VersaBank

Interim Consolidated Financial Statements
April 30, 2017
(Unaudited)

VERSABANK
Consolidated Balance Sheets
(Unaudited)

(thousands of Canadian dollars)

As at	April 30 2017	October 31 2016	April 30 2016
Assets			
Cash and cash equivalents	$ 99,911	$ 93,964	$ 119,091
Securities (note 4)	341	9,958	22,443
Loans, net of allowance for credit losses (note 5)	1,543,266	1,563,612	1,522,280
Other assets (note 6)	45,334	36,866	34,491
	$1,688,852	$1,704,400	$1,698,305
Liabilities and Shareholders' Equity			
Deposits	$1,348,323	$1,369,647	$1,378,023
Subordinated notes payable (note 7)	14,124	14,067	14,011
Securitization liabilities (note 8)	33,230	43,585	43,555
Other liabilities (note 9)	89,036	91,217	80,083
	1,484,713	1,518,516	1,515,672
Shareholders' equity:			
Share capital (notes 10 and 19)	182,094	176,706	176,706
Retained earnings	22,040	9,172	5,921
Accumulated other comprehensive income	5	6	6
	204,139	185,884	182,633
	$1,688,852	$1,704,400	$1,698,305

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

VERSABANK

Consolidated Statements of Income
(Unaudited)

(thousands of Canadian dollars, except per share amounts)	for the three months ended		for the six months ended	
	April 30 2017	April 30 2016	April 30 2017	April 30 2016
Interest income:				
Loans	$ 17,138	$ 17,079	$ 35,462	$ 33,999
Securities	325	267	587	573
	17,463	17,346	36,049	34,572
Interest expense:				
Deposits and other	6,536	7,641	13,621	15,374
Subordinated notes	348	345	704	696
	6,884	7,986	14,325	16,070
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 (note 5b)	(582)	213	(279)	425
	10,708	9,432	21,837	18,687
Non-interest expenses:				
Salaries and benefits	3,362	3,515	6,690	6,904
General and administrative	2,362	2,423	4,922	4,568
Premises and equipment	496	534	1,066	1,051
	6,220	6,472	12,678	12,523
Restructuring charges (Note 14)	1,575	445	2,045	445
	7,795	6,917	14,723	12,968
Income before income taxes	2,913	2,515	7,114	5,719
Income tax provision (recovery) (note 11a)	809	708	(6,854)	1,601
Net income	$ 2,104	$ 1,807	$ 13,968	$ 4,118
Basic and diluted income per common share (note 12)	$ 0.07	$ 0.06	$ 0.62	$ 0.15
Weighted average number of common shares outstanding	21,124,000	19,817,000	20,601,000	19,625,000

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

VERSABANK

Consolidated Statements of Comprehensive Income
(Unaudited)

(thousands of Canadian dollars)	for the three months ended		for the six months ended	
	April 30 2017	April 30 2016	April 30 2017	April 30 2016
Net income	$ 2,104	$ 1,807	$ 13,968	$ 4,118
Other comprehensive income (loss), net of tax				
Net unrealized gains (losses) on assets held as available-for-sale (1)	2	2	(1)	(7)
Comprehensive income	$ 2,106	$ 1,809	$ 13,967	$ 4,111

(1) Net of income tax expense for the three months of $1 (2016 – $1 expense) and income tax benefit for the six months of $0 (2016 - $3 benefit).

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VERSABANK

Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(thousands of Canadian dollars)

	for the three months ended		for the six months ended	
	April 30 2017	April 30 2016	April 30 2017	April 30 2016
Common shares (note 10):				
Balance, beginning of the period	$ 152,612	$ 142,224	$ 147,224	$ 142,224
Issued during the period	-	5,000	-	5,000
Impact of amalgamation of PWC Capital Inc. (note 19)	-	-	5,388	-
Balance, end of the period	$ 152,612	$ 147,224	$ 152,612	$ 147,224
Preferred shares (note 10):				
Series 1 preferred shares				
Balance, beginning and end of the period	$ 13,647	$ 13,647	$ 13,647	$ 13,647
Series 3 preferred shares				
Balance, beginning and end of the period	$ 15,690	$ 15,690	$ 15,690	$ 15,690
Contributed surplus:				
Balance, beginning and end of the period	$ 145	$ 145	$ 145	$ 145
Total share capital	$ 182,094	$ 176,706	$ 182,094	$ 176,706
Retained earnings:				
Balance, beginning of the period	$ 20,486	$ 4,664	$ 9,172	$ 2,903
Net income	2,104	1,807	13,968	4,118
Dividends paid on preferred shares	(550)	(550)	(1,100)	(1,100)
Balance, end of the period	$ 22,040	$ 5,921	$ 22,040	$ 5,921
Accumulated other comprehensive income, net of taxes:				
Balance, beginning of the period	$ 3	$ 4	$ 6	$ 13
Other comprehensive income (loss)	2	2	(1)	(7)
Balance, end of the period	$ 5	$ 6	$ 5	$ 6
Total shareholders' equity	$ 204,139	$ 182,633	$ 204,139	$ 182,633

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

VERSABANK

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)

For the six months ended	April 30 2017	April 30 2016
Cash provided by (used in):		
Operations:		
Net income	$ 13,968	$ 4,118
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision (recovery) for credit losses	(279)	425
Income tax provision (recovery)	(6,854)	1,601
Interest income	(36,049)	(34,572)
Interest expense	14,325	16,070
Interest received	35,833	34,069
Interest paid	(17,380)	(17,536)
Change in operating assets and liabilities:		
Loans	20,870	(73,536)
Deposits	(18,260)	53,739
Change in other assets and liabilities	3,819	5,001
	9,993	(10,621)
Investing:		
Purchase of securities	-	(9,583)
Proceeds from sale and maturity of securities	9,585	9,338
Purchase of property, plant and equipment	(1,265)	-
Cash acquired on amalgamation	1,569	-
Transaction costs associated with share issuance	(1,852)	-
	8,037	(245)
Financing:		
Redemption of securitization liability	(10,307)	-
Dividends paid	(1,100)	(1,100)
Income taxes paid	(676)	(1,021)
Proceeds from shares issued	-	5,000
	(12,083)	2,879
Increase (decrease) in cash and cash equivalents	5,947	(7,987)
Cash and cash equivalents, beginning of the period	93,964	127,078
Cash and cash equivalents, end of the period	$ 99,911	$ 119,091
Cash and cash equivalents is represented by:		
Cash	$ 94,912	$ 44,113
Cash equivalents	4,999	74,978
Cash and cash equivalents, end of the period	$ 99,911	$ 119,091

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

1. Reporting entity:

VersaBank (the "Bank") operates as a Schedule I bank under the Bank Act *(Canada)* and is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Bank, whose shares trade on the Toronto Stock Exchange, is involved in the business of providing commercial lending services to selected niche markets.

The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2. On January 31, 2017, the Bank and PWC Capital Inc. ("PWC"), its former parent, whose shares also traded on the Toronto Stock Exchange, amalgamated pursuant to section 228 of the Bank Act (Canada) with the amalgamated entity continuing under the name VersaBank (see Note 19). Prior to the Amalgamation PWC owned approximately 63% (January 31, 2016 – 65%) of the common shares of the Bank.

2. Basis of preparation:

a) Statement of compliance:

These interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim Consolidated Financial Statements should be read in conjunction with the Bank's audited Consolidated Financial Statements for the year ended October 31, 2016.

The interim Consolidated Financial Statements for the three and six months ended April 30, 2017 and 2016 were approved by the Audit Committee of the Board of Directors on May 29, 2017.

b) Basis of measurement:

These interim Consolidated Financial Statements have been prepared on the historical cost basis except for securities designated as available-for-sale that are measured at fair value in the Consolidated Balance Sheets.

c) Functional and presentation currency:

These interim Consolidated Financial Statements are presented in Canadian dollars which is the Bank's functional currency. Except as indicated, the financial information presented has been rounded to the nearest thousand.

d) Use of estimates and judgments:

In preparing these interim 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 period. Areas where significant judgment was applied were in the assessments of impairment of financial instruments. Estimates include the calculation of the allowance for credit losses and the measurement of deferred income taxes.

It is reasonably possible, on the basis of existing knowledge, that actual results may vary from that expected in the generation of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

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

3. Significant accounting policies:

The accounting policies applied by the Bank in these interim Consolidated Financial Statements are the same as those applied by the Bank as at and for the year ended October 31, 2016 and are detailed in Note 3 of the Bank's 2016 Audited Consolidated Financial Statements.

4. Securities:

Portfolio analysis:

	April 30 2017	October 31 2016	April 30 2016
Available-for-sale securities			
Securities issued or guaranteed by:			
Canadian provincial governments	$ -	$ 9,687	$ 9,650
Canadian municipal governments	341	271	274
Total available-for-sale securities	$ 341	$ 9,958	$ 9,924
Held-to-maturity security			
Debt of other financial institutions	$ -	$ -	$ 12,519
Total securities	$ 341	$ 9,958	$ 22,443

Canadian provincial government securities are carried at fair value based on quoted market prices (Level 1). Canadian municipal debt falls into Level 2 of the fair value hierarchy. See Note 3 (c) of the October 31, 2016 audited consolidated financial statements for more information.

5. Loans:

a) Portfolio analysis:

	April 30 2017	October 31 2016	April 30 2016
Government loans	$ 58,958	$ 66,016	$ 67,067
Loan and lease receivables	779,644	783,669	706,072
Residential mortgages	89,416	95,624	121,427
Commercial mortgages	259,244	227,816	263,792
Construction mortgages	244,839	256,429	236,053
Commercial loans	105,069	102,265	98,268
Credit card receivables and other	3,022	29,373	27,549
	1,540,192	1,561,192	1,520,228
Collective allowance	(2,271)	(3,031)	(3,104)
Accrued interest	5,345	5,451	5,156
Total loans, net of allowance for credit losses	$ 1,543,266	$ 1,563,612	$ 1,522,280

The collective allowance for credit losses relates to the following loan portfolios:

	April 30 2017	October 31 2016	April 30 2016
Government loans	$ 12	$ 14	$ 15
Loan and lease receivables	350	344	314
Residential mortgages	24	26	271
Commercial mortgages	682	551	521
Construction mortgages	739	765	755
Commercial loans	455	276	166
Credit card receivables and other	9	1,055	1,062
	$ 2,271	$ 3,031	$ 3,104

The Bank holds security against the majority of its loans in the form of either mortgage interests over property, other registered securities over assets, guarantees and holdbacks on loan and lease receivables (see Note 9).

The Bank terminated its credit card program with Home Hardware Stores Limited in December 2016 and sold the outstanding credit card receivables portfolio in April 2017.

b) Allowance for credit losses:

The allowance for credit losses results from the following:

For the three months ended	Collective	Individual	April 30 2017 Total Allowance	April 30 2016 Total Allowance
Balance, beginning of the period	$ 3,032	$ -	$ 3,032	$ 3,163
Provision (recovery) for credit losses	(582)	-	(582)	213
Write-offs	(179)	-	(179)	(272)
Balance, end of the period	$ 2,271	$ -	$ 2,271	$ 3,104

For the six months ended	Collective	Individual	April 30 2017 Total Allowance	April 30 2016 Total Allowance
Balance, beginning of the period	$ 3,031	$ -	$ 3,031	$ 3,212
Provision (recovery) for credit losses	(279)	-	(279)	425
Write-offs	(481)	-	(481)	(533)
Balance, end of the period	$ 2,271	$ -	$ 2,271	$ 3,104

c) Impaired loans:

At April 30, 2017, there were $nil impaired loans (October 31, 2016 - $nil). At April 30, 2017, loans past due were $nil (October 31, 2016 - $936,000).

6. Other Assets

	April 30 2017	October 31 2016	April 30 2016
Accounts receivable	$ 338	$ 1,820	$ 1,605
Funds held for securitization liabilities	4,815	14,719	11,388
Prepaid expenses and other	6,697	9,599	9,602
Property and equipment	7,353	4,330	4,251
Deferred income tax asset (note 11b)	26,131	6,398	7,645
	$ 45,334	$ 36,866	$ 34,491

7. Subordinated notes payable:

	April 30 2017	October 31 2016	April 30 2016
Ten year term, unsecured, callable, subordinated notes payable by the Bank to an unrelated party, maturing between 2019 and 2021, net of issue costs of $376 (October 31, 2016 - $433) effective interest of 10.06%	$ 14,124	$ 14,067	$ 14,011
	$ 14,124	$ 14,067	$ 14,011

8. Securitization liabilities:

Securitization liabilities include amounts payable to counterparties for cash received upon initiation of securitization transactions, accrued interest on amounts payable to counterparties, and the unamortized balance of deferred costs and discounts which arose upon initiation of the securitization transactions.

The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Securitized residential insured mortgages and other assets are pledged as collateral for these liabilities.

During the six months ended April 30, 2017, a securitization liability matured totalling $10,307,000 with an interest rate of 1.97%.

9. Other liabilities:

	April 30 2017	October 31 2016	April 30 2016
Accounts payable and other	$ 7,953	$ 8,653	$ 6,061
Holdbacks payable on loan and lease receivables	81,083	82,564	74,022
	$ 89,036	$ 91,217	$ 80,083

10. Share capital:

a) Common shares:

At April 30, 2017, there were 21,123,559 (October 31, 2016 – 20,095,065) common shares outstanding. The net increase of 1,028,494 shares was issued as part of the Amalgamation with PWC Capital Inc. (see Note 19). In March 2016, 657,894 common shares were issued for cash proceeds of $5,000,000 under a private placement.

b) Preferred shares:

At April 30, 2017, there were 1,461,460 (October 31, 2016 – 1,461,460) Series 1 preferred shares and 1,681,320 (October 31, 2016 – 1,681,320) Series 3 preferred shares outstanding. These shares are Basel III compliant, non-cumulative rate reset preferred shares which include non-viability contingent capital provisions (NVCC). As a result, these shares qualify as Additional Tier 1 Capital (see Note 16).

c) Stock options:

At April 30, 2017, there were 47,059 common share stock options outstanding (October 31, 2016 – 40,000).

11. Income taxes:

a) Income tax provision (recovery):

	for the three months ended		for the six months ended	
	April 30 2017	April 30 2016	April 30 2017	April 30 2016
Income tax on earnings	$ 809	$ 708	$ 1,977	$ 1,601
Recognition of previously unrecognized deferred income tax asset	-	-	(8,831)	-
	$ 809	$ 708	$ (6,854)	$ 1,601

b) Deferred income tax asset:

	April 30 2017	April 30 2016
Balance, beginning of period	$ 6,398	$ 8,804
Income taxes on earnings	(1,977)	(1,601)
Recognition of previously unrecognized deferred income tax asset	8,831	-
Recognition of deferred income tax asset on amalgamation	11,939	-
Income taxes on transaction costs	500	-
Deferred income tax impact of payment of dividends	440	439
Income taxes on other comprehensive income	-	3
Balance, end of period	$ 26,131	$ 7,645

12. Income per common share:

	for the three months ended		for the six months ended	
	April 30 2017	April 30 2016	April 30 2017	April 30 2016
Net income	$ 2,104	$ 1,807	$ 13,968	$ 4,118
Less: dividends on preferred shares	(550)	(550)	(1,100)	(1,100)
	1,554	1,257	12,868	3,018
Average number of common shares outstanding	21,124,000	19,817,000	20,601,000	19,625,000
Income per common share:	$ 0.07	$ 0.06	$ 0.62	$ 0.15

Employee stock options do not have a dilutive impact as the exercise price is greater than the average market price. The Series 1 and Series 3 NVCC preferred shares are contingently issuable shares and do not have a dilutive impact.

13. Commitments and contingencies:

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obligated to extend. Under certain circumstances, the Bank may cancel loan commitments at its option. The amounts with respect to the letters of credit are not necessarily indicative of credit risk 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. Undrawn credit card lines at April 30, 2017 were zero as a result of the termination of the credit card agreement with Home Hardware Stores Limited on December 31, 2016.

	April 30 2017	October 31 2016	April 30 2016
Loan commitments	$ 185,294	$ 265,631	$ 228,449
Undrawn credit card lines	-	127,116	134,620
Letters of credit	41,958	42,809	42,543
	$ 227,252	$ 435,556	$ 405,612

14. Restructuring charges:

Restructuring charges for the quarter totaled $1.6 million compared to $470,000 last quarter and $445,000 a year ago. The current quarter's restructuring charges relate primarily to termination benefits for employees and key management personnel incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization. The restructuring charges incurred in the comparative quarters were primarily costs associated with the Bank's corporate rebranding and strategic review that resulted in the Amalgamation.

15. Related party transactions:

During the three months and six months ended April 30, 2017 the Bank incurred management and other fees totalling $nil (April 30, 2016 - $150,000) and $225,000 (April 30, 2016 - $300,000) to PWC and a subsidiary of PWC.

The Bank's Board of Directors and senior executive officers represent key management personnel.

The Bank has loans to employees and key management personnel. At April 30, 2017, amounts due from related parties totalled $735,000 (October 31, 2016 - $748,000). The interest rates charged on these loans are similar to those charged in an arms-length transaction. Interest income earned on the above loans for the three months and six months ended April 30, 2017 was $5,000 (April 30, 2016 - $17,000) and $10,000 (April 30, 2016 - $34,000) respectively. There were no provisions for credit losses related to loans issued to key management personnel for the three and six months ended April 30, 2017 and 2016.

16. Capital management:

a) Overview:

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also important and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater leverage and the advantages and security afforded by a sound 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 take into account forecasted capital needs and conditions in financial markets.

The goal is to maintain adequate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory return to shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and unrealized gains and losses on available-for-sale securities (Common Equity Tier 1 capital), preferred shares (Additional Tier 1 capital) and the qualifying amount of subordinated notes (Tier 2 capital).

The Bank monitors its capital adequacy and related capital ratios on a daily basis and has policies setting internal maximum and minimum amounts for its capital ratios. These capital ratios consist of the leverage ratio and the risk-based capital ratios.

During the period ended April 30, 2017, there were no material changes in the Bank's management of capital.

b) Risk-Based Capital Ratios:

The Basel Committee on Banking Supervision has published the Basel III rules supporting more stringent global standards 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 that became effective January 1, 2013 for purposes of determining its risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 (CET1) capital ratio and effective January 1, 2014, an 8.5% Tier 1 capital ratio and 10.5% total capital ratio, all of which include a 2.50% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios is related to the 10 year phase out of non-qualifying capital instruments.

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, assets held by the Bank are assigned a weighting of 0% to 150% to determine the risk-based capital ratios.

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

	April 30, 2017		October 31, 2016	
	"All-in"	"Transitional"	"All-in"	"Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$ 152,757	$ 152,757	$ 147,369	$ 147,369
Retained earnings	22,040	22,040	9,172	9,172
Accumulated other comprehensive income	5	5	6	6
CET1 capital before regulatory adjustments	174,802	174,802	156,547	156,547
Total regulatory adjustments to CET1	(28,221)	(22,576)	(6,562)	(3,937)
Common Equity Tier 1 capital	$ 146,581	$ 152,226	$ 149,985	$ 152,610
Additional Tier 1 (AT1) capital				
Directly issued qualifying AT1 instruments	$ 29,337	$ 29,337	$ 29,337	$ 29,337
Tier 1 capital	$ 175,918	$ 181,563	$ 179,322	$ 181,947
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 6,900	$ 6,900	$ 9,800	$ 9,800
Tier 2 capital before regulatory adjustments	6,900	6,900	9,800	9,800
Total regulatory adjustments to Tier 2 capital	-	-	-	-
Tier 2 capital	$ 6,900	$ 6,900	$ 9,800	$ 9,800
Total capital	$ 182,818	$ 188,463	$ 189,122	$ 191,747
Total risk-weighted assets	$ 1,373,051	$ 1,378,694	$ 1,425,171	$ 1,427,796
Capital ratios				
CET1 Ratio	10.68%	11.04%	10.52%	10.69%
Tier 1 Capital Ratio	12.81%	13.17%	12.58%	12.74%
Total Capital Ratio	13.31%	13.67%	13.27%	13.43%

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 its total exposures. The leverage ratio is calculated as follows:

	April 30 2017	October 31 2016
On-balance sheet assets	$ 1,688,852	$ 1,704,400
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(28,221)	(6,562)
Total on-balance sheet exposures	1,660,631	1,697,838
Off-balance sheet exposure at gross notional amount	$ 227,252	$ 435,556
Adjustments for conversion to credit equivalent amount	(141,141)	(306,877)
Off-balance sheet exposures	86,111	128,679
Tier 1 Capital	175,918	179,322
Total Exposures	1,746,742	1,826,517
Leverage Ratio	10.07%	9.82%

The Bank was in compliance with the leverage ratio prescribed by OSFI throughout the periods presented.

17. Interest rate position:

The Bank is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The following table provides the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholders' equity over a 60 month period if no remedial actions are taken.

	April 30, 2017		October 31, 2016	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 2,548	$ (2,446)	$ 2,387	$ (2,243)
Impact on reported equity during a 60 month period	$ (1,269)	$ 1,405	$ (1,631)	$ 1,667
Duration difference between assets and liabilities (months)	0.1		0.6	

18. Fair Value of Financial Instruments:

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 are not necessarily representative of amounts realizable upon immediate settlement. See Note 22 to the October 31, 2016 consolidated financial statements for more information on fair values.

	April 30, 2017		October 31, 2016	
	Book Value	Fair value of assets and liabilities	Book Value	Fair value of assets and liabilities
Assets				
Cash and cash equivalents	$ 99,911	$ 99,911	$ 93,964	$ 93,964
Securities	341	341	9,958	9,958
Loans	1,543,266	1,544,278	1,563,612	1,563,299
Other financial assets	5,153	5,153	16,539	16,539
Liabilities				
Deposits	$ 1,348,323	$ 1,352,680	$ 1,369,647	$ 1,380,685
Subordinated notes payable	14,124	14,500	14,067	14,500
Securitization liabilities	33,230	35,857	43,585	46,923
Other financial liabilities	89,036	89,036	91,217	91,217

19. Amalgamation of PWC and the Bank:

On September 12, 2016 and November 15, 2016, PWC and the Bank jointly announced that they had entered into an agreement to merge by amalgamation under the Bank Act (Canada) (the "Amalgamation"). This transaction was completed on January 31, 2017, pursuant to section 228 of the Bank Act (Canada), with the amalgamated entity continuing under the name VersaBank. Pursuant to the Amalgamation: (i) each issued and outstanding common share of PWC (other than PWC common shares with respect to which dissent rights were exercised) was converted into common shares of the Bank on the basis of 54.508758 PWC common shares for 1 Bank common share, resulting in a total of 13,643,713 Bank common shares being issued, (ii) 12,615,219 outstanding common shares of VersaBank held by PWC prior to the Amalgamation were cancelled, and (iii) each issued and outstanding security of VersaBank held prior to the Amalgamation continues on under the same arrangement subsequent to the Amalgamation. As a result of the above, at January 31, 2017 the issued and outstanding common shares of the Bank increased by 1,028,494 shares to 21,123,559 common shares.

In addition, each outstanding option to acquire PWC common shares was converted into an option to purchase Bank common shares resulting in 7,059 additional options being issued.

The fair values of the assets and liabilities acquired by the Bank on Amalgamation are as follows:

		January 31 2017
Incremental assets recognized:		
Cash	$	1,569
Deferred income tax asset		11,939
Other assets		2,025
Other net liabilities assumed		(8,793)
Transaction costs, net of income taxes of $500		(1,352)
Total impact of amalgamation	$	5,388

VersaBank, a technology based and digital Canadian Schedule I chartered bank, operates using an "electronic branchless model". It sources deposits, consumer loans, commercial loans and leases electronically. The Bank also makes residential development and commercial mortgages it sources through a well-established network of brokers and direct contact with its lending staff. Versabank's Common Shares trade on the Toronto Stock Exchange under the symbol of VB and its Series 1 Preferred Shares and Series 3 Preferred Shares trade under the symbols VB.PR.A and VB.PR.B, respectively.

On behalf of the Board of Directors: David R. Taylor, President & C.E.O.

FOR FURTHER INFORMATION PLEASE CONTACT:
Investor Relations: Wade MacBain (800) 244-1509, wadem@versabank.com
Visit our website at: http://www.versabank.com