



## FOURTH QUARTER 2019

### EARNINGS RELEASE

#### **VERSABANK REPORTS FOURTH QUARTER AND FISCAL 2019 RESULTS WITH RECORD ANNUAL NET INCOME OF \$20.2 MILLION, UP 12% FROM A YEAR AGO**

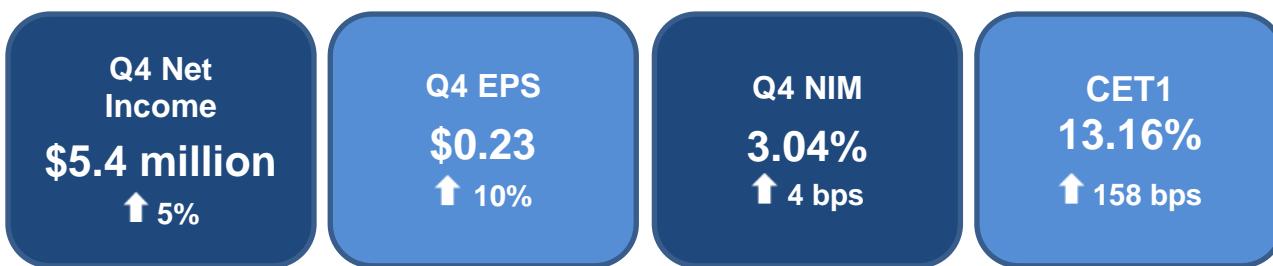
*VersaBank's 2019 annual audited Consolidated Financial Statements and Management's Discussion and Analysis ("MD&A") will be available today online at [www.versabank.com/investor-relations](http://www.versabank.com/investor-relations) and at [www.sedar.com](http://www.sedar.com). Supplementary Financial Information will also be available on our website at [www.versabank.com/investor-relations](http://www.versabank.com/investor-relations). All interim financial information within this earnings release is unaudited and based on interim Consolidated Financial Statements prepared in compliance with International Accounting Standard 34 Interim Financial Reporting, unless otherwise noted. All annual financial information herein was derived from VersaBank's 2019 annual audited Consolidated Financial Statements. All amounts are stated in Canadian dollars.*

LONDON, ONTARIO, November 27, 2019 – VersaBank (“VB” or the “Bank”) (TSX:VB) today reported its results for the fourth quarter and fiscal year ended October 31, 2019. Net income for the quarter was up 5% to \$5.4 million, and net income for the year was up 12% to a record \$20.2 million, compared to the respective periods last year.

Core cash earnings (CCE) for the quarter was up 5% to \$7.4 million and CCE for the year was up 10% to \$27.8 million compared to the respective periods last year. CCE reflects the Bank's core operational performance and funds its regulatory capital to support growth. (see core cash earnings reconciliation below)<sup>(2)</sup>.

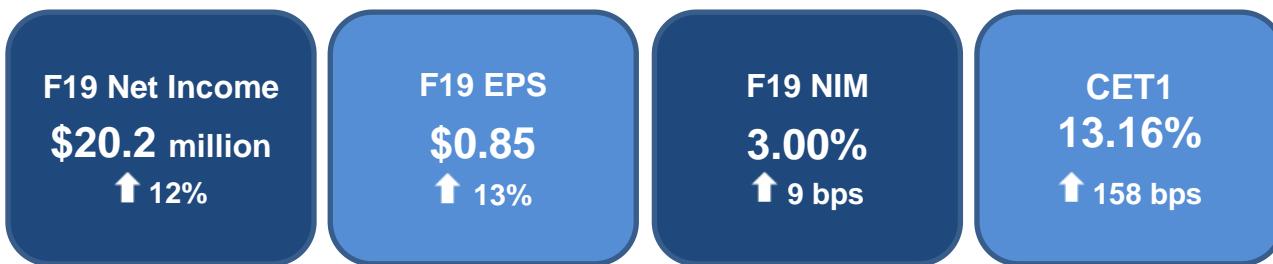
David Taylor, President and CEO stated, “Our strategy of using new technologies to access otherwise unattainable banking niches is working very well. Over the past 5 years, EPS has grown by a phenomenal annual compounded growth rate of 24%. This year's EPS increased to 85 cents and Core Cash Earnings increased to \$1.32 per share. This net income growth allowed us to increase the dividends on our common shares and stockpile a considerable amount of regulatory capital to support future growth. In 2019 we set out to create some exciting new products that we plan to launch in Q1 of the upcoming year, which we expect to significantly contribute to 2020's growth in assets and earnings. With the rapid advancements in financial technology and the ever-increasing demand for this type of convenient banking, it is a wonderful time to own shares of the world's first digital bank.”

## Q4 2019 Highlights (Q4 2019 compared to Q4 2018):



Lower non-interest expenses, lower provisions for losses and higher NIM (3.04% versus 3.00%) contributed to the increase in net income this quarter compared to the same period last year. VB's provision for credit losses ("PCL") ratio for the quarter remained negligible and VB's efficiency ratio improved to 45% for the quarter.

## 2019 Annual Highlights (YTD 2019 compared to YTD 2018):



Net income for the year was up 12% to a record \$20.2 million or \$0.85 per common share (basic and diluted) and CCE for the year was up 10% to \$27.8 million or \$1.32 per common share (basic and diluted) compared to the previous year. Improved efficiency (49% versus 51%) and higher NIM (3.00% versus 2.91%) contributed to this record year.

### Q4 2019 compared to Q4 2018<sup>(1)</sup>

- Net income of \$5.4 million (up 5% from \$5.2 million)
- Core cash earnings<sup>(2)</sup> of \$7.4 million (up 5% from \$7.1 million)
- Core cash earnings per share of \$0.36 (up \$0.03 from \$0.33)
- NIM of 3.04% (up 4 bps from 3.00%)
- Basic and diluted EPS of \$0.23 (up \$0.02 from \$0.21)
- Common share book value of \$9.98 (up 9% from \$9.19)
- Core cash return on average common equity of 13.11% (down from 13.55%)
- CET1 ratio of 13.16% (up from 11.58%)
- Leverage ratio of 11.99% (up from 10.84%)

### F2019 compared to F2018<sup>(1)</sup>

- Net income of \$20.2 million (up 12% from \$18.1 million)
- Core cash earnings<sup>(2)</sup> of \$27.8 million (up 10% from \$25.4 million)
- Core cash earnings per share of \$1.32 (up \$0.13 from \$1.19)
- NIM of 3.00% (up 9 bps from 2.91%)
- Basic and diluted EPS of \$0.85 (up \$0.10 from \$0.75)
- Common share book value of \$9.98 (up 9% from \$9.19)
- Core cash return on average common equity of 12.65% (up from 12.40%)
- CET1 ratio of 13.16% (up from 11.58%)
- Leverage ratio of 11.99% (up from 10.84%)

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

(2) Core cash earnings is calculated as:

(thousands of Canadian dollars)	for the three months ended		for the year ended	
	October 31 2019	October 31 2018	October 31 2019	October 31 2018
Net income	\$ 5,405	\$ 5,164	\$ 20,196	\$ 18,074
Adjusted for:				
Income taxes	2,038	2,049	7,625	6,939
Other non-core general and administrative expense items	-	(105)	-	348
	2,038	1,944	7,625	7,287
Core cash earnings	\$ 7,443	\$ 7,108	\$ 27,821	\$ 25,361

## Q4 2019 Business Performance

VB adopted an electronic branchless model in 1993, becoming the world's first branchless digital financial institution. VB holds a Canadian Schedule I chartered bank license and obtains its deposits, and most of its loans and leases, electronically. VB'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 located in Ontario. We are continuing to approach this business with caution and are letting the non-core portion of this portfolio run-off. Loans at October 31, 2019 were \$579 million, down 7.49% from last quarter and down 19.68% from a year ago. Approximately half of this reduction was attributable to repayments of non-core lower yielding legacy loans.

**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 business continues to present strong potential for growth and enhanced profitability. Accordingly, we continue to allocate considerable resources to the development of innovative enhancements to maintain VB's competitive advantage and increase the rate of growth of this portfolio. Lending assets at October 31, 2019 were \$995 million, up 2.93% from last quarter and up 11.73% 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. VB has developed state of the art customized banking software that is used by insolvency professionals. VB's custom banking software integrates banking services with the market-leading software platforms used primarily in the administration of consumer bankruptcy and proposal restructuring proceedings. These low-cost diversified deposit channels provide VB with a significant cost of funds advantage. VB's cost of funds for the quarter was 1.92%, down 6 bps from last quarter and up only 10 bps from a year ago.

**Capital** – As at October 31, 2019, VB's CET1 capital ratio was 13.16%, up 45 bps from last quarter and up 158 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 and consequently 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. VB plans to use its surplus regulatory capital to grow in lower risk weighted asset categories.

**Credit Quality** – For the quarter ended October 31, 2019, the Bank recorded a provision for credit losses in the amount of \$21,000 compared to a provision for credit losses in the amount of \$191,000 for the same period a year ago as a function primarily of a recovery of credit losses on a legacy real estate loan and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by changes in the Bank’s real estate lending asset mix. On a year-to-date basis the Bank recorded a recovery of credit losses in the amount of \$298,000. VB’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 providing superior service in niche markets that are not well served by the larger financial institutions.

**VersaVault Inc.** – VersaVault Inc. (“VV”) was formed to develop and provide cyber-security services to commercial entities. VV has entered into an exclusive license 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.

Over the course of the fourth quarter DRT Cyber Inc., (“DRTC”) was formed with the objective of building on the technology framework established by VersaVault with a focus on developing a full suite of innovative cyber security solutions for the broader digital world. Moreover, DRTC’s mission is to identify and address cyber security challenges experienced by government and corporate entities.

Governor Tom Ridge is Chairman of DRTC. Governor Ridge is also Chairman of Ridge Global LLC, which provides clients with solutions to cyber security, international security and risk management issues. Governor Ridge served as Assistant to the President of the United States for Homeland Security following the tragic events of Sept 11, 2001. Accordingly, DRTC is incorporated in Delaware, and will be based in Washington D.C. so that it is strategically positioned to serve such markets as the US Government and large U.S. based corporates, as well as to be proximal to the firm’s chairman.

## FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the year ended	
(\$CDN thousands except per share amounts)	October 31 2019	October 31 2018	October 31 2019	October 31 2018
<b>Results of operations</b>				
Interest income	\$ 22,263	\$ 22,036	\$ 88,305	\$ 80,914
Net interest income	13,655	13,707	53,897	51,499
Non-interest income	(20)	120	22	186
Total revenue	13,635	13,827	53,919	51,685
Provision (recovery) for credit losses	21	191	(298)	334
Non-interest expenses	6,171	6,423	26,396	26,338
Core cash earnings*	7,443	7,108	27,821	25,361
Core cash earnings per common share*	\$ 0.36	\$ 0.33	\$ 1.32	\$ 1.19
<b>Net income</b>	<b>5,405</b>	<b>5,164</b>	<b>20,196</b>	<b>18,074</b>
Income per common share:				
Basic	\$ 0.23	\$ 0.21	\$ 0.85	\$ 0.75
Diluted	\$ 0.23	\$ 0.21	\$ 0.85	\$ 0.75
Dividends paid on preferred shares	\$ 550	\$ 550	\$ 2,201	\$ 2,201
Dividends paid on common shares	\$ 422	\$ 211	\$ 1,477	\$ 843
Yield*	4.96%	4.82%	4.91%	4.58%
Cost of funds*	1.92%	1.82%	1.91%	1.66%
Net interest margin*	3.04%	3.00%	3.00%	2.91%
Provision (recovery) for credit losses as a % of average loans*	0.00%	0.01%	(0.02%)	0.02%
Gross impaired loans to total loans*	0.39%	0.04%	0.39%	0.04%
Return on average common equity*	9.23%	9.53%	8.89%	8.50%
Core cash return on average common equity*	13.11%	13.55%	12.65%	12.40%
Return on average total assets*	1.08%	1.01%	1.00%	0.90%
Book value per common share*	\$ 9.98	\$ 9.19	\$ 9.98	\$ 9.19
Efficiency ratio*	45.26%	46.45%	48.95%	50.96%
<b>as at</b>				
<b>Balance Sheet Summary</b>				
Cash and securities	\$ 149,206	\$ 139,798	\$ 149,206	\$ 139,798
Loans, net of allowance for credit losses	1,594,288	1,631,026	1,594,288	1,631,026
Average loans*	1,604,050	1,640,176	1,612,657	1,575,942
Total assets	1,785,381	1,809,130	1,785,381	1,809,130
Average assets*	1,781,020	1,812,182	1,797,256	1,767,089
Deposits	1,399,889	1,437,431	1,399,889	1,437,431
Subordinated notes payable	4,881	9,844	4,881	9,844
Shareholders' equity	240,163	223,567	240,163	223,567
<b>Capital ratios*</b>				
Risk-weighted assets	\$ 1,501,435	\$ 1,502,549	\$ 1,501,435	\$ 1,502,549
Common Equity Tier 1 capital	197,545	174,055	197,545	174,055
Total regulatory capital	231,882	207,392	231,882	207,392
Common Equity Tier 1 (CET1) capital ratio	13.16%	11.58%	13.16%	11.58%
Tier 1 capital ratio	15.11%	13.54%	15.11%	13.54%
Total capital ratio	15.44%	13.80%	15.44%	13.80%
Leverage ratio	11.99%	10.84%	11.99%	10.84%

\* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Annual 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 MD&A for the year ended October 31, 2019.

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, November 27, 2019, at 9:00 a.m. EST to discuss the results for VB's fourth quarter. The toll-free-dial-in number is 1-800-898-3989 or local call dial-in number is 416-406-0743, with participant passcode 4607312#.

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

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