

VersaBank**Second Quarter Fiscal 2026 Financial Results Conference Call**

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the VersaBank Second Quarter Fiscal 2026 Financial Results Conference Call. This morning, VersaBank issued a news release reporting its financial results for the second quarter ended April 30, 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 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's 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 again is our Global Chief Financial Officer, Nicolas Ospina.

Before I begin, I want to remind you again this quarter that our financial results for Q2 reflect incremental non-core costs associated with our plan to realign our corporate structure to that of a standard US bank framework, or what we refer to as the reorganization for short. As expected, those costs amounted to \$4.5 million before tax for Q2. That said, I'm very pleased to report that, as announced in a separate news release this morning, we have publicly filed our S-4 registration statement for the reorg with the SEC. This has been a long process, much longer than originally anticipated, but the filing, which is a major milestone, marks passage into the final stages. More on this later.

During the quarter we also incurred a non-core cash expense of \$2.2 million for the write-down of intangible assets resulting from the sale of our sole physical bank branch. And finally, I will also note that we spent \$0.6 million in Q2 on legal costs specifically related to the commercialization of our Real Bank Tokenized Deposits™, which was not deemed to be non-core but is worth mentioning as an incremental cost. This was the Bank's first discernible incremental spend associated with digital assets. One of the most attractive aspects of our range of digital asset opportunities is that any costs associated with bringing any of these to commercialization are expected to be de minimis, a small investment for what we expect will be meaningful near-term return in profitability.

Now on to the quarter. Q2 was very much a continuation of the strong performance and growth we saw in Q1, as we increasingly benefit from the operating leverage inherent in our business model. We again achieved new records for credit assets and revenue, which were up 25% and 27% year over year, respectively. And we once again saw strong sequential growth with increases of 6% and 5%. Q2 net interest margin on credit assets remained solid at 2.71%, up 12 basis points from Q2 last year. I'll remind you that NIM is typically a little stronger in Q2 due to favourable seasonality.

The benefit of our operating leverage is clear in our numbers, adjusted or core net income meaningfully outpaced growth in both credit assets and revenue at 45%. I will add that we once again achieved these metrics with significantly higher than typical levels of liquidity at this early point in our expansion in the US. Growth in credit assets was again driven by continued momentum in our US SRP program, which saw another \$150 million in new fundings alongside steady incremental growth in Canada. A reminder here is that the second quarter typically sees lower fundings than the other quarters due to some seasonality in the business and the \$150 million was in line with our budget. Again this quarter, the vast majority of our additional fundings in the US were through our homegrown, higher spread SRP as demand continues to exceed our expectations. With the continued ramp we expect throughout the remainder of the year, we intentionally chose not to augment the \$150 million of higher margin core SRP with securitized SRP to maximize the margin for the year.

As per our model, the efficiency of our US operations again improved sequentially, improving from 41% in Q1 and to 37% in Q2 and keeping us on target for our goal by year end to be in the low 20s, meaning \$0.80 of every \$1 of revenue is dropping to the bottom line. Feedback from our partners continues to confirm what we knew when we entered in the US market, that our SRP is a uniquely attractive funding

solution for point-of-sale finance companies, reliable, efficient, and economical. That said, we are on the precipice of taking our SRP to an entirely new level through an AI-enabled tech advancing that will enable our partners to more efficiently and cost-effectively finance their loans. Instead of our partners having to accumulate warehouse and batch their loans over a period of time, typically as much as 30 days or more, these loans can now be funded individually as they are made. This effectively eliminates the need for our partners to warehouse multiple receivables over a period of time, that is they can finance individual loans within just a few hours, reducing the overall financing costs and the need for warehoused financing.

I will note that, as with all our technical advances, our real-time SRP capability further strengthens our risk mitigation through evaluation of partner loans underlying the SRP receivables on an individual basis, and of course, as the name says, in real time. We are currently engaged in a pilot for our real-time SRP solutions with one of our major SRP partners Financeit, who's CEO, Casper Wong, someone we have worked with in the point-of-sale industry for years, called it a game changer. We are targeting broad rollout in the coming months and I can tell you that our other partners are chomping at the bit to get on board.

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

Nicolas Ospina — Global Chief Financial Officer, VersaBank

Thanks, David. I am very excited to report another successful quarter for our bank. Before I begin, I will remind you that our full financial statements and our MD&A for the second quarter are available on our website under 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.

Okay. Starting with our balance sheet, total assets at the end of the second quarter of fiscal 2026 grew 28% year over year and 5% sequentially to a new high of over \$6.4 billion. Cash and securities were \$674 million, or 10% of our total assets. That's down slightly compared to the end of Q1 2026. I will reiterate 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 \$17.15. Our CET1 ratio was 12.3% and our leverage ratio was 7.9%, both meaningfully down year over year and remaining comfortably above our internal targets. That year-over-year change is mainly due to putting capital to work for growth in the US SRP portfolio following our capital raise in December 2024.

Now, our strong growth in assets, along with continued healthy net interest margin, dropped total consolidated revenue to a record of \$38.3 million. That's up 27% year over year and 5% sequentially. Consolidated non-interest expenses, excluding the one-time costs associated with the reorganization and the non-cash expense resulting from the sale of our sole physical bank branch, were \$20.8 million compared to \$16.6 million in Q2 last year and \$19 million for Q1. Including these costs, non-interest expenses for Q2 were \$27.5 million. As David noted, non-interest expenses for Q2 also included \$600,000 in legal costs related to the commercialization of Real Bank Tokenized Deposits™. As a reminder, DRT Cyber expenses are included in the consolidated non-interest expenses and totaled \$2.5 million for the quarter, more or less in line with last year. Reported net income was \$7.5 million and consolidated earnings per share was \$0.23. Excluding the one-time cost mentioned previously, consolidated adjusted net income was \$12.4 million, or \$0.39 per share, with adjusted net income increasing 35% year over year and 2% sequentially. Again, this included approximately \$600,000 tokenized deposit commercialization costs.

Now looking at the income statement on a segmented basis, revenue for the Canadian banking operations was \$28.1 million, up 10% year over year and 2% sequentially. I will remind you that the Bank's corporate expenses flow through the Canadian banking digital segment and, as a result, reported net income includes those reorganization costs and the intangible asset write-off. Net income was \$4.1 million; however, that number is dampened by the \$4.9 million after-tax impact of the one-time cost associated with the reorganization and the non-cash expense resulting from the sale of the branch I described earlier.

Revenue for the US banking operations was \$7.9 million, a 17% increase sequentially, primarily due to the ramp up in the US SRP. That drove a 28% increase in net income sequentially to \$3.6 million as we see the US operating leverage take effect.

Digital Meteor revenue was \$749,000 with net income of \$351,000 driven by higher client engagements and lower operating expenses.

Within DRTC, the cybersecurity service component generated revenue of \$1.9 million, level with Q2 of last year. Net loss was \$508,000 compared to net loss of \$652,000 last year.

Our credit asset portfolio grew to a new record of just shy of \$5.7 billion at the end of Q2, driven again by our structured receivable program, which increased 32% year over year and 7% sequentially to \$4.7 billion. Our SRP portfolio represented 83% of our total credit assets at the end of Q2. That's level with Q1. Our multi-family residential loan and other portfolio increased 2% year over year and 6% sequentially to \$1 billion as we continue to transition some of our higher risk-weighted to lower risk-weighted multi-family residential loans as part of the Bank's strategy to capitalize on opportunities for lower risk-weighted

trade assets with higher return on capital and continued growth in the SRP portfolio. As a reminder, our multi-family residential loans and other portfolio is primary business-to-business mortgages and construction loans for residential properties. We have very little exposure to commercial-use properties and our conservative underwriting and diversified lending strategy provides insulation from the particularly challenging real estate markets in Greater Toronto Area and other major centers in Canada.

Now turning to the income statement for our digital banking operations, net interest margin on credit assets, that is excluding cash and securities, was 2.71%. That was 12 basis points or 5% higher on a year-over-year basis. As David noted, our Q2 net interest margins are seasonally stronger due to fewer days in the quarter. Overall net interest margin, including the impact of cash and securities and other assets, was 2.33%, an increase of 4 basis points year over year. Overall net interest margin was again somewhat dampened by our higher than typical cash balances. This still remains among the highest of the publicly traded Canadian federally licensed banks.

Finally, our provision for credit losses in Q2 continue to be de minimis as a percentage of average credit assets at 3 basis points. This was down from 5 basis points in Q1, primarily due to changes in the forward-looking information used by the Bank in its credit risk models.

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

David Taylor — Founder & President, VersaBank

Thanks, Nico.

First half of fiscal 2026 has unfolded very much on plan for our core digital banking operations with additional strong progress on several other initiatives that we expect will drive meaningful incremental shareholder value. Accordingly, our very positive outlook for the remainder of 2026 remains firmly intact. In fact, we now see potential additional earnings upside this year. We have a strong momentum in credit asset growth. We remain on track to achieve our target of at least US\$1 billion SRP additions. Our US banking operations are already generating more than 20% of our total revenue.

A quick note on Canada. Our SRP continues to be resilient in the face of a sluggish Canadian economy. In fact, just last week it was reported that Canada had slipped into a technical recession. This resiliency is very much the result of our focus on home, HVAC, and renovation space, as well as our intentional strategy to partner with all of the best point-of-sale lenders in the country. And I am pleased to report that just last week we added a new partner who is a very well-known name in the consumer auto sales space.

The planned rollout of our real-time funding capability in the coming months is expected to drive significant additional growth with both existing and new clients. So, while we had initially expected growth in our Canadian SRP of low to mid single digits in 2026, we are now potentially looking at something meaningfully higher. Moreover, in both Canada and United States, we believe that our real-time funding capabilities could capture a significant share from securitization markets. Certainly, earlier discussions we have had with partners and prospective partners in the market have been very encouraging in this regard.

The second half outlook for net interest margins also remains favourable. We expect NIM to be relatively consistent with the start of this year with some potential upside. We continue to expect core

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 are incurred by our cybersecurity business that we are in the process of divesting. As noted earlier, we have sold our sole physical bank branch that we acquired as part of our entry into the United States in 2024. While the financial impact of the sale is de minimis, I will note that it will result in cost savings of approximately US\$900,000, or C\$1.2 million.

Now on to the initiatives that we expect to drive additional value beyond the expected strong growth in our digital banking operations. As I mentioned at the outset, we have publicly filed our S-4 for the reorganization. It details our plan to realign our corporate structure to that of the standard US bank framework with the creation of a US-domiciled holding company, Versa Bancorp, which becomes the parent of each of our Canadian and US operations. The S-4 has been confidentially reviewed and remains subject to additional review by SEC prior to being declared effective by the SEC. We intend to move forward with the shareholders' matters expeditiously in tandem with the other regulatory processes. As this initiative has protracted, so have the costs, and I will note here that I expect to incur an additional \$2.5 million in costs in Q3. We remain confident that the benefits in terms of shareholder value created by this initiative will far outweigh the investment we have made over the past year or so. At the end of the day, the cost of reorganization is an investment in the future shareholder value.

Our multiple paths to commercialization of our digital asset technology are increasingly coming into focus and they are expanding with new opportunities emerging as both the unique advantages of our VersaVault technology combined with our status as a nationally federally licensed bank in both Canada and the United States becoming more widely recognized. We are now generating incremental revenue

from both stablecoin custody services for QCAD, Canada's first regulatory compliance stablecoin. Our customer Stablecorp, investors include Circle and Kraken, is highly respected in the industry and are rapidly moving their business plan forward with a listing on Kraken and announcement of the first on-chain Canadian-US dollar settlement with QCAD on Circle's StableFX.

We are proud that our proprietary VersaVault technology is playing a critical role here. But this is really just the proverbial tip of the iceberg for our technology. The industry is moving very quickly. We are leaders in the space and the market is increasingly organizing the undeniable advantage of working with a nationally licensed bank. Increasingly, we are seeing new opportunities emerge on the stablecoin side of things. These are distinct from but complementary to the multiple opportunities we have around tokenized deposits. We have developed our technology and formulated commercial strategies in the context of the evolving regulatory environment, and as a national federally licensed bank in both the United States and Canada with market-ready technology, we are uniquely positioned to capitalize.

With that, I'd like to open up 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 star followed by the 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 star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Joe Yanchunis with Raymond James. Your line is now open.

Joe Yanchunis — Analyst, Raymond James

Good morning.

David Taylor — Founder & President, VersaBank

Good morning, Joe.

Joe Yanchunis — Analyst, Raymond James

You've now been receiving the QCAD deposits under the Stablecorp relationship. Can you provide any colour on the current level of deposits, how balances have trended since launch, and what milestone should we watch for to gain adoption or the gauge adoption over the coming, call it, 6 to 12 months?

David Taylor — Founder & President, VersaBank

Well, today I think the balances are only in the C\$700,000, C\$800,000 range. I think the impetus for that, those balances to increase substantially into the millions of millions is a use case for the QCAD. And I think the most, we press released this before, we think the most apparent use case is facilitating a seamless foreign exchange with a stablecoin in the United States, a US stablecoin versus a Canadian stablecoin. And I know that's in the works. I know that's what folks are looking at, because that's a natural application for the stablecoins. And of course, we're operating as a federal bank on both sides of the border, so we're keenly interested in that happening.

Joe Yanchunis — Analyst, Raymond James

Okay. And then kind of sticking with the digital asset theme, there's been a lot of regulatory talk about the Clarity Act in the US now that that's left committee. How has your view changed regarding the timing of commercialization for your Real Bank Tokenized Deposits™? And can you remind us what are some of the key remaining milestones from a regulatory perspective?

David Taylor — Founder & President, VersaBank

Well, first of all, the GENIUS Act and Clarity Act don't, at this point, apply to us in that they're not in place yet and we're operating as a national bank in the United States, so that is not an impediment for us, however it may turn out. Eventually, if it does come into play, our bank will comply, but presently we're operating it as we are always able to as a national bank, so that's not an impediment at all to us launching. One of the things we were looking for was the FDIC to confirm the digital representations that deposits would indeed be insured, and they have. So that's a big deal. So right now, Joe, we're actually working with partners on the rollout. The technology is built, we're just working with some partners to be able to start pushing money through on a pilot project and I expect, as it did in Canada, it will work wonderfully and then we'll roll it out. So, no legal impediments, no impediments with respect to FDIC insurance, and the technology was all built and tested in Canada and we're just working with some partners that I'm sure everybody will recognize their names when we roll it out.

Joe Yanchunis — Analyst, Raymond James

I believe you're waiting on a non-objection letter from US regulators. Has that come through? Is that what I'm to understand that answer?

David Taylor — Founder & President, VersaBank

No, we wouldn't have for the non-objection until we're ready to commercialize and have partners lined up on the other side. So that's a step, of course, and yes, will last for a non-objection when we're ready to roll it out with one of or a few large partners.

Joe Yanchunis — Analyst, Raymond James

Okay. So, in that process, the remaining steps are to get the system and pilot in place with the partners, then you ask and hopefully receive the non-objection from regulators, and then you proceed with commercialization. Is that the right steps or am I missing something?

David Taylor — Founder & President, VersaBank

Yeah, if you thought of it that way. The gating item is finding suitable partners. And I think we have a few lined up that are keen to do this with us. So, once we have the suitable partners, then we'll push token amounts of money through the system and demonstrate to the regulators on the south side of the border that it all works fine, just as it did on the north side of the border when we first pushed out deposit tokens. Yeah.

Joe Yanchunis — Analyst, Raymond James

Would that be different than a pilot program to test the plumbing that you announced last year? I think it was like last September.

David Taylor — Founder & President, VersaBank

We haven't established a US partner, so we've had to sort of simulate that for the pilot project, and we actually did that in Canada too, simulated partners. But we need like real live investment banking firms or others that are in that business to sort of hitch up with us so that, ah, that's when the commercialization starts. We need a distribution channel. Our modus operandi is not to go direct to the public. We always go through somebody else that already has the relationship.

Joe Yanchunis — Analyst, Raymond James

And do you have a sense for how long that pilot program would need to take?

David Taylor — Founder & President, VersaBank

Considering we did it once before in Canada, we've done it with simulations here in the States, I wouldn't think more than a month.

Joe Yanchunis — Analyst, Raymond James

Okay. Perfect. And then one more for me here, kind of shifting gears. So, given the expected continued growth of the US SRP portfolio and the recently renewed share repurchase program, how are

you thinking about capital deployment from here? And more specifically, do you believe your current capital levels are sufficient to fund your organic growth plans while maintaining flexibility for share repurchases or should investors expect additional capital optimization initiatives over time? I mean if you can just provide some colour and thoughts on your capital levels, that'd be helpful.

David Taylor — Founder & President, VersaBank

Yeah. The capital levels that we presently have, we can achieve our budget, and I think we publicly stated that we're looking for about \$1 billion in additional SRP in the United States, so we have sufficient capital to do that and more. But just a little bit of a warning, it's kind of a good thing, is when we announced the real-time purchase of receivables, there's a huge amount of enthusiasm for that product, there's an avalanche of deals likely to come our way, and that could soak up our capital pretty rapidly. We're talking billions and billions could easily, easily flow in. The idea of being able to purchase the loans and leases are at least, what we call it, invest in the cash flow derived from the loans and leases virtually real time, is a tremendous breakthrough. Those that have been content to securitization batching, taking some time to get their money, are eagerly awaiting getting their money right away. So that very well could soak up our capital pretty rapidly. I hope it does. That means that we're making a lot more money.

Joe Yanchunis — Analyst, Raymond James

Okay, great. I appreciate it. I'll hop back in the queue.

David Taylor — Founder & President, VersaBank

Thank you, Joe. How's it doing in St. Pete's? You're in St. Pete's right.

Joe Yanchunis — Analyst, Raymond James

The mosquito eggs have hatched.

David Taylor — Founder & President, VersaBank

Okay.

Operator

Your next question comes from Timothy Switzer with KBW. Your line is now open.

Timothy Switzer — Analyst, KBW

Good morning. Thanks for taking my questions. The first one I have is on the real-time funding capabilities you guys have added and are piloting right now in the SRP program. You've mentioned how it can help you acquire new partners, you have like more specialized financing needs, which I assume refers to replacing their warehouse lines. Have you guys run an analysis that shows how much money this saves them in financing costs over time or anything like that that can help us kind of get an understanding of the value proposition you guys are offering?

David Taylor — Founder & President, VersaBank

Yes, we have done the analysis. I'll give it to you off the top of my head, but off line I can give you more precise figures. But generally speaking, it means that the equity that these point-of-sale companies have is probably cut into about half, so the amount of equity they require to run their business and support

lines of credits and warehouse facilities is probably about half, and the liquidity that they need is down to some tiny fraction, because they're getting their cash immediately. So the reduction in liquidity and say, on an average, cut their equity in half, would mean double a return on equity. And then some on top of that because they don't have all the expenses associated with warehouse receivables and commissions and accounting bills and lawyer's bills and all those things that eat into their profit. So we help them on both sides, reduce the amount of equity that they need substantially and we trim back all these miscellaneous expenses they have with having to maintain a certain amount of liquidity to afford the batching. It's a hell of a deal. I mean I don't need to—the bottom line is I don't need to be on the phone for more than, let's say, two minutes and a point-of-sale partner gets it.

Timothy Switzer — Analyst, KBW

That's great. Good to hear. And then are you guys able to provide a little bit more quantitative guidance in terms of the non-interest expense outlook, how that should trend over the rest of this year on a core basis if we strip out some of the reorganization costs and other things? Like are we looking at sticking around the \$21 million level or is it going to go up a little bit from here?

David Taylor — Founder & President, VersaBank

Well, Nico's on line. I think, Nico, you're looking at around \$21 million or a little less. Is it a little less you're thinking?

Nicolas Ospina — Global Chief Financial Officer, VersaBank

I'm thinking a little less. Thank you, David. We are going on a core basis of around \$20 million. And we can give you a little bit more precise numbers off line, but less than \$21 million.

Timothy Switzer — Analyst, KBW

Okay. So it should move lower from Q2. What are the levers you're pulling there?

Nicolas Ospina — Global Chief Financial Officer, VersaBank

Well, we have the branch savings we have coming up, some initiatives that we have on optimization of general cost and administrative initiatives that will optimize our expenses at the end of the day. They are being put in place for the last two quarters and we expect to see some results in Q3 and Q4.

Timothy Switzer — Analyst, KBW

Okay. Got it.

David Taylor — Founder & President, VersaBank

Even though we allocate a certain amount of, call it, sort of non-core expenses, there's still a lot of miscellaneous expenses associated with rolling out in the United States and this reorganization, travel expenses, hotels, all that stuff that's extra associated with the rollouts and the reorganization that don't get precisely allocated to non-core.

We also, as Nico's alluding to, we also sold the Holdingford branch back to Stearns and there's a fair amount of savings there, strangely enough, even though it's only one branch. It was at least US\$900,000 a year on that one branch, repositioning it back to the owner, the previous owner.

Timothy Switzer — Analyst, KBW

Nice. Yeah, that's some good savings. And then the last one for me, the provision expense has stepped down a little bit the last two quarters, especially compared to 2025, and I think a lot of it was kind of driven by growth or provision for the acquired loan book. Where should we expect that to move going forward? Can it stay closer to the current level now?

David Taylor — Founder & President, VersaBank

Yeah. Nico can fill in too, but yeah, that's what I think. Normally our provisions are very low, miniscule, in that the cash hold-backs that we take to support our SRP program are usually enough to cover off the expected loss provisions. We have somebody else's cash standing in front of losses. So that's normally where we're run, just a few basis points.

In Canada, we have a residual portfolio of commercial mortgages that is interim construction of residential properties and, as you know, the Canadian economy is not doing all that well, so we have been providing extra ECL on those, although now the portfolio is getting down to quite a small level. So that's probably why you're seeing it decline a bit in that even that residual portfolio seems to be well provided for and doing fairly well despite Canada's technical recession that we're encountering.

Timothy Switzer — Analyst, KBW

Okay, great. That's all for me. Thank you, David and Nico.

David Taylor — Founder & President, VersaBank

You're very welcome.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star one. Your next question comes from Eli Rodney with Bullpen Research. Your line is now open.

Eli Rodney — Analyst, Bullpen Research

Good morning, guys, and congrats on the quarter.

David Taylor — Founder & President, VersaBank

Good morning.

Eli Rodney — Analyst, Bullpen Research

On the real-time SRP pilot, obviously it sounds like a fantastic deal for your partners and you're targeting rollout in the coming months, I just want to put maybe some goalposts around what exactly that means. Are you thinking this is a Q3 or Q4 commercialization or is it more of a fiscal 2027 story?

David Taylor — Founder & President, VersaBank

Well, we're targeting, I'm going to be bold here, we're targeting July 1st for the rollout of the commercialization. And our partners are keenly awaiting that, of course, because there's huge savings for them. So that's the pin we've got right now, July 1st. And the first phase of this program is purchasing or investing in the receivables twice a day, which to our partners is good enough. It could stay like that forever. Twice a day is better than once every month, so a huge breakthrough. But going forward, you'll probably see us get down to nanoseconds. I'd like to see it that we are buying them instantaneously and really helping our partners so that they can do what they do best, i.e., credit adjudication, interfacing with their borrowers with wonderful iPad apps and all that stuff, and we can be their funder in real time. Also, it lends itself to the point-of-sale partners that operate lines of credit. So yeah, July 1st is the date. You can hold me to that. I'm holding the rest of my team to that date too.

Eli Rodney — Analyst, Bullpen Research

Okay. Great. And then you highlighted it, obviously it removes the need for warehouse financing and there's sort of billions in opportunity there. What's the magnitude or I guess the pacing of that, assuming you come out in July with this and roll it out broadly? Do you expect a wave of sort of new partner announcements to follow in pretty short order?

David Taylor — Founder & President, VersaBank

Well, actually, you'll see some new partners come onboard, because they're kind of waiting for this, but also just the existing partners, let's just say we got 50% of their flow right now, I'd say there's no good reason why we wouldn't get 100%. Some of them we're only at a third of their flow. I'd say we get the lion's share. So there'll be a lot of growth just due to us taking more market share than signing up new

partners, although we've just signed a new one in Canada and we've got a bunch going on in the United States, too. But the real fast growth will come out of just getting more of a bite out of their business because, obviously, our product, our offering is way, way more attractive than batching them up in receivables and spreadsheets and mailing them in. I'm exaggerating a little bit. But this is what people dream of. They want to do what they want, they want to make the loans, they want to be good customer service, they want provide economical interest rates, and it sort of behooves us to deliver to our partners. So I'm expecting a big chunk of market share growth, particularly in Canada.

Eli Rodney — Analyst, Bullpen Research

Right. That makes sense with the growth coming initially from growing share with your existing customers. With that said then, with the \$1 billion additional US SRP funding target for the year, is the rollout of this real-time program sort of a crucial element of hitting that \$1 billion target or do you feel confident in hitting that regardless?

David Taylor — Founder & President, VersaBank

Regardless. Yeah, we set that target prior to this becoming a reality, so this is all on top of that. And it begs the question, if indeed there is the avalanche that it looks like we're seeing. Thankfully, we designed our software to be able to share these SRPs with other banks, other community banks, other funds and manage it for them. We designed that originally and we actually did speak to the regulator about that some time ago, so that if we do, if we're overwhelmed with new SRP assets, we can start giving them up to others that are sitting waiting with their catching mitts and others that maybe have an abundance of funding and community banks to our United States that would like a nice clean administered

asset for them with almost no loan loss. Well, no loan loss in our history, very low risk, nice yield. So we're designed to do that and we probably end up having to do that, because the response has been overwhelmingly enthusiastic

Eli Rodney — Analyst, Bullpen Research

That's interesting. I assume, if you're sending that off to, if you're at capacity within your own book and then helping other banks or lenders get exposure, I'm assuming you take an origination fee on that and maybe some ongoing administration fee? Is that sort of...?

David Taylor — Founder & President, VersaBank

Oh, absolutely. Yeah, we manage the cash fallbacks, we manage the whole thing. This is your classic syndication and our software is designed to be able to accommodate that. I think that's nice for diversity for a bank to diversify its funding sources, i.e., with others. It's nice to help the other guys out. A lot of these community banks throughout the States have an established deposit gathering system and some of them may be struggling to find high-quality assets to invest in and we're standing ready to help them. It's always been our plan. In fact, in Canada, we've done that from time to time with large exposures to it. I designed the software at the very beginning in 1993 immediately to be able to support syndicating sharing.

Eli Rodney — Analyst, Bullpen Research

Awesome. And then I guess flipping to that US target, so that leaves roughly \$650 million to hit the bill in H2. Obviously, the mix shift has been predominantly SRP versus securitization. You made a comment

on the beginning of the call that you can kind of flex that securitization as needed, and given that you're seeing a lot of demand and pipeline for the SRP it's just not needed at this time, and obviously the SRP is higher margin. So, through the back half of the year, is it fair to say that the sort of predominantly SRP growth in the US will continue or will securitization be an important piece as well?

David Taylor — Founder & President, VersaBank

Well, I'd say that we call it homegrown SRP, homegrown securitization. I would say right now that would be predominantly what it is. The purchase securitizations are the same sort of credit quality and they come with a lower risk weighting, 20% usually, depending on the bond rating. So they're good, except for it looks like we'll have our work cut out for us accommodating the demand that the real-time purchase program is bringing in. So it may very well be that our original prediction of having, say, \$650 million of the \$1 billion in the homegrown SRP might go higher just because of the demand.

Eli Rodney — Analyst, Bullpen Research

That's exciting. Looking forward to tracking that closely. Last one for me is just kind of a higher-level frame on Canada. Obviously, you mentioned some of the challenges here at home for us, and I guess that plays on two fronts for you, one being the lending environment. So any additional colour you could give there with SRP growth and your ongoing transition to multi-family, CMHC-insured multi-family. And then also on the LIT deposit side, like that moved quite nicely higher sequentially and there was recent data with insolvencies kind of around, you know, post 2008 highs, so what are you seeing as far as trajectory on the LIT deposit side as well?

David Taylor — Founder & President, VersaBank

Well, don't want to boast about it, because what it means when our insolvency deposits grow as rapidly as they are, it means bad things for Canada, particularly Canadian consumers having a really rough go. But for us, that's why we built that program to be a counterbalance to a recessionary time and it's doing well. It'll be a record high, of course, that's what... We're sort of the leading indicator in that the more accounts we open, the empty buckets fill up, and we're opening a lot of accounts now. So yeah, not good for Canada. Years ago, I mean about three or four years ago, you could look at my quarterlies, I thought that the VTA Vancouver housing market, Toronto housing market was too risky a place for us to participate, so we, of course, moved out of those two markets. And now there's a collapse of, some people say, 40% in value, so holy Toledo. That leaves consumers in a really tough spot in that they're looking at double the mortgage payment as the interest rates have gone up and their house dropped by 40%. Rock and a hard place. Thankfully, a few years back we pulled out of that.

With respect to our SRP program, which is mainly home improvement, HVAC, and insulation, trying to reduce their utility bills by more efficient furnaces and the like, that business is still clicking along. But considering Canada's top spot, I would even expect that to slow right down the new business, but market share should increase quite dramatically just because the use the real-time purchase program is so attractive. It's just outstandingly attractive. I've had an industry leaders say, this is a revolution, David. Well, it is. It is indeed a revolution. It's what point-of-sale companies have dreamed about. And it's made possible using AI. Folks. I'm sure you hear, I've heard a lot about AI and what it can do for banking industry, so this is a real-time application of AI. You couldn't possibly assimilate that data with the humans. We have some really smart, sharp humans [inaudible]. Nobody can do it anywhere near as fast as our AI

model. We built it ourselves, of course, about three years back, three years back we did it. So, in Canada, holy smokes, I'm not very pleased about what's going on in the GTA and VTA, really feel sorry for the people, but from our perspective, we'll just take some market share and we'll be going probably faster than we've ever grown.

Eli Rodney — Analyst, Bullpen Research

Great. I'll leave it there. Thanks for taking my questions.

David Taylor — Founder & President, VersaBank

Well, thank you. Thank you. Sorry to end on a sad note there, Canadians. Hopefully, there's light at the end of the tunnel. But it's a rough, rough time when your house has dropped in value dramatically and your mortgage payment is likely doubling.

Operator

Your next question comes from Joe Yanchunis with Raymond James. Your line is now open.

Joe Yanchunis — Analyst, Raymond James

Hey, guys. Thanks for letting me back in the queue here. I just have a couple I wanted to just hit on. So, starting with DRTC, can you provide an update on the divestiture process, where you stand in discussions potential buyers and whether you expect for a transaction to occur before September 2026?

David Taylor — Founder & President, VersaBank

Well, Joe, good question. And tactically, we've put it on pause, the divestiture, and there's things in the background that I'm not ready to publicly announce but there was a good tactical reason to put the brakes on the sale process. KBW did a fantastic job for us, I think they lined up about 100 eager bidders, but there was something else in the background that I thought it's best we just put the brakes on the sale process just for a while.

Joe Yanchunis — Analyst, Raymond James

Okay. And then I was under the impression that you had to have that out of the Bank before September 2026. Have you gone back to regulators to seek permission to hold on to it a little longer or what's the process there?

David Taylor — Founder & President, VersaBank

Yes, we have. Certain aspects of DRTC are permissible. The one that appears not to be permissible is the penetration testing aspect that we do with the component DBG, Digital Boundary Group. The real deposit tokens and that sort of stuff, VersaVault, seems to be quite permissible. But yeah, we have gone back and asked for a little extension in order to sort out these tactical things that I think benefit the entire banking industry, in the United States in particular, and we have state-of-the-art cybersecurity for small Fis and, well, some large Fis here in Canada, we provide those services, and the largest retailers. But there's an onslaught of cyber criminals out there and there's certain tactical things I thought maybe put a little pause on it to what we could do on that front.

Joe Yanchunis — Analyst, Raymond James

Okay. So, if you've received that extension, what's the new kind of drop-dead date?

David Taylor — Founder & President, VersaBank

Well, we haven't heard back from them yet. I don't know, maybe on the long side, I'd say about a year.

Joe Yanchunis — Analyst, Raymond James

Okay. I appreciate that. And then just one more kind of housekeeping question for me. Within that \$605 million of US SRP assets at quarter end, what was the mix between your legacy offering and securitization? If you happen to have that handy.

David Taylor — Founder & President, VersaBank

Well, we had said we expected to put on about \$1 billion in US SRPs and \$650 million was the homegrown and about \$350 million was the purchased. That was the original plan.

Joe Yanchunis — Analyst, Raymond James

Got it. Okay.

David Taylor — Founder & President, VersaBank

And now we're thinking the \$650 million could be a lot higher because of that demand that's flowing mainly through the advent of the real-time purchases.

Nicolas Ospina — Global Chief Financial Officer, VersaBank

A little more precise a little more precise, Joe, there. We'll have around, for the securitized portion, around 18% of the \$650 million that we have currently. We can discuss more off line.

Joe Yanchunis — Analyst, Raymond James

Okay. Perfect. That was the number I was looking for. Thank you.

David Taylor — Founder & President, VersaBank

Okay. Sorry, Joe. Thank you, Nico. It's a good thing to have your CFO on line listening when the CEO is spouting off numbers off the top of his head. No further questions, operator?

Operator

No.

David Taylor — Founder & President, VersaBank

All righty. Well, thank you very much for your interest and look forward to talking to you next quarter. So, Joelle, we'll hang up and I guess take some direct calls off line.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.