FINAL TRANSCRIPT

VersaBank

Third Quarter Fiscal 2021 Financial Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to VersaBank's Third Quarter Fiscal 2021 Financial Results Conference Call. This morning, VersaBank issued a news release reporting its financial results for the third quarter and year to date ended July 31, 2021. That news release, along with the Bank's financial statements and supplemental financial information, are available on the Bank's website in the Investor Relations section as well as on SEDAR.

Please note that, in addition to the telephone dial in, VersaBank is webcasting its earnings conference call live over the Internet. The webcast is listen-only. If you are listening to the webcast but wish to ask a question in the question-and-answer session following Mr. Taylor's presentation, please dial in to the conference line, the details of which are included in this morning's news release and on the Bank's website. For those participating in today's call by telephone, the accompanying slide presentation is available on the Bank's website. Also, today's call will be archived for replay both by telephone and via the Internet beginning approximately one hour following completion of the call. Details on how to access the replays are available in this morning's news release.

I would like to remind our listeners that statements about future events made on this call are forward looking in nature and are based on certain assumptions and analysis made by VersaBank's management. Actual results could differ materially from our expectations due to various material risks and uncertainties associated with VersaBank's businesses. Please refer to VersaBank's forward-looking statement advisory in today's presentation.

I would now like to turn the call over to David Taylor, President and Chief Executive Officer of VersaBank. Please go ahead, Mr. Taylor.

David Taylor — President & Chief Executive Officer, VersaBank

Thank you, Colin, and good morning, everyone. Thank you for joining us for today's call. With me are Shawn Clarke, Chief Financial Officer and Treasurer, and Brent Hodge, General Counsel and Corporate Secretary.

The third quarter once again saw the continuation of the momentum of our digital banking business as we delivered strong year-over-year growth in all key metrics and, excluding the temporary dampening effects of our US$75 million subordinate note issuance, strong growth sequentially in most metrics, as well.

As discussed on our last call, on April 30th, we completed a private placement with US institutional investors of NVCC-compliant fixed to floating rate subordinate notes payable in the principal amount of US$75 million. This tax-deductible, non-dilutive regulatory growth capital with favourable terms, allowing us to take advantage of both the extremely low interest rates as well as our favourable debt and issuer rating of A- and A, respectively, assigned by US rating agency, Egan-Jones. As the note offering was completed on the last day of the previous quarter, it did somewhat temporarily dampen certain performance metrics for the quarter, as we were paying interest on those notes ahead of putting the capital to work and interest-generating loans.

Q3 and the ensuing months were highlighted by a number of significant operational achievements that will contribute to the continued growth of the bank going forward. Most notably, we took a major step forward with our VCAD digital deposit receipts, initiating closed ecosystem testing; we re-launched our Indigenous and remote community lending program; and our cybersecurity subsidiary, DRT Cyber, entered into two reseller agreements as we continue to build our solution offering. I will discuss each of these more in a few moments.

Total revenue increased 27% year over year to $15.7 million. Net income increased 24% year over year to $5.4 million. Cost of funds decreased eighteen basis points or 11% year over year to 1.41%. Net interest margin increased eight basis points or 3% year over year to 2.61% and I will note here that, adjusting for the impact of the note issuance, net interest margin would have been 2.94%, which is in line with our recent historical net interest margins.

We are especially proud to have achieved this performance amidst the short-term dampening effect of our decision to raise regulatory capital at the end of the second quarter to support the significant opportunities to drive the continued growth of our loan portfolio. As that capital is deployed into interest-generating loans over the coming quarters, we expect net interest margin to return to historical levels and drive continued growth in profitability based on our larger loan portfolio. As a reminder, as Tier 2 regulatory capital, we can deploy that US$75 million more than tenfold. That is, it represents nearly $1 billion in future loan value. To provide some perspective on the quarterly impact, our average cash balance during the quarter was approximately 13% of total assets compared with our historical range of 6% to 7%. This was still slightly elevated due to our very cautious stance at the start of the pandemic, although significantly less so than the prior quarter as we have continued to deploy that cash into new loans. The greater impact to gain was the US$75 million subordinated note offering on the last day of Q2.

Turning to the balance sheet, you can see the continued growth in our total assets, which reached just shy of $2.3 billion at the end of the quarter, up 18% from the end of Q3 last year and 7% from the end of the second quarter. Our cash balance including liquid securities at the end of Q3 was $297 million, which was down significantly from $354 million at the end of Q3 last year when we were still maintaining high cash balances out an abundance of caution in the early months of the pandemic. It is, however, up from $272 million at the end of Q2 of the year, as our continued deployment of cash was more than offset by the net US$73 million of the additional cash from the net proceeds of the subordinated note offering less the preferred share redemption. Adjusting for the note offering, our cash balance would have been approximately C$254 million, which includes the impact of the redemption of the Series 3 preferred shares on April 30th.

Finally, on the balance sheet book, value per share increased 7% year over year and 2% sequentially to $11.29. Our CET1 capital ratio has continued to decline and was 11.94% for Q3, down from 12.52% for Q2 and 11.11% for Q3 last year. This is the result of leveraging our CET1 capital to grow our loan portfolio and drive return on equity. Our leverage ratio also declined 200 basis points year over year to 9.99%, again due to funding our loan portfolio. Both CET1 ratio and our leverage ratio are still well above our target ratios.

The credit quality on our loan portfolio flow remains strong with no impaired loans, no loans in arrears. Provisions for credit losses for Q3 increased to $96,000, mainly due to the larger loan portfolio.

As a result, the Bank's PCL ratio for Q3 increased to 0.02% from a negative 0.07% in Q2 when we recorded a recovery of PCLs. I note that for the last twelve quarters we have averaged a PCL ratio of zero. Amidst the continuing evolution of the pandemic as well as some elevated geopolitical concerns, we continue to operate at a heightened level of diligence to ensure that our origination and underwriting practices remain highly disciplined and focused.

Q3 was another excellent quarter on the deposit side of our business and, in fact, would have been another record low for cost of funds absent the impacts of the note offering. Including the note offering, our cost of funds was 1.41%, down 18 basis points compared to Q3 of last year. When excluding the note offering, cost of funds was actually down three basis points from Q2 to 1.25%. The decreasing cost of funding was again driven by the continued expansion of our insolvency professional deposits on which we currently pay 0% interest. Those increased to $598 million as of the end of Q3, up 7% from the end of Q2 as we continued to onboard deposits from new partners added over the last year. And I will again note this quarter that our business continues to grow in what is relatively a flat market for the types of personal and small business bankruptcies for which our partners rely on us.

Our success in continuing to lower our cost of funding is especially encouraging as we progress towards the commercial launch of our revolutionary digital deposit receipt, VCAD, a highly secure digital deposit based on the Bank's proprietary VersaVault technology and represented one for one by actual Canadian dollar deposits with our Bank. As I mentioned earlier, we have initiated closed ecosystem testing of VCAD to validate the security, processes, procedures, and protocols. Essentially, we are conducting real-time transactions, minting, transferring, and burning VCADs based on real Canadian dollar deposits on the public Stellar blockchain and soon Algorand also.

As I discussed in our last call, VCAD is a natural evolution of our secure digital deposit taking business, which is how we have been raising deposits since we first started nearly 30 years ago. When commercially launched, we expect VCAD to be high demand based on its ability to be used as a digital currency, which also has the backing of an investment grade rated Schedule I bank. It therefore represents a significant potential additional source of very low cost deposits, providing the opportunity to diversify our funding sources and even further reduce our already ultralow cost of funds.

Our total loan portfolio increased 7% sequentially to another record mark of $1.95 billion at the end of the third quarter. That's an increase of 18% for 2021 year to date. The bulk of sequential growth was driven by real estate mortgages in the commercial lending portion of our business and point-of-sale loan and lease business, which were each up 7% sequentially. And I am very pleased to report that, subsequent to the end of Q3, our loan portfolio surpassed the $2 billion mark.

We continue to explore new lending opportunities that further leverage our digital platform. We are re-launching a lending business in which we had great success in the past. In our earlier years, we operated a very active and successful lending business to Indigenous and remote communities. With the recent emergence of an encouraging environment, including the federal government's commitment to closing infrastructure gaps for Indigenous communities, we are thrilled to re-launch this program. And we do so with the addition of two outstanding Indigenous leaders, Roland Bailey, who was appointed the Executive Director of our Indigenous Infrastructure Program, and Robert-Falcon Ouellette, who was appointed Executive Director, Indigenous Housing initiatives. We are excited to contribute to the growth and prosperity of these communities, which are so vital to our nation. We are especially thrilled to begin offering home financing solutions based on our new Instant Mortgage software application, which will focus on meeting the specific needs of Indigenous Canadians in both urban centres and northern communities.

As our core digital banking operations continue to grow in both scale and profitability, in parallel, we are making steady progress in advancing this strategy of our cybersecurity subsidiary, DRT Cyber, to offer a comprehensive suite of solutions to government and businesses based on four pillars: assessment, detection, protection, and privacy.

On the privacy side, in Q2 we launched RAVEN, the first and only fully automated integrated solution that provides complete compliance with all major global anti-spam Legislation, and yesterday we announced a reseller agreement with UK-based Syrenis under which DRT will sell on their subscription-based flagship product, Cassie. Cassie is a world leading consent and preference management solution providing a central single source of truth for all data subjects across a myriad of systems found in multinational corporations. It helps clients comply with increasingly stringent and complex global privacy laws while also managing consent of data to ensure their clients can confidently and legally use the data in marketing activities. Importantly, Cassie integrates seamlessly with our RAVEN solution and we see a lot of potential for revenue synergies here.

On the assessment side, and detection side, during Q3 we entered into a reseller and development agreement with EzoTech, under which DRT added the world's first AI-powered autonomous cybersecurity penetration testing platform to its offering. The addition of EzoTech's complementary solution to Digital Boundary Group's leading on-demand manual penetration casting solution significantly strengthens DRT's value proposition as, with each passing week, the identification of cybersecurity vulnerabilities moves the top of the priority list for more and more IT departments globally. As part of the agreement, DRT will also leverage EzoTech's AI technology to develop and launch what it expects will be the world's first AI-powered automated continuous cybersecurity posture reporting platform for organizations of all types and sizes, further building on DBG's solid foundation.

With the addition of two resellers' agreements for best-in-class products, DRT Cyber is building momentum, providing additional upside beyond the strength of our core additional banking operations. Importantly, we are executing on our growth plan and that will drive value over the longer term.

All in all, Q3 was another strong quarter for VersaBank, setting us up for a strong finish for 2021. Our core digital banking model addresses unmet needs through innovative solutions based on our proprietary software platform through a highly efficient partner-based model. It continues to deliver strong performance with significant new near-term opportunities on the deposit and lending sides of our business that are expected to support continued growth. At the same time, our cybersecurity subsidiary, DRT Cyber, is executing on plan to capitalize on the massive opportunity as a leader in this rapidly growing sector.

And with that, we'd like to open the call to questions. Colin?

Q & A

Operator

Thank you, David. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Okay, your first question comes from Greg MacDonald from LodeRock. Greg, please go ahead.

Greg MacDonald — Analyst, LodeRock Research

Thank you. Good morning, David. How are you?

David Taylor — President & Chief Executive Officer, VersaBank

Very good, thanks, Greg. Beautiful day here in London town.

Greg MacDonald — Analyst, LodeRock Research

Great. Listen I've got two questions, one broad, one a little more specific. The first is just overall outlook for loan growth with the resurgence in the delta variant. I mean it's tough to tell, I know, given the fact that we're coming out of summer, but we've seen some renewed caution on the part of some people that they're concerned about what the delta could mean for economic disruptions in the fall. Is there anything coming out of the summer in terms of loan growth volumes that you might point to, to say that things have changed a little bit or is it just, with the credit loss provision, that's almost entirely or entirely based on the growth in your loan book? Anything to give us a sense of what the outlook for loan growth is going to be in the fall and whether anything has changed in the last quarter.

David Taylor — President & Chief Executive Officer, VersaBank

Well, you're right, the PCL provision was just driven out of the increased size of the loan book and it's driven by models. We are on a trajectory of about 7% per quarter in loan growth in both the real estate and the point of sale. We don't see anything to impede that, mind you, and we're taking into consideration the possible impact of the delta variant. It might be another variant though that could slow things down. But right now we're pretty comfortable with the trajectory that we're on, looking for a strong year end finish and into 2022 it looks even better in that we've been signing up some new partners in the point-of-sale program that are sending more business our way. So, continuation of the growth that you've seen with perhaps even an acceleration in 2022 with the new partners.

Greg MacDonald — Analyst, LodeRock Research

Okay. And extending those questions to the US markets, any more insight there?

David Taylor — President & Chief Executive Officer, VersaBank

Yes. We're working on some US dollar receivables presently. It's taking a little longer than I would have liked. There is, of course, some US laws, security laws, to take into consideration. But we're excited about the opportunity in the United States. It's a huge market and it appears that our particular method of financing receivables is without peers, so we may be able to bring a real valuable new program for US point-of-sale finance companies. So I'd look in the fourth quarter for us to have done our first deal.

Greg MacDonald — Analyst, LodeRock Research

Okay, great. And on the second, a little bit more specific, I'm curious about the re-launch of the Indigenous and remote community lending business. And I know we've all got an idea that, from the political environment, more money is going to be spent. Sometimes there is a delay between political announcements and when you actually see execution. Can you talk a little bit about, you know, provide more details on what you're seeing there, specifically with respect to timing and any outlook on size to one of might mean? But it is a pretty exciting opportunity.

David Taylor — President & Chief Executive Officer, VersaBank

Yeah. In the past it was a wonderful business for us. We provided financing for schools, hospitals, pipelines, hydro lines, all kinds of facilities. In fact, in some of the major northern communities we held 100% of their debt. (Inaudible) for example. At one time we provided the entire financing for that city.

We think there is a huge gap in the infrastructure requirements and we, with our interim construction financing expertise, are sort of ideally suited to provide the interim construction loans to put these facilities in place. Generally speaking, we don't do the take out. So I think there's a big demand and we had success in working with the governments with respect to supporting the projects but, as you say, things do move a little slowly and the government, a lot slower than they do in our world, but there is a huge demand and it's right in the sweet spot of our construction lending team. We have a lot of good contracts in that area and I hope we can make some headway soon, because obviously the people in those communities desperately need the facilities that we used to finance.

Greg MacDonald — Analyst, LodeRock Research

So should we be thinking sometime in the next year or is it beyond a year that we're looking at?

David Taylor — President & Chief Executive Officer, VersaBank

Oh, no, I would say in the next year for sure. I'd be very disappointed if we don't have a lot of projects going in 2022. The service that we provide is we meet with the community leaders and determine what they really need and we've put together a syndicate of people that can construct the project, we do the financing, and put it all together. So we help out with the part that might elude people in that there's a lot of moving parts to build something in the Canadian Arctic. But we were very successful with that in the past and our real estate financing team is, you know, from their perspective, they can finance a high-rise, a hospital, they can finance a school just as easily. And of course, like I said, there is a huge demand for that.

Greg MacDonald — Analyst, LodeRock Research

And it seems, given the appointments that you've made, that you think housing is a disproportionate opportunity this time around. Is that safe to say or am I misreading that?

David Taylor — President & Chief Executive Officer, VersaBank

Yeah, housing is a huge opportunity in that a lot of our Indigenous Canadians are living on reserves where it's difficult, well, it's not difficult, it's impossible to get individual traditional mortgage financing. But our Instant Mortgage app seems ideally suited to sort of bridge that impediment, so we're excited about doing that. And in the major centres in Canada, sort of due to the sort of strict normal lending requirements that the banks have, it inadvertently sort of precluded a lot of people from being able to get them financing for their home. They may be seasonal workers, they may have moved, for some reason they don't fit the traditional mortgage requirements, but our Instant Mortgage app has the flexibility to be able to provide financing for a home which quite often is much cheaper than the rent they have been paying presently. So it's a win-win. We end up with good quality financing for homes to get people in a house that they own and it's the monthly payment is probably a lot less than they have been paying for rent.

Greg MacDonald — Analyst, LodeRock Research

Okay. Thanks very much. Those are my two. I might hop back on, but I'll pass it on to others. Thanks, David.

David Taylor — President & Chief Executive Officer, VersaBank

Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by one and please ensure that you're not on speakerphone, otherwise the star one function may not work.

Your next question comes from Trevor Reynolds from Acumen Capital. Please go ahead.

Trevor Reynolds — Analyst, Acumen Capital Partners

Good morning, Dave.

David Taylor — President & Chief Executive Officer, VersaBank

Good morning.

Trevor Reynolds — Analyst, Acumen Capital Partners

Hey. Just wondering when you expect to get back to the traditional cash levels in the lending portfolio.

David Taylor — President & Chief Executive Officer, VersaBank

That would be early in 2022. There are two factors (inaudible) I mentioned in the presentation. One is just the US$75 million that was proceeds of the subordinate debt offering. In Canadian dollars that's about $93 million that, ah, (inaudible) cash, so above the cash balances. And secondly, in recent times we became a bit, not a bit, but somewhat concerned about geopolitical risk and so we kept our cash balances a little higher than we would have otherwise. So those two factors hopefully in 2022 will not be present. We'll start utilizing the US dollars that we took in on the note on the US receivables and hopefully the geopolitical risk will diminish somewhat, although who knows. But that, from a banker's perspective, potentially could affect liquidity for banks, so I always tend to err on the side of caution and hold a little extra cash.

Trevor Reynolds — Analyst, Acumen Capital Partners

Fair. Yeah, no, I understand the note offering obviously (inaudible). And then just can you speak to, well, actually that's first on the insolvency side of things. Can you touch on where that business sits? I know there's still some restrictions with the government subsidies being provided. Just maybe to touch on where that business sits.

David Taylor — President & Chief Executive Officer, VersaBank

Absolutely. The support that the government has been providing to people and small businesses has reduced insolvencies to almost a record low in Canada so, theoretically, you would think that our insolvency balances wouldn't be growing, but indeed they are. And that's because the partners that we deal with are continuing to send deposits our way from other banks. So, even though we're at sort of an all-time low for insolvencies in Canada, we're still growing 7% quarter by quarter pretty rapidly as our existing partners continue to move deposits from other banks over to us.

So, I hate to say it, but in 2022, when the support payments probably come to an end, there will probably be a resurgence of insolvencies, and then I'd expect the balances to grow even more rapidly, which is good from a banking perspective in that these are zero cost deposits, which help our net interest margin versus our funding sources, but I feel for the people and the small businesses that will be struggling to make ends meet.

Trevor Reynolds — Analyst, Acumen Capital Partners

Got it. Thank you. And with the reseller agreements that you've announced yesterday and previously, just maybe can you speak to the order of magnitude of what you expect these to provide for the cyber division?

David Taylor — President & Chief Executive Officer, VersaBank

It's pretty hard to put a number on it. They are just new agreements. And we think the market is huge, it's a worldwide market, and we think the nefarious people who attack corporations aren't going away and we brought in state-of-the-art products. So it's hard to put a number. It could be huge numbers of revenues from these two sources, but it's sort of early days.

Trevor Reynolds — Analyst, Acumen Capital Partners

That's fair. Is there is there opportunities for more of these reseller agreements?

David Taylor — President & Chief Executive Officer, VersaBank

Right now we don't see any. We're not engaged with anybody in bringing anybody else on board. We're getting pretty close to a full suite of cybersecurity products. So, no, you know, we've got to market these products and get our share of the market. Like I say, I think we have the state-of-the-art. DBG does a fantastic job of serving their clients. They have about 350 or so of the who's who in North America that they provide as a part of the best penetration testing of any firm in the world. And these other add-ons, these complementary add-ons, should round out the product offering for other corporations, particularly the RAVEN that we created in-house, the RAVEN anti-spam software. We use it in our bank and what that does is prevents us from inadvertently sending an email out to somebody who has requested to go on the unsubscribe list. And as you know, there are some significant fines for corporations or governments that make a mistake on that front. So RAVEN, I think, everybody should have RAVEN protecting them from doing that. Eventually, you know, corporations or governments make mistakes and the fines are substantial.

Trevor Reynolds — Analyst, Acumen Capital Partners

Got it. And then last one just on the VCAD and the testing and where, kind of where you sit in terms of a public rollout on this product?

David Taylor — President & Chief Executive Officer, VersaBank

Well, VCAD, as I said in the presentation is now live on the Stellar blockchain and probably soon to be on Algorand blockchain. I have VCAD in my e-wallet right now, 50,000 VCADs, and maybe after this call I'll buy a bicycle from Shawn, our CFO, maybe it would be an expensive bicycle, and I'll trade VCAD to his wallet and he'll trade it back. So it actually is fully functional. We're keeping it within our walled-garden staff members' e-wallets and we'll be burning it, i.e. withdrawing VCAD; we will be issuing more VCAD, i.e. minting it; and doing all the internal tests and writing up the policies and procedures. We've asked a third party to review the software right up through space and an audit on it. So all in, it's possible within the next 30 days the VCAD could go live to the general public.

Trevor Reynolds — Analyst, Acumen Capital Partners

Great. Thanks for taking my questions.

David Taylor — President & Chief Executive Officer, VersaBank

No problem. Appreciate it.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by one. And, as a reminder, questions are restricted to analysts and institutional investors.

Your next question comes from Brad Ness from Choral Capital. Brad, please go ahead.

Brad Ness — Analyst, Choral Capital Management

Hello. Thank you. Regarding VCAD, can you just discuss the distribution that you expect and how that process is going also?

David Taylor — President & Chief Executive Officer, VersaBank

Well, initially, Brad, it's going to go through our partner, Stablecorp, and Stablecorp has in mind swapping their QCADs into our VCADs when we're live with the public. It'll go through Stablecorp's partner cryptocurrency exchanges and then out through the cryptocurrency ecosystem. There are other cryptocurrency exchanges that we're talking to support the VCAD also.

The market strategy (inaudible) like this, ah, we know there is about $80 billion or so in inferior stablecoins now, inferior in that they are not issued by an investment-grade bank and they don't represent deposits in that bank. They're thought to be secured with deposits and perhaps other banks or assets somewhere. And this is, in fact, represents a real deposit with a real bank that is highly regulated in a Schedule I bank and investment grade. So we think it's a superior stablecoin and we think some of that $80 billion will flow our way. I don't know why it wouldn't. If you're keen on a stablecoin and you're willing to accept the risk that it's backed up by an asset somewhere else, perhaps out of the country, not a regulated entity, surely you'll want a stablecoin that a bank like we are is issuing.

Brad Ness — Analyst, Choral Capital Management

Sure. So, would you say these crypto exchanges are maybe eager to have a new stablecoin like you on their platform or has there been a little bit of a pushback?

David Taylor — President & Chief Executive Officer, VersaBank

No pushback. Eager is probably the word. It's just, you know, it's a corny thing to say, you build it and they will come. I'm, of course, biased, but I mean it's a huge jump forward in the stablecoin-type product. If you really do want a stablecoin to transact business, what's better than a banknote? This is a modern day banknote like banks used to issue many years ago in paper format. From a merchant's perspective, if you want your Canadian dollars back or US dollars or euro or sterling, you can just present it for a withdrawal, they call burning, and you've got your money back. We hope they don't. We hope they see it as a currency that that they can keep in their e-wallets. And if interest rates climb somewhat in the world, we will push a little interest to buy their patience. And who can do that other than a bank? So I think it's a huge leap ahead of what the markets had to deal with until we come up with this one.

Brad Ness — Analyst, Choral Capital Management

Sure. And remind me; is this something you can collect a burning and minting fee from?

David Taylor — President & Chief Executive Officer, VersaBank

Well, it's possible, but we don't really have that in mind. We're treating it as we do all our deposits. From our perspective, it's an economical diversified funding source that we can use to fund our loans, mainly our point-of-sale finance loans. So we're not looking it as a fee generator. Even the fees that are associated with trading on Algorand and Stellar are just fractions of $0.01 as opposed to say what's on Ethereum, so even that's a huge advantage. And the transaction time is nanoseconds. I've moved VCADs around in split seconds with tiny fractions of cost. That's another advantage, I think, that people will appreciate is the speed of the transaction and the almost frictionless with respect to fees.

Brad Ness — Analyst, Choral Capital Management

Right. Gotcha. Okay. Last question here, on DBG, two questions. One, can you just remind me of kind of the stability of this revenue flow? Are these 350 clients on longer-term contracts or are these just more transactional? That's kind of first question. And two, could you size this opportunity, you know, now it's 8% of revenue. Could this income from this source be 20% of revenue a few years from now? Thank you.

David Taylor — President & Chief Executive Officer, VersaBank

Yeah. The 350 from DBG's clients are repeat customers, but they're not on a contract basis for the most part. So they're invited to do the penetration testing regularly, particularly more often when some terrible breach takes place. So the 350 are regular clients, customers that DBG has been dealing with, in some cases, twenty years, but it's not on a sort of a contract basis.

The other new products we've brought out are on a contract basis and what we're trying to do is diversify into steady cash flow from providing ongoing cyber surveillance for firms. So if you think if it this way, we're trying to provide smoke detectors so if somebody's even tapping at the door or exploring breaking in, the fire alarms go off and the IT people get a heads up that there is a probe, whereas DBG is providing on-site, on occasions, penetration testing to eliminate flaws that that a firm might have. And as you kind of imagine, considering the nefarious people are quite innovative, they're always trying to find a new way in, so there's never any shortage of business for DBG, who is wearing the white hats on the other side and is just as innovative at finding ways to thwart the attempts of those getting in. So it could easily be 20% or much more. It's a huge market and it doesn't seem like any end in sight for the bad actors who were creating this market.

Brad Ness — Analyst, Choral Capital Management

Great. Thank you. I'll open it up for other questions.

Operator

There are no further questions at this time. I'll turn it back to Mr. Taylor for closing remarks.

David Taylor — President & Chief Executive Officer, VersaBank

Well, I'd like to thank everybody for joining us today and I look forward to entertain your questions at the next one of these at the year end. And in the meantime, if something comes up, I'm just an email away, happy to talk to you on the phone or correspond by email. Thank you and over and out.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.