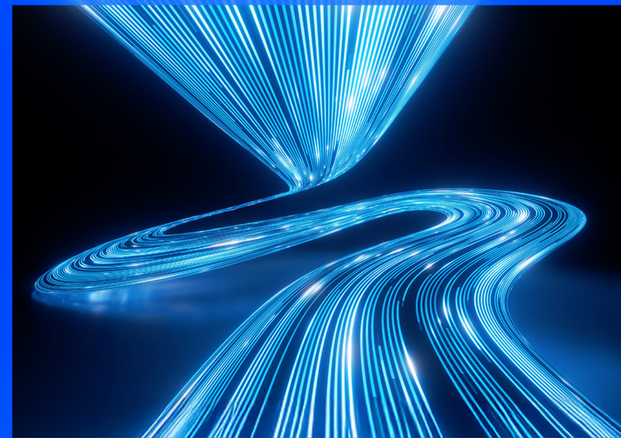
CECL Pulse Check

How companies are responding to economic impacts in their Q2’26 CECL estimates



During Q2’26, we surveyed companies to understand the potential impact of economic conditions on their Current Expected Credit Losses (CECL) process. Our questions focused on the ongoing economic effects of the macroeconomic environment and their likely impact on CECL allowances.

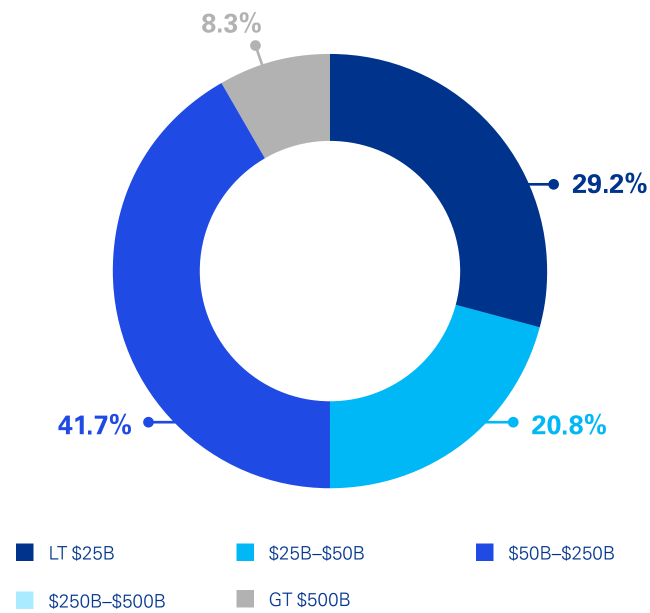
The economic environment continues to evolve, with uncertainty remaining elevated through Q2 2026. Geopolitical developments have sustained volatility in energy markets and are contributing to renewed inflationary pressures. At the same time, AI related investment continues to expand and refine, introducing new dynamics and risk considerations. In this environment, forecasting credit losses remains inherently complex and highly judgmental, requiring careful consideration of emerging trends and forward looking assumptions.

KPMG LLP (KPMG) surveyed commercial and consumer lenders, including banks and finance companies, to understand how companies are responding to these developments and incorporating them into CECL estimates. The survey results were obtained between June 8 and June 22, 2026. As the economic situation evolves, we expect companies to monitor and reassess assumptions used in their CECL estimates as they complete their estimation process.

Q2’26

Who we surveyed

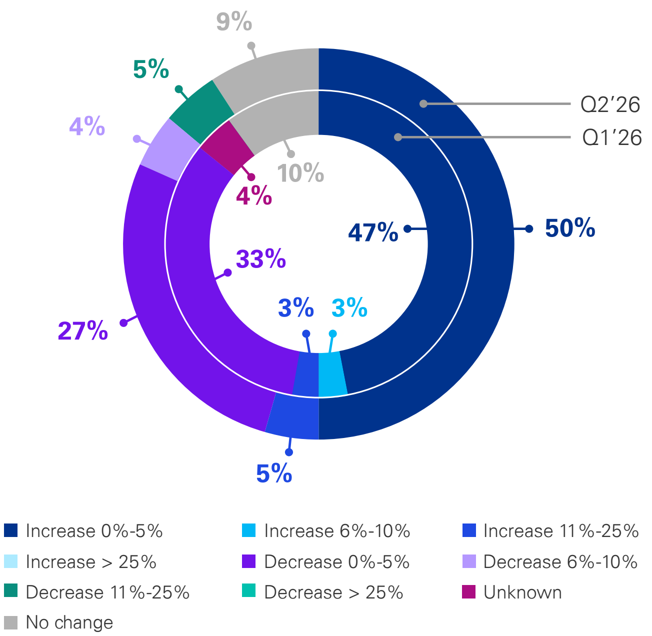
We surveyed **21 banks** and **3** finance companies with varying asset sizes.



Responses for Q2’26 were obtained between June 8 and June 22, 2026, and reflect information known at that time.

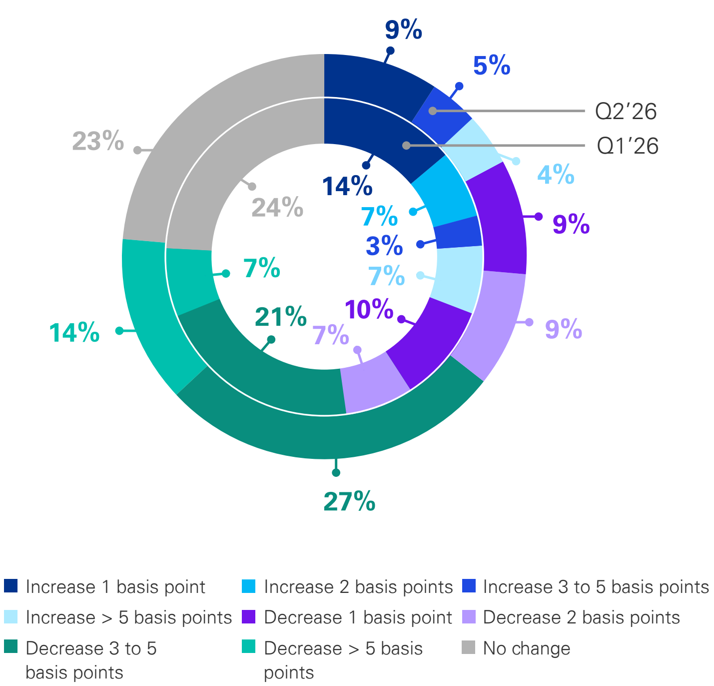
Expected impact of economic uncertainty on CECL methodology and results

01 How much do you expect the allowance for expected credit losses (ACL) to change from March 31, 2026 to June 30, 2026?



In Q2’26, approximately 55 percent of respondents said they anticipate an increase in the overall ACL, up slightly from 53 percent in Q1’26. Conversely, 36 percent expect a decrease in the ACL in Q2’26, up from 33 percent in Q1’26. Nine percent expected no change in the ACL in Q2’26 compared to 10 percent in Q1’26.

02 How much do you expect the total ACL to change as a percentage of end-of-period receivables subject to ACL from March 31, 2026 to June 30, 2026?

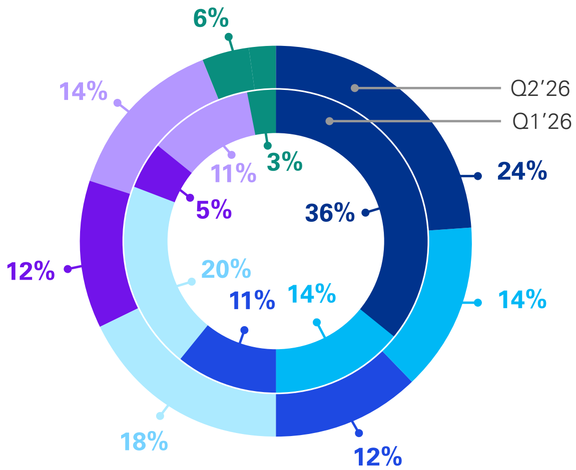


In Q2’26, 9 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, down from 14 percent in Q1’26. No respondents expect the increase to be 2 basis points compared to 7 percent in Q1’26, while 9 percent expect the increase to be greater than 3 basis points, compared to 10 percent in Q1’26.

Conversely, 9 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, down from 10 percent in Q1’26. Another 9 percent expect the decrease to be 2 basis points, compared to 7 percent in Q1’26, and 41 percent expect a decrease of 3 or more basis points this quarter, up from 28 percent in Q1’26.

Additionally, 23 percent of respondents in Q2’26 expect no change in ACL as a percentage of total receivables assessed for ACL, similar to 24 percent who expected the same in Q1’26.

03 What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from March 31, 2026 to June 30, 2026?

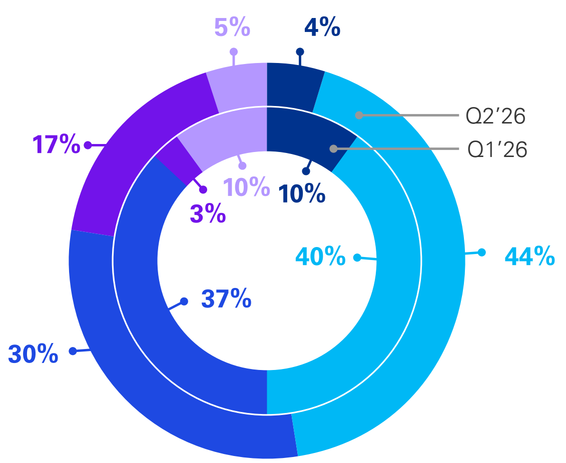


- Changes in expectations about the future economic conditions
- Changes in charge-offs
- Changes in individually assessed reserves
- Changes in asset quality
- Changes in qualitative adjustments based on changes other than changes in expectations about the future economic conditions
- Changes in portfolio composition
- Other
- Changes in underwriting

In Q2’26, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Twenty-four percent of all respondents selected this factor, down from the 36 percent who selected it in Q1’26. The second-largest driver was changes in asset quality, selected by 18 percent of respondents in Q2’26, similar to the 20 percent in Q1’26.

Another common factor influencing ACL changes included changes in charge-offs, selected by 14 percent of respondents in Q2’26, consistent with Q1’26.

04 Which economic condition is having the greatest impact on your company’s ACL estimate?

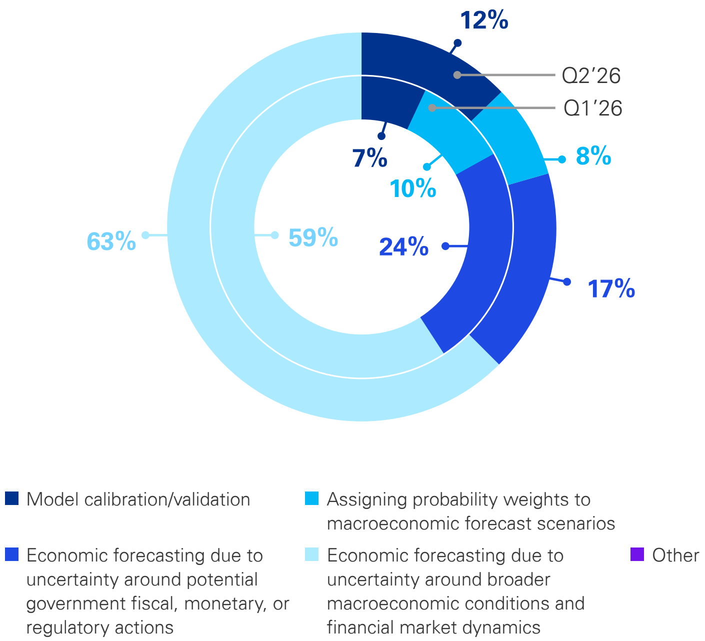


- Interest rate
- Unemployment rate
- Economic uncertainty
- House price index
- Commercial real estate market index/ Commercial real estate performance index
- Other

In Q2’26, 44 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, up from 40 percent in Q1’26. Economic uncertainty ranked second, with approximately 30 percent of respondents selecting this factor, compared to 37 percent in Q1’26. Seventeen percent of respondents cited commercial real estate indices as the economic condition expected to have the greatest impact on the ACL in Q2’26, up from just 3 percent in Q1’26.

Responses for Q2’26 were obtained between June 8 and June 22, 2026, and reflect information known at that time. The economic conditions selected may not reflect the impact of more recent market events.

05 What is the greatest challenge you are experiencing in determining your company's ACL estimate?



In Q2'26, approximately 80 percent of respondents identified economic forecasting uncertainty as the greatest challenge in determining ACL estimates. Among respondents citing economic forecasting uncertainty as the greatest challenge, 63 percent attributed this to broader macroeconomic conditions including the conflict in the Middle East, compared to 59 percent in Q1'26, while 17 percent attributed it to potential government fiscal, monetary, or regulatory actions, compared to 24 percent in Q1'26. In addition, 12 percent of respondents identified model calibration and validation as the greatest challenge in determining their ACL, compared to 7 percent in the prior quarter.

CECL methodology components

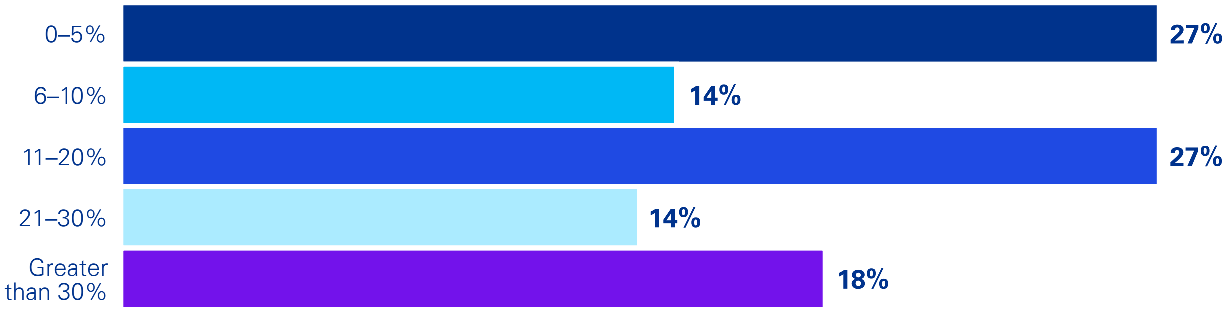
To estimate losses over the reasonable and supportable forecast period, entities are permitted to incorporate one or more economic scenarios into their ACL estimate. Accordingly, many institutions have incorporated multiple economic scenarios into their ACL framework, particularly in response to economic uncertainty, interest rate volatility, and potential changes in unemployment conditions.

For institutions that apply explicit probability weights to their macroeconomic scenarios, the table below presents the average probability weight assigned to each scenario, calculated using responses from all surveyed institutions, including those that assigned a zero probability. For example, the average probability weight for the "Downside" scenario was 30 percent in Q2'26, inclusive of respondents that assigned no probability to that scenario.

	Base case	Upside	Downside	Severe downside	Other
Q2 2026	60%	9%	30%	1%	0%

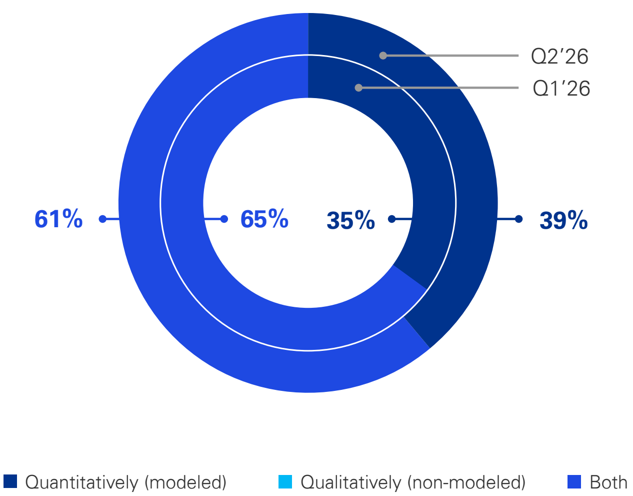
The "Other" scenario reflects alternate macroeconomic conditions informing the loss estimate, such as stagflation or projections of long-term growth below trend.

06 What percentage of your company's ACL as of June 30, 2026 would you estimate to be based on qualitative factors?



Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 32 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q2'26, compared to 26 percent in the prior quarter.

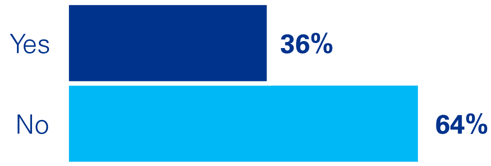
07 How are economic conditions such as changes in interest rates, unemployment rate, real estate indices, economic uncertainty, and/ or other economic factors being factored into your company's ACL estimate?



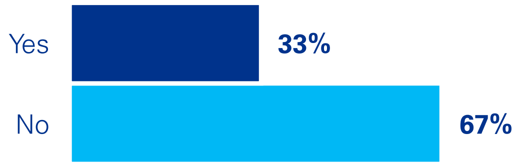
In Q2'26, approximately 61 percent of respondents indicated they are incorporating impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and other economic factors into their ACL estimate using both quantitative (modeled) and qualitative (non-modeled) methods, down from 65 percent in Q1'26. In contrast, 39 percent of respondents in Q2'26 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, up from 35 percent in Q1'26. No respondents in either Q2'26 or Q1'26 reported incorporating these factors solely through the qualitative (non modeled) component of the ACL estimate.

Delinquencies and net charge-offs

08 Have delinquencies increased from prior quarter end?

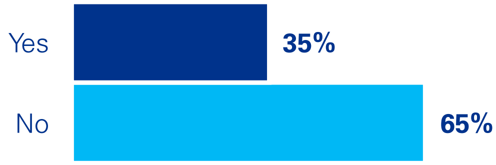


09 Have net charge-offs increased from prior quarter end?



In Q2’26, 36 percent of respondents reported an increase in delinquencies, up from 24 percent in Q1’26. Thirty-three percent reported higher net charge-offs, an increase from 30 percent in Q1’26.

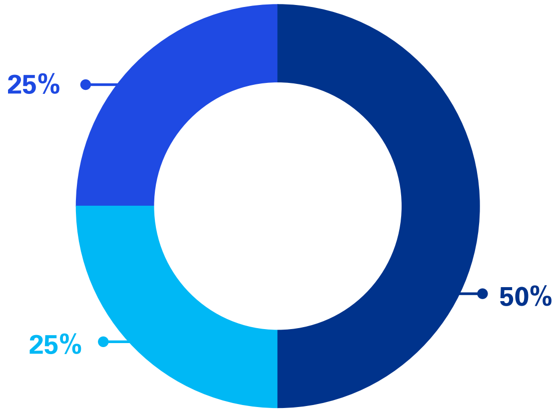
10 Have non-performing commercial loans increased from prior quarter end?



Thirty-five percent of all respondents reported an increase in non-performing commercial loans in Q2’26, down from 50 percent in Q1’26. Among those reporting an increase, 56 percent identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 36 percent in the prior quarter.

Emerging sources of uncertainty

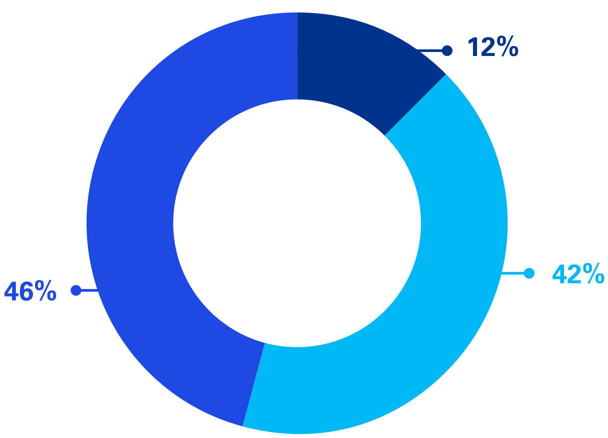
11 Which of the following AI-related borrower categories does your company have material loan exposure to?



In Q2'26, 84 percent of respondents reported no AI related exposure. Among the 16 percent reporting some level of AI related exposure (with certain respondents selecting multiple categories), exposure was most frequently associated with AI infrastructure and data center infrastructure, cited by half of respondents with exposure. Exposure to semiconductors and AI hardware supply chains and large technology companies with significant AI investments was each cited by approximately 25 percent of respondents with exposure.

- AI model and app developers (e.g., OpenAI, Anthropic)
- AI infrastructure and data center infrastructure (e.g., data center operators, GPU-cloud)
- Semiconductors and AI hardware supply chain (e.g., NVIDIA, AMD, key suppliers)
- Enterprise AI platforms and data tooling (e.g., Databricks, Palantir, Scale AI)
- Big Tech with major AI investment (e.g., Google, Amazon, Microsoft, Meta)

12 Is your company using advanced AI techniques in any part of the CECL process as of Q2'26?



In Q2'26, respondents indicated that AI beyond traditional regression, segmentation, and other rule based statistical techniques is not yet widely embedded in CECL workflows. Forty-six percent reported that such AI is neither in use nor currently under evaluation, down from 62 percent in Q1'26. Another 42 percent indicated they are evaluating these capabilities but have not implemented them, up from 35 percent in Q1'26. A smaller portion, 12 percent, reported piloting or limited use, and no respondents reported AI in full production use.

- Yes, in production use
- Yes, piloting or limited use
- No, evaluating but not using
- No, not currently used or evaluated
- Not sure, 0%

Conclusion

Uncertainty surrounding the current economic environment continues to be a challenge in determining CECL estimates. Analysts and investors will need to understand the key drivers behind the CECL estimates, which include a significant level of estimation and judgment. Companies should explain and support their assumptions and estimates of the CECL methodology components, including quantitative models and qualitative factors. We encourage companies to work closely with their boards of directors, auditors, and advisors as they prepare for reporting on Q2'26.

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