MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the first quarter of fiscal 2017, dated March 16, 2017, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2017, included herein which have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A should also be read in conjunction with the Bank's MD&A and the audited consolidated financial statements for the year ended October 31, 2016, which are available on SEDAR at www.sedar.com. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2016, remain substantially unchanged.

Basis of Presentation

Non-GAAP and Additional GAAP Measures

Yield

Yield is calculated as interest income (as presented in the Consolidated Statements of Income) divided by average total assets. Yield does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Cost of funds

Cost of funds is calculated as interest expense (as presented in the Consolidated Statements of Income) divided by average total assets. Cost of funds does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Income before restructuring charges and income taxes

Income before restructuring charges and income taxes is equal to total revenue less the provision for credit losses and less non-interest expenses, as presented in the Consolidated Statements of Income.

Net Interest Income and Net Interest Margin or Spread

Most banks analyze profitability by net interest income (as presented in the Consolidated Statements of Income) and net interest margin or spread. Net interest margin or spread is defined as net interest income as a percentage of average total assets. Net interest margin or spread does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Basel III Common Equity Tier 1, Tier 1, Total Capital Adequacy and Leverage Ratios

Basel III Common Equity Tier 1, Tier 1, total capital adequacy and leverage ratios are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).

Book Value Per Common Share

Book value per common share is defined as Shareholders' Equity less amounts relating to preferred shares recorded in equity, divided by the number of common shares outstanding.

Return on Average Common Equity

Return on average common equity is defined as annualized net income less amounts relating to preferred share dividends, divided by average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

Overview

VersaBank (the "Bank") is a technologically proficient Canadian Schedule I chartered bank which operates using an electronic branchless model. It sources its deposits through a well-established and widely diversified network of deposit brokers and purchases loan and lease receivables. The Bank also makes residential development and commercial loans and mortgages which are sourced through direct contact with clients by its lending staff. The Bank's Common Shares, Series 1 Preferred Shares, and Series 3 Preferred Shares trade on the Toronto Stock Exchange.

On September 12, 2016 and November 15, 2016, PWC and VersaBank 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:

($CDN thousands)	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

See Note 18 to the unaudited interim consolidated financial statements for additional information pertaining to the Amalgamation. Further information regarding the Amalgamation of the Bank and PWC can be found in the Bank and PWC's Management Information Circulars and the Joint Disclosure Booklet dated November 22, 2016, along with various Amalgamation press releases issued throughout the course of 2016 and 2017. These documents and other additional information about the Bank are available on SEDAR at www.sedar.com or via the Bank's website at http://www.versabank.com/investor-relations/merger-of-pwc-and-versabank/.

Net income for the current quarter was $11.9 million or $0.56 per common share (basic and diluted), compared to $1.9 million or $0.07 per common share (basic and diluted) for the previous quarter and $2.3 million or $0.09 per common share (basic and diluted) a year ago. The increase in net income compared to the previous quarter and the same period a year ago is due to growth in net interest income and the recognition of $8.8 million in deferred income tax assets derived from the income tax loss carry-forwards assumed from PWC pursuant to the Amalgamation. Net income of the Bank for the current quarter includes restructuring charges of $470,000 compared to $549,000 for the previous quarter and $nil a year ago. Income before restructuring charges and income taxes for the current quarter was $4.7 million compared to $3.2 million for the same period a year ago, an increase of 47%.

Total assets at January 31, 2017 were $1.77 billion compared to $1.70 billion at the end of the previous quarter and $1.70 billion a year ago. Lending assets totalled $1.59 billion compared to $1.56 billion at the end of the previous quarter and $1.50 billion a year ago. Credit quality remains strong with no gross impaired loans at January 31, 2017, unchanged from October 31, 2016 and a year ago.

Total Revenue

Total revenue consists of net interest income and non-interest income. Non-interest income consists primarily of fees from credit card operations.

For the three months ended January 31, 2017, total revenue increased to $11.4 million from $10.4 million for the previous quarter and from $9.5 million for the same period a year ago, an increase of 21%. The increase in total revenue was due to growth in net interest income over these same periods.

Net Interest Income

Net interest income for the three months ended January 31, 2017 increased to $11.1 million from $10.1 million for the previous quarter and from $9.1 million for the same period a year ago, an increase of 22%. The increase in net interest income was primarily due to lending assets growing 6% year over year to $1.59 billion at January 31, 2017 from $1.50 billion as well as the Bank's yield on assets increasing 3% year over year to 4.24% from 4.11% and from the Bank's cost of funds decreasing 12% year over year to 1.70% from 1.93%.

Net Interest Margin

Net interest margin or spread for the three months ended January 31, 2016 increased to 2.54% from 2.36% for the previous quarter and 2.18% for the same period a year ago. Net interest margin increased primarily as a result of a decrease in the Bank's cost of funds as noted above.

Provision For Credit Losses

The Bank maintains high credit quality and strong underwriting standards and as a result traditionally requires minimal provisions for credit losses. The provision for credit losses for the current quarter was $303,000 compared to $422,000 for the previous quarter and $212,000 for the same period a year ago. The decrease in the provision for credit losses quarter over quarter was primarily a function of a decrease in credit card balances over that same period which resulted in a corresponding decrease in the collective allowance. The increase in the provision for credit losses year over year was due to an increase in the collective allowance as a result of overall lending asset growth.

Non-Interest Expenses

Non-interest expenses of the Bank, excluding restructuring costs, totalled $6.5 million for the current quarter compared to $6.8 million for the previous quarter and $6.1 million for the same period a year ago. The decrease in non-interest expenses from the previous quarter was due primarily to a reduction in employee compensation as a result of a reduction in staff. The increase in non-interest expenses from a year ago was due primarily to an increase in regulatory related costs.

Restructuring Charges

During the three months ended January 31, 2017, the Bank incurred restructuring charges totalling $470,000, as well as $549,000 in the previous quarter and $nil in the same period a year ago. These restructuring charges relate to costs associated with the Bank's corporate rebranding as well as the strategic review that was conducted by PWC and the Bank which resulted in the Amalgamation of PWC and the Bank.

Income Taxes

The statutory federal and provincial income tax rate of the Bank is approximately 27%, similar to that of the previous periods. The statutory rate is impacted by certain items not being taxable or deductible for income tax purposes.

For the three months ended January 31, 2017, the provision (recovery) for income taxes was ($7,663,000) compared to $740,000 for the previous quarter and $893,000 for the same period a year ago. As noted in the "Overview" section above, the decrease in the provision for income taxes from the previous quarter and from a year ago was due primarily to the impact of recognizing $8.8 million in deferred income tax assets derived from the aggregate tax loss carry-forwards of PWC assumed by the Bank pursuant to the Amalgamation. See Note 11 to the unaudited interim consolidated financial statements for additional information on the Amalgamation.

Comprehensive Income

Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on available-for-sale securities. Comprehensive income of the Bank for the three months ended January 31, 2017 was $11.9 million compared to $1.9 million for the previous quarter and $2.3 million a year ago, with the current quarter's comprehensive income reflecting the impact of the recognition of the deferred income tax asset, referenced in the previous section and increased earnings from operations. Due to the current composition of the Bank's treasury portfolio, which consists primarily of liquid securities, unrealized gains or losses in the portfolio are not significant and as a result comprehensive income does not differ significantly from net income.

Consolidated Balance Sheet

Total assets at January 31, 2017 were $1.77 billion compared to $1.70 billion at the end of the previous quarter and $1.70 billion a year ago. The increase in total assets from a year ago was due to lending assets growing 6% year over year to $1.59 billion from $1.50 billion. Growth in lending assets was primarily a result of an increase in loan and lease receivables sourced through the Bank's bulk purchase program.

Cash and Securities

Cash and cash equivalents consist of deposits with Canadian financial institutions and government treasury bills with less than ninety days to maturity from the date of acquisition. Securities in the treasury portfolio typically consist of Government of Canada, Canadian provincial and municipal bonds and debt of other financial institutions. Amounts invested in each of these securities are determined based on the Bank's liquidity requirements, investment yield and capital management considerations. Cash and securities, which are held primarily for liquidity purposes, totalled $136 million or 7.7% of total assets compared to $104 million or 6.1% of total assets at the end of the previous quarter and $170 million or 10.0% of total assets a year ago. The level of cash and securities as a percentage of total assets increased quarter over quarter as the Bank raised additional deposits and increased liquidity in preparation for a high volume of loan fundings anticipated to occur early in the second quarter.

Loans

At January 31, 2017, loans totalled $1.59 billion compared to $1.56 billion at the end of the previous quarter and $1.50 billion a year ago. The increase in loans from the previous quarter and a year ago was due primarily to growth in loan and lease receivables purchased through the Bank's bulk purchase program, with the quarter over quarter increase in loans being augmented by growth in commercial lending assets.

Loan and lease receivables purchased through the Bank's bulk purchase program continued to show strong growth increasing to $797 million at January 31, 2017 from $784 million at the end of the previous quarter, and from $671 million last year, a net increase of $126 million or 19%. The bulk purchase program, which consists of the purchase of individual loan and lease receivables, continues to be a key growth driver of the Bank's lending portfolio. The cash holdback structure applied to the purchased receivables results in these assets attracting a lower collective allowance.

Construction mortgages also showed modest growth quarter over quarter and year over year while government loans continued to decline over these same periods. The latter trend is reflective of the Bank's decision to reallocate resources and lending capacity to the bulk purchase program.

Total new lending for the quarter was $254 million compared to $262 million for the previous quarter and $231 million a year ago. Loan repayments for the quarter totalled $224 million compared to $198 million for the previous quarter and $177 million a year ago. At January 31, 2017, loan commitments representing loans in the Bank's pipeline totalled $210 million compared to $266 million at the end of the previous quarter and $253 million a year ago.

Residential mortgage exposures

In accordance with the Office of the Superintendent of Financial Institutions (OSFI) *Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures*, additional information is provided regarding the Bank's residential mortgage exposure. For the purposes of the Guideline, a residential mortgage is defined as a loan to an individual that is secured by residential property (one to four unit dwellings) and includes home equity lines of credit (HELOC's). This differs from the classification of residential mortgages used by the Bank which also includes multi-family mortgages.

Under OSFI's definition, the Bank's exposure to residential mortgages at January 31, 2017 totalled $627,000 compared to $637,000 at the end of the previous quarter and $668,000 a year ago. The Bank did not have any HELOC's outstanding at January 31, 2017, at the end of the previous quarter or a year ago.

Credit Quality

Gross impaired loans at January 31, 2017, were $nil, unchanged from the end of the previous quarter and a year ago. At January 31, 2017, the collective allowance totalled $3.0 million compared to $3.0 million at the end of previous quarter and $3.2 million a year ago. The collective allowance decreased from a year ago as a result of changes in the mix of the loan portfolio, particularly growth in loan and lease receivables sourced through the bulk finance program which attract a lower collective allowance due to the cash holdbacks which are retained against the purchased receivables combined with a decrease in credit card balances over that same timeframe which attract a higher collective allowance.

Based on the Bank's review and analysis of its lending and treasury assets, combined with the secured nature of the existing loan portfolio, the Bank is of the view that any credit losses which exist but cannot be specifically identified at this time are adequately provided for. Additionally, the Bank's exposure to Western Canada and to the oil and gas industry remains limited and the Bank is not concentrated in the housing markets in Toronto and Western Canada.

The geographic concentration of the Bank's lending portfolio at January 31, 2017 has not changed significantly from that at the end of the previous quarter and from a year ago where a majority of the lending portfolio is in the province of Ontario.

Other Assets

Included in other assets are prepaid expenses, funds held for securitization liabilities, capital assets and the deferred income tax asset. Other assets totalled $46.6 million at January 31, 2017, compared to $36.9 million at the end of the previous quarter and $29.7 million a year ago with the change from last quarter and a year ago due primarily to an increase in the Bank's deferred income tax asset derived from the tax loss carry-forwards assumed by the Bank pursuant to the Amalgamation, offset by the decrease in funds held for securitization liabilities.

The deferred income tax asset of the Bank was $26.7 million at January 31, 2017, compared to $6.4 million at the end of the previous quarter and $8.1 million a year ago. The increase is the result of the Bank acquiring a deferred income tax asset pursuant to the Amalgamation with PWC at a cost of $11.9 million, and the Bank subsequently recognizing an additional $8.8 million in deferred income tax assets on its revaluation to its accounting value. The deferred income tax asset acquired relates mostly to tax loss carry-forwards of PWC assumed by the Bank pursuant to the Amalgamation. The Bank's income tax loss carry-forwards are scheduled to begin to expire in 2025 if unutilized.

Deposits and Other Liabilities

Deposits are used as a primary source of financing growth in assets and are raised primarily through a well-established and well-diversified deposit broker network which the Bank continues to grow and expand across Canada. Deposits at January 31, 2017, totalled $1.43 billion compared to $1.37 billion at the end of the previous quarter and $1.40 billion a year ago and consist primarily of guaranteed investment certificates. The increase in deposits from a year ago was due to the raising of new deposits to fund lending asset growth.

Of the total amount of deposits outstanding, $18.1 million or approximately 1.27% of total deposits at the end of the current quarter were demand savings accounts compared to $17.5 million or 1.27% of total deposits at the end of the previous quarter and $17.1 million or approximately 1.23% of total deposits a year ago.

An additional source of funds for the Bank, which not only contributes to diversifying the Bank's funding mix, but also to reducing its cost of new deposits, is a specialized chequing facility platform for trustees in the Canadian bankruptcy industry. The Bank has developed banking software to enable this market to efficiently administer its chequing accounts and has provided this software to trustees operating across Canada. At January 31, 2017, balances for these low cost chequing accounts totalled $197.2 million compared to $189.1 million at the end of the previous quarter and $119.8 million a year ago.

Other liabilities typically consist of accounts payable and accruals and holdbacks payable related to the bulk purchase program. At January 31, 2017, other liabilities totalled $92.6 million compared to $91.2 million at the end of the previous quarter and $71.5 million a year ago with the increase due primarily to growth in holdbacks associated with loan and lease receivables purchased through the bulk purchase program. These holdbacks payable totalled $81.4 million at January 31, 2017 compared to $82.6 million at the end of previous quarter and $66.4 million a year ago.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon initiation of securitization transactions. At January 31, 2017, securitization liabilities totalled $33.4 million compared to $43.6 million at the end of the previous quarter and $43.7 million a year ago. The quarter over quarter and year over year reduction in securitization liabilities was due to the maturity of $10.3 million in Canada Mortgage Bonds. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities.

Subordinated Notes Payable

Subordinated notes payable, net of issue costs, totalled $14.1 million at January 31, 2017 compared to $14.1 million at the end of the previous quarter and $14.0 million a year ago. The face value of the outstanding subordinated notes totalled $14.5 million. These subordinated notes were issued by the Bank to an unrelated party, are currently callable, bear interest at rates ranging from 8.00% to 11.00% and mature between 2019 and 2021.

Shareholders' Equity

At January 31, 2017, shareholders' equity was $202.6 million compared to $185.9 million at the end of the previous quarter and $176.4 million a year ago. The quarter over quarter and year over year increase in shareholders' equity was primarily due to earnings generated over these same periods as well as the impact of the recognition of net assets in the amount of $6.7 million, less $1.4 million in transaction costs, and recognition of an additional $8.8 million in deferred income tax assets attributable to the aggregate tax loss carry-forwards of PWC assumed pursuant to the Amalgamation.

Common shares outstanding at January 31, 2017 totalled 21,123,559 compared to 20,095,065 in the previous quarter and compared to 19,437,171 a year ago with the increase due to the issue of 657,894 common shares under private placement on March 9, 2016 as well as the issue of 13,643,713 common shares, offset by the cancellation of 12,615,219 common shares pursuant to the Amalgamation.

The Bank's book value per common share (non-GAAP measure) at January 31, 2017 was $8.20 compared to $7.79 at the end of the previous quarter and $7.56 a year ago.

See Note 10 and Note 18 to the unaudited interim consolidated financial statements for additional information relating to share capital.

Updated Share Information

As at March 16, 2017, there were no changes since January 31, 2017 in the number of outstanding common shares, Series 1 and Series 3 preferred shares and common share options.

Off-Balance Sheet Arrangements

As at January 31, 2017, the Bank does not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities. See Note 13 to the unaudited interim consolidated financial statements for more information.

Related Party Transactions

During the three months ended January 31, 2017, the Bank incurred management and other fees totalling $225,000 (January 31, 2016 - $150,000) to PWC.

The Bank's Board of Directors and senior executive officers represent key management personnel. See Note 14 to the unaudited interim consolidated financial statements for additional information on related party transactions and balances.

Risk Management

The risk management policies and procedures of the Bank are provided in its annual MD&A for the year ended October 31, 2016.

Capital Management and Capital Resources

The Basel Committee on Banking Supervision has rules supporting stringent global standards on capital adequacy and liquidity (Basel III). Significant rules under Basel III that are most relevant to the Bank include:

- Increased focus on tangible common equity.

- All forms of non-common equity such as the Bank's conventional subordinated notes must be non-viability contingent capital (NVCC) compliant. NVCC compliant means the subordinated notes must include a clause that would require conversion to common equity in the event that OSFI deems the institution to be insolvent or a government is ready to inject a "bail out" payment.

- Changes in the risk-weighting of certain assets.

- Additional capital buffers.

- Requirements for levels of liquidity and new liquidity measurements.

The Bank reports its regulatory capital ratios using the Standardized approach for calculating risk-weighted assets, as defined under Basel III, which may require the Bank to carry more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based (AIRB) methodology. As a result, regulatory capital ratios of banks that utilize the Standardized approach are not directly comparable with the large Canadian banks which use the AIRB methodology.

OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis 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 an 8.5% Tier 1 capital ratio and 10.5% total capital ratio, all of which include a 2.5% 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.

Under the Basel III standards, total regulatory capital of the Bank was $183.5 million at January 31, 2017 compared to $189.1 million at the end of the previous quarter and $180.7 million a year ago. The increase in total regulatory capital from a year ago was due primarily to earnings generated over the same period and a private placement of common shares by the Bank for proceeds of $5.0 million in March 2016. The reduction in regulatory capital from the previous quarter reflects the impact of the transactions costs related to the Amalgamation and adjustments to certain assets acquired pursuant to the Amalgamation that for purposes of regulatory capital are not accretive.

At January 31, 2017, the Bank exceeded the current minimum Basel III regulatory capital requirements referred to above with a CET1 ratio of 10.28% compared to 10.52% at the end of the previous quarter and 10.11% a year ago. At January 31, 2017, the Bank's Tier 1 capital ratio was 12.37% compared to 12.58% at the end of the previous quarter and 12.25% a year ago. In addition, the Bank's total capital ratio was 13.07% at January 31, 2017, compared to 13.27% at the end of the previous quarter and 13.17% a year ago. The year over year trends exhibited by the Bank's capital ratios are a function of the same variables outlined in the previous section.

At January 31, 2017, the Bank's leverage ratio was 9.45% compared to 9.82% at the end of the previous quarter and 9.23% a year ago.

See Note 15 to the interim consolidated financial statements for more information regarding capital management.

Interest Rate Risk Management

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.

	January 31, 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	$ 2,936	$ (2,848)	$ 2,387	$ (2,243)
Impact on reported equity during a 60 month period	$ 5	$ 34	$ (1,631)	$ 1,667
Duration difference between assets and liabilities (months)	1.0		0.6	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at January 31, 2017 has not changed significantly since the end of the previous quarter. As indicated by the above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $2.9 million and the impact on net interest income of a 100 basis point decrease would be approximately ($2.8 million). Similarly at January 31, 2017, the impact on equity during a 60 month period of a 100 basis point increase would be approximately $5,000 and the impact on equity of a 100 basis point decrease would be approximately $34,000. At January 31, 2017 the duration difference between assets and liabilities is approximately 1 month compared to approximately 1 month at October 31, 2016 and shows that the Bank's assets and liabilities would reprice at approximately the same time in the event of a change in interest rates.

Liquidity

The unaudited Consolidated Statement of Cash Flows for the three months ended January 31, 2017 shows cash provided by operations of $43.9 million compared to $22.6 million for the same period last year. The operating cash flow is primarily affected by the change in the balance of its deposits (an increase in deposits has a positive impact on cash flow and a decrease in deposits has a negative impact on cash flow) as compared to the change in the balance of its loans (an increase in loans has a negative impact on cash flow and a decrease in loans has a positive impact on cash flow). Based on factors such as liquidity requirements and opportunities for investment in loans and securities, the Bank may manage the amount of deposits it receives and loans it funds in ways that result in the balances of these items giving rise to either negative or positive cash flow from operations. The Bank will continue to fund its operations and meet contractual obligations as they become due from cash on hand and from managing the amount of deposits it receives as compared to the amount of loans it funds.

Contractual Obligations

Contractual obligations as disclosed in the Bank's MD&A and audited consolidated financial statements for the year ended October 31, 2016, have not changed significantly as at January 31, 2017.

Capital Assets

The operations are not dependent upon significant amounts of capital assets to generate revenue. Currently, the Bank does not have any commitments for capital expenditures or for significant additions to its level of capital assets.

Summary of Quarterly Results

($CDN thousands except per share amounts)	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Results of operations:								
Total interest income	$ 18,586	$ 17,462	$ 17,628	$ 17,346	$ 17,226	$ 16,685	$ 16,513	$ 15,630
Yield on assets (%)	4.24%	4.09%	4.13%	4.14%	4.11%	4.15%	4.24%	4.21%
Interest expense	7,441	7,396	7,792	7,986	8,084	7,724	7,786	7,375
Cost of funds (%)	1.70%	1.73%	1.82%	1.91%	1.93%	1.92%	2.00%	1.99%
Net interest income	11,145	10,066	9,836	9,360	9,142	8,961	8,727	8,255
Net interest margin (%)	2.54%	2.36%	2.31%	2.23%	2.18%	2.23%	2.24%	2.22%
Non-interest income	287	320	343	285	325	384	368	304
Total revenue	11,432	10,386	10,179	9,645	9,467	9,345	9,095	8,559
Provision for credit losses	303	422	24	213	212	319	297	427
Non-interest expenses	6,458	6,779	6,654	6,472	6,051	6,562	6,421	6,264
Restructuring charges	470	549	98	445	-	-	-	-
Income before income taxes	4,201	2,636	3,403	2,515	3,204	2,464	2,377	1,868
Income tax provision (recovery)	(7,663)	740	947	708	893	(306)	670	(194)
Net income	$ 11,864	$ 1,896	$ 2,456	$ 1,807	$ 2,311	$ 2,770	$ 1,707	$ 2,062
Income per common share								
Basic	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05	$ 0.09
Diluted	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05	$ 0.09

The financial results for each of the last eight quarters are summarized above. Total interest income and net interest income continued to increase through the first quarter of 2017 as a result of growth in lending assets, specifically loan and lease receivables purchased through the Bank's bulk purchase program and from a decrease in the Bank's cost of funds.

Non-interest income has been comparable over the quarters and consists primarily of fees from credit card operations.

Restructuring charges incurred to date in 2017 relate to costs associated with the Bank's corporate rebranding and the Amalgamation.

The provision for income taxes in each of the quarters reflects the effective statutory income tax rate of 27% applied to earnings in the Bank. The provision for income taxes in the current quarter, as well as the second and fourth quarters of 2015 includes positive income tax adjustments relating to a change in the estimate of previously unrecognized deferred income tax assets of the Bank.

Significant Accounting Policies and Use of Estimates and Judgments

Significant accounting policies are detailed in Note 3 of the Bank's 2016 Audited Consolidated Financial Statements. There have been no material changes in accounting policies since October 31, 2016.

In preparing the 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 periods. Areas where significant judgment was applied were in the assessments of impairment of financial instruments and recognition of deferred income tax assets.

Estimates were developed in 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.

The policies discussed below are considered particularly significant as they require management to make estimates or judgements, some of which may relate to matters that are inherently uncertain.

Loans

Loans are initially measured at fair value plus incremental direct transaction costs. Loans are subsequently measured at amortized cost, net of allowance for credit losses, using the effective interest method. On a monthly basis, the Bank assesses whether or not there is any objective evidence to suggest that the carrying value of the loans may be impaired. Impairment assessments are facilitated through the identification of loss events and assessments of their impact on the estimated future cash flows of the loans.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans, except credit cards, where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines that the loan is fully secured, in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to current status. All loans, except credit cards, are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, provinces, territories, or a Canadian government agency, which are classified as impaired when interest or principal is contractually 365 days in arrears. Credit card receivables are written off when payments are 180 days past due, or upon receipt of a bankruptcy notification.

As loans are classified as loans and receivables and measured at amortized cost, an impairment loss is measured as the difference between the carrying amount and the present value of future cash flows discounted using the effective interest rate computed at initial recognition, if future cash flows can be reasonably estimated. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the loan is reduced to its estimated net realizable value based on either:

(i) the fair value of any security underlying the loan, net of expected costs of realization, or,

(ii) observable market prices for the loan.

Impairment losses are recognized in income or loss. If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was first recognized, then a recovery of a portion or all of the previously recognized impairment loss is adjusted through income or loss to reflect the net recoverable amount of the impaired loan.

Real estate held for resale is recorded at the lower of cost and fair value, less costs to sell.

Allowance for Credit Losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all credit related losses in its loan portfolio. The allowance for credit losses consists of both individual and collective allowances and is reviewed on a monthly basis. The allowance is included in loans on the Consolidated Balance Sheets.

The Bank considers evidence of impairment for loans at both an individual asset and collective level. All individually significant loans are assessed for impairment first. All individually significant loans found not to be specifically impaired and all loans which are not individually significant are then collectively assessed for impairment.

The collective allowance is determined by separating loans into categories that are considered to have common risk elements and reviewing factors such as current portfolio credit quality trends, exposure at default, probability of default and loss given default rates and business and economic conditions. The collective allowance may also be adjusted by management using its judgment taking into account other observable and unobservable factors.

Corporate Income Taxes

Current income taxes are calculated based on taxable income at the reporting period end. Taxable income differs from accounting income because of differences in the inclusion and deductibility of certain components of income which are established by Canadian taxation authorities. Current income taxes are measured at the amount expected to be recovered or paid using statutory tax rates at the reporting period end.

The Bank follows the asset and liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities arise from temporary differences between financial statement carrying values and the respective tax base of those assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when temporary differences are expected to be recovered or settled.

Deferred income tax assets are recognized in the consolidated financial statements to the extent that it is probable that the Bank will have sufficient taxable income to enable the benefit of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed for recoverability at each reporting period end.

The realization of the deferred income tax asset is dependent upon the Bank being able to generate taxable income during the carry-forward period sufficient to offset the income tax losses and deductible temporary timing differences. While management is of the opinion that it is probable that the Bank will be able to realize the deferred income tax asset, there is no guarantee the Bank will be able to generate sufficient taxable income during the carry-forward period. The realization of the deferred income tax asset is dependent upon the Bank being able to generate taxable income in future years sufficient to offset the income tax losses.

Future Change in Accounting Policies

Financial instruments (IFRS 9)

In July, 2014, the International Accounting Standards Board (IASB) issued the final revised IFRS 9 standard which addresses classification, measurement and impairment of financial instruments and hedge accounting. IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. The standard also includes an expected credit loss model and a general hedging model.

IFRS 9 will be mandatorily effective for the Bank's fiscal year beginning on November 1, 2018, although early adoption is permitted. In January 2015, OSFI determined that Domestic Systematically Important Banks (D-SIBs) should adopt IFRS 9 for their annual periods beginning November 1, 2017, while early adoption is permitted but not required for other federally regulated Canadian banks with October year ends such as the Bank. The Bank plans to adopt IFRS 9 on November 1, 2018.

Leases (IFRS 16)

In January, 2016, the IASB issued IFRS 16, requiring most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low-value leases will be capitalized, and will result in a balance sheet increase in lease assets and lease liabilities, and a decrease in operating lease expenses and increase in financing costs and amortization expense on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for the Bank's fiscal year beginning November 1, 2019 with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is also applied. The Bank is currently reviewing IFRS 16 to determine the impact of adoption on its consolidated financial statements.

Controls and Procedures

During the quarter ended January 31, 2017, there were no changes in the Bank's internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Bank's internal controls over financial reporting.

Forward-Looking Statements

The statements in this management's discussion and analysis 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.

VERSABANK

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)

As at	January 31 2017	October 31 2016	January 31 2016
Assets			
Cash and cash equivalents	$ 135,606	$ 93,964	$ 147,982
Securities (note 4)	343	9,958	22,440
Loans, net of allowance for credit losses (note 5)	1,590,470	1,563,612	1,501,889
Other assets (note 6)	46,585	36,866	29,704
	$ 1,773,004	$ 1,704,400	$ 1,702,015
Liabilities and Shareholders' Equity			
Deposits	$ 1,430,359	$ 1,369,647	$ 1,396,502
Subordinated notes payable (note 7)	14,095	14,067	13,984
Securitization liabilities (note 8)	33,382	43,585	43,655
Other liabilities (note 9)	92,585	91,217	71,500
	1,570,421	1,518,516	1,525,641
Shareholders' equity:			
Share capital (notes 10 and 18)	182,094	176,706	171,706
Retained earnings	20,486	9,172	4,664
Accumulated other comprehensive income	3	6	4
	202,583	185,884	176,374
	$ 1,773,004	$ 1,704,400	$ 1,702,015

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 January 31 2017	January 31 2016
Interest income:		
Loans	$ 18,324	$ 16,920
Securities	262	306
	18,586	17,226
Interest expense:		
Deposits and other	7,085	7,733
Subordinated notes	356	351
	7,441	8,084
Net interest income	11,145	9,142
Non-interest income	287	325
Total revenue	11,432	9,467
Provision for credit losses (note 5b)	303	212
	11,129	9,255
Non-interest expenses:		
Salaries and benefits	3,328	3,389
General and administrative	2,560	2,145
Premises and equipment	570	517
	6,458	6,051
Restructuring charges	470	-
	6,928	6,051
Income before income taxes	4,201	3,204
Income tax provision (recovery) (note 11a)	(7,663)	893
Net income	$ 11,864	$ 2,311
Basic and diluted income per common share (note 12)	$ 0.56	$ 0.09
Weighted average number of common shares outstanding	20,095,000	19,437,000

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	
	January 31 2017	January 31 2016
Net income	$ 11,864	$ 2,311
Other comprehensive income (loss), net of tax		
Net unrealized gains (losses) on assets held as available-for-sale [1]	(3)	(9)
Comprehensive income	$ 11,861	$ 2,302

(1) Net of income tax benefit for the three months of $1 (2016 – $3 benefit).

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

VERSABANK

Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(thousands of Canadian dollars)

	for the three months ended	
	January 31 2017	January 31 2016
Common shares (note 10):		
Balance, beginning of the period	$ 147,224	$ 142,224
Impact of amalgamation of PWC Capital Inc. (note 18)	5,388	-
Balance, end of the period	$ 152,612	$ 142,224
Preferred shares (note 10):		
Series 1 preferred shares		
Balance, beginning and end of the period	$ 13,647	$ 13,647
Series 3 preferred shares		
Balance, beginning and end of the period	$ 15,690	$ 15,690
Contributed surplus:		
Balance, beginning and end of the period	$ 145	$ 145
Total share capital	$ 182,094	$ 171,706
Retained earnings:		
Balance, beginning of the period	$ 9,172	$ 2,903
Net income	11,864	2,311
Dividends paid on preferred shares	(550)	(550)
Balance, end of the period	$ 20,486	$ 4,664
Accumulated other comprehensive income, net of taxes:		
Balance, beginning of the period	$ 6	$ 13
Other comprehensive income (loss)	(3)	(9)
Balance, end of the period	$ 3	$ 4
Total shareholders' equity	$ 202,583	$ 176,374

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 three months ended	January 31 2017	January 31 2016
Cash provided by (used in):		
Operations:		
Net income	$ 11,864	$ 2,311
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision for credit losses	303	212
Income tax provision (recovery)	(7,663)	893
Interest income	(18,586)	(17,226)
Interest expense	7,441	8,084
Interest received	18,586	17,053
Interest paid	(10,246)	(8,805)
Change in operating assets and liabilities:		
Loans	(27,135)	(53,775)
Deposits	63,650	71,496
Change in other assets and liabilities	5,656	2,310
	43,870	22,553
Investing:		
Purchase of securities	-	(9,583)
Proceeds from sale and maturity of securities	9,585	9,321
Purchase of property, plant and equipment	(369)	-
Cash acquired on amalgamation	1,569	-
Transaction costs associated with share issuance	(1,852)	-
	8,933	(262)
Financing:		
Redemption of securitization liability	(10,307)	-
Dividends paid	(550)	(550)
Income taxes paid	(304)	(837)
	(11,161)	(1,387)
Increase in cash and cash equivalents	41,642	20,904
Cash and cash equivalents, beginning of the period	93,964	127,078
Cash and cash equivalents, end of the period	$ 135,606	$ 147,982
Cash and cash equivalents is represented by:		
Cash	$ 52,602	$ 48,013
Cash equivalents	83,004	99,969
Cash and cash equivalents, end of the period	$ 135,606	$ 147,982

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 18). 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 months ended January 31, 2017 and 2016 were approved by the Audit Committee of the Board of Directors on March 16, 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:

	January 31 2017	October 31 2016	January 31 2016
Available-for-sale securities			
Securities issued or guaranteed by:			
Canadian provincial governments	$ -	$ 9,687	$ 9,635
Canadian municipal governments	343	271	271
Total available-for-sale securities	$ 343	$ 9,958	$ 9,906
Held-to-maturity security			
Debt of other financial institutions	$ -	$ -	$ 12,534
Total securities	$ 343	$ 9,958	$ 22,440

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:

	January 31 2017	October 31 2016	January 31 2016
Government loans	$ 64,126	$ 66,016	$ 69,734
Loan and lease receivables	796,766	783,669	670,923
Residential mortgages	90,555	95,624	113,376
Commercial mortgages	237,079	227,816	286,628
Construction mortgages	258,811	256,429	228,774
Commercial loans	114,434	102,265	99,809
Credit card receivables and other	26,238	29,373	30,687
	1,588,009	1,561,192	1,499,931
Collective allowance	(3,032)	(3,031)	(3,163)
Accrued interest	5,493	5,451	5,121
Total loans, net of allowance for credit losses	$ 1,590,470	$ 1,563,612	$ 1,501,889

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

	January 31 2017	October 31 2016	January 31 2016
Government loans	$ 13	$ 14	$ 16
Loan and lease receivables	358	344	299
Residential mortgages	24	26	28
Commercial mortgages	593	551	788
Construction mortgages	773	765	796
Commercial loans	287	276	173
Credit card receivables and other	984	1,055	1,063
	$ 3,032	$ 3,031	$ 3,163

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).

b) Allowance for credit losses:

The allowance for credit losses results from the following:

For the three months ended	Collective	Individual	January 31 2017 Total Allowance	January 31 2016 Total Allowance
Balance, beginning of the period	$ 3,031	$ -	$ 3,031	$ 3,212
Provision for credit losses	303	-	303	212
Write-offs	(302)	-	(302)	(261)
Balance, end of the period	$ 3,032	$ -	$ 3,032	$ 3,163

c) Impaired loans:

At January 31, 2017, there were $nil impaired loans (October 31, 2016 - $nil). At January 31, 2017, loans, other than credit card receivables, past due were $nil (October 31, 2016 - $936,000). At January 31, 2017, credit card receivables overdue by one day or more totalled $2,386,000 (October 31, 2016 - $2,290,000).

6. Other Assets

	January 31 2017	October 31 2016	January 31 2016
Accounts receivable	$ 1,098	$ 1,820	$ 1,706
Funds held for securitization liabilities	4,613	14,719	4,512
Prepaid expenses and other	7,554	9,599	11,079
Property and equipment	6,600	4,330	4,273
Deferred income tax asset (note 11b)	26,720	6,398	8,134
	$ 46,585	$ 36,866	$ 29,704

7. Subordinated notes payable:

	January 31 2017	October 31 2016	January 31 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 $405 (October 31, 2016 - $433) effective interest of 10.06%	$ 14,095	$ 14,067	$ 13,984
	$ 14,095	$ 14,067	$ 13,984

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 quarter ended January 31, 2017, a securitization liability matured totalling $10,307,000 with an interest rate of 1.97%.

9. Other liabilities:

	January 31 2017	October 31 2016	January 31 2016
Accounts payable and other	$ 11,209	$ 8,653	$ 5,111
Holdbacks payable on loan and lease receivables	81,376	82,564	66,389
	$ 92,585	$ 91,217	$ 71,500

10. Share capital:

a) Common shares:

At January 31, 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 18). In March 2016, 657,894 common shares were issued for cash proceeds of $5,000,000 under a private placement.

b) Preferred shares:

At January 31, 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 includes non-viability contingent capital provisions (NVCC). As a result, these shares qualify as Additional Tier 1 Capital (see Note 15).

c) Stock options:

At January 31, 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	
	January 31 2017	January 31 2016
Income tax on earnings	$ 1,168	$ 893
Recognition of previously unrecognized deferred income tax asset	(8,831)	-
	$ (7,663)	$ 893

b) Deferred income tax asset:

	January 31 2017	October 31 2016	January 31 2016
Balance, beginning of period	$ 6,398	$ 6,919	$ 8,804
Income taxes on earnings	(1,168)	(740)	(893)
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	219	220	220
Income taxes on other comprehensive income	1	(1)	3
Balance, end of period	$ 26,720	$ 6,398	$ 8,134

12. Income per common share:

	for the three months ended January 31 2017	January 31 2016
Net income	$ 11,864	$ 2,311
Less: dividends on preferred shares	(550)	(550)
	11,314	1,761
Average number of common shares outstanding	20,095,000	19,437,000
Income per common share:	$ 0.56	$ 0.09

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 January 31, 2017 were zero as a result of the termination of the credit card agreement with Home Hardware Stores Limited on December 31, 2016.

	January 31 2017	October 31 2016	January 31 2016
Loan commitments	$ 209,678	$ 265,631	$ 253,389
Undrawn credit card lines	-	127,116	135,500
Letters of credit	45,171	42,809	43,740
	$ 254,849	$ 435,556	$ 432,629

14. Related party transactions:

During the three months ended January 31, 2017 the Bank incurred management and other fees totalling $225,000 (January 31, 2016 - $150,000) to 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 January 31, 2017, amounts due from related parties totalled $742,000 (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 ended January 31, 2017 was $5,000 (January 31, 2016 - $5,000). There were no provisions for credit losses related to loans issued to key management personnel for the three months ended January 31, 2017 and 2016.

15. 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 January 31, 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:

	January 31, 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	20,486	20,486	9,172	9,172
Accumulated other comprehensive income	3	3	6	6
CET1 capital before regulatory adjustments	173,246	173,246	156,547	156,547
Total regulatory adjustments to CET1	(28,869)	(23,095)	(6,562)	(3,937)
Common Equity Tier 1 capital	$ 144,377	$ 150,151	$ 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	$ 173,714	$ 179,488	$ 179,322	$ 181,947
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 9,800	$ 9,800	$ 9,800	$ 9,800
Tier 2 capital before regulatory adjustments	9,800	9,800	9,800	9,800
Total regulatory adjustments to Tier 2 capital	-	-	-	-
Tier 2 capital	$ 9,800	$ 9,800	$ 9,800	$ 9,800
Total capital	$ 183,514	$ 189,288	$ 189,122	$ 191,747
Total risk-weighted assets	$ 1,403,760	$ 1,409,534	$ 1,425,171	$ 1,427,796
Capital ratios				
CET1 Ratio	10.28%	10.65%	10.52%	10.69%
Tier 1 Capital Ratio	12.37%	12.73%	12.58%	12.74%
Total Capital Ratio	13.07%	13.43%	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:

	January 31 2017	October 31 2016
On-balance sheet assets	$ 1,773,004	$ 1,704,400
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(28,869)	(6,562)
Total on-balance sheet exposures	1,744,135	1,697,838
Off-balance sheet exposure at gross notional amount	$ 254,849	$ 435,556
Adjustments for conversion to credit equivalent amount	(161,329)	(306,877)
Off-balance sheet exposures	93,520	128,679
Tier 1 Capital	173,714	179,322
Total Exposures	1,837,655	1,826,517
Leverage Ratio	9.45%	9.82%

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

16. 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.

	January 31, 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	$ 2,936	$ (2,848)	$ 2,387	$ (2,243)
Impact on reported equity during a 60 month period	$ 5	$ 34	$ (1,631)	$ 1,667
Duration difference between assets and liabilities (months)	1.0		0.6	

17. 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.

	January 31, 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	$ 135,606	$ 135,606	$ 93,964	$ 93,964
Securities	343	343	9,958	9,958
Loans	1,590,470	1,589,940	1,563,612	1,563,299
Other financial assets	5,711	5,711	16,539	16,539
Liabilities				
Deposits	$ 1,430,359	$ 1,440,552	$ 1,369,647	$ 1,380,685
Subordinated notes payable	14,095	14,500	14,067	14,500
Securitization liabilities	33,382	36,116	43,585	46,923
Other financial liabilities	92,585	92,585	91,217	91,217

18. 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 estimated fair value of securities held by dissenting shareholders is reflected in Other liabilities.

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:
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