



SECOND QUARTER 2019

EARNINGS RELEASE

VERSABANK REPORTS SECOND QUARTER 2019 RESULTS WITH A 15% INCREASE IN EARNINGS FROM A YEAR AGO

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 second quarter 2019 ("Q2 2019") unaudited Interim Consolidated Financial Statements for the period ended April 30, 2019 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.



LONDON, ONTARIO, May 29, 2019 – VersaBank ("VB" or the "Bank") (TSX:VB) today reported its results for the second quarter ended April 30, 2019. Net income for the quarter was up 15% to \$4.9 million from \$4.3 million a year ago.

Core cash earnings ("CCE") for the quarter was up 14% to \$6.7 million from \$5.9 million a year ago. CCE reflects VB's core operational performance and earnings capacity (see CCE reconciliation below)⁽²⁾.

Additionally, the Bank announced today a 33% increase to its quarterly common share dividend to \$0.02 per share for the quarter ended July 31, 2019.

David Taylor, President and CEO stated, "I am pleased with our Bank's second quarter results. Despite the cautious, measured approach we have taken in originating new Commercial Banking loans over the first half of this fiscal year, lending assets this quarter of \$1.63 billion were up 4.0% from last year. Additionally, non-interest expenses were down 3.1% from last year, resulting in our efficiency ratio improving to 50% from 53% last year and CCE of \$6.7 million improving significantly by 14% from last year. We are looking forward to further growth over the second half of 2019, as typically Commercial Banking's construction loans draw down in the latter part of our fiscal year and eCommerce will purchase a higher volume of electronic receivables as a result of increased consumer purchases and small business investment activity over the same period."

Q2 2019 Highlights:

Q2 2019 compared to Q2 2018⁽¹⁾

- Core cash earnings⁽²⁾ of \$6.7 million (up 14% from \$5.9 million)
- Core cash earnings per share of \$0.32 (up \$0.04 from \$0.28)
- Net income of \$4.9 million (up 15% from \$4.3 million)
- NIM of 2.95% (unchanged from 2.95%)
- Basic and diluted EPS of \$0.21 (up \$0.03 from \$0.18)
- Common share book value of \$9.58 (up 9% from \$8.80)
- ROCE of 8.89% (up from 8.25%)
- CET1 ratio of 12.17% (up from 11.07%)
- Leverage ratio of 11.43% (up from 10.41%)

YTD Q2 2019 compared to YTD Q2 2018⁽¹⁾

- Core cash earnings⁽²⁾ of \$13.5 million (up 15% from \$11.8 million)
- Core cash earnings per share of \$0.64 (up \$0.08 from \$0.56)
- Net income of \$9.8 million (up 19% from \$8.2 million)
- NIM of 2.93% (up from 2.88%)
- Basic and diluted EPS of \$0.41 (up \$0.07 from \$0.34)
- Common share book value of \$9.58 (up 9% from \$8.80)
- ROCE of 8.88% (up from 7.88%)
- CET1 ratio of 12.17% (up from 11.07%)
- Leverage ratio of 11.43% (up from 10.41%)

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q2 2019 Management's Discussion and Analysis.

(2) Core cash earnings is calculated as:

(thousands of Canadian dollars)

	for the three months		for the six months	
	April 30 2019	April 30 2018	April 30 2019	April 30 2018
Net income	\$ 4,896	\$ 4,256	\$ 9,828	\$ 8,232
Adjusted for:				
Income taxes	1,851	1,646	3,713	3,122
Other non-core general and administrative expense items	-	-	-	453
	1,851	1,646	3,713	3,575
Core cash earnings	\$ 6,747	\$ 5,902	\$ 13,541	\$ 11,807

Q2 2019 Business Performance

VersaBank adopted an electronic branchless model in 1993, becoming the world's first branchless financial institution. It holds a Canadian Schedule I chartered bank licence and obtains its deposits, and the majority of its loans and leases, electronically. VersaBank's Common Shares trade on the Toronto Stock Exchange under the symbol VB and its Series 1 Preferred Shares and Series 3 Preferred Shares trade under the symbols VB.PR.A and VB.PR.B, respectively.

Commercial Banking – Loans are originated through direct contact with VB's clients and through a well-established network of mortgage brokers and syndication partners. Loans are well secured by real estate primarily in Ontario and occasionally other areas of Canada. Loans at April 30, 2019 were \$681 million, down 2.95% from a year ago.

eCommerce – Small loan and lease receivables are electronically purchased from VB's network of origination partners who make point of sale loans and leases in various markets throughout Canada. Lending assets at April 30, 2019 were \$929 million, up 9.99% from a year ago.

Funding - VB has established three core funding channels, those being personal deposits, commercial deposits, and holdbacks retained from VB's receivable purchase program origination 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 1.94%, up 30 bps from a year ago.

Capital – As at April 30, 2019, VB's CET1 ratio was 12.17%, up 110 bps from a year ago. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. Due to the fact that 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 that the Standardized Approach does not properly reflect the intrinsic risk in its lending portfolio. As a consequence, VB's leverage ratio is very 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 April 30, 2019, the Bank recorded a recovery of credit losses in the amount of \$411,000 compared to a recovery of credit losses in the amount of \$50,000 for the same period a year ago. The year over year trend was a result of lower expected credit loss allowances that were a function, primarily, of lower real estate lending asset balances and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9. The Bank's PCL ratio continues to be one of the lowest in the industry, reflecting the very low risk profile of the Bank's lending portfolio. VB's business strategy involves taking lower credit risk, but achieving higher 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. VV has entered into an exclusive licence agreement with Chairmans Financial B.V. ("Chairmans"), a company registered in the Netherlands operating in the financial services space. The agreement permits Chairmans to use the VersaVault name and brand, and to offer global clients secure storage of digital assets, encryption, authentication and related services. VersaVault will operate from the United States and Europe and will service clients globally. The licenced technology and services are to be used by Chairmans in connection with a digital asset security business, which will be carried on exclusively by, and in the name of, Chairmans. Neither VV nor VB will be party to any of the customer or other contracts (other than the licence and certain contracts with third party service providers) related to the business.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the six months ended	
	April 30	April 30	April 30	April 30
(\$CDN thousands except per share amounts)	2019	2018	2019	2018
Results of operations				
Interest income	\$ 21,125	\$ 19,363	\$ 43,084	\$ 38,432
Net interest income	12,743	12,432	26,183	24,827
Non-interest income	4	37	23	49
Total revenue	12,747	12,469	26,206	24,876
Provision (recovery) for credit losses	(411)	(50)	(700)	15
Non-interest expenses	6,411	6,617	13,365	13,507
Core cash earnings*	6,747	5,902	13,541	11,807
Core cash earnings per common share*	\$ 0.32	\$ 0.28	\$ 0.64	\$ 0.56
Net income	4,896	4,256	9,828	8,232
Income per common share:				
Basic	\$ 0.21	\$ 0.18	\$ 0.41	\$ 0.34
Diluted	\$ 0.21	\$ 0.18	\$ 0.41	\$ 0.34
Yield*	4.89%	4.59%	4.82%	4.46%
Cost of funds*	1.94%	1.64%	1.89%	1.58%
Net interest margin*	2.95%	2.95%	2.93%	2.88%
Return on average common equity*	8.89%	8.25%	8.88%	7.88%
Core cash return on average common equity*	12.68%	11.93%	12.65%	11.83%
Book value per common share*	\$ 9.58	\$ 8.80	\$ 9.58	\$ 8.80
Efficiency ratio*	50.29%	53.07%	51.00%	54.30%
Return on average total assets*	1.01%	0.88%	0.98%	0.83%
Gross impaired loans to total loans*	1.57%	0.04%	1.57%	0.04%
Provision (recovery) for credit losses as a % of average loans*	(0.03%)	0.00%	(0.04%)	0.00%
as at				
Balance Sheet Summary				
Cash and securities	\$ 132,129	\$ 144,220	\$ 132,129	\$ 144,220
Loans, net of allowance for credit losses	1,628,116	1,564,424	1,628,116	1,564,424
Average loans*	1,615,651	1,571,050	1,629,571	1,553,439
Total assets	1,796,192	1,750,697	1,796,192	1,750,697
Average assets*	1,771,235	1,728,656	1,802,661	1,696,626
Deposits	1,425,057	1,393,916	1,425,057	1,393,916
Subordinated notes payable	4,876	9,814	4,876	9,814
Shareholders' equity	231,739	215,247	231,739	215,247
Capital ratios*				
Risk-weighted assets	\$ 1,524,228	\$ 1,465,303	\$ 1,524,228	\$ 1,465,303
Total regulatory capital	219,867	195,610	219,867	195,610
Common Equity Tier 1 (CET1) ratio	12.17%	11.07%	12.17%	11.07%
Tier 1 capital ratio	14.10%	13.08%	14.10%	13.08%
Total capital ratio	14.42%	13.35%	14.42%	13.35%
Leverage ratio	11.43%	10.41%	11.43%	10.41%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q2 2019 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; changing 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 pertaining to 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 Management's Discussion and Analysis for the year ended October 31, 2018.

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 this document and the related 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 document and related management's discussion and analysis or made from time to time by the Bank or on its behalf.

Conference Call and Presentation

VersaBank will be hosting a conference call on Wednesday, May 29, 2019, at 9:00 a.m. EST to discuss the results for VB's second quarter. The toll-free-dial-in number is 1-800-289-0459 or local call dial-in number is 647-484-0473, with participant passcode 333012#.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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