



Versa**Bank**

Choice Through Innovation

Q4 2020 Conference Call Presentation

November 25, 2020

Post Conference Call Q&A

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
Passcode: 37337168#

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, 2019. The Bank makes no undertaking to update any forward-looking statement that is made from time to time by the Bank.



David Taylor

President & CEO



VersaBank
Choice Through Innovation

Q4 2020: Continued Strong Financial Performance

Income Statement

	3 Months Ended October 31			12 Months Ended October 31		
	2020	2019	Change	2020	2019	Change
Revenue	\$13.7 M	\$13.6 M	+1%	\$54.2 M	\$53.9 M	+1%
Cost of Funding	1.51%	1.92%	-41 bps	1.71%	1.91%	-20 bps
Net Interest Margin	2.82%	3.04%	-22 bps	2.90%	3.00%	-10 bps
Core Cash Earnings ¹	\$6.5 M	\$7.4 M	-12%	\$26.8 M	\$27.8 M	-4%
Core Cash Earnings Common Share	\$0.31	\$0.36	-\$0.05	\$1.27	\$1.32	-\$0.05
Net Income	\$4.7 M	\$5.4 M	-12%	\$19.4 M	\$20.2 M	-4%
Basic and Diluted Net Income per Common Share	\$0.20	\$0.23	-\$0.03	\$0.82	\$0.85	-\$0.03

1. Core Cash Earnings is calculated as pre-tax earnings less non-core operating income/expenses.

Strong sequential improvement in all key metrics as the Bank deployed cash to its lending portfolios

- Cost of funding decreased 8 bps vs Q3
- Net interest margin increased 29 bps vs Q3
- Net income increased 9% vs Q3
- Core cash earnings increased 9% vs Q3

Q4 and FY 2020 profitability dampened by higher salary & benefits expense attributable to increase in staff and staff related costs including higher vacation expense accruals due to employees taking less vacation time amidst pandemic

Q4 2020: Continued Strong Financial Results

Balance Sheet

	At October 31		Change
	2020	2019	
Total Assets	\$1.94 B	\$1.79 B	+9%
Book Value per Common Share	\$10.70	\$9.98	+7%
CET1 Ratio	13.88%	13.16%	+72bps
Leverage Ratio	12.19%	11.99%	+20bps

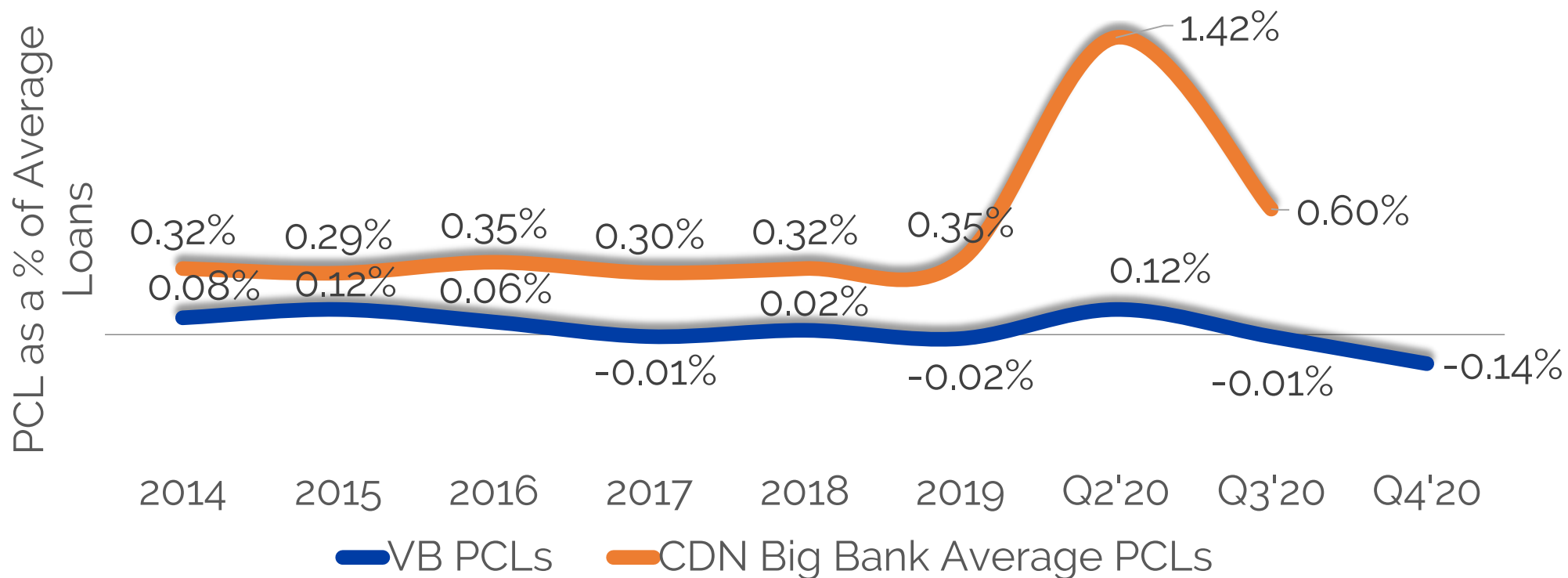
Cash balance at end of Q4/20 decreased to \$258 M from \$354 M at the end of Q3/20

Cash balance at end of Q4/20 was ~13% of total assets compared with historical ranges of 6 to 7%

Bank continuing to deploy cash to Point-of-Sale and Commercial Banking loan portfolios in Q1 2021

Industry Leading Provision for Credit Losses (PCLs)

Q4 2020: Significant Recovery of Credit Losses



Q4/20: Recovery of credit losses of \$582,000
Point of Sale holdbacks continue to be ~4x estimated intrinsic risk

Continued to Lower Cost of Funding

- Continued strategic shift of deposit mix to lower cost deposits
 - Reducing higher cost personal deposits
 - Increasing lower cost commercial deposits

Q4 2020 cost of funds: 1.51%

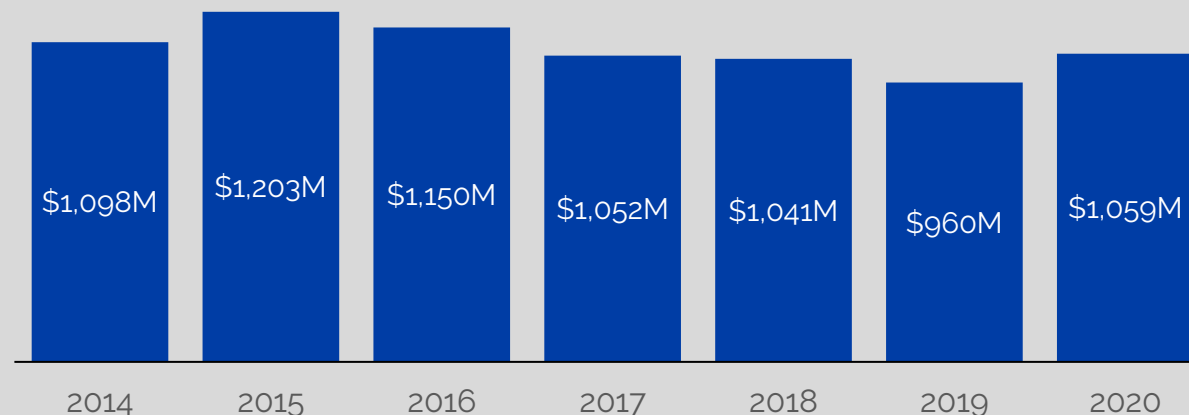
- Decreased 41 bps vs Q4 2019
- Decreased 8 bps vs Q3 2020

0% interest¹ Insolvency Professional deposits increased >14% vs Q4 2019

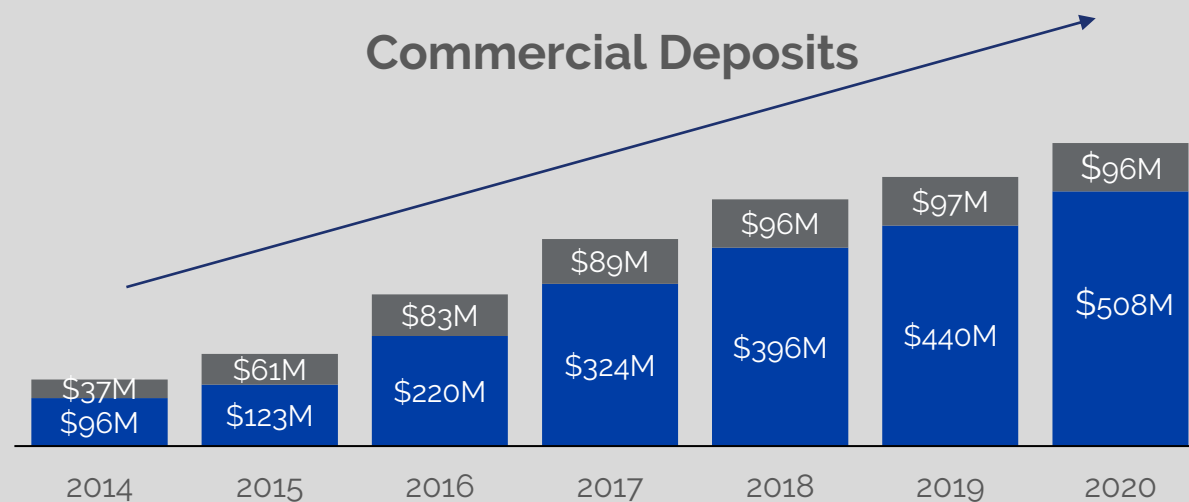


1. Current rate.

Personal Deposits



Commercial Deposits

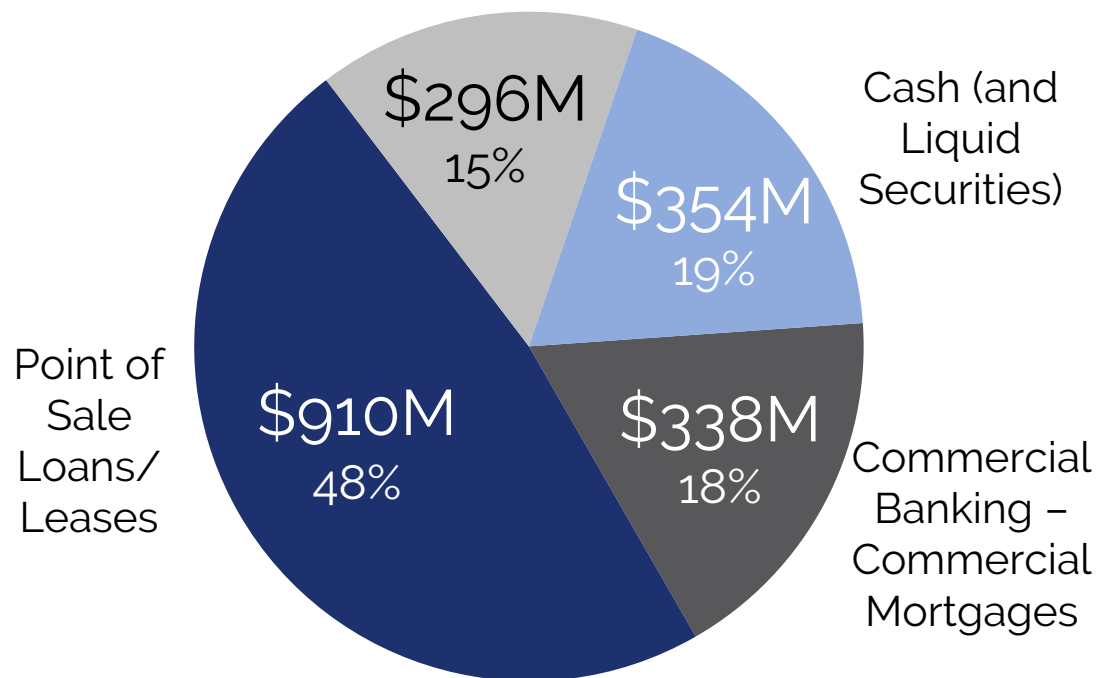


■ Insolvency Deposits ■ Point of Sale Holdbacks

Lending Portfolio Q3 2020 vs Q4 2020

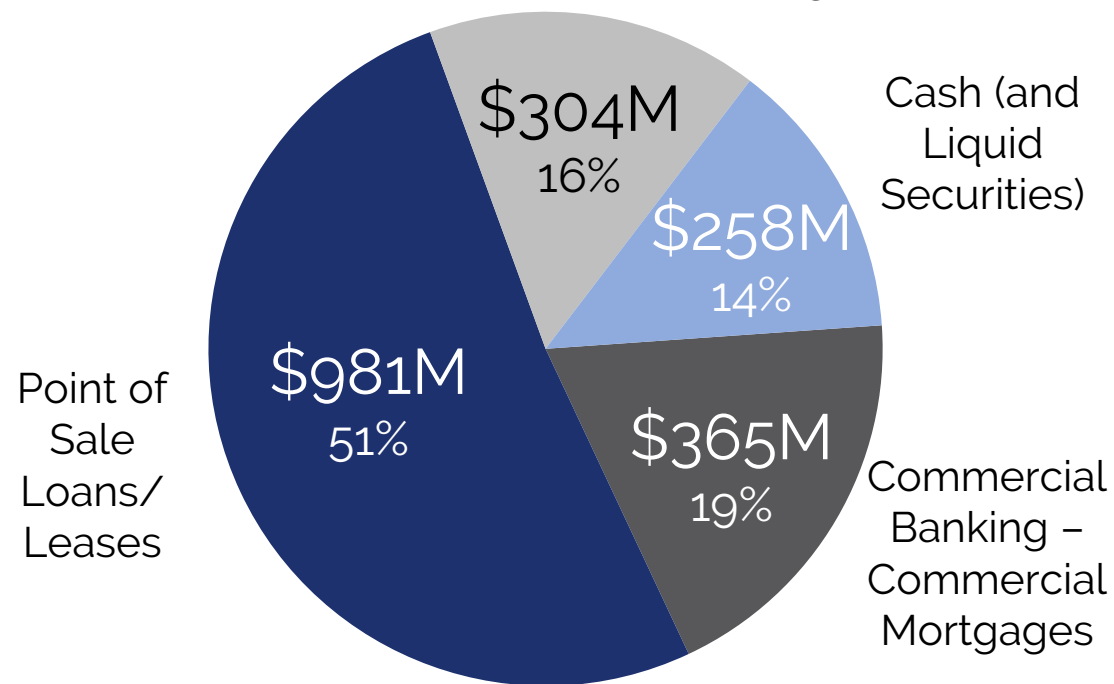
Q3 2020

Commercial Banking –
Public Sector & Other Financing



Q4 2020

Commercial Banking –
Public Sector & Other Financing



>\$100 M increase in total loan portfolio compared to the end of Q3
Momentum in Point-of-Sale loan origination
Very strong activity in Commercial Mortgages

Multiple Growth Drivers: 2020 Achievements

1.

Further Reduce Cost of Funding

to Expand Net Interest Margin

Added multiple new deposit partners, expanding size of ultra-low cost Insolvency Trustee deposits

2.

Grow Loan Portfolio

via New Near-Term Opportunities
and Existing Offerings

Added a major new Point-of-Sale partner: Simply Green Financial

Re-engaged Public Sector Financing lending channel

Launched third lending channel: Instant Mortgage

3.

Pursue Accretive Acquisitions

to Leverage Scalability of
Technology Platform

Continue to explore and evaluate potential acquisitions for the Banking business

Continue to generate industry leading net interest margin with below average risk

Leveraging the Success of the Point of Sale Business for the Real Estate Market: Instant Mortgage

Market Need:

A software-based solution for home and condo developers and sales brokerages that enables “on-the-spot” financing approvals, with a specific focus on newcomer home and condo buyers with significant wealth but no credit history in Canada



Solution: Instant Mortgage –

A revolutionary high-volume residential financing software app for home builders and brokerage firms

- Very low-risk structure similar to Point of Sale Loan and Lease model with cash holdbacks
- Currently in beta-testing with a leading Canadian developer and a leading Canadian sales brokerage firm

Will enable entry into the >\$200 B Canadian home financing market

Leveraging Our Banking Technology DNA: Large-Market Opportunities Beyond Our Core Business

Canadian banks are leaders in cyber security and VersaBank is a cyber security leader among Canadian banks

- At the leading edge of the next generation of security-focused banking solutions
- Commercialization of internal mission critical software – platform for broad application
- Development capability with minimal capital investment and operating costs
- Core technology capabilities enable rapid development commercialization

DRT Cyber, Inc.

Developing innovative solutions to address the rapidly growing volume of cyber threats for financial institutions, multi-national corporations and government entities

- Wholly-owned subsidiary (Washington, DC)
 - **Honorable Tom Ridge, Chairman** – First US Secretary of Homeland Security
 - **Avery Pennarun, Director** – Former Senior Software Engineer at X Inc., Google Fiber, and Google Inc.
 - **Gurpreet Sahota, Chief Operating Officer** – Former Principal Cyber Security Architect at Blackberry
- Commercialization of first product: VersaVault – Digital Safety Deposit Box
- Additional security solutions in various stages of development

Acquisition of Digital Boundary Group: Complements DRT Cyber's Comprehensive Suite of Security Solutions

13

DBG: One of North America's premiere IT security assurance services firms

- Suite of services:
 - External network, web and mobile app penetration testing
 - Physical social engineering engagements
 - Supervisory control and data acquisition (SCADA) system assessments
 - Various aspects of training
- Clients include:
 - Large Canadian retailers & financial service providers
 - Canadian/U.S. police service organizations
 - SCADA system reliant energy, public utilities and infrastructure firms



- Purchase price of ~\$10 M (cash)
- Profitable and growing rapidly
- Immediately accretive to VersaBank earnings



VersaBank

Choice Through Innovation

Q&A Session

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

Local Dial In: (416) 764-8659

Participant Passcode: 37337168#



We're Just Getting Started!



VersaBank

Choice Through Innovation