UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

☐ **Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934**

or

☒ **Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended: **October 31, 2021**

Commission File Number: **001-40805**

VersaBank

(Exact name of registrant as specified in its charter)

Canada	**6029**	**Not Applicable**
(Province or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification No.)

140 Fullarton Street, Suite 2002
London, Ontario N6A 5P2
Canada
(519) 645-1919
(Address and telephone number of registrant's principal executive offices)

Cogency Global Inc.
122 East 42nd Street, 18th Floor
New York, NY 10168
(800) 221-0102
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Trading Symbol**	**Name of Each Exchange On Which Registered:**
Common Shares, no par value	**VBNK**	**The Nasdaq Global Select Market**
Common Shares, no par value	**VBNK**	**Toronto Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this form:

☒ Annual Information Form ☒ Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the registrant's classes of capital or common stock as of the close of the period covered by the annual report: **27,441,082 common shares**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

☐

PRINCIPAL DOCUMENTS

The following documents are filed as part of this Annual Report on Form 40-F:

A. Annual Information Form

For the Registrant's Annual Information Form for the year ended October 31, 2021, see Exhibit 99.1 of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For the Registrant's Audited Consolidated Financial Statements for the year ended October 31, 2021, including the Report of Independent Registered Public Accounting Firm with respect thereto, see Exhibit 99.2 of this Annual Report on Form 40-F.

C. Management's Discussion and Analysis

For the Registrant's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2021 ("MD&A"), see Exhibit 99.3 of this Annual Report on Form 40-F.

CONTROLS AND PROCEDURES

A. Certifications

The required disclosure is included in Exhibits 99.5 and 99.6 of this Annual Report on Form 40-F.

B. Disclosure Controls and Procedures

As of the end of the Registrant's year ended October 31, 2021, an internal evaluation was conducted under the supervision of and with the participation of the Registrant's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's "disclosure controls and procedures" as defined in Rule 13a-15(e) under Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Registrant's disclosure controls and procedures were effective in ensuring that the information required to be disclosed in the reports that the Registrant files with or submits to the Securities and Exchange Commission (the "Commission") is recorded, processed, summarized and reported, within the required time periods.

It should be noted that while the Chief Executive Officer and the Chief Financial Officer believe that the Registrant's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Registrant's disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

C. Management's Annual Report on Internal Control over Financial Reporting

The Registrant's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer with the assistance of the Disclosure Committee, consisting of members of senior management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management assessed the effectiveness of the Registrant's internal control over financial reporting as of October 31, 2021, based on the criteria set forth in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that, as of October 31, 2021, the Registrant's internal control over financial reporting was effective.

D. Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 40-F does not include an attestation report on the internal control over financial reporting of the Registrant's independent registered public accounting firm due to an exemption established by the JOBS Act for "emerging growth companies".

E. Changes in Internal Control over Financial Reporting

During the year ended October 31, 2021, there were no changes to the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's Board of Directors has determined that Peter M. Irwin and Paul G. Oliver are serving on its audit committee and are "independent" (as defined by Rule 10A-3 of the Exchange Act and Rule 5605(a)(2) of the Nasdaq Marketplace Rules) and that Peter M. Irwin and Paul G. Oliver are "audit committee financial experts" (as that term is defined in paragraph 8(b) of General Instruction B to Form 40-F). For a description of Peter M. Irwin's and Paul G. Oliver's relevant experience in financial matters, see the biographical descriptions for Peter M. Irwin and Paul G. Oliver under "Audit Committee" in the Registrant's Annual Information Form for the year ended October 31, 2021, which is filed as Exhibit 99.1 to this Annual Report on Form 40-F.

The SEC has indicated that the designation of each of Peter M. Irwin and Paul G. Oliver as audit committee financial experts does not make them an "expert" for any purpose, impose any duties, obligations or liability on them that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted a code of ethics (the "Code of Conduct," as the term is defined in paragraph 9(b) of General Instruction B to Form 40-F), which is applicable to all of its directors, managers, officers and employees (including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing functions). The full text of the Code of Conduct is available on the Registrant's website at https://www.versabank.com/codes-and-commitments.

In the past fiscal year, the Registrant has not granted any waiver, including an implicit waiver, from any provision of its Code of Conduct.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The required disclosure is included under the heading "Auditor Fees" and "Pre-Approval Policies and Procedures" in the Registrant's Annual Information Form for the year ended October 31, 2021, filed as Exhibit 99.1 to this Annual Report on Form 40-F, and is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under the heading "Off-Balance Sheet Arrangements" on page 29 of our MD&A, set forth in Exhibit 99.3, is incorporated by reference herein.

[1] R.W. (Dick) Carter temporarily recused himself from matters involving the Board of Directors on August 27, 2021, and will remain recused until such time as this Annual Report on Form 40-F is filed. For a description of Mr. Carter's relevant experience in financial matters, see the biographical descriptions under "Audit Committee" in the Registrant's Annual Information Form for the year ended October 31, 2021, filed as Exhibit 99.1 hereto.

CONTRACTUAL OBLIGATIONS

The disclosure provided under the heading "Contractual Obligations" on page 29 of our MD&A, set forth in Exhibit 99.3, is incorporated by reference herein.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Registrant's Audit Committee members consist of R.W. (Dick) Carter, Peter M. Irwin and Paul G. Oliver. See "Directors and Officers" and "Audit Committee" in the Registrant's Annual Information Form for the fiscal year ended October 31, 2021, which is filed as Exhibit 99.1 to this Annual Report on Form 40-F.

DIFFERENCES IN NASDAQ AND CANADIAN CORPORATE GOVERNANCE REQUIREMENTS

The Registrant is a foreign private issuer and its common shares are listed on the Nasdaq Global Select Market ("Nasdaq").

Nasdaq Rule 5615(a)(3) permits a foreign private issuer to follow its home country practice in lieu of the requirements of the Rule 5600 Series, the requirement to distribute annual and interim reports set forth in Rule 5250(d), and the Direct Registration Program requirement set forth in Rules 5210(c) and 5255; provided, however, that such a company shall comply with the Notification of Material Noncompliance requirement (Rule 5625), the Voting Rights requirement (Rule 5640), have an audit committee that satisfies Rule 5605(c)(3), and ensure that such audit committee's members meet the independence requirement in Rule 5605(c)(2)(A)(ii).

The Registrant does not follow Rule 5605(b)(1), which requires companies to have a majority of the board of directors comprised of Independent Directors as defined in Rule 5605(a)(2). In lieu of following Rule 5605(b)(1), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5605(b)(2), which requires companies that its Independent Directors must have regularly scheduled meetings at which only Independent Directors are present ("executive meetings"). In lieu of following Rule 5605(b)(2), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5605(d)(1), which requires companies to adopt a formal written compensation committee charter and have a compensation committee review and reassess the adequacy of the charter on an annual basis. In lieu of following Rule 5605(d)(1), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5605(d)(2), which requires companies to have a compensation committee comprised of at least two members, with each member being Independent Director as defined under Rule 5605(a)(2). In lieu of following Rule 5605(d)(2), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5605(e)(1), which requires independent director involvement in the selection of director nominees, by having a Nominations Committee comprised solely of independent directors. In lieu of following Rule 5605(e)(1), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5605(e)(2), which requires companies to adopt a formal written charter or board resolution, as applicable, addressing the director nomination process and such related matters as may be required under the federal securities laws. In lieu of following Rule 5605(e)(2), the Registrant follows the rules of the Toronto Stock Exchange.

The Registrant does not follow Rule 5610, which requires companies to adopt a code of conduct applicable to all directors, officers and employees, which shall be publicly available and comply with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002 and any regulations promulgated thereunder by the SEC. In lieu of following Rule 5610, the Registrant follows the rules of the Toronto Stock Exchange.

[2] R.W. (Dick) Carter temporarily recused himself until such time as this Annual Report on Form 40-F is filed.

The Registrant does not follow Rule 5620(c) (shareholder quorum) but instead follows its home country practice, as described below:

- Shareholder Meeting Quorum Requirements: The Nasdaq minimum quorum requirement under Rule 5620(c) for a shareholder meeting is 33-1/3% of the outstanding shares of common stock. In addition, a registrant listed on Nasdaq is required to state its quorum requirement in its by-laws. The Registrant's quorum requirement is set forth in its by-laws. A quorum for a meeting of shareholders of the Registrant is two shareholders or proxyholders that hold or represent, as applicable, not less than 25 percent of the issued and outstanding shares entitled to be voted at the meeting.

The foregoing is consistent with the laws, customs and practices in Canada.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 40-F are forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended. Please see "Caution Regarding Forward Looking Information" in the Annual Information Form of the Registrant for the year ended October 31, 2021, filed as Exhibit 99.1 to this Annual Report on Form 40-F for a discussion of risks, uncertainties, and assumptions that could cause actual results to vary from those forward-looking statements.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

DISCLOSURE PURSUANT TO SECTION 13(r) OF THE SECURITIES EXCHANGE ACT OF 1934

In accordance with section 13(r) of the U.S. Securities Exchange Act of 1934, we are required to disclose certain Iran-related activities. We maintain a robust economic sanctions compliance program which monitors compliance with economic sanctions requirements in the jurisdictions in which we operate and we believe we have been in compliance with relevant economic sanctions legislation throughout fiscal 2021.

CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises. Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the SEC by amendment to Form F-X referencing the file number of the Registrant.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

VERSABANK

By: /s/ David R. Taylor
Name: David R. Taylor
Title: President and Chief Executive Officer

Date: January 28, 2022

INDEX TO EXHIBITS

Exhibit No.	Exhibit
99.1	Annual Information Form for the fiscal year ended October 31, 2021.
99.2	Consolidated Financial Statement Years ended October 31, 2021 and 2020.
99.3	Management's Discussion and Analysis of Operations and Financial Condition for the Year Ended October 31, 2021.
99.4	Consent of KPMG LLP.
99.5	Certifications of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 28, 2022.
99.6	Certifications of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated January 28, 2022.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL, and included in exhibit 101).

Exhibit 99.1



ANNUAL INFORMATION FORM

For the fiscal year ended October 31, 2021

JANUARY 24, 2022

ANNUAL INFORMATION FORM

All information is as of October 31, 2021, and all dollar amounts are expressed in Canadian dollars, unless otherwise stated.
Unless otherwise stated, year references refer to the fiscal year ending in the referenced year.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated by reference in this Annual Information Form, contain forward-looking information within the meaning of the applicable securities legislation that are based on expectations, estimates and projections as at the date of this Annual Information Form or the dates of the documents incorporated by reference in this Annual Information Form, as applicable. This forward-looking information includes, but is not limited to, statements and information concerning: future growth and potential achievements of VersaBank; statements relating to the business, future activities of, and developments related to VersaBank after the date of this Annual Information Form; the payment of dividends on common shares and preferred shares; and other events or conditions that may occur in the future.

Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, are accompanied by phrases such as “expects”, “is expected”, “anticipates”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes”, “aims”, “endeavours”, “projects”, “continue”, “predicts”, “potential”, “intends”, or the negative of these terms or variations of such words and phrases or stating that certain actions, events or results “may”, “could”, “would”, “might”, “will”, or “should” be taken to occur or be achieved) are not statements of historical fact and may be forward-looking information and are intended to identify forward-looking information.

This forward-looking information is based on the beliefs of VersaBank’s management, as well as on assumptions, which such management believes to be reasonable based on information currently available at the time such statements were made. However, there can be no assurance that the forward-looking information will prove to be accurate. Such assumptions and factors include, among other things, the strength of the economies in Canada and the United States in general and the strength of local economies within Canada and the United States in which VersaBank conducts operations; foreign exchange currency rates, the impact of the COVID-19 pandemic (the “Pandemic”); the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and other central banks; changing global commodity prices; the effects of competition in the markets in which VersaBank operates; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of inflationary trends; changes in laws and regulations pertaining to financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected change in consumer spending and saving habits; and VersaBank’s anticipation of and success in managing the risks resulting from the foregoing. The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of VersaBank to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Forward-looking information is subject to a variety of risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by forward-looking information, including, without limitation: general business, economic, competitive, political, regulatory and social uncertainties; risks related to factors beyond the control of VersaBank; risks related to the business of VersaBank; risks related to political developments and policy shifts; risks related to amendments to laws; risks related to the Pandemic; or risks related to the market value of VersaBank securities. Additional risks and uncertainties regarding VersaBank are described in its Management's Discussion and Analysis for the year ended October 31, 2021 (the "2021 MD&A"), which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.

Some of the important risks and uncertainties that could affect forward-looking information are described further in this Annual Information Form, the 2021 MD&A, and in other documents incorporated by reference in this Annual Information Form. Although VersaBank has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results that are not anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. This forward-looking information is made as of the date of this Annual Information Form, and other than as required by applicable securities laws, VersaBank assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

CORPORATE STRUCTURE

INCORPORATION

VersaBank (or the "Bank") is a Schedule I bank governed by the *Bank Act* (Canada) (the "*Bank Act*"). VersaBank was originally incorporated as a trust company, Pacific & Western Trust Corporation ("PW Trust"), under *The Business Corporations Act* (Saskatchewan) in 1979. In 2002, PW Trust was granted a Schedule I bank licence and continued under the *Bank Act* as Pacific & Western Bank of Canada ("PW Bank"). PW Bank completed an initial public offering in 2013 and changed its name to "VersaBank" in 2016. With the approval of the Minister of Finance (Canada) (the "Minister"), VersaBank merged with its parent holding company, PWC Capital Inc., pursuant to letters patent of amalgamation under the *Bank Act*, in 2017 (the "Amalgamation").

VersaBank's head and registered office is Suite 2002–140 Fullarton Street, London, Ontario N6A 5P2.

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

The following summary highlights select financial metrics for the Bank's three most recent fiscal year periods:

In 2019, VersaBank generated annual interest income of $88.3 million, net interest income ("NII") of $53.9 million, and a net interest margin ("NIM") of 3.00% on an average lending asset balance of $1.61 billion resulting in VersaBank generating net income of $20.2 million. During the year, VersaBank declared an increase to its quarterly common share dividend to $0.02 per share and, following the year end, declared another quarterly dividend increase to $0.025 per share. Total assets at the end of fiscal 2019 were $1.79 billion. Also, in 2019, the Bank incorporated DRT Cyber Inc. ("DRTC"), a wholly-owned, Washington, D.C.-based subsidiary that was formed to provider cybersecurity solutions to safeguard its clients' high value digital assets.

In 2020, the Bank generated annual interest income of $86.1 million, NII of $54.1 million, and a NIM of 2.90% on an average lending asset balance of $1.62 billion. In response to the economic uncertainty resulting from the onset of the Pandemic, the Bank implemented prudent and conservative measures, including increasing its liquidity position, which contributed to a slight decrease in year-over-year net income. Net income was $19.4 million. During the year and following the year end, VersaBank declared quarterly common share dividends of $0.025 per share. Total assets at the end of fiscal 2020 were $1.94 billion.

In 2021, the Bank generated annual interest income of $89.5 million, NII of $60.2 million, and NIM of 2.76% on an average lending asset balance of $1.88 billion. As part of the Bank's continuing expansion of its cybersecurity services, it acquired, through DRTC, 2021945 Ontario Inc., operating as Digital Boundary Group ("DBG"), an information technology security assurance service firm. The accretive contribution from this acquisition was reflected in the Bank's non-interest income of $5.2 million, which in conjunction with the increase in the Bank's lending activities resulted in the Bank generating record net income of $22.4 million. During the year and following the year end, VersaBank declared quarterly common share dividends of $0.025 per share. Total assets at the end of fiscal 2021 were $2.42 billion.

In 2021, the Bank also entered into a series of share and other regulatory capital transactions. On October 7, 2021, the Bank returned to treasury and cancelled 7,477 common shares with a value of $39,000 or $5.24 per common share. The cancelled shares represent predecessor share classes that had not been deposited and exchanged for VersaBank common shares in connection with the Amalgamation.

On September 21, 2021, the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, or CAD $12.80 per share for gross proceeds of USD $55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share for gross proceeds of USD $8.3 million. Total net cash proceeds from the Common Share Offering were CAD $73.2 million. However, the Bank's share capital increased by CAD $75.1 million as a function of the Common Share Offering and tax effected issue costs in the amount of CAD $5.4 million. The Bank's issue costs are subject to current and future tax deductions and as such the Bank has recognized a deferred tax asset corresponding to same.

On April 30, 2021, the Bank redeemed all of its 1,681,320 outstanding, Non-Cumulative Series 3 preferred shares, non-viability contingent capital ("NVCC") using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. The initial capitalized transaction costs in the amount of $1.1 million were applied against retained earnings.

Also, on April 30, 2021, the Bank completed a private placement of NVCC-compliant fixed-to-floating rate subordinated notes ("Notes") in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021.

On April 7, 2021, the Bank announced that it had received an investment-grade credit rating of "A" for the Bank overall and "A-" for the issue of the Notes up to US $100 million from Egan-Jones Ratings Company, a US Nationally Recognized Statistical Rating Organization (NRSRO) and US National Association of Insurance Commissioners (NAIC)-recognized Credit Rating Provider.

In 2022, the Bank will continue to monitor its liquidity and capital positions in response to the economic uncertainty resulting from the Pandemic. Notwithstanding this uncertainty, the Bank anticipates increased lending activity in both of its Point-of-Sale Financing and Commercial Lending programs as well as opportunity for incremental revenues derived from its other innovative electronic lending programs and cybersecurity operations.

DESCRIPTION OF THE BUSINESS

GENERAL SUMMARY

VersaBank is a Canadian Schedule I chartered bank with a difference. VersaBank became the world's first fully digital financial institution when it adopted its highly efficient business-to-business model using its proprietary state-of-the-art financial technology to profitably address underserved segments of the Canadian banking market in the pursuit of superior net interest margins while mitigating risk. VersaBank obtains its deposits and provides the majority of its loans and leases electronically, with innovative deposit and lending solutions for financial intermediaries that allow them to excel in their core businesses. In addition, leveraging its internally developed IT security software and capabilities, VersaBank established wholly-owned, Washington, D.C.-based subsidiary, DRTC, to pursue significant large-market opportunities in cybersecurity and develop innovative solutions to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations and government entities on a daily basis.

Lending

Commercial Lending

Commercial loans are originated through a well-established network of mortgage brokers and syndication partners and through direct contact with VersaBank's clients. These loans are well-secured by real estate assets primarily located in Ontario and, to a lesser extent, other Canadian provinces. VersaBank is continuing to approach this business with caution and is winding down the non-core portion of this portfolio. Loans, at October 31, 2021, were $817 million.

Point-of-Sale Financing (previously referred to as eCommerce)

VersaBank provides financing to its network of origination partners, who offer point-of-sale loans and leases to consumers and commercial clients in various markets throughout Canada. This business continues to indicate strong potential for growth and enhanced profitability, and further, has been structured such that the risk profile remains within the Bank's risk appetite as a function primarily of the cash reserves retained from the Bank's origination partners. Accordingly, VersaBank continues to allocate considerable resources to the development of innovative enhancements to maintain its competitive advantage and increase the rate of growth of this portfolio. Point-of-Sale Financing assets, at October 31, 2021, were $1.28 billion.

Funding

VersaBank has established three core low-cost diversified funding (deposit) channels that provide it with a significant cost of funds advantage: personal deposits, commercial deposits, and cash reserves retained from VersaBank's Point-of-Sale Financing origination partners that are classified as other liabilities. Personal deposits, consisting predominately of guaranteed investment certificates, are sourced primarily through a well-established and diversified deposit broker network that the Bank continues to grow and expand across Canada. Commercial deposits are sourced primarily through a customized banking solution made available to insolvency professionals. VersaBank developed innovative software that integrates banking services through a proprietary application programming interface (API) with market-leading software platforms used to administer insolvency and restructuring proceedings.

Capital

As at October 31, 2021, VersaBank's common equity tier 1 ratio was 15.18%, up 130 bps from the year prior. VersaBank, like most small-scale Canadian banks, uses the Standardized Approach to calculate its risk-weighted assets. VersaBank's lending operations focus on transactions with lower-than-average risk (as demonstrated by its long history of low provision for credit losses). VersaBank believes that the Standardized Approach does not accurately reflect the intrinsic risk in its lending portfolio and, consequently, VersaBank's leverage ratio is one of the most conservative in the industry, being more than twice the average leverage ratio of the major Canadian Schedule I banks, which use the Advanced Internal Ratings Based Approach to calculate their risk-weighted assets.

On April 30, 2021, the Bank redeemed all of its 1,681,320 outstanding, Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. Transaction costs, incurred at issuance in the amount of $1.1 million were applied against retained earnings.

Also, on April 30, 2021, the Bank completed a private placement of Notes in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest is paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by VersaBank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until the maturity date. Proceeds of the Notes are currently held in US dollar denominated cash. The Notes qualify as Tier 2 capital of the Bank pursuant to Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions ("OSFI"), including the NVCC Requirements specified in section 2.2 of the CAR Guideline.

On September 21, 2021, the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, or CAD $12.80 per share, for gross proceeds of USD $55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share for gross proceeds of USD $8.3 million. Total net cash proceeds from the Common Share Offering were CAD $73.2 million. However, the Bank's share capital increased by CAD $75.1 million corresponding to the Common Share Offering and tax effected issue costs, which increased the Bank's Common Equity Tier 1 capital by the same amount.

The year-over-year trends exhibited by the Bank's reported regulatory capital levels, regulatory capital ratios and leverage ratios were a function of: the redemption of the Bank's outstanding, Non-cumulative Series 3 Preferred Shares, the issuance of the Notes in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021, the Common Share Offering for total net proceeds, adjusted for tax effected issue costs of CAD $75.1 million, retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, the addition of goodwill and intangible assets acquired via the purchase of DBG on November 30, 2020, the inclusion of eligible ECL allowance amounts related to the transitional arrangements pertaining to the capital treatment of expected loss provisioning as set out by OSFI and changes to the Bank's risk-weighted asset balances and composition.

Credit Quality

VersaBank's business strategy involves taking lower credit risk but achieving higher NIM by providing innovative, technology-based solutions and superior service in niche markets that are not well-served by the larger financial institutions. VersaBank consistently leads the Canadian lending industry with very low credit losses.

Cybersecurity

The Bank, through its wholly owned subsidiary, DRTC, offers leading in-depth cybersecurity protocols, software and supporting systems for the purpose of mitigating exposure to the myriad of cybersecurity risks that businesses, governments and other organizations face in the normal course of their operations. Early in its planning phase, the Bank recognized an opportunity to leverage its excess capacity and scale its operations to address large-market opportunities in the cybersecurity space, and further develop innovative solutions to address the rapidly growing volume of cyber threats challenging, not only financial institutions, but also multi-national corporations and government entities on a daily basis. DRTC operates from Washington D.C. and services clients globally. DRTC's initial offering, VersaVault®, is the world's first digital bank vault built for clients holding digital assets, providing impenetrable world class security, privacy of secured keys and client-centric access flexibility. On November 30, 2020, DRTC acquired DBG. With offices in London, Ontario, and Dallas, Texas, DBG provides corporate and government clients with a suite of IT security assurance services, that range from external network, web and mobile app penetration testing through to physical social engineering engagements along with supervisory control and data acquisition ("SCADA") system assessments, as well as various aspects of training. As a division of DRTC, DBG has and will continue to strengthen our Business Development Partner Network and propel the growth and expansion of DRTC's existing business.

SPECIALIZED SKILLS AND KNOWLEDGE / COMPETITIVE CONDITIONS

The Canadian financial services industry is highly developed and competitive. While many of Canada's financial institutions carry on full-service banking businesses, VersaBank is highly specialized and has a relatively narrow but focused product offering. Further, the Bank believes that its products are ideally suited to the niche markets that it has chosen to operate in and, accordingly, its products are in high demand.

VersaBank competes with a variety of Canadian financial institutions, both large and small, in the various markets in which it participates. VersaBank utilizes custom and in-house designed software that provides a significant advantage in speed of delivery, versatility and efficiency. VersaBank's highly skilled team of software experts and lending professionals consistently provide innovative financing and deposit solutions via a digital platform with the capability to quickly and efficiently respond to changes in the marketplace. VersaBank also has in place a well-developed credit adjudication function that has resulted in it consistently achieving industry leading credit performance.

NEW SERVICES

Digital Boundary Group

On November 30, 2020, DRTC acquired DBG. With offices in London, Ontario and Dallas, Texas, DBG provides corporate and government clients with a suite of information technology security assurance services, that range from external network, web and mobile app penetration testing through to physical social engineering engagements along with SCADA system assessments, as well as various aspects of training. DBG's clients range from a number of Canadian retailers and financial service providers to Canadian and U.S. police service and public safety organizations, professional service firms, healthcare providers and SCADA system reliant energy, public utilities and infrastructure firms.

SUPERVISION AND REGULATION

VersaBank's activities are governed by the *Bank Act*. In accordance with the *Bank Act,* banks may engage in and carry on the business of banking and such business generally as it pertains to the business of banking. The Superintendent of Financial Institutions (Canada) (the "Superintendent") is responsible for the administration of the *Bank Act*. The Superintendent issues guidelines regarding disclosure of a bank's financial information. The Superintendent is required to make an annual examination of each bank and to monitor each bank's financial condition.

The Bank is also subject to regulation under the *Financial Consumer Agency of Canada Act* (the "*FCAC Act*"). The Financial Consumer Agency of Canada (the "Agency"), among other things, enforces consumer-related provisions of the federal statutes that govern financial institutions. The Commissioner of the Agency must report to the Minister on all matters connected with the administration of the *FCAC Act* and consumer provisions of other federal statutes. The Bank is also subject to provincial and territorial laws of general application.

The Bank is a member institution of the Canada Deposit Insurance Corporation ("CDIC"). Subject to limits, CDIC insures certain deposits held at its member institutions.

Banks, in Canada, have broad powers to invest in the securities of other corporations and entities, but the *Bank Act* imposes limits upon substantial investments. Under the *Bank Act*, a bank has a substantial investment in a body corporate when (i) the voting shares beneficially owned by the bank and by entities controlled by the bank carry voting rights in excess of 10% of all of the voting rights in the body corporate or (ii) the total of the shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25% of the total shareholders' equity of the body corporate. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to acquire and hold a substantial investment in an entity that carries on a financial service activity which the bank could have carried on itself, whether that entity is regulated or not. Further, a bank may invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, act as mutual funds or mutual fund distributors or that service financial institutions, and a bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Superintendent is required prior to making the investment. Banks may, by way of temporary investment, acquire control of, or acquire or increase a substantial investment in, an entity for a two-year period. This time period may be extended upon application to the Superintendent. In prescribed circumstances, Banks may also invest in reliance upon the Specialized Financing Entity rules set out in the *Bank Act* and in the Specialized Financing (Banks) Regulations. Other than for authorized types of insurance, banks may offer insurance products only through duly authorized subsidiaries and not through their branch systems. Banks are prohibited from engaging in direct automobile leasing.

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the "*Act*") is applicable to the Bank's business in Canada. The *Act* implements specific measures designed to detect and deter money laundering and the financing of terrorist activities. Further, the *Act* sets out obligations related to deterring and detecting money laundering and terrorist financing from a global perspective, in order to minimize the possibility that the Bank could become a party to these activities. The Bank has enterprise-wide anti-money laundering and anti-terrorist financing policies and procedures which assist in reducing the risk of facilitating money laundering and terrorist financing activities.

EMPLOYEES AND PRINCIPAL PROPERTIES

At October 31, 2021, VersaBank had 105 full-time equivalent employees principally operating out of three facilities: two located in London, Ontario, and one located in Saskatoon, Saskatchewan. Since VersaBank does not carry on a retail operation, all of these locations are offices for staff working for all segments of VersaBank's business.

RISK FACTORS

The risks faced by VersaBank are described under the headings " *Enterprise Risk Management*" and "*Factors that May Affect Future Results*" in VersaBank's 2021 MD&A, which is incorporated herein by reference. Additional risks are described under the heading "*Risk Factors*" in VersaBank's Management Information Circular dated April 21, 2021, which is incorporated herein by reference. Both documents are available on SEDAR at www.sedar.com.

DIVIDENDS

In response to the Pandemic, OSFI imposed restrictions on increasing dividends and share buyback programs. The Bank has complied with these restrictions and not increased its dividend or implemented any form of share buyback program, since the restrictions were imposed during fiscal 2020. OSFI lifted these restrictions on November 4, 2021.

COMMON SHARES

Holders of Common Shares of VersaBank ("Common Shares") are entitled to receive, as and when declared by the Board, dividends. VersaBank's Board of Directors (the "Board") declared the initial quarterly cash dividend on Common Shares at its meeting on November 28, 2017.

During fiscal 2021, VersaBank maintained its quarterly dividend at $0.025 per share. Prior to this the Bank increased its quarterly dividend paid on Common Shares in each year since the Bank declared and paid its first quarterly dividends in fiscal 2018. VersaBank expects to continue paying quarterly cash dividends at a rate of $0.025 per share on the last day of January, April, July and October in each year; however, the declaration of a dividend, and the amount thereof, is at the discretion of the Board. Although it is management's intention that dividends be paid on Common Shares, holders of Common Shares should not assume that dividends will be paid in the future.

PREFERRED SHARES

Series 1 Preferred Shares

For the five-year period commencing on November 1, 2019, holders of Series 1 Preferred Shares of VersaBank ("Series 1 Preferred Shares") are entitled to receive, as and when declared by the Board, fixed non-cumulative preferential cash dividends at the rate of $0.6772 per share per annum, or $0.1693 per share per quarter. Such dividends are paid quarterly on the last day of January, April, July and October in each year.

The Series 1 Preferred Shares were listed and posted for trading on the Toronto Stock Exchange (the "TSX") on October 30, 2014. The initial dividend payment on the Series 1 Preferred Shares was made by VersaBank on January 31, 2015, in the amount of $0.176 per share. Thereafter, until the five-year rate reset on October 31, 2019, VersaBank paid quarterly cash dividends to holders of Series 1 Preferred Shares at a rate of $0.175 per share.

Additional information regarding the Series 1 Preferred Shares is described within the Short Form Prospectus dated October 22, 2014 (the "Series 1 Prospectus"), which is incorporated herein by reference. The Series 1 Prospectus is available on SEDAR at www.sedar.com.

Series 3 Preferred Shares

The Series 3 Preferred Shares were redeemed on April 30, 2021.

Holders of Series 3 Preferred Shares of VersaBank ("Series 3 Preferred Shares") were entitled to receive, as and when declared by the Board, fixed non-cumulative preferential cash dividends at the rate of $0.70 per share per annum, or $0.175 per share per quarter. Such dividends were paid quarterly on the last day of January, April, July and October in each year.

The Series 3 Preferred Shares were listed and posted for trading on the TSX on February 19, 2015. The initial dividend payment on the Series 3 Preferred Shares was made by VersaBank on July 31, 2015, in the amount of $0.2992 per Series 3 Preferred Share. Thereafter, VersaBank has paid quarterly cash dividends to holders of Series 3 Preferred Shares at a rate of $0.175 per share.

Additional information regarding the Series 3 Preferred Shares is described within the Short Form Prospectus dated February 19, 2015 (the "Series 3 Prospectus"), which is incorporated herein by reference. The Series 3 Prospectus is available on SEDAR at www.sedar.com.

DIVIDEND SUMMARY

The following dividends were declared for each of the three most recently completed financial years: [1]

Share Class	F2021	F2020	F2019
Common Shares	$2,270,296	$2,112,356	$1,478,679
Series 1 Preferred Shares	$989,701	$989,701	$1,023,022
Series 3 Preferred Shares	$588,462	$1,176,924	$1,176,924

CAPITAL STRUCTURE

VersaBank is authorized to issue an unlimited number of Common Shares and an unlimited number of non-voting preferred shares of VersaBank, issuable in series ("Preferred Shares"). Below is a summary of VersaBank's share capital. This summary is qualified in its entirety by VersaBank's by-laws and the actual terms and conditions of such shares.

COMMON SHARES

VersaBank commenced trading on the TSX on August 27, 2013, under the symbol VB. VersaBank completed an initial public offering in the United States and commenced trading on the Nasdaq on September 24, 2021, under the symbol VBNK. There were 27,441,082 Common Shares outstanding as at October 31, 2021. On January 25, 2022, the Bank's common shares began trading on the TSX under the ticker symbol "VBNK", replacing the previous ticker symbol "VB".

Holders of Common Shares are entitled to vote at all meetings of shareholders, except for meetings at which only holders of another specified class or series of shares of VersaBank are entitled to vote separately as a class or series.

[1] Amounts rounded to nearest dollar.

Holders of Common Shares are entitled to receive dividends as and when declared by the Board, subject to the preference of the Preferred Shares.

In the event of the dissolution, liquidation or winding-up of VersaBank, subject to the prior rights of the holders of Preferred Shares, and after payment of all outstanding debts, the holders of Common Shares will be entitled to receive the remaining property and assets of VersaBank.

PREFERRED SHARES

Preferred Shares may be issued, at any time or from time to time, in one or more series with such rights, privileges, restrictions and conditions as the Board may determine, subject to the *Bank Act*, VersaBank's by-laws and any required regulatory approval.

Except with respect to amendments to the rights, privileges, restrictions or conditions of the Preferred Shares, as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, the holders of the Preferred Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of VersaBank.

Each series of Preferred Shares ranks on a parity basis with every other series of Preferred Shares with respect to dividends and return of capital. The Preferred Shares are entitled to a preference over the Common Shares, and any other shares ranking junior to the Preferred Shares, with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of VersaBank.

Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined by the Board in the case of such series of Preferred Shares.

VersaBank's Board has authorized the issuance of an unlimited number of Series 1 Preferred Shares, an unlimited number of non-cumulative floating rate Series 2 Preferred Shares ("Series 2 Preferred Shares"), an unlimited number of Series 3 Preferred Shares, and an unlimited number of non-cumulative floating rate Series 4 Preferred Shares ("Series 4 Preferred Shares").

The following is a summary of the rights, privileges, restrictions and conditions of, or attaching to, each of the four series of Preferred Shares.

Series 1 Preferred Shares

There were 1,461,460 Series 1 Preferred Shares outstanding as at October 31, 2021.

During the initial five-year period ending October 31, 2019, holders of Series 1 Preferred Shares were entitled to receive preferential, non-cumulative, cash dividends, as and when declared by the Board, payable quarterly on the last day of January, April, July and October in each year, at 7.00% per annum. Thereafter, the dividend rate resets every five years at a level of 543 basis points over the then 5-year Government of Canada bond yield. On November 1, 2019, in accordance with the Series 1 Prospectus, the dividend rate reset to 6.772% per annum.

The Series 1 Preferred Shares were not redeemable prior to October 31, 2019. On October 31, 2019, VersaBank did not, in accordance with its option, redeem any of the outstanding Series 1 Preferred Shares for cash. VersaBank may, at its option, redeem for cash all, or any part, of the then outstanding Series 1 Preferred Shares on October 31 every five years after October 31, 2019, at a price equal to $10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. All such redemptions are subject to the provisions of applicable securities law, the rules of the TSX and the *Bank Act*, and to the prior consent of the Superintendent.

Holders of Series 1 Preferred Shares will have/had the right to elect to convert, subject to certain conditions, any or all of their Series 1 Preferred Shares into an equal number of Series 2 Preferred Shares on October 31, 2019 and on October 31 every five years thereafter (each such date being a "Series 1 Conversion Date"). Holders of Series 1 Preferred Shares are not entitled to convert their shares into Series 2 Preferred Shares if VersaBank determines that there would remain outstanding, on a Series 1 Conversion Date, less than 200,000 Series 2 Preferred Shares. In addition, if VersaBank determines that there would remain outstanding, on a Series 1 Conversion Date, less than 200,000 Series 1 Preferred Shares, then all, but not part, of the remaining outstanding Series 1 Preferred Shares will automatically be converted into an equal number of Series 2 Preferred Shares on the applicable Series 1 Conversion Date. As of October 31, 2020, none of the Series 1 Preferred Shares had been converted to Series 2 Preferred Shares.

Upon the occurrence of a Trigger Event, as set out in the OSFI Guideline for Capital Adequacy Requirements (CAR), Chapter 2 – Definition of Capital (the "CAR Guideline"), effective November 1, 2018, as such term may be amended or superseded by OSFI from time to time, each Series 1 Preferred Share will be automatically converted, without the consent of the holders, into newly issued, fully-paid Common Shares, the number of which is determined by the conversion formula outlined in the Series 1 Preferred Shares terms and conditions (a "Series 1 Contingent Conversion").

Subject to the provisions of applicable securities law, the rules of the TSX and the *Bank Act*, as applicable, and to the prior consent of the Superintendent, VersaBank may purchase for cancellation at any time all, or from time to time any part, of the Series 1 Preferred Shares then outstanding by private contract or in the open market or by tender at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of VersaBank, provided that a Series 1 Contingent Conversion has not occurred, the holders of the Series 1 Preferred Shares will be entitled to receive $10.00 per Series 1 Preferred Share held by them, plus any dividends declared and unpaid to the date of distribution, before any amounts are paid or assets are distributed to holders of Common Shares, or any other shares ranking junior to the Series 1 Preferred Shares. After payment of those amounts, the holders of Series 1 Preferred Shares will not be entitled to share in any further distribution of the property or assets of VersaBank. If a Series 1 Contingent Conversion has occurred, all Series 1 Preferred Shares will have been converted into Common Shares which will rank on parity with all other Common Shares.

Holders of Series 1 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of VersaBank unless and until the first time at which the Board has not declared the dividend in full on the Series 1 Preferred Shares in any quarter. In that event, the holders of the Series 1 Preferred Shares will be entitled to receive notice of and to attend only a meeting of shareholders at which directors are to be elected and will have one vote for each Series 1 Preferred Share held. Such voting rights will cease on payment in full by VersaBank of the first dividend on the Series 1 Preferred Shares to which the holders are entitled subsequent to the time the voting rights first arose until such time as VersaBank may again fail to declare the dividend in full on the Series 1 Preferred Shares in any quarter, in which event the voting rights will become effective again and so on from time to time. In connection with any action taken by VersaBank which requires the approval of the holders of Series 1 Preferred Shares voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

Series 2 Preferred Shares

The Series 2 Preferred Shares are part of VersaBank's authorized share capital, but no shares in this series have been issued as at October 31, 2021. If issued, holders of Series 2 Preferred Shares will be entitled to receive quarterly floating dividends, as and when declared by the Board, equal to the 90-day Government of Canada Treasury Bill rate plus 543 basis points. Additional information regarding the Series 2 Preferred Shares, including voting rights, provisions for exchange, conversion, exercise, redemption and retraction, dividend rights, and rights upon dissolution or winding-up is described within the Series 1 Prospectus.

Series 3 Preferred Shares

The Series 3 Preferred Shares were redeemed on April 30, 2021. There were nil Series 3 Preferred Shares outstanding as at October 31, 2021.

During the initial six-year period ending April 30, 2021, holders of Series 3 Preferred Shares were entitled to receive preferential, non-cumulative, cash dividends, as and when declared by the Board, payable quarterly on the last day of January, April, July and October in each year, at 7.00% per annum. Thereafter, the dividend rate will reset every five years at a level of 569 basis points over the then 5-year Government of Canada bond yield.

The Series 3 Preferred Shares were redeemed by VersaBank, at its option, for cash on April 30, 2021, at a price equal to $10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. The redemption was subject to the provisions of applicable securities law, the rules of the TSX and the *Bank Act*, and to the prior consent of the Superintendent.

Series 4 Preferred Shares

The Series 4 Preferred Shares are part of VersaBank's authorized share capital, but no shares in this series have been issued as at October 31, 2021. If issued, holders of Series 4 Preferred Shares will be entitled to receive quarterly floating dividends, as and when declared by the Board, equal to the 90-day Government of Canada Treasury Bill rate plus 569 basis points. Additional information regarding the Series 4 Preferred Shares, including voting rights, provisions for exchange, conversion, exercise, redemption and retraction, dividend rights, and rights upon dissolution or winding-up is described within the Series 3 Prospectus.

CONSTRAINTS

The *Bank Act* contains restrictions on the issue, transfer, acquisition and beneficial ownership of all shares of a chartered bank. For example, if a bank has equity of $12 billion or more, no person shall be a major shareholder of the bank, which includes a shareholder which owns, directly or indirectly, more than 20% of its outstanding voting shares of any class or more than 30% of its outstanding non-voting shares of any class. VersaBank does not meet this equity threshold and thus this restriction does not currently apply to VersaBank.

Further, no person shall have a significant interest in any class of shares of a bank unless the person first receives the approval of the Minister. Ownership, directly or indirectly, of more than 10% of any class of shares of a bank constitutes a significant interest. As of October 31, 2021, 340268 Ontario Limited owned approximately 29.64% of the Common Shares of the Bank. Approval from the Minister for 340268 Ontario Limited to have a significant interest in the common shares of VersaBank was obtained in conjunction with the closing of the Amalgamation.

VersaBank monitors the above constraints on shareholdings through various means including completion of Declaration of Ownership Forms for shareholder certificate transfer requests. If any person contravenes the above constraints on shareholdings, neither such person, nor any entity controlled by the particular person, may exercise any voting rights until the shares to which the constraint relates are disposed of. Additionally, the terms and conditions of the Series 1 Preferred Shares, the Series 2 Preferred Shares, the Series 3 Preferred Shares, and the Series 4 Preferred Shares include specific mechanics by which VersaBank is permitted to facilitate a sale of shares on behalf of such persons that are prohibited from taking delivery of shares issued upon a conversion.

The *Bank Act* prohibits the registration of a transfer or issue of any shares of VersaBank to, and the exercise, in person or by proxy, of any voting rights attached to any share of VersaBank that is beneficially owned by, Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency of any of them.

Under the *Bank Act*, VersaBank is prohibited from redeeming or purchasing any of its shares or its subordinated debt, unless the consent of the Superintendent has been obtained. In addition, the *Bank Act* prohibits VersaBank from purchasing or redeeming any shares or paying any dividends if there are reasonable grounds for believing that VersaBank is, or the payment would cause VersaBank to be, in contravention of the *Bank Act* requirement to maintain, in relation to VersaBank's operations, adequate capital and appropriate forms of liquidity and to comply with any regulations or directions of the Superintendent in relation thereto.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

The following VersaBank securities are listed and posted for trading on the TSX with the respective trading symbols indicated:

Common Shares	-	VBNK
Series 1 Preferred Shares	-	VBNK.PR.A
Series 3 Preferred Shares	-	VB.PR.B[2]

The following chart provides a summary of trading on the TSX in CAD:

COMMON SHARES				SERIES 1 PREFERRED SHARES			SERIES 3 PREFERRED SHARES		
Month	High	Low	Trading Volume	High	Low	Trading Volume	High	Low	Trading Volume
Oct 2021	$15.10	$13.81	210,555	$10.89	$10.28	19,192	-	-	-
Sep 2021	$15.00	$12.06	305,122	$10.94	$10.49	3,715	-	-	-
Aug 2021	$13.71	$12.92	73,796	$10.94	$10.16	11,631	-	-	-
Jul 2021	$15.08	$13.00	143,893	$10.69	$10.30	6,205	-	-	-
Jun 2021	$15.00	$12.55	325,050	$10.88	$10.40	11,255	-	-	-
May 2021	$15.45	$14.02	211,182	$10.85	$10.25	26,620	-	-	-
Apr 2021	$15.56	$14.85	209,955	$10.26	$10.14	28,758	$10.33	$9.93	50,670
Mar 2021	$16.41	$14.41	507,259	$10.39	$10.08	22,295	$10.39	$10.00	13,685
Feb 2021	$17.64	$10.97	968,533	$10.30	$9.75	18,959	$10.73	$9.76	18,532
Jan 2021	$12.30	$8.91	563,835	$9.95	$9.70	18,758	$10.04	$9.65	37,375
Dec 2020	$9.12	$7.36	159,053	$9.87	$9.32	27,212	$10.04	$9.53	30,586
Nov 2020	$7.49	$6.31	189,420	$9.50	$9.08	41,834	$9.79	$9.18	20,617

VersaBank's common shares are listed and posted for trading on the Nasdaq under the trading symbol VBNK.

The following chart provides a summary of trading on the Nasdaq in USD:

COMMON SHARES			
Month	High	Low	Trading Volume
Oct 2021	$12.23	$10.93	513,009
Sep 2021	$14.30	$10.50	848,479

[2] Redeemed on April 30, 2021.

DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of January 24, 2022, are as follows:

Name	Office Held and Time as Director	Principal Occupation
The Honourable Thomas A. Hockin, P.C. Rancho Mirage, California, USA	Chairman Director since August 21, 2014	Retired, former Executive Director of the International Monetary Fund
David R. Taylor Ilderton, Ontario	President and Chief Executive Officer Director since January 18, 1993	President and Chief Executive Officer of VersaBank
Gabrielle Bochynek(3) Stratford, Ontario	Director since April 24, 2019	Principal, Human Resources & Labour Relations, The Osborne Group
Robbert-Jan Brabander (2)(4) Richmond Hill, Ontario	Director since November 4, 2009	Managing Director of Bells & Whistles Communications, Inc. and former Chief Financial Officer & Treasurer of General Motors of Canada Limited
David A. Bratton (3) London, Ontario	Director since September 23, 1993	Retired, former President of Bratton Consulting Inc.
R.W. (Dick) Carter(1)(5) Regina, Saskatchewan	Director since December 1, 2014	Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan
Peter M. Irwin (1)(2) Toronto, Ontario	Director since January 1, 2021	Retired, former Managing Director at CIBC World Markets Inc.
Arthur R. Linton (4) Kitchener, Ontario	Director since April 22, 2020	Independent Corporate Director and Lawyer
Susan T. McGovern (3)(4) Gormley, Ontario	Director since May 6, 2011	Vice President, External Relations and Advancement, Ontario Tech University
Paul G. Oliver (1)(2) Markham, Ontario	Director since June 2, 2005	Retired, former senior partner of PricewaterhouseCoopers LLP

(1) Member of the Audit Committee
(2) Member of the Risk Oversight Committee
(3) Member of the Conduct Review, Governance & HR Committee
(4) Member of the Innovation and Technology Committee
(5) Mr. Carter recused himself from matters involving the Board of Directors and Audit Committee on August 27, 2021, and will remain recused until such time as this Annual Information Form is filed.

Directors are elected annually and hold office until the next annual meeting of shareholders.

EXECUTIVE OFFICERS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its executive officers, as of January 24, 2022, are as follows:

Name	Office Held	Principal Occupation
David R. Taylor Ilderton, Ontario	President and Chief Executive Officer	President and Chief Executive Officer of VersaBank
R. Shawn Clarke Ilderton, Ontario	Chief Financial Officer & Treasurer	Chief Financial Officer & Treasurer of VersaBank
Michael R. Dixon London, Ontario	SVP, Point-of-Sale Finance	SVP, Point-of-Sale Finance of VersaBank
Ross P. Duggan London, Ontario	SVP, Commercial Lending	SVP, Commercial Lending of VersaBank
Nick Kristo London, Ontario	Chief Credit Officer	Chief Credit Officer of VersaBank

At January 24, 2022, there were 27,441,082 issued and outstanding Common Shares. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 1,434,867 Common Shares, representing approximately 5.23% of the total number of Common Shares outstanding.

At January 24, 2022, there were 1,461,460 issued and outstanding Series 1 Preferred Shares of VersaBank. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 7,135 Series 1 Preferred Shares of VersaBank, representing approximately 0.49% of the total number of Series 1 Preferred Shares outstanding.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of VersaBank, there are no material interests, direct or indirect, of any director or executive officer of VersaBank, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of VersaBank's outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the last three financial years ended October 31, 2021.

TRANSFER AGENT AND REGISTRAR

VersaBank's registrar and transfer agent is Computershare Investor Services Inc., 100 University Avenue, Toronto, Ontario M5J 2Y1.

EXPERTS

KPMG LLP, Chartered Professional Accountants, are the auditors of VersaBank and are independent of VersaBank within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario and the rules and regulations adopted by the United States Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

AUDIT COMMITTEE MANDATE

The Mandate of the Audit Committee is attached to this Annual Information Form as Appendix A.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are:

(1) R.W. (Dick) Carter (Chair)[3]
(2) Peter M. Irwin
(3) Paul G. Oliver

Each member of the Audit Committee is both independent and financially literate, as such terms are defined in Canadian securities legislation.

RELEVANT EDUCATION AND EXPERIENCE

Prior to his retirement, Mr. Carter was the Chief Executive Officer of Crown Investments Corporation of Saskatchewan, a holding company for the province's commercial Crown Corporations, and held another senior position in the Saskatchewan government. Mr. Carter is also a retired partner of KPMG LLP and has over 30 years of audit experience, including experience in the financial services industry. Mr. Carter earned a Bachelor of Commerce degree from the University of Saskatchewan in 1971, graduated from the Queens University Executive Program in 1996, and graduated as a Chartered Director (C.Dir.) from McMaster University and the Conference Board of Canada in 2013. In addition, Mr. Carter became a Fellow of the Institute of Chartered Accountants of Saskatchewan in 1998 and is a Member of the Institutes of Chartered Accountants of Saskatchewan and Alberta.

Mr. Irwin is a retired Canadian financial services executive with over 30 years of industry experience in a variety of roles, including investment banking, capital markets, corporate development, merchant banking, and private equity. A Managing Director at CIBC World Markets Inc. prior to his retirement in January 2017, he has worked with a wide range of corporate and government issuers and investors in the Canadian and international financial markets in many different areas. Mr. Irwin earned an Honors B.A. in Business Administration from the Ivey School of Business, Western University, in 1980.

Mr. Oliver is a retired senior partner of PricewaterhouseCoopers LLP in the Financial Services Industry Practice. His practice focused on assurance, financial reporting and business advisory services, covering a broad range of organizations, with a focus in the regulated financial services industry. Mr. Oliver was admitted to the Institute of Chartered Accountants in England and Wales in 1968. He became a Fellow of the Institute of Chartered Accountants of Ontario in 2003, after having been admitted to membership in 1971. Mr. Oliver is also a Certified Director of the Institute of Corporate Directors.

[3] Recused temporarily until such time as this Annual Information Form is filed.

PRE-APPROVAL POLICIES AND PROCEDURES

The Board has approved an Audit Services Policy which provides that the Audit Committee shall pre-approve non-audit services and audit and non-audit related fees to be provided by the external auditor on a case-by-case basis.

AUDITOR FEES

Audit Fees

Audit fees paid to KPMG LLP during the year ended October 31, 2021, for VersaBank were $841,000 and during the year ended October 31, 2020, were $445,300. Audit fees were for professional services rendered by KPMG LLP for the audit of VersaBank's annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees paid to KPMG LLP during the year ended October 31, 2021, for VersaBank were $29,750 and during the year ended October 31, 2020, were $58,750. Audit-related fees were for assurance and services reasonably related to the performance of the audit of the consolidated financial statements.

Tax-Related Fees

Fees paid to KPMG LLP for tax related services during the year ended October 31, 2021, for VersaBank were $93,000 and during the year ended October 31, 2020, were $66,905. Tax fees were for tax compliance, tax advice and tax-planning professional services.

No other fees were paid to KPMG LLP during the years ended October 31, 2021, or October 31, 2020.

ADDITIONAL INFORMATION

Additional information regarding VersaBank may be found on SEDAR at www.sedar.com, EDGAR at www.sec.gov/edgar, or at www.versabank.com.

Information, including directors' and officers' remuneration and indebtedness, principal holders of VersaBank's securities, and securities authorized for issuance under equity compensation plans will be contained in the Management Proxy Circular for the Annual Meeting of Shareholders being held on or about April 20, 2022. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2021.

APPENDIX A: AUDIT COMMITTEE MANDATE

Purpose

The Audit Committee is responsible for assisting the Bank's Board of Directors (the "Board") in its oversight of (i) the integrity of the Bank's financial statements, public documents and other financial filings; (ii) the qualifications, performance and independence of the external auditors; (iii) the performance of the Bank's Chief Financial Officer and internal audit function; and (iv) internal controls that are appropriately designed and operate effectively.

Organization of the Audit Committee

The Audit Committee shall be comprised of not less than three directors, one of whom shall serve as the Chair of the Committee. Each member of the Audit Committee must be independent, financially literate and unaffiliated directors[i] [ii] [iii].

Meetings of the Audit Committee

In order for the Committee to transact business, a majority of the members of the Committee must be present. The Committee shall meet at least once each quarter and shall schedule a sufficient number of meetings (whether in person or by teleconference) to carry out its mandate.

There shall be an in-camera session at each quarterly Committee meeting with only independent directors present.

Committee members are expected to devote the appropriate amount of time necessary to review meeting materials such that they are able to engage in informed discussion and make informed decisions.

Reporting to the Board

The Committee shall present a verbal summary report of matters discussed at each of its meetings at the next following meeting of the Board of Directors with respect to its activities with such recommendations as are deemed desirable in the circumstances. In addition, the Committee may call a meeting of the Board of Directors to consider any matter that is of concern to the Committee.

Resources and Authority

The Audit Committee has the authority to engage and compensate any outside advisor that is determined to be necessary to permit them to carry out these duties, provided such compensation does not exceed $10,000 in any fiscal year. Should the compensation of an outside advisor exceed $10,000 in any fiscal year the prior approval of the Board will be required.

Duties and Responsibilities of the Audit Committee

The members of the Audit Committee are charged with the following duties:

1. **Financial Statements, Public Documents & Other Financial Filings**

   a) Review such documents as needed to comply with regulatory requirements relevant to the Audit Committee, and report to the Board of Directors where approval of the documents by the Board is required.
   b) Review new accounting policies and amendments to existing accounting policies before recommending them to the Board of Directors for approval.
   c) Approve the interim quarterly financial statements and MD&A.
   d) Concur with the annual financial statements and the annual MD&A before recommending them to the Board of Directors for approval.
   e) Review the interim and annual earnings press releases before public disclosure.
   f) Review the Annual Information Form before recommending it to the Board of Directors for approval.
   g) Review the Monthly Reporting Package for the most recent quarter for which interim quarterly financial statements for the Bank are being issued.
   h) Review quarterly, management's assessment of the appropriateness of the expected credit loss allowance.
   i) Review such investments and transactions that could adversely affect the well-being of the Bank as the auditor or auditors or any officer may bring to the attention of the Committee.

2. **Disclosure**

   a) Concur with the Mandate of the Disclosure Committee before recommending it to the Board of Directors for approval.
   b) Review and approve the Corporate Disclosure Policy and all amendments thereto before recommending it to the Board of Directors for approval.
   c) Review the Disclosure Controls and Procedures.

3. **Internal Audit**

   a) Review and concur in the appointment, replacement or dismissal of the Chief Internal Auditor.
   b) Concur with the Mandate of the Internal Audit Function before recommending it to the Board of Directors for approval.
   c) Annually approve a comprehensive risk-based audit plan as submitted by the Chief Internal Auditor.
   d) Ensure there are no unjustified restrictions or limitations on the Internal Audit function.
   e) Review all internal audit reports as submitted by the Chief Internal Auditor.
   f) Receive updates from the Chief Internal Auditor on the status of management's implementation of the recommendations within the internal audit reports.
   g) Meet with the Chief Internal Auditor and with management to discuss the effectiveness of the internal control procedures established.
   h) Annually, review the Mandate of the Internal Audit Function and evaluate the effectiveness of the Chief Internal Auditor and contribute to his or her Annual Performance Appraisal.
   i) Meet with the Chief Internal Auditor in camera at the conclusion of each regularly scheduled meeting of the Committee.

4. External Audit

a) Concur with the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services before recommending them to the Board of Directors.
b) Meet with the external auditor to review the Audit Planning Memorandum and annually approve the Audit Planning Memorandum.
c) Concur with the compensation of the external auditor before recommending it to the Board of Directors for approval.
d) Pre-approve services and expenditures to the external auditor, in accordance with the Audit Services Policy.
e) Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, including the resolution of disagreements between management and the external auditor regarding financial reporting.
f) Meet with the external auditor or auditors to discuss the annual financial statements and the returns and transactions referred to in this Mandate.
g) Annually review all amounts paid to the external auditor and other accounting firms in the previous year.
h) Identify, evaluate by performing annual assessments and periodic comprehensive assessments and, where appropriate, recommend to the shareholder(s), replacement of the external auditor.
i) Annually report to the Board on the effectiveness of the external auditor.
j) Concur with hiring policies regarding partners, employees and former partners and employees of the present and former external auditor before recommending them to the Board of Directors for approval.
k) Concur with the hiring of a partner, employee or former partner or employee of the present or former external auditor before recommending it to the Board of Directors for approval.
l) Meet with the external auditor in camera at the conclusion of each regularly scheduled meeting of the Committee.

5. Capital Management

a) Review, at least annually, the Bank's policies and procedures with respect to capital management and receive management reports regarding adherence to same.
b) Review and recommend to the Board for approval the annual ICAAP document of the Bank.
c) Annually, prepare and submit to the Board of Directors an Annual Report which includes a statement from the Chief Internal Auditor that the Capital Management policy is being complied with.

6. Complaints and Confidential Reporting

a) Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters.
b) Establish procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or audit matters.

7. Anti-Money Laundering and Anti-Terrorist Financing

a) Oversee the Bank's Anti-Money Laundering and Anti-Terrorist Financing ("AML/ATF") program and monitors its effectiveness on a regular basis.
b) Be satisfied that the Chief Anti-Money Laundering Officer ("CAMLO") has the necessary resources to carry out CAMLO responsibilities.
c) Review and recommend to the Board for approval, the Bank's AML/ATF Policy, and all changes to the Policy.
d) At least annually, conduct a review of the AML/ATF Policy and associated procedures.
e) Receive information from the Bank's CAMLO on the inherent money laundering ("ML") and terrorist-financing ("TF") risks associated with the Bank's activities at least once every three years.
f) Receive information from the CAMLO on self-assessments of the ML and TF risk controls implemented by the Bank at least annually.
g) Receive a report from the CAMLO at least annually on ML/TF risks Bank-wide.
h) Receive an annual report from the CAMLO on compliance with the Bank's AML/ATF policy.
i) Receive reports from the CAMLO as to transactions reported to FINTRAC or submitted to any law enforcement agency.
j) Receive information from the CAMLO on significant changes to AML/ATF legislative requirements.
k) The Committee shall have unfettered access to the CAMLO.
l) Receive results of the Chief Internal Auditor's independent effectiveness testing of the Bank's AML/ATF program at least once every two years.
m) Report to the Board of Directors on information and reports received from the CAMLO and the Chief Internal Auditor.
n) Annually, review the mandate of the CAMLO and evaluate the effectiveness of the CAMLO and contribute to his or her Annual Performance Appraisal.
o) Meet with the CAMLO in-camera at least bi-annually.

8. Internal Controls

a) Require management to implement and maintain appropriate internal control procedures.
b) Review, evaluate and approve the internal control policies and procedures at least annually, and receive management reports regarding adherence to same to ensure internal controls are appropriately designed and operate effectively.

9. Other Duties

a) Annually, evaluate the effectiveness of the Chief Financial Officer and contribute to his or her Annual Performance Appraisal.
b) Regarding matters falling under the Mandate of the Audit Committee, be aware of increased reputational risk to the Bank which can potentially impact the Bank's image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.
c) Review regulatory reviews regarding matters falling under the Mandate of the Audit Committee and the status of management's responses to any noted issues.
d) On an annual basis review the policies relating to matters falling under the Mandate of the Audit Committee and report to the Board of Directors.
e) Institute and oversee special investigations as needed.
f) Perform other activities related to the Mandate as requested by the Board of Directors.
g) Confirm annually to the Board of Directors that all responsibilities outlined in the Mandate have been carried out.

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[i] A director is independent if he or she meets the independence criteria as set out in the Bank's Director Independence Policy, including the subsection entitled "Additional Considerations for Audit Committee Members".

[ii] Financially literate means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of accounting issues that can reasonably be expected to be raised by the financial statements.

[iii] If the death, disability or resignation of a member has resulted in a vacancy of the Committee that the Board is required to fill, a Committee member appointed to fill such vacancy is exempt from the requirement for a period ending on the later of the next annual meeting and the date that is six months from the day the vacancy was created, so long as the Board has determined that a reliance on this exemption will not materially adversely affect the ability of the Committee to act independently and to satisfy its other requirements.

Exhibit 99.2



Consolidated Financial Statements
Years ended October 31, 2021 and 2020



KPMG LLP
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Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of VersaBank

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of VersaBank (the Bank) as at October 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2021 and 2020, its financial performance and its cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants
We have served as the Bank's auditor since 2002 and its predecessor trust company since 1989.
Toronto, Canada
November 30, 2021

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

VERSABANK

Consolidated Balance Sheets
As at October 31, 2021 and 2020

(thousands of Canadian dollars)

	2021	2020
Assets		
Cash (note 5)	$ 271,523	$ 257,644
Loans, net of allowance for credit losses (note 6)	2,103,050	1,654,910
Other assets (note 7)	40,513	31,331
	$ 2,415,086	$ 1,943,885
Liabilities and Shareholders' Equity		
Deposits (note 9)	$ 1,853,204	$ 1,567,570
Subordinated notes payable (note 10)	95,272	4,889
Securitization liabilities (note 11)	-	8,745
Other liabilities (note 12)	134,504	107,393
	2,082,980	1,688,597
Shareholders' equity:		
Share capital (note 13)	241,466	182,094
Retained earnings	90,644	73,194
Accumulated other comprehensive income (loss)	(4)	-
	332,106	255,288
	$ 2,415,086	$ 1,943,885

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

On behalf of the Board:

David R. Taylor
President and Chief Executive Officer

Hon. Thomas A. Hockin
Chair of the Board

VERSABANK

Consolidated Statements of Income and Comprehensive Income
Years ended October 31, 2021 and 2020

(thousands of Canadian dollars, except per share amounts)

		2021		2020
Interest income:				
Loans	$	88,055	$	83,232
Other		1,433		2,862
		89,488		86,094
Interest expense:				
Deposits and other		26,446		31,461
Subordinated notes		2,885		508
		29,331		31,969
Net interest income		60,157		54,125
Non-interest income (note 4)		5,200		60
Total revenue		65,357		54,185
Provision for (recovery of) credit losses (note 6(b))		(438)		(344)
		65,795		54,529
Non-interest expenses:				
Salaries and benefits		20,243		16,964
General and administrative		11,110		8,357
Premises and equipment		3,653		2,456
		35,006		27,777
Income before income taxes		30,789		26,752
Income tax provision (note 15)		8,409		7,347
Net income	$	22,380	$	19,405
Other comprehensive income (loss):				
Items that may subsequently be reclassified to net income:				
Foreign exchange gain (loss) on translation of foreign operations		(4)		-
Comprehensive income	$	22,376	$	19,405
Basic and diluted income per common share (note 16)	$	0.96	$	0.82
Weighted average number of common shares outstanding		21,752,930		21,123,559

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

VERSABANK

Consolidated Statements of Changes in Shareholders' Equity
Years ended October 31, 2021 and 2020

(thousands of Canadian dollars)

	2021	2020
Common shares (note 13):		
Balance, beginning of the year	$ 152,612	$ 152,612
Issued during the year	75,101	-
Cancelled during the year	(39)	-
Balance, end of the year	$ 227,674	$ 152,612
Preferred shares (note 13):		
Series 1 preferred shares		
Balance, beginning and end of the year	$ 13,647	$ 13,647
Series 3 preferred shares		
Balance, beginning of the year	$ 15,690	$ 15,690
Redemption of preferred shares	(15,690)	-
Balance, end of the year	$ -	$ 15,690
Contributed surplus (note 13):		
Balance, beginning and end of the year	$ 145	$ 145
Total share capital	$ 241,466	$ 182,094
Retained earnings:		
Balance, beginning of the year	$ 73,194	$ 58,069
Adjustment for cancelled common shares	39	-
Transfer of transaction costs on redemption of Series 3, preferred shares (note 13)	(1,123)	-
Net income	22,380	19,405
Dividends paid on common and preferred shares	(3,846)	(4,280)
Balance, end of the year	$ 90,644	$ 73,194
Accumulated other comprehensive income, net of taxes:		
Balance, beginning of the year	$ -	$ -
Other comprehensive income (loss)	(4)	-
Balance, end of the year	$ (4)	$ -
Total shareholders' equity	$ 332,106	$ 255,288

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

VERSABANK

Consolidated Statements of Cash Flows
Years ended October 31, 2021 and 2020

(thousands of Canadian dollars)

	2021	2020
Cash provided by (used in):		
Operations:		
Net income	$ 22,380	$ 19,405
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision for (recovery of) credit losses	(322)	(344)
Income tax provision	8,409	7,347
Interest income	(89,488)	(86,094)
Interest expense	29,331	31,969
Amortization	1,729	1,149
Foreign exchange rate changes on debt	743	-
Interest received	85,390	83,363
Interest paid	(30,803)	(30,913)
Income taxes paid	(1,388)	-
Change in operating assets and liabilities:		
Loans	(443,684)	(57,398)
Deposits	287,104	166,542
Change in other assets and liabilities	22,294	4,569
	(108,305)	139,595
Investing:		
Acquisition of Digital Boundary Group, net of cash acquired (note 4)	(7,473)	-
Purchase of investment (note 7)	(953)	-
Proceeds from sale and maturity of securities	-	10,000
Purchase of property and equipment	(14)	(245)
	(8,440)	9,755
Financing:		
Issuance of subordinated notes payable, net of issue costs (note 10)	89,498	-
Issuance of common shares, net of issue costs (note 13)	73,226	-
Redemption of preferred shares (note 13)	(16,813)	-
Repayment of loan assumed from Digital Boundary Group	(1,410)	-
Redemption of securitization liability (note 11)	(8,631)	(24,530)
Dividends paid	(3,846)	(4,280)
Repayment of lease obligations	(621)	(355)
Income taxes paid	-	(1,686)
	131,403	(30,851)
Change in cash	14,658	118,499
Effect of exchange rate changes on cash	(779)	-
Cash, beginning of year	257,644	139,145
Cash, end of year (note 5)	$ 271,523	$ 257,644

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

1. Reporting entity:

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 ("OSFI"). The Bank, whose shares trade on the Toronto Stock Exchange and on the NASDAQ, provides commercial lending services to select niche markets in Canada.

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:

These Consolidated Financial Statements have been prepared in accordance with the *Bank Act (Canada)*. The Superintendent of Financial Institutions Canada (the "Superintendent" or "OSFI"), has instructed that the financial statements are to be prepared in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to IFRS.

a) Statement of compliance:

These Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

b) Date authorized for issuance:

These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors of the Bank on November 30, 2021.

c) Basis of measurement:

These Consolidated Financial Statements have been prepared on the historical cost basis except for assets and liabilities acquired in a business combination which are measured at fair value at the date of acquisition (see note 4), and the investment in Canada Stablecorp Inc. (see note 7) which is also measured at fair value in the Consolidated Balance Sheets.

d) Functional and presentation currency:

These 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 financial statements of the subsidiaries are measured using their functional currency.

2. Basis of preparation – continued:

e) Use of estimates and judgments:

In preparing these Consolidated Financial Statements, management has exercised judgment 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 significant judgement was applied include assessing significant increases in credit risk on financial assets since initial recognition and in the selection of relevant forward looking information as described in note 3 – Financial instruments. Estimates are applied in the determination of the allowance for expected credit losses on financial assets, the purchase price allocation associated with the Bank's acquisition of Digital Boundary Group, the impairment test applied to intangible assets and goodwill, and the measurement of deferred income taxes. It is reasonably possible, on the basis of existing knowledge, that actual results may vary from that 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 assumptions made by the Bank, in particular as they relate to the Bank's expected credit losses and capital management attempt to incorporate the current and anticipated impact of the COVID-19 pandemic, ("COVID-19"). Expanded discussion on the impact of COVID-19 on expected credit losses and capital management is included in note 6 – Loans, and note 22 – Capital management, respectively.

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

3. Significant accounting policies:

The significant accounting policies used in the preparation of these Consolidated Financial Statements were applied consistently to all years and are summarized below:

a) Principles of consolidation:

The Bank holds 100% of the common shares of DRT Cyber Inc., 11409891 Canada Inc., 1422894 Ontario Limited and VersaJet Inc. DRT Cyber Inc. holds 100% of the common shares of 2021945 Ontario Inc. (see note 4 – Acquisition). The Consolidated Financial Statements include the accounts of these subsidiaries. All significant intercompany accounts and transactions have been eliminated.

b) Business Combinations

The Bank applied IFRS 3 Business Combinations in its accounting for the acquisition of Digital Boundary Group as described in note 4 – Acquisition using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration if applicable, given at the acquisition date. Contingent consideration is a financial instrument and, as such, is remeasured each period thereafter with the adjustment recorded to acquisition-related fair value changes in the consolidated statements of income and comprehensive income. Acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, including, if applicable, any amount of any non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and the liabilities assumed.

3. Significant accounting policies – continued:

c) Revenue recognition:

Interest income on cash and loans is recognized in net interest income using the effective interest rate method over the expected life of the instrument. Interest income earned but not yet collected on cash and loans is included in the respective cash and loans categories on the Consolidated Balance Sheets.

Interest income is recognized on impaired loans and is accrued using the rate of interest used to discount the future cash flows for purposes of measuring the impairment loss. Loan fees integral to the yield on the loan are amortized to interest income using the effective interest rate method; otherwise, the fees are recorded in non-interest income.

The acquisition of 2021945 Ontario Inc. and its wholly owned subsidiary, operating as Digital Boundary Group (see note 4 – Acquisition), generates a non-interest revenue stream for the Bank. Digital Boundary Group generates professional services revenue primarily from fees charged for IT security assurance services, supervisory control and data acquisition (SCADA) system assessments, as well as IT security training. Revenue is recognized when service is rendered and performance obligations have been satisfied and no material uncertainties remain as to the collection of receivables.

d) Financial instruments:

Classification and Measurement

Under IFRS 9, all financial assets must be classified at initial recognition as a function of the financial asset's contractual cash flow characteristics and the business model under which the financial asset is managed. All financial assets are initially measured at fair value, and are classified and subsequently measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income. Financial assets are required to be reclassified when the business model under which they are managed has changed. Any reclassifications are applied prospectively from the reclassification date. All financial liabilities are measured at amortized cost unless elected otherwise.

3. Significant accounting policies – continued:

d) Financial instruments – continued:

Debt instruments

Financial assets that are debt instruments are categorized into one of the following measurement categories:
- amortized cost;
- fair value through other comprehensive income ("FVOCI");
- fair value through profit and loss ("FVTPL").

The characterization of a debt instrument's cashflows is determined through a solely payment of principal and interest ("SPPI") test. The SPPI test is conducted to identify whether the contractual cash flows of a debt instrument are in fact solely payments of principal and interest and are consistent with a basic lending arrangement. In the context of the SPPI test, "Principal" is defined as the fair value of the debt instrument at origination or initial recognition, which may change over the life of the instrument as a function of a number of variables including principal repayments, prepayments, or amortization of a premium/discount. In the context of the SPPI test "Interest" is defined as the consideration for the time value of money and credit risk. The rationale for the SPPI test is to ensure that debt instruments that include structural features that are incongruent with a basic lending arrangement, such as conversion options, are classified as, and measured at FVTPL.

Debt instruments measured at amortized cost

The Bank's debt instruments are measured at amortized cost. Debt instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis are measured at amortized cost. These financial instruments are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for credit losses. The effective interest rate is the rate that discounts estimated future cashflows through the expected life of the instrument to the gross carrying amount of the instrument. Amortized cost is calculated as a function of the effective interest rate, taking into account any discount or premium on acquisition, transaction costs and fees. Amortization of these costs is included in interest income in the consolidated statement of income.

Equity instruments

Equity instruments are measured at FVTPL unless an irrevocable designation is made, at initial recognition to measure them at FVOCI. Gains or losses from changes in the fair value of equity financial instruments designated at FVOCI, including any related foreign exchange gains or losses, are recognized in OCI. Amounts recognized in OCI are not to be subsequently reclassed to profit or loss, with the exception of dividends. Dividends received are recorded in interest income in the consolidated statement of income. Cumulative gains or losses upon derecognition of the equity instrument will be transferred within equity from AOCI to retained earnings.

3. Significant accounting policies – continued:

d) Financial instruments – continued:

Impairment – 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 Bank's allowance for expected credit losses is estimated using the ECL methodology and is comprised of expected credit losses recognized on all financial assets that are debt instruments, classified either as amortized cost or as FVOCI, and on all loan commitments and financial guarantees that are not measured at FVTPL.

Expected credit losses represent unbiased and probability-weighted estimates that are modeled as a function of a range of possible outcomes as well as the time value of money, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, or more specifically forward-looking information ("FLI") (see Forward-Looking Information below).

The Bank's ECL or impairment model estimates 12 months of expected credit losses, ("TMECL") for performing loans that have not experienced a significant increase in credit risk, ("SICR") since initial recognition. Additionally, the ECL model estimates lifetime expected credit losses, ("LTECL") on performing loans that have experienced a SICR since initial recognition. Further, individual allowances are estimated for loans that are determined to be credit impaired.

Loans or other financial instruments that have not experienced a SICR since initial recognition are designated as stage 1, while loans or financial instruments that have experienced a SICR since initial recognition are designated as stage 2, and loans or financial instruments that are determined to be credit impaired are designated as stage 3.

Assessment of significant increase in credit risk

At each reporting date, the Bank assesses whether or not there has been a SICR for loans since initial recognition by comparing, at the reporting date, the risk of default occurring over the remaining expected life against the risk of default at initial recognition. The determination of a SICR is a function of the loan's internal risk rating assignment, internal watchlist status, loan review status and delinquency status which are updated as necessary in response to changes including, but not limited to changes in macroeconomic and/or market conditions, changes in a borrower's credit risk profile, and changes in the strength of the underlying security, including guarantor status, if a guarantor exists.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SICR. As a result, qualitative factors may be considered to supplement such a gap. Examples include changes in adjudication criteria for a particular group of borrowers or asset categories or changes in portfolio composition.

3. Significant accounting policies – continued:

d) Financial instruments – continued:

With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of a loan or other financial instrument has increased since initial recognition when contractual payments are more than 60 days delinquent. The Bank chose to use 60 days delinquency as an appropriate indicator of increased credit risk as it serves as a stable early warning indicator that the cashflows associated with the loan or other financial instrument under consideration may be in jeopardy and may not be realized by the Bank under the contractual repayment terms.

Expected credit loss model - Estimation of expected credit losses

Expected credit losses are an estimate of a loan's expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive. The ECL calculation is a function of the credit risk parameters; probability of default, loss given default, and exposure at default associated with each loan, sensitized to future market and macroeconomic conditions through the incorporation of FLI derived from multiple economic forecast scenarios, including baseline, upside, and downside scenarios.

For clarity:

- The probability of default ("PD") for a loan or a financial instrument is an estimate of the likelihood of default of that instrument over a given time horizon;
- The loss given default ("LGD") for a loan or financial instrument is an estimate of the loss arising in the case where a default of that instrument occurs at a given time or over a given period; and,
- The exposure at default ("EAD") for a loan or financial instrument is an estimate of the Bank's exposure derived from that instrument at a future default date.

The Bank's ECL model develops contractual cashflow profiles for loans as a function of a number of underlying assumptions and a broad range of input variables. The expected cashflow schedules are subsequently derived from the contractual cashflow schedules, adjusted for incremental default amounts, forgone interest, and recovery amounts.

The finalized contractual and expected cashflow schedules are subsequently discounted at the effective interest rate to determine the expected cash shortfall or expected credit losses for each individual loan or financial instrument.

Individual allowances are estimated for loans and other financial instruments that are determined to be credit impaired and that have been designated as stage 3. A loan is classified as credit impaired when the Bank becomes aware that all, or a portion of, the contractual cashflows

3. Significant accounting policies – continued:

d) Financial instruments – continued:

associated with the loan may be in jeopardy and as a result may not be realized by the Bank under the repayment schedule set out in the contractual terms associated with the loan.

Forward-Looking Information

IFRS 9 requires consideration of past events, current market conditions and reasonable, supportable information about future economic conditions that is available without undue cost and effort in the estimation of the expected credit losses for loans. More specifically, under IFRS 9 expected credit losses represent an unbiased, probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). Additionally, IFRS 9 stipulates that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. The estimation and application of forward-looking information in an attempt to capture the impact of future economic conditions requires significant judgement.

The Bank incorporates the impact of future economic conditions, or more specifically forward-looking information into the estimation of expected credit losses at the credit risk parameter level. This is accomplished via the credit risk parameter models and proxy datasets that the Bank utilizes to develop PD and LGD term structure forecasts for its loans. 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 risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences. These systems are used in conjunction with the Bank's internally developed ECL models. Given that the Bank has experienced very limited historical losses and, therefore, does not have available statistically significant loss data inventory for use in developing forward looking expected credit loss trends, the use of unbiased, third party forward-looking credit risk parameter modeling systems is particularly important for the Bank in the context of the estimation of expected credit losses.

The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios, most often comprised of baseline, upside, and downside scenarios in order to mitigate volatility in the estimation of expected credit losses as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. More specifically, the macroeconomic indicators set out in the macroeconomic scenarios are used as inputs for the credit risk parameter models utilized by the Bank to sensitize the individual PD and LGD term structure forecasts to the respective macroeconomic trajectory set out in each of the scenarios. The weighted average of the individual, sensitized PD and LGD values that comprise each individual term structure forecast is subsequently computed to define unbiased PD and LGD term structure forecasts, which in turn are applied as inputs to the Bank's internal ECL model in the estimation of expected credit losses for the Bank's loans. Macroeconomic indicator data derived from the baseline, upside and downside scenarios referenced above is also utilized in the development of credit risk parameter proxy datasets and applied to the Bank's consumer loan and small and medium enterprise (SME) loan portfolios.

3. Significant accounting policies – continued:

d) Financial instruments – continued:

The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing PD and LGD 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 price of oil, and the S&P/TSX Index. 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.

Modified Financial Instruments

If the terms of whether a financial instrument is modified or an existing financial instrument is replaced with a new one, an assessment is made to determine if the financial instrument should be derecognized.

Where the modification does not result in derecognition, the date of origination continues to be used to determine SICR. Where modification results in derecognition, the modified financial instrument is considered to be a new instrument.

Fair value of financial instruments

Estimates of fair value are developed using a variety of valuation methods and assumptions. The Bank follows a fair value hierarchy to categorize the inputs used to measure fair value for its financial instruments. The fair value hierarchy is based on quoted prices in active markets (Level 1), models using inputs other than quoted prices but with observable market data (Level 2), or models using inputs that are not based on observable market data (Level 3).

Valuation models may require the use of inputs, transaction values derived from models and input assumptions sourced from pricing services. Valuation inputs are either observable or unobservable. The Bank makes use of external, readily observable market inputs when available and may include certain prices and rates for shorter-dated Canadian yield curves and banker's acceptances. Unobservable inputs may include credit spreads, probability of default and recovery rates.

3. Significant accounting policies – continued:

d) Financial instruments – continued:

Transfer of financial assets:

The Bank may enter into transactions in which it transfers assets to a third party to obtain alternate sources of funding. The Bank assesses whether substantially all of the risks and rewards of the asset have been transferred to determine if they qualify for derecognition. In the event that the Bank continues to be exposed to substantially all of the repayment, interest rate and/or credit risk associated with the asset, the asset(s) would not qualify for derecognition and would be reflected on the Bank's Consolidated Balance Sheet.

Derivatives and embedded derivatives:

Derivatives are measured at FVTPL under IFRS 9, except to the extent that they are designated in a hedging relationship.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to the host contract and the combined contract is not carried at fair value. Identified embedded derivatives are separated from the host contract and are recorded at fair value.

e) Property and equipment:

Property and equipment is carried at cost less accumulated amortization and impairment. Amortization on property and equipment is calculated primarily using the straight-line method over the useful life of the equipment which typically ranges between 5 and 20 years.

Property and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amounts may not be recoverable. Amortization expense and impairment write-downs are included in premises and equipment expense in the Consolidated Statements of Comprehensive Income.

f) Goodwill and intangible assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the value allocated to the tangible and intangible assets, less liabilities assumed, based on their fair values. Goodwill is not amortized but rather tested for impairment annually or more frequently if events or change in circumstances indicate that the asset might be impaired. Impairment is determined for goodwill by assessing if the carrying value of cash generating units ("CGUs") which comprise the CGU segment, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

3. Significant accounting policies – continued:

f) Goodwill and intangible assets – continued:

Intangible assets acquired in a business acquisition are recorded at their fair value. In subsequent reporting periods, intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded on a straight-line basis over the expected useful life of the intangible asset. At each reporting date, the carrying value of intangible assets are reviewed for indicators of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. For purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been recorded had no impairment losses been recognized for the asset in prior years.

g) Income taxes:

Current income taxes are calculated based on taxable income for the reporting period. Taxable income differs from accounting income because of differences in the inclusion and deductibility of certain components of income which are established by Canadian taxation authorities. Current income taxes are measured at the amount expected to be recovered or paid using statutory tax rates at the reporting period end.

The Bank follows the asset and liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities arise from temporary differences between financial statement carrying values and the respective tax base of those assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when temporary differences are expected to be recovered or settled.

3. Significant accounting policies – continued:

g) Income taxes – continued:

Deferred income tax assets are recognized in the Consolidated Financial Statements to the extent that it is probable that the Bank will have sufficient taxable income to enable the benefit of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed for recoverability at each reporting period end.

Current and deferred income taxes are recorded in income for the period, except to the extent that the tax arose from a transaction that is recorded either in Other Comprehensive Income or Equity, in which case the income tax on the transaction will also be recorded either in Other Comprehensive Income or Equity. Accordingly, current and deferred income taxes are presented in the Consolidated Financial Statements as a component of income, or as a component of Other Comprehensive Income.

h) Employee benefits:

i) Short-term benefits:

Short-term employee benefit obligations are recognized as employees render their services and are measured on an undiscounted basis.

A liability is recognized for the amount expected to be paid under a short-term cash bonus plan if the Bank has an obligation to make such payments as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Share-based payment transactions:

Equity-settled stock options

Employee stock options are measured using the Black-Scholes pricing model which is used to estimate the fair value of the options at the date of grant. Inputs to the Black-Scholes model include the closing share price on the grant date, the exercise price, the expected option life, the expected dividend yield, the expected volatility and the risk-free interest rate. Once the expected option life is determined, it is used in formulating the estimates of expected volatility and the risk-free rate. Expected future volatility is estimated using a historical volatility look-back period that is consistent with the expected life of the option.

The fair value of options which vest immediately are recognized in full as of the grant date, whereas the fair value of options which vest over time are recognized over the vesting period using the graded method which incorporates management's estimates of the options which are not expected to vest. The effect of a change in the estimated number of options expected to vest is a change in estimate and the cumulative effect of the change is recognized prospectively once the estimate is revised.

3. Significant accounting policies – continued:

h) Employee benefits - continued:

The fair value of stock options granted is recorded in salaries and benefits expense in the Consolidated Statements of Income and in Share Capital as a component of Contributed Surplus in the Consolidated Balance Sheets. When options are exercised, the consideration received and the estimated fair value previously recorded in Contributed Surplus is recorded as Share Capital. The Bank's stock option plan is described in note 14.

i) Share capital:

The Bank's share capital consists of common shares, preferred shares and contributed surplus.

i) Share issuance costs:

Costs directly incurred with raising new share capital are charged against equity. Other costs are expensed as incurred.

ii) Contributed surplus:

Contributed surplus consists of the fair value of stock options granted since inception, less amounts reversed for exercised stock options. If granted options vest and then subsequently expire or are forfeited, no reversal of contributed surplus is recognized.

j) Segment reporting:

The Bank does not present segmented information in its Consolidated Financial Statements as it has determined that its operations fall into one segment, Canadian Banking.

k) Leases:

Effective November 1, 2019, the Bank adopted IFRS 16 which sets out prescribed methodology related to the recognition, measurement, presentation and disclosure of operating leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 supersedes previous accounting standards for leases, including IAS 17, *Leases* and IFRIC 4 – *Determining whether an arrangement contains a lease.* As a result of adopting IFRS 16, the Bank recognized an increase to both assets and liabilities on the Consolidated Balance Sheet, as well as a decrease in rent expense, with a corresponding increase in amortization expense (due to amortization of the right-of-use assets) and an increase in finance costs (due to accretion of the lease obligation).

3. Significant accounting policies – continued:

k) Leases – continued:

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease arrangement based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset and/or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this methodology most closely reflects the expected pattern of consumption of the associated future economic benefits. The lease term includes periods covered by an option to extend if there is reasonable certainty that the Bank will exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or the remeasured amount is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank elects to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

l) Foreign currency translation:

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiaries at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate at the reporting date. Foreign currency differences are recognized in profit and loss. Investments classified as fair value through other comprehensive income (FVOCI) denominated in a foreign currency are translated into Canadian dollars at the exchange rate at the reporting date. All resulting changes are recognized in other comprehensive income (loss).

3. Significant accounting policies – continued:

l) Foreign currency translation – continued:

Foreign operations

The assets and liabilities of the Bank's US operations, Digital Boundary Group Inc., which has a functional currency other than the Canadian dollar, are translated into Canadian dollars at the exchange rate at the reporting date. The income and expenses of this operation are translated into Canadian dollars at the exchange rate at the date of transaction and the foreign currency differences are recognized in other comprehensive income (loss).

m) Accounting standard pronouncements adopted in fiscal 2021:

The following accounting standard amendments issued by the IASB became effective for the Bank's fiscal year beginning on November 1, 2020:

i) Changes to the Conceptual Framework, seeking to provide improvements to concepts surrounding various financial reporting considerations and existing IFRS standards.

ii) Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, clarifying the definition of "material".

iii) Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures, Interest Rate Benchmark Reform, detailing the fundamental reform of major interest rate benchmarks being undertaken globally to replace or redefine Inter-Bank Offered Rates ("IBORS") with alternative nearly risk-free benchmark rates (referred to as "IBOR reform").

These amendments did not have a material impact in preparing these interim Consolidated Financial Statements.

4. Acquisition:

On November 30, 2020, the Bank, through its wholly owned subsidiary DRT Cyber Inc. ("DRTC"), acquired 100% of the shares of 2021945 Ontario Inc. and its wholly owned subsidiary, operating as Digital Boundary Group ("DBG"), in exchange for $ 8.5 million in cash and a deferred payment obligation in the amount of $1.4 million, for total consideration of $9.9 million. The acquisition was accounted for in accordance with IFRS 3 Business Combinations and DBG's financial results, since closing, have been included in the Bank's Interim Consolidated Financial Statements.

DBG is an information technology (IT) security assurance services firm with offices in London, Ontario and Dallas, Texas. DBG provides corporate and government clients with a suite of IT security assurance services, that range from external network, web and mobile application penetration testing through to physical social engineering engagements along with supervisory control and data acquisition (SCADA) system assessments, as well as various aspects of IT security training.

4. Acquisition - continued:

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed on acquisition:

(thousands of Canadian dollars)

Assets and liabilities acquired at fair value		November 30 2020
Cash	$	1,057
Accounts receivable		1,451
Right-of-use assets		2,473
Other assets		1,194
Intangible assets		3,940
Goodwill		5,754
Deferred income tax liability		(898)
Lease obligations		(2,650)
Other liabilities		(2,381)
	$	9,940

Intangible assets include customer relationships, brands, non-compete agreements and operational software, all of which have been assessed to have a useful life of 10 years. Goodwill primarily reflects the value of an assembled workforce and the value of future growth prospects and expected business synergies realized as a result of combining the acquired business with the Bank's existing cybersecurity business. Goodwill as well as portions of the intangible assets are not deductible for income tax purposes.

For the year ended October 31, 2021, the operations of DBG have contributed $5.2 million and $1.5 million to the Bank's non-interest income and net income respectively, which includes amortization of intangible assets of in the amount of $299,000. The costs associated with the acquisition of DBG totaled $180,000 and were included in the Bank's non-interest expense.

5. Cash:

Cash is comprised of deposits with regulated financial institutions.

6. Loans, net of allowance for credit losses:

Commencing fiscal 2021, the Bank re-organized its lending portfolio into the following four broad asset categories: Commercial Real Estate Mortgages, Commercial Real Estate Loans, Point of Sale Loans and Leases, and Public Sector and Other Financing. These categories have been established in the Bank'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 comparative balances have been recast to reflect the current broad asset categories.

6. Loans – continued:

The Commercial Real Estate Mortgages ("CRE Mortgages") asset category is comprised of commercial and residential construction mortgages, commercial term mortgages, commercial insured mortgages and land mortgages. While all of these loans would be considered commercial loans or business-to-business loans, the underlying credit risk exposure is diversified across both the commercial and retail market segments, and further, the portfolio benefits from diversity in its underlying security in the form of a broad range of collateral properties.

The Commercial Real Estate Loans ("CRE Loans") asset category is comprised primarily of condominium corporation financing loans and loans to mortgage investment companies.

The Point of Sale Loans and Leases ("POS") asset category is comprised of point of sale loan and lease receivables acquired from the Bank's broad network of origination and servicing partners as well as warehouse loans that provide bridge financing to the Bank's origination and servicing partners for the purpose of accumulating and seasoning practical volumes of individual loans and leases prior to the Bank purchasing the cashflow receivables derived from same.

The Public Sector and Other Financing ("PSOF") asset category is comprised primarily of public sector loans and leases, a small balance of corporate loans and leases and single family residential conventional and insured mortgages.

a) Portfolio analysis:

(thousands of Canadian dollars)

	2021	2020
Commercial real estate mortgages	$ 757,576	$ 606,299
Commercial real estate loans	26,569	25,574
Point of sale loans and leases	1,279,576	980,677
Public sector and other financing	32,587	37,596
	2,096,308	1,650,146
Allowance for credit losses	(1,453)	(1,775)
Accrued interest	8,195	6,539
Total loans, net of allowance for credit losses	$ 2,103,050	$ 1,654,910

6. Loans – continued:

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

	As at October 31, 2021				As at October 31, 2020			
(thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commercial real estate mortgages	$ 694,869	$ 62,707	$ -	**$ 757,576**	$ 530,162	$ 76,137	$ -	**$ 606,299**
ECL allowance	*980*	*134*	*-*	***1,114***	*1,174*	*192*	*-*	***1,366***
EL %	0.14%	0.21%	0.00%	**0.15%**	0.22%	0.25%	0.00%	**0.23%**
Commercial real estate loans	$ 26,569	$ -	$ -	**$ 26,569**	$ 25,574	$ -	$ -	**$ 25,574**
ECL allowance	*45*	*-*	*-*	***45***	*137*	*-*	*-*	***137***
EL %	0.17%	0.00%	0.00%	**0.17%**	0.54%	0.00%	0.00%	**0.54%**
Point of sale loans and leases	$1,277,011	$ 2,565	$ -	**$1,279,576**	$ 974,104	$ 6,573	$ -	**$ 980,677**
ECL allowance	*275*	*-*	*-*	***275***	*215*	*-*	*-*	***215***
EL %	0.02%	0.00%	0.00%	**0.02%**	0.02%	0.00%	0.00%	**0.02%**
Public sector and other financing	$ 32,507	$ 80	$ -	**$ 32,587**	$ 37,596	$ -	$ -	**$ 37,596**
ECL allowance	*16*	*3*	*-*	***19***	*57*	*-*	*-*	***57***
EL %	0.05%	0.00%	0.00%	**0.06%**	0.15%	0.00%	0.00%	**0.15%**
Loans	$2,030,956	$ 65,352	$ -	**$2,096,308**	$1,567,436	$ 82,710	$ -	**$1,650,146**
Total ECL allowance	*1,316*	*137*	*-*	***1,453***	*1,583*	*192*	*-*	***1,775***
Total EL %	0.06%	0.21%	0.00%	**0.07%**	0.10%	0.23%	0.00%	**0.11%**

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 loans in the form of either mortgage interests over property, other registered securities over assets, guarantees and holdbacks on loan and lease receivables included in the POS portfolio (note 12).

The Bank accounts for financial instruments and associated credit risk as detailed in note 3 for Financial Instruments. However, since the onset of COVID-19 in March 2020, the Bank has expanded the depth and scope of its analysis supporting its assessment of impairment to include additional sensitivity analytics performed on its estimated expected credit losses.

Impairment – Allowance for Credit Losses

As set out previously, 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. Under IFRS 9 the Bank's allowance for expected credit losses is estimated using the expected credit loss methodology and is comprised of expected credit losses recognized on both performing loans, and non-performing, or impaired loans even if no actual loss event has occurred.

Assessment of significant increase in credit risk ("SICR")

At each reporting date, the Bank assesses whether or not there has been a SICR for loans since initial recognition by comparing, at the reporting date, the risk of default occurring over the remaining expected life against the risk of default at initial recognition.

SICR is a function of the loan's internal risk rating assignment, internal watchlist status, loan review status and delinquency status which are updated as necessary in response to changes including, but not limited to, changes in macroeconomic and/or market conditions, changes in a borrower's credit risk profile, and changes in the strength of the underlying security, including guarantor status, if a guarantor exists.

6. Loans – continued:

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SICR. As a result, qualitative factors may be considered to supplement such a gap.

Examples include changes in adjudication criteria for a particular group of borrowers or asset categories or changes in portfolio composition, and more specifically changes attributable to the continued impact of COVID-19 on the Canadian economy and the Bank's business.

Expected credit loss model - Estimation of expected credit losses

Expected credit losses are an estimate of a loan's expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive.

Forward-Looking Information

The Bank incorporates the impact of future economic conditions, or more specifically forward-looking information into the estimation of expected credit losses at the credit risk parameter level. This is accomplished via the credit risk parameter models and proxy datasets that the Bank utilizes to develop PD and LGD term structure forecasts for its loans. 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. These systems are used in conjunction with the Bank's internally developed ECL models. Given that the Bank has experienced very limited historical losses and, therefore, does not have available statistically significant loss data inventory for use in developing internal, forward looking expected credit loss trends, the use of unbiased, third party forward-looking credit risk parameter modeling systems is particularly important for the Bank in the context of the estimation of expected credit losses.

The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios in order to mitigate volatility in the estimation of expected credit losses, as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. More specifically, the macroeconomic indicators set out in the macroeconomic scenarios are used as inputs for the credit risk parameter models utilized by the Bank to sensitize the individual PD and LGD term structure forecasts to the respective macroeconomic trajectory set out in each of the scenarios (see Expected Credit Loss Sensitivity below). Currently the Bank utilizes upside, downside and baseline forecast macroeconomic scenarios, and assigns discrete weights to each for use in the estimation of its reported ECL. The Bank has also applied expert credit judgment, where appropriate, to reflect, amongst other items, uncertainty in the Canadian macroeconomic environment attributable to the continued impact of COVID-19.

6. Loans – continued:

The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing PD and LGD 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 forecast macroeconomic scenario data utilized by the Bank over the course of fiscal 2021 has consistently trended positively over the same timeframe. Key drivers of the most recently available macroeconomic forecast data used in the preparation of the Bank's 2021 consolidated financial statements include the rate of vaccine distribution and the continued effectiveness of the vaccines at minimizing hospitalizations precipitated by the new variants, consumption growth and the propensity for consumers to spend excess savings accumulated over the course of the pandemic, employment rates, as well as wage and salary growth and the influence of same on future consumer spending, the rate of appreciation of Canadian house prices and the supply of new housing in the market, the timing and scope of the tightening of monetary policy by the Bank of Canada and the impact of same on inflation, the demand for Canadian exports and the implementation of potential future government stimulus programs.

Further, 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 October 31, 2021 in order to assess the alignment of the Bank's reported ECL with the Bank's credit risk profile, and further, to assess 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 October 31, 2021:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 1,453	$ 860	$ 1,193	$ 1,670
Variance from reported ECL		(593)	(260)	217
Variance from reported ECL (%)		(41%)	(18%)	15%

6. Loans – continued:

b) Allowance for credit losses:

The following table provides a reconciliation of the Bank's ECL allowance by lending asset category for the year ended October 31, 2021:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Commercial real estate mortgages				
Balance at beginning of period	$ 1,174	$ 192	$ -	$ 1,366
Transfer in (out) to Stage 1	93	(93)	-	-
Transfer in (out) to Stage 2	(124)	124	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(425)	(22)	-	(447)
Loan originations	421	-	-	421
Derecognitions and maturities	(159)	(67)	-	(226)
Provision for (recovery of) credit losses	(194)	(58)	-	(252)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 980**	**$ 134**	**$ -**	**$ 1,114**
Commercial real estate loans				
Balance at beginning of period	$ 137	$ -	$ -	$ 137
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(92)	-	-	(92)
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	(92)	-	-	(92)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 45**	**$ -**	**$ -**	**$ 45**
Point of sale loans and leases				
Balance at beginning of period	$ 215	$ -	$ -	$ 215
Transfer in (out) to Stage 1	89	(89)	-	-
Transfer in (out) to Stage 2	(178)	178	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(6,914)	(41)	-	(6,955)
Loan originations	9,116	-	-	9,116
Derecognitions and maturities	(2,053)	(48)	-	(2,101)
Provision for (recovery of) credit losses	60	-	-	60
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 275**	**$ -**	**$ -**	**$ 275**
Public sector and other financing				
Balance at beginning of period	$ 57	$ -	$ -	$ 57
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(35)	-	-	(35)
Loan originations	-	3	-	3
Derecognitions and maturities	(6)	-	(116)	(122)
Provision for (recovery of) credit losses	(41)	3	(116)	(154)
Write-offs	-	-	-	-
Recoveries	-	-	116	116
Balance at end of period	**$ 16**	**$ 3**	**$ -**	**$ 19**
Total balance at end of period	**$ 1,316**	**$ 137**	**$ -**	**$ 1,453**

6. Loans – continued:

b) Allowance for credit losses (continued):

The following table provides a reconciliation of the Bank's ECL allowance by lending asset category for the year ended October 31, 2020:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Commercial real estate mortgages				
Balance at beginning of period	$ 1,563	$ 209	$ -	$ 1,772
Transfer in (out) to Stage 1	26	(26)	-	-
Transfer in (out) to Stage 2	(262)	262	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(515)	(253)	-	(768)
Loan originations	399	-	-	399
Derecognitions and maturities	(37)	-	-	(37)
Provision for (recovery of) credit losses	(389)	(17)	-	(406)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 1,174**	**$ 192**	**$ -**	**$ 1,366**
Commercial real estate loans				
Balance at beginning of period	$ 78	$ -	$ -	$ 78
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	56	-	-	56
Loan originations	3	-	-	3
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	59	-	-	59
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 137**	**$ -**	**$ -**	**$ 137**
Point of sale loans and leases				
Balance at beginning of period	$ 229	$ -	$ -	$ 229
Transfer in (out) to Stage 1	119	(119)	-	-
Transfer in (out) to Stage 2	(230)	230	-	-
Transfer in (out) to Stage 3	3	-	(3)	-
Net remeasurement of loss allowance	(5,441)	(58)	5	(5,494)
Loan originations	7,528	-	-	7,528
Derecognitions and maturities	(1,993)	(53)	(2)	(2,048)
Provision for (recovery of) credit losses	(14)	-	-	(14)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 215**	**$ -**	**$ -**	**$ 215**
Public sector and other financing				
Balance at beginning of period	$ 40	$ -	$ -	$ 40
Transfer in (out) to Stage 1	1	(1)	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(21)	1	-	(20)
Loan originations	42	-	-	42
Derecognitions and maturities	(5)	-	-	(5)
Provision for (recovery of) credit losses	17	-	-	17
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 57**	**$ -**	**$ -**	**$ 57**
Total balance at end of period	**$ 1,583**	**$ 192**	**$ -**	**$ 1,775**

6. Loans – continued:

c) Maturities and yields:

(thousands of Canadian dollars)

	Floating	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	2021 Total	2020 Total
Total loans	$ 659,508	$ 51,453	$ 246,853	$ 231,885	$ 752,776	$ 153,833	$2,096,308	$1,650,146
Average effective yield	5.01%	5.18%	4.02%	4.78%	4.28%	3.79%	4.52%	4.94%

Average effective yields are based on book values and contractual interest rates, adjusted for the amortization of any deferred income and expenses.

d) Impaired loans:

At October 31, 2021, impaired loans were $nil (October 31, 2020 - $nil).

7. Other assets:

(thousands of Canadian dollars)

	2021	2020
Accounts receivable	$ 2,643	$ 268
Funds held for securitization liabilities (note 11)	-	8,629
Prepaid expenses and other	12,699	6,843
Property and equipment (note 8)	7,075	7,431
Right-of-use assets (notes 3 and 12)	4,817	3,015
Deferred income tax asset (note 15)	2,931	5,145
Investment (note 7a)	953	-
Goodwill (note 7b)	5,754	-
Intangible assets	3,641	-
	$ 40,513	$ 31,331

For the year ended October 31, 2021, the amortization expense for the right-of-use assets totalled $ 695,000 (2020 - $425,000) and the amortization expense for the intangible assets totalled $299,000 (2020 - $nil).

a) In February 2021, the Bank acquired an 11% investment in Canada Stablecorp Inc. (“Stablecorp”) for cash consideration of $953,000. The Bank made a strategic investment to bring together the necessary financial and technology expertise that will facilitate the development and future issuance of new, highly encrypted digital deposit receipts that the Bank has branded as VCAD and VUSD. The Bank has made an irrevocable election to designate this investment at fair value through other comprehensive income (FVOCI) 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. As at October 31, 2021, the Bank’s investment in Stablecorp was $ 953,000.

7. Other assets - continued:

b) Goodwill relates to the Bank's acquisition of DBG (note 4) and for the purpose of conducting an annual test for impairment, the Bank's CGU relates specifically to the operations of DBG. The Bank considered the value-in-use calculation in assessing impairment, and further, the key assumptions underlying the impairment test included 5-years of projected cash flow, a discount rate of 12.4%, an average yearly earnings growth rate of 9% and a terminal growth rate of 2.0%. The Bank did not recognize an impairment charge on the goodwill as the recoverable amount of the CGU exceeded the carrying value of the goodwill.

8. Property and equipment:

(thousands of Canadian dollars)

	2021	2020
Cost	$ 16,884	$ 16,505
Accumulated amortization	(9,809)	(9,074)
	$ 7,075	$ 7,431

None of the Bank's property and equipment is subject to title restrictions, nor is any pledged as security for any of the Bank's liabilities. Total amortization expense recorded for property and equipment for the year ended October 31, 2021 totalled $735,000 (2020 - $724,000).

9. Deposits:

(thousands of Canadian dollars)

Maturity period	Demand/ Floating	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Accrued Interest	2021 Total	2020 Total
Total deposits	$ 495,551	$ 260,915	$ 399,376	$ 272,782	$ 411,649	$ 12,931	$1,853,204	$1,567,570
Average effective interest rate	0.00%	1.21%	1.49%	2.04%	1.79%		1.19%	1.55%

Average effective interest rates are based on book values and contractual interest rates.

10. Subordinated notes payable:

(thousands of Canadian dollars)

	2021	2020
Ten year term, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of $5.0 million, $500,000 is held by related party (note 20), effective interest rate of 10.41%, maturing March 2029.	$ 4,898	$ 4,889
Ten year term, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of USD $75.0 million, effective interest rate of 5.38%, maturing May 2031.	90,374	-
	$ 95,272	$ 4,889

On April 30, 2021 the Bank completed a private placement with U.S. institutional investors of non-viability contingent capital ("NVCC") compliant fixed to floating rate subordinated notes payable ("the Notes") in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest will be paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by the Bank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until the maturity date. The Notes will mature on May 1, 2031 unless earlier repurchased or redeemed in accordance with their terms. On or after May 1, 2026, the Bank may, at its option, with the prior approval of the Superintendent of Financial Institutions (Canada), redeem the Notes, in whole at any time or in part from time to time on not less than 30 nor more than 60 days' prior notice, at a redemption price which is equal to par, plus accrued and unpaid interest. Issue costs associated with the Notes were approximately CAD $2.6 million. Proceeds of the Notes are held in US dollar denominated cash.

11. Securitization liabilities:

Securitization liabilities include amounts payable to counterparties for cash received upon initiation of securitization transactions, accrued interest on amounts payable to counterparties, and the unamortized balance of deferred costs and discounts which arose upon initiation of the securitization transactions. During the quarter ended April 30, 2020, the Bank redeemed $24.5 million of maturing securitization liabilities. The amounts payable to counterparties, which bore an interest rate of 3.55%, matured in December 2020. Securitized residential insured mortgages and other assets were pledged as collateral for these liabilities.

12. Other liabilities:

(thousands of Canadian dollars)

	2021	2020
Accounts payable and other	$ 6,893	$ 4,233
Current income tax liability	2,949	-
Deferred income tax liability	898	-
Lease obligations	5,113	3,084
Cash collateral and amounts held in escrow	7,887	4,012
Holdbacks payable on loan and lease receivables	110,764	96,064
	$ 134,504	$ 107,393

Lease obligations reflect the Bank's liabilities under IFRS 16 that were adopted for the year ended October 31, 2020 (note 3). Upon initial recognition of the lease obligations the Bank also recognized right-of use assets (note 7) corresponding to the lease obligations. The lease obligations are related to the Bank's multiple leased premises. Effective November 1, 2019, the Bank adopted IFRS 16. Prior to the adoption of IFRS 16 the Bank's total minimum operating lease commitments as at October 31, 2019 were $6.8 million. The portion of the Bank's current leasing obligations that were not captured as part of the right-of-use assets continue to be expensed in premises and equipment.

The current leasing arrangements associated with these lease obligations expire between October 2025 and December 2045 with options to renew the leases after the initial lease period. Lease payments are adjusted every three to five years to reflect market rates.

13. Share Capital:

a) Authorized:

The Bank is authorized to issue an unlimited number of voting common shares with no par value.

The Bank is authorized to issue an unlimited number of Series 1 preferred shares with a par value of $ 10.00.

b) Issued and outstanding:

(thousands of Canadian dollars)

	2021		2020	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	21,123,559	$ 152,612	21,123,559	$ 152,612
Issued during the year	6,325,000	75,101	-	-
Cancelled during the year	(7,477)	(39)	-	-
Outstanding, end of year	27,441,082	$ 227,674	21,123,559	$ 152,612
Series 1 preferred shares:				
Outstanding, beginning and end of year	1,461,460	$ 13,647	1,461,460	$ 13,647
Series 3 preferred shares:				
Balance, beginning of the year	1,681,320	$ 15,690	1,681,320	$ 15,690
Redemption of preferred shares	(1,681,320)	(15,690)	-	-
Outstanding, end of year	-	$ -	1,681,320	$ 15,690
Contributed surplus:				
Balance, beginning and end of year		$ 145		$ 145
Total share capital		$ 241,466		$ 182,094

Common shares

On September 21, 2021 the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $ 10.00 per share, the equivalent of CAD $12.80 per share, for gross proceeds of USD $ 55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share, for gross proceeds of USD $8.3 million. Total net cash proceeds from the common share offering was CAD $ 73.2 million. However, the Bank's share capital increased by CAD $75.1 million corresponding to the Common Share Offering and tax effected issue costs in the amount of CAD $5.4 million.

13. Share capital – continued:

On October 7, 2021, the Bank cancelled, and returned to treasury, 7,477 common shares with a value of $39,000 or $5.24 per common share. The cancelled shares represent predecessor share classes which had not been deposited and exchanged for VersaBank common shares in connection with the Bank's amalgamation with PWC Capital Inc. on January 31, 2017.

Series 1 Preferred shares:

The Bank is authorized to issue an unlimited number of Series 1 preferred shares with a par value of $10.00. These preferred shares are Basel III-compliant, non-cumulative five year rate reset preferred shares which includes non-viability contingent capital ("NVCC") provisions which would require the preferred shares to be converted to common shares upon a trigger event (as defined by OSFI).

The holders of the Series 1 preferred shares are entitled to receive a non-cumulative fixed dividend in the amount of $0.6772 annually per share, payable quarterly, as and when declared by the Board of Directors for the period ending October 31, 2024. The dividend represents an annual yield of 6.772% based on the stated issue price per share. Thereafter, the dividend rate will reset every five years at a level of 543 basis points over the then five year Government of Canada bond yield.

The Bank maintains the right to redeem, subject to the approval of OSFI, up to all of the outstanding Series 1 preferred shares on October 31, 2024 and on October 31 every five years thereafter at a price of $10.00 per share. Should the Bank choose not to exercise its right to redeem the Series 1 preferred shares, holders of these shares will have the right to convert their shares into an equal number of non-cumulative, floating rate Series 2 preferred shares. Holders of Series 2 preferred shares will be entitled to receive quarterly floating dividends, as and when declared by the Board of Directors, equal to the 90-day Government of Canada Treasury bill rate plus 543 basis points.

Upon the occurrence of a trigger event (as defined by OSFI), each Series 1 or 2 preferred share will be automatically converted, without the consent of the holders, into common shares of the Bank. Conversion to common shares will be determined by dividing the preferred share conversion value ($10.00 per share plus any declared but unpaid dividends) by the common share value (the greater of (i) the floor price of $0.75 and (ii) the current market value price calculated as the volume weighted average trading price for the ten consecutive trading days ending on the day immediately prior to the date of the conversion).

13. Share capital – continued:

Series 3 Preferred shares:

On April 30, 2021, the Bank redeemed all of its 1,681,320 outstanding Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. Transaction costs, incurred at issuance in the amount of $1.1 million were applied against retained earnings.

14. Stock-based compensation:

Equity-settled stock options:

The Bank has a stock option plan for its employees and officers. Options are granted at an exercise price set at the closing market price of the Bank's common shares on the day preceding the date on which the option is granted and are exercisable within ten years of issue. Options are usually granted with graded vesting terms. One third of the grant vests immediately, one third vests on the first anniversary of the grant date, and one third vests on the second anniversary of the grant date. In limited cases, some options are granted with immediate vesting terms.

For the year ended October 31, 2021, the Bank recognized stock-based compensation expense of $nil (2020 - $nil). As at October 31, 2021, the outstanding options totaled 40,000 (2020 – 42,017). The options are fully vested and exercisable into common shares at $ 7.00 per share and expire on October 31, 2023. No stock options were granted during the years ended October 31, 2021 and October 31, 2020.

15. Income taxes:

Income taxes, including both the current and deferred portions, vary from the amounts that would be computed by applying the aggregated statutory federal and provincial tax rate of 27% (2020 – 27%) to income before income taxes. Income taxes have been computed as follows:

(thousands of Canadian dollars)

	2021	2020
Income before income taxes	$ 30,789	$ 26,752
Income tax rate	27%	27%
Expected income tax provision	8,313	7,223
Tax rate differential	(83)	(83)
Unrecognized deferred tax asset	159	109
Other permanent differences	20	98
Income taxes	$ 8,409	$ 7,347

15. Income taxes – continued:

Income taxes is comprised of the following:

(thousands of Canadian dollars)

	2021	2020
Current income taxes	$ 4,319	$ -
Deferred income taxes	4,090	7,347
Income taxes	$ 8,409	$ 7,347

The components of the recognized deferred income tax assets (liabilities) and related changes, as recognized in net income, equity or accumulated comprehensive income, are as follows:

(thousands of Canadian dollars)

	November 1, 2020	Recognized in net income	Recognized on acquisition of DBG	Recognized directly to equity	October 31, 2021
Allowance for credit losses	$ 474	$ (86)	$ -	$ -	$ 388
Loss carry forwards	4,166	(3,828)	-	-	338
Share issue and financing costs	87	(590)	-	1,876	1,373
Deposit commissions	(865)	(116)	-	-	(981)
Intangibles assets	-	-	(898)	-	(898)
Deferred loan fees	526	231	-	-	757
Other	757	299	-	-	1,056
Net deferred income tax assets	$ 5,145	$ (4,090)	$ (898)	$ 1,876	$ 2,033

(thousands of Canadian dollars)

	November 1, 2019	Recognized in net income	Recognized directly to equity	October 31, 2020
Allowance for credit losses	$ 566	$ (92)	$ -	$ 474
Loss carry forwards	10,294	(6,994)	866	4,166
Share issue and financing costs	162	(75)	-	87
Deposit commissions	(757)	(108)	-	(865)
Deferred loan fees	617	(91)	-	526
Other	744	13	-	757
Net deferred income tax assets	$ 11,626	$ (7,347)	$ 866	$ 5,145

15. Income taxes – continued:

The net deferred taxes are comprised of:

(thousands of Canadian dollars)	2021	2020
Deferred tax assets	$ 2,931	$ 5,145
Deferred tax liabilities	(898)	-
Net deferred income tax assets	$ 2,033	$ 5,145

The Bank is subject to Part VI.1 tax which is a 40% tax on dividends paid on taxable preferred shares under the Income Tax Act (Canada). The Part VI.1 tax of $631,000 (2020 - $866,000) and related tax recovery is recorded through equity.

At October 31, 2021, the Bank had income tax losses which can be carried forward to reduce taxable income in future years. These loss carry forwards of the Bank will expire, if unused, as follows:

(thousands of Canadian dollars)	Canadian Tax Losses	United States Tax Losses	Total
2034	$ -	$ -	$ -
2035	-	-	-
2036	-	-	-
2037	-	-	-
2038	55	-	55
2039	549	-	549
2040	631	-	631
No expiry	-	970	970
	$ 1,235	$ 970	$ 2,205

The deferred tax asset of $268,000 (2020 - $109,000) relating to the United States tax losses has not been recognized in these statements.

In addition, the Bank has approximately $ 9.5 million (2020 - $9.5 million) of capital loss carry forwards which may be applied against future capital gains and for which the deferred tax asset of $1.3 million (2020 - $1.3 million) has not been recognized.

A deferred tax liability on taxable temporary differences of approximately $ 1.5 million (2020 - $nil) relating to the Bank's investment in its subsidiaries was not recognized as the Bank is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

16. Per share amounts:

Basic and diluted income per common share

(thousands of Canadian dollars)

	2021	2020
Net income	$ 22,380	$ 19,405
Preferred share dividends paid	(1,578)	(2,168)
Net income available to common shareholders	20,802	17,237
Weighted average number of common shares outstanding	21,752,930	21,123,559
Basic and diluted income per common share:	$ 0.96	$ 0.82

The Series 1 NVCC preferred shares are contingently issuable shares and do not have a dilutive impact. The outstanding employee stock options are dilutive but are de minimis and therefore have no impact on the Bank's income per share amounts.

17. Nature and extent of risks arising from financial instruments:

Risk management involves the identification, ongoing assessment, managing and monitoring of material risks that could adversely affect the Bank. The Bank is exposed to credit risk, liquidity risk, and market risks.

Senior management is responsible for establishing the framework for identifying risks and developing appropriate risk management policies and procedures. The Bank's Board of Directors, either directly or indirectly through its committees, reviews and approves corporate policies, including specific reporting procedures. This enables them to monitor ongoing compliance with policies, delegate limits and review management's assessment of risk in its material risk taking activities. The Bank's Chief Internal Auditor provides a periodic review of policies and procedures to ensure that they are appropriate, effective and being followed and that adequate controls are in place in order to mitigate risk to acceptable levels. The Chief Internal Auditor reports directly to the Audit Committee of the Board of Directors. In addition, the Bank has an ongoing risk and compliance management program with the Chief Compliance Officer, who reports directly to the Board of Directors, and the Chief Risk Officer, who reports directly to the Risk Oversight Committee.

Credit Risk

Credit risk is the risk of loss associated with a borrower, guarantor, or counterparty's inability or unwillingness to fulfill its contractual obligations. The Bank is exposed to credit risk primarily as a result of its lending activities but also, from time to time, as a result of investing in securities. The Bank manages its lending activity credit risk using policies that have been recommended by the Chief Credit Officer and the Chief Risk Officer to the Risk Oversight Committee, who then recommend the policies to the Board of Directors for approval. These policies consist of approval procedures and limits on loan amounts, portfolio concentration, geographic concentration, industry concentration, asset category, loans to any one entity and associated groups, a risk rating policy that provides for risk rating each asset in its total asset portfolio, and early recognition of problem accounts with an action plan for each account. The Risk Oversight Committee reviews these policies on an ongoing basis.

17. Nature and extent of risks arising from financial instruments – continued:

Motivated by the volatility in the Canadian economy attributable to the impact of COVID- 19, the Bank's credit risk department has taken a number of steps to increase the frequency and comprehensiveness of its review and assessment of the Bank's credit risk profile as well as in its monitoring of the general activity within each of the Bank's lending portfolios, including annual and interim reviews, risk rating adjustments, new credit volumes, funding requirements, requests for deferrals, concessions or restructurings and any risk rating adjustments precipitating from same. Further, the Bank's credit risk department maintains a rigorous review of adherence to the Bank's credit adjudication policies.

The Bank manages credit risk associated with securities included in its Treasury portfolio by applying policies that have been recommended by the Chief Credit Officer to the Risk Oversight Committee, which then recommends the policies to the Board of Directors for approval. These policies consist of approval procedures and restrictions in the selection of security dealers, restrictions in the nature of securities selected, and in setting securities portfolio concentration limits. The Risk Oversight Committee reviews these policies on an ongoing basis.

The Risk Oversight Committee, comprised entirely of independent directors, performs the following functions related to credit risk:

- Recommends policies governing management of credit risks to the Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure they are prudent and appropriate given possible changes in market conditions and corporate strategy.
- Concurs with credits exceeding the levels delegated to management, prior to commitment.
- Reviews, on a regular basis, watchlist accounts, impaired loans and accounts that have gone into arrears and expected credit loss analysis on a quarterly basis.

See note 6 for information relating to credit risk associated with loans.

There was no material change in the Bank's processes for managing credit risk during the year.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet the demand for cash to fund obligations as they come due. The Bank is exposed to liquidity risk as a result of timing differences in the cash flows of its lending activities, security investment activities and deposit taking activities. The Bank has established policies to ensure that its cash outflows and inflows are closely matched and that its sources of deposits are diversified between funding sources and over a wide geographic area. With the onset of COVID-19, management considered the general activity and trends in its key deposit markets, the expected duration, scope and impact of active monetary and fiscal policy stimulus programs and the anticipated impact of same on its future cashflow requirements in its assessment of the Bank's liquidity risk profile.

17. Nature and extent of risks arising from financial instruments – continued:

The Risk Oversight Committee recommends policies governing management of liquidity risk to the Board for approval and reviews liquidity policies on an ongoing basis. It receives and reviews quarterly securities portfolio reports and liquidity risk reports from management relating to its liquidity position. Additionally, an Asset Liability Committee, consisting of members of senior management, monitors liquidity risk, reviews compliance with policies and discusses strategies in this area.

See note 18 for information relating to liquidity risk associated with the Bank's asset and liability gaps in maturities. There was no material change in the Bank's processes for managing liquidity risk during the year.

Market Risk

Market risk is the risk of a negative impact on the balance sheet and/or income statement resulting from changes or volatility in market factors such as interest rates or market prices. The Bank's principal market risk arises from interest rate risk as the Bank does not consistently undertake any foreign exchange or trading activities. The Risk Oversight Committee is charged with recommending policies that govern market risk to its Board of Directors for approval and with reviewing the policies on an ongoing basis.

Foreign exchange risk or currency risk is the risk that transacting in any currency apart from the Bank's base currency can result in gains or losses due to currency fluctuations resulting in the possibility that a foreign denominated transaction's value may decrease due to changes in the relative value of the currency pair. Any appreciation/depreciation in the foreign currency versus the local currency will give rise to foreign exchange risk. The Bank does not consistently undertake any foreign exchange or trading activities, but actively manages any material foreign exchange risk exposure derived from the Bank's normal course business activities through, where possible the establishment of a natural foreign currency hedge or, if necessary through foreign exchange contracts established with high quality counterparties in order to mitigate the impact of changes in foreign exchange rates on the Bank's financial results and position.

Interest rate risk is the risk that a movement in interest rates could negatively impact spread, net interest income and the economic value of assets, liabilities and shareholders' equity. The Bank manages interest rate risk by employing a number of methods including income simulation analysis and interest rate sensitivity gap and duration analysis. Management prepares regular reports to the Board to allow for ongoing monitoring of the Bank's interest rate risk position. The Asset Liability Committee reviews the results of these analyses on a monthly basis and monitors compliance with limits set by corporate policy.

The management of interest rate risk also includes stress testing the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point (bps) parallel upward and downward shift in all yield curves applicable to the Bank.

17. Nature and extent of risks arising from financial instruments – continued:

The results of an analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a static balance sheet are set out below:

Interest Rate Position

(thousands of Canadian dollars)

	2021		2020	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Increase (decrease):				
Sensitivity of projected net interest income during a 12 month period	$ 4,147	$ (3,220)	$ 2,569	$ (2,099)
Sensitivity of reported equity during a 60 month period	1,603	(1,586)	(2,527)	1,604
Duration difference between assets and liabilities (months)	2.3		0.6	

There was no material change in the Bank's processes for managing interest rate risk during the year.

As at October 31, 2021 and October 31, 2020 the Bank did not have any outstanding contracts to hedge fair value exposure attributed to interest rate risk. The Bank uses on-balance sheet strategies to manage its interest rate risk.

18. Interest rate risk and liquidity risk:

The Bank is exposed to interest rate risk as a consequence of the mismatch, or gap, between assets and liabilities scheduled to mature or reset on particular dates. The gaps, which existed at October 31, 2021 are set out below:

(thousands of Canadian dollars)

	Floating rate	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets								
Cash	$ 271,523	$ -	$ -	$ -	$ -	$ -	$ -	$ 271,523
Effective rate	0.70%							
Loans	659,508	51,453	246,853	231,885	752,776	153,833	6,742	2,103,050
Effective rate	5.01%	5.18%	4.02%	4.78%	4.28%	3.79%		
Other	-	-	-	-	-	-	40,513	40,513
Effective rate								
Total Assets	$ 931,031	$ 51,453	$ 246,853	$ 231,885	$ 752,776	$ 153,833	$ 47,255	$2,415,086
Liabilities								
Deposits	$ 495,551	$ 260,915	$ 399,376	$ 272,782	$ 411,649	$ -	$ 12,931	$1,853,204
Effective rate	0.00%	1.21%	1.49%	2.04%	1.79%			
Subordinated notes	-	-	-	-	-	95,272	-	95,272
Effective rate						5.64%		
Other	118,651	-	-	-	-	-	15,853	134,504
Effective rate	0.33%							
Equity	-	-	-	-	13,647	-	318,459	332,106
Effective rate					6.77%			
Total liabilities and equity	$ 614,202	$ 260,915	$ 399,376	$ 272,782	$ 425,296	$ 95,272	$ 347,243	$2,415,086
October 31, 2021 gap	$ 316,829	$ (209,462)	$ (152,523)	$ (40,897)	$ 327,480	$ 58,561	$ (299,988)	$ -
Cumulative	$ 316,829	$ 107,367	$ (45,156)	$ (86,053)	$ 241,427	$ 299,988	$ -	$ -
October 31, 2020 gap	$ 208,947	$ (156,219)	$ (188,721)	$ (130,629)	$ 338,148	$ 148,676	$ (220,202)	$ -
Cumulative	$ 208,947	$ 52,728	$ (135,993)	$ (266,622)	$ 71,526	$ 220,202	$ -	$ -

19. Fair value of financial instruments:

The amounts set out in the table below represent the fair value of the Bank's financial instruments:

(thousands of Canadian dollars)

	2021		2020	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash	$ 271,523	$ 271,523	$ 257,644	$ 257,644
Loans	2,103,050	2,118,636	1,654,910	1,665,473
Other financial assets	3,596	3,596	8,897	8,897
Liabilities				
Deposits	$ 1,853,204	$ 1,860,332	$ 1,567,570	$ 1,607,495
Subordinated notes payable	95,272	97,910	4,889	5,000
Securitization liabilities	-	-	8,745	8,778
Other financial liabilities	130,657	130,657	107,393	107,393

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 matters of judgment and as such, may not be reflective of future fair values. The Bank's loans and deposits lack an available market as they are not typically exchanged. Therefore, they have been valued as described below and are not necessarily representative of amounts realizable upon immediate settlement.

The fair value amounts have been determined using the following valuation methods and assumptions:

- The fair value of loans is based on net discounted cash flows using market interest rates and applicable credit spreads for borrowers.
- The fair value of deposits is determined based on discounted cash flows using market interest rates.
- The fair value of subordinated notes payable is determined by referring to current values for similar debt instruments.
- The fair value of securitization liabilities is determined based on discounted cash flows using market interest rates.
- The fair value of other financial assets is approximately equal to their book value due to the short-term nature of the instruments except for the investment in Stablecorp which is measured at fair value at each reporting period with changes in value reflected in the Bank's other comprehensive income. The estimated fair value of the Stablecorp investment was based on a Level 3 fair value hierarchy, which did not use inputs that are based on observable market data given that the entity is privately-held.
- The fair value of other financial liabilities is approximately equal to their book value due to the short-term nature of the instruments except for lease obligations. However, the fair value of the Bank's lease obligations is approximately equal to their book value given that there has been no movement in the market interest rates associated with these leases.

20. Related party transactions:

The Bank's Board of Directors and Senior Executive Officers represent key management personnel and the Bank has issued loans and advances to some of these individuals. At October 31, 2021, amounts due from key management personnel totalled $ 1.5 million (2020 - $1.4 million) and an amount due from a corporation controlled by key management personnel totalled $ 2.8 million (2020 - $2.6 million). The interest rates charged on loans and advances to related parties are based on mutually agreed upon terms. Interest income earned on related party loans for the year ended October 31, 2021 totalled $83,000 (2020 - $62,000). There were no specific provisions for credit losses associated with loans issued to key management personnel (2020 - $nil), and all loans issued to key management personnel were current as at October 31, 2021 and 2020.

In March 2019, the Bank issued a $500,000 subordinated note payable to key management personnel which bears an interest rate of 10% and matures in March 2029 (note 10).

Total compensation expense recognized for key management personnel for the year ended October 31, 2021, was $6.1 million (2020 - $5.4 million).

21. Commitments and contingencies:

a) Credit commitments:

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obliged to extend. Under certain circumstances, the Bank may cancel loan commitments at its option. Letters of credit amounts are not necessarily indicative of the associated credit risk exposure as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

(thousands of Canadian dollars)

	2021	2020
Loan commitments	$ 296,248	$ 238,724
Letters of credit	46,462	50,284
	$ 342,710	$ 289,008

21. Commitments and contingencies - continued:

b) Pledged assets:

In the ordinary course of business, assets are pledged against the following off-balance sheet items:

(thousands of Canadian dollars)

	2021	2020
Securitized contracts	$ -	$ 1,318
Letters of credit	7,803	3,914
	$ 7,803	$ 5,232

22. 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 consumer 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 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 policies 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. Further to this, and as a result of the onset of COVID-19 and the economic uncertainty precipitated by same,

22. Capital management - continued:

OSFI introduced guidance over the course of the second quarter of fiscal 2020 that set out transitional arrangements pertaining to the capital treatment of expected credit loss provisioning which allows for a portion of eligible ECL allowance amounts to be included in CET1 capital, on a transitional basis, over the course of the period ranging between 2020 and 2022 inclusive. The portion of the Bank's ECL allowance that is eligible for inclusion in CET1 capital is calculated as the increase in the sum of Stage 1 and Stage 2 ECL allowance amounts estimated in the current period relative to the sum of Stage 1 and Stage 2 ECL allowance amounts estimated for the baseline period, which has been designated by OSFI to be the three months ended January 31, 2020, adjusted for tax effects and multiplied by a scaling factor. The scaling factor was set by OSFI at 70% for fiscal 2020, 50% for fiscal 2021 and 25% for fiscal 2022. The impact of the capital treatment of expected credit loss provisioning on the Bank's capital levels and associated capital ratios is presented in the table below.

On April 30, 2021, the Bank redeemed all of its 1,681,320 outstanding Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. Transaction costs, incurred at issuance in the amount of $1.1 million were applied against retained earnings.

On April 30, 2021, the Bank completed a private placement of NVCC compliant fixed to floating rate subordinated notes ("the Notes"), in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest will be paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by the Bank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until the maturity date. Proceeds of the Notes are held in US dollar denominated cash. Upon issuance of the Notes, the Bank received confirmation from the Office of the Superintendent of Financial Institutions (Canada) ("OSFI"), that the Notes qualify as Tier 2 capital of the Bank pursuant to OSFI's Capital Adequacy Requirements (CAR) Guideline, including the NVCC Requirements specified in section 2.2 of the CAR Guideline.

On September 21, 2021 the Bank completed a Treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, the equivalent of CAD $12.80 for gross proceeds of USD $55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share for gross proceeds of USD $8.3 million. Total net proceeds of the offering were CAD $73.2 million (note 13), however, the Bank's regulatory capital increased by CAD $75.1 million corresponding to the Common Share Offering and tax effected issue costs in the amount of CAD $5.4 million.

22. Capital management - continued:

During the year ended October 31, 2021, 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 between 0% to 150% to determine the Bank's risk weighted equivalent assets and its risk-based capital ratios.

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

(thousands of Canadian dollars)

	2021 "Transitional"	2021 "All in"	2020 "All in"
Common Equity Tier 1 (CET1) capital			
Directly issued qualifying common share capital	$ 227,819	$ 227,819	$ 152,757
Retained earnings	90,644	90,644	73,194
Accumulated other comprehensive income	(4)	(4)	-
CET1 before regulatory adjustments	318,459	318,459	225,951
Regulatory adjustments applied to CET1	(12,751)	(12,751)	(6,592)
Common Equity Tier 1 capital	$ 305,708	$ 305,708	$ 219,359
Additional Tier 1 capital			
Directly issued qualifying Additional Tier 1 instruments	$ 13,647	$ 13,647	$ 29,337
Total Tier 1 capital	$ 319,355	$ 319,355	$ 248,696
Tier 2 capital			
Directly issued capital instruments	$ 97,910	$ 97,910	$ 5,000
Tier 2 capital before regulatory adjustments	97,910	97,910	5,000
Eligible stage 1 and stage 2 allowance	1,453	1,453	1,775
Total Tier 2 capital	$ 99,363	$ 99,363	$ 6,775
Total regulatory capital	$ 418,718	$ 418,718	$ 255,471
Total risk-weighted assets	$ 2,013,544	$ 2,013,544	$ 1,580,939
Capital ratios			
CET1 capital ratio	15.18%	15.18%	13.88%
Tier 1 capital ratio	15.86%	15.86%	15.73%
Total capital ratio	20.80%	20.80%	16.16%

22. Capital management – continued:

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:

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(thousands of Canadian dollars)

	2021 "Transitional"	2021 "All-in"	2020 "All-in"
On-balance sheet assets	$ 2,415,086	$ 2,415,086	$ 1,943,885
Asset amounts adjusted in determining the Basel III Tier 1 capital	(12,751)	(12,751)	(6,592)
Total on-balance sheet exposures	2,402,335	2,402,335	1,937,293
Off-balance sheet exposure at gross notional amount	$ 342,710	$ 342,710	$ 289,008
Adjustments for conversion to credit equivalent amount	(210,065)	(210,065)	(186,524)
Off-balance sheet exposures	132,645	132,645	102,484
Tier 1 capital	319,355	319,355	248,696
Total exposures	2,534,980	2,534,980	2,039,777
Leverage ratio	12.60%	12.60%	12.19%

As at October 31, 2021 and 2020, the Bank was in compliance with the leverage ratio prescribed by OSFI.

23. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.



Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") of operations and financial condition for the year ended October 31, 2021, dated November 30, 2021, should be read in conjunction with VersaBank's Audited Consolidated Financial Statements for the year ended October 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and is available on VersaBank's website at www.versabank.com, SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.shtml. All currency amounts in this document are in Canadian dollars unless otherwise indicated.

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Cautionary Note Regarding Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of the Bank's control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Bank conducts operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; global commodity prices; the effects of competition in the markets in which the Bank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the ability of the Bank to grow its business and execute its strategy in the US market; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; the impact of COVID-19 and the Bank's anticipation of and success in managing the risks implicated by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The forward-looking information contained in the management's discussion and analysis is presented to assist our shareholders and others in understanding our financial position and may not be appropriate for any other purposes. Except as required by securities law, we do not undertake to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Bank or on its behalf.

Overview

VersaBank is a Canadian Schedule I chartered bank with a difference. VersaBank became the world's first fully digital financial institution when it adopted its highly efficient business-to-business model using its proprietary state-of-the-art financial technology to profitably address underserved segments of the Canadian banking market in the pursuit of superior net interest margins while mitigating risk. VersaBank obtains all of its deposits and provides the majority of its loans and leases electronically, with innovative deposit and lending solutions for financial intermediaries that allow them to excel in their core businesses. In addition, leveraging its internally developed IT security software and capabilities, VersaBank established wholly owned, Washington, DC-based subsidiary, DRT Cyber Inc. to pursue significant large-market opportunities in cybersecurity and develop innovative solutions to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations and government entities on a daily basis.

VersaBank's Common Shares trade on the Toronto Stock Exchange under the symbol VB and on the Nasdaq under the symbol VBNK. Its Series 1 Preferred Shares trade on the Toronto Stock Exchange under the symbol VB.PR.A.

Strategy

VersaBank's strategy is to utilize proprietary software and established non-branch financial product distribution channels to deliver innovative commercial and consumer lending and deposit products to select clients operating in niche markets across Canada.

Update on impact of COVID-19 pandemic

The impact of COVID-19 on communities, businesses and the Canadian economy has abated over the last half of the calendar year with the rapid distribution and adoption of the vaccines allowing for a progressive reopening of the Canadian economy as well as stimulating improved consumer and business confidence. As a digital bank with a low-risk business-to-business, partner-based model, VersaBank has remained relatively insulated from many of the negative influences of COVID-19. Our staff continues to work remotely, leveraging our fully functional Work-From-Home solution which was a natural and seamless evolution of the Bank's branchless, technology-driven model. Notwithstanding the above, management has developed a return-to-work strategy, which is scheduled to be initiated in the first quarter of fiscal 2022.

We continue to have no loans on our balance sheet that are subject to payment deferrals, no impaired loans and no loans in arrears, however, at the same time, we continue to operate at a heightened level of awareness to ensure that our origination and underwriting practices remain highly disciplined and focused.

The rate of vaccine distribution and the continued effectiveness of the vaccines at minimizing hospitalizations precipitated by the new variants will be, in our view, key drivers of the continued recovery of the Canadian economy in the short to medium term. As we navigate past the business and operational challenges imposed by the continued impact of COVID-19, the Bank continues to focus on increasing earnings by concentrating on niche markets that support modestly better pricing for its products and by leveraging its diverse deposit gathering network that provides efficient access to a range of low-cost deposit sources in order to maintain a lower cost of funds.

The underlying drivers of the Bank's performance trends for the current and comparative periods are set out in the following sections of this MD&A.

Overview of Performance



* This is a non-GAAP measure. See definition in "Non-GAAP and Other Financial Measures".

FY 2021 vs FY 2020

- Loans were up 27% to $2.10 billion attributable to strong growth in the Bank's commercial real estate, ("CRE") and point of sale ("POS") loan and lease receivable portfolios;
- Total revenue was up 21% to $65.4 million, comprised of net interest income in the amount of $60.2 million and non-interest income in the amount of $5.2 million, the latter derived primarily from the Bank's technology and cybersecurity operations (See *Acquisition of DBG* in the *Financial Review – Balance Sheet)*;
- Net income was up 15% to $22.4 million and EPS was up 17% to $0.96 per share;
- Net interest margin (NIM) was down 14 bps to 2.76% as a function primarily of yield compression on lending assets over the course of the period as well as lower yields earned on elevated cash balances offset partially by lower cost of funds;
- Core cash earnings were up 15% to $30.8 million; and,
- Recovery of credit losses were $438,000 compared to a recovery of credit losses of $344,000.

Items of note

FY 2021

- On September 21, 2021 the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, the equivalent of CAD $12.80 per share, for gross proceeds of USD $55.0 million and on September 29, 2021 the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share, for gross proceeds of USD $8.3 million, collectively ("the Common Share Offering"). Total net cash proceeds from the Common Share Offering was CAD $73.2 million. However, the Bank's share capital increased by CAD $75.1 million as a function of the Common Share Offering and tax effected issue costs in the amount of $5.4 million. The Bank listed on the Nasdaq under the symbol VBNK concurrent with the Common Share Offering on September 21, 2021;
- On April 30, 2021, the Bank completed a private placement with U.S. institutional investors of non-viability contingent capital ("NVCC") compliant fixed to floating rate subordinated notes payable ("the Notes"), in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest will be paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by VersaBank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until maturity in May 2031. Proceeds of the Notes are currently held in US dollar denominated cash. Egan-Jones Ratings Company assigned the Notes and the Bank an "A-" and "A" rating respectively, at the time of the private placement;
- On April 30, 2021, the Bank redeemed all of its outstanding Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million;
- On January 4, 2021, the Bank announced the appointment of Peter Irwin to the Bank's Board of Directors, filling the vacant position left by the sudden passing of Colin E. Litton in December 2020. Mr. Irwin brings to the VersaBank Board more than 30 years of leadership experience in the Canadian financial services industry. His extensive background includes investment banking, capital markets, corporate development, merchant banking and private equity; and,
- On November 30, 2020, the Bank's wholly owned subsidiary DRT Cyber Inc. ("DRTC") acquired 100% of the shares of 2021945 Ontario Inc., operating as Digital Boundary Group ("DBG"), in exchange for $8.5 million in cash and a deferred payment obligation of $1.4 million, for total consideration of $9.9 million. See *Acquisition of DBG* in the *Financial Review – Balance Sheet* section below for details.

Selected Financial Highlights

(unaudited)

($CDN thousands except per share amounts)	October 31 2021	October 31 2020	October 31 2019
Results of operations			
Interest income	$ 89,488	$ 86,094	$ 88,305
Net interest income	60,157	54,125	53,897
Non-interest income	5,200	60	22
Total revenue	65,357	54,185	53,919
Provision for (recovery of) credit losses	(438)	(344)	(298)
Non-interest expenses	35,006	27,777	26,396
Core cash earnings*	30,789	26,752	27,821
Net income	**22,380**	**19,405**	**20,196**
Income per common share:			
Basic	$ 0.96	$ 0.82	$ 0.85
Diluted	$ 0.96	$ 0.82	$ 0.85
Dividends paid on preferred shares	$ 1,578	$ 2,168	$ 2,201
Dividends paid on common shares	$ 2,268	$ 2,112	$ 1,477
Yield*	4.11%	4.62%	4.91%
Cost of funds*	1.35%	1.71%	1.91%
Net interest margin*	2.76%	2.90%	3.00%
Return on common equity*	8.45%	7.89%	8.89%
Book value per common share*	$ 11.61	$ 10.70	$ 9.98
Efficiency ratio*	53.56%	51.26%	48.95%
Full time employees	145	98	92
Return on total assets*	0.95%	0.92%	1.00%
Gross impaired loans to total loans*	0.00%	0.00%	0.39%
Provision for (recovery of) credit losses as a % of average loans*	(0.02%)	(0.02%)	(0.02%)
		as at	
Balance Sheet Summary			
Cash	$ 271,523	$ 257,644	$ 149,206
Loans, net of allowance for credit losses	2,103,050	1,654,910	1,594,288
Average loans*	1,878,980	1,624,599	1,612,657
Total assets	2,415,086	1,943,885	1,785,381
Deposits	1,853,204	1,567,570	1,399,889
Subordinated notes payable	95,272	4,889	4,881
Shareholders' equity	332,106	255,288	240,163
Capital ratios**			
Risk-weighted assets	$ 2,013,544	$ 1,580,939	$ 1,501,435
Common Equity Tier 1 capital	305,708	219,359	197,545
Total regulatory capital	418,718	255,471	231,882
Common Equity Tier 1 (CET1) capital ratio	15.18%	13.88%	13.16%
Tier 1 capital ratio	15.86%	15.73%	15.11%
Total capital ratio	20.80%	16.16%	15.44%
Leverage ratio	12.60%	12.19%	11.99%

* See definition in "Non-GAAP and Other Financial Measures".

** Capital management and leverage measures are in accordance with OSFI's Capital Adequacy Requirements and Basel III Accord.

Business Outlook

The Bank remains active in niche markets that support more attractive pricing for its lending products, and further, continues to develop and expand its diverse deposit gathering network that provides efficient access to a range of low-cost deposit sources. In addition, the Bank remains highly committed to, and focused on further developing and enhancing its technology advantage, a key component of its value proposition that not only provides efficient access to the Bank's chosen niche lending and deposit markets, but also delivers superior financial products and better customer service to its clients.

While the Bank does not provide guidance on specific performance metrics, we provide commentary below related to aspects of our business and certain expected trends related to same that, in management's view could potentially impact future performance.

Lending Assets

- The Bank anticipates that fiscal 2022 will bring continued growth in the commercial mortgage space, particularly with respect to financing for residential housing properties. The Bank anticipates that this demand will be attributable to development in communities on the periphery of the GTA as a result of consumers continuing to seek more affordable housing outside of the city centres and the government seeking to revitalize immigration programs as a result of improving epidemiological trends and the relaxation of restrictions imposed to mitigate the impact of COVID-19 on communities and the Canadian economy. Management remains of the view that the multi-unit residential rental sector remains one of the most stable and low-risk sectors in the real estate market. Further, as COVID-19 restrictions continue to abate, management anticipates higher origination volumes related to commercial asset classes such as student housing and commercial and retail property types as the risk profile associated with this asset class realigns with the Bank's risk appetite. Finally, management continues to pursue opportunities to develop more meaningful balance sheet exposure to the B20 compliant conventional, uninsured mortgage financing space; and,
- Despite the fact that consumption was somewhat more muted during the latter half of the previous fiscal period than originally anticipated, consumer spending is still expected to be strong in the coming fiscal year as COVID-19 restrictions are expected to be mitigated, and in many cases may be removed altogether resulting in consumers having more opportunities to deploy their excess savings into durable goods. Management anticipates that these circumstances will precipitate continued, strong spending on home improvements, as well as home purchases for which the Bank's POS loan and lease origination partners provide financing. This, along with the anticipated addition of new origination partners and the Bank's entrance into the US market represent key drivers of POS balance sheet growth over the course of fiscal 2022.

Credit Quality

- The Bank lends to niche markets that support more attractive pricing for its lending products but typically exhibit a lower than average risk profile generally as a function of the lower inherent risk associated with the underlying collateral assets and/or the structure of the Bank's offered financing arrangements;
- We continue to have no loans on our balance sheet that are subject to payment deferrals, no impaired loans and no loans in arrears, however, we continue to monitor our lending portfolio and the underlying borrowers as well as our origination partners closely to ensure that management has good visibility on credit trends that could provide an early warning indication of the emergence of any elevated risk in our lending portfolio;
- Forward-looking macroeconomic and industry data remains somewhat uncertain and as a result, management anticipates that estimated expected credit loss ("ECL") amounts will continue to exhibit modest volatility over the course of fiscal 2022, most specifically as a function of the rate of vaccine distribution and effectiveness, consumption growth, employment rates, the rate of appreciation of Canadian house prices, as well as changes to monetary policy and the impact of same on inflation. Notwithstanding the above, the Bank also expects that the magnitude of the volatility exhibited in its forward ECL amounts will be further mitigated by the lower risk profile of the Bank's lending portfolio which is a function of the Bank's prudent underwriting practices and its focus on niche financing markets within which it has a wealth of experience; and,
- 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. These credit risk modeling systems are used in conjunction with the Bank's internally developed ECL models. We continue to see improving trends in the macroeconomic data used as forward-looking information in our credit risk models and depending on the growth trajectory and composition of our lending portfolio, these improving trends could result in the Bank recognizing lower provisions for credit losses, or potentially even recognizing further recoveries in the coming quarters. However, if the performance of the Canadian economy is not aligned with the current forecast macroeconomic trends, and further, begins to deteriorate, our borrowers could be exposed to credit risk that could result in loan deferrals and/or loan defaults and have an unfavourable impact on our estimated ECL.

Funding and Liquidity

- Funding costs were down year over year as a function of changes to our funding mix attributable primarily to continued growth in the Bank's Trustee Integrated Banking ("TIB") program, the impact of which was offset partially by the issuance of the Notes on April 30, 2021. Management anticipates that commercial deposit volumes raised through the TIB program will continue to grow over the course of fiscal 2022 as a function of an increase in the volume of consumer bankruptcy and proposal restructuring proceedings over the fiscal period attributable primarily to the impact of a number of federal government support programs coming to an end, increased court activity, increased collection actions and potentially higher interest rates as a result of the Bank of Canada tightening monetary policy over the course of the year. Further, the Bank continues to grow and expand its well-established, diverse deposit broker network through which it sources personal deposits, consisting primarily of guaranteed investment certificates; and,

- The Bank's liquidity levels were up year over year as a function primarily of the impact of the issuance of the Notes on April 30, 2021 for net cash proceeds of $89.5 million and the completion of the Common Share Offering in September 2021 for total net cash proceeds of $73.2 million offset partially by the Bank funding lending asset growth of 27% year over year. Management anticipates that liquidity levels will return to more normalized levels early in fiscal 2022 as the Bank continues to fund anticipated, additional balance sheet growth across each of its lines of business.

Earnings and Capital

- Earnings growth in fiscal 2022 will be realized as a function primarily of anticipated organic balance sheet growth and incremental earnings contributions from the Bank's technology and cybersecurity operations;
- Net interest income is expected to be up year over year as a function primarily of the expansion of each of our core business lines across key lending asset categories, the continued deployment of excess liquidity into higher yielding lending assets and the expectation that the Bank will be able to continue to maintain, and potentially further moderate its cost of funds over the course of the year;
- Non-interest income growth will be a function primarily of the Bank's technology and cybersecurity business DRT Cyber Inc. deploying its suite of cybersecurity solutions into the market which includes financial institutions, multi-national corporations and government entities;
- The Bank's capital ratios are currently well in excess of regulatory minimums. The September 2021 Common Share Offering, combined with the April 30, 2021 issuance of the Notes resulted in the Bank's CET 1 and Total regulatory capital increasing by $75.1 million and $92.1 million as at the respective issuance dates. Management is of the view that the Bank's current capital levels are sufficient to accommodate anticipated, medium term balance sheet growth, however; management will continue to closely monitor the capital markets to identify opportunities for the Bank to raise additional regulatory capital on attractive terms in order to position the Bank to support a potentially more robust growth profile; and,
- Management does not anticipate increasing the Bank's dividend rate over the course of fiscal 2022 in order to ensure that it continues to have adequate regulatory capital available to support the balance sheet growth currently contemplated over the same period and remain in compliance with its established regulatory capital ratio targets and thresholds.

There is potential that the Bank may not realize or achieve the anticipated performance trends set out above as a function of a number of factors and variables including, but not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Bank conducts operations; the effects of changes in monetary and fiscal policy, including changes in the interest rate policies of the Bank of Canada; global commodity prices; the effects of competition in the markets in which the Bank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the ability of the Bank to grow its business and execute its strategy in the US market; the impact of changes in the laws and regulations regulating financial services; and the impact of COVID-19 on the Canadian economy. Please see “Cautionary Note Regarding Forward-Looking Statements” on page 2 of this MD&A.

Financial Review - Earnings

Total Revenue

Total revenue, consisting of net interest income and non-interest income was up 21% to $65.4 million compared to last year.

(thousands of Canadian dollars)

For the year ended:	October 31 2021	October 31 2020	Change
Interest income			
Commercial real estate mortgages	$ 37,950	$ 33,581	13%
Commercial real estate loans	1,384	1,157	20%
Point of sale loans and leases	48,215	47,710	1%
Public sector and other financing	506	784	(35%)
Other	1,433	2,862	(50%)
Interest income	$ 89,488	$ 86,094	4%
Interest expense			
Deposit and other	$ 26,446	$ 31,461	(16%)
Subordinated notes	2,885	508	468%
Interest expense	$ 29,331	$ 31,969	(8%)
Net interest income	$ 60,157	$ 54,125	11%
Non-interest income	$ 5,200	$ 60	8567%
Total revenue	$ 65,357	$ 54,185	21%

Net Interest Income

FY 2021 vs FY 2020

Net interest income was up 11% to $60.2 million as a function primarily of:

- Higher interest income earned on the Bank's CRE and POS loan and lease receivable portfolios attributable primarily to strong lending asset growth;
- Lower interest expense on commercial deposits attributable to growth in operating accounts that the Bank makes available to Canadian insolvency professionals; and,
- Lower interest expense on personal deposits.

Offset partially by:

- Lower yields earned on floating rate lending assets attributable primarily to the impact of accommodative monetary policy established by the Bank of Canada early in the spring of 2020;
- Lower yields earned on elevated cash balances;
- Higher interest expense attributable to the Notes; and,
- Higher fees recognized in the comparative period attributable to the negotiated, early repurchase of a portfolio of loan and lease receivables by one of the Bank's POS origination partners.

Net Interest Margin

(thousands of Canadian dollars)

For the year ended:	October 31 2021	October 31 2020	Change
Interest income	$ 89,488	$ 86,094	4%
Interest expense	29,331	31,969	(8%)
Net interest income	60,157	54,125	11%
Average assets	$ 2,179,486	$ 1,864,633	17%
Yield*	4.11%	4.62%	(11%)
Cost of funds*	1.35%	1.71%	(21%)
Net interest margin*	2.76%	2.90%	(5%)

* See definition in "Non-GAAP and Other Financial Measures".

FY 2021 vs FY 2020

Net interest margin was down 14 bps to 2.76% as a function primarily of:

- Lower yields earned on floating rate lending assets attributable primarily to the impact of accommodative monetary policy established by the Bank of Canada early in the spring of 2020;
- Lower yields earned on elevated cash balances;
- Higher yields earned in the comparative period attributable primarily to higher fees recognized on the negotiated, early repurchase of a portfolio of loan and lease receivables by one of the Bank's POS origination partners; and,
- Higher interest expense attributable to the Notes.

Offset partially by:

- Lower interest expense on commercial deposits attributable to growth in operating accounts that the Bank makes available to Canadian insolvency professionals; and,
- Lower interest expense on personal deposits.

Non-Interest Income

Non-interest income reflects the consolidation of the gross profit of DBG and income derived from miscellaneous transaction fees not directly attributable to lending assets. For further details on the Bank's acquisition of DBG see *Acquisition of DBG* in the *Financial Review – Balance Sheet* section below.

Non-interest income for the year ended October 31, 2021 was $5.2 million compared to $60,000 a year ago. Non-interest income recognized in the current year reflects the consolidation of the gross profit of DBG in the amount of $5.2 million realized on sales of $8.5 million over the same period.

Provision for Credit Losses

(thousands of Canadian dollars)

For the year ended:	October 31 2021	October 31 2020
Provision for (recovery of) credit losses by lending asset:		
Commercial real estate mortgages	$ (252)	$ (406)
Commercial real estate loans	(92)	59
Point of sale loans and leases	60	(14)
Public sector and other financing	(154)	17
Total provision for (recovery of) credit losses	$ (438)	$ (344)

FY 2021 vs FY 2020

Recovery of credit losses in the amount of $438,000 compared to a recovery of credit losses in the amount of $344,000 last year was a function primarily of:

- Changes in the forward-looking information used by the Bank in its credit risk models in the current period;
- Changes in the Bank's lending asset portfolio mix;
- Recovery of a write off in the amount of $116,000 early in the current period; and,
- Net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs introduced in the third quarter of fiscal 2020.

Offset partially by:

- Higher lending asset balances.

Non-Interest Expenses

(thousands of Canadian dollars)

For the year ended:	October 31 2021	October 31 2020	Change
Salaries and benefits	$ 20,243	$ 16,964	19%
General and administrative	11,110	8,357	33%
Premises and equipment	3,653	2,456	49%
Total non-interest expenses	$ 35,006	$ 27,777	26%
Efficiency Ratio*	53.56%	51.26%	4%

* See definition in "Non-GAAP and Other Financial Measures".

FY 2021 vs FY 2020

Non-interest expenses were up 26% to $35.0 million as a function primarily of:

- Consolidation of the operating expenses of DBG in the amount of $3.1 million;
- Higher administrative costs attributable primarily to the Bank's Common Share Offering and listing on the Nasdaq in September 2021;
- Increased salary and benefits expense attributable to increased staff levels to support expanded business activity across the Bank; and,
- Investments in the Bank's corporate development initiatives.

Tax Provision

The Bank's tax rate is approximately 27%, similar to that of previous periods. The tax rate is impacted by certain items not being taxable or deductible for income tax purposes. Provision for income taxes for the current year was $8.4 million compared to $7.3 million last year.

Comprehensive Income

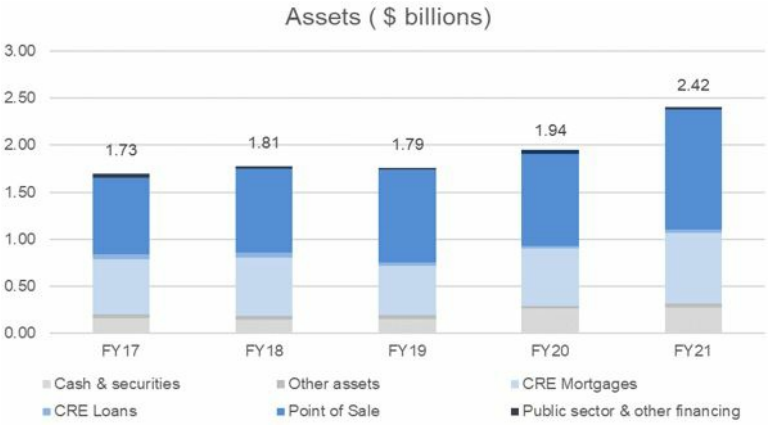
Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on fair value through other comprehensive income associated with the foreign exchange gain or loss on translation of foreign operations. Comprehensive income for the year was $22.4 million compared to $19.4 million last year.

Financial Review - Balance Sheet

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
Total assets	$ 2,415,086	$ 1,943,885	24%
Cash	271,523	257,644	5%
Loans, net of allowance for credit losses	2,103,050	1,654,910	27%
Deposits	1,853,204	1,567,570	18%

Total Assets



Total assets were up 24% to $2.42 billion at October 31, 2021. The year over year trend was a function primarily of strong growth in both the Bank's CRE and POS loan and lease receivable portfolios as well as the consolidation of the assets of DBG which was acquired by the Bank's wholly owned subsidiary DRT Cyber Inc. on November 30, 2020.

Acquisition of DBG

On November 30, 2020, the Bank through its wholly owned subsidiary DRT Cyber Inc. ("DRTC"), acquired 100% of the shares of 2021945 Ontario Inc., operating as Digital Boundary Group ("DBG"), in exchange for $8.5 million in cash and a deferred payment obligation in the amount of $1.4 million, for total consideration of $9.9 million. The acquisition was accounted for in accordance with IFRS 3 *Business Combinations* and DBG's financial results, since closing, have been included in the Bank's interim Consolidated Financial Statements.

DBG is one of North America's premier information technology (IT) security assurance services firms with offices in London, Ontario and Dallas, Texas. DBG provides corporate and government clients with a suite of IT security assurance services, that range from external network, web and mobile application penetration testing through to physical social engineering engagements along with supervisory control and data acquisition (SCADA) system assessments, as well as various aspects of training.

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed on acquisition:

(thousands of Canadian dollars)

Assets and liabilities acquired at fair value		November 30 2020
Cash	$	1,057
Accounts receivable		1,451
Right-of-use assets		2,473
Other assets		1,194
Intangible assets		3,940
Goodwill		5,754
Deferred income tax liability		(898)
Lease obligations		(2,650)
Other liabilities		(2,381)
	$	9,940

Intangible assets include customer relationships, brands, non-compete agreements and operational software. Goodwill primarily reflects the value of an assembled workforce and the value of future growth prospects and expected business synergies realized as a result of combining the acquired business with the Bank's existing technology and cybersecurity operations. The goodwill as well as portions of the intangible assets are not deductible for income tax purposes. See note 4 to the Consolidated Financial Statements for additional information relating to the acquisition of DBG.

Cash

Cash, which is held primarily for liquidity purposes, was $271.5 million or 11% of total assets at October 31, 2021, compared to $257.6 million or 13% of total assets a year ago. The year over year trend was a function primarily of:

- Issuance of the Notes on April 30, 2021 for net proceeds of approximately $ 89.5 million;
- Completion of the Common Share Offering in September 2021 for total net proceeds of $73.2 million;
- Higher personal deposits attributable to the Bank increasing activity in its broker market network to fund balance sheet growth; and,
- Higher commercial deposits attributable to continued growth in the Bank's Trustee Integrated Banking ("TIB") program.

Offset partially by:

- The redemption of the Bank's outstanding, Non-Cumulative Series 3 preferred shares in the amount of $16.8 million on April 30, 2021; and,
- The ongoing redeployment of cash into higher yielding lending assets.

Loans

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
Commercial real estate mortgages	$ 757,576	$ 606,299	25%
Commercial real estate loans	26,569	25,574	4%
Point of sale loans and leases	1,279,576	980,677	30%
Public sector and other financing	32,587	37,596	(13%)
	$ 2,096,308	$ 1,650,146	27%

Commencing fiscal 2021, the Bank re-organized its lending portfolio into the following four broad asset categories: Commercial Real Estate Mortgages, Commercial Real Estate Loans, Point of Sale Loans & Leases, and Public Sector and Other Financing. These categories have been established in the Bank'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 October 31, 2020 comparative balances have been recast to reflect the current broad asset categories.

The **Commercial Real Estate Mortgages ("CRE Mortgages")** asset category is comprised of commercial and residential construction mortgages, commercial term mortgages, commercial insured mortgages and land mortgages. While all of these loans would be considered commercial loans or business-to-business loans, the underlying credit risk exposure is diversified across both the commercial and retail market segments, and further, the portfolio benefits from diversity in its underlying security in the form of a broad range of collateral properties.

The **Commercial Real Estate Loans (**"**CRE Loans**"**)** asset category is comprised primarily of condominium corporation financing loans and loans to mortgage investment companies.

The **Point of Sale Loans and Leases (**"**POS**"**)** asset category is comprised of point of sale loan and lease receivables acquired from the Bank's broad network of origination and servicing partners as well as warehouse loans that provide bridge financing to the Bank's origination and servicing partners for the purpose of accumulating and seasoning practical volumes of individual loans and leases prior to the Bank purchasing the cashflow receivables derived from same.

The **Public Sector and Other Financing (**"**PSOF**"**)** asset category is comprised primarily of public sector loans and leases, a small balance of corporate loans and leases and single family residential conventional and insured mortgages. The Bank has de-emphasized corporate lending and continues to monitor the public sector space in anticipation of more robust demand for Federal, Provincial and Municipal infrastructure and other project financings, partially in response to additional Government policy measures that may be established to support the recovery of the Canadian economy.

FY 2021 vs FY 2020

Loans were up 27% to $2.10 billion as a function primarily of:

- Higher POS balances attributable primarily to increased home finance, and home improvement/HVAC receivable financing; and,
- Higher CRE Mortgage balances attributable primarily to higher residential construction and commercial term mortgage originations.

Residential Mortgage Exposures

In accordance with the Office of the Superintendent of Financial Institutions ("OSFI") Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures, additional information is provided regarding the Bank's residential mortgage exposure. For the purposes of the Guideline, a residential mortgage is defined as a loan to an individual that is secured by residential property (one to four unit dwellings) and includes home equity lines of credit (HELOCs). This differs from the classification of residential mortgages used by the Bank which also includes multi-family residential mortgages.

Under OSFI's definition, the Bank's exposure to residential mortgages at October 31, 2021, was $2.7 million compared to $4.1 million a year ago. The Bank did not have any HELOC's outstanding at October 31, 2021, or a year ago.

Credit Quality and Allowance for Credit Losses

As discussed previously, we currently have no loans on our balance sheet that are subject to payment deferrals, no impaired loans and no loans in arrears, but we continue to monitor our lending portfolio, as well as the underlying borrowers and our origination partners closely to ensure that we have good visibility on any credit trends that could provide an early warning indication of the emergence of any elevated risk in our lending portfolio.

Allowance for Credit Losses

The Bank must maintain an allowance for expected credit losses or ECL allowance that is adequate, in management's opinion, to absorb all credit related losses in the Bank's lending and treasury portfolios. Under IFRS 9 the Bank's ECL allowance is estimated using the expected credit loss methodology and is comprised of expected credit losses recognized on both performing loans, and non-performing, or impaired loans even if no actual loss event has occurred.

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
ECL allowance by lending asset:			
Commercial real estate mortgages	$ 1,114	$ 1,366	(18%)
Commercial real estate loans	45	137	(67%)
Point of sale loans and leases	275	215	28%
Public sector and other financing	19	57	(67%)
Total ECL allowance	$ 1,453	$ 1,775	(18%)

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
ECL allowance by stage:			
ECL allowance stage 1	$ 1,316	$ 1,583	(17%)
ECL allowance stage 2	137	192	(29%)
ECL allowance stage 3	-	-	
Total ECL allowance	$ 1,453	$ 1,775	(18%)

The Bank's ECL allowance at October 31, 2021 was $1.5 million compared to $1.8 million a year ago. The year over year trend was a function of:

- Changes in the forward-looking information used by the Bank in its credit risk models in the current period;
- Changes in the Bank's lending asset portfolio mix;
- Recovery of a write off in the amount of $116,000 early in the current period; and,
- Net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs introduced in the third quarter of fiscal 2020.

Offset partially by:

- Higher lending asset balances.

The Bank's gross impaired loans at October 31, 2021 and October 31, 2020 were $nil.

Assessment of significant increase in credit risk ("SICR")

At each reporting date, the Bank assesses whether there has been a SICR for loans since initial recognition by comparing, at the reporting date, the risk of default occurring over the remaining expected life against the risk of default at initial recognition.

SICR is a function of the loan's internal risk rating assignment, internal watchlist status, loan review status and delinquency status which are updated as necessary in response to changes including, but not limited to, changes in macroeconomic and/or market conditions, changes in a borrower's credit risk profile, and changes in the strength of the underlying security, including guarantor status, if a guarantor exists.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SICR. As a result, qualitative factors may be considered to supplement such a gap. Examples include changes in adjudication criteria for a particular group of borrowers or asset categories or changes in portfolio composition, and more specifically changes attributable to the continued impact of COVID-19 on the Canadian economy and the Bank's business.

Expected credit loss model - Estimation of expected credit losses

Expected credit losses are an estimate of a loan's expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive.

Forward-Looking Information

The Bank incorporates the impact of future economic conditions, or more specifically forward-looking information into the estimation of expected credit losses at the credit risk parameter level. This is accomplished via the credit risk parameter models and proxy datasets that the Bank utilizes to develop probability of default ("PD") and loss given default ("LGD") term structure forecasts for its loans. The Bank has sourced credit risk modeling systems and forecast macroeconomic scenario data from Moody's Analytics for the purpose of computing forward-looking credit risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences. These systems are used in conjunction with the Bank's internally developed ECL models. Given that the Bank has experienced very limited historical losses and, therefore, does not have available statistically significant loss data inventory for use in developing internal, forward looking expected credit loss trends, the use of unbiased, third party forward-looking credit risk parameter modeling systems is particularly important for the Bank in the context of the estimation of expected credit losses.

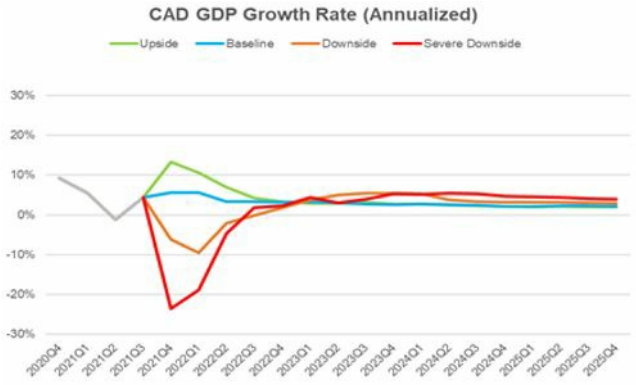
The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios in order to mitigate volatility in the estimation of expected credit losses, as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. More specifically, the macroeconomic indicators set out in the macroeconomic scenarios are used as inputs for the credit risk parameter models utilized by the Bank to sensitize the individual PD and LGD term structure forecasts to the respective macroeconomic trajectory set out in each of the scenarios (see Expected Credit Loss Sensitivity below). Currently the Bank utilizes upside, downside and baseline forecast macroeconomic scenarios, and assigns discrete weights to each for use in the estimation of its reported ECL. The Bank has also applied expert credit judgment, where appropriate, to reflect amongst other items, uncertainty in the Canadian macroeconomic environment attributable to the continued impact of COVID-19.

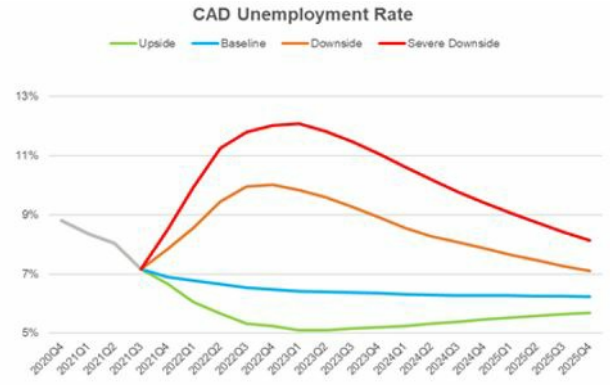
The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing PD and LGD term structure data to forward economic conditions include, but are not limited to: real GDP, the national unemployment rate, long term interest rates, the consumer price index, the S&P/TSX Index and the price 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 small and medium enterprise ("SME") borrower performance; geography; as well as collateral value volatility, are appropriately captured and incorporated into the Bank's forward macroeconomic sensitivity analysis.

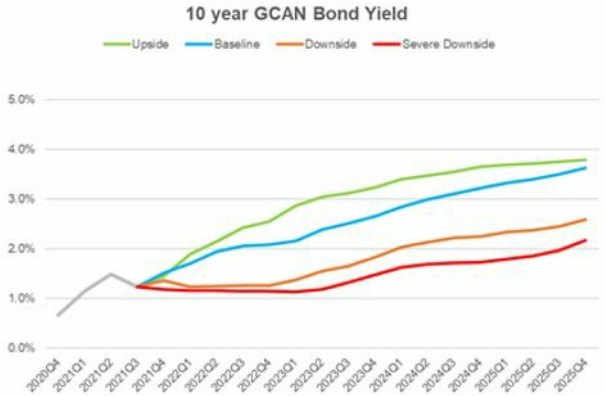
The forecast macroeconomic scenario data utilized by the Bank over the course of fiscal 2021 has consistently trended positively over the same timeframe. Key drivers of the most recently available macroeconomic forecast data used in the preparation of the Bank's 2021 consolidated financial statements include the rate of vaccine distribution and the continued effectiveness of the vaccines at minimizing hospitalizations precipitated by the new variants, consumption growth and the propensity for consumers to spend excess savings accumulated over the course of the pandemic, employment rates, as well as wage and salary growth and the influence of same on future consumer spending, the rate of appreciation of Canadian house prices and the supply of new housing in the market, the timing and scope of the tightening of monetary policy by the Bank of Canada and the impact of same on inflation, the demand for Canadian exports and the implementation of potential future government stimulus programs.

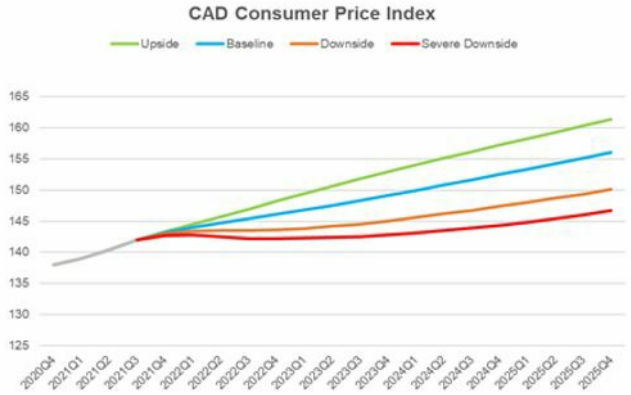
Further, management developed ECL estimates using credit risk parameter term structure forecasts sensitized to individual baseline, upside and downside forecast macroeconomic scenarios, each weighted at 100%, and subsequently computed the variance of each to the Bank's reported ECL as at October 31, 2021 in order to assess the alignment of the Bank's reported ECL with the Bank's credit risk profile, and further, to assess 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).

A summary of the key forecast macroeconomic indicator data trends utilized by the Bank for the purpose of sensitizing lending asset credit risk parameter term structure forecasts to forward looking information, which in turn are used in the estimation of the Bank's reported ECL, as well as in the assessment of same are presented in the charts below.









Expected Credit Loss Sensitivity:

The following table presents the sensitivity of the Bank's estimated ECL to a range of individual forecast 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 October 31, 2021:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 1,453	$ 860	$ 1,193	$ 1,670
Variance from reported ECL		(593)	(260)	217
Variance from reported ECL (%)		(41%)	(18%)	15%

Management remains of the view that despite indications of economic recovery, forward-looking macroeconomic and industry data remains somewhat uncertain and as a result, anticipates that estimated ECL amounts will continue to exhibit some volatility over the course of fiscal 2022.

Considering the analysis set out above and based on management's review of the loan and credit data comprising the Bank's lending portfolio, combined with our interpretation of the available forecast macroeconomic and industry data, management is of the view that its reported ECL allowance represents a reasonable proxy for potential, future losses.

Deposits

The Bank has established three core funding channels: personal deposits, commercial deposits, and cash holdbacks retained from the Bank's POS loan and lease origination partners that are classified as other liabilities, which are discussed in the *Other Assets and Liabilities* section below.

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
Commercial deposits	$ 606,143	$ 508,370	19%
Personal deposits	1,247,061	1,059,200	18%
Total deposits	$ 1,853,204	$ 1,567,570	18%

Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada.

Commercial deposits are sourced primarily via specialized operating accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings.

FY 2021 vs FY 2020

Deposits were up 18% to $1.9 billion as a function primarily of:

- Higher commercial deposits attributable to continued growth in the Bank's Trustee Integrated Banking ("TIB") program; and,
- Higher personal deposits attributable to the Bank increasing activity in its broker market network to fund balance sheet growth.

The table below presents a summary of the Bank's deposit portfolio by maturity, excluding accrued interest at October 31, 2021 as well as for 2020:

	2021				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Commercial deposits	$ 606,143	$ -	$ -	$ -	$ 606,143
Personal deposits	150,323	399,376	272,782	411,649	1,234,130
	$ 756,466	$ 399,376	$ 272,782	$ 411,649	$ 1,840,273

	2020				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Commercial deposits	$ 498,370	$ 10,000	$ -	$ -	$ 508,370
Personal deposits	145,595	257,486	283,782	357,937	1,044,800
	$ 643,965	$ 267,486	$ 283,782	$ 357,937	$ 1,553,170

Subordinated Notes Payable

(thousands of Canadian dollars)

	October 31 2021	October 31 2020
Ten year term, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of $5.0 million, effective interest rate of 10.41%, maturing March 2029.	$ 4,898	$ 4,889
Ten year term, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of USD $75.0 million, effective interest rate of 5.38%, maturing May 2031.	90,374	-
	$ 95,272	$ 4,889

Subordinated notes payable, net of issue costs, were $95.3 million at October 31, 2021, compared to $4.9 million a year ago.

On April 30, 2021, the Bank completed a private placement with U.S. institutional investors of NVCC compliant fixed to floating rate subordinated notes payable in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest will be paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by the Bank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until the maturity date. The Notes will mature on May 1, 2031, unless earlier repurchased or redeemed in accordance with their terms. On or after May 1, 2026, the Bank may, at its option, with the prior approval of the Superintendent of Financial Institutions (Canada), redeem the Notes, in whole at any time or in part from time to time on not less than 30 nor more than 60 days' prior notice, at a redemption price which is equal to par, plus accrued and unpaid interest. Issue costs associated with the Notes were approximately CAD $2.6 million. Proceeds of the Notes are held in US dollar denominated cash. Egan-Jones Ratings Company assigned the Notes and the Bank an "A-" and "A" rating respectively, at the time of the private placement.

$500,000 of the Bank's $5.0 million subordinated notes payable, issued in March 2019, are held by a related party (see note 20 to the Consolidated Financial Statements for additional information on related party transactions and balances).

Other Assets and Liabilities

Other Assets

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
Accounts receivable	$ 2,643	$ 268	886%
Funds held for securitization liabilities	-	8,629	
Prepaid expenses and other	12,699	6,843	86%
Property and equipment	7,075	7,431	(5%)
Right-of-use assets	4,817	3,015	60%
Deferred income tax asset	2,931	5,145	(43%)
Investment	953	-	
Goodwill	5,754	-	
Intangible assets	3,641	-	
Total other assets	$ 40,513	$ 31,331	29%

FY 2021 vs FY 2020

Other assets were up 29% to $40.5 million as a function primarily of:

- The consolidation of the assets of DBG which was acquired by the Bank's wholly owned subsidiary DRTC on November 30, 2020 comprised of $5.1 million of tangible assets as well as $3.9 million of intangible assets and $5.8 million of goodwill;

- Higher prepaid expenses and other due primarily to higher prepaid insurance premiums attributable to the Bank's Common Share Offering and listing on the Nasdaq in September 2021 as well as the capitalization of various development costs; and
- The Bank's 11% investment in Canada Stablecorp Inc. ("Stablecorp") for cash consideration of $953,000 in February 2021. This was a strategic investment made by the Bank to bring together the necessary financial and technology expertise that will facilitate the development and future issuance of new, highly encrypted digital deposit receipts that the Bank has branded as VCAD and VUSD.

Offset partially by:

- Funds paid to offset the redemption of maturing securitization liabilities; and,
- Draw downs on the deferred income tax asset derived from taxable income generated by the Bank.

Other Liabilities

(thousands of Canadian dollars)

	October 31 2021	October 31 2020	Change
Accounts payable and other	$ 6,893	$ 4,233	63%
Current income tax liability	2,949	-	
Deferred income tax liability	898	-	
Lease obligations	5,113	3,084	66%
Cash collateral and amounts held in escrow	7,887	4,012	97%
Holdbacks payable on loan and lease receivables	110,764	96,064	15%
Total other liabilities	$ 134,504	$ 107,393	25%

FY 2021 vs FY 2020

Other liabilities were up 25% to $134.5 million as a function primarily of:

- The consolidation of the assumed liabilities of DBG which was acquired by the Bank's wholly owned subsidiary DRTC on November 30, 2020;
- The Bank recognizing income taxes payable after fully utilizing its income tax loss carryforward in the current fiscal year;
- Higher cash collateral and amounts held in escrow; and,
- Higher holdbacks payable balances attributable to higher POS loan and lease receivable balances.

Shareholders' Equity

Shareholders' equity was $332.1 million at October 31, 2021 compared to $255.3 million a year ago. The year over year trend was a function primarily of:

- Higher retained earnings attributable to net income earned over the course of the year; and,
- Completion of the Common Share Offering in September 2021;

Offset partially by:

- Redemption of the Bank's outstanding, Non-Cumulative Series 3 preferred shares (NVCC); and,
- payment of dividends.

The summary of the Banks' issued and outstanding share capital is as follows:

(thousands of Canadian dollars)

	2021		2020	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	21,123,559	$ 152,612	21,123,559	$ 152,612
Issued during the year	6,325,000	75,101	-	-
Cancelled during the year	(7,477)	(39)	-	-
Outstanding, end of year	27,441,082	$ 227,674	21,123,559	$ 152,612
Series 1 preferred shares:				
Outstanding, beginning and end of year	1,461,460	$ 13,647	1,461,460	$ 13,647
Series 3 preferred shares:				
Balance, beginning of the year	1,681,320	$ 15,690	1,681,320	$ 15,690
Redemption of preferred shares	(1,681,320)	(15,690)	-	-
Outstanding, end of year	-	$ -	1,681,320	$ 15,690
Contributed surplus:				
Balance, beginning and end of year		$ 145		$ 145
Total share capital		$ 241,466		$ 182,094

On October 7, 2021, the Bank cancelled, and returned to treasury, 7,477 common shares with a value of $39,000 or $5.24 per common share. The cancelled shares represent predecessor share classes which had not been deposited and exchanged for VersaBank common shares in connection with the Bank's amalgamation with PWC Capital Inc. on January 31, 2017.

On September 21, 2021 the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, the equivalent of CAD $12.80 per share for gross proceeds of USD $55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share for gross proceeds of USD $8.3 million. Total net cash proceeds from the Common Share Offering was CAD $73.2 million. However, the Bank's share capital increased by CAD $75.1 million as a function of the Common Share Offering and tax effected issue costs in the amount of CAD $5.4 million. The Bank's issue costs are subject to current and future tax deductions and as such the Bank has recognized a deferred tax asset corresponding to same.

On April 30, 2021, the Bank redeemed all of its 1,681,320 (October 31, 2020 – 1,681,320) outstanding, Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. The initial capitalized transaction costs in the amount of $1.1 million were applied against retained earnings.

The Bank's book value per common share at October 31, 2021 was $11.61 compared to $10.70 a year ago. The year over year trend was a function primarily of higher retained earnings attributable to net income earned in each of the periods and the completion of the Common Share Offering in September 2021 offset partially by the payment of dividends over the respective periods.

See Note 13 to the Consolidated Financial Statements for additional information relating to share capital.

Stock-Based Compensation

Stock options are accounted for using the fair value method which recognizes the fair value of the stock option over the applicable vesting period as an increase in salaries and benefits expense with the same amount being recorded in share capital. During the year ended October 31, 2021, the Bank recognized $nil (2020 - $nil) of compensation expense relating to the estimated fair value of stock options granted in previous years. There were no stock options granted in the current year. See Note 14 to the Consolidated Financial Statements for more information related to stock options.

Updated Share Information

As at November 30, 2021, there were no changes since October 31, 2021 in the number of common shares, Series 1 preferred shares, and common share options outstanding.

Off-Balance Sheet Arrangements

As at October 31, 2021, the Bank did not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities.

Commitments and Contingencies

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obliged to extend. Under certain circumstances, the Bank may cancel loan commitments at its option. Letters of credit amounts are not necessarily indicative of the associated credit risk exposure as many of these secured arrangements are contracted for a limited period of time and will expire or terminate without being drawn upon.

(thousands of Canadian dollars)	2021	2020
Loan commitments	$ 296,248	$ 238,724
Letters of credit	46,462	50,284
	$ 342,710	$ 289,008

Contractual Obligations

At October 31, 2021 the Bank had the following scheduled principal repayments of financial liabilities and off- balance sheet obligations

	2021				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 1,853,204	$ 1,168,773	$ 272,782	$ 411,649	$ -
Holdbacks payable on loan and lease receivables	110,764	110,764	-	-	-
Subordinated notes payable	95,272	-	-	-	95,272
Securitization liabilities	-	-	-	-	-
Accounts payable	6,893	6,893	-	-	-
Cash collateral and amounts held in escrow	7,887	7,887	-	-	-
Current income tax liability	2,949	2,949	-	-	-
Deferred income tax liability	898	100	200	299	299
Lease obligations	5,113	669	1,409	1,804	1,231
Off-balance sheet obligations	90	90	-	-	-
	$ 2,083,070	$ 1,298,125	$ 274,391	$ 413,752	$ 96,802

Related Party Transactions

The Bank's Board of Directors and Senior Executive Officers represent key management personnel. See Note 20 to the Consolidated Financial Statements for more information on transactions entered into with personnel and the compensation of key management.

Capital Management and Capital Resources

Capital Management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence as well as to support future growth and development of the business. The impact of the level of capital 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 afforded by a more robust capital position.

The Bank operates as a Schedule 1 bank under the *Bank Act (Canada)* and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Bank's Board of Directors. The Bank's objective, in this context, is to maintain adequate regulatory capital for the Bank to be considered well capitalized, protect consumer 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 return to shareholders. Regulatory capital is comprised of the qualifying amount of subordinated notes, share capital, retained earnings and net after-tax unrealized gains and losses on fair value through other comprehensive income securities. Consistent with capital adequacy guidelines issued by OSFI, the Bank has implemented an internal capital adequacy assessment process (ICAAP) with the objective of ensuring that capital levels remain adequate in relation to current and future risks.

The table below presents the Bank's regulatory capital position, risk-weighted assets and regulatory capital and leverage ratios for the current and comparative periods.

(thousands of Canadian dollars)

		October 31 2021		October 31 2020	Change
Common Equity Tier 1 capital	$	305,708	$	219,359	39%
Total Tier 1 capital	$	319,355	$	248,696	28%
Total Tier 2 capital	$	99,363	$	6,775	1367%
Total regulatory capital	$	418,718	$	255,471	64%
Total risk-weighted assets	$	2,013,544	$	1,580,939	27%
Capital ratios					
CET1 capital ratio		15.18%		13.88%	9%
Tier 1 capital ratio		15.86%		15.73%	1%
Total capital ratio		20.80%		16.16%	29%
Leverage ratio		12.60%		12.19%	3%

OSFI requires banks to measure capital adequacy in accordance with its guidelines for determining risk-adjusted capital and risk-weighted assets including off-balance sheet credit instruments. The Bank currently uses the Standardized Approach to calculate risk-weighted assets for both credit and operational risk. Under the Standardized Approach for credit risk, each asset type is assigned a risk weight ranging between 0% and 150% to determine the risk-weighted equivalent, or risk-weighted asset amounts for use in calculating the Bank's risk-based capital ratios. Off-balance sheet assets, such as undrawn credit commitments, are included in the calculation of risk-weighted assets, and further, both the credit risk equivalent and the risk-weighted calculations are prescribed by OSFI. The Standardized Approach, as defined by Basel III, may require the Bank to carry more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings-Based ("AIRB") methodology. As a result, regulatory capital ratios of banks that utilize the Standardized Approach may not be directly comparable with the large Canadian banks and other international banks that utilize the AIRB methodology.

The tables below present the Bank's risk-weighted assets as at October 31, 2021 as well as for 2020, organized by asset type and risk weight assignment respectively:

As at October 31, 2021	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 869,413	$ -	$ -	$ 869,413	$ 866,217
Sovereign	-	9,213	-	-	9,213	1,843
Bank	271,523	17,647	-	-	289,170	57,834
Retail residential mortgages	-	5,233	-	-	5,233	951
Other retail	-	1,201,544	-	-	1,201,544	820,638
Other items	-	-	40,513	46,462	86,975	49,865
Undrawn commitments	-	-	-	296,248	296,248	107,925
Operational risk [1]	-	-	-	-	-	108,271
Total	$ 271,523	$ 2,103,050	$ 40,513	$ 342,710	$ 2,757,796	$ 2,013,544

As at October 31, 2020	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 671,466	$ -	$ -	$ 671,466	$ 669,414
Sovereign	-	11,411	-	-	11,411	2,282
Bank	257,644	17,648	-	-	275,292	55,058
Retail residential mortgages	-	12,054	-	-	12,054	4,902
Other retail	-	942,331	-	-	942,331	636,254
Other items	-	-	31,331	50,284	81,615	40,875
Undrawn commitments	-	-	-	238,724	238,724	72,553
Operational risk [1]	-	-	-	-	-	99,601
Total	$ 257,644	$ 1,654,910	$ 31,331	$ 289,008	$ 2,232,893	$ 1,580,939

[1] The charge for operational risk is determined using the Basic Indicator Approach as prescribed by OSFI.

As at October 31, 2021	Notional/drawn amount by risk weight							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 3,196	$ -	$ -	$ -	$ 866,217	$ -	$ 869,413	$ 866,217
Sovereign	-	9,213	-	-	-	-	9,213	1,843
Bank	-	289,170	-	-	-	-	289,170	57,834
Retail residential mortgages	2,515	-	2,718	-	-	-	5,233	951
Other retail	106,787	1,105	-	1,092,942	710	-	1,201,544	820,638
Other items	11,686	768	-	-	74,521	-	86,975	49,865
Undrawn commitments	-	-	-	-	296,248	-	296,248	107,925
Operational risk [1]	-	-	-	-	-	-	-	108,271
Total	$ 124,184	$ 300,256	$ 2,718	$ 1,092,942	$ 1,237,696	$ -	$ 2,757,796	$ 2,013,544

As at October 31, 2020	Notional/drawn amount by risk weight							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 2,054	$ -	$ -	$ -	$ 669,412	$ -	$ 671,466	$ 669,414
Sovereign	-	11,411	-	-	-	-	11,411	2,282
Bank	-	275,292	-	-	-	-	275,292	55,058
Retail residential mortgages	4,491	-	4,093	-	3,470	-	12,054	4,902
Other retail	93,344	1,400	-	846,457	1,130	-	942,331	636,254
Other items	15,297	713	-	-	65,605	-	81,615	40,875
Undrawn commitments	-	-	-	229	238,495	-	238,724	72,553
Operational risk [1]	-	-	-	-	-	-	-	99,601
Total	$ 115,186	$ 288,816	$ 4,093	$ 846,686	$ 978,112	$ -	$ 2,232,893	$ 1,580,939

[1] The charge for operational risk is determined using the Basic Indicator Approach as prescribed by OSFI.

Further, OSFI requires that all Canadian banks must comply with the Basel III standards on an “all-in” basis for purposes of determining their risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 (“CET1”) capital ratio, an 8.5% Tier 1 capital ratio and a 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer.

As the Bank makes use of the Standardized Approach for credit risk as prescribed by OSFI, it 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. Further to this, and as a result of the onset of COVID-19 in the spring of 2020 and the economic uncertainty associated with same, OSFI introduced guidance that set out transitional arrangements pertaining to the capital treatment of expected loss provisioning which allows for a portion of eligible ECL allowances to be included in CET1 capital on a transitional basis over the course of the period ranging between 2020 and 2022 inclusive. The portion of ECL allowances that is eligible for inclusion in CET1 capital is calculated as the increase in the sum of Stage 1 and Stage 2 ECL allowances estimated in the current quarter relative to the sum of Stage 1 and Stage 2 ECL allowances estimated for the baseline period, which has been designated by OSFI to be the three months ended January 31, 2020, adjusted for tax effects and multiplied by a scaling factor. The scaling factor has been set by OSFI at 70% for fiscal 2020, 50% for fiscal 2021 and 25% for fiscal 2022.

On April 30, 2021, the Bank redeemed all of its 1,681,320 (October 31, 2020 – 1,681,320) outstanding, Non-Cumulative Series 3 preferred shares (NVCC) using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $16.8 million. Transaction costs, incurred at issuance in the amount of $1.1 million were applied against retained earnings.

On April 30, 2021, the Bank completed a private placement of NVCC compliant fixed to floating rate subordinated notes in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021. Interest will be paid on the Notes semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2021, at a fixed rate of 5.00% per year, until May 1, 2026. Thereafter, if not redeemed by VersaBank, the Notes will have a floating interest rate payable at the 3-month Bankers' Acceptance Rate plus 361 basis points, payable quarterly in arrears, on February 1, May 1, August 1 and November 1 of each year, commencing August 1, 2026, until the maturity date. Proceeds of the Notes are currently held in US dollar denominated cash. Upon issuance of the Notes the Bank received confirmation from OSFI that the Notes qualify as Tier 2 capital of the Bank pursuant to OSFI's *Capital Adequacy Requirements (CAR) Guideline*, including the NVCC Requirements specified in section 2.2 of the CAR Guideline.

On September 21, 2021 the Bank completed a treasury offering of 5,500,000 common shares at a price of USD $10.00 per share, the equivalent of CAD $12.80 per share for gross proceeds of USD $55.0 million. On September 29, 2021, the underwriters of the aforementioned offering exercised their full over-allotment option to purchase an additional 825,000 shares (15% of the 5,500,000 common shares issued via the base offering referenced above) at a price of USD $10.00 per share, or CAD $12.68 per share for gross proceeds of USD $8.3 million. Total net cash proceeds from the Common Share Offering was CAD $73.2 million. However, the Bank's share capital increased by CAD $75.1 million corresponding to the Common Share Offering and tax effected issue costs, which increased the Bank's Common Equity Tier 1 capital by the same amount.

The year over year trends exhibited by the Bank's reported regulatory capital levels, regulatory capital ratios and leverage ratios were a function of: the redemption of the Bank's outstanding, Non-cumulative Series 3 Preferred Shares, the issuance of the Notes in the principal amount of USD $75.0 million, equivalent to CAD $92.1 million as at April 30, 2021, the Common Share Offering for total net proceeds, adjusted for tax effected issue costs of CAD $75.1 million, retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, the addition of goodwill and intangible assets acquired via the purchase of DBG on November 30, 2020, the inclusion of eligible ECL allowance amounts related to the transitional arrangements pertaining to the capital treatment of expected loss provisioning as set out by OSFI and changes to the Bank's risk-weighted asset balances and composition.

Leverage Ratio

The leverage ratio is a supplementary measure that is prescribed under the Basel III Accord and is defined as the ratio of Tier 1 capital to total exposures. OSFI requires all financial institutions to maintain a leverage ratio of 3% or greater at all times

At October 31, 2021 the Bank exceeded all of the minimum Basel III regulatory capital requirements set out above.

Liquidity

The Consolidated Statement of Cash Flows for the year ended October 31, 2021 shows cash used in operations in the amount of $108.3 million compared to cash provided by operations in the amount of $139.6 million a year ago. The current year trend was a function primarily of cash outflows to fund loans exceeding cash inflows from deposits raised and the use of existing liquidity to fund loans. The comparative year trend was a function primarily of inflows from deposits raised as the Bank strengthened its liquidity position as a prudent liquidity practice in response to the economic uncertainty resulting from the onset of COVID-19, a reduction in restricted cash balances used to offset the payment of the maturing securitization liabilities and from annual earnings, offset partially by the funding of new loans. Based on factors such as liquidity requirements and opportunities for investment in loans and securities, the Bank may manage the amount of deposits it raises and loans it funds in ways that result in the balances of these items giving rise to either negative or positive cash flow from operations. The Bank will continue to fund its operations and meet contractual obligations as they become due using cash on hand and by closely managing its flow of deposits.

Capital Resources

The operations of the Bank are not dependent upon significant investments in capital assets to generate revenue. Currently, the Bank does not have any commitments for capital expenditures or for significant additions to its level of capital assets.

Summary of Quarterly Results

(thousands of Canadian dollars except per share amounts)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Interest income	$ 23,924	$ 22,400	$ 21,649	$ 21,515	$ 21,068	$ 20,172	$ 22,688	$ 22,166
Yield on assets (%)	4.04%	4.02%	4.24%	4.28%	4.33%	4.12%	4.83%	4.84%
Interest expense	7,778	7,858	6,554	7,141	7,360	7,788	8,212	8,609
Cost of funds (%)	1.31%	1.41%	1.28%	1.42%	1.51%	1.59%	1.75%	1.88%
Net interest income	16,146	14,542	15,095	14,374	13,708	12,384	14,476	13,557
Net interest margin (%)	2.73%	2.61%	2.96%	2.86%	2.82%	2.53%	3.08%	2.96%
Non-interest income	2,090	1,187	875	1,048	18	8	9	25
Total revenue	18,236	15,729	15,970	15,422	13,726	12,392	14,485	13,582
Provision for (recovery of) credit losses	(279)	96	(312)	57	(582)	(44)	490	(208)
Non-interest expenses	10,377	8,200	8,342	8,087	7,763	6,410	6,899	6,705
Efficiency ratio	57%	52%	52%	52%	57%	52%	48%	49%
Core cash earnings*	8,138	7,433	7,940	7,278	6,545	6,026	7,096	7,085
Income before income taxes	8,138	7,433	7,940	7,278	6,545	6,026	7,096	7,085
Tax provision	2,228	1,997	2,196	1,988	1,799	1,657	1,947	1,944
Net income	$ 5,910	$ 5,436	$ 5,744	$ 5,290	$ 4,746	$ 4,369	$ 5,149	$ 5,141
Income per share								
Basic	$ 0.24	$ 0.25	$ 0.25	$ 0.22	$ 0.20	$ 0.18	$ 0.22	$ 0.22
Diluted	$ 0.24	$ 0.25	$ 0.25	$ 0.22	$ 0.20	$ 0.18	$ 0.22	$ 0.22
Return on common equity	8.07%	8.72%	9.20%	8.26%	7.46%	6.90%	8.64%	8.60%
Return on total assets	0.96%	0.93%	1.02%	0.94%	0.86%	0.78%	0.98%	1.01%
Gross impaired loans to total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.43%	0.41%	0.38%

* This is a non-GAAP measure. See definition in "Non-GAAP and Other Financial Measures".

The financial results for each of the last eight quarters are summarized above. Key drivers of the quarter over quarter performance trends for the current reporting period were: lending asset growth, higher NIM attributable primarily to lower cost of funds, higher non-interest income attributable to the contributions of the Bank's cybersecurity business over the period, a recovery of credit losses as a function primarily of changes in the asset mix comprising the Bank's CRE portfolio and changes in the macroeconomic forecast data used as forward-looking information in the Bank's credit risk models as well as higher non-interest expense attributable to higher administrative costs attributable primarily to the Bank's Common Share Offering and listing on the Nasdaq in September 2021. Results for the current fiscal year reflect the consolidation of the balance sheet and the associated financial performance of DBG which was acquired by the Bank's wholly owned subsidiary DRTC on November 30, 2020.

Fourth Quarter Review

Net Income

Net income for the quarter was $5.9 million or $0.24 per common share (basic and diluted), compared to $5.4 million or $0.25 per common share (basic and diluted) last quarter and $4.7 million or $0.20 per common share (basic and diluted) for the same period a year ago. The quarter over quarter trend was a function primarily of higher revenues and a recovery of credit losses offset partially by higher non-interest expenses. The year over year trend was a function primarily of higher revenues, which reflects the incremental non-interest income contribution from DBG, offset partially by lower recovery of credit losses and higher non-interest expenses.

Total Revenue

Total revenue for the quarter was $18.2 million compared to $15.7 million last quarter and $13.7 million for the same period a year ago. The quarter over quarter and year over year trends were a function of higher interest income, higher non-interest income and lower cost of funds.

Net Interest Income

Net interest income for the quarter was $16.1 million compared to $14.5 million last quarter and $13.7 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher interest income attributable to strong lending asset growth and lower cost of funds.

Net Interest Margin

Net interest margin or spread for the quarter was 2.73% compared to 2.61% last quarter and 2.82% for the same period a year ago. The quarter over quarter trend was a function primarily of higher fees and lower cost of funds. The year over year trend was a function primarily of lower yields earned on lending assets and elevated cash balances offset partially by lower cost of funds.

Provision for Credit Losses

The Bank recorded a recovery of credit losses for the quarter in the amount of $279,000 compared to a provision for credit losses in the amount of $96,000 last quarter and a recovery of credit losses in the amount of $582,000 for the same period a year ago. The quarter over quarter trend was a function primarily of changes in the asset mix comprising the Bank's CRE portfolio and changes in the macroeconomic forecast data used as forward-looking information in the Bank's credit risk models offset partially by higher lending balances. The year over year trend was a function primarily of higher lending asset balances offset partially by changes in the asset mix comprising the Bank's CRE portfolio and changes in the macroeconomic forecast data used as forward-looking information in the Bank's credit risk models.

Non-Interest Expenses

Non-interest expenses of the Bank for the quarter were $10.4 million compared to $8.2 million last quarter and $7.8 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher administrative costs attributable primarily to the Bank's Common Share Offering and listing on the Nasdaq in September 2021, higher salary and benefits expense attributable to an increase in staff complement and a general increase in staff related costs. The year over year trend also reflects the consolidated results of DBG.

Income Taxes

For the three months ended October 31, 2021, the provision for income taxes was $2.2 million compared to $2.0 million for the previous quarter and $1.8 million for the same period a year ago.

Critical Accounting Policies and Estimates

Significant accounting policies are detailed in Note 3 of the Bank's 2021 Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current year.

In preparing the Consolidated Financial Statements, management has exercised judgment 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 significant judgment was applied were in the assessments of impairment of financial instruments. Estimates are applied in the determination of the allowance for expected credit losses on financial assets, the purchase price allocation associated with the Bank's acquisition of Digital Boundary Group, the impairment test applied to intangible assets and goodwill, and the measurement of deferred income taxes. It is reasonably possible, on the basis of existing knowledge, that actual results may vary from that expected in the measurement 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 recognized.

The policies discussed below are considered to be particularly significant as they require management to make estimates or judgements, some of which may relate to matters that are inherently uncertain.

Financial Instruments

Classification and Measurement

Under IFRS 9, all financial assets must be classified at initial recognition as a function of the financial asset's contractual cash flow characteristics and the business model under which the financial asset is managed. All financial assets are initially measured at fair value, and are classified and subsequently measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income. Financial assets are required to be reclassified when the business model under which they are managed has changed. Any reclassifications are applied prospectively from the reclassification date. All financial liabilities are measured at amortized cost unless elected otherwise.

Debt instruments

Financial assets that are debt instruments are categorized into one of the following measurement categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI");
- fair value through profit and loss ("FVTPL").

The characterization of a debt instrument's cashflows is determined through a solely payment of principal and interest ("SPPI") test. The SPPI test is conducted to identify whether the contractual cash flows of a debt instrument are in fact solely payments of principal and interest and are consistent with a basic lending arrangement. In the context of the SPPI test, "Principal" is defined as the fair value of the debt instrument at origination or initial recognition, which may change over the life of the instrument as a function of a number of variables including principal repayments, prepayments, or amortization of a premium/discount. In the context of the SPPI test "Interest" is defined as the consideration for the time value of money and credit risk. The rationale for the SPPI test is to ensure that debt instruments that include structural features that are incongruent with a basic lending arrangement, such as conversion options, are classified as, and measured at FVTPL.

Debt instruments measured at amortized cost

The Bank's debt instruments are measured at amortized cost. Debt instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis are measured at amortized cost. These financial instruments are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for credit losses. The effective interest rate is the rate that discounts estimated future cashflows through the expected life of the instrument to the gross carrying amount of the instrument. Amortized cost is calculated as a function of the effective interest rate, taking into account any discount or premium on acquisition, transaction costs and fees. Amortization of these costs is included in interest income in the consolidated statement of income.

Equity instruments

Equity instruments are measured at FVTPL unless an irrevocable designation is made, at initial recognition to measure them at FVOCI. Gains or losses from changes in the fair value of equity financial instruments designated at FVOCI, including any related foreign exchange gains or losses, are recognized in OCI. In contrast to asset-for-sale equity securities under IAS 39, amounts recognized in OCI will not be subsequently recycled to profit or loss, with the exception of dividends. Dividends received are recorded in interest income in the consolidated statement of income. Cumulative gains or losses upon derecognition of the equity instrument will be transferred within equity from AOCI to retained earnings.

Allowance for Expected 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 Bank's allowance for credit losses is estimated using the ECL methodology and is comprised of expected credit losses recognized on all financial assets that are debt instruments, classified either as amortized cost or as FVOCI, and on all loan commitments and financial guarantees that are not measured at FVTPL.

Expected credit losses represent unbiased and probability-weighted estimates that are modeled as a function of a range of possible outcomes as well as the time value of money, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, or more specifically forward-looking information ("FLI") (see Forward-Looking Information below).

The Bank's ECL or impairment model estimates 12 months of expected credit losses, ("TMECL") for performing loans that have not experienced a significant increase in credit risk, ("SICR") since initial recognition. Additionally, the ECL impairment model estimates lifetime expected credit losses, ("LTECL") on performing loans that have experienced a SICR since initial recognition. Further, individual allowances are estimated for loans that are determined to be credit impaired.

Loans or other financial instruments that have not experienced a SICR since initial recognition are designated as stage 1, while loans or financial instruments that have experienced a SICR since initial recognition are designated as stage 2, and loans or financial instruments that are determined to be credit impaired are designated as stage 3.

Assessment of significant increase in credit risk ("SICR")

At each reporting date, the Bank assesses whether or not there has been a SICR for loans since initial recognition by comparing, at the reporting date, the risk of default occurring over the remaining expected life against the risk of default at initial recognition.

The determination of a SICR is a function of the loan's internal risk rating assignment, internal watchlist status, loan review status and delinquency status which are updated as necessary in response to changes including, but not limited to changes in macroeconomic and/or market conditions, changes in a borrower's credit risk profile, and changes in the strength of the underlying security, including guarantor status, if a guarantor exists.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SICR. As a result, qualitative factors may be considered to supplement such a gap. Examples include changes in adjudication criteria for a particular group of borrowers or asset categories or changes in portfolio composition.

With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of a loan or other financial instrument has increased since initial recognition when contractual payments are more than 60 days delinquent. The Bank chose to use 60 days delinquency as an appropriate indicator of increased credit risk as it serves as a stable early warning indicator that the cashflows associated with the loan or other financial instrument under consideration may be in jeopardy and may not be realized by the Bank under the contractual repayment terms.

Expected credit loss model – Estimation of expected credit losses

Expected credit losses are an estimate of a loan's expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive. The ECL calculation is a function of the credit risk parameters; probability of default, loss given default, and exposure at default associated with each loan, sensitized to future market and macroeconomic conditions through the incorporation of FLI derived from multiple economic forecast scenarios, including baseline, upside, and downside scenarios.

For clarity:

- The probability of default ("PD") for a loan or a financial instrument is an estimate of the likelihood of default of that instrument over a given time horizon;
- The loss given default ("LGD") for a loan or financial instrument is an estimate of the loss arising in the case where a default of that instrument occurs at a given time or over a given period; and,
- The exposure at default ("EAD") for a loan or financial instrument is an estimate of the Bank's exposure derived from that instrument at a future default date.

The Bank's ECL model develops contractual cashflow profiles for loans as a function of a number of underlying assumptions and a broad range of input variables. The expected cashflow schedules are subsequently derived from the contractual cashflow schedules, adjusted for incremental default amounts, forgone interest, and recovery amounts.

The finalized contractual and expected cashflow schedules are subsequently discounted at the effective interest rate to determine the expected cash shortfall or expected credit losses for each individual loan or financial instrument.

Individual allowances are estimated for loans and other financial instruments that are determined to be credit impaired and that have been designated as stage 3. A loan is classified as credit impaired when the Bank becomes aware that all of, or a portion of the contractual cashflows associated with the loan may be in jeopardy and as a result may not be realized by the Bank under the repayment schedule set out in the contractual terms associated with the loan.

Forward-Looking Information

The IFRS 9 standard requires consideration of past events, current market conditions and reasonable, supportable information about future economic conditions that is available without undue cost and effort in the estimation of the expected credit losses for loans. More specifically, under IFRS 9 expected credit losses represent an unbiased, probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). Additionally, IFRS 9 stipulates that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. The estimation and application of forward-looking information in an attempt to capture the impact of future economic conditions requires significant judgement.

The Bank incorporated the impact of future economic conditions, or more specifically forward-looking information into the estimation of expected credit losses at the credit risk parameter level. This is accomplished via the credit risk parameter models and proxy datasets that the Bank utilizes to develop PD and LGD term structure forecasts for its loans. The Bank has sourced credit risk modeling systems and forecast macroeconomic scenario data from Moody's Analytics for the purpose of computing forward-looking risk parameters under multiple macroeconomic scenarios that consider both market-wide and idiosyncratic factors and influences. These systems are used in conjunction with the Bank's internally developed ECL models. Given that the Bank has experienced very limited historical losses and, therefore, does not have available statistically significant loss data inventory for use in developing forward looking expected credit loss trends, the use of unbiased, third party forward-looking credit risk parameter modeling systems is particularly important for the Bank in the context of the estimation of expected credit losses.

The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios, most often comprised of baseline, upside, and downside scenarios in order to mitigate volatility in the estimation of expected credit losses as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment of possible future outcomes. More specifically, the macroeconomic indicators set out in the macroeconomic scenarios are used as inputs for the credit risk parameter models utilized by the Bank to sensitize the individual, PD and LGD term structure forecasts to the respective macroeconomic trajectory set out in each of the scenarios. The Bank has also applied expert credit judgment, where appropriate, to reflect, amongst other items, uncertainty in the Canadian macroeconomic environment attributable to the continued impact of COVID-19.

The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing PD and LGD 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, 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.

Business Combinations

The Bank applied IFRS 3 Business Combinations in its accounting for the acquisition of Digital Boundary Group using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration if applicable, given at the acquisition date. Contingent consideration is a financial instrument and, as such, is remeasured each period thereafter with the adjustment recorded to acquisition-related fair value changes in the consolidated statements of comprehensive income. Acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, including, if applicable, any amount of any non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill and intangible assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the value allocated to the tangible and intangible assets, less liabilities assumed, based on their fair values. Goodwill is not amortized but rather tested for impairment annually or more frequently if events or a change in circumstances indicate that the asset might be impaired. Impairment is determined for goodwill by assessing if the carrying value of cash generating units ("CGUs") which comprise the CGU segment, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Intangible assets acquired in a business acquisition are recorded at their fair value. In subsequent reporting periods, intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded on a straight-line basis over the expected useful life of the intangible asset. At each reporting date, the carrying value of intangible assets are reviewed for indicators of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been recorded had no impairment losses been recognized for the asset in prior years.

Corporate Income Taxes

Current income taxes are calculated based on taxable income at the reporting period end. Taxable income differs from accounting income because of differences in the inclusion and deductibility of certain components of income which are established by Canadian taxation authorities. Current income taxes are measured at the amount expected to be recovered or paid using statutory tax rates at the reporting period end.

The Bank follows the asset and liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities arise from temporary differences between financial statement carrying values and the respective tax base of those assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when temporary differences are expected to be recovered or settled.

Deferred income tax assets are recognized in the Bank's consolidated financial statements to the extent that it is probable that the Bank will have sufficient taxable income to enable the benefit of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed for recoverability at each reporting period end.

Current and deferred income taxes are recorded in income for the period, except to the extent that the tax arose from a transaction that is recorded either in Other Comprehensive Income or Equity, in which case the income tax on the transaction will also be recorded either in Other Comprehensive Income or Equity. Accordingly, current and deferred income taxes are presented in the Consolidated Financial Statements as a component of income, or as a component of Other Comprehensive Income.

Enterprise Risk Management

The Bank recognizes that risk is present in all business activities and that the successful management of risk is a critical factor in maximizing shareholder value. As such, the Bank has developed and continues to enhance an Enterprise Risk Management ("ERM") Program to identify, evaluate, treat, report on, and monitor the risks that impact the Bank.

The Bank will maintain a robust ERM program to:

- Ensure significant current and emerging risks are identified, understood and managed appropriately;
- Support the Board's corporate governance needs; and,
- Strengthen the Bank's risk management practices in a manner demonstrable to external stakeholders.

The goal of risk management is not to eliminate risks but to identify and control risks within the context of the Bank's Risk Appetite Statement. The ERM program enhances the effectiveness, efficiency and understanding of risk and risk management at an individual and enterprise level.

GUIDING PRINCIPLES OF THE BANK'S ENTERPRISE RISK MANAGEMENT PROGRAM

- Risk management is everyone's responsibility, from the Board of Directors to individual employees. Employees are expected to understand the risks that fall within their areas of responsibility and to manage these risks within approved risk tolerances;
- Risk management is a comprehensive, structured and continuous process in which risks are identified, evaluated and consciously accepted or mitigated within approved risk tolerances;
- Risk management is based on open communication of the best available information, both quantitative and qualitative, from a range of sources, including historical data, experience, stakeholder feedback, observation, forecasts and expert judgment;
- Enterprise Risk Management is integrated with Bank processes such as strategic planning, business planning, operational management, and investment decisions to ensure consistent consideration of risks in all decision-making; and,
- Risk owners will be identified through the risk management process and will be responsible to address and implement risk mitigation/avoidance/transfer strategies to minimize the risk impact to the Bank.

RISK APPETITE STATEMENT

Risk appetite is the measurement of capital, liquidity, earnings and operational variability that the Bank is prepared to put at risk while in pursuit of the Bank's strategic objectives. Risk appetite provides for a common understanding of the boundaries of acceptable and unacceptable risks established with management and approved by the Board, as the Bank works toward achieving its strategic objectives. The risk appetite statement includes a set of risk tolerances to communicate specific capacities for risk within each significant risk category.

Consideration will be given to all risks, however; the Bank has identified the following seven significant risk categories from which it will measure and establish tolerances in the pursuit of the Bank's strategic objectives:

- Liquidity Risk;
- Operational Risk;
- Market Risk;
- Credit Risk;
- Regulatory Risk;
- Strategic Risk; and,
- Reputational Risk.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet the demand for cash to fund obligations as they come due.

Liquidity risk is managed primarily by the Treasurer, the Vice President, Deposit Services, and the Chief Financial Officer.

Treasury policies are developed and controlled by the Treasury Department as a function of the Bank's business objectives, liquidity risk appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

Deposit raising activities are overseen by the Vice President, Deposit Services.

LIQUDITY RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines liquidity risk tolerances that the Bank will adhere to in the execution of its business objectives. Liquidity risk tolerances are administered as follows:

1. Liquidity

Through Bank policy, the risk appetite statement mirrors Bank comfort with the level of liquidity that is to be maintained in order to ensure that all funding obligations are met.

2. Deposit Sources

The monitoring of deposit sources establishes Bank comfort with the origination and concentration of deposit inflows such that the Bank can monitor trends in improvements in diversifying its deposit sources.

The Bank has established policies to ensure that its cash outflows and inflows are closely matched and that its sources of deposits are diversified between funding sources and over a wide geographic area. The Bank maintains a conservative investment profile by ensuring:

- All Bank investments are high quality and include government debt securities, bankers acceptances and Canadian bank debt;
- Specific investment criteria and procedures are in place to manage the Bank's securities portfolio;
- Regular review, monitoring and approval of the Bank's investment policies by the Risk Oversight Committee of the Board of Directors; and,
- Quarterly reporting to the Risk Oversight Committee on the composition of the Bank's securities portfolio.

Liquidity management is further supported by processes, which include but are not limited to:

- Monitoring of liquidity levels;
- Monitoring of liquidity trends and key risk indicators;
- Scenario stress testing;
- Monitoring the credit profile of the liquidity portfolio; and,
- Monitoring deposit concentrations.

In order to manage its liquidity needs, the Bank has a liquidity risk management program that is comprised specifically of the following policies and procedures:

- Holding sufficient liquid assets which, based on certain stress assumptions, results in positive cumulative cash flow for a period of 61 to 90 days;
- Holding high quality liquid securities at levels that represent no less than 5% of total assets. High quality liquid securities include: Canadian federal, provincial and municipal debt; debt of federally regulated Canadian financial institutions; widely distributed debt instruments, (all of which are to be rated investment grade); cash on deposit; and banker's acceptances;
- On a weekly basis, monitoring its cash flow requirements using a liquidity forecasting template under a stressed scenario;
- On a monthly basis, testing liquidity using three specific disruption scenarios; i) industry specific disruption scenario, ii) company specific liquidity disruption scenario, and iii) a systematic disruption scenario; and,
- Managing liquidity in accordance with guidelines specified by OSFI.

Operational Risk

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

Operational risk differs from other banking risks in that, typically, it is not directly accepted in return for an expected reward but exists in the natural course of business activity.

The Bank recognizes that operational risk is present in all business activities and that the successful management of operational risk is a key factor in the sustained success of the Bank. Sound operational risk management is a reflection of the effectiveness of the Board and senior management in administering its portfolio of products, activities, processes and systems. As such, the Bank has developed and will continuously enhance an Operational Risk Management ("ORM") Program to identify, evaluate, treat, report and monitor operational risks to which the Bank is exposed.

OPERATIONAL RISK AND THE RISK APPETITE STATEMENT

The Bank has segmented operational risk into six operational risk pillars:

1. Employment Practices and Workplace Safety

The risk resulting from the inappropriate hiring of employees, unjust compensation, or mistreatment of employees, producing consequences such as litigation or resignation. Moreover, it includes risk stemming from the enforcement of safety regulations and the inability to control the environment in working conditions, causing detrimental effects on employees' health such as illness or accidents while working.

2. Information Technology (“IT”) and Cybersecurity

As the Bank’s operations are largely dependent on data and information processing, much emphasis is placed on information technology security to ensure an uninterrupted, secure and undisturbed use of information and communication systems. Business disruption may occur if risks are realized such as system failures or anomalies, defects in the Bank’s computer systems or network infrastructure, or the employment of outdated or substandard technology tools.

3. Fraud and Errors

This operational risk pillar includes three sub-groups:

I. Internal Fraud:

Employees, by themselves or in collusion with others, intentionally violating internal policy, or laws and directly benefiting from the action to the detriment of the business and/or the client.

II. External Fraud:

Acts undertaken by external parties intended to defraud or misappropriate financial, information or physical assets or create financial loss for the company.

III. Errors:

Risk resulting from errors in the operational process or methodology, lack of a procedure or policy documentation, and control failures.

4. Outsourcing

Outsourcing arrangements require careful management if they are to yield benefits, and where they are not managed adequately, the Bank’s operational risk exposure may increase. The risk increases when there is a failure of the availability of the people or public/third-party infrastructure that the Bank depends on.

5. Business Continuity:

The risk of damage to physical assets and/or disruptive events from various accidents such as fire, natural disaster, riots, terrorism, etc. The Bank will assess the potential risk for such events to occur and maintain a recovery plan to ensure continuity of business activity.

6. Client, Product and Business Practices

The risk resulting from business practices, the introduction of a product, and the accessing of a customer’s information that is inappropriate or non-compliant with regulations or rules, such as unauthorized transactions, unapproved dealings, money laundering activities or the misuse of confidential customer information.

Operational risk impacts can be financial loss, loss of competitive position or reputational in nature. The Bank employs the following strategies in its efforts to monitor and manage operational risk exposures to acceptable levels:

- Comprehensive operational policies which provide clear direction to all areas of its business and employees and establish accountability and responsibilities to identify, assess, appropriately mitigate and control operational risk;
- Hiring of banking professionals with many years of related experience;
- Use of technology through automated systems with built in controls;
- Maintenance of a compliance monitoring program; and,
- Continual review and upgrade of systems and procedures.

Market Risk

Market risk is the risk of a negative impact on the balance sheet and/or income statement resulting from changes or volatility in market factors such as interest rates or market prices. The Bank's principal market risk arises from interest rate risk as the Bank does not consistently undertake any foreign exchange or trading activities.

Interest rate risk is the risk that a movement in interest rates could negatively impact spread, net interest income and the economic value of assets, liabilities and shareholders' equity. The Bank manages interest rate risk by employing a number of methods including income simulation analysis and interest rate sensitivity gap and duration analysis.

Foreign exchange risk or currency risk is the risk that transacting in any currency apart from the Bank's base currency can result in gains or losses due to currency fluctuations resulting in the possibility that a foreign denominated transaction's value may decrease due to changes in the relative value of the currency pair. Any appreciation/depreciation in the foreign currency versus the local currency will give rise to foreign exchange risk. The Bank does not consistently undertake any foreign exchange or trading activities, but actively manages any material foreign exchange risk exposure derived from the Bank's normal course business activities through, where possible the establishment of a natural foreign currency hedge or, if necessary, through foreign exchange contracts established with high quality counterparties in order to mitigate the impact of changes in foreign exchange rates on the Bank's financial results and position.

Market risk is managed primarily by the Treasurer and the Chief Financial Officer. Treasury policies, which set out the management of market risk and document the risk limits, include the Bank's interest rate risk management policies and securities portfolio management policies.

Treasury policies are developed, maintained, and administered by the Treasury Department as a function of the Bank's business objectives, market risk appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

MARKET RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines market risk tolerances that the Bank will adhere to in the execution of its business objectives. Market risk tolerances are administered as follows:

1. Interest Rate Volatility:

   Interest rate risk is the risk of a negative impact on the balance sheet or income statement resulting from a change in interest rates. Tolerances are defined and used to assist in measuring the Bank's ability and effort to manage changes to the Bank's capital position as a result of an increase/decrease in both short-term and long-term interest rates.

2. Equity Risk:

   Equity risk is the risk of loss resulting from changes or volatility in equity or financial instrument prices. Tolerances are defined and used to assist in measuring the Bank's ability and effort to manage changes to the Bank's capital position as a result of changes in the value of the Bank's treasury portfolio investments.

   The Bank's principal market risk arises from interest rate risk as the Bank does not consistently undertake any material foreign exchange or trading activities. In addition, the Bank is subject to market price volatility with respect to available-for-sale securities due to the resulting impact on regulatory capital.

   The Risk Oversight Committee of the Bank is charged with recommending policies that govern market risk to the Board of Directors for approval and with reviewing the policies on an ongoing basis. Additionally, the Bank manages interest rate risk by employing a number of methods including income simulation analysis and interest rate sensitivity gap and duration analysis. Management prepares regular reports to the Board to allow for ongoing monitoring of the Bank's interest rate risk position. Further, the Bank's Asset Liability Committee reviews the results of these analyses on a monthly basis and monitors compliance with limits set out in corporate policy. The Bank's policies include the matching of its cash inflows and outflows so that:

   ii. in any 12 month period, a 100 basis point change in rates across the entire yield curve would not result in a decline greater than 4% of regulatory capital on the Bank's earnings; and,

   ii. in any 60 month period, a 100 basis point change in rates across the entire yield curve would not result in a decline greater than 6% of regulatory capital on the Bank's equity.

   As well, the policy indicates that at no time shall the duration difference between the Bank's assets and liabilities exceed four months. The interest rate risk position and results of the Bank's duration analysis at October 31, 2021 as well as for 2020 are reported in the table below.

Interest Rate Position

(thousands of Canadian dollars)

	October 31, 2021		October 31, 2020	
	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	$ 4,147	$ (3,220)	$ 2,569	$ (2,099)
Impact on reported equity during a 60 month period	1,603	(1,586)	(2,527)	1,604
Duration difference between assets and liabilities (months)	2.3		0.6	

As presented in the table above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $4.1 million, while the impact on net interest income of a 100 basis point decrease would be approximately ($3.2 million). Similarly, at October 31, 2020, the impact on equity over a 60 month period of a 100 basis point increase would be approximately $1.6 million while the impact on equity of a 100 basis point decrease over the same period would be approximately ($1.6 million). At October 31, 2021 the duration difference between the Bank's assets and liabilities was 2.3 months compared to 0.6 months at October 31, 2020, indicating that the Bank's assets would reprice faster than liabilities in the event of a future change in interest rates.

The Bank uses on-balance sheet strategies to manage its interest rate risk, and as such, at October 31, 2021, the Bank did not have any outstanding contracts to hedge fair value exposure attributable to interest rate risk.

Credit Risk

Credit risk is the risk of loss associated with a borrower, guarantor or counterparty's inability or unwillingness to fulfill its contractual obligations.

The Bank accepts certain risks in order to generate revenue. In managing these risks, the Bank has developed an enterprise-wide risk management framework designed to achieve an appropriate balance between credit risk and reward in order to maximize shareholder return.

Credit risk is managed by the Chief Credit Officer who administers the Bank's established credit policies that set out the roles of the credit department and the lending business units related to risk management, and further, establishes risk tolerances for same. Credit policies exist for the credit department and for each lending business unit. Credit policies are developed, maintained, and administered by the Credit Department as a function of the Bank's business objectives, credit risk appetite, and regulatory requirements as determined by senior management, and the Board of Directors.

To supplement the Bank's credit policies, the individual lending business units have developed and compiled comprehensive procedures that describe the processes, systems and methods employed in the operation of their businesses while operating within the credit framework set out by the Bank's credit policies.

The Bank's risk appetite statement defines credit risk tolerances that the Bank will adhere to in the execution of its business objectives. The risk appetite statement defines the credit risk tolerances for the entire Bank as well as for each of the following business lines that accept credit risk:

1. Commercial Lending;
2. Point of Sale Financing; and,
3. Treasury.

The Bank manages its credit risk using policies that have been recommended by management to the Risk Oversight Committee, which then recommends the policies to the Board of Directors of the Bank for approval. These policies consist of approval procedures and limits on loan amounts, portfolio concentration, geographic concentration, industry concentration, asset categories, loans to any one entity and associated groups, a risk rating policy that provides for risk rating each asset in its total asset portfolio, and early recognition of problem accounts with action plans for each account. The Risk Oversight Committee of the Bank reviews these policies on an ongoing basis.

The Risk Oversight Committee of the Bank is comprised entirely of independent directors and performs the following functions related to credit risk:

- Recommends policies governing management of credit risk to the Bank's Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure that they are prudent and appropriate given possible changes in market conditions and corporate strategy;
- Reviews and concurs with credits exceeding the levels delegated to management, prior to commitment; and,
- Reviews, on a regular basis, watchlist accounts, impaired loans and accounts that have gone into arrears.

Regulatory Risk

Regulatory risk is the risk that a regulatory agency will make changes in the current rules (or will impose new rules) that will increase the costs of operating the Bank, reduce the attractiveness of the Bank as an investment, result in financial loss, and/or change the competitive landscape. Regulatory risk also includes the risk of adverse outcomes due to non-compliance to rules, regulations, standards or other legal requirements.

The Bank has a Regulatory Compliance Management Program that includes a three lines of defence model and essentially establishes the controls and processes through which the Bank manages regulatory compliance risk. The Chief Compliance Officer is responsible for regulatory compliance oversight.

REGULATORY RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines regulatory risk tolerances that the Bank will adhere to in the execution of its business objectives. Regulatory risk tolerances are administered as follows:

1. Regulatory Compliance

   Bank conformance with laws, rules, and regulations and prescribed practices in all jurisdictions in which it operates.

2. Regulatory Capital

   Capital is a key regulatory requirement. The quality of capital and the leverage of the Bank's capital is a key indicator of health by regulators.

Strategic Risk

Strategic risk is defined as the losses or forgone revenues resulting from improper or ineffective business strategies, resource allocation and/or decision-making or from an inability to adapt to changes in the business environment.

STRATEGIC RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines the strategic risk tolerances that the Bank and each business unit will adhere to in the execution of their respective business objectives. Strategic risk tolerances are established as a function of the Bank's financial performance.

Financial metrics and associated tolerances are defined for the Bank and its lending business units.

The Bank manages strategic risk through a Board approved, robust, annual business planning process which includes the development of a comprehensive business plan, operating budget, and capital plan that contemplate planning horizons ranging from twelve to sixty months. The Bank augments its annual enterprise business planning process with the development of rigorous economic forecasts, risk and operational impact assessments related to any new business initiatives being contemplated as well as through the performance of an annual ICAAP for the Bank. The ICAAP is employed to determine if the Bank's budgeted capital amounts provide adequate capital buffers against the occurrence of its identified business objective risks under both expected and stressed operating conditions.

Reputational Risk

Reputational risk is the risk that an activity undertaken by the Bank or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

Reputational risk is the outcome of a risk occurrence; it is not a risk event in and of itself. To manage against reputational risk, the Enterprise Risk Management program focuses on the risks of the Bank through the other six pillars of risk:

1. Liquidity Risk
2. Operational Risk
3. Market Risk
4. Credit Risk
5. Regulatory Risk
6. Strategic Risk

The management of the risks identified in these six pillars of risk and the measurement of the Bank in achieving its objectives and remaining within the bounds of the Bank's risk appetite statement assist the Bank in managing reputational risk.

REPUTATIONAL RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines the reputational risk tolerances that the Bank will adhere to in the execution of its business objectives.

An institution's reputation is a valuable business asset in its own right that is essential to optimizing shareholder value, and as such is constantly at risk. Reputation risk cannot be managed in isolation from other forms of risk since all risks can have an impact on reputation, which in turn can impact the Bank's brand, earnings and capital. Credit, market, operational, strategic and liquidity risks must all be managed effectively in order to safeguard the Bank's reputation.

Ultimate responsibility for the Bank's reputation lies with senior and executive management, and the Board of Directors and related committees which examine reputation risk as part of their ongoing duties. In addition, every employee and representative of the Bank has a responsibility to contribute in a positive way to the Bank's reputation by ensuring that ethical practices are followed at all times.

FACTORS THAT MAY AFFECT FUTURE RESULTS

As noted in the section "Forward-looking Statements", the Bank is subject to inherent risks and uncertainties which may cause its actual results to differ materially from its expectations. Some of these risks are discussed below.

Impact of COVID-19 Pandemic

The impact of COVID-19 on communities and businesses has abated over the last half of the calendar year with the rapid distribution and adoption of the vaccines allowing for a progressive reopening of the Canadian economy and stimulating improved consumer and business confidence. Notwithstanding the above, should these favourable trends reverse as a result of hospitalizations increasing as a function of the emergence of new variants for which the current vaccines are not effective or simply as a result of active case counts generally rising rapidly, the Canadian economy could be negatively impacted which has the potential to adversely affect the Bank's revenue and earnings.

Execution of Strategic Plans

The Bank's financial performance is influenced by its ability to execute strategic plans developed by management. If these strategic plans do not meet with success or there is a change in the Bank's strategic plans, the Bank's earnings could grow at a slower pace or decline.

Changes in Laws and Regulations

Laws and regulations are in place to protect clients, investors and the public. Changes in laws and regulations, including how they are interpreted and enforced, could adversely affect the Bank's earnings by allowing more competition in the marketplace and by increasing the costs of compliance. In addition, any failure to comply with laws and regulations could adversely affect the Bank's reputation and earnings.

Changes in Accounting Standards and Accounting Policies and Estimates

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of the Bank's financial statements. These changes can be significant and may materially impact how the Bank records its financial position and its results of operations. Where the Bank is required to retroactively apply a new or revised standard, it may be required to restate prior period financial results.

Level of Competition

The level of competition among financial institutions is high and non-financial companies and government entities are increasingly offering services typically provided by banks. This could have an effect on the pricing of the Bank's deposits and its lending products and together with loss of market share, could adversely affect the Bank's earnings.

General Economic Conditions

The Bank conducts its business in various regions within Canada. Factors such as financial market stability, interest rates, foreign exchange rates, changing global commodity prices, business investment, government spending and stimulation initiatives, consumer spending, and the rate of inflation can affect the business and economic environments in each geographic region in which the Bank operates. Therefore, the amount of business that the Bank conducts in a specific geographic region may have an effect on the Bank's overall revenues and earnings.

Monetary Policy

Financial markets' expectations about inflation and central bank monetary policy have an impact on the level of interest rates. Fluctuations in interest rates that result from these changes could have an impact on the regions in which the Bank operates, and further, could have an impact on the Bank's earnings.

Reliance on Deposit Brokers

The Bank raises its deposits primarily through a network of deposit brokers across Canada, including independents as well as the investment dealer subsidiaries of the large Canadian banks. The failure by the Bank to secure sufficient deposits from its broker network could negatively impact its financial condition and operating results. The Bank mitigates this risk by establishing and maintaining good working and mutually beneficial relationships with a diverse group of deposit brokers so as not to become overly reliant on any single deposit broker.

Technology Risk

Technology risk is related to the operational performance, confidentiality, integrity and availability of information systems and infrastructure. The Bank is highly dependent upon information technology and supporting infrastructure such as data and network access. Disruptions in information technology and infrastructure, whether attributed to internal or external factors, and including potential disruptions in services provided by various third parties, could adversely affect the ability of the Bank to conduct regular business and/or to deliver products and services to its clients.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at October 31, 2021, an evaluation was carried out by management of the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of those disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Bank.

At October 31, 2021, an evaluation was carried out by management related to the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with International Financial Reporting Standards. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of internal controls over financial reporting is effective. These evaluations were conducted in accordance with the standards of the 2013 Internal Control – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators.

A Disclosure Committee, consisting of members of senior management, assists the Chief Executive Officer and the Chief Financial Officer in their responsibilities related to evaluating the effectiveness of the Bank's internal control systems and processes. Management's evaluation of controls can only provide reasonable, not absolute, assurance that all internal control issues that may result in material misstatement, if any, have been detected.

There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2021 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Non-GAAP and Other Financial Measures

Non-GAAP and other financial measures are not standardized financial measures under financial reporting framework used to prepare the financial statements of the Banks to which these measures relate. These measures may not be comparable to similar financial measures disclosed by other issuers. The Bank uses these financial measures to assess its performance and as such believes these financial measures are useful in providing readers with a better understanding of how management assesses the Bank's performance.

Non-GAAP Measures

Core Cash Earnings reflects the Bank's core operational performance and earnings capacity and is calculated as net income (as presented in the Consolidated Statements of Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses.

(thousands of Canadian dollars)	October 31 2021	October 31 2020	October 31 2019
Core cash earnings			
Net income	22,380	19,405	20,196
Addback: tax provision	8,409	7,347	7,625
Addback: non-core operational expenses	-	-	-
Core cash earnings	30,789	26,752	27,821

Return on Average Common Equity is defined as net income less amounts relating to preferred share dividends, divided by average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

(thousands of Canadian dollars)	October 31 2021	October 31 2020	October 31 2019
Return on average common equity			
Net income	22,380	19,405	20,196
Preferred share dividends	(1,578)	(2,168)	(2,201)
Adjusted net income	20,802	17,237	17,995
Average common equity	246,159	218,388	202,527
Return on average common equity	8.45%	7.89%	8.89%

Book Value per Common Share is defined as Shareholders' Equity less amounts relating to preferred shares recorded in equity, divided by the number of common shares outstanding.

(thousands of Canadian dollars)	October 31 2021	October 31 2020	October 31 2019
Book value per common share			
Common equity	318,459	225,950	210,825
Shares outstanding	27,441,082	21,123,559	21,123,559
Book value per common share	11.61	10.70	9.98

Return on Average Total Assets is defined as net income less amounts relating to preferred share dividends, divided by average total assets.

(thousands of Canadian dollars)	October 31 2021	October 31 2020	October 31 2019
Return on average total assets			
Net income	22,380	19,405	20,196
Preferred share dividends	(1,578)	(2,168)	(2,201)
Adjusted net income	20,802	17,237	17,995
Average Assets	2,179,486	1,864,633	1,797,256
Return on average total assets	0.95%	0.92%	1.00%

Other Financial Measures

Yield is calculated as interest income (as presented in the Consolidated Statements of Comprehensive Income) divided by average total assets.

Cost of Funds is calculated as interest expense (as presented in the Consolidated Statements of Comprehensive Income) divided by average total assets.

Net Interest Income and Net Interest Margin or Spread is calculated as net interest income divided by average total assets.

Efficiency Ratio is calculated as non-interest expenses as a percentage of total revenue (as presented in the interim Consolidated Statements of Comprehensive Income).

Gross Impaired Loans to Total Loans is defined as gross impaired loan balances divided by the Bank's total loans, net of allowance for credit losses.

Provision for (Recovery of) Credit Losses as a Percentage of Average Total Loans is defined as the provision for (recovery of) credit losses (as presented in the interim Consolidated Statements of Comprehensive Income) divided by average loans, net of allowance for credit losses.

Average Loans captures the average of the opening and closing loan balances.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Visit our website at: www.versabank.com

DIRECTORS

The Honourable Thomas A. Hockin, P.C., B.A, M.P.A., Ph.D., ICD.D
Chairman of the Board
Retired, former Executive Director of the International Monetary Fund

Gabrielle Bochynek, B.A. CHRL
Principal, Human Resources and Labour Relations, The Osborne Group

Robbert-Jan Brabander, M.Sc. and B.Sc. (Economics)
Managing Director of Bells & Whistles Communications, Inc.

David A. Bratton, B.A.(Hons), M.B.A., CHRL, FCMC
Retired, former President of Bratton Consulting Inc.

R.W. (Dick) Carter, FCPA, FCA, C. Dir
(Recused until January 31, 2022)
Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan

Peter M. Irwin, B.A. (Hons.)
Retired, former Managing Director, CIBC Worlds Markets Inc.

Art Linton, JD
Barrister & Solicitor

Susan T. McGovern, B.Sc.
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Retired, former partner of PricewaterhouseCoopers LLP

David R. Taylor, B.Sc. (Hons), M.B.A., F.I.C.B.
President & Chief Executive Officer, VersaBank

OFFICERS AND SENIOR MANAGEMENT

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President & Chief Executive Officer

Shawn Clarke, M.Eng., P.Eng., M.B.A.
Chief Financial Officer & Treasurer

Michael Dixon, B.Comm., M.B.A.
Senior Vice President, e-Commerce

Ross P. Duggan
Senior Vice President, Commercial Lending

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Senior Vice President

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Chief Credit Officer

Tammie Ashton, B.A., LL.B
Chief Risk Officer

Steve Creery, B.A. (Economics)
Vice President, Credit

Barbara Hale, LL.B.
Chief Anti-Money Laundering Officer

Brent T. Hodge, HBA, JD, CIPP/C
Vice President, General Counsel & Corporate Secretary,
Chief Compliance Officer

Saad Inam, B.Comm., M.B.A.
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Joanne Johnston, B.Comm., CPA, CA, CIA
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Wooi Koay, B.Comm., B.Sc.
Chief Information Officer

Tel Matrundola, Hons. B.A., M.A., Ph,D.
Chief Strategist, Cybersecurity

Nancy McCutcheon, HBA, MA, CPA, CGA
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Scott A. Mizzen, B.A., LL.B.
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Gurpreet Sahota, CISSP, CCSP.
Chief Architect, Cybersecurity

Jonathan F.P. Taylor, B.B.A., CHRL
Chief Human Resources Executive

David Thoms, B.A., M.B.A.
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Toronto Stock Exchange
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Trading Symbol: VBNK

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Exhibit 99.4



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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of VersaBank (the Bank)

We consent to the use of our report of independent registered public accounting firm dated November 30, 2021 to the Shareholders of the Bank on the consolidated financial statements of the Bank, which comprise the consolidated balance sheets as at October 31, 2021 and October 31, 2020, the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended October 31, 2021, and the related notes which is included in the Annual Report on Form 40-F of the Bank for the fiscal year ended October 31, 2021.

We also consent to the incorporation by reference of such report and to the reference to our firm under the heading "Auditors, Registrar and Transfer Agent" in the Registration Statement – Form F-10/A (No. 333-259481) of the Bank.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

January 28, 2022
Toronto, Canada

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Exhibit 99.5

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David R. Taylor, certify that:

1. I have reviewed this annual report on Form 40-F of VersaBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 28, 2022

By: /s/ David R. Taylor
Name: David R. Taylor
Title: Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Shawn Clarke, certify that:

1. I have reviewed this annual report on Form 40-F of VersaBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 28, 2022

By: /s/ Shawn Clarke
Name: Shawn Clarke
Title: Chief Financial Officer

Exhibit 99.6

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT 2002

In connection with the Annual Report of VersaBank (the "Company") on Form 40-F for the fiscal year ended October 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Taylor, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 28, 2022

/s/ David R. Taylor

Name: David R. Taylor
Title: Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT 2002

In connection with the Annual Report of VersaBank (the "Company") on Form 40-F for the fiscal year ended October 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shawn Clarke, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 28, 2022

/s/ Shawn Clarke

Name: Shawn Clarke
Title: Chief Financial Officer