



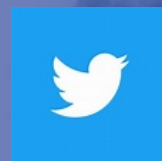
# VersaBank

Choice Through Innovation

## Q3 2022 Conference Call Presentation

August 31, 2022

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# Post Conference Call Q&A

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

Toll-free:	1 (888) 664-6392 (Canada/US)
Local:	(416) 764-8659

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 wars or conflicts including the crisis in Ukraine and the impact of the crisis on global supply chains; the impact of new variants of COVID-19 and VersaBank'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, 2021. The Bank makes no undertaking to update any forward-looking statement that is made from time to time by the Bank.



# David Taylor

President &  
Chief Executive Officer











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# Q3 2022 Key Metrics & Highlights

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## Consolidated

	YoY	Sequential
Total Revenue	 35%	 14%
Net Income	 5%	 16%
EPS	 20%	 18%
Net Interest Margin	 15 bps	 1 bps

## Digital Banking

Cost of Funds	 53 bps	 56 bps
Net Interest Margin on Loans	 16 bps	 4 bps

## DRTC

Revenue	 7%	 12%
Gross Profit	 2%	 17%

Digital Banking: Strong loan portfolio growth to another record: >\$2.81B

Record quarterly revenue and net interest income

Return to year-over-year and sequential net income growth, despite net income being dampened by investments in strategic growth initiatives:

- Acquisition of U.S. bank
- Preparation for launch of Receivables Purchase Program in the U.S.
- Preparation for commercial launch of Canadian-dollar version of revolutionary Digital Deposit Receipts (DDRs)

Near record profitability: Net income dampened by ~\$3.0 M in transitory costs related to strategic growth initiatives and Nasdaq listing – Expected to dissipate through Q4

# Acquisition of OCC-Chartered, National US Bank: Transformational Next Step in Long-Term Growth Strategy

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## June 2022: Definitive Agreement to Acquire Minnesota-based Stearns Bank Holdingford

Fully operational national  
bank focused on small  
business lending

Expected to add ~US\$60 M<sup>1</sup>  
in total assets

Estimated purchase price of  
US\$13.5 M (CA\$17.4 M)<sup>1</sup>

- Provides access to U.S. deposits to fuel growth of the U.S. Receivable Purchase Program business (recently launched in the U.S. following success of Point-of-Sale business in Canada)
- Expected to be accretive to VersaBank's earnings per share within first year after closing
- Expected to be well capitalized on closing with a Total Capital ratio >10%
- Will be renamed VersaBank USA on closing (expected by December 31, 2022<sup>1</sup>)

1. Subject to any adjustments at closing. 2. Subject to regulatory approval in U.S. and Canada).

Platform for significant growth in the United States



# U.S. Receivables Purchase Program: A Largely Untapped Opportunity

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## Launched March 2022: A New Financing Solution for U.S. Point-of-Sale Providers

**\$2.0  
trillion**



Estimated size of the total point-of-sale market in the near term, driven primarily by technological evolution and increased consumer demand for non-credit card financing options <sup>(1)</sup>

**75%  
Growth**



Per year of the U.S. point-of-sale financing market <sup>(2)</sup>

**75% of  
consumers**



Claim to be more likely to make a purchase if simple and seamless POS lending solutions were available; however, only 44% of consumers surveyed claim to have been offered POS financing when making a purchase <sup>(3)</sup>



(1) Filene Research Institute: "Blue Ocean Lending for Credit Unions: Point of Sale Financing" (05.19.15); (2) Skeps - "POS Financing Competition is Growing" (10.08.20); (3) The Financial Brand - "Growth of POS financing is Both a Threat and Opportunity in Retail Banking" (07.20.10)

## Supporting an Emerging, High-Growth Industry

With a massive millennial consumer base and an impressive suite of digital offerings, **fintechs are best positioned to leverage POS financing** (online "buy now, pay later")

 **Funding  
Circle**

 **ECN CAPITAL**

**Klarna.**

 **Bread**

 **affirm**

 **synchrony**

**PURPOSE<sup>TM</sup>**  
FINANCIAL

 **GreenSky**

 **lendingtree**

 **ally**

 **ondeck**

 **better.com**

 **SoFi**

# Shawn Clarke

Chief Financial Officer



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# Q3 2022: Continued Strong Financial Performance

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## Balance Sheet

	At July 31		Change
	2022	2021	
Total Assets	\$3.08 B	\$2.29 B	+35%
Book Value per Common Share	\$12.14	\$11.29	+8%
CET1 Ratio	12.51%	11.94%	+57bps
Leverage Ratio	10.38%	9.99%	+39bps

## YoY increases in regulatory capital levels and ratios driven primarily by:

- Retained earnings growth, changes to risk-weighted asset balances and composition and the September 21, 2021 Common Share Offering.
- Common Share Offering for net proceeds of C\$75.1 M

Both CET1 and leverage ratios remain well above targets

# Q3 2022: Continued Strong Financial Performance Consolidated

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## Consolidated Income Statement

	3 Months Ended July 31			9 Months Ended July 31		
	2022	2021	Change	2022	2021	Change
Revenue	21,239	15,729	+35%	58,140	47,121	23%
Net Income	5,720	5,436	+5%	16,229	16,470	-1%
Earnings Per Share	0.20	0.25	-20%	0.56	0.72	-22%

vs Q2/22

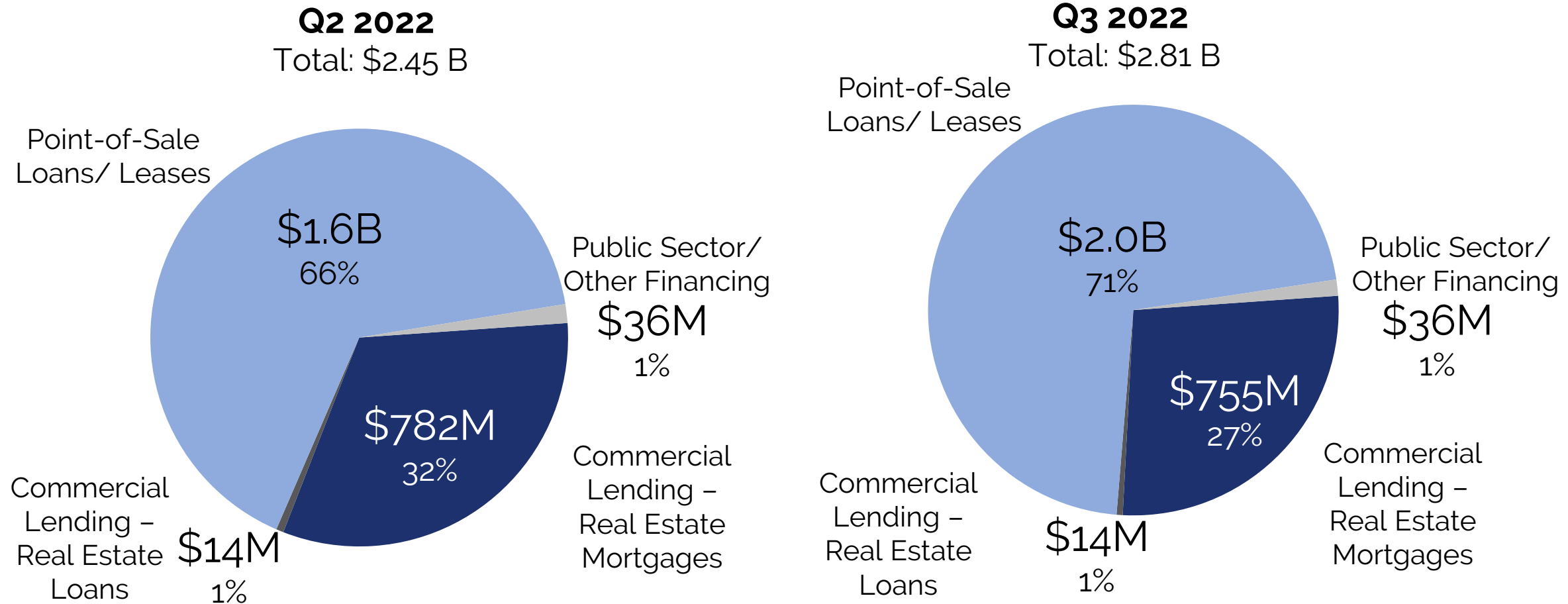
Revenue	↑ 14%
Net Income	↑ 16%
Earnings Per Share	↑ 18%

Net income dampened by ~\$3.0 M in transitory costs related to strategic growth initiatives and Nasdaq listing –  
Expected to dissipate through Q4

# Q3 2022: Continued Strong Financial Performance

## Digital Banking Operations – Record Loan Portfolio: \$2.81 B

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Point-of-Sale Portfolio: Up 75% YoY & up 24% sequentially  
Commercial Real Estate Portfolio: Unchanged YoY & down 3% sequentially



# Q2 2022: Continued Strong Financial Performance

## Digital Banking Operations

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### Digital Banking Operations: Income Statement

	3 Months Ended July 31			9 Months Ended July 31		
	2022	2021	Change	2022	2021	Change
Cost of Funds	1.94%	1.41%	+53 bps	1.49%	1.36%	13 bps
Net Interest Income	20,062	14,542	+38%	54,189	44,011	23%
Net Interest Margin on Loans	3.07%	3.23%	-16bps	3.04%	3.23%	-16 bps
Net Interest Margin	2.76%	2.61%	15bps	2.64%	2.78%	-14 bps

vs Q2/22

Cost of funds	↑ 56 bps
Net interest income	↑ 16%
Net interest margin on loans	↓ 4 bps
Net interest margin	↓ 1 bps

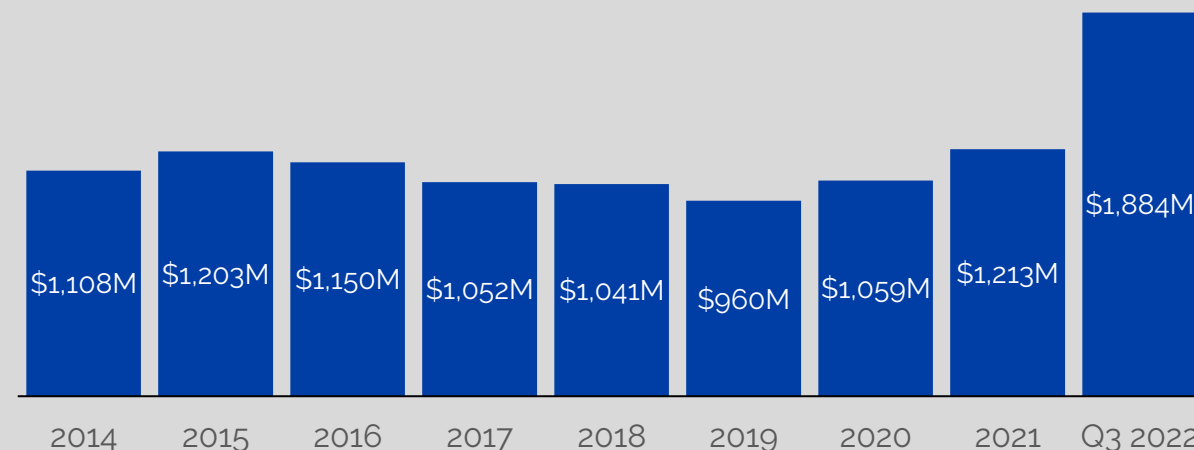
Record revenue & net interest income driven by strong loan portfolio growth  
Net interest expense includes \$3.0 M in transitory costs  
related to strategic growth initiatives

## Q3 2022 cost of funds: 1.94%

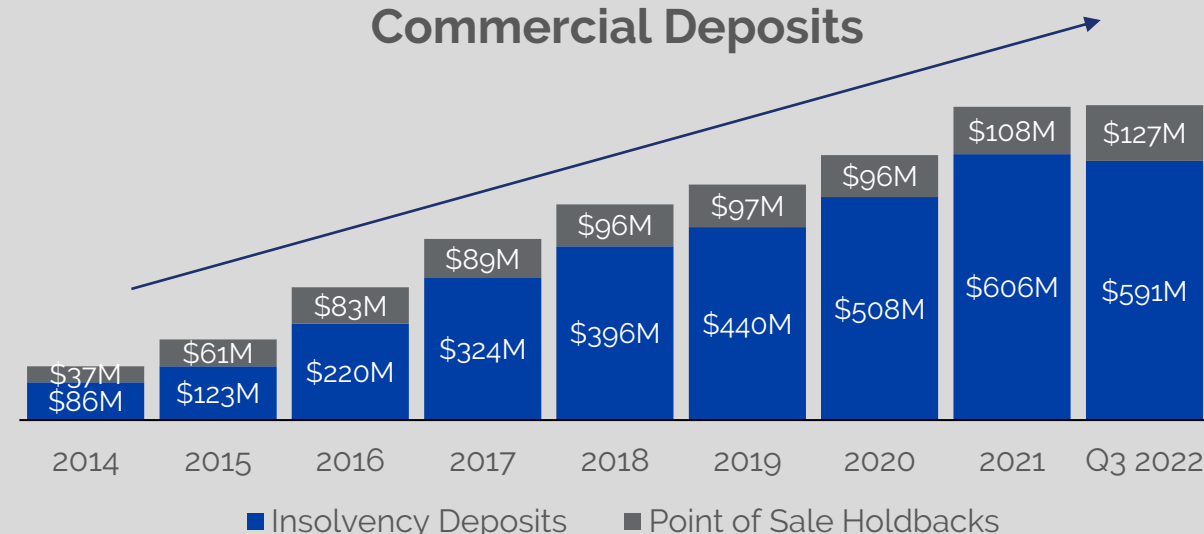
- Increased 53 bps (38%) vs Q3 2021
- Increased 56 bps (41%) vs Q2 2022

Increase in cost of funds significantly less than Bank of Canada increases in benchmark rate of 150 bps throughout Q3

## Personal Deposits

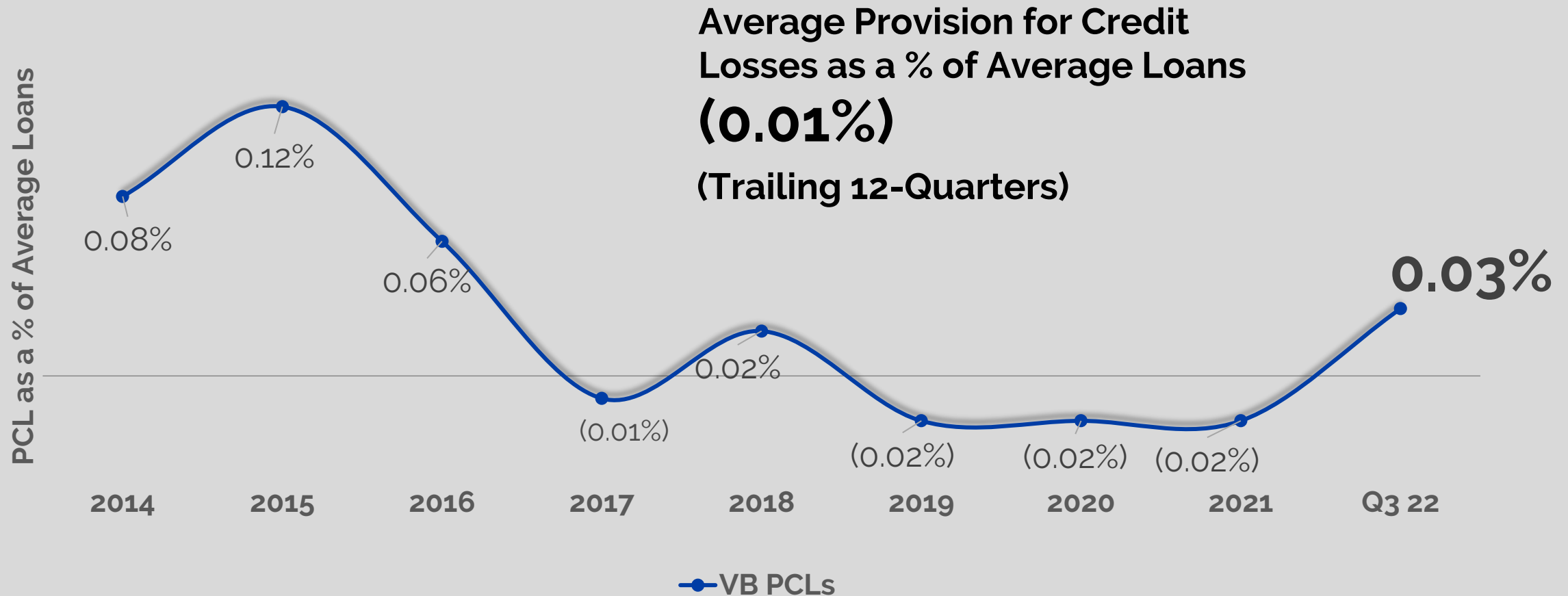


## Commercial Deposits



# Top Tier Asset Quality & Prudent Approach to Risk Mitigation

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# Q3 2022: Continued Strong Financial Performance

## DRTC

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### DRTC: Income Statement

	3 Months Ended July 31			9 Months Ended July 31		
	2022	2021	Change	2022	2021	Change
Revenue	2,137	1,997	7%	6,916	5,459	27%
Gross Profit	1,206	1,226	(2%)	4,061	3,234	26%
Net Income (Loss)	(662)	196	n/a	(987)	218	n/a

Net loss due to investments in strategic growth and other technology development initiatives that are not yet contributing to revenue

vs Q2/22

Revenue	↓ 12 %
Gross Profit	↓ 17 %
Net income (loss)	↓ n/a

Cybersecurity Services component of DRTC remains profitable

# David Taylor

President &  
Chief Executive Officer



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# Digital Banking Growth Strategy: Momentum for the Future

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

**Expand insolvency deposits:** Higher volumes w/ existing partners & adding new partners

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

**Introduce commercial deposit offerings to new markets**

**Launch new low-cost deposit offerings:** Highly encrypted Digital Deposit Receipts

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

**Expand Point-of-Sale Financing portfolio:** Add new partners & increase volumes with existing partners

**Grow Recently Launched U.S. Receivable Purchase Program** (U.S. version of Point-of-Sale Financing solution)

**Launch Instant Mortgage:** Application of Point-of-Sale Financing technology for the retail mortgage market (lower RWA)

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## Pursue Accretive Acquisitions to Leverage Scalability of Platform & Enter New Markets

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

**Provide ability to expedite roll out of offerings in new markets**

**Vision:** Continue to generate outsized growth in net income, with mitigated risk profile, with the opportunity to accelerate growth through multi-fold increase in assets





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## Q&A Session

**Toll Free Dial In (Canada/US): 1 (888) 664-6392**

**Local Dial In: (416) 764-8659**

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