



Interim Consolidated Financial Statements
January 31, 2025
(Unaudited)

VERSABANK

Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)

As at	January 31 2025	October 31 2024	January 31 2024
Assets			
Cash	\$ 386,693	\$ 225,254	\$ 127,509
Securities (note 4)	158,546	299,300	133,005
Credit assets, net of allowance for credit losses (note 5)	4,346,748	4,236,116	3,984,281
Property and equipment	25,107	23,885	24,180
Goodwill	12,301	12,301	5,754
Intangible assets	11,714	12,054	2,692
Other assets (note 6)	30,623	29,574	32,214
	\$ 4,971,732	\$ 4,838,484	\$ 4,309,635
Liabilities and Shareholders' Equity			
Deposits	\$ 4,133,438	\$ 4,144,673	\$ 3,638,656
Subordinated notes payable (note 7)	106,824	102,503	103,355
Other liabilities (note 8)	210,175	192,105	178,590
	4,450,437	4,439,281	3,920,601
Shareholders' equity:			
Share capital (note 9)	330,489	215,610	228,471
Contributed surplus	2,540	2,485	2,645
Retained earnings	188,568	181,238	157,845
Accumulated other comprehensive income (loss)	(302)	(130)	73
	521,295	399,203	389,034
	\$ 4,971,732	\$ 4,838,484	\$ 4,309,635

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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Consolidated Statements of Income and Comprehensive Income (Unaudited)

(thousands of Canadian dollars, except per share amounts)

	for the three months ended	
	January 31 2025	January 31 2024
Interest income:		
Credit assets	\$ 66,959	\$ 65,076
Other	6,287	4,216
	73,246	69,292
Interest expense:		
Deposits and other	46,130	41,271
Subordinated notes	1,392	1,453
	47,522	42,724
Net interest income	25,724	26,568
Non-interest income	2,103	2,283
Total revenue	27,827	28,851
Provision for (recovery of) credit losses (note 5)	1,024	(127)
	26,803	28,978
Non-interest expenses:		
Salaries and benefits	8,614	6,538
General and administrative	5,489	4,333
Premises and equipment	1,596	1,153
	15,699	12,024
Income before income taxes	11,104	16,954
Income tax provision (note 10)	2,961	4,255
Net income	8,143	12,699
Other comprehensive income (loss):		
Item that may subsequently be reclassified to net income:		
Foreign exchange gain (loss) on translation of foreign operations	(172)	(58)
Comprehensive income	\$ 7,971	\$ 12,641
Basic and diluted income per common share (note 11)	\$ 0.28	\$ 0.48

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(thousands of Canadian dollars)

	for the three months ended	
	January 31 2025	January 31 2024
Common shares (note 9):		
Balance, beginning of the period	\$ 215,610	\$ 214,824
Issued during the period	114,879	-
Balance, end of the period	\$ 330,489	\$ 214,824
Preferred shares (note 9):		
<i>Series 1 preferred shares</i>		
Balance, beginning and end of the period	\$ -	\$ 13,647
Total share capital	\$ 330,489	\$ 228,471
Contributed surplus:		
Balance, beginning of the period	\$ 2,485	\$ 2,513
Stock-based compensation (note 9)	55	132
Balance, end of the period	\$ 2,540	\$ 2,645
Retained earnings:		
Balance, beginning of the period	\$ 181,238	\$ 146,043
Net income	8,143	12,699
Dividends paid on common and preferred shares	(813)	(897)
Balance, end of the period	\$ 188,568	\$ 157,845
Accumulated other comprehensive income:		
Balance, beginning of the period	\$ (130)	\$ 131
Other comprehensive income (loss)	(172)	(58)
Balance, end of the period	\$ (302)	\$ 73
Total shareholders' equity	\$ 521,295	\$ 389,034

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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Consolidated Statements of Cash Flows (Unaudited)

(thousands of Canadian dollars)

	for the three months ended	
	January 31 2025	January 31 2024
Cash provided by (used in):		
Operations:		
Net income	\$ 8,143	\$ 12,699
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision for (recovery of) credit losses	1,024	(127)
Stock-based compensation	75	132
Income tax provision	2,961	4,255
Interest income	(73,246)	(69,292)
Interest expense	47,522	42,724
Amortization	744	574
Accretion of discount on securities	(310)	(83)
Foreign exchange rate change on assets and liabilities	4,285	1,859
Interest received	75,669	66,632
Interest paid	(47,726)	(39,203)
Income taxes paid	(3,963)	(8,334)
Change in operating assets and liabilities:		
Credit assets	(111,793)	(131,151)
Deposits	(10,971)	101,830
Change in other assets and liabilities	18,524	(628)
	(89,062)	(18,113)
Investing:		
Sale of securities	136,737	34,614
Purchase of property and equipment	(1,452)	(16,002)
	135,285	18,612
Financing:		
Issuance of common shares, net of issue costs	114,879	-
Dividends paid	(813)	(897)
Repayment of lease obligations	(183)	(177)
	113,883	(1,074)
Change in cash	160,106	(575)
Effect of exchange rate changes on cash	1,333	(4,158)
Cash, beginning of the period	225,254	132,242
Cash, end of the period	\$ 386,693	\$ 127,509

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

1. Reporting entity:

In Canada, VersaBank (the “Bank”) operates as a Schedule I bank under the Bank Act (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”). Following its acquisition of Stearns Bank Holdingford N.A. and renaming it VersaBank USA N.A. (“VersaBank USA”), on August 30, 2024, in the United States, the Bank, through its wholly owned subsidiary, VersaBank USA, holds a national Office of the Comptroller of the Currency (“OCC”) charter and is regulated by the OCC. The Bank, whose shares trade on the Toronto Stock Exchange and Nasdaq, provides primarily commercial lending and banking services to select niche markets in Canada and the United States, as well as cybersecurity services through the operations of its wholly owned subsidiary DRT Cyber Inc., (“DRTC”). The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2.

2. Basis of preparation:

a) Statement of compliance:

These interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim Consolidated Financial Statements should be read in conjunction with the Bank’s audited Consolidated Financial Statements for the year ended October 31, 2024.

The interim Consolidated Financial Statements for the three months ended January 31, 2025 and 2024 were approved by the Audit Committee of the Bank’s Board of Directors on March 3, 2025.

b) Basis of measurement:

These interim Consolidated Financial Statements have been prepared on the historical cost basis except securities (note 4), the investment in Canada Stablecorp Inc. (note 6) and derivative instruments (note 12), which are measured at fair value in the Consolidated Balance Sheets.

c) Functional and presentation currency:

These interim Consolidated Financial Statements are presented in Canadian dollars, which is the Bank’s functional currency. Functional currency is also determined for each of the Bank’s subsidiaries, and items included in the interim financial statements of the subsidiaries are measured using their functional currency.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

d) Use of estimates and judgements:

In preparing these interim Consolidated Financial Statements, management has exercised judgement and developed estimates in applying accounting policies and generating reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting periods. Areas where judgement was applied include assessing significant changes in credit risk on credit assets and in the selection of relevant forward-looking information in assessing the Bank's allowance for expected credit losses on its credit assets as described in note 5 – Credit assets. Estimates are applied in the determination of the allowance for expected credit losses on credit assets, the fair value of stock options granted as described in note 9, the fair value of derivatives, the fair value of the investment in Canada Stablecorp Inc. as described in note 6, the impairment test applied to intangible assets and goodwill, the measurement of deferred income taxes and the revaluation of property and equipment. It is reasonably possible, on the basis of existing knowledge, that actual results may vary from those expected in the development of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied prospectively once they are known.

3. Material Accounting Policy Information and future accounting changes:

The accounting policies applied by the Bank in these interim Consolidated Financial Statements are the same as those applied by the Bank as at and for the year ended October 31, 2024 and are detailed in note 3 of the Bank's 2024 audited Consolidated Financial Statements.

4. Securities:

As at January 31, 2025, the Bank held securities totaling \$158.5 million (October 31, 2024 - \$299.3 million), including accrued interest, comprised of US Treasury Bills with a carrying value of \$152.5 million, Government of Canada bonds with a carrying value of \$3.0 million and other securities with a carrying value of \$3.0 million.

5. Credit assets , net of allowance for credit losses:

VersaBank organizes its Credit Asset portfolios into the following two broad asset categories: Receivable Purchase Program (previously referred to as "Receivable Purchase Program/Point-of-Sale Loans & Leases" or "Point-of-Sale Loans & Leases") and Multi-Family Residential Loans and Other (the amalgamation of what was previously referred to as "Commercial Real Estate Mortgages", "Commercial Real Estate Loans", and "Public Sector and Other Financing"). These categories have been established in VersaBank's proprietary, internally developed asset management system and have been designed to catalogue individual lending assets as a function primarily of their key risk drivers, the nature of the underlying collateral, and the applicable market segment.

The **Receivable Purchase Program (RPP)** category is composed of investments in the expected cash flow streams derived primarily from consumer and small business loans and leases that are originated and owned throughout their lifetime by VersaBank's RPP partners.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

The **Multi-Family Residential Loans and Other (“MROL”)** category is composed of two sub-segments: Multi-Family Residential Loans, which consists of CMHC-insured (zero-risk weighted) loans and uninsured loans to real estate developers to finance the construction phase of development of multi-family, student residence, condominium and retirement homes properties, as well as term and bridge loans secured by completed aforementioned properties and units. It also includes public sector and infrastructure loans and leases. The vast majority of these loans are business-to-business loans with the underlying credit risk exposure being primarily residential in nature given that the vast majority (approximately 94% as at October 31, 2024) of the loans are related to properties that are designated primarily for residential use. The portfolio benefits from diversity in its underlying security in the form of a broad range of such collateral properties.

Summary of Credit assets , net of allowance for credit losses:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024	January 31 2024
Receivable purchase program	\$ 3,401,328	\$ 3,307,328	\$ 3,078,941
Multi-family residential loans and other	927,978	910,314	886,226
	4,329,306	4,217,642	3,965,167
Allowance for credit losses	(4,233)	(3,303)	(2,386)
Accrued interest	21,675	21,777	21,500
Total credit assets, net of allowance for credit losses	\$ 4,346,748	\$ 4,236,116	\$ 3,984,281

The following table provides a summary of credit asset amounts, ECL allowance amounts, and expected loss (“EL”) rates by lending asset category:

As at January 31, 2025						As at October 31, 2024					
(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	Total		
Receivable purchase program	\$ 3,388,092	\$ 12,228	\$ 1,008	\$ 3,401,328		\$ 3,294,675	\$ 12,653	\$ -	\$ 3,307,328		
ECL allowance	1,911	4	56	1,971		783	-	-	783		
EL %	0.06%	0.03%	5.56%	0.06%		0.02%	0.00%	0.00%	0.02%		
Multi-family residential loans and other	\$ 714,442	\$ 213,375	\$ 161	\$ 927,978		\$ 737,125	\$ 173,121	\$ 68	\$ 910,314		
ECL allowance	1,772	488	2	2,262		2,213	306	1.00	2,520		
EL %	0.25%	0.23%	1.24%	0.24%		0.30%	0.18%	1.47%	0.28%		
Total credit assets	\$ 4,102,534	\$ 225,603	\$ 1,169	\$ 4,329,306		\$ 4,031,800	\$ 185,774	\$ 68	\$ 4,217,642		
Total ECL allowance	3,683	492	58	4,233		2,996	306	1	3,303		
Total EL %	0.09%	0.22%	4.96%	0.10%		0.07%	0.16%	1.47%	0.08%		

The Bank’s maximum exposure to credit risk is the carrying value of its financial assets. The Bank holds security against the majority of its credit assets in the form of mortgage interests over property, other registered securities over assets, guarantees and/or cash reserves (holdbacks) and receivables purchased included in the RPP Financing portfolio (see note 8).

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

Allowance for credit losses

The Bank must maintain an allowance for expected credit losses that is adequate, in management's opinion, to absorb all credit related losses in the Bank's lending and treasury portfolios. The expected credit loss methodology requires the recognition of credit losses based on 12 months of expected losses for performing credit assets which is reflected in the Bank's Stage 1 grouping. The Bank recognizes lifetime expected losses on credit assets that have experienced a significant increase in credit risk since origination which is reflected in the Bank's Stage 2 grouping. While there is elevated credit risk in the Bank's RPP Financing portfolio as at the measurement date, management does not believe that this represents a significant increase in credit risk in that portfolio and the majority of this portfolio remains in Stage 1. Impaired credit assets require recognition of lifetime losses and are reflected in Stage 3 grouping.

Forward-looking Information

The Bank has sourced credit risk modeling systems and forecast macroeconomic scenario data from Moody's Analytics, a third-party service provider for the purpose of computing forward-looking credit risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences. The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing probability of default and loss given default term structure data to forward economic conditions include, but are not limited to: real GDP, the national unemployment rate, long term interest rates, the consumer price index, the S&P/TSX Index and the price of oil. These specific macroeconomic indicators were selected in an attempt to ensure that the spectrum of fundamental macroeconomic influences on the key drivers of the credit risk profile of the Bank's balance sheet, including: corporate, consumer and real estate market dynamics; corporate, consumer and SME borrower performance; geography; as well as collateral value volatility, are appropriately captured and incorporated into the Bank's forward macroeconomic sensitivity analysis.

The key assumptions driving the quarterly outlook for 2025 center on trade policy shifts, monetary and fiscal responses, and global economic conditions. The potential implementation of U.S. tariffs on Canadian motor vehicles, metal products, and other durable goods could dampen export demand, particularly affecting manufacturing and transportation. However, the impact on energy exports may be less. The Bank of Canada could respond to slowing growth by cutting interest rates. A rate divergence with the U.S. could further weaken the Canadian dollar, contributing to inflationary pressures.

Credit conditions may tighten as households face high debt-service obligations, though loan performance is expected to remain stable. Meanwhile, supply chain disruptions from global trade decoupling and U.S. trade policies could increase inflationary risks. Lower global oil prices, projected to reach around US\$65 per barrel by late 2026, will impact national income but not production levels, as Canada's energy sector operates near full capacity. While short-term growth remains constrained, long-term economic resilience will be supported by strong demographics, despite weak productivity gains.

Management developed ECL estimates using credit risk parameter term structure forecasts sensitized to individual baseline, upside and downside forecast macroeconomic scenarios, each weighted at 100%, and subsequently computed the variance of each to the Bank's reported ECL as at January 31, 2025 in order to assess the alignment of the Bank's reported ECL with the Bank's credit risk profile, and further, to assess

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Three month periods ended January 31, 2025 and 2024

the scope, depth and ultimate effectiveness of the credit risk mitigation strategies that the Bank has applied to its lending portfolios (see Expected Credit Loss Sensitivity below).

Expected credit loss sensitivity:

The following table presents the sensitivity of the Bank's estimated ECL to a range of individual macroeconomic scenarios, that in isolation may not reflect the Bank's actual expected ECL exposure, as well as the variance of each to the Bank's reported ECL as at January 31, 2025:

(thousands of Canadian dollars)

	Reported ECL		100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	\$ 4,233	\$	3,574	\$ 3,825	\$ 4,457
Provision (recovery) from reported ECL			(659)	(408)	224
Variance from reported ECL (%)			(16%)	(10%)	5%

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

The following table provides a reconciliation of the Bank's ECL allowance by lending asset category for the three months ended January 31, 2025:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Receivable purchase program				
Balance at beginning of period	\$ 783	\$ -	\$ -	\$ 783
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	1,128	4	56	1,188
Credit asset originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	1,128	4	56	1,188
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	\$ 1,911	\$ 4	\$ 56	\$ 1,971
Multi-family residential loans and other				
Balance at beginning of period	\$ 2,213	\$ 306	\$ 1	\$ 2,520
Transfer in (out) to Stage 1	(197)	197	-	-
Transfer in (out) to Stage 2	(9)	9	-	-
Transfer in (out) to Stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(172)	8	-	(164)
Credit asset originations	40	(29)	-	11
Derecognitions and maturities	(11)	-	-	(11)
Provision for (recovery of) credit losses	(350)	185	1	(164)
Write-offs	(124)	-	-	(124)
Recoveries	-	-	-	-
FX Impact	33	(3)	-	30
Balance at end of period	\$ 1,772	\$ 488	\$ 2	\$ 2,262
Total balance at end of period	\$ 3,683	\$ 492	\$ 58	\$ 4,233

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

The following table provides a reconciliation of the Bank's ECL allowance by lending asset category for the three months ended January 31, 2024:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Receivable purchase program				
Balance at beginning of period	\$ 100	\$ -	\$ -	\$ 100
Transfer in (out) to Stage 1	56	(56)	-	-
Transfer in (out) to Stage 2	(124)	124	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	33	(68)	-	(35)
Credit asset originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	(35)	-	-	(35)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	\$ 65	\$ -	\$ -	\$ 65
Multi-family residential loans and other				
Balance at beginning of period	\$ 1,845	\$ 568	\$ -	\$ 2,413
Transfer in (out) to Stage 1	140	(140)	-	-
Transfer in (out) to Stage 2	(109)	109	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(19)	(44)	-	(63)
Credit asset originations	77	-	-	77
Derecognitions and maturities	(89)	(17)	-	(106)
Provision for (recovery of) credit losses	-	(92)	-	(92)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
FX Impact	-	-	-	-
Balance at end of period	\$ 1,845	\$ 476	\$ -	\$ 2,321
Total balance at end of period	\$ 1,910	\$ 476	\$ -	\$ 2,386

Credit quality:

The Bank assigns a risk rating to each lending asset comprising its lending portfolio. A risk rating is assigned as a function of each new credit application, annual review or an amendment to a facility. The risk rating considers the credit risk attributes of the lending asset, structure, individual borrower circumstances as well as local, regional and global macroeconomic and market conditions. The Bank aggregates its risk rating assignments into the following three broad categories:

- i) Satisfactory – The borrower and lending asset valuation are of acceptable credit quality.
- ii) Watchlist – The borrower or the lending asset valuation exhibits potential credit weakness or a downward trend which, if not mitigated, will potentially weaken the Bank's position. The lending asset requires close supervision.
- iii) Classified – The collection of the structural payment and/or the full repayment of the lending asset is uncertain.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

As of January 31, 2025, 95% (October 31, 2024 – 96%) of the Bank's lending assets were categorized Satisfactory. There was no material change in the Bank's processes for managing credit risk during the current quarter.

6. Other assets:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024	January 31 2024
Accounts receivable	\$ 8,662	\$ 10,718	\$ 4,149
Prepaid expenses and other	17,122	14,399	20,195
Right-of-use assets	2,560	2,734	3,255
Deferred income tax asset	1,325	750	3,075
Derivative instruments (note 12)	1	20	587
Investment (note 6a)	953	953	953
	\$ 30,623	\$ 29,574	\$ 32,214

- a) In February 2021, the Bank acquired an 11% investment in Canada Stablecorp Inc. for cash consideration of \$953,000. The Bank has made an irrevocable election to designate this investment at fair value through other comprehensive income at initial recognition and any future changes in the fair value of the investment will be recognized in other comprehensive income (loss). Amounts recorded in other comprehensive income (loss) will not be reclassified to profit and loss at a later date.

7. Subordinated notes payable:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024	January 31 2024
Issued April 2021, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of US \$75.0 million, fixed effective interest rate of 5.38%, maturing May 2031. The fixed rate applies only until May 1, 2026, at which point the obligation switches to floating rate and the notes are redeemable by the Bank, subject to regulatory approval.	\$ 106,824	\$ 102,503	\$ 98,433
Issued March 2019, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of \$5.0 million, \$500,000 is held by related party (note 14), fixed effective interest rate of 10.41%, maturing March 2029.	-	-	4,922
	\$ 106,824	\$ 102,503	\$ 103,355

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month periods ended January 31, 2025 and 2024

8. Other liabilities:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024	January 31 2024
Accounts payable and other	\$ 6,324	\$ 10,752	\$ 7,543
Current income tax liability	4,351	893	2,426
Deferred income tax liability	118	141	709
Derivative instruments (note 12)	881	-	-
Lease obligations	2,852	3,035	3,594
Cash collateral and amounts held in escrow	5,950	6,076	8,735
Cash reserves on receivable purchase program receivables	189,699	171,208	155,583
	\$ 210,175	\$ 192,105	\$ 178,590

9. Share capital:

a) Common shares:

At January 31, 2025, there were 32,518,786 (October 31, 2024 - 26,002,577) common shares outstanding.

On December 18, 2024 the Bank completed a treasury offering of 5,660,378 common shares at a price of USD \$13.25 per share, the equivalent of CAD \$18.95 per share, for gross proceeds of USD \$75.0 million. On December 24, 2024, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 849,056 shares (15% of the 5,660,378 common shares issued via the base offering referenced above) at a price of USD \$13.25 per share, or CAD \$19.07 per share, for gross proceeds of USD \$11.2 million. Total net cash proceeds from the common share offering was CAD 116.0 million. The Bank's share capital increased by CAD \$114.8 million corresponding to the Common Share Offering and less tax effected issue costs in the amount of CAD \$1.2 million.

b) Preferred shares:

On October 31, 2024, the Bank redeemed all of its 1,461,460 outstanding Non-Cumulative Series 1 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was \$10.00, and in aggregate \$14.6 million. Transaction costs, incurred at issuance in the amount of \$965,000, were applied against retained earnings.

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Three month periods ended January 31, 2025 and 2024

c) Stock options

Stock option transactions during the three month periods ended January 31, 2025 and 2024:

	for the three months ended			
	January 31, 2025		January 31, 2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	819,125	\$ 15.90	874,393	\$ 15.90
Granted	-	-	-	-
Exercised	6,775	15.90	-	-
Forfeited/cancelled	7,856	15.90	-	-
Expired	-	-	-	-
Outstanding, end of period	804,494	\$ 15.90	874,393	\$ 15.90

For the three month period ended January 31, 2025, the Bank recognized \$75,000 (January 31, 2024 - \$132,000) in compensation expense related to the estimated fair value of options granted.

10. Income tax provision:

Income tax provision for the three month period ended January 31, 2025 was \$3.0 million (January 31, 2024 - \$4.3 million). The Bank's combined statutory federal and provincial income tax rate in Canada is approximately 27% (2024 - 27%). The Bank's effective rate reflects the statutory rate adjusted for certain items not being taxable or deductible for income tax purposes.

11. Income per common share:

(thousands of Canadian dollars, except shares outstanding and per share amounts)

	for the three months ended	
	January 31 2025	January 31 2024
Net income	\$ 8,143	\$ 12,699
Less: dividends on preferred shares	-	(247)
	8,143	12,452
Average number of common shares outstanding	29,060,949	25,964,424
Income per common share:	\$ 0.28	\$ 0.48

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Three month periods ended January 31, 2025 and 2024

12. Derivative instruments:

At January 31, 2025, the Bank had an outstanding Interest rate swap, applied through a designated hedge which was established for asset liability management purposes to exchange between fixed and floating interest rates with a notional amount totaling \$21.5 million (October 31, 2024 - \$22.0 million), of which \$21.5 million (October 31, 2024 - \$22.0 million) qualified for hedge accounting. The Bank enters into interest rate swap contracts for its own account exclusively and does not act as an intermediary in this market. As required under the accounting standard relating to hedges, at January 31, 2025, a \$314,000 (October 31, 2024 - \$19,000) asset relating to this contract was included in other liabilities and the offsetting amount included in the carrying values of the assets to which they relate. Approved counterparties are limited to major Canadian chartered banks. The carrying amount of the hedged item recognized in the credit assets was \$22.2 million.

As of January 31, 2025, the Bank utilized a foreign exchange forward contract through a designated hedge to mitigate the foreign exchange risk on its net investment in VersaBank USA. This hedging strategy is aimed at minimizing foreign exchange risk related to fluctuations between the VersaBank's functional currency, CAD, and the foreign currency of its net investment, USD. Changes in the fair value of these derivatives, attributable to the effective portion of the hedge, are recognized in other comprehensive income, while the ineffective portion, if any, is recorded in profit or loss. As of January 31, 2025, the outstanding foreign exchange forward contract had a notional value of USD \$63.0 million and a fair value of \$461,000 (liability), hedging a portion of the USD \$97.1 million net investment in VersaBank USA. Since there was no hedge ineffectiveness, there was no impact on profit or loss from this hedge. The hedge was assessed as highly effective, supporting the Bank's risk management strategy to stabilize the financial impact of foreign exchange movements.

As of January 31, 2025, a designated hedge exists for the remaining USD \$34.1 million of the USD \$97.1 million net investment in VersaBank USA. This is achieved through the allocation of part of a USD \$75.0 million subordinated debt raised by the Bank in April 2021. Both the loan (liability) and the investment (asset) move in equal and opposite directions, with the liability serving as a hedge against rate fluctuations that may affect the valuation of the net investment.

As of January 31, 2025, the Bank utilized a foreign exchange forward contract to mitigate foreign exchange risk associated with the intercompany loan denominated in USD, resulting from intercompany transfer of assets, which aims to minimize foreign exchange risk related to fluctuations between the Bank's functional currency, CAD, and the foreign currency denominated loan. As of January 31, 2025, the outstanding foreign exchange forward contract relating to this intercompany loan had a notional value of USD \$13.4 million and a fair value of \$106,000 (liability).

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13. Commitments and contingencies:

The amount of credit-related commitments represents the maximum amount of additional credit that the Bank could be obligated to extend.

(thousands of Canadian dollars)

	January 31 2025	October 31 2024	January 31 2024
Loan commitments	\$ 556,629	\$ 635,433	\$ 414,591
Letters of credit	64,741	65,671	84,594
	\$ 621,370	\$ 701,104	\$ 499,185

14. Related party transactions:

The Bank's related parties include members of the Board of Directors and Senior Executive Officers represented as key management personnel and significant minority shareholders. At January 31, 2025, amounts due from these related parties totaled \$1.5 million (October 31, 2024 - \$1.5 million) and an amount due from a corporation controlled by key management personnel totaled \$4.8 million (October 31, 2024 - \$7.1 million). The interest rates charged on loans and advances to related parties are based on mutually agreed-upon terms. Interest income earned on the above loans for the three months ended January 31, 2025, was \$41,000 (January 31, 2024 - \$41,000). As at January 31, 2025, there were no provisions for credit losses associated with loans issued to key management personnel (October 31, 2024 - \$nil), and all loans issued to key management personnel were current.

15. Capital management:

a) Overview:

The Bank's policy is to maintain a strong capital base so as to retain investor, creditor and market confidence as well as to support the future growth, and development of the business. The impact of the level of capital held on shareholders' return is an important consideration, and the Bank recognizes the need to maintain a balance between the higher returns that may be possible with greater leverage and the advantages and security that may be afforded by a more robust capital position.

OSFI sets and monitors capital requirements for the Bank. Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and that take into account, amongst other items, forecasted capital requirements and current and anticipated financial market conditions.

The goal is to maintain adequate regulatory capital for the Bank to be considered well capitalized, protect deposits and provide capacity to support organic growth as well as to capitalize on strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory

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return to shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and unrealized gains and losses on fair value through other comprehensive income securities (Common Equity Tier 1 capital), preferred shares (Additional Tier 1 capital) and subordinated notes (Tier 2 capital).

The Bank monitors its capital adequacy and related capital ratios on a daily basis and has stipulated policies, which are approved by the Board of Directors, setting internal targets and thresholds for its capital ratios. These capital ratios consist of the leverage ratio and the risk-based capital ratios.

The Bank makes use of the Standardized Approach for credit risk as prescribed by OSFI and, therefore, may include eligible ECL allowance amounts in its Tier 2 capital, up to a maximum of 1.25% of its credit risk-weighted assets calculated under the Standardized Approach.

During the period ended January 31, 2025, there were no material changes in the Bank's management of capital.

b) Risk-based capital ratios:

The Basel Committee on Banking Supervision has published the Basel III rules on capital adequacy and liquidity ("Basel III"). OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis for the purpose of determining their risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 capital ratio ("CET1"), an 8.5% Tier 1 capital ratio and a 10.5% Total capital ratio, all of which include a 2.50% capital conservation buffer.

OSFI also requires banks to measure capital adequacy in accordance with guidelines for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet credit instruments as specified in the Basel III regulations. Based on the deemed credit risk for each type of asset, both on and off-balance sheet assets of the Bank are assigned a weighting ranging from 0% to 400% to determine the Bank's risk-weighted equivalent assets and its risk-based capital ratios.

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The Bank's risk-based capital ratios are calculated as follows:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024
Common Equity Tier 1 (CET1) capital		
Directly issued qualifying common share capital	\$ 330,489	\$ 215,610
Contributed surplus	2,540	2,485
Retained earnings	188,568	181,238
Accumulated other comprehensive income (loss)	(302)	(130)
CET1 before regulatory adjustments	521,295	399,203
Regulatory adjustments applied to CET1	(21,137)	(25,700)
Common Equity Tier 1 capital	\$ 500,158	\$ 373,503
Additional Tier 1 capital		
Directly issued qualifying Additional Tier 1 instruments	\$ -	\$ -
Total Tier 1 capital	\$ 500,158	\$ 373,503
Tier 2 capital		
Directly issued Tier 2 capital instruments	\$ 108,630	\$ 104,370
Tier 2 capital before regulatory adjustments	108,630	104,370
Eligible stage 1 and stage 2 allowance	4,233	3,303
Total Tier 2 capital	\$ 112,863	\$ 107,673
Total regulatory capital	\$ 613,021	\$ 481,176
Total risk-weighted assets	\$ 3,422,768	\$ 3,323,595
Capital ratios		
CET1 capital ratio	14.61%	11.24%
Tier 1 capital ratio	14.61%	11.24%
Total capital ratio	17.91%	14.48%

As at January 31, 2025 and October 31, 2024, the Bank exceeded all of the minimum Basel III regulatory capital requirements prescribed by OSFI.

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c) Leverage ratio:

The leverage ratio, which is prescribed under the Basel III Accord, is a supplementary measure to the risk-based capital requirements and is defined as the ratio of Tier 1 capital to the Bank's total exposures. The Basel III minimum leverage ratio is 3.0%. The Bank's leverage ratio is calculated as follows:

(thousands of Canadian dollars)

	January 31 2025	October 31 2024
On-balance sheet assets	\$ 4,971,732	\$ 4,838,484
Assets amounts adjusted in determining the Basel III Tier 1 capital	(21,137)	(25,700)
Total on-balance sheet exposures	4,950,595	4,812,784
Total off-balance sheet exposure at gross notional amount	\$ 621,370	\$ 701,104
Adjustments for conversion to credit equivalent amount	(399,425)	(451,759)
Total off-balance sheet exposures	221,945	249,345
Tier 1 capital	500,158	373,503
Total exposures	5,172,540	5,062,129
Leverage ratio	9.67%	7.38%

As at January 31, 2025 and October 31, 2024, the Bank was in compliance with the leverage ratio prescribed by OSFI.

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16. Interest rate risk position:

The Bank is subject to interest rate risk, which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The following table provides the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month-period.

(thousands of Canadian dollars)

	January 31, 2025		October 31, 2024	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Increase (decrease):				
Impact on projected net interest income during a 12 month period	\$ 3,819	\$ (4,072)	\$ 5,223	\$ (5,430)
Duration difference between assets and liabilities (months)	(0.8)		(1.6)	

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17. Fair value of financial instruments:

Fair values are based on management's best estimates of market conditions and valuation policies at a certain point in time. The estimates are subjective and involve particular assumptions and judgement and, as such, may not be reflective of future fair values. The Bank's credit assets and deposits lack an available market as they are not typically exchanged and, therefore, the book value of these instruments is not necessarily representative of amounts realizable upon immediate settlement. See note 21 of the October 31, 2024 audited Consolidated Financial Statements for more information on fair values.

(thousands of Canadian dollars)

	January 31, 2025					October 31, 2024				
	Carrying Value	Fair value Level 1	Fair Value Level 2	Fair Value Level 3	Total Fair Value	Carrying Value	Fair value Level 1	Fair Value Level 2	Fair Value Level 3	Total Fair Value
Assets										
Cash										
Amortized cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	386,693	386,693	-	-	386,693	225,254	225,254	-	-	225,254
Securities										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	158,546	158,546	-	-	158,546	299,300	299,300	-	-	299,300
FVTPL	-	-	-	-	-	-	-	-	-	-
Credit assets										
Amortized cost	4,346,748	-	-	4,303,720	4,303,720	4,236,116	-	-	4,190,523	4,190,523
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Derivative instruments										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	1	-	1	-	1	20	-	20	-	20
Other financial assets										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	953	-	-	953	953	953	-	-	953	953
FVTPL	-	-	-	-	-	-	-	-	-	-
Liabilities										
Deposits										
Amortized cost	\$ 4,133,438	\$ -	\$ -	\$ 4,181,976	\$ 4,181,976	\$ 4,144,673	\$ -	\$ -	\$ 4,182,338	\$ 4,182,338
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Subordinated notes payable										
Amortized cost	106,824	-	103,199	-	103,199	102,503	-	99,152	-	99,152
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Derivative instruments										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	881	-	881	-	881	-	-	-	-	-
Other financial liabilities										
Amortized cost	204,825	-	-	204,825	204,825	191,071	-	-	191,071	191,071
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-

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18. Operating segmentation:

Effective as of the transfer of Digital Deposit Receipt (“DDR”) technology to an existing, wholly owned subsidiary (DBG Inc.) of DRT Cyber Inc., which was subsequently renamed Digital Meteor, Inc., the Bank has established four reportable operating segments: Digital Banking Canada, Digital Banking USA, DRTC, and Digital Meteor Inc.. These four operating segments represent strategic business operations that provide distinct products and services to different markets. They are separately managed due to the differences in the nature of each business. The following summarizes the operations of each of the reportable segments:

Digital Banking Canada - The Bank employs a business-to-business model using its proprietary financial technology to address underserved segments in the Canadian banking market. VersaBank obtains its deposits and provides the majority of its credit assets electronically via innovative deposit and lending solutions for financial intermediaries.

Digital Banking USA - The Bank intends to adopt a business-to-business model, leveraging its proprietary financial technology to address underserved segments of the US banking market. VersaBank USA plans to acquire deposits and deliver the majority of its credit assets electronically through innovative deposit and lending solutions tailored for financial intermediaries.

DRTC (cybersecurity services and banking and financial technology development) - Leveraging its internally developed IT security software and capabilities, VersaBank established a wholly-owned subsidiary, DRTC, to pursue significant large-market opportunities in cybersecurity and to develop innovative solutions to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations and government entities.

Digital Meteor, Inc. -Through its wholly owned subsidiary, Digital Meteor, Inc. (“Digital Meteor”), VersaBank owns proprietary intellectual property and technology to enable the next generation of digital assets by the banking and financial community, including the Bank’s revolutionary Digital Deposit Receipts (“DDR”s). The Bank’s Digital Deposit Receipts (DDRs) are highly encrypted digital assets that represent an actual fiat currency on deposit with a bank. Issued on secure blockchains such as Algorand, Ethereum, and Stellar, DD Rs offer superior security, stability, and regulatory compliance compared to traditional stablecoins. As a SOC2 Type 1 compliant digital asset with a continuously known value, DD Rs provide a trusted alternative for mainstream financial applications. Additionally, through its proprietary VersaVault® technology, the world’s first digital vault for security conscious organizations looking to secure their highly sensitive and confidential documents, data, code, blockchain-based assets and more, the Bank addresses the need for regulated custody of digital assets with secure platforms.

The basis for the determination of the reportable segments is a function primarily of the systematic, consistent process employed by the Bank’s chief operating decision maker, the Chief Executive Officer, and the Chief Financial Officer in reviewing and interpreting the operations and performance of each segment. The accounting policies applied to these segments are consistent with those employed in the preparation of the Bank’s Consolidated Financial Statements, as disclosed in note 3 of the Bank’s 2024 audited Consolidated Financial Statements.

Performance is measured based on segment net income, as included in the Bank’s internal management reporting. Management has determined that this measure is the most relevant in evaluating segment results and in the allocation of resources.

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The following table sets out the results of each reportable operating segment as at and for the three months ended January 31, 2025 and 2024:

(thousands of Canadian dollars)											
for the three months ended	January 31, 2025						January 31, 2024				
	Digital Banking Canada	Digital Banking USA	Digital Meteor	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking Canada	Digital Meteor	DRTC	Eliminations/ Adjustments	Consolidated
Net interest income	\$ 23,685	\$ 2,039	\$ -	\$ -	\$ -	\$ 25,724	\$ 26,568	\$ -	\$ -	\$ -	\$ 26,568
Non-interest income	125	1	342	1,989	(354)	2,103	120	580	1,920	(337)	2,283
Total revenue	23,810	2,040	342	1,989	(354)	27,827	26,688	580	1,920	(337)	28,851
Provision for (recovery of) credit losses	1,033	(9)	-	-	-	1,024	(127)	-	-	-	(127)
	22,777	2,049	342	1,989	(354)	26,803	26,815	580	1,920	(337)	28,978
Non-interest expenses:											
Salaries and benefits	5,289	1,164	217	1,944	-	8,614	5,371	144	1,023	-	6,538
General and administrative	4,716	597	44	486	(354)	5,489	4,276	50	344	(337)	4,333
Premises and equipment	903	109	48	536	-	1,596	768	43	342	-	1,153
	10,908	1,870	309	2,966	(354)	15,699	10,415	237	1,709	(337)	12,024
Income (loss) before income taxes	11,869	179	33	(977)	-	11,104	16,400	343	211	-	16,954
Income tax provision	3,105	76	-	(220)	-	2,961	4,136	5	114	-	4,255
Net income (loss)	\$ 8,764	\$ 103	\$ 33	\$ (757)	\$ -	\$ 8,143	\$ 12,264	\$ 338	\$ 97	\$ -	\$ 12,699
Total assets	\$ 4,707,062	\$ 256,627	\$ 11,236	\$ 25,340	\$ (28,533)	\$ 4,971,732	\$ 4,299,625	\$ 2,821	\$ 24,476	\$ (17,287)	\$ 4,309,635
Total liabilities	\$ 4,350,601	\$ 115,351	\$ 8,922	\$ 21,548	\$ (45,985)	\$ 4,450,437	\$ 3,914,863	\$ 719	\$ 27,906	\$ (22,887)	\$ 3,920,601

Prior to the year ended October 31, 2024, substantially all of the Digital Banking's operations were based in Canada.

19. Comparative balances:

Certain comparative balances have been reclassified to conform with the financial statement presentation adopted in the current period.