KPMG

CECL Pulse Check

## How companies are responding to economic impacts in their Q1'26 CECL estimates

During Q1'26, 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 has become increasingly complex as uncertainty has re-intensified. Geopolitical developments have contributed to renewed volatility in energy markets, alongside inflation that remains elevated and softening labor market conditions. AI related investment and private credit market activity continue to evolve, adding further complexity. In this environment, forecasting credit losses remains complex and judgment intensive.

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 March 2 and March 19, 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.
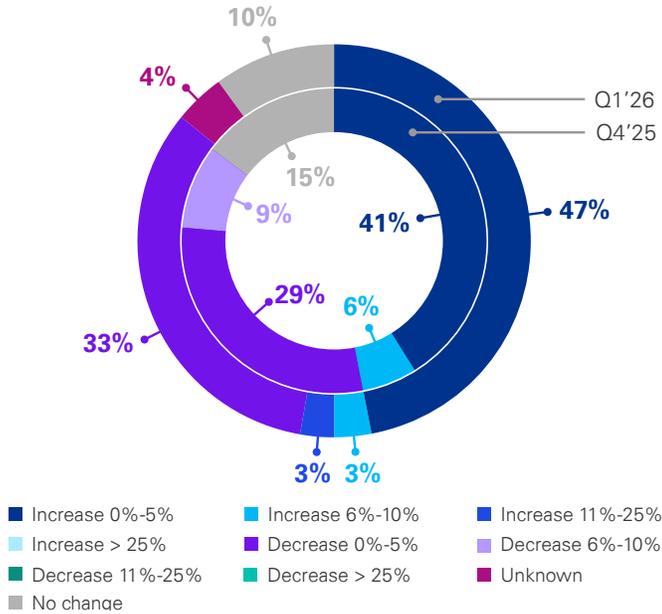
Who we surveyed

We surveyed **25** banks and **6** finance companies with varying asset sizes.
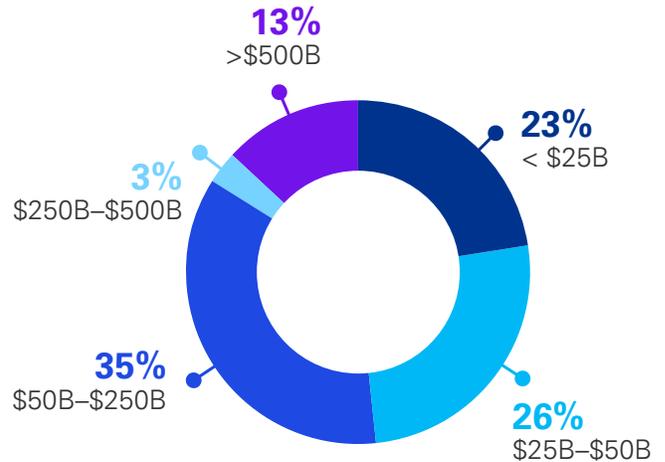
- 13% >$500B
- 3% $250B–$500B
- 23% < $25B
- 26% $25B–$50B
- 35% $50B–$250B

Responses for Q1'26 were obtained between March 2 and March 19, 2026, and reflect information known at that time.
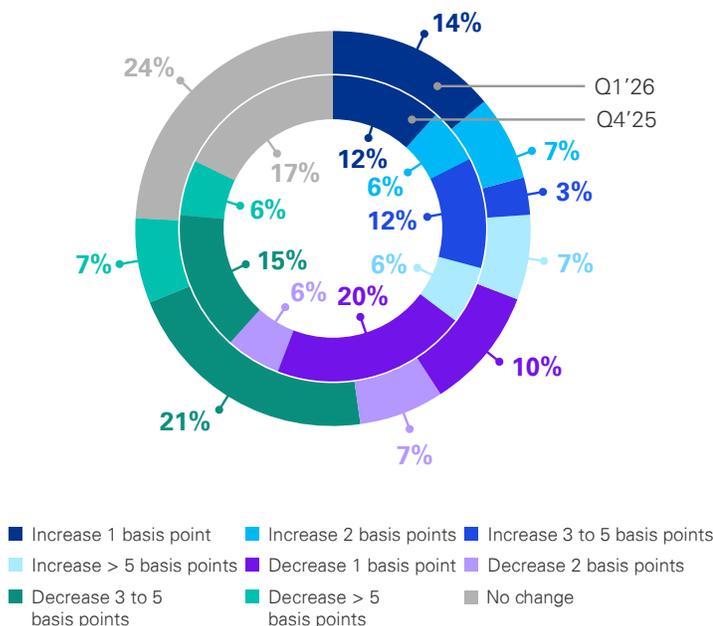
Expected impact of economic uncertainty on CECL methodology and results

1. How much do you expect the allowance for expected credit losses (ACL) to change from December 31, 2025 to March 31, 2026?

Legend:
- ■ Increase 0%-5%
- ■ Increase 6%-10%
- ■ Increase 11%-25%
- ■ Increase > 25%
- ■ Decrease 0%-5%
- ■ Decrease 6%-10%
- ■ Decrease 11%-25%
- ■ Decrease > 25%
- ■ Unknown
- ■ No change

In Q1'26, approximately 53 percent of respondents said they anticipate an increase in the overall ACL, up from 47 percent in Q4'25. Conversely, 33 percent expect a decrease in the ACL in Q1'26, down from 38 percent in Q4'25. Another 10 percent expected no change in the ACL in Q1'26 compared to 15 percent in Q4'25.

2. How much do you expect the total ACL to change as a percentage of end-of-period receivables subject to ACL from December 31, 2025 to March 31, 2026?

Legend:
- ■ Increase 1 basis point
- ■ Increase 2 basis points
- ■ Increase 3 to 5 basis points
- ■ Increase > 5 basis points
- ■ Decrease 1 basis point
- ■ Decrease 2 basis points
- ■ Decrease 3 to 5 basis points
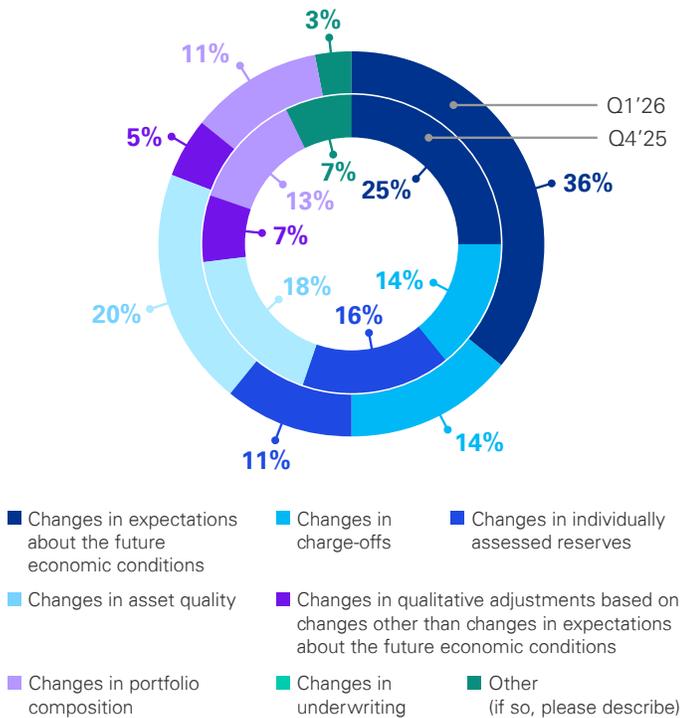- ■ Decrease > 5 basis points
- ■ No change

In Q1'26, 14 percent of respondents anticipate the increase in the overall ACL to be 1 basis point of total receivables assessed for ACL, up from 12 percent in Q4'25. Seven percent expect the increase to be 2 basis points, up from 6 percent in Q4'25, while 10 percent expect the increase to be greater than 3 basis points, down from 18 percent in Q4'25.

Conversely, 10 percent of respondents anticipate the decrease in the overall ACL to be 1 basis point, down from 20 percent in Q4'25. Seven percent expect the decrease to be 2 basis points, compared to 6 percent in Q4'25, and 28 percent expect a decrease of 3 or more basis points this quarter, compared to 21 percent in Q4'25.

Additionally, 24 percent of respondents in Q1'26 expect no change in ACL as a percentage of total receivables assessed for ACL, up from 17 percent who expected the same in Q4'25.
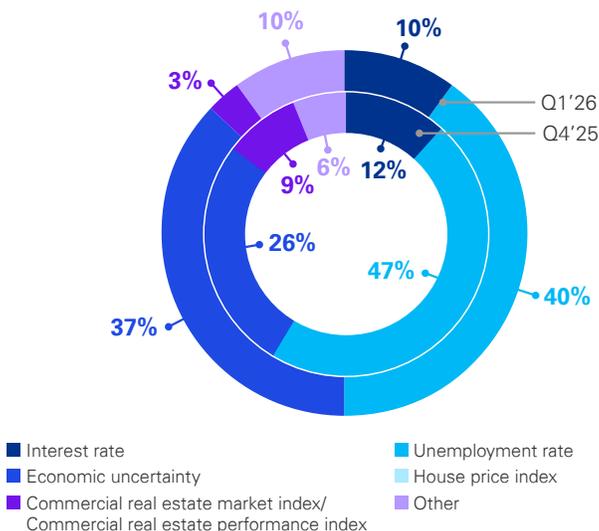
3. What do you expect the largest driver of change to be in the ACL balance excluding changes in loan volume from December 31, 2025 to March 31, 2026?

Q1'26
Q4'25

Outer ring (Q1'26): 36%, 14%, 11%, 20%, 7%, 5%, 11%, 3%
Inner ring (Q4'25): 25%, 14%, 16%, 18%, 7%, 13%, 7%

Legend:
- 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
- Changes in underwriting
- Other (if so, please describe)

In Q1'26, the largest driver of change in the ACL, excluding loan volume fluctuations, remains changes in expectations about future economic conditions. Thirty-six percent of all respondents selected this factor, up from the 25 percent who selected it in Q4'25. The second-largest driver was changes in asset quality, selected by 20 percent of respondents in Q1'26, similar to the 18 percent in Q4'25.

Another common factor influencing ACL changes included changes in charge-offs, selected by 14 percent of respondents in Q1'26, consistent with Q4'25.

4. Which economic condition is having the greatest impact on your company's ACL estimate?

Q1'26
Q4'25

Outer ring (Q1'26): 10%, 40%, 37%, 3%, 10%
Inner ring (Q4'25): 12%, 47%, 26%, 9%, 6%

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

In Q1'26, 40 percent of respondents identified the unemployment rate as the economic condition expected to have the greatest impact on the ACL, down from 47 percent in Q4'25. Economic uncertainty ranked second, with approximately 37 percent of respondents selecting this factor, compared to 26 percent in Q4'25. Changes in interest rates were cited by another 10 percent of respondents, down from 12 percent in Q4'25.

Responses for Q1'26 were obtained between March 2 and March 19, 2026, and reflect information known at that time. The economic conditions selected may not reflect the impact of more recent market events.

5. What is the greatest challenge you are experiencing in determining your company's ACL estimate?
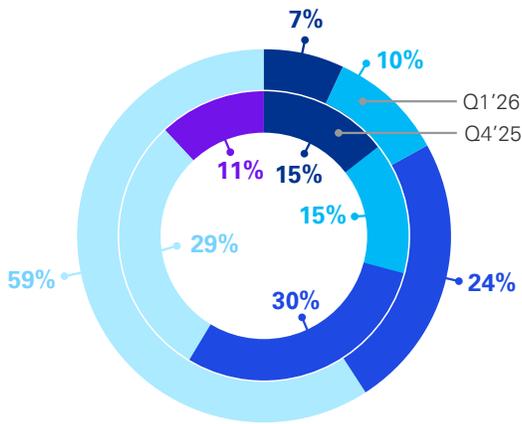
Legend:
- Model calibration/validation
- Assigning probability weights to macroeconomic forecast scenarios
- Economic forecasting due to uncertainty around potential government fiscal, monetary, or regulatory actions
- Economic forecasting due to uncertainty around broader macroeconomic conditions and financial market dynamics
- Other

In Q1'26, approximately 83 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, 59 percent attributed this to broader macroeconomic conditions and financial market dynamics, compared to 29 percent in Q4'25, while 24 percent attributed it to potential government fiscal, monetary, or regulatory actions, compared to 30 percent in Q4'25. In addition, 10 percent of respondents identified assigning probability weights to macroeconomic forecast scenarios as the greatest challenge in determining their ACL, compared to 15 percent in the prior quarter.
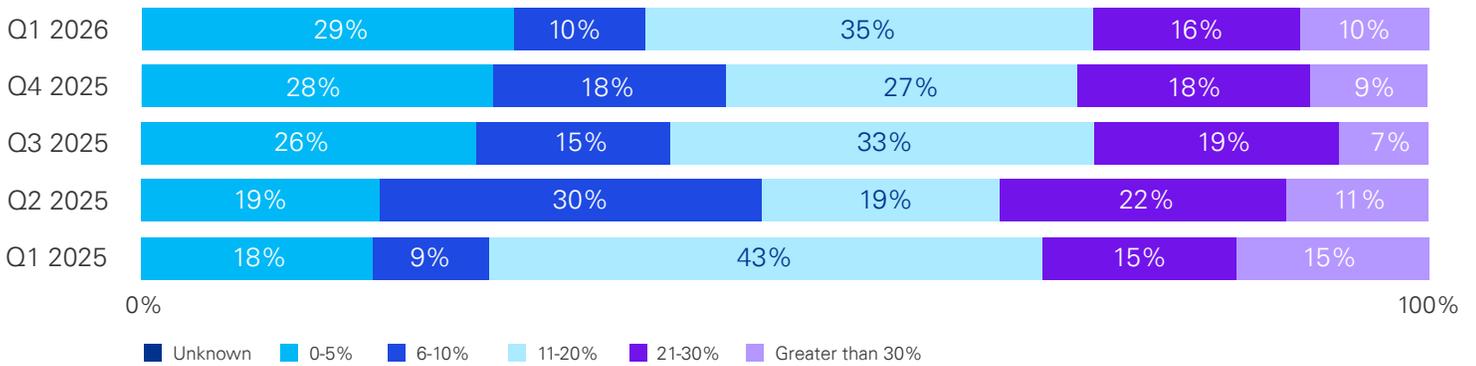
CECL methodology components

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 26 percent in Q1'26, inclusive of respondents that assigned no probability to that scenario.

|	Base case	Upside	Downside	Severe downside	Other
Q1'26	61%	10%	26%	1%	2%

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

6. What percentage of your company's ACL as of March 31, 2026 would you estimate to be based on qualitative factors?

	Unknown	0-5%	6-10%	11-20%	21-30%	Greater than 30%
Q1 2026		29%	10%	35%	16%	10%
Q4 2025		28%	18%	27%	18%	9%
Q3 2025		26%	15%	33%	19%	7%
Q2 2025		19%	30%	19%	22%	11%
Q1 2025		18%	9%	43%	15%	15%

0%   100%

■ Unknown   ■ 0-5%   ■ 6-10%   ■ 11-20%   ■ 21-30%   ■ Greater than 30%

Many companies incorporate qualitative adjustments into their ACL estimate to capture changes in expectations and will continue to do so. Approximately 26 percent of respondents indicated they expect qualitative factors to comprise more than 20 percent of the total ACL estimate in Q1'26, similar to the prior quarter.

---

7. 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?

Q1'26
Q4'25
35%
41%
59%
65%

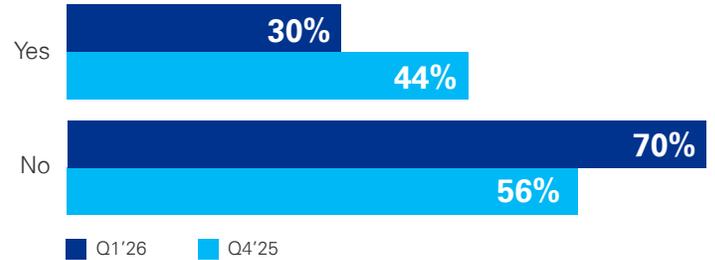■ Quantitatively (modeled)   ■ Qualitatively (non-modeled)   ■ Both
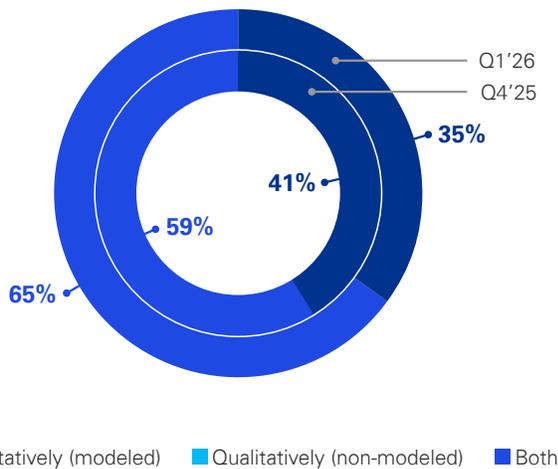
In Q1'26, approximately 65 percent of respondents indicated they are incorporating impacts from interest rate changes, the unemployment rate, real estate indices, economic uncertainty, and other economic factors into their ACL estimate using both quantitative (modeled) and qualitative (non-modeled) methods, up from 59 percent in Q4'25. In contrast, 35 percent of respondents in Q1'26 are incorporating these same factors solely through the quantitative (modeled) component of the ACL estimate, down from 41 percent in Q4'25. No respondents in either Q1'26 or Q4'25 reported incorporating these factors solely through the qualitative (non modeled) component of the ACL estimate.

Delinquencies and net charge-offs

8. Have delinquencies increased from prior quarter end?

	Yes	No
Q1'26	24%	76%
Q4'25	58%	42%

◼ Q1'26   ◼ Q4'25
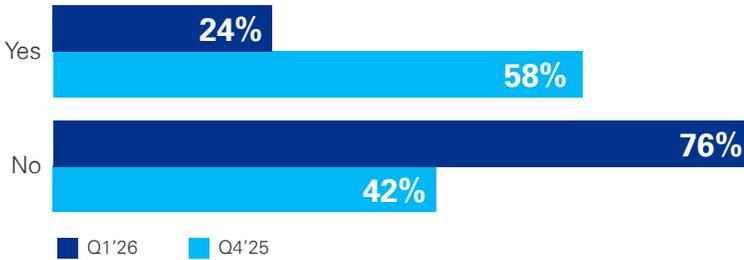
9. Have net charge-offs increased from prior quarter end?

|	Yes	No
Q1'26	30%	70%
Q4'25	44%	56%

◼ Q1'26   ◼ Q4'25

In Q1'26, 24 percent of respondents reported an increase in delinquencies, down from 58 percent in Q4'25. Thirty percent reported higher net charge-offs, a decrease from 44 percent in Q4'25.

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

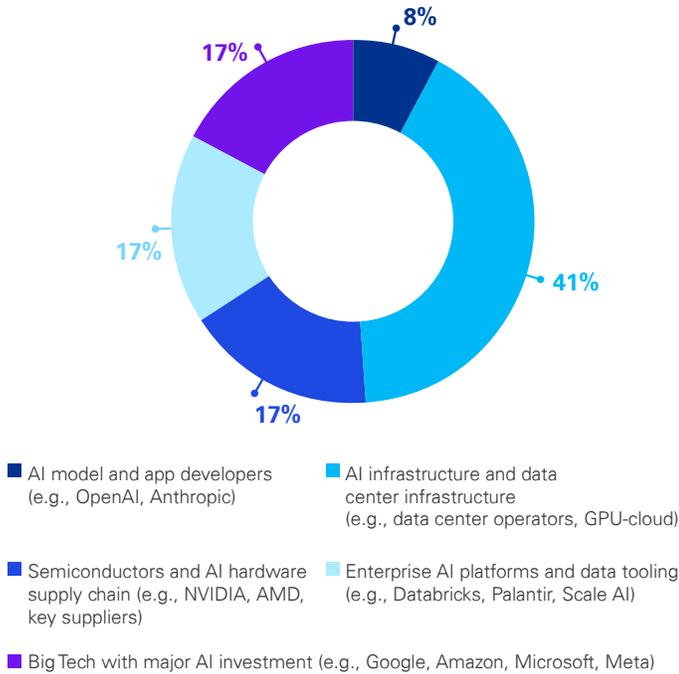|	Yes	No
Q1'26	50%	50%
Q4'25	25%	75%

◼ Q1'26   ◼ Q4'25
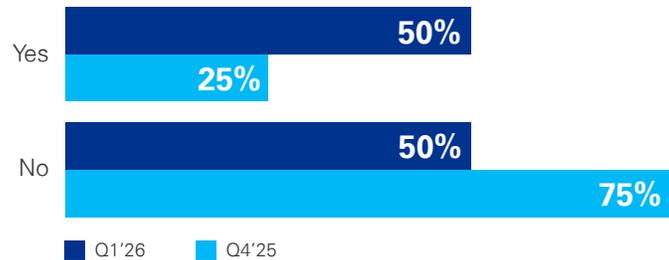
Half of all respondents reported an increase in non-performing commercial loans in Q1'26, up from 25 percent in Q4'25. Among those reporting an increase, 36 percent identified commercial and industrial loans as the primary type of non-performing commercial loan, compared to 50 percent in the prior quarter.
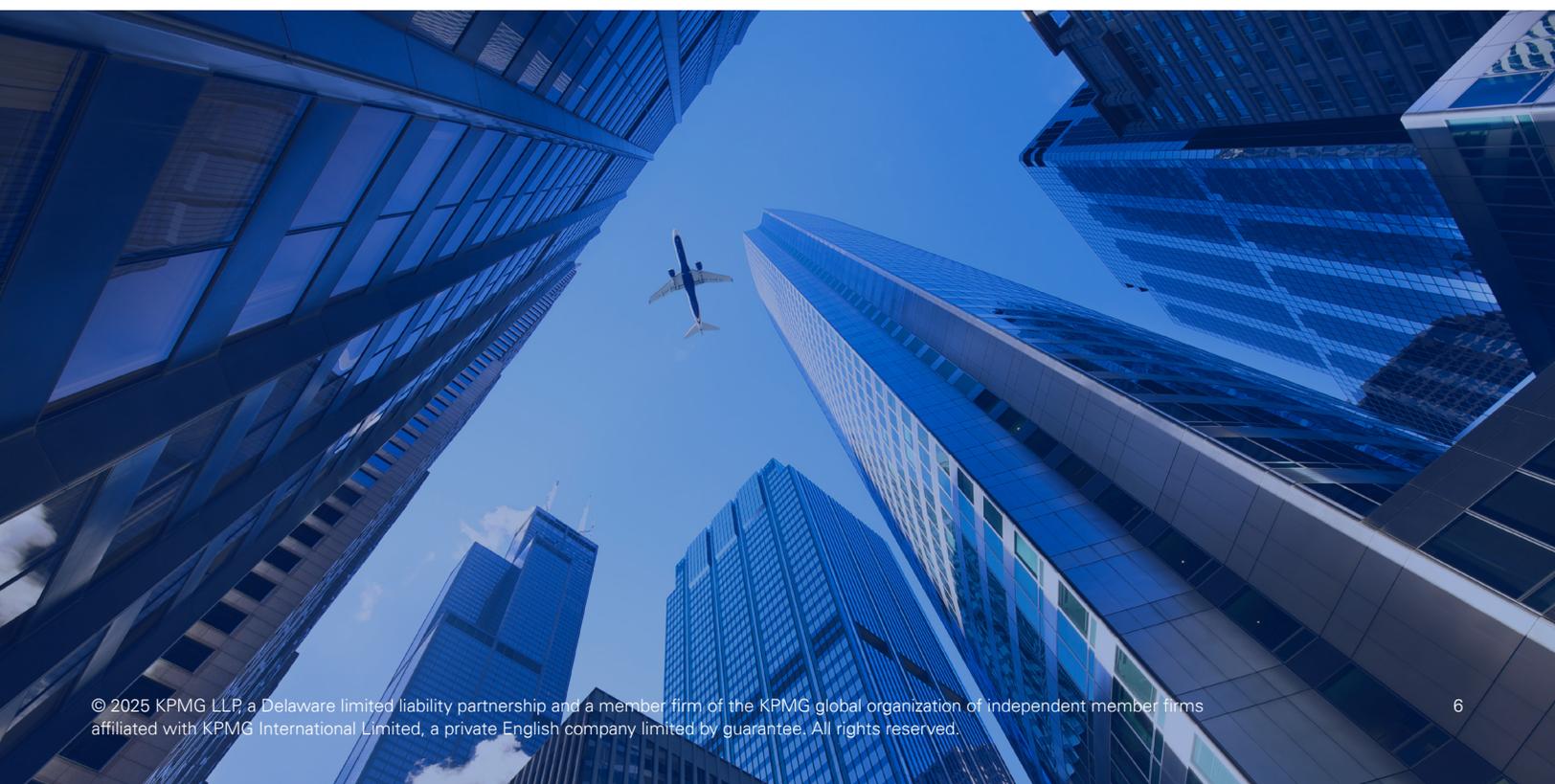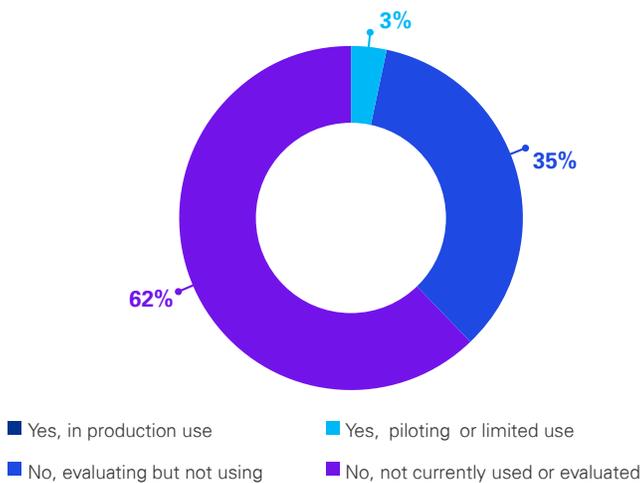
Emerging sources of uncertainty

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

8%
41%
17%
17%
17%

- ■ 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)

In Q1'26, 76 percent of respondents reported no AI related exposure. Among the 24 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 42 percent of respondents with exposure. Exposure to semiconductors and AI hardware supply chains, enterprise AI platforms and data tooling, and large technology companies with significant AI investments was each cited by approximately 17 percent of respondents with exposure. Exposure to AI model and application developers accounted for 8 percent of reported exposure.

12. Is your company using advanced AI techniques in any part of the CECL process as of Q1'26?

3%
35%
62%

- ■ Yes, in production use
- ■ Yes, piloting or limited use
- ■ No, evaluating but not using
- ■ No, not currently used or evaluated

In Q1'26, respondents indicated that AI beyond traditional regression, segmentation, and other rule based statistical techniques is not yet widely embedded in CECL workflows. Sixty two percent reported that such AI is neither in use nor currently under evaluation, while 35 percent indicated they are evaluating these capabilities but have not implemented them. A smaller portion, 3 percent, reported piloting or limited use, and no respondents reported AI in full production use.

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 Q1'26.

Contact us

Mario Mastrantoni
Partner, Accounting Advisory Services
mmastrantoni@kpmg.com

Natasha Boswell
Partner, Audit
nboswell@kpmg.com

Karen D Silverman
Partner, Audit
ksilverman@KPMG.com

Max Duncan
Managing Director, Audit
mduncan@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Please visit us: in   **kpmg.com**   ⟳   **Subscribe**