Motus Bank

Basel III Pillar 3 Disclosures

As at December 31, 2023

Page

	Page
Scope of Application	2
Capital Structure	2
Capital Adequacy	4
Credit Risk: General Disclosures	6
Securitization	12
Operation Risk	13

MOTUS BANK
Basel III Pillar 3 Disclosures
As at December 31, 2023

Scope of Application

This document represents the Pillar 3 Disclosures for Motus Bank ("the Bank" or "Motus") as at December 31, 2023. The disclosures produced have been prepared in accordance with the minimum requirements as set by the Office of the Superintendent of Financial Institutions ("OSFI") pursuant to the Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit Taking Institutions ("SMSB") issued on January 2022 and updated on November 2023.

As part of the Basel framework, Pillar 3 – Market Discipline builds on capital requirements and the supervisory review process by developing a set of disclosures allowing market participants to assess the capital adequacy of the Bank. Basel III is structured around 3 Pillars:

Pillar 1: Minimum Capital Requirements
Pillar 2: The Supervisory Review Process
Pillar 3: Market Discipline

The amounts disclosed are the balance sheet carrying amounts included in the financial statements of the Bank prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise noted.

Additional financial data information available at OSFI's Financial Data for Banks website: OSFI's Financial Data for Banks

Reporting Entity

Motus is a Schedule I bank under the Bank Act (Canada) (the "Act") and is regulated by OSFI. Motus is a member of the Canadian Deposit Insurance Corporation ("CDIC"), domiciled in Canada, and is headquartered at 3280 Bloor Street West in Toronto, ON. The Bank is primarily involved in the raising of funds and the application of those funds in providing financial services to customers.

Motus is a wholly-owned subsidiary of Meridian Holdco Limited, which in turn is a wholly-owned subsidiary of Meridian Credit Union Limited ("MCU"). Motus received Letters Patent of Incorporation from the Minister of Finance on October 3, 2018, and Meridian Holdco capitalized the Bank in the amount of $56.2 million on November 22, 2018. Motus received Orders to Commence and Carry on Business from OSFI on January 10, 2019.

SMSB Category Classification

Based on the criteria detailed in section III of the new SMSB Capital and Liquidity Requirements guideline, Motus is classified as a Category II SMSB. The content of the disclosures is tailored to the nature, size, and complexity of the Bank. Full qualitative disclosures are provided annually, at year-end.

Significant subsidiaries

Motus has no subsidiaries or entities for consolidation.

Capital Structure

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. Tier 1 capital includes Common Equity Tier 1 ("CET1") capital comprised of common shares, reserves, retained earnings and accumulated other comprehensive income; and Additional Tier 1 ("AT1") capital which includes qualifying additional Tier 1 capital, non-cumulative perpetual preferred shares, and regulatory adjustments. Tier 2 capital contains preferred shares, subordinated debt, and regulatory adjustments.

The Bank's Tier 1 Capital includes common shares, retained earnings and other comprehensive income. Tier 2 capital includes stage 1 and stage 2 loan allowances. The Bank currently does not hold any additional Tier 1 capital instruments; therefore, the Bank's CET1 is equal to its Tier 1 regulatory capital.

The risk-based regulatory capital ratios are calculated by dividing CET1, Tier 1 and Total capital by Risk-Weighted Assets ("RWA"). The calculation of RWA is determined by the OSFI-prescribed rules relating to on-balance and off-balance sheet exposures and includes amounts for operational risk exposure associated with the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In addition, OSFI establishes risk-based capital minimums for deposit-taking institutions. These minimums are currently set at a CET1 capital ratio of 7.0%, Tier 1 capital ratio of 8.5%, and Total capital ratio of 10.5%.

MOTUS BANK

Basel III Pillar 3 Disclosures

As at December 31, 2023

The table below provides an overview of prudential regulatory metrics under Basel III as required by OSFI.

		December 2023	September 2023	June 2023	March 2023	December 2022
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	28,917	30,356	31,964	33,178	34,143
1a	Common Equity Tier 1 with transitional arrangement for ECL provisioning not applied	28,917	30,356	31,964	33,178	34,096
2	Tier 1	28,917	30,356	31,964	33,178	34,143
2a	Tier 1 with transitional arrangements for ECL provisioning not applied	28,917	30,356	31,964	33,178	34,096
3	Total capital	29,176	30,630	32,274	33,534	34,487
3a	Total capital with transitional arrangements for ECL provisioning not applied (%)	29,176	30,630	32,274	33,534	34,487
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	76,681	79,030	81,008	80,507	83,851
4a	Total risk-weighted assets (pre-floor)	76,681	79,030	81,008	80,507	83,851
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	37.71%	38.41%	39.46%	41.21%	40.72%
5a	Common Equity Tier1 ratio with transitional arrangements for ECL provisioning not applied	37.71%	38.41%	39.46%	41.21%	40.66%
5b	CET1 ratio (%) (pre-floor ratio)	37.71%	38.41%	39.46%	41.21%	40.72%
6	Tier1 ratio (%)	37.71%	38.41%	39.46%	41.21%	40.70%
6a	Tier1 ratio with transitional arrangements for ECL provisioning not applied (%)	37.71%	38.41%	39.46%	41.21%	40.66%
6b	Tier1 ratio (%) (pre-floor ratio)	37.71%	38.41%	39.46%	41.21%	40.70%
7	Total capital ratio(%)	38.05%	38.76%	39.84%	41.65%	41.13%
7a	Total capital ratio with transitional arrangements for ECL provisioning not applied (%)	38.05%	38.76%	39.84%	41.65%	41.13%
7b	Total capital ratio (%) (pre-floor ratio)	38.05%	38.76%	39.84%	41.65%	41.13%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019)%	-	-	-	-	-
9	Countercyclical buffer requirement (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9)	-	-	-	-	-
12	CET1 available after meeting the bank’s minimum capital requirements (%)	30.71%	31.41%	32.46%	34.21%	33.72%
Basel III Leverage ratio						
13	Total Basel III leverage ratio exposure measure	220,365	230,793	245,096	243,039	247,676
14	Basel III leverage ratio (row 2 / row 13)	13.12%	13.15%	13.04%	13.65%	13.79%
14a	Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied	13.12%	13.15%	13.04%	13.65%	13.77%

The table below provides the composition of capital disclosures under Basel III as required by OSFI.

Common Equity Tier 1 Capital: Instruments and Reserves		December 2023
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	56,200
2	Retained earnings	(27,895)
3	Accumulated other comprehensive income (and other reserves)	612
6	Common Equity Tier 1 capital before regulatory adjustments	28,917
Common Equity Tier 1 Capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	-
29	Common Equity Tier 1 Capital (CET1)	28,917
Additional Tier 1 Capital: instruments		
36	Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 Capital: regulatory adjustments		
45	Tier 1 Capital (T1 = CET1 + AT1)	28,917
Tier 2 Capital: instruments and provisions		
50	Collective allowances	259
51	Tier 2 Capital before regulatory adjustments	259
Tier 2 Capital: regulatory adjustments		
57	Total regulatory adjustment to Tier 2 capital	-
58	Tier 2 Capital (T2)	259
59	Total capital (TC = T1 + T2)	29,176
60	Total risk-weighted assets	76,681
Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	37.71%
62	Tier 1 (as a percentage of risk-weighted assets)	37.71%
63	Total Capital (as a percentage of risk-weighted assets)	38.05%
OSFI Targets		
69	Common Equity Tier 1 Capital target ratio	7.00%
70	Tier 1 Capital target ratio	8.50%
71	Total Capital target ratio	10.50%

Motus is in compliance with the imposed regulatory capital requirements.

Capital Adequacy

Under Section 485(1) of the Bank Act and the OSFI Capital Adequacy Requirements Guideline, Motus must maintain minimum capital requirements to support its ongoing operations. OSFI's capital and leverage guidelines measure capital in relation to credit, market and operational risk, and provide an overall measure of the adequacy of an institution's capital. The Bank has various capital policies, procedures, and controls, including an Internal Capital Adequacy Assessment Process ("ICAAP"), which involves assessing the aggregation of risks being assumed by the organization and allocating capital to those risks. The ICAAP contains processes that include Stress Testing and Scenario Analysis in order to identify the impact of extreme but plausible events on the Bank's capital.

Motus uses the standardized approach for the measurement of credit risk for all on-balance sheet portfolios and the simplified standardized approach for all components of operational risk. Motus does not have any trading book assets or liabilities and therefore no capital is required for market risk.

The following table details the risk-weighted assets by risk type.

Risk-Weighted Assets	December 2023
Credit risk	62,209
Market risk	-
Operational risk	14,472
Total risk-weighted assets	**76,681**

The Leverage Ratio is calculated by dividing Tier 1 Capital by Total Exposure and the regulatory minimum Leverage Ratio requirement is set at 3.0%. The calculation of Total Exposure is determined by OSFI-prescribed rules and includes on-balance sheet exposures, derivatives, and off-balance sheet exposures.

The following table summarizes the Bank's Basel III Pillar 3 Leverage Ratio.

Leverage Ratio Framework		December 2023	September 2023
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	216,371	226,812
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Asset amounts deducted in determining Tier 1 capital)	-	-
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 4)	216,371	226,812
Derivative exposures			
6	Replacement cost associated with all derivatives transactions	-	-
7	Add-on amounts for potential future exposure associated with all derivatives transactions	-	-
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of rows 6 to 10)	-	-
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	39,944	39,809
18	(Adjustments for conversion to credit equivalent amounts)	(35,950)	(35,828)
19	Off-balance sheet items (sum of rows 17 and 18)	3,994	3,981
Capital and total exposures			
20	Tier 1 Capital	28,917	30,356
21	Total exposures (sum of lines 5, 11, 16, 19)	220,365	230,793
Leverage ratio			
22	Basel III Leverage ratio	13.12%	13.15%

Credit Risk: General Disclosures

Credit risk is the potential for financial loss to the Bank if a borrower or guarantor fails to meet the payment obligations in accordance with the agreed terms. Credit risk is one of the most significant and pervasive risks in the business of the Bank. Every loan, extension of credit or transaction that involves settlements between the Bank and other parties or financial institutions exposes the Bank to some degree of credit risk.

The Bank's primary objective is to create a methodological approach to credit risk assessment to better understand, select and manage exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance.

1. The responsibility for credit risk management is organization wide in scope, and is managed through an infrastructure based on: Centralized approval by the Board of Directors (the "Board"), the Credit Risk Management Policy and the Residential Mortgage Underwriting Policy including but not limited to, the following six areas:

    - Credit risk assessment, including policies related to credit risk analysis, risk rating, and risk scoring;
    - Credit risk mitigation, including credit structuring, collateral, and guarantees;
    - Credit risk approval, including credit risk limits and exceptions;
    - Credit processes focusing on documentation and administration (supported by a robust loan origination system for all lines of business);
    - Credit reviews that focus on monitoring of financial performance, covenant compliance, and any sign of deteriorating performance;
    - Credit portfolio management, including product mix, geographic, and overall risk concentration limits and risk quantification.

2. The President and CEO is delegated authority by the Board to establish a lending authority hierarchy who may, in turn, delegate limits to subordinates and lending employees throughout the organization;
3. Credit adjudication is subject to compliance with established policies, exposure guidelines, and discretionary limits, as well as adherence to established standards of credit assessment. An established Credit Management Committee ("CMC") is charged with high level oversight, including the diversification of credit exposure and geographic concentration, delinquencies, and risk attributes. CMC reviews portfolio metrics on a regular basis and will consider appropriate responses to changes therein;
4. Senior Management oversight of the following:
    - Establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing credit risk and large exposures;
    - Approval of the scoring techniques and standards used in extending, monitoring and reporting of mortgages, personal loans and lines of credit; and
5. Implementation of an ongoing monitoring process of the key risk parameters used in the Bank's credit risk models.

The following table reconciles the total gross credit exposure to the total assets per the Bank's audited financial statements as at December 31, 2023.

Reconciliation of Gross Credit Exposure to On-Balance Sheet Assets	Total	RWA
Total Gross Credit Exposure	256,096	61,756
Off-Balance Sheet Gross Credit Exposure	(39,944)	-
On-Balance Sheet Gross Credit Exposure	216,152	61,756
Individual Allowance - Other Retail	(75)	(52)
On-Balance Sheet Gross Credit Exposure (net of individual allowance)	216,077	61,704
Credit Valuation Adjustments phase-in	-	-
Other Assets (not included in Standardized Approach)	553	505
Total Assets subject to Credit Risk (net of individual allowance)	216,630	62,209
Eligible Stage 1 and Stage 2 allowances	(259)	-
Operational Risk	-	14,472
Total On-Balance Sheet Assets / Risk Weighted Assets	**216,371**	**76,681**

The breakdown of total gross credit exposure by counterparty, and by major types of exposure as at December 31, 2023 is provided in the table below:

Total Gross Exposure by Counterparty Type	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	RWA
Standardized					
Sovereign	30,200	-	-	30,200	-
Bank	22,051	-	-	22,051	5,650
Corporate	12,698	-	-	12,698	6,368
Retail Residential Mortgages	143,251	26,516	-	169,767	43,664
Other Retail (excl. SBEs)	7,952	13,428	-	21,380	6,074
Total Gross Credit Exposure	**216,152**	**39,944**	**-**	**256,096**	**61,756**

The geographic distribution of the total gross credit exposures broken down by major types of credit exposure as at December 31, 2023 is provided in the table below:

Total Gross Exposure by Geography	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	%
Standardized					
Canada	60	-	-	60	-
Ontario	123,223	-	-	123,223	57.0%
Quebec	10,199	-	-	10,199	4.7%
British Columbia	44,556	-	-	40,556	20.6%
Alberta	19,212	-	-	19,212	8.9%
Saskatchewan	1,670	-	-	1,670	0.8%
Manitoba	2,269	-	-	2,269	1.0%
Nova Scotia	7,279	-	-	7,279	3.4%
Newfoundland	964	-	-	964	0.4%
New Brunswick	2,717	-	-	2,717	1.3%
Northwest Territories	-	-	-	-	-
Nunavut	-	-	-	-	-
Prince Edward Island	1,204	-	-	1,204	0.6%
Yukon	830	-	-	830	0.4%
International	1,969	-	-	1,969	0.9%
Total Gross Credit Exposure	**216,152**	**-**	**-**	**216,152**	**100.0%**

The industry distribution of total gross credit exposure broken down by major types of credit exposure as at December 31, 2023 is provided in the table below:

Total Gross Exposure by Industry	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	%
Standardized					
Sovereign	30,200	-	-	30,200	11.8%
Bank					
Financial Services	22,051	-	-	22,051	8.6%
Corporate					
Financial Services	-	-	-	-	-
Real Estate	-	-	-	-	-
Services	-	-	-	-	-
Other	12,698	-	-	12,698	5.0%
Retail Residential Mortgages	143,251	26,516	-	169,767	66.3%
Other Retail (excl. SBEs)	7,952	13,428	-	21,380	8.3%
Total Gross Credit Exposure	**216,152**	39,944	**-**	**256,096**	**100.0%**

The contractual maturities of total gross credit exposure broken down by major types of credit exposure as at December 31, 2023 is provided in the table below:

Total Gross Exposure by Contractual Maturities	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial assets						
Cash and cash equivalents	16,380	-	-	-	-	16,380
Receivables	76	-	-	-	-	76
Investment in debt instruments	-	12,732	3,908	-	-	16,640
Investment in equity instruments	-	-	-	-	-	-
Loans	20,076	34,895	117,121	10,755	-	182,937
Derivative financial asset	-	-	-	-	-	-
	36,532	**47,717**	**121,029**	**10,755**	**-**	**216,033**

Expected credit loss measurement

IFRS 9 – Financial Instruments outlines a three-stage model for the impairment of in-scope financial assets and other off-balance sheet exposures.

- A financial asset that is not credit impaired on initial recognition is classified as 'stage 1' and continues to be monitored for changes in credit risk. Financial assets in stage 1 have a loss allowance measured at an amount equal to expected credit loss ("ECL") resulting from defaults possible over the next 12 months.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet considered to be credit impaired. Financial assets in stage 2 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life.
- If the financial instrument is credit impaired, it is moved to 'stage 3'. Similar to stage 2, financial assets in stage 3 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life. However, when a financial asset is moved to stage 3, a more detailed analysis incorporating specific characteristics of the loan (e.g. security) is undertaken.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that entities should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired at initial recognition. Their ECL is always measured on a lifetime basis (stage 3).

For the purposes of expected credit loss modelling, the Bank has segregated in-scope financial assets into product groupings with similar contractual features.

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk:

The Bank assesses a range of both qualitative and quantitative factors when determining if there has been a SICR since initial recognition. A SICR is deemed to have occurred if any of the following criteria have been met:

- The loan is 30 days past due
- External credit metrics, including rating agency and credit bureau scores, have deteriorated by an amount considered by management to be significant
- Internal metrics, such as credit utilization, delinquency, etc. may be considered collectively or in isolation for the purpose of determining whether a SICR has occurred

External credit metrics are used in this assessment. Wherever possible, the thresholds set have been aligned with those that would drive lending decisions such as loan approvals, limits, pricing, etc.

The Bank has not applied the low credit risk exemption for any financial instruments in the period ended December 2023.

Definition of default and credit-impaired assets:

The Bank's definition of default is consistent across credit management and accounting policies, with a financial instrument considered to be credit impaired when it meets one of the following criteria:

- The loan is 90 days past due
- The customer has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the customer not meeting the contractual terms of the loan
- The borrower has failed to meet the terms under which a loan has been granted (e.g. breach of financial covenants) and legal action has commenced

- Based on other objective evidence, the customer's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

The definition of default has been applied consistently across all products as well as in all aspects of the expected credit loss calculation (e.g. probability of default, exposure at default, and loss given default).

Measuring ECL – Explanation of inputs, assumptions, and estimation techniques:

Allowances for ECL are measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

The PD represents the likelihood of a customer defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs).

The EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or the remaining lifetime. For example, on revolving facilities, the Bank considers the amount that is expected to be drawn upon leading up to default. On term facilities, the Bank considers the amount it expects to be paid down leading up to default.

The LGD represents the Bank's expectation of the extent of a loss on a defaulted exposure. In reality, LGD will vary by the type of counterparty, type and seniority of claim and availability of other credit support. For ECL modelling purposes, the Bank has grouped products with similar risk characteristics pertaining to collateral. The LGD is expressed as a percentage of EAD.

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure and discounted back to present using the instrument's effective interest rate.

Measuring ECL – Incorporation of forward-looking information:

The modelling approach discussed above has been with respect to the estimation of 'point in time' ECL. These represent an estimation of losses expected under prevailing macroeconomic conditions. The standard requires entities to assess ECL on a forward-looking basis. The Bank has chosen to incorporate this requirement as an overlay to the point-in-time model outputs. Overlays have been applied at the portfolio rather than product or ECL input level.

The Bank has identified key economic variables expected to impact credit losses. The relationships between these variables and credit losses have been incorporated into a statistical model. This model is used to estimate expected credit losses under various economic scenarios.

Six forward-looking scenarios have been considered:

i. Baseline
ii. 4th percentile upside
iii. 10th percentile upside
iv. 75th percentile downside
v. 90th percentile downside
vi. 96th percentile downside

Each of these scenarios has been informed by Moody's Canada Macroeconomic Outlook, which is updated quarterly and includes both baseline and alternative scenarios deemed to be relevant to the Canadian economy. Moody's estimates high level probability bands for each scenario which have been overlaid with management judgement to arrive at the weightings assigned to each scenario for the macroeconomic overlay.

The following table show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

In 2023, there were no allowances for credit losses in residential mortgages.

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	19	372	87	478
Transfers:				
Transfers from Stage 1 to Stage 2	(2)	10	-	8
Transfers from Stage 1 to Stage 3	-	-	42	42
Transfers from Stage 2 to Stage 1	1	(4)	-	(3)
Transfers from Stage 2 to Stage 3	-	(17)	287	270
Transfers from Stage 3 to Stage 2	-	-	-	-
New originations	-	1	-	1
Derecognized loans	(1)	(13)	-	(14)
Changes within each stage	(2)	(23)	(17)	(42)
Changes to macro-economic adjustments and other qualitative adjustments	(8)	(73)	-	(81)
Write-offs	-	-	(325)	(325)
Balance as at December 31, 2023	**7**	**253**	**74**	**334**
Movement in loss allowance	(12)	(119)	(13)	(144)
Recoveries	-	-	(42)	(42)
Write-offs	-	-	325	325
P&L charge for the period	**(12)**	**(119)**	**270**	**139**

The table below breaks down credit-impaired financial assets by asset class under IFRS 9 as at December 31, 2023.

	Gross carrying amount	Loss allowance	Carrying amount
Residential Mortgages			
Stage 1	154,451	-	154,451
Stage 2	8,109	-	8,109
Stage 3	-	-	-
	162,560	**-**	**162,560**
Personal Loans			
Stage 1	9,856	7	9,849
Stage 2	10,781	253	10,528
Stage 3	74	74	-
	20,711	**334**	**20,377**
Total	**183,271**	**334**	**182,937**

Loan Impairment by geographic area is provided in the table below:

	Gross carrying amount	Loss allowance	Carrying amount
Canada	-	-	-
Ontario	65	65	-
Quebec	-	-	-
British Columbia	-	-	-
Alberta	9	9	-
Saskatchewan	-	-	-
Manitoba	-	-	-
Nova Scotia	-	-	-
Newfoundland	-	-	-
New Brunswick	-	-	-
Northwest Territories	-	-	-
Nunavut	-	-	-
Prince Edward Island	-	-	-
Yukon	-	-	-
International	-	-	-
Total	**74**	**74**	**-**

Securitization

NHA MBS and CMB securitization programs:

In the normal course of operations, the Bank securitizes insured residential mortgages to enhance its liquidity position, diversify sources of funding, and to optimize the management of the balance sheet.

The residential mortgages are securitized under the National Housing Act Mortgage-Backed Securities ("NHA MBS") program sponsored by the Canada Mortgage and Housing Corporation ("CMHC"). The securitization of the residential mortgages with the CMHC does not qualify for derecognition and the mortgages remain on the Bank's Balance Sheet.

Under the NHA MBS program, the Bank is responsible for making all payments due on its issued MBS, regardless of whether the necessary funds are collected from the mortgagor or the insurer. When a borrower defaults on a mortgage, the Bank submits a claim to the insurer if the amount recovered from the collection or foreclosure process is lower than the sum of the principal balance, accrued interest, and collection costs on the outstanding loan.

The MBS that are created through the NHA MBS program are sold to the Canada Housing Trust ("CHT") as part of the CMB program, sold to third-party investors, or are held by the Bank. The CHT issues CMB to third-party investors and uses resulting proceeds to purchase NHA MBS from the Bank and other mortgage issuers in the Canadian market. Assets purchased by the CHT are comingled in a single trust from which CMB are issued.

Securitization accounting:

Residential mortgages securitized through the NHA MBS program remain on the Bank's balance sheet as the Bank retains the pre-payment, interest rate and other risks. When MBS liabilities are sold, a new liability is recognized with gross interest expense and income recognized on the liability and underlying mortgage assets respectively. The Bank retains the spread between the securities and the underlying mortgage assets. If the Bank creates an NHA MBS without selling it, a liability is not recognized.

The following summarizes the carrying and fair values of assets of the Bank that have been securitized and sold by the Bank to third parties as well as the carrying and fair values of the corresponding mortgage securitization liabilities:

	Carrying value	**Fair value**
Securitized mortgages sold via CMB program	6,583	5,903
Residential mortgages sold to external parties as NHA MBS	18,027	16,533
Unscheduled principal payment reserve (included in cash and cash equivalents)	232	232
Total designated assets	**24,842**	**22,668**
Mortgage securitization liabilities	23,632	22,625
Net amount	**1,210**	**43**

Operational Risk

Motus utilizes the simplified standardized approach for determining operational risk capital requirements. The simplified standardized approach requires banks to hold operational risk capital equal to 15% of average annual Adjusted Gross Income over the previous 12 fiscal quarters. Operational risk capital requirements are shown in the risk-weighted assets table under the Capital Adequacy section.

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people, and systems, or from external sources. Motus maintains an Operational Risk Management Framework that is aligned to the Bank's Enterprise Risk Management Framework, promotes alignment of operational risk with the Board approved Risk Appetite, and defines the roles and responsibilities for managing operational risk consistent with the Three Lines of Defence model of risk management. Operational risk includes, as defined within the Bank's Operational Risk Register, process management and execution, business disruption and system failures, external and internal fraud, information security and technology, damage to physical assets, employment practices and workplace safety, and regulatory risks such as regulatory and market compliance, money laundering, and privacy. Motus has established risk appetite for all material elements of operational risk to which the Bank is exposed. Failure to adequately manage operational risk can result in significant impact to the financial or growth prospects of Motus.

Information Security risk is a risk of particular focus given the Bank's digital focused business model. A cybersecurity breach could result in significant financial and reputational damage to the Bank. Cyber risks include confidentiality risks, such as inappropriate personal or financial information disclosure; integrity risks, including internal or external data tampering, or damage to ledgers; and availability risks, including denial of service attacks, malware holding critical files or business functions at ransom. Motus has built up a strong posture which is based on the foundational components of having the right people, process, and technology in place to detect, defend, and respond to Cyber Security threats and incidents.

Motus has in place a full complement of Standard Operating Procedures that are designed to mitigate operational risks to acceptable levels. The Bank's Internal Control Framework is applied across all such procedures to ensure that appropriate consideration has been given to all relevant operational risks and that controls are consistently applied, implemented, and adhered to throughout the organization. In addition, the Bank has implemented a Risk and Control Self-Assessment program ("RCSA") that ensures that all material functions are reviewed to identify the magnitude of the inherent risks within the defined processes, the internal controls that mitigate those inherent risks, and the net residual risk value after taking into account the internal controls. Insurance policies have been obtained to mitigate catastrophic risk where deemed appropriate by the Bank's risk appetite.