



VersaBank

Choice Through Innovation

Annual General Meeting
April 22, 2020



David Taylor
President & CEO



Board of Directors

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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

(prospective Director)

Avery Pennarun

Director

Senior Management

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David Taylor

President & Chief Executive Officer

Shawn Clarke

Chief Financial Officer & Corporate Secretary

Nick Kristo

Chief Credit Officer

Michael Dixon

SVP, eCommerce

Ross Duggan

SVP, Commercial Lending

Jonathan Taylor

SVP, Deposit Services & Chief HR Officer

Tel Matrundola

Chief Strategist

Gurpreet Sahota

Chief Architect, Cyber-Security

Jean-Paul Beker

Vice President, Real Estate Lending

Steve Creery

Vice President, Credit

Barbara Hale

Chief Compliance Officer & Chief Anti-Money Laundering Officer

Joanne Johnston

Chief Internal Auditor

Wooi Koay

Vice President, Information Technology

Aly Lalani

Chief Risk Officer & Treasurer

Andy Min

Vice President, Finance & Corporate Accounting

Scott Mizzen

Vice President, Real Estate Lending

David Thoms

Vice President, Structured & Corporate Finance



Appointment of Auditors



Director Nominees

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- Honourable Thomas A. Hockin
- David Taylor
- Gabrielle Bochynek
- Robbert-Jan Brabander
- David Bratton
- R.W. (Dick) Carter
- Colin Litton
- Susan McGovern
- Paul Oliver
- Art Linton



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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 we conduct operations; the effect of changes in interest rates; the effects of competition in the markets in which we operate; 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.

“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

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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

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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

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



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

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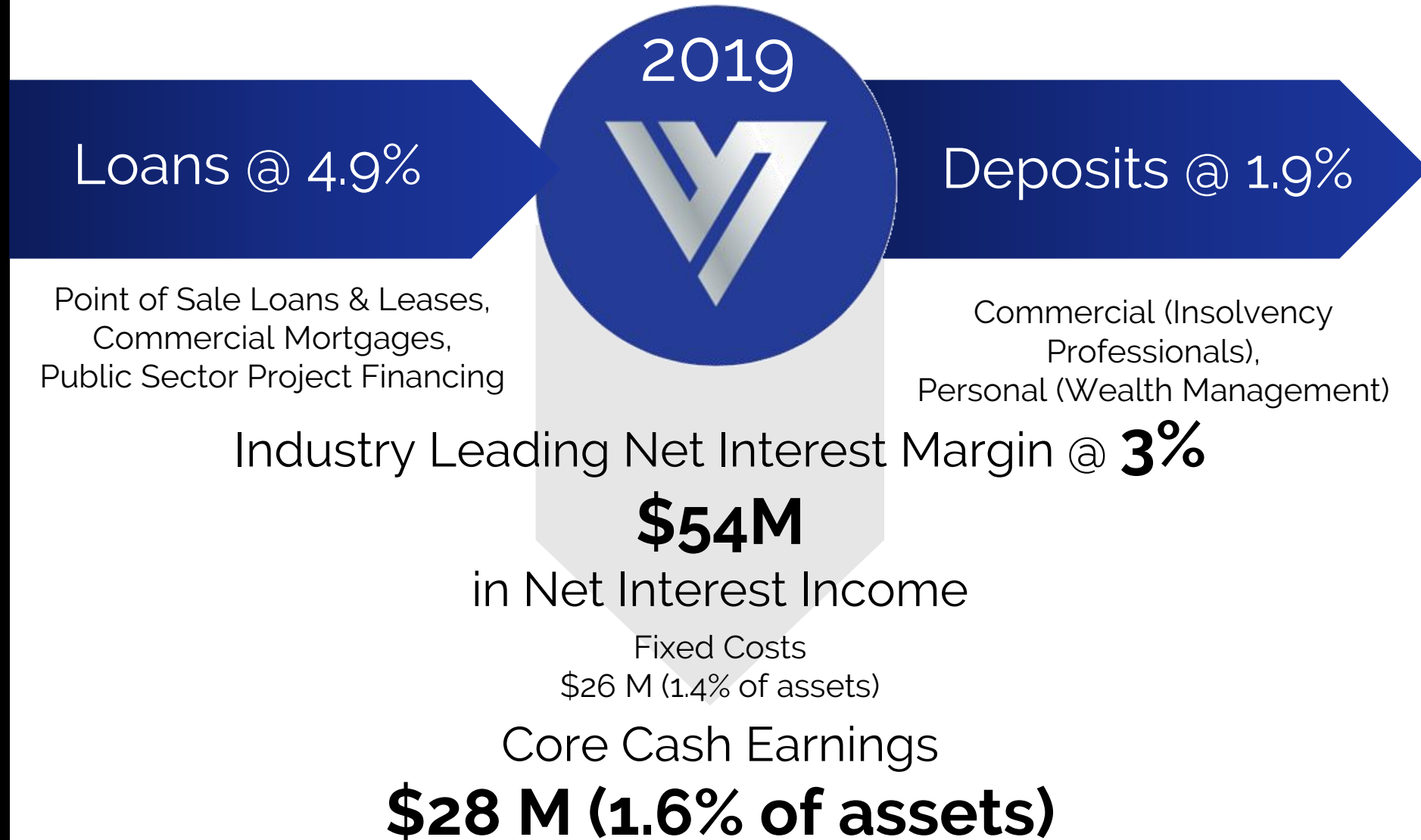
- State-of-the art, proprietary technology platform
 - Flexibility built into software from day 1
 - Developed and maintained entirely in-house
 - Continuous refinement and enhancement
 - Expert team of more than 25 software engineers (>25% of workforce)
 - Software team integrated with business leads 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

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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

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~26,000 Depositors Through
>220 Deposit Partners

~156,000 Borrowers Through
>120 Lending Partners

Insolvency Professionals (>100 Offices)



Wealth Management (>120 Partners)



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

Point of Sale Financing (Loans and Leases)



Commercial Mortgages



\$1.5B in deposits¹

\$1.7B in loans¹

Proven Track Record 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 \$440M¹ in deposits in ~7 years

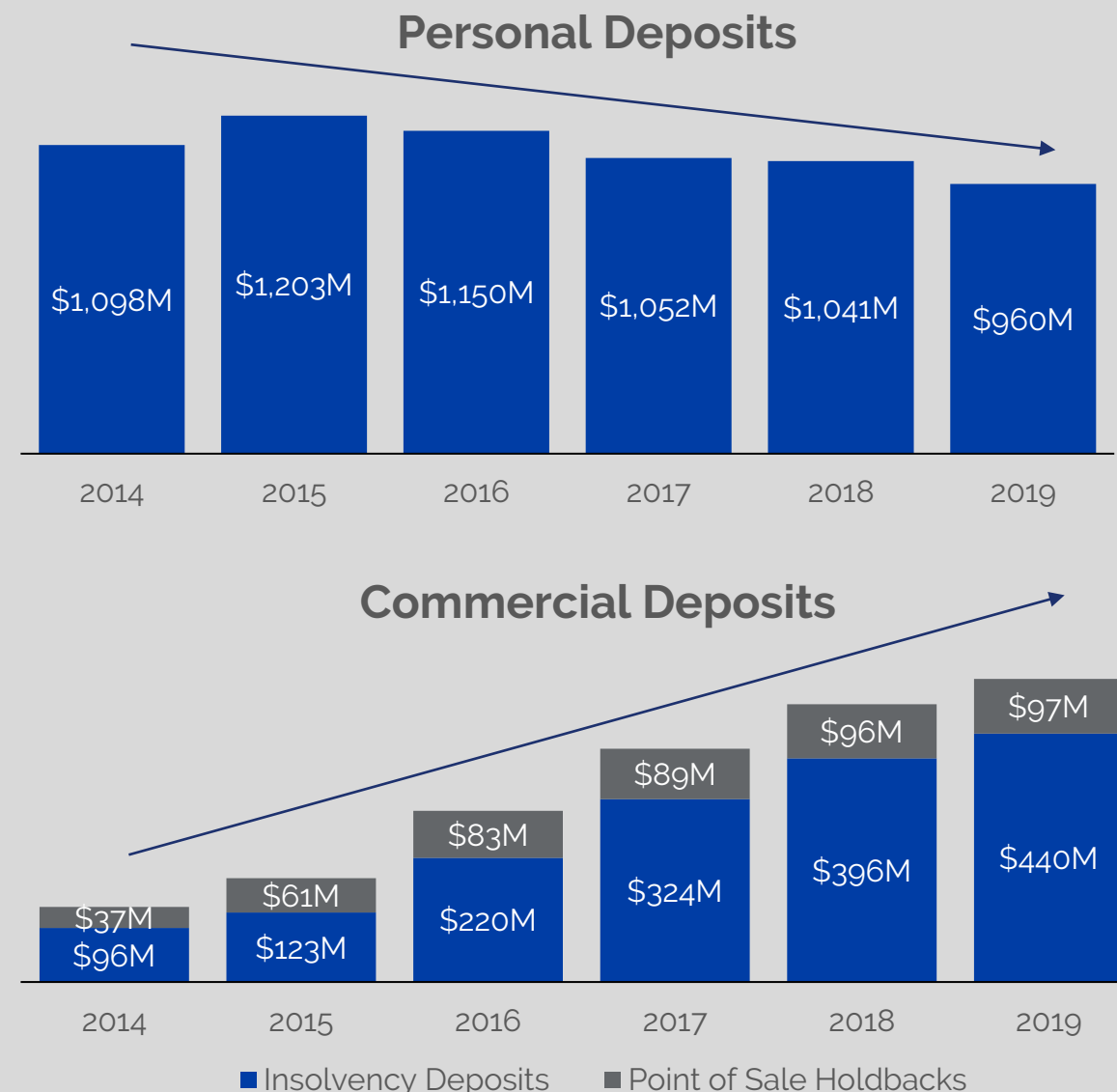
1. At October 31, 2019.

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

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- 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



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



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- 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



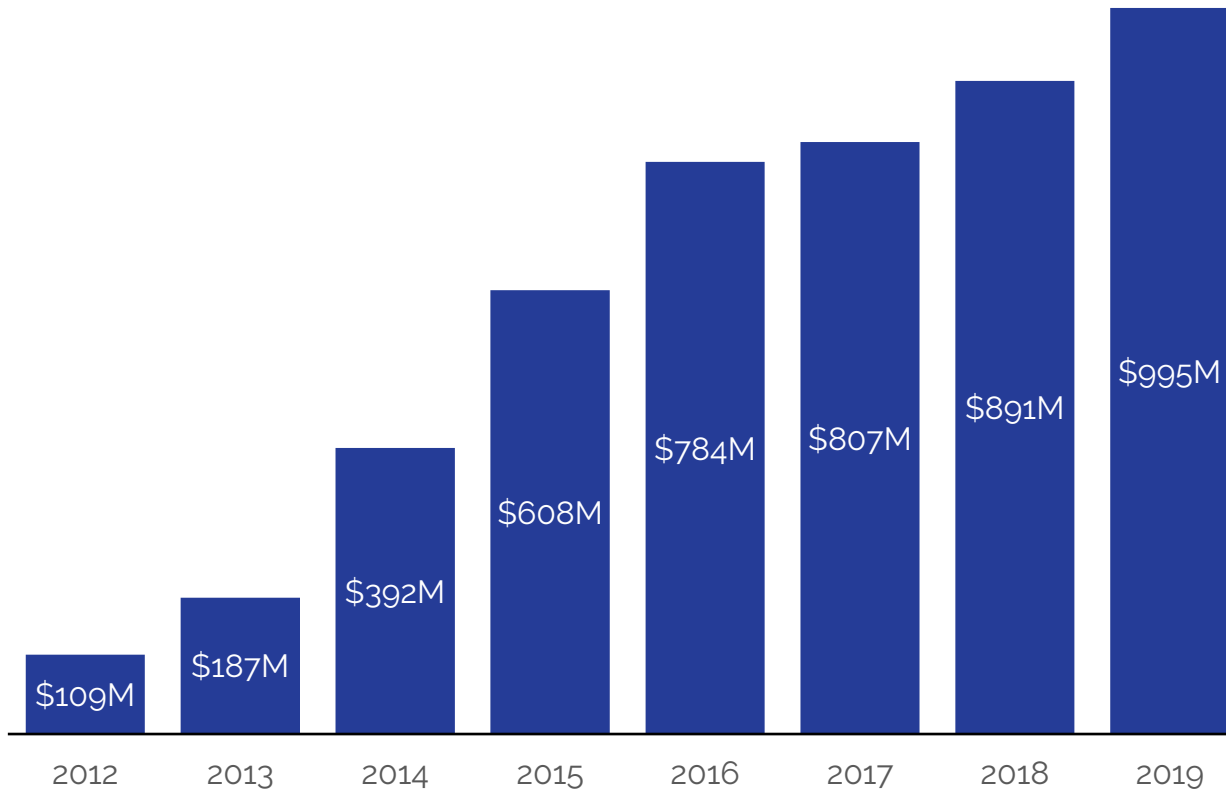
Grown from zero to 19 partners with 1.1B in assets in ~7 years

Beta-testing new application of Point of Sale software for home/condo developers

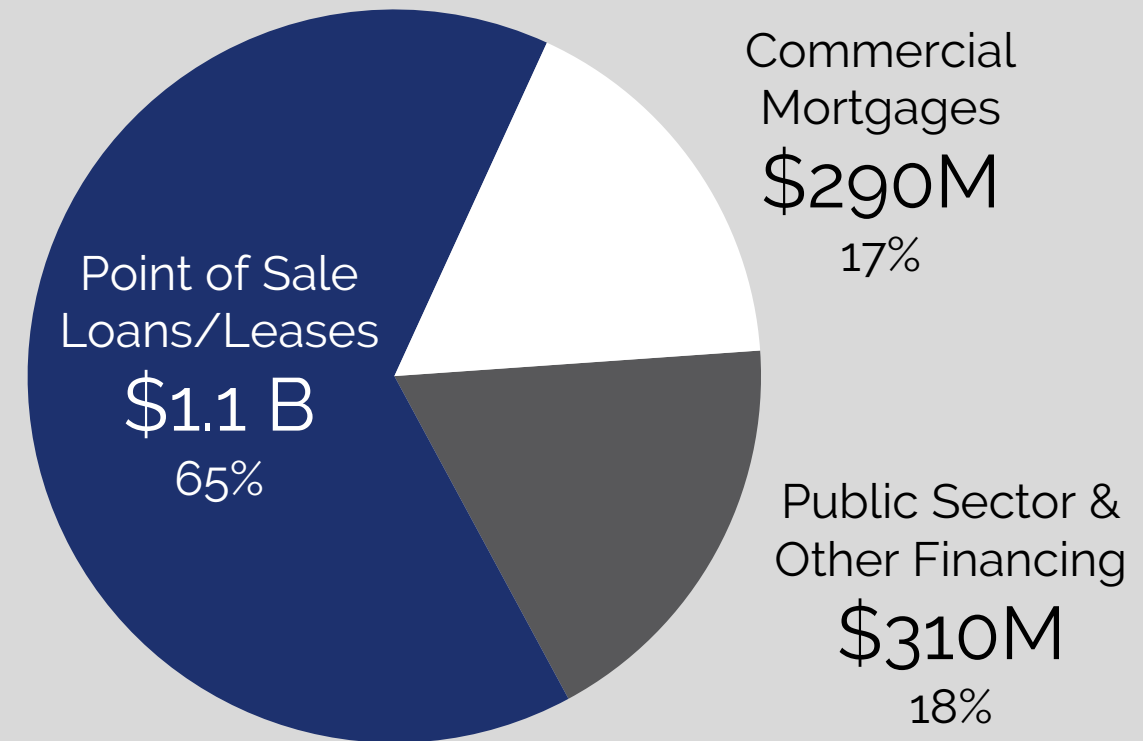
Growing Higher Margin, Lower Risk-Weighted Point of Sale Loans and Leases

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Rapid Growth in Point of Sale Financing



Loan Portfolio Breakdown (at Jan. 31/20)



Point of Sale loans/leases have increased as a proportion of total loan portfolio to 65% at end of Q1 2020 from 45% at end of 2014

Leading the Canadian Banking Industry in Risk Mitigation and Management

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Low Liquidity Risk

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

Current liquidity ratio
(April 21, 2020)
>15%

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

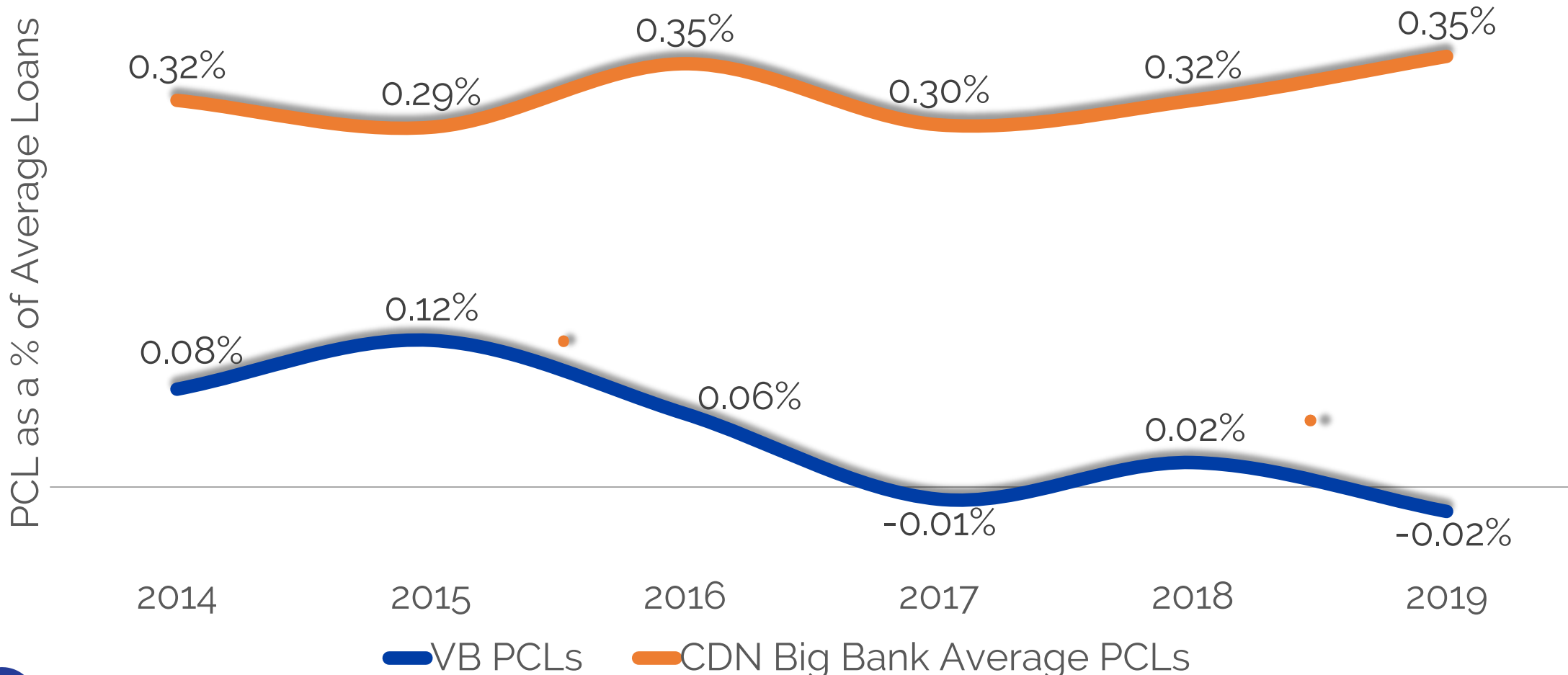
Low Operational Risk

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

Conservative leverage ratio of 11.86%¹: Highest among schedule banks and nearly 3x that of the public Schedule 1 banks

1. At January 31, 2020.

Industry Leading Provision for Credit Losses



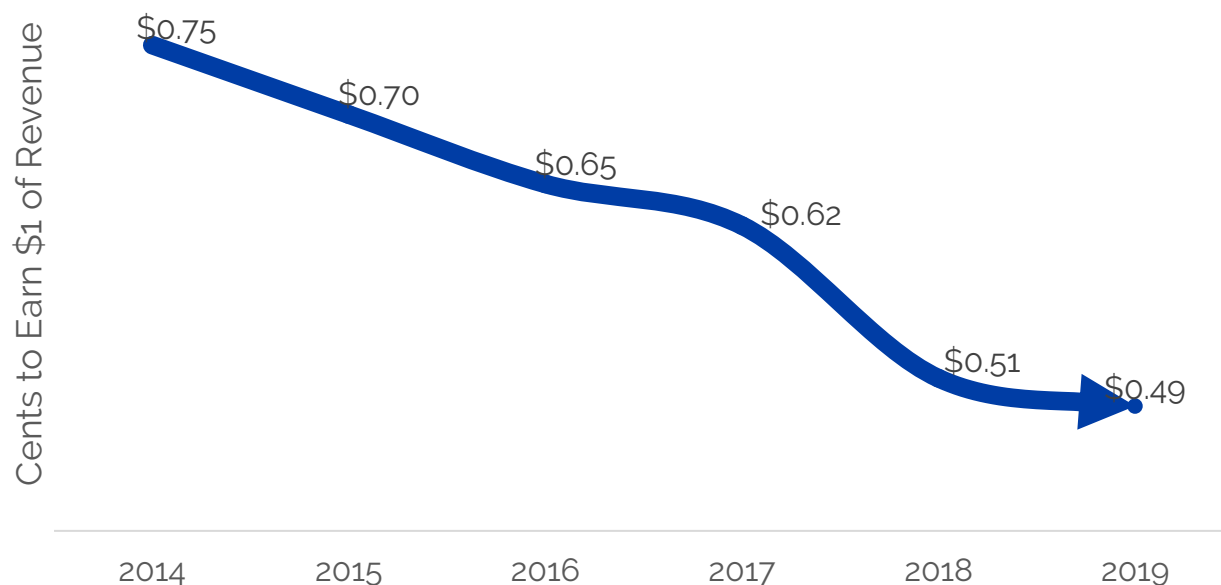
Significant Operating Leverage

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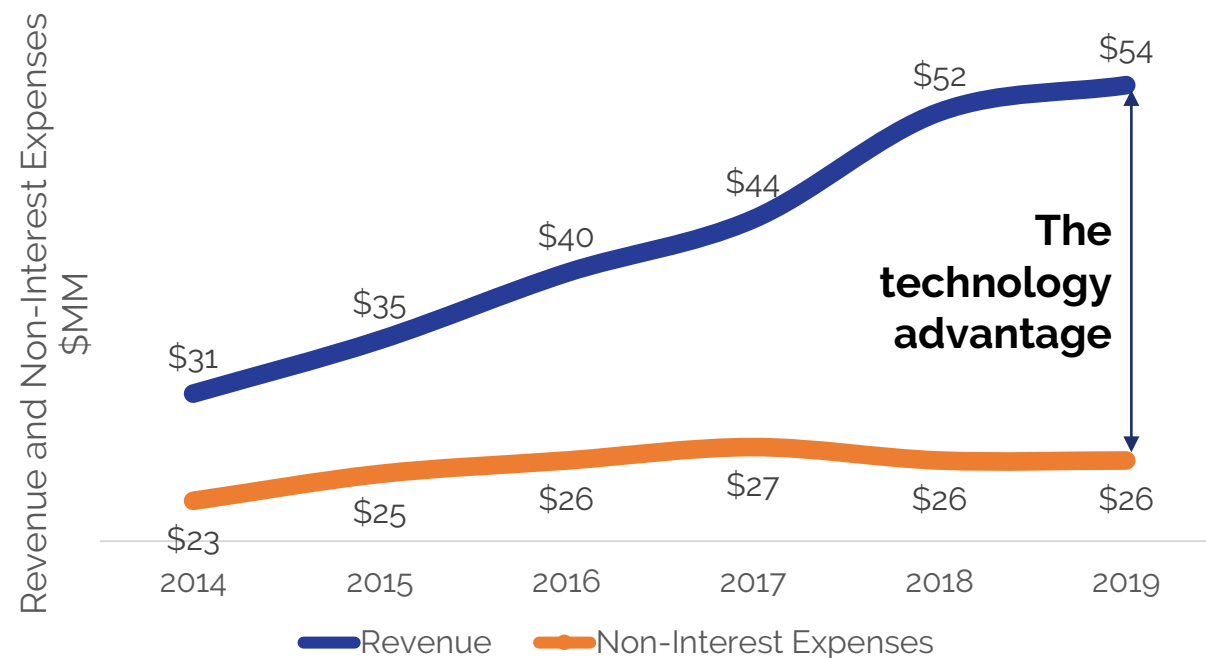
Cost to Earn \$1 of Revenue Rapidly Decreasing

Increasingly Efficient Deployment

Efficiency Trend



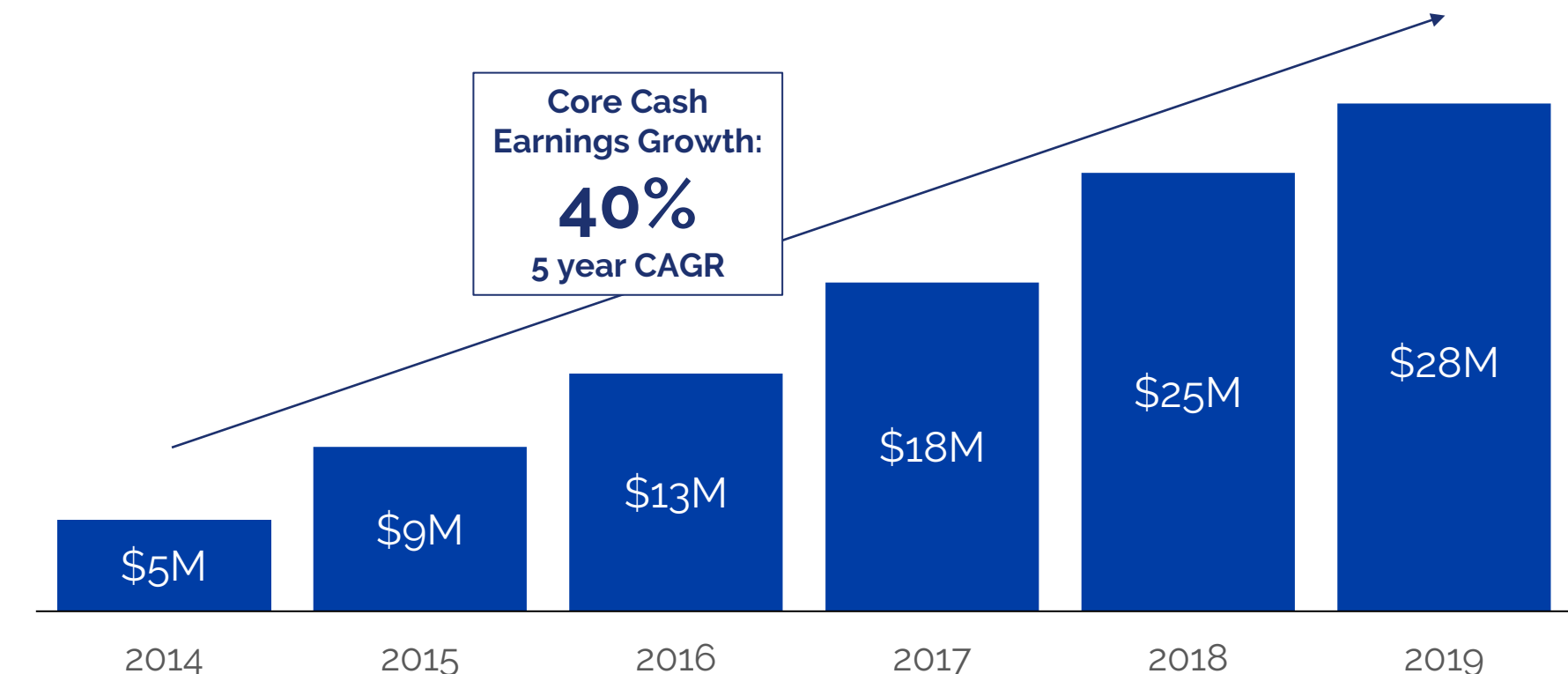
5 Year Efficiency Ratio Trend



Five Consecutive Years of Core Cash Earnings Growth

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Growth since 2014 driven mainly by introduction of Insolvency Professional deposits and 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

We're Just Getting Started!



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1.

Further Reduce Cost of Funding to Expand Net Interest Margin

- Continue to increase proportion of lower-cost commercial deposits
- Expand insolvency deposits: higher volumes with existing partners and adding new partners
- Introduce commercial deposit offerings to new markets
- Expand wealth management deposits by adding new partners
- Launch new deposit offerings (e.g. US dollar deposit offering)

2.

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

- Near term: Pivot to public sector construction project financing
- Longer Term: Expand Point of Sale Financing loan portfolio through the addition of new partners and high volumes from existing partners
- Launch Direct Connect: 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

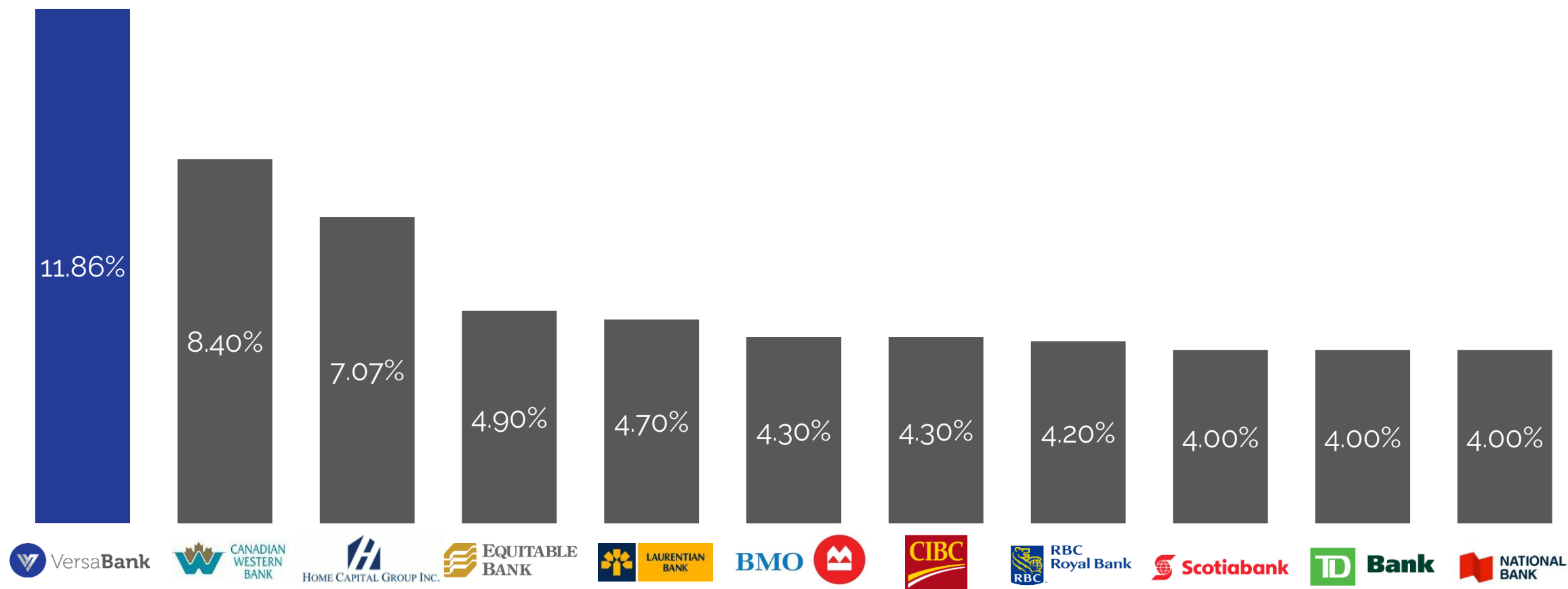
- Generate capital-efficient, step function growth in loan portfolio
- Current environment expected to create new opportunities

Continue to generate industry leading net interest margin with below average risk

Well Capitalized to Power Our Growth

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Comparative Leverage Ratios



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: 9th 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

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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

Q1 2020: Continuing the Momentum of a Record Year

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Net Income \$5.1M up 4%	EPS \$0.22 up 5%	Core Cash Earnings \$7.1 M up 4%	Core Cash EPS \$0.34 up 6%
Total Assets \$1.85B up 6%	Point of Sale Loans/Leases \$1.1B up 15%	Commercial Loans \$603M down 11%	CET1 13.05% up 79 bps
Yield 4.84% down 6 bps	Cost of Funds of 1.88% down 2 bps	Net Interest Margin 2.96% down 4 bps	Leverage Ratio 11.86%

Note: All increases/decreases are relative to Q1 2019.

Near-Term Environment: Risk Mitigation and Opportunities

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Risk Mitigation

- Conservative, prudent, low-risk model
- Built for stability and resilience in all economic environments
- 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 Loan portfolio prior to COVID-19 pandemic

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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Q&A Session

Toll Free Dial In (Canada/US):

1-866-696-5894

Local Dial In:

416-641-6150

Participant Passcode:

6074633#



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