



# VersaBank

Choice Through Innovation

## Q1 2023 Conference Call Presentation

March 8, 2023

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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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## Q1 2023

**46%** YoY growth in loan portfolio to record **\$3.24 B**

**68%** YoY and **9%** sequential growth in POS Loans & Leases

**Record** revenue

**Record** net interest income

**Record** net income<sup>1</sup>

**Transitory costs** primarily due to growth investments **substantially normalized** and will further normalize throughout 2023

Only beginning to realize benefits of growth investments

1. Record Net income excludes the first quarter 2017 which benefitted from the recognition of \$8.8 million in deferred income tax assets derived from the tax loss carry-forward of the first quarter 2017. Record net income for the first quarter 2017 was \$1.1 million, compared to \$9.9 million for the first quarter 2018.



# Q1 2023 Key Metrics & Highlights: Record Results

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## Consolidated

Total Revenue



YoY  
42%



Sequential  
7%

Net Income



69%



46%

EPS



79%



48%

Net Interest Margin



6 bps



2 bps

## Digital Banking

Cost of Funds



166 bps



50 bps

Net Interest Margin  
on Loans



20 bps



0 bps

## Cybersecurity Services

Revenue<sup>1</sup>



3%



19%

Gross Profit<sup>1</sup>



17%



6%

Digital Banking: Strong loan portfolio growth to another record: \$3.24B

Record quarterly revenue, net interest income, net income and EPS

Efficiency Ratio (excl. DRTC): 42%

- YoY increase of 1,406 bps (25%)
- Sequential increase of 877 bps (18%)

Ave. Return on Common Equity: 10.8%

- YoY increase of 421 bps (64%)
- Sequential increase of 347 bps (47%)

Strategic growth investments in fiscal 2022 expected to drive continued growth 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 M<sup>1</sup>  
in total assets

Estimated purchase price of  
US\$13.5 M (CA\$18 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 calendar Q2 2023<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 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 <sup>(1)</sup>

**20% 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**  
FINANCIAL

 **GreenSky**

 **lendingtree**

 **ally**

 **ondeck**

 **better.com**

 **SoFi**



# Shawn Clarke

Chief Financial Officer



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# Q1 2023: Continued Strong Financial Performance

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## Balance Sheet

	At January 31			
	2023	2022	YoY Change	Sequential Change
Total Assets	\$3.53 B	\$2.42 B	46%	8%
Loan Portfolio	\$3.24 B	\$2.22 B	46%	8%
Cash and Securities	\$0.25 B	\$0.16 B	62%	9%
Book Value per Common Share	\$12.77	\$11.78	8%	3%
CET1 Ratio	11.19%	14.83%	-364bps	-81bps
Leverage Ratio	9.21%	12.69%	-348bps	-63bps

- Total loan portfolio expanded to another record balance
- Book Value per Share increases a function of higher retained earnings (from net income growth), partially offset by dividends paid
- Book Value Per Share benefitted from lower number of shares due to buyback program

Both CET1 and leverage ratios remain well above targets

# Q1 2023: Continued Strong Financial Performance Consolidated

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## Consolidated Income Statement

	3 Months Ended January 31			
	2023	2022	YoY Change	Sequential Change
Revenue	25,918	18,266	42%	7%
Net Income	9,417	5,566	69%	46%
Earnings Per Share	0.34	0.19	79%	48%

- Revenue increased driven by higher net interest income from Digital Banking operations resulting from strong loan portfolio growth
- Previously elevated non-interest expense due to transitory growth investments substantially normalized
- EPS benefitted from lower number of shares due to buyback program

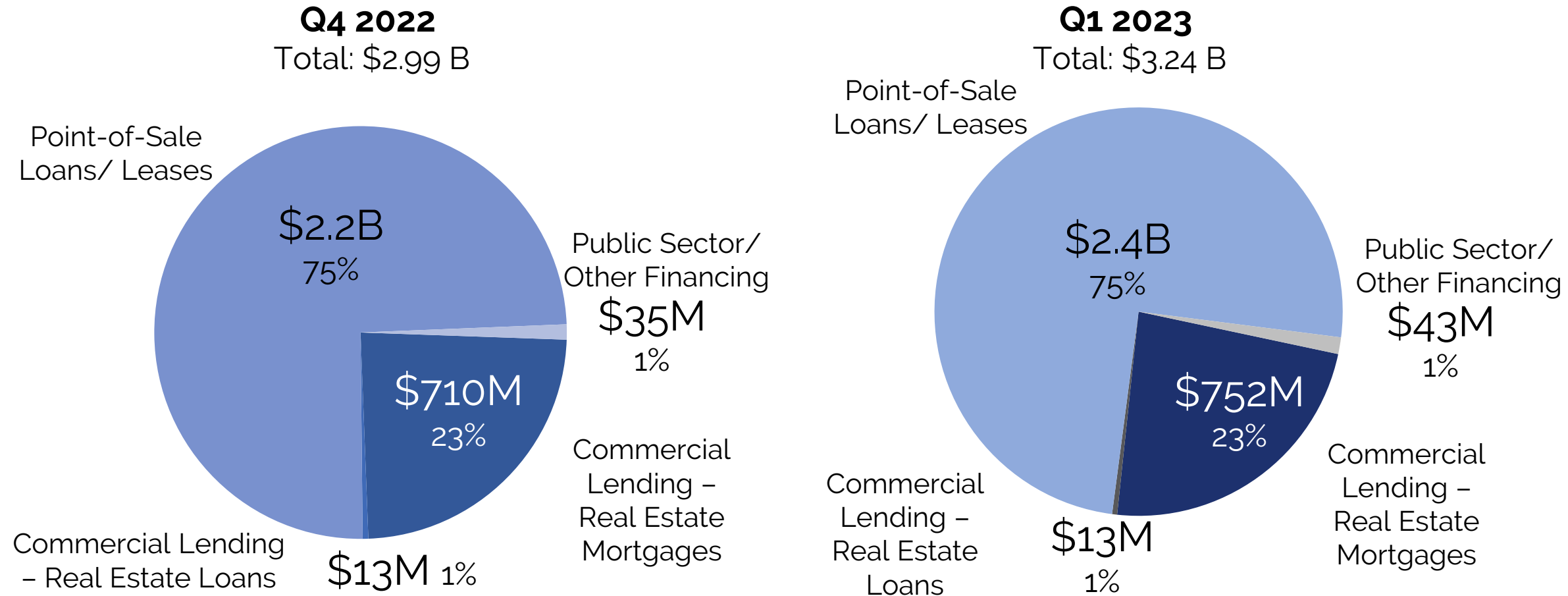
Another quarter of record revenue, net income and EPS



# Q1 2023: Continued Strong Financial Performance

## Digital Banking Operations – Record Loan Portfolio: \$3.24 B

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Point-of-Sale Portfolio: Up 68% YoY & up 9% sequentially  
Commercial Real Estate Portfolio: Up 5% YoY & up 6% sequentially

# Q1 2023: Continued Strong Financial Performance

## Digital Banking Operations

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### Digital Banking Operations: Income Statement

	3 Months Ended January 31			
	2023	2022	YoY Change	Seq Change
Cost of Funds	2.95%	1.29%	166 bps	50 bps
Non-Interest Expenses	10.2	9.5	7%	-11%
Net Interest Income	24.3	16.9	44%	8%
Net Interest Margin on Loans	3.03%	3.23%	-20 bps	0 bps
Net Interest Margin	2.83%	2.77%	6 bps	2 bps

- YoY increase in non-interest expense due mainly to higher salary and benefits costs related to increased staffing levels to support expanded revenue-generating business
- YoY decrease in net interest margin on loans due mainly to shift in deposit mix and rising interest rates, as well as the significant growth in Point-of-Sale portfolio

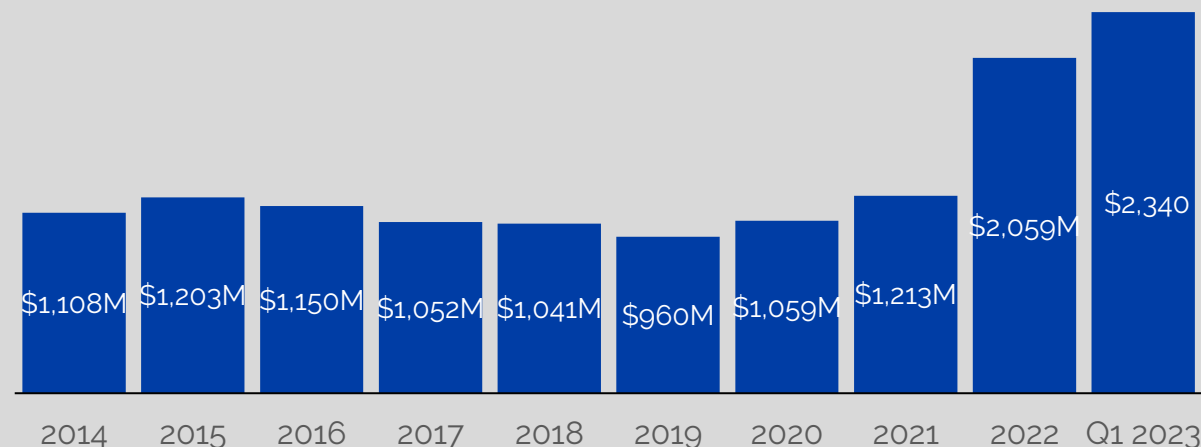
Record net interest income driven by strong loan portfolio growth  
Previously elevated non-interest expense due to transitory growth investments  
has substantially normalized

## Q1 2023 cost of funds: 2.95%

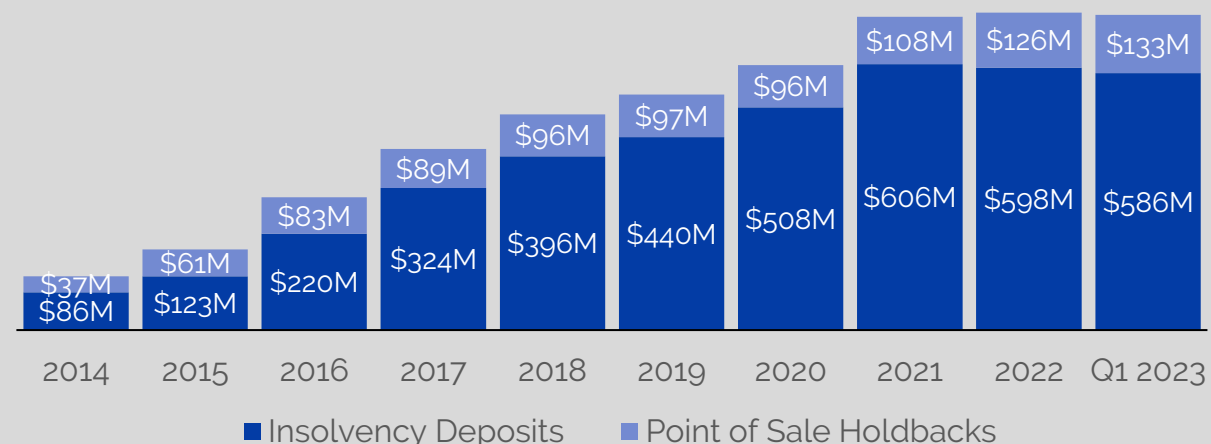
- Increased 166 bps (129%) vs Q1 2022
- Increased 50 bps (20%) vs Q4 2022

Increase in cost of funds significantly less than Bank of Canada increases in benchmark rate of 425 bps since the beginning of fiscal 2021

## Wealth Management (Personal Deposits)



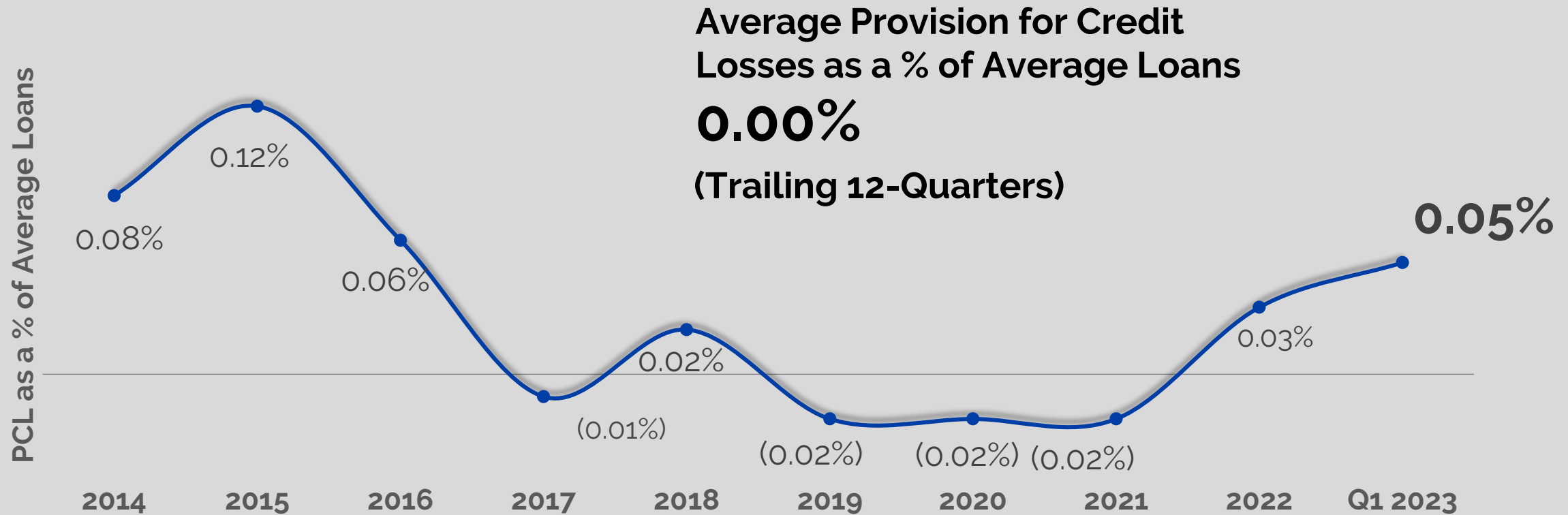
## Commercial Deposits





# Top Tier Asset Quality & Prudent Approach to Risk Mitigation

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### Cybersecurity Services (DBG): Income Statement

	3 Months Ended January 31			
	2023	2022	YoY Change	Seq Change
Revenue	2.3	2.4	(3%)	(19%)
Gross Profit	1.6	1.4	17%	(6%)

- Revenue decrease for DBG YoY and sequentially a function of lower service work volume in Q1/23
- YoY increase in gross profit for DBG driven primarily by improved operational efficiency

Cybersecurity Services component of DRTC remains profitable

# David Taylor

President &  
Chief Executive Officer



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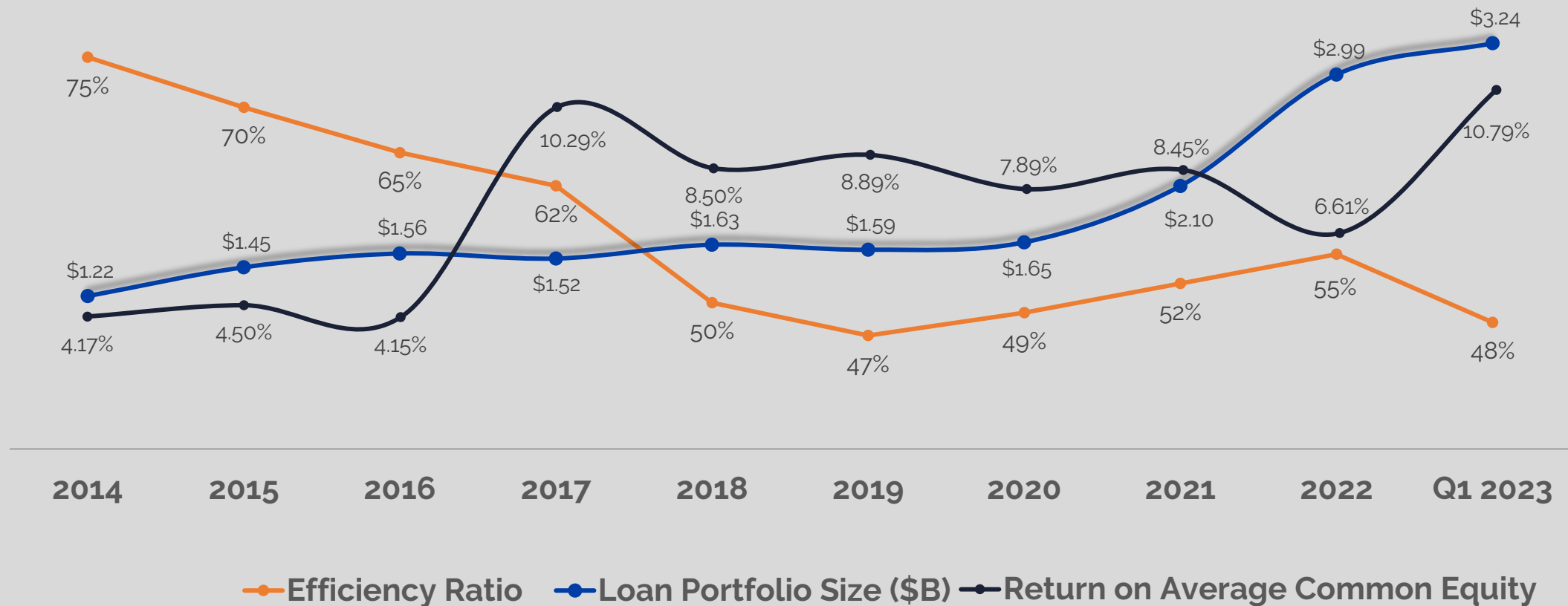
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# Capitalizing on Our Operating Leverage

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## Q&A Session

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# Our Time Has Arrived!



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