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, 2024**

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: **26,002,577 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.

☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

☐

EXPLANATORY NOTE

Versabank (the "Bank") is a Canadian issuer that is permitted, under the multijurisdictional disclosure system adopted in the United States, to prepare this Annual Report on Form 40-F (this "Annual Report") pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in accordance with Canadian disclosure requirements, which are different from those of the United States. The Bank is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"). Equity securities of the Bank are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3 thereunder.

PRINCIPAL DOCUMENTS

The following documents are filed as part of this Annual Report:

A. Annual Information Form

For the Bank's Annual Information Form for the year ended October 31, 2024, see Exhibit 99.1 of this Annual Report.

B. Audited Annual Financial Statements

For the Bank's Audited Consolidated Financial Statements as at and for the year ended October 31, 2024, including the Report of Independent Registered Public Accounting Firm with respect thereto, see Exhibit 99.2 of this Annual Report.

C. Management's Discussion and Analysis

For the Bank's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2024 ("MD&A"), see Exhibit 99.3 of this Annual Report.

CONTROLS AND PROCEDURES

A. Certifications

The required disclosure is included in Exhibits 99.5 and 99.6 of this Annual Report.

B. 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, 2024, an internal evaluation was conducted under the supervision of and with the participation of the Bank's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Bank's "disclosure controls and procedures" as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Bank's disclosure controls and procedures were effective in ensuring that the information required to be disclosed in the reports that the Bank 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 the information required to be disclosed by the Bank in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bank's management, including its Chief Executive Officer and Chief Financial Officer, 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 Bank's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Bank'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

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.

A Disclosure Committee, consisting of members of senior management, assists the Chief Executive Officer and the Chief Financial Officer in their responsibilities related to the evaluation of 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.

Management assessed the effectiveness of the Bank's internal control over financial reporting as at October 31, 2024, 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 at October 31, 2024, the Bank's internal control over financial reporting was effective.

D. Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report on the internal control over financial reporting of the Bank'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, 2024, there were no changes to the Bank'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 Bank's board of directors has determined that Paul G. Oliver, Peter M. Irwin and Robbert-Jan Brabander 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 Robbert-Jan Brabander 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 Robbert-Jan Brabander's relevant experience in financial matters, see the biographical descriptions for Paul G. Oliver, Peter M. Irwin and Robbert-Jan Brabander under "Audit Committee" in the Bank's Annual Information Form for the year ended October 31, 2024, which is filed as Exhibit 99.1 to this Annual Report.

The SEC has indicated that the designation of each of Paul G. Oliver, Peter M. Irwin and Robbert-Jan Brabander 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 Bank 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 Bank's website at https://www.versabank.com/codes-and-commitments.

None of the information provided on the Bank's website is incorporated into, or deemed to be a part of, this Annual Report, and any references to the Bank's website are intended to be inactive textual references only.

In the past fiscal year, the Bank 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 Bank's Annual Information Form for the year ended October 31, 2024, filed as Exhibit 99.1 to this Annual Report, and is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under the heading "Off-Balance Sheet Arrangements" on page [28] of the Bank's 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 [29] of the Bank's MD&A, set forth in Exhibit 99.3, is incorporated by reference herein.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Bank has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Bank's audit committee members consist of Paul G. Oliver, Peter M. Irwin and Robbert-Jan Brabander. See "Directors and Officers" and "Audit Committee" in the Bank's Annual Information Form for the fiscal year ended October 31, 2024, which is filed as Exhibit 99.1 to this Annual Report.

DIFFERENCES IN NASDAQ AND CANADIAN CORPORATE GOVERNANCE REQUIREMENTS

The Bank 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 Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank does not follow Rule 5605(b)(2), which requires that independent directors hold regularly scheduled meetings at which only independent directors are present ("executive meetings"). In lieu of following Rule 5605(b)(2), the Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank follows the rules of the Toronto Stock Exchange.

The Bank 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 Bank's quorum requirement is set forth in its by-laws. A quorum for a meeting of shareholders of the Bank 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 are forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Please see "Caution Regarding Forward Looking Information" in the Annual Information Form of the Bank for the year ended October 31, 2024, filed as Exhibit 99.1 to this Annual Report for a discussion of risks, uncertainties, and assumptions that could cause actual results to vary from those forward-looking statements.

UNDERTAKING

The Bank 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 Exchange Act, 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 year 2024.

CONSENT TO SERVICE OF PROCESS

The Bank 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 Bank's agent for service shall be communicated promptly to the SEC by amendment to Form F-X referencing the file number of the Bank.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Bank 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/ Brent T. Hodge
Name: Brent T. Hodge
Title: SVP, General Counsel & Corporate Secretary

Date: December 9, 2024

INDEX TO EXHIBITS

Exhibit No.	Exhibit
99.1	Annual Information Form for the year ended October 31, 2024.
99.2	Consolidated Financial Statements as at and for the years ended October 31, 2024 and 2023.
99.3	Management's Discussion and Analysis of Operations and Financial Condition for the year ended October 31, 2024.
99.4	Consent of Ernst & Young 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 4, 2024.
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 4, 2024.
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 (embedded within the Inline XBRL and contained in Exhibit 101)

Exhibit 99.1



ANNUAL INFORMATION FORM

For the fiscal year ended October 31, 2024

DECEMBER 8, 2024

ANNUAL INFORMATION FORM

All information is as of October 31, 2024, 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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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 United States of America (the "U.S.") 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 Annual Information Form 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 U.S. economy in general and the strength of the local economies within Canada and the U.S. in which VersaBank conducts operations; trade laws and tariffs; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and the U.S. 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 and the impact of both on global supply chains and markets; the impact of outbreaks of disease or illness that affect local, national or international economies; the possible effects on our business of terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; and VersaBank's anticipation of and success in managing the risks implicated by the foregoing.

The foregoing list of important factors is not exhaustive. Additional risks and uncertainties regarding VersaBank are described in its Management's Discussion and Analysis for the year ended October 31, 2024 (the "2024 MD&A"), which is available on SEDAR+ at www.sedarplus.ca and EDGAR at www.sec.gov/edgar. 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 Annual Information Form is presented to assist VersaBank shareholders and others in understanding VersaBank's business structure 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 Annual Information Form or made from time to time by VersaBank or on its behalf.

Non-GAAP and other financial measures are not standardized financial measures under the financial reporting framework used to prepare the financial statements of VersaBank to which these measures relate. These measures may not be comparable to similar financial measures disclosed by other issuers. VersaBank 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 VersaBank's performance.

For additional disclosure regarding these financial measures and financial ratios and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Non-GAAP and Other Financial Measures" section in the 2024 MD&A which is incorporated by reference herein. The 2024 MD&A is available on SEDAR+ at www.sedarplus.ca and EDGAR at www.sec.gov/edgar.

OTHER FINANCIAL MEASURES

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

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.

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

On August 30, 2024, VersaBank, through its wholly owned subsidiary, VersaHoldings US Corp. ("VersaHoldings"), acquired Stearns Bank Holdingford, National Association ("SBH"), a nationally chartered U.S. bank associated in Minnesota. Upon closing, SBH was renamed VersaBank USA National Association ("VersaBank USA"). VersaBank USA continues to operate under a national charter and is regulated by the Office of the Comptroller of the Currency (the "OCC").

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

The following summary highlights select financial metrics and developments for the Bank's three most recent fiscal year periods, starting with the least recent period:

In 2022, the Bank generated annual interest income of $126.8 million, net interest income ("NII") of $76.7 million, and net interest margin [1] ("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 its first series of options to employees under its current Long-Term Incentive Plan ("LTIP").

On March 31, 2022, VersaBank entered into an agreement with its first Point-of-Sale Finance partner in the U.S. VersaBank's Point-of-Sale ("POS") Financing business operated via its Receivable Purchase Program ("RPP"), which purchased 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. RPP business represented 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. RPP.

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

On June 14, 2022, the Bank announced its intention to acquire OCC registered, SBH, through its subsidiary, VersaHoldings for an estimated purchase price of USD $13.5 million, subject to adjustment. On December 7, 2022, the Bank submitted its application to the Federal Reserve Board and the OCC to acquire SBH.

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 could purchase for cancellation up to 1,700,000 of its common shares which represented approximately 9.54% of its public float. At the time, VersaBank's directors and management believed that the market price of VersaBank's common shares did not reflect the value of the business and its future prospects, and further, reflected a material discount to book value and as such the purchase of common shares for cancellation was a prudent corporate measure and represented an attractive investment for the Bank.

In 2023, the Bank generated annual interest income of $229.3 million, NII of $100.1 million, and NIM of 2.68% on an average lending asset balance of $3.42 billion. The Bank's increased lending activities resulted in the Bank generating net income of $42.2 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 2023 were $4.20 billion.

On August 16, 2023, the NCIB expired. At the time of expiry, the Bank had repurchased 1,516,658 shares under the NCIB.

On September 15, 2023, 40,000 options, which were granted to the Bank's President & Chief Executive Officer on October 31, 2013, under a legacy plan, were exercised for $7.00 per share.

In 2024, the Bank generated annual interest income of $285.4 million, NII of $102.7 million, and NIM of 2.27% on an average lending asset balance of $4.04 billion. The increase in the Bank's lending activities resulted in the Bank generating net income of $39.7 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 2024 were $4.84 billion.

On April 17, 2024, the Bank received shareholder approval to renew its evergreen LTIP for an additional three years. The LTIP was last approved by Shareholders at the Annual and Special Meeting of Shareholders on April 21, 2021.

On April 30, 2024, the Bank redeemed all of its outstanding 10.00% subordinated debentures (Non-Viability Contingent Capital ("NVCC")) issued by way of private placement on March 14, 2019 in the aggregate principal amount of $5,000,000 (the "Debentures"). The Debentures were redeemed at a redemption price of $1,000 principal amount of Debentures equal to the aggregate of (i) $1,000 and (ii) all accrued and unpaid interest on the Debentures being $25 (collectively, the "Redemption Price").

On August 30, 2024, the Bank closed its previously announced acquisition of SBH, a national bank chartered under the laws of the United States and regulated by the OCC. The Bank acquired 100% of the outstanding shares of SBH from Stearns Financial Services, Inc. for cash consideration of approximately US$14.0 million (CAD$19.3 million). As part of the acquisition, VersaBank acquired approximately US$61.1 million in assets and assumed approximately US$54.1 million in deposits and other liabilities. Upon closing, SBH was renamed VersaBank USA National Association. VersaBank anticipates that the acquisition will be accretive to earnings per share within the first year following the closing.

On October 31, 2024 the Bank redeemed all of its 1,461,460 outstanding, Non-Cumulative Series 1 preferred shares, NVCC using cash on hand. The amount paid on redemption for each share was $10.00, and in aggregate $14.6 million.

As of October 31, 2024, 38,153 options, which were granted under the Bank's LTIP, had been exercised for $15.90 per share. As of October 31, 2024, there were 819,125 options outstanding under the LTIP.

DESCRIPTION OF THE BUSINESS

GENERAL SUMMARY

VersaBank is a Canadian Schedule I chartered bank regulated by OSFI in Canada. Its wholly owned subsidiary, VersaBank USA, is a federally chartered bank in the U.S. regulated by the OCC. VersaBank has a branchless, digital business-to-business model based on its proprietary state-of-the-art technology that enables it to profitably address underserved segments of the banking industry in a significantly risk mitigated manner. Because VersaBank obtains substantially all of its deposits and undertakes the majority of its lending electronically through financial intermediary partners, it benefits from significant operating leverage that drives efficiency and return on its common equity. In March 2022, VersaBank launched its unique RPP funding solution for point-of-sale finance companies, which has been highly successful in Canada for nearly 15 years, in the underserved multi-trillion-dollar U.S. market. VersaBank also owns Washington, DC-based, DRT Cyber Inc. ("DRTC"), a North American leader in the provision of cyber security services designed to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations, and government entities.

Following the Bank's acquisition of SBH on August 30, 2024, the Bank has established three reportable operating segments, those being Digital Banking Canada, Digital Banking USA and DRTC. The three 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 Canada: The Bank employs a branchless business-to-business (partner-based) model using its proprietary financial technology to address underserved segments in the Canadian and U.S. 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.

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

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

DIGITAL BANKING CANADA

Lending

Point-of-Sale Loans and Leases / Receivable Purchase Program ("POS/RPP Financing")

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. through its POS/RPP Financing Program. 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. POS/RPP Financing assets at October 31, 2024, were $3.3 billion.

Commercial Real Estate ("CRE")

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 reducing the non-core portion of this portfolio and focusing on the more attractive insured segments. The Bank's CRE portfolio, at October 31, 2024, was $910 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 POS/RPP 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, 2024, VersaBank's common equity tier 1 ratio was 11.24% versus 11.33% as at October 31, 2023, which reflects the Bank's significant growth in assets in fiscal 2024 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.

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.

DIGITAL BANKING USA

On August 30, 2024, VersaBank, through its wholly owned subsidiary, VersaHoldings, purchased 100% of the outstanding shares of SBH (renamed VersaBank USA), acquiring approximately US$61.1 million in assets and assuming approximately US$54.1 million in deposits and other liabilities. The assets acquired were substantially comprised of an equipment financing portfolio which will be wound down in the normal course. VersaBank USA is now in the final stages of expanding its U.S. credit offerings to include a RPP that will leverage VersaBank's extensive experience operating the POS/RPP Financing program for more than a decade in Canada during which time VersaBank has purchased just under CA $10.5 billion worth of loan and lease receivables and has experienced zero losses. The U.S. RPP will be structured similarly to the Canadian POS/RPP Financing program and will rely on a cash reserve funded from a percentage of the purchase price held back from VersaBank USA's origination partners in order to mitigate risk to levels aligned with the Bank's established risk appetite. The U.S. RPP is anticipated to be a key driver of long-term sustainable growth for VersaBank and is expected to be funded substantially via wholesale deposits sourced primarily via the U.S. brokered certificate of deposit ("CD") markets. VersaBank USA's lending assets, at October 31, 2024, were USD $46.9 million

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 is headquartered in 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, designed to provide impenetrable world class security, privacy of secured keys and client-centric access flexibility. On November 30, 2020, DRTC acquired Digital Boundary Group, Inc. ("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 subsidiary of DRTC, DBG has and will continue to strengthen the Bank's Business Development Partner Network and propel the growth and expansion of DRTC's existing business.

In furtherance of the Bank's strategic initiatives and in light of current U.S. regulatory requirements, management has expressed an intention to divest of DRTC, including DBG. Certain members of management hold convertible preferred shares in DRTC. In accordance with the by-laws of DRTC, the convertible preferred shares will convert automatically, upon a change of control event, into an aggregate 28% common share ownership stake in DRTC.

SPECIALIZED SKILLS AND KNOWLEDGE / COMPETITIVE CONDITIONS

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

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

NEW SERVICES

VersaBank did not start offering any new services in 2024.

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. OSFI 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.

VersaBank USA is subject to regulation in the U.S., primarily, by the OCC. Additionally, VersaHoldings, VersaBank, and VersaBank's significant shareholder, GBH Inc. (described further below), are considered U.S. bank holding companies and subject to regulation by the Federal Reserve System under the Bank Holding Company Act of 1956.

EMPLOYEES AND PRINCIPAL PROPERTIES

As at October 31, 2024, VersaBank had 121 full-time equivalent employees. VersaBank is a digital, branchless bank with a business-to-business 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 Innovation Place.

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 2024 MD&A, which is incorporated herein by reference. Additional risks are described in VersaBank's Management Proxy Circular dated April 17, 2024, which is incorporated herein by reference. Both documents are available on SEDAR+ at www.sedarplus.ca and EDGAR at www.sec.gov/edgar.

DIVIDENDS

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 2022, 2023 and 2024, 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, are 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

All of the Bank's issued and outstanding Series 1 Preferred Shares were redeemed on October 31, 2024.

For the five-year period commencing on November 1, 2019, holders of Series 1 Preferred Shares of VersaBank ("Series 1 Preferred Shares") were 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 were 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.sedarplus.ca.

DIVIDEND SUMMARY

The following dividends were declared for each of the three most recently completed financial years: [2]

Share Class	F2024	F2023	F2022
Common Shares	$2,596,481	$2,610,374	$2,739,656
Series 1 Preferred Shares	$989,701	$989,701	$989,701

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.

[2] 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 U.S. and commenced trading on the Nasdaq on September 24, 2021, under the symbol VBNK. 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. The NCIB expired on August 16, 2023.

There were 26,002,577 Common Shares outstanding as at October 31, 2024.

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

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 reset 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.

The Series 1 Preferred Shares were redeemed by VersaBank, at its option, for cash on October 31, 2024, 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 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, 2024. 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.

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, 2024, GBH Inc. (formerly 340268 Ontario Limited) owned approximately 32.73% of the Common Shares of the Bank. Approval from the Minister for GBH Inc. 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.

RATINGS

On April 7, 2021, the Bank received an investment-grade Long Term Credit Rating of “A” for the Bank overall and “A-” for the issue of the NVCC-compliant fixed-to-floating rate subordinated notes (“Notes”) up to U.S. $100 million from Egan-Jones Ratings Company, a U.S. Nationally Recognized Statistical Rating Organization (“NRSRO”) and U.S. National Association of Insurance Commissioners (“NAIC”) recognized Credit Rating Provider. “A” ratings have high level of creditworthiness with low sensitivity to evolving conditions.

An explanation of the categories of each rating as at October 31, 2024, has been obtained from the respective rating agency’s website and is outlined in Appendix A, and more details may be obtained from the relevant rating agency.

A credit rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision or withdrawal at any time by the credit rating agency.

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

The following chart provides a summary of trading on the TSX in CAD for fiscal 2024:

COMMON SHARES				SERIES 1 PREFERRED SHARES		
Month	High	Low	Trading Volume	High	Low	Trading Volume
Oct 2024	$21.55	$17.65	391,778	$10.14	$9.96	70,560
Sep 2024	$18.83	$16.66	284,270	$10.13	$10.05	112,662
Aug 2024	$18.27	$15.20	296,011	$10.06	$9.95	71,400
Jul 2024	$16.92	$14.25	279,080	$10.10	$10.02	26,347
Jun 2024	$15.49	$12.94	280,409	$10.04	$9.95	4,335
May 2024	$13.86	$12.99	109,251	$10.04	$9.91	28,849
Apr 2024	$14.95	$13.13	214,609	$10.05	$9.85	39,511
Mar 2024	$16.41	$13.30	324,135	$10.02	$9.75	23,800
Feb 2024	$16.49	$14.88	213,548	$10.00	$9.80	7,665
Jan 2024	$15.50	$14.61	359,932	$10.20	$9.73	24,300
Dec 2023	$14.60	$10.55	252,213	$10.07	$9.45	28,461
Nov 2023	$11.48	$10.16	66,009	$9.75	$9.36	22,721

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 2024	$15.78	$13.00	864,912
Sep 2024	$14.22	$12.26	729,171
Aug 2024	$13.64	$10.59	1,033,935
Jul 2024	$12.38	$10.36	642,080
Jun 2024	$11.25	$9.48	341,551
May 2024	$9.97	$9.50	176,256
Apr 2024	$10.99	$9.50	595,755
Mar 2024	$12.19	$9.88	745,761
Feb 2024	$12.09	$10.82	461,926
Jan 2024	$11.50	$10.85	433,360
Dec 2023	$11.10	$7.74	313,860
Nov 2023	$8.11	$7.36	123,930

DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of December 8, 2024, are as follows:

Name	Office Held and Time as Director	Principal Occupation
The Honourable Thomas A. Hockin, P.C. Rancho Mirage, California, USA	Chair 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 (1)(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

Name	Office Held and Time as Director	Principal Occupation
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 (2) 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	Vice-Chair Director since May 6, 2011	Executive Advisor in the Ontario Ministry of Finance
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

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 8, 2024, 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
Tammie Ashton London, Ontario	Chief Risk Officer	Chief Risk Officer of VersaBank
John Asma London, Ontario	Chief Financial Officer	Chief Financial Officer of VersaBank
Garry Clement Osgoode, Ontario	Chief Anti-Money Laundering Officer	Chief Anti-Money Laundering Officer of VersaBank
Michael R. Dixon London, Ontario	SVP	SVP of VersaBank
Brent T. Hodge London, Ontario	SVP, General Counsel, Corporate Secretary, and Chief Compliance Officer	SVP, General Counsel, Corporate Secretary, and Chief Compliance Officer of VersaBank
Saad Inam London, Ontario	Chief Credit Officer	Chief Credit Officer of VersaBank

Name	Office Held	Principal Occupation
Joanne Johnston Saskatoon, Saskatchewan	Chief Internal Auditor	Chief Internal Auditor of VersaBank
Nick Kristo London, Ontario	SVP	SVP of VersaBank
Wooi Koay London, Ontario	Chief Information Officer	Chief Information Officer of VersaBank
Chris Pellarin London, Ontario	VP, Real Estate Lending	VP, Real Estate Lending of VersaBank
David Thoms London, Ontario	SVP, Point of Sale Financing	SVP, Point of Sale Financing of VersaBank
Jonathan Taylor Salt Spring Island, British Columbia	Chief Human Resources Officer	Chief Human Resources Officer of VersaBank

As at December 8, 2024, there were 26,002,577 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 1,692,802 Common Shares, representing approximately 6.51% of the total number of Common 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, 2024.

TRANSFER AGENT AND REGISTRAR

VersaBank's current registrar and transfer agent is Odyssey Trust Company ("Odyssey"), 1230 – 300 5 th Avenue SW, Calgary, AB T2P 3C4.

EXPERTS

Ernst & Young LLP are the current auditors of VersaBank. Ernst & Young LLP 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 MANDATE

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

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are:

(1) Paul G. Oliver (Chair)
(2) Peter M. Irwin
(3) Robbert-Jan Brabander

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 was elected 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. Brabander replaced Mr. Jankura on September 4, 2024. Mr. Brabander is a businessman and former finance executive with over 20 years of industry experience in a variety of roles, including financial analysis, acquisitions and divestitures, treasury risk management, capital planning, foreign currency exposure, corporate financial accounting and reporting, and tax planning and management. He currently owns and operates a small telecommunications company in the greater Toronto area. Mr. Brabander earned a Masters of Science in Economics from Erasmus University Rotterdam in 1988.

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 Ernst & Young LLP during the year ended October 31, 2024, for VersaBank were $1,053,000 and during the year ended October 31, 2023, were $845,000. Audit fees were for professional services rendered by Ernst & Young 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 Ernst & Young LLP during the year ended October 31, 2024, for VersaBank were $136,000 and during the year ended October 31, 2023, for VersaBank were $25,000. Audit-related fees were for assurance and services reasonably related to the performance of the audit of the consolidated financial statements.

Non-Audit-Related Fees

Non-audit-related fees paid to Ernst & Young LLP during the year ended October 31, 2024, for VersaBank were $195,000 and during the year ended October 31, 2023, for VersaBank was nil. Non-audit-related fees were for other advisory services.

Tax-Related Fees

Fees paid to Ernst & Young LLP for tax related services during the year ended October 31, 2024, for VersaBank were $268,050 and during the year ended October 31, 2023, for VersaBank were $154,000. Tax fees were for tax compliance, tax advice and tax-planning professional services.
Ernst & Young LLP fees are exclusive of any information technology infrastructure costs and administrative support charges and applicable taxes. No other fees were paid to Ernst & Young LLP during the years ended October 31, 2024, or October 31, 2023.

ADDITIONAL INFORMATION

Additional information regarding VersaBank may be found on SEDAR+ at www.sedarplus.ca, 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 24, 2025. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2024.

THE DEFINITION OF A “RATING”:

In general terms, ratings are opinions that reflect the creditworthiness of an issuer, a security, or an obligation. Creditworthiness is determined by assessing coverage of the estimated loss via current and forward-looking measurements that assess an issuer's ability and willingness to make payments on ultimate obligations (including principal, interest, dividend or other types of distributions) per the terms of an obligation. Ratings for structured finance vehicles reflect an opinion of the ability of the pooled assets to fund repayment to investors according to each security's stated payment obligation. Ratings are opinions based on the quantitative and qualitative analysis of information sourced and received by Egan-Jones, which information is not audited or verified by Egan-Jones. Ratings are not buy, hold or sell recommendations and do not address the market price of a security. Ratings may be upgraded, downgraded, placed under review, confirmed and discontinued.

Long Term Credit Ratings

AAA
Egan-Jones expects AAA ratings to have the highest level of creditworthiness with the lowest sensitivity to evolving credit conditions.

AA
Egan-Jones expects AA ratings to have a higher level of creditworthiness with very low sensitivity to evolving credit conditions.

A
Egan-Jones expects A ratings to have the high level of creditworthiness with low sensitivity to evolving credit conditions.

BBB
Egan-Jones expects 'BBB' ratings to have the moderate level of creditworthiness with moderate sensitivity to evolving credit conditions.

BB, B, CCC, CC, and C
Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB
Egan-Jones expects BB ratings to have a low level of creditworthiness with high sensitivity to evolving credit conditions.

B
Egan-Jones expects B ratings to have a lower level of creditworthiness with higher sensitivity to evolving credit conditions.

CCC
Egan-Jones expects CCC ratings to have a lowest level of creditworthiness with highest sensitivity to evolving credit conditions.

CC
Egan-Jones expects CC ratings to have the lowest level of creditworthiness and some expectation of recovery.

C
Egan-Jones expects C ratings to have the lowest level of creditworthiness and little expectation of recovery.

D
Egan-Jones expects D ratings to have the no determinable level of creditworthiness with uncertain recovery expectations.

Plus (+) or minus (-)
The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

NR
This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Egan-Jones's does not rate a particular obligation as a matter of policy.

EJR derives its "watch" assignments from the difference between the current and projected ratings. No difference between the two results in a "stable" watch, a higher projected rating results in a "positive" or "POS" watch and a lower projected rating results in a "negative" or "NEG" watch. The absence of a projected rating results in a "developing" or "DEV" watch. The addition of a POS or NEG is at the discretion of the analyst or Rating Committee and usually results from the direction the rate is expected to move over time.

For structured finance ratings, EJR will assign the "(sf)" modifier to any related ratings. Where applicable, a "AAA" rating in structured finance would be denoted by a "AAA(sf)"; the "(sf)" symbol only indicates that the security is a structured finance instrument. The following asset types are generally considered SF transactions and would therefore be assigned the "sf" modifier: asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations (CDOs), insurance securitizations, and asset-backed commercial paper (ABCP) programs. The list presented here is not intended to be all inclusive or an exhaustive list of SF securities that would carry the "(sf)" symbol.

Egan-Jones Ratings Company ("EJR") is not licensed as a nationally-recognized statistical rating organization ("NRSRO") in respect of "asset-backed securities" (as defined by the Securities and Exchange Commission) and any rating issued by EJR in respect of asset-backed securities is not issued or maintained by EJR in its capacity as an NRSRO.

Short-Term Credit Ratings

A-1
A-1 ratings have the highest short-term creditworthiness.

A-2
A-2 ratings have a higher short-term creditworthiness.

A-3
A-3 ratings have moderate short-term creditworthiness.

B
B ratings have a low short-term creditworthiness.

C
C ratings have the lowest short-term creditworthiness.

D
D ratings have no discernable short-term creditworthiness.

Purpose

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

Organization of the Audit Committee

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

Meetings of the Audit Committee

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

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

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

Reporting to the Board

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

Resources and Authority

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

Duties and Responsibilities of the Audit Committee

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

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

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

2. **Disclosure**

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

3. **Internal Audit**

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

4. External Audit

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

5. Capital Management

a) Review, at least annually, the Bank's policies and procedures with respect to capital management and receive management reports regarding adherence to same.
b) Review and recommend to the Board for approval the annual Internal Capital Adequacy Assessment Process ("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 monitor 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 an annual report from the CAMLO on compliance with the Bank's AML/ATF policy.
h) Receive a quarterly AML Risk Rating Report Summary from the CAMLO.
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.
h) Taking into account the recommendation of the Conduct Review, Governance, and Human Resources Committee, elect and approve the Chair of the Audit Committee.

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

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

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

Exhibit 99.2



Consolidated Financial Statements
Years ended October 31, 2024 and 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of VersaBank

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of VersaBank (the Bank) as of October 31, 2024 and 2023, the related consolidated statements of income and comprehensive income, statements of changes in shareholders' equity, and cash flows for the years ended October 31, 2024 and 2023, and the related notes (collectively referred to as, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the year ended October 31, 2024 and 2023, 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 the Bank's consolidated financial statements based on our audit.
We are a public accounting firm registered with the Public Company Accounting and 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 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 audit, 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/ Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

We have served as the Bank's auditor since 2023.

London, Canada
December 8, 2024

VERSABANK

Consolidated Balance Sheets
As at October 31, 2024 and 2023

(thousands of Canadian dollars)

	2024	2023
Assets		
Cash (note 4)	$ 225,254	$ 132,242
Securities (note 5)	299,300	167,940
Loans, net of allowance for credit losses (note 6)	4,236,116	3,850,404
Property and equipment (note 7)	23,885	6,536
Goodwill (note 8)	12,301	5,754
Intangible assets (note 9)	12,054	2,791
Other assets (note 10)	29,574	35,943
	$ 4,838,484	$ 4,201,610
Liabilities and Shareholders' Equity		
Deposits (note 11)	$ 4,144,673	$ 3,533,366
Subordinated notes payable (note 12)	102,503	106,850
Other liabilities (note 13)	192,105	184,236
	4,439,281	3,824,452
Shareholders' equity:		
Share capital (note 14)	215,610	228,471
Contributed surplus	2,485	2,513
Retained earnings	181,238	146,043
Accumulated other comprehensive income	(130)	131
	399,203	377,158
	$ 4,838,484	$ 4,201,610

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, 2024 and 2023

(thousands of Canadian dollars, except per share amounts)

	2024	2023
Interest income:		
Loans	$ 264,881	$ 215,686
Other	20,538	13,648
	285,419	229,334
Interest expense:		
Deposits and other	177,094	123,491
Subordinated notes	5,670	5,792
	182,764	129,283
Net interest income	102,655	100,051
Non-interest income	8,978	8,584
Total revenue	111,633	108,635
Provision for (recovery of) credit losses (note 6(b))	(268)	609
	111,901	108,026
Non-interest expenses:		
Salaries and benefits	32,784	31,428
General and administrative	19,169	15,051
Premises and equipment	5,155	3,902
	57,108	50,381
Income before income taxes	54,793	57,645
Income tax provision (note 16)	15,045	15,483
Net income	$ 39,748	$ 42,162
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Foreign exchange gain (loss) on translation of foreign operations	(261)	32
Comprehensive income	$ 39,487	$ 42,194
Basic and diluted income per common share (note 17)	$ 1.49	$ 1.57

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

VERSABANK

Consolidated Statements of Changes in Shareholders' Equity
Years ended October 31, 2024 and 2023

(thousands of Canadian dollars)

		2024		2023
Common shares (note 14):				
Balance, beginning of the year	$	214,824	$	225,982
Options exercised during the year		786		280
Purchased and cancelled during the year		-		(11,438)
Balance, end of the year	$	215,610	$	214,824
Preferred shares (note 14):				
Series 1 preferred shares				
Balance, beginning of the year	$	13,647	$	13,647
Redemption of preferred shares		(13,647)		-
Balance, end of the year	$	-	$	13,647
Total share capital	$	215,610	$	228,471
Contributed surplus:				
Balance, beginning of the year	$	2,513	$	1,612
Stock-based compensation (note 15)		168		901
Part VI tax		(196)		-
Balance, end of the year	$	2,485	$	2,513
Retained earnings:				
Balance, beginning of the year	$	146,043	$	109,335
Adjustment for purchased and cancelled common shares		-		(1,854)
Transfer of transaction costs on redemption of Series 1, preferred shares (note 14)		(965)		-
Net income		39,748		42,162
Dividends paid on common and preferred shares		(3,588)		(3,600)
Balance, end of the year	$	181,238	$	146,043
Accumulated other comprehensive income (loss), net of taxes:				
Balance, beginning of the year	$	131	$	99
Other comprehensive income (loss)		(261)		32
Balance, end of the year	$	(130)	$	131
Total shareholders' equity	$	399,203	$	377,158

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

VERSABANK

Consolidated Statements of Cash Flows
Years ended October 31, 2024 and 2023

(thousands of Canadian dollars)

	2024	2023
Cash provided by (used in):		
Operations:		
Net income	$ 39,748	$ 42,162
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision for credit losses	(268)	609
Stock-based compensation	348	901
Income tax provision	15,045	15,483
Interest income	(285,419)	(229,334)
Interest expense	182,764	129,283
Impairment of assets	415	-
Amortization and depreciation	2,634	1,783
Accretion of discount on securities	(373)	(155)
Foreign exchange rate change on assets and liabilities	(1,560)	10,507
Interest received	276,883	220,775
Interest paid	(167,657)	(93,786)
Income taxes paid	(19,719)	(15,951)
Change in operating assets and liabilities:		
Loans	(307,844)	(850,394)
Deposits	523,278	840,563
Change in other assets and liabilities	14,430	22,271
	272,705	94,717
Investing:		
Acquisition of Stearns Bank Holdingford N.A., net of cash acquired (note 26)	(12,116)	-
Sale (purchase) of securities	(126,889)	(27,778)
Purchase of property and equipment	(18,578)	(362)
	(157,583)	(28,140)
Financing:		
Issuance of common shares	607	280
Purchase and cancellation of common shares	-	(13,292)
Redemption of subordinated notes payable (note 12)	(5,000)	-
Redemption of preferred shares (note 14)	(14,615)	-
Dividends paid	(3,588)	(3,600)
Repayment of lease obligations	(736)	(700)
	(23,332)	(17,312)
Change in cash	91,790	49,265
Effect of exchange rate changes on cash	1,222	(5,604)
Cash, beginning of year	132,242	88,581
Cash, end of year	$ 225,254	$ 132,242

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

1. Reporting entity:

In Canada, VersaBank (the "Bank") operates as a Schedule I bank under the Bank Act (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Following its acquisition of Stearns Bank Holdingford N.A. and renaming it VersaBank USA N.A. ("VersaBank USA"), on August 30, 2024, in the United States, the Bank, through its wholly owned subsidiary, VersaBank USA, holds a national Office of the Comptroller of the Currency ("OCC") charter and is regulated by the OCC (note 26). The Bank, whose shares trade on the Toronto Stock Exchange and Nasdaq, provides primarily commercial lending and banking services to select niche markets in Canada and the United States as well as cybersecurity services through the operations of its wholly owned subsidiary DRT Cyber Inc., ("DRTC"). The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2.

2. Basis of preparation:

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 OSFI, 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 08, 2024.

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 26), derivatives (see note 18), securities (see note 5), and the investment in Canada Stablecorp Inc. (see note 10) which are 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 3 m) – Foreign currency translation).

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 3e – 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 Stearns Bank Holdingford N.A., the fair value of stock options granted, the fair value of derivatives, the impairment test applied to intangible assets and goodwill, the measurement of deferred income taxes and the revaluation of fixed assets. 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. Material accounting policies:

The material 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 currently 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" or "DBG"). VersaHoldings US Corp. holds 100% of the common shares of VersaFinance US Corp and 100% of the common shares of VersaBank USA. The Consolidated Financial Statements include the accounts of these subsidiaries. All significant intercompany accounts and transactions have been eliminated.

b) Segment reporting:

The Bank's management has established three reportable operating segments, those being Digital Banking Canada, Digital Banking USA and DRTC. Details of the Bank's segment reporting are set out in note 25.

3. Material accounting policies – continued:

c) Business combinations

The Bank applied IFRS 3 Business Combinations in its accounting for the acquisition of Stearns Bank Holdingford N.A. as described in note 26 – Acquisitions using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration if applicable, 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, leases 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 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.

e) Financial instruments:

Classification and measurement

Under IFRS 9, all financial assets, with the exception of equity and derivatives, 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. These financial assets are initially measured at fair value, and are classified and subsequently measured at amortized cost, fair value

3. Material accounting policies – continued:

e) Financial instruments – continued:

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 FVOCI.

3. Material 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 non-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 recorded at fair value.

Allowance for expected credit losses

The Bank must maintain an allowance for expected credit losses ("ECL") 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 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 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 other financial instruments that have experienced a SICR since initial recognition are designated as stage 2, and loans or other financial instruments that are determined to be credit impaired are designated as stage 3. Subsequent to the initial stage

3. Material accounting policies – continued:

e) Financial instruments – continued:

designation, the Bank's loans or other financial instruments may transfer between stages due to these loans or financial instruments experiencing a significant change in credit risk

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 uncertain 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. Material 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 or other financial instruments that are determined to be credit impaired and that have been designated as stage 3. A loan or other financial instrument is classified as credit impaired when the Bank becomes aware that, before taking into consideration collateral or credit enhancements, all of, or a portion of the contractual cashflows associated with the loan or other financial instrument may be impacted 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 or other financial instrument. Loans or other financial instruments for which interest or principal is contractually past due 90 days are automatically recognized as stage 3, however in estimating expected credit losses for stage 3 loans or other financial instruments, management takes into consideration whether the loan or other financial instrument is fully secured or is in the process of collection and whether collection efforts are reasonably expected to result in repayment of the loan or other financial instrument. 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 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 are reflected in the Bank's stage 3 grouping.

3. Material 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 or other financial instruments. 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 is an attempt to capture the impact of future economic conditions and 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. Material 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.

3. Material 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 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 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 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 or CGU's. 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 fair value less cost to sell 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.

3. Material accounting policies – continued:

g) Goodwill and intangible assets – continued:

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 that there is technical feasibility and resources available to complete a product, demonstrated an existence of an established market for the product as well as support to generate future revenues or derive future economic benefits from the product. As these intangible assets are not yet available for use, the Bank tested these assets for impairment annually by comparing the carrying amount with the recoverable amount. Recoverable amount is determined by fair value less cost to sell method.

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

3. Material accounting policies – continued:

h) Income taxes – continued:

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.

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 15.

3. Material accounting policies – continued:

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.

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. Material 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.

Foreign operations

The assets and liabilities of Digital Boundary Group Inc. and VersaBank USA, both US operations of the Bank, have functional currencies other than the Canadian dollar, and are translated into Canadian dollars at the exchange rate at the reporting date. The income and expenses of these operations 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. All other US operations are recognized as having functional currency based on the Canadian dollar.

n) Derivative instruments:

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

Derivatives are reported as other assets when they have a positive fair value and as other liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when: the economic characteristics and risks associated are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a stand-alone, independent instrument; and the combined contract is not held for trading or designated at fair value through profit or loss. For financial statement disclosure purposes, embedded derivatives are combined with the host contract.

Derivative contracts which do not qualify for hedge accounting are marked-to-market and the resulting net gains or losses are recognized in non-interest income in the Consolidated Statement of Income and Comprehensive Income.

Hedge accounting

The Bank has elected, as permitted, to apply the hedge accounting requirements of IAS 39. Derivative contracts which do not qualify for hedge accounting are marked-to-market and the resulting net gains or losses are recognized in non-interest income in the Consolidated Statement of Income and Comprehensive Income.

To meet the criteria for hedge accounting, the Bank documents all relationships between hedging instruments and hedged items, how hedge effectiveness is assessed, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking hedging instruments to specific assets or liabilities on the Consolidated Balance Sheet or net investment in foreign subsidiaries. The Bank also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

3. Material accounting policies – continued:

n) Derivative instruments - continued:

There are three main types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including an analysis of sources of hedge ineffectiveness and how the hedge effectiveness is assessed). In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was also highly effective in the previous designated period (i.e., three month). A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of between 80% to 125%.

Interest rate swap agreements are entered into for asset liability management purposes. The Bank has a fair value hedge outstanding. In a fair value hedge, the change in the fair value of the hedging instrument is recognized in non-interest income in the Consolidated Statements of Income and Comprehensive Income. The change in the fair value of the hedged item attributable to hedge risk is recorded as part of the carrying value of the hedged item (basis adjustment) and is also recognized in non-interest income in the Consolidated Statements of Income and Comprehensive Income. The Bank utilizes fair value hedges primarily to convert fixed rate financial assets to floating rate financial assets. The primary financial instruments designated in fair value hedging relationships are interest rate swap agreements entered into for hedging purposes. If the derivative expires or is sold, terminated, no longer meets the criteria for hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any basis adjustment up to that point made to a hedged item for which the effective interest method is used is amortized to the Consolidated Statements of Income and Comprehensive Income as part of the recalculated effective interest rate

In fair value hedges, ineffectiveness arises to the extent that the change in fair value of the hedging items differs from the change in fair value of the hedge risk in the hedged item. Any hedge ineffectiveness is measured and recorded in non-interest income in the Consolidated Statements of Income and Comprehensive Income.

The Bank also has net investment hedges outstanding. The bank applies hedge accounting under IAS 39 for foreign currency risk on its net investments in VersaBank USA operations. To manage this risk, the Bank has designated a specific foreign exchange forward contract as a hedge of the net investment in its foreign subsidiary. This hedging strategy is aimed at minimizing foreign exchange risk related to fluctuations between VersaBank's functional currency, CAD, and the foreign currency of its net investment, USD. Change in fair value of the hedging instrument is recognized in other comprehensive income (OCI) to the extent that the hedge is effective. These gains and losses are accumulated in OCI until the net investment is disposed of, at which point they are reclassified to profit or loss as part of the gain or loss on disposal.

3. Material accounting policies – continued:

n) Derivative instruments - continued:

Any ineffective portion of the hedge is recognized immediately in profit or loss. Hedge effectiveness is assessed by comparing changes in the fair value or cash flows of the hedging instrument and the net investment. The Bank ensures compliance with IAS 39 hedge accounting criteria, confirming that all hedging relationships are documented at inception and that hedge effectiveness is regularly monitored and reviewed.

Forming part of the net investment hedges is a hedge, which has been designated in addition to the foreign exchange forward contract designated to completely hedge the investment in VersaBank USA. This hedge is achieved by allocating a portion of the subordinated debt raised by the Bank in April, 2021. The allocated portion of the subordinated debt (liability) and the investment (asset) move in equal and opposite directions, with the liability serving as an hedge against rate fluctuations that could impact the valuation of the investment asset.

o) Future accounting standard pronouncements:

The following accounting standards amendments issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2024 (the Bank's fiscal 2025 year end):

i) *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback* - In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

ii) *Amendments to IAS 1: Classification of Liabilities as Current or Non-current* - In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;

3. Material accounting policies – continued:

o) Future accounting standard pronouncements - continued:

- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and,
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. The amendments must be applied retrospectively.

The amendments noted above do not have a material impact on the Bank's financial results.

The following accounting standards amendments issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2026 (the Bank's fiscal 2027 year end):

In May 2024, the International Accounting Standards Board (IASB) introduced amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. These amendments provide clarification on the classification of financial assets that include environmental, social, and governance (ESG)-linked features and establish additional disclosure requirements.

We are in the process of evaluating their potential impact on our Consolidated Financial Statements.

The following accounting standards issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2027 (the Bank's fiscal 2028 year end):

IFRS 18, Presentation and Disclosure in Financial Statements - IFRS 18 will replace IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes. Further, operating expenses are presented directly on the face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature. IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures and eliminates classification options for interest and dividends in the statement of cash flows. Management will undertake a comprehensive review of the potential impact to the Bank's disclosure presentation under IAS 18 and will update the readers as management establishes the new presentation and additional disclosures to conform with IAS 18.

4. Cash:

Cash is comprised of deposits with regulated financial institutions.

5. Securities:

As at October 31, 2024, the Bank held securities totaling $ 299.3 million (2023 - $167.9 million), including accrued interest, comprised of a series Government of Canada and other bonds with a carrying value of $163.7 million and US Treasury Bills with a carrying value of $135.6 million.

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 Receivable Purchase Program ("POS/RPP Financing")** asset category is comprised of point-of-sale loan and lease receivables acquired from the Bank's 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 primarily of Residential Construction, Term, CMHC-Insured and Land Mortgages. All of these loans are business-to-business loans with the underlying credit risk exposure being primarily consumer in nature given that the vast majority of the loans are related to properties that are designated primarily for residential use. The portfolio benefits from diversity in its underlying security in the form of a broad range of such collateral properties.

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

The **Public Sector, Leases and Other Financing ("PSLOF")** asset category is comprised primarily of public sector loans, and the Versabank USA portfolio, which combined consists primarily of equipment leases, a small balance of corporate loans and leases and single family residential conventional and insured mortgages.

6. Loans – continued:

a) Portfolio analysis:

(thousands of Canadian dollars)

	2024	2023
Point-of-sale loans and leases receivable purchase program	$ 3,307,328	$ 2,879,320
Commercial real estate mortgages	779,691	889,069
Commercial real estate loans	8,302	8,793
Public sector, leases and other financing	122,321	55,054
	4,217,642	3,832,236
Allowance for credit losses	(3,303)	(2,513)
Accrued interest	21,777	20,681
Total loans, net of allowance for credit losses	$ 4,236,116	$ 3,850,404

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, 2024				As at October 31, 2023			
(thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Point-of-sale loans and leases receivable purchase program	$3,294,675	$ 12,653	$ -	**$3,307,328**	$2,873,078	$ 6,242	$ -	**$2,879,320**
ECL allowance	*783*	-	-	***783***	*100*	-	-	***100***
EL %	0.02%	0.00%	0.00%	**0.02%**	0.00%	0.00%	0.00%	**0.00%**
Commercial real estate mortgages	$ 607,858	$171,833	$ -	**$ 779,691**	$ 717,755	$155,993	$ 15,321	**$ 889,069**
ECL allowance	*1,102*	*296*	-	***1,398***	*1,699*	*523*	-	***2,222***
EL %	0.18%	0.17%	0.00%	**0.18%**	0.24%	0.34%	0.00%	**0.25%**
Commercial real estate loans	$ 8,302	$ -	$ -	**$ 8,302**	$ 8,793	$ -	$ -	**$ 8,793**
ECL allowance	*44*	-	-	***44***	*42*	-	-	***42***
EL %	0.53%	0.00%	0.00%	**0.53%**	0.48%	0.00%	0.00%	**0.48%**
Public sector, leases and other financing	$ 120,965	$ 1,288	$ 68	**$ 122,321**	$ 49,293	$ 5,761	$ -	**$ 55,054**
ECL allowance	*1,067*	*10*	*1*	***1,078***	*104*	*45*	-	***149***
EL %	0.88%	0.78%	1.47%	**0.88%**	0.21%	0.78%	0.00%	**0.27%**
Total loans	$4,031,800	$185,774	$ 68	**$4,217,642**	$3,648,919	$167,996	$ 15,321	**$3,832,236**
Total ECL allowance	*2,996*	*306*	*1*	***3,303***	*1,945*	*568*	-	***2,513***
Total EL %	0.07%	0.16%	1.47%	**0.08%**	0.05%	0.34%	0.00%	**0.07%**

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 cash reserves (holdbacks) on loan and lease receivables included in the POS/RPP Financing portfolio (note 13).

Allowance for credit losses

The Bank maintains 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

6. Loans – continued:

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.

The expected credit loss methodology 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 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 are reflected in Stage 3 grouping.

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

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

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

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

6. Loans – continued:

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: 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 baseline macroeconomic forecast trends included: elevated interest rates are expected to suppress near-term GDP growth. Growth is projected to accelerate gradually in 2025 but will likely remain below historical norms, given Canada's demographics. Rising unemployment is expected to stabilize as GDP growth gains momentum. CPI inflation is forecasted to remain near 2% through 2025, with aggregate supply outpacing demand. Reduced borrowing costs are not expected to reignite inflationary pressures. Current geopolitical risks are not anticipated to escalate materially and are expected to have a limited impact on global commodity prices and supply chains. Global oil prices are forecasted to remain steady. Oil price changes are likely to affect national income rather than production levels, given the industry's near-capacity operations. Household finances face strain due to elevated debt-service obligations; however, loan performance is expected to remain at or near pre-pandemic levels. 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, 2024 in order to assess the alignment of the Bank's reported ECL with the Bank's

6. Loans – continued:

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, 2024:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 3,303	$ 2,629	$ 2,833	$ 3,538
Provision (recovery) from reported ECL		(674)	(470)	235
Variance from reported ECL (%)		(20%)	(14%)	7%

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, 2024:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Point-of-sale loans and leases receivable purchase program				
Balance at beginning of period	$ 100	$ -	$ -	$ 100
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	683	-	-	683
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	683	-	-	683
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 783**	**$ -**	**$ -**	**$ 783**
Commercial real estate mortgages				
Balance at beginning of period	$ 1,699	$ 523	$ -	$ 2,222
Transfer in (out) to Stage 1	457	(457)	-	-
Transfer in (out) to Stage 2	(524)	524	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(423)	(217)	-	(640)
Loan originations	122	12	-	134
Derecognitions and maturities	(229)	(89)	-	(318)
Provision for (recovery of) credit losses	(597)	(227)	-	(824)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 1,102**	**$ 296**	**$ -**	**$ 1,398**
Commercial real estate loans				
Balance at beginning of period	$ 42	$ -	$ -	$ 42
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	11	-	-	11
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	2	-	-	2
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 44**	**$ -**	**$ -**	**$ 44**
Public sector, leases and other financing				
Balance at beginning of period	$ 104	$ 45	$ -	$ 149
Transfer in (out) to Stage 1	27	(27)	-	-
Transfer in (out) to Stage 2	(10)	10	-	-
Transfer in (out) to Stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(124)	(18)	-	(142)
Loan originations	13	-	-	13
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	(95)	(35)	1	(129)
Write-offs	(4)	-	-	(4)
Recoveries	-	-	-	-
Acquired Loans	1,032	-	-	1,032
FX Impact	30	-	-	30
Balance at end of period	**$ 1,067**	**$ 10**	**$ 1**	**$ 1,078**
Total balance at end of period	**$ 2,996**	**$ 306**	**$ 1**	**$ 3,303**

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, 2023:

(thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	Total
Point-of-sale loans and leases				
Balance at beginning of period	$ 545	$ -	$ -	$ 545
Transfer in (out) to Stage 1	160	(160)	-	-
Transfer in (out) to Stage 2	(340)	340	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(265)	(180)	-	(445)
Loan originations	-	-	-	-
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	(445)	-	-	(445)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 100**	**$ -**	**$ -**	**$ 100**
Commercial real estate mortgages				
Balance at beginning of period	$ 1,150	$ 137	$ -	$ 1,287
Transfer in (out) to Stage 1	279	(279)	-	-
Transfer in (out) to Stage 2	(581)	581	-	-
Transfer in (out) to Stage 3	-	(13)	13	-
Net remeasurement of loss allowance	668	113	(13)	768
Loan originations	604	4	-	608
Derecognitions and maturities	(421)	(20)	-	(441)
Provision for (recovery of) credit losses	549	386	-	935
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 1,699**	**$ 523**	**$ -**	**$ 2,222**
Commercial real estate loans				
Balance at beginning of period	$ 54	$ -	$ -	$ 54
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	-	-	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(6)	-	-	(6)
Loan originations	-	-	-	-
Derecognitions and maturities	(6)	-	-	(6)
Provision for (recovery of) credit losses	(12)	-	-	(12)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 42**	**$ -**	**$ -**	**$ 42**
Public sector, leases and other financing				
Balance at beginning of period	$ 17	$ 1	$ -	$ 18
Transfer in (out) to Stage 1	-	-	-	-
Transfer in (out) to Stage 2	(8)	8	-	-
Transfer in (out) to Stage 3	-	-	-	-
Net remeasurement of loss allowance	12	13	-	25
Loan originations	83	23	-	106
Derecognitions and maturities	-	-	-	-
Provision for (recovery of) credit losses	87	44	-	131
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at end of period	**$ 104**	**$ 45**	**$ -**	**$ 149**
Total balance at end of period	**$ 1,945**	**$ 568**	**$ -**	**$ 2,513**

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	2024 Total	2023 Total
Total loans	$ 716,609	$ 109,736	$ 347,502	$ 314,375	$ 2,244,279	$ 485,141	$ 4,217,642	$ 3,832,236
Average effective yield	8.60%	6.78%	6.49%	5.61%	6.19%	5.84%	6.56%	6.84%

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, 2024, the Bank held no impaired loans (October 31, 2023 - $15.3 million).

7. Property and equipment:

(thousands of Canadian dollars)

	2024	2023
Cost	$ 36,721	$ 17,827
Accumulated amortization	(12,836)	(11,291)
	$ 23,885	$ 6,536

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, 2024, totalled $1.5 million (2023 - $694,000).

8. Goodwill:

Goodwill of $5.8 million relates to the Bank's acquisition of Digital Boundary Group and $ 6.5 million relates to the Bank's acquisition of Stearns Bank Holdingford N.A. (note 26).

For the purpose of conducting an annual test for impairment, the Bank's CGUs relates to the operations of these entities. The Bank considered the fair value less carrying value calculation in assessing impairment. The key assumptions underlying the impairment test of goodwill related to Digital Boundary Group included: five years of projected cash flow, a discount rate of 12.1% (2023 - 13.7%), an average yearly earnings growth rate of 13% (2023 - 14%) and a terminal growth rate of 2.0% (2023 - 2.0%). The key assumptions underlying the impairment test of goodwill related to VersaBank USA included: five years of projected cash flow, a discount rate of 10.0%, an average yearly earnings growth rate of 17% and a terminal growth rate of 1.0%.

The Bank did not recognize an impairment charge on the goodwill related to these entities as the recoverable amount of the CGUs exceeded the carrying value of the goodwill associated with these entities. Sensitivity analysis performed by management suggested that if the average annual growth rate were to decrease by approximately 10% for Digital Boundary Group over each year of the five-year planning horizon the carrying amount would be approximately equal to the recoverable amount of the CGU. For VersaBank USA, sensitivity analysis performed by management suggested that if the average annual growth rate were to decrease by 16% over each year of the five-year planning horizon the carrying amount would be approximately equal to the recoverable amount of the CGU.

9. Intangible assets:

As at October 31, 2024, total intangible assets were $ 12.1 million (October 31, 2023 - $2.8 million) related to the Bank's acquisition of Digital Boundary Group, VersaBank USA and for internally developed software.

The intangible assets related to the Bank's acquisition of Digital Boundary Group were $ 3.9 million and at October 31, 2024, had accumulated amortization of $1.5 million and are being amortized over ten years. The amortization expense for these intangible assets totaled $394,000 (2023 - $394,000).

The intangible assets related to the Bank's acquisition of VersaBank USA were $ 2.6 million.

The intangible assets related to internally developed software were $ 7.1 million.

10. Other assets:

(thousands of Canadian dollars)

	2024	2023
Accounts receivable	$ 10,718	$ 3,858
Prepaid expenses and other (note 10a)	14,399	22,130
Right-of-use assets (note 10b)	2,734	3,427
Deferred income tax asset (note 16)	750	4,058
Derivative instruments (note 18)	20	1,517
Investment (note 10c)	953	953
	$ 29,574	$ 35,943

a) The Bank, internally through its DRTC segment has developed proprietary cybersecurity, banking and financial technology products. Costs associated with the development of these products and services have been capitalized in accordance with IAS 38 Intangible Assets. As at October 31, 2024, capitalized costs were $2.5 million (October 31, 2023 - $8.1 million). Amortization of these costs has not yet commenced as the products and services associated with same remain in the development stage. The Bank conducted an annual test for impairment on the assets that are not yet ready for use. The Bank considered the fair value less carrying value calculation in assessing impairment. The key assumptions underlying the impairment test included: ten years of projected cash flow, a discount rate of 13.3%, an average yearly earnings growth rate of 24% and a terminal growth rate of 1.0%. The Bank did not recognize an impairment charge on these intangible assets as the recoverable amount exceeded the carrying value of same. Completed projects related to the DRTC segment were classified under intangible assets totaled $7.1 million as of October 31, 2024.

b) The right-of-use assets relate to the Bank's office facility leases. Capitalized leases of $ 2.7 million at October 31, 2024 is stated net of accumulated amortization of $3.2 million.

For the year ended October 31, 2024, the amortization expense for the right-of-use assets totaled $ 695,000 (2023 - $695,000).

c) The Bank has an 9% investment in Canada Stablecorp Inc. ("Stablecorp"). 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. Amounts recorded in other comprehensive income will not be reclassified to profit and loss at a later date.

11. 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	2024 Total	2023 Total
Total deposits	$729,719	$454,182	$1,749,894	$494,866	$639,058	$ -	$ 76,954	$4,144,673	$3,533,366
Average effective interest rate	2.72%	4.67%	4.63%	4.16%	4.64%			4.16%	4.18%

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

12. Subordinated notes payable:

(thousands of Canadian dollars)

	2024	2023
Issued April 2021, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of US $75.0 million, fixed effective interest rate of 5.38%, maturing May 2031. The fixed rate applies only until May 1, 2026, at which point the obligation switches to floating rate and the notes are redeemable by the Bank, subject to regulatory approval.	$ 102,503	$ 101,931
Issued March 2019, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of $5.0 million, $500,000 is held by related party (note 22), fixed effective interest rate of 10.41%, maturing March 2029.	-	4,919
	$ 102,503	$ 106,850

On April 30, 2024, the Bank redeemed its $5.0 million, unsecured, non-viability contingent capital compliant, subordinate note payable using the Bank's general funds.

13. Other liabilities:

(thousands of Canadian dollars)

	2024	2023
Accounts payable and other	$ 10,752	$ 9,681
Current income tax liability	893	7,466
Deferred income tax liability (note 16)	141	731
Lease obligations	3,035	3,771
Cash collateral and amounts held in escrow (note 6)	6,076	8,818
Cash reserves on loan and lease receivables (note 6)	171,208	153,769
	$ 192,105	$ 184,236

13. Other liabilities - continued:

Lease obligations reflect the Bank's liabilities for right-of-use assets which capture the Bank's multiple leased premises. 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 Bank had total cash outflows for these leases of $1.2 million in 2024.

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.

The future lease payments for these non-cancellable lease contracts are $ 725,000 within one year, $ 2.9 million within five years and $156,000 thereafter.

14. 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)

	2024		2023	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	25,964,424	$ 214,824	27,245,782	$ 225,982
Options exercised during the year	38,153	786	40,000	280
Purchased and cancelled during the year	-	-	(1,321,358)	(11,438)
Outstanding, end of year	26,002,577	$ 215,610	25,964,424	$ 214,824
Series 1 preferred shares:				
Balance, beginning of the year	1,461,460	$ 13,647	1,461,460	$ 13,647
Redemption of preferred shares	(1,461,460)	(13,647)	-	-
Outstanding, end of year	-	$ -	1,461,460	$ 13,647
Total share capital		$ 215,610		$ 228,471

14. 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 was authorized to purchase for cancellation up to 1,700,000 of its common shares representing approximately 9.54% of its public float.

The Bank was eligible to make purchases commencing on August 17, 2022 and the NCIB was terminated on August 16, 2023. The purchases were made by VersaBank through the facilities of the TSX and alternate trading systems and the Nasdaq in accordance with the rules of the TSX and such alternate trading systems and the Nasdaq, as applicable, and the prices that VersaBank paid for the Common Shares was at the market price of such shares at the time of acquisition. VersaBank made no purchases of Common Shares other than open market purchases. All shares purchased under the NCIB were cancelled.

For the year ended October 31, 2024, the Bank issued 38,153 Common Shares for $607,000 related to stock options that were exercised in the period. For the year ended October 31, 2023, the Bank purchased and cancelled 1,321,358 Common Shares for $13.3 million, reducing the Bank's Common Share value by $ 11.4 million and retained earnings by $ 1.9 million. In the same period, the Bank issued 40,000 Common Shares for proceeds of $280,000 related to stock options there were exercised in the period.

For the year ended October 31, 2024, the Bank declared and paid dividends of $ 2.6 million or $0.10 per common share (2023 - $2.6 million or $0.10 per common share).

Series 1 Preferred shares

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

For the year ended October 31, 2024, the Bank declared and paid dividends of $ 988,000 or $0.68 per preferred share (2023 - $988,000 or $0.68 per preferred share).

15. 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.

	2024		2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	874,393	$ 15.90	965,766	$ 15.53
Granted	-	-	1,500	15.90
Exercised	(38,153)	15.90	(40,000)	7.00
Forfeited/cancelled	(17,115)	15.90	(52,873)	15.90
Expired	-	-	-	-
Outstanding, end of period	819,125	$ 15.90	874,393	$ 15.90

For the year ended October 31, 2024, the Bank recognized stock-based compensation expense of $ 348,000 (2023 - $901,000) related to the estimated fair value of options granted. There were no stock options granted in the current year. For the year ended October 31, 2023, the fair value of the 1,500 stock options granted was estimated at the grant date using the Black-Scholes valuation model and the following input assumptions: risk-free rate of 3.33%, expected option life of 3.5 years, expected volatility of 30%, expected annual dividends of 1.1% and a forfeiture rate of 2.0%. The fair value of the stock options granted in that year was estimated at $ 0.96 per share. During the current year, the Bank issued 38,153 (2023 - 40,000) Common Shares for proceeds of $607,000 (2023 - $280,000) related to stock options there were exercised in the current year.

16. 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% (2023 - 27%) to income before income taxes. Income taxes have been computed as follows:

(thousands of Canadian dollars)

		2024		2023
Income before income taxes	$	54,793	$	57,645
Income tax rate		27%		27%
Expected income tax provision		14,794		15,564
Tax rate differential on international operations		(426)		(569)
Reversal of previously recongized deferred tax asset		1,671		-
Unrecognized deferred tax asset		-		136
Effect of changes in tax rates		(89)		-
Other permanent differences		(174)		352
Adjustments for prior years		(731)		-
Income taxes	$	15,045	$	15,483

Income taxes is comprised of the following:

(thousands of Canadian dollars)

		2024		2023
Current income taxes	$	12,328	$	17,468
Deferred income taxes		2,717		(1,985)
Income taxes	$	15,045	$	15,483

16. Income taxes – continued:

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

(thousands of Canadian dollars)

	November 1, 2023	Recognized in net income	October 31, 2024
Allowance for credit losses	$ 666	$ (35)	$ 631
Loss carry forwards	1,625	(66)	1,559
Share issue and financing costs	446	(429)	17
Deferred loan fees	818	(119)	699
Property and equipment and right-of-use assets	580	(22)	558
Other	1,790	(1,745)	45
Total deferred tax assets	5,925	(2,416)	3,509
Intangibles assets	598	(95)	503
Deposit commissions	1,823	72	1,895
Property and equipment and right-of-use assets	133	(85)	48
Other	44	410	454
Total deferred tax liabilities	2,598	302	2,900
Net deferred income tax assets	$ 3,327	$ (2,718)	$ 609

(thousands of Canadian dollars)

	November 1, 2022	Recognized in net income	October 31, 2023
Allowance for credit losses	$ 508	$ 158	$ 666
Loss carry forwards	-	1,625	1,625
Share issue and financing costs	909	(463)	446
Deferred loan fees	658	160	818
Property and equipment and right-of-use assets	560	20	580
Other	892	898	1,790
Total deferred tax assets	3,527	2,398	5,925
Intangibles assets	786	(188)	598
Deposit commissions	1,227	596	1,823
Property and equipment and right-of-use assets	128	5	133
Other	44	-	44
Total deferred tax liabilities	2,185	413	2,598
Net deferred income tax assets	$ 1,342	$ 1,985	$ 3,327

16. Income taxes – continued:

The net deferred taxes are comprised of:

(thousands of Canadian dollars)

	2024	2023
Deferred tax assets	$ 750	$ 4,058
Deferred tax liabilities	(141)	(731)
Net deferred income tax assets	$ 609	$ 3,327

A deferred tax asset in the amount of $ 0.3 million (2023 - $1.8 million) 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.

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 $196,000 (2023 - $396,000) and related tax recovery is recorded through equity.

At October 31, 2024, the Bank had US income tax losses which can be carried forward to reduce taxable income in future years in the amount of $1.0 million (2023 - $1.2 million). These loss carry forwards of the Bank have no expiry date. The deferred tax asset of $293,000 (2023 - $360,000) relating to the US income tax losses has been recognized in these statements as it is probable the Bank will have earnings which will allow for the use of these losses.

In addition, the Bank has approximately $ 9.5 million (2023 - $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 (2023 - $1.3 million) has been recognized.

A deferred tax liability on taxable temporary differences of approximately $ 6.6 million (2023 - $3.5 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.

17. Per share amounts:

Basic and diluted income per common share

(thousands of Canadian dollars, except per share amounts)

	2024	2023
Net income	$ 39,748	$ 42,162
Preferred share dividends paid	(988)	(988)
Net income available to common shareholders	38,760	41,174
Weighted average number of common shares outstanding	25,965,724	26,273,739
Basic and diluted income per common share:	$ 1.49	$ 1.57

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.

18. Derivative instruments:

At October 31, 2024, the Bank had an outstanding contract established for asset liability management purposes to swap between fixed and floating interest rates with an amortizing notional amount currently totaling $22.0 million (October 31, 2023 - $20.8 million), of which $22.0 million (October 31, 2023 - $20.8 million) qualified for hedge accounting. The Bank enters into interest rate swap contracts for its own account exclusively and does not act as an intermediary in this market. The maturity date of the amortizing interest rate swap is March 1, 2034. At October 31, 2024, fair value of $19,000 (October 31, 2023 - $1.5 million) relating to this contract was included in other assets and the offsetting amount included in the carrying values of the assets to which they relate. Approved counterparties are limited to major Canadian chartered banks. The carrying amount of the hedged item recognized in the loans was $22.4 million (October 31, 2023 - $19.8 million). The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item is $1.1 million (October 31, 2023 - $955,000).

As of October 31, 2024, the Bank utilized a foreign exchange forward contract to mitigate foreign exchange risk on its net investments in VersaBank USA. This hedging strategy is aimed at minimizing foreign exchange risk related to fluctuations between the VersaBank's functional currency, CAD, and the foreign currency of its net investment, USD. Changes in the fair value of these derivatives, attributable to the effective portion of the hedge, are recognized in other comprehensive income, while the ineffective portion, if any, is recorded in profit or loss. As of October 31, 2024, the outstanding foreign exchange forward contract had a notional value of USD $ 66.0 million and a fair value of $1,000 (asset), hedging a portion of the USD $ 97.0 million investment in VersaBank USA. For the reporting period, a loss of $13,000 was recognized in other comprehensive income, representing the effective portion of the hedge. Since there was no hedge ineffectiveness, there was no impact on profit or loss from this hedge. The hedge was assessed as highly effective, supporting the Bank's risk management strategy to stabilize the financial impact of foreign exchange movements.

18. Derivative instruments - continued:

As of October 31, 2024, an accounting hedge exists for the remaining USD $31.0 million of the USD $97.0 million investment in VersaBank USA. This is achieved through the allocation of part of a USD $75.0 million subordinated debt raised by the Bank in April 2021. Both the loan (liability) and the investment (asset) move in equal and opposite directions, with the liability serving as a hedge against rate fluctuations that may affect the valuation of the investment asset.

19. 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 ensure that risk levels are within the parameters set forth in the Bank's policies. The Chief Internal Auditor reports directly to the Audit Committee of the Board of Directors. In addition, the Bank has an ongoing risk and compliance management program with the Chief Compliance Officer, who reports directly to the Board of Directors, and the Chief Risk Officer, who reports directly to the Risk Oversight Committee.

Credit risk

Credit risk is the risk of loss associated with a borrower, guarantor, or counterparty's inability or unwillingness to fulfill its contractual obligations. The Bank is exposed to credit risk primarily as a result of its lending activities but also, from time to time, as a result of investing in securities and derivative transactions. The Bank manages its credit risk derived from lending activity using policies that have been recommended by the Chief Credit Officer and reviewed by the Chief Risk Officer prior to submission the 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,

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

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.

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

i) Satisfactory – The borrower and lending asset valuation are of acceptable credit quality.

ii) Watchlist – The borrower or the lending asset valuation exhibits potential credit weakness or a downward trend which, if not mitigated, will potentially weaken the Bank's position. The lending asset requires close supervision.

iii) Classified – The collection of the structural payment and/or the full repayment of the lending asset is uncertain.

As of October 31, 2024, 96% (2023 – 99%) of the Bank's lending assets were categorized Satisfactory.

See note 6 for additional 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

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

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 20 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 the Bank's Board of Directors for approval and with reviewing the policies on an ongoing basis.

Foreign exchange risk

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 or 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

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.

19. 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)

	2024		2023	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Increase (decrease):				
Impact of projected net interest income during a 12 month period	$ 5,223	$ (5,430)	$ 4,046	$ (4,059)
Duration difference between assets and liabilities (months)	(1.6)		(2.0)	

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

As at October 31, 2024, the Bank maintained one outstanding derivative established for asset liability management purposes to hedge fair value exposure attributed to interest rate risk (note 18 – Derivative instruments) with an amortizing notional amount currently totaling $22.0 million (October 31, 2023 - $20.8 million). The Bank also continues to use on-balance sheet strategies to manage its interest rate risk.

20. Interest rate risk and liquidity risk:

The Bank is exposed to interest rate risk as a consequence of any mismatch, or gap, between assets and liabilities scheduled to mature or reset on particular dates. The gaps which existed at October 31, 2024 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	$ 225,254	$ -	$ -	$ -	$ -	$ -	$ -	$ 225,254
Effective rate	3.60%							
Securities	-	287,862	7,275	-	-	4,163	-	299,300
Effective rate		3.53%	4.91%			5.73%		
Loans	716,609	109,736	347,502	314,375	2,244,279	485,141	18,474	4,236,116
Effective rate	8.60%	6.78%	6.49%	5.61%	6.19%	5.84%		
Other	-	-	-	-	-	-	77,814	77,814
Effective rate								
Total Assets	$ 941,863	$ 397,598	$ 354,777	$ 314,375	$ 2,244,279	$ 489,304	$ 96,288	$ 4,838,484
Liabilities								
Deposits	$ 729,719	$ 454,182	$ 1,749,894	$ 494,866	$ 639,058	$ -	$ 76,954	$ 4,144,673
Effective rate	2.72%	4.67%	4.63%	4.16%	4.64%			
Subordinated notes*	-	-	-	-	-	102,503	-	102,503
Effective rate						5.38%		
Other	177,284	-	-	-	-	-	14,821	192,105
Effective rate	3.17%							
Equity	-	-	-	-	-	-	399,203	399,203
Effective rate								
Total liabilities and equity	$ 907,003	$ 454,182	$ 1,749,894	$ 494,866	$ 639,058	$ 102,503	$ 490,978	$ 4,838,484
Derivative instruments	$ 21,963	$ -	$ -	$ -	$ -	$ (21,963)	$ -	$ -
October 31, 2024 gap	$ 56,823	$ (56,584)	$(1,395,117)	$ (180,491)	$ 1,605,221	$ 364,838	$ (394,690)	$ -
Cumulative	$ 56,823	$ 239	$(1,394,878)	$(1,575,369)	$ 29,852	$ 394,690	$ -	$ -
October 31, 2023 gap	$ 246,306	$ (136,284)	$(1,105,798)	$ (219,263)	$ 1,063,460	$ 529,711	$ (378,132)	$ -
Cumulative	$ 246,306	$ 110,022	$ (995,776)	$(1,215,039)	$ (151,579)	$ 378,132	$ -	$ -

* The fixed rate applies only until May 1, 2026, at which point the obligation switches to floating rate and the notes are redeemable by the Bank, subject to regulatory approval.

21. 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)	2024					2023				
	Carrying Value	Fair value Level 1	Fair Value Level 2	Fair Value Level 3	Total Fair Value	Carrying Value	Fair value Level 1	Fair Value Level 2	Fair Value Level 3	Total Fair Value
Assets										
Cash										
Amortized cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	225,254	225,254	-	-	225,254	132,242	132,242	-	-	132,242
Securities										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	299,300	299,300	-	-	299,300	167,940	167,940	-	-	167,940
FVTPL	-	-	-	-	-	-	-	-	-	-
Loans										
Amortized cost	4,236,116	-	-	4,190,523	4,190,523	3,850,404	-	-	3,837,599	3,837,599
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Derivative instruments										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	20	-	20	-	20	1,517	-	1,517	-	1,517
Other financial assets										
Amortized cost	-	-	-	-	-	-	-	-	-	-
FVOCI	953	-	-	953	953	953	-	-	953	953
FVTPL	-	-	-	-	-	-	-	-	-	-
Liabilities										
Deposits										
Amortized cost	$4,144,673	$ -	$ -	$4,182,338	$4,182,338	$3,533,366	$ -	$ -	$3,436,491	$3,436,491
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Subordinated notes payable										
Amortized cost	102,503	-	99,152	-	99,152	106,850	-	109,033	-	109,033
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-
Other financial liabilities										
Amortized cost	191,071	-	-	191,071	191,071	176,039	-	-	176,039	176,039
FVOCI	-	-	-	-	-	-	-	-	-	-
FVTPL	-	-	-	-	-	-	-	-	-	-

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 carrying 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.

21. Fair value of financial instruments – continued:

- 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 the determination of fair value did not use inputs that were based on observable market data given that the entity is privately-held.
- The fair value of derivatives is based on net discounted cash flows using market interest rates and applicable credit spreads for the counterparty.
- The fair value of other financial assets is approximately equal to their carrying value due primarily to the short-term nature of the instruments.
- The fair value of other financial liabilities is approximately equal to their carrying 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 carrying value given that there has been minimal movement in the market interest rates associated with these leases.
- Cash and derivatives are designated as FVTPL.
- Loans, deposits and subordinated notes payable are designated as amortized cost.
- Securities and other financial assets are designated as FVOCI.

22. Related party disclosures:

The Bank provides various banking services to related parties and enters into contractual agreements and other operations with related parties. A related party is considered to be a person or entity that has the ability to exercise some level of control, influence, or joint control over another entity in making financial or operational decisions. The Bank considers the following to be related parties:

- Its key management personnel and members of their immediate family;
- Entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel and their immediate family; and
- Significant minority shareholders.

The Bank's Board of Directors and Senior Executive Officers represent key management personnel as they have authority and responsibility for planning, directing and controlling the activities of the bank both directly and indirectly.

Related Party Transactions

(thousands of Canadian dollars)

		2024		2023
Mortgage loans and other loans	$	8,622	$	5,438
Subordinated notes payable		423		500
	$	9,045	$	5,938

1) At October 31, 2024, amounts due from key management personnel totaled $ 1.5 million (2023 - $1.5 million) and an amount due from a corporation controlled by key management personnel totaled $7.1 million (2023 - $3.9 million).

22. Related party disclosures - continued:

2) 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, 2024 totaled $162,000 (2023 - $115,000).

3) There were no specific provisions for credit losses associated with loans issued to key management personnel (2023 - $nil), and all loans issued to key management personnel were current as at October 31, 2024 and 2023.

4) On April 30, 2024, the Bank redeemed all of its issued and outstanding $ 5.0 million subordinated note payable originally issued in April 2019; $500,000 of this amount was held by a related party (note 12).

The contractual agreements and other transactions with related parties are entered into under conditions similar to those offered to non-related third parties. These agreements did not have a significant impact on the Bank's results.

Compensation of Key Officers and Directors

(thousands of Canadian dollars)

		2024		2023
Salaries, benefits and directors' compensation	$	8,289	$	6,738
Share-based payments		1,133		758
	$	9,422	$	7,496

23. 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)

		2024		2023
Loan commitments	$	635,433	$	405,426
Letters of credit		65,671		75,963
	$	701,104	$	481,389

23. Commitments and contingencies - continued:

b) Pledged assets:

In the ordinary course of business, assets are pledged against the off-balance sheet letters of credit and against outstanding derivatives in the amount of $14.0 million (2023 - $11.3 million).

24. 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 while providing a satisfactory return to shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and unrealized gains and losses on fair value through other comprehensive income securities (Common Equity Tier 1 capital), preferred shares (Additional Tier 1 capital) and subordinated notes (Tier 2 capital). The Bank monitors its capital adequacy and related capital ratios on a daily basis and has policies setting internal targets and thresholds for its capital ratios. These capital ratios consist of the leverage ratio and 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.

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.

24. Capital management – continued:

b) Risk-based capital ratios - continued:

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

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

(thousands of Canadian dollars)

		2024		2023
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$	215,610	$	214,824
Contributed surplus		2,485		2,513
Retained earnings		181,238		146,043
Accumulated other comprehensive income		(130)		131
CET1 before regulatory adjustments		399,203		363,511
Regulatory adjustments applied to CET1		(25,700)		(12,699)
Common Equity Tier 1 capital	$	373,503	$	350,812
Additional Tier 1 capital				
Directly issued qualifying Additional Tier 1 instruments	$	-	$	13,647
Total Tier 1 capital	$	373,503	$	364,459
Tier 2 capital				
Directly issued Tier 2 capital instruments	$	104,370	$	109,033
Tier 2 capital before regulatory adjustments		104,370		109,033
Eligible stage 1 and stage 2 allowance		3,303		2,513
Total Tier 2 capital	$	107,673	$	111,546
Total regulatory capital	$	481,176	$	476,005
Total risk-weighted assets	$	3,323,595	$	3,095,092
Capital ratios				
CET1 capital ratio		11.24%		11.33%
Tier 1 capital ratio		11.24%		11.78%
Total capital ratio		14.48%		15.38%

As at October 31, 2024 and 2023, the Bank was in compliance with all minimum capital ratios prescribed by OSFI.

24. 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)

	2024	2023
On-balance sheet assets	$ 4,838,484	$ 4,201,610
Asset amounts adjusted in determining the Basel III Tier 1 capital	(25,700)	(12,699)
Total on-balance sheet exposures	4,812,784	4,188,911
Total off-balance sheet exposure at gross notional amount	$ 701,104	$ 481,389
Adjustments for conversion to credit equivalent amount	(451,759)	(281,705)
Total off-balance sheet exposures	249,345	199,684
Tier 1 capital	373,503	364,459
Total exposures	5,062,129	4,388,595
Leverage ratio	7.38%	8.30%

As at October 31, 2024 and 2023, the Bank was in compliance with the leverage ratio prescribed by OSFI.

25. Operating segments:

Effective the acquisition of SBH on August 30, 2024, the Bank has established three reportable operating segments, those being Digital Banking Canada, Digital Banking USA and DRTC. The three 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 Canada - 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.

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

25. Operating segments - continued:

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.

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 3b - 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, 2024 and 2023:

(thousands of Canadian dollars)

for the year ended	October 31, 2024					October 31, 2023			
	Digital Banking Canada	Digital Banking USA	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking Canada	DRTC	Eliminations/ Adjustments	Consolidated
Net interest income	$ 101,263	$ 1,392	$ -	$ -	$ 102,655	$ 100,051	$ -	$ -	$ 100,051
Non-interest income	698	1	9,638	(1,359)	8,978	540	9,698	(1,654)	8,584
Total revenue	101,961	1,393	9,638	(1,359)	111,633	100,591	9,698	(1,654)	108,635
Provision for (recovery of) credit losses	(134)	(134)	-	-	(268)	609	-	-	609
	102,095	1,527	9,638	(1,359)	111,901	99,982	9,698	(1,654)	108,026
Non-interest expenses:									
Salaries and benefits	26,523	437	5,824	-	32,784	25,382	6,046	-	31,428
General and administrative	18,324	365	1,839	(1,359)	19,169	15,140	1,565	(1,654)	15,051
Premises and equipment	3,292	105	1,758	-	5,155	2,462	1,440	-	3,902
	48,139	907	9,421	(1,359)	57,108	42,984	9,051	(1,654)	50,381
Income (loss) before income taxes	53,956	620	217	-	54,793	56,998	647	-	57,645
Income tax provision	14,860	155	30	-	15,045	15,867	(384)	-	15,483
Net income (loss)	$ 39,096	$ 465	$ 187	$ -	$ 39,748	$ 41,131	$ 1,031	$ -	$ 42,162
Total assets	$ 4,602,360	$ 226,319	$ 28,118	$ (18,313)	$ 4,838,484	$ 4,190,876	$ 26,443	$ (15,709)	$ 4,201,610
Total liabilities	$ 4,343,878	$ 90,716	$ 30,265	$ (25,578)	$ 4,439,281	$ 3,818,412	$ 28,788	$ (22,748)	$ 3,824,452

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

26. Acquisitions:

Acquisition of Stearns Bank Holdingford N.A.

On August 30, 2024 the Bank through its wholly-owned US subsidiary VersaHoldings US Corp., acquired 100% of the outstanding shares of shares of Minnesota-based Stearns Bank Holdingford N.A. ("SBH"), a privately held, wholly-owned subsidiary of Stearns Financial Services Inc. based in St. Cloud, Minnesota, for cash consideration of US$14.1 million (CA$19.0 million). SBH is a fully operational, OCC (Office of the Comptroller of the Currency)-chartered national bank, focused on small business lending. The acquisition followed the approval for acquisition received in June 2024 from OSFI, as well as the US's OCC and the US Federal Reserve.

Upon the close of the share acquisition of SBH, the Bank acquired approximately US$68.4 million (CA$92.3 million) in assets and assumed approximately US$54.3 million (CA$73.3 million) in deposits and other liabilities and renamed SBH as VersaBank USA. The acquisition will provide the Bank with access to US deposits to support the growth of its Receivable Purchase Program business. The acquisition is expected to be accretive to the Bank's earnings per share within the first year after closing; and, VersaBank USA was well capitalized, as per the OCC's definition of same, with a Total Capital ratio in excess of 10% as at August 30, 2024.

In furtherance of the Bank's strategic initiatives and in light of current US regulatory requirements, management has expressed an intention to divest DRTC, which operates within the financial technology industry. Discussions with potential buyers are currently underway. As of October 31, 2024, the subsidiary has not been classified as "held for sale" in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, because certain criteria for such classification have not yet been met. Specifically, the sale is not expected to be completed within the next 12 months, and the subsidiary continues to be integral to the Bank's operations. Management will continue to evaluate the status of the divestiture and will reclassify the subsidiary as "held for sale" once all IFRS 5 criteria are satisfied.

Certain members of management hold convertible preferred shares in DRTC. In accordance with the by-laws of DRTC, the convertible preferred shares will convert automatically, upon a change of control event, into an aggregate 28% common share ownership stake in DRTC.

26. Acquisitions - continued:

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

(thousands of Canadian dollars)

Asset and liabilities acquired at fair value		August 30, 2024
Cash	$	6,900
Securities		4,366
Loans		71,559
Fixed asset		314
Prepaid expenses and other		7
Intangible asset		2,592
Goodwill		6,555
Deposits		(73,238)
Accounts payable and other		(39)
Net deferred income tax assets	$	19,016

Intangible asset reflects the value of the customer deposit base acquired, which has been assessed to have a useful life of 10 years. Goodwill primarily reflects the value of obtaining an OCC charter national bank licence 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 Receivable Purchase Program business in Canada.

For the year ended October 31, 2024, VersaBank USA contributed $1.4 million and $465,000 to the Bank's net-interest income and net income respectively.

The costs associated with the acquisition of SBH totaling $5.7 million were spread across fiscal 2022, 2023 and 2024. These costs were included in the Bank's non-interest expense in the respective fiscal years.

27. 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, 2024, dated December 8, 2024, should be read in conjunction with VersaBank's Audited Consolidated Financial Statements for the year ended October 31, 2024, 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.sedarplus.ca 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; changes in trade laws and tariffs; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; the impact of wars or conflicts and the impact of both on global supply chains and markets; the impact of outbreaks of disease or illness that affect local, national or international economies; the possible effects on our business of terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; 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 business-to-business model in 1993, becoming (to its knowledge) the world’s first financial institution with a branchless model. It obtains nearly all of its deposits and conducts the majority of its lending digitally through financial intermediaries who subsequently engage with the actual depositors and borrowers. VersaBank is focused on increasing earnings by concentrating on underserved markets that support more attractive pricing and returns for its products, leveraging existing, third-party 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.

In Canada, the Bank holds a Canadian Schedule 1 chartered bank licence and is regulated by the Office of the Superintendent of Financial Institutions (“OSFI”). Following its acquisition of Stearns Bank Holdingford N.A. and renaming it VersaBank USA N.A. (“VersaBank USA”), on August 30, 2024, in the United States, the Bank, through its wholly owned subsidiary, VersaBank USA, holds a national Office of the Comptroller of the Currency (“OCC”) charter and is regulated by the OCC.

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.

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 and smaller corporations and government entities on a daily basis.

Overview of Performance



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

Acquisition of Stearns Bank Holdingford N.A.

- In June 2024, the Bank obtained approval from the US OCC, the US Federal Reserve and OSFI (Canada) to acquire Stearns Bank Holdingford N.A. (“SBH”), a privately held, wholly-owned subsidiary of Stearns Financial Services Inc. ("SFSI") based in St. Cloud, Minnesota. On August 30, 2024, the Bank, through its wholly-owned US subsidiary VersaHoldings US Corp., completed the acquisition, acquiring 100% of the outstanding shares of SBH for cash consideration of US$14.1 million (CA$19.0 million). Based in Minnesota, SBH is a fully operational, OCC-chartered national bank, focused on small business lending. Upon closing, SBH was renamed VersaBank USA N.A. (See Acquisition of Stearns Bank Holdingford N.A. section below).

- Several factors predominantly associated with preparation for and completion of the closing of the acquisition of SBH dampened VersaBank's fiscal 2024 financial results: primarily one-time impact associated with the U.S. acquisition that totaled $3.7 million; a one-time expense of a deferred tax asset of $1.6 million due to a change in tax base of the acquired assets of VersaBank USA; and, in preparation to fund the capital requirements of VersaBank USA following closing of the SBH acquisition, VersaBank maintained higher than typical cash balances. The higher than typical cash balances exacerbated the impact of the temporary dampening of net interest margin that usually occurs when interest rates decline (as was the case in Canada), the result of the lag in the adjustment of the Bank's term deposit rates. In addition, on August 30, 2024, the Canadian Digital Banking operations provided the U.S. Digital Banking operations with US$90 million in capital, which temporarily dampened net interest margin. These dampened revenue by approximately $1.2 million. Combined, these amounts totaled approximately $6.5 million before tax adjustments and had an after-tax impact on net income of $5.2 million, or $0.20 per share.

FY 2024 vs FY 2023

- Loans increased 10% to $4.24 billion, driven primarily by strong growth in the Bank's Point-of-Sale loan and lease ("POS/RPP Financing") portfolio, which increased 15%, as well the addition of assets through the SBH acquisition, which comprised approximately 2% of the Bank's total loan balance at fiscal 2024 year end, reflected in the Bank's Public Sector, Leases and Other Financing portfolio;

- Total revenue increased 3% to $111.6 million, composed of net interest income of $102.7 million and non-interest income of $9.0 million;

- Net interest margin ("NIM") was 2.27% and NIM on loans was 2.52%, a decrease of 41 bps and 33 bps, respectively, primarily due to an atypically inverted yield curve adversely affecting POS asset margins, which was exacerbated by the strong growth in the POS portfolio and elevated rates on term deposits experienced periodically over the course of the year, offset partially by higher yields earned on the Bank's lending assets. The Bank's NIM remains amongst the highest of the publicly traded Canadian Schedule 1 Banks;

- Recovery of credit losses was $268,000 compared with a provision for credit losses ("PCL") of $609,000, with the decrease being primarily due to changes in the Bank's lending asset mix, with higher insured lending asset balances along with decreases in non-insured lending, as well as changes in the forward-looking information used by VersaBank in its credit risk models;

- Provision for credit losses as a percentage of average loans was -0.01% compared with 0.02%, which remains among the lowest of the publicly traded Canadian Schedule I (federally licensed) Banks;

- Non-interest expenses increased 13% to $57.1 million, due primarily to higher salary and benefits amounts and general operating expenses resulting from higher staffing levels to support expanded business activity, coupled with the prior year capital tax reflecting a significant recovery. The Bank also incurred one-time expenses of $3.7 million, associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, and adjustments related to write down of fixed assets. Adjusting for these one-time expenditures would result in a normalized non-interest expense of $53.4 million.

- Net income decreased 6% to $39.7 million, however, adjusting for the tax effected one-time non-interest expenses, the impact of maintaining higher cash balances during the latter half of fiscal 2024 to fund capital requirements of VersaBank USA and the impact of a deferred tax adjustment of $1.6 million, would reflect a net income of $45.0 million;

- Earnings per share ("EPS") decreased 5% to a $1.49, due primarily to the 6% decrease in net income, offset by the impact of a lower number of common shares outstanding in the current year as a result of the purchase and cancellation of common shares under the Bank's Normal Course Issuer Bid ("NCIB") in 2023. Adjusting for the tax effected one-time items primarily related to the acquisition of VersaBank USA would reflect an EPS of $1.69;

- Return on average common equity decreased 14% to 10.16%, driven by lower earnings offset by lower number common shares outstanding. Adjusting for the tax effected one-time items primarily related to the acquisition of VersaBank USA would result in a return on average common equity of 11.53%; and,

- Efficiency ratio for the Digital Banking operations (excluding DRTC) was 48% compared to 43% last year, as a function of moderate revenue growth of 3% and higher costs due to cost increases driven primarily by higher employee-related expenses and general operating expenses, one-time expenses and adjustments, which increased non-interest expense growth to 13% compared to the same period last year. Adjusting for one-time expenses would reflect an efficiency ratio for Digital Banking operations of 44%.

Selected Financial Highlights

(unaudited)

($CDN thousands except per share amounts)	October 31 2024	October 31 2023	October 31 2022
Results of operations			
Interest income	$ 285,419	$ 229,334	$ 126,817
Net interest income	102,655	100,051	76,666
Non-interest income	8,978	8,584	5,726
Total revenue	111,633	108,635	82,392
Provision for (recovery of) credit losses	(268)	609	451
Non-interest expenses	57,108	50,381	49,393
Digital banking	49,046	42,984	42,392
DRTC	9,421	9,051	7,166
Net income	**39,748**	**42,162**	**22,658**
Income per common share:			
Basic	$ 1.49	$ 1.57	$ 0.79
Diluted	$ 1.49	$ 1.57	$ 0.79
Dividends paid on preferred shares	$ 988	$ 988	$ 988
Dividends paid on common shares	$ 2,600	$ 2,612	$ 2,741
Yield*	6.31%	6.14%	4.47%
Cost of funds*	4.04%	3.46%	1.77%
Net interest margin*	2.27%	2.68%	2.70%
Net interest margin on loans*	2.52%	2.85%	3.08%
Return on average common equity*	10.16%	11.75%	6.61%
Book value per common share*	$ 15.35	$ 14.00	$ 12.37
Efficiency ratio*	51%	46%	60%
Efficiency ratio - Digital banking*	48%	43%	55%
Return on average total assets*	0.86%	1.10%	0.76%
Provision for (recovery of) credit losses as a % of average loans*	(0.01%)	0.02%	0.02%
	as at		
Balance Sheet Summary			
Cash	$ 225,254	$ 132,242	$ 88,581
Securities	299,300	167,940	141,564
Loans, net of allowance for credit losses	4,236,116	3,850,404	2,992,678
Average loans	4,043,260	3,421,541	2,547,864
Total assets	4,838,484	4,201,610	3,265,998
Deposits	4,144,673	3,533,366	2,657,540
Subordinated notes payable	102,503	106,850	104,951
Shareholders' equity	399,203	377,158	350,675
Capital ratios**			
Risk-weighted assets	$ 3,323,595	$ 3,095,092	$ 2,714,902
Common Equity Tier 1 capital	373,503	350,812	325,657
Total regulatory capital	481,176	476,005	448,575
Common Equity Tier 1 (CET1) capital ratio	11.24%	11.33%	12.00%
Tier 1 capital ratio	11.24%	11.78%	12.50%
Total capital ratio	14.48%	15.38%	16.52%
Leverage ratio	7.38%	8.30%	9.84%

* 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 in which its innovative, value- added, business-to-business (B2B) digital banking products command 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 closely monitor geo-political, economic and financial market risk precipitated by current wars or conflicts and major national and international events and their potential impact on VersaBank's business. At this time, management has not identified any material adverse direct or indirect risk exposure to VersaBank resulting from these risks but will continue to assess the relevant data and information as it becomes available.

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

US Operations

- In acquiring the common shares of SBH (Versa Bank USA) on August 30, 2024, the Bank added US$68.4 million in assets and assumed US$54.3 million in deposits and other liabilities. VersaBank USA holds an OCC national license. The acquisition will provide the Bank with access to US deposits to support the growth of its Receivable Purchase Program business, which the Bank launched in the US in Fiscal 2022. The acquisition is expected to be accretive to the Bank's earnings per share within the first year after closing. VersaBank USA was well-capitalized, as per the OCC's definition of same, with a Total Capital ratio exceeding 10% as of both August 30, 2024, and October 31, 2024.

Lending Assets

- Canadian Receivable Purchase Program (RPP) for Point-of-Sale Finance Companies: Consumer spending and business investment in Canada are expected to remain steady into the start of fiscal 2025 following largely flat growth the prior year. A series of Bank of Canada interest rate cuts was seen in the latter half of fiscal 2024 and with this trend anticipated to continue into fiscal 2025, along with the expectation that the inflation rate trends to the 2% range in 2025, should support GDP growth in 2025. Management anticipates these variables will reflect favourably on the consumer spending and therefore be positive for the Canadian POS/RPP Financing portfolio volumes in 2025;

- US Receivable Purchase Program ("RPP"): Despite higher interest rates and continuing inflationary pressures in the US, the US labor market remains resilient. This resilience, combined with the broad expectation that interest rates are now reducing, will continue to support consumer spending; Management views the current trajectory of the US economy to be favourable in the context of continued, stable demand for durable goods due primarily to enduring consumption. Management believes that the anticipated US macroeconomic and industry trends described above will continue to support healthy demand in the Bank's RPP portfolio for fiscal 2025, which would be expected to contribute meaningful additional growth through VersaBank USA to broadly launch its RPP business; and,

- Commercial Real Estate (Business-to-Business Loans with Credit Risk Exposure Predominantly Related to Residential Properties): Notwithstanding the effective risk mitigation strategies that are employed in managing the Bank's CRE portfolios, including working with well-established, well-capitalized partners and maintaining modest loan-to-value ratios on individual transactions, management continues to take a cautionary stance with respect to its broader CRE exposures due to volatility in CRE asset valuations and the potential impact of the recent prior period of higher interest rates on borrowers' ability to service debt. While management has and will continue to focus on multi-family insured mortgages in fiscal 2025, it is anticipated that the Bank's CRE portfolio asset mix will continue to transition into lower risk weighted insured assets that will drive moderate portfolio growth in fiscal 2025.

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 due primarily to the lower inherent risk associated with the underlying collateral assets and/or the structure of VersaBank's offered financing arrangements; and,

- Based on available forward-looking macroeconomic and industry data (as described above), as well as the Bank's historical credit experience, current underwriting governance, and general expectations for credit performance, management anticipates that the existing level of credit risk in its portfolio will remain largely steady in fiscal 2025 due primarily to lower interest rate environments in Canada and the US and an improved ability of consumers and businesses to service debt in such an environment. Further, management expects that the lower risk profile of VersaBank's unique B2B 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 contribute to mitigating potential modest increases in forward credit risk in the Bank's lending portfolio.

Funding and Liquidity

- Management anticipates that it will continue to have access to adequate low-cost deposits to fund the expected growth in its POS/RPP financing portfolio. VersaBank continues to pursue a number of initiatives to grow and expand its well-established, diverse deposit broker network through which it sources personal deposits, consisting primarily of guaranteed investment certificates. The Bank's current deposit channels remain an efficient, reliable and diversified source of funding, providing access to ample reasonably priced deposits in volumes that comfortably support the Bank's liquidity requirements. Substantially all of the Bank's deposit volumes raised through these channels are eligible for CDIC insurance. Management expects that commercial deposits raised via VersaBank's Trustee Integrated Banking ("TIB") program will continue to grow throughout fiscal 2025 due primarily to higher volumes of consumer and commercial bankruptcy and proposal restructuring proceedings, attributable primarily to the lag impact of prior years economic conditions;

- Management believes that VersaBank has one of the lowest liquidity risk profiles among North American banks, attributable to the quality, stability and stickiness of its deposit base. VersaBank's Canadian deposits are sourced through existing, third-party distribution channels, specifically wealth management firms that distribute the Bank's term deposit products, and Licensed Insolvency Trustee firms that invest in the Bank's demand and term deposit products. Currently, the Bank accepts a limited portion of deposits directly from individuals and offers a restricted range of high interest-bearing demand deposit products accessible to the public via the internet exclusively in the US with the acquisition of VersaBank USA. Through the acquisition, the Bank assumed US deposits of approximately US$54.3 million (CA$73.3 million), which would include balances from individuals directly, which represents approximately 2% of the Bank's total deposits as at October 31, 2024; and,

- Aside from the recent funding activities to support the acquisition of SBH, liquidity levels are expected to remain reasonably consistent throughout fiscal 2025 as the Bank continues to fund anticipated balance sheet growth across each of its lines of business. Further, management will continue to deploy cash into low risk, government securities with the objective of earning a more favourable yield on its available liquidity.

Earnings and Capital

- Earnings growth for fiscal 2025 is expected to be a function primarily of anticipated organic loan portfolio growth from its existing Digital Banking operations, specifically, continued expansion of the Bank's POS/RPP Financing and RPP portfolios in Canada and the US, respectively. Following the acquisition of VersaBank USA, the Bank anticipates modest accretive earnings growth from the acquired assets and increased RPP lending through this operation. Digital Banking's operations will continue to benefit from the operating leverage inherent in its branchless, business-to-business model, as well as incremental contributions from DRTC;

- Net interest income growth for fiscal 2025 is expected to be a function primarily of continued expansion of the Bank's loan portfolio, in particular growth in its POS/RPP Financing and RPP portfolios in Canada and the US, respectively. The Bank also expects continued expansion of its diverse deposit broker network in Canada, lower cost deposits in the U.S., as well as continued expected growth in the TIB program, alongside disciplined liquidity management, should have a favourable impact on cost of funds. These will counter downward pressure on NIM due to the dynamics of the term deposit market, as well as impact of growth in the POS/RPP portfolio, which has a lower net interest margin than the historical CRE business, and to a lesser extent the shift from non-insured loans to CMHC-insured loans, which will have lower yields;

- Non-interest income growth for fiscal 2025 is expected to be a function primarily of DRTC revenue growth derived from its suite of cybersecurity services;

- VersaBank's capital ratios remain comfortably in excess of management's limits, as well as regulatory minimums and expectations. Management is of the view that VersaBank's current capital levels are sufficient to accommodate the balance sheet growth anticipated for fiscal 2025. However, management believes that demand for its POS/RPP Financing solution, which was recently launched in the United States, could exceed the Bank's lending capacity under its current capital ratios and, accordingly, will monitor the capital markets for the opportunity to raise additional regulatory capital on attractive terms to capitalize on the demand for the Bank's POS/RPP funding in a manner that would be accretive to earnings; and,

- Management anticipates maintaining VersaBank's dividend in fiscal 2025 at levels which 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.

There is potential that VersaBank may not realize or achieve the anticipated performance trends set out above due to 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, fiscal and trade policies, 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 and the impact of outbreaks of disease or illness that affect local, national or international economies. 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 3% to $111.6 million compared to last year.

(thousands of Canadian dollars)

For the year ended:	October 31 2024	October 31 2023	Change
Interest income			
Point-of-sale loans and leases receivable purchase program	$ 191,476	$ 146,501	31%
Commercial real estate mortgages	70,807	67,203	5%
Commercial real estate loans	594	650	(9%)
Public sector, leases and other financing	2,004	1,332	50%
Other	20,538	13,648	50%
Interest income	$ 285,419	$ 229,334	24%
Interest expense			
Deposit and other	$ 177,094	$ 123,491	43%
Subordinated notes	5,670	5,792	(2%)
Interest expense	$ 182,764	$ 129,283	41%
Net interest income	$ 102,655	$ 100,051	3%
Non-interest income	$ 8,978	$ 8,584	5%
Total revenue	$ 111,633	$ 108,635	3%

Net Interest Income

FY 2024 vs FY 2023

Net interest income increased 3% to $102.7 million due primarily to:

- Higher interest income attributable to POS/RPP lending asset growth and higher yields consistent with the higher interest rate environment.

Offset partially by:

- Lower CRE lending asset balance due to timing of loan origination under the Bank's strategy to transition this portfolio to lower yielding, lower risk-weighted loans to drive a higher return on capital deployed; and,
- Higher interest expense attributable to higher deposit balances and higher cost of funds consistent with the higher interest rate environment.

Net Interest Margin

(thousands of Canadian dollars)

For the year ended:	October 31 2024	October 31 2023	Change
Interest income	$ 285,419	$ 229,334	24%
Interest expense	182,764	129,283	41%
Net interest income	102,655	100,051	3%
Average assets	$ 4,520,047	$ 3,733,804	21%
Yield*	6.31%	6.14%	3%
Cost of funds*	4.04%	3.46%	17%
Net interest margin*	2.27%	2.68%	(15%)
Average gross loans	$ 4,024,939	$ 3,406,058	18%
Net interest margin on loans*	2.52%	2.85%	(12%)

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

FY 2024 vs FY 2023

Net interest margin on loans decreased 33 bps to 2.52% and net interest margin decreased 41 bps to 2.27% as a function primarily of:

- An atypically inverted yield curve adversely affecting POS asset margins, which was exacerbated by the strong growth in the POS portfolio;
- Lower CRE lending asset balance and the impact of the planned transition of some higher yielding, higher risk-weighted CRE loans to lower yielding, lower risk-weighted CRE loans as part of the Bank's strategy to capitalize on opportunities for lower-risk loans with a higher return on capital deployed;
- Higher cost of funds due to elevated rates on term deposits experienced periodically over the course of the year; and,
- The Bank maintaining higher than typical cash balances during the latter half of fiscal 2024 related to the acquisition and capital invested in VersaBank USA.

Offset partially by:

- Higher interest earned on the Bank's lending and treasury assets, generally as a function of the higher interest rate environment compared to last year.

The Bank's NIM remains amongst the highest of the publicly traded Canadian Schedule 1 banks.

Non-Interest Income

Non-interest income is composed of revenue generated by DRTC and income derived from miscellaneous transaction fees not directly attributable to lending assets.

Non-interest income for the year ended October 31, 2024 increased 5% to $9.0 million from $8.6 million last year. The increase was a function primarily of higher client engagements and continued improvements in operational efficiency achieved at DRTC over the course of the current year.

Provision for Credit Losses

(thousands of Canadian dollars)

For the year ended:	October 31 2024	October 31 2023
Provision for (recovery of) credit losses by lending asset:		
Point-of-sale loans and leases receivable purchase program	$ 683	$ (445)
Commercial real estate mortgages	(824)	935
Commercial real estate loans	2	(12)
Public sector, leases and other financing	(129)	131
Total provision for (recovery of) credit losses	$ (268)	$ 609

FY 2024 vs FY 2023

Recovery of credit losses were $268,000 compared with a provision for credit losses of $609,000 last year. The decrease was primarily due to:

- Changes in the forward-looking information used by the Bank in its credit risk models; and,
- Changes in the Bank's lending asset mix, with higher insured lending assets along with decreases in non-insured lending assets.

Offset partially by:

- The addition of VersaBank USA portfolio acquired in the year; and,
- The prior year provision for credit losses reflecting an adjustment on the Bank's POS/RPP Financing portfolio attributable to management recalibrating the portfolio's static, legacy loss rate floor to align more closely with empirical loss rate data and general credit performance.

Non-Interest Expenses

(thousands of Canadian dollars)

For the year ended:	October 31 2024	October 31 2023	Change
Salaries and benefits	$ 32,784	$ 31,428	4%
General and administrative	19,169	15,051	27%
Premises and equipment	5,155	3,902	32%
Total non-interest expenses	$ 57,108	$ 50,381	13%
Efficiency Ratio*	51%	46%	10%

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

FY 2024 vs FY 2023

Non-interest expenses increased 13% to $57.1 million, due primarily to:

- Higher salary and benefits expense attributable to higher staffing levels to support expanded business activity across VersaBank and compensation adjustments;
- Higher general operating expenses associated with increased business activities, including costs being incurred ahead of anticipated asset growth and revenue generated by the launch of US RPP through VersaBank USA;
- Prior year favourable adjustment to capital tax expense attributable to a shift in the provincial allocation of the Bank's loan and deposit originations;
- Incremental operating costs associated with the operations of VersaBank USA; and,
- The Bank incurred one-time expenses of $3.7 million, associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, and adjustments related to write down of fixed assets. Adjusting for these one-time expenses would result in a normalized non-interest expense of $53.4 million.

Tax Provision

The Bank's effective tax rate for the current year was approximately 27% compared with approximately 27% in the prior year. The Bank's effective tax rate in the current year was attributable primarily to the impact of a one-time expense of a deferred tax asset of $1.6 million due to a change in tax base of the acquired assets of VersaBank USA in the current period, changes in permanent differences such as employee stock options, which were issued as part of the Bank's employee retention program in early fiscal 2022, and prior year adjustments. Provision for income taxes for fiscal 2024 was $15.0 million compared with $15.5 million last year.

Comprehensive Income

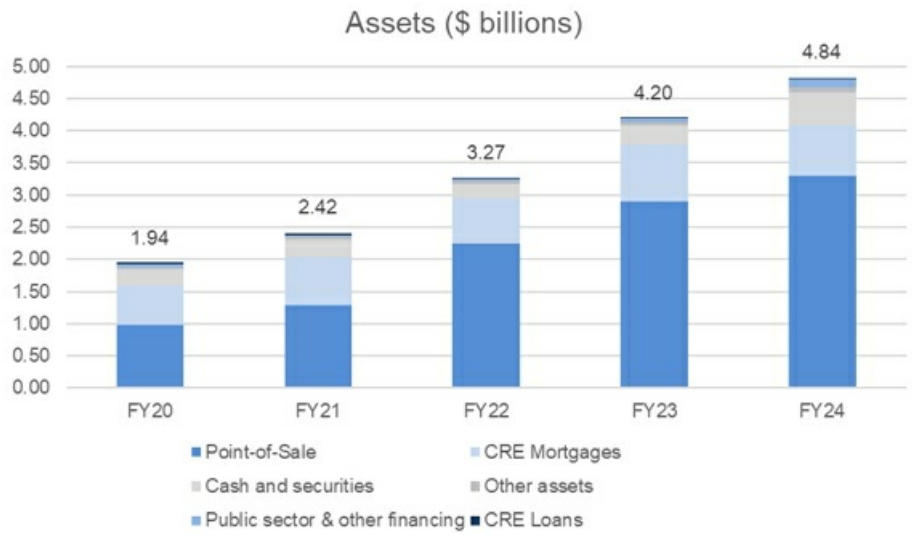
Comprehensive income is comprised of net income for the period and other comprehensive income, which consists of unrealized gains and losses on fair value through other comprehensive income associated with the foreign exchange gain or loss on translation of foreign operations, and revaluation of certain securities and interest rate swap to fair market value. Comprehensive income for the year was $39.5 million compared to $42.2 million last year.

Financial Review – Balance Sheet

(thousands of Canadian dollars)

	October 31 2024	October 31 2023	Change
Total assets	$ 4,838,484	$ 4,201,610	15%
Cash and securities	524,554	300,182	75%
Loans, net of allowance for credit losses	4,236,116	3,850,404	10%
Deposits	4,144,673	3,533,366	17%

Total Assets



Total assets at October 31, 2024 increased 15% to $4.84 billion from $4.20 billion at October 31, 2023, primarily due to strong growth in VersaBank's POS/RPP Financing portfolio, which increased 15% year-over-year, as well as its Public Sector and Other Financing portfolio, driven by the VersaBank USA acquisition, which increased by 122%, partly offset by a 12% decrease in the CRE portfolio, primarily attributable to the planned transition of some higher yielding, higher risk-weighted commercial loans to lower yielding, lower risk-weighted loans.

Cash and securities

Cash and securities, which are held primarily for liquidity purposes, at October 31, 2024, were $524.6 million, or 11% of total assets, compared with $300.2 million, or 7% of total assets a year ago. The quarter-over-quarter and year-over-year trends reflects elevated balances attributable to the recent acquisition of VersaBank USA which will be deployed over fiscal 2025.

As at October 31, 2024, the Bank held securities totaling $299.3 million (2023 - $167.9 million), including accrued interest, comprised of a series of Government of Canada and other bonds with a carrying value of $163.7 million and US Treasury Bills with a carrying value of $135.6 million.

Loans

(thousands of Canadian dollars)

	October 31 2024	October 31 2023	Change
Point-of-sale loans and leases receivable purchase program	$ 3,307,328	$ 2,879,320	15%
Commercial real estate mortgages	779,691	889,069	(12%)
Commercial real estate loans	8,302	8,793	(6%)
Public sector, leases and other financing	122,321	55,054	122%
	4,217,642	3,832,236	10%
Allowance for credit losses	(3,303)	(2,513)	
Accrued interest	21,777	20,681	
Total loans, net of allowance for credit losses	$ 4,236,116	$ 3,850,404	10%

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 Receivable Purchase Program ("POS/RPP Financing")** asset category is comprised of Point-of-Sale Loan and Lease Receivables acquired from VersaBank's network of origination and servicing partners in Canada and the US, 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 primarily of Residential Construction, Term, CMHC Insured and Land Mortgages. All of these loans are business-to-business loans with the underlying credit risk exposure being primarily consumer in nature given that the vast majority (approximately 94% as at October 31, 2024) of the loans are related to properties that are designated primarily for residential use. The portfolio benefits from diversity in its underlying security in the form of a broad range of such collateral properties.

The **Commercial Real Estate Loans (**"**CRE Loans**"**)** asset category is comprised primarily of Condominium Corporation Financing loans.

The **Public Sector, Leases and Other Financing (** "**PSLOF**"**)** asset category is comprised primarily of public sector loans, and loans acquired through the acquisition of SBH, which consists primarily of equipment leases, a small balance of corporate loans and leases and single family residential conventional and insured mortgages.

FY 2024 vs FY 2023

Loans increased 10% to $4.24 billion due primarily to:

- Higher POS/RPP Financing balances, which increased 15% year-over-year; and,
- Higher PSLOF portfolio driven by the addition of VersaBank USA, which was up by 122%.

Offset by:

- Lower CRE lending balances due primarily to the planned transition of some higher yielding, higher risk-weighted commercial loans to lower yielding, lower risk-weighted loans as part of the Banks's strategy to capitalize on opportunities for lower-risk loans with higher return on capital deployed.

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, 2024 was $4.2 million compared to $4.2 million a year ago. The Bank did not have any HELOCs outstanding at October 31, 2024, or a year ago.

Credit Quality and Allowance for Credit Losses

VersaBank closely monitors its lending portfolio, the portfolio's underlying borrowers, as well as its origination partners to ensure that management maintains effective visibility on credit trends that could provide an early warning indication of the emergence of any elevated risk in VersaBank's lending portfolio.

Allowance for Credit Losses

The Bank maintains 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 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.

(thousands of Canadian dollars)

	October 31 2024	October 31 2023	Change
ECL allowance by lending asset:			
Point-of-sale loans and leases receivable purchase program	$ 783	$ 100	683%
Commercial real estate mortgages	1,398	2,222	(37%)
Commercial real estate loans	44	42	5%
Public sector, leases and other financing	1,078	149	623%
Total ECL allowance	$ 3,303	$ 2,513	31%

(thousands of Canadian dollars)

	October 31 2024	October 31 2023	Change
ECL allowance by stage:			
ECL allowance stage 1	$ 2,996	$ 1,945	54%
ECL allowance stage 2	306	568	(46%)
ECL allowance stage 3	1	-	
Total ECL allowance	$ 3,303	$ 2,513	31%

The Bank's ECL allowance at October 31, 2024 was $3.3 million compared with $2.5 million a year ago. The year-over-year trend was a function primarily of:

- Changes in the forward-looking information used by the Bank in its credit risk models;
- The addition of VersaBank USA portfolio acquired in the year; and,
- The prior year provision for credit losses reflecting an adjustment on the Bank's POS/RPP Financing portfolio attributable to management recalibrating the portfolio's static, legacy loss rate floor to align more closely with empirical loss rate data and general credit performance.

Offset partially by:

- Changes in the Bank's lending asset mix with higher insured lending assets along with decreases in non-insured lending assets.

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

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

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

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 due to the Bank and the cash flows the Bank 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.

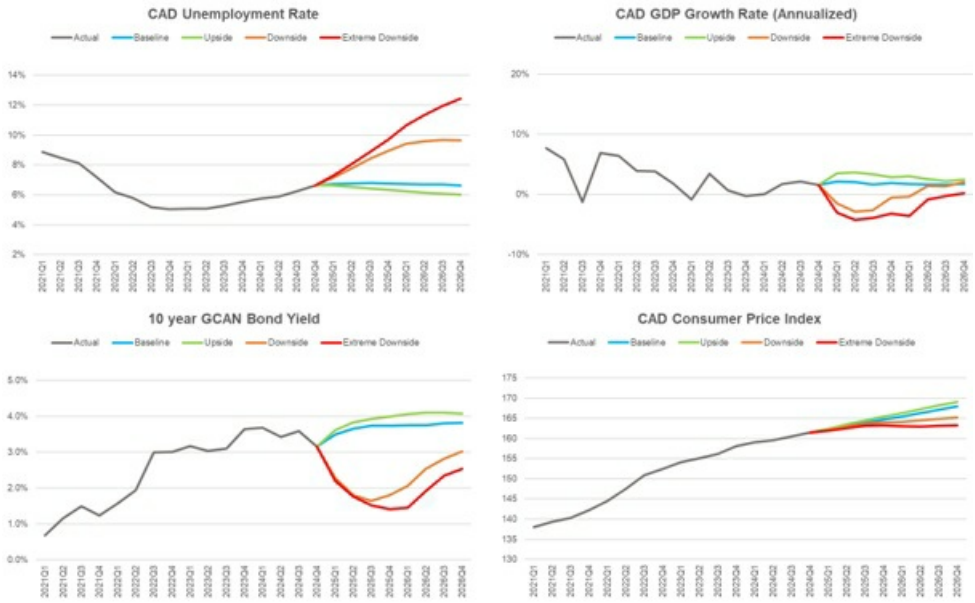
The Bank utilizes macroeconomic indicator data derived from multiple macroeconomic scenarios in order to mitigate volatility in the estimation of expected credit losses, as well as to satisfy the IFRS 9 requirement that future economic conditions are to be based on an unbiased, probability-weighted assessment 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: 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 baseline macroeconomic forecast trends include: elevated interest rates are expected to suppress near-term GDP growth. Growth is projected to accelerate gradually in 2025 but will likely remain below historical norms, given Canada's demographics. Rising unemployment is expected to stabilize as GDP growth gains momentum. CPI inflation is forecasted to remain near 2% through 2025, with aggregate supply outpacing demand. Reduced borrowing costs are not expected to reignite inflationary pressures. Current geopolitical risks are not anticipated to escalate materially and are expected to have a limited impact on global commodity prices and supply chains. Global oil prices are forecasted to remain steady. Oil price changes are likely to affect national income rather than production levels, given the industry's near-capacity operations. Household finances face strain due to elevated debt-service obligations; however, loan performance is expected to remain at or near pre-pandemic levels.

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, 2024 in order to assess the alignment of the Bank's reported ECL with the Bank's credit risk profile, and further, to assess the scope, depth and ultimate effectiveness of the credit risk mitigation strategies that the Bank has applied to its lending portfolios (see Expected Credit Loss Sensitivity below).

A summary of the key forecast macroeconomic indicator data trends utilized by 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 (ECL) 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, 2024:

(thousands of Canadian dollars)

	Reported ECL	100% Upside	100% Baseline	100% Downside
Allowance for expected credit losses	$ 3,303	$ 2,629	$ 2,833	$ 3,538
Provision (recovery) from reported ECL		(674)	(470)	235
Variance from reported ECL (%)		(20%)	(14%)	7%

The uncertainty associated with interest rates, inflation and unemployment trends given the expectation of an economic slowdown in both Canada and the US as well as elevated geo-political risk may result in VersaBank's estimated ECL amounts exhibiting some future volatility which in turn may result in the Bank recognizing higher provisions for credit losses in the future.

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: personal deposits, commercial deposits, and cash reserves retained from VersaBank's POS/RPP Financing origination partners that are classified as other liabilities.

(thousands of Canadian dollars)

	October 31 2024	October 31 2023	Change
Commercial deposits	$ 743,783	$ 619,014	20%
Personal deposits	3,400,890	2,914,352	17%
Total deposits	$ 4,144,673	$ 3,533,366	17%

Personal deposits, consisting principally of guaranteed investment certificates (term deposits), 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.

Substantially all of the Bank's Personal and Commercial deposits sourced through these channels are eligible for CDIC insurance. Deposits held in VersaBank USA are eligible for FDIC insurance.

FY 2024 vs FY 2023

Deposits increased 17% to $4.1 billion due primarily to:

- Higher personal deposits attributable to VersaBank increasing activity in its broker market network to fund balance sheet growth;
- Higher commercial deposits attributable to an increase in the volume of consumer and commercial bankruptcy and proposal restructuring proceedings in the current year; and,
- Incremental deposits through the acquisition of VersaBank USA.

The table below presents a summary of the Bank's deposit portfolio by maturity, excluding accrued interest at October 31, 2024, as well as for 2023:

	2024					
(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	$ 743,783	$ -	$ -	$ -	$ -	$ 743,783
Personal deposits	440,118	1,749,894	494,866	639,058	-	3,323,936
	$ 1,183,901	$ 1,749,894	$ 494,866	$ 639,058	$ -	$ 4,067,719

	2023					
(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	$ 619,014	$ -	$ -	$ -	$ -	$ 619,014
Personal deposits	339,339	1,461,075	433,205	618,569	-	2,852,188
	$ 958,353	$ 1,461,075	$ 433,205	$ 618,569	$ -	$ 3,471,202

Subordinated Notes Payable

(thousands of Canadian dollars)

	October 31 2024	October 31 2023
Issued April 2021, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of US $75.0 million,fixed effective interest rate of 5.38%, maturing May 2031. The fixed rate applies only until May 1, 2026, at which point the obligation switches to floating rate and the notes are redeemable by the Bank, subject to regulatory approval.	$ 102,503	$ 101,931
Issued March 2019, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of $5.0 million, fixed effective interest rate of 10.41%, maturing March 2029.	-	4,919
	$ 102,503	$ 106,850

Subordinated notes payable, net of issue costs, were $102.5 million as at October 31, 2024, compared with $106.9 million a year ago. The year-over-year trend was a function primarily attributable to the change in the USD/CAD foreign exchange spot rate related to the US $75.0 million subordinated note, offset by the Bank redeeming its $5.0 million, unsecured, non-viability contingent capital compliant, subordinate note payable on April 30, 2024, using the Bank's general funds.

Shareholders' Equity

Shareholders' equity at October 31, 2024 increased to $399.2 million from $377.2 million a year ago. The increase was primarily due to higher retained earnings attributable to net income earned over the course of the year, offset partially by the payment of dividends.

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

(thousands of Canadian dollars)

	2024		2023	
	Shares	Amount	Shares	Amount
Common shares:				
Balance, beginning of the year	25,964,424	$ 214,824	27,245,782	$ 225,982
Options exercised during the year	38,153	786	40,000	280
Purchased and cancelled during the year	-	-	(1,321,358)	(11,438)
Outstanding, end of year	26,002,577	$ 215,610	25,964,424	$ 214,824
Series 1 preferred shares:				
Balance, beginning of the year	1,461,460	$ 13,647	1,461,460	$ 13,647
Redemption of preferred shares	(1,461,460)	(13,647)	-	-
Outstanding, end of year	-	$ -	1,461,460	$ 13,647
Total share capital		$ 215,610		$ 228,471

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 was authorized to 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 believed that the market price of VersaBank's common shares did not reflect the value of the business and the future prospects of same, and further, reflected a material discount to book value and as such the purchase of common shares for cancellation at such time was a prudent corporate measure and represented an attractive investment for the Bank.

The Bank was eligible to make purchases commencing on August 17, 2022 and the NCIB was terminated on August 16, 2023. The purchases were made by VersaBank through the facilities of the TSX and alternate trading systems and the Nasdaq in accordance with the rules of the TSX and such alternate trading systems and the Nasdaq, as applicable, and the prices that VersaBank paid for the Common Shares was at the market price of such shares at the time of acquisition. VersaBank made no purchases of Common Shares other than open market purchases. All shares purchased under the NCIB were cancelled.

During the current year, the Bank issued 38,153 Common Shares for proceeds of $607,000 related to stock options that were exercised in the current year. No common shares were purchased for the year ended October 31, 2024. For the year ended October 31, 2023, the Bank purchased and cancelled 1,321,358 Common Shares for $13.3 million, reducing the Bank's Common Share value by $11.4 million and retained earnings by $1.9 million. In the same period, the Bank issued 40,000 Common Shares for proceeds of $280,000 related to stock options that were exercised in the period.

The Bank's book value per common share at October 31, 2024, was $15.35 compared with $14.00 at October 31, 2023. The increase was due primarily to higher retained earnings attributable to net income earned in fiscal 2024 as well as a lower number of common shares outstanding due the purchase and cancellation of common shares in 2023 pursuant to the Bank's NCIB, offset partially by the payment of dividends.

See note 14 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.

	2024		2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	874,393	$ 15.90	965,766	$ 15.53
Granted	-	-	1,500	15.90
Exercised	(38,153)	15.90	(40,000)	7.00
Forfeited/cancelled	(17,115)	15.90	(52,873)	15.90
Expired	-	-	-	-
Outstanding, end of period	819,125	$ 15.90	874,393	$ 15.90

For the year ended October 31, 2024, the Bank recognized stock-based compensation expense of $348,000 (2023 - $901,000) related to the estimated fair value of options granted. During the current year, the Bank issued 38,153 Common Shares for proceeds of $607,000 related to stock options there were exercised in the current year.

Updated Share Information

As at December 8, 2024, there were no changes since October 31, 2024, in the number of common shares.

Derivative instruments

At October 31, 2024, the Bank had an outstanding contract established for asset liability management purposes to swap between fixed and floating interest rates with an amortizing notional amount currently totaling $22.0 million (October 31, 2023 - $20.8 million), of which $22.0 million (October 31, 2023 - $20.8 million) qualified for hedge accounting. The Bank enters into interest rate swap contracts for its own account exclusively and does not act as an intermediary in this market. The maturity date of the amortizing interest rate swap is March 1, 2034. At October 31, 2024, fair value of $19,000 (October 31, 2023 - $1.5 million) relating to this contract was included in other assets and the offsetting amount included in the carrying values of the assets to which they relate. Approved counterparties are limited to major Canadian chartered banks. The carrying amount of the hedged item recognized in the loans was $22.4 million. The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item is $1.1 million (October 31, 2023 - $955,000).

As of October 31, 2024, the Bank utilized a foreign exchange forward contract to mitigate foreign exchange risk on its net investments in VersaBank USA. This hedging strategy is aimed at minimizing foreign exchange risk related to fluctuations between the VersaBank's functional currency, CAD, and the foreign currency of its net investment, USD. Changes in the fair value of the foreign exchange forward contract, attributable to the effective portion of the hedge, is recognized in other comprehensive income, while the ineffective portion, if any, is recorded in profit or loss. As of October 31, 2024, the outstanding foreign exchange forward contract had a notional value of USD $66.0 million and a fair value of $1,000 (asset), hedging a portion of the USD $97.0 million investment in VersaBank USA. For the reporting period, a loss of $13,000 was recognized in other comprehensive income, representing the effective portion of the hedge. Since there was no hedge ineffectiveness, there was no impact on profit or loss from this hedge. The hedge was assessed as highly effective, supporting the Bank's risk management strategy to stabilize the financial impact of foreign exchange movements.

Off-Balance Sheet Arrangements

At October 31, 2024, the Bank had an outstanding contract established for asset liability management purposes to swap between fixed and floating interest rates with an amortizing notional amount totaling $22.0 million (October 31, 2023 - $20.8 million), of which $22.0 million (October 31, 2023 - $20.8 million) qualified for hedge accounting. The Bank enters interest rate swap contracts for its own account exclusively and does not act as an intermediary in this market. The maturity date of the amortizing interest rate swap is March 1, 2034.

As of October 31, 2024, the Bank utilized a foreign exchange forward contract to mitigate foreign exchange risk on its net investments in VersaBank USA. This hedging strategy is aimed at minimizing foreign exchange risk related to fluctuations between the VersaBank's functional currency, CAD, and the foreign currency of its net investment, USD. Changes in the fair value of the foreign exchange forward contract, attributable to the effective portion of the hedge, is recognized in other comprehensive income, while the ineffective portion, if any, is recorded in profit or loss. As of October 31, 2024, the outstanding foreign exchange forward contract had a notional value of USD $66.0 million and a fair value of $1,000 (asset), hedging a portion of the USD $97.0 million investment in VersaBank USA.

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)	2024	2023
Loan commitments	$ 635,433	$ 405,426
Letters of credit	65,671	75,963
	$ 701,104	$ 481,389

Contractual Obligations

At October 31, 2024, the Bank had the following scheduled principal repayments of financial liabilities.

	2024				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 4,144,673	$ 3,010,749	$ 494,866	$ 639,058	$ -
Cash reserves on loan and lease receivables	171,208	171,208	-	-	-
Subordinated notes payable	102,503	-	-	-	102,503
Accounts payable	10,752	10,752	-	-	-
Cash collateral and amounts held in escrow	6,076	6,076	-	-	-
Current income tax liability	893	893	-	-	-
Lease obligations	3,035	725	530	1,624	156
Deferred income tax liability	141	24	24	72	21
	$ 4,439,281	$ 3,200,427	$ 495,420	$ 640,754	$ 102,680

Related Party Transactions

The Bank's related parties include members of the Board of Directors and Senior Executive Officers represented as key management personnel and significant minority shareholders. See note 22 to the Consolidated Financial Statements for more information on transactions entered into with, and the compensation of key management personnel.

Acquisition of Stearns Bank Holdingford N.A.

On August 30, 2024 the Bank, through its wholly-owned US subsidiary VersaHoldings US Corp., acquired 100% of the outstanding shares of shares of Minnesota-based Stearns Bank Holdingford N.A. ("SBH"), a privately held, wholly-owned subsidiary of Stearns Financial Services Inc. based in St. Cloud, Minnesota, for cash consideration of US$14.1 million (CA$19.0 million). SBH is a fully operational, OCC (Office of the Comptroller of the Currency)-chartered national bank, focused on small business lending. The acquisition follows the approval for acquisition received in June 2024 from OSFI, as well as the US's OCC and the US Federal Reserve.

Upon the close of the share acquisition of SBH, the Bank acquired approximately US$68.4 million (CA$92.3 million) in assets and assumed approximately US$54.3 million (CA$73.3 million) in deposits and other liabilities and renamed SBH as VersaBank USA. The acquisition will provide the Bank with access to US deposits to support the growth of its Receivable Purchase Program business. The acquisition is expected to be accretive to the Bank's earnings per share within the first year after closing; and, VersaBank USA was well capitalized, as per the OCC's definition of same, with a Total Capital ratio in excess of 10% as at August 30, 2024.

In furtherance of the Bank's strategic initiatives and in light of US regulatory requirements, management has expressed an intention to divest DRTC, which operates within the financial technology industry. Discussions with potential buyers are currently underway. As of October 31, 2024, the subsidiary has not been classified as "held for sale" in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, because certain criteria for such classification have not yet been met. Specifically, the sale is not expected to be completed within the next 12 months, and the subsidiary continues to be integral to the Bank's operations. Management will continue to evaluate the status of the divestiture and will reclassify the subsidiary as "held for sale" once all IFRS 5 criteria are satisfied.

In connection with the potential divestiture of DRTC, certain members of management hold convertible preferred shares in DRTC. In accordance with the by-laws of DRTC, the convertible preferred shares will convert automatically, upon a change of control event, into an aggregate 28% common share ownership stake in DRTC.

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

(thousands of Canadian dollars)

Asset and liabilities acquired at fair value		August 30, 2024
Cash	$	6,900
Securities		4,366
Loans		71,559
Fixed asset		314
Prepaid expenses and other		7
Intangible asset		2,592
Goodwill		6,555
Deposits		(73,238)
Accounts payable and other		(39)
	$	19,016

Intangible asset reflects the value of the customer deposit base acquired, which has been assessed to have a useful life of 10 years. Goodwill primarily reflects the value of obtaining an OCC charter national bank licence 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 Receivable Purchase Program business in Canada.

For the year ended October 31, 2024, VersaBank USA contributed $1.4 million and $465,000 to the Bank's net-interest income and net income respectively.

The costs associated with the acquisition of SBH totaling $5.7 million were spread across fiscal 2022, 2023 and 2024. These costs were included in the Bank's non-interest expense in the respective fiscal years.

Results of Operating Segments

(thousands of Canadian dollars) for the year ended	October 31, 2024					October 31, 2023				
	Digital Banking Canada	Digital Banking USA	DRTC	Eliminations/ Adjustments	Consolidated	Digital Banking Canada	DRTC	Eliminations/ Adjustments	Consolidated
Net interest income	$ 101,263	$ 1,392	$ -	$ -	$ 102,655	$ 100,051	$ -	$ -	$ 100,051
Non-interest income	698	1	9,638	(1,359)	8,978	540	9,698	(1,654)	8,584
Total revenue	101,961	1,393	9,638	(1,359)	111,633	100,591	9,698	(1,654)	108,635
Provision for (recovery of) credit losses	(134)	(134)	-	-	(268)	609	-	-	609
	102,095	1,527	9,638	(1,359)	111,901	99,982	9,698	(1,654)	108,026
Non-interest expenses:									
Salaries and benefits	26,523	437	5,824	-	32,784	25,382	6,046	-	31,428
General and administrative	18,324	365	1,839	(1,359)	19,169	15,140	1,565	(1,654)	15,051
Premises and equipment	3,292	105	1,758	-	5,155	2,462	1,440	-	3,902
	48,139	907	9,421	(1,359)	57,108	42,984	9,051	(1,654)	50,381
Income (loss) before income taxes	53,956	620	217	-	54,793	56,998	647	-	57,645
Income tax provision	14,860	155	30	-	15,045	15,867	(384)	-	15,483
Net income (loss)	$ 39,096	$ 465	$ 187	$ -	$ 39,748	$ 41,131	$ 1,031	$ -	$ 42,162
Total assets	$ 4,602,360	$ 226,319	$ 28,118	$ (18,313)	$ 4,838,484	$ 4,190,876	$ 26,443	$ (15,709)	$ 4,201,610
Total liabilities	$ 4,343,878	$ 90,716	$ 30,265	$ (25,578)	$ 4,439,281	$ 3,818,412	$ 28,788	$ (22,748)	$ 3,824,452

Digital Banking Operations Canada

FY 2024 vs FY 2023

Digital Banking Operations Canada net income decreased 5% year-over-year to $39.1 million, primarily as a function of higher non-interest expense offset partially by higher revenue and recovery of credit losses. The increase in revenue was driven primarily by loan growth, as well as the redeployment of available cash into higher yielding, low risk securities, and a favourable fair value interest rate swap adjustment, offset partially by higher interest expense attributable to higher deposit balances and higher cost of funds, both which also reflected a one-time impact associated with the preparation to fund the capital requirements of VersaBank USA, temporarily dampened net interest margin. The increase in non-interest expense was due to higher salary and benefits expense attributable to higher staffing levels to support expanded business activity across VersaBank, and one-time expenses and adjustments associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, adjustments related to the write down of fixed assets and a deferred tax adjustment. Normalizing for the after-tax impact related to the one-time items noted above of approximately $5.2 million, would reflect a normalized net income of $44.3 million.

Digital Banking Operations USA

FY 2024 vs FY 2023

For the year ended October 31, 2024, VersaBank USA contributed $1.4 million and $465,000 to the Bank's net-interest income and net income respectively.

DRTC (Cybersecurity Services and Banking and Financial Technology Development)

FY 2024 vs FY 2023

DRTC net income decreased to $187,000 from $1.0 million last year. The decrease was due primarily to higher business development expenses and professional fees to support expanded business activity and activity to support SOC2 Type 1 compliance. This was partially offset by increased revenue driven primarily by higher client engagements.

Capital Management and Capital Resources

Capital Management

The Bank's policy is to maintain a strong capital base 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 the Bank's current and future business and 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 2024		October 31 2023	Change
Common Equity Tier 1 capital	$	373,503	$	350,812	6%
Total Tier 1 capital	$	373,503	$	364,459	2%
Total Tier 2 capital	$	107,673	$	111,546	(3%)
Total regulatory capital	$	481,176	$	476,005	1%
Total risk-weighted assets	$	3,323,595	$	3,095,092	7%
Capital ratios					
CET1 capital ratio		11.24%		11.33%	(1%)
Tier 1 capital ratio		11.24%		11.78%	(5%)
Total capital ratio		14.48%		15.38%	(6%)
Leverage ratio		7.38%		8.30%	(11%)

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 from 0% to 400% 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, 2024, and 2023, 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, 2024, as well as for 2023, organized by asset type and risk weight assignment respectively:

As at October 31, 2024	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans & securities	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 877,265	$ -	$ -	$ 877,265	$ 596,203
Sovereign	-	301,750	-	-	301,750	490
Bank	225,254	17,719	-	-	242,973	51,406
Retail residential mortgages	-	53,709	-	-	53,709	11,380
Other retail	-	3,284,973	-	-	3,284,973	2,344,199
Other items	-	-	77,814	65,671	143,485	82,531
Undrawn commitments	-	-	-	635,433	635,433	70,688
Operational risk [1]	-	-	-	-	-	166,698
Total	$ 225,254	$ 4,535,416	$ 77,814	$ 701,104	$ 5,539,588	$ 3,323,595

As at October 31, 2023	Notional/drawn amount by asset type					
(thousands of Canadian dollars)	Cash	Loans & securities	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 917,854	$ -	$ -	$ 917,854	$ 709,486
Sovereign	-	171,934	-	-	171,934	799
Bank	132,242	17,730	-	-	149,972	33,327
Retail residential mortgages	-	82,333	-	-	82,333	19,256
Other retail	-	2,828,493	-	-	2,828,493	2,003,581
Other items	-	-	51,024	75,963	126,987	65,957
Undrawn commitments	-	-	-	405,426	405,426	130,003
Operational risk [1]	-	-	-	-	-	132,683
Total	$ 132,242	$ 4,018,344	$ 51,024	$ 481,389	$ 4,682,999	$ 3,095,092

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

As at October 31, 2024	Notional/drawn amount by risk weight								
(thousands of Canadian dollars)	0%	20-25%	30-35%	40-75%	80-100%	110-150%	400%	Total	Risk Weighted Balance
Corporate	$ -	$ -	$ 126,380	$ 103,164	$ 519,088	$ 128,631	$ -	$ 877,263	$ 596,203
Sovereign	299,300	2,450	-	-	-	-	-	301,750	490
Bank	-	225,254	17,719	-	-	-	-	242,973	51,406
Retail residential mortgages	-	50,108	3,601	-	-	-	-	53,709	11,380
Other retail	-	-	-	3,246,525	38,481	-	-	3,285,006	2,344,199
Other items	25,913	713	-	4,497	110,432	946	953	143,454	82,531
Undrawn commitments	-	-	-	-	635,433	-	-	635,433	70,688
Operational risk [1]	-	-	-	-	-	-	-	-	166,698
Total	$ 325,213	$ 278,525	$ 147,700	$3,354,186	$1,303,434	$ 129,577	$ 953	$5,539,588	$3,323,595

As at October 31, 2023	Notional/drawn amount by risk weight								
(thousands of Canadian dollars)	0%	20-25%	30-35%	40-75%	80-100%	110-150%	400%	Total	Risk Weighted Balance
Corporate	$ -	$ -	$ 158,418	$ 203,992	$ 446,725	$ 108,719	$ -	$ 917,854	$ 709,486
Sovereign	167,940	3,994	-	-	-	-	-	171,934	799
Bank	-	132,242	17,730	-	-	-	-	149,972	33,327
Retail residential mortgages	-	74,037	8,296	-	-	-	-	82,333	19,256
Other retail	-	-	-	2,816,511	11,981	-	-	2,828,492	2,003,581
Other items	15,900	713	-	4,310	105,315	750	-	126,988	65,957
Undrawn commitments	-	-	-	-	405,426	-	-	405,426	130,003
Operational risk [1]	-	-	-	-	-	-	-	-	132,683
Total	$ 183,840	$ 210,986	$ 184,444	$3,024,813	$ 969,447	$ 109,469	$ -	$4,682,999	$3,095,092

[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.

The year-over-year trends exhibited by VersaBank’s reported regulatory capital levels, regulatory capital ratios and leverage ratios were a function primarily of retained earnings growth, the purchase and cancellation of common shares through the Bank’s 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, 2024, 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, 2024, shows cash provided by operations of $272.7 million compared to cash provided by operations of $94.7 million a year ago. The current year trend was a function primarily of inflows from operations and deposits raised exceeding the timing of cash outflows to fund loans. The comparative period trend was a function primarily of cash outflows to fund loans exceeding cash inflows from deposits raised. 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 deposit raising activities.

Capital Resources

The operations of the Bank are not dependent upon significant investments in capital assets to generate revenue.

Summary of Quarterly Results

(thousands of Canadian dollars except per share amounts)	2024				2023			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Interest income	$ 73,238	$ 71,646	$ 71,243	$ 69,292	$ 66,089	$ 60,089	$ 53,595	$ 49,561
Yield on assets (%)	6.23%	6.40%	6.66%	6.47%	6.40%	6.19%	6.05%	5.78%
Interest expense	48,337	46,702	45,001	42,724	39,850	35,160	28,986	25,287
Cost of funds (%)	4.11%	4.17%	4.21%	3.99%	3.86%	3.62%	3.27%	2.95%
Net interest income	24,901	24,944	26,242	26,568	26,239	24,929	24,609	24,274
Net interest margin (%)	2.12%	2.23%	2.45%	2.48%	2.54%	2.57%	2.78%	2.83%
Net interest margin on loans (%)	2.34%	2.41%	2.52%	2.63%	2.69%	2.69%	2.99%	3.03%
Non-interest income	2,384	2,052	2,259	2,283	2,934	1,930	2,076	1,644
Total revenue	27,285	26,996	28,501	28,851	29,173	26,859	26,685	25,918
Provision for (recovery of) credit losses	(156)	(1)	16	(127)	(184)	171	237	385
Non-interest expenses	19,365	13,534	12,185	12,024	12,441	12,879	12,726	12,335
Efficiency ratio	71%	50%	43%	42%	43%	48%	48%	48%
Efficiency ratio - Digital Banking	70%	46%	38%	40%	45%	43%	43%	42%
Tax provision	2,560	3,758	4,472	4,255	4,437	3,806	3,459	3,781
Net income	$ 5,516	$ 9,705	$ 11,828	$ 12,699	$ 12,479	$ 10,003	$ 10,263	$ 9,417
Income per share								
Basic	$ 0.20	$ 0.36	$ 0.45	$ 0.48	$ 0.47	$ 0.38	$ 0.38	$ 0.34
Diluted	$ 0.20	$ 0.36	$ 0.45	$ 0.48	$ 0.47	$ 0.38	$ 0.38	$ 0.34
Return on average common equity	5.28%	9.63%	12.36%	13.41%	13.58%	11.15%	12.07%	10.79%
Return on average total assets	0.45%	0.85%	1.08%	1.16%	1.19%	1.00%	1.13%	1.07%

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 growth in the POS/RPP Financing portfolio and the incremental lending assets attributable to the acquisition of VersaBank USA;

- Lower NIM attributable primarily to lower yields earned on the Bank's lending assets and higher cost of funds (with higher cost of funds over the most recent 12 months due largely to higher rates on term deposits);
- Recovery of credit losses attributable primarily to general credit performance and changes in the forward-looking information used in the Bank's credit risk models offset partially by higher lending balances and changes in the Bank's lending asset mix; and,
- Higher non-interest expense attributable primarily to higher salaries and benefits and higher general operating expenses to support increase operating activities, as well as one-time costs incurred associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, and adjustments related to write down of fixed assets.

Fourth Quarter Fiscal 2024 Review

Net Income

Net income for the quarter was $5.5 million, or $0.20 per common share (basic and diluted) compared with $9.7 million, or $0.36 per common share (basic and diluted), for the third quarter of fiscal 2024 and $12.5 million, or $0.47 per common share (basic and diluted), for the same period a year ago. The quarter-over-quarter trend was a function primarily of one-time expenses primarily attributable to the acquisition of VersaBank USA in the current quarter, offset partially by higher revenues and a higher recovery of credit losses. The year-over-year trend was a function primarily of lower revenues and one-time expenses primarily attributable to the acquisition of VersaBank USA in the current quarter. The one-time items, tax effected, were approximately $4.5 million and were related to the impact associated with the preparation to fund the capital requirements of VersaBank USA, temporarily dampened net interest margin, higher non-interest expenses associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, adjustments related to write down of fixed assets and a deferred tax adjustment in the current quarter. Normalizing for these one-time items would reflect a net income of $10.0 million or EPS of $0.38.

Total Revenue

Total revenue for the quarter was $27.3 million, an increase of 1% from $27.0 million for the third quarter of fiscal 2024 and a decrease of 6% from $29.2 million for the same period a year ago. The quarter-over-quarter trend was a function primarily of higher gross profit generated by DRTC. The year-over-year trend was a function primarily of lower net interest income and lower non-interest income attributable to lower gross profit generated by DRTC.

Net Interest Income

Net interest income for the quarter was $24.9 million, unchanged from $24.9 million for the third quarter of fiscal 2024 and a decrease of 5% from $26.2 million for the same period a year ago. The quarter-over-quarter and year-over-year results were a function primarily of higher interest expense attributable to higher deposit balances and higher cost of funds consistent with the higher interest rate environment observed during the majority of fiscal 2024, offset partially by higher interest income attributable to lending asset growth, higher yields earned on floating rate lending assets attributable to higher interest rates and the redeployment of available cash into higher yielding, low risk securities.

Net Interest Margin

Net interest margin (or spread) for the quarter was 2.12% compared with 2.23% for the third quarter of fiscal 2024 and 2.54% for the same period a year ago. The quarter-over-quarter and year-over-year decreases were a function primarily of lower yields on the POS/RPP Financing portfolio due to an atypically inverted yield curve adversely affecting POS asset margins, which was exacerbated by the strong growth in the POS portfolio, lower CRE lending asset balance and the impact of the planned transition of some higher yielding, higher risk-weighted CRE loans to lower yielding, lower risk-weighted CRE loans as part of the Bank's strategy to capitalize on opportunities for lower-risk loans with a higher return on capital deployed, higher cost of funds due to elevated rates on term deposits experienced periodically over the course of the year, and the Bank maintaining higher than typical cash balances during the latter half of fiscal 2024 related to the acquisition and capital investment in VersaBank USA. The Bank's NIM remains amongst the highest of the publicly traded Canadian Schedule 1 banks.

Provision for Credit Losses

VersaBank recorded a recovery of credit losses and PCL ratio for the quarter in the amounts of $156,000 and -0.01%, respectively, compared with a recovery of credit losses and PCL ratio of $1,000 and 0.00% respectively for the third quarter of fiscal 2024 and a recovery of credit losses and PCL ratio of $184,000 and -0.02% respectively for the same period a year ago. The current quarter-over-quarter and year-over-year trends were a function primarily of changes in the Bank's lending asset mix with higher insured lending assets along with decreases in non-insured lending assets offset partially by a provision for credit losses on the Bank's POS/RPP Financing portfolio attributable to management recalibrating the portfolio's static, legacy loss rate floor to align more closely with empirical loss rate data and general credit performance.

Non-Interest Expenses

Non-interest expenses for the quarter were $19.4 million compared with $13.5 million for the third quarter of fiscal 2024 and $12.4 million for the same period a year ago. The quarter-over-quarter and year-over-year trends were a function primarily of higher salary and benefits amounts resulting from higher staffing levels and general operating expenses to support expanded business activity, higher capital tax obligation this year due to a significant recovery in the prior year and one-time expenses and adjustments in the current quarter. The Bank incurred one-time expenses of $3.3 million, associated with the acquisition of SBH, incentive awards related to specific performance-based milestones, and adjustments related to write down of fixed assets. Adjusting for these non-core, one-time expenditures and adjustments would result in a normalized non-interest expense of $16.1 million.

Income Taxes

Provision for income taxes for the quarter was $2.6 million compared with $3.8 million for the third quarter of fiscal 2024 and $4.4 million for the same period a year ago. The quarter-over-quarter and year-over-year trends were a function primarily of a decrease in the Bank's earnings and adjustments to the deferred tax asset.

Critical Accounting Policies and Estimates

Significant accounting policies are detailed in note 3 of the Bank's 2024 Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current year, except for the inclusion of derivative instruments and hedge accounting policy in relation to the foreign currency forward contract that was entered into in the current year.

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. Estimates are applied in the determination of the purchase price allocation associated with the acquisition of Stearns Bank Holdingford N.A., allowance for expected credit losses on financial assets, the fair value of stock options granted, the fair value of derivatives, the impairment test applied to intangible assets and goodwill, the measurement of deferred income taxes and the revaluation of fixed assets. It is reasonably possible, on the basis of existing knowledge, that actual results may vary from those expected in the development of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied prospectively once they are known. 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, with the exception of equity and derivatives, 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. These 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"); and,
- 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 FVOCI.

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 non-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 recorded at fair value.

Allowance for Expected Credit Losses

The Bank maintains an allowance for expected credit losses ("ECL") 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 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 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 other financial instruments that are determined to be credit impaired are designated as stage 3. Subsequent to the initial stage designation, the Bank's loans or other financial instruments may transfer between stages due to these loans or financial instruments experiencing a significant change in credit risk.

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 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 uncertain 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 or other financial instruments that are determined to be credit impaired and that have been designated as stage 3. A loan or other financial instrument is classified as credit impaired when the Bank becomes aware that, before taking into consideration collateral or credit enhancements, all of, or a portion of the contractual cashflows associated with the loan or other financial instrument may be impacted 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 or other financial instrument. Loans or other financial instruments for which interest or principal is contractually past due 90 days are automatically recognized as stage 3, however in estimating expected credit losses for stage 3 loans or other financial instruments, management takes into consideration whether the loan or other financial instrument is fully secured or is in the process of collection and whether collection efforts are reasonably expected to result in repayment of the loan or other financial instrument. 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 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 are reflected in the Bank's stage 3 grouping.

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 or other financial instruments. 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.

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.

Business Combinations

The Bank applied IFRS 3 Business Combinations in its accounting for the acquisition of Stearns Bank Holdingford N.A. as described in the Business Outlook - *Potential acquisition of Stearns Bank Holdingford* above and note 26 – *Acquisitions* in the Bank's 2024 Consolidated Financial Statements, using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration if applicable, 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.

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 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 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 fair value less cost to sell, 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 that there is technical feasibility and resources available to complete a product, demonstrated an existence of an established market for the product as well as support to generate future revenues or derive future economic benefits from the product. As these intangible assets are not yet available for use, the Bank tested these assets for impairment annually by comparing the carrying amount with the recoverable amount. Recoverable amount is determined by fair value less cost to sell method.

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 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.

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.

Derivative instruments

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

Derivatives are reported as other assets when they have a positive fair value and as other liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when: the economic characteristics and risks associated are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a stand-alone, independent instrument; and the combined contract is not held for trading or designated at fair value through profit or loss. For financial statement disclosure purposes, embedded derivatives are combined with the host contract.

Hedge accounting

The Bank has elected, as permitted, to apply the hedge accounting requirements of IAS 39. Interest rate swap agreements are entered into for asset liability management purposes. When hedge accounting criteria are met, derivative contracts are accounted for as described below.

To meet the criteria for hedge accounting, the Bank documents all relationships between hedging instruments and hedged items, how hedge effectiveness is assessed, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets or liabilities on the Consolidated Balance Sheet. The Bank also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

There are three main types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including an analysis of sources of hedge ineffectiveness and how the hedge effectiveness is assessed). In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was also highly effective in the previous designated period (i.e., three month). A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of between 80% to 125%.

The Bank has fair value and net investment hedges outstanding. In fair value and net investment hedges, the change in the fair value of the hedging derivatives are recognized in non-interest income in the Consolidated Statements of Income and Comprehensive Income. The change in the fair value and net investment of the hedged items attributable to hedge risk are recorded as part of the carrying value of the hedged items (basis adjustment) and are also recognized in non-interest income in the Consolidated Statements of Income and Comprehensive Income. The Bank utilizes fair value and net investment hedges primarily to convert fixed rate financial assets to floating rate financial assets. The primary financial instruments designated in fair value and net investment hedging relationships are loans. If the derivative expires or is sold, terminated, no longer meets the criteria for hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any basis adjustment up to that point made to a hedged item for which the effective interest method is used is amortized to the Consolidated Statements of Income and Comprehensive Income as part of the recalculated effective interest rate of the item over its remaining term. If the hedged items are derecognized, the unamortized fair value are recognized immediately in the Consolidated Statements of Income and Comprehensive Income.

In fair value and net investment hedges, ineffectiveness arises to the extent that the change in fair value of the hedging items differs from the change in fair value and net investment of the hedge risk in the hedged items. Any hedge ineffectivenesses are measured and recorded in non-interest income in the Consolidated Statements of Income and Comprehensive Income.

Derivative contracts which do not qualify for hedge accounting are marked-to-market and the resulting net gains or losses are recognized in non-interest income in the Consolidated Statement of Income and Comprehensive Income.

Future accounting standard pronouncements

The following accounting standards amendments issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2024 (the Bank's fiscal 2025 year end):

i) Amendments to IFRS 16: Lease Liability in a Sale and Leaseback - In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed.

ii) Amendments to IAS 1: Classification of Liabilities as Current or Non-current - In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and,
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. The amendments must be applied retrospectively.

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

The following accounting standards amendments issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2026 (the Bank's fiscal 2027 year end):

In May 2024, the International Accounting Standards Board (IASB) introduced amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures. These amendments provide clarification on the classification of financial assets that include environmental, social, and governance (ESG)-linked features and establish additional disclosure requirements. We are in the process of evaluating their potential impact on our Consolidated Financial Statements.

The following accounting standards issued by the IASB will be effective for the Bank's fiscal year beginning on November 1, 2027 (the Bank's fiscal 2028 year end):

IFRS 18, Presentation and Disclosure in Financial Statements - IFRS 18 will replace IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes. Further, operating expenses are presented directly on the face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature. IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures and eliminates classification options for interest and dividends in the statement of cash flows. Management will undertake a comprehensive review of the potential impact to the Bank's disclosure presentation under IAS 18 and will update the readers as management establishes the new presentation and additional disclosures to conform with IAS 18.

Enterprise Risk Management

The Board of Directors and management have undertaken a process this fiscal year to refresh the Bank's Risk Appetite Framework, including its Risk Appetite Statements, as well as its Risk Capacity, Limits and Tolerances. After multiple review and challenge sessions, this refreshed risk appetite was presented to and approved by the Board at their meeting on December 3, 2024. The new risk appetite will take effect for the first quarter of fiscal 2025.

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 mitigate and monitor 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 Compliance 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 and make 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 Bank.

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 business continuity plan and 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 risk management 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

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 base 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, accounting 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 also exposed to foreign exchange risk attributable to its US investments in subsidiaries, lending and treasury portfolios. However, this foreign exchange risk exposure has been mitigated to an acceptable level through a natural currency and accounting hedge facilitated by the USD denominated fixed to floating rate subordinated notes payable that were issued by the Bank in April of 2021. The Bank has also entered into a foreign exchange forward contract as well as designated a portion of its USD denominated fixed to floating rate subordinated notes to hedge such risk. 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 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, 2024, as well as for 2023 are reported in the table below.

Interest Rate Position

(thousands of Canadian dollars)

	October 31, 2024		October 31, 2023	
	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	$ 5,223	$ (5,430)	$ 4,046	$ (4,059)
Duration difference between assets and liabilities (months)	(1.6)		(2.0)	

At October 31, 2024, the duration difference between the Bank's assets and liabilities was negative 1.6 months compared to negative 2.0 months at October 31, 2023, indicating that the Bank's assets would reprice faster than liabilities in the event of a future change in interest rates.

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 long term 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. POS/RPP 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 as well as a risk rating policy that sets out a risk rating framework for all lending assets 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 Compliance Risk

Regulatory compliance 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 with 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 COMPLIANCE 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 thirty-six 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 Compliance 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. All employees and members of the Board of Directors are required to maintain compliance with the Bank's Code of Conduct 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.

Execution of Strategic Plans

The Bank's financial performance is influenced by its ability to execute strategic plans developed by management and approved by the Bank's Board of Directors. 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 consolidated 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, changes in trade laws and tariffs 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, 2024, 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 indicating 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, 2024, 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 indicating 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, 2024 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 consolidated 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 2024	October 31 2023	October 31 2022
Return on average common equity			
Net income	39,748	42,162	22,658
Preferred share dividends	(988)	(988)	(988)
Adjusted net income	38,760	41,174	21,670
Average common equity	381,357	350,270	327,744
Return on average common equity	10.16%	11.75%	6.61%

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, except shares outstanding and per share amounts)	October 31 2024	October 31 2023	October 31 2022
Book value per common share			
Common equity	399,203	363,512	337,029
Shares outstanding	26,002,577	25,964,424	27,245,782
Book value per common share	15.35	14.00	12.37

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 2024	October 31 2023	October 31 2022
Return on average total assets			
Net income	39,748	42,162	22,658
Preferred share dividends	(988)	(988)	(988)
Adjusted net income	38,760	41,174	21,670
Average Assets	4,520,047	3,733,804	2,840,542
Return on average total assets	0.86%	1.10%	0.76%

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 is 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 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.

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 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).

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Corporate Information*

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Retired, former Executive Director of the International Monetary Fund

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Principal, Human Resources and Labour Relations, The Osborne Group

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President & Chief Executive Officer, VersaBank

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* As at October 31, 2024

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INVESTOR RELATIONS

Toll Free Telephone: (800) 244-1509
Email: InvestorRelations@versabank.com
Web site: www.versabank.com

LodeRock Advisors
lawrence.chamberlain@loderockadvisors.com
Telephone: (416) 519-4196

Exhibit 99.4

Consent of Independent Registered Public Accounting Firm

We consent to (i) the reference to our Firm under the caption “Experts”, which appears in the Annual Information Form in Exhibit 99.1, (ii) the use of our report dated December 8 2024, with respect to the consolidated balance sheets of VersaBank (the Bank) as at October 31, 2024 and October 31, 2023 and the consolidated statements of income and comprehensive income, changes in shareholders’ equity and cash flows for the years ended October 31, 2024 and October 31, 2023 included as Exhibit 99.2 in its Annual Report on Form 40-F filed with the Securities and Exchange Commission, and (iii) the incorporation by reference of our report dated December 8, 2024 in the Registration Statement (Form F-10/A No. 333-283077) of the Bank.

/s/

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Canada
December 8, 2024

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 9, 2024

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, John Asma, 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 9, 2024

By: /s/ John Asma
Name: John Asma
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, 2024, 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 9, 2024

/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, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Asma, 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 9, 2024

/s/ John Asma

Name: John Asma
Title: Chief Financial Officer