

**VersaBank****First Quarter 2022 Financial Results Conference Call**

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## **CORPORATE PARTICIPANTS**

### **David Taylor**

*VersaBank — President and Chief Executive Officer*

### **Shawn Clarke**

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## **CONFERENCE CALL PARTICIPANTS**

### **William J. Wallace, IV**

*Raymond James — Analyst*

### **Greg MacDonald**

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the VersaBank's First Quarter 2022 Financial Results Conference Call.

This morning, VersaBank issued a news release reporting its financial results for the first quarter ended January 31, 2022. That news release, along with the Bank's financial statements and supplement financial information, are available on the Bank's website in the Investor Relations section, as well as on SEDAR and EDGAR.

Please note that in addition to the telephone dial-in, VersaBank is webcasting the 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 Q&A session, following Mr. Taylor's presentation, please dial into 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 the 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 the statements about future events made on this call are forward-looking in nature and are based on certain assumptions and analysts made by VersaBank

Management. Actual results could differ materially from our expectations due to various material risk and uncertainties associated with VersaBank's businesses. Please refer to VersaBank's forward-looking statements advisory in today's presentation.

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

Please go ahead, Mr. Taylor.

**David Taylor** — President and Chief Executive Officer, VersaBank

Thank you, Kelsie.

Good morning, everyone, and thank you for joining us for today's call. I have the pleasure of hosting this morning's call from New York City where I'm participating in Keefe, Bruyette & Woods Fintech Payments Conference, and yesterday, spoke on a panel entitled How Technology Can Advance Fundamental Banking. I can't think of a better panel topic to speak on. A recording of that panel will be available on our website later this week.

Joining me today for today's call at our headquarters back in London, Ontario is Shawn Clarke, our Chief Financial Officer.

The first quarter of Fiscal 2022 saw the continuation of the momentum that drove a record year for VersaBank in 2021, as once again our core banking operations delivered strong year-over-year growth in both loans and net income.

We achieved another record loan portfolio at quarter-end of just over \$2.2 billion, up 24 percent year-on-year and 5 percent sequentially, while net income grew 5 percent year-on-year, and a quick reminder here that we report our financial results in Canadian dollars, and all amounts in today's call will be in Canadian dollars unless otherwise stated.

Some other headline results for Q1.

Total revenue increased 18 percent year-over-year and was essentially unchanged from Q4. Cost of funds decreased 13 basis points year-over-year and 2 basis points sequentially to 1.29 percent, and net interest margin was down 9 basis points year-over-year, but up 4 basis points sequentially to 2.77 percent.

Notably, our cash balances returned to historic levels in the first quarter as we continued to deploy funds to interest-generating loans. Shawn will discuss the financials in more details in a moment.

Q1 also saw a number of other highlights.

Most notably, we completed our closed ecosystem testing of VCAD, the Bank's Canadian dollar version of its revolutionary, highly-encrypted Digital Deposit Receipt offering, with each VCAD unit representing \$1 deposit with the Bank. More on this in a moment.

For the first time this quarter, we are breaking out our Cybersecurity business, DRT Cyber, in our financials, which delivered a year-over-year increase in revenue and gross profit of 36 percent and 30 percent. I will remind you here gross profit amounted for DRT Cyber is included in non-interest income and the Bank's income statements.

As noted a moment ago, we have completed our closed ecosystem testing for the first of our digital deposit receipts in Canadian dollar-based VCAD. VCAD remains on Ethereum, Algorand, and Stellar Blockchain, and we continue to transact internally, but our testing has satisfied our criteria. We are now preparing for our commercial launch, which we expect upon the independent orders completion of the SOC2 compliance audit. SOC2 is a widely recognized standard intended to verify the non-financial reporting controls relating to security, availability, processing, integrity, confidentiality, and privacy of the system.

While the audit is taking longer than anticipated, we recognize the critical importance of such a third-party evaluation and validation in what is rapidly-evolving regulatory landscape. Our DDRs were developed to be a significantly better stablecoin; a one-for-one representation of a fiat currency on deposit with our federally licensed bank, investment-grade rated bank, and the highest level of security based on our own VersaVault technology.

In fact, we are increasingly hearing the term tokenized deposit, particularly in this time, used to describe the ideal digital currency, and that is exactly what our digital deposit receipts are. As such, they serve the dual purpose of both acting as a safe store value and as a digital currency for transacting business.

We are very encouraged by recent trends towards regulation in North America and around the world, which we believe will be very firmly—will put us in a firm position for our DDRs as not only a compelling digital currency for the market, but also one that will become the gold standard amidst the

future regulatory requirements. We are preparing for commercial launch as soon as possible following the completion of the SOC2 audit.

Before I turn the call over to Shawn, I would like to take this opportunity to publicly welcome the newest member of our Leadership team, Garry Clement, who joins VersaBank as our new Chief Anti-Money Laundering Officer, or CAMLO for short. Gary is a financial crime prevention expert and an advocate recognized internationally in areas of money laundering, white collar crime, organized crime, and detection of suspicious activities, including cybercrime. He brings to our Bank more than 40 years of policing and financial crime prevention experience, including three decades with the RCMP, including as National Director Proceeds of Crime.

I could go on and on, but instead will refer you to Garry's extensive CV, which is summarized in yesterday's press release. I don't know if there's anyone more qualified than Garry to fill this vacancy. We are extremely fortunate to have him, especially given the upcoming commercial launch of our digital deposit receipts.

Garry fills a vacancy left by our longtime colleague, Barb Hale, who is retiring after 25 years with the Bank, the last 20 of those in the CAMLO position. On behalf of the Board, I would like to thank Barb for her outstanding contribution to the security and reputation of our Bank during her tenure.

I'd now like to turn the call over to Shawn to review our financial results in detail.

Shawn.

**Shawn Clarke** — Chief Financial Officer, VersaBank

Thank you, David.

Just a quick reminder, folks, that our full financial statements and MD&A for the first quarter of 2022 are available on our website on the Investor Relations section, as well as on SEDAR and EDGAR, and, as David mentioned, all the following numbers will be noted in Canadian dollars as per our financial statements, unless otherwise noted. We do offer U.S. dollar translations of our key metrics in our standard investor presentation, which will be updated for the first quarter numbers and posted to our website very shortly.

Starting with an overview of the balance sheet, total assets at the end of the quarter were \$2.4 billion, up 18 percent year-over-year and unchanged from last quarter.

Our cash balances at the end of Q1 were \$155 million, returning to more typical historical levels at 6 percent of total assets, down from \$272 million or 11 percent of total assets last quarter, and down from \$212 million or 10 percent of total assets last year. The decrease was the result of the Bank deploying our temporarily elevated cash balances into higher-yielding loans.

Loans were up 24 percent year-over-year and 5 percent sequentially to \$2.22 billion, representing another record for loan balances. I will note that the Bank has achieved continuous quarter-over-quarter loan growth since Q3 of Fiscal 2020, shortly after the onset of the pandemic.

Looking a little more closely at the composition of our loan growth, our point-of-sale financing portfolio was up 43 percent year-over-year and up 13 percent sequentially to \$1.4 billion. The increase continued to be driven primarily by strong demand for home finance, auto, and home improvement



receivable financing. For additional context, point-of-sale financing represented 65 percent of our total loan portfolio as at January 31, 2022, up from 61 percent of total loans last quarter.

Our commercial loan portfolio contracted 2 percent year-over-year and 6 percent sequentially to \$769 million, the decrease being a function primarily of the timing of scheduled repayments over the course of the current quarter.

Book value per share increased 8 percent year-over-year and 1 percent sequentially to \$11.78 as a function primarily of higher retained earnings, attributable net income earned in each of the periods, offset partially by the payment of dividends.

Our CET1 capital ratio increased to 14.83 percent, up from 12.48 percent last year and down from 15.18 percent last quarter, and finally, our leverage ratio at the end of Q1 was 12.69 percent, up from 11.4 percent last year, and up slightly from 12.6 percent last quarter.

The year-over-year trends in our regulatory capital levels and ratios, including our leverage ratio, are a function of a number of factors that included: the private placement of subordinated notes payable to U.S. institutional investors in April 2021 for proceeds in the amount of \$92.1 million Canadian; Treasury offering of common shares completed in September 2021 for total net proceeds of CA\$75.1 million adjusted for tax effected issue cost. Also contributing was retained earnings growth, cash provision recoveries related to the Bank's deferred tax asset. and the redemption of the Bank's outstanding non-cumulative Series 3 preferred shares in April of 2021. Our CET1, total capital, and leverage ratios remain well above our internal targets.

As David noted, the first quarter saw continued strong performance across most of our financial metrics.

Total revenue for the first quarter increased 18 percent year-over-year to \$18.3 million, and was comprised of net interest income in the amount of \$16.9 million and non-interest income in the amount of \$1.4 million. As a reminder, our non-interest income is derived primarily from our Cybersecurity Services operation. Higher year-over-year revenue was driven mainly by higher interest income attributable to growth in the point-of-sale financing portfolio within our digital banking operations; also, higher non-interest income, as well as the deployment of cash into higher-yielding lending assets.

Q1 revenue was up only modestly from Q4, 2021, with growth in interest income being substantially offset by lower non-interest income, which is a function of several factors. Seasonally, Q4 tends to be the strongest quarter for our Cybersecurity Services business as customers work to deploy budgeted funds before the calendar year-end, while Q1 tends to be slightly softer due to the holiday season, and further this year was impacted negatively by delays in some offsite visits as COVID-19 restrictions came back into effect in many regions.

Net interest margin for the quarter was 2.77 percent, down nine basis points from last year and up four basis points from last quarter. The year-over-year decrease was mainly due to a shift in lending portfolio mix as growth in our lower-risk point-of-sale financing portfolio outpaced growth in our commercial loan portfolio. The sequential net increase in NIM was a function primarily by the redeployment of cash into higher-yielding lending assets. Net interest income for the quarter was \$16.9 million, up 17 percent year-over-year and up 5 percent sequentially. These trends are a function

primarily of the strong growth in our point-of-sale financing portfolio and the redeployment of cash into higher-yielding lending assets in the current quarter.

Non-interest expenses for the quarter were \$10.6 million, up 32 percent from last year and up 2 percent from last quarter. The year-over-year increase was due primarily to higher salary and benefit expense resulting from annual compensation adjustments and increasing staff levels; higher insurance premiums attributable to Bank's listing on the NASDAQ; and investments in the Bank's business development initiatives. This quarter's non-interest expenses should be a reasonable proxy for our run rate over the remainder of Fiscal 2022.

I will also note that the current quarter included three months of operating expenses of DBG compared to two months of operating expenses included in the comparative quarter last year due to the timing of the Bank's acquisition of DBG on November 30, 2020. The sequential NRE trend was a function primarily of the same factors driving the year-over-year trends, but without the impact of the misalignment of the DBG expense item.

Net income for the quarter was \$5.6 million, or 19 percent per common share, basic and diluted, which is up 5 percent year-over-year and down 6 percent sequentially. The year-over-year trend was a function primarily of higher net interest income attributable substantially to loan growth, offset partially by higher non-interest expenses that I just described previously. Sequential trend was a function primarily of higher non-interest expense, higher provision for credit losses, and lower non-interest income, offset partially by higher net interest income, which is attributable to loan growth.

As David highlighted previously, the first quarter, once again, saw our cost of funds decrease to 1.29 percent, down 13 basis points year-over-year and down 2 basis points from last quarter. The year-over-year trend was primarily a result of continued growth in our Insolvency Professional deposits, which currently pay interest at a rate of 0 percent, but the sequential trend was a function primarily of the redeployment of existing cash balances into lending assets.

The fair quality of our loan portfolio remains very strong. We once again finished the first quarter with no impaired loans and no loans in arrears, which continues to be the case today.

In Q1, we recognized a provision for credit losses in the amount of \$2,000 compared to a provision for credit loss in the amount of \$57,000 for the same period last year, and a recovery of credit loss provisions in the amount of \$279,000 last quarter. Provision for credit losses as a percentage of average loans this quarter was 0.00 percent compared with a historical 12 quarter average of negative 0.01 percent, which remains amongst the lowest of the publicly-traded Canadian federally licensed banks.

As a final comment, amidst the continuing evolution of the pandemic and being mindful of the elevated geopolitical risk resulting from the crisis in Ukraine, we continue to operate at a heightened level of awareness to ensure that our risk management, loan origination, and underwriting practices remain highly-disciplined and focused.

I'd now like to turn the call back to David for some closing remarks.

David?

**David Taylor** — President and Chief Executive Officer, VersaBank

Thanks, Shawn.

Q1 was a very solid start to Fiscal 2022. We saw the continued momentum of our existing digital banking operations, as well as a strong year-over-year growth from DRT Cyber. We expect this momentum to continue throughout the remainder of the year, with a baseline of growth from these operations in line with 2021 with some potential upside. Demand for these types of goods and services that are financed through our point-of-sale business remain strong in Canada, and we are noting what appears to be a resurgence in commercial spending. On the deposit side, we expect a return to sequential growth of our insolvency deposits as the pandemic-related government support payments end, and I want to note here that the Bank additionally benefits in the short term during a period of rising interest rates.

In our Cybersecurity Service business, we have a solid momentum that we expect to continue into 2022. You will note that a moment ago I referred specifically to existing digital banking operations. That is because in 2022 is a year in which we expect to meaningfully expand our point-of-sale finance business. On our last call, I talked about the opportunity to bring our unique point-of-sale financing model, which has been so successful in Canada, to the 1.8 trillion U.S. consumer finance market. It's a market where we see same potential for success that we did in Canada a decade or so ago, but obviously, many, many times larger, and with a proven solution that we know addresses the unmet need. We are steadily making progress with our plans.

With that, I'd like to open the call for questions.

Operator?

## Q & A

### Operator

Your first question comes from William Wallace from Raymond James.

Please go ahead.

### William J. Wallace, IV – Analyst, Raymond James

Hi. Good morning, guys. Thanks for taking my call—my questions.

Dave, maybe just starting with where you ended, you said you're making steady progress, I believe, on your plans to enter the U.S. with your point-of-sale business. Could you provide some more specific commentary around what needs to occur for an actual entry into the U.S. and where you stand from a timeline perspective, and how maybe that industry might look?

### David Taylor — President and Chief Executive Officer, VersaBank

Yes. Thank you, Wally. Wonderful weather here in New York City.

Well, we've incorporated a company we call VersaFinance to serve as a lending platform. We've identified at least three potential new customers, and our team has been working with the lawyers on documenting our program. There's some differences between the Canadian law and the U.S. law, and that's what's slowed it down, but we're just in the stage now of finalizing the legal documents, so it

shouldn't be too much longer before you see us book the first deal and there's a few more in the hopper that will follow after that now that we've settled on the legal documentation.

**William J. Wallace, IV** – Analyst, Raymond James

Do you think that could be a fiscal this quarter announcement?

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes. Yes, we're looking for this—I was hoping it would be the first quarter, but plowing through the legal nuances took a little longer than we had—we expected.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, but you feel like you've gotten through that process now and we could expect to see some sort of announcement this quarter with your—with the first partner, at least a first partner in the U.S.?

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes, that's right, Wally, and then after that, it's—now that we've got the legal work sorted out, then it's up to our team's marketing efforts.

**William J. Wallace, IV** – Analyst, Raymond James

Okay. It sounds like you have identified three customers just based on their volumes. Any willingness to give us a sense as to how big of a splash you could enter the U.S. with from a volume perspective, or is that putting the cart in front of the horse?

**David Taylor** — President and Chief Executive Officer, VersaBank

Little early to say. As I said in the comments, the—what we're calling our baseline growth is about the same as we experienced last year and that was about 43 percent. That's based on the Canadian customers. U.S. would all be incremental to that, and it's hard to put a figure on it right now, but next quarter, I should be able to do that and then we'll have some real live customers.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, and then you also mentioned towards the end in your commentary, I think you said what looks like a resurgence in commercial spending. Are you referencing the commercial real estate business, or are you talking about small business or something on the point-of-sale side? You are talking about the point-of-sale.

**David Taylor** — President and Chief Executive Officer, VersaBank

Commercial equipment. Yes. There was quite a sensation in small business spending with the pandemic. There's more an offset, of course, by a lot of spending in the retail area primarily on home improvement and that sort of thing, but now we're starting to see some commercial spending coming back, finally. This pandemic has certainly taken its toll on small businesses in Canada.

**William J. Wallace, IV** – Analyst, Raymond James



Okay, great, and then I just wanted to shift gears and talk a little bit about VCAD and the SOC2 audit. We're delayed on the launch. The SOC2 audit, it's a pretty structured and formalized process. Is that correct?

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes, absolutely.

**William J. Wallace, IV** – Analyst, Raymond James

Where are you in the audit process itself, and how soon do you anticipate completing the audit?

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, if you'd asked me that last quarter, I would have said a few weeks. I'm still saying a few weeks. It's taken a lot longer than I had expected. However, I asked Gurpreet Sahota who was in charge of that area, and he's looking for a few more weeks. This was a self-imposed requirement that we placed on ourselves thinking that it's a brand-new product for the world, it is, and that it would be good that our customers and our regulators would know that a third party had reviewed it with stringent SOC requirements, so, yes, maybe a few more weeks. There was a delay in actually physically reviewing our facility that the COVID restrictions in Canada brought about, but that's behind us now.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, and, so assuming this is done within the next several weeks, what does the commercial launch look like? Will you launch with multiple customers that will be offering your VCAD stablecoin

alternative? Will it be all launched at once, or will you just say we're launching and then you have to go and start working on the customer agreements, etc.? Just help us think about what the launch might look like once this audit is complete.

**David Taylor** — President and Chief Executive Officer, VersaBank

Our partner, Stablecorp, has already lined up customers to purchase the VCAD, so that's—they're just still waiting for us to be able to issue the VCAD to them, so immediately when we're ready to go, we'll be issuing VCAD to Stablecorp, and they, in turn, will be issuing VCADs to their customers. They also announced some time ago that their QCADs will swap into our VCADs, so as soon as we're ready to go, Stablecorp's ready to go, so that's the first. There's some others that have contacted us about also distributing our VCADs for USD and perhaps (inaudible) sterling and the euro, so as soon as we give them the green light, I'm sure Stablecorp's—they have an account open with us and they're all set to go.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, and then as it relates to the USD, that would just be a potential tack-on offering, right? You wouldn't need to undergo a whole additional audit for that specific DDR, would you?

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes. That's exactly right. In fact, we already have the USDs on the blockchains for the close of testing. Now, we only issue in Canada, of course, so the denomination is U.S., or it could be sterling or euro too. It's just issued in Canada to Canadian purchasers, being Stablecorp to start with. Thereafter,

we are looking into United States for—to acquire a bank this year. We're engaged in discussions on that topic, but presently, the coins should just be issued in Canada.

**William J. Wallace, IV** – Analyst, Raymond James

Okay. Okay, great, so it seems like this quarter could be hopefully and potentially, a quarter with some kind of meaningful progress on these two new sort of initiatives that we've been talking about since the IPO.

**David Taylor** — President and Chief Executive Officer, VersaBank

Exactly, Wally. Sorry it's taking a lot longer than I expected, but with legal work and accountants doing the SOC audit, and COVID with a—with the second shutdown or restrictions in Canada, it slowed it down a bit.

The other one that we didn't mention was our Instant Mortgage that—it seems finally we may have a mortgage administration company lined up to look after the administration for us. That may very well hit this quarter too.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, great.

I have a few more questions, but I'm going to hop out and let somebody else ask some, and if they don't get asked, I'll come back later.

Thank you very much for your time. I appreciate it, Dave.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, thank you, Wally.

**Operator**

Thank you. Your next question comes from Greg MacDonald from LodeRock Research. Please go ahead.

**Greg MacDonald** – Analyst, LodeRock Research

Thanks. Good morning, guys. How are you, David?

**David Taylor** — President and Chief Executive Officer, VersaBank

Very good, Greg. It's a nice, sunny day here in New York, and thankfully, I'm overlooking Central Park, so beautiful.

**Greg MacDonald** – Analyst, LodeRock Research

Lovely, and the temperature is probably a little warmer there.

**David Taylor** — President and Chief Executive Officer, VersaBank

It is, indeed.

**Greg MacDonald** – Analyst, LodeRock Research

Thanks for taking my question.

I wanted to ask one on DRT. Revenue growth, 36 percent year-over-year. You talk about some sustainability of that, and "heightened threat alert" makes us all kind of come back to this as an important topic and realize that this is possibly a scenario where demand is outpacing ability to provide service for cybersecurity companies. Can you just talk a little bit—just give us a little bit of an update on DRT? I'm sensing demand must be great, but this is a human resources business at the end of the day. Give us just an update on how things are going with respect to growth, with respect to ability to staff, things like that.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, you're absolutely right that the penetration testing side is dependent on people, and I think everybody in the IT software industry knows that it's been harder and harder to retain and acquire new IT people. We've done fairly well. London is a popular spot for people to live, so we've got that going for us.

Secondly, we introduced options for our staff, which has become standard in the software industry, to encourage people to stay with us and prosper with the increasing value of the shares, so we're—we—I suppose vis-à-vis the industry, we're doing much better with retention and obtaining staff, but on the penetration side of our DRT business, it is somewhat human-dependent. We have other cybersecurity products that are highly-scalable, so that isn't so human-dependent, and we're hoping that

folks who are, as you say, subject to higher degree of tax, will take us up on our machine-driven products that basically give them a heads up that someone's trying to hack into their systems, so we continue to see a tremendous growth area for DRTC. One area is subject to—dependent on hiring in human, so we think we've got that covered with an attractive compensation package. The other products we have are highly-scalable and not very dependent on humans.

**Greg MacDonald** – Analyst, LodeRock Research

Okay, thanks for that, and sense of growth profile on the topline, is this still primarily a Canadian business; i.e., Canadian corporations serving, Canadian government agency serving, or have you made success moving into the U.S. market yet?

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, we have a lot of U.S. customers. A number of states are using us for their 911 service. A lot of police departments here in the United States are using us. Of about the 350 or so customers that we have, a good portion are in the United States, and it's just what you'd expect. It's critical services, the utility companies, rail lines that use us, so we're quite prevalent in the United States.

**Greg MacDonald** – Analyst, LodeRock Research

Okay, thanks for that, and then just a quick question on the Instant Mortgage product. You've expressed some opportunity for attractive growth there in the past, and it's nice to see that, from an administrative perspective, that product's ready to roll. From what your loan origination partners are

talking about, any sense of change in optimism for growth there? Is it an avenue that you think you're more optimistic about now? It's a new product, right, so any updates there would be helpful for us?

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, we are very optimistic about it. The hold-up for the Instant Mortgage itself was finding a mortgage administration company that could look after the mortgages for us. As you know, our modus operandi is to partner out those types of activities, and it looks like we have one that's come to work with us.

It's hard to say what the growth potential is, but it looks like a lot of demand. Mind you, that could end pretty quickly. As you know, Greg, in Canada, we're looking at a highly unusual increase in property values, and it very well could be a settling back of pricing, and maybe the demand for mortgages will settle back, but right now, it's a huge demand.

**Greg MacDonald** – Analyst, LodeRock Research

Also a highly unusual increase in immigration, which works in its favour.

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes, absolutely, and this is primarily what the Instant Mortgage is aimed at, for those that want a convenient way to obtain mortgage financing at the point-of-sale, of course, so it's designed for new Canadians.

**Greg MacDonald** – Analyst, LodeRock Research

Great. I'm curious to see how that product rolls out. It's imaginative and I think it's very interesting.

Thanks very much, David. I appreciate the answers to the questions. I'll pass it on.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, thank you, Greg.

**Operator**

Your next question comes from William Wallace from Raymond James. Please go ahead.

**William J. Wallace, IV** – Analyst, Raymond James

Hey, Dave. Good to see you again.

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes.

**William J. Wallace, IV** – Analyst, Raymond James

I just wanted to maybe follow up a little bit on interest rates just for us Americans who maybe are unfamiliar with the interest rate policy in Canada. As we look at the U.S. Fed likely starting to increase rates this month, how typically does the interest rates in Canada follow, and remind us how the point-of-sale loans are priced and what you would expect from a margin perspective, whether it's NII



percent growth or a margin basis point expansion for every move that we see in rates whether it's based in Canada or Fed or whatever, however you would.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, Wally, I think there's a long history of banking in Canada following the Fed for interest rate increases, so it's not a certainty, but it's a high probability that if the Fed increases rates, Bank of Canada will increase too. Our portfolio is structured so that about a 155 basis point increase, a lot of that goes straight to our bottom line, and some—we—a good portion of our deposits are priced at prime minus four, so it takes about a 155 basis points before we start paying additionally on our deposits, but we have like \$600 million, \$700 million of prime-based loans that go up immediately, so we're positioned, I think, like most banks, but I think an increasing interest rate environment is positive for us.

Secondly, like all banks, we hold a lot of liquidity and we're earning next to nothing on the liquid assets, so we'll benefit on that. As usual, rates are extremely low now and if they move up a little bit, 150-odd basis points, say, next year or two, that's all good for us.

With respect to the point-of-sale financing, they're priced over Government of Canada bonds, which tend to correlate highly with our fixed rate deposits, so the margins should stay about the same. Don't anticipate any compression should positive rates go up at the same rate as Government of Canada bond yields do too, so margins there should stay the same.

The other portfolio I was referring to is the real estate portfolio, the prime-based portfolio, and that's the one where you get the boost.

**William J. Wallace, IV** – Analyst, Raymond James

How often do the real estate loans re-price?

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, they're almost all prime-based, so they re-price instantly. If the Government of Canada puts the rates up that day, bonus for (inaudible) over it, but for quite a few years now, we banks have suffered with having rates extremely low, so if rates move up a little bit, it means that our net interest margin will go back to probably its historic levels around 3 percent.

**William J. Wallace, IV** – Analyst, Raymond James

Okay, perfect. That's very helpful. Thank you very much, and then I believe Shawn mentioned in his remarks something about on-site visits being delayed. Was that specific to what's going on with DRT Cyber? Should we expect a bounce back in fee income, or was that specific to something else? I apologize for missing...

**David Taylor** — President and Chief Executive Officer, VersaBank

No, you got it right. It was DRT Cyber, and with the penetration testing, our guys do a lot of on-site visits. That's why it's human-intensive, the penetration side of the business, and two things would have slowed that down this quarter. One is the holiday season. Folks don't tend to invite us in to do our penetration testing during the festive season, and the other thing, with these COVID lockdowns we encountered here in Canada, that slowed down the on-site visit. It's also what slowed down the SOC

audit—SOC2 audit in that the auditors wanted to physically visit our facility, and where it's located, there was some stringent pandemic lockdown, but that's all behind us now. Hopefully it's behind us for good. These lockdowns have been quite disrupting.

**William J. Wallace, IV** – Analyst, Raymond James

Thanks for that commentary, so in the DRT Cyber, any delayed site visits due to COVID lockdowns, can you catch back up on that in one given quarter, or is it—is the nature of your staffing, etc., such that everything just kind of gets pushed back?

**David Taylor** — President and Chief Executive Officer, VersaBank

I think we'd be catching it up this quarter. It's also a seasonality to it that I was mentioning, brought by the holiday season, so this—typically, Q1 for DRTC is lower revenues and activities, and then Q2, 3, and 4, it should make it back, and then we've got these other products, too, that we're introducing, the ongoing cyber surveillance so that when we do identify weakness in a corporation or a government's cybersecurity, we can present them with a solution; not just to patch it, but also to give them the assurance that, henceforth, if someone is trying to get in, they'll know about it while they're knocking on the door.

**William J. Wallace, IV** – Analyst, Raymond James

Okay. Thanks so much for taking all my questions. I really appreciate the time. That's all I have.  
Take care, Dave.

**David Taylor** — President and Chief Executive Officer, VersaBank

Oh, no problem at all, Wally. Whereabouts are you calling me from?

**William J. Wallace, IV** – Analyst, Raymond James

I'm sitting in Richmond, Virginia.

**David Taylor** — President and Chief Executive Officer, VersaBank

Wow, perfect, so pretty close to where I am, I suppose. You're getting the nice weather too.

**William J. Wallace, IV** – Analyst, Raymond James

Yes, sir. Yes, sir, it's nice.

**David Taylor** — President and Chief Executive Officer, VersaBank

Excellent.

**Operator**

Thank you.

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

**Trevor Reynolds** – Analyst, Acumen Capital

Good morning, Dave.

**David Taylor** — President and Chief Executive Officer, VersaBank

Good morning, Trevor

**Trevor Reynolds** – Analyst, Acumen Capital

I think most of the questions have been covered. I was just wondering if you could give us an update on the Indigenous Infrastructure and Housing initiatives that you've rolled out in the summer.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, we're sure working on it. It is taking longer than expected, too. I would love to get some home financing on the books for indigenous Canadians, so we think there's a huge demand for it. Robert-Falcon Ouellette is our man on the job there, and he's involved in the project, and they're all keen to get it started. No loans yet, which is, at this point, for me, particularly in the Arctic, as I was telling the guys the other day, if you don't hurry up and get something going, the ice roads are going to melt, we won't be able to deliver the materials, so if anybody's listening on the line there, they know who I'm talking about. We'd love to provide you with financing, get you in nice homes, but they've got to speed it up a bit.

**Trevor Reynolds** – Analyst, Acumen Capital

Definitely taking longer than you'd anticipated when you rolled this out?

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes. This progress is (inaudible). Our team's working on it with their counterparts, and are working as hard as they can. It's just that everything seems to take a little longer and a little longer, but there's sure a huge demand for—and Instant Mortgage works quite well. It's adaptable to serve the Indigenous Community with mortgage financing, so that's what Robert's got going. We have some other counterparts on the side. We've got some good partners working with Robert on this.

**Trevor Reynolds** – Analyst, Acumen Capital

How big do you think this could get?

**David Taylor** — President and Chief Executive Officer, VersaBank

Oh, it's hard to dream. I'd say they'd be at least \$500 million, \$600 million of Indigenous Home financing. That's the demand. Whether we get it all or not is another question, but in the past, we've provided a lot of finance, particularly in the Canadian Arctic; as you've mentioned, infrastructure projects such as schools and hospitals and pipelines and lines, all kinds of good projects we did in the past, but for some reason, it's taking a little longer to fire that back up, longer than I would like.

**Trevor Reynolds** – Analyst, Acumen Capital

Got it, and then maybe—apologies if I missed this, but just on the DRT side, has there—maybe just an update on how those reseller agreements are working.

**David Taylor** — President and Chief Executive Officer, VersaBank

They're working well. Some of those products I was alluding to are—come through our reseller arrangements, and it gives almost a complete suite of cybersecurity products. There's a couple more add-ons I'd like to get. I will talk about that maybe in another quarter, but yes, we have a wonderful relationship with our partners in this.

**Trevor Reynolds** – Analyst, Acumen Capital

Perfect. Appreciate it. That's good for me. Thanks.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, thank you. Thank you, Trevor. What's it like in Calgary?

**Trevor Reynolds** – Analyst, Acumen Capital

It's warmed up a bit, but probably—it doesn't sound like it's as nice as where you're sitting today.

**David Taylor** — President and Chief Executive Officer, VersaBank

Yes. Well, I'll be back to the frozen North pretty soon, probably tomorrow.

**Operator**

There are no further questions at this time.

Mr. Taylor, you may proceed.

**David Taylor** — President and Chief Executive Officer, VersaBank

Well, thank you. I'd like to thank everybody for joining us today, and I look forward to speaking to you at the time of our year-end—well, next quarter results come out. As we're talking, look forward to some press releases this quarter on these key projects that we've been working on.

Thank you again.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you very much for participating and ask that you please disconnect your lines. Have a good day.

**David Taylor** — President and Chief Executive Officer, VersaBank

Thank you.