SECOND QUARTER 2017

EARNINGS RELEASE

VERSABANK REPORTS SECOND QUARTER 2017 RESULTS[1]

All amounts are in Canadian dollars and are based on financial statements prepared in compliance with International Accounting Standard 34 Interim Financial Reporting, unless otherwise noted. Our second quarter 2017 ("Q2 2017") Management's Discussion and Analysis and unaudited Interim Consolidated Financial Statements for the period ended April 30, 2017, are available online at www.versabank.com/investor-relations and at www.sedar.com. Our Q2 2017 Supplementary Financial Information is also available on our website at www.versabank.com/investor-relations.

LONDON, ONTARIO, May 31, 2017 – VersaBank, ("VB" or the "Bank"), (TSX:VB), today reported net income of $2.1 million for the three months ended April 30, 2017, up $0.3 million from a year ago. The current quarter earnings reflect a restructuring charge of $1.6 million. Income before taxes and restructuring charges for the current quarter was $4.5 million compared to $3.0 million a year ago on solid earnings derived from Commercial Banking and eCommerce operations.

Net income for the six months ended April 30, 2017 was $14.0 million, up $9.9 million compared to the same period a year ago. The six month earnings results reflect the recognition of $8.8 million in deferred income tax assets ("DTA") derived from the tax loss carry-forwards assumed pursuant to the amalgamation of PWC Capital Inc. and the Bank on January 31, 2017, as well as earnings growth.

Excluding the DTA gain noted above, income before taxes and restructuring costs for the six months ended April 30, 2017 was $9.2 million, up $3.0 million compared to the same period a year ago. These strong results are a function of loan growth as well as improved net interest margin ("NIM"), the latter being driven primarily by a reduction in the Bank's cost of funds over the same period.

"Our NIM is now one of the best in the industry at 2.51% (YTD was 2.58%) and is particularly impressive considering that our provision for credit losses ("PCL") remains so low. Our strategy to target niche markets where the 'risk/return' trade-off is favourable is clearly working very well.

Our capital position was very strong with a Common Equity Tier 1 ("CET1") ratio of 10.68% and leverage ratio of 10.07%. The latter ratio is more than double the average of the other publicly held financial institutions. Unlike the large banks that use their own models, many of the smaller banks, including VB, calculate their risk weighted assets using the Standardized Approach. VB believes that the Standardized Approach results in its low risk loan portfolio being risk weighted much higher than the actual intrinsic risk that the portfolio warrants. This serves to depress VB's return on common equity ("ROCE") and balance sheet growth. VB has hired a consulting firm that specializes in working with banks to transition from the Standardized Approach to the Advanced Internal Ratings Based ("AIRB") approach", said David Taylor, VB President and CEO.

A transition to the AIRB approach and its anticipated positive impact on the Bank's CET1 ratio is subject to a numbers of factors, including regulatory approval.

Q2 2017 compared to Q2 2016[1]

- Net income of $2.1 million (up 17% from $1.8 million)
- Income before restructuring charges and income taxes of $4.5 million (up 50% from $3.0 million)
- NIM of 2.51% (up 28 bps from 2.23%)
- Basic and diluted earnings per share (EPS) of $0.07 (up $0.01 from $0.06)
- Common share book value of $8.28 (up 8% from $7.63)
- ROCE of 3.66% (up 26 bps from 3.40%)
- CET1 ratio of 10.68% (up from 10.59%)
- Leverage ratio 10.07% (up from 9.68%)

YTD Q2 2017 compared to YTD Q2 2016[1]

- Net income of $14.0 million (up 239% from $4.1 million[2])
- Income before restructuring charges and income taxes of $9.2 million (up 49% from $6.2 million)
- NIM of 2.58% (up 35 bps from 2.23%)
- Basic and diluted EPS of $0.62 (up $0.47 from $0.15[2])
- Common share book value of $8.28 (up 8% from $7.63)
- ROCE of 15.66% (up 1161 bps from 4.05%)
- CET1 ratio of 10.68% (up from 10.59%)
- Leverage ratio 10.07% (up from 9.68%)

(1) Certain highlights include non-GAAP measures. See definition under 'Basis of Presentation' in the Q2 2017 Management's Discussion and Analysis.

(2) The year-to--date earnings include the recognition of $8.8 million in deferred income tax assets derived from the tax loss carry-forwards assumed pursuant to the amalgamation of the Bank and PWC Capital Inc. on January 31, 2017.

Q2 2017 Business Operations

VB operates using an "electronic branchless model" and sources deposits, consumer loans, and commercial loan and lease receivables electronically. VB also makes commercial loans and mortgages it obtains through a well-established network of brokers and direct contact with its commercial lending staff.

Commercial Banking – Loans are obtained through direct contact with our clients and through mortgage brokers and syndication partners. Loans are conservatively secured by real estate primarily in Ontario and occasionally other areas of Canada. Assets at April 30, 2017 totalled $742 million down 1.10% and 3.89% from last quarter and year ago, reflecting VB's increased caution in markets that have experienced rapid price increases. NIM at April 30, 2017 remained strong at approximately 2.96% for the quarter.

eCommerce – Small loan and lease receivables are electronically purchased from VB's vendor partners who make point of sale loans and leases in various markets throughout Canada. Assets at April 30, 2017 totalled $783 million down 4.74% from last quarter due to the sale of a portfolio of low NIM receivables. This sale was partially offset by an increase in purchased receivable volumes late in the quarter. Assets were up 6.96% from a year ago as a result of growth in purchased receivable volumes over the same period. NIM at April 30, 2017 was approximately 2.53% for the quarter up 7 bps and 33 bps from last quarter and a year ago. This is the fastest growing area of VB's lending business and we have enhanced it by developing the technology to enable VB to buy individual loan and lease receivables on a real time basis.

Deposit Services – VB has developed three channels for gathering deposits. VB pioneered the first channel in the early 1990's. It involves gathering deposits without the need for branches, from a well-established and widely diversified nationwide network of brokers. The second channel involves deposits received from VB's vendor partners and the third channel involves deposits received from insolvency industry professionals. The latter channel resulted from VB's software and deposits teams developing a custom banking program for insolvency industry professionals. This exciting new technology enables VB to provide custom web based current accounts. This channel provides VB with a stable low cost source of funds. VB's cost of funds at April 30, 2017 was 1.63%, down 7 bps from last quarter and down 28 bps from a year ago. VB's low cost of funds enables it to earn industry leading NIM without taking on the usual credit risk typically necessary to achieve higher yields.

Capital – As at April 30, 2017, VB's CET1 ratio was 10.68%, up 40 bps from last quarter. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets and because VB focuses on lower than average risk commercial and consumer loans (as demonstrated by its long history of extremely low PCL) it believes the Standardized Approach does not properly reflect the intrinsic risk in its lending assets. As a consequence, VB's leverage ratio is more than twice the average leverage ratio of the big banks, who use the AIRB approach to calculate their risk weighted assets. VB is addressing this anomaly by working to transition from the Standardized Approach to the AIRB approach. As noted above, a transition to AIRB is subject to a number of factors, including regulatory approval.

Credit Quality – For the quarter ended April 30, 2017 the Bank recorded a recovery of credit losses in the amount of $582,000 compared to a provision for credit losses in the amounts of $303,000 and $213,000 last quarter and a year ago. The recovery is mainly a function of the reduction in collective allowance that resulted from the sale of the Bank's credit card receivables portfolio that closed during the current quarter.

Total gross impaired loans were nil as they have been for approximately the past 4 years. VB's business strategy involves taking lower credit risk, but achieving greater NIM by lending in niche markets that are not well served by the larger financial institutions. This strategy is working very well and produces one of the best NIMs in the industry with one of the lowest PCLs and gross impaired loans (GILs).

Restructuring Initiative to optimize VB's operations & Fintech leadership

"VB has made significant strides in optimizing its structure to enable the Bank to intensify its emphasis on the high-growth digital banking space. This is an area where VB has 'first mover' advantage and positions it well for continued, long-term profitable growth", said Taylor.

Key factors in the Bank's restructuring initiative include the Bank's recent amalgamation with PWC Capital Inc., the repositioning of key corporate functions to the Bank's head office in London ON, and the sale of VB's credit card receivables portfolio. The Bank's restructuring included the rationalization of both personnel and physical infrastructure as well as the reallocation of key resources to the Bank's Innovation Centre of Excellence, which became fully functional over the course of the current quarter. VB made every effort to minimize disruption to affected staff members, which included staff re-training and internal re-deployment where possible. Termination benefits incurred, as a result of the implementation of the Bank's restructuring initiative, were approximately $1.6 million and are reflected in the current quarter's financial statements.

"In our rapidly changing industry it was important for us to take these actions to preserve our leadership in the application of new technologies to financial services and ensuring VB remains Canada's most advanced 'Fintech' and technology leader in the financial services industry," said Taylor.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the six months ended	
	April 30	**April 30**	**April 30**	**April 30**
($CDN thousands except per share amounts)	**2017**	**2016**	**2017**	**2016**
Results of operations				
Net interest income	$ 10,579	$ 9,360	$ 21,724	$ 18,502
Non-interest income (loss)	(453)	285	(166)	610
Total revenue	10,126	9,645	21,558	19,112
Provision (recovery) for credit losses	(582)	213	(279)	425
Non-interest expenses	6,220	6,472	12,678	12,523
Income before restructuring charges and income taxes*	4,488	2,960	9,159	6,164
Restructuring charges	1,575	445	2,045	445
Net income	**2,104**	**1,807**	**13,968**	**4,118**
Income per common share:				
Basic	$ 0.07	$ 0.06	$ 0.62	$ 0.15
Diluted	$ 0.07	$ 0.06	$ 0.62	$ 0.15
Yield*	4.14%	4.14%	4.28%	4.17%
Cost of funds*	1.63%	1.91%	1.70%	1.94%
Net interest margin*	2.51%	2.23%	2.58%	2.23%
Return on average common equity*	3.66%	3.40%	15.66%	4.05%
Book value per common share*	$ 8.28	$ 7.63	$ 8.28	$ 7.63
Gross impaired loans to total loans	0.0%	0.0%	0.0%	0.0%
Provision (recovery) for credit losses as a % of average loans	(0.15%)	0.06%	(0.04%)	0.06%
		as at		
Balance Sheet Summary				
Cash and securities	$ 100,252	$ 141,534	$ 100,252	$ 141,534
Total loans	1,543,266	1,522,280	1,543,266	1,522,280
Average loans*	1,566,868	1,512,085	1,553,439	1,484,970
Total assets	1,688,852	1,698,305	1,688,852	1,698,305
Average assets*	1,730,928	1,700,160	1,696,626	1,662,056
Deposits	1,348,323	1,378,023	1,348,323	1,378,023
Subordinated notes payable	14,124	14,011	14,124	14,011
Shareholders' equity	204,139	182,633	204,139	182,633
Capital ratios*				
Risk-weighted assets	$ 1,373,051	$ 1,373,594	$ 1,373,051	$ 1,373,594
Total capital	182,818	184,591	182,818	184,591
Common Equity Tier 1 (CET1) ratio	10.68%	10.59%	10.68%	10.59%
Tier 1 capital ratio	12.81%	12.73%	12.81%	12.73%
Total capital ratio	13.31%	13.44%	13.31%	13.44%
Leverage ratio	10.07%	9.68%	10.07%	9.68%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q2 2017 Management's Discussion and Analysis.

Forward-Looking Statements

The statements in this press release 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 our control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; global commodity prices, the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see our annual MD&A for the year ended October 31, 2016.

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