FIRST QUARTER 2017

EARNINGS RELEASE

VERSABANK REPORTS FIRST 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. On January 31, 2017 VersaBank amalgamated with PWC Capital Inc. ("PWC") pursuant to section 228 of the Bank Act (Canada) (the "Amalgamation"), with the amalgamated entity continuing under the name VersaBank. These financial statements reflect the results of the amalgamated entity VersaBank ("VB" or the "Bank"). Our Q1 2017 Supplementary Financial Information is available on our website at versabank.com/investor-relations.

LONDON, ONTARIO, March 17, 2017 - VersaBank (VB on TSX) today reported net income of $11.9 million for the first quarter ended January 31, 2017, up $9.6 million from a year ago. 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 and strong earnings derived from Commercial Banking and eCommerce.

Excluding the DTA gain noted above, income before taxes and restructuring costs was $4.7 million up $1.5 million or 47% over the last quarter. These strong results reflect loan growth (up 2% up from last quarter) and a significant improvement in net interest margin ("NIM") (up 8% from last quarter).

"NIM is now one of the best in our industry at 2.54% and is particularly impressive considering our provision for credit losses ("PCL"), of 2 bps, is one of the lowest in our industry. Our strategy to target niche markets where the 'risk/return' trade-off is favourable is clearly working," said David Taylor, VB President and CEO.

Our capital position was very strong with a Common Equity Tier 1 ("CET1") ratio of 10.28% and leverage ratio of 9.45%. The latter ratio is more than double the average of the other publically 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 of the portfolio warrants. This serves to depress VB's return on common equity ("ROCE") and balance sheet growth. Addressing this anomaly is a top priority for VB.

The Amalgamation resulted in VB acquiring net assets of $6.7 million before transaction costs for net consideration of 1,028,494 common shares bringing VB's total issued and outstanding shares to 21,123,559.

Q1 2017 compared to Q1 2016[1]

- Net income of $11.9 million (up 413% from $2.3 million)
- NIM of 2.54% (up 17% from 2.18%)
- Basic and diluted earnings per share (EPS) of $0.56 (up $0.47 from $0.09)
- Common share book value $8.20 (up 9% from $7.56)
- ROCE of 27.22% (up 468% from 4.79%)
- CET1 ratio of 10.28% (up from 10.11%)
- Leverage ratio 9.45% (up from 9.23%)

Q1 2017 compared to Q4 2016[1]

- Net income of $11.9 million (up 526% from $1.9 million)
- NIM of 2.54% (up 8% from 2.36%)
- Basic and diluted EPS of $0.56 (up $0.49 from $0.07)
- Common share book value $8.20 (up 5% from $7.79)
- ROCE of 27.22% (up 694% from 3.43%)
- CET1 ratio of 10.28% (down from 10.52%)
- Leverage ratio 9.45% (down from 9.82%)

- Income before restructuring charges and income taxes of $4.7 million (up 47% from $3.2 million)

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

Q1 2017 Business Operations

Commercial Banking – Loans are obtained by direct contact with our clients by our lending staff located mainly in London, Ontario and through mortgage brokers. Loans are well secured by real estate primarily in Ontario and occasionally other areas of Canada. Assets at January 31, 2017 totalled $765 million up 2.25% from the previous quarter but down 4.17% from a year ago. NIM at January 31, 2017 was approximately 3.15%.

eCommerce – Batches of small loan and lease receivables are electronically purchased from our vendor partners who make point of sale loans and leases in various markets throughout Canada. Assets at January 31, 2017 totalled $823 million up 1.23% from the previous quarter and up 17.30% from a year ago. NIM at January 31, 2017 was approximately 2.44%. This is the fastest growing area of our business and we have just enhanced it by developing the technology to enable us to buy individual loan and lease receivables on a real time basis. This area of operations also includes a small credit card receivable portfolio in the amount of $23 million at January 31, 2017 that we are winding down.

Deposit Services – VB has developed 3 channels for gathering deposits. It gathers deposits, without the need for branches, from a large nationwide network of brokers, obtains deposits from its vendor partners and it obtains deposits from insolvency professionals. The latter channel resulted from VB’s software team developing a custom banking program for insolvency professionals. This exciting new channel continues to grow and serves to lower VB’s overall cost of funds and further diversify its deposit base. VB’s cost of funds at January 31, 2017 was 1.70%, down 2% from last quarter and down 12% 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 January 31, 2017, VB’s CET1 ratio was 10.28%, down 24 bps from last quarter and up 17bps from a year ago. 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 is demonstrated by its history of extremely low PCL) it believes the Standardized Approach does not properly reflect the intrinsic risk of its loan portfolio. As a consequence VB’s leverage ratio is more than twice the average leverage ratio of the big banks, which use the ‘Internal Ratings Based Approach’ to calculate their risk weighted assets. Addressing this anomaly is a top priority for VB.

Credit Quality – Total PCL of $303,000 at January 31, 2017 was down $119,000 or 28% from last quarter, largely reflecting lower provisions relating to our credit card portfolio that we are winding down. Total PCL ratio of 0.02% was down 1 bps as compared to last quarter and reflects the very low intrinsic risk in our loan portfolio.

Total gross impaired loans were again nil as they have been for the past 4 years. VB’s business model is to incur less lending risk than the other financial institutions (“FI”), but achieve greater NIM, by lending to niche markets that are not well served by the larger FIs. Accordingly, this strategy is producing the best NIM in our industry with the least gross impaired loans.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		
	January 31	October 31	January 31
($CDN thousands except per share amounts)	2017	2016	2016
Results of operations			
Net interest income	$ 11,145	$ 10,066	$ 9,142
Non-interest income	287	320	325
Total revenue	11,432	10,386	9,467
Provision for credit losses	303	422	212
Non-interest expenses	6,458	6,779	6,051
Income before restructuring charges and income taxes*	4,671	3,185	3,204
Restructuring charges	470	549	-
Net income	**11,864**	**1,896**	**2,311**
Income per common share:			
Basic	$ 0.56	$ 0.07	$ 0.09
Diluted	$ 0.56	$ 0.07	$ 0.09
Yield*	4.24%	4.09%	4.11%
Cost of funds*	1.70%	1.73%	1.93%
Net interest margin*	2.54%	2.36%	2.18%
Return on average common equity*	27.22%	3.43%	4.79%
Book value per common share*	$ 8.20	$ 7.79	$ 7.56
Gross impaired loans to total loans	0.00%	0.00%	0.00%
Provision for credit losses as a % of average loans	0.02%	0.03%	0.01%
		as at	
Balance Sheet Summary			
Cash and securities	$ 135,949	$ 103,922	$ 170,422
Total loans	1,590,470	1,563,612	1,501,889
Average loans	1,577,041	1,531,309	1,474,775
Total assets	1,773,004	1,704,400	1,702,015
Average assets	1,738,702	1,694,847	1,663,911
Deposits	1,430,359	1,369,647	1,396,502
Subordinated notes payable	14,095	14,067	13,984
Shareholders' equity	202,583	185,884	176,374
Capital ratios*			
Risk-weighted assets	$ 1,403,760	$ 1,425,171	$ 1,372,173
Total capital	183,514	189,122	180,726
Common Equity Tier 1 (CET1) ratio	10.28%	10.52%	10.11%
Tier 1 capital ratio	12.37%	12.58%	12.25%
Total capital ratio	13.07%	13.27%	13.17%
Leverage ratio	9.45%	9.82%	9.23%

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