THIRD QUARTER 2018

EARNINGS RELEASE

VERSABANK REPORTS THIRD QUARTER 2018 RESULTS WITH A 48% INCREASE IN CORE CASH EARNINGS FROM A YEAR AGO(1)(2)

All amounts are unaudited and 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 2018 ("Q3 2018") unaudited Interim Consolidated Financial Statements for the period ended July 31, 2018 and Management's Discussion and Analysis, are available online at www.versabank.com/investor-relations and at www.sedar.com. Supplementary Financial Information will also be available on our website at www.versabank.com/investor-relations.

Core Cash Earnings(1)	Core Cash EPS(1)	Core Cash ROCE(1)	Net Income
$6.4 million	$0.31	12.45%	$4.7 million
⬆ 48% yoy	⬆ $0.10 yoy	⬆ 386 bps yoy	⬆ 74% yoy

LONDON, ONTARIO, August 29, 2018 – VersaBank ("VB" or the "Bank") (TSX:VB) today reported net income of $4.7 million for the third quarter ended July 31, 2018. Net income was up $2.0 million or 74% from a year ago and earnings per share (EPS) of 20 cents was up $0.10 or 100% from a year ago.

Core cash earnings (CCE) for the quarter was up 48% to $6.4 million from $4.4 million a year ago and CCE EPS increased to $0.31 from $0.21. CCE, which reflects the Bank's core operational performance and earnings capacity, is calculated as net income (as presented in the Consolidated Statements of Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses (see core cash earnings reconciliation below) (2).

Results for the quarter were driven primarily by higher interest income, improved efficiency, and outstanding credit quality. NIM increased to 2.88%, up 35 basis points from a year ago. Efficiency improved to 49% from 65% for the same period a year ago and the provision for credit losses (PCL) ratio was again negligible.

Net income was up 10% to $4.7 million from $4.3 million last quarter primarily due to higher interest income earned on lending assets as well as lower non-interest expenses partially offset by higher interest expense.

David Taylor, President and Chief Executive Officer, commented: "Our Bank's model of using advanced technologies to serve niche markets is continuing to demonstrate its tremendous earnings power and produced another record quarter. Core cash earnings for the past 3 quarters grew by 35% over the same period last year and I expect this growth trend to continue through the fourth quarter."

Q3 2018 compared to Q3 2017[1]

- Core cash earnings[2] of $6.4 million (up 48% from $4.4 million)
- Core cash earnings per share of $0.31 (up $0.10 from $0.21)
- Net income of $4.7 million (up 74% from $2.7 million)
- NIM of 2.88% (up 35 bps from 2.53%)
- Basic and diluted EPS of $0.20 (up $0.10 from $0.10)
- Common share book value of $8.99 (up 7% from $8.38)
- ROCE of 8.72% (up from 4.81%)
- CET1 ratio of 10.95% (down from 11.00%)
- Leverage ratio of 10.38% (up from 10.27%)

YTD Q3 2018 compared to YTD Q3 2017[1]

- Core cash earnings[2] of $18.3 million (up 35% from $13.5 million)
- Core cash earnings per share of $0.86 (up $0.21 from $0.65)
- Net income of $12.9 million (down 22% from $16.7 million)[3]
- NIM of 2.85% (up 29 bps from 2.56%)
- Basic and diluted EPS of $0.53 (down $0.19 from $0.72) [3]
- Common share book value of $8.99 (up 7% from $8.38)
- ROCE of 8.16% (down from 12.03%)[3]
- CET1 ratio of 10.95% (down from 11.00%)
- Leverage ratio of 10.38% (up from 10.27%)

(1) Certain highlights include non-GAAP measures. See definition under 'Basis of Presentation' in the Q3 2018 Management's Discussion and Analysis.

(2) Core cash earnings is calculated as:

(thousands of Canadian dollars)	for the three months		for the nine months	
	July 31 2018	July 31 2017	July 31 2018	July 31 2017
Net income	$ 4,678	$ 2,682	$12,910	$16,650
Adjusted for:				
Income taxes (recovery)	1,768	1,031	4,890	(5,823)
Restructuring charges	-	-	-	2,045
Other non-core general and administrative expense items	-	646	453	646
	1,768	1,677	5,343	(3,132)
Core cash earnings	$ 6,446	$ 4,359	$18,253	$13,518

(3) YTD Q3 2017 earnings include the recognition of $8.8 million in deferred income tax assets in January 2017.

Q3 2018 Business Operations

VersaBank is a technology based, digital Canadian Schedule I chartered bank. It operates using an "electronic branchless model" and sources its funding, along with consumer and commercial loan and lease receivables, electronically. VersaBank also makes residential development and commercial mortgages it obtains through a well-established network of brokers and through direct contact with its lending staff.

Commercial Banking – Loans are originated through direct contact with the Bank's clients and through mortgage brokers and syndication partners. Loans are well secured by real estate primarily in Ontario and occasionally other areas of Canada. Loans at July 31, 2018 were $738 million, up 5.07% from last quarter and up 3.44% from a year ago.

eCommerce – Small loan and lease receivables are electronically purchased from VB's vendor partners who originate point of sale loans and leases in various markets throughout Canada. Lending assets at July 31, 2018 were $894 million, up 5.83% from last quarter and up 11.18% from a year ago.

Funding - VB has established three core funding channels, those being personal deposits, commercial deposits, and holdbacks retained from the Bank's receivable purchase program originator partners that are classified as other liabilities. Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada. Commercial deposits are sourced primarily via specialized chequing accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings. VB's cost of funds for the quarter was 1.67%, up 3 bps from last quarter and up 6 bps from a year ago. VB's low cost of funds enables it to earn industry leading NIM without taking on increased credit risk typically necessary to achieve higher yields.

Capital – As at July 31, 2018, VB's CET1 ratio was 10.95%, down 12 bps from last quarter and down 5 bps from a year ago. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. Because VB focuses on commercial and consumer loans with lower than average risk (as demonstrated by its long history of low provision for credit losses), it believes the Standardized Approach does not properly reflect the intrinsic risk in its lending assets. As a consequence, VB's leverage ratio is conservative, being more than twice the average leverage ratio of the major Canadian banks, which use the Advanced Internal Ratings Based ("AIRB") approach to calculate their risk weighted assets.

Credit Quality – For the quarter ended July 31, 2018, the Bank recorded a provision in the amount of $128,000 compared to a recovery of $50,000 last quarter and a provision of $38,000 for the same period a year ago. Further, as at July 31, 2018, total gross impaired loans were approximately 0.04% of total lending assets. The Bank's provision for credit losses ("PCL") ratio continues to be one of the lowest in the industry and only a small fraction of the PCL ratios reported by the major Canadian Banks, reflecting the very low risk profile of the Bank's lending portfolio. 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.

VersaVault Inc. – VersaVault Inc. ("VV") is a wholly owned subsidiary of the Bank and was formed to develop and provide cyber-security services to commercial entities. Beta-Testing of the VersaVault service offering has commenced and will investigate the functionality and efficiency of the developed software systems. The Beta Testing program is being conducted in cooperation with VV's selected vendor of biometric security software systems and hand selected Canadian, commercial entities. The Beta Testing program is expected to be complete by the end of the current fiscal year.

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)	2018	2017	2018	2017
Results of operations				
Net interest income	$ 12,965	$ 10,751	$ 37,792	$ 32,475
Non-interest income (loss)	17	12	66	(154)
Total revenue	12,982	10,763	37,858	32,321
Provision (recovery) for credit losses	128	38	143	(241)
Non-interest expenses	6,408	7,012	19,915	19,690
Restructuring charges	-	-	-	2,045
Core cash earnings*	6,446	4,359	18,253	13,518
Core cash earnings per common share*	$ 0.31	$ 0.21	$ 0.86	$ 0.65
Net income	**4,678**	**2,682**	**12,910**	**16,650**
Income per common share:				
Basic	$ 0.20	$ 0.10	$ 0.53	$ 0.72
Diluted	$ 0.20	$ 0.10	$ 0.53	$ 0.72
Yield*	4.55%	4.14%	4.45%	4.23%
Cost of funds*	1.67%	1.61%	1.60%	1.67%
Net interest margin*	2.88%	2.53%	2.85%	2.56%
Return on average common equity*	8.72%	4.81%	8.16%	12.03%
Core cash return on average common equity*	12.45%	8.59%	12.03%	9.52%
Book value per common share*	$ 8.99	$ 8.38	$ 8.99	$ 8.38
Efficiency ratio*	49.36%	65.15%	52.60%	60.93%
Return on average total assets*	0.92%	0.50%	0.85%	1.18%
Gross impaired loans to total loans*	0.04%	0.04%	0.04%	0.04%
Provision (recovery) for credit losses as a % of average loans*	0.01%	0.00%	0.01%	(0.02%)
		as at		
Balance Sheet Summary				
Cash and securities	$ 125,231	$ 103,579	$ 125,231	$ 103,579
Loans, net of allowance for credit losses	1,649,326	1,534,893	1,649,326	1,534,893
Average loans*	1,606,875	1,539,080	1,585,092	1,549,253
Total assets	1,815,234	1,684,523	1,815,234	1,684,523
Average assets*	1,782,966	1,686,688	1,770,142	1,694,462
Deposits	1,450,615	1,343,612	1,450,615	1,343,612
Subordinated notes payable	9,829	9,772	9,829	9,772
Shareholders' equity	219,164	206,267	219,164	206,267
Capital ratios*				
Risk-weighted assets	$ 1,532,135	$ 1,360,050	$ 1,532,135	$ 1,360,050
Total capital	201,112	184,941	201,112	184,941
Common Equity Tier 1 (CET1) ratio	10.95%	11.00%	10.95%	11.00%
Tier 1 capital ratio	12.87%	13.16%	12.87%	13.16%
Total capital ratio	13.13%	13.60%	13.13%	13.60%
Leverage ratio	10.38%	10.27%	10.38%	10.27%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q3 2018 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, 2017.

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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