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VersaBank

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to VersaBank's Third Quarter Fiscal 2023 Financial Results Conference Call.

This morning, VersaBank issued a news release reporting its financial results for the third quarter ended July 31, 2023. That news release along with the bank's financial statements and supplemental financial information are available on the bank's website in the Investor Relations section, as well as on SEDAR or EDGAR.

Please note that in addition to the telephone dial-in, VersaBank is webcasting this morning's conference call. 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 completion of the call. Details on how to access the replay 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 analyses made by VersaBank

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

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

David Taylor — President, Chief Executive Officer, VersaBank

Good morning, everyone, and thank you for joining us for today's call. With me is Shawn Clarke, our Chief Financial Officer.

Before I begin, I'd like to remind you that our financial results are reported and will be discussed on this call in our reporting currency of Canadian dollars. For those interested, we have provided U.S. dollar translations for most of our financial numbers in our standard investor presentation, which will be updated and available on our website shortly.

Now for the results.

The third quarter of fiscal 2023 was once again, as was the case in the first half of the year, solid evidence of our significant operating leverage and our branchless partner-based business-to-business digital banking model. Continued steady growth in our loan portfolio to a new record of just shy of $3.7 billion, which was up a very healthy 30 percent year-over-year, drove growth in our net income over the same period of 75 percent, and earnings per share grew 90 percent year-over-year as we continue to take advantage of our share buyback program.

Looking more closely at Q3 performance, there are four notable items I'd like to discuss. The first is net interest margin on our loan portfolio, which for the quarter was down 30 basis points from Q2 and a major factor that hindered us reporting yet another record for net income. There are a number of levers that influence our net interest margin from quarter to quarter. Over the long term, these historically net out to a net interest margin in our loan portfolio of around 3 percent within whatever the prevailing interest rate environment is; however, in our most recent quarter, which runs from the beginning of May through the end of June, we experienced an anomalous macro impact on the market rates for term deposits in Canada.

Term deposits currently comprise an atypical high 80 percent of our total deposits and are more expensive cost of funds than our insolvency professional deposits. The market rates for term deposits are derived predominantly from a premium demanded by our depositors over the risk-free Government of Canada bond rate. Following the broad liquidity concerns that permeated the U.S. banking sector a number of months back after several high profile collapses, we saw a swift and significant spillover effect into Canada. The market premium over Government of Canada nearly quadrupled from its recent average, or more than 70 basis points in absolute terms. Further, although short lived, this premium spike occurred at a time when we coincidentally were disproportionately raising deposits; in other words, we traded fairly a large volume of low interest term deposits for higher rates term deposits, which exacerbated the impact.

This obviously dampened net income for the quarter and kept us from posting yet another record quarter of profitability, although as I noted earlier, we did equal our record EPS as a result of our

share buyback and on a year-to-date basis, net income is still up 83 percent and EPS up 96 percent compared to last year.

I'm pleased to report that the term deposit market has returned to its average range, even falling below that average, and we have no reason to believe that this situation will repeat itself in the foreseeable future. We are back to booking term deposit rates that support our target net interest margin. Fortunately, the majority of our term deposits have one-year maturities, therefore while we will continue to feel the impact of this temporary premium spike over the course of the next 12 months, we expect to see an incremental increase back towards the 3 percent range with each quarter, all other things being equal. Further, as Sean will discuss, we are seeing our much less expensive insolvency professional deposits increase as bankruptcy activity continues to expand, which will generally support net interest margin going forward.

As I've noted previously, our receivable purchase program loans in the U.S. generate higher net interest margins. That said, I'll remind you that we do reserve the right to trade some net interest margin performance for higher volume in situations where it is accretive to net income and return on common equity.

The other three noteworthy items for Q3 are repeats of those I've highlighted on our last call, their repetition being indicative of both the power of the operating leverage and the consistency of our business model. The second is our efficiency ratio, or our cost to generate one dollar of revenue. That number once again saw a sizeable improvement on a year-over-year basis. Revenue not only increased by 26 percent year-over-year but non-interest expenses decreased by 6 percent year-over-year to $12.9

million. That's a little higher than the $12.5 million normalized quarterly number we are targeting due to ongoing supporting the approval process of our proposed acquisition of the U.S. bank. Our Q3 efficiency ratio of 43 percent is already far superior to the vast majority of North American banks, but with the continued expected growth in our loan portfolio, that number is poised to continue to improve to levels thought unattainable by a bank.

The third major highlight is the combined improvement in our return on common equity, which increased more than 450 basis points year-over-year to 11.15 percent. This metric is also poised for a substantial improvement as we continue to capitalize on the operating leverage in our additional branchless partner-based model. Of course, each of these metrics would have been even better had it not been for the temporary spike in term deposit rates that compressed net interest margin in the quarter.

Finally, the fourth highlight for Q3 is that the growth in our point-of-sale portfolio remains strong. Thirty percent year-over-year overall loan growth was driven predominantly by the expansion of our point-of-sale business, which was up 39 percent year-over-year and 9 percent sequentially. Recall sequential growth last quarter was 5 percent and I discussed the seasonality in our point-of-sale business such that growth is historically stronger in the summer months. We clearly saw this in Q3.

We continue to have significant additional upside to our growth in Canada through our proposed acquisition of U.S.-based Stearns Bank Holdingford. This acquisition will be transformational for our bank, enabling us to broadly launch our unique and attractive financing solution to what remains an underserved market in the United States. We continue to make incremental and meaningful progress

towards receiving a decision from the U.S. regulators, with a decision from our Canadian regulators to follow. We are as comfortable as we've ever been with the prospects for a favourable outcome.

We recognize this has been a protracted but necessary process, especially with the recent challenges experienced by the U.S. banking sector. We appreciate the continued diligence of our regulators and appreciate the patience of our shareholders, who we know are as eager as we are to bring this opportunity to fruition.

We continue to be as transparent as possible in guiding towards an expected decision date, which we are now targeting for autumn of this year. If favourable, we'll proceed towards Canadian regulatory approval and closing of the acquisition as quickly as possible thereafter.

The limited launch of the RPP program in the United States continues to give us confidence in what we can achieve with a broad national launch. Our still limited but accelerated rollouts of the U.S. RPP program continues to be encouraging. In Q3, our U.S. portfolio grew by another 38 percent as we start to ramp up our second partner.

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

Thanks, David.

Before I begin, I'll remind you that our full financial statements and MD&A for the third quarter are available on our website under the Investors section, as well as on SEDAR and EDGAR, and as David

mentioned, all the following numbers are reported in Canadian dollars as per our financial statements, unless otherwise noted.

Starting with the balance sheet, total assets at the end of the third quarter of fiscal 2023 were just over $3.98 billion, up 29 percent year-over-year from $3.1 billion at the end of Q3 of last year and up 7 percent sequentially from $3.7 billion at the end of Q2 of this year. Cash and securities at the end of Q3 were $271 million or 7 percent of total assets, 7 percent being unchanged from both Q3 of last year and Q2 of this year. Our total loan portfolio at the end of the third quarter expanded to another record balance of $3.7 billion, an increase of 30 percent year-over-year and 7 percent sequentially.

Book value per share increased 12 percent year-over-year and 3 percent sequentially to a record $13.55. These increases were the result of higher retained earnings as well as fewer shares outstanding due to our share repurchase program, partially offset by dividends paid. Our CET1 ratio was 11.15 percent, down from 12.51 percent at the end of Q3 of last year and down from 11.21 percent from Q2 of this year. Our leverage ratio was 8.53 percent, down from 10.38 percent at the end of Q3 of last year and down from 8.83 percent at the end of Q2 of this year. Both our CET1 and leverage ratios remain well above our internal targets.

Turning to the income statement, total consolidated revenue increased 26 percent year-over-year and 1 percent sequentially to another record $26.9 million, with the increase driven primarily by higher net interest income derived from our digital banking operations. Consolidated non-interest expenses were $12.9 million, down from $13.2 million for Q3 of last year and up just slightly from $12.7 million for Q2 of this year. I will note here that non-interest expense remains slightly higher from what

we expect to be our normalized run rate of around $12.5 million per quarter for fiscal 2023, due primarily to the ongoing expenses related to the regulatory approval process associated with our pending U.S. acquisition.

Consolidated net income for Q3 increased 75 percent year-over-year and decreased 3 percent sequentially to $10 million. I will take the opportunity here to reiterate David's earlier comment related to the benefit of the operating leverage of our digital banking operations by highlighting that year-over-year consolidated net income growth of 75 percent was achieved this quarter on revenue growth of 26 percent over the same period.

Consolidated earnings per share increased 90 percent year-over-year and was unchanged sequentially at $0.38 per share, which benefited in part from a lower number of shares outstanding due to our active share repurchase program. During third quarter, we purchased and canceled just shy of 80,000 common shares, bringing the total number purchased as at July 31, 2023 to just over 1.5 million shares.

The primary driver of growth in our loan portfolio was once again our point-of-sale financing business, which increased 39 percent year-over-year and 9 percent sequentially to $2.8 billion. As noted last quarter, Q3 tends to be a little stronger for point-of-sale originations as a result of Canadians typically spending a little more on the products that we finance over the course of the summer months. Our point-of-sale portfolio represents 76 percent of our total loan portfolio at the end of Q3, which is up slightly from the end of Q2 of this year.

Our commercial real estate portfolio expanded 7 percent year-over-year and was unchanged sequentially at $870 million at the end of Q3. I will remind you that our commercial portfolio was 90 percent comprised of loans and mortgages which are financing residential properties, predominantly multiunit in nature, and further we continue to have very little exposure to commercial use properties.

Turning to the income statement for our digital banking operations, as David noted, Q3 was somewhat anomalous in terms of our net interest margin due to a short-lived significant macro impact on the Canadian term deposit market. NIM on loans, that is excluding cash and securities, decreased 38 basis points or 12 percent year-over-year and 30 basis points or 10 percent sequentially to 2.69 percent. Net interest margin overall, which includes the impact of cash, securities and other assets, decreased 19 basis points or 7 percent year-over-year and decreased 21 basis points or 8 percent sequentially to 2.57 percent. I'll take the opportunity here to reiterate that we have observed risk premiums in the term deposit market returning to historical spreads over Government of Canada bonds and thus expect our NIM to begin an incremental climb back to normalized levels in Q4, all other things being equal.

Non-interest expenses for digital banking for Q3 were $10.8 million, compared with $11.4 million for Q3 of last year and compared to $10.7 million for Q2 of this year. As noted earlier, we expect some quarter-to-quarter fluctuation in non-interest expenses as a function of the completion of our pending U.S. acquisition.

Cost of funds for Q3 was 3.62 percent, up 168 basis points year-over-year and up 35 basis points sequentially. The bulk of the year-over-year increase is a result of a higher interest rate environment, although the increase in our cost of funds since the Bank of Canada began increasing its benchmark rate

at the beginning of fiscal 2021 remains significantly below the benchmark increase of 425 basis points. In addition, as discussed earlier, the temporary spike in the market rate for term deposits during order contributed to an atypical outsized cost of funds, which is exacerbated by the still relatively low quantity of insolvency professional deposits measured as a proportion of total deposits, even though we are seeing the increase in Canadian insolvencies translate into growth in this deposit base on both a year-over-year and sequential basis.

For context, according to the latest StatsCan data on a year-to-date basis, Canadian consumer bankruptcies have increased approximately 26 percent as at June 30, 2023 with annual growth estimated up to 30 percent for the same year, which is expected to result in continued growth in the bank's term deposit base, which in turn will favourably impact cost of funds and ultimately support NIM expansion.

Wealth management, or what we refer to as personal deposits, expanded 45 percent year-over-year and 8 percent sequentially.

On the credit risk side, just a quick comment. Our provision for credit losses, or PCLs in Q3 remained very low at just 0.02 percent of average loans, compared with the 12-quarter average of minus 0.01 percent.

Turning now to DRTC, as a reminder, beginning in Q1 of this year, revenue for DRTC includes that derived from the digital banking operations for various technology development services in addition to the contribution from our cyber security services business, Digital Boundary Group, or DBG.

Let me start with DBG's standalone results. DBG’s revenue for Q3 increased 10 percent year-over-year and decreased 8 percent sequentially to $2.4 million, while gross profit increased 52 percent year-over-year and decreased 6 percent sequentially to $1.8 million. The variations are the result of the ebb and flow of DBG's service engagements, with the outsized increase in gross profit resulting from efficiency gains in the business. DPG remained profitable on a standalone basis within DRTC.

Total DRTC revenue, including that from services provided to the digital banking operations, increased 67 percent year-over-year and decreased 6 percent sequentially to $2 million. DRTC's net loss of $99,000 was an improvement over a net loss of $662,000 a year ago and compares to net income $433,000 in Q2 of this year, which benefited from the recognition of a deferred tax asset related to DRTC's non-capital loss carry forwards, which are anticipated to be applied to future taxable earnings.

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

David Taylor — President, Chief Executive Officer, VersaBank

Thanks, Shawn.

Our unique branchless partner-based digital banking model continues to prove itself in terms of operating leverage, efficiency, return on common equity and risk mitigation, that remain unmatched in the North American banking industry. Last quarter, I talked about how our very simple and straightforward business model gives rise to some very simple and straightforward math that is the foundation of our investment proposition and very clearly demonstrates our path to increased shareholder value. We once again saw this hold firm in the third quarter results, even with the

temporary compression of net interest margin, and we fully expect that our shareholders and prospective investors will continue to see this quarter after quarter going forward.

For the first nine months of this year, our point-of-sale portfolio has grown 25 percent. This puts us firmly on track to deliver in the range of 30 percent growth in our total portfolio for 2023, barring any unforeseen changes in the macro economy. We expect to see this continued steady sequential growth going forward, barring any major economic shocks. Canadian consumer and small business spending in the categories that our point-of-sale partners finance thus far has remained steady despite the higher interest rate environment, and we believe there is a good opportunity in Canada to add new point-of-sale partners and expand our business with existing partners.

As I mentioned earlier, all of the other things being equal, we expect net interest margin on loans to trend back towards our recent historic levels, supported by both the return to a normal term deposit receipt market and growth in our insolvency professional deposits as Canadian insolvencies return to historical levels. Again, we will be open to potentially foregoing some net interest margin for higher return on equity. Normal course quarterly non-interest expenses, that is excluding those related to the proposed U.S. acquisition, should remain around $12.5 million.

Finally, our unique model results in liquidity and loan loss risk that remain amongst the lowest in North American industry. We have very sticky deposits, either through our wealth management partners, all of which are term deposits, and bankruptcy trustee partners, and our provisions for credit losses continue to be negligible as they have throughout our history.

In Q3, we took another sizable step towards our $4 billion in asset milestone and coinciding improvements in our ratio and return on common equity that naturally fall out of our model. We should easily achieve $4 billion before the end of 2023 fiscal year, end of October. When we reach $5 billion, it's simply a matter of how quickly we can add U.S. RPP loans once we begin to broadly roll out that program following a favourable regulatory decision on our U.S. acquisition.

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

Q & A

Operator

Thank you, sir.

(Operator Instructions)

Your first question will be from David Feaster at Raymond James. Please go ahead.

David Feaster – Analyst, Raymond James

Hey, good morning, everybody.

David Taylor — President, Chief Executive Officer, VersaBank

Good morning, David.

David Feaster – Analyst, Raymond James

Glad to hear that the dislocation in the term deposit market has been alleviated and there's more visibility in getting back to that normalized margin run rate. Shawn talked about getting closer there in the fourth quarter, but it sounded like maybe it might take a little bit longer, hearing you, David. I was just hoping you could maybe give us some thoughts on the margin trajectory in the next two or three quarters and whether you'd expect to get back there near term, or is there going to really be a big step-up in the fiscal third quarter next year when these mature?

David Taylor — President, Chief Executive Officer, VersaBank

I think it will just quarter-by-quarter return to around about the 3 percent margin that we've had historically, and one of the reasons is we're growing so rapidly so we're booking new term deposit receipts at the now normal levels. It spiked to about 90-odd basis points over Government of Canada bonds for that short period of time and then it recovered down to about 16, 17 basis points. I've got a nice graph on it. One of the positives of having short term assets, short term liabilities is that we recover from something like this fairly quickly, but we also have the negative where if there is a short term dislocation, it's felt in a quarter.

The other thing that's coming on board, unfortunately, for Canada and for good Canadians is the propensity to go into bankruptcy is increasing fairly dramatically, and that bodes well for our more economically priced trustee deposit, right around prime minus 3. We are seeing a very—a correlation between the new accounts we've opened and what Stats Canada is posting for the increase in bankruptcies, so between 20 and 30 percent increases in bankruptcies this year, and that's about the

same number of new accounts we've opened, so these new accounts sort of fill up with the proceeds of a bankruptcy and supplement our funding, of course at much more economical rates, so that will help too - help us but certainly not help the economy.

David Feaster – Analyst, Raymond James

That's right. Then maybe just touching on the other side, obviously you're seeing tremendous growth in the point-of-sale market, and you touched on some of the seasonal strength this quarter and the potential slowdown in consumer spending here in the fiscal fourth quarter. I was just hoping you could maybe touch on the economic backdrop that you're seeing in Canada - obviously you touched on some of the stresses that you're seeing, but what gives you confidence that this is—whatever this might be is going to be short-lived and then just the addition—the pipeline of new point-of-sale customers in Canada and just the early read on what you're seeing in the U.S. as well and receptivity there.

David Taylor — President, Chief Executive Officer, VersaBank

Well, in Canada we saw what you'd expect - Canadians come out of their cocoons in the spring and they buy stuff, and despite the cost to borrow increasing fairly significantly, we Canadians tend to buy cars and motorcycles and hot tubs and home improvement despite those things. I do expect in the fourth quarter that the higher interest rates and that kind of enthusiasm to buy will dissipate somewhat - if it gets back to around 5 percent growth in the fourth quarter, I'd expect that.

I think in the winter months, you're probably looking for lackluster purchases, so five, four, three, quarter-by-quarter, it's inevitable that the raising of rates in Canada will dampen that. Now at the same

time, we're still adding more partners, so our reach into Canada is getting greater than it was, so that will offset that a little bit, and there's also the home improvement market that is mainly looking at energy savings, i.e., insulation, new furnaces, new hot water heaters, things are more efficient, so that drives it too, so it's—but I don't expect 2024's growth to be 30 percent like it is this year. It should be less if Tiff Macklem has his switch - he's trying to dampen that, trying to dampen it.

In the U.S., it's such a huge market and our product is so popular that we can double, triple in the States without putting a dent in the market, so I expect to have a recession in the States too, but I don't think that will have much impact on us in that the market is so huge.

David Feaster – Analyst, Raymond James

That makes sense.

Maybe just switching gears to DRT Cyber, I'm curious some of the underlying trends you're seeing there. Obviously, we had the DTA impact in the quarter on the revenue side, but you talked in the MD&A about some slower engagements; but reading further, it sounds like this might be more of a timing issue. I'm just curious what you're seeing within DBG and how the pipeline is looking going forward.

David Taylor — President, Chief Executive Officer, VersaBank

Yes, it's an anomaly for the quarter. DBG continues to sign up new customers for its penetration testing - it's very popular in that area, and the other products the DRTC is bringing onboard seem to be

quite well received in the marketplace too—yes, so I see DRTC, DBG continuing to grow at the rate it has been growing at.

What we're hoping for is a breakthrough with a relationship with, say, a large corporation that provides other services to our target market, and that's mainly other financial institutions. We'd like to vend our services through somebody who already has a relationship - that would be a breakthrough. We have state—well, our customers think we have state-of-the-art technology for providing cyber security and it would be nice for altruistic reasons to help provide those services through other FIs that seem to be quite vulnerable to cyber attacks.

David Feaster – Analyst, Raymond James

That's helpful colour. I appreciate it, thanks, everybody.

Operator

Thank you. Next question will be from Mike Rizvanovic at KBW Research. Please go ahead.

Mike Rizvanovic – Analyst, KBW

Hey, morning. A quick question on the U.S. bank acquisition. David, sorry this is an unfair question, but I'm trying to get a sense of what the risk is that maybe this is something that doesn't get approved in the near term and maybe even extends into 2025. I know that sounds perhaps a bit long, but in terms of what I'm hearing on the regulatory front, I keep hearing about staffing shortages across the regulatory footprint in the U.S. Obviously coming out of the regional banking crisis, there's a lot on

their plate right now. What would you say is the risk that this is something that continues to just get pushed off, not from your end but by the regulators, and then maybe it's a much longer time frame here? I think you suggested perhaps the fall for approval, but what's the risk that it could be a lot longer?

David Taylor — President, Chief Executive Officer, VersaBank

Well, it's a tiny risk but it's not non-existent, because those factors you've mentioned are real. The U.S. regulators have got their work cut out for them with the various challenges that have surfaced, and frankly we're a pretty small transaction, we don't move the needle for them.

Now mind you, after saying that, we're probably the cleanest bank anyone's ever seen. It's not very often, I think you'd come across a financial institution that can talk about a 30-year history of (inaudible) loan losses and a model that's been proven out in Canada, the point-of-sale model I'm talking about that isn't quite a significant demand in the States, so we've got those things going in our favour. But as you say, there is a backdrop of the U.S. regulators being challenged with their existing business, so I wouldn't say it's non-existent but from what we're seeing and our interaction with the U.S. regulars, it looks like we're getting close to the end.

There hasn't been anything new come out for a long time, and I think our value proposition for the U.S. economy is significant. We're providing an alternate source of funding that percolates through to consumers and small businesses, which is helpful for any economy, so not non-existent but I'd say we're in the 90 percent that we'll see some movement in the in the fall.

Mike Rizvanovic – Analyst, KBW

Okay, that's very helpful. Thank you for that colour.

Then a quick one on POS - I recall a couple quarters ago, I thought you were a little bit less optimistic on volumes, and I think it's fair to say that you've been pleasantly surprised on the 9 percent growth this quarter and 5 percent sequentially last quarter. It's been a really good trajectory here, and I'm wondering what do you think is driving that? I don't know if this is more industry more broadly, or is it just more of a take market share from VBNK's perspective?

David Taylor — President, Chief Executive Officer, VersaBank

It's a combination of both. We are taking market share from the others that are participating in this area. Our model, our systems, our technology are state-of-the-art, and customers, our partners like it. They like getting fast funding, they like fast turnaround and our buy rates are competitive, and so we are taking market share.

The other thing is, it's just what I was talking about earlier - there's always a boost in the purchases in the summer, and it was maybe a little bit more of a boost than we were originally anticipating, but it is the summertime spending spree and that will dissipate in the fall, like I was saying, in that the higher rates, i.e., the monthly rate for your motorcycle or your hot tub or your home improvement has gone up fairly significantly, and a lot of Canadians now are wondering how they are going to make their mortgage payments with redoing their mortgages at much, much, much higher

rates. I expect the actual purchases to decline going forward, but we are taking more market share too that might very well offset that.

Mike Rizvanovic – Analyst, KBW

Thank you so much for the insights, appreciate it.

David Taylor — President, Chief Executive Officer, VersaBank

Well, thank you, Mike.

Operator

(Operator Instructions)

Your next question will be from Stephen Ranzini at University Bank. Please go ahead.

Stephen Ranzini – Analyst, University Bank

Great job on a great quarter, David and team. It was great to see you at the picnic, which was a really fun time.

David Taylor — President, Chief Executive Officer, VersaBank

Yes, Steven.

Stephen Ranzini – Analyst, University Bank

Just to follow up on David Feaster's question, and by the way, are you going to be at the Raymond James conference in Chicago next month?

David Taylor — President, Chief Executive Officer, VersaBank

I sure am.

Stephen Ranzini – Analyst, University Bank

Awesome, well, hopefully we'll see you there.

Dave was talking about the model, the—last quarter you also went through this, but I just want to make sure that you still see things the same way. You were saying if we can get to $5 billion in loans at a 3-point margin, that's a $150 million of net revenue, and your expenses are running $12.5 million a quarter, so $50 million a year or so. You can get to 20 percent ROE and you have the capital to do that, is that still your thinking?

David Taylor — President, Chief Executive Officer, VersaBank

Yes, that's absolutely right, Steve. It's a fantastic model. It just gets better and better with the volume. I guess it's inevitable we'll get to the $5 billion mark, the question is just how long it takes.

I was talking about the recessionary forces offset perhaps by entering the U.S. market in a bigger way and take a little market share in Canada, but I think we'll end this year well over $4 billion and I'm hoping next year is over $5 billion, and that's when the numbers really start to work well.

Stephen Ranzini – Analyst, University Bank

Super.

Then the follow-up question I've got on a different topic is during the quarter, you bought back just under 80,000 shares and for the year 1.5 million, and you mentioned that in August, you have to go back to your regulator to get new permission for a buyback program. Just curious about two things - one, why only 80,000 shares in the most recent quarter? Did you did you run out of room or did the share price run away from your target, and what are you targeting for next year? What do you think would be great to be able to do next year?

David Taylor — President, Chief Executive Officer, VersaBank

Well, we ran out of capacity to buy. We're only allocated so many shares we can purchase by our regulator each year, and we ran out. Yes, we do have the application to buy more shares and it's in the order of about 1.5 million shares, would be our hope. Mind you, we are in a, what do you call them - a more challenging regulatory environment in that regulators, both north and south of the border, are looking for more capital, not less, so I'm not sure how well received a 1.5 million share purchase will be, but we would like to have a normal course issuer bid open so we can take advantage of our stock when it's running less than book value. It just obviously makes—it turbo-charges our earnings as the denominator is reducing. It's what gave us $0.38 this quarter versus last quarter despite being slightly down in net income.

Stephen Ranzini – Analyst, University Bank

Well, yes, and I am enthusiastic about your approach to buying back the stock at under book value.

My last question relates to the mortgage business and the potential you discussed last quarter about getting deeper into the CMHC business and launching some new channels there. Have you made any progress towards that in the most recent quarter?

David Taylor — President, Chief Executive Officer, VersaBank

On the retail side, we're working with some partners with a view that, in the first part of 2024, we'd be able to launch the retail type mortgage product and make good progress there. We've hired a person who's an expert in that area and we've got some good partnerships that are developing.

On the commercial side, i.e., the interim construction of residential projects, you'll see us pivot into CMHC insured construction projects. There's quite a demand in Canada for new residential units - you know, we've had a lot of new Canadians come in looking for homes and we banks, ourselves included, seem to be quite reluctant to finance these construction projects without the comfort of CMHC insurance, so we've got few opportunities to do that and we expect in 2024 it will be—I would say, a good portion of our construction book will be CMHC insured. It's helpful on the capital allocation side in that CMHC provides some zero percent risk weighted asset, so it doesn't soak up any of our CET1 capital, which frees it up for the point-of-sale program, so you'll see our construction lenders pivot into that government insured program and be helpful for our economy and we'll be still providing student residences and retirement homes and condominium units for the Canadians that are looking for a place to live.

Stephen Ranzini – Analyst, University Bank

Well, thanks so much, David, and look forward to seeing you in Chicago.

David Taylor — President, Chief Executive Officer, VersaBank

OH, absolutely. It looks—if the weather prediction is correct, it's going to be another hot time in Chicago - I saw something like 95 degrees!

Operator

(Operator Instructions)

Next will be Bradley Ness at Choral Capital. Please go ahead.

Bradley Ness – Analyst, Choral Capital

Great, thank you. Hi guys, how are you doing?

David Taylor — President, Chief Executive Officer, VersaBank

Very good, Brad. It's good to hear from you.

Bradley Ness – Analyst, Choral Capital

Perfect, thanks. Hey, can you tell me the balance of the U.S. RPP loans and how many partners you have right now?

David Taylor — President, Chief Executive Officer, VersaBank

Well, we've signed up three partners, and off the top of my head—I haven't got the exact figure on the balance, but Shawn might have that handy. Shawn, have you got that figured?

Shawn Clarke — Chief Financial Officer, VersaBank

For sure, David. It’s about US $67 million.

Bradley Ness – Analyst, Choral Capital

Sixty-seven million?

Shawn Clarke — Chief Financial Officer, VersaBank

Yes, sir - six, seven.

Bradley Ness – Analyst, Choral Capital

Got it, got it.

David Taylor — President, Chief Executive Officer, VersaBank

We just signed up a new one, Brad, so that hasn't drawn down yet.

Bradley Ness – Analyst, Choral Capital

Okay, perfect. When I think of loan growth going forward, should I still think of 30 percent annual clips?

David Taylor — President, Chief Executive Officer, VersaBank

Pluses and minuses taken into consideration, it looks still like a reasonable figure, and that's taking into consideration the things that I was mentioning earlier - a dampening of the Canadian economy, maybe the U.S. economy dampening too. But heading into the States has been a drop in the bucket in the market, doubles and triples aren't heard hard to think about, and in Canada our reach into other providers' market might offset the inevitable downturn in our economy, so yes, 30 percent, it seems like a realistic figure, all those things taken into consideration.

Bradley Ness – Analyst, Choral Capital

Okay, got it. Thank you.

Regarding the net interest margin, it sounds as though, if I heard everything correctly, that this is trough quarter at 2.57, and likely will sequentially head higher over the next many quarters. Did I hear you say that maybe back to 3 percent your modeling shows in the next four quarters?

David Taylor — President, Chief Executive Officer, VersaBank

Yes, absolutely. That's the historic spread that we've been able to earn over the years, and we're going to be helped by the increase in insolvencies. That's saying we've opened 20, 30 percent more

accounts since the beginning of the year, fiscal year, and that correlates quite highly with the number of increased bankruptcies in Canada.

When we open accounts, they don't fill up with the proceeds of the liquidations right away. It takes about six months for that to start happening, but it's a foreboding of what we will get, so that helps the spread too. They run a prime minus 3 on average, so that would be 4.20 in Canada, and our GIC rate, or our term deposit (inaudible) in the one-year category might be 5.40, so it helps. Those are the things that help us get back to that 3 percent margin that we target.

Bradley Ness – Analyst, Choral Capital

Okay, great, and the new point-of-sale loans that you put on, what rate are those nowadays?

David Taylor — President, Chief Executive Officer, VersaBank

Yes, the ones in the States are a little higher margin than we get in Canada. Roughly, they're around 4 percent over our cost.

Bradley Ness – Analyst, Choral Capital

Okay, 4 percent over. Got it.

David Taylor — President, Chief Executive Officer, VersaBank

This market condition is going to be a lot different.

Bradley Ness – Analyst, Choral Capital

Got you.

On the expense side, if I heard you correctly, the normal is $12.5 million per quarter without any kind of acquisition-related costs in there. This quarter, you were at $12.9 million, so implying that $400,000 related to primarily legal expenses related to the acquisition. Just thinking about them, you've been running higher legal expenses for a year and a half or so from this acquisition, what addition—$400,000 seems like a lot when all that should be done, I would have thought. You already did the application, now it's just maybe sitting around redoing some filings here and there, but do you really need $400,000 a quarter in additional legal expenses for this?

David Taylor — President, Chief Executive Officer, VersaBank

It could be even higher, hopefully when we close, but there was other miscellaneous expenses that went through the quarter too. About a half of that might have been attributable to what Steve was alluding to - we completed our 30th year and had a celebratory picnic that you should have come to, Brad, and that that was a couple of hundred thousand Canadian, all in for that. We had about a thousand people to celebrate our 30th year anniversary. There's things like that went through.

There's pluses and minuses, but normally speaking on a normal quarter, $12.5 million is about the right figure for us.

Bradley Ness – Analyst, Choral Capital

Okay, great. That's it for me. I appreciate it, guys.

David Taylor — President, Chief Executive Officer, VersaBank

Alrighty.

Operator

Thank you, and at this time, Mr. Taylor, it appears we have no further questions. Please proceed with any additional remarks.

David Taylor — President, Chief Executive Officer, VersaBank

Well, I'd like to thank everybody for joining us today, and I look forward to speaking to you at the time of our fiscal 2023 year-end results. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference for today. Once again, thank you for attending, and at this time, we do ask that you please disconnect your lines.