

# VersaBank Climate Risk Disclosure

## Introduction

VersaBank is a Schedule 1 federally regulated deposit taking institution operating under a branchless, technology-driven, business-to-business model. As a Small and Medium Sized Bank (SMSB), VersaBank recognizes that climate change may present financial risk to the broader economy and the institution. This disclosure reflects VersaBank's approach to identifying, assessing, and managing climate related risks in a manner proportionate to the nature and complexity of its business activities, consistent with OSFI Guideline B-15 (Climate Risk Management). VersaBank has been designed to structure risk out of its business model as much as possible, by among other things, having a business strategy that is selective, concentrating on a few markets where we understand the risks intimately. As expected, this focus reduces climate risk exposure like it does other risk exposures.

## Scope

Climate risk assessment was applied to the Multi-family Residential and Other Lending (MROL) portfolio. The MROL portfolio represents VersaBank's primary credit exposure to real property. As such this portfolio is subject to both physical climate risks such as chronic and acute climate related events including flooding and extreme weather, and transition risks such as energy efficiency expectations and evolving regulatory requirements affecting property values and borrower capacity.

The Bank considered the Structured Receivable Program (SRP) portfolio in this climate risk assessment. Under our SRP, we invest in the cash flows generated by loans and leases originated by a network of established origination and servicing partners that provide financing to consumers and small businesses in Canada and the United States. The SRP structure allows us to participate indirectly in growing consumer and commercial financing markets while maintaining limited risk exposure through contractual protections, including cash holdbacks and ongoing monitoring of partner performance. We do not acquire the underlying loan or lease contract, do not become the lender or lessor of record and do not inherit any of the obligations nor liability of the contract owner, including ownership or liability of any leased equipment. Our client relationship is with the originating financing partner, not the underlying obligor. The Bank has determined that climate risk in the SRP portfolio is immaterial and therefore from a risk-based approach, the SRP portfolio is excluded from the climate risk assessment.

Since the Bank's US lending portfolio is SRP only, US assets were not included in the climate risk assessment. Further, since the Bank's only physical premise in the US is a retail location that is in the process of being sold, no physical risk in the US was included in this climate risk assessment.

## Governance

While our exposure to climate risk is very minimal by design, financial loss due to climate risk nonetheless must be appropriately governed. The Board holds ultimate accountability for the oversight of climate risk at VersaBank, including how the Bank manages climate-related risks and opportunities. The Board approves VersaBank's Climate Risk Policy and ensures that climate risk is embedded within the institution's overall risk appetite and strategic direction. The Board, through its Risk Oversight Committee, receives periodic reporting on climate risk exposures, the status of the climate risk management program, and material developments in the regulatory environment. The Risk Oversight Committee mandate explicitly includes oversight of climate related financial risks.

Executive management is responsible for implementing the board approved climate risk policy and integrating climate risk considerations into day-to-day risk management activities. The Chief Risk Officer (CRO) is the senior management owner of the climate risk program and is responsible for developing and maintaining the climate risk policy, identifying and assessing climate related physical and transition risks relevant to VersaBank's portfolio, reporting climate risk exposures and program developments to the Risk Oversight Committee and Board; and ensuring climate risk is reflected in the risk appetite framework and risk appetite statement

We continue to work on advancing our climate risk management capabilities and understanding the direct impacts on our business. The Bank recognizes the importance of climate risk management practices and is committed to adopting the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We continue to assess our short, medium, and long-term climate related priorities in an effort to enhance our understanding and disclosure of the impact of climate related risks.

## Strategy

Through the current climate risk assessment of its MROL portfolio, the Bank has developed an understanding of its exposure to climate related risks and opportunities. We also conducted the Standardized Climate Scenario Exercise (SCSE) as prescribed by OSFI to gain insight into the Bank's exposure to physical and transition risks, and financial performance over the short, medium, and long term. This exercise has been helpful in validating our business strategy and, as expected, evidencing our very minimal exposure.

The MROL portfolio consists of business-to-business construction loans and mortgages on residential properties, primarily CMHC insured, multi-unit residential assets. This is an asset class that is inherently energy efficient and low carbon by nature. Consistent with our strategy, the Bank maintains a low appetite for financing carbon-intensive enterprises, reflecting both our deliberate credit risk posture and our broader commitment to responsible, sustainable risk-mitigated banking. This strategic alignment positions VersaBank's portfolio as naturally suited to the low carbon economy and reduces the Bank's exposure to climate related transition and physical risks.

## Risk Management

Climate risk is managed under the Enterprise Risk Management Framework (ERMF). Climate risk is not treated as a standalone risk category. It is assessed in association to other risk types, principally, credit risk, financial risk and operational risk as these are pathways through which climate events are most likely to affect VersaBank's financial position.

The identification and assessment of climate risk is lead by the Chief Risk Officer, who engages with various functions across the Bank including Credit and Finance. We evaluate the potential impact of both physical and transition climate risk events on VersaBank's operations and MROL portfolio including the effect on collateral values, borrower repayment capacity, and portfolio concentration in climate sensitive geographies.

Completion of the OSFI Standardized Climate Scenario Exercise (SCSE) has informed VersaBank's understanding of sector level climate exposures and will serve as the foundation for more detailed scenario analysis as VersaBank's climate risk program matures. Climate risk is integrated into VersaBank's enterprise risk registry which serves to identify potential risks and assess their

materiality to the organization. Over time, VersaBank will consider strengthening its approach by incorporating climate risk more explicitly into credit adjudication, stress testing, and strategic planning consistent with OSFI B-15 expectations and proportionate to VersaBank’s risk profile.

Climate risk is reflected in VersaBank’s risk appetite framework. VersaBank maintains a low appetite for unmitigated climate related financial risks and monitors portfolio level exposures against defined thresholds. The Board approved risk appetite statement includes qualitative and quantitative parameters for climate risk consistent with OSFI B-15 expectations for SMSBs.

## Metrics and Targets

As at October 31, 2025

### Operational GHG Emissions — Scope 1 and Scope 2

**Scope 1 (Direct) emissions** are greenhouse gases released from sources VersaBank owns or controls on-site. For VersaBank, this means natural gas burned in the furnace at the VICE office in London, Ontario and jet fuel consumed by the corporate aircraft. These are fuels combusted in equipment under VersaBank’s direct operational control.

**Scope 2 (Indirect) emissions** are greenhouse gases produced elsewhere to generate energy VersaBank purchases. This includes purchased electricity at all three physical offices (VICE London, Downtown London, and Saskatoon), as well as purchased heat at the Downtown London office. At the Downtown location, VersaBank leases one floor and the building’s gas heating system is controlled by the landlord — VersaBank receives heat as a service through its lease. Under the GHG Protocol operational control approach, this heating is classified as Scope 2 (purchased heat) rather than Scope 1, because VersaBank does not control the combustion equipment.

*All emission factors are sourced from the ECCC National Inventory Report 2024. Emissions are reported in metric tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) using the GHG Protocol Corporate Accounting Standard under the operational control approach.*

**Table 1: GHG Emissions by Source**

Source	Scope	Region	Quantity	Unit	tCO <sub>2</sub> e
Electricity — VICE, London	2	ON	260.65	MWh	7.82
Electricity — Downtown, London	2	ON	276.92	MWh	8.31
Electricity — Saskatoon	2	SK	276.92	MWh	185.54
Natural Gas — VICE, London (owned)	1	ON	1,094.5	GJ	54.18
Purchased Heat — Downtown, London (leased)	2	ON	1,094.5	GJ	54.18
Jet Fuel — Fleet Aviation	1	C1	336,177	L	857.25
Remote Workers (9 FTEs)	—	—	0		0
<b>Total Scope 1 (Direct)</b>	<b>1</b>				<b>911.43</b>
<b>Total Scope 2 (Indirect)</b>	<b>2</b>				<b>255.84</b>
<b>Total Scope 1 + 2</b>					<b>1,167.27</b> 8.91 tCO <sub>2</sub> e per FTE (131 FTE)

## Physical Risk Exposure

Physical risk is assessed at the borrower-collateral level using flood and wildfire hazard data from NRCan, applied through FSA-level lookup with province-level fallback where postal codes are unavailable.

**Table 2: Physical Risk Profile — MROL Portfolio**

Metric	Value	% of Portfolio
Total Active MROL Portfolio	960,177,504	100.0%
Flood Hazard Exposure	386,661,865	40.3%
Wildfire Interface Exposure	79,848,083	8.3%
<b>Total Physical Risk (flood or wildfire)</b>	<b>448,627,582</b>	<b>46.7%</b>
Records with Unknown Zone Classification	1	

The 46.7% physical risk concentration is driven primarily by Ontario's province-level flood classification (Great Lakes and river floodplains). The Bank is working to refine assessments to FSA-level granularity to provide more precise geographic risk profiling.

## Transition Risk Exposure

Each borrower is assigned a carbon intensity tier (1–5) based on their 3-digit NAICS code, reflecting the emissions profile of their primary industry.

**Table 3: Carbon Intensity — MROL Portfolio**

Carbon Tier	Exposure	% of Portfolio
Tier 1 — Low	767,696,236	80.0%
Tier 2 — Low-Moderate	20,194,812	2.1%
Tier 3 — Moderate	172,286,455	17.9%
Tier 4+5 — High/Extreme	0	0.0%
<i>Board Risk Appetite Limit (Tier 4+5)</i>		5.0%

Consistent with the Bank's strategy of concentrating in low-carbon asset classes, VersaBank has zero exposure to Tier 4 (High) or Tier 5 (Extreme) carbon-intensive borrowers.

## Climate Scenario Analysis (OSFI SCSE)

VersaBank applied the six OSFI SCSE 2024 scenarios using a conservative combined approach that captures both transition and physical risk channels in every scenario. The base Probability of Default (PD) (1.31%) and the base Loss Given Default (LGD) (12.78%) used in the physical risk reflects VersaBank's own ECL-model exposure-weighted average. Stress increments ( $\Delta$ LGD) are per OSFI SCSE 2024 Table 1.

**Table 4: Scenario Results**

Scenario	ΔLGD	Add'l Loss	% of Portfolio
E.1 Orderly — Short	0.0%	0	0.00%
E.2 Orderly — Medium	3.0%	176,578	0.02%
E.3 Disorderly — Short	2.0%	117,719	0.01%
E.4 Disorderly — Medium	5.0%	294,296	0.03%
E.5 Hot House — Medium	3.0%	176,578	0.02%
E.6 Hot House — Long	8.0%	<b>470,874</b>	0.05%
<b>Worst-Case</b>		<b>470,874</b>	<b>0.05%</b>

Since VersaBank has zero Tier 4+5 exposure, transition risk produces no losses in any scenario. All modelled losses arise from the physical risk - potential collateral value deterioration applied to the \$448.6 million of flood/wildfire-exposed MROL portfolio. The worst-case additional credit loss of \$470,874 which represents 0.05% of the total portfolio under the Hot House World — Long scenario.

## Key Assumptions

### Scope 1 and 2 Emissions

1. Site-level electricity bills were used for all three offices (VICE London, Downtown London, Saskatoon) as VersaBank is billed directly for electricity at each location.
2. Site-level Enbridge natural gas invoices were used for the VICE office (owned). VersaBank owns this building and controls the gas furnace — classified as Scope 1. Dollar amounts (\$15,323.69 per year) were converted to GJ at an estimated delivered rate of \$14.00/GJ. If actual meter readings become available, GJ figures should be updated.
3. Natural gas heating at the Downtown London office (leased, 20th floor) is controlled by the landlord. VersaBank does not have direct visibility on gas consumption for its floor. This is classified as Scope 2 (purchased heat) under the GHG Protocol operational control approach. Consumption is estimated at the same profile as the VICE office pending receipt of landlord data.
4. Jet fuel cost (USD \$360,560 × 1.37 + CAD \$60,725 = \$554,692) was converted to litres at \$1.65/L. Jet fuel is not attributable to a single province and is reported under region C1 in the DC2 return.
5. Remote workers (9 FTEs) are excluded from Scope 2 as home electricity is not consumed at company-controlled premises, consistent with GHG Protocol and OSFI B-15 guidance.
6. Emission factors are location-based (not market-based) from the ECCC National Inventory Report 2024. No renewable energy certificates or power purchase agreements are in effect.

### Physical and Transition Risk

7. Flood and wildfire zones are assigned using FSA-level NRCAN hazard data (1,478 FSAs) where postal codes are available, with province-level proxy as fallback. Ontario is classified flood-prone at the province level; refinement to FSA-level is planned for FY2026–2027.
8. Insurance status is unknown for all records. A programme to collect collateral insurance data at origination and renewal is being considered.
9. Carbon intensity tiers are assigned by 3-digit NAICS code using a 97-code mapping table.

### Scenario Analysis

10. Base PD (1.31%) and base LGD (12.78%) are VersaBank's ECL-model exposure-weighted averages for physical-risk-flagged borrowers.
11. Stress increments (ΔPD and ΔLGD) are taken from OSFI SCSE 2024 Table 1 without modification.

## **Forward Look**

VersaBank remains committed to the ongoing development of its climate risk management capabilities. VersaBank's climate risk program is designed to be proportionate, rigorous, and responsive to regulatory expectations. This disclosure will be updated on at least an annual basis to reflect program development, regulatory guidance, and material changes to VersaBank's risk profile.

This disclosure has been prepared in accordance with OSFI guideline B-15 (Climate Risk Management) and reflects VersaBank's climate risk management practices as of the effective date noted above.