

Analysis in Brief

An overview of the banking industry in Canada: Understanding income within the context of regulatory and resilience requirements

by Marisa McGillivray

Release date: September 21, 2026



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Cette publication est aussi disponible en français.

Acknowledgements

The author would like to thank Alexandre Fortier-Labonté, whose insights and feedback greatly contributed to the development of this work.

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An overview of the banking industry in Canada: Understanding income within the context of regulatory and resilience requirements

by Marisa McGillivray

A brief overview of the regulatory environment and classification structure

In Canada, the *Bank Act* is the main legislation governing banks and federal credit unions.¹ Additionally, the Office of the Superintendent of Financial Institutions (OSFI) regulates Banks, along with other financial institutions for financial system stability. With a goal of protecting consumers, the Canada Deposit Insurance Corporation (CDIC) provides deposit insurance up to \$100,000 per category² and the Financial Consumer Agency of Canada (FCAC) helps to strengthen financial literacy among Canadians.³ Although not a government nor regulatory body, the Bank of Canada also plays a key role in supporting the banks and acts as a lender of last resort.⁴ Combined, OSFI, CDIC, FCAC, the Bank of Canada, and the Department of Finance Canada, comprise the Financial Institutions Supervisory Committee to provide oversight of Canada's Financial System.⁵ Many of the standards and regulations discussed in this paper have not solely originated by the above governing bodies. In numerous instances, the frameworks reflect internationally established standards and regulations, or are derived from these standards, such as Basel III and the International Financial Reporting Standards (IFRS).

This paper will focus on schedule I Banks, which are domestic banks authorized under the *Bank Act* to accept deposits that may be eligible for CDIC deposit insurance. By default, the paper will also focus on domestic systematically important banks D-SIBs;⁶ which are the largest six banks in Canada, often referred to as the “Big Six”. The paper will primarily use data from the Quarterly Survey of Financial Statements (QSFS),⁷ beginning the first quarter of 2020 for the banking and other depository credit intermediation industry. The QSFS program provides data used to measure the financial position and performance of incorporated businesses by industry aggregation.⁸ For additional context, the paper will also utilize OSFI⁹ and Bank of Canada data where appropriate, among other sources.

As of the fourth quarter of 2025, the Big Six banks¹⁰ held 93.4% share of total assets for the banking and other depository credit intermediation industry. Given their large share, the terms “banks” and “the Canadian banking industry” are used interchangeably with the Big Six, despite the presence of other banks and depository institutions within this industry.

Banks predominantly make money through income earned on loans and investment related activities, offset by provisions for credit losses

Banks generate income through two broad streams: net interest income (NII) and non-interest income. Net interest income is the spread between interest revenue earned on loans, securities and investments offset by the interest expenses paid on deposits. It's the interest earned on assets minus interest paid on liabilities, where loans and lines of credit, such as mortgages and credit cards are assets, whereas deposits, among other obligations are liabilities. Net interest income tends to rise when the stock of loans increases, when average product allocations move to higher fee products, when fees increase, or when the margin expands. Trends in the policy interest rate¹¹ impact interest charged on loans, and interest paid on deposits, making it a key determinant of the magnitude of revenues

1. [Banks and federal credit unions - Canada.ca](#)

2. [What's covered — CDIC](#)

3. [Financial Consumer Agency of Canada - Canada.ca](#)

4. [Lender of last resort - Bank of Canada](#)

5. [Financial Institutions Supervisory Committee - Office of the Superintendent of Financial Institutions](#)

6. [Systemically important banks - Office of the Superintendent of Financial Institutions](#)

7. The quarterly statement of financial statements (QSFS) is a survey. Data is published based on a calendar quarter, meaning bank data included in QSFS will lag other data sources by one quarter.

8. Non-seasonally adjusted data.

9. The Big Six banks follow an October fiscal year end, where quarter one refers to November through January when referencing OSFI data or public financial statements.

10. The Big Six includes HSBC prior to its acquisition by Royal Bank of Canada for easier comparability. [Government of Canada approves sale of HSBC Bank Canada to the Royal Bank of Canada with conditions - Canada.ca](#)

11. [Understanding our policy interest rate - Bank of Canada](#)

and expenses within net interest income. It should be noted for fixed-rate mortgages, pricing is closely tied to Government of Canada bond yields, meaning that shifts in the yield curve can influence net interest income.¹²

The other significant contributor to total income is non-interest income which includes revenues from wealth management and investment banking, capital markets revenue, commissions and fee revenue. Smaller contributors also include insurance activities which vary from bank to bank and will largely be omitted from this analysis or included in the other category. Non-interest income tends to increase when financial bond and equity markets perform well, but can also increase during times of volatility, especially if trading volumes are high. An increase in consumer bank fees and card fees also increases non-interest income; however, comprise a much smaller portion of this category.

Unlike net interest income, non-interest income is not directly netted against associated expenses. Typically, the income statement flows from net interest income and non-interest income minus non-interest expenses. Non-interest expenses are all other expenses related to operations, which includes employee expenses such as salaries, commissions and benefits, as well as general operating expenses such as IT, marketing, rent and equipment.

A typical income statement¹³ for a bank¹⁴ begins with interest earned on loans and securities net of interest paid on deposits, resulting in net interest income. Net interest income is adjusted for credit losses through impairments, synonymous with provisions. After net-interest income is accounted for, banks add non-interest income such as trading revenues, commissions and fee-based income to get net interest and other income.¹⁵ Non-interest expenses such as salaries, and advertising are subtracted to arrive at net income before taxes (NIBT). This paper does not consider tax implications; however, corporate income taxes are applied after NIBT to arrive at net income.¹⁶

Table 1
Income Statement – generalized format

Interest and dividends income
Deposits and securities
Mortgage and non-mortgage loans
Interest expense
Demand deposits and term deposits
Net interest income = Interest and dividends income - Interest expense
Charge for impairment (provisions)
Net interest income after charge for impairment = Net interest income - Charge for impairment
Trading Income
Other Income (investment, commissions, fees, insurance)
Total non-interest income
Net interest and other income = Net interest income after charge for impairment - Total non-interest income
Non-interest expenses
Salaries, pensions and other staff benefits
Premises and equipment
Other expenses (advertising and operations)
Total non-interest expenses
Net income before taxes (NIBT) = Net interest and other income - Total non-interest expense

Source: Quarterly Survey of Financial Statements, Office of the Superintendent of Financial Institutions.

12. [Why fixed rate mortgages don't mirror the BoC's interest rate | TD Stories](#)

13. Banks make money differently than other companies, who sell physical items for example and hold inventories. This refers only to a typical income statement for a bank in Canada.

14. [Loan companies - P3 - Consolidated Statement Of Income, Retained Earnings & AOCI \(Active\) - Open Government Portal](#)

15. We refer to net interest income (NII), which is "net" of associated expenses, whereas non-interest income is typically not directly netted against expenses.

16. To arrive at net income numerous other line items are considered. This is a broad example meant to provide a general overview of the flow of income, not meant to reflect every individual component on the statement.

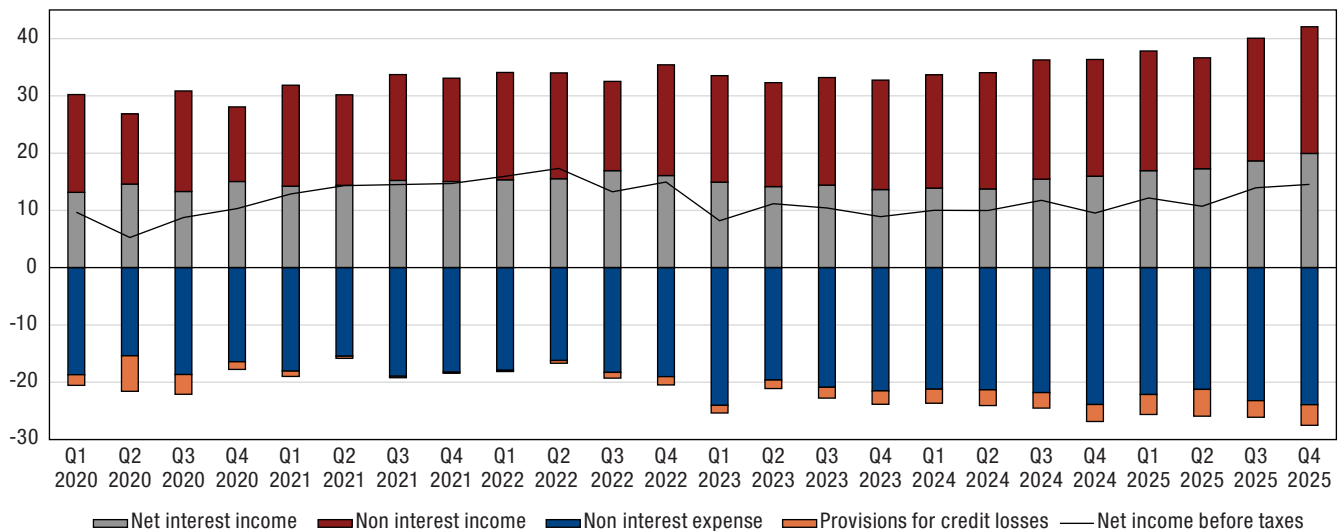
For banks and lending institutions, a key determinate of total income are credit losses. When lending money, borrowers don't always pay it back in full, and various types of loans carry varying risk levels. Banks account for non-payments and estimate the amount they expect to lose by establishing provisions. On the income statement, provisions for credit losses (PCLs) show up as an offset to revenues, reducing income.

Net income before taxes dipped during the pandemic, but remained positive in all cases

Net income before taxes (NIBT) declined in the second quarter of 2020, impacted by a considerable decline in non-interest income and higher provisions for credit losses (PCLs) brought on by the Covid-19 pandemic, as economic markets contracted. As market conditions normalized and trading volumes increased, non-interest income began trending upward, with stronger performance in 2024 and 2025. NIBT was highest in 2022, driven by a combination of higher net interest income, stabilizing non-interest income and lower PCLs. In 2022 house prices hit record highs, partially due to a combination of low interest rates and high demand. The policy interest rate remained at 0.25% from March 2020 to March 2022, then a swift tightening cycle began and rates rose quickly to 5.0% by July 2023. Net interest income rose as interest rates increased; however, net interest income began plateauing prior to the peak of 5.0% interest rate.¹⁷ In general, non-interest expense, mainly driven by wages, salaries and benefits, has increased since 2020.

Chart 1
Net income before taxes breakdown

billions of Canadian dollars



Source: Quarterly Survey of Financial Statements, author's calculations.

Loan yields, deposit costs, and balance-sheet growth drive net interest income

Net interest income can be disaggregated into interest revenues on loans offset by interest paid (expense) on deposits and securities. Deposits consist of cash, savings and checking accounts, term deposits such as guaranteed investment certificates (GICs), securities, such as government bonds, and corporate debt and equities. The bank pays individuals, businesses, governments and deposit-taking institutions¹⁸ a percentage on their deposits, which flows to net interest expense. In general, a savings account (demand deposit) one can withdraw from at any time would pay a lower rate than a GIC (fixed-term deposit) that is locked in for some time frame. Fixed-term deposits comprise the majority of deposit interest expense.

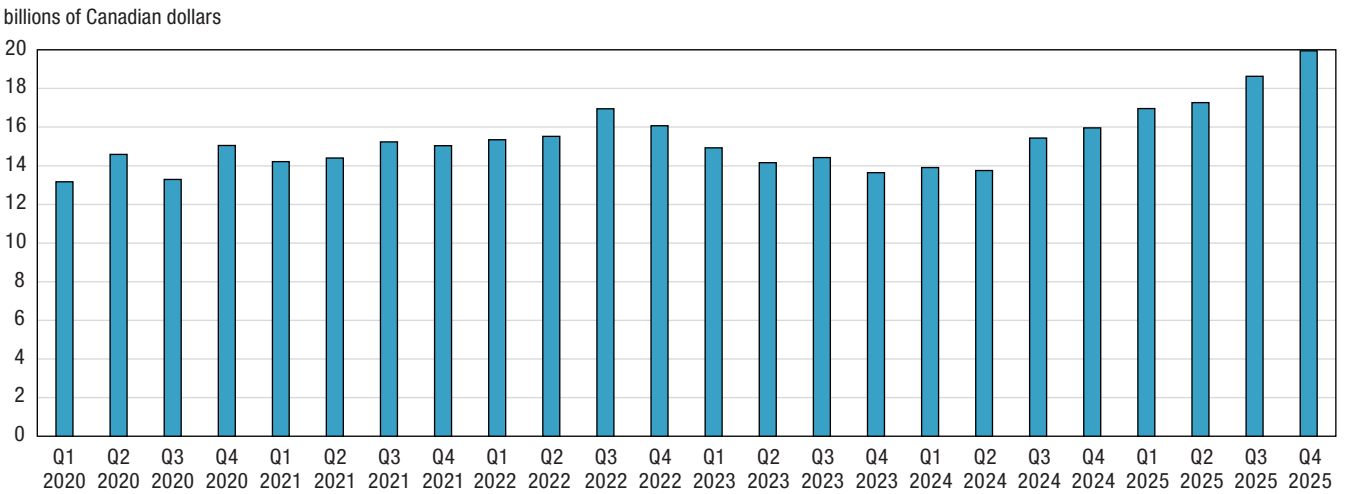
¹⁷ Policy interest rate - Bank of Canada

¹⁸ Glossary of Terms - Office of the Superintendent of Financial Institutions

The interest banks pay as interest expense is the income statement perspective; however, the deposits reside on the balance sheet as liabilities and are used to fund lending activities and financial market activities. The banks' lending activities are mortgage loans and non-mortgage loans. Mortgage loans are either classified as residential, which is the largest portion or non-residential. Non-mortgage loans can be for business purposes or individual (consumer loans), and can be credit cards, lines of credit, auto loans, or for other purposes. Each loan has an associated interest rate; higher risk loans typically carry higher rates. The interest rate charged directly flows to interest revenue, the higher the interest charged and more volume of loans, the higher the associated interest revenue. Despite mortgage loan interest rates being considerably lower than interest rates on consumer loans, the size and repayment terms of the loan make a large difference. The stock of loans resides on the balance sheet as an asset.

Net interest income increases as the gap between interest revenues and interest expenses widens. As interest rates rise banks often benefit from the margin widening as it did in 2022, especially as asset volumes increased. In the third quarter of 2022, net interest income was \$16.9 billion, largely a result of interest rates increasing quickly. Net interest income was highest in 2025 as interest rates remained comparatively elevated. Despite a couple moderate declines in the policy interest rate in 2025, interest expenses fell at a faster rate than interest revenues.

Chart 2
Net interest income



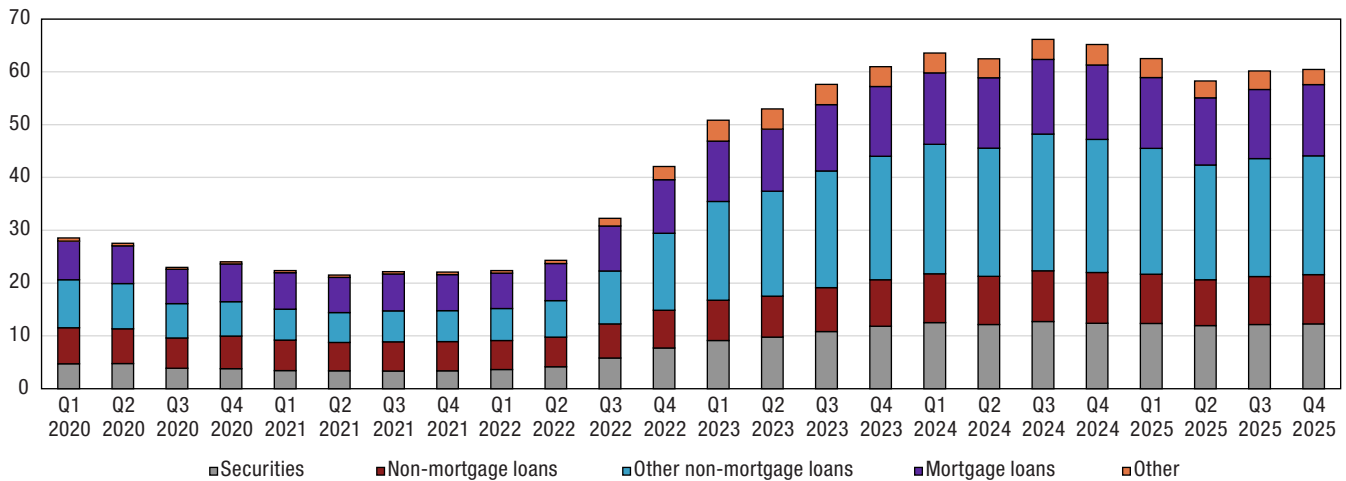
Source: Quarterly Survey of Financial Statements, author's calculations.

As interest rates rose, both interest revenue and interest expense increased

Interest revenues and expenses declined during the COVID-19 pandemic before rising sharply, with the most pronounced increases occurring between the third quarter of 2022 and the third quarter of 2024. This growth closely followed changes in the policy interest rate, which remained low during the pandemic, rose sharply from mid-2022 to early 2023, and remained elevated through 2024 and 2025. The policy interest rate is the determining factor in how large interest revenues and expenses will be as they are directly linked to the cost of borrowing (amount charged to consumers on loans) and the rate paid on deposits. Interest revenue has increased from 2020 as renewals come due at higher rates and variable rate mortgages adjust to market conditions. Non-mortgage loans revenue has risen most significantly. Typically, non-mortgage loans have higher interest rates compared to mortgage loans.

Chart 3
Interest revenue

billions of Canadian dollars



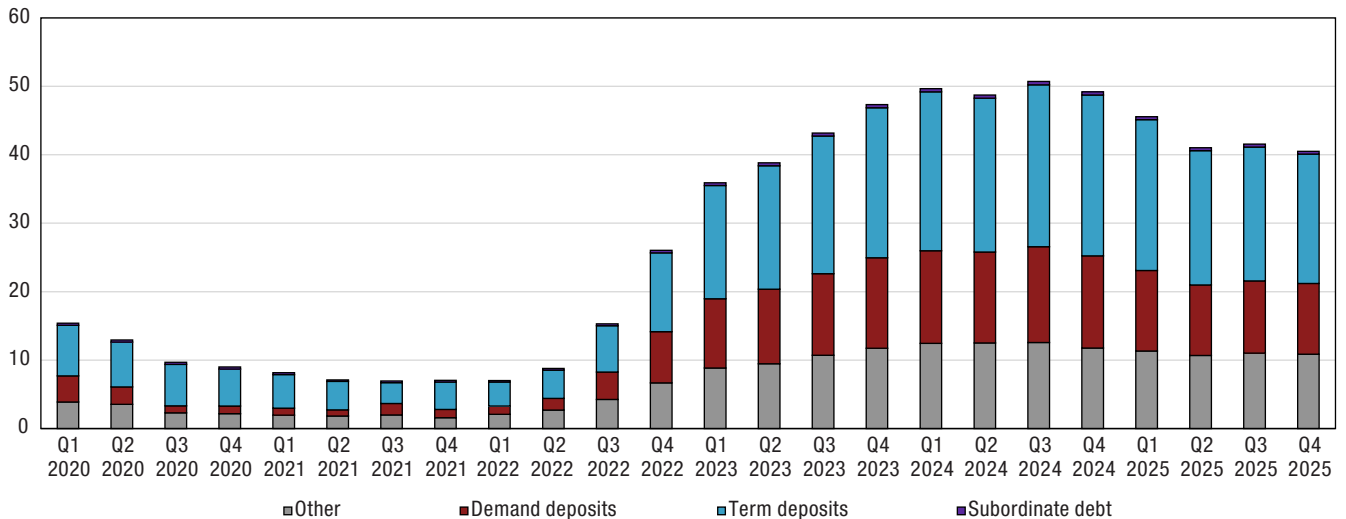
Note: See appendix B for data descriptions.

Source: Quarterly Survey of Financial Statements, Statement of Comprehensive Income, Retained Earnings and AOCI (P3) Big Six, author's calculations.

Typically fixed-term deposits comprise the majority of interest expenses, as they have higher interest rates and are locked in for some time period. Demand and notice deposits have increased considerably since 2020, peaking in quarter three 2023 and tapering off marginally across 2025. Interest expense is also impacted by the overall balance of deposits.

Chart 4
Interest expense

billions of Canadian dollars



Note: See appendix B for data descriptions.

Source: Quarterly Survey of Financial Statements, Statement of Comprehensive Income, Retained Earnings and AOCI (P3) Big Six, author's calculations.

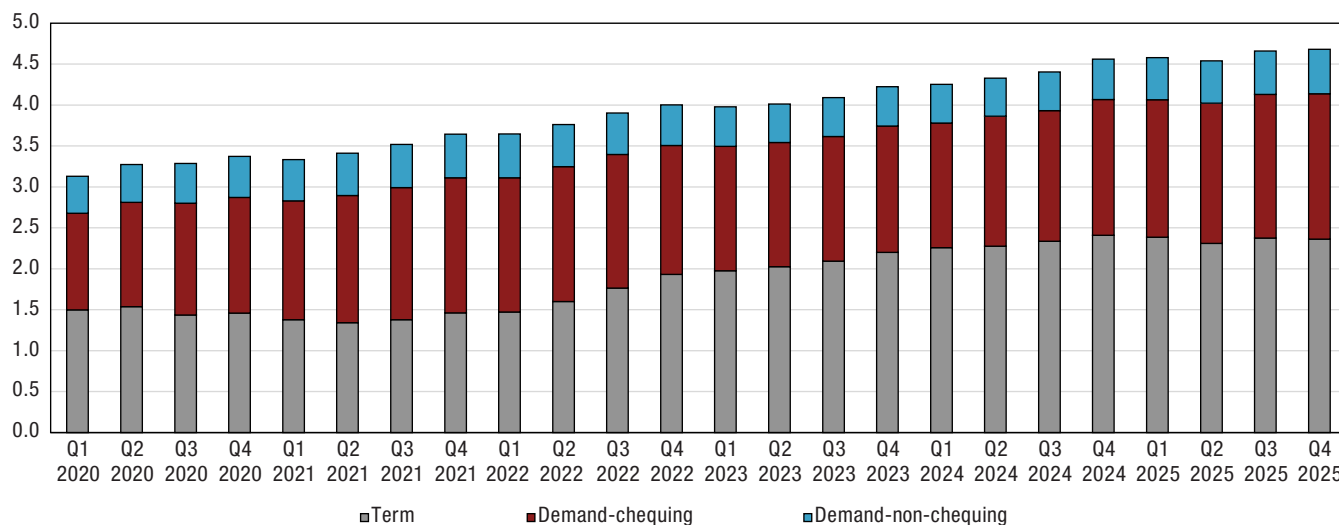
The differential between the interest rate charged on loans and rate paid on deposits can also be described through the net interest margin (NIM). NIM is calculated as a percentage - on average earning assets.¹⁹ As with any profit margin, the larger the margin the more income is generated per dollar. A typical net interest margin, using quarterly report data from 2020 to 2025 ranged from 1.5% to 1.7%²⁰ in most cases. Bank NIMs are thin compared to other industry margins; however, they are applied to a significant volume and net-interest income typically comprises 40-60% of a bank's income. Generally, rising interest rates is positive for banks NIM as their balance sheets are assets sensitive, meaning assets (loans) reprice faster than liabilities (deposits). For example, variable rate mortgages adjust quickly, whereas some deposits such as GICs may be locked in at older rates.

The total stock of deposits and loans has increased since 2020, partially attributable to consumer habits, economic stimulus and asset appreciation

The total stock of deposits increased from 2020 to 2025 as savings increased and as interest rates rose, term deposits became more attractive. About half of total deposits are retail and commercial deposits with the remainder coming from wholesale funding.²¹ Wholesale funding in most cases comes from institutional investors.²² An increase in the stock of loans and deposits also leads to higher interest revenues and expenses, even when interest rates remain unchanged. Overall mortgage and non-mortgage loans, including home equity lines of credit (HELOCs) also increased from 2020 to 2025 supported by increased liquidity from pandemic-related stimulus, housing market appreciation, and higher prices on goods and services. Non-mortgage loans saw some decreases in quarter two 2020 and remained lower into quarter one 2021, partially a result of lockdowns and travel restrictions leading to consumers reducing debt, bolstering their savings and spending less. Quarter three 2021 non-mortgage loans began increasing as goods and services became more costly and many began relying on credit more heavily.

Chart 5.a
Deposits

trillions of Canadian dollars



Source: Quarterly Survey of Financial Statements, author's calculations.

19. Royal Bank of Canada Annual Report 2025

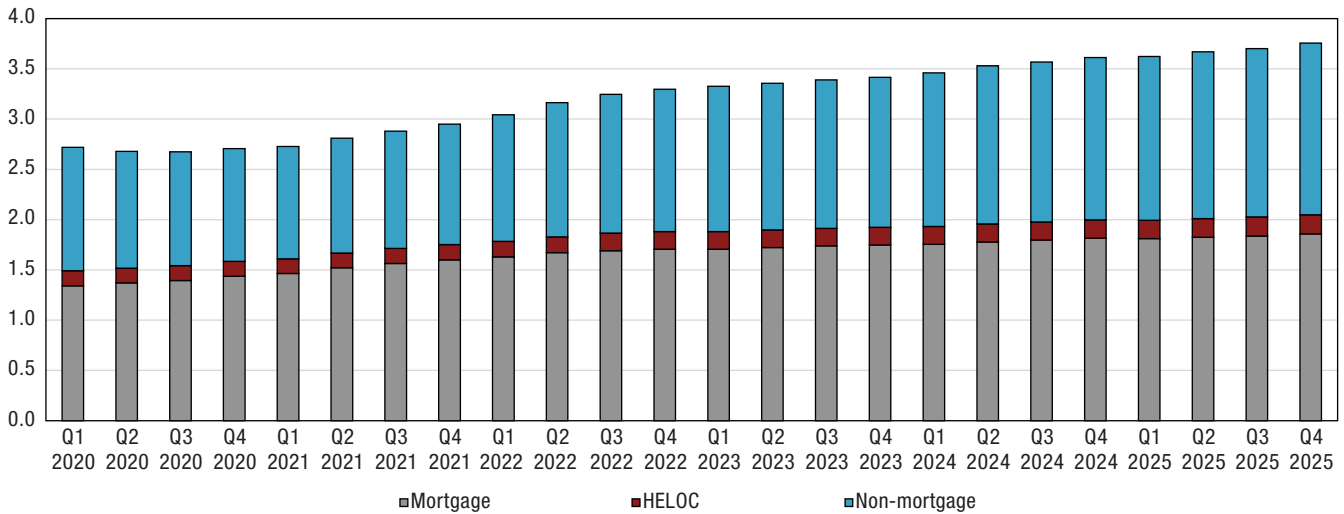
20. Data compiled from Big Six financial statements.

21. Canada: Financial System Stability Assessment-Press Release and Staff Report; IMF Country Report No. 25/220; July 1, 2025

22. Wholesale Funding of the Big Six Canadian Banks - Bank of Canada

Chart 5.b
Loans

trillions of Canadian dollars



Source: Quarterly Survey of Financial Statements, author's calculations.

Trading related activities and service fees drive non-interest income

Non-interest income in wealth management mainly comprises investment management and custodial fees, mutual fund revenue and securities brokerage commissions. Typically, the primary contributor to non-interest income is investment management and custodial fees. Investment management and custodial fees are generated by the bank offering discretionary services to individuals and institutional investors. Investment management and custodial fees are generally based on net asset values based on a portfolio of clients and tend to rise as higher fee-based client assets increase reflecting market appreciation and net sales.²³

Banks act as intermediaries and generate trading revenue by buying and selling equities and fixed income securities, among other financial instruments. Banks earn a bid-ask spread by brokering financial instruments. Such transactions occur in the short term, typically within seconds or minutes but can be days, weeks or months in some cases. Higher trading volume generally supports higher trading revenues, as buyers and sellers are transacting in the market more frequently. Trading volumes in bond markets have increased²⁴ more than in equities²⁵ since 2020. In general, trading revenues tend to be higher during times of volatility, however uncertainties may impact market performance.²⁶ Total non-interest income was lower in 2020, especially in the second and fourth quarter, impacted by the pandemic onset and uncertain conditions. Overall, trading revenues increased as a percentage of total non-interest income from 2020 to 2025. Trading revenue, after gains and losses, was negative in the third quarter of 2022, mainly reflecting conditions in fixed income markets amid rapidly rising interest rates. The same factors that contributed to comparatively higher net interest income in the third quarter of 2022 exerted downward pressure on non-interest income. Total non-interest income was highest in 2025, largely a result of trading related income being higher in 2024 and 2025 due to favorable conditions coupled with volatility.

Additionally, banks generate revenues by managing mutual funds, issuing securities and through underwriting services. Underwriting services often include aiding corporations or governments in selling equity or bond issuances. Service charges on deposit accounts, and credit and debit card service fees also impact non-interest income, albeit to a lesser extent. Mergers, acquisitions, and equity sales, or more specifically the gains or losses, can impact non-interest income and are sometimes included in the other category. Typically, these transactions are ad-hoc and non-recurring.²⁷

23. [Royal Bank of Canada Annual Report 2025](#)

24. [Financial Stability Report—2024 - Bank of Canada](#) – Chart 8, Chart 3-A, Chart 3-B

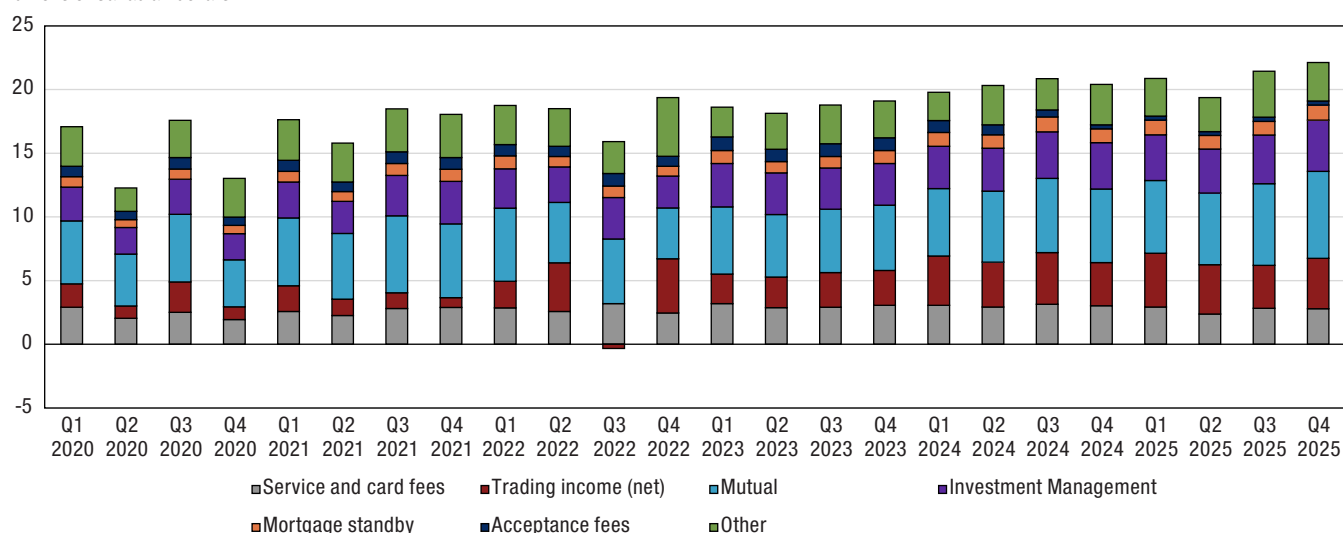
25. Using the TSX/S&P as a proxy to the equities market in Canada.

26. [BMO Financial Group Annual Report 2025](#)

27. Large non-recurring gains and losses on sales, mergers, and acquisitions are removed where non-interest income for the industry is impacted. For example, TDs sale of Charles Schwab was removed as a one-off increase, whereas RBCs acquisition of HSBC is retained as the transaction is a redistribution within the banking industry.

Chart 6
Non-interest income

billions of Canadian dollars



Notes: See appendix B for data descriptions.

Manually adjusted Q2 2025 by negative \$8.6 billion for one time transaction of gain on sale of Charles Schwab shares as TD sold its remaining equity investment. TD Bank Group Reports Second Quarter 2025 Results - May 22, 2025.

Source: Quarterly Survey of Financial Statements, Statement of Comprehensive Income, Retained Earnings and AOCI (P3) Big Six, author's calculations.

Impacting both net interest income and non-interest income from June 2023 to June 2024 banks transitioned from the Canadian Dollar Offered Rate (CDOR) to the Canadian Overnight Repo Rate Average (CORRA)²⁸ (appendix A.1).

Provisions and allowances for credit losses increase with risk, most provisions are non-mortgage loans

PCLs can be disaggregated into, impaired (Stage 3) PCLs and performing (Stage 1 and 2)²⁹ PCLs.³⁰ Stage 1 and 2 PCLs are model driven based on economic assumptions such as the unemployment rate, and the ability for consumers to make regular payments on their debt obligations. Stage 1 and 2 loans are currently in good standing; however, there is an associated probability a portion of them will become impaired in the future. Stage 1 and 2 are reserves and can be increased or decreased as credit quality uncertainty changes. Stage 3 PCLs are loans that have typically missed payments, are assumed to default, and considered credit impaired. Commonly about 90-95% of stage 3 PCLs are non-mortgage loans. For stage 1 and 2 PCLs the majority are also non-mortgage loans; however, the proportions fluctuate more depending on economic conditions. It's not uncommon for stage 1 and 2 PCLs to be comprised of 25-30% mortgage loans. In general, an increase in PCLs would indicate worsening economic outlook and deteriorating credit quality, especially if impaired PCLs are rising at a faster pace than performing PCLs. If PCLs decrease the opposite assumption applies, meaning banks are putting less aside, as in preparing for fewer consumers to default or recovering more compared to write-offs. The PCL (impairment charge) shows up on the income statement, whereas the total accumulation of provisions appears on the balance sheet, called the allowance for expected credit loss (ACL). The change in PCLs can be derived as:

$$PCL = ACL_{Ending} - ACL_{Beginning} + write\ off s - recoveries + other$$

On the balance sheet, typically about 75% of the ACL balance are stage 1 and 2, and about 25% are stage 3. In general ACLs trend higher under similar conditions to PCLs, as when PCLs increase this in turn increases the total accumulation of ACLs, provided that write-offs exceed recoveries. In the third quarter of 2024, total

28. [Transitioning Loans from CDOR to CORRA – Best Practices](#)

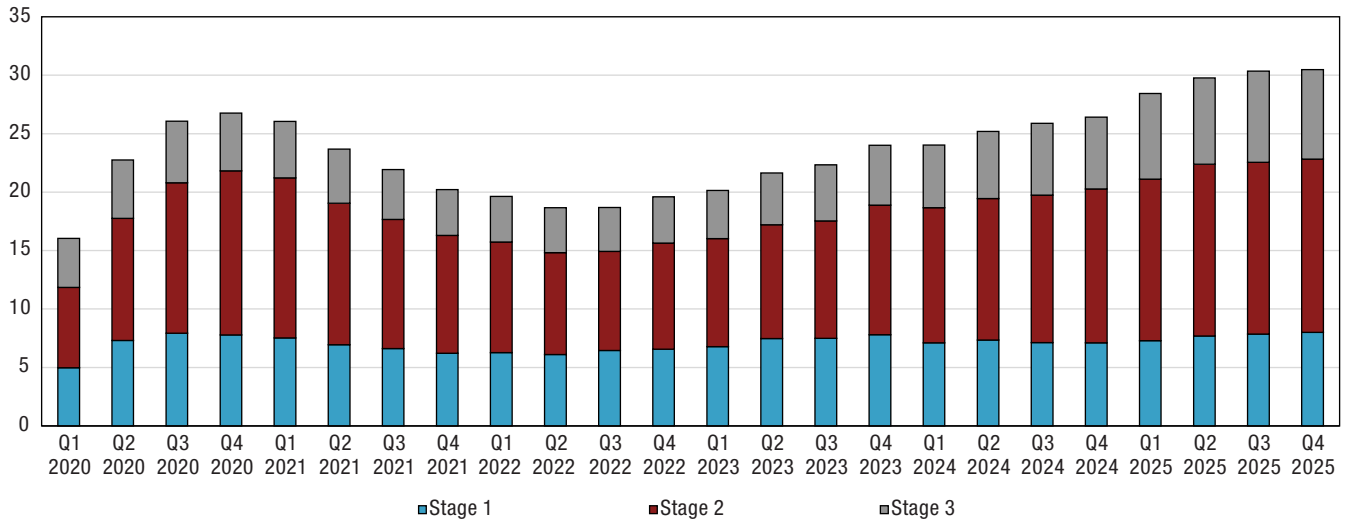
29. There is a notable accounting difference between stage 1 and stage 2. There is no disaggregation in our data source between stage 1 and 2.

30. [IFRS 9 and expected loss provisioning – Executive Summary](#)

ACLs surpassed the Covid-19 pandemic high and have trended upwards since, partially a result of tariff risk uncertainties increasing stage 1 and 2, and being realized through higher stage 3 impairments.

Chart 7
Allowance for expected credit losses

billions of Canadian dollars



Source: Allowances for Expected Credit Losses (E3) Big Six, author's calculations.

Pandemic-driven risk in 2020 and tariff uncertainty led banks to raise their provisions for credit losses as households were constrained

PCLs grew significantly during the Covid-19 pandemic, with the largest quarterly increase in the second quarter of 2020 at more than \$7 billion, mainly a result of stage 1 & 2 PCLs.³¹ It should be noted however that PCLs may have been initially exacerbated by the forward-looking aspects of the IFRS-9 credit model accounting standards beginning in 2020.³² The unemployment rate increased substantially during the onset of the Covid-19 pandemic. Unemployment is directly factored into PCL decisions,³³ as consumers may alter credit use patterns, be more financially constrained, and unable to maintain making regular debt payments. As the pandemic risk decreased so did PCLs. Additionally, government subsidies and alternative payment options were offered, which helped reduce and delay non-payments. Many of these options wore off by late 2022 and banks began increasing PCLs once again, as inflation³⁴ was high, interest rates were rapidly increasing and households financial burdens were rising. The increase through 2024 and 2025 also reflects tariff uncertainty as economic conditions became less stable. In 2024 and 2025 Stage 3 PCLs increasingly became a larger portion of total PCLs. As of 2025, according to the International Monetary Fund (IMF) financial system stability assessment, Canada has the lowest level of non-performing (stage 3) loans as a percentage of total gross loans of the G7 countries.³⁵

31. Stage 1 & 2 are negative when expected losses were higher than actual losses and were written down.

32. [IFRS 9 and covid-19—Accounting for expected credit losses](#)

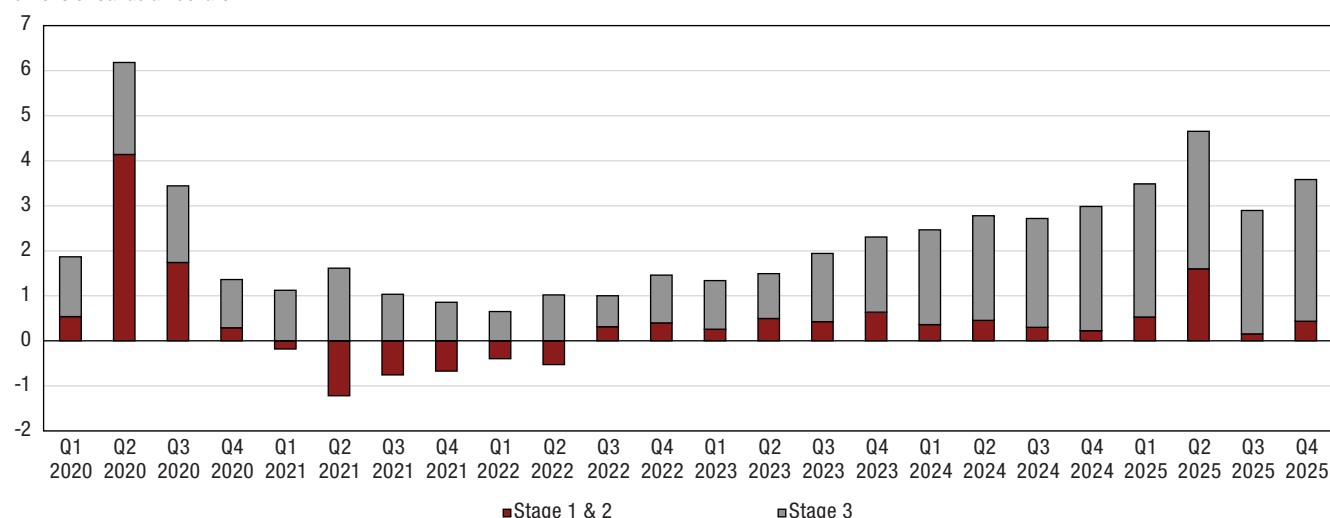
33. [Handbook: Credit impairment](#)

34. The consumer price index (inflation) peaked in June 2022 at 8.1%. [Price trends: 1914 to today](#)

35. [Canada: Financial System Stability Assessment-Press Release and Staff Report](#)

Chart 8
Provisions for credit losses

billions of Canadian dollars

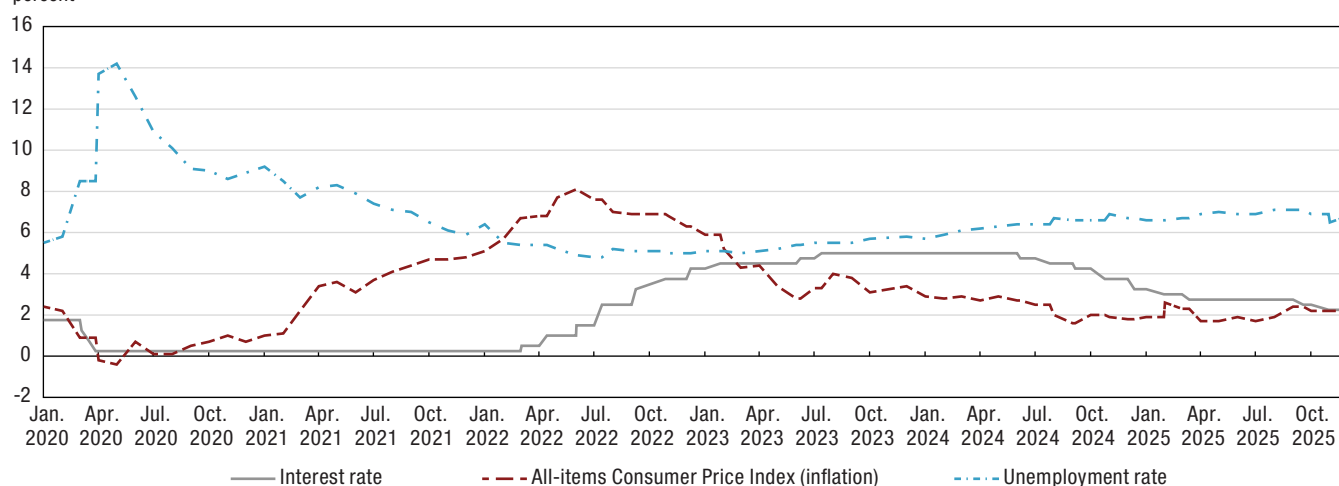


Source: Quarterly Survey of Financial Statements, Office of the Superintendent of Financial Institutions, author's calculations.

The rising cost of goods and services also impacted households' ability to make debt payments, coupled with higher cost of borrowing, impacted by interest rates. This has a large effect on mortgages as due to their size, even small changes in interest rates can significantly alter affordability. This combined with rising inflation can increase a borrowers gross debt service (GDS) and total debt service (TDS) ratio. The GDS and TSD ratios include additional costs³⁶ associated with homeownership and other debt obligations to ensure borrowers have the means to make regular debt payments. There is a direct relationship between interest rates and inflation, as interest rates are used as a monetary policy tool to control inflation.³⁷

Chart 9
Inflation rate, unemployment rate, policy interest rate

percent



Note: Reference dates align with the effective date of Bank of Canada policy interest rate changes. Reference dates for CPI (all-items) and the unemployment rate are set to the first day of the reference month and do not reflect the actual Statistics Canada release dates.

Source: Consumer Price Index, Labour Force Survey, Bank of Canada.

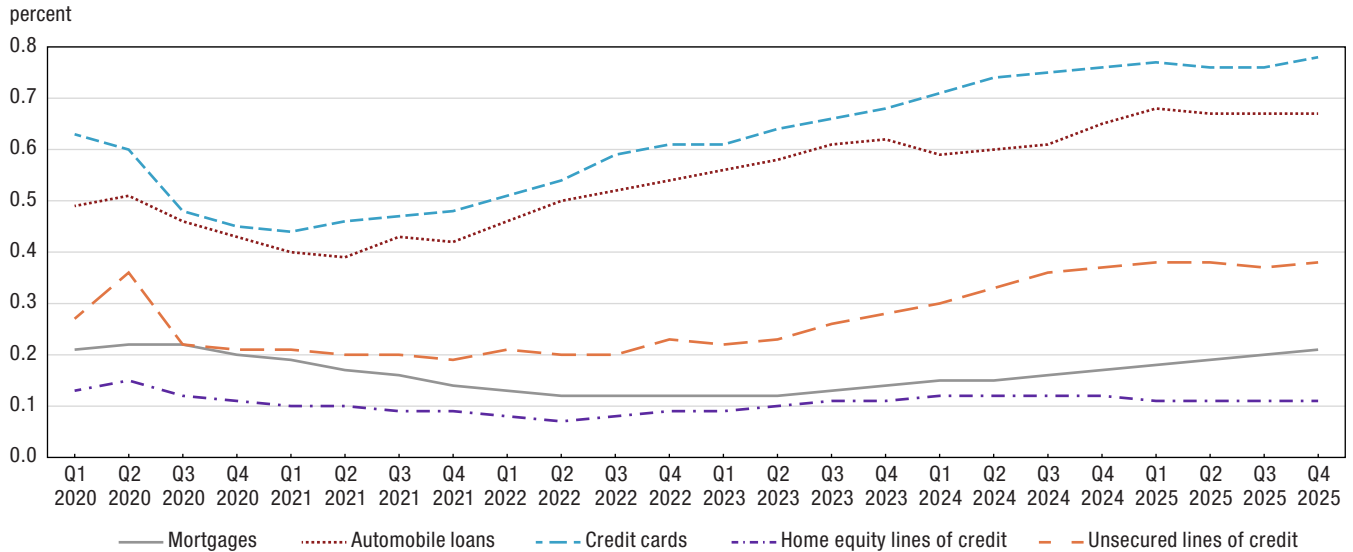
36. Calculating GDS / TDS | CMHC

37. Monetary policy - Bank of Canada

Banks monitor non-payment closely as it's an early signal of credit risk changes

Arrears are commonly defined as payments that are at least 90 days overdue,³⁸ and although extremely important as an economic indicator, are a considerably small portion of total loans.³⁹ This is especially true for mortgage loans. Mortgage loans are secured by the property itself, and the associated interest rate reflects the lower level of risk assumed by the bank compared with other types of loans. Credit cards for example incur much higher interest rates and have comparatively higher arrears. If arrears are increasing it indicates credit quality is deteriorating. Banks also monitor 30 and 60 days overdue to assess broader trends and make necessary adjustments.

Chart 10
Share of loans in at least 90 days arrears



Source: Bank of Canada.

Since the Covid-19 pandemic the volume of both non-mortgage loans and mortgage loans have risen, with especially strong growth in uninsured mortgages, driven by higher home prices. Despite this, arrears have not fluctuated significantly in most cases. Business loans however are a bit of an exception, bankruptcies spiked in the first quarter of 2024, largely for businesses who received Canada Emergency Business Account (CEBA) loans during the pandemic.⁴⁰ It should however be noted that arrears and bankruptcies are not synonymous terms, as arrears are a measure of financial stress but are reversible, whereas bankruptcy⁴¹ is a legal process.

Regulatory minimums on mortgage loans help constrain arrears

Loans, in particular residential mortgage loans and the associated interest revenue are a significant contributor to net-interest income for the banks. Mortgages incur regulations to safeguard financial stability. Insured and uninsured mortgages have similar but not identical requirements. Overall, the mortgage guidelines⁴² ensure strong underwriting standards and risk management practices to reduce the risk of non-payment, which can have an impact on the banks, individual consumers, and the broader financial system. The general idea is to reduce risk of arrears as borrowers are better equipped to make timely payments in the event of a negative impact on their finances or broader economic trends deteriorating. The gross debt service (GDS) and total debt service (TDS) ratios are also constrained, particularly for insured mortgages, maximum GDS is 39% and maximum TDS is 44%.⁴³ New mortgages and refinancings with a debt service ratio greater than 25%, meaning a quarter or more

38. [Mortgages in arrears in Canada – what the numbers mean](#)

39. [The evolving landscape of Canadian lending: Key trends in mortgage and non-mortgage loans](#)

40. [Borrowing, repayments and bankruptcies by industry: Results from the Canada Emergency Business Account program](#)

41. [Bankruptcy and Insolvency Act](#)

42. [Residential mortgage underwriting practices and procedures – Guideline \(2017\) - Office of the Superintendent of Financial Institutions](#)

43. [Public consultation on guideline B-20: Residential Mortgage Underwriting - Office of the Superintendent of Financial Institutions](#)

of the household's income is going towards their mortgage, property taxes and other associated costs are considered vulnerable by the Bank of Canada.⁴⁴ The debt service ratio rose steeply as house prices increased significantly following the Covid-19 pandemic, peaking at a median of 20.9% in the fourth quarter of 2023, a period in which over one-third of new mortgages also exceeded the 25% vulnerability threshold, double the 2019 share. Both measures have since declined, though they remain modestly above pre-pandemic levels. The banks must also monitor their entire portfolio of mortgages. Enhanced in 2025, the loan-to-income (LTI) regulations⁴⁵ help limit overall credit risk.

The guidelines have evolved over time and continue to be reviewed and revised as economic conditions change. The bulk of the changes have occurred since 2008, triggered in part by the financial crisis and need for liquidity to ride out short term volatility despite being solvent. Regulations have been enhanced since, many of which were heightened again in 2020 due to the Covid-19 pandemic. Despite the volatility in 2020, arrears were quite stable, especially compared to historical rates.⁴⁶

Regulators also keep a keen eye on the percentage of mortgages up for renewal each year, to monitor an increase or decrease in monthly payment to assess broader market risks. It's common for borrowers to finance with a five-year, fixed interest rate. In general, as interest rates rise and affordability is challenged, borrowing becomes more constrained. Despite this, arrears remain moderate and stable, reflecting a combination of factors, including regulations. Out of all mortgage holders, 33.3% are expected to see an increase in payment in 2026 as renewals come due, compared with 18.3% seeing an increase in 2025.⁴⁷

Banks are required to hold a certain ratio of quality capital and maintain liquidity adequacy to ride out short and long-term volatility

Banks must maintain certain minimum capital adequacy requirements.⁴⁸ The primary metric is the Common Equity Tier 1 (CET1) ratio. The CET1 measures financial strength and the bank's ability to absorb losses while remaining operational. As of 2013 Basel III international regulatory framework for banks⁴⁹ requires a CET1 of 4.5%, and conservation buffer (CCB) CET1 of 2.5% which OSFI upholds, in addition to a domestic stability buffer (DSB) CET1 for the Big Six banks of 3.5%,⁵⁰ and 1% surcharge, effectively requiring a minimum total CET1 of 11.5%. Banks were required to be compliant at 11.5% by November 2023; however, banks typically target higher levels. As of October 2025, OSFI recorded an average of 13.6%⁵¹ CET1 for the banks. In June 2026, OSFI lowered the DSB from 3.5% to 3.0% (narrowing its range to 0–3%), reducing the total minimum CET1 requirement to 11.0%, with the Big Six averaging 13.5% CET1 at that time,⁵² the first change to the DSB level since it was set at 3.5% in June 2023.

OSFI publishes official rate decisions each June and December, adjusting rates, namely DSB as needed, guided by current economic conditions and financial trends. The total CET1 ratio has largely trended upward, mainly a result of DSB increases, except for the dip in March 2020, a direct result of the Covid-19 pandemic. OSFI decreased the rate to reduce operational stress, in turn increasing lending capacity by \$300 billion.⁵³

44. [Financial stability indicators - Bank of Canada](#)

45. [Loan-to-income limits for uninsured mortgage portfolios - Office of the Superintendent of Financial Institutions](#)

46. [Financial stability indicators - Bank of Canada](#)

47. [How will mortgage payments change at renewal? An updated analysis - Bank of Canada](#)

48. [Capital Adequacy Requirements \(CAR\) \(2024\) - Chapter 1 – Overview of Risk-based Capital Requirements - Office of the Superintendent of Financial Institutions](#)

49. [Basel III: international regulatory framework for banks](#)

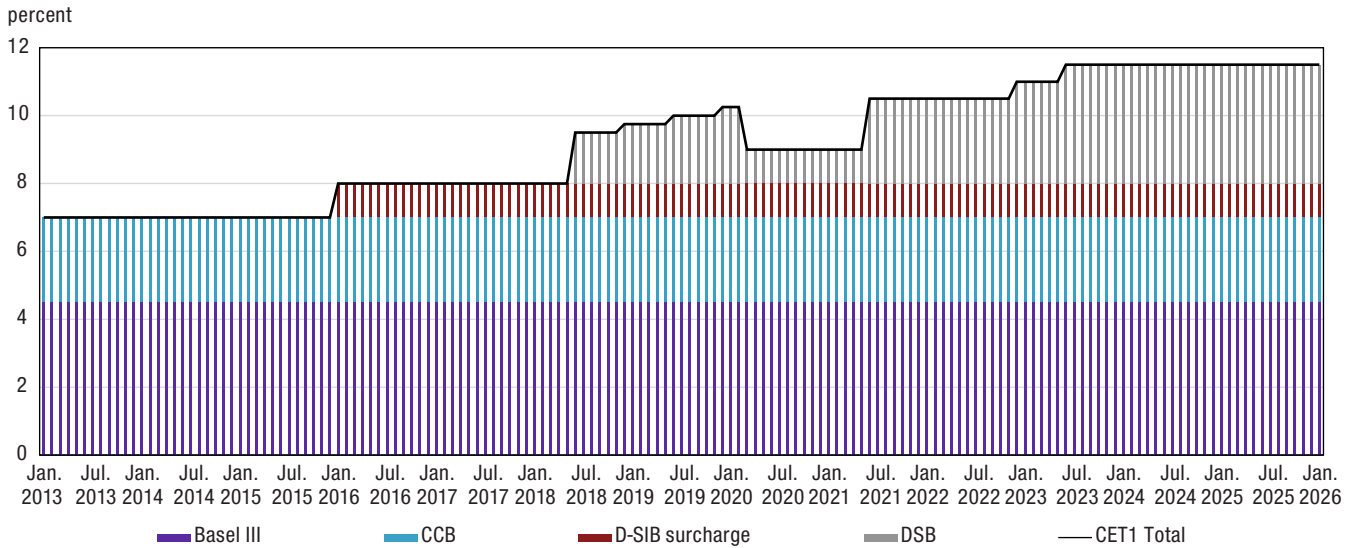
50. [OSFI holds Domestic Stability Buffer at 3.5%, reflecting resilience in a changing risk environment - Office of the Superintendent of Financial Institutions](#)

51. [Domestic stability buffer - Office of the Superintendent of Financial Institutions](#)

52. [OSFI lowers Domestic Stability Buffer to 3.0% so Canada's largest banks can deploy more capital - Office of the Superintendent of Financial Institutions](#)

53. [OSFI announces regulatory flexibility to support COVID-19 efforts - Office of the Superintendent of Financial Institutions](#)

Chart 11
Minimum Common Equity Tier 1 ratio



Source: Office of the Superintendent of Financial Institutions, author's compilation.

The CET1 ratio is calculated as CET1 capital⁵⁴ divided by risk-weighted assets (RWA). CET1 capital includes the highest regulatory capital⁵⁵ that can immediately absorb losses, such as common equity, and retained earnings, less goodwill and other intangibles.⁵⁶ RWA includes the bank's exposure to credit risk, market risk, and operational risk. The riskier the assets the higher the RWA, consequently a higher RWA results in a lower CET1 ratio. To increase the CET1 ratio a bank would need to increase quality capital or decrease risk.

The leverage ratio also aims at assessing the bank's capital adequacy. Banks are required to maintain a minimum leverage ratio of 3%.⁵⁷ The leverage ratio is calculated as Tier 1 capital divided by the total exposure measure. For the big six D-SIB banks the leverage buffer is set at 50% of the 1% surcharge of RWA, meaning the minimum leverage ratio is 3.5%. Additionally, banks have total loss absorbing capacity (TLAC) requirements⁵⁸ to ensure they can withstand losses in more extreme times.

To survive a liquidity stress scenario banks are required to have a liquid coverage ratio (LCR) greater than 100% by holding enough high-quality liquid assets (HQLA) to survive at least 30 days.⁵⁹ There are levels of HQLA based on the risk and liquidity of the assets. The LCR is calculated as the stock of HQLA plus eligible non-operational demand and overnight deposits divided by total net cash outflows for the next 30 calendar days. This means banks should be able to easily convert assets to cash⁶⁰ in the event of extreme volatility to remain operational. Banks also comply with the net stable funding ratio (NSFR) to ensure their funding profile aligns with the composition of their assets and exposures.⁶¹ NSFR helps maintain stable funding to meet requirements of up to 1-year. This is not an exhaustive list of regulatory requirements, numerous other minimum standards are in place, but the goal remains: preserve and monitor economic and financial system stability in an ever-changing climate.

There is a tradeoff in some cases between resilience and profitability, CET1 and return on equity (ROE) for instance. ROE is calculated as net income divided by average shareholders' equity. A higher ROE is favorable as it signals how efficiently a company generates profits from shareholders' equity. When a bank is required to hold more capital (higher CET1), its equity base increases which increases the denominator of ROE, reducing ROE as the bank is operating with lower leverage. This is not necessarily a structural issue, but regulatory requirement

54. Capital Adequacy Requirements (CAR) (2026) – Chapter 2 – Definition of Capital - Office of the Superintendent of Financial Institutions

55. Common Equity Tier 1 (CET1) - Office of the Superintendent of Financial Institutions

56. Capital Adequacy Requirements (CAR) (2026) – Chapter 2 – Definition of Capital - Office of the Superintendent of Financial Institutions

57. Leverage Requirements - Guideline (2023) - Office of the Superintendent of Financial Institutions

58. Total Loss Absorbing Capacity (TLAC) – Guideline (2018) - Office of the Superintendent of Financial Institutions

59. Liquidity Adequacy Requirements (LAR) (2025) Chapter 2 – Liquidity Coverage Ratio - Office of the Superintendent of Financial Institutions

60. Cash in this case refers to anything that has significant liquidity, retains its value and could be quickly and easily converted to a liquid asset such as cash.

61. Liquidity Adequacy Requirements (LAR) (2025) Chapter 3 – Net Stable Funding Ratio - Office of the Superintendent of Financial Institutions

changes can directly impact profitability measures. Comparing profitability metrics between quarters or years should take regulations into account.

Publicly traded company performance can be measured using stock price and company income can be impacted through dividends and share buybacks

The Big Six banks are publicly traded entities, meaning their shares can be traded on an exchange such as the Toronto Stock Exchange (TSX). The price listed on the public exchange is the price per one common share outstanding. Individuals, and institutional investors can purchase and sell the shares provided someone else is willing to sell or purchase the shares on the other side of the transaction. Banks can with some limitations buy and sell the shares of other banks as well as trade their own stock. A buyback is when the bank uses its own capital to repurchase its own common shares. The shares also have a dividend attached, which is a nearly guaranteed return the company will pay the owner of the share, just for holding onto it. In 2020, OSFI set stricter guidelines on dividends, share repurchases and executive compensation,⁶² mainly brought on by pandemic risks. This limited the cash outflows and increased capital retention. Late 2021 the guidance was unwound.⁶³ There are additional profitability metrics for publicly traded companies, for example, price to earnings metric; however, this is typically more of a comparative metric. Share price performance can also be an indicator of how efficiently a company is generating profits, especially compared to its peers.

Canada's banking industry has become slightly more consolidated and is well positioned to cope with a period of economic stress

The Big Six currently hold more than 90% of the market share. Within the banking industry there have been numerous mergers and acquisitions (M&A) impacting the banking industry as well as other industries. Despite several billion-dollar transactions occurring between 2020 and 2025, the general market structure has not changed significantly. The market structure has not changed significantly in decades. In 2024 the Big Six gained less than 2% market share,⁶⁴ followed by a gain of less than 1% in 2025,^{65,66} becoming moderately more consolidated.

In aggregate, the Big Six Banks in Canada are integral to the functioning and resilience of Canada's financial and economic systems.⁶⁷ Their highly regulated nature ensures that they have the means to provide this stability while generating profits. The regulatory requirements discussed throughout this paper are not meant to be an exhaustive list, but to highlight some of the most impactful ones. Banks are subject to many other regulatory requirements, and such requirements continue to evolve over time. Measures for climate risk, operation risk and model risks, tax measures, anti-money laundering, and province specific consumer protections, among numerous others must be followed.

The concentrated nature of Canada's banking industry has been associated with a high degree of stability,⁶⁸ as demonstrated during the 2008 financial crisis and Covid-19 pandemic.⁶⁹ At the same time, research has examined whether this concentration is associated with reduced price competition, with studies noting that consumers may experience higher fees and borrowers and businesses may face more restrictive credit conditions than counterparts in more fragmented banking systems.⁷⁰ These observations reflect an ongoing policy debate; one increasingly tested by external shocks and the growing presence of fintech⁷¹ and non-bank competitors.⁷²

62. [Statement from the Superintendent on Canadian bank capital and dividends - Office of the Superintendent of Financial Institutions](#)

63. [Statement by the Superintendent on the lifting of expectations on Dividends, Share Repurchases and Executive Compensation - Office of the Superintendent of Financial Institutions](#)

64. [Government of Canada approves sale of HSBC Bank Canada to the Royal Bank of Canada with conditions - Canada.ca](#)

65. [National Bank completes acquisition of Canadian Western Bank | CWBank Group](#)

66. [Agreements announcement | Help and FAQ | Laurentian Bank](#)

67. [Financial Stability Report—2025 - Bank of Canada](#)

68. [Competition, Concentration and Stability in the Banking Sector \(EN\)](#)

69. [Macroeconomic developments and policy challenges: OECD Economic Surveys: Canada 2025 | OECD](#)

70. [Increasing Competition and Efficiency in Canadian Banking Services](#)

71. [CBA submission on Strengthening Competition in the Financial Sector](#)

72. [Non-bank financial intermediation: Canada's submission to the 2024 global monitoring report - Bank of Canada](#)

Appendix A Benchmark interest rate transition

CORRA is the overnight risk-free rate that closely tracks the Bank of Canada's policy rate and unlike CDOR does not include a bank credit risk premium, meaning CORRA rates are generally lower than CDOR rates.⁷³ The transition mainly affects derivatives,⁷⁴ but can also affect other asset classes such as loans, bonds and securities.⁷⁵ The changes can alter the composition of reported income between net interest income and non-interest income but preserves the economics that would have existed under CDOR.⁷⁶ For example, bankers' acceptances (BAs) will no longer be available after the transition,⁷⁷ meaning acceptance fees within non-interest income will be reduced and BAs presented as a liability on a bank's balance sheet will go to zero. Net interest income can rise and non-interest income can decline as the fees are now classified differently.⁷⁸ Overall, excluding timing discrepancies the effect to NIBT is neutral. In 2021 banks transitioned from the LIBOR rate to CDOR, no new transactions use LIBOR as of December 2021.⁷⁹ LIBOR, like CDOR included a risk premium.

73. [Canadian interest rate benchmark reform](#)

74. A derivative is a security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. [Financial Derivatives | Position Paper](#)

75. [CARR's Review of CDOR: Analysis and Recommendations](#)

76. [CDOR Transition FAQs](#)

77. [Update on Benchmark Rate Reform | Article](#)

78. [CIBC Annual Report 2025](#)

79. [Transition from LIBOR - Office of the Superintendent of Financial Institutions](#)

Appendix B Data descriptions⁸⁰

Non-interest income:

Trading net = trading income net of gains (losses) on instruments held for other than trading purposes.

Service charges and card fees = service charges on retail and commercial deposit accounts, and credit and debit card service fees.

Mutual, investment, underwriting, and securities commissions = mutual (investment) fund fees, underwriting fees on new issues, and securities and commissions and fees.

Investment management and custodial fees = investment management and custodial services fees.

Mortgage and standby fees = mortgage fees, standby, commitment and other loan fees.

Acceptance fees = acceptance fees and guarantees and letters of credit fees.

Other = insurance service result, other commissions and fees, share of income (loss) of associates and joint ventures, other fees. *Calculated as total non-interest income minus all above categories.

Interest Revenue:

Securities = government securities and other securities.

Non-mortgage loans to individuals for non-business purposes = personal loan plans, credit cards, personal lines of credit, other personal.

Other non-mortgage loans = loans to brokers, dealers, government, financial institutions, reverse repurchase agreements, other loans for business purposes.

Mortgage loans = residential (insured and uninsured) and non-residential.

Other = deposits with regulated financial institutions, interest income on impaired loans, and other interest earning assets

Interest Expense:

Demand and notice deposits = government, deposit taking institutions, individuals tax sheltered and other, and others.

Fixed-term deposits = government, deposit taking institutions, individuals tax sheltered and other, and others.

Subordinate debt = interest on subordinate debt.

Other = other interest-bearing liabilities, advances from bank of Canada, liabilities of subsidiaries other than deposits, other.

80. Statement of Comprehensive Income, Retained Earnings and AOCI (P3) - Office of the Superintendent of Financial Institutions.