



VersaBank

Third Quarter Fiscal 2025 Financial Results Conference Call

September 4, 2025 — 9:00 a.m. E.T.

Length: 36 minutes

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Andrew Scutt

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to VersaBank's Third Quarter Fiscal 2025 Financial Results Conference Call. Earlier today, VersaBank issued a news release reporting its financial results for the third quarter ended July 31, 2025. That news release, along with the VersaBank's financial statements and MD&A, are available on VersaBank's website in the Investor Relations section.

Please note VersaBank is webcasting this 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 management's prepared remarks, please dial in to the conference lines, the details of which are included on the current slide of the presentation as well as in the morning's news release and on VersaBank's website. For those participating in today's call by telephone, the accompanying slide presentation is available as a standalone file on VersaBank's website. Please note that today's call is being 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 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 analysis 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 now would like to turn the call over to David Taylor, President and Founder of VersaBank. Please go ahead, Mr. Taylor.

David Taylor — President, VersaBank

Good morning, everyone. I'm calling you today from Raymond James' Banking Conference in the Windy City, Chicago. Thank you for joining us for today's call. With me is our Chief Financial Officer, John Asma.

Before I begin, I do want to remind you that our financial results for the third quarter and year to date reflect the costs associated with our plan to realign our corporate structure to that of a standard US bank framework. Those costs amounted to \$4.2 million. As the vast majority of those costs are transitory, that being they will be incurred by fiscal year end, my comments this morning will focus on adjusted or core earnings as well as adjusted numbers for any metrics that are derived from earnings, as those are a more accurate reflection of the performance of our business going forward. In fact, I discussed on our last call we believe this realignment will enhance shareholder value through further risk mitigation, reducing corporate costs and eligibility for certain stock indices.

On to our financial results. The third quarter unfolded very much in line with our expectations and are indicative of the momentum in our business. They reflect the ramp up of our receivable purchase program in the United States alongside better than expected growth in our credit assets in Canada as well as net interest margins consistent with the improved levels we saw last quarter. These combined to drive revenue to another record with a very healthy sequential increase in adjusted net income.

As Founder and President, as well as shareholder, there are a number of important takeaways for me when I look at Q3 results:

The first is that credit assets continue to grow 18% year over year and 6% sequentially, and with that, so does our book value, and this is despite a slower than expected third quarter for US funding, which, as I will discuss later on, has since accelerated and is now growing as per our plan toward \$290 million fiscal year target.

The second is that net interest margin grew year over year despite higher than typical liquidity in preparation for US credit asset growth.

The third is that, amidst the continuing uncertainties around tariffs and trade and what continues to be lackluster overall economy, consumer spending in Canada has been more resilient than expected. As we announced yesterday, we added two new partners in Canada to support continued growth there. And we continue to see solid growth in our insolvency deposit business.

Fourth, and perhaps most importantly, the results for our Canadian digital banking operations continued to demonstrate the potential of our US operations as we ramp up credit assets there and achieve scale. As a reminder, under our current corporate structure, the vast majority of our corporate costs are included in financials for the Canadian digital banking operations, so the reported efficiency ratio and return on common equity of this segment is significantly understated even after excluding the corporate realignment expenses I discussed earlier. With a smaller cost structure, less expensive deposits, and significant greater scale potential, we expect the US metrics to be even better than Canada. Again, as a shareholder, it's how I'm thinking about the future of the business.

Finally, I will note that our results are prior to the contribution of the additional new growth initiatives that we have recently announced. One of these announcements was the expansion of our receivable purchase program in both the United States and Canada through the launch of a securitized financing solution for our partners. As we steadily ramp up the RPP in the United States, it has become clear, especially in the current credit market, that there is a significant additional opportunity to further grow our assets by providing securitized financing to our target market, especially in the current market environment where securitized financings are inexpensive.

Our securitized RPP financing have the benefit of being favourably risk-weighted as low as 20% or one fifth that of our standard RPP financing. While generating a lower spread, they will provide much larger contribution to return on common equity. Importantly, we expect that they will be an entry point to new partner relationships by offering one-stop shop to these partners for attractive, readily available financing in any interest rate environment. I want to be clear here that these securitized RPP financings are investments in senior-level tranches, typically AAA rated and subject to our normal credit approval process, and as a result, are even lower risk than our core RPP financing.

As we announced yesterday, we have already added our first partner under the securitized RPP offering in Canada and expect to begin adding partners in the US shortly. We also plan to establish our own platform offering securitization of assets originated and owned by its financing partner to further enhance profitability here. We believe there is enough opportunity here that we created a new leadership position to head up this initiative and appointed capital markets veteran, Tim Comiskey, to the role. Tim has specific senior-level experience in developing and managing financial products as well as underwriting strategy and portfolio management. We already are seeing the value of Tim's expertise. I will note that

this is our strategy to further expand the target market for our RPP solution through additional enhancements and are working on other innovations to this end.

I would now like to turn the call over to John to review our financial results in detail.

John Asma — Chief Financial Officer, VersaBank

Thanks, David.

Before I begin, I will 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. All of 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 2025 grew 21% year over year and 9% sequentially to a new high of just shy of \$5.5 billion. Cash and securities were \$620 million, or 11% of total assets, up from 9% at the end of Q2. Book value per share increased to a record \$16.42. Our CET1 ratio increased to 13.56% and our leverage ratio was 8.90%, with both remaining above our internal targets.

Total consolidated revenue was a record \$31.6 million, up 17% year over year and 5% sequentially. The increases were driven primarily by continued growth in our credit assets. Consolidated non-interest expense was \$21.6 million compared with \$13.5 million in Q3 last year and \$17.5 million in Q2 of this year. As David discussed, Q3 non-interest expenses included \$4.2 million related to the ongoing costs associated with the bank's structural realignment. Excluding these costs, NIEs for Q3 were \$17.4 million. Otherwise,

the year-over-year increase is primarily due to the addition of the VersaBank USA operations and costs associated with the launch and ramp up for the RPP program in the United States. As a reminder, DRT Cyber expenses are included in consolidated NIEs and totaled \$2.1 million for the fourth quarter. Reported net income was \$6.6 million and consolidated earnings per share were \$0.20. Excluding the costs associated with the proposed realignment of the corporate structure, consolidated net income was \$9.7 million and consolidated earnings per share was \$0.30.

Looking at the income statement on a segmented basis, revenue for the Canadian banking operations was \$26.6 million, up 4% sequentially from Q2. As the corporate expenses flow through Canadian digital banking, net income and earnings per share were negatively impacted by the costs associated with the proposed realignment to corporate structure. Net income was \$6.5 million and earnings per share was \$0.20. However, that number is impacted by the \$4.2 million from the corporate realignment. Revenue for US banking operations was \$3.1 million, a 25% increase sequentially, primarily due to the ramp up in the US RPP, and net income for the US banking operation was \$437,000, a 229% increase sequentially. Within DRTC, the cybersecurity component generated revenue of \$1.6 million, up from \$1.4 million in Q3 of last year. Net loss was \$398,000, impacted by higher operating expenses related to the onboarding support costs for the new cybersecurity offering. Within DRTC, Digital Meteor revenue was \$622,000 with a net income of \$23,000.

Our credit asset portfolio grew to a new record of \$4.78 billion at the end of Q3, driven once again by our receivable purchase program, which increased 15% year over year and 5% sequentially to \$3.7 billion. Our RPP portfolio represented 78% of our total credit asset portfolio at the end of Q3, down slightly from the end Q2. Our multi-family residential loan and other portfolio grew 30% year over year and 9%

sequentially to \$1.04 billion as we steadily draw down on our CMHC-insured loan commitments. As a reminder, our multi-family residential loans and other portfolio is primarily business-to-business mortgages and construction loans for residential purposes. We have very little exposure to commercial-use properties.

Turning to the income statement for our digital banking operations, net interest margin on credit assets, that is excluding cash and securities, was 2.55%. That was 14 basis points or 6% higher on a year-over-year basis and down very slightly sequentially. Net interest margin overall, including the impact of cash, securities and other assets, was 2.25%, an increase of 2% year over year and also down slightly from Q2, which was primarily due to the higher than typical liquidity. Our net interest margin still remained among the highest of the publicly traded Canadian federally-licensed banks. Our provision for credit losses in Q3 continued to be de minimis as a percentage of average credit assets at 0.1%. This was up slightly from Q2 and reflects the forward-looking information used in our credit models.

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

David Taylor — President, VersaBank

Thanks, John.

Our progress and growth to date in fiscal 2025 set us up for a breakout year in 2026: One, our US RPP is steadily ramping up. We are now funding our first US RPP partner, Watercress, at a regular pace of approximately \$20 million a month. We are continuing to progress towards signing up our next partners, and with very little investment, we have enhanced our technology to enable securitized RPP financing,

which significantly expands our target market. All of this continues to give us confidence in our ability to achieve our \$290 million target for fiscal year end.

Two, we are seeing an improved outlook for our Canadian RPP business through the addition of securitization capability, which will enable us to expand our business with our existing partners and expand our reach to potential new partners that would have been too large for our core RPP offering. Also in Canada, we are nearing our target of \$1 billion in CMHC commitments and are now seeing a steady pace of drawdowns, which we expect to continue over the next year and a half or so.

Three, the process to realign our corporate structure with that of a standard US bank is moving forward as planned. With completion, including the requisite shareholder vote and regulatory approvals, targeted for early calendar 2026. We expect to benefit in our next fiscal year.

Four, we are also steadily advancing the process to divest our DRT cybersecurity business. Completion of the sales process is expected to generate cash proceeds, providing additional regulatory and growth capital support our forward trajectory.

Finally, the potential for our digital deposit receipt initiative is quickly coming into focus. This is a rapidly-evolving space and, with the favourable stance of our US administration and publicly announced intentions of who's who in the banking payment providers and other financial businesses to adopt blockchain-based digital assets, it is something we, as a leader in the development and testing of this technology, are rightly getting many questions about. So, a few clarifying points before I open the call to questions.

First and foremost, our digital deposit receipts are our own internally-developed proprietary version of what are more broadly known in the industry as tokenized deposits. Very simply, these are the same digital deposits we have offered for years but with even greater security and the additional utility of programmability by being issued on the blockchain. But in contrast to stablecoins regulated by The GENIUS Act, because they are issued by a licensed bank, they are legally entitled to bear interest and are federally insured, just like conventional deposits. And for banks themselves, they reside on the balance sheet, meaning they can fund lending activities, which of course is the lifeblood of a bank.

For these reasons, we believe our digital deposit receipts have significant advantages over stablecoin. They address a significant problem for today's banks, what's known as deposit flight, the trend of younger generations to hold their cash and transact payments outside conventional banks; however, we believe, our discussions with third parties confirm this, that our digital deposit receipts can be better optioned than stablecoins for payment providers and their financial businesses.

Those that have been following VersaBank for a while will remember that we completed a pilot program in Canada for our digital deposit receipts a few years back that successfully validated their security, processes, procedures, and protocols, and last week we announced that we have initiated a pilot in the United States to do the same thing in US dollar environment. The pilot for the USDVBs, as they are referred to in US, is expected to be completed by the end of the calendar year with commercial launch to occur as soon as possible thereafter. Commercial launch will be subject to non-objection from our US regulator. It is still early days for this next generation of digital assets, but there is huge momentum in this sector. We have a significant head start with a proven market-ready technology, and importantly, we have multiple paths to monetize this asset that cost us very little to develop.

With that, I would like to open up the call to questions. Operator?

Q & A

Operator

Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, you will need to lift the handset first before pressing any keys. Please go ahead and press star one now should you have any questions.

First we will hear from Joe Yanchunis at Raymond James. Please go ahead, Joe.

Joe Yanchunis — Analyst, Raymond James

Good morning.

David Taylor — President, VersaBank

Good morning, Joe.

Joe Yanchunis — Analyst, Raymond James

So, I was hoping to dig a little more into the US RPP program. And perhaps I missed this in the materials, but what were balances at quarter end?

David Taylor — President, VersaBank

About US\$125 million.

Joe Yanchunis — Analyst, Raymond James

\$125 million. Okay. And then how many partners are you generating loans for at this point? Is it just Watercress? And then additionally, can you discuss the partner pipeline?

David Taylor — President, VersaBank

Just Watercress.

Joe Yanchunis — Analyst, Raymond James

It is just Watercress? I think on the prior quarter call you mentioned there was a couple of other partners that were ramping at this point. Do you still expect those to, you know, do you expect you'll be able to fund those loans or will they kind of move to the securitization financing offering route?

David Taylor — President, VersaBank

This one that should fund over the next few days and they're just going on our traditional RPP program, but there's quite a few that will go into the securitization program. So we're looking for a really strong fourth quarter with the securitization program and the one that's pending in the next two days and there's another one after that.

Joe Yanchunis — Analyst, Raymond James

So it would be fair to say the securitized financing offering will drive the majority of the growth from here on out.

David Taylor — President, VersaBank

It will for this quarter, the fourth quarter. Thereafter, I expect the RPP would become more popular. We also have some enhancements in mind that may make it more attractive than the securitization program.

Joe Yanchunis — Analyst, Raymond James

Got it. Okay. And then shifting gears here, as you had mentioned, you have a lot of optionality with your tokenized deposits, and assuming the pilot program runs smoothly and you get the regulatory green light to proceed, how are you thinking about the best course of action to capitalize on this opportunity?

David Taylor — President, VersaBank

Well, right off the bat, offering the holders of USDC to redeem their notes and swap them into our USDVBs, I think, would be a good start, in that our digital deposit receipts bear interest, of course, and as a deposit, like all deposits in banks, they're FDIC insured. So, for the holders of the other stablecoin, like USDC, say, for example, that the holder is looking for an interest-bearing stablecoin issued by bank, we'll offer that out, and I'd expect that some portion of the \$60 billion will come our way.

Joe Yanchunis — Analyst, Raymond James

Got it. And then last one for me here, kind of given the economic backdrop, I was a bit surprised to see the Canadian insolvency deposits were relatively flattish. Do you think there's room to increase these deposits in the near term?

David Taylor — President, VersaBank

Yeah. The Canadian economic statistics published a few days ago were, I think it was 1.6% decline in GDP, which doesn't bode very well for the Canadian economy, but it does mean there will be more insolvencies. So I think it was just maybe an anomaly in the growth in that sometimes you have some large payouts when estates are wound up. But we're still seeing, I hate to say in these terms, a robust market for us in accumulating deposits from those unfortunate Canadians that are having troubles.

Joe Yanchunis — Analyst, Raymond James

Okay. Understood. I appreciate you taking my questions.

David Taylor — President, VersaBank

Thanks, Joe.

Operator

The next question will be from Tim Switzer at KBW.

Tim Switzer — Analyst, KBW

Good morning, guys. I wanted to follow up on the securitizations product here. It sounds like this is a product you guys intend to offer longer term, maybe modulating it depending on the market circumstances, but how is this also working as a method to kind of get your foot in the door with some of the US partners? And you've provided some commentary on potential US partner sign-ups, but should we see the securitizations first and then maybe later, in 2026, we'll see some actual RPP volume with new US partners? How should we think about that?

David Taylor — President, VersaBank

Yeah, that's it exactly. It's a thin edge of the wedge tactic here. You'll probably see a lot of assets in this category in this quarter that we're in and towards the end of the calendar year. It's quite popular. But I'd expect, long term, the RPP partners will sign up for the traditional program. As I was saying on the other call, we've got some enhancements in mind that, even in today's market where yields are very low, it may still be that our product is cheaper. But there's a few enhancements that we're working with. I'm not sure you're aware, but over the last year or two we developed our own AI model to enhance the RPP program, and it's fully functional now. So, when we roll that out, I think an RPP partner would be hard pressed to justify a securitization when they see what we have in mind for them.

Tim Switzer — Analyst, KBW

Okay. Great. That's good to hear. And then can you provide some colour on the NIM trajectory going forward? There's a lot of moving parts here with... I assume deposit costs should still move lower,

but then you're bringing on some of these securitizations that I assume are lower yield than the typical RPP, and then you also have the elevated liquidity levels. Like where should that normalize and what's the impact on the margin from that?

David Taylor — President, VersaBank

Well, right now we're looking at level quarter over quarter. Just looking at it from a high-level point of view, it looks like it's more wind at our backs to increase the margin slightly than there is in our face, but in Canada we're still looking at a flat yield curve that typically knocks off about 50 basis points. We had expected yield curve to go upward sloping. It hasn't yet, but it may very well be in the next while the bank in Canada drops the rates a bit and that works out to our advantage. But for the time being, I would just sort of budget in a flat NIM for the quarter that we're in.

Tim Switzer — Analyst, KBW

Okay.

David Taylor — President, VersaBank

They're still the highest in the country.

Tim Switzer — Analyst, KBW

Okay. And when should this excess liquidity run off of the balance sheet and what is the impact on the margin right now from that?

David Taylor — President, VersaBank

Well, it should run off, at least about \$125 million of it should be run off this quarter in that it's there to fund these securitizations in the United States. So what we did is we moved cash into the US bank to get ready for the fundings. And while it's sitting in liquid securities, it doesn't have much of much of a NIM, but when it's put out, it's got a higher NIM. Generally speaking, I'd budget flat though. As you say, there's a lot of moving parts, and as a bank in Canada, we're still miles ahead of the rest of the industry, maybe 30, 40 basis points better than the industry. So even though it's sort of flat for us, it's still miles ahead of the other guys.

Tim Switzer — Analyst, KBW

Okay, great. Thank you, David.

David Taylor — President, VersaBank

No problem. Thanks.

Operator

Once again, ladies and gentlemen, please press star one should you have any questions.

Next we will hear from Andrew Scutt at ROTH Capital Partners. Please go ahead, Andrew.

Andrew Scutt — Analyst, ROTH Capital Partners

Good morning and thank you for taking my questions.

David Taylor — President, VersaBank

Good morning, Andrew. Are you in New York? Are you in the wonderful city of New York today?

Andrew Scutt — Analyst, ROTH Capital Partners

I'm in Philadelphia, so close by to New York though. Still in the northeast.

David Taylor — President, VersaBank

Okay.

Andrew Scutt — Analyst, ROTH Capital Partners

My first question, on the loan growth in Canada, you guys kind of said that surprised to the upside, strong sequential and year-over-year growth. Can you kind of talk about the pockets where you saw strength?

David Taylor — President, VersaBank

Yeah. It's been home improvement mainly. And yeah, it was a bit... At the beginning of this fiscal year, I didn't expect much growth in Canada at all because of the trade kerfuffle going on, but consumers, in the sunshine, [inaudible] look to fixing up their homes and getting new HVAC and swimming pools and

fences and all the things that consumer homeowners do, and that's where the growth was. So, thankfully, we've seen some really good growth and it looks like it's continuing into the fourth quarter and further. I noticed in the newspaper today that consumer resilience was noted in the face of the trade issues, so we benefited from that.

Andrew Scutt — Analyst, ROTH Capital Partners

It's great to hear. My second question here is just on kind of the non-interest expenses. You guys had \$4.2 million in additional expenses this quarter, which was kind of right in line with what you guys expected. Can you just remind us again, I believe you'll probably have similar charges in the fourth quarter, and then just can you kind of once again talk through the benefits this will provide the bank moving forward?

David Taylor — President, VersaBank

Yeah, we're expecting approximately \$4.4 million in this quarter and it's sort of a massive realignment in that our VBH, our VersaBank Holdings, would become the ultimate parent NASDAQ-listed eligible for the Russell Index and the banks would become wholly owned subsidiaries of VBH. So the Canadian bank could be wholly owned sub, the US bank... And also have in mind that our technology division that's a division of the bank, Canadian Bank would become a subsidiary to it. We've got the name VersaTech[sp.] in mind so that it can serve the other banks that are owned by us and perhaps other banks that, say, wish to join in with the digital deposit receipt technology that we'd be happy to license to them. It's streamlining the organizations. There's a lot of savings, that one I just mentioned with the technology not having to be duplicated in the two banks, and maybe sometime in the future there'd be a third bank.

There are other areas in the bank that become much more streamlined where I don't have to have duplicate staff, duplicate responsibilities. So, going forward, jeez, I think we're soaking up a cup, at least \$1 million a quarter anyways, in excess expenses that this reorg would eliminate.

Andrew Scutt — Analyst, ROTH Capital Partners

Great. Well, it's wonderful to hear and thank you for taking my questions.

David Taylor — President, VersaBank

Well, thank you, and look forward to seeing [inaudible]. I guess I'll be in New York on the 8th. Hopefully we'll catch up again.

Andrew Scutt — Analyst, ROTH Capital Partners

Perfect.

Operator

Thank you. And at this time, Mr. Taylor, we have no other questions registered. Please proceed.

David Taylor — President, VersaBank

Perfect. Well, ladies and gentlemen, thank you for calling in. I look forward to talking to you at the end of the fourth quarter, which is, of course, going to be an exciting quarter. We've got a lot of deals up against the dam to fund this quarter, so we're looking for a lot of asset growth and progress on the digital deposit receipts both in Canada and United States. I think that's a game changer for our industry to be

able to provide the digital deposit receipts on both sides of the border, National Bank in United States, National Bank in Canada. These are interest-bearing stablecoins, of course. And somebody asked me, well, what would a use case be? One obvious one is to facilitate seamless frictionless foreign exchange when our bank uniquely has digital deposit receipts in both currencies. So hopefully this will help with the trade between our two fine countries. Hopefully, we can do our part. So long. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we ask that you please disconnect your lines. Have yourselves a good day.