THIRD QUARTER 2017

EARNINGS RELEASE

VERSABANK REPORTS THIRD 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 third quarter 2017 ("Q3 2017") Management's Discussion and Analysis and unaudited Interim Consolidated Financial Statements for the period ended July 31, 2017, are available online at www.versabank.com/investor-relations and at www.sedar.com. Our Q3 2017 Supplementary Financial Information is also available on our website at www.versabank.com/investor-relations.

LONDON, ONTARIO, August 30, 2017 – VersaBank, ("VB" or the "Bank"), (TSX:VB), today reported net income of $2.7 million for the three months ended July 31, 2017, up $0.2 million from a year ago. Income before taxes and restructuring charges for the current quarter was $3.7 million, up $0.2 million from a year ago largely as a result of a reduction in the Bank's cost of funds, partially offset by an increase in non-interest expenses primarily due to a feasibility study conducted by the Bank pertaining to the Advanced Internal Rating-Based (AIRB) approach to risk capitalization.

Net income for the nine months ended July 31, 2017 was $16.7 million, up $10.1 million compared to the same period a year ago. The nine 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 a reduction in the Bank's cost of funds, partially offset by restructuring charges over the same period.

Income before taxes and restructuring charges for the nine months ended July 31, 2017 was $12.9 million, up $3.2 million compared to the same period a year ago. The year over year improvement was a result of loan growth as well as continued net interest margin ("NIM") expansion over the same period, the latter being driven primarily by a reduction in the Bank's cost of funds.

"The Bank's focus on reducing its cost of funds, maintenance of disciplined credit management and adherence to its strategy of targeting niche markets with a favorable risk/return trade-off continues to drive solid performance. NIM for the quarter was 2.53%, which is amongst the best in the industry, (YTD was 2.56%), while provisions for credit losses ("PCL") was 0.002% of average loan balances and our capital position stayed strong as evidenced by a Common Equity Tier 1 ("CET1") ratio of 11.00% and a leverage ratio of 10.27% at July 31, 2017", said David Taylor, VB President and CEO.

Mr. Taylor further commented, "The Bank's earnings capacity or core cash earnings was strong this quarter at $4.4 million, which is the Bank's pre-tax earnings adjusted for non-core operational costs such as restructuring charges and the cost associated with the AIRB feasibility study, which was approximately $646,000. We expect core cash earnings to continue to improve as the Bank works to maintain and potentially further reduce its low cost of funds as well as capitalize on opportunities to enhance operational efficiency".

Q3 2017 compared to Q3 2016[1]

- Core cash earnings[2] of $4.4 million (up 25% from $3.5 million)
- Core cash earnings per share of $0.21 (up $0.04 from $0.17)
- Net income of $2.7 million (up 8% from $2.5 million)
- Income before restructuring charges and income taxes of $3.7 million (up 6% from $3.5 million)
- NIM of 2.53% (up 22 bps from 2.31%)
- Basic and diluted earnings per share (EPS) of $0.10 (up $0.01 from $0.09)
- Common share book value of $8.38 (up 9% from $7.72)
- ROCE of 4.81% (down 9 bps from 4.90%)
- CET1 ratio of 11.00% (up from 10.70%)
- Leverage ratio of 10.27% (up from 9.77%)

YTD Q3 2017 compared to YTD Q3 2016[1]

- Core cash earnings[2] of $13.5 million (up 40% from $9.7 million)
- Core cash earnings per share of $0.65 (up $0.16 from $0.49)
- Net income of $16.7 million (up 153% from $6.6 million[3])
- Income before restructuring charges and income taxes of $12.9 million (up 33% from $9.7 million)
- NIM of 2.56% (up 28 bps from 2.28%)
- Basic and diluted EPS of $0.72 (up $0.47 from $0.25[3])
- Common share book value of $8.38 (up 9% from $7.72)
- ROCE of 12.03% (up 766 bps from 4.37%)
- CET1 ratio of 11.00% (up from 10.70%)
- Leverage ratio of 10.27% (up from 9.77%)

(1) Certain highlights include non-GAAP measures. See definition under ‘Basis of Presentation’ in the Q3 2017 Management’s Discussion and Analysis.

(2) Core cash earnings is calculated as income before taxes adjusted for non-core operational costs. The Bank did not pay cash income taxes in the current and comparative periods due to the utilization of the available tax loss carryforwards.

(3) 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.

Q3 2017 Business Operations

VersaBank is a technologically proficient Canadian Schedule I chartered bank which operates using an electronic branchless model. The Bank sources its funding through a well-established and widely diversified nationwide network of deposit brokers, holdback balances retained from vendor partners, and from insolvency industry professionals through a customized banking software solution. The Bank purchases loan and lease receivables from non-bank financial companies and also originates and services real estate development and commercial loans that are sourced through direct contact with its clients as well as through mortgage brokers and syndication partners.

Commercial Banking – Loans are obtained through direct contact with the Bank’s 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 July 31, 2017 totalled $713 million, down 3.78% and unchanged from last quarter and a year ago respectively. NIM at July 31, 2017 remained strong at approximately 3.10% for the quarter up 14 bps and 49 bps from last quarter and a year ago respectively.

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 July 31, 2017 totalled $804 million, up 2.55% and 4.69% from last quarter and year ago respectively as a result of growth in purchased receivable volumes. NIM at July 31, 2017 was approximately 2.41% for the quarter down 12 bps from last quarter and up 13 bps from a year ago.

Funding - VB has established three key funding channels. The first channel was pioneered by VB in the early 1990’s and involves gathering term and demand deposits without the need for branches, from a well-established and widely diversified nationwide network of brokers. The second channel is derived from the holdback balances retained from VB’s vendor partners and the third channel involves funds received from insolvency industry professionals. The latter channel resulted from VB’s software and deposits teams developing a custom banking solution for the Canadian insolvency industry that enables VB to provide custom web based current accounts to individual Trustees in bankruptcy. This channel provides VB with a stable low cost source of funds. VB's cost of funds at July 31, 2017 was 1.61%, down 2 bps from last quarter and down 21 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 July 31, 2017, VB's CET1 ratio was 11.00%, up 32 bps from last quarter. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets and because VB focuses on commercial and consumer loans with lower than average risk (as demonstrated by its long history of low PCLs) 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.

Credit Quality – For the quarter ended July 31, 2017 the Bank recorded a net provision in the amount of $38,000 compared to a recovery for credit losses in the amount of $582,000 last quarter and a provision for credit losses of $24,000 a year ago. The recovery last quarter was due to a decrease in the Bank's collective allowance that resulted from the sale of the Bank's credit card portfolio during the same period.

As at July 31, 2017, total gross impaired loans were less than 0.04% of total lending assets. 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.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the nine months ended	
	July 31	July 31	July 31	July 31
($CDN thousands except per share amounts)	2017	2016	2017	2016
Results of operations				
Net interest income	$ 10,751	$ 9,836	$ 32,475	$ 28,338
Non-interest income (loss)	12	343	(154)	953
Total revenue	10,763	10,179	32,321	29,291
Provision (recovery) for credit losses	38	24	(241)	449
Non-interest expenses	7,012	6,654	19,690	19,177
Income before restructuring charges and income taxes*	3,713	3,501	12,872	9,665
Restructuring charges	-	98	2,045	543
Net income	**2,682**	**2,456**	**16,650**	**6,574**
Income per common share:				
Basic	$ 0.10	$ 0.09	$ 0.72	$ 0.25
Diluted	$ 0.10	$ 0.09	$ 0.72	$ 0.25
Yield*	4.14%	4.13%	4.23%	4.20%
Cost of funds*	1.61%	1.82%	1.67%	1.92%
Net interest margin*	2.53%	2.31%	2.56%	2.28%
Return on average common equity*	4.81%	4.90%	12.03%	4.37%
Book value per common share*	$ 8.38	$ 7.72	$ 8.38	$ 7.72
Gross impaired loans to total loans	0.04%	0.00%	0.04%	0.00%
Provision (recovery) for credit losses as a % of average loans	0.00%	0.00%	(0.02%)	0.03%
		as at		
Balance Sheet Summary				
Cash and securities	$ 103,579	$ 152,028	$ 103,579	$ 152,028
Total loans	1,534,893	1,499,006	1,534,893	1,499,006
Average loans*	1,539,080	1,510,643	1,549,253	1,473,333
Total assets	1,684,523	1,685,294	1,684,523	1,685,294
Average assets*	1,686,688	1,691,800	1,694,462	1,655,550
Deposits	1,343,612	1,357,963	1,343,612	1,357,963
Subordinated notes payable	9,772	14,039	9,772	14,039
Shareholders' equity	206,267	184,537	206,267	184,537
Capital ratios*				
Risk-weighted assets	$ 1,360,050	$ 1,384,117	$ 1,360,050	$ 1,384,117
Total capital	184,941	187,235	184,941	187,235
Common Equity Tier 1 (CET1) ratio	11.00%	10.70%	11.00%	10.70%
Tier 1 capital ratio	13.16%	12.82%	13.16%	12.82%
Total capital ratio	13.60%	13.53%	13.60%	13.53%
Leverage ratio	10.27%	9.77%	10.27%	9.77%

* This is a non-GAAP measure. See definition under ‘Basis of Presentation’ in the Q3 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.

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