

Nordic-Baltic Stability Group **Report on the 2024 Financial** **Crisis Simulation Exercise**

18 March 2025

Executive Summary

In the autumn of 2024, the Nordic-Baltic Stability Group (NBSG) conducted a Crisis Simulation Exercise (CSE) across all its 8 member countries. The goal of the exercise was to test collaboration and coordination across authorities in the region during a financial crisis, and further optimise crisis management where relevant.

This document outlines the preparation, co-creation and successful execution of the exercise, highlighting organisational questions and the work performed by NBSG authorities (and observers) as well as the supporting consultant team. It ends with a brief assessment of the exercise by the NBSG.

1. Background: The objective and basic structure of the exercise

Box 1: The NSBG

The Nordic-Baltic Stability Group, NBSG, was formed in the wake of the global financial crisis. The current basis of the work of the group is a Memorandum of Understanding signed in 2018. The aim of the NBSG is to ensure cooperation and coordination on cross-border financial stability between relevant Ministries, Central Banks, Financial Supervisory Authorities and Resolution Authorities of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden. While recognizing that the ultimate responsibility for financial stability remains with the NBSG member countries, the authorities are sharing a common interest with regards to ensuring financial stability. This stems from financial, economic, and reputational inter-linkages between the countries.

Cooperation and coordination in the NBSG are without prejudice to the responsibilities of the authorities under national, European Union or European Economic Area (EU/EEA) regulation. The NBSG may invite relevant authorities such as EU authorities to take part in deliberations and as exercise observers.

In the context of its work on financial stability, the NBSG conducts a joint financial crisis simulation exercise, at least every fifth year. The evaluation of these exercises is used to review and – where relevant – further optimise crisis management. This work is the third pillar of the NBSG, on top of regular exchange of information and discussion of topical issues.

The first such exercise was held in 2019, organized by Sweden’s central bank in cooperation with the NBSG authorities and exercise observers. The second was held in September 2024 and is the subject of this report. Both of these exercises were conducted exclusively amongst authorities – the private banking sector was not involved in the preparation or in conducting the exercise.

The main purpose of the 2024 crisis simulation exercise as agreed by the NBSG was to test communication, information sharing during crisis and resolution and collaboration between all relevant authorities, as to enable a substantive analysis of impediments to successful cooperation and coordination.

The exercise was organized as a full-scale exercise, i.e. including all relevant authorities, within the framework for national and cross-border crisis management coordination following the authorities’ experience on operating under the EU Bank Recovery and Resolution Directive (BRRD). The result of and conclusions drawn from the crisis simulation exercise will be used to further enhance and improve the ability of the relevant

authorities to handle a cross-border systemic crisis. The exercise crisis scenario was modelled as closely as possible on the current structure of the Nordic-Baltic financial markets and the legal and institutional frameworks in place, including the EU BRRD/Single Resolution Mechanism Regulation (SRMR).

The exercise allowed to test crisis preparedness, information sharing and cooperation between the participating authorities during a systemic crisis, including:

- The developments leading up to a resolution process, including early stress, recovery measures and a liquidity crisis,
- The resolution process, and
- The immediate aftermath of the resolution process and return to market of a resolved bank¹.

¹ The term ”bank” is used in the present report to denote what in the BRRD is termed “institution”.

The exercise involved activities and challenges for all the signatory authorities of the NBSG and was executed in a decentralized setting (hybrid, leveraging online conferencing systems), with participants based in their domestic offices.

Apart from representatives from NBSG signatory authorities, the relevant European authorities (ECB-SSM, SRB, European Commission and EBA) were taking part in the exercise, with active participation wherever the scenario included an entity under their direct remit, and otherwise as exercise observers. In addition, an exercise observer from the IMF was present.

To manage the preparation and execution of the exercise the NBSG appointed a Steering Group, chaired by the Danish Finansiell Stabilitet (resolution authority) and a Project Group, including staff from participating authorities. The Steering and Project Groups were given the task of appointing an external consultant to design, prepare and run the exercise in accordance with the strategic direction of, and based on the information provided by, the Steering Group and the Project Group.

The present report outlines the main features of the preparatory work, the execution of the exercise and the NBSG overall assessment of findings. By making the report publicly available it is the hope of the NBSG that it will contribute to a more widespread understanding of the crisis management process and that some points in this very comprehensive exercise with a relatively high level of complexity may serve as an inspiration to others working in the field of promoting financial stability.

Box 2: The simulated banks

The scenario included the following fictitious banking groups:

- A systemic bank headquartered in Sweden, with subsidiaries in Denmark and the three Baltic countries (the latter of which were under a Baltic HoldCo)
- A systemic Norwegian bank, with a subsidiary in Iceland
- A Less Significant Bank (or “Institution”, labelled “LSI”), headquartered in Finland, with a subsidiary in Sweden, and branches in Sweden and Lithuania

2. The preparatory work

2.1. Organization and initiation of the preparation work

The preparatory work was initiated with a kick-off meeting of the Steering Group and Project Group in Copenhagen in April 2023. As decided by the NBSG, the Steering Group was composed of representatives from Denmark (Finansiell Stabilitet, chair and coordinator of the exercise), a senior representative of Lithuania (as 2023 presidency of the NBSG), Sweden (as coordinator of the 2019 exercise) and the External Consultant once selected. For the Project Group, all NBSG authorities and exercise observers were invited to nominate one or more participants. In practice, throughout the preparation of the exercise, the Steering Group and Project Group were merged into what became the preparation team, henceforth “Prep Team”, of the exercise, which comprised around 70 members in total.

In May 2023 the tender material for the selection of an external consultant was finalised by the Prep Team and the call for tenders was published in June. In August, Oliver Wyman was awarded the contract and the work of the Prep Team - now including the consultant - could commence.

2.2. The basic design of the exercise

While the formation of the content of the crisis scenario of the exercise was predominantly in the hands of the external consultant, in dialogue with the Prep Team, some important basis features of the exercise framework were decided early on and proved to work well:

- First of all, it was essential that all the authorities taking part in the exercise would have relevant challenges and decisions to consider (“skin in the game”). This concern guided the decision to have three

banking groups to be the subjects of crisis management in the exercise. All authorities in the exercise would have at least one bank to deal with, either a branch, a subsidiary and/or a parent bank.

- Secondly, participants should face resolution scenarios reflecting the complex legal set-up of the Nordic-Baltic region, i.e. including cross-border banking groups active in members of the banking union, members of the EU outside the banking union, and members of the European Economic Area.
- Thirdly, it was decided to conduct the exercise across three 5-hour days within one week, with a day in between each exercise-day to allow for follow-up work and incorporation of the decisions in the further execution. Thus, Monday, Wednesday, and Friday, 9.00-14.00 CET was active “exercise time”. This proved very efficient. Participants were allowed time to handle other business on the resting days, and the control room of the exercise got precious time to update the exercise material, including bank balance sheets.
- Fourthly, the decentralized set-up, with participants taking part online from their domestic locations, worked very well. In some countries the local authorities had gathered on one location, in others each authority took part individually. The main channel for communication and meetings during the exercise was a mainstream video conference system, managed by the consultant in a closed circuit with only registered participants granted access. Written information was shared on the EBA platform, which worked efficiently, facilitating continuous confidential document exchange, and ensuring that all participants had access to the most up-to-date information. Using the EBA platform ensured that access to the information shared was provided only to authorized individuals, with separate workspaces for each authority participating in the exercise.
- Finally, in consideration of the limited time available, the Prep Team agreed to forego certain formalities in relation to decision-making normally to be applied in a resolution process.

“A noteworthy achievement of the exercise preparation and execution was the large extent to which all of the many involved authorities were given relevant challenges over the three exercise days”

Jens Verner Andersen, Chair of the exercise steering group

2.3. Building the Exercise August 2023-June 2024

Building the exercise followed three phases, each corresponding to one execution “sprint”:

- **Phase 1:** Specifying the workplan and scoping the exercise (ca. August 2023 – January 2024)
- **Phase 2:** Building the exercise materials (ca. February 2024 – May 2024)
- **Phase 3:** Testing and refining the materials (ca. June 2024 – August 2024).

Given the significant requirement for coordination and exchange, this execution schedule also resulted in significant exchange across the Prep Team, namely more than five in-person group meetings, around ten group preparation calls, and over 50 bilateral meetings.

Phase 1 focused on:

- Confirming the execution timelines, design principles, and operational considerations
- Confirming exercise requirements via Prep Team meetings and bilateral interviews, e.g.:
 - How many and what type of institutions should be simulated? E.g. banks, other financial institutions, non-financial institutions / market infrastructure, a mix?
 - What specific mechanisms or interactions did the authorities (not) want to test, e.g. responding to central bank funding requests, aligning on state aid, any scenarios routes that should be avoided²?
 - What types of contagion channels would be relevant?

² As a result of these discussions, the Prep Team decided to exclude geopolitical tensions and cyber security risks from the exercise, partly as they are covered in separate dedicated exercises.

- Extensive research on different jurisdictions’ banking systems’ possible sources of vulnerability, financial stability risks and contagion channels to inform scenario design from public sources (e.g. financial stability reports, authorities’ published speeches and documents, review of trade flows, etc.)
- Drafting a compelling background scenario that allowed for a realistic exercise “background”, leveraging both expert input and desk-based research
- Confirming red lines and elements explicitly excluded from the scenario.

The central outputs of this phase were a concept note, outlining operational considerations and key principles of the exercise, as well as a scenario note, providing guardrails for the exercise development, and outlining the main narrative for the scenario, including fictitious bank descriptions, macroeconomic environment, banking market developments and dynamics etc.

Phase 2 focused on building and iterating the exercise materials, including:

- Fictitious balance sheets of the banks adjusted over multiple rounds, which ensured logical consistency, as well as sufficient flexibility to take participant decisions into account
- Fictitious injects like newspaper articles, emails, social media posts, that would drive the narrative as well as ensure immersion of exercise participants
- Aligning on the IT solutions used in the exercise, including instant-messaging and videoconferencing, as well as leveraging the EBA platform for confidential file sharing.

All exercise materials and related decisions were co-created, iterated, reviewed, and challenged across the Prep Team.

Phase 3 focused on testing and refining the materials, leveraging:

- A hybrid three-day dry-run exercise in June 2024, where the Prep Team “stood in” as exercise participants, and served to gauge exercise sequencing, effectiveness of proposed technological solutions, and workload
- A one-day tabletop exercise in August, which allowed for last finetuning and adjustments
- Dedicated content and technology testing / preparation sessions to allow the potential exercise participants to ask questions, understand the scenario, and get accustomed to the proposed technology solutions.

All phases were supplemented by regular touchpoints, and ongoing bilateral conversations across the Prep Team. All important decisions were taken in the spirit of collaboration and after extensive exchange.

3. Execution of the exercise – September 2024

The exercise itself took place from 16th to 20th September 2024. While the active simulation days were limited to the 16th, 18th, and 20th respectively (Monday, Wednesday, and Friday), the Prep Team spent significant time on Tuesday and Thursday of the exercise week to ensure all decisions by the exercise participants were reflected in the injects of the following days, as well as adjusting numbers and details where relevant. In total, around 450 participants were part of the exercise, which allowed for in-depth testing of the countries’ respective mechanisms and tools in times of crisis.

3.1. Pre-read materials

Two weeks before the start of the simulation, the Prep Team shared a comprehensive set of pre-read materials with the participants of the exercise. This included:

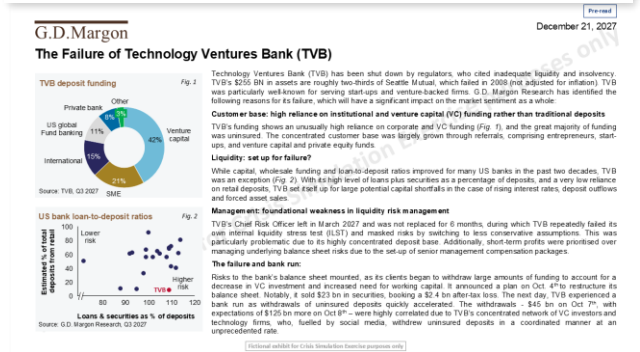
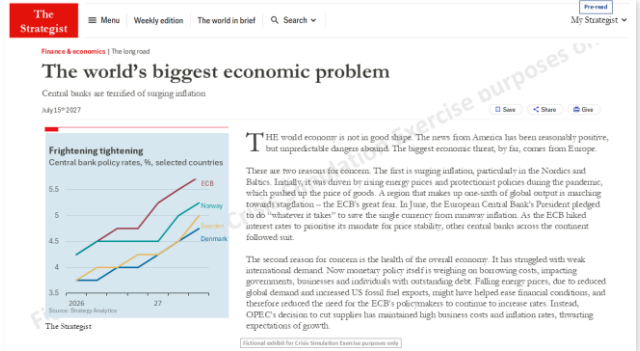
- The detailed scenario narrative, outlining the macro-economic and global context, the regional and country-specific context, as well as the set-up of the fictional banking groups including market share in different countries and legal set-up.
- Additional materials allowing for immersion in the scenario and providing additional detail, including newspaper articles, quarterly report commentary from the fictional CEOs, extract of the options from a recovery plan, extracts of a resolution plan, and other relevant information.
- In-depth balance sheets, allowing for relevant technical analyses supporting the decision-making process, though the focus of the exercise was on communication and cooperation.

All pre-read materials were tailored to the respective authorities and their information needs, resulting in 30+ individual “pre-read packs”, each containing around 50 pages of detailed technical inputs.

Before the exercise started, the Prep Team also conducted multiple content explanation sessions, where participants could ask questions on the pre-read materials received, and several dedicated technology explanation sessions, where participants were able to test the functioning of the tools used for the exercise. This allowed participants to “hit the ground running” when the exercise kicked off, also minimizing time needed to get accustomed to materials and / or equipment.

In addition, the Prep Team prepared dedicated materials for the monitoring observers of the exercise. Each authority had at least one dedicated member of the Prep Team assigned to them in a “monitoring observer” role. These monitoring observers would participate in meetings, join discussions, and take notes on decision-making processes, conversations held, and possible areas for improvement. The notes from the monitoring observers were essential to review the exercise and produce a final report containing lessons learned. The pre-reads for the monitoring observers contained a description of their tasks, as well as a structured form that they could use to take notes in.

Moreover, the Prep Team prepared and shared a separate set of pre-reads for the role players in the exercise. Role players were dedicated individuals from the Prep Team that were not assigned the role of note-taking observer. Task of these role players was to pretend being e.g. a journalist, a CEO, a possible buyer, or an investor. These additional pre-reads contained information that was relevant for their respective roles, and was also supplemented by dedicated preparation sessions for these members of the Prep Team.



3.2. Scenario and injects

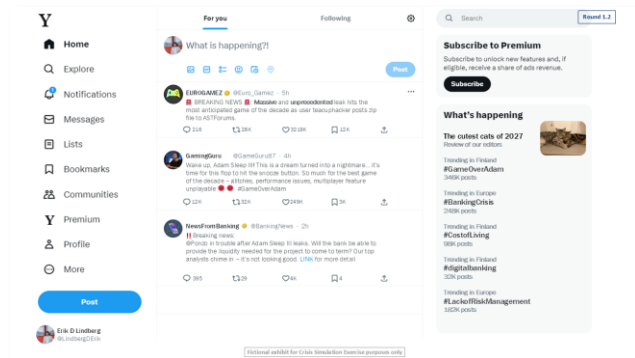
The scenarios were tailored to each of the fictitious banking groups and took their individual set-up into account. While the banks were loosely modelled after existing and relevant cross-border banks in the Nordic and Baltic region, the underlying narrative aimed towards creating a credible stress situation that had to impact all participating countries. Where needed, the team adjusted the structure of the banking sector as well as the funding structure and asset quality of the individual banks. This consequentially resulted in a scenario that was plausible but not necessarily fully consistent with real-life banks. Moreover, direct and indirect links between the banks were included to mirror the intertwined banking sector network in the Nordic-Baltic countries.

During the exercise, the situation across the banks and respective countries worsened day by day. Whereas the first exercise day focused largely on liquidity constraints and related recovery measures in a stress environment, the second exercise day had the focus on deciding on the Failing Or Likely To Fail (FOLTF) status of the banks, and deciding on resolution measures. The third day focused primarily on market opening, and possible reactions from other market participants, and also including communication with the general public in a simulated press conference.

All of these developments were underpinned by a long list of injects – including updated financial statements, fictitious emails, newspaper articles, and external requests, e.g. by journalists to receive additional information. Overall, more than 150 documents were distributed, all tailored to the respective authorities, and all taking the decisions taken on previous exercise days into account. This was considered highly beneficial by the exercise participants and allowed for further immersion in the exercise.



Moreover, direct and indirect links between the banks were included to mirror the intertwined banking sector network in the Nordic-Baltic countries.



3.3. Types of decisions taken by participants

Participants had to take multiple decisions over the course of the three-day exercise – they could broadly be bucketed in five categories:

- Monitoring and guiding decisions, especially on day one of the exercise. This included decisions / discussions relevant to the triggering of recovery options by the bank, early intervention measures, or overall communication with the bank stakeholders.
- Liquidity decisions, especially by central banks. This included decisions on whether to grant central bank funding in different situations or not, the amount and length of the liquidity provided, what type of collateral to require, as well as in what form liquidity measures should be distributed – e.g. central bank

of the home country to provide liquidity across the group, or individual liquidity provision by host central banks, etc.

- FOLTF decisions, i.e. when to “pull the trigger” and declare the banks Failing Or Likely To Fail.
- Resolution decisions, e.g. what resolution tool should be implemented, whether to upstream losses and/or downstream capital within a banking group, what legal references to cite, and what actions to be taken to keep all authorities aligned, if the initial path was challenged.
- Communication decisions, balancing between need to react to media requests and planning for upcoming communication to the general public, as well as how to best collaborate between authorities.

The entire exercise was structured in a way that allowed the Prep Team to challenge decisions made, introduce distractions, and guide the exercise and decision-making e.g. via role players or new injects. For example, in one banking group the Single Point of Entry (SPE) resolution strategy outlined in the resolution plan was challenged by an investor’s offer to buy a subsidiary. This encouraged communication and alignment between participants, and required multiple touchpoints both across national authorities and with their Nordic-Baltic counterparts.

With the exercise having a strong focus on communication and collaboration, there was an intentional decision to prioritise challenges that require ongoing communication between stakeholders, rather than e.g. technical analyses. This culminated in a pre-announced fictitious “market opening” press conference, including senior officials across the authorities, and the reactions thereto by market participants.

Overall, the participating authorities showed a very proactive and open approach to communication, as well as an effective and collaborative approach to decision-making.

4. Assessment of the NBSG

In its follow-up to the exercise, the NBSG concluded that the exercise met the predefined scope and provided the participants with a realistic and relevant opportunity to get useful experience with the management of a realistic and relevant banking crisis situation.

The exercise confirmed the advantage of having – as is prescribed by the BRRD - pre-agreed resolution strategies for cross-border banking groups and a predefined structure (supervisory and resolution colleges) for discussions, sharing of information and decision-making as a crisis evolves. The exercise also reminded participants of how unexpected market reactions and other events may require the ability to adjust the crisis management path. In this respect the addition of an exercise day devoted to post-resolution developments proved highly useful.

At the national level NBSG authorities appreciated the opportunity to test their own organisational set-ups and playbooks and collect ideas for improvement and strengthening of internal crisis preparedness.

On a more practical level, with a view to designing and executing similar exercises going forward, this CSE highlighted some core takeaways. Firstly, preparing an exercise of similar magnitude (450 participants across 30+ authorities, and over three days) requires time, especially when including a tender for a consultant to support the preparation. Preparation work started in April 2023, with the exercise being conducted in September 2024. Secondly, a digital platform to securely exchange information and documents (here: the EBA platform) is essential to ensure efficient preparation. Thirdly, having a “resting day” between active exercise days allows for a much more involved and immersive exercise, especially if the time is used to reflect decisions taken on the previous exercise day in the injects for the following day.

“Running financial crisis simulation exercises is a cornerstone of the NBSG work, helping us to strengthen the crisis contingency measures in our countries. The highly intense and successful 2024 exercise has proven the worth of the NBSG cooperation.”

Anna Jegnell, Chair of the NBSG 2025