



Versa**Bank**

Choice Through Innovation

Q3 2020 Conference Call Presentation

August 26, 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.

Post Conference Call Q&A

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: 6797031#



David Taylor

President & CEO



VersaBank
Choice Through Innovation



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 out of an abundance of caution**

Q3 2020: Continued Strong Financial Results

Income Statement

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

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

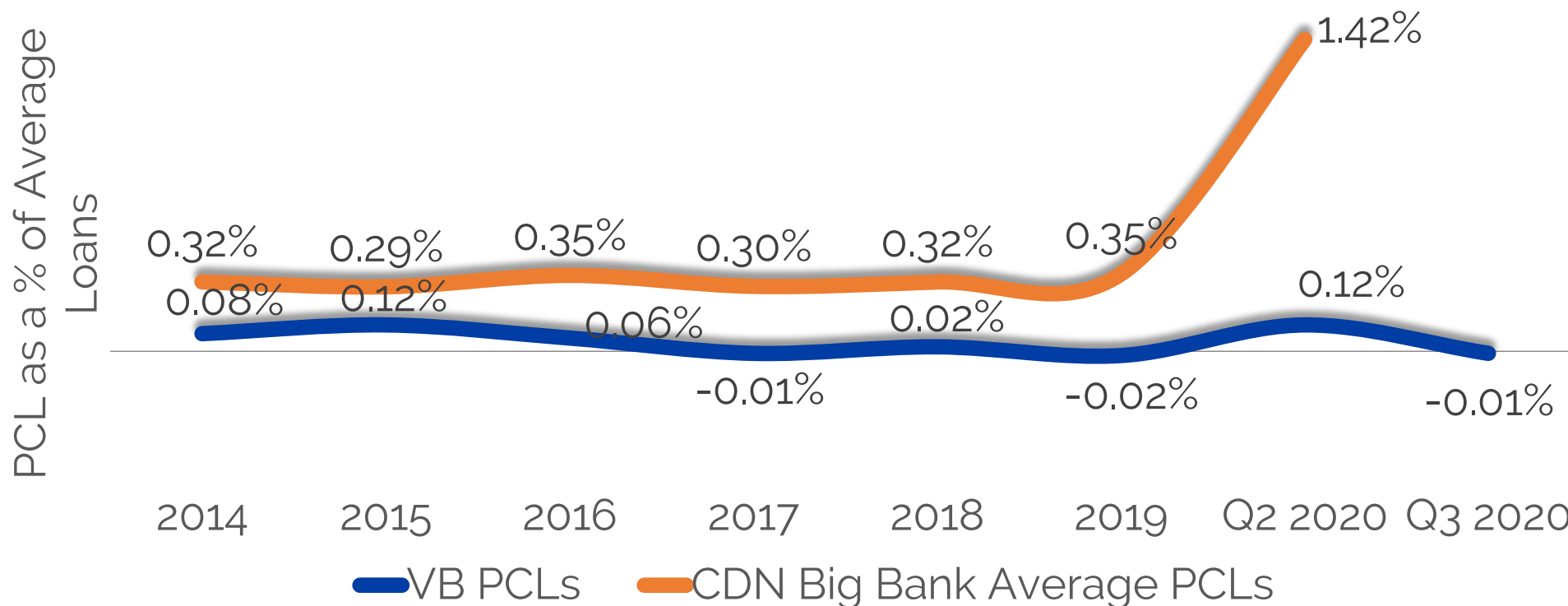
Cash balance at end of Q3/20 of \$354 M – ~18% of average assets compared with historical ranges of 6-7%

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

Industry Leading Provision for Credit Losses (PCLs)

Q3 2020: Recovery of PCLs



No additional provisions for Point of Sale Financing Portfolio – Point of Sale holdbacks continue to be ~4-times estimated intrinsic risk

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

Q3 2020 cost of funds: 1.59%

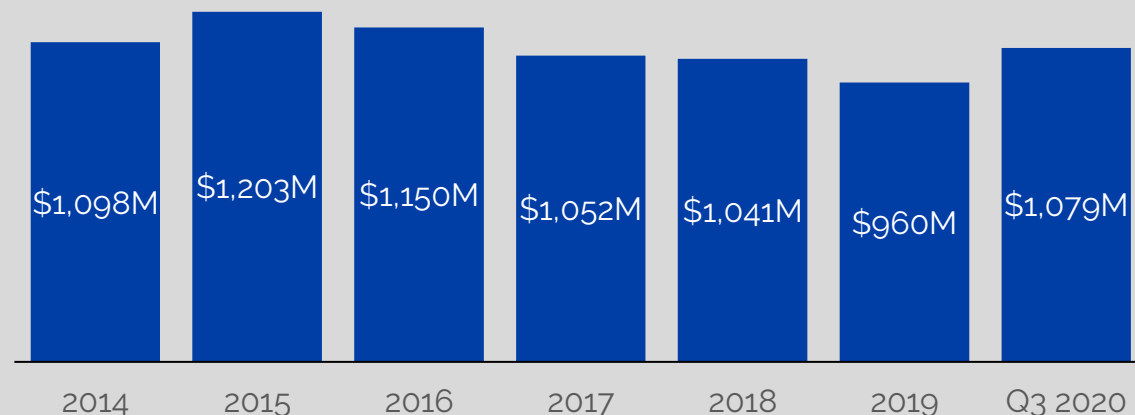
- Decreased 39 bps vs Q3 2019
- Decreased 16 bps vs Q2 2020

0% interest¹ Insolvency Professional deposits increased >15% vs Q3 2019

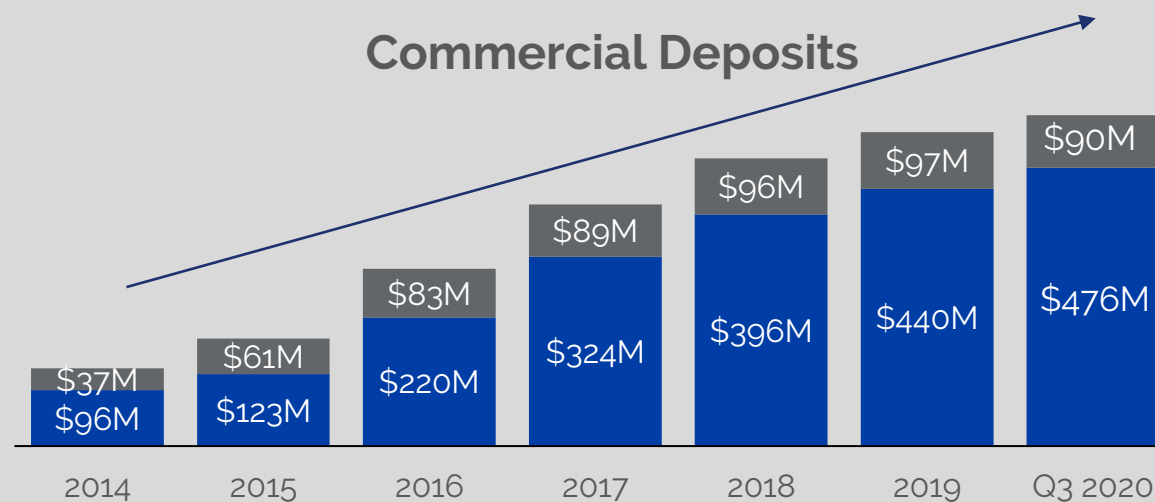


1. Current rate.

Personal Deposits

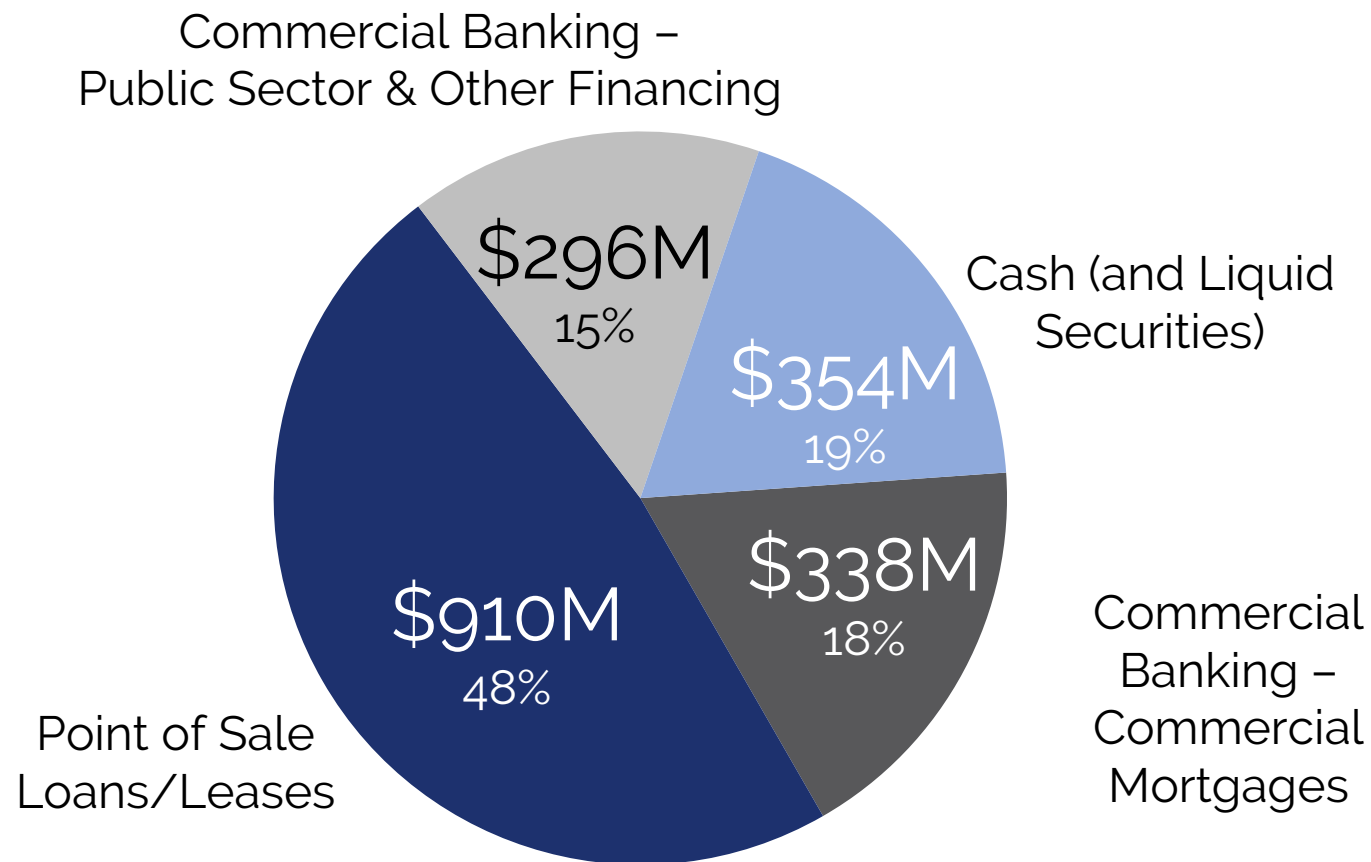


Commercial Deposits



■ Insolvency Deposits ■ Point of Sale Holdbacks

Lending Portfolio



Point of Sale Loans/Leases temporarily contracted due to reduced consumer spending amidst COVID-19 “lock down” – Now seeing renewed Point of Sale activity

Growth Strategy: Momentum for the Future

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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 –

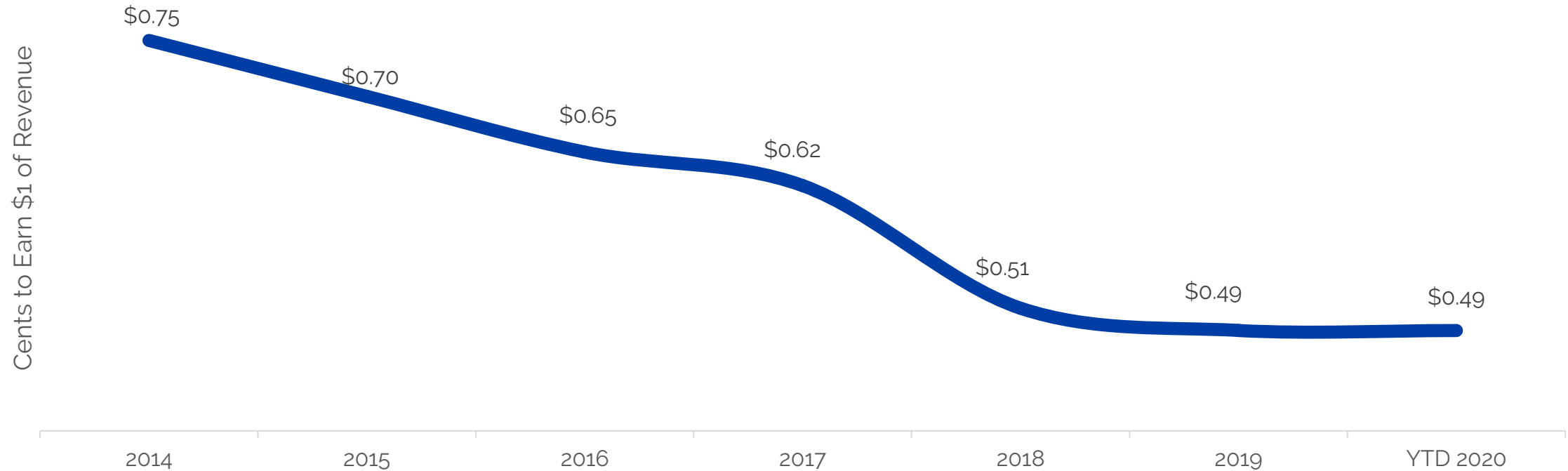
A revolutionary high-volume residential financing software app for home builders and brokerage firms

- 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

Significant Operating Leverage

Efficiency Trend: Cost to Earn \$1 of Revenue Steadily Decreasing



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

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



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Q&A Session

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

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Participant Passcode: 6797031#



We're Just Getting Started!



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