

VersaBank

First Quarter Fiscal 2026 Financial Results Conference Call

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Andrew Scutt

ROTH Capital Partners — Analyst

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PRESENTATION

Operator

Good morning, ladies and gentlemen, Welcome to the VersaBank's First Quarter Fiscal 2026 Financial Results Conference Call. This morning, VersaBank issued a news release reporting its financial results for the first quarter ended January 31, 2026. That news release, along with the Bank's financial statements, MD&A, and supplemental 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 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 in to the conference line, the details of which are included in the 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 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 would like to turn the call over to David Taylor, President of VersaBank. Please go ahead, Mr. Taylor.

David Taylor — Founder & President, VersaBank

Good morning, everyone, and thank you for joining us for today's call. With me for the first time is our recently appointed Global Chief Financial Officer, Nico Ospina. Nico joined us from Raymond James U.S. Investment Banking Group, where he was a member of the team that has been so supportive of our U.S. capital market activities. He knows our business and our industry well and is already having a meaningful impact on our organization.

John Asma, who previously served as our CFO, will now head up our Canadian banking operations, where his many years of experience with the Bank across multiple executive roles will support the continued expansion and enhanced efficiency of our Canadian banking operations. I'd like to thank John for his excellent contribution as CFO over the past couple of years.

Before I begin, I want to remind you, as I did last quarter, that our financial results for the first quarter reflect the continued although significantly lower costs associated with our plan to realign our corporate structure to that of a standard U.S. bank framework. Those costs amounted to \$1.5 million before tax in Q1, which was down significantly from the fourth quarter.

Also, a quick note about some updated terminology. As part of the broader reorganization, we have changed the name of our Receivable Purchase Program to Structured Receivable Program. This is a change in label only. The program itself has not changed in any way.

Now on to the quarter. Q1 was a great start for fiscal 2026, unfolding very much on plan and highlighted by new records for the credit assets and revenue, which were up 23% and 31% year over year, respectively. And notably, the credit assets revenue grew 5% and 4% sequentially, clear evidence of the momentum in our business. But most importantly, as per the fundamental tenet of our business model, we are seeing the benefit of operating leverage really kick in. Most of this was driven by the acceleration of our U.S. Structured Receivable Program portfolio. Finally I will note, as I have in the last several quarters, that we achieved these metrics with significantly higher than typical levels of liquidity at the early point of our expansion in the U.S.

Looking a little closer at our Structured Receivable Program, after achieving and in fact surpassing our 2025 target for our program in the United States, we completed more than US\$200 million in additional fundings in Q1. Notably, the vast majority of the Q1 fundings were through our higher spread core SRP with only a small contribution coming from our securitized offering. Importantly for Q1, we saw the efficiency of our U.S. operations surpass those of our Canadian banking operations. Our U.S. operations have an advantage of both less expensive deposit funding and a smaller team needed to manage and grow the business. With substantially all our cost structure in place, we will see meaningful increases in efficiency as the year progresses, moving into the low 20% range through the year end. We are well on track to achieve our target of adding at least US\$1 billion in fundings in fiscal 2026. That's more than threefold increase from 2025. While we can achieve this with our existing SRP partner relationships, we are continuing to cultivate new potential partnerships to drive additional potential upside this year.

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

Nico Ospina — Global Chief Financial Officer, VersaBank

Thanks for the kind introduction, David. Glad to be here on my first call as the Global CFO of VersaBank. It is certainly a very exciting time as we enter a year defined by strong growth and meaningful improvements in operating leverage.

Before I begin, I will remind you that our full financial statements and MD&A for the first 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 first quarter of fiscal 2026 grew 24% year over year and 6% sequentially to a new high of over \$6.1 billion. Cash and securities were \$729 million, or 12% of our total assets, up slightly compared to the end of Q4 2025. I would like to mention here David's earlier comment about this being higher than our historical levels of around 7% as a result of our entry into the United States. Book value per share increased to another record of \$16.93. In terms of our capital, our CET1 ratio was 12.8% and our leverage ratio was 8.2%, with both remaining above our internal targets.

Our strong growth in assets drove total consolidated revenue to a record of \$36.5 million, up 31% year over year and 4% sequentially. Consolidated non-interest expenses including one-time costs associated with the reorganization were \$20.5 million compared with \$15.7 million in Q1 last year and \$23.9 million of Q4 last year. Excluding these costs, non-interest expenses for Q1 were \$19 million. As a reminder, DRT Cyber expenses are included in our consolidated non-interest expenses and totaled \$2.8

million for the quarter. Reported net income was \$11.1 million and consolidated earnings per share was \$0.35. Excluding the after-tax expenses associated with the reorganization, consolidated adjusted net income was \$12.2 million, or \$0.38 per share, with adjusted net income increasing 49% year over year and 15% sequentially.

Looking at the income statement on a segmented basis, revenue for the Canadian banking operations was 27.6%, up 16% year over year and level sequentially. I will remind you that the Bank's corporate expenses flow through our Canadian Digital Banking segment and, as a result, reported net income includes those reorganization costs. Net income was \$8.7 million; however, that number is dampened by the \$1.1 million after-tax impact of the reorganization I described earlier.

Revenue for our U.S. banking operations was \$6.8 million, a 30% increase sequentially, primarily due to the ramp-up of our US SRP. That drove 40% increase in sequential net income to \$2.8 million as we see the U.S. operating leverage take effect. Within DRTC, the cybersecurity component generated revenue of \$2 million, level with Q1 last year, a net loss of \$630,000 impacted by higher operating expenses related to the onboarding support costs for new cybersecurity offerings.

Digital Meteor revenue was \$528,000 with net income of \$179,000, driven by higher client engagement and lower operating expenses.

Our credit asset portfolio grew to a new record of \$5.33 billion at the end of Q1, driven once again by our Structured Receivable Program, which increased 29% year over year and 9% sequentially to \$4.4 billion. Our SRP portfolio represented 83% of our total credit assets at the end of Q1, up from 80% at the end of Q4 2025.

Our Multi-Family Residential Loans & Other portfolio decreased 1% year over year and 8% sequentially to \$0.9 billion as we transitioned some of our higher risk-weighted to lower risk-weighted multi-family residential loans as part of our Bank's strategy to capitalize on opportunity for low risk-weighted credit assets with higher return on capital and to continue growth in our SRP portfolio. As a reminder, our Multi-Family Residential Loans & Other portfolio is primary business-to-business mortgages and construction loans for residential properties. We have very little exposure to commercial-use properties.

Now turning to our income statement for our digital banking operations, net interest margin on credit assets, that is excluding cash and securities, was 2.64%. That is 28 basis points or 12% higher on a year-over-year basis and level sequentially. Overall, net interest margin including the impact of cash, securities, and other assets was 2.25%, an increase of 17 basis points year over year and down slightly from fourth quarter 2025. And again, it is dampened by our higher than typical cash balances. This still remains among the highest of the publicly traded Canadian federally-licensed banks.

Our provision for credit losses in Q1 continued to be de minimis as a percentage of average credit assets at 5 basis points. This was down from 11 basis points from Q4 2025, primarily due to changes in the forward-looking information used by the Bank in its credit models.

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

David Taylor — Founder & President, VersaBank

Thanks, Nico.

The first quarter of fiscal 2026 sets us up for a very good year; in fact, what should be by far the most profitable year in our history. At the risk of overusing the term, we have strong momentum in our core digital business and in the United States specifically where we have significantly greater operating leverage. Importantly, all the elements that support the very positive trajectory, the strong growth that I have discussed in our last call, have not changed. We have multiple drivers of our credit asset growth. The US SRP growth is accelerating and we're on track to hit our fiscal 2026 target of \$1 billion in additional assets. We expect to continue to see decent growth in Canada and expect growth in CMHC loan book in Canada also and we have already seen the incremental contribution of new revenue stream generated by our CMHC allocation fees. We expect net interest margin to be relatively flat to the higher levels of last year with some upside potential. We expect non-interest expense to be relatively flat to last year with some opportunities for year-over-year cost savings. I'll remind you that about \$10 million of our annual costs last year were incurred by our cybersecurity business that we're in the process of divesting.

2026 is also a year in which we are on track to realize additional value from two other initiatives. First, we are making steady progress on our reorganization to a standard U.S. bank framework that we started last year. Most of this work is happening behind the scenes, but we do expect to be able to share some noteworthy updates in the near future. While we are very comfortable with where we are, there has been more work here than initially thought by our external legal counsel and auditors, so while Q1 costs for the reorg were more or less in line with the additional costs we thought we would have this year, we expect to incur an additional cost of \$4 million to \$4.5 million in the second quarter. We still expect the benefits and shareholder value creation to meaningfully outweigh the aggregate costs of this project.

Second, the divestiture process of our cybersecurity business is also steadily moving forward. It's still our goal to have this completed by the end of the summer, hopefully earlier. Completion of the sale will provide meaningful additional regulatory capital to support our growth and obviously well more than absorbs the additional costs associated with the reorganization.

We continue to execute and deliver strong growth in our core digital banking operations. We are simultaneously moving steadily forward on our digital asset strategy. It was just a year ago that we reengaged on this opportunity. In my more than four decades as a banker, I've never seen the banking sector, as historically very conservative, move so quickly to adopt an emerging technology. We now have a separate investor presentation on our website specifically dedicated to our digital asset opportunities. This is also partly due to the importance and magnitude of this opportunity for us, but also due to confusion that exists around how the opportunity in this space is evolving. As a reminder, we have two parallel commercial paths. Both are based on our proprietary VersaVault technology, which we believe, due to our unique approach, is the most secure digital asset technology available today, proven and validated by SOC2 Type 1 certification, considered to be the gold standard in data security.

The first and largest opportunity is our proprietary Real Bank Tokenized Deposits, or RBTDs. Tokenized deposits are very rapidly gaining traction as the industry increasingly recognizes the many advantages of these being an actual bank deposit just like any other bank deposit. In effect, we are simply replacing our cheque clearing system with state-of-the-art blockchain technology. For bank customers, this means they will receive interest and we expect, subject to confirmation by regulators, that they will enjoy the comfort of conventional deposit insurance. Announced U.S. stablecoin regulation prohibits both. For us banks, it means we can use these deposits for lending, again, just like any other deposit.

Stablecoin funds must be parked with a third party and liquid assets like T-bills. The integrated U.S. and Canadian pilot programs for our RBTDs that we initiated last fall is proceeding well on both sides of the border, although it's taking a little longer than I originally anticipated.

The second is the extension of the deposit services we are already providing on both sides of the border as a national federally licensed bank to stablecoins. While we firmly believe that bank-issued tokenized deposits have a number of key advantages over stablecoins, stablecoins have a role to play in the financial ecosystem and, being opportunist that we are, we have a strategy here as well providing custody services to stablecoin issuers. This is not new for us; it's simply an extension of the custodial services we have provided to others for years, just a new market segment and using our VersaVault technology.

Just a couple of days after the end of the quarter we announced our first stablecoin custody customer, Stablecorp, for QCAD, Canada's first regulatory compliant stablecoin. Stablecorp is a pioneering leader in the stablecoin space backed by an investor group who is a who's who of the leading participants in this space, including Coinbase, Circle, DeFi Technologies, and FTP Ventures. We see their choice of VersaBank as custodian for QCAD a massive endorsement of our technology and our experience as well as confirmation of our belief that the best choice for stablecoin custody is a national federally licensed regulated bank. It's difficult to provide any guidance on the financial impact of our relationship, it will very much depend on the growth in the issuance of QCAD, but one need only look at the U.S. market where the leading stablecoins in aggregate are valued at hundreds of billions of dollars.

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star key followed by the number one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star key followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please while we assemble the queue.

Your first question comes from Tim Switzer of KBW. Please go ahead.

Tim Switzer — Analyst, KBW

Good morning, guys. Thank you for taking my questions.

David Taylor — Founder & President, VersaBank

Good morning, Tim.

Tim Switzer — Analyst, KBW

So first one I have is on the stablecoin custody opportunity you guys have talked about. Is there any update you can provide on, I guess, the progress Stablecorp has made on launching the coin and do you have any kind of idea or expectations in terms of the volume the coin could reach and their aspirations there?

David Taylor — Founder & President, VersaBank

Well, Tim, I would just say it's imminent for the full-blown launch. We're in the thick of it every day working with stablecoin. It's hard to say on the quantum of the size. Their partners are the who's who in the industry. And in the United States, of course, Circle, or USDC, has got about \$70 billion on deposit with BlackRock, I understand, from public information. Canada is 10% the size, so I don't know if it proportionally will get to something like that, but kind of early days. They've got the right partners, they've got the right product, and they seem to have, in Canada, a country keen to get on with it and endorse it. I think we'll wait and see, but it won't be too much longer to see.

Tim Switzer — Analyst, KBW

Okay. And could you maybe provide some details in terms of how you guys plan to monetize this and, you know, like what are the various revenue streams you expect to generate through the Stablecorp partnership?

David Taylor — Founder & President, VersaBank

Well, for quite a while it'll just be the traditional net interest margin that we earn on the deposits. And because we have no experience with the stickiness of these types of deposits, we'll keep them in highly liquid securities. So we might be earning around 50 basis points net interest margin on the deposits. So it's not super profitable, but it is incrementally profitable to the Bank.

Tim Switzer — Analyst, KBW

Got it. Yeah, that makes sense. And has this, like since you signed a partner, has it this... It allows you to kind of prove out the technology you have. Has this spurred more conversations at all for VersaVault and custody in Canada or the U.S.?

David Taylor — Founder & President, VersaBank

Yeah, it's put us on the radar screen for sure. I've had a lot of conversations with the players in this industry, probably prompted by that release, but there's one thing to talk about it, but when you're chosen to be the custodian by a company as well regarded as Stablecorp with its partners, the who's who in this entire industry, it is an endorsement that we clearly have state-of-the-art technology to be able to deal with it. And of course, being a national bank in the States, a Schedule I bank in Canada, where better to put your deposits with us, of course?

Tim Switzer — Analyst, KBW

Yeah. Yeah, I get you. Okay.

And then on the other products you guys have, the real bank deposit tokens, any update on, I guess, like distribution strategy? Potential partners? Like have there been any conversations with the big payment providers or payment rails, credit card networks, other banks like for maybe white labeling? Can you provide an update there?

David Taylor — Founder & President, VersaBank

Well, I should just simply say all of the above. It's a very popular product with the other banks, particularly community banks that are at risk of losing their deposits to the stablecoins, so we have lots of conversations with, as I was saying, all of the above. Primarily our work has been, though, with the regulators on both sides of the border, producing sort of a white paper framework for them to have a hard look at so they'll understand just how it all fits together legally and mechanically. We're just about done that. We've got one for the Canadian regulators, one for the U.S. regulators, really well laid out, spells out the legal side of it and mechanical side. And so, within a day or two, that should be in the hands of the regulators. And that's the gating item. We need the regulators to sign off on what we have in mind.

And then I think it's just like all our other products, you build it and they will come. I mean we have all kinds of interested parties joining in with us. And I have said to both sides of the border that I don't plan on holding on to this technology for our own exclusive use. I'm happy to share it with all the rest of the FIs. In fact, there's safety and numbers. It's a wonderful technology. It's good for all the entire banking industry. We might want to clip a little royalty on it going through, but I think it's best for the industry that we share the technology with everybody.

Tim Switzer — Analyst, KBW

Got it. That makes sense. And one last follow up. You mentioned the community banks showing some interest, and I assume that's in the U.S. You have a lot of other competition in the United States that are probably better known to those U.S. banks rather than VersaBank. I mean you have J.P. Morgan, Citi, some of the non-bank stablecoins, SoFiUSD recently launched. Like what are the conversations, what's

the value proposition you offer them on why they should maybe choose one of VersaBank's digital deposits rather than a competitor?

David Taylor — Founder & President, VersaBank

Well, with respect to the very large banks that are doing a good job of getting their tokenized deposits out, I don't want to speak for them, but historically they haven't been that much inclined to help the small community banks become competitive with them. Of course not. They're looking after their own customers and they're doing a really good job of it.

I think the community banks, which may be number, say, 4,400 or so, quite rightly see that they're not going to get a lot of help from the big guys, but they are going to get help from us because we're part of the pack. With our discussions with the various regulatory bodies, it does appear we're ahead of the pack by quite a bit. The type of questions I'm getting would imply that they haven't heard about our techniques before. So if the others are talking about what they plan on doing, they're not there, they're not at the front, or else I wouldn't be receiving the questions that I am from various regulatory bodies on both sides of the border.

Tim Switzer — Analyst, KBW

Gotcha. Yeah. I mean it probably helps that you're not necessarily competing directly with a lot of these community banks' core businesses.

David Taylor — Founder & President, VersaBank

Oh, no. Yeah, we have no intention to do that at all. I mean this is just simply we think we've got a great product for the banking industry. It does a way with the archaic cheque clearing systems. It's good for everybody. We've got a little bit of a first mover on it and I'm sure the rest will want to catch up quickly. And if we can clip a little transaction fee from our friends and the other community banks, all the better. The ones I'm talking to, they all expect they'll have to pay a little bit of a toll, but we're not greedy. This sounds I'm being altruistic, and that's kind of odd for a banker, but to us, you know, you've got to do something for the industry. This is a great technology. It's going to work for everybody.

Tim Switzer — Analyst, KBW

Got it. Thanks for taking all my questions, David.

David Taylor — Founder & President, VersaBank

Thank you, Tim.

Operator

Your next call comes from Liam Coohill of Raymond James. Please go ahead.

Liam Coohill — Analyst, Raymond James

Hey. Good morning, David. Good morning, everybody. This is Liam on for Joe.

David Taylor — Founder & President, VersaBank

Hi, Liam.

Liam Coohill — Analyst, Raymond James

Hey. Good morning. I appreciate all the colour on the crypto side, but I'd like to flip over to the U.S. Structured Receivable Program quickly. Could you discuss the pipeline of partners there and your expectation for the mix between legacy portfolioing and securitized offering?

David Taylor — Founder & President, VersaBank

Well, we started out with sort of lofty expectations and I think most people, quite rightly, were skeptical about what our success would be. Strangely enough, a lot of that skepticism came from Canada saying, Gee whiz, the U.S. is a huge market. Why do you think that your product would be well received? It's actually exceeded our expectations, which we're lofty to start with. We've got tremendous interest in our on-balance sheet securitized receivable product. As you saw by the results, it's almost as fast as we can sign them up that we'll be adding to it. So with the mix, this quarter it was about 85% of on-balance sheet securitized receivables. We had originally estimated to be more like 60/40 still in favour of the on-balance sheet. It may move to that number a little later on, but the pipeline is very strong. It's an economical and reliable funding source and well proven in Canada and the folks that have signed up with us here in the States seem to have all kinds of volume for us. Good numbers. We've said publicly we expect to put \$1 billion on by the end of the year. It could get well over that figure from just the few partners we've already signed.

Liam Coohill — Analyst, Raymond James

No, that's great colour. Thank you so much. Quickly, I appreciate the update on the sale process of DRT Cyber, but I am curious how you think about recent concerns surrounding AI potentially disrupting the cybersecurity space.

David Taylor — Founder & President, VersaBank

Well, we have an AI module ourselves and it is state of the art. I mean we did it a few years back when AI started becoming more popular. From what I use AI for, I mean... [Inaudible] yesterday, it's fantastic. I think it is the way of the world, it's the way it's going to go, and I think the bad actors are going to use it just as much, too. So it's one of those games where you can't rest. You just got to keep getting better and better all the time. And we think DRT Cyber is there. It's got a team of 60, 70 experts in this area. Some we recruited from around the world that were legendary at the time. So it's a team of people and technology that anybody would be proud to have with them.

But let's just say, as we say, if you're not secured by DRT Cyber, you're not secured. We're not being arrogant there. It's just, as you're implying, the world is changing so rapidly and the bad guys have got the tools, too. So you've got to have a really good team on your side to make sure that your facility has got shields up all the time. It changes in a month, a month or two. It's a sad, sad comment on humanity that this has taken place. I think some of you folks know that, in my youth, I used to be a maximum-security prison guard and I thought at that time maybe 2%, 3% of the population was given to evil endeavors. Now with this, gee whiz, it's a lot higher percentage.

Liam Coohill — Analyst, Raymond James

Yeah, no kidding. It's definitely something to watch. I appreciate all that. And just one more for me. I noticed some of the Canadian insolvency deposits declined slightly quarter over quarter. Could you discuss kind of bankruptcies in Canada and expectations for those moving forward?

David Taylor — Founder & President, VersaBank

Well, unfortunately, we signed up maybe 1.5% more this quarter in new accounts that are there to receive the proceeds from a wind-up of an insolvency, so that would mean that Canada is still sliding down into a deeper recession as a leading indicator is how many of our insolvency professionals sign up new accounts. And then the accounts fill up with deposits. So you'll see deposits increase, unfortunately. It slid back a little because of seasonality, I guess, our insolvency professionals tend to distribute the proceeds maybe before Christmas, and then in the quarters to come it will build.

I think, round numbers, we're around C\$900 million, probably get to around C\$1 billion by the end of the year. Canada is still suffering and there's very, a lot of reasons for that. We'll keep our fingers crossed. Even though we make a bit of money on insolvencies, I'd much prefer to see, I'd be telling you, a decline in insolvencies rather than an increase.

Liam Coohill — Analyst, Raymond James

No, yeah. Thank you so much for the colour, David. I'll step back.

David Taylor — Founder & President, VersaBank

All righty. Good to talk to you, Liam. You're in St. Pete's? Are you in St. Pete's too?

Liam Coohill — Analyst, Raymond James

I am.

David Taylor — Founder & President, VersaBank

Good for you. We're enjoying some decent weather here in Florida.

Liam Coohill — Analyst, Raymond James

Oh, definitely. Yeah, it's warmed up really nicely since a couple cold weeks back in January.

David Taylor — Founder & President, VersaBank

Indeed. I had to wear my jacket on my motorbike the last few days, but it looks like today I can go out. It's Bike week here in Daytona, so I can go out as a proper biker with my T-shirt on. So nice and warm. Fresh air and sunshine.

Liam Coohill — Analyst, Raymond James

That's always a fun time.

David Taylor — Founder & President, VersaBank

Indeed.

Operator

The next question comes from Andrew Scutt of ROTH Capital. Please go ahead.

Andrew Scutt — Analyst, ROTH Capital Partners

Good morning. Thank you for taking the questions. So the first one for me on the U.S. program, you guys said the bulk of the originations in the quarter were through the core program. I was kind of curious how you see the mix working out as we go through the year and you kind of build towards that \$1 billion target.

David Taylor — Founder & President, VersaBank

Well, I think you'll see an increase in the purchase securitizations in the next few quarters and there's a fair amount of product out there that fits us and some has strategic value for us in that the securitizations are issued by our target market. So I think the first quarter might have been a bit of an anomaly with about only 15%. But then again, there is super strong demand for the traditional on-balance sheet securitization coming in too. Bottom line is I said \$1 billion, it could be a lot more than \$1 billion in total. It's a good product. It provides value to our clients, it's cheaper funding, it's more reliable, and towards the end of the year, if we can enhance the product with the instant purchase program that we're working on, it should be even more popular.

Andrew Scutt — Analyst, ROTH Capital Partners

Great. Well, I appreciate the detail. And kind of building off the strong demand you have for the program, at what point would you kind of say the program is kind of mature enough that you can kind of bleed off some of the excess liquidity that you have on the balance sheet now to fuel the growth?

David Taylor — Founder & President, VersaBank

It'll be sometime this year. Our treasurer amassed a fair amount of liquidity. We're earning a little bit of a spread on it. But towards the end of the year, that should dissipate.

We'd also, we've said it earlier, we'd also start entertaining other community banks that might want to participate with us. We'd manage the program for them and provide them with the on-balance sheet securitized product, which a lot of them have expressed interest in it. So that was kind of a longer-range plan to provide the service to the other small community banks that may have an abundance of deposits, may not a great place to put it, and this is a very low risk, pretty high yielding product.

Andrew Scutt — Analyst, ROTH Capital Partners

Great. Appreciate you taking my questions and congrats on the progress.

David Taylor — Founder & President, VersaBank

Look forward to catching up with you in California, Andrew. You'll be down there, right?

Andrew Scutt — Analyst, ROTH Capital Partners

Yeah. Looking forward to it.

David Taylor — Founder & President, VersaBank

Excellent. Excellent. Thanks for the invitation. We'll have our California outfit on. We'll be happy to bask in the sunshine with you.

Operator

As a reminder, if you wish to ask a question, please press star one. Your next caller comes from Eli Rodney of Bullpen Research. Please go ahead.

Eli Rodney — Analyst, Bullpen Research

Good morning, guys. Congrats on the quarter.

David Taylor — Founder & President, VersaBank

Good morning, Eli.

Eli Rodney — Analyst, Bullpen Research

All this sunshine talk is really getting to me while I sit in the dark here in cold Canada.

David Taylor — Founder & President, VersaBank

I'm rubbing it in, Eli. I mean, obviously, I've spent most of my life in the dark days in the winter in Canada.

Eli Rodney — Analyst, Bullpen Research

So, sticking on the U.S. topic for now, \$1 billion for 2026 in fundings, \$200 million as of Q1. How should we think about the pace of growth here, sort of steady quarterly build of \$30 million to \$40 million or more back-half weighted?

David Taylor — Founder & President, VersaBank

Accelerating. No, it's going to accelerate, as some of the partners that are just signing up have just signed up. And they've got some really good product. I just love the stuff they're doing in the States with this type of lending. Low risk, you know, getting, ah, it's kind of an altruistic, to getting economical priced funding directly through to consumers to help with the purchase of homes and vehicles and such. I'd say it's going to accelerate. It's just, it's catching on. People are saying, gee whiz, that's pretty cool, man. How do I get a piece of that? How do you start funding me, Dave? Well, let's sign here.

Eli Rodney — Analyst, Bullpen Research

Yeah. And it sounds like with your earlier comments on how strong the pipeline is and the potential for new partnerships being incremental to that \$1 billion target. I'm curious how, given that there are

some constraints to growth naturally, like how do you prioritize the pipeline? Like what characteristics are you looking for in potential SRP partners?

David Taylor — Founder & President, VersaBank

Well, it seems that, both sides of the border, it's primarily coming from homeowners doing home improvement, usually in the energy savings areas, energy-saving furnaces and air conditioners, that and maybe some insulation roofs and such. And in the States, similarly. And also maybe sometime in the future you see kind of a new kind of cool product on financing homeowners. So that's primarily where it's coming from, retail homeowners improving the existing properties and maybe looking at buying new economically-priced housing units.

Eli Rodney — Analyst, Bullpen Research

Great. And just flipping to costs associated with the reorg, \$1.5 million in Q1 and sort of guiding to \$4.0 million to \$4.5 million in Q2, I just want to frame up how we should be thinking about the back half of the year. And my baseline assumption is we're heading into 2027 on a clean slate. Is that fair?

David Taylor — Founder & President, VersaBank

Yeah, absolutely. I mean it's heart stopping. I think I did that for a fact when I spoke to one of the senior partners in the accounting firms that have been charging us huge fees for all this stuff. Boy, I sure would be happy to see the end of this. And the lawyers aren't shy either with their fees. But we've just got to plow through it, get it closed, and then you'll see our efficiency ratio really improve. In the States, this quarter I think we're around 40-odd percent. With \$1 billion, \$1.3 billion, which that US\$1 billion

[inaudible], we get down to around 25%. And it just keeps getting better because we're employing the state-of-the-art technique for processing these receivables, so there isn't much more fixed cost needed to run the machine. So we'll be posting efficiency ratios that banks can only dream of, 20%, 25%, lower and lower. And the idea, of course, is to pass those savings on to our partners so that they can make a bit more money, too. And then it's a self-fulfilling prophecy then. You know, if we can leave more on the table for our partners, they're all more keen to sign up with us because they're being more profitable too. So it's a win-win. The more we book, the more efficient we are, the better pricing we can provide to the partners.

Eli Rodney — Analyst, Bullpen Research

Right. And even with some of the sort of near-term noise and one-time costs, you're already starting to see the operating leverage in the U.S. model showing up. So maybe just to zoom out and reframe around the long-term picture, you've spent over a year in the U.S. market now, any changes to your original view on the long-term attractiveness of the market, for better or for worse?

David Taylor — Founder & President, VersaBank

Well, it'll get way, way bigger than Canada. And that's just the metrics. I mean it's 10 times the population in the United States and they may have 10 times the propensity to finance at point of sale than Canadians. So it won't be long before we have more exposure in the United States than we have in Canada. It's just those water finds its own level sort of thing. And in the States, the efficiency is greater, lots of reasons. We're employing our state-of-the-art software. We call it AMS 3.0. Also, the deposit gathering network in the States is a lot more efficient and sophisticated. We're only paying maybe 10, 15 basis points

over U.S. treasuries. And we only have one or two people in the deposit raising area in the States versus in Canada we have an entire department. It's fragmented in Canada, smaller, and we pay maybe 50 basis points over the risk-free rate, the Government of Canada Bond. So it's just, you know, the States is bigger and more efficient and we're ideally set up with a national license to exploit it.

Eli Rodney — Analyst, Bullpen Research

Absolutely. And as you said, as it scales past the size of the Canadian book, total bank efficiency should really move along with that, so I'll be following that closely.

Last one for me, just on Canada. Some of the multi-family book sequentially is down quarter over quarter. I know that there were some comments earlier on that just being a transition from sort of uninsured to CMHC insured, so I'm assuming it's a timing thing, but maybe I'm curious on the macro side, obviously, inventories of multi-unit are building, construction is slowing down, so was this a bit of a conscious effort to accelerate that transition and reduce exposure to the unsecured or uninsured?

David Taylor — Founder & President, VersaBank

Absolutely. In fact, if you look at my quarterly for the last few years, I'll say purposely that we're dialing down the conventional construction in that, like most folks, Canada looks pretty scary for the conventional construction of multi-family residences. So we purposely emphasized the CMHC construction and you'll see, I think we've talked about \$1 billion in commitments. It'll hit that number. There's some big, well-heeled developers coming to see us. In fact, we just signed one recently in our backyard in London, Ontario. So those are the kind of deals we like, buildings we can see, we can touch,

and the developer is putting a lot of equity in despite it being CMHC. So, we're doing what we've always done. I've done this for maybe almost 50 years now. I've been through a lot of cycles. You sort of look at the tea leaves and say, oh, gee whiz, I think I better be backing off. And we say something to the effect that bad loans are made in good times. So you would have seen us backing off where maybe some of the others were still pretty aggressive. At this point, the portfolio will start to look more and more like CMHC and our developer clients will be the who's who in the Canadian industry.

Eli Rodney — Analyst, Bullpen Research

Got it. Thanks for answering the questions, Dave, and I'll leave you to enjoy the weather.

David Taylor — Founder & President, VersaBank

Well, thank you. Yeah, I've got my Harley Breakout fired up here. It's in the VersaBank colours, of course, so I'm actually advertising for VersaBank in the next little while.

Operator

There are no further questions at this time. I will now turn the call back over to David Taylor. Please continue.

David Taylor — Founder & President, VersaBank

Well, thank you, Dani, and thanks, everybody, for joining us today. I look forward to speaking to you at the time of our second quarter results. So long.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation.

You may now disconnect.