2020_contingent_liabilities/srm_2020_contingent_liabilities_en.pdf

10 https://ebi-europa.eu/publications/eu-cases-or-jurisprudence/

In 2023, the SRF achieved its target level of 1% of BU covered deposits, after excess contributions collected since 2016. As a result, no additional payments were required for 2024 and 2025. Nevertheless, anticipated growth in covered deposits coupled with low-yielding SRF portfolio returns will likely result in the SRF falling below its target threshold, indicating that contributions will resume in the future.

Market analysts[11] estimate a 3% annual growth in euro area deposits for both 2026 and 2027, while long-term growth in Euro area deposits has been historically at 4% per year[12]. The SRF portfolio currently allocates 70% to cash and cash equivalents and the remaining 30% in low-yield investment grade fixed income instruments[13] making SRF returns highly dependent on market interest rates for bank deposits (see chart 3.3). Following the abnormal 2023-24 inflation episode, SRF portfolio returns increased from 0.1% to 2.4%, reflecting higher interest rates on cash deposits during that period. However, as inflation and market rates stabilise, similar SRF portfolio returns may not continue in the future, with market data already exhibiting a 1.9% deposit rate as of June 2025. This in turn means that SRF portfolio returns may not be sufficient to cover an expected long-term 4% annual growth rate of deposits.

Figure 3.3: **SRF portfolio return and benchmark interest rate for cash instruments compared with annual growth of euro area deposits**



Source: SRB, ECB, Eikon LSEG. Cash benchmark rate refers to euro area corporate deposit interest rate (MIR.M.U2.B.L22.A.R.A.2240.EUR.N)

This raises concerns regarding a potentially expanding financial burden on BU banks when contributions recommence.

More generally, policymakers can consider the mechanism to set the target level of the SRF and the need to keep it at 1% of covered deposits. Indeed, the SRF was created at a time when banks had no MREL yet. Now, each bank earmarked for resolution has normally accumulated a level of MREL sufficient to finance its own resolution, making the need for the SRF to ever intervene quite remote. There is an expectation from the banking market for alternatives, with ideas such as fixing a target in absolute terms subject to periodic revision.

Gap 5: EU MREL requirements put the Banking Union at a competitive disadvantage

The Minimum Requirements for Own Funds and Eligible Liabilities (MREL) seeks to ensure that banks, in case of failure or financial distress, maintain sufficient loss-absorbing instruments to facilitate orderly resolution without the use of taxpayer funds. The MREL framework requires banks to hold a minimum amount of capital in the form of equity and eligible debt instruments that can be converted to equity or written down during resolution to ensure a "bail-in" mechanism.

The implementation of the MREL framework as established in the EU, however, sets more stringent requirements when compared with other major banking jurisdictions like the US and the UK. This undue burden places the wider BU at a competitive disadvantage holding back the international competitiveness of BU financial institutions.

11 Based on LSEG Workspace data, and a sample of 18 of the largest listed BU banks consulted in July 2025.

12 See ECB aggregate balance sheet data.

13 See SRB and SRF Financial accounts for 2023 (here) and 2024 annual report (here)

The minimum MREL is set by resolution authorities. According to SRB data, the weighted average target level in 2024 for BU entities was 28% of RWAs. This compares with 27.3% in the UK and in the US 22% for GSIBs only. Furthermore, in the UK these requirements apply only to the largest banks and in the US only to GSIBs, whereas in Europe, all 114 institutions supervised by the SRB fall within the scope as well as many other banks under the remit of the national resolution authorities. See table 3.4.

The competitive disadvantage is further exacerbated by internal MREL requirements that apply at the level of all subsidiaries and cannot be waived cross-border, even if these entities are not material subgroups and are all within the scope of a single resolution authority, i.e. the SRB. This EU application goes beyond the internationally agreed TLAC standard which requires only material subsidiaries to hold some TLAC at their level, creating an additional layer of regulatory burden that competitors in other jurisdictions do not face.

Figure 3.4: **MREL target level comparison**

	Banking Union	United Kingdom	United States
Metric	MREL target incl. CBR	Loss absorbing capacity (MREL + buffers)	TLAC Target
Scope of application	117 SRB supervised institutions	17 largest banking groups	8 GSIBs
% of RWA	28%	27.30%	22%

Source: SRB MREL dashboard, BoE, SIFMA. For UK :Average weighted by RWEA.

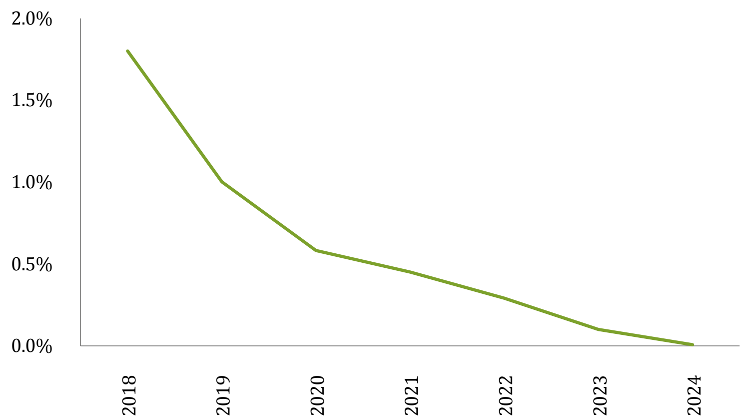
The more stringent MREL requirements force BU banks to issue more loss-absorbing debt instruments than banks headquartered in the US or the UK. This increases overall funding costs adding pressure in interest margins and wider profitability as coupon payments of MREL-eligible liabilities are typically higher than the funding costs from other sources like deposits.

The discrepancy in MREL requirements between the BU and global competitors can for instance result in BU subsidiaries of non-EU groups generally facing higher MREL obligations compared to subsidiaries outside the BU, as the host competent authority is in charge of setting the target levels.

To support consistent treatment of foreign law instruments and reduce fragmented, bank-by-bank efforts, EU authorities could lead coordinated engagement with foreign counterparts. This would help clarify eligibility standards and streamline implementation across institutions.

Notwithstanding the more ambitious targets, BU banks have consistently reduced their shortfall against the end-state target and with respect to MREL intermediate annual targets. As of the third quarter of 2024, the MREL shortfall has virtually disappeared to represent on aggregate less than 0.01% of total BU RWAs. See chart 3.5.

Figure 3.5: **MREL shortfall (% RWAs)**



Source: RB

Implementation Gaps: Pillar III - Deposit Guarantee Scheme (DGS)

Gap 6: EDIS is yet to be implemented. But lack of political consensus on EDIS should not be a roadblock to advance on other impactful BU initiatives

The implementation of EDIS remains absent, but this should not be regarded as an impediment to advancing other key initiatives where political consensus is more achievable.

The lack of an EDIS in the event of a bank failure means countries have to fall back on national approaches. By granting the same level of protection for deposits in the Banking Union area, based on a common funding mechanism that is decoupled from the national level, some Member States and market participants consider an EDIS can help deepen European integration while others disagree, which has resulted that since 2017 tangible progress has stalled.

However, as demonstrated in this report, there are additional significant areas that can have considerable impact and would contribute to achieve a more integrated and competitive BU, alongside the long-term EU ambitions to establish EDIS.

As a way to overcome the national political differences on EDIS, the Draghi report suggests creating a separate jurisdiction for European banks with substantial cross-border operations that would be 'country blind' from regulatory, supervisory, and crisis management viewpoints. For these banks, the Draghi report suggests that a separate deposit insurance system could be created, funded by the groups themselves, while national banks remain within existing deposit insurance schemes.

Although details on this Draghi proposal are not known to make an informed opinion, an area for consideration relates to the funding of such instrument where unused contributions to DGSs could be transferred to this new system also implying that no additional contributions by banks should be requested. Furthermore, considering the relative size and importance of such groups, most likely to be resolved rather than wound-down in case of failure, the capacity of such new system should be carefully calibrated to avoid unduly excessive levels.

Implementation Gaps: Single Rulebook

The banking system is supervised in line with the legal framework set out in European legislation and in the transposition of Directives into national law. The existence of a single supervisor and a set of common legislative texts (the single rulebook) help ensure a level playing field for banks in all participating countries, yet these texts still allow for a significant number of divergences in areas such as macroprudential buffers to the detriment of the aims and ambitions of an effective BU.

Gap 7: Unharmonised national macroprudential buffers

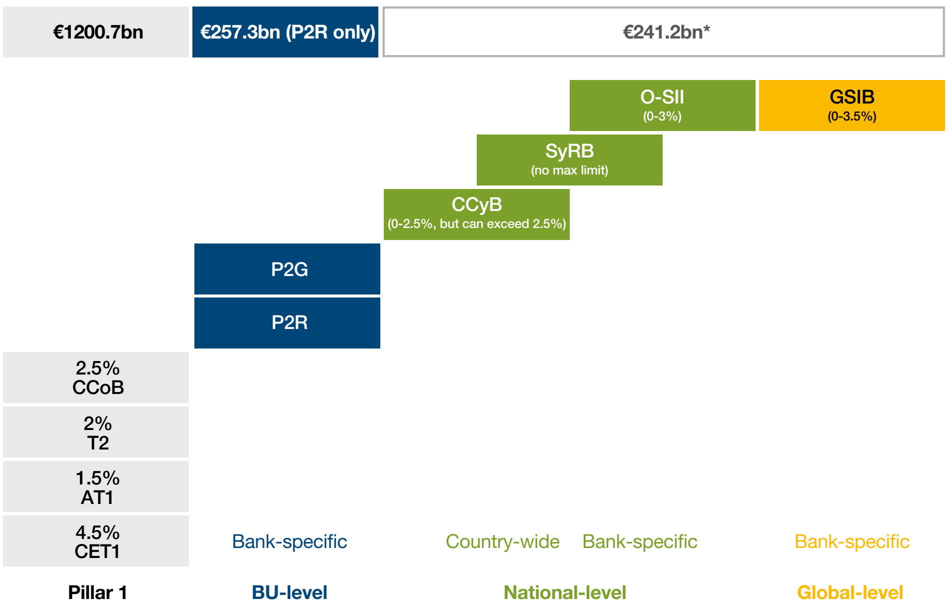
The macroprudential buffers are part of the Basel III regulatory framework and are built to enhance banks' resilience against shocks.

In the European framework, the countercyclical capital buffer (CCyB), the systemic risk buffer (SyRB), and the buffers for global and other systemically important institutions (G-SIIs and O-SIIs), form the set of tools at the dispositions of regulators to tailor capital requirements on the basis of bank-specific and macroprudential risks. While the G-SII buffer is set at the supranational level, the CCyB, O-SII, and SyRB buffers are determined at the Member State level, leaving national discretion for their methodology and adjustment. See diagram 4.1.

In the BU, the ECB is ultimately responsible for the oversight of macroprudential measures implemented by national Delegated Macroprudential Authorities[14].

The powers of various authorities for setting macroprudential buffers is even more complex with respect to those for cross border banks as on top of buffers set by a home authority there may be a complex interaction with reciprocated SyRB and CCyB set by host country authorities.

Figure 4.1: **Capital stack by level of implementation (2024)**



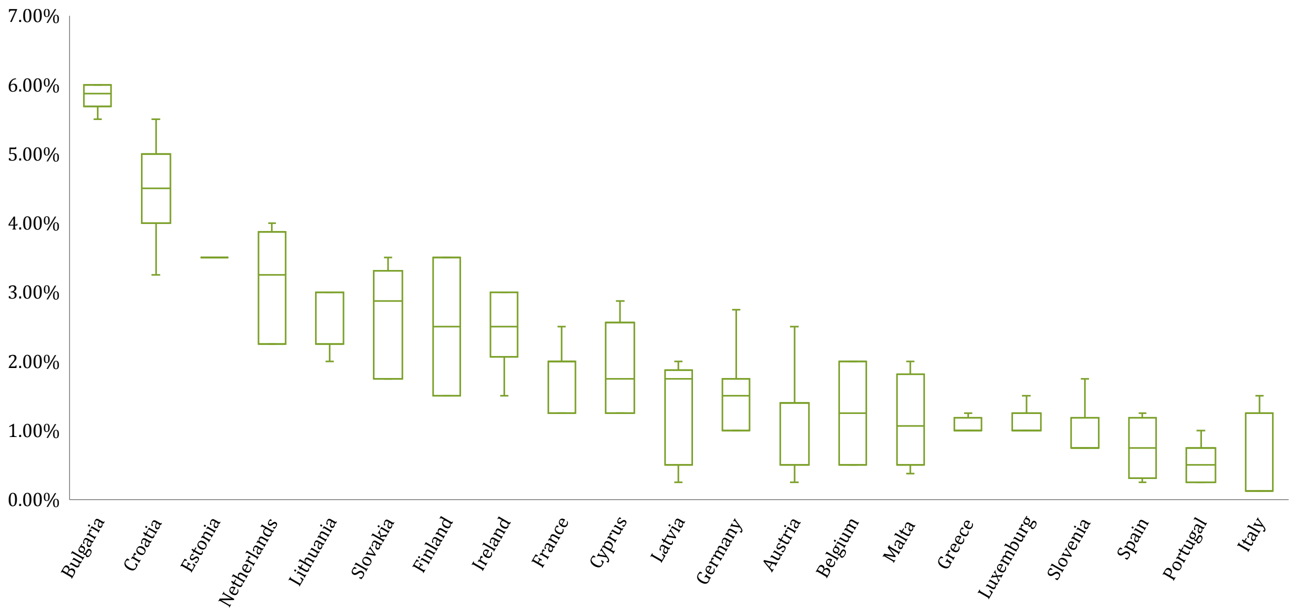
Source: AFME estimates based on ESRB, ECB, Pillar 3 reports data. P2R level estimated as median P2R ratio (2.25%)* BU RWAs (€11.4tn);
*Banks only have to comply with the highest of O-SII or G-SII buffer.

14 See Art 5 of SSM Regulation (Regulation (EU) No 1024/2013) https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1024

Once taken together, ESRB data shows that banks face uneven surcharges from the national implementation of macroprudential buffers. Considering only buffers set at the member state level by local authorities (SyRB, CCyB, and O-SII) it is evident that BU countries have a widely divergent buffer approach creating a degree of fragmentation across national lines. Additionally, the criteria and timing for buffer implementation lacks harmonisation across jurisdictions within the BU, further fragmenting the banking landscape where countries with similar structural risk characteristics can have different buffer requirements.

Chart 4.2 illustrate the significant disparities in macroprudential total buffer requirements and the degree of Member State-induced fragmentation, from a maximum cumulative surcharge of 6% to minimum of 0.5% within the BU (from 3% to 0.5% in western European MS). While some differences should reflect varying macroeconomic conditions as buffers are linked to specific characteristics of institutions and the national financial cycle (see chart 4.7), such pronounced variations are also due to large differences in implementation and buffer policy mix approach between national authorities as shown on chart 4.2 below.

Figure 4.2: **Macroprudential buffer dispersion across the Banking Union (2024)**



Source: ESRB, not including CCoB buffer (2.5% across BU)

The differences are further amplified when reciprocation of SyRB and CCyB are taken into account as those are calibrated by the host country authorities and create complex interactions with local buffer policy mix.

Another source of fragmentation is the use of risk weight measures implemented under article 458 of the CRR. This provision allows NCAs to apply higher risk weight measures to specific types of exposures (mainly CRE) which ultimately increases the amount of RWAs, and therefore, the capital requirements.

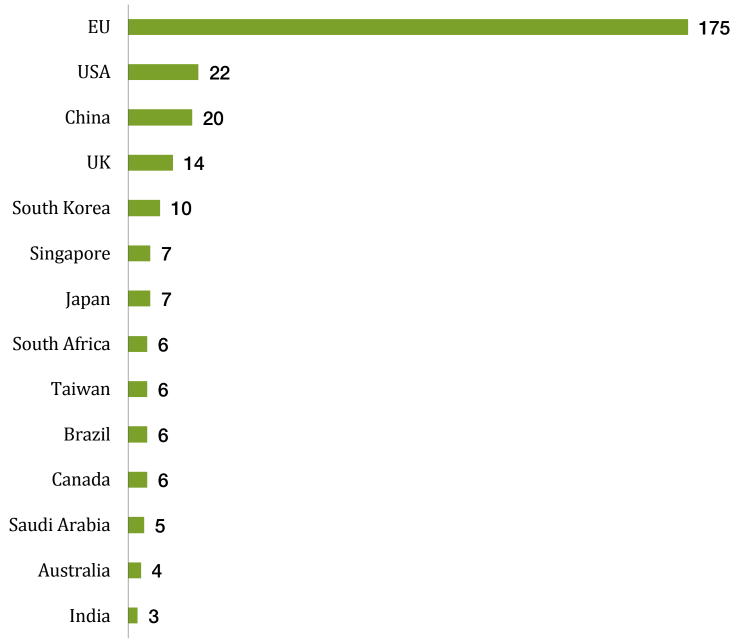
O-SII: one score two different buffers

Of the areas that lack a unified approach, the most significant is the application of the O-SII buffers.

As a start, it is important to note that the EU might be designating too many banks as O-SIIs, far more than other region. The EU has 175 O-SIIs, 3 times more than the UK, China and the US combined, or about c70% of the O-SIIs[15] worldwide, hurting Europe's competitiveness as all these institutions need to comply with an additional capital surcharge on top of the required by other country-specific and bank-specific P2 buffers.

15 175 institutions including GSIBs. Once excluding GSIBS, the EU/ EEA total stands at 168. For other countries, based on D-SIB designation in SGP, SK, AUS, ZA, BRA, JP, CHN, CND, TWN, IND, UK (OSIIs), and US (subject to stress tests).

Figure 4.3: **Number of O-SIIs by designating jurisdiction**



Source: ESRB, EBA, US FED (Banks subject to stress tests), Banco do Brasil, FSC ROC (Taiwan), Office of the SFI Canada, Saudi Central Bank, PBoC, IMF, RBI, FSS, RBA, MAS, BoE, ResBank.

From a methodological perspective, the O-SII buffer is applied at discretion by the MS competent authority, with a minimum floor set by the ECB. The methodological approach stands that each bank is assigned a score on the basis of its underlying systemic risk, which is then translated by the NCA to a certain buffer level.

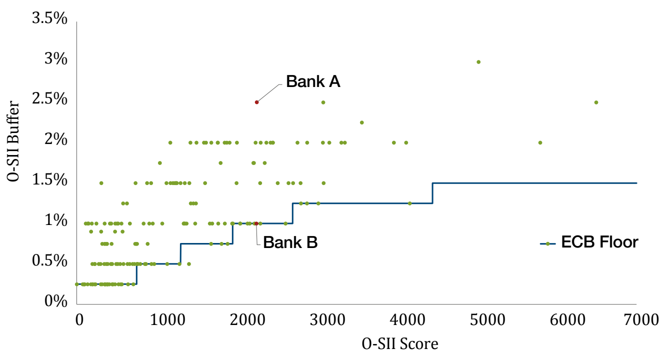
Moreover, while the metrics used to assess systemic risk have been standardised, they are not always appropriate. For instance, cross-border funding diversification increases a bank's score, even though it mitigates funding risk. Similarly, banking sector consolidation raises O-SII scores, which disincentivises efficiency gains in the EU banking sector. For example, O-SII score methodology yields disproportionally high scores for banks that might not be dominant in any single national market but have substantial cross border presence and consolidated assets size in relation to domestic banking system.

Further, there is duplication between the scope for the identification of D-SIB and G-SIB, being both currently determined at the highest level of consolidation (which includes amounts of international institutions established outside the banking union). In this sense, the measurement of the domestic sistemicity of institutions should be in line with the scope of the recent ECB statement on the OSII framework[16], using the consolidated banking sector of all Member States participating in the banking union as the reference banking system.

Moreover, the complexity lies in the fact that MS have discretion in how these scores are translated into capital buffers. As shown in Figure 4.4, this national discretion leads to significant disparities. Banks with similar O-SII scores can be subject to substantially different buffer requirements depending on their country of headquarters. For instance, Bank B has an O-SII score of 2,219 and is assigned a buffer of 1%, aligned with the ECB floor, which place minimum buffer requirements on O-SIIs based on their systematic importance. Meanwhile, Bank A has a similar score of 2,251 but faces a significantly higher buffer of 2.5%.

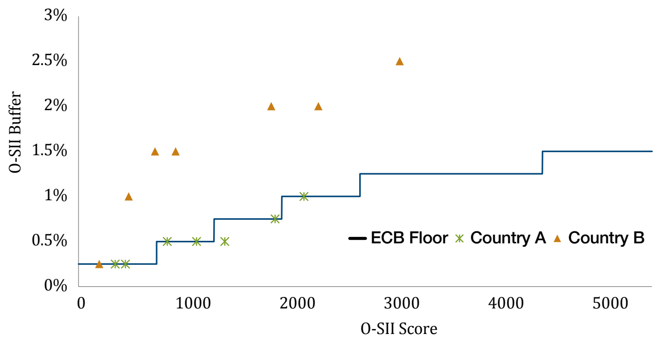
16 https://www.ecb.europa.eu/press/govcstatement/pdf/ecb.govcstatement202412~b1f786e5f1.en.pdf?360ec51a85fd451326c879c9d4c4fe54

Figure 4.4: **O-SII buffer dispersion in the BU (2023)**



Source: EBA

Figure 4.5: **O-SII buffer dispersion: country group example (2023)**

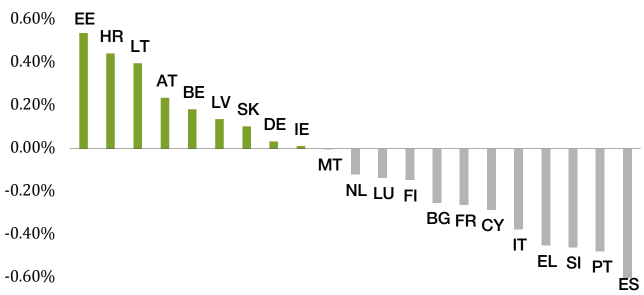


Source: EBA

Although we acknowledge that by design the O-SII is a relative measure of national risk (and therefore the peer group of banks across MS is different), the structural implementation differences by MS result in a fragmented approach within the BU. To illustrate the varying stringency of O-SII buffer/score conversion across Member States, we have selected a sample of two BU countries in Figure 2.11. As shown, banks headquartered in a BU country that we have called "Country A", typically assigned buffers at or very close to the ECB floor. In contrast, Country B banks with similar scores are consistently surcharged with buffers well above the ECB floor, requiring national banks to hold more capital relative to other banks with similar scores based on other MS.

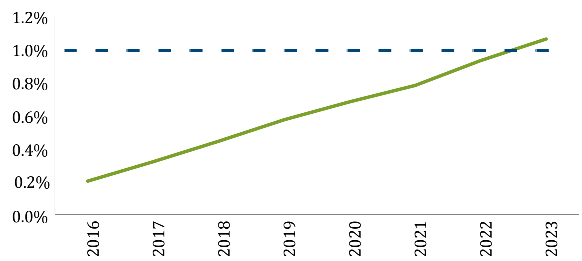
Figure 4.6 illustrates the use of a linear regression model to estimate a 'synthetic buffer' based on the observed score values and the bank O-SII buffer assigned. For each score, the model predicts an expected buffer, which we then compare to the actual individual buffers. This allows us to calculate the average distance between the predicted and actual buffers for each country. These findings show, for example, that Estonia, Croatia, and Lithuania typically surcharge a higher O-SII compared to other BU MS.

Figure 4.6: **Distance from synthetic O-SII buffer (2023)**



Source: AFME estimates based on EBA data

Figure 4.7: **CCyB buffer usage dispersion: 2016-24 (%)**



Source: ESRB. Data based on 2016-2024 buffers. Most recently, Spain will set CCyB at 0.5% in Oct 2025 and 1% in Oct 2026, and Portugal to 0.75% in Jan 2026.

It must be recognised that the ECB has publicly promoted the development of a common EU methodology for setting O-SII buffers. The ECB also issued in late December 2024 a revised O-SII floor to consider the systemic importance of O-SIIs for the BU as a whole. Most recently, in August 2025, ECB staff produced two reports[17] noting the wide heterogeneity observed in O-SII buffers within the BU, highlighting that such level of discretion partly goes "against the direction set by the principles laid down by the Basel Committee".

Although these ECB statements are a commendable step, large O-SII heterogeneity continues and a more ambitious review of the methodology applied by MS is still needed. The solution most likely lies in appropriately calibrating requirements to each bank's risk profile rather than setting them significantly above the ECB's floor.

CCyB buffer: amplifying macroeconomic fragmentation

The Countercyclical capital buffer is designed to anticipate procyclicality in banks' capital by building buffers in times of economic growth while releasing them during economic downturns. However, since its inception in 2016, BU member states have made unharmonised use of this policy tool.

Due to varying national CCyB methodologies and divergent local macroeconomic dynamics, some BU countries have never set a CCyB above zero . In contrast, countries like Bulgaria and the Netherlands currently maintain a 2% buffer, while most member states have historically set positive CCyB rates over the past decade. The divergence across member states is quite evident, as shown in chart 4.7.

The lack of harmonisation and unpredictability of the CCyB framework pose challenges for banks operating cross-border within the BU. As shown in chart 4.8, BU countries have diverse methodological approaches to CCyB calibration, highlighting a limited adherence of the buffer guide (credit to GDP gap) from regulators.

To further complicate the framework, some but not all BU countries make use of a positive neutral CCyB framework setting a CCyB above 0% even in the absence of signs of excessive credit growth (or of a positive output gap). The ECB and the ESRB issued a joint report[18] on the use of a positive neutral CCyB, but this approach has distorted the CCyB into a fixed structural add-on rather than the cyclical tool it was designed to be. Several countries officially adhere to this concept, whether formally or not, deviating from the buffer's original regulatory purpose, creating harmonisation issues across the bloc. It is worth noting that the CCyB was designed to address excessive growth of credits; the positive neutral buffer appears as an unjustified deviation of the initial political intent, allowing National Authorities to structurally increase capital requirements in the absence of any imbalances in the credit cycle.

Notably, there are concerns about overlaps of the CCyB with other instruments like the CCoB (see section below), or on the use of monetary policy as an alternative (and overlapping) countercyclical tool, while it also shares similarities with Pillar 2 Guidance.

From an international competitiveness perspective, it is important to note that a large group of major international banking centres have never made use of this policy tool. Such is the case of the United States, China, Turkey, or Brazil (see bottom of chart 4.7).

17 ECB (2025a) "Heterogeneity in buffers set for systemically important banks in the European banking union" (here) and ECB (2025b) "Enhancing the ECB's O-SII framework" (here)

18 European Central Bank and European Systemic Risk Board, Using the Countercyclical Capital Buffer to Build Resilience Early in the Cycle: Joint ECB/ESRB Report on the Use of the Positive Neutral CCyB in the EEA

Figure 4.8: **CCyB calibration indicators by category**

	credit to GDP*	Other Credit indicators	Real Estate	Banking Sector	Market Risk	Macroeconomic	Use of Positive Neutral CCyB	Number of indicators
Cyprus	X	X	X	X		X	X	27
Netherlands	X	X	X	X	X	X	X	27
Belgium	X	X	X	X	X	X		24
Germany	X	X	X	X	X	X		24
Slovakia	X	X	X	X	X	X		23
Latvia	X	X	X	X	X	X	X	22
Portugal	X	X	X	X	X	X	X	22
Luxembourg	X	X	X	X	X	X		21
Lithuania	X	X	X	X	X	X	X	18
Greece	X	X		X	X	X	X	17
Spain	X	X	X	X	X	X	X	16
Ireland	X	X	X	X	X	X	X	15
Estonia	X	X		X	X	X	X	14
Malta	X	X	X			X		13
Finland	X	X	X	X		X		13
France	X	X						12
Slovenia	X	X	X	X		X	X	11
Croatia	X	X		X	X	X		10
Italy	X	X						6
Austria	X							1
Bulgaria	X							1

Type of CCyB input indicators:

- **Credit to GDP**: Ratio and gap to detect excessive credit growth (following BIS recommendation).
- **Other Credit**: Household credit growth, NFC credit-to-GDP.
- **Real Estate**: House prices and loan volumes for purchases.
- **Banking Sector**: Capital, leverage, profitability, and asset quality.
- **Market Risk**: Stress indices, spreads, and volatility.
- **Macroeconomic**: GDP growth, unemployment, and various confidence indicators.

Additionally, we note the use of PN CCyB: countries that have a framework of setting a CCyB above 0% even in the absence of signs of excessive credit growth.

Source: NCAs, *Following BIS recommendation

An additional layer of complexity is the releasability of the Capital Conservation Buffer (CCoB) and its interaction with the CCyB

The CCoB was designed to be drawn down during economic downturns, however, banks remain reluctant to utilise the CCoB due to significant market stigma and automatic restrictions on distributions that are triggered when the buffer is breached. This reluctance was evident during the COVID-19 pandemic when, despite regulatory encouragement to use buffers, most institutions maintained their capital levels well above minimum requirements effectively treating the CCoB as a Pillar 1 requirement rather than a releasable buffer.

In light of this, in a 2021 report, AFME recommended a rebalancing of the Capital Conservation buffer and Countercyclical Capital buffer and a more transparent, rules-based MDA framework.

SyRB buffer: creating fragmentation at the sectoral level and outside the Basel standard

The EU specific Systemic Risk Buffer (SyRB) was introduced as a macroprudential tool to mitigate structural systemic risks that may affect the banking sector. However, the wide definition and flexible framework of the SyRB have led to inconsistent implementation across Member States. No impact assessment has been conducted to identify potential overlaps with other requirements.

Moreover, it puts EU banks at a competitive disadvantage as the use of SyRB is not a Basel standard.

The discretionary sectoral application of SyRB has created capital requirement disparities for identical banking products across EU borders. For example, as of 2025, Slovenia sets a 0.5% SyRB to retail exposures secured by residential property, while Germany sets a 2% buffer to the same type of sectoral exposure.

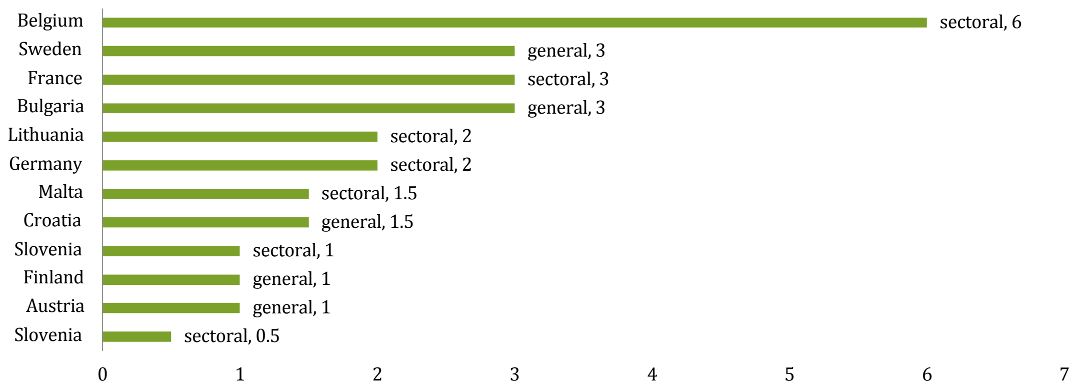
On the other hand, some Member States make use of the SyRB to set general surcharges across all domestic activities, arguing cyclical and systemic concerns, thereby creating an overlap with other macroprudential buffers intended for such purpose (CCyB and O-SII). P2R, P2G and Art 458CRR. This approach also blurs the distinction between structural, systemic, and cyclical tools available for policymakers. Furthermore, general SyRB is more capital consuming that targeted sectoral SyRB and often lacking clear justification why the approach was chosen over a targeted sectoral SyRB.

The interaction and overlaps between sectoral and general SyRB is a challenge. Some countries apply conservative general SyRB and some countries are more targeted, but only small part would be considered as an overlap for a cross-border banking group. E.g. a home authority applying conservative 3% general SyRB would still need to reciprocate a 6% SyRB applicable to specific portfolio and only 3% would be considered as an overlap, effectively increasing the applicable SyRB above the 3%.

Furthermore, when macroprudential authorities reciprocate a foreign SyRB, it is not clear whose responsibility it is to analyse if the intended risks are covered by other measures, e.g. O-SII buffer, local SyRB or microprudential measures. Host countries tend to do superficial cross-border effect analysis, while home authorities are expected to fully reciprocate measures. The complex setup of different prudential authorities multiplies the risks for cross-border institutions facing several macroprudential measures.

It is crucial that the SyRB framework is clarified and simplified. If it is confirmed that the same objectives can be achieved using existing tools, the SyRB should be phased out. Countries with similar systemic risk characteristics have different approaches to SyRB, thus the use of the tool is representative of risk appetite by authorities than risks per se. Its discretionary implementation by Member States has contributed to further fragmentation within the BU.

Figure 4.9: **SyRB surcharge (%) by Member State and level of application**



Source: ESRB

Tracking progress with a Banking Union dashboard

A Banking Union tracking dashboard

In this section we present a BU dashboard which seeks to provide a framework to assess progress towards completing the BU, highlight implementation gaps, and quantify disparities at the Member State level across various BU dimensions.

The Dashboard also includes an average ranking by Member State, which is estimated as an average performance across all dimensions, enabling to benchmark overall progress and identify priority areas for policy intervention.

The Dashboard provides a comprehensive overview of the financial landscape across Member States, identifies possible emerging risks, and highlights areas of progress and persistent fragmentation.

From a methodological perspective, the Dashboard tracks key performance indicators (KPIs) through the following areas:

1. **Banking integration:** cross-border provision of loans and deposits within the Banking Union, cross-border participation of EU subsidiaries in the local banking market, and banking M&A transactions;

2. **Risks:** Non-performing loan ratios; and

3. **Implementation gaps across all three pillars of the Banking Union:**

   a. **Pillar 1:** Proportion of assets held by less significant institutions (LSI) outside ECB direct supervision; and degree of use of national discretions in the implementation of CRR;
   b. **Pillar 2:** relative contributions to the Single Resolution Fund compared to national banking assets;
   c. **Pillar 3:** levels of deposit coverage under national guarantee schemes.
   d. **Single rulebook:** Divergence through varying macroprudential buffer requirements

By presenting these metrics in a comparative ranking format, the Dashboard serves as both a diagnostic tool for policymakers and a transparency mechanism for tracking the journey toward a truly unified Banking framework. The rationale for inclusion of these metrics is set in the previous sections of this report, noting that resilience, integration, and risk reduction are all elements of relevance for a successful BU. Likewise, we have identified a number of gaps which currently prevent a more cohesive development of the Union.

Evolution of BU at the aggregate Union level

The Dashboard on the next page presents the evolution over the last decade of the various Key Performance Indicators across each of the selected dimensions, evaluated at the aggregate level across the BU.

Some of the findings have been discussed in previous sections of the report:

Integration has not materially changed as the provision of cross-border lending only marginally increased, cross-border provision of corporate deposits has marginally declined, presence of cross-border subsidiaries has declined, and consolidation of banking institutions has deteriorated as measured by the level of banking mergers and acquisitions (relative to total number of credit institutions).

The level of systemic risks has reduced for instance as illustrated by fall in as non-performing loans.

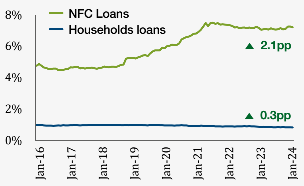
On Single supervision, the evolution is mixed-to-negative. There is wider inconsistency in the implementation of macroprudential buffers in 2024 vs half a decade ago; the proportion of assets held by less significant institutions (including infrastructure) has fluctuated around 18% of total assets (16% ex-infrastructure), although admittedly the number of LSIs has declined by more than 1,000 since the inception of the SSM; and the amount of trapped liquidity and trapped capital at the subsidiary level is jointly close to €500bn.

On single resolution, evolution is mixed. Although the single resolution fund has reached its target level of 1% of total BU deposits to fund resolution, the application of SRF contributions by banks (measured here as average aggregate by MS) continues to be inconsistent and its dispersion measured as the difference between the minimum and the maximum average contribution aggregated by MS, has widened over the last half decade.

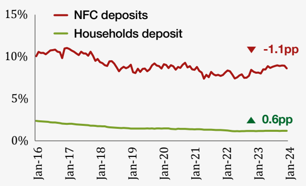
Dashboard 1.1: **Banking Union Dashboard: Evolution of Key Performance Indicators**

Integration

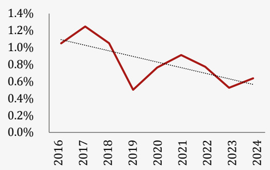
Cross-border loans (% loans)



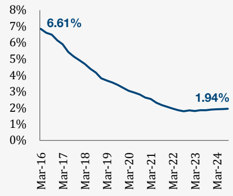
Cross-border deposits (% deposits)



Cross-border EU subsidiaries (% assets)

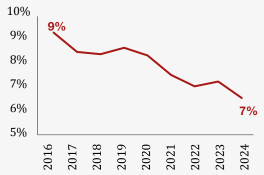


Cross-border M&A (% banks)



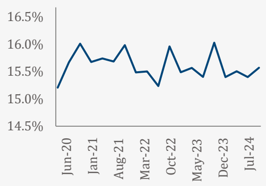
Risks

Non-performing loans ratio



Pillar 1. Single Supervision

Total assets of Less Significant Institutions (% of total BU assets)



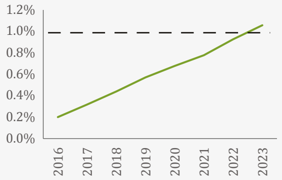
Trapped liquidity and capital (est.)

€250bn+
Trapped liquidity

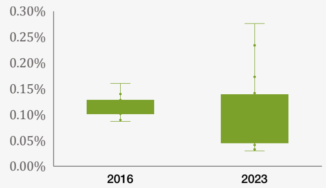
€225bn+
Trapped capital

Pillar 2. Single Resolution

SRF coverage of BU deposits (%)

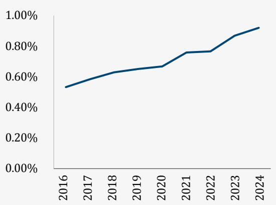


Dispersion of SRF contributions aggregated by MS



Pillar 3. Deposit Insurance

Coverage of national DGS (% deposits)

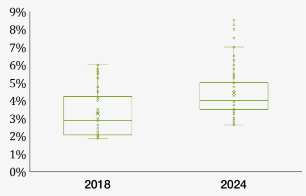


Number of BU EDIS

0
EDIS

Single Rulebook

Dispersion of macrobuffers



Cross-border metrics refer to cross-border loans and deposits provided within the BU relative to total loans and deposit respectively. Subsidiaries refers to the assets held by EU cross-border subsidiaries relative to total assets; M&A refers to total intra-BU banking M&As as a percentage of banking institutions. NPLs is the EU NPL ratio. Macrobuffer dispersion refers to the gap between the minimum and the maximum aggregate average macroprudential buffer by Member States. LSI refers to the percentage of BU banking assets from Less significant institutions (LSI). Trapped liquidity and capital are measures of the amount of liquidity and capital held by cross-border subsidiaries from other BU banks, the amount of liquidity is based on a 2021 ECB estimate which considers liquidity needed to meet both LCR and large exposures regime, while the capital amount is an AFME estimate of total capital amount sourced from Pillar 3 disclosures of BU subsidiaries of the largest BU banking groups (assets above €500bn). SRF metric refers to the size of the SRF fund relative to BU deposits, National DGS is the average BU-wide coverage of national DGS relative to total deposits. EDIS refers to the number of EDIS in the BU.

The dashboard also seeks to keep track of progress at the BU MS level, based on the latest available observations.

Dashboard 1.2: **Banking Union dashboard at the MS level**

	Integration				Risks	Pillar 1	Pillar 2	Pillar 3	Single rulebook	
	Cross-border deposits (% country total)	Cross-border loans (% country total)	Assets from cross-border EU subsidiaries (% total assets)	Cross-border BU M&A (number)	NPL ratio	LSI banking assets (% total)	SRF contributions (% covered deposits)	Coverage of national DGS (% of deposits)	Avg Macro buffer (CCyB, SyRB, and Max of O -SII and G -SII)	O&Ds (Yes, Partially, Case by Case) exerciced by MS (% total O&Ds)
	2024	2024	2024	2024	2024	2024	2023	2024	2024	2024
Austria	8%	13%	13%	1	2%	36%	0.12%	0.8%	1.2%	30%
Belgium	4%	16%	39%	0	1%	5%	0.10%	1.6%	1.4%	48%
Bulgaria	1%	1%	57%	0	9%	28%	0.02%	1.7%	5.8%	40%
Croatia	1%	1%	61%	0	6%	22%	0.04%	1.0%	4.5%	35%
Cyprus	4%	12%	21%	0	20%	11%	0.06%	0.8%	1.9%	40%
Estonia	1%	3%	57%	0	1%	16%	0.06%	1.7%	3.5%	19%
Finland	15%	2%	0%	0	1%	8%	0.17%	1.0%	2.5%	35%
France	10%	6%	1%	1	2%	2%	0.27%	0.5%	1.8%	35%
Germany	5%	14%	7%	1	1%	39%	0.12%	0.8%	1.5%	49%
Greece	3%	1%	0%	0	3%	5%	0.07%	1.3%	1.1%	51%
Ireland	6%	50%	1%	0	1%	12%	0.18%	0.8%	2.5%	70%
Italy	1%	2%	8%	0	2%	11%	0.13%	0.8%	0.5%	38%
Latvia	3%	7%	55%	0	0%	7%	0.04%	2.2%	1.3%	44%
Lithuania	13%	1%	45%	0	1%	45%	0.02%	1.0%	2.8%	64%
Luxembourg	48%	60%	31%	0	3%	55%	0.65%	1.5%	1.1%	38%
Malta	2%	12%	0%	0	3%	39%	0.04%	1.3%	1.1%	72%
Netherlands	16%	23%	0%	2	1%	9%	0.13%	0.8%	3.1%	44%
Portugal	2%	2%	28%	0	3%	23%	0.06%	1.0%	0.5%	48%
Slovakia	6%	5%	81%	0	3%	15%	0.06%	0.8%	2.7%	43%
Slovenia	0%	7%	47%	0	2%	16%	0.03%	0.9%	1.0%	38%
Spain	4%	5%	2%	1	3%	6%	0.12%	0.9%	0.8%	30%

Source: ECB, EBA, ESRB, SRB, own calculations.

Methodology: Cross-border M&A refers to number of completed M&A deals. ECB data is missing for cross-border subsidiaries in Ireland, Belgium, Lithuania, Latvia, Estonia and Bulgaria but this has been estimated based on the assets of the EU subs designated as OSII. In Estonia, Bulgaria, Lithuania, the large participation is due to subsidiaries of EU non-BU countries (Sweden and Hungary). Belgium based on ING and BNPP Fortis. Ireland based on Intesa. O&Ds refer to the percentage of O&Ds excercised by MS as a percentage of all O&Ds (either fully or partially), for example Malta is the MS that excercises the most O&Ds with making use of 72% of all available O&Ds. Cross-border loans and deposits refer to loans and deposits provided within the country from other BU banks on a cross-border basis relative to total loans and deposit respectively. Subsidiaries refers to the assets held by EU cross-border subsidiaries relative to total assets. NPLs is the NPL ratio. LSI refers to the percentage of BU banking assets from Less significant institutions (LSI). SRF contributions refers to average at MS level of SRF contributions relative to deposits noting that a higher percentage indicate a higher burden, Coverage of DGS is the coverage of national DGS relative to total deposits. Average macrobuffer refers to the macroprudential buffer aggregated at Member State level.

At a member state level, there are a number of observations that warrant mention:

Cross-border banking remains limited: Ireland (50%) and Luxembourg (60%) lead in cross-border loans likely due to their global attractiveness, particularly for Fund registration, and their tax framework. On the other hand, Croatia and Portugal have limited cross-border activity. From a local participation perspective, CEE countries have a large presence of foreign-owned subsidiaries in the local banking market. Cross-border banking M&A is generally absent across the large majority of MS.

Risks: Cyprus continues to exhibit high levels of NPLs (20%), which continues as a legacy issue due to the cypriot banking sector link to the Greek crisis (See Bruegel, 2013).

O&Ds usage: Malta, Lithuania and Ireland are among the MS that exercise the most national O&Ds.

LSI: Germany, Luxembourg and Malta are among the countries with the largest portion of banking assets from less significant institutions (LSI) and therefore not under direct ECB supervision. According to the SRB, 96% of LSIs are also out of scope for the CMDI framework as they fall under the Simplified Obligation framework (SO) and therefore subject only to their national resolution framework.

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