



Versa**Bank**

Choice Through Innovation

Q2 2020 Conference Call Presentation
May 27, 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 the local economies within Canada in which the Bank conducts operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; global commodity prices; the effects of competition in the markets in which the Bank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; the impact of the COVID-19 pandemic and the Bank's anticipation of and success in managing the risks implicated by the foregoing. When relying on forward-looking statements to make decisions, investors and others should carefully consider these factors and other uncertainties or potential events. For a detailed discussion of certain key factors that may affect our future results, please see our annual MD&A for the year ended October 31, 2019. The Bank makes no undertaking to update any forward-looking statement that is made from time to time by the Bank.

For those wishing to ask questions during the Q&A, please access today's call through the telephone dial-in:

Toll-free: 1 (800) 898-3989 (Canada/US)
Local: (416) 406-0743
Passcode: 2134015#



David Taylor

President & CEO





**Conservative, prudent,
low-risk model**

**Built for stability and
resilience in all economic
environments**



- Branchless, technology based model inherently mitigates impact of physical distancing protocols
- All employees able to work remotely with state-of-the-art security through recently implemented VPN, developed in partnership with Tailscale
- Continue to strengthen and enhance its risk management processes, with specific focus on the prudent mitigation of potentially elevated credit and liquidity risk exposures
- Point of Sale financing loans protected by holdback structure - extremely low exposure
- Temporarily increased cash balance

Q2 2020: Continued Strong Financial Results

Income Statement

	3 Months Ended April 30		
	2020	2019	Change
Revenue	\$14.9 M	\$12.7 M	+14%
Cost of Funding	1.75%	1.94%	-19 bps
Net Interest Margin	3.08%	2.95%	+13bps
Core Cash Earnings ¹	\$7.1 M	\$6.7 M	+5%
Core Cash Earnings Common Share	\$0.34	\$0.32	+\$0.02
Net Income	\$5.1 M	\$4.9 M	+5%
Basic and Diluted Net Income per Common Share	\$0.22	\$0.21	+\$0.01

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

Balance Sheet

	At April 30		
	2020	2019	Change
Total Assets	\$1.97 B	\$1.80 B	+9%
Book Value per Common Share	\$10.37	\$9.58	+8%
CET1 Ratio	13.50%	12.17%	+133bps
Leverage Ratio	11.48%	11.43%	+5bps

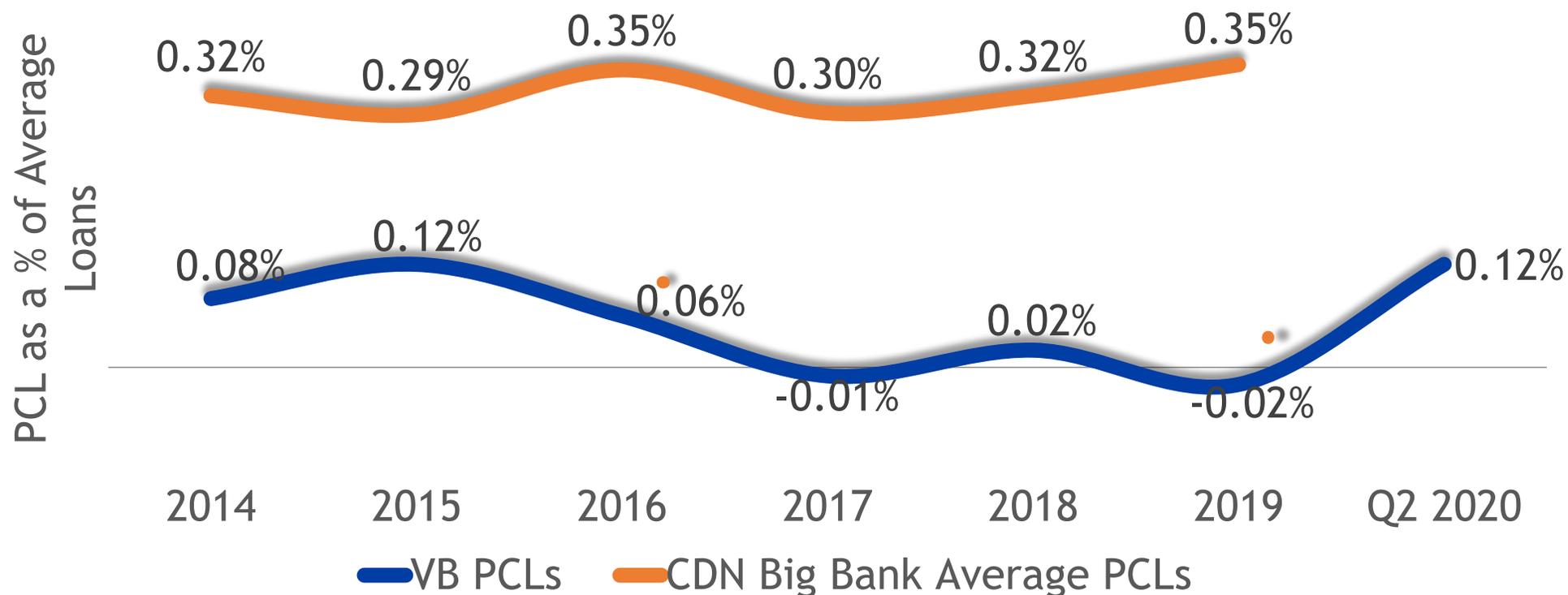
Cash balance at end of Q2/20 of \$340 M – 17% of average assets compared with historical ranges of 6-7%

Cash balance since increased to \$420 M (May 27/20)

Strong Q2 2020 results dampened by conservative stance and higher PCLs
Record revenue due to strong NIM driven by lower cost of funds and higher fees
Net interest margin would have been in the range of ~3.5% at historical cash levels

Industry Leading Provision for Credit Losses (PCLs)

Q2 2020: Increased PCLs by \$490,000 out of an abundance of caution



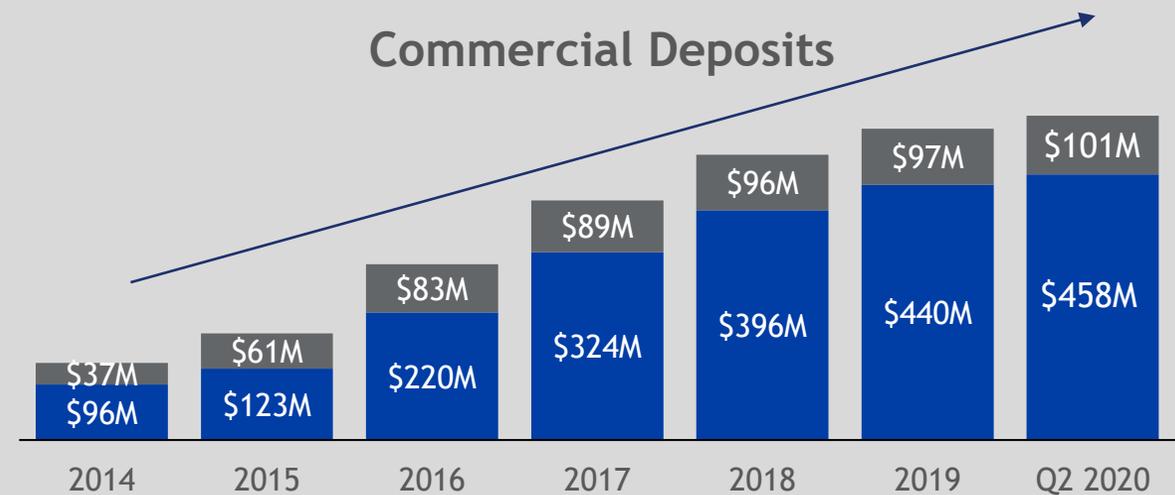
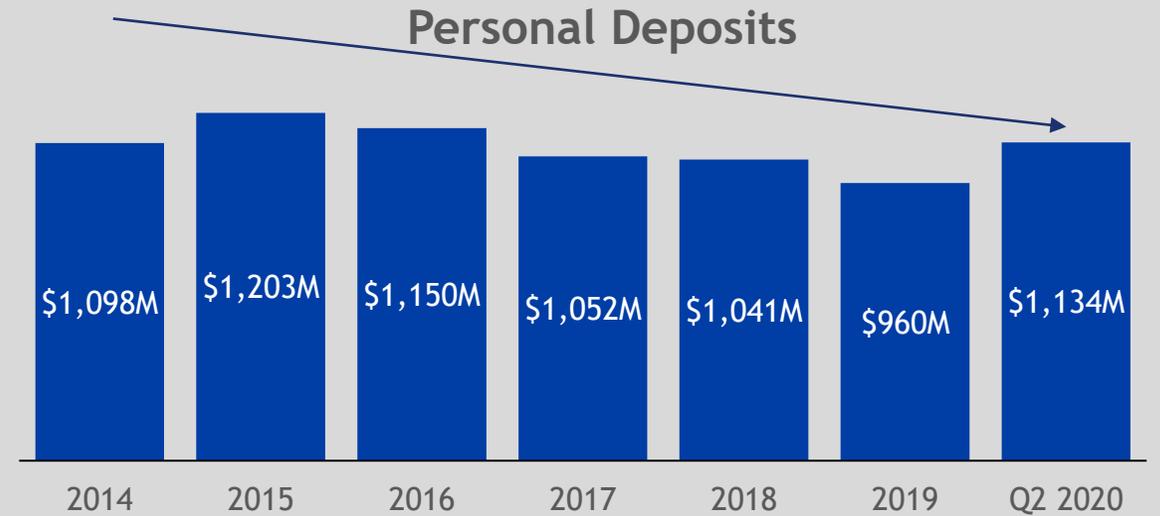
Only a negligible provision made for Point of Sale Financing Portfolio

Continued to Lower Cost of Funding

- Continued strategic shift of deposit mix to lower cost deposits
 - Reducing higher cost personal deposits
 - Increasing lower cost commercial deposits

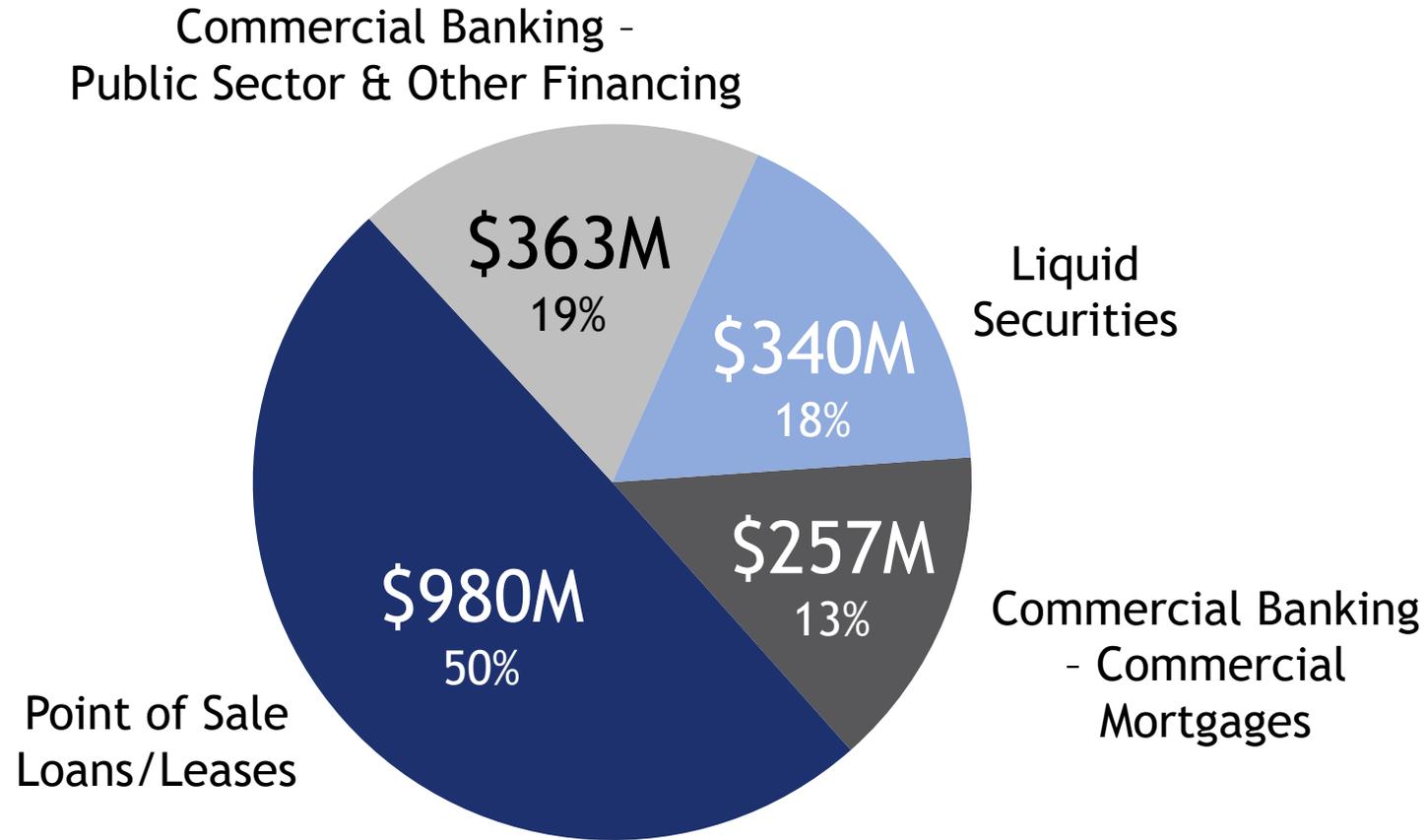
Q2 2020 cost of funds decreased 19 bps to 1.75% vs Q2 2019

0% interest¹ Insolvency Professional deposits increased >13% vs Q2 2019



1. Current rate.

Strong Year-over-Year Growth in Assets to \$1.9B



Pivoting back to opportunities in the public sector - expect strong demand as governments undertake stimulus projects and grapple with lost tax revenues

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

**Current liquidity ratio
(May 27, 2020)
>20%**

Conservative leverage ratio of 11.48%¹: Highest among peers and multiples of that of the public Schedule 1 banks

DRT Cyber: 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 and commercialization

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 Chief Architect, Cyber Security at Blackberry
- Commercialization of first product: VersaVault - Digital Safety Deposit Box
- Additional security solutions in development

Remote work/increased online activity, both commercial and personal, is underscoring the importance of security and creating new opportunities

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



VersaBank

Choice Through Innovation

Q&A Session

Toll Free Dial In (Canada/US): 1 (800) 898-3989 (Canada/US)

Local Dial In: (416) 406-0743

Participant Passcode: 2134015#



We're Just Getting Started!



VersaBank

Choice Through Innovation