



VersaBank

Choice Through Innovation

Q4 2022 Conference Call Presentation

December 7, 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, 2022. 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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Q4 2022 Key Metrics & Highlights: Record Results

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Consolidated

Total Revenue



YoY
33%



Sequential
14%

Net Income



9%



12%

EPS



4%



15%

Net Interest Margin



8 bps



5 bps

Digital Banking

Cost of Funds



114 bps



51 bps

Net Interest Margin
on Loans



28 bps



4 bps

DRTC

Revenue¹



8%



33%

Gross Profit¹



19%



47%

Digital Banking: Strong loan portfolio growth to another record: \$2.99B

Record quarterly revenue, net interest income and net income

Net income dampened by:

- Transitory investments in strategic growth initiatives totalling \$1.8 M:
 - Planned acquisition of U.S. bank
 - Development of Receivables Purchase Program in the U.S.
 - Ongoing development of Canadian-dollar version of Digital Deposit Receipts (DDRs)
- \$1.1 M of temporarily elevated taxes





1. DRTC Revenue and Gross Profit generated entirely by DRTC Cybersecurity Business, Digital Boundary Group

Strategic growth investments expected to be substantially completed by the end of Q1 fiscal 2023 – Tax rate expected to reduce in fiscal 2023



FY 2022 Key Metrics & Highlights: Record Results

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Consolidated

		Change
Total Revenue		26%
Net Income		1%
EPS		18%
Net Interest Margin		7 bps

Digital Banking

Cost of Funds		42 bps
Net Interest Margin on Loans		27 bps

DRTC

Revenue		14%
Gross Profit		8%

Digital Banking: Strong loan portfolio growth to another record: \$2.99B

Record quarterly revenue, net interest income and net income

Net income dampened by:

- Transitory investments in strategic growth initiatives totalling \$5.2 M:
 - Planned acquisition of U.S. bank
 - Development of Receivables Purchase Program in the U.S.
 - Ongoing development of Canadian-dollar version of Digital Deposit Receipts (DDRs)
- \$1.1 M in higher taxes due to temporarily elevated effective rate

Strategic growth investments expected to be substantially completed by the end of Q1 fiscal 2023 – Tax rate expected to reduce in fiscal 2023

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 M¹
in total assets

Estimated purchase price of
US\$13.5 M (CA\$17.4 M)¹

- 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 early calendar 2023¹)

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 New Financing Solution for the Underserved U.S. Market

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Launched in U.S. on a Limited Basis in April 2022

Full Roll Out to Commence Upon Closing of U.S. Bank Acquisition

\$1.8 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 ⁽¹⁾

20% Growth



Per year of the U.S. point-of-sale financing market ⁽²⁾

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 ⁽³⁾



(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")



Significant New Low-Cost Deposit Opportunity: Revolutionary Digital Deposit Receipts (DDR)

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**Highly-Encrypted
Digital Deposit Receipt
(DDR) Representing
Actual Fiat-Currency
Deposits with a
Federally Licensed,
Investment-Grade
Rated Bank**

- Actual fiat currency on deposit with VersaBank (1:1)
- Highest level of stability and security
- Addresses key concerns of global regulators
- SOC 2 compliant
- Based on VersaBank's proprietary banking software and VersaVault cybersecurity technology

**Natural extension of VersaBank's
current digital deposits**

November 2022: Launched internal pilot program (restricted to Canada) for new model with VersaBank's own e-wallet solution to align with evolving macro & regulatory environments

Shawn Clarke

Chief Financial Officer



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Q4 2022: Continued Strong Financial Performance

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Balance Sheet

	At October 31			
	2022	2021	YoY Change	Sequential Change
Total Assets	\$3.27 B	\$2.42 B	35%	6%
Book Value per Common Share	\$12.37	\$11.61	7%	2%
CET1 Ratio	12.00%	15.18%	-318bps	-51bps
Leverage Ratio	9.84%	12.60%	-276bps	-54bps

Both CET1 and leverage ratios remain well above targets

Q4 2022: Continued Strong Financial Performance Consolidated

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Consolidated Income Statement

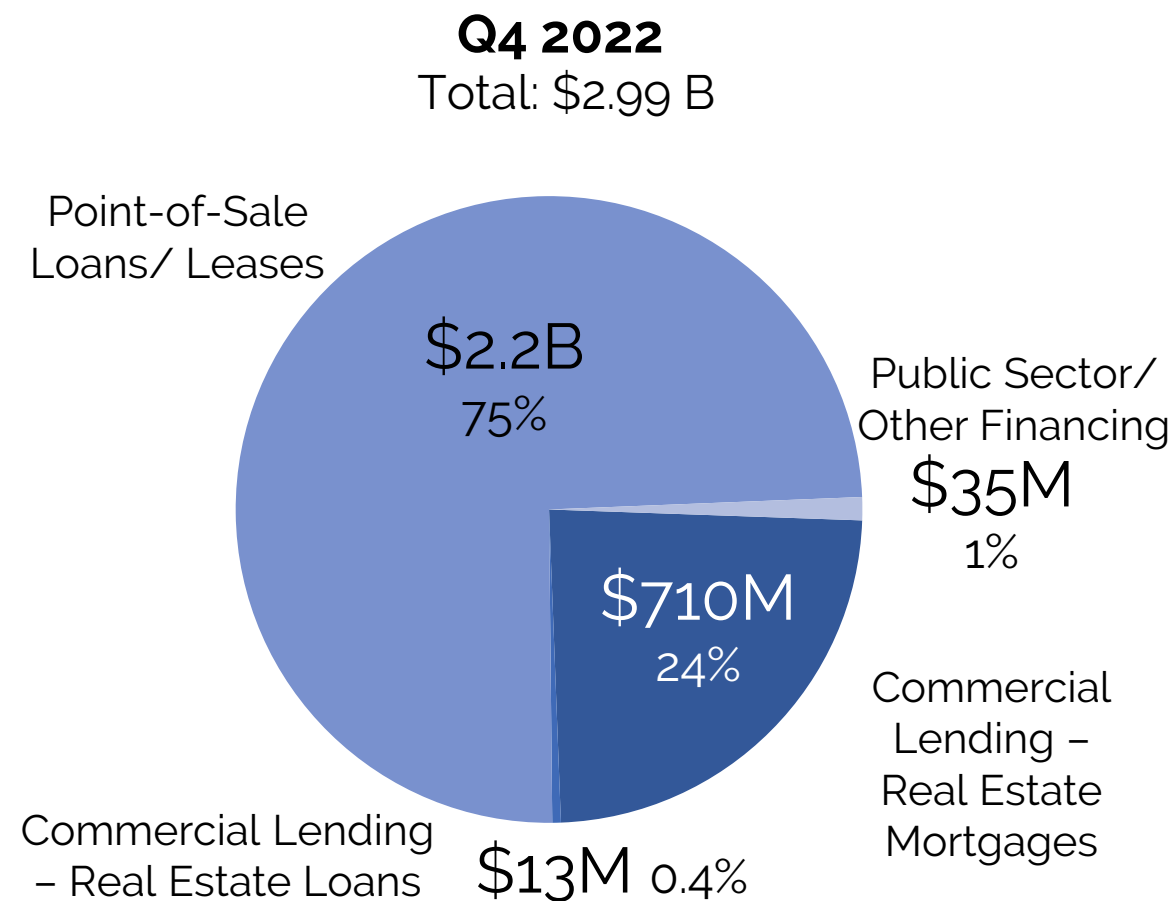
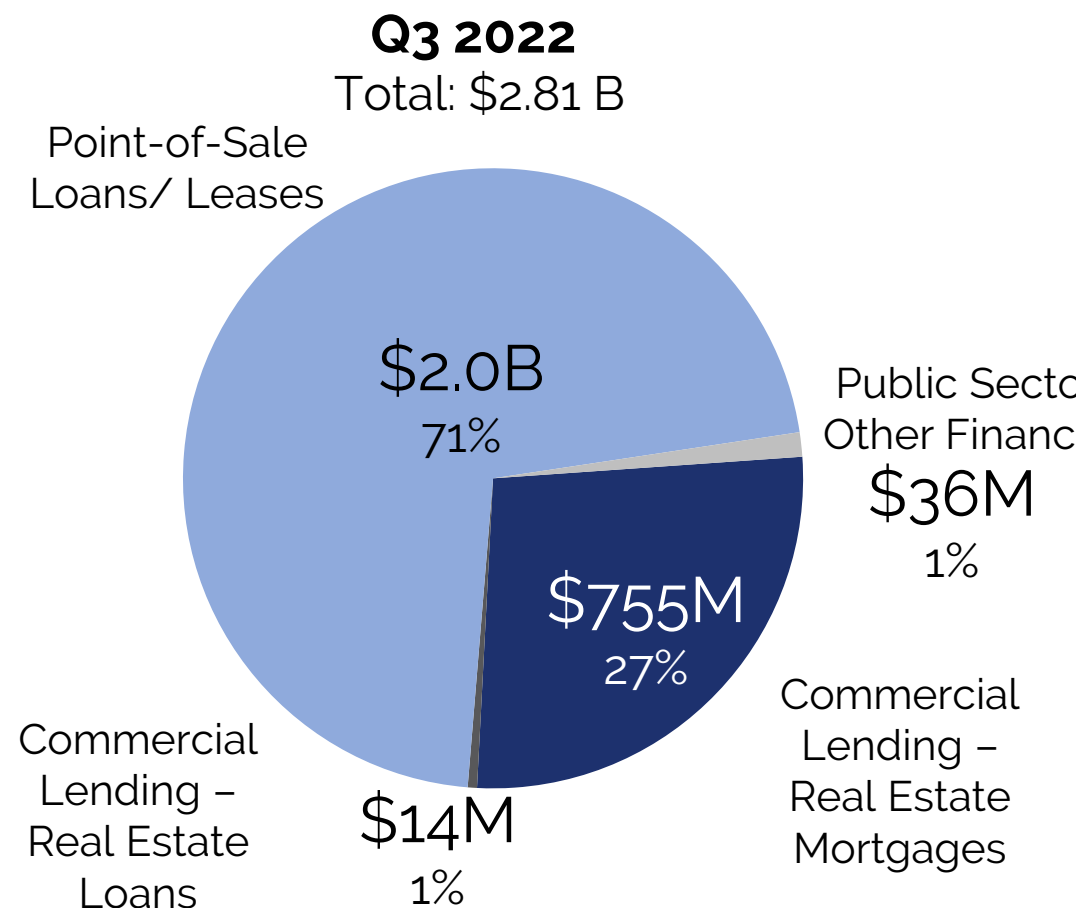
	3 Months Ended October 31				12 Months Ended October 31		
	2022	2021	YoY Change	Sequenti al Change	2022	2021	Change
Revenue	24,252	18,236	33%	14%	82,392	65,357	26%
Net Income	6,429	5,910	9%	12%	22,658	22,380	1%
Earnings Per Share	0.23	0.24	(4%)	15%	0.79	0.96	(18%)

Net income dampened by ~\$1.8 M in transitory costs related to strategic growth initiatives and Nasdaq listing

Q4 2022: Continued Strong Financial Performance

Digital Banking Operations – Record Loan Portfolio: \$2.99 B

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Point-of-Sale Portfolio: Up 74% YoY & up 24% sequentially
Commercial Real Estate Portfolio: Down 7% YoY & down 6% sequentially

Q4 2022: Continued Strong Financial Performance

Digital Banking Operations

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Digital Banking Operations: Income Statement

	3 Months Ended October 31				12 Months Ended October 31		
	2022	2021			2022	2021	
Cost of Funds	2.45%	1.31%	+114 bps	+51 bps	1.77%	1.35%	42 bps
Net Interest Income	22.5	16.1	39%	12%	76,666	60,157	2%
Net Interest Margin on Loans	3.03%	3.31%	-28bps	-4 bps	3.08%	3.35%	-27 bps
Net Interest Margin	2.81%	2.73%	8 bps	+5 bps	2.70%	2.76%	-6 bps

Record revenue & net interest income driven by strong loan portfolio growth
Net interest expense includes \$1.8 M in transitory costs
related to strategic growth initiatives

Q4 2022 cost of funds: 1.77%

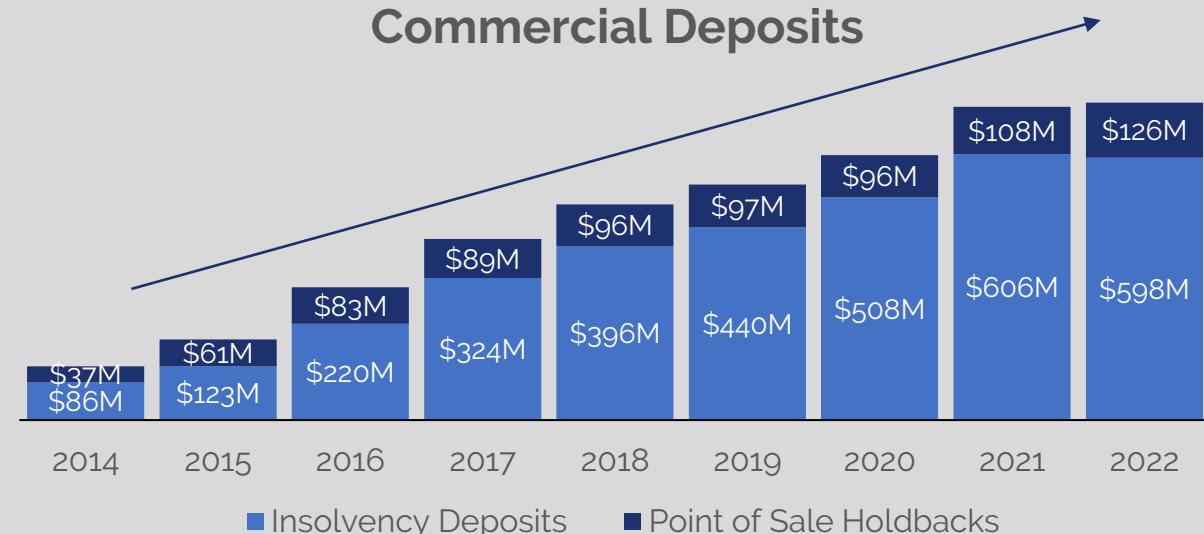
- Increased 114 bps (87%) vs Q4 2021
- Increased 51 bps (26%) vs Q3 2022

Increase in cost of funds significantly less than Bank of Canada increases in benchmark rate of 350 bps since the beginning of fiscal 2021

Personal Deposits

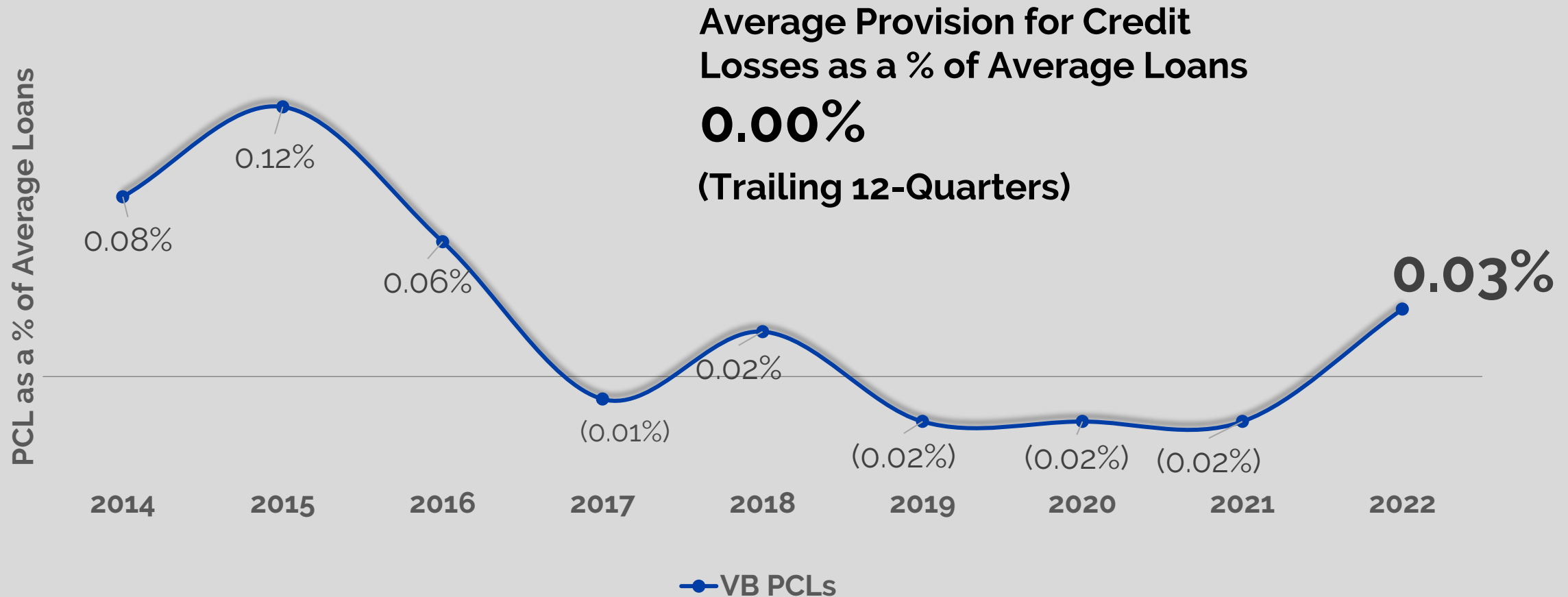


Commercial Deposits



Top Tier Asset Quality & Prudent Approach to Risk Mitigation

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Q4 2022: Continued Strong Financial Performance

DRTC

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DRTC: Income Statement

	3 Months Ended October 31				12 Months Ended October 31		
	2022	2021	YoY Change	Sequential Change	2022	2021	Change
Revenue	2.9	3.2	(8%)	33%	10.0	8.7	14%
Gross Profit	1.8	2.1	(18%)	47%	5.8	5.4	8%
Net Income (Loss)	(486)	490	n/a	n/a	(1,473)	708	n/a

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

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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1

**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

2

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)

3

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

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Our Time Has Arrived!



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