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Nicolas Ospina - Global Chief Financial Officer
Lawrence Chamberlain - Global SVP, Investor and Stakeholder Relations

Operator: Good morning, ladies and gentlemen. Welcome to VersaBank's Third Quarter Fiscal 2026 Financial Results Conference Call. This morning, VersaBank issued a news release reporting its financial results for the third quarter ended July 31st, 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, in addition to the telephone dial-in, VersaBank is webcasting this morning's conference call. The webcast is listen-only. If you are listening to the webcast but wish to ask a question in the Q&A session following Mr. Taylor's presentation, please dial into the conference line, the details of which are included in this morning's news release and on the bank's website.

For those participating in today's call by telephone, the accompanying slide presentation is available on the bank's website. Also, today's call will be archived for replay both by telephone and via the internet, beginning approximately one hour following completion of the call. Details on how to access the replays are available in this morning's news release.

I would like to remind our listeners that 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 now like to turn the call over to David Taylor, Founder & President of VersaBank. Please go ahead, Mr. Taylor.

David Taylor: Good morning, everyone, and thank you for joining us for today's call.

With me again is our Global Chief Financial Officer, Nicolas Ospina, and for the first time, Lawrence Chamberlain, our new Global SVP, Investor and Stakeholder Relations, who joined us full time in August after working for us on a consulting basis for the last six years or so.

As expected, fiscal 2026 has continued to be a breakout year in terms of top-line growth. The third quarter once again saw new records for credit assets, revenue, and net interest income with very strong year-over-year growth. This was once again driven mainly by the momentum in our structured receivable program. In the United States, in fact, our U.S. operations generated nearly 25% of Q3 digital banking revenue. But notably, we have continued to see steady growth in Canada as we continue to increase business with our existing partners and expand our market share. And I am very pleased to report that subsequent to quarter-end, for the first time, we surpassed $7 billion in total assets. And in fact, as of yesterday, we were at $7.2 billion. That's up nearly $5 billion over the past five years for a compounded annual growth rate of more than 25%.

With this year's strong growth, we are increasingly realizing the operating leverage of our cloud-based branchless business-to-business model with year-over-year increases in net income and adjusted or core net income of 53% and 27%, respectively. I will once again note that we achieved these metrics with significantly higher than typical levels of liquidity at this early point of our expansion in the United States, although these are steadily moving back to more historic levels. That said, it was another noisy quarter in terms of costs, with a number of items, which totaled over $4.6 million, that are not part of our go-forward cost structure in 2027. These included noncore costs of $3.1 million, which was composed mainly of an additional $2.5 million in reorganization costs that we noted on our last call. There were also $1.5 million in transitory core costs, that is, costs that we did not adjust for, but that were specific to Q3, as well as $0.8 million related to share compensation resulting from the increase in share value. Nico will go into these in more detail in a few minutes.

Looking ahead, as I will discuss in a little bit, we expect the broader implementation of AI throughout our organization will not only increase our efficiency but create significant opportunities for meaningful cost savings going forward.

Finally, on the Q3 results, as I have discussed in the past, our net interest margin can vary from quarter-to-quarter, and we saw that somewhat in the third quarter. Much of this is due to the higher-than-typical liquidity levels, and we therefore expect NIM to trend back to the 2.3% range going forward.

Of course, we will continue to benefit from more cheaper deposits through increased activity in our insolvency professional business. In Canada, we recently saw that deposit base reach $1 billion for the first time as we both expand that business and insolvencies in Canada continue to increase. More specifically, the SRP business in the United States, we continue to steadily build momentum during Q3 with increased business from our existing U.S. partners and the addition of new partners. Q3 saw another $220 million in new funding, with a subsequent $127 million since the end of Q3. That brings us to more than $720 million in new fundings year-to-date as of today. Q3 saw the initial contribution from our most recently added SRP partner in the United States, another wholly owned subsidiary of ECN Capital. This latest partner is expected to contribute at least $300 million in additional U.S. SRP fundings annually, but both we and our partner believe the program could grow well beyond USD $500 million per year in fundings.

I will note again, this quarter, the vast majority of additional fundings in the U.S. were through our original, more profitable SRP, as demand for our core solutions continues to exceed our expectations. Our growth in the United States continues to prove out the efficiency of our U.S. operations with an efficiency ratio, excluding noncore write-off associated with the branch sale, for Q3 of 37%. And we continue to remain on track for our year-end goal to be in the low 20s. Clearly, as expected, SRP has rapidly taken its rightful place as a uniquely attractive alternative funding option for point-of-sale finance companies in the United States: reliable, efficient, economical - all benefits of our proprietary technology. During the quarter, we took the value proposition of our SRP to an entirely new level with the launch of an AI-enabled real-time version of SRP, which enables our partners to finance their loans with even more efficiency, cost effectiveness with lower risk. 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 hours, reducing the overall financing cost and the need for warehouse financing.

The cost savings and lower equity requirements are significant, and it eliminates the interest rate risk that our partners are exposed to during the warehousing period. During the quarter, following a successful pilot program, one of our largest SRP partners, Financeit, became the first to implement our real-time SRP in Canada. And I'm pleased to report that earlier this week, ECN Capital, one of our first U.S. SRP partners, became the first to implement real-time program in the United States.

Feedback on our real-time solution has been overwhelmingly positive, and we are seeing considerable incremental demand from both existing and prospective new partners, including in Canada, where we believe it will generate significant incremental growth to the solid performance we are achieving this year. But to ensure we are fully maximizing this opportunity and doing so rapidly as possible, we are privileged to have point-of-sale financing industry veteran, Moe Danis, rejoin VersaBank as part of our SRP team with a particular focus on specialized large partner opportunities for our real-time SRP in the United States market. Moe has had a very busy first month and a half and has initiated discussions with numerous new prospect partners.

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

Nicolas Ospina: 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 the following numbers are reported in Canadian dollars as per our financial statements, unless otherwise noted.

Starting with our balance sheet. Total assets at the end of the third quarter of fiscal 2026 grew 26% year-over-year and 7% sequentially to a new high of just under $6.9 billion. Cash and securities was $624 million, or 9% of total assets, down slightly compared to the end of Q2 2026. And I will reiterate here David's earlier comment about this number still 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 $17.45. Our CET1 ratio was 11.5%, and our leverage ratio was 7.6%, both down meaningful year-over-year and remaining comfortably above our internal targets. The year-over-year change is mainly due to putting capital to work for growth in the U.S. SRP portfolio following our capital raise in December 2024.

Our strong growth in assets drove total consolidated revenue to a record of $38.8 million, up 23% year-over-year and 1% sequentially. Noninterest expenses (NIEs) for Q3 were $25.2 million. As David noted, NIEs for Q3 included $3.1 million in noncore expenses, $2.5 million of additional costs related to the reorganization project, and $0.6 million for the write-off of capitalized software costs following the sale of our sole physical branch on May 1st, of this year. Consolidated NIEs, excluding the one-time costs, were $22.1 million compared to $17.4 million in Q3 last year and $20.8 million for Q2. As David also noted, Q3 included approximately $2.3 million pretax in additional transitory costs that are not part of our run-rate cost structure. This was composed of $0.8 million in share-based long-term incentive awards driven by the bank's strong share price performance during the quarter, as well as $1.5 million in other transitory costs that were specific to the quarter, and the bank does not expect to recur.

And as a reminder, DRTC cyber expenses are included in the consolidated NIEs and totaled $2.6 million in Q3, more or less in line with last year. Reported net income was $10.1 million, a year-over-year increase of 53% from $6.6 million for the third quarter last year. And consolidated earnings per share was $0.31 compared to $0.20 last year. Excluding the $3.1 million noncore NIEs I mentioned earlier, consolidated adjusted net income was $12.3 million or $0.38 per share, with adjusted net income increasing 27% year-over-year. Again, that number includes $0.8 million pretax in share-based compensation resulting from our share appreciation and other transitory costs of $1.5 million pretax.

Looking at our income statement on a segmented basis, revenue for the Canadian digital banking operation was $27.6 million, up 4% year-over-year. I will remind you that our bank corporate expenses flow to our Canadian Banking segment and, as a result, reported net income includes those reorganizational costs. Canadian Banking net income for Q3 was $6.6 million. However, that number is dampened by the $1.8 million after-tax impact of the one-time costs associated with the reorganization. Revenue for our U.S. banking operations was $9.3 million, up 18% sequentially and 199% year-over-year, primarily due to the ramp-up in the U.S. SRP. That drove a 10% increase in net income sequentially and an 803% increase year-over-year to $3.9 million as we see the U.S. operating leverage take effect. Q3 net income was impacted by $400,000 after-tax costs related to a software write-off resulting from the sale of the branch I described earlier.

Digital Media net income was $114,000 compared with net income of $23,000 for the third quarter last year and net income of $351,000 for the second quarter of 2026. Within DRTC, the cybersecurity service component generated revenue of $1.9 million with a net loss of $578,000, pretty much in line with last quarter.

Our credit asset portfolio grew a new record just shy of $6.2 billion at the end of Q3, driven once again by our structured receivable program, which increased 40% year-over-year and 11% sequentially to $5.2 billion. Our SRP portfolio represented 85% of our total credit assets at the end of Q3, up from 82% in Q2. Our multifamily residential loans and other portfolio decreased 10% year-over-year and 5% sequentially to $934 million as we continue to strategically transition some of our higher-yield, higher risk-weighted uninsured loans to lower-yield, lower risk-weighted insured loans. As a reminder, our MREL portfolio is primarily business-to-business mortgages and construction loans for residential properties. We have almost no exposure to commercial use properties.

Now turning to the income statement for our digital banking operations. Net interest margin on credit assets, that is, excluding cash and securities, was 2.44%. That represented a decrease of 11 basis points year-over-year and 27 basis points sequentially. Although I will remind you that our Q2 NIM is typically the highest of the year due to normal seasonality. The decrease in NIM reflects higher-than-typical GIC term deposit rates relative to Government of Canada bond yields. The replacement of retail deposits with broker deposits resulting from the sale of the bank-only physical branch in the U.S., as well as our decision to maintain greater liquidity amidst a challenging Canadian economy. It also reflects lower credit asset yields in Canada due to a shift in our credit asset mix resulting from the continued growth in our SRP portfolio, as well as our strategic shift in our MREL loans I just mentioned. Overall NIM, including the impact of cash, securities and other assets, was 2.19%, a decrease of 6 basis points year-over-year and 14 basis points sequentially for the same reason I noted above. Our NIM still remains amongst the highest of the publicly traded Canadian federally licensed banks.

Finally, our provision for credit losses in Q3 continued to be de minimis as a percentage of average credit assets and, in fact, was negative at 0.02%, meaning we had a recovery of credit losses during the quarter. This compares to a positive 0.03% from Q2, with the recovery primarily due to the sale of the branch assets to Stearns and updates in the forward-looking information used by the bank in its credit risk models.

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

David Taylor: Thanks, Nico. As I noted earlier, fiscal 2026 has been a breakout year in terms of top-line growth, which is expected to further accelerate next year based on both the continued expansion of our SRP in the United States as well as this year's introduction of our revolutionary real-time SRP. Fiscal 2027, however, will be the year when the true power of our model in terms of both growth and operating leverage comes into focus for our investors. In fact, we are seeing so much near-term demand for our core SRP that during the third quarter, we made the decision to, at least in the short term, limit the amount of fundings through our lower-spread purchased securitized SRP. It's simply a more efficient and more profitable use of capital. You'll recall that on the fourth quarter call last year, we estimated that fiscal 2026 SRP fundings in the United States would be composed of roughly 60% of our profitable core SRP and 40% would be of our lower-spread purchased securitized SRP. As of today, that ratio stands at 90% core SRP and just 10% securitized SRP. That translates to around $650 million in core SRP year-to-date, well in excess of the $600 million represented by our 60% of our target $1 billion.

As a result of limiting our purchased securitized SRP, we are now anticipate that we will reach our $1 billion target of additional fundings since October of last year, sometime before the calendar year-end. This positions us very well for our new U.S. SRP target, at least USD $3 billion in additional fundings in the United States in fiscal 2027. That's the equivalent of more than CAD $4 billion and alone represents 60% growth in our credit asset portfolio.

Two important points here: one, we believe there is significant potential upside to our target of $3 billion in additional U.S. fundings. The demand there, especially with the addition of our real-time enhancement; and two, we believe our real-time enhancement will accelerate growth in Canada through both additional business with our existing partners and the addition of new partners. In fact, we believe that the growth in our Canadian operations will continue to lead the Canadian banking industry and significantly outpace growth this year.

The operating leverage benefits of this growth are enormous, of course. The other side of the operating leverage equation is cost. Like Q3, fiscal 2026 on whole has been a noisy year in this respect. Not only have we had costs associated with the reorganization, as I noted earlier, we have incurred significant costs during the transition that we do not expect to repeat going forward. Even with this expected growth at most, we think our core noninterest expenses will be in line with this year, excluding the $10 million costs associated with the portion of DRTC we plan to divest.

To even further capitalize on our operating leverage, we are undertaking numerous AI-based initiatives across the broader organization to drive even greater efficiency as we grow, while further strengthening our risk profile. As a fully digital bank with our own proprietary core banking software, we are well positioned to realize significant benefits from increased implementation of AI. Our opportunities in the rapidly developing digital asset industry continue to come into focus. Both stablecoins and bank-issued tokenized deposits are gaining widespread acceptance, and the ecosystem is taking shape. As this early stage for the industry, we are being deliberately thoughtful and prudent in our approach to these opportunities, with a focus on long-term value. With our unique and proprietary technology that has been consistently validated by other leaders in the industry, further strengthened by our status as a federally licensed bank in both the United States and Canada, we are very well positioned to capitalize on this revolution in the banking and payment systems.

Before I open the call to questions, a quick update on our reorganization. The week after next, we will hold a special meeting of our shareholders to vote on and approve the reorg for which our Board has unanimously recommended shareholders vote in favor. The materials associated with the special meeting are available on our website.

In parallel, we are preparing to request the requisite regulatory approvals, specifically from the Fed in the United States and the Minister of Finance in Canada. Our target, subject to these approvals, is to have the reorganization completed by the end of October 2026. I will note here that we expect to incur an additional roughly $4 million in noncore costs related to the reorganization in the fourth quarter of this year. We expect the realignment of our corporate structure to a standard U.S. bank framework to drive meaningful additional value for our shareholders as we align our structure and financial reporting to those with which global investment community are more familiar, potential future stock index inclusion, and improved access to capital if needed to further accelerate our growth, as well as significant cost savings.

And finally, on the topic of divestiture of cybersecurity business, we had been looking at some additional potential alternatives to meet the Fed's requirement that we divest this business by September of this year. Last quarter, we asked the Fed for an extension that was granted last week, such that we have now until August 30 of next year to exit. We are proceeding accordingly.

And with that, I would like to open the call to questions. Operator?

Operator: If you would like to ask a question, please press star followed by the number one on your telephone keypad. To withdraw any questions, please press star one again.

Our first question comes from Joe Yanchunis from Raymond James. Please go ahead. Your line is open.

Joe Yanchunis: Good morning.

David Taylor: Good morning, Joe.

Nicolas Ospina: Good morning, Joe.

Joe Yanchunis: So in your prepared remarks, you said the NIM should trend back towards 2.3% kind of range as liquidity normalizes. What do you need to have happened for that to occur? And how much of that recovery is driven by lower liquidity, better deposit mix, or stronger SRP yields? And are you expecting that the NIM to return to those levels in the fourth quarter?

David Taylor: Yes. Joe, the liquidity we've been maintaining, of course, was partly due to beginning operations in the United States. So we just thought it prudent to maintain a lot more cash. And with kind of an anomaly happening in Canada, with our deposit rates increasing to about 70 basis points over the same-term Government of Canada bond, that means the liquidity actually costs us a few basis points, maybe 10-15 negative.

And now that we're well established in the United States, we can bring our liquidity levels back down to around 5%, 5.5%, which means we won't be losing money on liquidity. In the past, we didn't actually lose money on liquidity. We actually made a few basis points. So it's important for us to get it down.

And with respect to timing, we're growing so rapidly now. We put on about $300 million since the end of the quarter, July 31st. We're up to $7.2 billion right now, from what was, $6.9 billion or so, Nico? Yes. So it's coming on fast and furious. And those are high-yielding traditional SRP rather than the purchased ones, where we only made maybe 80-90 basis points on our homegrown SRPs; we make about 250 or so. So, I'd say NIM will get back to around 230 for next quarter and the rest of the year. For the Canadian listeners, we're still about 50% better NIM than the entire banking industry in Canada. And it's even better than that in that most of the banking industry, all the banking industry is providing extraordinary expected loss provisions. And you might note that ours is averaging close to zero. I think it was 2 basis points in the last call. So not only do we have the widest margin in the country by far, but we give nothing back for loan losses either. So while we're obsessing on NIM, a space that we're incredible in the country where most of our assets are situated. It gets better in the States because that anomaly over the risk-free rate in the States is only 10-15 basis points over U.S. Treasuries.

So as we start booking assets in the States, we're predicting at least $3 billion more going on soon. It just gets better and better. It's sort of amazing the markets kind of missed it, but we have revolutionized the $1 trillion asset-backed security market by bringing on this real-time purchase program. I mean, not only do our clients get their money back right away and not have to wait 60-90 days to package up and pay accountants, investment bankers, and lawyers, they also run a huge interest rate risk while they're doing this. And rates move up; that means their portfolio drops. With us, they get to lock the rate in virtually in 10 minutes. One big firm said to me, “Once a day, it would be great, Dave.” So I mean, I kind of find it odd that we're obsessing over like a few basis points in March. We just brought something out that renders the traditional asset-backed security method obsolete. It's interesting that seems to be missed. However, it's always the case: we're an innovator; you bring something out brand new, and folks take a while to catch on. When I came up with a branchless bank model in 1993, everybody told me that was impossible and couldn't be done anywhere else. And here we are again with the adoption of AI to this traditional ABS market and revolutionizing it, which… you think that's what we'd be looking at. I guess it's when the horse-and-buggy came out… horse-and-buggy were means of transportation; someone came out with an automobile. It was still folks that needed to have horses and buy hay and stuff like that to keep going until it caught up. Sorry about a long-winded one there, Joe.

Joe Yanchunis: That's all right. I appreciate the color there. But I just wanted to drill down on the expected growth in fiscal 2027. So you're expecting at least $3 billion of growth in the U.S., which would effectively take you to $4 billion exiting the next fiscal year. So how much of that target is already effectively spoken for through existing partners like Financeit and ECN? And how much is still dependent on signing new partners?

David Taylor: I'd say about half through the existing and the other half of prospects that we're already talking to. And I've doubled the size of the team in the United States, that the SRP team, with the addition of Moe Danis and Luke. So more hands at the pump.

And I may add another to it also. It's a huge market in the United States, and the sooner we get on the books, the better. If you look at $3 billion to say 250 basis point spread and use an effective tax rate of about 25%, that's about $1.75 a share increase in US dollars that we just put out there. That's just the United States and Canada might be able to do the same. Let's hedge my bet, call it Canadian dollars, because our existing partners in Canada, including Financeit and some of the huge ones, I mean, they're signing up as fast as they can to get real-time working for them. That's what I was saying. They don't want to run interest rate risk. Why should you? And they'll have to get the money back right away. And because they're not borrowing, they don't have to have an onerous sort of debt-to-equity ratio to contend with. So you can get their capital back faster. Their ROE goes through the roof. I mean, eliminate interest rates. It's just when I say revolutionary, that's what Moe Danis said when he was receiving this undeserved award for Canadian Financial Executive of the Year. Moe said that this is a revolution to the industry. So I say, yes, you're coming back on board, right, Moe? Yes, it's great, you know, and I may bring another team in too. Mark in $3 billion in the United States additional, and maybe another CAD 3 billion just from our existing partners. And there's a few more just signed up. I think two or three more just signed up in Canada too.

Joe Yanchunis: I mean, you're talking about truly explosive growth here. At what point does additional capital become necessary to support this runway?

David Taylor: Well, if we get our dream come true, we'll be risk-weighting our homegrown asset-backed securities the same as if we had purchased them under the new Basel III rules, which is 20%. If we can get that done, I've hired a guy to make that happen. [indiscernible] used to be bank analysts with KBW has come on board for that mission. If we can get that put to bed, which is quite realistic considering Basel III allows for it, and why would your homegrown ABSs be risk-weighted different than the ones you just purchased from somebody else, or once we sold to somebody else? So then we're at 20% risk-weighted, and then there's no need for any more capital. At that point, we're generating capital at a fast and furious rate. And, you know, we self-fund. Sorry, investment bankers. Although it is a trillion-dollar market, so even with that, maybe we'll be back. We're only looking at 1% of a trillion-dollar market in the near time, the near future- 10 billion- but I can't see anybody using anything else other than what we've got on the table. Why run those monster risks with interest rates and why not get your money back in your pocket?

Why not give your shareholders some of their money back? You don't need all the equity that you've got supporting your business anymore. So that would be dreaming in technicolor, but I have hired the guy, and we are underway with that. And Basel III did change, and it did allow for it. And it makes sense. I mean, why would a regulator let your risk-weight your asset at 20% just because you bought it from somebody else when it's identical to the one you've homegrown?

Joe Yanchunis: All right, well, I appreciate the color and thank you for those thorough answers. I will hop back in the queue.

David Taylor: All righty. Well, thanks, Joe.

Operator: Our next question comes from Tim Switzer from KBW. Please go ahead. Your line is open.

Tim Switzer: Hey, good morning. Thank you for taking my questions.

David Taylor: Go ahead, Tim. We're here in the fog in Canada here. I've got Nico beside me here. He traveled all the way up from St. Pete's to find it just as foggy and steamy and hot here in Canada.

Tim Switzer: That's lucky you, Nico. A quick follow-up on your comment about the risk weighting here. What's the process like for getting a lower risk weighting on your RPP loans? And is there any timeline on when you think you can get approval for that?

David Taylor: I'm guessing sometime in 2027, our dime went to heaven program would be in place. That would be the assets that we have are risk-weighted the same as those that we would purchase. It would go through; we'd make a presentation to OCC to have our assets risk-weighted in that fashion. I'm hedging my bets a bit mid 2027. There are some phases in between where we could probably get most of that effect done a lot sooner. There are methods in Canada in particular to employ kind of an insurance policy on your assets and get a much lower risk weighting. Other banks have already done and used, so regulators are familiar with it. And then there's some companies of our approach says that we'd take the B tranche on their own books. And that's already gone through the regulatory work and been improved. So the dime went to heaven; the holy grail is maybe mid-2027. I hope it's sooner because I've got a real good guy in the job. Kian, are you listening? And the other phases, the first one of the insurance, maybe I'll get that in a bit sooner if I go a month or two from now.

Tim Switzer: Okay, interesting. And then your comment about 2027 core expenses should be in line with this year. Just given all the one-timers and transitory costs, what's the base you should be using for 2027? Or if you can provide a dollar range, that would be helpful.

David Taylor: Nicolas sitting beside me, around 19.8 or something like that.

Nicolas Ospina: 19.8 is kind of like the run rate that we have right now, Tim.

Tim Switzer: Can you repeat that?

Nicolas Ospina: 19.8.

David Taylor: 19.8, Tim. And the other thing to keep in mind is, as we put it out there, we fully endorsed AI in this bank. And of course, it was really easy for us because we're all tech anyway. And there's a lot of savings coming. I mean, obviously just demonstrating what we can do with AI on the real-time purchase program, that's phenomenal. And there's lots of other areas in our bank that our team is looking to using AI to make themselves much more efficient. I'll put it out there. It might take a week in the past to compose a credit application for a new SRP customer, say, a week. And that would be portion of that VR guy's really doing, working really hard on that. That could be done now in less than a day with AI.

Tim Switzer: Okay, if I heard you correctly, you said 19.8, so it would be about CAD 70 million annualized?

David Taylor: Yes, that's what we're looking at now without any improvements with AI that we have well underway here. We have what we call an aquarium, Microsoft Aquarium. So all the data at the bank sits nicely, securely, and safely in this aquarium. But our staff has access to the company AI to manipulate data and do statistical analysis. It's so cool. We have a data warehouse that's part of our core banking system that I invented many years ago. It gives our staff the ability to ask, "How many motorcycle loans do we have in Alberta?" Not only does it give it to you, but it'll actually put it in a PowerPoint presentation for you. It's fantastic.

And maybe the reason why I'm so bullish on this, as opposed to maybe my fellow bankers, maybe this has been missed by the market. We own our core; we created our core. It's the VersaBank core. We're not beholden to some other core provider that you may have to go into a queue and wait maybe three or four years to have some sort of innovation put through. VersaBank's core banking system was conceived to never constrain what our lenders could think of. So if they wanted, they put a loan together that had uneven cash flows- maybe pimp in the summer, not in the winter, anything they could think of; different bases for bank lend for all prime, CIBC prime, bank acceptances, whatever. That core banking system that we put together gives a huge advantage. This is why we can do this stuff. How could you invent a real-time purchase program and launch it? What are we doing? We announced it about 60 days ago. It's not fully functional. We're signing up customers. I mean, just imagine if you had to contend with the rest of the banking industry with one of these archaic core providers that's struggling through. There's no comparison.

Nicolas Ospina: Let me just jump in and remind that of that $80 million, $10 million is directly attributable to the cybersecurity business. So when that gets divested, that goes away.

Tim Switzer: Okay. All right. That's helpful. And then one last one for me, just given the extension on the divestment there, could you provide some color on where we are in the process of a potential sale here? Is there anything else being considered, like a spinoff? And then in terms of a sale, there's been some nice movement upwards in cyber stocks lately, should that help speed this process along, maybe, and help with the valuation you could receive?

David Taylor: It definitely should have been. Obviously, we're living in a terrible world where cybercriminals are abound, and there's no end in sight to that, unfortunately. We were just thankful that the Fed gave us a little longer to divest a bit. We haven't minded divesting a lot sooner than the one-year extension. It just takes the heat off us. And it's more of a human thing. We were fully deployed with this Project Optimize. It's a big project, and everybody's kind of really, really busy doing that. And the divestiture was a bit of a distraction. So now we've got a bit of time. We're engaged with a few likely purchasers, and I'm sure some may become the new proud owner, but we're thankful the Fed cut us a bit of slack. As they say in negotiations, he who wants it the most loses. And we certainly didn't want to be in any hurry while we've got all this other project optimize distracting us.

Tim Switzer: Okay, great. Thank you, David.

Operator: Our next question is from Andrew Scutt from Roth Capital. Please go ahead. Your line is open.

Andrew Scutt: Hey, good morning, guys. Congrats on the continued progress and thanks for taking my questions. One quick two-parter for me on the expected 2027 U.S. SRP growth. So first one, can you kind of remind us where you're funding these deposits specifically for the U.S. business and kind of help us quantify any incremental spread you may be picking up growing in the U.S. versus Canada?

And then, sorry if I missed this earlier, but just secondly, on the expected $3 billion in growth in 2027, did you guys target a number in which you will keep on your balance sheet versus securitized?

David Taylor: We'll keep the whole works on our balance sheet, Andrew, just for a quick answer. I think it'll happen fairly quickly in that with the new team out there marketing it, it should go on rather rapidly.

Andrew Scutt: Understood. And then just the first part on the NIMs across the borders.

David Taylor: The NIM in Canada has been unusually compressed by the margin over the risk-free rate, going to a historic high of 70 basis points. In the States, it's running around 10-15 basis points over the same-term U.S. Treasury. And our method of gathering deposits on both sides scores is the same. We go exclusively to broker deposits. And we're a drop in the bucket and have no issue whatsoever raising as much money as we need, virtually, instantaneously, from our deposit broker partners.

So that's what we've done since the beginning, 1993. I created the industry by telephone modems and IBM PCs, putting in the offices of what I call deposit brokers. They weren't called that. They were financial service providers and investment bankers and such.

Now, dreaming in technicolor, as you know, we have got the world's first tokenized deposit up and running, ready to roll. And sooner or later, we'll roll that out. And that puts FDIC-insured CDs in the digitally represented, as we call them, tokenized deposits out throughout the entire United States and serves as a beautiful payment vehicle too. And with the FDIC stamp of approval on it, it's virtually risk-free. So it's like a… And that's coming. I think the entire banking industry is waking up to that. You see in the newspaper almost every day; you see some group of banks or banks talking about stablecoins or the past. Stablecoins, I think, a little bit of a thing of the past. They'll evolve into tokenized deposits. But when my dream comes true, we'll be raising our deposits through the tokenized deposit networks and paying a lot less because our competition right now is stablecoins, which so far aren't able to pay any yields. So, you know, that's the dream come true. But in the meantime, it's just the traditional deposit brokers that are sending us money… no issue whatsoever. Part of that is because we're a drop in the bucket. I think it's like $10 trillion deposit market. But our aspirations maybe 10, 15, 20 billion. Well, that's still a drop in the bucket.

Andrew Scutt: Understood. Well, appreciate the call, and congrats again on the continued progress.

David Taylor: Well, thanks, Andrew. Exciting times.

Operator: Our next question comes from Eli Rodney from Bullpen Research. Please go ahead. Your line is open.

Eli Rodney: Good morning, guys. And Nico, I hope you didn't fly in yesterday with the storm we had here.

Nicolas Ospina: Yeah, no, I came early in the week.

Eli Rodney: Good. So I guess starting off on that $3 billion target, given the attractiveness of the real-time SRP, you guys have talked about a 90/10 split this year on funded volumes. I'm wondering, should we be thinking the same split for $3 billion in fiscal 2027?

David Taylor: Yes, Eli, I guess right now, I don't think it's a need to purchase anymore. We've got so much demand for the traditional, on-balance-sheet securitization that I can't see buying anymore. They come in a much thinner spread. And even though they are 20% risk-weighted, now we're well underway with the homegrown SRP used in a real-time way. I go 100% on the homegrown. And then when we got the Canadian side too, Eli, of course, because I just threw that out there for the US growth. But our Canadian business is well established, and we have 25 or so partners, and every one of them would rather get the money sooner rather than later.

I expect, let's just say, CAD 3 billion on our side of the border here. And that's pretty realistic. I mean, we have maybe half of Financeit's business, and they have $3 billion already on the books for this. There's a bunch more lined up. It's so attractive.

I mean, it's one of those ones you don't have to market. I get my money back right away. Theoretically, it's 10 minutes it takes us to turn it over. But, you know, it's just once a day they do a batch comes in. I mean, that's the money back in the till can be lent out the next day to some other guy that wants to buy a motorcycle. And how much equity does the point-of-sale finance company have to have? Well, theoretically, nothing. They're just a supply chain for us. We're holding back sufficient cash to soak up what we think would be the delinquencies. And theoretically, those are mathematically inclined. The holdback we have is what some other lender might have in their expected loss provision. It's the same math. And, you know, as long as we hold back enough, what you see hit our bottom line, our ECL is next to nothing. That's what you've seen over the decades, like plus or minus two or three basis points. But it's, you know, a good model. We proved it out, kind of do it in a clunky way by buying batches. And now we just adapted the program to AI, and we built it ourselves downstairs in the tech facility here. It was constructed by our guys and put into play, and of course, as you'd expect, everybody sort of said, “Where do I sign? How come I can't have that?” That's what we hear.

Eli Rodney: I imagine it's a pretty easy sales process for you guys. Maybe on that, specifically on the rollout of the real-time program, maybe more of a qualitative question than anything. But could you give a sense for maybe Financeit, for example, like how much of their volumes are running through the real-time versus the traditional program? I assume the idea is that everything goes over there at some point, but is it already there, or is there kind of a ramp-up period to get to that point?

David Taylor: I think their entire flow in sports is going through the real-time program as it should. Rather than send it to us and have it batched up and maybe take a month to process it, why not get it done every day? So yeah, the system's up and running and running well, and thankfully our partners in the States, CCN, decided to try it out too. And we say, try it, you'll love it. I have a terrible analogy for that. It's like getting hooked. Once you're used to getting your money every day, I mean, are you going to go back to waiting for months and months and running interest rate risk? That's a big deal with these point-of-sale finance companies while they're batching up, is that some central bank moves the rates up a little bit, they just want the... Maybe they lost their entire profit on that batch of loans that they were batching up for a securitization. Interest rates go up a few basis points. Whoops. There goes my profit. So our system prices it immediately. This is AI doing it. This takes the Government of Canada bond rate. Click. Okay, you got it. There you are. Rates done, like, instantaneously purchasing.

Eli Rodney: It seems as you've described, it's a game changer for your partners. So then on the ECN subsidiary, I feel like that's a good transition in there. Like, if they're getting all this value from the real-time program, would you expect that? I know $300 million was the original target, and there's confidence in getting over $500 million a year there.

How quickly is this one ramping up relative to maybe some partners in the past that you've signed? Is this the type of thing where, as you said, they kind of get a pace for this program, and now they're trying to push as much volume through as they can?

David Taylor: Yes, absolutely. I mean, we're up $300 million in the last 30 days or so, right? We went from 6.9 to 7.2. On our daily dashboard, it shows 7.2 yesterday. And that's just a thin edge of the wedge. Everybody's quite… for 30 years, they have been using the traditional asset-backed securities way to funding themselves. And they've got friends that are investment bankers, and they've got friends to play golf with that are accountants and lawyers. And it's a traditional way of doing it. And a lot of mouths being fed in that industry. And we're basically saying, forget those guys. They're going to go hungry. You know, it takes a while for humans to sort of move. I use the horse-and-buggy thing. You got the horses out there. People like horses. They like hay. They have the kids working in the barn, taking care of it. It was an industry. And then, all of a sudden, comes out the automobile. And those things are smelly, and they make a lot of noise and whatever. But you know it's going to change. It has to change because of the factors that we talked about: fixing your rate, getting your money back early, dropping your equity requirement; of course, they're going to do it. It's just the stickiness of our fellow humans who take a while to adapt to things.

I live that in Canada. When I came up with this branchless banking model, those first guys in 18 years got a federal bank license. People lectured me that I needed a new building. This one senior federal government guy in Canada told me it had to have pillars too. I said I won't say a thing. He knows who he is. I said things are going to change. There's a different way of doing business. And they are like, "People like to walk down to a branch and wait in line to get the loan to buy the motorcycle." I said, "No, they don't." The new generation doesn't want to do that. They want to throw their leg over that bike right now and drive away with the Ducati. Like me, if there is a Ducati.

Anyways, Eli, yes, it's exciting times. And I've stuffed up a little bit. I got Moe Danis and Luke on the job too. So it's double in the States. We probably do more. It's always in banking; it's kind of more hands at the pump, the more deals you get. There is still a human factor, even though we're using AI. It's still, you know, you make the phone calls, you got to see the people. It's still a certain amount of human interaction to get somebody on board. So I might need a few more human interfaces.

Eli Rodney: Makes sense. And given the $3 billion target, if I heard you correctly earlier, half of that would be coming from potential new partner wins. So maybe on that piece specifically, what you guys are seeing in your pipeline there? I don't know if you can quantify it, but you look at the $300 million from the ECN deal potential for $500 million. As far as size of what's in your pipeline in terms of funding potential, I'm sure it varies, but are there more chunky ones like that? Are there more deals that could be a real step-change in volumes as soon as they're signed, or is it a larger number of smaller deals?

David Taylor: No, they're all big ones. That is the difference between the Canadian and US market. They're all big. Every one of them is as big as Financeit in the States. And they all use asset-backed securities as their traditional, their go-to way of funding. Whereas in Canada, they're all kind of small, and they weren't using ABS. So ABS wasn't a competition for us in Canada. But in the States, it is. So when we came up with this change, they would be able to buy instantly. That hit the ABS market right in the heart. So yes, they're all big guys. There's nobody little in the States. Everybody's as big as Financeit. And they're all using ABS. And our new product is aimed right at the heart of ABS. It renders ABS obsolete. Whereas in Canada, there are little ones. So yes, they like the idea to get your money back faster. But if they didn't have that wait time, like the big guys do in the States, to get the money, they were borrowing a line of credit or something. Some Canadian Bank was lending and gave them a line of credit, margin against the receivables. So it's a way bigger market in the States. And I would say every single one of the ones we're talking to are at least as big as Financeit.

Eli Rodney: Wow. Okay. So somewhere you got $300 to $500 million a pop, $1.5 billion coming from new deals. So it really only takes three to five deals to get there. Okay, great. The last one for me, just on maybe framing up 2027, is obviously some non-core costs coming through 2026 that should largely be in the rearview for 2027; then you're talking about some really large numbers on the asset growth side. So internally, do you guys have a frame for how you're thinking about ROE targets for 2027, or is it just a range that you're expecting to land in?

David Taylor: I think we have it on our website. $ 10 billion, don't we? We get about 20% ROE, something like that, maybe? We've got a model up on our website, Eli, and it goes 10, 20, 30 or something in asset size and shows it. Bottom line is, it seems being quite aggressive saying this, but I don't see any increase in NIEs with the volume increase because even though we may be adding some more humans, we're making a lot of savings using AI in every aspect of our business now. So that's the offset. We will need some more specialized help, maybe more account managers in the States; I'd say maybe another team, but the processing of the credit applications is so much faster than it used to be. And the analysis is so much better. You can ask Claude. In Canada, we call it Claude. Of course, it's not a cloud. It's Claude to do the stats. You know, back in the early days when I used to be doing analysis for fish population using Fortran, it could have been a good afternoon trying to do the stats on the population. You can ask Claude to do the stats, give it all the data, and say, I would like to be 95% confident that we've taken enough cash flow back to offset the inevitable delinquencies. I think it took in a minute to analyze the data, and this is the entire data stream. So, like ten years through the cycle. We've signed up for one of the huge databases in the United States that all the lenders use. Holy smokes, we're way more precise in what we're holding back, and we're getting the math done super fast. So yes, essentially, it's a new world. I'm just looking at incremental revenue from the assets. I use rough math: 250 basis points, $3 billion, $75 million of incremental pre-tax earnings, and we've got about a 25% tax rate. You've got $1.75 a share right there, US incremental.

Eli Rodney: Exciting times. I'll pass the line.

David Taylor: Thank you. Thank you, Eli. Good luck in the fog. You're in Toronto right now, right?

Operator: For additional questions, please press star followed by one.

And we have no further questions. I'd like to turn the call back to David Taylor for closing remarks.

David Taylor: Well, thank you, operator, and thanks again to everybody for joining us today. I look forward to speaking to you at a time of our third quarter results. And if you have any other questions that come to mind, don't hesitate to give me a call. We're familiar with Teams. We use Teams regularly here, and that can answer further questions if you have any. It's certainly an exciting time to be a bank. I've been doing it for almost half a century. You know, it started when posting machines were humanly powered with great, huge levers, and then thankfully seeing the industry evolve and evolve and evolve to where we are today. We're holy smokes. Yes, it's just wonderful to be able to analyze our portfolios with such precision using AI and to be able to deliver these new products to our clients, which, in effect, trickles down to consumers. This is the altruistic, Dave, that maybe most bankers who don't hear say. But the bottom line is what it means is the consumers and small businesses that rely on these point-of-sale finance companies for their capital so they can do their thing. Well, they should theoretically be able to provide those services at better rates because we're going to give their money cheaper, better, faster, and that should trickle down to the economy and help folks out.

Thank you again, ladies and gentlemen.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.