



# VersaBank

Choice Through Innovation

NASDAQ: VBNK  
TSX: VBNK

## Investor Presentation

March 2023

# Banking on the Future!

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, 2022 and quarter ended January 31, 2023. The Bank makes no undertaking to update any forward-looking statement that is made from time to time by the Bank.



VersaBank  
Choice Through Innovation

## A Fully Digital North American Bank

Highly efficient:  
Branchless, partner  
(B2B) model

Innovative, value-add  
deposit & lending  
solutions for  
underserved markets

Operating leverage of a technology company with earnings visibility of a bank

Highly risk-mitigated model: Very sticky deposits/History of virtually no loan losses

Track record of significant earnings growth

Poised for outsized long-term growth through entry to U.S. market

Additional “free option” through cybersecurity services subsidiary

Designed to perform well in favourable economies and  
**even better** in more challenging economies

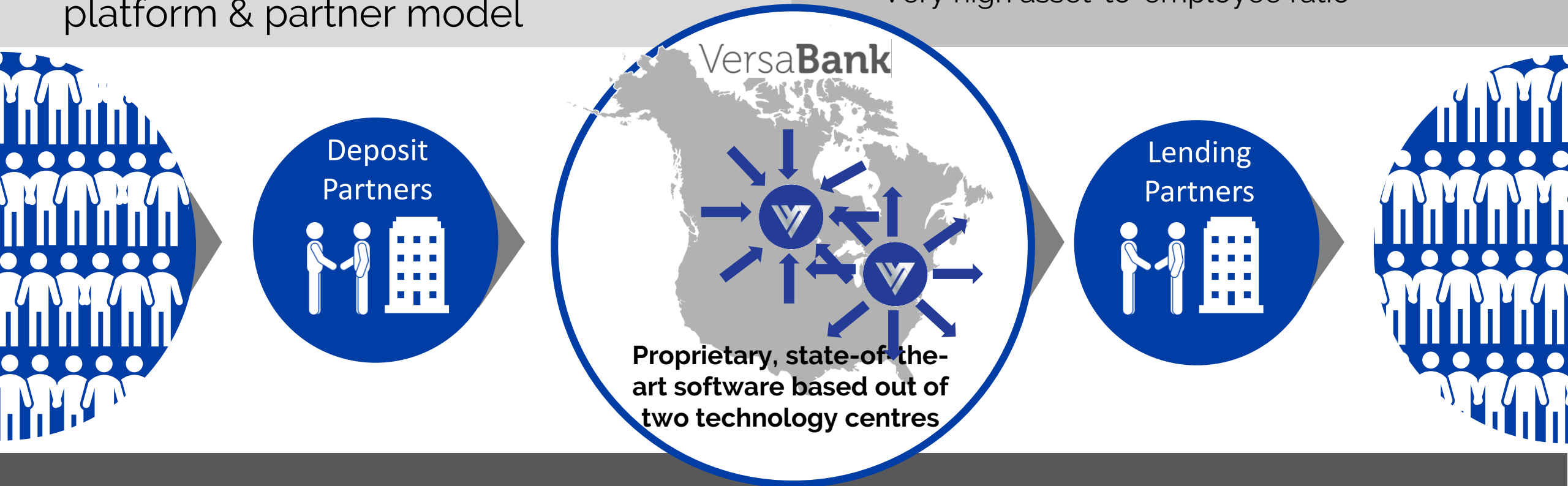
At an **inflection point** for operating leverage, outsized earnings growth and ROCE

# Branchless Partner (B2B) Model Based on Proprietary Banking Technology

4

Significant **operating leverage** derived from **scalability** of technology platform & partner model

- All deposits/loans managed digitally
- No direct interaction with end users
- Very high asset-to-employee ratio



Cost to earn \$1 of revenue has decreased >40% over last 7 years  
On track to further increase efficiency



# Deposits: Unlimited Low-Cost, Partner-Based Sources

5

## >220 Partners Provide Access to Millions of Depositors

### Insolvency Professionals (>100 Offices)

- Proprietary, high-value add, technology based solution
- Grown from 0 to >100 partners & C\$598M<sup>1</sup>/US\$438 in deposits in ~8 years



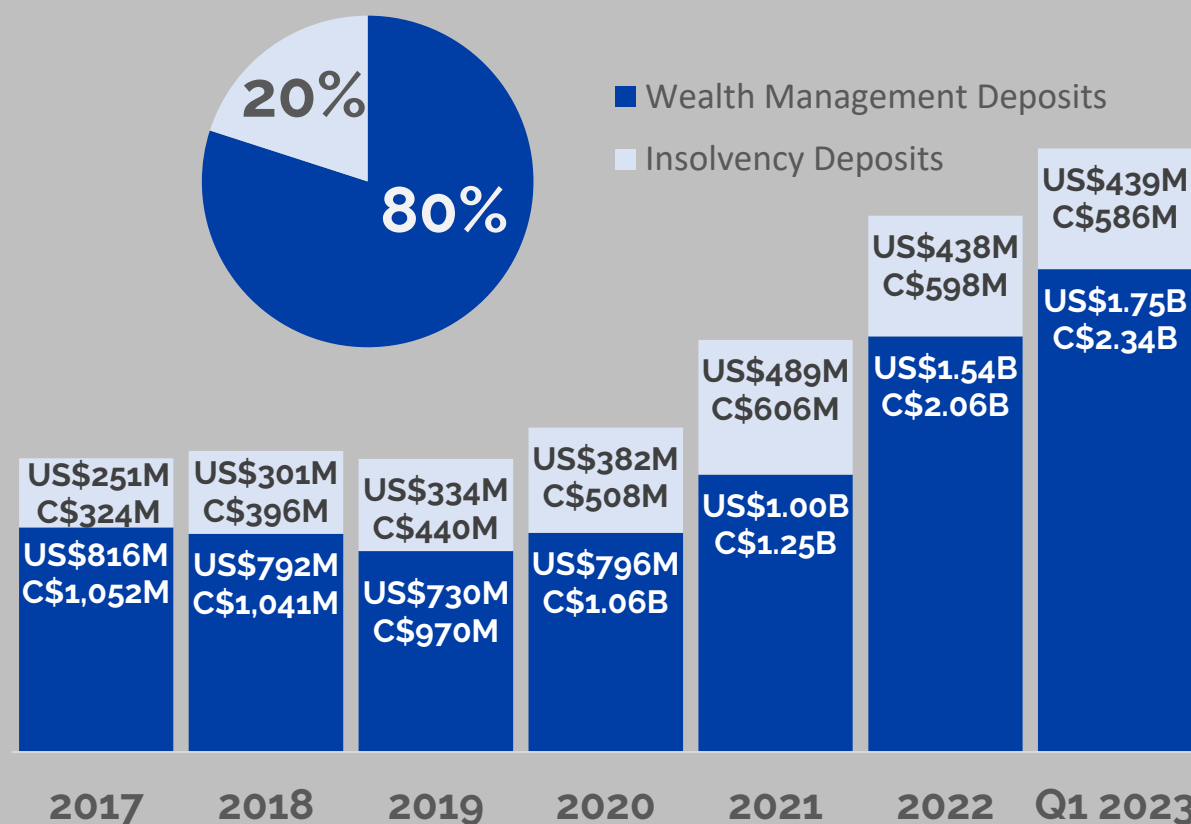
### Wealth Management (>120 Partners)

- Extensive network of providing exposure to vast majority of Canadian depositors
- Competitively positioned for inexpensive deposits as a federally licensed bank



- Objective to minimize cost of deposit funding
- All Wealth Management deposits are term deposits
- Very “sticky” deposit base

Deposit Composition (Q1 2023)



# Loans: Very Low Risk Lending Channels

## >275 Partners Provide Access to Millions of Borrowers

### Point-of-Sale Financing (Loans and Leases)

- Reliable, attractive alternative financing option for POS lenders, providing convenience for their consumers
- Very low-risk:
  - Default risk resides substantially with partner
  - Only partner with established POS lenders
- Dominant position in Canada



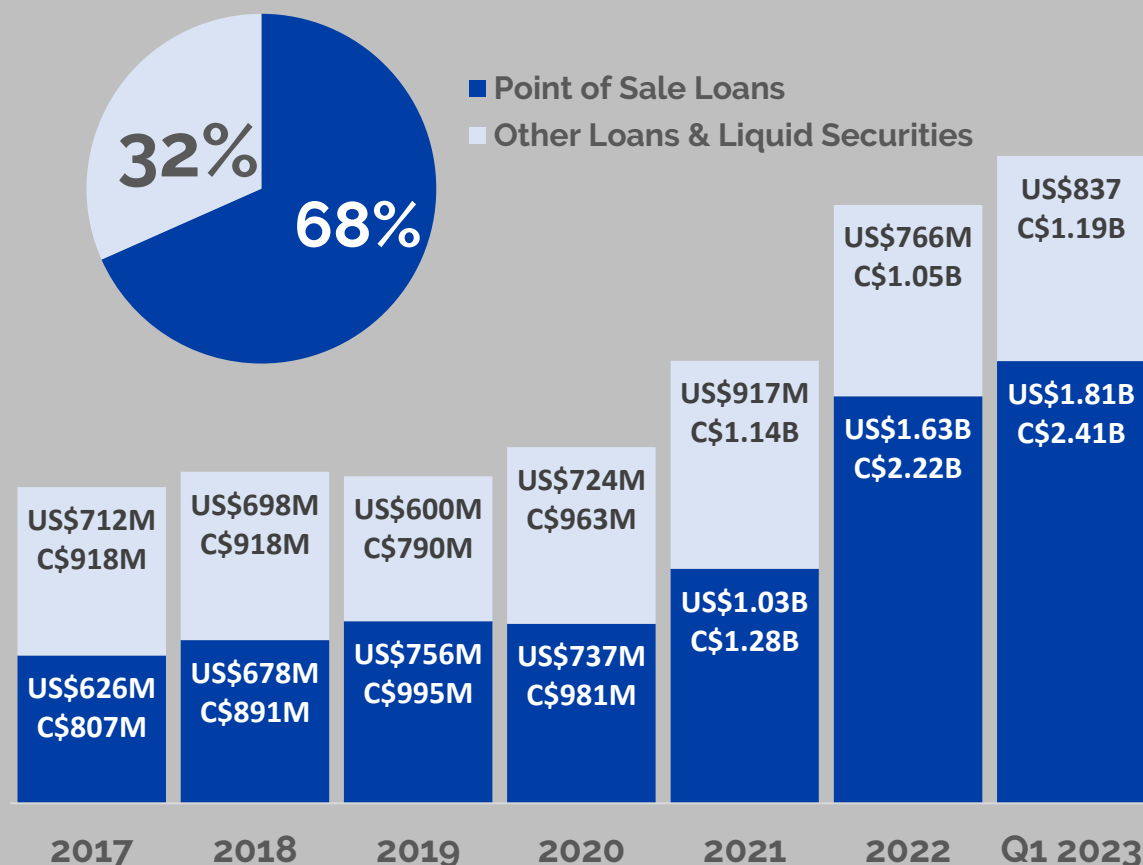
### Residential Land & Construction Financing

- Highly profitable legacy business
- Restricted to large, long-established developers
- Low loan to value/low risk weighted loans
- No commercial real estate exposure



- Low-cost deposits enable low-risk lending
- 30-year history of virtually no loan losses

Loan Composition (Q1 2023)



# Ultra Low-Risk Digital Model

7

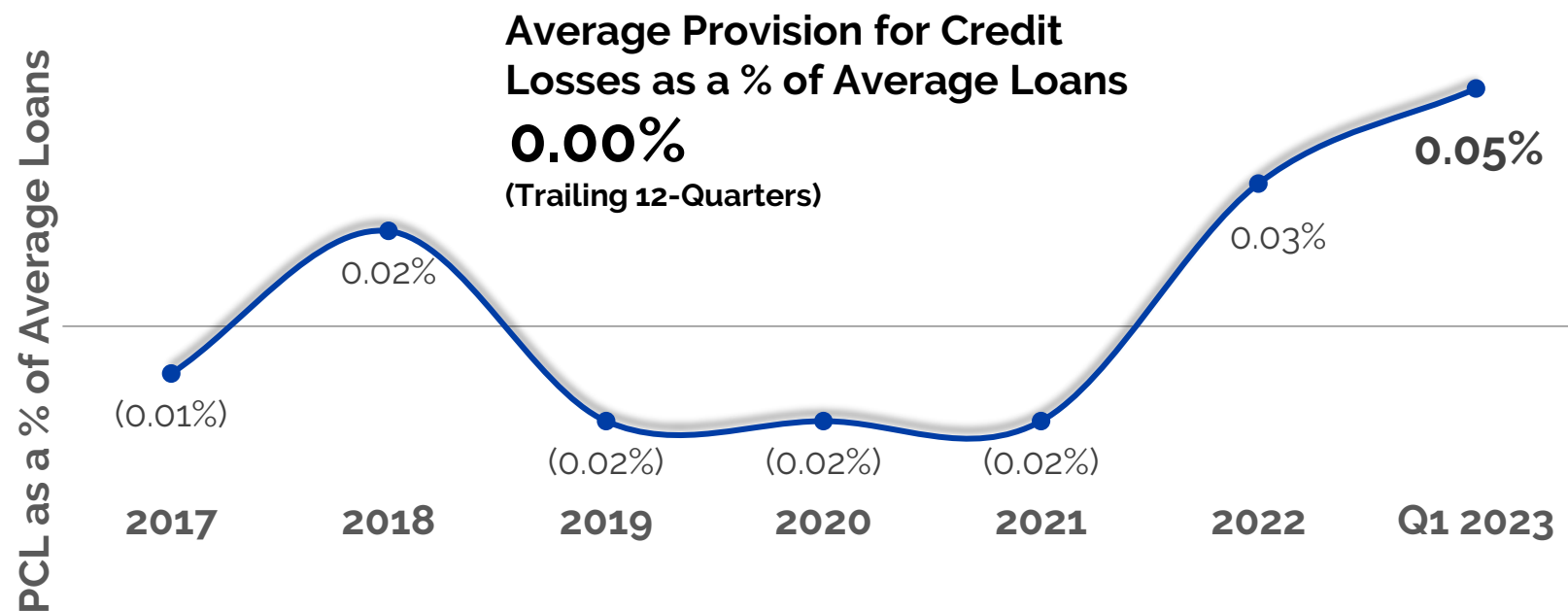
## Organization-Wide Focus on Risk Mitigation

- Technology-based approach to risk analysis/ monitoring
- Rigorous, multi-step, multi-executive approval process
- Continuous, real-time monitoring of credit performance
- Top-tier asset quality
- High-liquidity ratio & access to vast supply of low-cost funds
- Low operational risk: branchless, digital model & industry leading security

## Very Sticky Deposits

- Insolvency: Long-term relationships based on unique technology
- Wealth Management: 100% term deposit receipts/Depositors have no direct access to deposits
- 98% insured (All Wealth Management deposits insured)

## Loans to High Quality Partners/Highly Risk Mitigated Structures



# Loans: Very Low Risk Lending Channels

8

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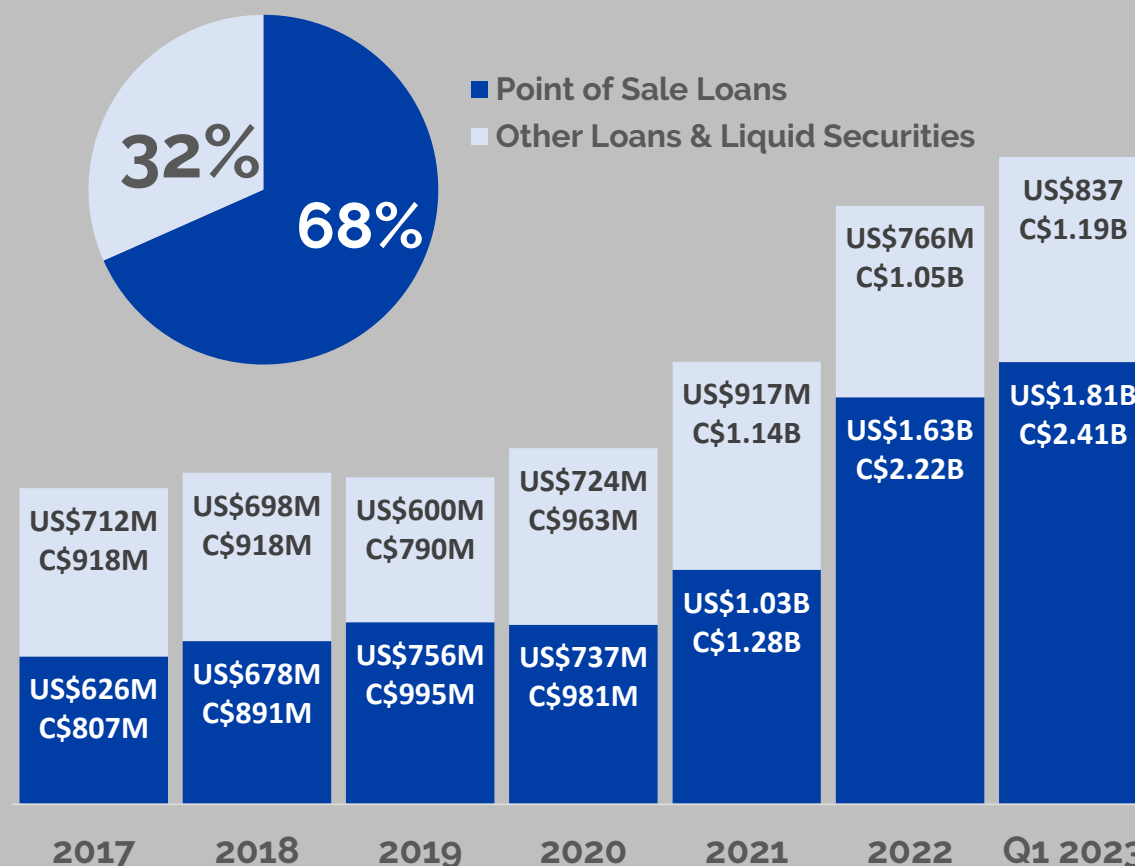
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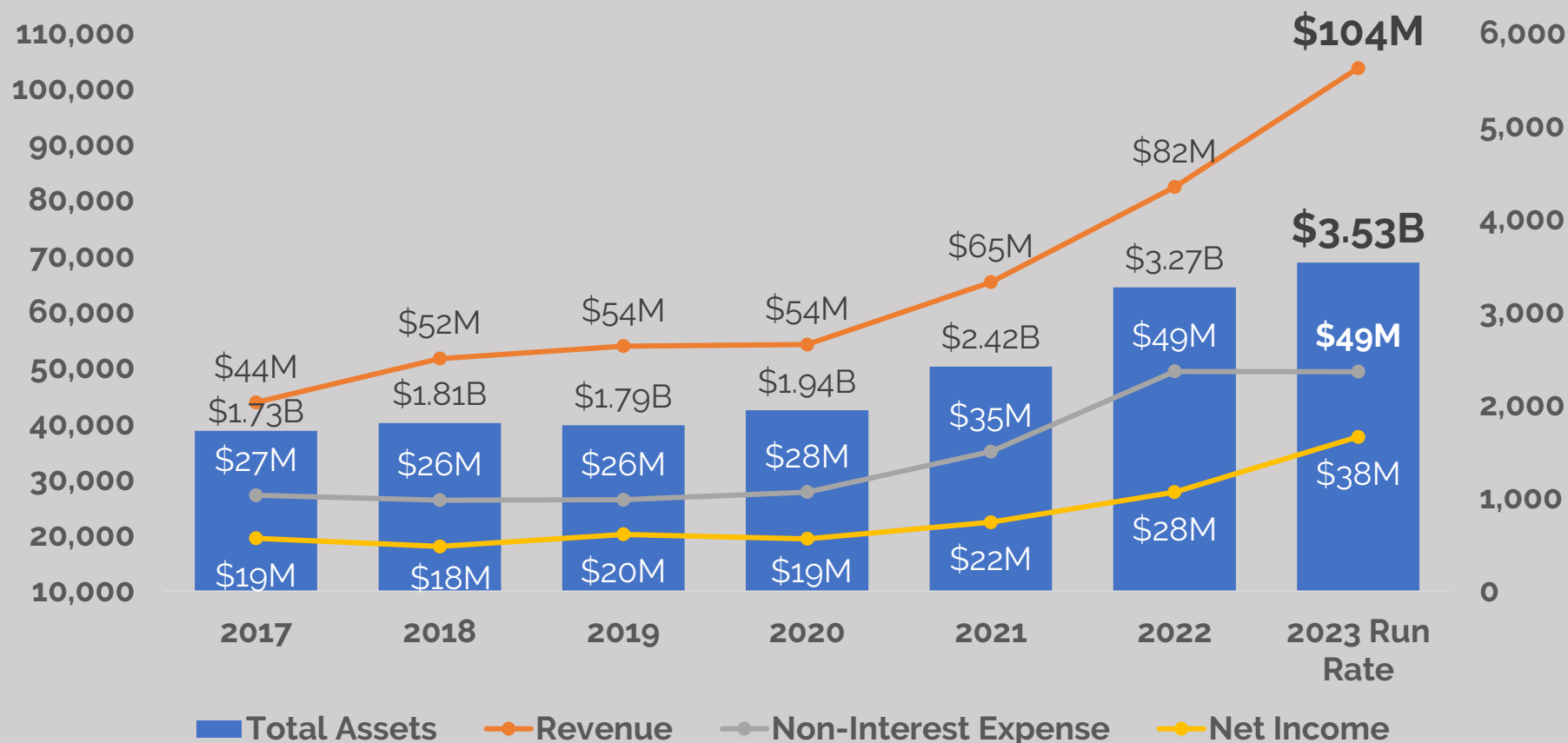
Loan Composition (Q1 2023)





# Momentum in Profitability and Long-Term Earnings Capacity

9











Expect continued steady growth in Canada with the significant upside of the entry into the U.S. market




# Q1 2023 Key Metrics & Highlights: Record Results

10

## Consolidated

	YoY	Sequential
Total Revenue	 42%	 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

# Digital Banking Growth Strategy: Momentum for the Future

11

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**

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 grow loan portfolio/revenue while maintaining low cost of funding to capitalize on operating leverage

# U.S. Receivables Purchase Program: A New Financing Solution for a High-Growth but Underserved Market

12

**Strong growth in U.S. Point-of-Sale financing activity** driven by technology & increasing consumer preference for non-credit card/non-bank financing options

**75%** Of consumers more likely to make purchase if seamless POS financing available<sup>(3)</sup>

**\$1.8T** Estimated POS market in the near term,

**20%** Forecast annual growth in U.S. point-of-sale financing market <sup>(2)</sup>

**Same attractive, reliable alternative solution that has been highly successful in Canada**

**Launched in U.S. April 22 (limited basis)**

**Strong initial demand, especially as conventional sources of financing have waned**

**Full roll out to commence upon closing of U.S. bank acquisition**

**Will be serviced via existing technology infrastructure**



(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" (07.29.19)



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

13

## 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>

## Platform for significant growth in the United States

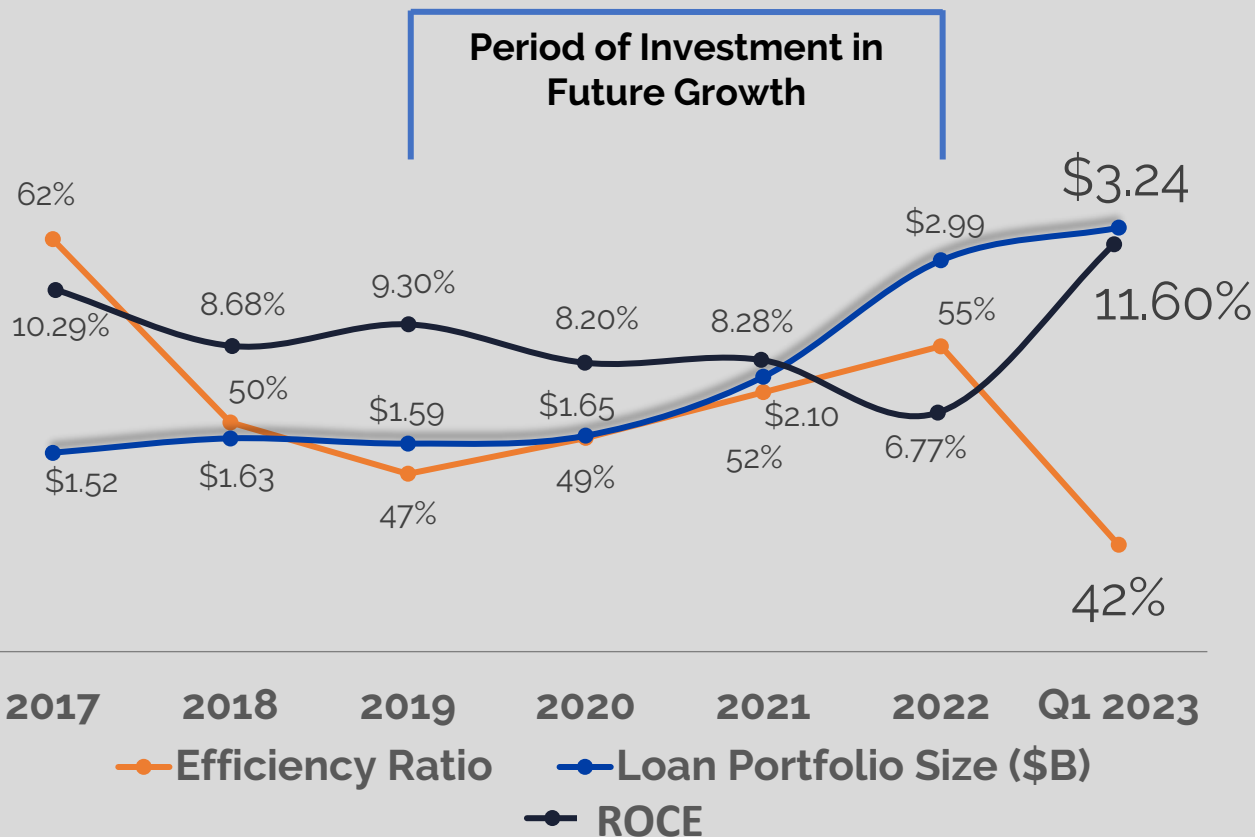
- Provides access to U.S. deposits to fuel growth of the U.S. Receivable Purchase Program business (recently launched in the U.S. following success of Point-of-Sale business in Canada)
- Expected to be accretive to VersaBank's earnings per share within first year after closing
- Expected to be well capitalized on closing with a Total Capital ratio >10%
- Will be renamed VersaBank USA on closing (expected calendar Q2 2023<sup>2</sup>)

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

Submitted requisite approval filings in U.S. and  
awaiting response of regulatory authorities

# Capitalizing on the Significant Operating Leverage in Our Core Digital Banking Operations

14



## Near-Term Targets

Loan Portfolio Size

>\$4B

Efficiency Ratio

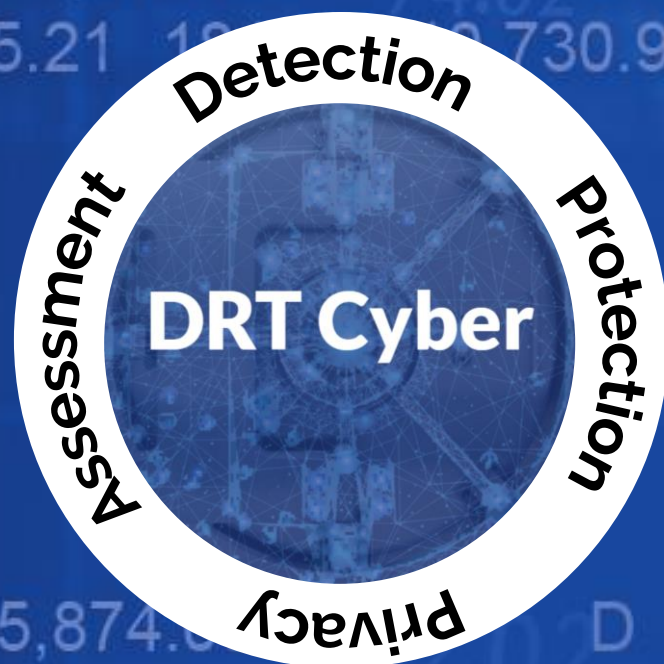
<35%

ROCE

>18%

# DRT Cyber: “Free Option” on Digital Banking Valuation

**One of North America's  
Premiere IT Security  
Assurance Services Firms**



Comprehensive Suite of Services:

- External network, web and mobile app penetration testing
- Physical social engineering engagements
- Supervisory control & data acquisition (SCADA) system assessments
- Various aspects of training

> 400 Clients Across North America

- Large retailers & financial service providers
- Police service organizations
- Energy, public utilities & infrastructure firms

Significant opportunities to cross-sell and up-sell

Also provides technology development for Digital Banking operations

Profitable, with solid growth in revenue and EBITDA in fiscal 2022



# Why VersaBank? Why Now?

16

**At inflection point** for operating leverage, earnings growth and ROCE generation based on expected continued strong growth in Canada and entry into the U.S

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**Proposed acquisition of national, chartered US bank** provides access to **\$1.8T** market for highly unique Receivables Purchase Program (proven out in Canada)

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**Highly risk-mitigated model** based on structuring of both deposits and loans

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**Current valuation substantially below book value** and well below US peers

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**Profitable cybersecurity services** subsidiary is a "free option"

Positioned to perform well in a challenging economic environment



# Banking on the Future!



**VersaBank**

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