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## **Motus Bank**

Basel III Pillar 3 Disclosures

As at September 30, 2023

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# MOTUS BANK

## Basel III Pillar 3 Disclosures

### As at September 30, 2023

#### Scope of Application

This document represents the Pillar 3 Disclosures for Motus Bank (“the Bank” or “Motus”) as at September 30, 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 (SMSBs) issued on January 2022.

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%.

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

<b>Common Equity Tier 1 Capital: Instruments and Reserves</b>		<b>September 2023</b>
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	56,200
2	Retained earnings	(26,559)
3	Accumulated other comprehensive income (and other reserves)	715
6	Common Equity Tier 1 capital before regulatory adjustments	30,356
<b>Common Equity Tier 1 Capital: regulatory adjustments</b>		
28	Total regulatory adjustments to Common Equity Tier 1	-
29	Common Equity Tier 1 Capital (CET1)	30,356
<b>Additional Tier 1 Capital: instruments</b>		
36	Additional Tier 1 capital before regulatory adjustments	-
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
45	Tier 1 Capital (T1 = CET1 + AT1)	30,356
<b>Tier 2 Capital: instruments and provisions</b>		
50	Collective allowances	274
51	Tier 2 Capital before regulatory adjustments	274
<b>Tier 2 Capital: regulatory adjustments</b>		
57	Total regulatory adjustment to Tier 2 capital	-
58	Tier 2 Capital (T2)	274
59	Total capital (TC = T1 + T2)	30,630
60	Total risk-weighted assets	79,030
<b>Capital Ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	38.41%
62	Tier 1 (as a percentage of risk-weighted assets)	38.41%
63	Total Capital (as a percentage of risk-weighted assets)	38.76%
<b>OSFI Targets</b>		
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 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 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.

<b>Risk-Weighted Assets</b>	<b>September 2023</b>
Credit risk	66,455
Market risk	-
Operational risk	12,575
<b>Total risk-weighted assets</b>	<b>79,030</b>

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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.

<b>Leverage Ratio Framework</b>		<b>September 2023</b>	<b>June 2023</b>
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	226,812	241,092
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)	226,812	241,092
<b>Derivative exposures</b>			
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)	-	-
<b>Securities financing transaction exposures</b>			
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)	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	39,809	40,037
18	(Adjustments for conversion to credit equivalent amounts)	(35,828)	(36,033)
19	Off-balance sheet items (sum of rows 17 and 18)	3,981	4,004
<b>Capital and total exposures</b>			
20	Tier 1 Capital	30,356	31,964
21	Total exposures (sum of lines 5, 11, 16, 19)	230,793	245,096
<b>Leverage ratio</b>			
22	Basel III Leverage ratio	13.15%	13.04%

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**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	6,647	5,974
Residential mortgages sold to external parties as NHA MBS	18,227	16,703
Unscheduled principal payment reserve (included in cash and cash equivalents)	232	232
<b>Total designated assets</b>	<b>25,106</b>	<b>22,909</b>
Mortgage securitization liabilities	(23,789)	(22,436)
<b>Net amount</b>	<b>1,317</b>	<b>473</b>