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# HOW TO SAVE A BANK

## A Framework for Crisis Response

### Abstract

This paper outlines a structured, phased crisis management framework for financial institutions. It provides a clear protocol for navigating liquidity and solvency stress, from initial detection through to either successful restructuring or an orderly resolution. The framework emphasizes decisive action, transparent loss recognition, and the preservation of critical systemic functions to ensure stability and protect depositors.

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# Executive Summary

This document presents a comprehensive and integrated crisis management framework designed to guide our institution through a systemic liquidity or solvency event. The framework outlines a structured, phased response protocol to ensure decisive action, protect critical functions, and maximize the probability of a successful restructuring while acknowledging the legitimate pathway of an orderly resolution.

Our approach is built on the foundational principle of rigorous pre-crisis preparedness (Phase 0). We have established clear quantitative thresholds for liquidity, capital, and confidence metrics. Furthermore, we have pre-authorized specific intervention protocols and prepared communication templates for all key stakeholders to enable immediate and coordinated action.

Upon breach of a defined threshold (Phase 1), our pre-assigned Crisis Management Team is immediately activated. The team's first priority is to establish real-time situational awareness through dedicated information dashboards.

The initial response (Phase 2) focuses on containment and operational continuity. We will deploy overwhelming liquidity support from all available sources and implement coordinated communications to stabilize depositor and market confidence. A critical decision point follows: if stabilization is not achieved due to a fundamental solvency issue, we will immediately escalate to a loss recognition and resolution preparedness process.

Should stabilization be achieved, we proceed to a transparent diagnostic phase (Phase 3). This involves an independent asset quality review, full and immediate loss recognition, and a clear determination of the capital shortfall. Governance interventions are made at this stage to ensure credible leadership for the restructuring.

The recapitalization phase (Phase 4) follows a strict hierarchy of loss absorption. Existing equity is wiped out, followed by the conversion of subordinated debt. New capital is then injected to create a durable buffer, paired with strict governance conditions and a simplified liability structure.

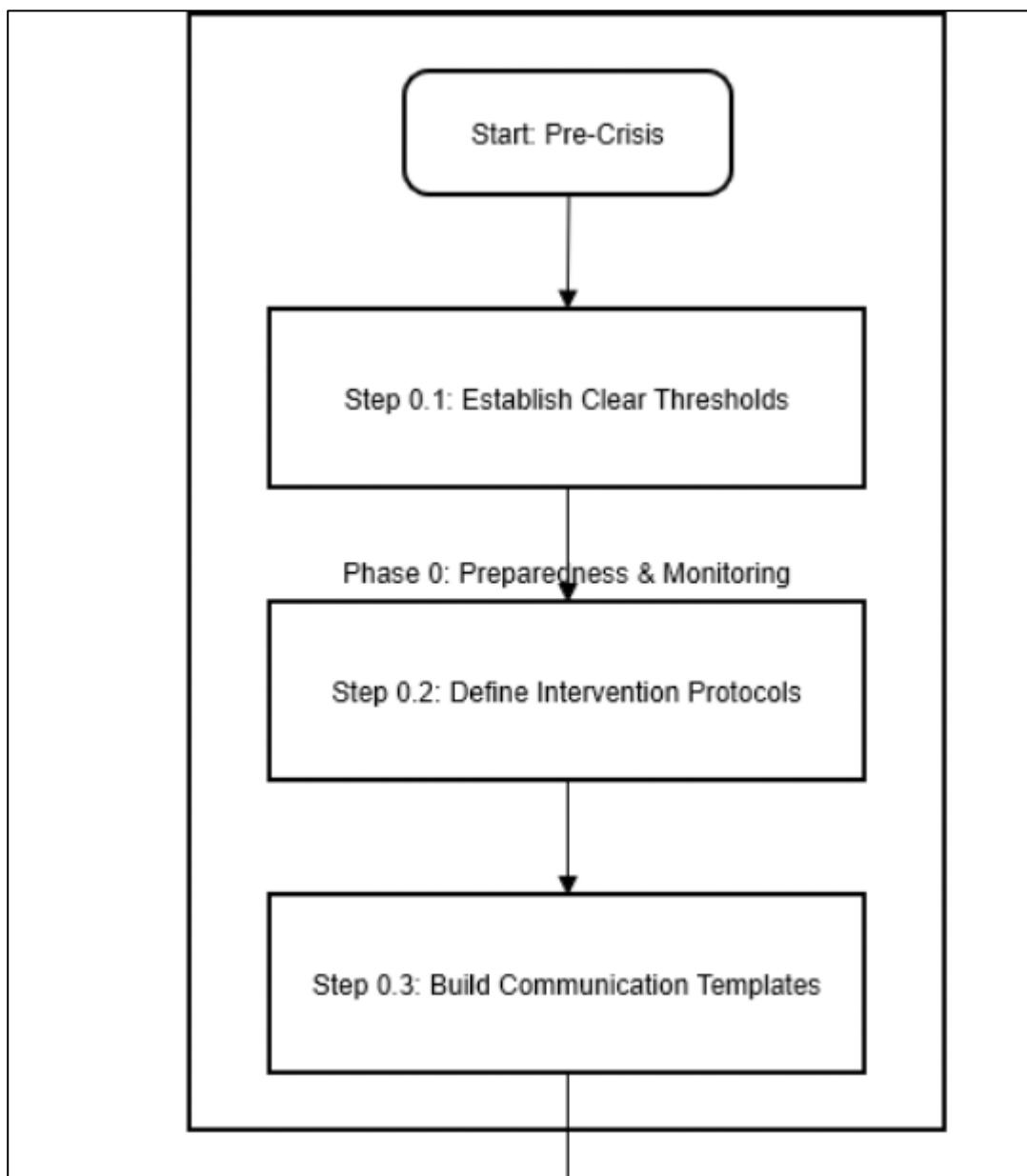
We then execute a strategic reconfiguration (Phase 5) to align the institution with its new capital base. This involves divesting non-core assets, simplifying the organizational structure, and refocusing on a sustainable core business model, supported by a clear forward-looking plan.

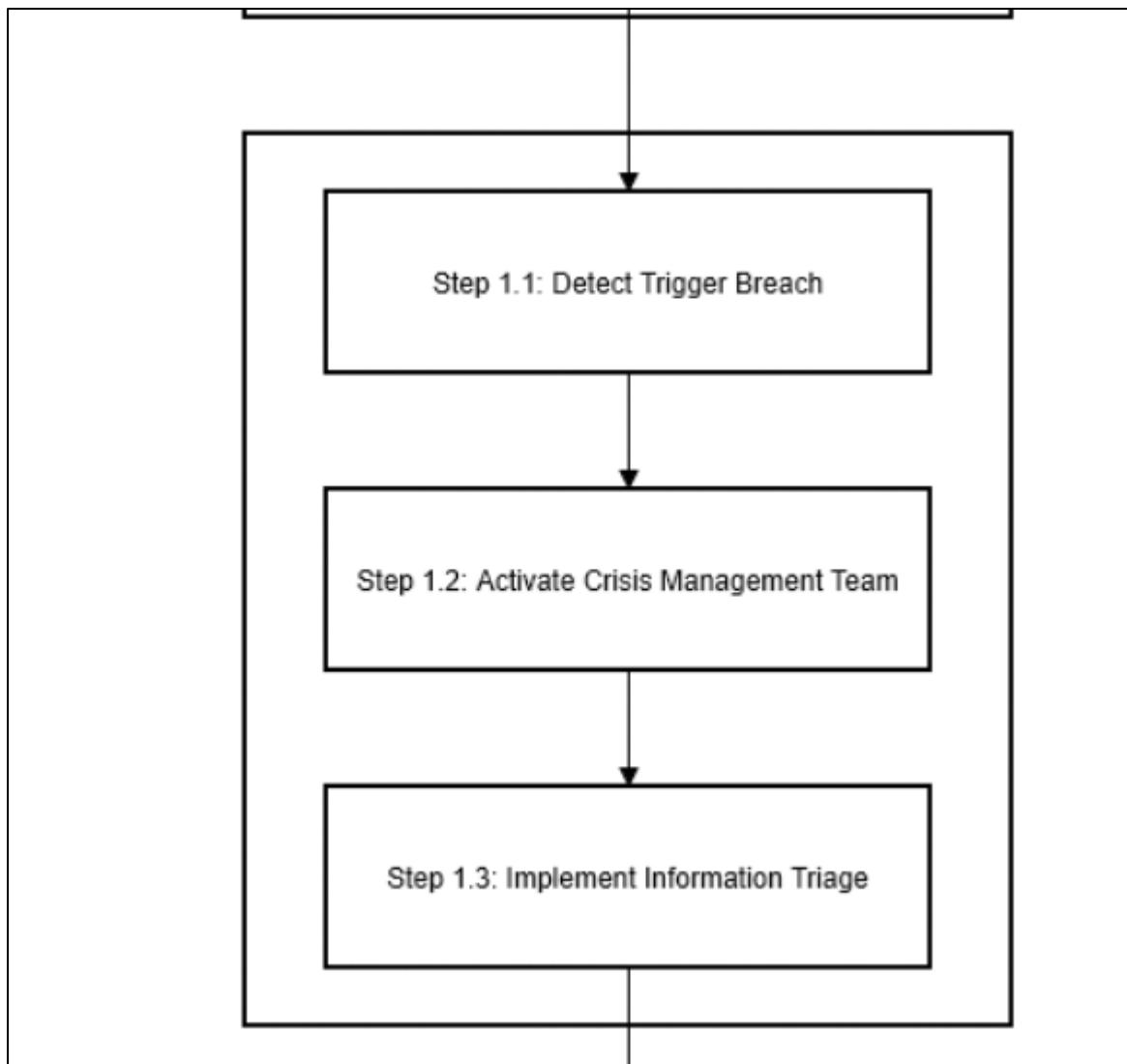
The final phase (Phase 6) involves the disciplined exit from extraordinary support and operation under enhanced supervision until the institution demonstrates sustained resilience and a return to normalized operations.

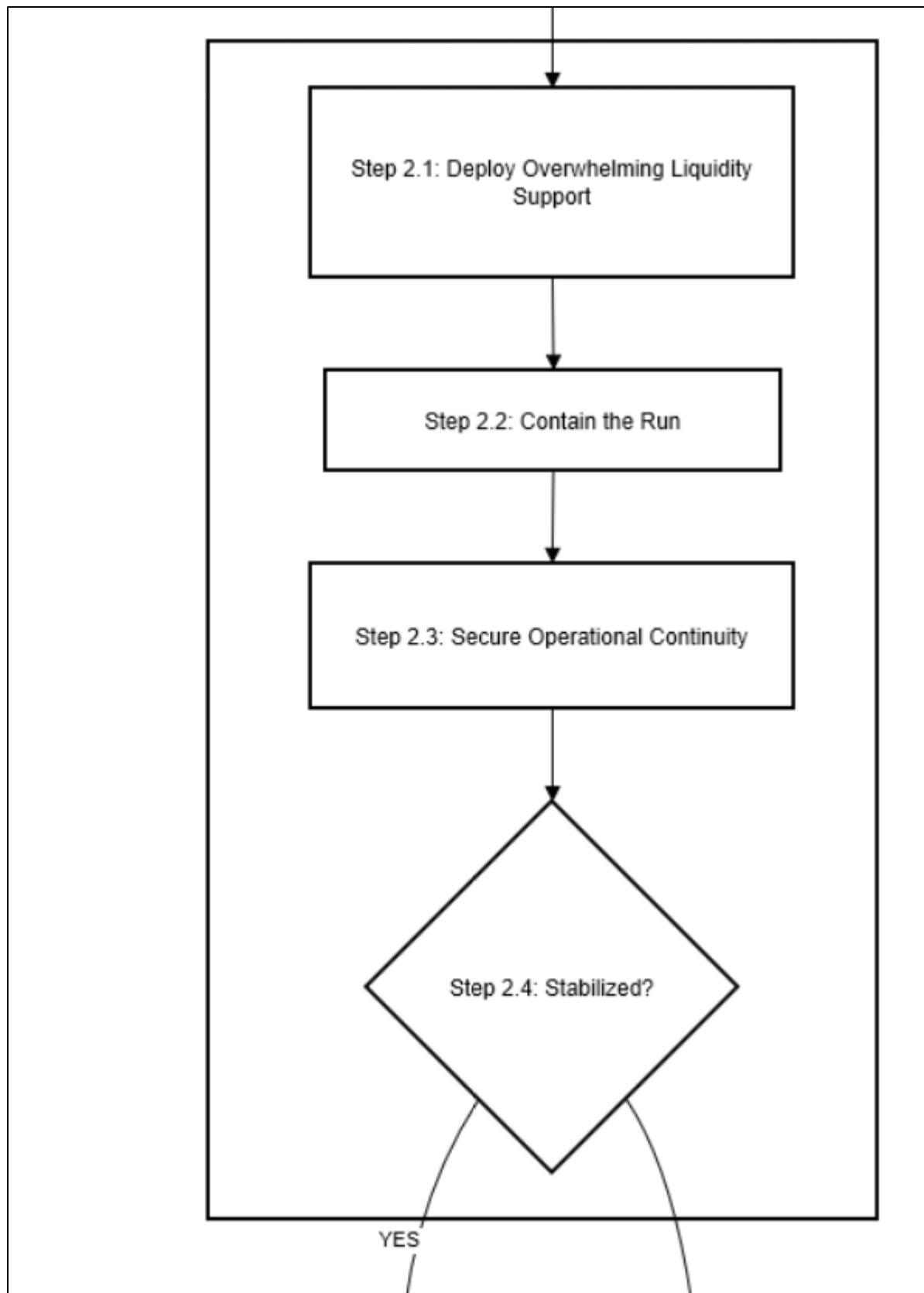
It is explicitly recognized that a controlled non-survival outcome through an orderly resolution is a parallel and systemically preferable path under certain conditions. The framework provides for the activation of resolution powers to separate and preserve critical functions while winding down non-viable entities in a manner that protects financial stability and the hierarchy of claims.

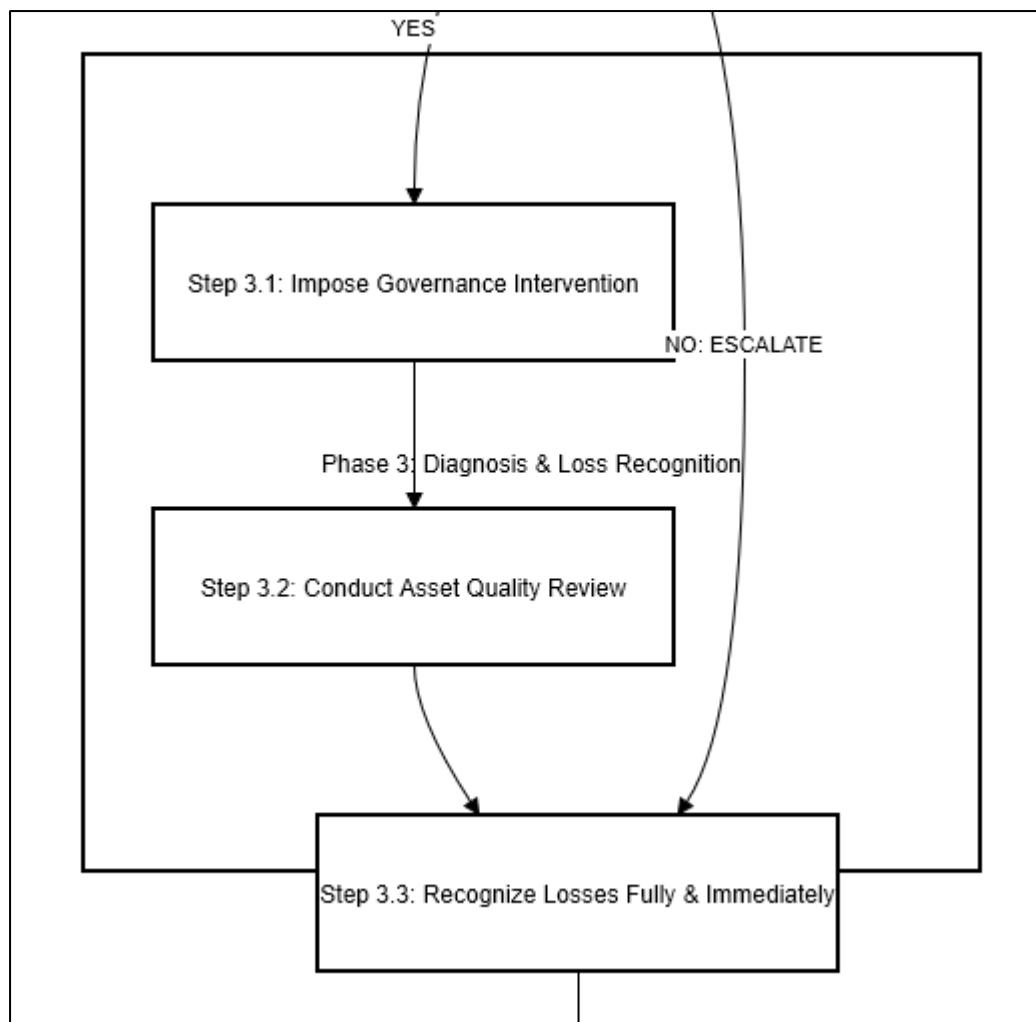
This end-to-end framework ensures our institution is prepared to navigate a crisis with clarity, speed, and accountability, prioritizing systemic stability and the protection of depositors.

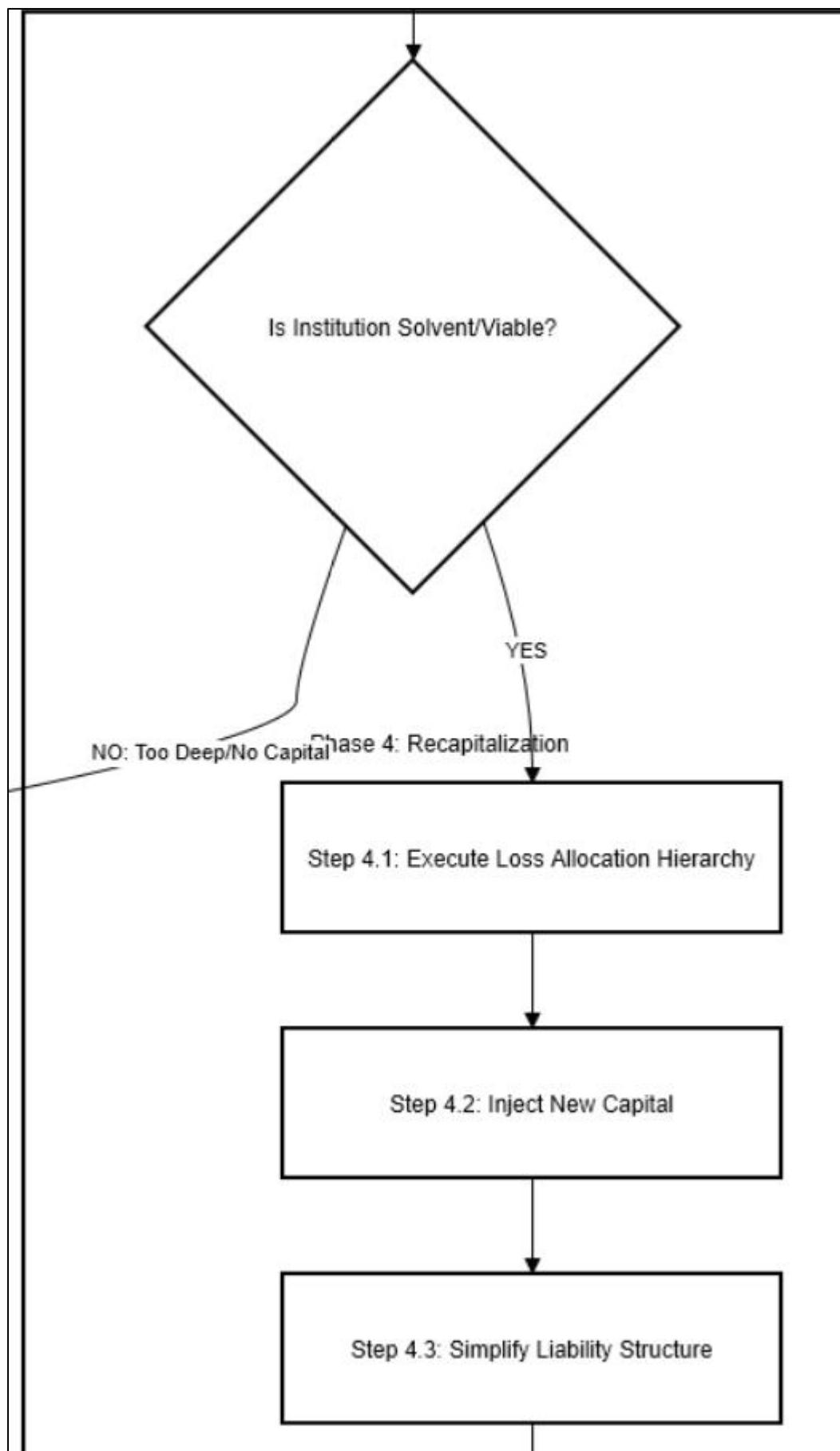
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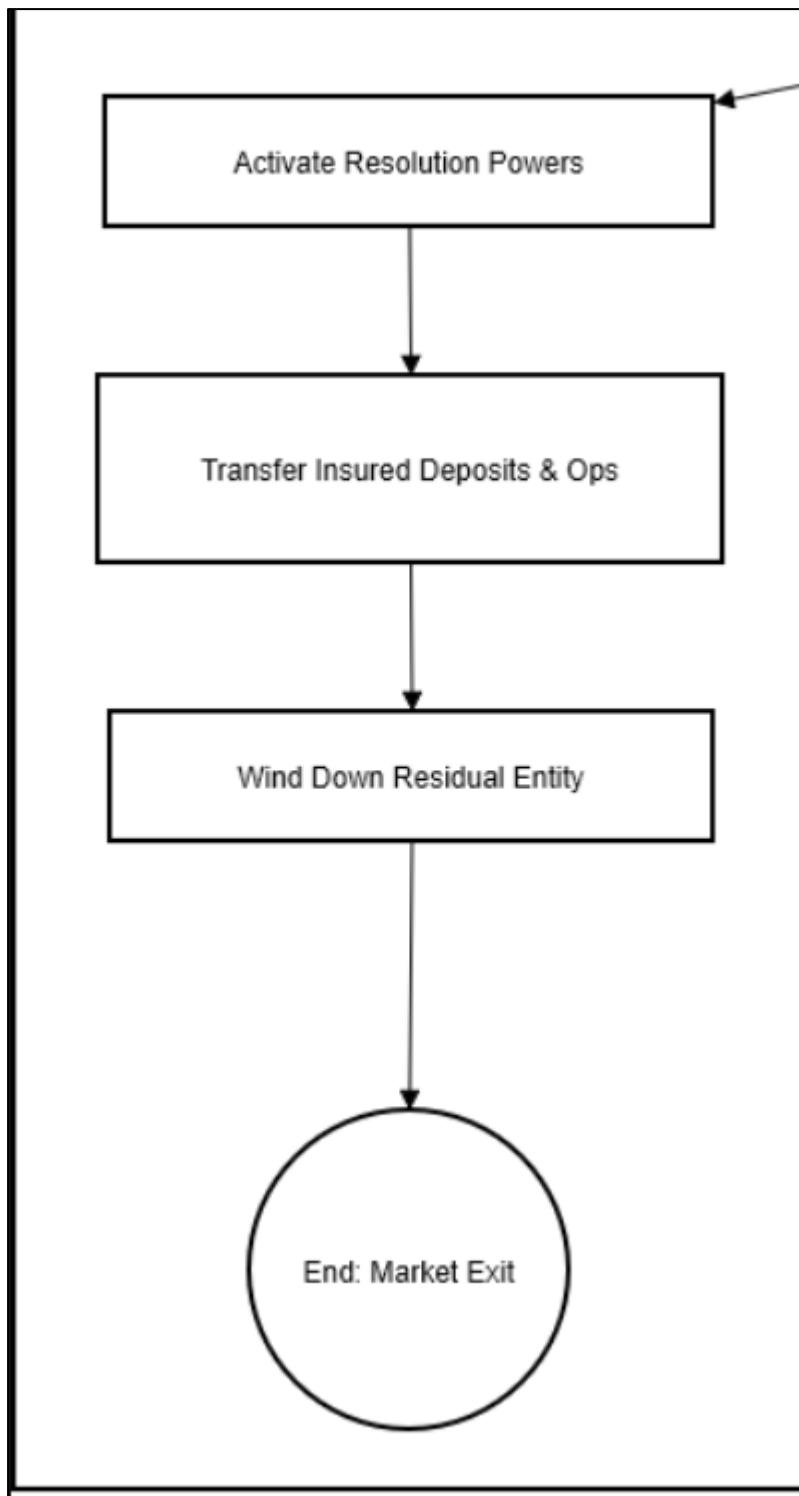


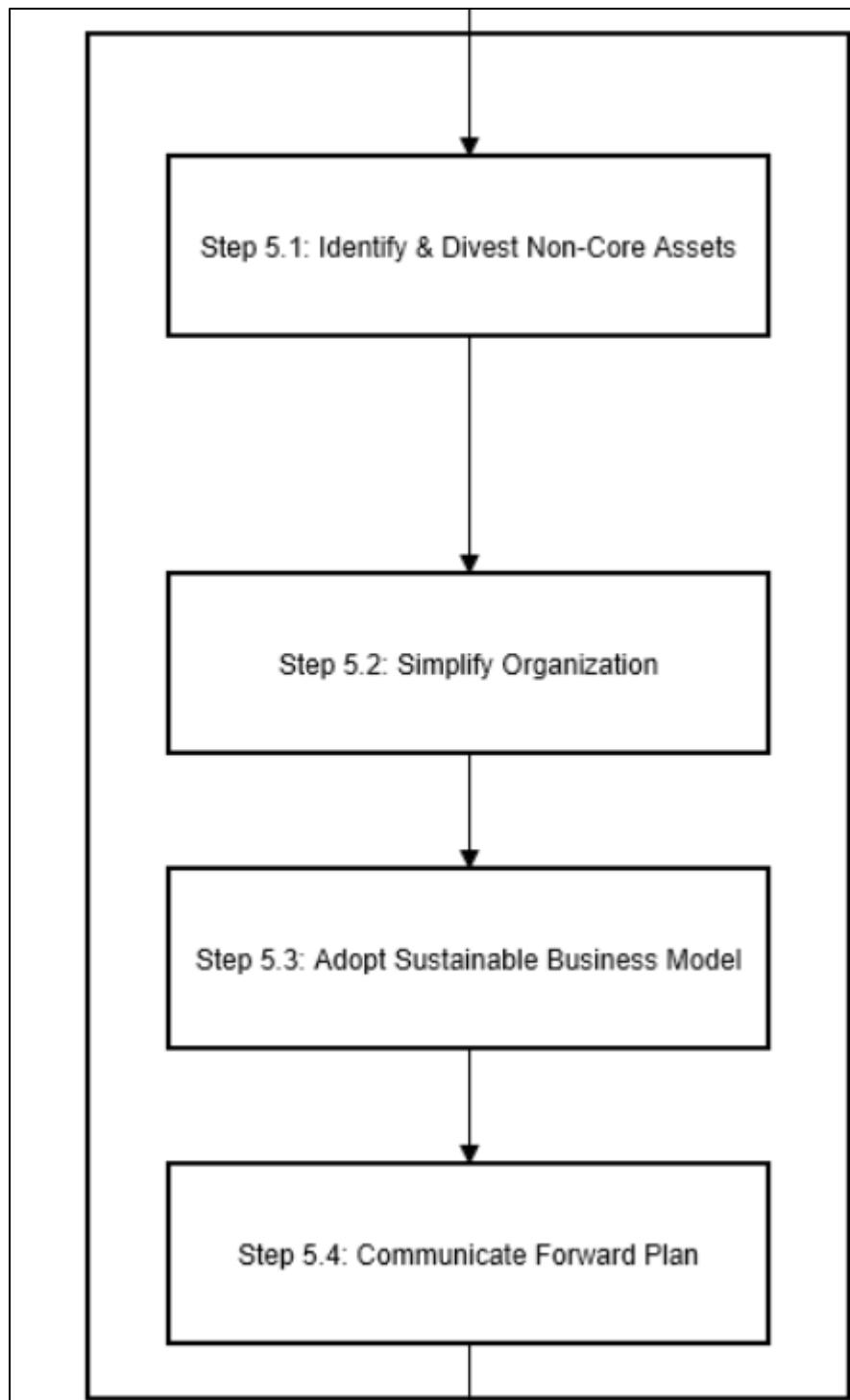


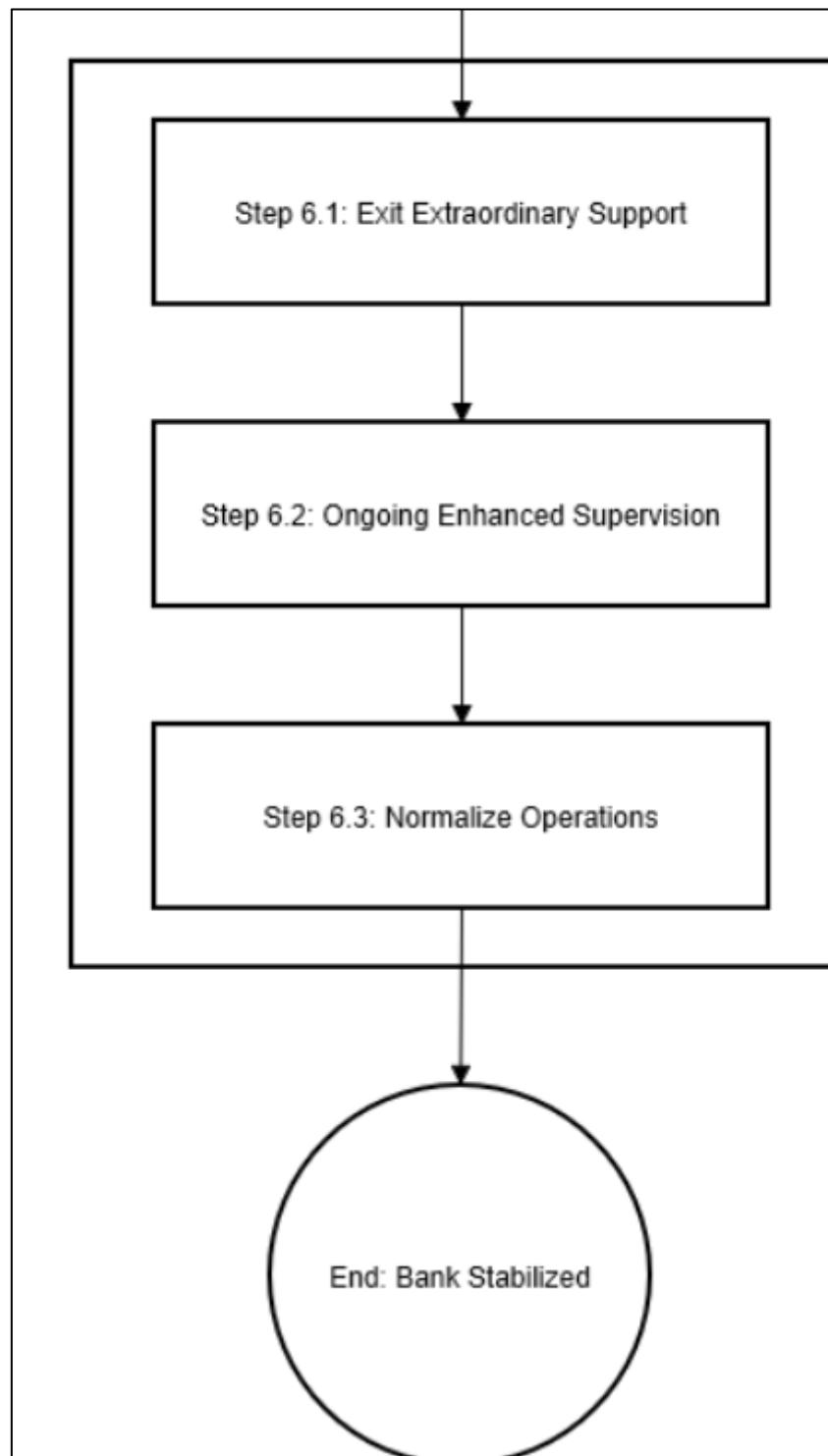












# Introduction and Objectives

This paper presents a comprehensive and structured framework for the stabilisation, preservation, and recovery of a bank facing severe financial and operational distress. It is written as a practical guide for decision-makers, regulators, and senior management who must act with clarity, precision, and institutional authority in circumstances characterised by eroding confidence, balance sheet vulnerabilities, and uncertainty regarding the continuity of essential functions. The bank examined in this analysis is entirely fictitious and is referred to throughout as the bank. This abstraction is intentional, enabling us to develop a framework that can be applied across diverse jurisdictions, institutional forms, regulatory environments, and crisis typologies without sacrificing relevance or operational applicability.

We approach the challenge of saving the bank as a coordinated sequence of decisions and interventions that must be executed under constrained time horizons and conditions of incomplete information. In doing so, we recognise that the preservation of the bank is not solely a matter of financial calculation, but also a question of maintaining institutional credibility, safeguarding stakeholder trust, and ensuring the continued functioning of critical financial infrastructure. The framework we present is designed to serve a dual purpose. It is both an analytical tool that enhances understanding of crisis dynamics and a practical reference for action that guides real-time decision-making. Each section of the paper is structured to inform choices by defining thresholds for intervention, clarifying the roles and responsibilities of key actors, outlining procedural protocols, and providing strategic guidance that is grounded in both theory and operational experience.

Our objectives are to provide clarity, structure, and actionable guidance for those responsible for restoring stability to the bank. First, we seek to establish a precise operational definition of what it means to save the bank. This definition encompasses the maintenance of solvency, the preservation of liquidity, the protection of critical operational functions, and the restoration of market and stakeholder confidence. We recognise that these objectives are interdependent and that effective crisis management requires the careful balancing of financial, operational, and reputational considerations. Second, we aim to delineate the scope of actions that are necessary, permissible, and strategically aligned with the goal of stabilising the bank. This includes measures relating to governance, risk management, capital and liquidity interventions, stakeholder communication, and coordination with regulatory and supervisory authorities. We emphasise actions that are consistent with institutional integrity and regulatory compliance while enabling swift and decisive intervention. Third, we provide a disciplined, step-by-step framework that can be executed under conditions of stress, uncertainty, and urgency. This framework is designed to support decision-making by

providing clear guidance on prioritisation, sequencing, escalation, and monitoring of interventions.

Throughout this paper, we place particular emphasis on the principles of credibility, speed of response, and institutional coherence. We recognise that the effectiveness of any intervention is shaped not only by its technical soundness but also by its reception by stakeholders, including customers, counterparties, regulators, and employees. Accordingly, our framework incorporates mechanisms to maintain transparency, ensure accountability, and reinforce confidence at each stage of the crisis. We also underscore the importance of coordination across internal units and external actors, recognising that the failure to align actions and messaging can amplify uncertainty and undermine stabilisation efforts.

In developing this framework, we adopt a pragmatic perspective that balances analytical rigour with operational feasibility. We acknowledge that decision-makers are often required to act with limited information and under significant time pressure. Therefore, we structure our guidance around clear decision criteria, actionable thresholds, and pre-defined response protocols that can be implemented efficiently and consistently. We further recognise that crisis situations are dynamic, and our framework is designed to be adaptable, allowing decision-makers to respond flexibly as circumstances evolve, while maintaining fidelity to core principles of risk management, governance, and institutional preservation.

Ultimately, our goal is to provide a resource that supports decisive, coherent, and credible action in the face of a banking crisis. By articulating a clear operational definition of success, delineating the permissible scope of intervention, and providing a disciplined framework for execution, we aim to equip those responsible for the bank with the tools and guidance required to restore stability, protect stakeholders, and safeguard the institution's long-term viability. The framework is intended to serve not only as a guide in a specific scenario but also as a transferable model that can inform crisis preparedness, institutional resilience planning, and decision-making in a range of potential financial stress contexts.

## Purpose of the Simulation

The purpose of this simulation is to establish a repeatable, disciplined, and operationally grounded framework for decision-making that can be applied in the context of a banking crisis. Our objective is not to conduct an academic exercise, nor to illustrate abstract or theoretical principles in isolation. Rather, we seek to provide a structured rehearsal for action, one that allows boards, regulators, crisis management teams, and other relevant authorities to anticipate critical decisions, evaluate their consequences, and pre-commit to a coherent and logically sequenced set of interventions. By creating a

controlled environment in which the dynamics of a banking crisis can be explored systematically, we aim to enhance both the preparedness and the confidence of those responsible for guiding a distressed institution through periods of acute stress.

By simulating the crisis of a fictitious bank, we are able to isolate the operational and financial mechanics of intervention from extraneous political, reputational, or historical considerations. This abstraction permits us to focus squarely on what actions must be undertaken, the order in which they should be executed, and the trade-offs that accompany each decision. We deliberately remove the influence of external attribution and accountability debates so that the simulation becomes a laboratory for operational clarity rather than a commentary on past events. In doing so, we enable decision-makers to engage deeply with the mechanics of stabilisation, recovery, and institutional preservation without the distraction of contextual noise.

The framework underpinning the simulation is both rigorous and adaptable. At every stage, we define the specific decision that must be taken, the criteria by which its effectiveness will be assessed, and the range of permissible interventions. This approach ensures that the simulation is neither abstract nor vague. Instead, it provides concrete, actionable guidance that can be translated into real-world steps, thereby reducing the risk of hesitation, confusion, or misalignment during an actual crisis. The simulation thereby functions as both a planning tool and a decision-support mechanism, reinforcing the ability of actors to act decisively and consistently under pressure.

An additional purpose of the simulation is to discipline language and conceptual clarity. Terms such as stability, support, recovery, and intervention are translated into operationally measurable actions, including balance sheet adjustments, liquidity injections, governance changes, risk allocation, and loss mitigation strategies. By providing explicit definitions and operational translations of these terms, we limit ambiguity at moments when clarity is most essential, ensuring that all participants share a common understanding of objectives, procedures, and expected outcomes.

Through repeated engagement with this simulation, we seek to cultivate a shared operational mindset, reinforce institutional preparedness, and strengthen the capacity of decision-makers to respond to crises with speed, coherence, and credibility. The simulation serves as both a rehearsal and a tool for reflection, allowing us to identify potential bottlenecks, evaluate the consequences of different intervention pathways, and pre-emptively design responses that balance urgency with prudence. In sum, the simulation is intended to be a practical, structured, and repeatable mechanism through which we can transform theoretical understanding into actionable capability, ensuring that the bank can be stabilised and preserved even under conditions of severe stress and uncertainty.

## Definition of “Saving the Bank”

For the purposes of this paper, we define the concept of saving the bank in clear operational terms. Saving the bank entails the successful planning, coordination, and execution of a set of measures that ensure the uninterrupted performance of the bank’s critical economic and financial functions while simultaneously establishing a credible and sustainable path to both solvency and liquidity. Our framework treats the restoration of financial and operational stability as the central objective, recognising that this objective is distinct from considerations of ownership, management continuity, or adherence to prior business models.

In our approach, saving the bank does not imply the preservation of pre-existing shareholder structures, management hierarchies, or business strategies. We emphasise that these elements are subordinate to the broader institutional imperative of continuity of function. Critical economic functions include, but are not limited to, the protection of insured depositors, the uninterrupted operation of payment, clearing, and settlement systems, and the maintenance of confidence sufficient to prevent contagion that could compromise financial stability more broadly. To achieve these objectives, it may be necessary to impose losses on shareholders and unsecured creditors, replace senior management, and undertake substantial restructuring, downsizing, or reorganisation of the institution. Each of these measures, while potentially disruptive to stakeholders, is considered valid and necessary if it contributes to the preservation of functional continuity and the restoration of credibility in the institution.

Under our framework, the survival of the legal entity itself is considered subordinate to the survival of its critical functions. We recognise that in certain circumstances, functional continuity may only be achieved through restructuring, merger, partial resolution, or the transfer of essential operations to alternative entities or vehicles. In these cases, such outcomes are treated as successful interventions rather than failures. The defining criterion for success is not the preservation of the bank in its original form but the prevention of a disorderly collapse, the mitigation of systemic risk, and the restoration of operational and financial viability.

We further define success in operational terms. A saved bank is one in which depositors retain access to insured funds without interruption, critical clearing and settlement operations continue without disruption, and confidence among market participants, regulators, and the public is sufficient to prevent panic, contagion, or runs on the financial system. Additionally, a successful intervention provides a clear roadmap to solvency and liquidity over a defined time horizon, incorporates realistic risk-sharing among stakeholders, and creates conditions for the bank to resume its role in the broader financial system in a safe, sustainable, and legally compliant manner.

In establishing this operational definition, we emphasise that saving the bank is inherently a functional and forward-looking exercise. We measure success not by historical continuity or stakeholder preferences but by the extent to which interventions maintain essential functions, preserve confidence, and enable recovery under conditions of stress. This approach allows us to focus on what must be done, how it must be sequenced, and what trade-offs are acceptable, providing a disciplined and actionable framework for crisis management. By doing so, we ensure that the concept of saving the bank is both precise and practical, equipping decision-makers with the clarity required to act decisively and coherently under pressure.

## Scope and Limits of the Exercise

This exercise is scoped to enable decisive action rather than exhaustive modelling. We consider a single bank operating within a broadly stable macroeconomic and legal environment. System-wide crises, sovereign stress, and global liquidity shocks are treated as external conditions rather than endogenous drivers, except where they directly constrain available policy tools.

The framework deliberately abstracts from jurisdiction-specific legal details in order to remain broadly applicable. Users of this template are expected to map the actions described here onto their own regulatory, legal, and institutional settings. The absence of such details should not be interpreted as a limitation, but as a design choice intended to enhance transferability.

At the same time, the exercise imposes strict internal limits. All actions must be executable within existing institutional mandates or through clearly defined emergency powers. We do not assume unlimited fiscal capacity, unbounded guarantees, or perfect coordination among authorities. Where trade-offs exist, they are made explicit and resolved in favour of speed, credibility, and systemic containment.

This paper is intended to be used as a guide for action before, during, and immediately after a banking crisis. It does not claim to eliminate uncertainty or risk. Its purpose is to ensure that, when action is required, it is taken within a coherent and pre-defined framework rather than improvised under pressure.

## Model Structure and Assumptions

In order to execute the saving of the bank in a disciplined, coherent, and repeatable manner, we recognise the necessity of establishing a clear model structure supported by a well-defined set of assumptions. This structure provides the foundation for operational decision-making by clarifying the environment in which interventions take place, defining the rules of engagement for all participants, and specifying the dynamic relationships between key variables and agents. By articulating these elements explicitly, we ensure that all actions taken during a crisis are coherent, consistent, and capable of being replicated or adapted across different scenarios.

The framework we present serves as a blueprint for decision-making. It delineates the system boundaries, identifies the critical agents involved in intervention, enumerates the relevant state variables, and specifies the temporal and sequential dynamics that govern the execution of interventions. Each component is defined in operational terms so that it can be applied consistently in real-time crisis scenarios. This approach ensures that decision-makers have a shared understanding of the mechanisms driving both stress and recovery, enabling coordinated action that is aligned with the overarching objective of preserving critical functions and restoring institutional viability.

The model structure integrates both structural and behavioural assumptions. Structural assumptions define the composition of the bank, its balance sheet, operational capabilities, contractual obligations, and relationships with external stakeholders such as regulators, depositors, creditors, and counterparties. Behavioural assumptions define the expected responses of these actors to interventions, including likely reactions to liquidity support, capital restructuring, governance changes, or communications strategies. By combining structural and behavioural elements, we are able to model not only the internal mechanics of the bank but also the ways in which external pressures and stakeholder responses influence the trajectory of the crisis.

We also define the rules of engagement that guide intervention decisions. These rules specify the conditions under which actions may be taken, the sequence in which they should be executed, and the criteria by which their effectiveness will be evaluated. The rules are designed to balance urgency with prudence, ensuring that interventions are neither delayed by indecision nor undermined by excessive risk-taking. By codifying these rules within the model, we provide a repeatable framework that supports disciplined decision-making, reduces the potential for ambiguity, and facilitates accountability among the actors responsible for stabilisation and recovery.

Finally, the model explicitly incorporates the temporal dimension of crisis management. Interventions must be planned and executed within constrained time horizons, recognising that delays or misalignment can exacerbate stress, reduce confidence, and increase the likelihood of disorderly outcomes. By mapping state variables, actions, and

responses over time, we provide a mechanism for anticipating potential bottlenecks, pre-emptively allocating resources, and sequencing decisions in a manner that preserves functional continuity.

In summary, our model structure and assumptions provide a comprehensive and operationally rigorous foundation for crisis management. They define the environment in which we operate, clarify the interactions among key agents, specify the decision-making criteria and sequencing of actions, and establish the conditions under which interventions will be evaluated. By adhering to this structure, we ensure that the process of saving the bank is both disciplined and repeatable, enabling us to act decisively, coherently, and effectively under conditions of stress and uncertainty.

## System Boundaries

We define the system boundary for the purposes of this simulation to encompass the bank as a standalone institution together with its immediate and essential interactions with key stakeholders, including depositors, creditors, regulators, and critical counterparties. Within this boundary, we include all balance sheet items, operational functions, contractual obligations, and financial instruments that are necessary to ensure the uninterrupted performance of the bank's core functions, including payments, deposits, credit provision, and settlement operations. By delineating this boundary, we create a clearly defined operational space in which interventions can be targeted, coordinated, and measured.

Activities and entities outside this core boundary, including non-essential subsidiaries, strategic or financial investments in unrelated entities, or broader global macroeconomic developments, are treated as exogenous factors. We consider these external elements only insofar as they have a material impact on liquidity, solvency, or operational capacity within the defined system. For example, while an unrelated subsidiary's performance may be significant for shareholder value, it is treated as outside the operational scope unless its distress directly affects the bank's ability to meet obligations to depositors or counterparties. Similarly, systemic or macroeconomic shocks are considered relevant only to the extent that they influence the flow of funds, access to capital, or the functional continuity of critical operations.

By establishing these boundaries, we focus decision-making, resource allocation, and operational interventions on elements that are directly controllable or directly relevant to preserving the functional integrity of the bank. This focus enables us to prioritise actions that have immediate and measurable effects on stabilisation and recovery while avoiding distraction from factors that, although potentially consequential in the broader strategic or financial sense, do not materially affect the bank's ability to continue essential operations.

Defining the system boundary also provides clarity for the coordination of stakeholders. By explicitly identifying which elements fall within our operational purview and which are treated as external, we ensure that responsibilities, escalation protocols, and decision-making authority are clearly aligned with the objectives of preserving the bank's functionality. In doing so, we create a framework that allows for decisive action, the allocation of appropriate resources, and the minimisation of uncertainty and ambiguity in moments when clarity and speed are essential.

Finally, the system boundary provides a lens through which risk assessment and intervention design can be structured. By focusing on controllable elements and their direct interdependencies, we can model potential scenarios, anticipate constraints, and predefine intervention thresholds with a level of precision and operational rigor that would be impossible in a more diffuse or loosely defined framework. The result is a disciplined, repeatable, and actionable approach to crisis management that ensures that all actions are directly tied to the preservation of critical functions and the restoration of confidence in the bank.

## Agents and State Variables

The model identifies all relevant agents whose actions influence the survival or recovery of the bank, along with the state variables that define the system's condition at any given moment.

### Agents:

1. The Board and Senior Management: Responsible for implementing operational, strategic, and governance actions under crisis protocols.
2. Regulators and Supervisory Authorities: Provide oversight, approve emergency measures, and enforce compliance with solvency, liquidity, and risk thresholds.
3. Depositors: Serve as both the source of funding and a potential vector of confidence or panic, requiring management through communication and protection measures.
4. Creditors and Market Counterparties: Influence liquidity, funding costs, and the capacity for short-term interventions.
5. Internal Operational Units: Include treasury, risk management, and payment systems, which execute the operational components of the saving process.

### State Variables:

1. Liquidity Position: Measured as available cash, central bank facilities, and marketable assets that can be converted to cash within defined timeframes.

2. Capital Adequacy: Defined as the ratio of available capital to risk-weighted assets, reflecting solvency and regulatory thresholds.
3. Deposit Confidence Level: Operationalized through metrics such as withdrawal rates, account freezes, and customer enquiries.
4. Counterparty Exposure: Captures contingent obligations and contractual dependencies that may trigger additional liquidity requirements.
5. Operational Capacity: Tracks the functionality of payment, settlement, and core banking systems.

Each state variable is continuously monitored and updated according to pre-defined rules, forming the basis for the timing and scale of intervention measures.

## Time Dynamics and Update Rules

The bank's evolution during a crisis is represented as a series of discrete time steps, each corresponding to operational cycles or regulatory reporting intervals. At each step, the model updates state variables based on both exogenous shocks and endogenous decisions.

### Update Rules:

1. Liquidity Adjustment: Cash inflows and outflows are recalculated in real time, including depositor withdrawals, interbank obligations, and emergency facility usage. Interventions such as liquidity injections or asset sales are triggered if thresholds fall below pre-defined minima.
2. Capital Reassessment: Capital adequacy is recalculated after each action affecting the balance sheet. This includes write-downs, recapitalizations, or transfers of assets and liabilities.
3. Confidence Feedback Loop: Depositor and market reactions are modelled as functions of communication strategies, intervention measures, and observed operational continuity. Confidence shifts influence withdrawal rates and access to market funding.
4. Operational Constraints: Functional systems are continuously monitored. Any degradation triggers contingency measures, including temporary outsourcing, manual processing, or scaled-back service levels.
5. Sequential Decision Logic: All interventions follow a priority hierarchy. Liquidity preservation precedes solvency measures, which precede restructuring actions. Each decision step is contingent on updated state variables and agent responses.

By applying these time dynamics and update rules consistently, we create a repeatable process that ensures interventions are timely, targeted, and credible. The framework

converts the complex, multi-agent environment of a banking crisis into a structured operational workflow that can guide real-world action.

## Initial Conditions of the Bank

Establishing clear and well-defined initial conditions is essential to the execution of a coherent, disciplined, and repeatable intervention strategy. By articulating the bank's starting point with precision, we create a baseline against which all subsequent measures, triggers, and decision rules can be applied consistently. These initial conditions serve as a reference framework that ensures clarity, reduces ambiguity, and allows decision-makers to assess the impact of interventions in a systematic and quantifiable manner.

Our definition of initial conditions encompasses multiple dimensions of the bank's operational and financial state. First, it includes the structure of the balance sheet, detailing the composition of assets, liabilities, and equity, along with the associated liquidity, maturity, and risk profiles. This allows us to identify vulnerabilities, potential points of stress, and areas where intervention may be necessary to maintain solvency or operational continuity. Second, we define the bank's liquidity and capital position with specificity, including available buffers, contingent lines of support, and thresholds that would trigger corrective action. By doing so, we ensure that decision-makers are aware of both the constraints and the levers available for stabilisation.

Third, our initial conditions incorporate the behavioural and risk assumptions that underpin the model. These include anticipated responses of depositors, creditors, counterparties, and regulators to interventions, as well as the potential propagation of shocks through the bank's operations and its network of relationships. By explicitly specifying these assumptions, we create a consistent framework for scenario analysis, stress testing, and the calibration of decision rules. This allows us to anticipate likely outcomes, understand trade-offs, and pre-commit to interventions that preserve functional continuity.

Finally, establishing precise initial conditions facilitates transparency, coordination, and accountability. All participants in the crisis management process operate from a common understanding of the bank's starting state, reducing the likelihood of misalignment, delayed responses, or conflicting actions. This shared baseline enables us to track progress, evaluate the effectiveness of measures, and adjust our strategy dynamically as the crisis evolves.

In summary, by defining the bank's initial conditions in detail, we provide a foundation for disciplined, repeatable, and effective intervention. These conditions serve as the

reference point for all subsequent actions, ensuring that each decision is grounded in a clear understanding of the bank's structure, financial position, and operational context. By doing so, we create the conditions for coherent crisis management, measured response, and ultimately, the successful preservation of the bank's critical functions.

## Balance Sheet Setup

The bank's balance sheet at the onset of the simulation is defined in terms of asset composition, liability structure, and equity position. This setup allows us to identify vulnerabilities and to target interventions efficiently.

### Assets:

- Cash and Cash Equivalents: Held to meet immediate operational and depositor demands.
- Marketable Securities: High-quality, liquid instruments that can be used for short-term funding or collateralized borrowing.
- Loans and Advances: Classified by risk category, maturity, and sector exposure, providing insight into potential default concentrations.
- Other Assets: Including fixed assets, investments, and contingent claims, recorded to determine their contribution to overall liquidity and solvency.

### Liabilities:

- Deposits: Segmented by retail, corporate, and institutional categories, with an understanding of withdrawal behaviour under stress.
- Interbank Borrowings: Short-term and long-term funding obligations to other financial institutions, including repurchase agreements.
- Debt Securities Issued: Bonds or notes payable, including any contingent conversion or callable features.
- Other Liabilities: Obligations arising from derivatives, guarantees, and off-balance sheet commitments.

### Equity:

- Tier 1 Capital: Core equity used to absorb losses while maintaining regulatory compliance.
- Tier 2 Capital: Supplementary capital providing additional loss-absorbing capacity.
- Reserves: Retained earnings, provisions, and other buffers available for crisis absorption.

By structuring the balance sheet clearly, we identify both immediate pressure points and instruments available for intervention, including liquidity management and recapitalization strategies.

## Liquidity and Capital Profile

We define the bank's liquidity and capital profile quantitatively to establish operational thresholds and triggers. These metrics determine the timing, magnitude, and type of interventions required.

### Liquidity Profile:

- Immediate Liquidity: Cash and highly liquid securities sufficient to cover near-term withdrawals and payment obligations.
- Contingent Liquidity Capacity: Access to central bank facilities, repo lines, and collateralized lending arrangements.
- Stress Liquidity Buffer: Estimated additional liquidity required to maintain depositor confidence during periods of acute stress.

### Capital Profile:

- Regulatory Capital Ratios: Tier 1 and total capital ratios relative to risk-weighted assets, serving as key solvency triggers.
- Loss Absorption Capacity: The extent to which equity and reserves can be used to offset loan defaults, market losses, or operational shocks.
- Recapitalization Readiness: Defined options for equity injections, conversion of subordinated debt, or other capital-raising measures.

By quantifying these profiles, we can implement early-warning triggers and align interventions with the bank's evolving needs.

## Risk and Behavioural Assumptions

To ensure the simulation translates into actionable decisions, we define assumptions regarding both financial risk and agent behaviour. These assumptions inform expected outcomes, shape intervention thresholds, and guide communication strategies.

### Risk Assumptions:

- Credit Risk: Probability of default by borrowers under stressed economic conditions.
- Market Risk: Sensitivity of assets and liabilities to price fluctuations, interest rate changes, or market volatility.

- Liquidity Risk: Likelihood and speed of deposit withdrawals or market funding disruptions.
- Operational Risk: Potential for system failures, process disruptions, or loss events affecting bank functionality.

### Behavioural Assumptions:

- Depositor Behaviour: Patterns of withdrawals and confidence responses under stress scenarios, including potential contagion effects.
- Counterparty Response: Willingness of creditors, suppliers, and trading partners to maintain exposure or demand collateral.
- Management Decision-making: Propensity to follow pre-defined protocols, escalate issues promptly, and implement emergency measures without delay.
- Regulatory Interaction: Expected timing and rigidity of supervisory interventions, approvals, and reporting requirements.

These assumptions are calibrated to reflect plausible responses within a typical banking environment while remaining adaptable to the particular stress scenario being simulated. They allow us to anticipate bottlenecks, pre-allocate resources, and sequence actions effectively.

## Crisis Shock Design

In order to simulate and manage the process of saving the bank effectively, we recognise the necessity of defining the characteristics of the crisis shock with precision. A well-specified shock provides the foundation for a controlled, repeatable, and operationally meaningful simulation, allowing decision-makers to anticipate vulnerabilities, sequence interventions, and allocate resources efficiently. By articulating the nature, propagation mechanisms, and immediate consequences of the shock, we create an environment in which the effects of actions can be observed, measured, and adjusted in real time.

We define the crisis shock in three complementary dimensions. First, we specify its nature, including whether the shock originates from liquidity stress, solvency deterioration, operational failure, reputational disruption, or a combination thereof. This classification informs the types of interventions that are likely to be most effective, the relative urgency of different measures, and the actors responsible for execution. Second, we identify the mechanisms through which the shock propagates throughout the bank and into the broader financial system. These mechanisms may include the withdrawal of deposits, the repricing of funding, counterparty reactions, contagion to interconnected institutions, or the disruption of payment and settlement functions. By understanding

propagation pathways, we can anticipate secondary effects, prioritise interventions, and mitigate systemic risk.

Third, we define the immediate and observable consequences of the shock for the bank's balance sheet, liquidity position, operational capabilities, and stakeholder confidence. These consequences serve as trigger points for action, establishing thresholds that guide intervention decisions in a disciplined and consistent manner. By linking the characteristics of the shock to measurable outcomes, we enable decision-makers to respond promptly, allocate resources where they are most needed, and monitor the effectiveness of each intervention.

The specification of the crisis shock also serves to enhance scenario planning and risk assessment. By modelling both the direct impact of the shock and the likely behavioural responses of depositors, creditors, counterparties, and regulators, we can identify potential bottlenecks, pre-empt cascading failures, and design interventions that preserve functional continuity. In doing so, we transform an inherently uncertain environment into a structured and actionable operational framework.

In summary, defining the characteristics of the crisis shock is an essential element of a disciplined approach to saving the bank. By specifying its nature, propagation mechanisms, and immediate consequences, we create a controlled yet realistic context for decision-making. This enables us to anticipate vulnerabilities, trigger interventions efficiently, prioritise actions based on severity and timing, and ultimately preserve the bank's critical functions while restoring solvency, liquidity, and confidence.

## Nature of the Exogenous Shock

The crisis shock is defined as an external event or combination of events that materially threatens the bank's liquidity, solvency, or operational continuity. For the purposes of the simulation, we classify shocks into three broad categories:

1. Liquidity Shocks: Rapid withdrawal of deposits, loss of interbank funding, or sudden inability to access capital markets. These shocks compromise the bank's immediate cash position and its capacity to meet payment obligations.
2. Credit Shocks: Sudden increase in borrower defaults, market-wide downgrades of asset values, or concentrated sectoral losses that erode the bank's capital base.
3. Operational Shocks: Failures in internal processes, payment systems, or critical infrastructure, as well as reputational or cyber events that disrupt core banking functions.

Shocks may occur individually or in combination. In designing the simulation, we assume that the shock is exogenous, meaning that it originates outside the bank and its

immediate control, while recognizing that internal vulnerabilities will determine the magnitude of its impact.

## Transmission Mechanisms

The crisis shock propagates through the bank's balance sheet, operational systems, and behavioural environment via identifiable mechanisms. Understanding these mechanisms is critical for designing timely and effective interventions.

### 1. Balance Sheet Transmission:

- Asset devaluation reduces capital adequacy ratios and triggers regulatory or contractual constraints.
- Increased liabilities, such as sudden deposit withdrawals or margin calls, place immediate pressure on liquidity reserves.
- Off-balance sheet exposures, including derivatives and guarantees, may materialize, creating contingent obligations that amplify losses.

### 2. Market and Confidence Transmission:

- Depositor perceptions and market sentiment can accelerate withdrawals and restrict access to funding.
- Negative signals from rating agencies or counterparties may compound funding costs and erode confidence.
- Interbank markets may tighten, reducing the availability of short-term liquidity and collateralized borrowing.

### 3. Operational Transmission:

- Systemic stress may trigger failures in internal payment, settlement, or risk management processes.
- Decision-making delays, communication gaps, or coordination failures can magnify the initial impact of the shock.

By mapping these mechanisms, we identify the channels through which the bank is most vulnerable and establish the levers available for intervention.

## Immediate Impact on the Bank

The immediate impact of the crisis shock is assessed against key state variables to determine the urgency and scale of intervention measures.

1. Liquidity: Cash reserves and liquid assets are depleted rapidly. Short-term funding gaps emerge, creating a risk of operational freeze or depositor panic.
2. Capital Adequacy: Market losses or loan defaults reduce the bank's capital ratios, potentially breaching regulatory thresholds and triggering supervisory scrutiny.
3. Depositor Confidence: The perceived solvency and stability of the bank deteriorate, increasing withdrawal rates and raising the risk of contagion within the financial system.
4. Operational Functionality: Payment, settlement, and core banking operations may face immediate disruption, impairing the bank's ability to execute transactions, honour obligations, or communicate effectively with stakeholders.

The combined effect of these impacts establishes the initial intervention thresholds. By measuring deviations in liquidity, capital, and confidence from predefined safe levels, we are able to trigger a sequence of operational actions aimed at stabilizing the bank and restoring functional continuity.

## Crisis Dynamics

Understanding the dynamics of a banking crisis is fundamental to the execution of timely, coordinated, and effective interventions. The trajectory of the bank's stress is determined not solely by the initial shock but by the manner in which that stress propagates through interconnected systems of liquidity, capital, and stakeholder confidence. A clear operational understanding of these dynamics allows us to anticipate points of vulnerability, prioritise actions, and establish pre-defined decision thresholds that guide interventions in real time.

We identify the key mechanisms through which liquidity stress spreads within and beyond the bank. These mechanisms include the withdrawal of deposits, the tightening of interbank funding, the acceleration of margin calls, and the curtailment of lending activities. Each mechanism generates measurable impacts on the bank's cash flows and operational capabilities, and in combination, they can trigger secondary effects that amplify stress. By mapping these pathways, we are able to anticipate how localized disruptions may escalate into system-wide challenges, allowing interventions to be targeted before the onset of disorderly outcomes.

Feedback loops play a critical role in amplifying risk during a banking crisis. For example, the perception of deteriorating liquidity can lead depositors and counterparties to withdraw funds or curtail engagement, further exacerbating liquidity strain. Similarly, declining confidence in the bank's solvency may lead to accelerated asset sales, margin pressure, or counterparty withdrawal, creating a cycle that magnifies the initial shock. By explicitly modelling these feedback mechanisms, we can identify potential escalation points, monitor stress indicators, and calibrate interventions to dampen adverse spirals rather than inadvertently reinforcing them.

A key operational consideration is the transition from liquidity stress to solvency stress. While liquidity interventions can stabilize short-term cash flows, persistent or unaddressed balance sheet weaknesses can result in solvency deterioration. Recognizing the conditions under which this transition occurs is critical for pre-emptive action, including capital support, asset restructuring, or operational realignment. By clarifying these thresholds, we create a framework that links observable indicators to decisive intervention strategies, ensuring that responses are both proactive and effective.

By establishing a detailed understanding of crisis dynamics, we create the rationale for prioritizing interventions and pre-committing to specific decision rules. This understanding allows us to sequence actions logically, allocate resources efficiently, and maintain institutional coherence under stress. It also provides the basis for monitoring and evaluating outcomes, enabling real-time adjustments while preserving critical functions, stakeholder confidence, and operational continuity.

In summary, mapping and analysing the dynamics of a banking crisis equips us with the operational insight necessary to execute interventions with precision. By identifying propagation mechanisms, feedback loops, and thresholds for solvency transition, we ensure that each decision is grounded in an empirical understanding of how stress evolves within the bank. This allows us to act decisively, coordinate across functions and stakeholders, and maintain the continuity of critical banking operations throughout the crisis.

## Liquidity Stress Propagation

Liquidity stress begins with the immediate depletion of cash or liquid assets due to depositor withdrawals, funding withdrawals, or collateral calls. The propagation of liquidity stress follows several observable pathways:

1. Withdrawal Cascades: Depositor and counterparty reactions are interdependent. Initial withdrawals can trigger secondary withdrawals as confidence erodes, creating a compounding demand on cash reserves.

2. Market Funding Constraints: Deteriorating creditworthiness increases the cost and reduces the availability of interbank borrowing, repo lines, or other short-term funding sources.
3. Asset Liquidation Pressure: Forced sales of marketable securities or loan portfolios to meet immediate obligations can depress market prices, reducing the value of remaining assets and further impairing liquidity.
4. Operational Bottlenecks: Stress in treasury, risk, or payment operations can delay transaction settlement, creating temporary liquidity gaps that are interpreted by the market as persistent shortfalls.

Monitoring these propagation channels allows us to establish early-warning indicators, such as thresholds for withdrawal rates, repo access, and liquid asset ratios, which trigger pre-defined interventions to arrest the spread of stress.

## Feedback Loops and Thresholds

Crisis dynamics are characterized by self-reinforcing feedback loops. Recognizing these loops is critical for designing timely interventions and preventing uncontrolled escalation. Key feedback mechanisms include:

1. Confidence Feedback Loop: Loss of depositor confidence accelerates withdrawals, which in turn further erodes confidence. The loop is sensitive to both real liquidity shortages and perceived instability.
2. Market Signalling Loop: Negative movements in asset prices or funding spreads are observed by counterparties and rating agencies, triggering re-pricing of risk and further constraints on access to liquidity.
3. Operational Feedback Loop: Delays or failures in internal processes, reporting, or communication exacerbate market and depositor perceptions, creating additional behavioural stress that amplifies liquidity gaps.

Thresholds are defined quantitatively for each feedback loop. For example:

- Liquidity Ratio Threshold: When liquid assets fall below a pre-defined fraction of immediate obligations, emergency liquidity interventions are triggered.
- Capital Buffer Threshold: Declines below regulatory or functional minima trigger capital support measures or balance sheet restructuring.
- Confidence Index Threshold: Measured through deposit flows, market indicators, or counterparty behaviour, breach of this threshold initiates proactive communication and reassurance measures.

By explicitly defining these thresholds, we convert qualitative risks into actionable triggers for intervention.

## Transition from Liquidity to Solvency Stress

Liquidity stress is frequently the precursor to solvency stress. The transition occurs when short-term obligations cannot be met without depleting capital or eroding equity below functional or regulatory minima. Key factors driving this transition include:

1. Asset-Liability Mismatch: Illiquid or long-dated assets may be insufficient to cover accelerating short-term liabilities, forcing losses that reduce capital.
2. Market Depreciation of Assets: Fire sales or market shocks reduce the balance sheet value of assets, converting temporary liquidity issues into structural solvency shortfalls.
3. Regulatory Breaches: Falling below capital adequacy requirements or risk-weighted thresholds may compel regulatory intervention, increasing the perception of solvency risk.
4. Loss of Market Confidence: When counterparties refuse to roll over funding or demand collateral beyond available levels, liquidity gaps become capital impairments.

Operationally, recognizing the point of transition is critical. Interventions must shift from purely liquidity-oriented measures, such as central bank borrowing or deposit guarantees, to solvency-oriented actions, including recapitalization, restructuring, or the transfer of impaired assets. Pre-defined decision rules dictate this transition, ensuring that actions remain timely and coherent.

## Intervention Levers

To execute the saving of the bank effectively, it is essential that we clearly define the full set of intervention levers available to decision-makers. These levers represent the actionable measures by which we can influence liquidity, capital, governance, operational continuity, and stakeholder confidence. Equally important, we define the operational constraints, potential costs, and the rules governing the timing, sequencing, and conditional application of each lever. By articulating these parameters in advance, we ensure that responses are deliberate, consistent, and credible, reducing the risk of disorderly escalation and reinforcing confidence among depositors, counterparties, regulators, and other critical stakeholders.

We categorize intervention levers across multiple dimensions. Financial levers include measures such as liquidity injections, emergency credit lines, capital support, asset sales, liability restructuring, and the allocation of losses across shareholders and unsecured creditors. Operational levers encompass governance changes, management

replacement, downsizing or restructuring of business units, and the reallocation of critical resources to maintain essential functions. Communication levers include public and stakeholder messaging, transparency measures, and engagement with regulators to reinforce credibility and maintain confidence. Each lever is associated with both an expected effect and a set of potential trade-offs, which must be assessed within the context of the bank's operational and financial state.

The application of intervention levers is governed by clearly defined rules. These rules specify the conditions under which each lever may be activated, the thresholds for action, and the sequence in which interventions should occur. Sequencing is critical, as some measures may be effective only after preliminary steps have been taken, while others must be deployed rapidly to prevent cascading failures. Timing, coordination, and alignment with internal and external actors are essential to ensure that interventions reinforce rather than undermine one another.

We also consider the operational constraints and costs associated with each intervention. Constraints may arise from regulatory frameworks, legal obligations, contractual commitments, or the limited availability of resources. Costs may include fiscal or financial expenditures, reputational impact, operational disruption, or unintended consequences for counterparties. By explicitly incorporating these factors into the definition and planning of interventions, we create a framework for decision-making that is both realistic and actionable.

Finally, the pre-definition of intervention levers strengthens institutional preparedness and credibility. When all stakeholders understand the available tools, the conditions under which they may be deployed, and their intended effects, decision-making is accelerated, uncertainty is reduced, and confidence in the bank's stability is reinforced. This clarity allows us to act decisively under pressure, maintain functional continuity, and manage the crisis in a disciplined and coordinated manner.

In summary, defining the set of intervention levers, along with their constraints, costs, and operational rules, is a cornerstone of a disciplined approach to saving the bank. By doing so, we establish a structured and credible foundation for action, enabling timely, coordinated, and effective responses that preserve critical functions, restore confidence, and maintain the viability of the institution.

## Available Control Variables

We categorize the control variables into three primary domains, corresponding to the main dimensions of bank stability: liquidity, solvency, and operational functionality.

### Liquidity Levers:

1. Central Bank Facilities: Access to standing lending facilities or emergency liquidity provisions to cover immediate shortfalls.

2. Asset Sales: Liquidation of marketable securities or selected loan portfolios to generate cash.
3. Interbank Borrowing: Utilization of short-term funding from other institutions under pre-defined agreements.
4. Deposit Management: Guarantees, partial freezes, or incentives to maintain depositor balances and prevent withdrawals.

### Solvency Levers:

1. Recapitalization: Equity injections, conversion of subordinated debt, or other forms of capital support to restore regulatory and functional capital ratios.
2. Loss Absorption Measures: Recognition of non-performing assets, write-downs, or sale of impaired loans to strengthen the balance sheet.
3. Restructuring: Redesign of asset-liability composition, divestment of non-core operations, or strategic merger with a stable institution.

### Operational Levers:

1. Management Replacement: Temporary or permanent changes in senior management to ensure decisive and credible leadership.
2. Process Contingencies: Deployment of manual or outsourced operations to maintain payment and settlement functions.
3. Communication: Coordinated messaging to stakeholders, depositors, and counterparties to manage expectations and preserve confidence.

Each control variable is associated with measurable thresholds and triggers, ensuring interventions are applied precisely when needed and adjusted as conditions evolve.

### Constraints and Costs

Intervention levers are not unlimited. Each carries explicit constraints and costs that must be factored into operational decision-making.

#### Liquidity Constraints:

- Central bank access may be subject to collateral requirements and maximum facility limits.
- Interbank funding may be restricted by counterparty risk or market conditions.

#### Solvency Constraints:

- Recapitalization options depend on the availability of investors, government approvals, or legal authority.

- Loss absorption measures reduce stakeholder claims and may generate political or reputational costs.

#### Operational Constraints:

- Management changes require both procedural compliance and rapid onboarding to ensure continuity.
- Communication must balance transparency with reassurance, as premature or inaccurate messaging can exacerbate stress.

Costs are both direct, such as fees, interest, or asset write-downs, and indirect, including market confidence erosion or operational disruption. Decision-makers must weigh these costs against the systemic benefits of stabilizing the bank.

### Timing and Sequencing Rules

The effectiveness of interventions is highly sensitive to their timing and order of application. We establish the following principles to guide operational sequencing:

1. Liquidity First: Immediate measures to restore cash and functional operations precede structural or solvency interventions. This ensures that the bank remains operational and depositor confidence is preserved.
2. Threshold-Based Activation: Interventions are triggered only when state variables breach pre-defined thresholds. For example, liquidity injections are executed when cash reserves fall below the stress buffer, and recapitalization is initiated when capital ratios approach regulatory minima.
3. Simultaneous Coordination: Liquidity, solvency, and operational levers should be deployed in a coordinated manner to avoid gaps or overlaps. This requires cross-functional monitoring and decision synchronization among management, regulators, and treasury units.
4. Escalation Pathways: If initial interventions fail to stabilize the bank, escalation measures such as restructuring, merger, or broader recapitalization are activated according to pre-defined escalation protocols.
5. Continuous Feedback: All interventions are continuously evaluated against state variables and feedback loops. Adjustments are made dynamically, ensuring that actions remain aligned with the evolving stress scenario.

By adhering to these rules, interventions become systematic and repeatable. The bank's management and supporting authorities are able to act decisively, maintain credibility, and prevent the crisis from transitioning into systemic failure.

## Stabilization Strategy

The stabilization strategy provides the operational framework for immediate, decisive action aimed at preserving the bank's core functions and preventing the crisis from escalating into a disorderly collapse. We define stabilization as the initial phase of intervention, during which the primary objective is to contain the effects of the crisis, maintain operational continuity, and safeguard critical stakeholder confidence. This phase serves as the foundation upon which longer-term recovery measures can be built and must be executed with speed, precision, and coordination.

Our stabilization strategy is structured around three interrelated components: emergency response logic, containment measures, and short-term survival metrics. Emergency response logic establishes the sequence and hierarchy of decisions required when early warning indicators or crisis triggers are activated. This logic ensures that interventions are executed in a disciplined and repeatable manner, prioritizing actions that address the most immediate threats to liquidity, solvency, and operational functionality. By pre-defining this decision sequence, we reduce the likelihood of indecision, conflicting actions, or delays that could amplify stress.

Containment measures constitute the operational levers deployed during the stabilization phase. These measures are designed to halt the propagation of liquidity or confidence shocks, prevent the amplification of risk through feedback loops, and secure essential functions such as deposit access, payment and settlement operations, and credit flows. Containment measures may include targeted liquidity injections, temporary moratoriums on certain obligations, short-term asset or liability adjustments, and the rapid deployment of governance or management interventions. Each measure is linked to observable triggers and clearly defined criteria for effectiveness, ensuring that actions are deliberate, proportional, and aligned with operational priorities.

Short-term survival metrics provide the basis for assessing the effectiveness of stabilization efforts. These metrics are operationally defined, quantifiable, and focused on the preservation of critical functions, the maintenance of confidence among depositors and counterparties, and the prevention of systemic contagion. Examples include cash flow sufficiency, settlement continuity, deposit retention rates, and counterparty engagement levels. By monitoring these metrics continuously, we are able to evaluate the impact of interventions in real time, recalibrate actions as necessary, and maintain focus on the objective of functional continuity.

The stabilization strategy is inherently repeatable and trigger-based. Each component of the strategy is linked to defined thresholds, allowing interventions to be applied consistently across scenarios while maintaining flexibility to adjust to the specifics of the crisis. This approach ensures that decision-makers are prepared to act decisively, that

resources are allocated efficiently, and that operational coordination is maintained across all units and stakeholders.

In summary, the stabilization strategy provides a disciplined and actionable framework for the initial phase of crisis management. By defining emergency response logic, containment measures, and short-term survival metrics, we create a foundation for credible, coordinated, and effective action. This ensures that the bank's core functions are preserved, that the propagation of stress is contained, and that the institution remains viable while longer-term recovery measures are planned and executed.

## Emergency Response Logic

The emergency response logic is designed to guide decision-makers through the critical initial hours and days of the crisis. It is predicated on the principle that rapid, credible, and coordinated action is the most effective way to prevent the deterioration of confidence and liquidity.

1. Activation Triggers: Emergency protocols are activated when liquidity, capital, or confidence metrics breach pre-defined thresholds. Examples include deposit outflows exceeding a stress buffer, liquid assets falling below immediate obligations, or capital ratios approaching regulatory minima.
2. Decision Hierarchy: Liquidity restoration takes precedence, followed by capital interventions, operational continuity measures, and communications. This hierarchy ensures that the bank remains functional while addressing solvency risks.
3. Coordination Mechanism: All actions are coordinated between senior management, treasury, risk, operational units, and supervisory authorities. Responsibility is clearly assigned to prevent duplication, gaps, or delays.
4. Escalation Protocols: If initial measures do not stabilize the bank, predefined escalation paths are executed. These may include asset sales, recapitalization, or controlled restructuring.

The emergency response logic transforms the abstract concept of crisis management into actionable steps that can be executed with precision under time pressure.

## Run Containment

A critical component of the stabilization strategy is the containment of run risk. Rapid depositor withdrawals or counterparty flight can amplify liquidity stress and trigger systemic panic. Containment measures include:

1. Deposit Guarantees: Publicly or institutionally communicated assurances that insured deposits are secure, reducing panic withdrawals.
2. Temporary Controls: Time-bound measures such as withdrawal limits, transaction freezes, or prioritization of payment obligations, implemented to stabilize liquidity without permanently disrupting operations.
3. Liquidity Support: Emergency use of central bank facilities, interbank borrowing, and rapid asset liquidation to meet immediate obligations and signal operational resilience.
4. Confidence Management: Coordinated communication campaigns aimed at depositors, counterparties, and the market to demonstrate control and credibility.

These measures are applied simultaneously and continuously monitored to prevent escalation. Run containment is treated as a priority action because uncontrolled withdrawals can quickly convert a manageable liquidity stress into solvency failure.

## Short-Term Survival Metrics

Short-term survival metrics provide objective, actionable indicators to assess the effectiveness of stabilization measures. These metrics enable decision-makers to evaluate whether interventions are sufficient and to adjust strategies dynamically. Key metrics include:

1. Liquidity Coverage: Ratio of available cash and liquid assets to immediate obligations. This metric ensures that operational commitments can be met in real time.
2. Deposit Retention: Rate of depositor withdrawals relative to pre-crisis expectations. Stable or improving retention signals effective confidence management.
3. Operational Continuity: Status of payment, settlement, and core banking systems. Metrics include transaction completion rates, system uptime, and exception volumes.
4. Capital Buffer Utilization: Extent to which equity and reserves are deployed to absorb losses while maintaining regulatory compliance. Excessive depletion triggers further capital support measures.
5. Market Signals: Funding costs, counterparty behaviour, and market pricing of bank liabilities provide real-time insight into the perception of solvency and stability.

By monitoring these metrics continuously, we can determine when the bank has stabilized sufficiently to move from emergency response to structured recovery, ensuring that short-term survival is achieved without sacrificing longer-term viability.

## Balance Sheet and Structural Adjustment

Once immediate stabilization has been achieved and the bank's core functions have been preserved, our focus necessarily shifts from short-term survival to the restoration of structural integrity. Balance sheet and structural adjustment constitute the critical transition from crisis containment to medium-term viability. This phase is governed by the principle that unresolved losses, misaligned incentives, and structurally unsound business configurations will inevitably re-emerge as renewed instability if they are not addressed in a decisive and comprehensive manner. Stabilization without structural correction is therefore treated as incomplete and inherently fragile.

The objective of this phase is to convert temporary support and emergency measures into a credible and durable financial position. We approach balance sheet adjustment as an exercise in loss recognition, capital realignment, and structural simplification. This requires the identification and transparent acknowledgment of impaired assets, the valuation of liabilities under stress conditions, and the reconstitution of capital in a manner that restores confidence among stakeholders. By addressing weaknesses directly rather than deferring them, we reduce uncertainty and limit the scope for future shocks to undermine the bank's recovery.

Structural adjustment extends beyond balance sheet repair to encompass the alignment of the bank's operational structure with its revised financial capacity and risk tolerance. This may include the downsizing or exit of non-core or loss-making business lines, the consolidation of operational units, and the reconfiguration of funding and asset origination strategies. Governance structures, incentive frameworks, and risk management processes are also reviewed to ensure that they support prudent decision-making and are consistent with the bank's post-crisis mandate. These adjustments are essential to prevent the re-accumulation of vulnerabilities that contributed to the crisis.

The actions undertaken during this phase are designed to be executed sequentially and transparently. Sequencing is critical, as premature restructuring or capital actions can undermine confidence if stabilization has not been firmly secured, while delayed adjustment can erode the credibility gained during the stabilization phase. Transparency is equally essential. Clear communication regarding the nature of losses, the rationale for restructuring decisions, and the intended end-state of the bank reduces uncertainty, facilitates stakeholder alignment, and reinforces institutional credibility.

Throughout this phase, we apply explicit decision criteria and monitoring metrics to assess progress toward structural viability. These metrics include capital adequacy

under conservative assumptions, sustainable funding profiles, asset quality indicators, and operational efficiency measures. By anchoring actions to observable outcomes, we ensure that balance sheet and structural adjustment remain disciplined, measurable, and aligned with the objective of long-term stability.

In summary, balance sheet and structural adjustment represent the decisive phase in which the bank transitions from crisis survival to credible recovery. By confronting losses, realigning structures, and simplifying operations in a transparent and sequential manner, we establish the conditions for durable financial stability. This phase ensures that the bank emerges from the crisis not merely intact, but structurally sound, institutionally coherent, and capable of operating sustainably without continued extraordinary support.

## Loss Recognition

The first and most critical step in balance sheet adjustment is the full, timely, and comprehensive recognition of losses. We treat loss recognition as a foundational requirement for restoring credibility, enabling effective decision-making, and ensuring the success of all subsequent interventions. Delayed, partial, or selective recognition of losses undermines confidence among stakeholders, obscures the true financial position of the bank, and weakens the effectiveness of recapitalization, restructuring, and governance reforms. For these reasons, loss recognition is addressed explicitly, decisively, and without compromise.

We require the bank to undertake a comprehensive and institution-wide review of asset quality. This review encompasses loan portfolios across all segments, marketable and non-marketable securities, off-balance sheet exposures, guarantees, derivatives, and contingent liabilities. The objective is to identify impairments, concentrations of risk, and valuation uncertainties that may not be fully reflected under normal reporting conditions. The review is conducted using consistent methodologies and assumptions to ensure comparability and transparency across asset classes and business lines.

Assets are re-valued under conservative assumptions that reflect stressed but plausible recovery scenarios. These assumptions incorporate adverse macroeconomic conditions, reduced collateral values, counterparty weakness, and constrained market liquidity. Where valuation uncertainty exists, we apply prudence, erring on the side of conservative assessment rather than optimistic projection. This approach ensures that recognized values are robust to further stress and reduces the likelihood that additional impairments will emerge during later stages of the recovery process.

Recognized losses are charged directly against existing capital and reserves. Non-performing assets are classified consistently and provisioned in full where recovery prospects are doubtful or highly uncertain. We emphasise that temporary regulatory forbearance, accounting flexibility, or supervisory discretion is not treated as a substitute for loss recognition. Such measures, where employed, are used solely to facilitate orderly

execution, prevent market disruption, or manage timing constraints, and do not alter the underlying requirement to reflect economic reality on the balance sheet.

The sequencing of loss recognition is critical. We require that this process be completed prior to any material recapitalization, restructuring, or balance sheet expansion. This sequencing ensures that new capital is not immediately absorbed by legacy impairments and that incoming stakeholders, whether public or private, are not exposed to undisclosed losses. It also provides existing stakeholders with a clear and credible view of the bank's true financial condition, forming a sound basis for subsequent decisions on capital allocation, restructuring scope, and governance changes.

In summary, loss recognition serves as the anchor for balance sheet repair and institutional credibility. By confronting impairments directly, applying conservative valuation principles, and completing the process before further intervention, we establish a transparent and reliable foundation for recovery. This disciplined approach reduces uncertainty, strengthens confidence, and ensures that subsequent actions are built on an accurate and durable assessment of the bank's financial position.

## Capital and Liability Actions

Following the full recognition of losses, we implement capital and liability actions to restore solvency, reinforce the bank's loss-absorbing capacity, and establish a capital structure that is resilient under stress. These actions are governed by a clearly defined hierarchy that aligns with principles of market discipline, legal certainty, and systemic stability. By adhering to this hierarchy, we ensure that losses are allocated transparently and predictably, thereby reinforcing credibility and minimizing uncertainty among stakeholders.

Equity holders absorb losses first through dilution, write-down, or cancellation of existing equity interests. This reflects the fundamental principle that shareholders bear the primary risk of loss in a banking institution. Where equity capital proves insufficient to restore viability, subordinated liabilities are addressed next. Eligible instruments are converted into equity, written down, or otherwise restructured in accordance with their contractual terms and the applicable resolution or insolvency framework. These actions are executed in a manner that preserves legal consistency and reduces the risk of dispute or delay.

Senior unsecured creditors are affected only where strictly necessary to restore minimum capital viability and ensure the continued performance of critical functions. The decision to extend loss allocation beyond subordinated instruments is treated as an exceptional measure, undertaken only after all preceding layers of the capital structure have been exhausted. In such cases, actions are applied in a targeted and proportionate manner, with due regard to systemic implications and market confidence.

Recapitalization is achieved through one or more complementary mechanisms. These may include the issuance of new equity to private investors, the conversion of eligible liabilities into equity, or the provision of external capital support under clearly defined and transparent conditions. Any public or institutional capital injection is accompanied by binding governance reforms, including changes to board composition and senior management where appropriate, restrictions on dividends, share buybacks, and variable compensation, and the establishment of measurable performance benchmarks. These conditions are designed to align incentives, protect public interests, and ensure that capital support contributes to durable recovery rather than temporary relief.

In parallel with recapitalization, we undertake measures to rationalize and simplify the bank's liability structure. Short-term wholesale funding that exacerbates rollover risk is reduced, restructured, or replaced with more stable funding sources such as longer-term debt or core deposits. Maturity mismatches are addressed systematically to reduce sensitivity to market disruptions and future liquidity stress. These adjustments are essential to complement capital strengthening and to ensure that the bank's funding profile is consistent with its revised risk and business model.

All capital and liability actions are executed within a clearly defined timeframe and communicated in a transparent and coordinated manner. Clear communication is essential to prevent uncertainty, speculation, and destabilizing behaviour among market participants. By setting expectations, articulating the rationale for decisions, and providing a credible end-state, we reinforce confidence in the intervention and support the orderly restoration of the bank's financial position.

In summary, capital and liability actions form the core of solvency restoration following loss recognition. Through disciplined loss allocation, credible recapitalization, and liability simplification, we re-establish a robust capital base and a stable funding structure. These measures ensure that the bank emerges from the crisis with the capacity to absorb future shocks, maintain confidence, and operate on a sustainable footing.

## Structural Reconfiguration of the Bank

Balance sheet repair, while necessary, is not sufficient if the underlying structure of the bank remains misaligned with its post-crisis risk capacity. Structural reconfiguration is therefore undertaken to ensure that the bank that emerges from the crisis is simpler, more resilient, and operationally coherent. This phase is directed at aligning the scale, complexity, and risk profile of the institution with its revised capital base, liquidity resources, and governance framework. Without such realignment, residual vulnerabilities would persist and undermine the durability of recovery.

We begin by identifying non-core, non-strategic, and disproportionately high-risk activities. Business lines that generate volatile or highly cyclical earnings, require excessive leverage, depend on unstable or short-term funding, or expose the bank to

concentrated risks are scaled down, restructured, or exited entirely. Divestments are executed in a manner that prioritises continuity of critical functions while reducing complexity and freeing resources for core activities. Geographic, sectoral, and counterparty concentrations are reviewed systematically and reduced where they create correlated risks that exceed the bank's risk tolerance.

The organisational structure of the bank is simplified to enhance oversight, accountability, and decision-making effectiveness. Reporting lines are clarified to eliminate ambiguity and duplication, ensuring that responsibility for risk, performance, and control is clearly assigned. Risk management, compliance, and internal audit functions are strengthened and granted sufficient authority and independence to support timely escalation and effective challenge. Decision-making authority is realigned to ensure that material risks can be identified and addressed promptly, particularly under stress conditions.

Where required, the legal and corporate structure of the bank is modified to separate critical functions from non-critical or higher-risk operations. This may include the establishment of ring-fenced entities to protect core deposit-taking and payment services, the creation of asset separation or resolution vehicles to isolate impaired or non-core assets, or the transfer of essential operational services to more stable and resilient platforms. These measures are designed to enhance resolvability, protect critical functions, and reduce the potential for contagion within the group structure.

Structural reconfiguration is completed with the explicit objective of enabling the bank to operate sustainably and profitably within its revised capital and liquidity constraints. The post-crisis institution is designed to function without reliance on extraordinary public or institutional support, supported instead by a coherent business model, disciplined risk management, and a simplified operational footprint. By aligning structure with capacity, we ensure that the recovery is durable, credible, and resilient to future stress.

*This phase marks the transition from crisis management to institutional repair. By executing loss recognition, capital and liability actions, and structural reconfiguration in a disciplined and sequential manner, we establish a foundation for sustainable recovery and prevent the recurrence of instability.*

# Outcomes and Sensitivity Analysis

This section defines the terminal outcomes of the intervention framework and evaluates the robustness of the strategy across alternative stress scenarios. The objective is not to predict a single outcome, but to determine whether the chosen actions reliably produce acceptable end states under varying assumptions. Outcomes are assessed in operational terms and are used to validate or revise earlier intervention choices.

## Terminal States of the Simulation

We define terminal states as the set of conditions under which extraordinary intervention is either concluded or escalated to resolution. These states are evaluated after the completion of stabilization, balance sheet adjustment, and structural reconfiguration.

The simulation recognizes three terminal states.

Stabilized Continuity:

The bank meets all immediate obligations without extraordinary liquidity support. Capital ratios exceed minimum regulatory and internal thresholds. Depositor flows normalize and market access is restored on sustainable terms. In this state, the bank continues operating as a standalone institution under enhanced supervision.

Viable Restructured Entity:

The bank remains operational but only after significant restructuring, recapitalization, or liability reallocation. Certain business lines or legal entities may be exited or transferred. Public or institutional capital support may remain temporarily in place, subject to predefined exit conditions. This state is considered a successful outcome if critical functions are preserved and systemic disruption is avoided.

Orderly Resolution Trigger:

The bank fails to meet minimum solvency or operational thresholds despite interventions. In this case, the framework transitions to resolution protocols focused on the transfer or wind-down of critical functions. This outcome is treated as a controlled failure rather than a systemic collapse.

Each terminal state is evaluated against predefined criteria related to liquidity sufficiency, capital adequacy, operational continuity, and confidence restoration.

## Strategy Comparison

To assess the effectiveness of alternative intervention approaches, we conduct a structured comparison of strategies applied under identical shock conditions. This comparison is designed to isolate the impact of decision-making choices by holding the

nature and severity of the crisis constant, allowing us to evaluate outcomes based on the timing, intensity, and sequencing of actions. By examining strategies side by side, we identify the trade-offs inherent in different approaches and derive practical lessons for crisis management.

Early intervention strategies are characterised by rapid deployment of liquidity support, prompt and comprehensive loss recognition, and decisive capital and liability actions. These strategies seek to arrest deterioration at an early stage, stabilise confidence, and prevent adverse feedback loops from taking hold. In our analysis, early intervention consistently produces faster stabilisation of core functions and lower cumulative economic losses over the life of the crisis. However, these benefits are accompanied by higher upfront costs, including greater dilution of existing stakeholders, more visible use of intervention tools, and the political and institutional challenges associated with acting before uncertainty is fully resolved.

Delayed intervention strategies place greater emphasis on market-led adjustment and minimal initial intrusion. Under this approach, authorities allow stress to play out in the expectation that confidence will stabilise organically or that corrective measures can be postponed until clearer information emerges. While such strategies may reduce immediate fiscal or institutional costs, our analysis shows that they materially increase the risk of confidence erosion, funding withdrawal, and balance sheet deterioration. In many cases, delayed intervention results in larger eventual capital shortfalls and forces escalation to more disruptive resolution measures, thereby undermining the original objective of minimising intervention.

Incremental strategies seek to balance these approaches by applying interventions in stages, with the intensity of action adjusted in response to observed market and stakeholder reactions. These strategies rely heavily on high-quality monitoring, timely data, and strong governance discipline to ensure that escalation occurs before critical thresholds are breached. Under conditions of moderate stress, incremental approaches can perform effectively by preserving flexibility and limiting unnecessary intervention. However, they are particularly vulnerable to rapid confidence shocks, where delays in escalation can allow stress to propagate faster than corrective measures can be deployed.

The comparison of strategies highlights a consistent and operationally significant conclusion. Credibility and speed exert a greater influence on outcomes than precision or incremental calibration. Interventions that are clearly defined, communicated effectively, and executed decisively outperform those that rely on gradualism or reactive adjustment under conditions of stress. Once confidence is impaired, the cost of delay increases non-linearly, and the scope for fine-tuning diminishes rapidly.

In summary, strategy comparison reinforces the central premise of this framework: that decisive, credible action taken early in a crisis is more effective than cautious, delayed, or excessively incremental responses. While each strategy entails trade-offs, the evidence demonstrates that clarity of intent, speed of execution, and institutional coherence are the dominant drivers of successful outcomes in the process of saving the bank.

## Robustness Across Scenarios

Robustness is assessed by subjecting the intervention framework to a range of adverse scenarios that vary key assumptions related to shock severity, behavioural responses, and prevailing market conditions. The objective of this analysis is to determine whether the framework remains effective when baseline assumptions are relaxed, uncertainties increase, or stress intensifies beyond initial expectations. A robust framework is one that preserves functionality and coherence not only under expected conditions but also under adverse and rapidly evolving circumstances.

We evaluate robustness by systematically varying the characteristics of the crisis environment. Scenarios include, but are not limited to, accelerated and nonlinear deposit outflows, sharper and more persistent declines in asset values, delayed or constrained regulatory approvals, disruptions in market access, and sustained adverse market sentiment. These scenarios are designed to test the framework's ability to respond under pressure, particularly when multiple stress factors interact simultaneously. For each scenario, we assess whether the defined intervention sequence is executed within the required timeframes and whether it maintains operational continuity while preventing uncontrolled escalation.

The assessment of robustness is anchored in explicit and observable criteria. We consider the framework robust if it satisfies three conditions consistently across scenarios. First, liquidity shortfalls must be identified and contained before they impair the bank's core operational functions, including deposit access, payment and settlement activities, and essential credit provision. Second, solvency measures must be triggered in a timely manner, before capital ratios fall below functional minima that would undermine confidence or necessitate disorderly resolution. Third, confidence indicators, including depositor behaviour, counterparty engagement, and market access, must stabilise within a bounded and operationally acceptable timeframe following intervention.

Where the framework fails to meet these conditions under specific scenarios, the analysis identifies the precise points of weakness. These failure points may arise from thresholds that are set too conservatively or too late, sequencing rules that delay escalation, or governance arrangements that inhibit timely decision-making. Rather than treating such outcomes as deficiencies, we use them as inputs for refinement.

Adjustments are prescribed to decision thresholds, intervention sequencing, escalation authority, or monitoring metrics to address identified vulnerabilities.

These revisions are incorporated back into the intervention framework through an iterative process, ensuring that lessons learned from stress scenarios directly inform improvements in design and execution. This process of continuous refinement strengthens institutional preparedness, enhances credibility, and reduces the likelihood that unanticipated conditions will overwhelm decision-making capacity during an actual crisis.

In summary, robustness across scenarios is a critical test of the framework's practical viability. By systematically challenging assumptions, evaluating outcomes against clear operational criteria, and incorporating lessons into the framework, we ensure that the strategy for saving the bank remains resilient, adaptive, and effective under a wide range of adverse conditions. This approach reinforces the framework's role not merely as a theoretical construct, but as a reliable and actionable guide for real-world crisis management.

*This outcomes and sensitivity analysis closes the operational loop of the simulation. It confirms whether the framework can reliably guide action under uncertainty and provides a disciplined basis for revising assumptions, thresholds, and decision rules. By defining acceptable terminal states and testing strategy performance across scenarios, we ensure that saving the bank is not contingent on favourable conditions, but achievable through structured and credible intervention.*

## Anti Thesis

### Why the Bank Should Not Be Saved

This section presents a deliberate counter-thesis to the central premise of the paper. While the preceding chapters are constructed around the assumption that preserving the bank's functions through structured intervention is both desirable and necessary, we recognise that this assumption is neither self-evident nor universally valid. We therefore examine the case against saving the bank, even when interventions are executed within a disciplined, transparent, and operationally coherent framework.

The core argument of this anti-thesis is that the act of saving the bank, when treated as a generalisable policy response rather than an exceptional measure, imposes systemic costs that extend beyond the immediate crisis. These costs are not always visible at the point of intervention, but they accumulate over time through distorted incentives,

weakened market discipline, and the misallocation of risk. Even well-designed rescue frameworks can entrench expectations of support, alter behaviour *ex ante*, and reduce the capacity of the financial system to self-correct.

From this perspective, the preservation of the bank's functions does not automatically justify extensive intervention. While continuity of payments, deposits, and credit flows is often cited as a primary objective, we contend that these functions can, in many cases, be preserved without preserving the institution that performs them. Structured rescue mechanisms frequently conflate functional continuity with institutional survival, thereby protecting organisational forms and decision-making structures that have already demonstrated their failure. This conflation increases the probability that similar failures will recur.

We further argue that rescue frameworks, when anticipated, shift risk away from those best positioned to manage it. Shareholders, creditors, and management operate under altered incentive structures when downside outcomes are partially socialised or mitigated through intervention. Over time, this weakens underwriting standards, increases leverage tolerance, and encourages complexity that is rational at the individual institution level but destabilising at the system level. These effects persist even when formal loss-sharing hierarchies are respected, as the expectation of intervention itself influences behaviour.

The anti-thesis therefore advances an alternative institutional position. Under this view, the appropriate response to bank failure is not structured rescue, but controlled non-survival. Controlled non-survival entails allowing the legal and organisational entity of the bank to fail, while actively managing the consequences of that failure to prevent disorderly contagion. Critical functions are transferred, wound down, or reconstituted elsewhere, while the failed institution exits the system in a predictable and rule-bound manner. Losses are realised fully and transparently, reinforcing market discipline and resetting incentives.

Importantly, controlled non-survival is not synonymous with inaction or neglect. It requires robust resolution frameworks, credible execution capacity, and political willingness to accept institutional failure. However, it avoids the long-term distortions associated with repeated rescue and preserves the informational and disciplinary role of failure within the financial system. In this framework, stability is achieved not through preservation, but through renewal.

This counter-thesis does not deny the operational effectiveness of the rescue framework presented in earlier sections. Rather, it challenges its normative desirability when applied broadly or reflexively. By juxtaposing disciplined rescue with disciplined non-survival, we aim to clarify the trade-offs inherent in crisis management and to underscore that saving the bank is a choice, not an obligation. The decision to intervene must therefore be

evaluated not only on its immediate stabilising effects, but on its long-term consequences for institutional behaviour, systemic resilience, and the credibility of market discipline.

## Rejection of the Core Objective

The framework defines saving the bank as the preservation of critical functions rather than the preservation of ownership or management. We reject this distinction as operationally fragile and politically unsustainable.

In practice, the separation between functional continuity and institutional survival is rarely clean. Interventions that claim to preserve functions inevitably preserve portions of the institution, its contractual relationships, and its embedded incentives. Once extraordinary support is extended, full neutrality becomes infeasible. The result is not a neutral preservation of functions, but a selective continuation of institutional claims.

From this perspective, saving the bank is not a technical act but a distributive one. It reallocates losses across time and stakeholders in ways that are opaque and difficult to reverse. We therefore question whether such reallocations should be executed through crisis mechanisms rather than through explicit resolution and liquidation processes.

## Critique of the Model Structure

The model rests on the assumption that system boundaries can be clearly defined, monitored, and controlled, and that interventions applied within those boundaries can be executed without generating material spillovers. We find this assumption to be structurally unrealistic. Banks do not operate as closed systems. They are embedded within dense and adaptive networks of financial contracts, regulatory expectations, political constraints, and social perceptions. Any attempt to isolate a single institution for intervention necessarily understates the extent to which actions taken within the defined boundary propagate beyond it.

Interventions alter expectations not only about the bank, but about the broader institutional regime governing failure and support. Once liquidity assistance, capital support, or regulatory accommodation is extended, market participants revise beliefs regarding the credibility of resolution frameworks, the tolerance for losses, and the political willingness to permit failure. These belief updates affect funding conditions, asset pricing, and risk behaviour across the system. As a result, spillovers are not a secondary effect but a core transmission channel. A model that treats them as exogenous or negligible risks producing outcomes that appear stable within the simulation but are fragile in practice.

The model further assumes that agents respond to thresholds, signals, and commitments in a largely predictable and contemporaneous manner. In reality, agent behaviour is shaped by learning, memory, and precedent. Repeated interventions

condition expectations well before a crisis materializes. Depositors adjust their sensitivity to risk and pricing. Creditors recalibrate their tolerance for leverage and maturity transformation. Management internalizes the probability of external support when making strategic and balance sheet decisions. These adaptations occur *ex ante* and are cumulative. The model captures the stabilizing effects of intervention at the point of crisis, but fails to account for the way in which the same interventions reshape the distribution of risk-taking over time.

This limitation leads to a fundamental asymmetry in the framework. The model is designed to stabilize the present state of the system, but it does so by implicitly borrowing stability from the future. By suppressing failure signals and compressing downside outcomes, the framework weakens the informational content of prices, spreads, and institutional distress. Over time, this erodes the system's capacity to distinguish between resilient and fragile institutions, increasing correlation in behaviour and outcomes. The result is a system that appears more stable in normal conditions but is more vulnerable to large and synchronized failures when stress exceeds the model's assumptions.

In this sense, the critique is not that the model fails operationally, but that it succeeds too narrowly. It delivers short-term containment while externalizing longer-term costs that fall outside its temporal and structural boundaries. A framework that does not explicitly incorporate these intertemporal and systemic feedback effects risks overstating the net benefits of intervention and understating the conditions under which non-survival may produce a more resilient financial system.

## Liquidity and Solvency as Endogenous Outcomes

The framework treats liquidity stress as a shock that may transition into solvency stress if unmanaged. The anti-thesis reverses this logic.

We argue that in most cases, liquidity stress is a symptom rather than a cause. Persistent liquidity pressure reflects an underlying solvency problem that markets identify before regulators or models do. Attempts to arrest liquidity stress without accepting insolvency merely delay recognition and increase ultimate losses.

By intervening early to suppress liquidity signals, authorities risk disabling the market's primary diagnostic mechanism. The transition from liquidity to solvency stress is not a failure of timing, but an informational correction that should not be obstructed.

## Costs of Intervention and Moral Hazard

The framework acknowledges costs but treats them as manageable and secondary to stabilization. We contend that these costs are structural and cumulative.

Each successful intervention increases the expected probability of future intervention. This alters capital allocation, encourages leverage, and weakens underwriting discipline. Over time, the system evolves toward greater fragility, not resilience.

The promise of structured rescue also weakens governance incentives. Management operates with asymmetric upside and truncated downside. Creditors price risk incorrectly. Regulators become embedded participants rather than external disciplinarians.

These effects cannot be neutralized through better sequencing or clearer thresholds. They are inherent to the act of saving the bank.

## Failure as a Disciplinary Mechanism

We argue that controlled failure is not a systemic risk but a systemic necessity.

Orderly resolution, liquidation, and replacement of failed institutions reinforce market discipline and clarify the consequences of risk-taking. When failure is allowed to occur within a predictable legal framework, confidence in the system may increase rather than decline.

The objective should therefore be to save the system, not the bank. Preserving payment rails, deposit access, and settlement functions does not require preserving the failing institution. These functions can be transferred, replicated, or temporarily administered without sustaining the bank itself.

From this perspective, resolution is not an escalation but a completion.

## Terminal State Reinterpretation

The framework treats orderly resolution as an adverse terminal state. We reject this classification.

Orderly resolution should be treated as a primary success outcome, not a fallback. Stabilized continuity and viable restructuring preserve institutional path dependence and embed historical errors into the future system.

By contrast, resolution clears balance sheets, resets incentives, and enables capital and talent to be reallocated to stronger institutions. It produces short-term disruption but long-term clarity.

The fear of resolution is therefore not economic but political. It reflects aversion to visible failure rather than an objective assessment of systemic cost.

## Conclusion of the Anti-Thesis

We conclude that the structured saving of the bank, even when executed with technical competence and procedural discipline, represents a suboptimal response to institutional failure. While such interventions may succeed in containing immediate disruption, they do so by substituting administrative discretion for market discipline and by converting private risk into collective obligation. The resulting stability is transactional rather than structural, achieved through intervention rather than earned through resilience.

A credible financial system must be constructed around the possibility of failure, not the presumption of rescue. Institutions that are insulated from the consequences of their decisions lose the informational and corrective signals that failure provides. Over time, this weakens incentives for prudent risk management, distorts capital allocation, and concentrates fragility within the system. The repeated saving of the bank transforms extraordinary measures into implicit guarantees, eroding the distinction between viable institutions and those sustained primarily by expectation of support.

Preserving critical economic functions does not require preserving failed institutional forms. Payments, deposits, and essential credit intermediation can and should be maintained through mechanisms that allow legal entities, ownership structures, and business models to be extinguished when they no longer meet viability thresholds. Loss is not a policy failure to be avoided at all costs. It is a necessary mechanism through which discipline is enforced and adaptability is restored.

From this standpoint, the most robust template for action is not a framework for saving the bank, but a framework for allowing it to fail in a controlled, rule-bound, and non-discretionary manner. Such a framework minimizes panic by pre-committing to outcomes, limits favouritism by enforcing clear hierarchies of loss, and reduces improvisation by relying on institutionalized processes rather than ad hoc judgment. In doing so, it strengthens confidence not by promising rescue, but by making failure predictable, contained, and credible.

## Lessons and Conclusions

This paper set out to construct an actionable framework for saving the bank under conditions of severe institutional stress. We did so by imposing structure on a domain that is typically governed by urgency, discretion, and incomplete information. The framework articulated a sequenced set of interventions, defined explicit decision thresholds, and assigned operational responsibilities with the objective of enabling

decisive action under pressure. In parallel, the paper examined a coherent anti thesis that challenged the premise that such interventions are either desirable or sustainable over time. The conclusions that follow are therefore not presented as universal prescriptions, but as bounded lessons derived from the internal logic of the simulation and the trade-offs it reveals.

First, we conclude that speed, clarity, and credibility are decisive determinants of short-term stabilization. Interventions that are pre-specified, rule-bound, and communicated clearly outperform those that rely on incrementalism or discretionary judgment in the moment. Liquidity support, loss recognition, and capital actions are most effective when executed early and in a coordinated manner. Delay amplifies uncertainty, accelerates confidence erosion, and increases the ultimate cost of intervention.

Second, the simulation demonstrates that functional preservation can be achieved without institutional preservation. The continuity of payments, deposits, and critical market infrastructure does not require the survival of existing ownership structures, management teams, or business models. Frameworks that explicitly separate functions from entities expand the feasible set of outcomes and reduce the pressure to rescue institutions whose underlying structures are no longer viable.

Third, the analysis highlights the inherent tension between short-term stabilization and long-term discipline. While structured intervention can contain immediate stress, it also generates behavioural and expectation effects that extend beyond the crisis window. Repeated or anticipated rescue weakens market signals, alters risk-taking incentives, and increases systemic fragility over time. These effects are not incidental but structural, and they limit the conditions under which saving the bank improves overall system resilience.

Fourth, the anti-thesis underscores the importance of credible non-survival regimes. A financial system that cannot permit failure without disorder is structurally incomplete. The absence of a well-defined pathway for controlled failure increases the likelihood that rescue becomes the default response, even when it is suboptimal. The simulation therefore suggests that the effectiveness of any saving framework is contingent on the parallel existence of robust resolution mechanisms that are capable of extinguishing failed institutions without panic or favouritism.

Finally, we conclude that the value of this framework lies not in its prescriptive certainty, but in its capacity to discipline decision-making. By forcing explicit choices, sequencing actions, and clarifying trade-offs, the simulation reduces reliance on improvisation and post hoc justification. Whether the bank is ultimately saved or allowed to fail, the framework serves to make the decision intentional rather than reactive.

In sum, saving the bank is neither inherently virtuous nor inherently flawed. It is a contingent choice that must be evaluated against alternative outcomes, institutional

credibility, and long-term system integrity. The central lesson of this paper is therefore not how to always save the bank, but how to decide, under stress and with clarity, whether it should be saved at all.

## What Saves the Bank in the Model

Within the model, the bank is saved not by any single intervention, but by the disciplined interaction of speed, credibility, and sequencing.

The first decisive factor is early and overwhelming liquidity support. The model consistently shows that liquidity intervention succeeds when it is deployed before confidence collapses and when it is clearly sufficient to meet all foreseeable short-term obligations. Partial or ambiguous support performs poorly, as it invites continued testing by depositors and counterparties.

The second factor is uncompromising loss recognition. The model rewards early acknowledgment of asset impairment and penalizes delay. Once losses are recognized and absorbed, subsequent capital actions become durable rather than transitory. Attempts to preserve capital through forbearance delay stabilization and increase cumulative costs.

The third factor is governance intervention. Replacement of management, imposition of constraints on distributions, and clear accountability mechanisms materially improve outcomes. The model indicates that capital support without governance change stabilizes balance sheets but fails to stabilize behaviour.

Finally, functional continuity is preserved when interventions are framed around operations rather than valuations. Payment systems, deposit access, and settlement functions anchor confidence even when balance sheets are impaired. The model treats operational integrity as the non-negotiable core of saving the bank.

## What Fails Even with Intervention

The model also identifies clear limits to what intervention can achieve.

Liquidity support fails when underlying insolvency is both deep and unacknowledged. In such cases, liquidity becomes a delaying mechanism rather than a stabilizing one. The transition from liquidity stress to solvency stress is not avoided but deferred, often at higher cost.

Capital injections fail when they are sized to restore ratios rather than to restore credibility. Marginal recapitalizations invite renewed stress and market scepticism. The model consistently shows that insufficient capital action is worse than no action, as it exhausts political and institutional capacity without resolving uncertainty.

Structural adjustments fail when they are cosmetic. Retaining complex legal structures, opaque asset pools, or unstable funding models results in recurrent stress even after successful stabilization. The model does not reward incrementalism in restructuring.

Finally, communication fails when it is reactive rather than pre-emptive. Attempts to reassure without control are discounted by markets and depositors. Credibility follows action, not rhetoric.

## Implications of the Simulation

The central implication of the simulation is that saving the bank is possible, but not reliably cheap, fast, or neutral. Success requires acceptance of loss, dilution, and institutional change. Attempts to minimize visible disruption increase hidden fragility.

The simulation also reinforces the anti thesis in a limited but important sense. There exist plausible states of the world in which saving the bank is neither feasible nor desirable. In those states, orderly resolution is not a failure of policy but the correct terminal action. The framework performs best when it treats resolution as a credible endpoint rather than an avoided outcome.

A further implication is that discretion must be constrained. The model performs well when actions are rule-bound, threshold-driven, and pre-committed. It performs poorly when interventions are improvised or politically sequenced.

Finally, the simulation suggests that institutional memory matters. Frameworks such as this are most valuable when built and rehearsed in advance, rather than assembled during crisis. The value of the model lies less in its specific parameters and more in its insistence on clarity, sequencing, and decisiveness.

*In conclusion, this paper does not argue that banks should always be saved. It argues that if a bank is to be saved, it must be done deliberately, transparently, and at sufficient scale to restore credibility. Where those conditions cannot be met, the model points not to escalation, but to exit.*

## Personal Closing Note from the Authors

While working on this paper, our goal was to move beyond theoretical frameworks and headlines to understand, in a hands-on way, what it truly means to manage a bank under stress. Our aim was not simply to simulate interventions or quantify outcomes, but to reflect on how decisions, incentives, and structure interact to create either resilience or fragility within a financial institution. From the outset, we sought to combine analytical rigor with a thoughtful exploration of human and organizational behaviour, recognizing that numbers alone rarely capture the full story of why institutions survive or fail.

This paper brought together perspectives from multiple disciplines, and in doing so, it illuminated the many dimensions of financial decision-making. From the viewpoint of portfolio management, we focused on balance sheet integrity, liquidity readiness, and capital preservation, striving to understand not just what the bank held, but how it could withstand stress and maintain confidence. From a strategic standpoint, we considered optionality, market positioning, and the consequences of counterparty dependence, exploring how choices made under calm conditions can constrain action when crises arise. From a risk management lens, we emphasized tail events, feedback loops, and the central importance of governance and incentive alignment, reflecting on how even small misalignments can propagate into catastrophic outcomes under the right conditions.

Throughout this paper, it became clear that crises are rarely the product of a single factor. Stress propagates through the interactions between structure, behaviour, and perception. The same vulnerabilities that appear small or manageable in tranquil periods can amplify unexpectedly when confidence erodes, revealing hidden fragilities. Understanding these dynamics required us to balance quantitative analysis with qualitative insight, to combine spreadsheets and models with reflection on organizational culture, communication practices, and credibility in the eyes of stakeholders. We found ourselves constantly asking not just what the numbers say, but what they mean in the context of human judgment and decision-making under pressure.

Beyond the technical lessons, this paper reinforced a deeply personal insight: resilience, foresight, and disciplined decision-making matter far more than short-term gains or superficial metrics. Preparing for the unexpected, building buffers of trust, capital, and optionality, and aligning incentives with long-term stability are principles that extend far beyond any single simulation or case study. They are principles that, we realized, apply as much to our own learning journeys as to the institutions we studied.

On a personal level, this paper became a milestone in our own development. It demanded that we question assumptions we had long taken for granted, reconcile diverse viewpoints, and translate abstract concepts into operational reasoning. The collaborative nature of this work reminded us that rigorous analysis is inseparable from dialogue and reflection. Writing it together reinforced the importance of clarity of thought,

patience in reasoning, and attention to detail, not just in building models, but in communicating them effectively.

This paper also revealed the value of curiosity and humility. No framework can capture every nuance of a crisis, and no simulation can predict every human reaction. What it can do is offer structure, prompt reflection, and provide a lens through which to examine difficult choices before they become urgent. For us, this realization was as important as any technical insight: that preparation, observation, and deliberate thought are themselves acts of resilience.

We hope that readers find value not only in the framework, methodology, and insights presented here, but also in the spirit of reflection, care, and inquiry that guided this paper.

To conclude, we leave the reader with a line capturing the quiet confidence of our framework:

*“I can't relate to desperation”*

—Sabrina Carpenter, *Espresso*

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