



Crisis Management: Iran Conflict and Implications for the Banking Sector

Update 23 March 2026





Contents and key updates since 16 March

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01

Current Situation and Summary of our Analysis

Current situation

On 28 February US and Israeli forces initiated a campaign of strikes against Iran, targeting regime leadership (with Supreme Leader Ayatollah Ali Khamenei killed) and military. This has led to a highly unstable conflict situation in the Persian Gulf region, with potential for scenarios to change rapidly.



Military situation:

US and Israel have conducted over 10,000 air and missile strikes against Iranian targets. Iran has responded with missile and drone attacks targeting US bases, Israel and the Gulf states. The situation is very fluid with high risk of wider escalation.



Market reactions:

Crude oil and gas prices have risen sharply, feeding into prices for key industrial and agricultural inputs including aluminium, helium, sulphur and urea, risking wider economic disruption. Global stock markets have fallen and credit spreads widened on fears of inflation and recession.



Strait of Hormuz: a central risk factor

Iranian drone/missile attacks have largely halted shipping through this key chokepoint, through which c. 20% of globally traded oil and significant quantities of LNG previously passed. Around 5% of the global tanker fleet is currently estimated to be 'trapped' inside the Gulf. Prolonged disruption to shipping risks economic impact rippling out along key supply chains.



Our observations and analysis



For financial markets

Short term

- **Oil and gas price shock** with significant rise in energy and other commodity prices
- **Widening of credit spreads** for borrowers with high geographical or sectoral exposure
- **Equity shocks** for affected regions and energy-intensive industries
- **Flight to safety dynamic:** investments flow into perceived safe assets, including gold
- **Increased volatility** across all asset classes

Medium term

- **Inflation** (e.g., ECB estimate: 0.4 percentage points increase in inflation per 10% increase in oil prices)
- **Potential supply bottlenecks** in multiple sectors dependent on energy/petrochemical inputs
- Persistent **increased volatility**
- **Further impacts depend on:** Further military developments, reaction of other oil producers, knock-on effects of increased volatility



For banks

Short term

- **Physical threats** to personnel and facilities in the Gulf region
- Increased risk of **cyber attacks**
- Possible disruption of business activities due to economic retaliatory measures (e.g. sanctions)
- Potential losses due to **sudden market repricing**
- **Slightly increased liquidity stress**, e.g. due to derivatives/collateral & securities volatility,
- Quality of existing scenarios is being tested
- Pressure on **hedging strategies**, especially for commodities business
- Volatility shock triggers **ad hoc processes**, in some cases causing **high operational burden**

Medium term

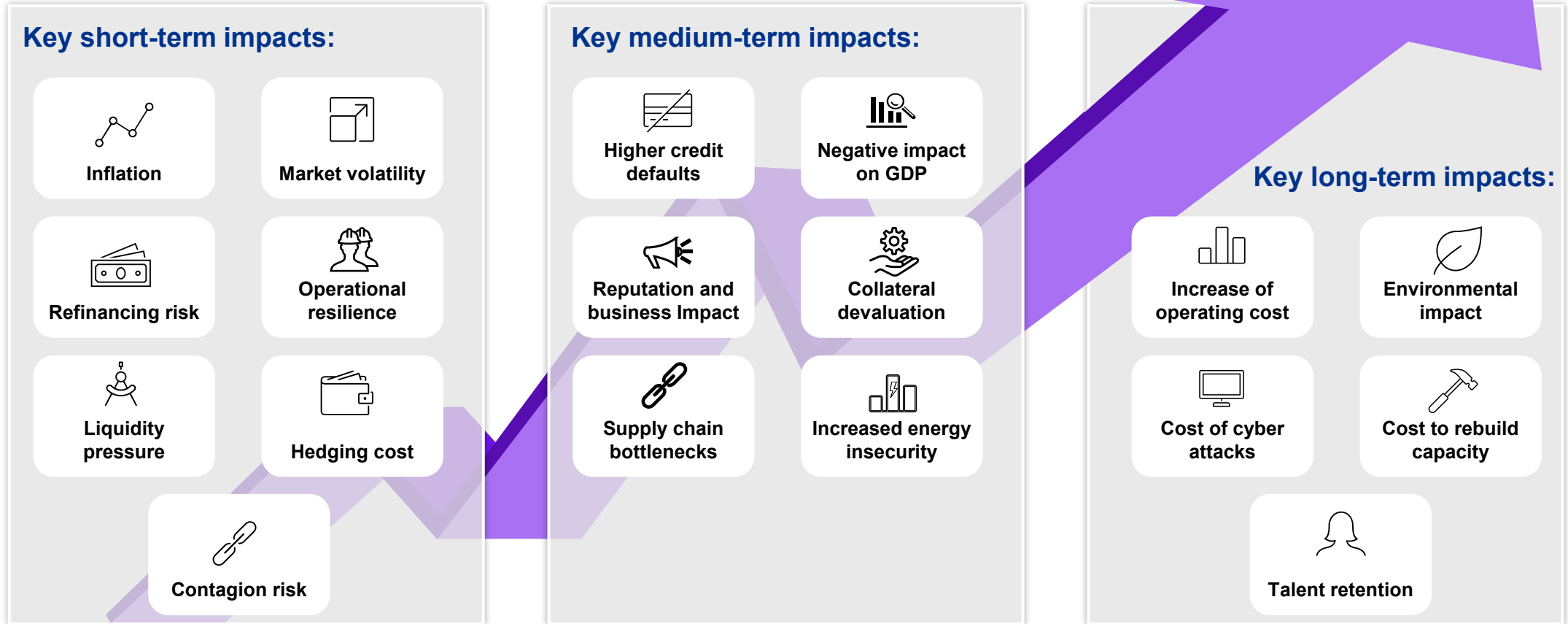
- **Market risk:** Increased requirements for intraday monitoring, risk appetite adjustments, liquidity management, liquidity contingency plan
- **Credit risk:** Increased overall default risk due to macroeconomic deterioration, especially for conflict-exposed sectors and companies. This creates a need to adjust risk provision forecasts etc.
- **Stress testing:** Need for more robust geopolitical shock scenarios, including energy and supply chain stress paths; adjustment of existing baseline and stress scenarios

Actions taken by banks so far:

Close monitoring incl. daily market and credit risk updates, scenario and supply chain analyses

Potential impacts of a prolonged and escalated conflict

Our take on key impacts in the financial sector in likely scenarios in the short to long-term.
The severity of the impacts largely depends on the duration and potential escalation of the conflict.



02

Market insights: Reactions by Banks and Central Banks

Market insight: Observed impact and reactions by banks

Europe

- Many banks concerned about impacts of prolonged **inflation** (e.g. macroeconomy and wage cost) and resulting **loss of competitiveness**.
- Most banks with direct Gulf or commodities exposure working on **crisis reports**, with increased focus on **sensitivities** and **hedging cost**.
- Many banks without direct exposure performing **supply chain analyses** of corporate loan books, often with focus on **loan loss provision impacts**.
- **Context:** All large banks have recently submitted a **geopolitical stress test to the ECB**, focused on scenario analysis and transmission channels. Now there is a strong emphasis on **linking this exercise** to ongoing risk & crisis management.

Middle East

- **Core business** and support to customers **largely uninterrupted** so far.
- Most banks focused on **operational resilience** and employee safety, increased **cyber risks**, and potential **short-term liquidity shortfalls**.
- Some banks already **making use of CBUAE's resilience package** for banks, including liquidity and capital relief.

Asia

- **Market and supply-chain disruptions** emerging in some countries (incl. Japan), with some banks setting up **client support desks** – while **core operations largely unaffected**.
- Banks across jurisdictions increase **monitoring of oil, gas, energy prices** – some starting or renewing **conflict-related stress testing**.
- Most banks concerned by expectations of prolonged **inflation** and impacts on sectors like **tourism and hospitality**.
- **Context:** De-dollarization in **India** has lead to increase in bilateral trade with Iran and Russia; Banks now required to report import bills and currency exposures – hence current situation puts **increased pressure on politics and reactions by banks**.



Responses by Central Banks and Supervisors so far



17 March: Central Bank of the UAE announced a **Financial Institution Resilience Package** to provide additional liquidity to banks and allow temporary draw-down of capital buffers to support the UAE economy:

- Pillar I – Monetary Policy Measures: Greater access to reserve balances (up to 30%) plus AED/USD term-liquidity facilities.
- Pillar II – Liquidity & Funding Relief: Temporary easing of liquidity and funding ratio requirements.
- Pillar III – Capital Buffer Relief: Temporary release of CCyB and CCB to free up capital.
- Pillar IV – Credit Risk Management: Flexibility for banks to delay reclassification of affected customers' loans.
- Pillar V – Additional Support: Banks are expected to continue providing financing to support customers and the economy.

19 March: ECB Governing Council statement on monetary policy:

- Iran conflict has “made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. It will have a material impact on near-term inflation through higher energy prices.”
- No change to ECB main interest rates (or QE/QT). ECB will remain data-dependent and “is not pre-committing to a particular rate path.”

19 March: ECB operational risk team requested information from banks on their use of third-party service providers from countries affected by the conflict. *[NB: currently unclear if this request went to all ECB-supervised banks or only a subset]*

17 March: KPMG insights from conversation with ECB contacts:

- ECB is closely monitoring the situation but in BAU (not crisis) mode. So far ECB sees only “limited impact” on European banks, but is watching funding markets for any early signs of liquidity or margin stress.
- ECB has not centrally requested data from banks on their exposures to the conflict (though Joint Supervisory Teams may have done so in some individual cases). ECB Geopolitical Stress Test already under way: ECB would be “surprised” if energy shock scenarios had not been widely considered.

5 March: Interview by Pedro Machado, Member of ECB Supervisory Board

- Aggregate exposures of large Eurozone banks to Israel and Iran are “very modest”, less than 1% of CET1. Including neighbouring countries, total exposures are less than 1% of banks assets.

Key observations

- Increased monitoring of crisis and market movements by most central banks and supervisors globally
- Concrete actions (relief packages, monetary policy, etc.) few so far
- Upcoming interest rate decisions by FED and others under close market scrutiny

03

Likely scenarios and key transmission channels

Analysing potential scenarios and their transmission channels is now key to managing impacts

Current central scenario

Potential scenarios

- Rapid de-escalation of hostilities
- Continued attacks and instability for several weeks
- Limited deployment of US ground forces into Iran
- Severe escalation to further Gulf states
- Iranian state collapse leading to wide-spread internal conflict
- ...

Transmission channels

Real Economy:

- Severe disruption to supply of **oil, gas and other key commodities** (e.g. urea, sulphur) from Gulf causes dislocation to supply chains, hurting production across **multiple industries** and hence GDP;
- Energy price shock raises **inflation** and **interest rate expectations**;
- Elevated **risk of recession**, unemployment and corporate bankruptcies.

Financial Markets:

- Recession risk leads to **fall in equity prices** and **rise in corporate credit spreads**, as well as flight-to-safety flows into perceived safe assets (high-rated sovereign bonds, gold)
- Uncertainty around energy prices and real economy impact creates **heightened market volatility**
- Sharp moves lead to possible failure of directionally-positioned financial market actors (e.g. hedge funds)

Safety & Security:

- Hostilities create **direct physical threat** to staff and facilities in Gulf region (depending on intensity of conflict)
- Ongoing conflict and/or escalation leads to **increased risk of terrorist** (and potentially cyber) **attacks** worldwide

Impact on banks' risk profiles

Credit risk:

- Increased risk of **credit defaults** (household and corporate) from macroeconomic slowdown
- **Default risk highest** for borrowers:
 - in Gulf region, and
 - exposed to supply-chain disruption (energy, transport, manufacturing, chemicals etc.)

Market risk:

- Swings in financial markets create risk of losses in securities portfolios, depending on exposures and hedging strategies

Funding risk:

- Financial market volatility could increase margin calls and wholesale funding costs, especially in the event of a high-profile firm failing.

Operational risk:

- **Physical or cyber attacks** on critical staff and facilities could threaten operational continuity

Deep dive on following pages

Illustrative analysis – performed by many banks at the moment, resulting in heat maps of key portfolios / products affected

Direct impacts on Gulf region driven by blocked transportation, infrastructure damage and loss of confidence

Blocked Inflows

Food (85% of food imported)

Tourism (12% of GDP in Gulf states)

Investments into the Gulf states, loss of attractiveness

Bauxite (raw aluminium) imports blocked



Blocked Exports

(% of world traded amounts)

Oil (10-15%)

LNG (~20%)

Urea (22%)

Industrial Diamonds (26%)

Styrene (23-30%)

Polyethylene (23-30%)

Helium (33%)

Sulfur (45%)

Aluminum (24%)

Glycol (26%)

Methanol (30%)

+5% of world's tanker capacity trapped in gulf



Impact on the Gulf Region:

- **Production loss** due to blocked exports, imports and infrastructure damage
- **Damages due to stop of production** (e.g. refineries)
- **Loss in GDP**

Most affected sectors in Gulf region:



Oil & Gas



Chemical Industry



Tourism



Aviation

Key observations

Understanding bottlenecks in the Gulf region and their impact on relevant portfolios and local activity is now key for banks – including:

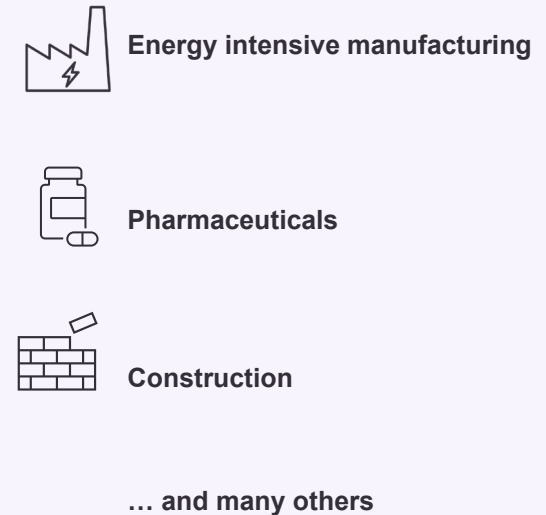
- **Corporate loan** exposures to highly impacted industries and **project finance** commitments across the region
- **Revenue streams** generated from investment and **private banking activities** with clients in the region
- Any **engagement in Iran** and exposures in the **local currencies**

Effects beyond the Gulf once more showcase complexity of global supply chains

Sectors directly affected - beyond the Gulf region

 Chemicals (e.g. plastic, resins) are affected by • Glycol (26%) • Methanol (30%) • Styrene (23-30%) • Polyethylene (23-30%) • Urea (22%) • Sulphur (45%)	 Energy Sector (refineries + gas & oil-based electricity) is affected by • Oil (10-15%) • LNG (~20%)
 Food (fertilizer, planting season in northern hemisphere) is affected by • Urea (22%) • Sulphur (45%)	 Automotive (bodies and batteries) is affected by • Aluminium (24%)
 Solar panels and wind turbines are affected by • Aluminium (24%)	 Semiconductor is affected by • Helium (33%)
 Transport (Aviation, Shipping and other) is affected by • Oil (10-15%)	 Copper and nickel production is affected by • Sulphur (45%)
	 Power Grids are affected by • Aluminium (24%)
	 Production of cutting and drilling tools is affected by • Industrial Diamonds (26%)

Sector indirectly affected via supply chains



- Economists and banks have realized that **likely effects go far beyond higher and more volatile energy prices**
- **Scenario impact analyses** for a portfolio should consider the contribution of exposures and earnings from the sectors above
- This includes analysing the sectors' contribution to the relevant economies and considering **second round effects** like **widening of sovereign spreads**
- Some banks are now enhancing their **capabilities regarding clients' supply chains**, leveraging on frameworks and **tools recently built for ESG risk management**

Key observations

Impact analyses should also capture a regional perspective, resulting in heatmaps of key exposures

Examples of economic pressure points with geographically varying impact

Direct impact of oil and gas shortage

Some modelling suggest that if street of Hormuz stays blocked, in some regions the effects may materialize quickly:

- **Asian** countries other than China, Japan and South Korea will be **critically short of petrol** within 12 days¹
- Within 23 days **Africa** will have **run through** 80% of their **stock of jet-fuel**, **Oceania** within 36 days¹
- While the **rich world** is **likely to cope with higher prices** for necessities, **poorer countries** may even have to **endure blackouts** – like Bangladesh in 2022 after Russia invaded Ukraine

Plastic industry under pressure

Several plastic manufacturers in Asia have already announced that they will be unable to meet contractual delivery obligations due to shortages of raw materials and intermediate products (e.g. styrene, polyethylene). They attributed their inability to deliver to force majeure.

¹) based on Kpler analysis, starting on 16th March

Food security

Disruption to the supply of fertilisers (urea, sulphur) may materially impact agricultural output, pushing up food prices worldwide, but with significant regional variations.

- The **northern hemisphere planting season** will begin shortly: restricted fertiliser supply may limit planting or shift it toward less fertiliser-intensive crops (e.g. American farmers may plant more soy and less maize: this could affect relative prices);
- **Poor countries** may be **hit hardest**, unable to afford higher priced fertilisers;
- Countries particularly dependent on the Gulf region for fertiliser include **Kenya, Pakistan, Somalia, Sri Lanka, Tanzania** and **Sudan**.

Disruption to agriculture could create a **major threat to global food security**. This could in turn increase political instability and/or refugee flows in and from the worst-affected countries/regions.

Key observations

Impact on loan and trading book exposures **vary by region**. **Key differentiators** in the analysis by banks include:

- Where **critical resources** have been **sourced in the past**
- Degree of maintaining **reserves for critical resources**
- Contribution of affected sectors to **country GDP**
- General **strength of the economy**



Combination with sector-level analysis yields a transparent **initial vulnerability heatmap**

04

How KPMG can help

How can KPMG help

Deep Dive pp. 16-17

Portfolio assessment and stress testing

1. Identification of systematic risk factors and their impact on Credit and ECL
2. Desktop/deep-dive review of key banks to identify idiosyncratic risks
3. Design plausible stress test sensitivity and scenarios and impact assessment
4. Assessment incorporating relevant early warning signals and other factors in portfolio analytics

Liquidity risk and fair valuation assessment

1. Fair valuation of open contract (Bonds, derivatives) banks have on the books
2. Assessment of hedge effectiveness and other hedge methods such as dynamic hedge, and natural hedge
3. Assist in impact assessment of devolvement of off-balance sheet products
4. Identify liquidity buffer and fair valuation of assets and liabilities

Operational, contagion and other material Risk

1. Identification of contagion risks and key wrong way risks in the system
2. Assessment of robustness of BCP/DR framework of the bank
3. Assist in cyber resilience testing by simulating cyber and operational incidents.
4. Assistance in testing operational resilience of the systematic important banks.

Policy and framework assessment

1. Testing of key framework such as RRP, CFP, limit, and margin agreements
2. Assist in simulating various possible scenarios to test effectiveness of framework
3. Design various possible macro and micro scenarios and test systematic and idiosyncratic impact

Other Areas

1. Rapid program mobilization and support on real-time monitoring, decision making and coordination -- An overarching framework for crisis management.
2. Assist in identifying material non-financial risks and their likely impact.

Tried and tested KPMG approach for identifying and measuring geopolitical risk impacts

1 Understand: Scenario longlist

Scenario universe

- Which potential scenarios could be relevant over short-term (1-3 months) and mid-term (1-3 years)?



Map transmission channels and vulnerabilities

- Which countries, regions, commodities, sectors are affected by which of the scenarios?

2 Identify: Supply chain analysis

Identify indirect vulnerabilities through supply chain analysis

- Which critical regions (from a geopolitical perspective) do portfolio and revenue depend most heavily on?
- Which critical resources do relevant sectors in the portfolio depend most heavily on?

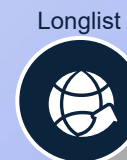
Identify direct vulnerabilities

- In Iran and future conflicts: How significant could the macroeconomic effects (GDP/GVA) be for the countries directly affected, which are also part of the portfolio?

3 Measure: Scenario analysis

Selection of 1-3 key scenarios

- Focus on likely but severe scenarios based on longlist and supply chain perspective



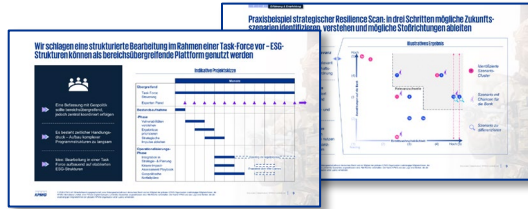
Combining portfolio analyses to calculate stress effects

- Microeconomic effects result from the impact on clients via supply chain relationships
- Macroeconomic effects result from broader economic consequences, e.g., due to
 - a subsequent economic crisis
 - The direct impact on certain countries/sectors—e.g., due to war

KPMG tools and enablers to support you in handling short- and mid-term implications in strategy and risk management

KPMG Geopolitic Resilience Framework

Tested resilience scan across 1st and 2nd LoD organization, Governance and process blueprints across Strategy, Risk and Treasury departments



Supply Chain Assessment Tool

Easy-to-deploy model to heatmap portfolio along sector and regional impacts, based on latest Input/Output data, AI-supported transmission channels, and testing & deployment with various banks in ESG Risk context



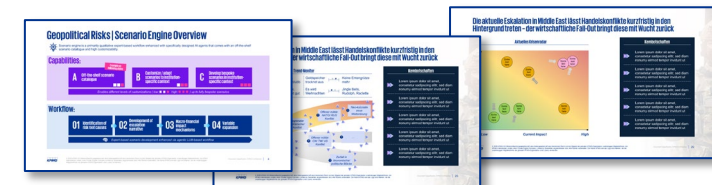
Key Credentials on Resilience and Emerging Risk

We are helping some of Europe's largest banks in identifying and managing geopolitical and other emerging threats



KPMG Scenario Engine and stress test blueprints

Years of experience in scenario design and implementation, leveraging AI-based tools for scenario generation and parametrization



Annex

Impact of the conflict: Short to medium term

Below we have highlighted the key impacts that may be seen in the financial sector in the short to medium term. The severity of the impacts will largely correlate with the duration of the conflict. Clearly, in the event that the conflict became protracted, consequences for the region are likely to be severe.

Credit

1. Deterioration in portfolio quality and pay back capacity of borrowers
2. Increase in PD and LGD in medium term which will impact ECL cost
3. Collateral devaluation will result in higher RWA and subsequent capital charges
4. Deteriorating MEV and their impact on Credit
5. Impact on credit capacity due to supply chain bottlenecks and higher inflation

Market and Interest Rate

1. Negative impact on bonds, and other assets the Bank holds
2. Higher cost to hedge interest rate risk due to higher volatility
3. Potential high P&L impact for the Banks on existing open contracts
4. High inflation may result in higher interest rates for longer periods
5. Subdued earning prospects and stock market volatility

Liquidity

1. Liquidity flight to safe investment or locations
2. Widening ALM gap with limited short-term liquidity sources / wholesale funding
3. Crystallization of off-balance sheet (LC/LG/BG) as issued by banks
4. Working capital demand and longer turnover cost due to supply chain disruptions
5. Subdued earning prospects and stock market volatility

Operational

1. Higher costs due to trigger of BCP/DR
2. Impact due to growing cyber, fraud and other emerging threats
3. Operational costs due to loss of key personnel / infrastructure / data
4. Operational costs due to supply chain bottlenecks
5. Impact due to third party risk / supply chain in the business

Other risks

1. Environmental impact on other risks as well e.g. risk of contamination
2. Reputation risk and its quantitative and qualitative impact
3. Impact due to geo-political, compliance and contagion risk
4. High risk on data governance, maintenance and data sovereignty
5. Environment cost e.g. due to oil/gas seepage

Impact of the conflict: Longer term

Assuming a longer conflict of 2 to 3 months or more, the impacts may become wider and deeper for both the region and global economy.

Credit

1. Higher defaults which will impact banks not only for that period, but for a longer period due to shift in TTC PD
2. Increase in ECL cost as well as capital charge which might impact bank's ability to give fresh loans
3. Impact of MEV deterioration may further exacerbate the available capital with the bank

Market and Interest Rate

1. Sell-off of assets at lower price due to lack of market depth or liquidity
2. Higher number of margin calls and associated cost may further dampen the market
3. High cost to hedge interest rate risks which might further reduce demand

Liquidity

1. Liquidity crunch with investors turning risk averse
2. Loss of goods in transportation may further increase cash turnover cycle and its impact on the system
3. Banks need to activate Contingency Funding Plan (CFP)

Operational

1. Higher cost to maintain DR sites and related operation costs
2. Talent attrition and difficulty in hiring
3. Higher cost to deter any future cyber attacks or terrorist attack

Other risks

1. More extreme environmental impacts on regional and global economy
2. Sensitive data loss or leakage and its contagion impact on the system
3. Diversion of funds to rebuild key infrastructure such as desalination plant and its impact on other focus areas



Contact us

Email: info@kpmg.com.vn

Pham Do Nhat Vinh

Partner

Head of Financial Services
KPMG in Vietnam

Justin Malta

Partner

KPMG in the UK

Rajosik Banerjee

Partner

KPMG in India

Arvind Sarin

Partner

KPMG in Germany

Clemens Wieck

Partner

KPMG in Germany

Rachit Gupta

Associate Partner

KPMG in India

Stefan Lell

Senior Manager

KPMG in Germany



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