



Versa**Bank**

Choice Through Innovation

**Investor Presentation**

September 2020

The Bank occasionally makes forward-looking statements about its objectives, operations and targeted financial results. These statements may be written or verbal and may be included in such things as press releases, corporate presentations, annual reports and other disclosure documents and communications. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general, and the strength of local economies within Canada, in which the Bank conducts operations; the effect of changes in interest rates; the effects of competition in the markets in which the Bank operates; capital market fluctuations; and the impact of changes in laws and regulations. When relying on forward-looking statements to make decisions, investors and others should carefully consider these factors and other uncertainties or potential events. The Bank makes no undertaking to update any forward-looking statement that is made from time to time by the Bank.

# Market Facts & Corporate Info

## Common Shares

VB:TSX

Recent Price (Sept. 4, 2020)

\$7.15

Quarterly Dividend

\$0.025/share

Annualized Dividend Yield

~1.4%

Market Cap

~\$150 million

Common Shares Outstanding

21,123,559

52-Week High/Low

\$7.86/\$4.41

## Preferred Shares

Series 1 VB.PR.A

~7.1%

Series 3 VB.PR.B

~7.8%

Acquisition of Trust Company and commenced operations as digital financial in 1993

Granted Schedule I Bank Licence in 2002 (first Schedule I license granted in 18 years)

Listed on the TSX in 2013

90 full-time employees

Year end: October 31

**“Over the next decade we will see more changes in the banking industry than we have witnessed in the past 100 years. This isn’t solely due to advancing technologies, but a confluence of inter-related, structural factors – demographic, socio-economic, regulatory and environmental changes.”**

KPMG,  
*Future of Digital Banking (2019)*

**The bank of the future...**

**...today...**

**...and for the last three decades**



**VersaBank**  
Choice Through Innovation

**The World's First Digital Bank**

Using proprietary state-of-the art financial technology to profitably address underserved segments of the Canadian banking market since 1993

# There Has Never Been a Better Time to be a Fully Digital Schedule 1 Bank

End user adoption of financial technology is rapidly advancing as customers increasingly demand the speed, convenience and security of digital banking

Technology is increasingly enabling the rapid development and deployment of new product offerings



**VersaBank**  
Choice Through Innovation

Intermediaries increasingly want innovative, technology-based solutions to better serve their customers

Regulators are increasingly favourable to innovation to advance the efficiency of banking, open new underbanked markets and continually enhance security

# The Power of a Digital Banking Model: Capacity, Velocity and Efficiency

State-of-the art, proprietary technology platform

Flexibility built into software from day 1

Developed and maintained entirely in-house

Continuous refinement and enhancement

Expert team of more than 25 software developers (>25% of workforce)

Software team integrated with business leads to facilitate solutions development – reports directly to CEO

**Allows for minimal investment in physical infrastructure and people**

**Enables partnership model**

**Significant cost efficiencies**

**Highly scalable with significant operating leverage**

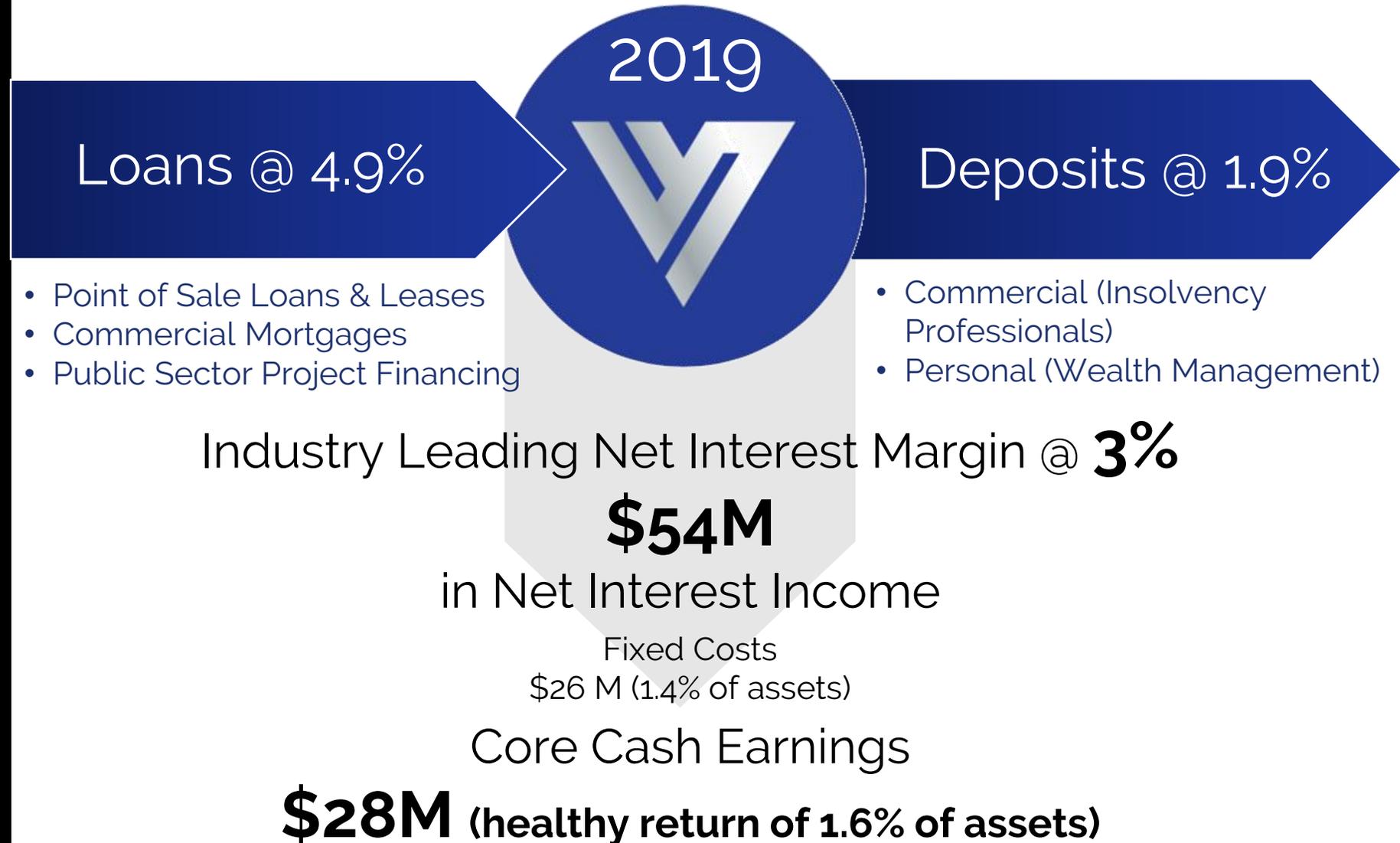
**Agility to rapidly address new opportunities**

**Supports risk mitigation**

Technology is flexible and agile to never constrain innovative banking solutions

# Adding Value for Depositors and Lenders Drives Industry Leading Net Interest Margins

We use our technological capabilities to provide **innovative deposit and lending solutions** for financial intermediaries that allow them to excel in their core businesses



# Partnership Model Provides Highly Efficient Access to Depositors and Borrowers Across Canada

~26,000 Depositors Through  
>220 Deposit Partners

~156,000 Borrowers Through  
>120 Lending Partners

## Insolvency Professionals (>100 Offices)



## Point of Sale Financing (Loans and Leases)



## Wealth Management (>120 Partners)



## Commercial Mortgages



Access to inexpensive CDIC-insured deposits as a Schedule 1 bank

\$1.6B in deposits<sup>1</sup>

\$1.5B in loans<sup>1</sup>

# Proven History of Successfully & Profitably Identifying Underserved Banking Opportunities – Insolvency Professional Business

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## Market Need:

Canada's insolvency professionals were being underserved by generic "big bank" offerings that did not integrate with their own systems, resulting in inefficiency and higher costs



- Proprietary software solution developed entirely in-house to seamlessly integrate with industry's most commonly used administrative software
- Worked internally with the two largest insolvency firms to build and test
- Concept to commercialization in less than 12 months
- High value-add for insolvency firms results in very low cost of funding for VersaBank

Grown from zero to >100 partners and \$476M<sup>1</sup> in deposits in ~7 years

1. At July 31, 2020.

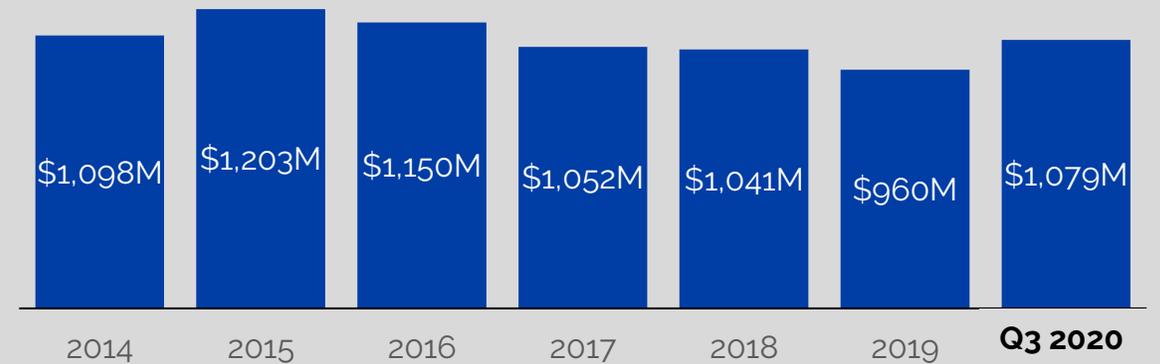
# Low-Cost Deposit Model Contributes to Industry Leading Net Interest Margins

- Schedule I Bank License provides access to low-cost CDIC-insured deposits
- Insolvency professional deposits provided at very low cost (currently 0%)
- Strategic shift of the deposit mix to lower cost deposits
  - Reducing higher cost personal deposits
  - Increasing lower cost commercial deposits

**Extensive partner network provides access to vast supply of inexpensive deposits**



### Wealth Management-Facilitated GIC Deposits



### Insolvency and Other Deposits



# Proven Track Record of Successfully & Profitably Identifying Underserved Banking Opportunities – Point of Sale Loans and Leases

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## Market Need:

In the wake of the 2007/2008 financial crisis, Canada's "big ticket" point of sale lenders required access to inexpensive capital and fast, convenient, automated financing solutions to drive growth in their own businesses



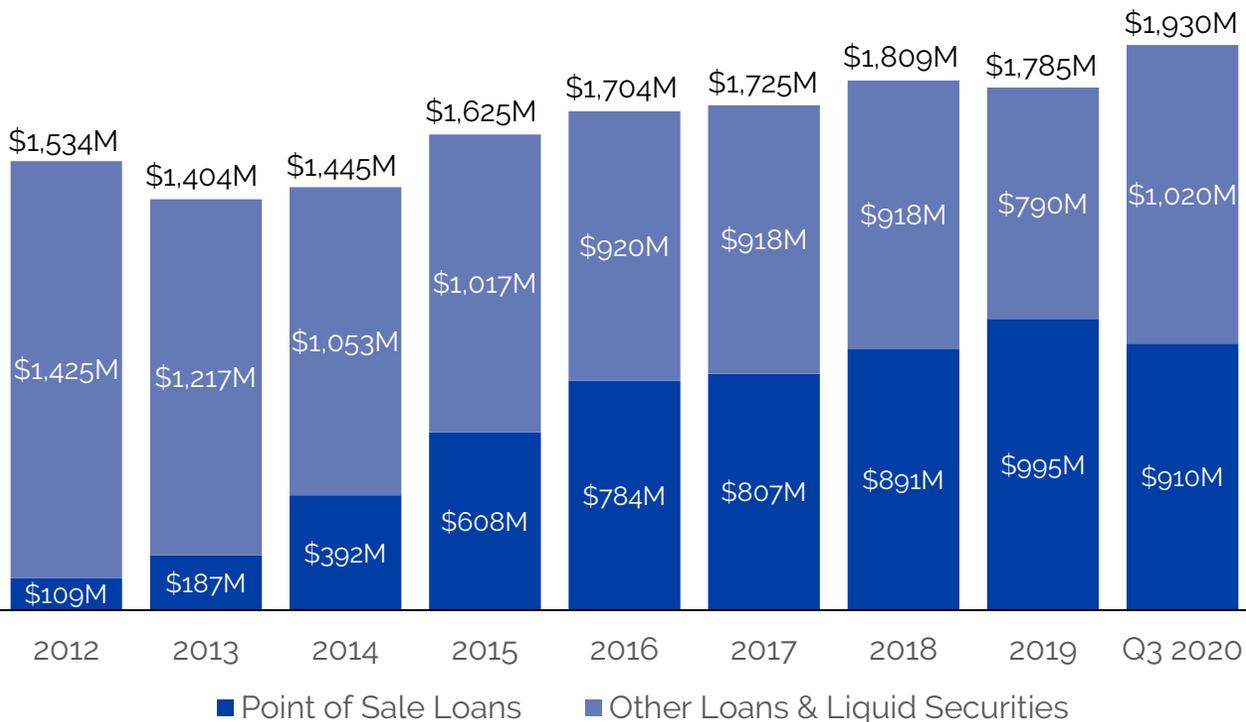
- Proprietary software solution developed entirely in-house in under a year
- Provides immediate credit adjudication and "on-the-spot" credit approvals, facilitating sales process
- Very low-risk: Structured such that default risk resides with the financing partner



Grown from zero to 19 partners with >\$900M in assets in ~7 years  
Beta-testing new application of Point of Sale software for home/condo developers

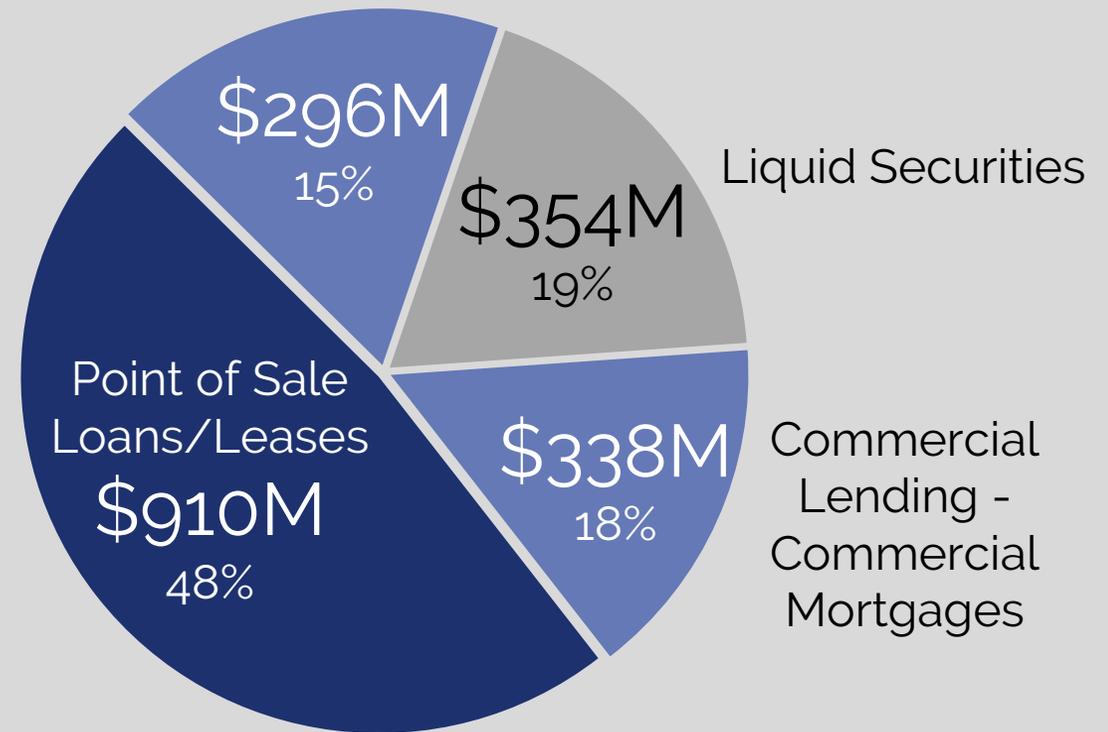
# Growing Higher Margin, Lower Risk-Weighted Point of Sale Loans and Leases

## Rapid Growth in Point of Sale Financing



## Loan Portfolio Breakdown (at July 31/20)

Commercial Lending – Public Sector & Other



Point of Sale loans/leases have increased as a proportion of total loan portfolio to 48% at end of Q3 2020 from 45% at end of 2014

# Leading the Canadian Banking Industry in Risk Mitigation and Management

## Low Operational Risk

- Branchless model
- Streamlined staffing: High asset-to-employee ratio
- Low-cost funding model enables higher net interest margins with lower risk loans

## Low Credit Risk

- Point of sale loans structured such that risk resides with partner lender
- Industry leading provision for credit losses
- No loan losses throughout its history

## Low Liquidity Risk

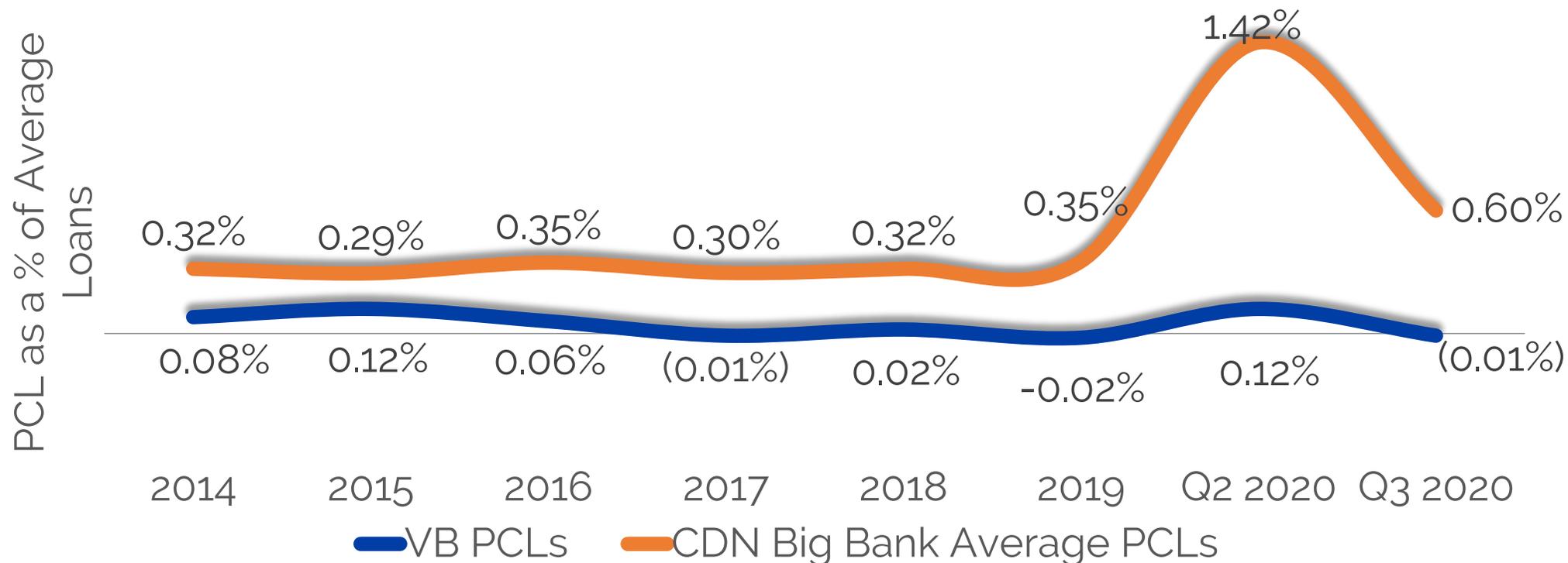
- High liquidity ratio
- Access to a vast supply of low-cost funds

**Liquidity ratio**  
**~18.7%<sup>1</sup>**

Conservative leverage ratio of 11.99%<sup>1</sup>: Highest among peers and multiples of that of the public Schedule 1 banks

# Industry Leading Provision for Credit Losses (PCLs)

## Q3 2020: Recovery of PCLs of \$44,000



Only a negligible provision made for Point of Sale Financing Portfolio:  
Point of Sale cash holdbacks are >4x in excess of intrinsic risk

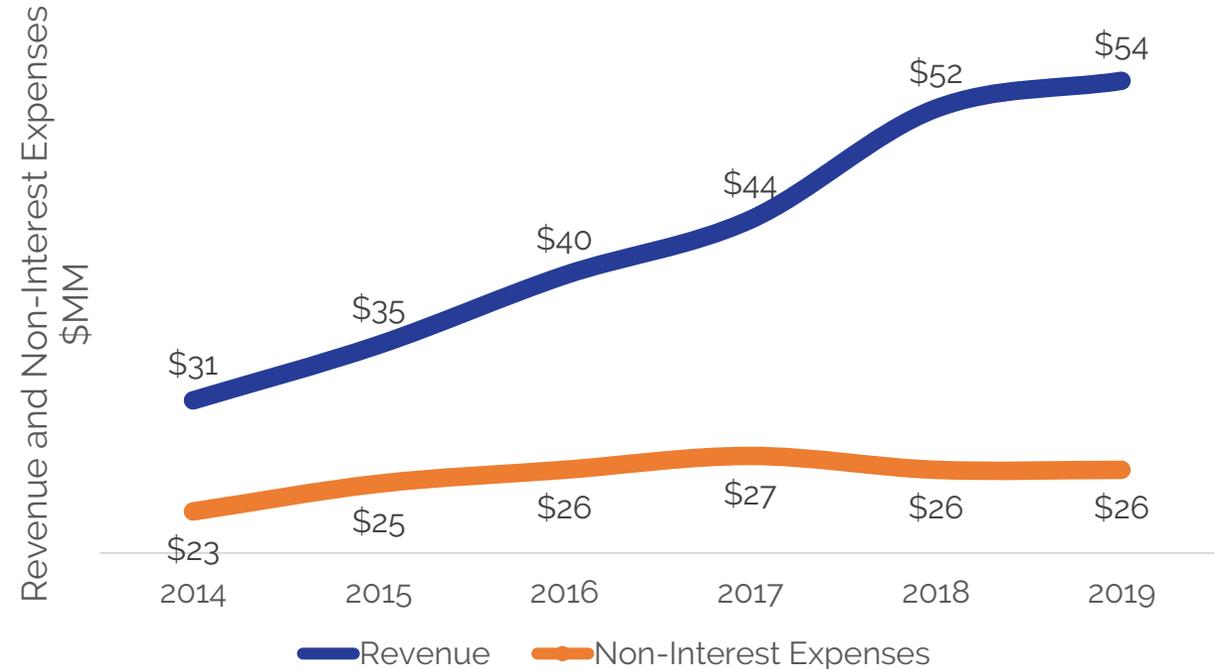
# Significant Operating Leverage

- Cost to Earn \$1 of Revenue Rapidly Decreasing
- Increasingly Efficient Deployment

### Efficiency Trend



### 5 Year Efficiency Ratio Trend

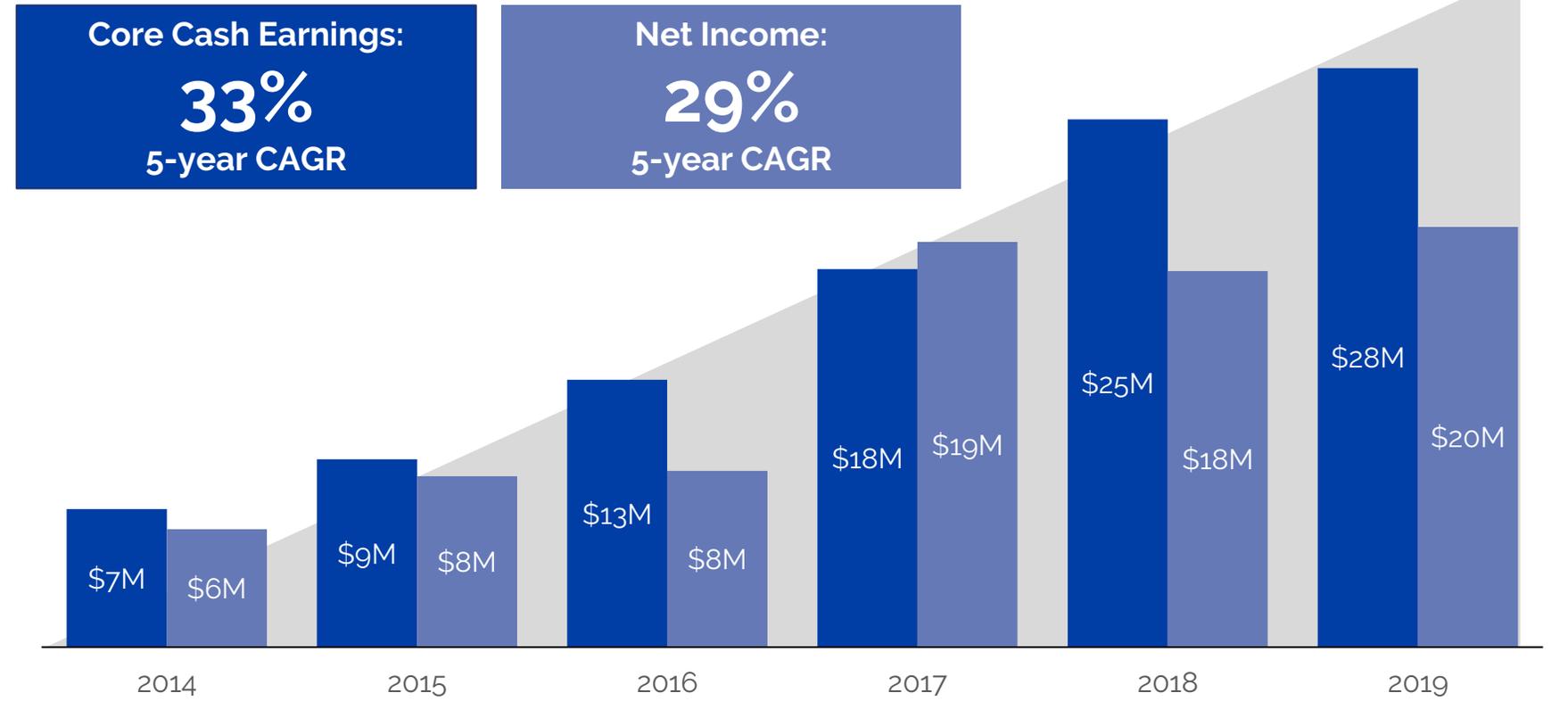


Scalability of the technology platform expected to drive the efficiency trend further lower over the long term

# Five Consecutive Years of Core Cash Earnings Growth – Record Profitability in 2019

Growth since 2014 driven mainly by:

- Lower COF attributable largely to the introduction of Insolvency Professional deposits
- Launch of Point of Sale financing solutions



Core Cash Earnings = pre-tax earnings adjusted for non-core operating income/expenses

Momentum in core operational performance and long-term earnings capacity

# Growth Strategy: Momentum for the Future

1.

**Further Reduce Cost of Funding**  
to Expand Net Interest Margin

**Expand insolvency deposits:** higher volumes with existing partners and adding new partners

**Expand wealth management deposits** by adding new partners

**Introduce commercial deposit offerings** to new markets

**Launch new low-cost deposit offerings**

2.

**Grow Loan Portfolio**  
via New Near-Term Opportunities and Existing Offerings

**Near term: Pivot to public sector construction project financing**

**Mid-Term: Expand Point of Sale Financing loan portfolio** through the addition of new partners and higher volumes from existing partners

**Launch Instant Mortgage:** Application of Point of Sale Financing technology for the retail mortgage market (lower risk weighted asset)

3.

**Pursue Accretive Acquisitions**  
to Leverage Scalability of Technology Platform

**Generate capital-efficient, step function growth** in loan portfolio

**Current environment expected to create new opportunities**

**Vision: Double the Bank's assets** by continuing to address unmet needs with innovative, custom technology-based banking solutions that complement the full-service banks' generic offerings

# Leveraging the Success of the Point of Sale Business for the Real Estate Market: Instant Mortgage

## Market Need:

A software-based solution for home and condo developers and sales brokerages that enables “on-the-spot” financing approvals, with a specific focus on newcomer home and condo buyers with significant wealth but no credit history in Canada



## Solution: Instant Mortgage –

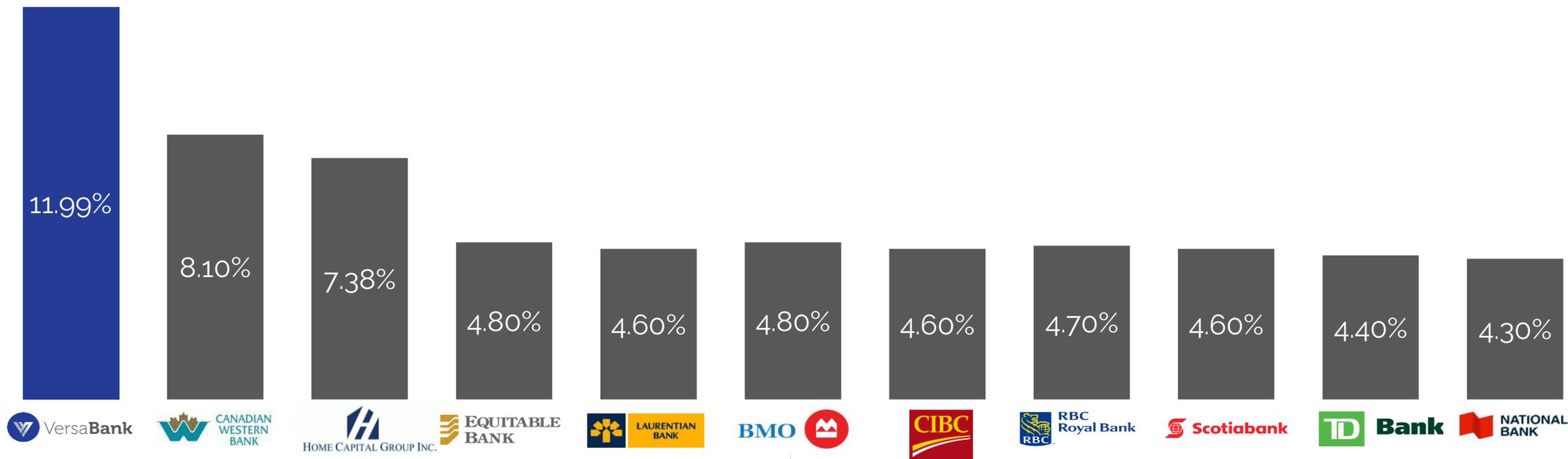
A revolutionary high-volume residential financing software app for home builders and brokerage firms

- Very low-risk structure similar to Point of Sale Loan and Lease model with cash holdbacks
- Currently in beta-testing with a leading Canadian developer and a leading Canadian sales brokerage firm

Will enable entry into the >\$200 B Canadian home financing market

# Well Capitalized to Power our Growth

## Comparative Leverage Ratios



Note: All figures at July 31, 2020 except Home Capital Group and Equitable Bank which are at June 30, 2020.

3x the leverage ratio of the large Canadian Schedule I banks  
Currently up to \$2.5B available for deployment

# Leveraging Our Banking Technology DNA: Large-Market Opportunities Beyond Our Core Business

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**“We have been engaged in a fifth-dimension war, a cyberwar.”**

**-Tom Ridge  
First US Secretary of Homeland Security**

**“Encryption works. Properly implemented strong crypto systems are one of the few things that you can rely on.”**

**-Edward Snowden**

**\$13M** average cost of cybercrime for an organization

**-Accenture: 9<sup>th</sup> Annual Cost of Cybercrime Study (2019)**

**\$133.7B** forecast of global spending on cybersecurity in 2022

**- Gartner, Inc. (2018)**

**\$8T** estimated cost of cybercrime to businesses from 2019 to 2024

**- World Economic Forum:  
The Global Risks Report (2018)**

COVID-19 pandemic is highlighting the necessity of cybersecurity

# Leveraging Our Banking Technology DNA: Large-Market Opportunities Beyond Our Core Business

## Canadian banks are leaders in cyber security and VersaBank is a cyber security leader among Canadian banks

- At the leading edge of the next generation of security-focused banking solutions
- Commercialization of internal mission critical software – platform for broad application
- Development capability with minimal capital investment and operating costs
- Core technology capabilities enable rapid development commercialization

## DRT Cyber, Inc.

### Developing innovative solutions to address the rapidly growing volume of cyber threats for financial institutions, multi-national corporations and government entities

- Wholly-owned subsidiary (Washington, DC)
  - **Honorable Tom Ridge, Chairman** – First US Secretary of Homeland Security
  - **Avery Pennarun, Director** – Former Senior Software Engineer at X Inc., Google Fiber, and Google Inc.
  - **Gurpreet Sahota, Chief Operating Officer** – Former Principal Cyber Security Architect at Blackberry
- Commercialization of first product: VersaVault – Digital Safety Deposit Box
- Additional security solutions in various stages of development

# Q3 2020: Continued Strong Financial Results

## Income Statement

	3 Months Ended July 31			9 Months Ended July 31
	2020	2019	Change	2020
Revenue	\$12.4 M	\$14.1 M	-12%	\$40.5 M
Cost of Funding	1.59%	1.98%	-39 bps	1.77%
Net Interest Margin	2.53%	3.12%	-59 bps	2.91%
Core Cash Earnings <sup>1</sup>	\$6.0 M	\$6.8 M	-12%	\$20.2 M
Core Cash Earnings Common Share	\$0.29	\$0.32	-\$0.03	\$0.96
Net Income	\$4.4 M	\$5.0 M	-12%	\$14.7 M
Basic and Diluted Net Income per Common Share	\$0.18	\$0.21	-\$0.03	\$0.62

1. Core Cash Earnings is calculated as pre-tax earnings less non-core operating income/expenses.

## Balance Sheet

	At July 31		
	2020	2019	Change
Total Assets	\$1.93 B	\$1.78 B	+9%
Book Value per Common Share	\$10.52	\$9.77	+8%
CET1 Ratio	14.11%	12.71%	+140bps
Leverage Ratio	11.99%	11.90%	+9bps

Cash balance at end of Q3/20 of \$354 M – ~18% of average assets compared with historical ranges of 6-7%

Cash balance (including liquid securities) during Q3 peaked at >\$400 M (Q3 average of ~\$370 M)

Q3 profitability dampened by decision to temporarily maintain higher cash balances (~3x historical range) out of an abundance of caution in an uncertain economic environment

Conservative, prudent, low-risk model built for stability and resilience in all economic environments

## Risk Mitigation

- Fully functional solution
- Branchless model inherently mitigates impact of physical distancing protocols
- All employees able to work remotely with state-of-the-art security through recently implemented, internally developed VPN
- Point of Sale financing loans protected by holdback structure
- Already exercising caution in the Commercial Lending portfolio prior to COVID-19 pandemic
- Focused on the prudent mitigation of elevated credit and liquidity risk exposures in the uncertain economic environment

## Opportunities

- Anticipated unprecedented increase in bankruptcies expected to drive insolvency professional deposits, supporting net interest margins
- Near-term contraction in “big ticket” consumer purchases expected to constrain short-term growth but could see significant rebound when economy returns to growth
- Opportunity, capability and experience to pivot to public sector mortgage financing as governments ratchet up infrastructure spending

# VersaBank: The bank of the future...today



Proven Ability to  
Identify Unmet  
Market Needs &  
Develop Innovative  
Banking Solutions

Efficiency

Industry Leading  
Interest Net Margins

Below Average Risk



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## **Appendix**

Board of Directors & Management Team

# Board of Directors

**Honourable Thomas A. Hockin**

Chairman

**David Taylor**

President & CEO

**Gabrielle Bochynek**

Director

**Robbert-Jan Brabander**

Director

**David Bratton**

Director

**R.W. (Dick) Carter**

Director

**Colin Litton**

Director

**Susan McGovern**

Director

**Paul Oliver**

Director

**Art Linton**

Director

# Senior Management

**David Taylor**

President & Chief Executive Officer

**Shawn Clarke**

Chief Financial Officer

**Gurpreet Sahota**

Chief Architect, Cyber-Security

**Barbara Hale**

Chief Compliance Officer & Chief Anti-Money Laundering Officer

**Nick Kristo**

Chief Credit Officer

**Joanne Johnston**

Chief Internal Auditor

**Wooi Koay**

Chief Information Officer

**Aly Lalani**

Chief Risk Officer & Treasurer

**Tel Matrundola**

Chief Strategist

**Ross Duggan**

SVP, Commercial Lending

**Jonathan Taylor**

SVP, Deposit Services & Chief HR Officer

**Michael Dixon**

SVP, eCommerce

**Steve Creery**

Vice President, Credit

**Andy Min**

VP, Finance & Corporate Accounting

**Scott Mizzen**

VP, Real Estate Lending

**Jean-Paul Beker**

VP, Real Estate Lending

**David Thoms**

VP, Structured & Corporate Finance

**Brent Hodge**

General Counsel & Corporate Secretary

# We're Just Getting Started!



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