Motus Bank

Basel III Pillar 3 Disclosures

As at December 31, 2021

	Page
Scope of Application	2
Capital Structure	2
Capital Adequacy	3
Credit Risk: General Disclosures	5
Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach	10
Credit Risk: Mitigation	11
General Disclosure for Exposures Related to Counterparty Credit Risk	12
Market Risk: Disclosure for Banks using the Standardized Approach	12
Operational Risk	12
Equity Risk	13
Interest Rate Risk	13
Liquidity and Funding Risk	14
Remuneration	14

Scope of Application

This document represents the Pillar 3 Disclosures for Motus Bank ("the Bank" or "Motus") as at December 31, 2021. 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 OSFI Advisory on Pillar 3 Disclosure Requirements (April 2017), Capital Disclosure Requirements (May 2018) and COVID-19 Measures – FAQs for Federally Regulated Deposit-Taking Institutions (2020).

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.

Reporting Entity

Motus is a Schedule I bank under the Bank Act (Canada) (the "Act") and is regulated by the Office of the Superintendent of Financial Institutions Canada ("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.

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 and transitional adjustments. 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%.

OSFI introduced transitional capital measures for Expected Credit Losses in response to the economic impacts of COVID-19. The transitional adjustments allow a portion of allowances to be included in Common Equity Tier 1 ("CET1"). The adjustment to CET1 capital is the increase in Stage 1 and Stage 2 allowances relative to the baseline level. Motus Bank's baseline level is the amount of Stage 1 and Stage 2 allowances as at December 31, 2019. The adjustment is net of income tax and subject to a scaling factor. The scaling factor has been set at 70% for 2020, 50% for 2021, and 25% for 2022.

The table below provides the composition of capital disclosures under Basel III as required by OSFI as at December 31, 2021.

Common Equity Tier 1 Capital: Instruments and Reserves		2021
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	56,200
2	Retained earnings	(14,824)
3	Accumulated other comprehensive income (and other reserves)	878
6	Common Equity Tier 1 capital before regulatory adjustments	42,254
Common Equity Tier 1 Capital: regulatory adjustments		
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	5,144
26	Other deductions or regulatory adjustments to CET1 as determined by OSFI	(171)
28	Total regulatory adjustments to Common Equity Tier 1	4,973
29	Common Equity Tier 1 Capital (CET1)	37,281
29a	Common Equity Tier 1 Capital (CET1) with transitional arrangements for ECL provisioning not applied	37,110
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)	37,281
45a	Tier 1 Capital with transitional arrangements for ECL provisioning not applied	37,110
Tier 2 Capital: instruments and provisions		
50	Provisions	426
51	Tier 2 Capital before regulatory adjustments	426
Tier 2 Capital: regulatory adjustments		
57	Total regulatory adjustment to Tier 2 capital	-
58	Tier 2 Capital (T2)	426
59	Total regulatory capital (TC = T1 + T2)	37,707
59a	Total Capital with transitional arrangements for ECL provisioning not applied	37,707
60	Total risk-weighted assets	98,708
Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	37.77%
61a	CET1 Ratio with transitional arrangements for ECL provisioning not applied	37.60%
62	Tier 1 (as a percentage of risk-weighted assets)	37.77%
62a	Tier 1 Capital Ratio with transitional arrangements for ECL provisioning not applied	37.60%
63	Total Capital (as a percentage of risk-weighted assets)	38.20%
63a	Total Capital Ratio with transitional arrangements for ECL provisioning not applied	38.20%
OSFI Targets		
69	Common Equity Tier 1 Capital target ratio	7.0%
70	Tier 1 Capital target ratio	8.5%
71	Total Capital target ratio	10.5%

Motus Bank 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 includes 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 basic indicator 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 as at December 31, 2021.

Risk-Weighted Assets	2021
Credit risk	90,233
Market risk	-
Operational risk	8,475
Total risk-weighted assets	**98,708**

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 as at December 31, 2021.

Leverage Ratio Framework		2021
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	270,481
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(5,144)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	265,337
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2,269
5	Add-on amounts for potential future exposure associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	(1,079)
7	(Deductions of receivable assets for cash variation margin provided in 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 4 to 10)	1,190
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)	-
Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	35,183
18	(Adjustments for conversion to credit equivalent amounts)	(31,665)
19	Off-balance sheet items (sum of rows 17 and 18)	3,518
Capital and total exposures		
20	Tier 1 Capital	37,281
20a	Tier 1 Capital with transitional arrangements for ECL provisioning not applied	37,110
21	Total exposures (sum of lines 3, 11, 16, 19)	270,045
22	Basel III Leverage ratio	13.81%
22a	Leverage ratio with transitional arrangements for ECL provisioning not applied	13.74%

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 in order 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 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 our credit risk models.

The following table reconciles the total gross credit exposure to the total assets as per the Bank's audited financial statements as at December 31, 2021.

Reconciliation of Gross Credit Exposure to On-Balance Sheet Assets	Total	RWA
Total Gross Credit Exposure	265,668	86,980
Off-Balance Sheet Gross Credit Exposure	(2,269)	-
On-Balance Sheet Gross Credit Exposure	263,399	86,980
Individual Allowance - Other Retail	(144)	(121)
On-Balance Sheet Gross Credit Exposure (net of individual allowance)	263,255	86,859
Credit Valuation Adjustments phase-in	-	1,775
Other Assets (not included in Standardized Approach)	7,823	1,599
Total Assets subject to Credit Risk (net of individual allowance)	271,078	90,223
Eligible Stage 1 and Stage 2 allowances	(597)	-
Operational Risk	-	8,475
Total On-Balance Sheet Assets / Risk Weighted Assets	**270,481**	**98,708**

The breakdown of total gross credit exposure by counterparty, and by major types of exposure as at December 31, 2021 is provided in the table below:

Total Gross Exposure by Counterparty Type	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	RWA
Standardized					
Sovereign	13,568	-	-	13,568	-
Bank	24,913	-	2,269	27,182	5,437
Corporate	1,805	-	-	1,805	1,805
Retail Residential Mortgages	210,707	-	-	210,707	70,420
Other Retail (excl. SBEs)	12,406	-	-	12,406	9,318
Total Gross Credit Exposure	**263,399**	**-**	**2,269**	**265,668**	**86,980**

The geographic distribution of the total gross credit exposures broken down by major types of credit exposure as at December 31, 2021 is provided in the table below:

Total Gross Exposure by Geography	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	%
Standardized					
Canada					
Ontario	163,078	-	-	163,078	61.5
Quebec	2,180	-	2,269	4,449	1.7
British Columbia	54,252	-	-	54,252	20.4
Alberta	20,289	-	-	20,289	7.6
Saskatchewan	2,490	-	-	2,490	0.9
Manitoba	3,744	-	-	3,744	1.4
Nova Scotia	8,833	-	-	8,833	3.3
Newfoundland	3,107	-	-	3,107	1.2
New Brunswick	2,963	-	-	2,963	1.1
Northwest Territories	30	-	-	30	-
Nunavut	10	-	-	10	-
Prince Edward Island	1,494	-	-	1,494	0.6
Yukon	929	-	-	929	0.3
International	-	-	-	-	-
Total Gross Credit Exposure	**263,399**	**-**	**2,269**	**265,668**	**100**

The industry distribution of total gross credit exposure broken down by major types of credit exposure as at December 31, 2021 is provided in the table below:

Total Gross Exposure by Industry	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	%
Standardized					
Sovereign	13,568	-	-	13,568	5.1
Bank					
Financial Services	24,913	-	2,269	27,182	10.2
Corporate					
Financial Services	-	-	-	-	-
Real Estate	-	-	-	-	-
Services	-	-	-	-	-
Other	1,805	-	-	1,805	0.7
Retail Residential Mortgages	210,707	-	-	210,707	79.3
Other Retail (excl. SBEs)	12,406	-	-	12,406	4.7
Total Gross Credit Exposure	**263,399**	**-**	**2,269**	**265,668**	**100**

The contractual maturities of total gross credit exposure broken down by major types of credit exposure as at December 31, 2021 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	24,915	-	-	-	-	24,915
Receivables	58	-	-	-	-	58
Investment in debt instruments	1,841	13,613	-	-	-	15,454
Investment in equity instruments	-	-	-	-	1,152	1,152
Loans	23,476	7,801	59,295	131,935	-	222,507
Derivative financial asset	-	-	-	1,079	-	1,079
	50,290	21,414	59,295	133,014	1,152	265,165

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

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.

In light of the COVID-19 pandemic, the Bank has considered additional information in determining if there has been a SICR. In addition to those outlined above, a SICR is also deemed to have occurred if any of the following criteria are met:

- The employment of the borrower has been determined to be in the highest category of exposure to COVID-19 related risks
- The borrower has been approved for two or more two-month periods of COVID-19 related payment relief (and it has been less than 90 days since payments recommenced)
- The employment of the borrower has been determined to be in the medium or highest category of exposure to COVID-19 related risks in addition to having been approved for one or more two-month periods of COVID-19 related payment relief (and it has been less than 90 days since payments recommenced)

The assessment of borrowers' industry or employment exposure to COVID-19 related risks is based on the best judgement of the Bank's Credit Management team at the reporting date.

The Bank has not applied the low credit risk exemption for any financial instruments in the period ended December 2021.

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.

Measuring ECL – COVID-19 related overlays:

In light of the COVID-19 pandemic, the Bank has applied additional adjustments to account for the lagging nature of and other deficiencies identified in internal and external credit risk metrics. These include the impact of payment relief and government supports put in place during the pandemic, which are likely to mask the detection of increased credit risk on some loans, as well the impact of dramatic swings in economic input variables, which have in some cases produced unreasonable results. To address these, ECLs have

been stressed by looking at a combination of factors, including industry of employment and its exposure to COVID-19 related risks as well as the extent to which customers have been approved for COVID-19 related payment relief. Other adjustments have been taken to moderate the impact of dramatic swings in economic input variables or their lagging impact on credit losses. Judgement has been required in the development and application of these overlays in consultation with the Credit Risk management team.

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

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2021	1	1	-	2
Transfers				
Transfers from Stage 1 to Stage 2	-	1	-	1
Transfers from Stage 1 to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	-	-	-	-
Transfers from Stage 2 to Stage 3	-	-	-	-
Transfers from Stage 3 to Stage 2	-	-	-	-
New originations	1	1	-	2
Derecognized loans	-	-	-	-
Changes within each stage	-	-	-	-
Changes to macro-economic adjustments and other qualitative adjustments	-	1	-	1
Write-offs	-	-	-	-
Balance as at December 31, 2021	**2**	**4**	**-**	**6**
Movement in loss allowance	1	3	-	4
Recoveries	-	-	-	-
Write-offs	-	-	-	-
P&L charge for the period	**1**	**3**	**-**	**4**

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2021	62	628	99	789
Transfers:				
Transfers from Stage 1 to Stage 2	(5)	85	-	80
Transfers from Stage 1 to Stage 3	-	-	141	141
Transfers from Stage 2 to Stage 1	3	(29)	-	(26)
Transfers from Stage 2 to Stage 3	-	(19)	289	270
Transfers from Stage 3 to Stage 2	-	-	-	-
New originations	-	2	-	2
Derecognized loans	(3)	(12)	(3)	(18)
Changes within each stage	5	61	-	66
Changes to macro-economic adjustments and other qualitative adjustments	(6)	(181)	-	(187)
Write-offs	-	-	(382)	(382)
Balance as at December 31, 2021	**56**	**535**	**144**	**735**
Movement in loss allowance	(6)	(93)	45	(54)
Recoveries	-	-	(22)	(22)
Write-offs	-	-	382	382
P&L charge for the period	**(6)**	**(93)**	**405**	**306**

The table below breaks down credit-impaired financial assets by asset class under IFRS 9 as at December 31, 2021

	Gross carrying amount	Loss allowance	Carrying amount
Residential Mortgages			
Stage 1	179,669	2	179,667
Stage 2	16,291	4	16,287
Stage 3	-	-	-
Personal Loans			
Stage 1	22,438	56	22,382
Stage 2	4,706	535	4,171
Stage 3	144	144	-
Total	**223,248**	**741**	**222,507**

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

	Gross carrying amount	Loss allowance	Carrying amount
Canada			
Ontario	33	33	-
Quebec	-	-	-
British Columbia	28	28	-
Alberta	59	59	-
Saskatchewan	10	10	-
Manitoba	-	-	-
Nova Scotia	3	3	-
Newfoundland	-	-	-
New Brunswick	11	11	-
Northwest Territories	-	-	-
Nunavut	-	-	-
Prince Edward Island	-	-	-
Yukon	-	-	-
International	-	-	-
Total	**144**	**144**	**-**

Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

The External Credit Assessment Institution ("ECAI") primarily used by the Bank to assess the credit quality of asset classes is the Dominion Bond Rating Service ("DBRS"). Where a DBRS rating is not available, the Bank uses Moody's Investor Service or Standard and Poor's. The rating agencies used are recognized by OSFI as eligible ECAIs. Investment securities consisting of bank, corporate and government debt securities contribute to the majority of assets whose credit quality is assessed using the ECAIs noted above. Investment securities have risk-weightings from 0% to 100% based on their credit rating. Mortgages receivables, consisting of residential mortgages, have a risk-weighting of:

- 0% for mortgages insured by CMHC;
- 0% for 90% of mortgages insured by Sagen or Canada Guaranty;
- 50% for 10% of mortgages insured by Sagen or Canada Guaranty and;
- 35% for uninsured mortgages

All other personal and consumer lending exposure is risk-weighted at 75%.

The table below provides the amount of the Bank's outstanding credit exposure in each risk bucket.

Total Gross Exposure Subject to Standardized Approach by Risk Weight	Risk Weight	Drawn Exposure	Commitments (undrawn)	OTC Derivatives	Total	RWA
Standardized						
Sovereign	0%	13,568	-	-	13,568	-
Bank						
AAA to AA-	20%	24,913	-	2,269	27,182	5,437
Corporate						
BBB+ to BB-	100%	1,805	-	-	1,805	1,805
Retail Residential Mortgages						
Qualifying Insured	0%	9,249	-	-	9,249	-
Qualifying Insured	20%	604	-	-	604	121
Qualifying Uninsured	35%	200,854	-	-	200,854	70,299
Other Retail (excl. SBEs)						
Other Retail (excl. SBEs)	75%	12,354	-	-	12,354	9,266
Other Retail (excl. SBEs)	100%	52	-	-	52	52
		263,399	**-**	**2,269**	**265,668**	**86,980**

Credit Risk: Mitigation

Motus mitigates credit risk exposure through established processes, and prudent limits or prohibitions on credit exposures. This includes:

- A disciplined approach to lending; using (but not limited to) the following inputs:
  - gross debt service ratio
  - total debt service ratio
  - loan to value ratio;
- Employing risk-based pricing using the following as inputs:
  - Equifax beacon score
  - Equifax Bankruptcy Navigator Index
- Acquisition of appropriate security documentation;
- Appropriate security registrations;
- Establishing individual loan concentration limits by products types
- Establishing aggregate loan concentration limits by product types
- Establishing aggregate loan limits by property types
- Establishing credit exposure limits by geography
- Establishing limits on investments/exposures by counterparties

Loan exposures include unsecured lines of credit and term loans. These loans are unsecured and are not guaranteed. Credit risk is limited for mortgages as these loans are secured by residential properties and may be insured by mortgage insurance companies. The carrying amount of financial assets recorded in the financial statements net of impairment losses, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The following information gives details of the exposure, where netting is not applicable, covered by eligible financial guarantees.

Total Gross Exposure and Guarantee	Total	RWA	Financial Guarantee
Standardized			
Sovereign	13,568	-	-
Bank	27,182	5,437	-
Corporate	1,805	1,805	-
Retail Residential Mortgages	210,707	70,420	9,853
Other Retail (excl. SBEs)	12,406	9,318	-
Total Gross Credit Exposure	**265,668**	**86,980**	**9,853**

Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions.

Motus monitors, tracks and reports all counterparty risk exposures against established limits documented within the Credit Risk Board Policy. All counterparty entities must have an external credit rating from recognized external credit assessment institutions. Credit Management will utilize external rating agencies to establish a risk profile for each existing and potential counterparty transaction for limit setting purposes.

Counterparties are aggregated / connected based on the criteria defined within the OSFI B-2 Large Exposure Limits Guideline dated December 1994. Each counterparty (connected counterparty) is assessed individually and a prudent, risk based individual limit is applied.

Derivatives

Derivative instruments are primarily used for asset-liability management purposes. The Bank has established policies in place for managing credit risk exposures that may arise with counterparties when entering into derivative transactions.

The Bank has credit risk which arises from the possibility that its counterparty to a derivative contract could default on their obligation to the Bank. However, credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose the Bank to credit loss where there is a favourable change in market rates from the Bank's perspective and the counterparty fails to perform. The Bank limits the risk of credit losses from derivative contracts by establishing minimum acceptable counterparty credit ratings from external rating agencies and by entering into agreements where collateral must be provided when the exposure exceeds a certain threshold. Collateral is pledged when the Bank's derivative mark-to-market is negative. Conversely, when the Bank's derivative mark-to-market position is positive, the collateral is received from the counterparty. The Bank's parent, Meridian Credit Union, manages derivative collateral at the enterprise level and therefore pledges or receipts of collateral on the Bank's behalf are netted with collateral pertaining to its own derivative portfolio.

Market Risk: Disclosure for Banks using the Standardized Approach

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

The Bank does not have assets classified as held for trading nor does it hold any derivative financial instruments for speculative purposes; therefore, the Bank is not required to hold any capital in relation to market risk.

Operational Risk

Motus utilizes the Basic Indicator Approach for determining operational risk capital requirements. The Basic Indicator Approach requires banks to hold operational risk capital equal to the average over the previous three years of a fixed percentage of positive annual gross income. 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 Defense model of risk management. Operational risk includes, as defined within the Bank's Operational Risk Register, fraud risk, Anti-Money Laundering ("AML") risk, information security and technology risk, business disruption risk, outsourcing and vendor risk, and regulatory compliance risk, among others. 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 very 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 in order 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. Controls have been effective to date in mitigating any potential operational risk impacts related to COVID-19 and associated operating changes.

Equity Risk

Equity securities are instruments that do not contain a contractual obligation to pay (dividend is discretionary and capital gain is not contractual). The Bank's equity securities are comprised of preferred shares and are not held for trading purposes. The Bank has elected to designate the asset as Fair value through other comprehensive income ("FVTOCI"). As at December 31, 2021 the Bank held $1,152 of publicly traded FVTOCI equity securities. Equity securities are measured at fair value plus directly attributable transactions costs at initial recognition. Subsequent re-measurements in fair value are recorded in other comprehensive income using published bid prices. Net after-tax unrealized losses for the period were ($57). Dividend income for the period was $128 and is recorded in Non-interest income.

Interest Rate Risk

Interest rate risk is the sensitivity of the Bank's financial position to movements in interest rates. The Bank is exposed to interest rate risk when it enters into banking transactions with its customers, namely deposit taking and lending. When assets and liabilities have different payment characteristics, it results in a mismatch in principal and interest cash flows. This mismatched position creates exposure to changes in interest rates as the interest paid or earned on assets and liabilities changes at different times.

The Bank's exposure to interest rate risk depends on the size and direction of interest rate changes and on the size of mismatched positions. It is also affected by new business volumes, investment decisions, renewals of loans or deposits, and how actively customers exercise options, such as prepaying a loan before its maturity date.

The Bank's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the Bank is in full adherence with regulatory expectations, regulations and guidelines. Overall responsibility for asset/liability management rests with the Board and as such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on an on-going basis to the Asset/Liability Committee ("ALCO"), which receives monthly reporting and meets no less frequently than quarterly. ALCO is chaired by the CFO and attended by senior executives.

The key elements of the Bank's interest rate risk management framework include:

- policy determining the objectives for, and limits within which, interest rate risk must be managed;
- guidelines and/or limits on the mismatch position and the management of asset cash flows in relation to liability cash flows;
- guidelines and/or limits on the use of derivative financial instruments to hedge against a risk of loss from interest rate changes; and
- requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

The Bank's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Bank's net interest income and the value of the Bank's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying values of interest sensitive assets and liabilities in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap.

The following table identifies the Bank's assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive.

	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Total assets	54,114	61,984	149,115	-	5,268	270,481
Total liabilities and equity	108,460	73,066	31,332	-	57,623	270,481
Total Interest rate sensitivity gap	**(54,346)**	**(11,082)**	**117,783**	**-**	**(52,355)**	**-**

The following table provides the potential before-tax impact of an immediate and sustained 100 bps increase or decrease in interest rates.

	2021
Earnings at Risk (EaR) :	
Sensitivity of 100bps Increase	-8.7%
Sensitivity of 100bps Decrease	2.4%
Enterprise Value at Risk (EVaR) :	
Sensitivity of 100bps Increase	-4.3%
Sensitivity of 100bps Decrease	2.8%

Liquidity and Funding Risk

Liquidity and funding risk is the risk of not being able to meet both expected and unexpected cash commitments as they come due. Liquidity and funding risk are managed in accordance with the Liquidity and Funding Board Policy. The policy is reviewed and approved annually by the Board. Motus manages liquidity risk by monitoring current and future cash flows, maintaining a pool of high-quality liquid assets ("HQLA"), maintaining a stable base of core and term deposits, monitoring concentration limits to single sources of deposits and diversifying funding sources. Motus reports on liquidity risk, versus policy limits, to ALCO on a monthly basis and to the Board of Directors at least quarterly. Risk tolerance thresholds and limits are approved by the Board of Directors and define the maximum level of liquidity risk the Bank is willing to take.

Liquidity stress testing is completed monthly to monitor and identify sources of potential liquidity risk and ensures current exposures align with the Bank's established liquidity risk tolerance and limits. In addition to the Bank's internal metrics, the Bank must also comply with OSFI's Liquidity Adequacy Requirements ("LAR") Guideline, which includes the Net Cumulative Cash Flow ("NCCF") and the Liquidity Coverage Ratio ("LCR"). All liquidity stress testing is reported to ALCO monthly. Key assumptions used in the creation of stress tests are reviewed and approved by ALCO to ensure they remain reasonable and appropriate.

The Contingency Funding Plan identifies the actions that the Bank would undertake to address liquidity shortfalls in a liquidity stress event and includes procedures, action plans, communication requirements and roles and responsibilities to follow in an event.

To meet anticipated liquidity needs in both stable and stressed conditions, the Bank actively manages liquidity and funding risk. The Bank's liquid assets as at December 31, 2021 were $40,370 (15% percent of total assets).

The Bank prepares the LCR and NCCF reports monthly and files the results with OSFI. As at December 31, 2021, the LCR and NCCF remained within applicable risk limits.

Remuneration

Motus is a wholly-owned subsidiary of MCU, a credit union operating in the province of Ontario. The Bank outsources certain management and other services to MCU under a Master Services Agreement ("MSA") between the Bank and MCU and vice versa.

The Bank employs three executives who have been identified as the material risk takers of the organization: VP & Chief Financial Officer ("CFO"); VP & Chief Risk Officer ("CRO"), and Chief Compliance Officer ("CCO"). In addition, MCU's President & CEO acts as President & CEO of the Bank and MCU's Chief Marketing Officer & Digital Officer acts as Chief Operating Officer ("COO") of the Bank and are part of the overhead component attached to the fees charged by MCU for various services.

The Motus Board approves the Bank's Compensation Philosophy that is aligned with the MCU Policy. In addition to their salaries, Motus employees participate in the MCU annual Short Term Incentive Plan ("STIP"), group benefits plans (which provide health care, dental care, life insurance and other benefits) and defined contribution pension plan.

In addition, the Bank's CFO and CRO participate in the MCU Long-term Incentive Plan ("LTIP"). STIP and LTIP designs are both purely cash based plans given the ownership structure of the Bank and the parent credit union. The variable pay design ensures that the STIP payment is dependent equally on both personal and corporate performance. Corporate performance is measured against predetermined metrics identified at the start of the performance cycle and approved by MCU's Board of Directors.

MCU's Board of Directors is responsible for reviewing fixed and variable remuneration which includes the STIP and LTIP, special awards, compensation measures and ranges for incentive programs, and employee benefits programs The MCU Board is undergoing a comprehensive executive compensation review which includes the Compensation Philosophy with an expected completion in Q4 2022. The MCU Board of Directors reviews performance and payouts under the STIP and LTIP programs including any special awards both relative to performance targets and to the performance of the company viewed holistically to assess the appropriateness of compensation in relation to company performance and achievement of strategic objectives. The MCU Board has discretion to adjust incentive payouts to reflect the level of risk taken to achieve results.

The independent members of the Bank's Board have oversight of CEO and COO performance management against Bank goals. They provide input to the MCU Human Resources Committee and Board in their overall assessment of the performance of the Bank's CEO and COO. The Bank's Board of Directors is comprised of eight directors, including five independent directors that convene at a minimum on a quarterly basis, and in 2021 one meeting was held at which compensation matters were addressed.

The Bank's Audit and Finance Committee ("AFC") is comprised of three independent Bank Board members that convene at a minimum on a quarterly basis. The Bank's AFC has oversight of the Bank's CFO performance management and goals. The Bank's Risk Committee ("RC") is comprised of three independent Bank Board members that convene on a quarterly basis. The Bank's RC has oversight of CRO and CCO performance management and goals.

Key management personnel net compensation charged to the Bank is provided in the table below:

Total value of remuneration awards for the current year	2021
Fixed remuneration	
Salaries	519
Other benefits	78
Variable and special awards remuneration	
Short-term Incentives	167
Long-term incentives	52
	817

Board of Directors fees are provided in the table below:

Total value of remuneration awards for the current year	2021
Remuneration	
Fixed remuneration	134
Meeting fees	28
	162