



## THIRD QUARTER 2019 EARNINGS RELEASE

### VERSABANK REPORTS THIRD QUARTER 2019 RESULTS WITH A SUBSTANTIAL 17% INCREASE IN YEAR-TO-DATE EPS

*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 2019 ("Q3 2019") unaudited Interim Consolidated Financial Statements for the period ended July 31, 2019 and Management's Discussion and Analysis, are available online at [www.versabank.com/investor-relations](http://www.versabank.com/investor-relations) and at [www.sedar.com](http://www.sedar.com). Supplementary Financial Information will also be available on our website at [www.versabank.com/investor-relations](http://www.versabank.com/investor-relations).*



**LONDON, ONTARIO, August 28, 2019** – VersaBank (“VB” or the “Bank”) (TSX:VB) today reported its results for the third quarter ended July 31, 2019. Net income for the quarter was up 6% and on a year-to-date basis was up 15% giving rise to a substantial 17% increase in EPS over the previous year. Results reflected strong growth in eCommerce banking, industry leading NIM expansion, and very low provisions for credit losses (“PCL”) on impaired loans, offset partially by lower earnings from Commercial Banking, which also saw non-core loan balances continue to run-off.

David Taylor, President and CEO stated, “Our low risk strategy to use new technologies to provide innovative banking solutions to niche markets not well served by the major players is working very well. On a year-to-date basis; NIM increased to an industry leading 3.0%, efficiency improved to 50.21%, our eCommerce portfolio increased by 8.7%, all giving rise to a 17% increase in EPS. We accomplished this all the while continuing to adhere to our low risk model and devoting considerable resources to developing innovative new ways to apply ‘state of the art’ technologies to traditional banking functions.”

## Q3 2019 Highlights:

### Q3 2019 compared to Q3 2018<sup>(1)</sup>

- Core cash earnings<sup>(2)</sup> of \$6.8 million (up 6% from \$6.4 million)
- Core cash earnings per common share of \$0.32 (up \$0.01 from \$0.31)
- Net income of \$5.0 million (up 6% from \$4.7 million)
- NIM of 3.12% (up 24 bps from 2.88%)
- Basic and diluted EPS of \$0.21 (up \$0.01 from \$0.20)
- Common share book value of \$9.77 (up 9% from \$8.99)
- CET1 ratio of 12.71% (up from 10.95%)
- Leverage ratio of 11.90% (up from 10.38%)

### YTD Q3 2019 compared to YTD Q3 2018<sup>(1)</sup>

- Core cash earnings<sup>(2)</sup> of \$20.4 million (up 12% from \$18.3 million)
- Core cash earnings per common share of \$0.96 (up \$0.10 from \$0.86)
- Net income of \$14.8 million (up 15% from \$12.9 million)
- NIM of 3.00% (up 15 bps from 2.85%)
- Basic and diluted EPS of \$0.62 (up \$0.09 from \$0.53)
- Common share book value of \$9.77 (up 9% from \$8.99)
- CET1 ratio of 12.71% (up from 10.95%)
- Leverage ratio of 11.90% (up from 10.38%)

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q3 2019 Management's Discussion and Analysis.

(2) Core cash earnings is calculated as:

(thousands of Canadian dollars)

	for the three months ended		for the nine months ended	
	July 31 2019	July 31 2018	July 31 2019	July 31 2018
Net income	\$ 4,963	\$ 4,678	\$ 14,791	\$ 12,910
Adjusted for:				
Income taxes	1,874	1,768	5,587	4,890
Other non-core general and administrative expense items	-	-	-	453
	1,874	1,768	5,587	5,343
Core cash earnings	\$ 6,837	\$ 6,446	\$ 20,378	\$ 18,253

## Q3 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** – Commercial loans are originated through a well-established network of mortgage brokers and syndication partners and through direct contact with VB's clients. These loans are well secured by real estate primarily in Ontario and occasionally other areas of Canada. We are continuing to approach this business line with increased caution and are letting the non-core portion of this portfolio run-off. Loans at July 31, 2019 were \$624 million, down 15.33% 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. This line of our business has tremendous potential for additional growth and profitability. Accordingly, we are devoting considerable energy to developing new innovative ideas to enhance VB’s competitive advantage in this market. Lending assets at July 31, 2019 were \$972 million, up 8.68% 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 we continue to grow and expand across Canada. Commercial deposits are sourced primarily through specialized chequing accounts made available to insolvency professionals (“Trustees”) in the Canadian insolvency industry. VB has 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. This low-cost diversified deposit gathering network provides VB with a significant advantage. VB’s cost of funds for the quarter was 1.98%, up only 31 bps from a year ago.

**Capital** – As at July 31, 2019, VB’s CET1 ratio was 12.71%, up 176 bps from a year ago. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. VB focuses on commercial and consumer loans with lower than average risk (as demonstrated by its long history of low provision for credit losses). VB believes that the Standardized Approach does not properly reflect the intrinsic risk in its lending portfolio. As a consequence, VB’s leverage ratio is one of the most conservative in the industry, 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, 2019, the Bank recorded a provision for credit losses in the amount of \$381,000 compared to a provision for credit losses in the amount of \$128,000 for the same period a year ago. The year over year trend was a function primarily of higher expected credit losses estimated on a stage 3 facility, asset growth in the receivable purchase portfolio, and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by lower commercial banking assets. On a year-to-date basis VB’s PCL was actually a recovery of \$319,000. VB’s PCL ratio has historically been 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 providing superior service 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. We are very excited by this ‘state of the art’ technology that we believe will have numerous applications in the banking industry throughout the world.

## FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the nine months ended	
(\$CDN thousands except per share amounts)	July 31 2019	July 31 2018	July 31 2019	July 31 2018
<b>Results of operations</b>				
Interest income	\$ 22,958	\$ 20,446	\$ 66,042	\$ 58,878
Net interest income	14,059	12,965	40,242	37,792
Non-interest income	19	17	42	66
Total revenue	14,078	12,982	40,284	37,858
Provision (recovery) for credit losses	381	128	(319)	143
Non-interest expenses	6,860	6,408	20,225	19,915
Core cash earnings*	6,837	6,446	20,378	18,253
Core cash earnings per common share*	\$ 0.32	\$ 0.31	\$ 0.96	\$ 0.86
<b>Net income</b>	<b>4,963</b>	<b>4,678</b>	<b>14,791</b>	<b>12,910</b>
Income per common share:				
Basic	\$ 0.21	\$ 0.20	\$ 0.62	\$ 0.53
Diluted	\$ 0.21	\$ 0.20	\$ 0.62	\$ 0.53
Yield*	5.10%	4.55%	4.92%	4.45%
Cost of funds*	1.98%	1.67%	1.92%	1.60%
Net interest margin*	3.12%	2.88%	3.00%	2.85%
Return on average common equity*	8.56%	8.72%	8.77%	8.16%
Core cash return on average common equity*	12.20%	12.45%	12.50%	12.03%
Book value per common share*	\$ 9.77	\$ 8.99	\$ 9.77	\$ 8.99
Efficiency ratio*	48.74%	49.36%	50.21%	52.60%
Return on average total assets*	0.98%	0.92%	0.98%	0.85%
Gross impaired loans to total loans*	1.58%	0.04%	1.58%	0.04%
Provision (recovery) for credit losses as a % of average loans*	0.02%	0.01%	(0.02%)	0.01%
<b>as at</b>				
<b>Balance Sheet Summary</b>				
Cash and securities	\$ 118,310	\$ 125,231	\$ 118,310	\$ 125,231
Loans, net of allowance for credit losses	1,613,811	1,649,326	1,613,811	1,649,326
Average loans*	1,620,964	1,606,875	1,622,419	1,585,092
Total assets	1,776,659	1,815,234	1,776,659	1,815,234
Average assets*	1,786,426	1,782,966	1,792,894	1,770,142
Deposits	1,398,286	1,450,615	1,398,286	1,450,615
Subordinated notes payable	4,879	9,829	4,879	9,829
Shareholders' equity	235,730	219,164	235,730	219,164
<b>Capital ratios*</b>				
Risk-weighted assets	\$ 1,504,445	\$ 1,532,135	\$ 1,504,445	\$ 1,532,135
Total regulatory capital	225,572	201,112	225,572	201,112
Common Equity Tier 1 (CET1) ratio	12.71%	10.95%	12.71%	10.95%
Tier 1 capital ratio	14.66%	12.87%	14.66%	12.87%
Total capital ratio	14.99%	13.13%	14.99%	13.13%
Leverage ratio	11.90%	10.38%	11.90%	10.38%

\* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q3 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, August 28, 2019, at 9:00 a.m. EST to discuss the results for VB's third quarter. The toll-free-dial-in number is 1-866-323-9095 or local call dial-in number is 416-849-3996, with participant passcode 969299#.

### **FOR FURTHER INFORMATION, PLEASE CONTACT:**

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