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, 2022**

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 registered or 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: **27,245,782 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, 2022, 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, 2022, 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, 2022 ("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, 2022, 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 and that information required to be disclosed by an Registrant in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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, 2022, 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, 2022, 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, 2022, 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 Paul G. Oliver, Peter M. Irwin and Richard H. L. Jankura 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 Paul G. Oliver, Peter M. Irwin and Richard H. L. Jankura 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 Paul G. Oliver's, Peter M. Irwin's and Richard H. L. Jankura's relevant experience in financial matters, see the biographical descriptions for Paul G. Oliver, Peter M. Irwin and Richard H. L. Jankura's under "Audit Committee" in the Registrant's Annual Information Form for the year ended October 31, 2022, 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 Paul G. Oliver, Peter M. Irwin and Richard H. L. Jankura 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, 2022, filed as Exhibit 99.1 to this Annual Report on Form 40-F, and is incorporated herein by reference.

Our independent registered public accounting firm is KPMG LLP, Toronto, ON, Canada, Auditor Firm ID: 85

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under the heading "Off-Balance Sheet Arrangements" on page 30 of our MD&A, set forth in Exhibit 99.3, is incorporated by reference herein.

CONTRACTUAL OBLIGATIONS

The disclosure provided under the heading "Contractual Obligations" on page 31 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 Paul G. Oliver, Peter M. Irwin and Richard H.L. Jankura. See "Directors and Officers" and "Audit Committee" in the Registrant's Annual Information Form for the fiscal year ended October 31, 2022, 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.

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, 2022, 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: December 7, 2022

INDEX TO EXHIBITS

Exhibit No.	Exhibit
99.1	Annual Information Form for the fiscal year ended October 31, 2022.
99.2	Consolidated Financial Statement Years ended October 31, 2022 and 2021.
99.3	Management's Discussion and Analysis of Operations and Financial Condition for the Year Ended October 31, 2022.
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 December 7, 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 December 7, 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, 2022

DECEMBER 7, 2022



ANNUAL INFORMATION FORM

All information is as of October 31, 2022, 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, 2022 (the “2022 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 2022 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 license 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 is a reporting issuer with securities regulators in Canada and the U.S. VersaBank's common shares trade on the Toronto Stock Exchange ("TSX") and the Nasdaq under the symbol VBNK, and its series 1 preferred shares trade on the TSX under the symbol VBNK.PR.A.

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 2020, the Bank generated annual interest income of $86.1 million, net interest income ("NII") of $54.1 million, and a net interest margin ("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 DRT Cyber Inc. ("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 completed a number 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 generated annual interest income of $126.8 million, NII of $76.7 million, and NIM of 2.70% on an average lending asset balance of $2.55 billion. The increase in the Bank's lending activities resulted in the Bank generating net income of $22.7 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 2022 were $3.27 billion.

On February 7, 2022, the Bank granted options to employees under its Long-Term Incentive Plan ("LTIP"). As of October 31, 2022, there were 925,766 options outstanding under the LTIP. An additional 40,000 options remain outstanding under a legacy plan which were granted on October 31, 2013, and expire on October 31, 2023.

On March 31, 2022, VersaBank entered into an agreement with its first Point-of-Sale Finance partner in the United States. VersaBank's Point-of-Sale Financing business operates via its Receivable Purchase Program, which purchases loan and lease receivables from finance companies across a wide variety of sectors, including commercial equipment, consumer healthcare, vehicles, and home improvement. The U.S. Point-of-Sale business represents a significant additional opportunity to grow the Bank's loan portfolio over the long-term. VersaBank established its U.S. subsidiary, VersaFinance US Corp. to facilitate operations of the U.S. Receivable Purchase Program.

On June 14, 2022, the Bank announced its intention to acquire Office of the Comptroller of the Currency ("OCC") registered, Stearns Bank Holdingford N.A., through its subsidiary, VersaHoldings US Corp. for an estimated purchase price of US$13.5 million, subject to adjustment. The acquisition is expected to add approximately USD$60 million in total assets to VersaBank and will provide access to U.S. deposits to fuel the growth of its Receivable Purchase Program business. Subject to regulatory approval in the U.S. and Canada, the transaction is anticipated to close in the first half of 2023.

On August 5, 2022, the Bank received approval from the TSX to proceed with a Normal Course Issuer Bid ("NCIB") for its common shares on both the TSX and Nasdaq exchanges. Pursuant to the NCIB, VersaBank may purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float. VersaBank's directors and management believe that the market price of VersaBank's common shares does not reflect the value of the business and the future prospects of same, and further, reflects a material discount to book value and as such the purchase of common shares for cancellation at such time is a prudent corporate measure and represents an attractive investment for the Bank. The Bank had repurchased 195,300 shares under the NCIB as at October 31, 2022.

DESCRIPTION OF THE BUSINESS

GENERAL SUMMARY

VersaBank is a Canadian Schedule I (federally regulated) 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 in 1993 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, 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.

Effective November 1, 2022, the Bank opted to adopt presenting segmented information in its Consolidated Financial Statements in accordance with IFRS 8 Segment Reporting. The Bank's management has established two reportable operating segments, those being Digital Banking and DRTC. The two operating segments are strategic business operations providing distinct products and services to different markets and are separately managed as a function of the distinction in the nature of each business. The following summarizes the operations of each of the reportable segments:

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

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

Digital Banking

Lending

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 and the U.S. 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, 2022, were $2.22 billion.

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, 2022, were $759 million.

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 in Canada. 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, 2022, VersaBank's common equity tier 1 ratio was 12.00% versus 15.18% as at October 31, 2021, which reflects the September 2021 issuance of CAD $75.1 million of common equity tier 1 capital and the Bank's significant growth in assets in fiscal 2022 as described previously. 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 August 5, 2022, the Bank received approval from the TSX to proceed with an NCIB for its common shares on both the TSX and Nasdaq exchanges. Pursuant to the NCIB, VersaBank may purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float. VersaBank's directors and management believe that the market price of VersaBank's common shares does not reflect the value of the business and the future prospects of same, and further, reflects a material discount to book value and as such the purchase of common shares for cancellation at such time is a prudent corporate measure and represents an attractive investment for the Bank. The Bank had repurchased 195,300 shares under the NCIB as at October 31, 2022.

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.

DRT Cyber Inc.

The Bank, through its wholly owned subsidiary, DRTC, offers leading in-depth cybersecurity protocols, banking and financial technology development, 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 VersaVault® product 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.

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, 2022, VersaBank had 110 full-time equivalent employees. VersaBank is a digital, branchless bank with a B2B model. Its head office is in London, Ontario, and it has two digital technology facilities, one located at the London International Airport and the other located on the University of Saskatchewan's campus in the Innovation Centre.

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 2022 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 20, 2022, which is incorporated herein by reference. Both documents are available on SEDAR at www.sedar.com.

DIVIDEND

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 and 2022, 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 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:

Share Class	F2022	F2021	F2020
Common Shares	$ 2,739,656	$ 2,270,296	$ 2,112,356
Series 1 Preferred Shares	$ 989,701	$ 989,701	$ 989,701
Series 3 Preferred Shares	$ 0	$ 588,462	$ 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.

[1] Amounts rounded to nearest dollar.

COMMON SHARES

VersaBank commenced trading on the TSX on August 27, 2013, under the ticker symbol PWB. On May 17, 2016, the Bank's common shares began trading on the TSX under the ticker 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 27,245,782 Common Shares outstanding as at October 31, 2022. 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. On August 17, 2022, VersaBank commenced an NCIB to purchase up to 1.7 million common shares for cancellation for an aggregate amount not to exceed $17.8 million during the period of August 17, 2022, through August 16, 2023.

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.

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, 2022.

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, 2022. 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, 2022.

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, 2022. 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, 2022, 340268 Ontario Limited owned approximately 29.86% 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, His Majesty in right of Canada or of a province or any agent or agency of His 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

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

COMMON SHARES				SERIES 1 PREFERRED SHARES		
Month	High	Low	Trading Volume	High	Low	Trading Volume
Oct 2022	$ 9.96	$ 8.75	72,058	$ 10.09	$ 9.00	17,673
Sep 2022	$ 10.25	$ 9.50	236,425	$ 10.05	$ 9.75	876
Aug 2022	$ 10.30	$ 9.31	59,252	$ 10.15	$ 9.25	22,490
Jul 2022	$ 9.99	$ 9.00	101,562	$ 10.15	$ 9.51	16,644
Jun 2022	$ 11.30	$ 9.28	126,357	$ 10.23	$ 10.06	7,100
May 2022	$ 13.02	$ 10.01	106,842	$ 10.25	$ 10.02	21,395
Apr 2022	$ 15.00	$ 12.92	65,580	$ 10.38	$ 10.10	8,680
Mar 2022	$ 14.81	$ 13.10	115,324	$ 10.31	$ 10.03	24,075
Feb 2022	$ 15.22	$ 14.10	75,816	$ 10.35	$ 10.11	27,265
Jan 2022	$ 15.65	$ 13.59	195,989	$ 10.42	$ 10.11	37,574
Dec 2021	$ 16.46	$ 14.75	187,908	$ 10.60	$ 10.10	31,860
Nov 2021	$ 16.69	$ 14.70	447,173	$ 10.60	$ 10.50	11,083

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 2022	$ 7.30	$ 6.55	133,327
Sep 2022	$ 7.60	$ 6.98	244,779
Aug 2022	$ 7.99	$ 7.25	326,366
Jul 2022	$ 7.43	$ 6.98	336,723
Jun 2022	$ 8.77	$ 7.23	278,282
May 2022	$ 10.10	$ 8.02	232,957
Apr 2022	$ 11.99	$ 10.04	117,852
Mar 2022	$ 12.00	$ 10.66	668,221
Feb 2022	$ 11.86	$ 10.89	116,069
Jan 2022	$ 12.25	$ 10.76	540,071
Dec 2021	$ 12.86	$ 11.03	377,668
Nov 2021	$ 13.32	$ 6.55	961,124

DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of December 7, 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.
Peter M. Irwin (1)(2) Toronto, Ontario	Director since January 1, 2021	Retired, former Managing Director at CIBC World Markets Inc.
Richard H. L. Jankura (1)(2)(5) London, Ontario	Director since May 6, 2022	Retired, former Chief Financial Officer of Jones Healthcare Group
Arthur R. Linton (4) Kitchener, Ontario	Director since April 22, 2020	Independent Corporate Director and Lawyer
Susan T. McGovern (3)(4) Aurora, Ontario	Director since May 6, 2011	Former Vice President, External Relations and Advancement, Ontario Tech University
Paul G. Oliver (1) 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. Jankura has previously held executive officer positions with Pacific & Western Bank of Canada, VersaBank's immediate predecessor.

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 December 7, 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
Shawn Clarke Ilderton, Ontario	Chief Financial Officer	Chief Financial Officer of VersaBank
Michael R. Dixon London, Ontario	SVP, Point-of-Sale Finance	SVP, Point-of-Sale Finance of VersaBank
Nick Kristo London, Ontario	Chief Credit Officer	Chief Credit Officer of VersaBank
Scott Mizzen London, Ontario	SVP, Commercial Lending	SVP, Commercial Lending of VersaBank
Jonathan Taylor Salt Spring Island, British Columbia	Chief Human Resources Officer	Chief Human Resources Officer of VersaBank

At December 7, 2022, there were 27,228,182 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 1,440,944 Common Shares, representing approximately 5.29% of the total number of Common Shares outstanding.

At December 7, 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 7,235 Series 1 Preferred Shares of VersaBank, representing approximately 0.50% 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, 2022.

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 are the auditors of VersaBank and have confirmed with respect to VersaBank that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations and also that they are independent accountants with respect to VersaBank under all relevant U.S. professional and regulatory standards.

AUDIT COMMITTEE

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) Paul G. Oliver (Chair)
(2) Peter M. Irwin
(3) Richard H. L. Jankura

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

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.

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 Honours B.A. in Business Administration from the Ivey School of Business, Western University, in 1980.

Mr. Jankura is a retired senior finance and accounting executive who has over 30 years of knowledge and expertise within a diverse range of industries. He is a Chartered Professional Accountant and prior to his retirement served as the Chief Financial Officer of Jones Healthcare Group and Discovery Air Inc., where he was responsible for building the finance, treasury, and reporting infrastructure for the organization. Mr. Jankura has also held several senior roles in the banking and venture capital industries, which included responsibility for risk management oversight. He has served as a member of a number of for-profit and not-for-profit boards, including that of a federally regulated trust company. Mr. Jankura earned an Honours Bachelor of Business Administration from Wilfred Laurier University.

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, 2022, for VersaBank were $934,000 and during the year ended October 31, 2021, were $891,000. 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, 2022, for VersaBank were $20,000 and during the year ended October 31, 2021, were $19,250. 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, 2022, for VersaBank were $170,660 and during the year ended October 31, 2021, were $124,050. Tax fees were for tax compliance, tax advice and tax-planning professional services.

KPMG fees are exclusive of an information technology infrastructure costs and administrative support charge of 7% and applicable taxes. No other fees were paid to KPMG LLP during the years ended October 31, 2022, or October 31, 2021.

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 19, 2023. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2022.

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 .

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.

[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, 2022 and 2021



KPMG LLP
Bay Adelaide Centre
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Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

VersaBank:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of VersaBank (the Bank) as of October 31, 2022 and 2021, the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for 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 of October 31, 2022 and 2021, its financial performance and its cash flows for 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. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

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
December 6, 2022

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, 2022 and 2021

(thousands of Canadian dollars)

	2022	2021
Assets		
Cash (note 4)	$ 88,581	$ 271,523
Securities (note 5)	141,564	-
Loans, net of allowance for credit losses (note 6)	2,992,678	2,103,050
Other assets (note 7)	43,175	40,513
	$ 3,265,998	$ 2,415,086
Liabilities and Shareholders' Equity		
Deposits (note 9)	$ 2,657,540	$ 1,853,204
Subordinated notes payable (note 10)	104,951	95,272
Other liabilities (note 11)	152,832	134,504
	2,915,323	2,082,980
Shareholders' equity:		
Share capital (note 12)	239,629	241,321
Contributed surplus	1,612	145
Retained earnings	109,335	90,644
Accumulated other comprehensive income (loss)	99	(4)
	350,675	332,106
	$ 3,265,998	$ 2,415,086

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, 2022 and 2021

(thousands of Canadian dollars, except per share amounts)

	2022	2021
Interest income:		
Loans	$ 123,190	$ 88,055
Other	3,627	1,433
	126,817	89,488
Interest expense:		
Deposits and other	44,600	26,446
Subordinated notes	5,551	2,885
	50,151	29,331
Net interest income	76,666	60,157
Non-interest income	5,726	5,200
Total revenue	82,392	65,357
Provision for (recovery of) credit losses (note 6(b))	451	(438)
	81,941	65,795
Non-interest expenses:		
Salaries and benefits	26,796	20,243
General and administrative	18,732	11,110
Premises and equipment	3,865	3,653
	49,393	35,006
Income before income taxes	32,548	30,789
Income tax provision (note 14)	9,890	8,409
Net income	$ 22,658	$ 22,380
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Foreign exchange gain (loss) on translation of foreign operations	103	(4)
Comprehensive income	$ 22,761	$ 22,376
Basic and diluted income per common share (note 15)	$ 0.79	$ 0.96
Weighted average number of common shares outstanding	27,425,479	21,752,930

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

VERSABANK

Consolidated Statements of Changes in Shareholders' Equity
Years ended October 31, 2022 and 2021

(thousands of Canadian dollars)

	2022	2021
Common shares (note 12):		
Balance, beginning of the year	$ 227,674	$ 152,612
Issued during the year	-	75,101
Cancelled during the year	(1,692)	(39)
Balance, end of the year	$ 225,982	$ 227,674
Preferred shares (note 12):		
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
Redemption of preferred shares	-	(15,690)
Balance, end of the year	$ -	$ -
Total share capital	$ 239,629	$ 241,321
Contributed surplus:		
Balance, beginning of the period	$ 145	$ 145
Fair value of stock-based compensation	1,467	-
Balance, end of the year	$ 1,612	$ 145
Retained earnings:		
Balance, beginning of the year	$ 90,644	$ 73,194
Adjustment for cancelled common shares	(238)	39
Transfer of transaction costs on redemption of Series 3, preferred shares (note 12)	-	(1,123)
Net income	22,658	22,380
Dividends paid on common and preferred shares	(3,729)	(3,846)
Balance, end of the year	$ 109,335	$ 90,644
Accumulated other comprehensive income (loss), net of taxes:		
Balance, beginning of the year	$ (4)	$ -
Other comprehensive income (loss)	103	(4)
Balance, end of the year	$ 99	$ (4)
Total shareholders' equity	$ 350,675	$ 332,106

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

VERSABANK

Consolidated Statements of Cash Flows
Years ended October 31, 2022 and 2021

(thousands of Canadian dollars)

	2022	2021
Cash provided by (used in):		
Operations:		
Net income	$ 22,658	$ 22,380
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision for (recovery of) credit losses	451	(322)
Stock-based compensation	1,467	-
Income tax provision	9,890	8,409
Interest income	(126,817)	(89,488)
Interest expense	50,151	29,331
Amortization	1,938	1,729
Accretion of discount on securities	(533)	-
Foreign exchange rate change on assets and liabilities	9,488	743
Interest received	116,014	85,390
Interest paid	(35,958)	(30,803)
Income taxes paid	(6,275)	(1,388)
Change in operating assets and liabilities:		
Loans	(880,477)	(443,684)
Deposits	790,365	287,104
Change in other assets and liabilities	14,984	22,294
	(32,654)	(108,305)
Investing:		
Purchase of securities (note 5)	(141,031)	-
Acquisition of Digital Boundary Group, net of cash acquired	-	(7,473)
Purchase of investment (note 7)	-	(953)
Purchase of property and equipment	(581)	(14)
	(141,612)	(8,440)
Financing:		
Issuance of subordinated notes payable, net of issue costs (note 10)	-	89,498
Issuance of common shares, net of issue costs (note 12)	-	73,226
Purchase and cancellation of common shares	(1,930)	-
Redemption of preferred shares (note 12)	-	(16,813)
Repayment of loan assumed from Digital Boundary Group	-	(1,410)
Redemption of securitization liability	-	(8,631)
Dividends paid	(3,729)	(3,846)
Repayment of lease obligations	(642)	(621)
	(6,301)	131,403
Change in cash	(180,567)	14,658
Effect of exchange rate changes on cash	(2,375)	(779)
Cash, beginning of year	271,523	257,644
Cash, end of year (note 4)	$ 88,581	$ 271,523

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 Canada ("OSFI"). The Bank, whose shares trade on the Toronto Stock Exchange and Nasdaq Stock Exchange, provides commercial lending and banking services to select niche markets in Canada and the United States as well as cybersecurity services through the operations of its wholly owned subsidiary DRT Cyber Inc., ("DRTC"). The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2.

2. Basis of preparation:

These Consolidated Financial Statements have been prepared in accordance with the *Bank Act (Canada).* 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.

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 December 6, 2022.

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 23), 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 (see note 3m).

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 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 fair value of stock options granted, the purchase price allocation associated with the Bank's acquisition of Digital Boundary Group, the impairment test applied to 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 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., VersaHoldings US Corp. and VersaJet Inc. DRT Cyber Inc. holds 100% of the common shares of Digital Boundary Group Canada Inc. and Digital Boundary Group Inc. ("Digital Boundary Group") (see note 23 – Acquisition). VersaHoldings US Corp. holds 100% of the common shares of VersaFinance US Corp. The Consolidated Financial Statements include the accounts of these subsidiaries. All significant intercompany accounts and transactions have been eliminated.

b) Segment reporting:

Effective November 1, 2021, the Bank opted to adopt presenting segmented information in its Consolidated Financial Statements in accordance with IFRS 8 Segment Reporting. The Bank's management has established two reportable operating segments, those being Digital Banking and DRTC. Details of the Bank's segment reporting are set out in note 22.

3. Significant accounting policies – continued:

c) Business Combinations

The Bank applied IFRS 3 Business Combinations in its accounting for the acquisition of Digital Boundary Group as described in note 23 – Acquisitions 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.

d) Revenue recognition:

Interest income on cash, securities 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, securities and loans is included in the respective cash, securities 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 Bank's non-interest income stream is substantially derived from the operations of DRTC and its wholly owned subsidiaries. DRTC 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.

3. Significant accounting policies – continued:

e) 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.

The Bank's loans are categorized and measured as 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.

The Bank's securities are measured at fair value and categorized as FVTPL.

3. Significant accounting policies – continued:

e) Financial instruments – continued:

Equity instruments

Equity instruments are measured at fair value and categorized as FVTPL unless an irrevocable designation is made at initial recognition to categorize as 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 other comprehensive income ("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 accumulated OCI to retained earnings.

The Bank has categorized its investment in Canada Stablecorp Inc. as FVOCI and it is carried at fair value.

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.

3. Significant accounting policies – continued:

e) Financial instruments – continued:

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.

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 30 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.

3. Significant accounting policies – continued:

e) Financial instruments – continued:

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 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.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans which is reflected in the Bank's stage 1 grouping. The Bank recognizes a lifetime expected losses on loans that have experienced a significant increase in credit risk since origination which is reflected in the Bank's stage 2 grouping. Impaired loans require recognition of lifetime losses and is reflected in stage 3 grouping.

3. Significant accounting policies – continued:

e) Financial instruments – continued:

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 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 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:

e) 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 a financial instrument are 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.

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.

3. Significant accounting policies – continued:

f) 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.

g) 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:

g) 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 carried 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.

The Bank develops proprietary cybersecurity, banking and financial technology. Any research or early-stage scoping activities are expensed as incurred in the period. The Bank recognizes internally generated intangible assets on the development of proprietary technology when it has determined there is technical feasibility and resources to complete a product, demonstrated an existence of an established market for the product, and support to generate future revenues or derive future economic benefits from the product.

h) 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 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 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 the end of each reporting period.

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.

3. Significant accounting policies – continued:

i) 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.

The fair value of stock options granted is recorded in salaries and benefits expense in the Consolidated Statements of Income and in 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 13.

j) Share capital:

The Bank's share capital consists of common shares and preferred shares. Costs directly incurred with raising new share capital are charged against equity. Other costs are expensed as incurred.

3. Significant accounting policies – continued:

k) 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.

l) Leases:

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.

3. Significant accounting policies – continued:

m) 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 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).

Foreign operations

The assets and liabilities of Digital Boundary Group Inc., a US operation of the Bank, has a functional currency other than the Canadian dollar, and is 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). All other US operations are recognized as having functional currency based on the Canadian dollar.

n) Future accounting standard pronouncements:

The following accounting standards amendments issues by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2022:

i) Amendments to IAS 16, *Property, plant and equipment – proceeds before intended use* - Under the amendment proceeds from sales related to property, plant and equipment prior to availability for use will be recognized in profit and loss, together with the costs associated with producing those items.
ii) Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets - Onerous contracts, cost of fulfilling a contract* – The standard specifies that a contract is considered onerous when unavoidable costs of fulfilling the contract outweigh the economic benefits. The amendment provides further guidance on determining costs of fulfilling a contract.
iii) The IASB provided a number of non-urgent but required amendments to various IFRS Standards under the issuance of its Annual Improvements to IFRS Standards 2018- 2020.
    a. Amendments to IAS 1 - *First-time Adoption of International Financial Reporting Standards,* is intended to simplify the application of IFRS 1 for a subsidiary that becomes a first-time adopter to IFRS Standards later than its parent. Notably to allow a subsidiary to elect to measure cumulative translation difference for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS.

3. Significant accounting policies – continued:

n) Future accounting standard pronouncements - continued:

b. Amendments to IFRS 9 – *Financial instruments,* provides guidance for the purpose of performing the "10 per cent test" for derecognition of financial liabilities, the treatment of various fee transactions.

These amendments noted above are not expected to have a material impact on the Bank's financial results.

4. Cash:

Cash is comprised of deposits with regulated financial institutions.

5. Securities:

As at October 31, 2022, the Bank held securities totalling $ 141.6 million (2021 - $nil), comprised of a series of Government of Canada Treasury Bills and a US Government Treasury Bill. The series of Government of Canada Treasury Bills were purchased for $ 116.5 million with a face value totaling $117.5 million, resulting in a weighted average yield of 3.10% on the instruments, and with maturities ranging from November 8, 2022 to May 25, 2023. The US Government Treasury Bill was purchased for USD $ 17.99 million ($24.5 million) with a face value of USD $18.0 million ($24.6 million), resulting in a yield of 2.64% and maturing on November 8, 2022.

6. Loans, net of allowance for credit losses:

The Bank organizes its lending portfolio into the following four broad asset categories: Point-of-Sale Loans and Leases, Commercial Real Estate Mortgages, Commercial Real Estate Loans, 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 **Point-of-Sale Loans and Leases ("POS Financing")** 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 **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.

6. Loans – continued:

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

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)

	2022	2021
Point of sale loans and leases	$ 2,220,894	$ 1,279,576
Commercial real estate mortgages	710,369	757,576
Commercial real estate loans	13,165	26,569
Public sector and other financing	35,452	32,587
	2,979,880	2,096,308
Allowance for credit losses	(1,904)	(1,453)
Accrued interest	14,702	8,195
Total loans, net of allowance for credit losses	$ 2,992,678	$ 2,103,050

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, 2022				As at October 31, 2021			
(thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Point of sale loans and leases	$ 2,215,388	$ 5,227	$ 279	**$ 2,220,894**	$ 1,277,011	$ 2,565	$ -	**$ 1,279,576**
ECL allowance	*545*	-	-	***545***	*275*	-	-	***275***
EL %	0.02%	0.00%	0.00%	**0.02%**	0.02%	0.00%	0.00%	**0.02%**
Commercial real estate mortgages	$ 599,113	$ 111,256	$ -	**$ 710,369**	$ 694,869	$ 62,707	$ -	**$ 757,576**
ECL allowance	*1,150*	*137*	-	***1,287***	*980*	*134*	-	***1,114***
EL %	0.19%	0.12%	0.00%	**0.18%**	0.14%	0.21%	0.00%	**0.15%**
Commercial real estate loans	$ 13,165	$ -	$ -	**$ 13,165**	$ 26,569	$ -	$ -	**$ 26,569**
ECL allowance	*54*	-	-	***54***	*45*	-	-	***45***
EL %	0.41%	0.00%	0.00%	**0.41%**	0.17%	0.00%	0.00%	**0.17%**
Public sector and other financing	$ 35,273	$ 179	$ -	**$ 35,452**	$ 32,507	$ 80	$ -	**$ 32,587**
ECL allowance	*17*	*1*	-	***18***	*16*	*3*	-	***19***
EL %	0.05%	0.56%	0.00%	**0.05%**	0.05%	0.00%	0.00%	**0.06%**
Total loans	$ 2,862,939	$ 116,662	$ 279	**$ 2,979,880**	$ 2,030,956	$ 65,352	$ -	**$ 2,096,308**
Total ECL allowance	*1,766*	*138*	-	***1,904***	*1,316*	*137*	-	***1,453***
Total EL %	0.06%	0.12%	0.00%	**0.06%**	0.06%	0.21%	0.00%	**0.07%**

6. Loans – continued:

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 Financing portfolio (note 11).

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.

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 as well as changes in Canadian and US macroeconomic trends attributable to changes in monetary policy, inflation, employment rates, consumer behaviour and geo-political risks.

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.

6. Loans – continued:

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 judgement, where appropriate, to reflect, amongst other items, uncertainty in the Canadian and US macroeconomic environments.

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.

Key assumptions driving the base case macroeconomic forecast trends include: the Bank of Canada ("BoC") continuing to tighten monetary policy with the overnight rate reaching 4.5% in early 2023; consumer spending declines and business investment slows as a function primarily of higher rates and persistent inflation; inflation beginning to decelerate consistently in early 2023, in line with the anticipated end of the current monetary policy tightening cycle; the housing market continues to cool attributable to higher interest rates which dampen demand, causing home values to continue to decline; a mild technical recession emerges along with rising unemployment in early 2023 as consumption slows and firms dial back their growth plans; public health restrictions do not return even as new COVID-19 case counts occasionally spike through the winter; and, supply-chain stress continues to ease as global vaccination rates improve and good demand softens.

6. Loans – continued:

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, 2022 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, 2022:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 1,904	$ 1,350	$ 1,786	$ 2,474
Variance from reported ECL		(554)	(118)	570
Variance from reported ECL (%)		(29%)	(6%)	30%

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans which is reflected in the Bank's Stage 1 grouping. The Bank recognizes a lifetime expected losses on loans that have experienced a significant increase in credit risk since origination which is reflected in the Bank's Stage 2 grouping. Impaired loans require recognition of lifetime losses and is reflected in Stage 3 grouping.

The determination of a significant increase in credit risk is a function primarily of loan product type and the associated risk profile of same. The principal factors considered in making this determination include relative changes in the Bank's internal risk rating assignment, the loan's watchlist status, and the loan's delinquency status. Notwithstanding the above, the assessment of a significant increase in credit risk will require experienced credit judgement.

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, 2022:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Point-of-sale loans and leases				
Balance at beginning of period	$ 275	$ -	$ -	$ 275
Transfer in (out) to Stage 1	91	(91)	-	-
Transfer in (out) to Stage 2	(186)	186	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	365	(95)	-	270
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	270	-	-	270
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 545**	**$ -**	**$ -**	**$ 545**
Commercial real estate mortgages				
Balance at beginning of period	$ 980	$ 134	$ -	$ 1,114
Transfer in (out) to Stage 1	75	(75)	-	-
Transfer in (out) to Stage 2	(129)	129	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	74	(29)	-	45
Loan originations	286	-	-	286
Derecognitions and maturities	(136)	(22)	-	(158)
Provision for (recovery of) credit losses	170	3	-	173
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 1,150**	**$ 137**	**$ -**	**$ 1,287**
Commercial real estate loans				
Balance at beginning of period	$ 45	$ -	$ -	$ 45
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	9	-	-	9
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	9	-	-	9
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 54**	**$ -**	**$ -**	**$ 54**
Public sector and other financing				
Balance at beginning of period	$ 16	$ 3	$ -	$ 19
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	2	(2)	-	-
Loan originations	-	-	-	-
Derecognitions and maturities	(1)	-	-	(1)
Provision for (recovery of) credit losses	1	(2)	-	(1)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 17**	**$ 1**	**$ -**	**$ 18**
Total balance at end of period	**$ 1,766**	**$ 138**	**$ -**	**$ 1,904**

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, 2021:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
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	149	(89)	-	60
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	60	-	-	60
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 275**	**$ -**	**$ -**	**$ 275**
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**
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:

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	2022 Total	2021 Total
Total loans	$ 670,350	$ 106,262	$ 501,818	$ 238,460	$ 1,050,292	$ 412,698	$ 2,979,880	$ 2,096,308
Average effective yield	8.29%	4.57%	5.42%	4.93%	4.95%	5.58%	5.85%	4.52%

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, 2022, the Bank held one impaired loan totalling $279,000 (October 31, 2021 - $nil). The impaired loan was subsequently fully repaid on November 1, 2022.

7. Other assets:

(thousands of Canadian dollars)

	2022	2021
Accounts receivable	$ 3,774	$ 2,643
Prepaid expenses and other (note 7a)	16,391	12,699
Property and equipment (note 8)	6,868	7,075
Right-of-use assets	4,122	4,817
Deferred income tax asset (note 14)	2,128	2,931
Investment (note 7b)	953	953
Goodwill (note 7c)	5,754	5,754
Intangible assets	3,185	3,641
	$ 43,175	$ 40,513

For the year ended October 31, 2022, the amortization expense for the right-of-use assets totalled $ 695,000 (2021 - $695,000) and the amortization expense for the intangible assets totalled $456,000 (2021 - $299,000).

a) The Bank has developed internally proprietary cybersecurity, banking and financial technology products. Costs associated with the development of these products have been capitalized in accordance with IAS 38 *Intangible Assets*. As at October 31, 2022, $6.2 million (2021 - $4.2 million) in development costs were capitalized.

b) In February 2021, the Bank acquired an 11% investment in Canada Stablecorp Inc. (“Stablecorp”) for cash consideration of $953,000. 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.

7. Other assets - continued:

c) Goodwill relates to the Bank's acquisition of Digital Boundary Group (note 23) and for the purpose of conducting an annual test for impairment, the Bank's CGU relates specifically to the operations of Digital Boundary Group. 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 12% 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. Sensitivity analysis performed by management suggests that if the average annual growth rate were to decrease by 4% over each year of the five year planning horizon, it would result in the carrying amount being approximately equal to the recoverable amount of the CGU.

8. Property and equipment:

(thousands of Canadian dollars)

	2022	2021
Cost	$ 17,465	$ 16,884
Accumulated amortization	(10,597)	(9,809)
	$ 6,868	$ 7,075

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, 2022 totalled $788,000 (2021 - $735,000).

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	Over 5 years	Accrued Interest	2022 Total	2021 Total
Total deposits	$ 507,879	$ 275,220	$ 904,664	$ 529,806	$ 412,739	$ 331	$ 26,901	$ 2,657,540	$ 1,853,204
Average effective interest rate	2.81%	2.01%	2.99%	2.90%	2.57%	5.07%		2.74%	1.19%

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

10. Subordinated notes payable:

(thousands of Canadian dollars)

	2022	2021
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 19), effective interest rate of 10.41%, maturing March 2029.	$ 4,908	$ 4,898
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.	100,043	90,374
	$ 104,951	$ 95,272

On April 30, 2021 the Bank completed a private placement with US 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 is 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.

11. Other liabilities:

(thousands of Canadian dollars)

	2022	2021
Accounts payable and other	$ 7,662	$ 6,893
Current income tax liability	5,797	2,949
Deferred income tax liability (note 14)	786	898
Lease obligations	4,471	5,113
Cash collateral and amounts held in escrow	8,006	7,887
Cash reserves on loan and lease receivables	126,110	110,764
	$ 152,832	$ 134,504

11. Other liabilities - continued:

Lease obligations reflect the Bank's liabilities for right-of-use assets which capture the Bank's multiple leased premises (note 3). The portion of the Bank's 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.

12. 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)

	2022		2021	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	27,441,082	$ 227,674	21,123,559	$ 152,612
Issued during the year	-	-	6,325,000	75,101
Cancelled during the year	(195,300)	(1,692)	(7,477)	(39)
Outstanding, end of year	27,245,782	$ 225,982	27,441,082	$ 227,674
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
Redemption of preferred shares	-	-	(1,681,320)	(15,690)
Outstanding, end of year	-	$ -	-	$ -
Total share capital		$ 239,629		$ 241,321

12. Share capital – continued:

Common shares

On August 5, 2022, the Bank received approval from the Toronto Stock Exchange ("TSX") to proceed with a Normal Course Issuer Bid ("NCIB") for its common shares. On September 21, 2022, the Bank received approval from the Nasdaq to proceed with a NCIB for its common shares. Pursuant to the NCIB, VersaBank may purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float. VersaBank's directors and management believe that the market price of VersaBank's common shares does not reflect the value of the business and the future prospects of same, and further, reflects a material discount to book value and as such the purchase of common shares for cancellation at such time is a prudent corporate measure and represents an attractive investment for the Bank.

The Bank was eligible to make purchases commencing on August 17, 2022 and will terminate on August 16, 2023, or such earlier date as VersaBank may complete its purchases pursuant to the NCIB. The purchases will be made by VersaBank through the facilities of the TSX and alternate trading systems and in accordance with the rules of the TSX or such alternate trading systems, as applicable, and the prices that VersaBank will pay for any Common Shares will be the market price of such shares at the time of acquisition. VersaBank will make no purchases of Common Shares other than open market purchases. All shares purchased under the NCIB will be cancelled.

For the year ended October 31, 2022, the Bank purchased and cancelled 195,300 Common Shares for $1.9 million, reducing the Bank's Common Share value by $1.7 million and retained earnings by $ 238,000.

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 $12.68 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 $ 12.74 per share, for gross proceeds of USD $8.3 million. The Bank incurred net transaction costs of $ 5.4 million, which are net of deferred tax adjustment of $1.9 million.

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.

12. Share capital – continued:

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).

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.

13. 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 five years of issue. Options are usually granted with graded vesting terms. One third vests on the first anniversary of the grant date, one third vests on the second anniversary of the grant date, and one third vests on the third anniversary of the grant date.

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	40,000	$ 7.00	42,017	$ 10.73
Granted	971,707	15.90	-	-
Exercised	-	-	-	-
Forfeited/cancelled	(45,941)	15.90	-	-
Expired	-	-	(2,017)	10.73
Outstanding, end of period	965,766	$ 15.53	40,000	$ 7.00

For the year ended October 31, 2022, the Bank recognized stock-based compensation expense of $ 1.5 million (2021 - $nil) related to the estimated fair value of options granted. The fair value of the 971,707 stock options granted over the course of the current fiscal year was estimated at the grant dates using the Black-Scholes valuation model and the following input assumptions: risk-free rate of 1.39%, expected option life of 3.5 years, expected volatility of 29.5%, expected annual dividends of 0.64% and a forfeiture rate of 2.0%. The weighted average of the fair value of the stock options granted in the year was estimated at $3.03 per share. As at October 31, 2022, 40,000 common share stock options were fully vested and exercisable at $ 7.00 per share and expire in October 2023.

14. 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 tax rates and provincial tax rates of 27% (2021 – 27%) to income before income taxes. Income taxes have been computed as follows:

(thousands of Canadian dollars)

	2022	2021
Income before income taxes	$ 32,548	$ 30,789
Income tax rate	27%	27%
Expected income tax provision	8,788	8,313
Tax rate differential	172	(83)
Unrecognized deferred tax asset	411	159
Other permanent differences	519	20
Income taxes	$ 9,890	$ 8,409

Income taxes is comprised of the following:

(thousands of Canadian dollars)

	2022	2021
Current income taxes	$ 9,199	$ 4,319
Deferred income taxes	691	4,090
Income taxes	$ 9,890	$ 8,409

14. Income taxes – continued:

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, 2021	Recognized in net income	Recognized directly to equity	October 31, 2022
Allowance for credit losses	$ 388	$ 120	$ -	$ 508
Loss carry forwards	338	(338)	-	-
Share issue and financing costs	1,373	(464)	-	909
Deposit commissions	(981)	(246)	-	(1,227)
Intangibles assets	(898)	112	-	(786)
Deferred loan fees	757	(99)	-	658
Other	1,056	224	-	1,280
Net deferred income tax assets	$ 2,033	$ (691)	$ -	$ 1,342

(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

The net deferred taxes are comprised of:

(thousands of Canadian dollars)

	2022	2021
Deferred tax assets	$ 2,128	$ 2,931
Deferred tax liabilities	(786)	(898)
Net deferred income tax assets	$ 1,342	$ 2,033

A deferred tax asset in the amount of $692,000 (2021 - $nil) has been recognized in the financial statements which utilization is dependent on future taxable earnings in the tax jurisdiction to which it relates. The Bank has forecasted earnings in this tax jurisdiction which will allow for the use of these deferred tax assets.

14. Income taxes – continued:

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 $396,000 (2021 - $631,000) and related tax recovery is recorded through equity.

At October 31, 2022, the Bank had US income tax losses which can be carried forward to reduce taxable income in future years for $ 1.5 million (2021 - $970,000). These loss carry forwards of the Bank have no expiry date. The deferred tax asset of $ 339,000 (2021 - $268,000) relating to the United States tax losses has not been recognized in these statements.

In addition, the Bank has approximately $ 9.5 million (2021 - $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 (2021 - $1.3 million) has not been recognized.

A deferred tax liability on taxable temporary differences of approximately $ 3.9 million (2021 - $1.5 million) 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.

15. Per share amounts:

Basic and diluted income per common share

(thousands of Canadian dollars)

	2022	2021
Net income	$ 22,658	$ 22,380
Preferred share dividends paid	(988)	(1,578)
Net income available to common shareholders	21,670	20,802
Weighted average number of common shares outstanding	27,425,479	21,752,930
Basic and diluted income per common share:	$ 0.79	$ 0.96

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.

16. 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.

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

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 Treasurer and the Chief Risk Officer to the Risk Oversight Committee, who then recommends 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.

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.

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

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.

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 17 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 foreign exchange risk, interest rates, or market prices. 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 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.

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

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.

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)

	2022		2021	
	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	$ 4,304	$ (4,261)	$ 4,147	$ (3,220)
Duration difference between assets and liabilities (months)	1.4		2.3	

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

As at October 31, 2022 and October 31, 2021 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.

17. 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, 2022 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	$ 88,581	$ -	$ -	$ -	$ -	$ -	$ -	$ 88,581
Effective rate	2.60%							
Securities	-	121,871	19,693	-	-	-	-	141,564
Effective rate		3.06%	2.81%					
Loans	670,350	106,262	501,818	238,460	1,050,292	412,698	12,798	2,992,678
Effective rate	8.29%	4.57%	5.42%	4.93%	4.95%	5.58%		
Other	-	-	-	-	-	-	43,175	43,175
Effective rate								
Total Assets	$ 758,931	$ 228,133	$ 521,511	$ 238,460	$ 1,050,292	$ 412,698	$ 55,973	$ 3,265,998
Liabilities								
Deposits	$ 507,879	$ 275,220	$ 904,664	$ 529,806	$ 412,739	$ 331	$ 26,901	$ 2,657,540
Effective rate	2.81%	2.01%	2.99%	2.90%	2.57%	5.07%		
Subordinated notes	-	-	-	-	-	104,951	-	104,951
Effective rate						5.62%		
Other	134,116	-	-	-	-	-	18,716	152,832
Effective rate	3.17%							
Equity	-	-	-	-	13,647	-	337,028	350,675
Effective rate					6.77%			
Total liabilities and equity	$ 641,995	$ 275,220	$ 904,664	$ 529,806	$ 426,386	$ 105,282	$ 382,645	$ 3,265,998
October 31, 2022 gap	$ 116,936	$ (47,087)	$ (383,153)	$ (291,346)	$ 623,906	$ 307,416	$ (326,672)	$ -
Cumulative	$ 116,936	$ 69,849	$ (313,304)	$ (604,650)	$ 19,256	$ 326,672	$ -	$ -
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	$ -	$ -

18. 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)

	2022		2021	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash	$ 88,581	$ 88,581	$ 271,523	$ 271,523
Securities	141,564	141,564	-	-
Loans	2,992,678	2,963,676	2,103,050	2,118,636
Other financial assets	953	953	953	953
Liabilities				
Deposits	$ 2,657,540	$ 2,561,421	$ 1,853,204	$ 1,860,332
Subordinated notes payable	104,951	107,368	95,272	97,910
Other financial liabilities	146,249	146,249	130,657	130,657

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:

- For securities, the combined book value and accrued interest approximates fair value.
- 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 based on discounted cash flows using current market interest rates.
- 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 is classified as Level 3 fair value hierarchy as a determination of fair value, which did not use inputs that are based on observable market data given that the entity is privately-held.

18. Fair value of financial instruments – continued:

- The fair value of other financial assets is approximately equal to their book value due to the short-term nature of the instruments.
- 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.

19. 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, 2022, amounts due from key management personnel totalled $ 1.3 million (2021 - $1.5 million) and an amount due from a corporation controlled by key management personnel totalled $ 3.9 million (2021 - $2.8 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, 2022 totalled $95,000 (2021 - $83,000). There were no specific provisions for credit losses associated with loans issued to key management personnel (2021 - $nil), and all loans issued to key management personnel were current as at October 31, 2022 and 2021.

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, 2022, was $6.4 million (2021 - $6.1 million), of which $1.1 million (2021 - $nil) was paid to a corporation controlled by key management personnel.

20. 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)

		2022		2021
Loan commitments	$	382,851	$	296,248
Letters of credit		60,273		46,462
	$	443,124	$	342,710

b) Pledged assets:

In the ordinary course of business, assets are pledged against the off-balance sheet letters of credit in the amount of $ 11.1 million (2021 - $7.8 million).

21. 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).

21. Capital management – continued:

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.

As a result of the onset of COVID- 19 and the economic uncertainty precipitated by same, 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. As at October 31, 2022 and 2021, no portion of the Bank's ECL allowance amount was eligible for inclusion in the calculation of the Bank's CET1 capital.

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. 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.

21. Capital management – continued:

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 $12.68 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 $ 12.74 per share for gross proceeds of USD $8.3 million. Total net proceeds of the offering were CAD $ 73.2 million (note 12), 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. During the year ended October 31, 2022, 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.

21. Capital management – continued:

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

(thousands of Canadian dollars)

	2022 "Transitional"	2022 "All in"	2021 "All in"
Common Equity Tier 1 (CET1) capital			
Directly issued qualifying common share capital	$ 225,982	$ 225,982	$ 227,674
Contributed surplus	1,612	1,612	145
Retained earnings	109,335	109,335	90,644
Accumulated other comprehensive income	99	99	(4)
CET1 before regulatory adjustments	337,028	337,028	318,459
Regulatory adjustments applied to CET1	(11,371)	(11,371)	(12,751)
Common Equity Tier 1 capital	$ 325,657	$ 325,657	$ 305,708
Additional Tier 1 capital			
Directly issued qualifying Additional Tier 1 instruments	$ 13,647	$ 13,647	$ 13,647
Total Tier 1 capital	$ 339,304	$ 339,304	$ 319,355
Tier 2 capital			
Directly issued capital instruments	$ 107,367	$ 107,367	$ 97,910
Tier 2 capital before regulatory adjustments	107,367	107,367	97,910
Eligible stage 1 and stage 2 allowance	1,904	1,904	1,453
Total Tier 2 capital	$ 109,271	$ 109,271	$ 99,363
Total regulatory capital	$ 448,575	$ 448,575	$ 418,718
Total risk-weighted assets	$ 2,714,902	$ 2,714,902	$ 2,013,544
Capital ratios			
CET1 capital ratio	12.00%	12.00%	15.18%
Tier 1 capital ratio	12.50%	12.50%	15.86%
Total capital ratio	16.52%	16.52%	20.80%

As at October 31, 2022 and 2021, the Bank was in compliance with all minimum capital ratios prescribed by OSFI.

21. 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:

(thousands of Canadian dollars)

	2022 "Transitional"	2022 "All-in"	2021 "All-in"
On-balance sheet assets	$ 3,265,998	$ 3,265,998	$ 2,415,086
Asset amounts adjusted in determining the Basel III Tier 1 capital	(11,371)	(11,371)	(12,751)
Total on-balance sheet exposures	3,254,627	3,254,627	2,402,335
Off-balance sheet exposure at gross notional amount	$ 443,124	$ 443,124	$ 342,710
Adjustments for conversion to credit equivalent amount	(251,101)	(251,101)	(210,065)
Off-balance sheet exposures	192,023	192,023	132,645
Tier 1 capital	339,304	339,304	319,355
Total exposures	3,446,650	3,446,650	2,534,980
Leverage ratio	9.84%	9.84%	12.60%

As at October 31, 2022 and 2021, the Bank was in compliance with the leverage ratio prescribed by OSFI.

22. Operating Segments:

The Bank has established two reportable operating segments, those being Digital Banking and DRTC. The two operating segments are strategic business operations providing distinct products and services to different markets and are separately managed as a function of the distinction in the nature of each business. The following summarizes the operations of each of the reportable segments:

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

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

22. Operating Segments - continued:

The basis for the determination of the reportable segments is a function primarily of the systematic, consistent process employed by our chief operating decision maker, the Chief Executive Officer, and the Chief Financial Officer in reviewing and interpreting the operations and performance of each segment. The accounting policies applied to these segments are consistent with those employed in the preparation of our consolidated financial statements, as disclosed in note 3 *Segment reporting*.

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

Following is information regarding the results of each reportable operating segment as at and for the year ended October 31, 2022 and 2021:

(thousands of Canadian dollars) for the year ended	October 31, 2022				October 31, 2021			
	Digital Banking	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking	DRTC	Eliminations/ Adjustments	Consolidated
Net interest income	$ 76,666	$ -	$ -	$ 76,666	$ 60,157	$ -	$ -	$ 60,157
Non-interest income	52	5,839	(165)	5,726	(60)	5,411	(151)	5,200
Total revenue	76,718	5,839	(165)	82,392	60,097	5,411	(151)	65,357
Provision for (recovery of) credit losses	451	-	-	451	(438)	-	-	(438)
	76,267	5,839	(165)	81,941	60,535	5,411	(151)	65,795
Non-interest expenses:								
Salaries and benefits	22,303	4,493	-	26,796	18,354	1,889	-	20,243
General and administrative	17,614	1,283	(165)	18,732	10,289	972	(151)	11,110
Premises and equipment	2,475	1,390	-	3,865	2,403	1,250	-	3,653
	42,392	7,166	(165)	49,393	31,046	4,111	(151)	35,006
Income (loss) before income taxes	33,875	(1,327)	-	32,548	29,489	1,300	-	30,789
Income tax provision	9,744	146	-	9,890	7,817	592	-	8,409
Net income (loss)	$ 24,131	$ (1,473)	$ -	$ 22,658	$ 21,672	$ 708	$ -	$ 22,380
Total assets	$3,267,479	$ 22,345	$ (23,826)	$ 3,265,998	$2,411,790	$ 22,309	$ (19,013)	$ 2,415,086
Total liabilities	$2,912,249	$ 25,755	$ (22,681)	$ 2,915,323	$2,077,643	$ 23,205	$ (17,868)	$ 2,082,980

23. Acquisitions:

Proposed acquisition of Stearns Bank Holdingford, N.A.

On June 14, 2022, VersaBank signed a definitive agreement to acquire Minnesota-based Stearns Bank Holdingford, N.A. ("SBH"), a privately held, wholly owned subsidiary of Stearns Financial Services Inc. ("SFSI") based in St. Cloud, Minnesota, for an estimated USD $13.5 million (CAD $18.4 million), subject to adjustment at closing. SBH is a fully operational OCC (Office of the Comptroller of the Currency)-chartered national bank, focused on small business lending, which is expected to add approximately USD $60 million in total assets to VersaBank's balance sheet, subject to any adjustments at closing. The acquisition is intended to provide VersaBank with access to US deposits to expand the growth of its receivable purchase program business, which VersaBank launched in the US in the current year. Subject to customary closing conditions, including regulatory approval by both the OCC and OSFI, the transaction is anticipated to close in early 2023.

23. Acquisitions - continued:

Acquisition of Digital Boundary Group

On November 30, 2020, the Bank, through its wholly owned subsidiary DRTC, acquired 100% of the shares of Digital Boundary Group Canada Inc. (formerly 2021945 Ontario Inc.) and its wholly owned subsidiary, operating as 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.

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, 2022, the operations of DBG have contributed $5.6 million (2021 - $5.2 million) and $964,000 (2021 - $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 $456,000 (2021 -$299,000). The costs associated with the acquisition of DBG totaled $ 180,000 and were included in the Bank's non-interest expense.

24. 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.

Exhibit 99.3

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") of operations and financial condition for the year ended October 31, 2022, dated December 6, 2022, should be read in conjunction with VersaBank's Audited Consolidated Financial Statements for the year ended October 31, 2022, 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

VersaBank's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings and with Canadian securities regulators or the US Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. 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 VersaBank'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 and US economy in general and the strength of the local economies within Canada and the US in which VersaBank conducts operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and the US Federal Reserve; global commodity prices; the effects of competition in the markets in which VersaBank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations pertaining to financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; the impact of wars or conflicts including the crisis in Ukraine and the impact of the crisis on global supply chains; the impact of new variants of COVID-19; and VersaBank'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 VersaBank shareholders and others in understanding VersaBank's financial position and may not be appropriate for any other purposes. Except as required by securities law, VersaBank does 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 VersaBank or on its behalf.

About VersaBank

VersaBank (the “Bank”) adopted an electronic branchless model in 1993, becoming the world’s first branchless financial institution and obtains its deposits and the majority of its loans and leases digitally. It holds a Canadian Schedule 1 chartered bank licence and is regulated by the Office of the Superintendent of Financial Institutions (“OSFI”). In addition to its core Digital Banking operations, VersaBank has established cybersecurity services and banking and financial technology development operations through its wholly owned subsidiary, DRT Cyber Inc. (“DRTC”). VersaBank’s Common Shares trade on the Toronto Stock Exchange and Nasdaq under the symbol VBNK. Its Series 1 Preferred Shares trade on the Toronto Stock Exchange under the symbol VBNK.PR.A.

VersaBank is focused on increasing earnings by concentrating on underserved markets that support more attractive pricing for its products, leveraging existing distribution channels to deliver its financial products to these chosen markets and expanding its diverse deposit gathering network that provides efficient access to a range of low-cost deposit sources in order to maintain a low cost of funds.

The underlying drivers of VersaBank’s performance trends for the current and comparative periods are set out in the following sections of this MD&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 underserved markets in Canada and the United States (“US”). VersaBank is also leveraging its proprietary technology in cybersecurity and innovative solutions that address the growing volume of cyber threats challenging financial institutions, multi-national corporations and government entities on a daily basis.

Overview of Performance



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

FY 2022 vs FY 2021

- Loans increased 42% to $2.99 billion, driven primarily by outsized growth in the Bank’s Point-of-Sale (“POS”) loan and lease receivable portfolio, which increased 74%;
- Total revenue increased 26% to $82.4 million, composed of net interest income of $76.7 million and non-interest income of $5.7 million, the latter derived primarily from the Bank’s technology and cybersecurity business, attributable specifically to the operations of Digital Boundary Group (“DBG”), which generated services revenue and gross profit of $9.8 million and $5.6 million, respectively, (an increase of 14% and 8%, respectively), (See *Acquisition of DBG* in the *Financial Review – Balance Sheet)*;
- Net interest margin (“NIM”) decreased 6 bps to 2.70% and NIM on loans decreased 27 bps to 3.08% as a function primarily of higher cost of funds attributable to changes in the Bank’s funding mix, offset substantially by higher yields earned on the Bank’s lending portfolio and securities purchased in the current year;

- Provision for credit losses ("PCL") and the resulting PCL ratio were $451,000 and 0.02%, respectively, compared with a recovery of credit losses and resulting PCL ratio of $438,000 and -0.02%, respectively, last year. The recovery recorded last year was attributable primarily to changes in the Bank's lending asset portfolio mix, a partial recovery of a previously impaired asset in the amount of $116,000 and changes in the forward-looking information used in the Bank's credit risk models in the period. The current year over year trend was due primarily to lending asset growth and changes in the forward-looking information used by the Bank in its credit risk models;
- Net income increased 1% to a record of $22.7 million, driven by higher revenue, which was substantially offset by higher non-interest expense attributable to $5.2 million in transitory investments in several business development initiatives, including the planned acquisition of a US national bank, development and initial launch of the US Receivable Purchase Program ("RPP"), and the ongoing development of the Canadian-dollar version of VersaBank's Digital Deposit Receipts. These transitory investments are expected to be substantially completed in the first quarter of fiscal 2023 and expected to contribute to revenue and net income growth beginning in 2023. Higher non-interest expense was also the result of higher salary and benefits expense due to higher staffing levels to support expanded revenue-generating business activity across the Bank and higher costs associated with employee retention amidst the current challenging labour market. In addition, net income was dampened by temporarily elevated corporate income taxes resulting in the Bank's tax provision increasing incrementally by approximately $1.1 million, which was attributable to a higher effective income tax rate, which management anticipates will be reduced in the coming fiscal year;
- Earnings per share ("EPS") decreased 18% to $0.79, primarily due to the impact of the issuance of 6.3 million common shares concurrent with the Bank's listing on Nasdaq in September 2021. EPS was also impacted by higher non-interest expense of $0.16 (on an after tax basis) related to transitory investment in multiple business development initiatives described above and the higher effective tax rate of $0.04 (on an after tax basis); and,
- Efficiency ratio for Digital Banking operations (excluding DRTC) increased 6% to 55% and was elevated as a function primarily of VersaBank's investments in the business development initiatives described above. Efficiency ratio for Digital Banking operations adjusted for the Bank's investments in the business development initiatives described above was 49% (see definition in "Non-GAAP and Other Financial Measures").

Items of note

FY 2022

- On August 5, 2022, the Bank received approval from the Toronto Stock Exchange ("TSX") to proceed with a Normal Course Issuer Bid ("NCIB") for its common shares. On September 21, 2022, the Bank received approval from the Nasdaq to proceed with a NCIB for its common shares. Pursuant to the NCIB, VersaBank may purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float. VersaBank's directors and management believe that the market price of VersaBank's common shares does not reflect the value of the business and the future prospects of same, and further, reflects a material discount to book value and as such the purchase of common shares for cancellation at such time is a prudent corporate measure and represents an attractive investment for the Bank. The Bank had repurchased 195,300 shares under the NCIB as at October 31, 2022;

- On June 14, 2022, the Bank signed a definitive agreement to acquire Minnesota-based Stearns Bank Holdingford, N.A. ("SBH"), a privately held, wholly-owned subsidiary of Stearns Financial Services Inc. ("SFSI") based in St. Cloud, Minnesota, for an estimated US $13.5 million (CA $18.4 million), subject to adjustment at closing. SBH is a fully operational OCC (Office of the Comptroller of the Currency)-chartered national bank, focused on small business lending, which is expected to add approximately US $60 million in total assets to VersaBank's balance sheet. The acquisition is intended to provide VersaBank with access to US denominated deposits to expand the growth of its RPP business, which VersaBank launched in the US early in the second quarter of fiscal 2022. Subject to customary closing conditions, including regulatory approval by both the OCC and OSFI, the transaction is anticipated to close in early calendar 2023;

- On May 9, 2022, the Bank announced the appointment of Rick Jankura to the Bank's Board of Directors. Mr. Jankura brings to the VersaBank board more than four decades of experience as a finance and accounting executive with a broad range of senior management and board of director roles with both private and public companies in a diverse range of industries, including financial services, manufacturing, services and software;

- On March 31, 2022, VersaBank announced that it had entered into an agreement with its first RPP partner in the US, a large, North American, commercial transportation financing business focused on independent owner/operators; and,

- On March 28, 2022, VersaBank announced the successful completion of the independent third-party System and Organization Controls ("SOC2") – Type I audit of its VersaVault®, VersaBank's proprietary security technology for blockchain-based assets, which underpins VersaBank's revolutionary Digital Deposit Receipts.

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 $12.68 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 $12.74 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 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 US 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. 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 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. 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.

Selected Financial Highlights

(unaudited)

($CDN thousands except per share amounts)	October 31 2022	October 31 2021	October 31 2020
Results of operations			
Interest income	$ 126,817	$ 89,488	$ 86,094
Net interest income	76,666	60,157	54,125
Non-interest income	5,726	5,200	60
Total revenue	82,392	65,357	54,185
Provision for (recovery of) credit losses	451	(438)	(344)
Non-interest expenses	49,393	35,006	27,777
Digital banking	42,392	31,046	26,758
DRTC	7,166	4,111	1,019
Net income	**22,658**	**22,380**	**19,405**
Income per common share:			
Basic	$ 0.79	$ 0.96	$ 0.82
Diluted	$ 0.79	$ 0.96	$ 0.82
Dividends paid on preferred shares	$ 988	$ 1,578	$ 2,168
Dividends paid on common shares	$ 2,741	$ 2,268	$ 2,112
Yield*	4.47%	4.11%	4.62%
Cost of funds*	1.77%	1.35%	1.71%
Net interest margin*	2.70%	2.76%	2.90%
Net interest margin on loans*	3.08%	3.35%	3.42%
Return on average common equity*	6.61%	8.45%	7.89%
Book value per common share*	$ 12.37	$ 11.61	$ 10.70
Efficiency ratio*	60%	54%	51%
Efficiency ratio - Digital banking*	55%	52%	49%
Return on average total assets*	0.76%	0.95%	0.92%
Gross impaired loans to total loans*	0.01%	0.00%	0.00%
Provision for (recovery of) credit losses as a % of average loans*	0.02%	(0.02%)	(0.02%)
	as at		
Balance Sheet Summary			
Cash	$ 88,581	$ 271,523	$ 257,644
Securities	141,564	-	-
Loans, net of allowance for credit losses	2,992,678	2,103,050	1,654,910
Average loans*	2,547,864	1,878,980	1,624,599
Total assets	3,265,998	2,415,086	1,943,885
Deposits	2,657,540	1,853,204	1,567,570
Subordinated notes payable	104,951	95,272	4,889
Shareholders' equity	350,675	332,106	255,288
Capital ratios**			
Risk-weighted assets	$ 2,714,902	$ 2,013,544	$ 1,580,939
Common Equity Tier 1 capital	325,657	305,708	219,359
Total regulatory capital	448,575	418,718	255,471
Common Equity Tier 1 (CET1) capital ratio	12.00%	15.18%	13.88%
Tier 1 capital ratio	12.50%	15.86%	15.73%
Total capital ratio	16.52%	20.80%	16.16%
Leverage ratio	9.84%	12.60%	12.19%

* 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

VersaBank is active in underserved banking markets in Canada and the US 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, VersaBank 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 VersaBank's chosen underserved lending and deposit markets, but also delivers superior financial products and better customer service to its clients.

Management continues to monitor the geo-political, economic and financial market risk precipitated by the conflict in Ukraine and its potential impact on VersaBank's business. At this time, management has not identified any material direct or indirect risk exposure to VersaBank resulting from the conflict and will continue to assess available information and evaluate the situation as it evolves.

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

Lending Assets

- Canadian Point-of-Sale Financing: Consumer spending and business investment in Canada are expected to slow over the remainder of calendar 2022 and into 2023 as a function primarily of rising interest rates combined with persistent inflation. Notwithstanding the above, management anticipates that consumers will continue to spend, albeit at a tempered rate relative to 2022 in the various sectors to which the Bank provides POS financing supported to some extent by residual savings accumulated over the course of the pandemic. This consumer behaviour, combined with the anticipated addition of new origination partners in Canada, is expected to contribute to continued strong growth in the Bank's POS Financing portfolio in fiscal 2023 that is more consistent with pre-fiscal 2022 levels, however, lower than the outsized growth experienced in fiscal 2022;

- US Receivable Purchase Program: Despite elevated inflation, higher gas prices and supply chain disruptions in the US, continued momentum in the job market and higher wages are expected to mitigate material declines in consumer spending, which in turn will support stable demand for durable goods and agricultural products which is expected to continue to stimulate transportation equipment purchases. Additionally, despite a cooling of the residential home market in the US, overall construction activity is expected to continue to expand modestly in the coming year, including residential homes, rental apartments, commercial properties, and public infrastructure which is anticipated to support demand for construction equipment in the near term. Moreover, despite higher borrowing costs and inflation, pent-up demand is anticipated to be sufficient to support manufacturers continuing to invest in process and equipment productivity initiatives in order to fulfil the current pipeline of orders in several end-use markets, including industrial machinery, materials handling equipment, and construction equipment. Management is of the view that the anticipated US macroeconomic and industry trends set out above will be supportive of healthy balance sheet growth in the US over the course of fiscal 2023 via the Bank's RPP, which will be focused on the provision of commercial equipment financing over the course of the same period. The Bank's RPP launched in a limited manner in the second quarter of fiscal 2022 with a large, North American, commercial transportation financing business focused on independent owner/operators; and,

- Commercial Real Estate: Management anticipates modest growth in the commercial mortgage sector specifically related to financing for residential housing properties over the course of fiscal 2023. Notwithstanding the highly effective risk mitigation strategies that are employed in managing this portfolio, including working with well-established, well-capitalized partners and maintaining modest loan-to-value ratios on individual transactions, management has taken a cautionary stance with respect to the CRE portfolio due to the anticipation of volatility in CRE asset valuations in a rising interest rate environment and the potential impact of same on borrowers' ability to service debt, as well as due to concerns related to inflation and higher input costs, which continue to have the potential to drive higher construction costs. Additionally, management anticipates more meaningful participation in the B-20 compliant conventional, uninsured mortgage financing space, however, does not expect this lending activity to impact the Bank's balance sheet until early fiscal 2023.

Credit Quality

- VersaBank lends to underserved 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 VersaBank's offered financing arrangements;

- As at October 31, 2022, the Bank held one impaired loan totalling $279,000, which was subsequently fully repaid on November 1, 2022, and no delinquent loans on the balance sheet. The Bank continues to closely monitor its lending portfolio and origination partners, as well as the underlying borrowers, to ensure that management has good visibility on any credit trends that could provide an early warning indication of the emergence of any elevated risk in the lending portfolio;

- Available forward-looking macroeconomic and industry data are biased towards the negative. As a result, management anticipates that credit risk in its portfolio may increase modestly over the course of fiscal 2023 as a function primarily of continued, anticipated tightening of monetary policy in both Canada and the US and the ability of consumers and businesses to service debt at higher interest rates, the impact of elevated inflation and the effectiveness of strong labour markets and higher wages on mitigating same as well as geo-political risk derived from the continued crisis in Ukraine and the residual impact of the crisis on global supply chains. Notwithstanding the above, management also expects that the lower risk profile of VersaBank's lending portfolio, which is a function of VersaBank's prudent underwriting practices, structured lending products and focus on underserved financing markets within which it has a wealth of experience, will mitigate any escalation in forward credit risk in Bank's lending portfolio; and,

- VersaBank 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 VersaBank's internally developed expected credit loss ("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. As discussed, management notes moderately deteriorating trends in the macroeconomic data currently being used as forward-looking information in VersaBank's credit risk models and, depending on the growth trajectory and composition of the lending portfolio, these trends could result in higher ECL amounts and the Bank recognizing higher provisions for credit losses in the coming quarters.

Funding and Liquidity

- Management expects that commercial deposit volumes raised via VersaBank's Trustee Integrated Banking ("TIB") program will grow moderately over the course of fiscal 2023 as a function of an increase in the volume of consumer and commercial bankruptcy and proposal restructuring proceedings over the same timeframe, attributable primarily to a more challenging current and forecasted economic environment. Further, VersaBank 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,

- Management anticipates that liquidity levels will remain reasonably consistent over the course of fiscal 2023 as VersaBank continues to fund anticipated balance sheet growth across each of its lines of business. Further, management will continue to deploy cash into low risk, liquid securities with the objective of earning a more favourable yield on its available liquidity.

Earnings and Capital

- Earnings growth in fiscal 2023 is expected to be a function primarily of anticipated organic balance sheet growth from Digital Banking operations, specifically attributable to the Bank's POS Financing and RPP businesses in Canada and the US, respectively, as well as incremental earnings contributions from DRTC, offset partially by elevated non-interest expenses early in the 2023 fiscal period attributable to costs related to transitory investment in the Bank's business development initiatives, including the acquisition and integration of a US national bank, and the ongoing development of the Canadian-dollar version of VersaBank's Digital Deposit Receipts, which are expected to be substantially completed in the first quarter of fiscal 2023. Additionally, management expects to incur higher costs associated with the recruitment and retention of staff in what remains a highly competitive labour market;

- Net interest income growth for fiscal 2023 is expected to be a function primarily of growth in VersaBank's POS and RPP businesses in Canada and the US, respectively, disciplined liquidity management and the expectation that growth in the TIB program and further expansion of its diverse deposit broker network will have a favourable impact on VersaBank's cost of funds;

- Non-interest income growth for fiscal 2023 is expected to be a function primarily of DRTC growing revenue from its suite of cybersecurity services;

- VersaBank's capital ratios remain comfortably in excess of regulatory minimums. Management is of the view that VersaBank's current capital levels are sufficient to accommodate balance sheet growth contemplated for fiscal 2023. Management will continue to closely monitor the capital markets to identify opportunities for VersaBank to raise additional regulatory capital on attractive terms in order to position VersaBank to support a potentially more robust growth profile in the future;

- Management does not anticipate increasing VersaBank's dividend rate during fiscal 2023 to ensure that it continues to have adequate regulatory capital available to support contemplated balance sheet growth, as well as specific business development initiatives for earnings growth currently contemplated over the same timeframe and remain in compliance with its established regulatory capital ratio targets and thresholds; and,

- During the fourth quarter of fiscal 2022, VersaBank received approval from the TSX and Nasdaq to proceed with a NCIB for its common shares through which the Bank may purchase for cancellation up to 1,700,000 of its common shares, representing approximately 9.54% of its public float. If fully executed, the impact of the NCIB will not have a material impact on the Bank's regulatory capital levels and ratios. The Bank had repurchased 195,300 shares under the NCIB as at October 31, 2022.

There is potential that VersaBank 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 and US economies in general and the strength of the local economies in which VersaBank conducts operations; the effects of changes in monetary and fiscal policy, including changes in the interest rate policies of the Bank of Canada and the US Federal Reserve; global commodity prices; the effects of competition in the markets in which VersaBank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the ability of VersaBank to grow its business and execute its strategy in the US market; the impact of changes in the laws and regulations regulating financial services; the impact of wars or conflicts including the crisis in Ukraine; and the impact of new variants of COVID-19 on the 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, increased 26% to $82.4 million compared to last year.

(thousands of Canadian dollars)

For the year ended:	October 31 2022	October 31 2021	Change
Interest income			
Point-of-sale loans and leases	$ 78,231	$ 48,215	62%
Commercial real estate mortgages	43,571	37,950	15%
Commercial real estate loans	730	1,384	(47%)
Public sector and other financing	658	506	30%
Other	3,627	1,433	153%
Interest income	$ 126,817	$ 89,488	42%
Interest expense			
Deposit and other	$ 44,600	$ 26,446	69%
Subordinated notes	5,551	2,885	92%
Interest expense	$ 50,151	$ 29,331	71%
Net interest income	$ 76,666	$ 60,157	27%
Non-interest income	$ 5,726	$ 5,200	10%
Total revenue	$ 82,392	$ 65,357	26%

Net Interest Income

FY 2022 vs FY 2021

Net interest income increased 27% to $76.7 million as a function primarily of:

- Higher interest income earned on strong lending asset growth, attributable primarily to growth in the Bank's POS Financing business;
- Higher yields earned on floating rate lending assets attributable to rising interest rates; and,
- Redeployment of available cash into higher yielding, low risk securities.

Offset partially by:

- Higher interest expense attributable to a shift in mix to higher personal deposit balances and rising interest rates; and,
- Higher interest expense attributable to the Notes issued in April 2021.

Net Interest Margin

(thousands of Canadian dollars)

For the year ended:	October 31 2022	October 31 2021	Change
Interest income	$ 126,817	$ 89,488	42%
Interest expense	50,151	29,331	71%
Net interest income	76,666	60,157	27%
Average assets	$ 2,840,542	$ 2,179,486	30%
Yield*	4.47%	4.11%	9%
Cost of funds*	1.77%	1.35%	31%
Net interest margin*	2.70%	2.76%	(2%)
Average gross loans	$ 2,538,094	$ 1,873,227	35%
Net interest margin on loans*	3.08%	3.35%	(8%)

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

FY 2022 vs FY 2021

Net interest margin decreased 6 bps to 2.70% due primarily to:

- Higher cost of funds attributable to a shift in the Bank's funding mix and rising interest rates;
- A full year of interest expense attributable to the Notes issued in April 2021; and,
- The Bank successfully executing on its strategy to grow its POS Financing portfolio.

Offset partially by:

- Higher yields earned on the Bank's lending portfolio, generally as a function of rising interest rates over the reporting period;
- Management adjusting the Bank's liquidity management strategy to optimize average liquid/total asset ratios; and,
- Redeployment of available cash into higher yielding, low-risk securities.

Non-Interest Income

Non-interest income is comprised of the consolidated gross profit generated by DRTC's cybersecurity services business, or more specifically the gross profit of DBG as well as income derived from miscellaneous transaction fees not directly attributable to lending assets.

Non-interest income for the year ended October 31, 2022 was $5.7 million compared with $5.2 million a year ago and was comprised substantially of the consolidated gross profit of DBG of $5.6 million realized on service revenues of $9.8 million which were up 8% and 14% year over year respectively. The year over year trend was a function primarily of higher client engagement at DBG and the comparative period including only eleven months of operations due to the timing of the acquisition of DBG on November 30, 2020.

Provision for Credit Losses

(thousands of Canadian dollars)

For the year ended:	October 31 2022	October 31 2021
Provision for (recovery of) credit losses by lending asset:		
Point-of-sale loans and leases	$ 270	$ 60
Commercial real estate mortgages	173	(252)
Commercial real estate loans	9	(92)
Public sector and other financing	(1)	(154)
Total provision for (recovery of) credit losses	$ 451	$ (438)

FY 2022 vs FY 2021

Provision for credit losses and the resulting PCL ratio were $451,000 and 0.02%, respectively, compared with a recovery of credit losses and PCL ratio of $438,000 and -0.02%, respectively, last year. The recovery recorded last year was attributable primarily to changes in the Bank's lending asset portfolio mix, a partial recovery of a previously impaired asset in the amount of $116,000 and changes in the forward-looking information used in the Bank's credit risk models in the period. The current year over year trend was a function primarily of:

- Higher lending asset balances in the current period; and,
- Changes in the forward-looking information used by the Bank in its credit risk models in the current period.

Non-Interest Expenses

(thousands of Canadian dollars)

For the year ended:	October 31 2022	October 31 2021	Change
Salaries and benefits	$ 26,796	$ 20,243	32%
General and administrative	18,732	11,110	69%
Premises and equipment	3,865	3,653	6%
Total non-interest expenses	$ 49,393	$ 35,006	41%
Efficiency Ratio*	59.95%	53.56%	12%

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

FY 2022 vs FY 2021

Non-interest expenses were up 41% to $49.4 million as a function primarily of:

- Costs related to transitory investment in certain business development initiatives including, but not limited to, the planned acquisition of a US national bank, the development and initial launch of the US RPP, which will be offered broadly through the Bank's US subsidiary on closing, and the ongoing development of the Canadian-dollar version of VersaBank's Digital Deposit Receipts totaling $5.2 million, ($0.16 per share on an after tax basis). Investments associated with the acquisition and integration of the operations of the US national bank, including development of the RPP, are anticipated to be substantially completed by the end of the first quarter of fiscal 2023;

- Higher insurance premiums attributable to VersaBank's listing on the Nasdaq in September 2021, which will reduce by 56% in 2023 as a result of management establishing the same comprehensive coverage through a new relationship with a financial institution-focused US insurance broker;
- Higher salary and benefits expense attributable to higher staffing levels to support expanded revenue-generating business activity across VersaBank and higher costs associated with employee retention totaling $2.6 million; and,
- Higher office and facility related costs attributable to the implementation of VersaBank's return-to-work strategy.

Tax Provision

The Bank's effective tax rate for the current year was approximately 30% compared with approximately 27% in the prior year. The incremental increase in the Bank's effective tax rate in the current year was attributable primarily to higher non-deductible expenses associated with employee stock options, which were issued as part of the Bank's employee retention program early in the current year, and unrecognized non-capital losses, as well as temporary, incremental tax associated with initial limited launch of the Bank's RPP in the US ahead of the planned acquisition of a US national bank. Provision for income taxes for fiscal 2022 was $9.9 million compared with $8.4 million last year. Management anticipates that the effective tax rate experienced in the current year will be reduced in fiscal 2023.

Comprehensive Income

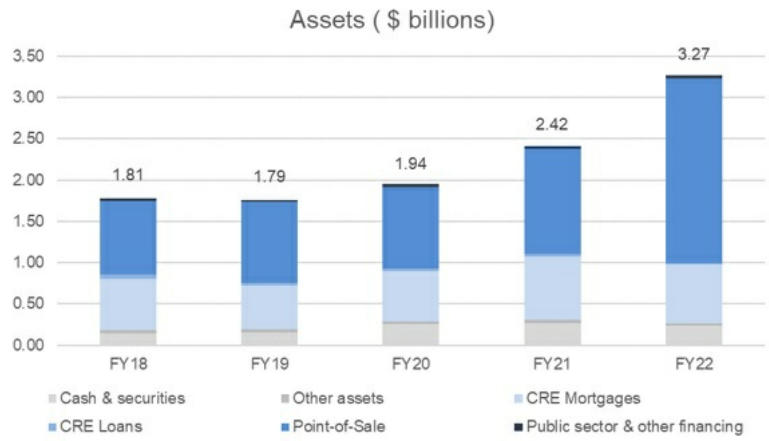
Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on fair value through other comprehensive income associated with the foreign exchange gain or loss on translation of foreign operations. Comprehensive income for the year was $22.8 million compared to $22.4 million last year.

Financial Review – Balance Sheet

(thousands of Canadian dollars)

	October 31 2022	October 31 2021	Change
Total assets	$ 3,265,998	$ 2,415,086	35%
Cash and securities	230,145	271,523	(15%)
Loans, net of allowance for credit losses	2,992,678	2,103,050	42%
Deposits	2,657,540	1,853,204	43%

Total Assets



Total assets were up 35% to $3.27 billion at October 31, 2022 attributable primarily to strong growth in the Bank's POS Financing portfolio, which was up 74% year over year offset partially by a modest decline in the Bank's Commercial Real Estate portfolio.

Cash and securities

Cash and securities, which are held primarily for liquidity purposes, at October 31, 2022 was $230.1 million, or 7% of total assets, compared with $271.5 million, or 11% of total assets a year ago. The year over year decrease was a function primarily of the deployment of cash into higher yielding lending assets over the course of the 2022 fiscal year.

As at October 31, 2022, the Bank held securities totalling $141.6 million (2021 - $nil), comprised of a series of Government of Canada Treasury Bills and a US Government Treasury Bill. The series of Government of Canada Treasury Bills were purchased for $116.5 million with a face value totaling $117.5 million, resulting in a weighted average yield of 3.10% on the instruments, and with maturities ranging from November 8, 2022 to May 25, 2023. The US Government Treasury Bill was purchased for USD $17.99 million ($24.5 million) with a face value of USD $18.0 million ($24.6 million), resulting in a yield of 2.64% and maturing on November 8, 2022.

Loans

(thousands of Canadian dollars)

	October 31 2022	October 31 2021	Change
Point-of-sale loans and leases	$ 2,220,894	$ 1,279,576	74%
Commercial real estate mortgages	710,369	757,576	(6%)
Commercial real estate loans	13,165	26,569	(50%)
Public sector and other financing	35,452	32,587	9%
	$ 2,979,880	$ 2,096,308	42%

VersaBank organizes its lending portfolio into the following four broad asset categories: Point-of-Sale Loans & Leases, Commercial Real Estate Mortgages, Commercial Real Estate Loans, and Public Sector and Other Financing. These categories have been established in VersaBank's proprietary, internally developed asset management system and have been designed to catalogue individual lending assets as a function primarily of their key risk drivers, the nature of the underlying collateral, and the applicable market segment.

The **Point-of-Sale Loans and Leases** ("**POS Financing**") asset category is composed of Point-of-Sale Loan and Lease Receivables acquired from VersaBank's broad network of origination and servicing partners as well as Warehouse Loans that provide bridge financing to VersaBank's origination and servicing partners for the purpose of accumulating and seasoning practical volumes of individual loans and leases prior to VersaBank purchasing the cashflow receivables derived from same.

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.

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. VersaBank 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.

FY 2022 vs FY 2021

Loans increased 42% to $2.99 billion as a function primarily of:

- Higher POS Financing balances, which increased 74% year over year as a function primarily of continued strong demand for home finance, and home improvement/HVAC receivable financing.

Offset partially by:

- Lower CRE balances attributable primarily to scheduled repayments and a more conservative loan origination strategy in light of the evolving, challenging macroeconomic environment.

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, 2022, was $4.0 million compared to $2.7 million a year ago. The Bank did not have any HELOCs outstanding at October 31, 2022, or a year ago.

Credit Quality and Allowance for Credit Losses

As discussed previously, at October 31, 2022, the Bank had one impaired loan on its balance sheet totalling $279,000 (October 31, 2021 - $nil). The impaired loan was fully repaid on November 1, 2022. Despite this impeccable credit performance we continue to monitor our lending assets, 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 2022	October 31 2021	Change
ECL allowance by lending asset:			
Point-of-sale loans and leases	$ 545	$ 275	98%
Commercial real estate mortgages	1,287	1,114	16%
Commercial real estate loans	54	45	20%
Public sector and other financing	18	19	(5%)
Total ECL allowance	$ 1,904	$ 1,453	31%

(thousands of Canadian dollars)

	October 31 2022	October 31 2021	Change
ECL allowance by stage:			
ECL allowance stage 1	$ 1,766	$ 1,316	34%
ECL allowance stage 2	138	137	1%
ECL allowance stage 3	-	-	
Total ECL allowance	$ 1,904	$ 1,453	31%

The Bank's ECL allowance at October 31, 2022 was $1.9 million compared to $1.5 million a year ago. The year over year trend was a function primarily of:

- Higher lending asset balances; and,
- Changes in the forward-looking information used by VersaBank in its credit risk models.

Offset partially by:

- Changes in VersaBank's lending asset portfolio mix.

The Bank's gross impaired loans at October 31, 2022 were $279,000 (October 31, 2021 – $nil).

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.

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 as well as changes in Canadian and US macroeconomic trends attributable to changes in monetary policy, inflation, employment rates, consumer behaviour and geo-political risks.

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, 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.

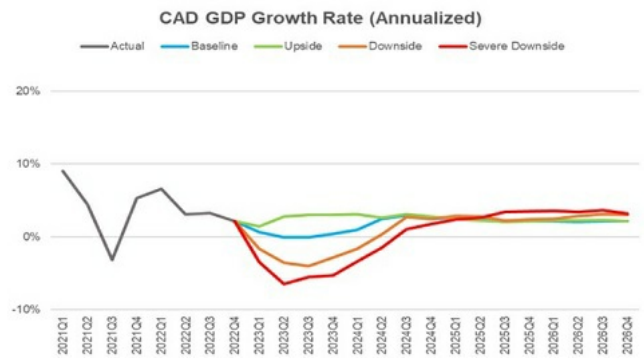
The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios in order to mitigate volatility in the estimation of expected credit losses, as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment 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 judgement, where appropriate, to reflect, amongst other items, uncertainty in the Canadian and US macroeconomic environments.

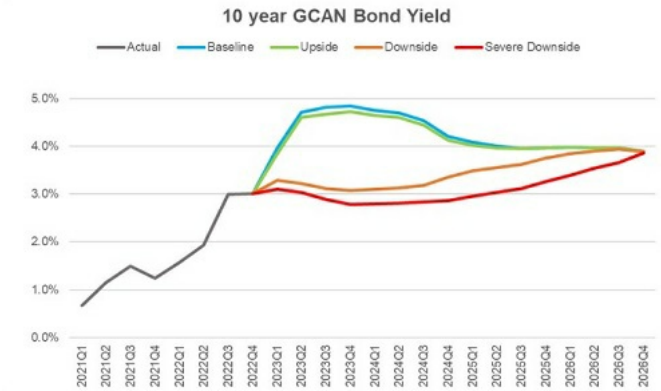
The macroeconomic indicator data utilized by the Bank for the purpose of sensitizing PD and LGD term structure data to forward economic conditions include, but are not limited to: GDP, the national unemployment rate, long term interest rates, the consumer price index, the S&P/TSX Index and the price 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.

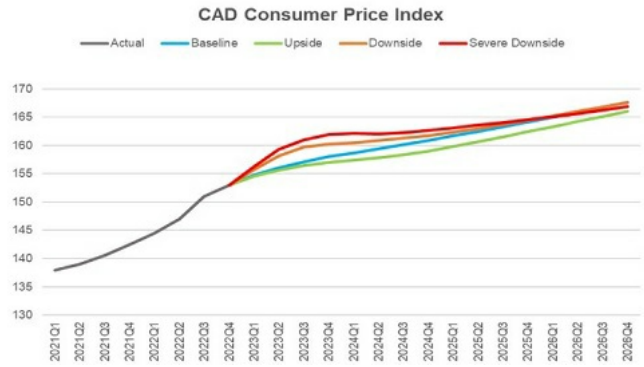
Key assumptions driving the base case macroeconomic forecast trends this quarter include: the Bank of Canada, ("BoC") continuing to tighten monetary policy with the overnight rate reaching 4.5% in early 2023; consumer spending declines and business investment slows as a function primarily of higher rates and persistent inflation; inflation beings to decelerate consistently in early 2023, in line with the anticipated end of the current monetary policy tightening cycle; the housing market continues to cool attributable to higher interest rates which dampen demand, causing home values to continue to decline; a mild technical recession emerges along with rising unemployment in early 2023 as consumption slows and firms dial back their growth plans; public health restrictions do not return even as new COVID-19 case counts occasionally spike through the winter; and, supply-chain stress continues to ease as global vaccination rates improve and good demand softens.

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 VersaBank's reported ECL as at October 31, 2022 in order to assess the alignment of VersaBank's reported ECL with VersaBank's credit risk profile, and further, to assess the scope, depth and ultimate effectiveness of the credit risk mitigation strategies that VersaBank has applied to its lending portfolios (see Expected Credit Loss Sensitivity below).

A summary of the key forecast macroeconomic indicator data trends utilized by VersaBank 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 VersaBank'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, 2022:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 1,904	$ 1,350	$ 1,786	$ 2,474
Variance from reported ECL		(554)	(118)	570
Variance from reported ECL (%)		(29%)	(6%)	30%

Management is of the view that forward industry and macroeconomic trends will be biased slightly to the downside as a function of management's expectation that higher interest rates will continue to pressure consumer and corporate balance sheets in the medium term and supply chain disruptions, albeit diminished will persist into 2023 precipitating continued, elevated inflation levels despite anticipated monetary policy trends. As a result management anticipates that VersaBank's estimated ECL amounts will exhibit some volatility over the course of fiscal 2023 which may result in the Bank recognizing higher provisions for credit losses in the coming quarters.

Considering the analysis set out above and based on management's review of the loan and credit data comprising VersaBank's lending portfolio, combined with management's 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

VersaBank has established three core funding channels, those being personal deposits, commercial deposits, and cash reserves retained from VersaBank's POS Financing 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 2022	October 31 2021	Change
Commercial deposits	$ 598,413	$ 606,143	(1%)
Personal deposits	2,059,127	1,247,061	65%
Total deposits	$ 2,657,540	$ 1,853,204	43%

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 2022 vs FY 2021

Deposits increased 43% to $2.7 billion as a function primarily of:

- Higher personal deposits attributable to VersaBank increasing activity in its broker market network to fund balance sheet growth.

Offset partially by:

- Modestly lower commercial deposits attributable to withdrawals made by Trustees to fund normal course disbursements associated with insolvency restructurings.

Notwithstanding the year over year commercial deposit trend management expects commercial deposit volumes to grow measurably over the course of fiscal 2023 as a function of an anticipated increase in the volume of consumer bankruptcy and proposal restructuring proceedings over the same timeframe, attributable primarily to a more challenging current and forecasted economic environment.

The table below presents a summary of the Bank's deposit portfolio by maturity, excluding accrued interest at October 31, 2022 as well as for 2021:

	2022					
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Total
Commercial deposits	$ 598,413	$ -	$ -	$ -	$ -	$ 598,413
Personal deposits	184,686	904,664	529,806	412,739	331	2,032,226
	$ 783,099	$ 904,664	$ 529,806	$ 412,739	$ 331	$ 2,630,639

	2021					
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 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

Subordinated Notes Payable

(thousands of Canadian dollars)

	October 31 2022	October 31 2021
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.	$ 4,908	$ 4,898
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.	100,043	90,374
	$ 104,951	$ 95,272

Subordinated notes payable, net of issue costs, were $105.0 million at October 31, 2022, compared to $95.3 million a year ago. The year over year trends was a function primarily of changes in the USD/CAD foreign exchange spot rate.

On April 30, 2021, the Bank completed a private placement with US 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.. 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 19 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 2022	October 31 2021	Change
Accounts receivable	$ 3,774	$ 2,643	43%
Prepaid expenses and other	16,391	12,699	29%
Property and equipment	6,868	7,075	(3%)
Right-of-use assets	4,122	4,817	(14%)
Deferred income tax asset	2,128	2,931	(27%)
Investment	953	953	0%
Goodwill	5,754	5,754	0%
Intangible assets	3,185	3,641	(13%)
Total other assets	$ 43,175	$ 40,513	7%

FY 2022 vs FY 2021

Other assets were up 7% to $43.2 million as a function primarily of:

- Higher prepaid expenses and other attributable primarily to the capitalization of compensation costs and various costs relating to business development initiatives; and,
- Higher accounts receivable attributable primarily to the normal course timing of general corporate receivables.

Offset partially by:

- Lower capitalized assets due to amortization; and,
- Lower deferred income tax asset primarily attributable to timing differences in the recognition of certain deferred income tax amounts.

Other Liabilities

(thousands of Canadian dollars)

	October 31 2022	October 31 2021	Change
Accounts payable and other	$ 7,662	$ 6,893	11%
Current income tax liability	5,797	2,949	97%
Deferred income tax liability	786	898	(12%)
Lease obligations	4,471	5,113	(13%)
Cash collateral and amounts held in escrow	8,006	7,887	2%
Cash reserves on loan and lease receivables	126,110	110,764	14%
Total other liabilities	$ 152,832	$ 134,504	14%

FY 2022 vs FY 2021

Other liabilities were up 14% to $152.8 million as a function primarily of:

- VersaBank recognizing higher current income taxes payable in current fiscal year after utilizing the bulk of the Bank's available income tax loss carryforwards in the prior fiscal year;
- Higher cash reserve balances attributable to higher POS Financing portfolio balances; and,
- General increase in accounts payable attributable to increased earning activity.

Shareholders' Equity

Shareholders' equity was $350.7 million at October 31, 2022 compared to $332.1 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,
- Higher contributed surplus attributable to the fair value of the stock-based compensation.

Offset partially by:

- The purchase and cancellation of common shares pursuant to the Bank's NCIB; and,
- Payment of dividends.

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

(thousands of Canadian dollars)

	2022		2021	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	27,441,082	$ 227,674	21,123,559	$ 152,612
Issued during the year	-	-	6,325,000	75,101
Cancelled during the year	(195,300)	(1,692)	(7,477)	(39)
Outstanding, end of year	27,245,782	$ 225,982	27,441,082	$ 227,674
Series 1 preferred shares:				
Outstanding, beginning and end of year	1,461,460	$ 13,647	1,461,460	$ 13,647
Series 3 perferred shares:				
Balance, beginning of the year	-	$ -	1,681,320	$ 15,690
Redemption of preferred shares	-	-	(1,681,320)	(15,690)
Outstanding, end of year	-	$ -	-	$ -
Total share capital	0	$ 239,629	0	$ 241,321

On August 5, 2022, the Bank received approval from the TSX to proceed with a NCIB for its common shares. On September 21, 2022, the Bank received approval from the Nasdaq to proceed with a NCIB for its common shares. Pursuant to the NCIB, VersaBank may purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float. VersaBank's directors and management believe that the market price of VersaBank's common shares does not reflect the value of the business and the future prospects of same, and further, reflects a material discount to book value and as such the purchase of common shares for cancellation at such time is a prudent corporate measure and represents an attractive investment for the Bank.

The Bank was eligible to makes purchases commencing on August 17, 2022 and will terminate on August 16, 2023, or such earlier date as VersaBank may complete its purchases pursuant to the NCIB. The purchases will be made by VersaBank through the facilities of the TSX and alternate trading systems and in accordance with the rules of the TSX or such alternate trading systems, as applicable, and the prices that VersaBank will pay for any Common Shares will be the market price of such shares at the time of acquisition. VersaBank will make no purchases of Common Shares other than open market purchases. All shares purchased under the NCIB will be cancelled.

For the year ended October 31, 2022, the Bank purchased and cancelled 195,300 Common Shares at an aggregate cost of $1.9 million, reducing the Bank's Common Share value by $1.7 million and retained earnings by $238,000.

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 $12.68 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 $12.74 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 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 (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 of $1.1 million were applied against retained earnings.

The Bank's book value per common share at October 31, 2022 was $12.37 compared to $11.61 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 purchase and cancellation of common shares pursuant to the Bank's NCIB, offset partially by the payment of dividends over the respective periods.

See note 12 to the Consolidated Financial Statements for additional information relating to share capital.

Stock-Based Compensation

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 five years of issue. Options are usually granted with graded vesting terms. One third vests on the first anniversary of the grant date, one third vests on the second anniversary of the grant date and one third vests on the third anniversary of the grant date.

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	40,000	$ 7.00	42,017	$ 10.73
Granted	971,707	15.90	-	-
Exercised	-	-	-	-
Forfeited/cancelled	(45,941)	15.90	-	-
Expired	-	-	(2,017)	10.73
Outstanding, end of period	965,766	$ 15.53	40,000	$ 7.00

For the year ended October 31, 2022, the Bank recognized stock-based compensation expense of $1.5 million (2021 - $nil) related to the estimated fair value of options granted. The fair value of the 971,707 stock options granted over the course of the current fiscal year and was estimated at the grant dates using the Black-Scholes valuation model and the following input assumptions: risk-free rate of 1.39%, expected option life of 3.5 years, expected volatility of 29.5%, expected annual dividends of 0.64% and a forfeiture rate of 2.0%. The fair value of each stock options granted were estimated at $3.10 per share. As at October 31, 2022, 40,000 common share stock options were fully vested and exercisable at $7.00 per share and expire in October 2023.

Updated Share Information

Subsequent to October 31, 2022, the Bank purchased and cancelled 17,600 common shares and as at December 6, 2022, the number of common shares outstanding totalled 27,228,182. There were no changes in the number of Series 1 preferred shares and common share options outstanding compared to October 31, 2022.

Off-Balance Sheet Arrangements

As at October 31, 2022, VersaBank did not have any significant off-balance sheet arrangements other than loan commitments and letters of credit attributable to normal course business activities. See note 20 to the Consolidated Financial Statements for more information.

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)	2022	2021
Loan commitments	$ 382,851	$ 296,248
Letters of credit	60,273	46,462
	$ 443,124	$ 342,710

Contractual Obligations

At October 31, 2022 the Bank had the following scheduled principal repayments of financial liabilities.

	2022				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 2,657,540	$ 1,714,664	$ 529,806	$ 412,739	$ 331
Holdbacks payable on loan and lease receivables	126,110	126,110	-	-	-
Subordinated notes payable	104,951	-	-	-	104,951
Accounts payable	7,662	7,662	-	-	-
Cash collateral and amounts held in escrow	8,006	8,006	-	-	-
Current income tax liability	5,797	5,797	-	-	-
Deferred income tax liability	786	150	90	270	276
Lease obligations	4,471	708	728	1,804	1,231
	$ 2,915,323	$ 1,863,097	$ 530,624	$ 414,813	$ 106,789

Related Party Transactions

The Bank's Board of Directors and Senior Executive Officers represent key management personnel. See note 19 to the Consolidated Financial Statements for more information on transactions entered into with, and the compensation of key management personnel.

Results of Operating Segments

(thousands of Canadian dollars) for the three months ended	October 31, 2022				July 31, 2022				October 31, 2021			
	Digital Banking	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking	DRTC	Eliminations/ Adjustments	Consolidated
Net interest income	$ 22,477	$ -	$ -	$ 22,477	$ 20,062	$ -	$ -	$ 20,062	$ 16,146	$ -	$ -	$ 16,146
Non-interest income	38	1,778	(41)	1,775	12	1,206	(41)	1,177	(46)	2,177	(41)	2,090
Total revenue	22,515	1,778	(41)	24,252	20,074	1,206	(41)	21,239	16,100	2,177	(41)	18,236
Provision for (recovery of) credit losses	205	-	-	205	166	-	-	166	(279)	-	-	(279)
	22,310	1,778	(41)	24,047	19,908	1,206	(41)	21,073	16,379	2,177	(41)	18,515
Non-interest expenses:												
Salaries and benefits	5,678	1,541	-	7,219	5,600	1,168	-	6,768	4,720	687	-	5,407
General and administrative	5,113	457	-	5,570	5,217	343	(41)	5,519	3,704	311	(41)	3,974
Premises and equipment	624	361	-	985	610	319	-	929	628	368	-	996
	11,415	2,359	-	13,774	11,427	1,830	(41)	13,216	9,052	1,366	(41)	10,377
Income (loss) before income taxes	10,895	(581)	(41)	10,273	8,481	(624)	-	7,857	7,327	811	-	8,138
Income tax provision	3,939	(95)	-	3,844	2,099	38	-	2,137	1,907	321	-	2,228
Net income (loss)	$ 6,956	$ (486)	$ (41)	$ 6,429	$ 6,382	$ (662)	$ -	$ 5,720	$ 5,420	$ 490	$ -	$ 5,910
Total assets	$3,267,479	$22,345	$ (23,826)	$ 3,265,998	$3,076,611	$21,796	$ (23,064)	$ 3,075,343	$2,411,790	$22,309	$ (19,013)	$ 2,415,086
Total liabilities	$2,912,249	$25,755	$ (22,681)	$ 2,915,323	$2,725,820	$24,794	$ (21,919)	$ 2,728,695	$2,077,643	$23,205	$ (17,868)	$ 2,082,980

Digital Banking Operations

FY 2022 vs FY 2021

Digital Banking Operations net income increased 11% year over year as a function of higher revenue attributable primarily to lending asst growth offset partially by higher non-interest expense resulting substantially from investments in VersaBank's business development initiatives including, but not limited to the acquisition of a US national bank, the development of the RPP, higher provision for credit losses and higher income taxes. Investments associated with the acquisition and integration of the operations of the US national bank, including development of the RPP are anticipated to be realized substantially by the end of the first quarter of fiscal 2023.

DRTC (Cybersecurity Services and Banking and Financial Technology Development)

FY 2022 vs FY 2021

DRTC net loss of $1.5 million in the current year compared to net income of $708,000 in the comparative period was a function primarily of higher costs related to investment in specific growth initiatives including the ongoing development of the Canadian-dollar version of VersaBank's Digital Deposit Receipts, offset partially by higher revenue.

The segment's non-interest income was substantially derived from the operations of DBG. DBG services revenue and gross profit were up 14% and 8% year over year to $9.8 million and $5.6 million respectively. These strong year over year trends were a function primarily of higher demand for DBG's services resulting in higher client engagement and the comparative period including only eleven months of operations due to the timing of the acquisition of DBG on November 30, 2020.

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 2022		October 31 2021	Change
Common Equity Tier 1 capital	$	325,657	$	305,708	7%
Total Tier 1 capital	$	339,304	$	319,355	6%
Total Tier 2 capital	$	109,271	$	99,363	10%
Total regulatory capital	$	448,575	$	418,718	7%
Total risk-weighted assets	$	2,714,902	$	2,013,544	35%
Capital ratios					
CET1 capital ratio		12.00%		15.18%	(21%)
Tier 1 capital ratio		12.50%		15.86%	(21%)
Total capital ratio		16.52%		20.80%	(21%)
Leverage ratio		9.84%		12.60%	(22%)

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.

As at October 31, 2022 and 2021, the Bank was in compliance with all minimum capital ratios prescribed by OSFI.

The tables below present the Bank's risk-weighted assets as at October 31, 2022 as well as for 2021, organized by asset type and risk weight assignment respectively:

As at October 31, 2022	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans & securities	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 957,174	$ -	$ -	$ 957,174	$ 931,860
Sovereign	-	148,346	-	-	148,346	1,356
Bank	88,581	17,692	-	-	106,273	21,255
Retail residential mortgages	-	6,378	-	-	6,378	1,403
Other retail	-	2,004,652	-	-	2,004,652	1,410,294
Other items	-	-	43,175	60,273	103,448	60,928
Undrawn commitments	-	-	-	382,851	382,851	161,598
Operational risk [1]	-	-	-	-	-	126,208
Total	$ 88,581	$ 3,134,242	$ 43,175	$ 443,124	$ 3,709,122	$ 2,714,902

As at October 31, 2021	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans & securities	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

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

As at October 31, 2022	Notional/drawn amount by risk weight							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 25,314	$ -	$ -	$ -	$ 931,860	$ -	$ 957,174	$ 931,860
Sovereign	141,564	6,782	-	-	-	-	148,346	1,356
Bank	-	106,273	-	-	-	-	106,273	21,255
Retail residential mortgages	2,367	-	4,011	-	-	-	6,378	1,403
Other retail	116,880	11,100	-	1,874,396	2,276	-	2,004,652	1,410,294
Other items	12,151	716	-	-	90,581	-	103,448	60,928
Undrawn commitments	-	-	-	-	382,851	-	382,851	161,598
Operational risk [1]	-	-	-	-	-	-	-	126,208
Total	$ 298,276	$ 124,871	$ 4,011	$ 1,874,396	$ 1,407,568	$ -	$ 3,709,122	$ 2,714,902

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

[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 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 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 $12.68 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 $12.74 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 share purchased and cancelled through the NCIB 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, 2022 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, 2022 shows cash used in operations of $32.7 million compared to cash used in operations of $108.3 million a year ago. The current year and prior year trends were a function primarily of cash outflows to fund loans exceeding cash inflows from deposits raised and the use of existing liquidity to fund 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)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Interest income	$ 42,072	$ 34,177	$ 25,848	$ 24,720	$ 23,924	$ 22,400	$ 21,649	$ 21,515
Yield on assets (%)	5.26%	4.70%	4.15%	4.06%	4.04%	4.02%	4.24%	4.28%
Interest expense	19,595	14,115	8,606	7,835	7,778	7,858	6,554	7,141
Cost of funds (%)	2.45%	1.94%	1.38%	1.29%	1.31%	1.41%	1.28%	1.42%
Net interest income	22,477	20,062	17,242	16,885	16,146	14,542	15,095	14,374
Net interest margin (%)	2.81%	2.76%	2.77%	2.77%	2.73%	2.61%	2.96%	2.86%
Net interest margin on loans (%)	3.03%	3.07%	3.11%	3.23%	3.31%	3.23%	3.55%	3.44%
Non-interest income	1,775	1,177	1,393	1,381	2,090	1,187	875	1,048
Total revenue	24,252	21,239	18,635	18,266	18,236	15,729	15,970	15,422
Provision for (recovery of) credit losses	205	166	78	2	(279)	96	(312)	57
Non-interest expenses	13,774	13,216	11,767	10,636	10,377	8,200	8,342	8,087
Efficiency ratio	57%	62%	63%	58%	57%	52%	52%	52%
Efficiency ratio - Digital Banking	51%	57%	58%	58%	56%	50%	49%	51%
Tax provision	3,844	2,137	1,847	2,062	2,228	1,997	2,196	1,988
Net income	$ 6,429	$ 5,720	$ 4,943	$ 5,566	$ 5,910	$ 5,436	$ 5,744	$ 5,290
Income per share								
Basic	$ 0.23	$ 0.20	$ 0.17	$ 0.19	$ 0.24	$ 0.25	$ 0.25	$ 0.22
Diluted	$ 0.23	$ 0.20	$ 0.17	$ 0.19	$ 0.24	$ 0.25	$ 0.25	$ 0.22
Return on average common equity	7.32%	6.57%	5.92%	6.58%	8.07%	8.72%	9.20%	8.26%
Return on average total assets	0.77%	0.75%	0.75%	0.87%	0.96%	0.93%	1.02%	0.94%
Gross impaired loans to total loans	0.01%	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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 attributable to strong growth in the POS Financing portfolio;

- Higher NIM attributable to management adjusting the Bank's liquidity management strategy to optimize average liquid/total asset ratios;
- Higher provision for credit losses attributable primarily to lending asset growth and changes in the forward-looking information used by VersaBank in its credit risk models; and,
- Higher non-interest expense attributable primarily to investments in the Bank's business development initiatives.

Fourth Quarter Review

Net Income

Net income for the quarter was $6.4 million, or $0.23 per common share (basic and diluted), a 12% increase from $5.7 million, or $0.20 per common share (basic and diluted), for the third quarter of fiscal 2022 and a 9% increase from $5.9 million, or $0.24 per common share (basic and diluted), for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher revenues offset partially by higher provision for credit losses, higher non-interest expenses, attributable primarily to investments in the Bank's business development initiatives and higher income tax provisions.

Total Revenue

Total revenue for the quarter was $24.3 million, an increase of 14% from $21.2 million for the third quarter of fiscal 2022 and an increase of 33% from $18.2 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 substantially to lending asset growth and higher non-interest income attributable to higher gross profit generated by DBG.

Net Interest Income

Net interest income for the quarter was $22.5 million, an increase of 12% from $20.1 million for the third quarter of fiscal 2022 quarter and an increase of 39% from $16.1 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, higher yields earned on floating rate lending assets attributable to rising interest rates and the redeployment of available cash into higher yielding, low risk securities, offset partially by higher interest expense.

Net Interest Margin

Net interest margin or spread for the quarter was 2.81% compared with 2.76% for the third quarter of fiscal 2022 quarter and 2.73% for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher yields earned on the Bank's lending assets generally attributable to rising interest rates and management adjusting the Bank's liquidity management strategy to optimize average liquid/total asset ratios offset partially by higher cost of funds attributable to changes in the Bank's funding mix and rising interest rates over the course of fiscal 2022.

Provision for Credit Losses

VersaBank recorded a provision for credit losses and PCL ratio for the quarter of $205,000 and 0.03% respectively compared to a provision for credit losses and PCL ratio of $166,000 and 0.03% respectively last quarter and a recovery of credit losses of $279,000 and PCL ratio of -0.05% respectively for the same period a year ago. The recovery recorded last year was attributable primarily to changes in the Bank's lending asset portfolio mix portfolio and changes in the forward-looking information used in the Bank's credit risk models offset partially by higher lending balances. The current quarter over quarter and year over year trends were a function of higher lending asset balances and changes in the forward-looking information used by the Bank in its credit risk models offset partially by changes in the Bank's lending asset mix.

Non-Interest Expenses

Non-interest expenses for the quarter were $13.8 million compared to $13.2 million for the third quarter of fiscal 2022 and $10.4 million for the same period a year ago. The quarter over quarter and year over year increases were a function primarily of transitory investments in several business development initiatives, including the planned acquisition of a US national bank, development and initial launch of the RPP in the US, and the ongoing development of the Canadian-dollar version of VersaBank's Digital Deposit Receipts. Investments associated with the acquisition and integration of the operations of the US bank are anticipated to be realized substantially by the first quarter of 2023. Investments in the transitory business development initiatives noted above totaled $1.8 million, or $0.06 per share on an after tax basis for the current quarter and $2.3 million, or $0.07 per share on an after tax basis for the previous quarter. The quarter over quarter and year over year trends were also impacted by higher salary and benefits expense attributable to higher staffing levels to support expanded revenue-generating business activity across VersaBank and higher costs associated with employee retention.

Income Taxes

For the three months ended October 31, 2022, the provision for income taxes was $3.8 million compared with $2.1 million for the third quarter of fiscal 2022 and $2.2 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of an increase in the Bank's effective tax rate in the current year attributable primarily to higher non-deductible expenses associated with employee stock options which were issued as part of the Bank's employee retention program early in the current year and unrecognized non-capital losses as well as temporary, incremental tax associated with the Bank's current lending activity in the US. Management anticipates that the effective tax rate experienced in the current quarter will be reduced in fiscal 2023.

Critical Accounting Policies and Estimates

Significant accounting policies are detailed in note 3 of the Bank's 2022 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 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 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.

The Bank's loans are categorized and measured as 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.

The Bank's securities are measured at fair value and categorized as FVTPL.

Equity instruments

Equity instruments are measured at fair value and categorized as FVTPL unless an irrevocable designation is made at initial recognition to categorize as 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.

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 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 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 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 and US macroeconomic environments.

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, mitigate, report, 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 recommended by 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 to which the Bank will adhere in the execution of its business objectives. Liquidity risk tolerances are administered as follows:

1. Liquidity

The Board of Directors sets tolerances in the risk appetite statement based on the Bank's comfort with the level of liquidity that is to be maintained in order to ensure that all funding obligations are met. These tolerances are mirrored and operationalized through Bank policies.

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.

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 liquid securities at levels that represent no less than 5% of total assets. 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 daily basis, monitoring cash flow;
- On a weekly basis, monitoring 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, mitigate, 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. Where they are not managed adequately, the degree of operational risk faced by the Bank may increase. Outsourcing risk exists when there is a business disruption to the third parties on which the Bank depends or when inadequate controls are in place to manage material outsourcing arrangements.

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 of such events occurring 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 foreign exchange risk, interest rates, or market prices. 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. 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 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. The Bank is exposed to foreign exchange risk attributable to its US lending and treasury portfolios. However, this foreign exchange risk exposure has been mitigated to an acceptable level through a natural currency hedge facilitated by the USD denominated fixed to floating rate subordinated notes payable that were issued by the Bank in April of 2021. 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 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 to which the Bank will adhere 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.

   As stated above, 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, 2022 as well as for 2021 are reported in the table below.

Interest Rate Position

(thousands of Canadian dollars)

	October 31, 2022		October 31, 2021	
	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	$ 4,304	$ (4,261)	$ 4,147	$ (3,220)
Duration difference between assets and liabilities (months)	1.4		2.3	

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 $4.3 million, while the impact on net interest income of a 100 basis point decrease would be approximately ($4.3 million). At October 31, 2022 the duration difference between the Bank's assets and liabilities was 1.4 months compared to 2.3 months at October 31, 2021, 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, 2022, 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 in accordance with the Board-approved risk appetite statement. 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.

CREDIT RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines credit risk tolerances to which the Bank will adhere 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 to which the Bank will adhere 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 to which 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 Internal Capital Adequacy Assessment Process (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 to which 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, regulatory, 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 substantially abated over the course of the last half of the calendar year. 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 and US economies 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 potentially 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 and the US. Factors such as financial market stability, interest rates, foreign exchange rates, changing global commodity prices, business investment, government spending and stimulation initiatives, consumer spending, geo-political risk 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, 2022, 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, 2022, 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, 2022 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 Bank's 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

Return on Average Common Equity is defined as annualized 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 2022	October 31 2021	October 31 2020
Return on average common equity			
Net income	22,658	22,380	19,405
Preferred share dividends	(988)	(1,578)	(2,168)
Adjusted net income	21,670	20,802	17,237
Average common equity	327,744	246,159	218,388
Return on average common equity	6.61%	8.45%	7.89%

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 2022	October 31 2021	October 31 2020
Book value per common share			
Common equity	337,029	318,459	225,950
Shares outstanding	27,245,782	27,441,082	21,123,559
Book value per common share	12.37	11.61	10.70

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

(thousands of Canadian dollars)	October 31 2022	October 31 2021	October 31 2020
Return on average total assets			
Net income	22,658	22,380	19,405
Preferred share dividends	(988)	(1,578)	(2,168)
Adjusted net income	21,670	20,802	17,237
Average Assets	2,840,542	2,179,486	1,864,633
Return on average total assets	0.76%	0.95%	0.92%

Other Financial Measures

Yield is calculated as interest income (as presented in the Consolidated Statements of Comprehensive Income) divided by average total assets. Yield does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Cost of Funds is calculated as interest expense (as presented in the Consolidated Statements of Comprehensive Income) divided by average total assets. Cost of funds does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Net Interest Margin or Spread are calculated as net interest income divided by average total assets. Net interest margin or spread does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Net Interest Margin on Loans is calculated as net interest income adjusted for the impact of cash, securities and other assets, divided by average gross loans. This metric does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Efficiency Ratio is calculated as non-interest expenses from consolidated operations as a percentage of total revenue (as presented in the interim Consolidated Statements of Comprehensive Income). This ratio does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Efficiency Ratio Digital Banking is calculated as non-interest expenses from the Digital Banking operations as a percentage of total revenue from the Digital Banking operations. This ratio does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Gross Impaired Loans to Total Loans captures gross impaired loan balances as a percentage of VersaBank's loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Provision for (Recovery of) Credit Losses as a Percentage of Average Total Loans captures the provision for (recovery of) credit losses (as presented in the interim Consolidated Statements of Comprehensive Income) as a percentage of VersaBank's average loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Basel III Common Equity Tier 1, Tier 1, Total Capital Adequacy and Leverage Ratios are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions (*Canada*) (OSFI).

FOR FURTHER INFORMATION PLEASE CONTACT:

LodeRock Advisors: Lawrence Chamberlain (416) 519-4196,
lawrence.chamberlain@loderockadvisors.com
Visit our website at: www.versabank.com

Corporate Information

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.

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

Richard H. L. Jankura, BBA (Hons), CPA, CA
Retired, former Corporate Advisor and CFO of Jones Healthcare Group

Art Linton, JD
Barrister & Solicitor

Susan T. McGovern, B.Sc.
Former Vice-President, External Relations and Advancement
Ontario Tech University

Paul G. Oliver, FCPA, FCA, ICD.D.
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

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

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

Michael Dixon, B.Comm., M.B.A.
Senior Vice President, Point-Of-Sale Financing

Scott A. Mizzen, B.A., LL.B.
Senior Vice President, Commercial Lending

Nick Kristo, B.Comm., M.B.A.
Chief Credit Officer

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

Garry Clement, CAMS, CFE, CFCS, FIS, CCI
Chief Anti-Money Laundering Officer

John Asma, M.B.A.
Treasurer

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

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

Saad Inam, B.Comm., M.B.A.
Vice President, Credit

Joanne Johnston, B.Comm., CPA, CA, CIA
Chief Internal Auditor

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
Vice President, TIB Business Development

Andy Min, B.A., CPA, CA
Vice President, Finance & Corporate Accounting

Gurpreet Sahota, CISSP, CCSP.
Chief Architect, Cybersecurity

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

David Thoms, B.A., M.B.A.
Vice President, Structured Finance

Barbara Todres, B.Comm Hons.
Vice President, Deposit Services

Terri Wilson
Vice President, Investment & Risk Control

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STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Trading Symbol: VBNK, VB.PR.A

NASDAQ
Trading Symbol: VBNK

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Exhibit 99.4



Consent of Independent Registered Public Accounting Firm

To The Board of Directors
VersaBank (the Bank)

We consent to the use of our report dated December 6, 2022 on the consolidated financial statements of the Bank which comprise the consolidated balance sheets as of October 31, 2022 and October 31, 2021, the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes (collectively the "consolidated financial statements"), which is included in the Annual Report on Form 40-F of the Bank for the fiscal year ended October 31, 2022.

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 on Form F-10/A (No. 333-259481) of the Bank.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
December 6, 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: December 7, 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: December 7, 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, 2022, 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: December 7, 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, 2022, 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: December 7, 2022

/s/ Shawm Clarke

Name: Shawm Clarke
Title: Chief Financial Officer