



FIRST QUARTER 2020 EARNINGS RELEASE

VERSABANK REPORTS CONTINUED STRONG FINANCIAL RESULTS FOR THE FIRST QUARTER 2020, WITH 15% GROWTH IN eCOMMERCE PORTFOLIO 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 first quarter 2020 ("Q1 2020") unaudited Interim Consolidated Financial Statements for the period ended January 31, 2020 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, February 26, 2020 – VersaBank ("VB" or the "Bank") (TSX:VB) today reported its results for the first quarter ended January 31, 2020. Net income for the quarter increased 4% to \$5.1 million and EPS increased 5% to \$0.22, respectively, year over year as a result of strong growth in the Bank's eCommerce business line and continued low provisions for credit losses ("PCL").

Additionally, Core Cash Earnings ("CCE") and CCE per share for the quarter increased 4% to \$7.1 million and 6% to \$0.34, respectively, year over year. CCE reflects the Bank's core operational performance and provides funding for regulatory capital to support further asset growth. (see CCE reconciliation below) ⁽²⁾.

"Our continuing strong financial results for the first quarter of 2020 build on the momentum of last year's record performance," said David Taylor, President and CEO, VersaBank. "Importantly, VB's assets increased by 4% over the previous quarter mainly to our continued success in expanding our eCommerce portfolio, which grew by a very healthy 7%. Our eCommerce business continues to represent significant potential for VB, and we are pleased to be pursuing numerous opportunities to drive significant growth."

"On the deposit raising side of our business, our focus on commercial sources rather than the highly competitive personal deposit market has enabled VB to further reduce its cost of funds. Pursuant to VB's ongoing strategy of continuing to diversify its deposit gathering network it is developing new technology to enable it to access an entirely new deposit channel, US-dollar denominated deposits that the Canada Deposit Insurance Corporation has announced will become eligible for insurance coverage on April 30, 2020. VB often has opportunities to make US-dollar denominated loans and US-dollar deposits will provide a natural and economical hedge for these US-dollar denominated assets."

“VB’s unique model of using innovative software to access niche markets not well served by the larger banks is working very well and clearly and evident in our financial performance. It seems that we have entered a new era that is ideal for our digital bank to grow and prosper. New opportunities are plentiful, and VB has abundant capital to take advantage of these opportunities. Shortly after quarter end, we announced beta testing of our new ‘Direct-Connect’ software intended to provide VB access to a new low risk-weighted asset class of residential mortgages. VB has considerable balance sheet capacity to capitalize on this proprietary opportunity in the residential mortgage sector.”

Q1 2020 Highlights:

Q1 2020 compared to Q1 2019⁽¹⁾

- Assets of \$1.85 billion (up 6% from \$1.75 billion)
- NIM of 2.96% (down 4 bps from 3.00%)
- Core Cash Earnings⁽²⁾ of \$7.1 million (up 4% from \$6.8 million)
- Core cash earnings per common share of \$0.34 (up \$0.02 from \$0.32)
- Net income of \$5.1 million (up 4% from \$4.9 million)
- Basic and diluted EPS of \$0.22 (up \$0.01 from \$0.21)
- Common share book value of \$10.17 (up 8% from \$9.39)
- CET1 ratio of 13.05% (up from 12.26%)
- Leverage ratio of 11.86% (up from 11.56%)

Q1 2020 compared to Q4 2019⁽¹⁾

- Assets of \$1.85 billion (up 4% from \$1.79 billion)
- NIM of 2.96% (down 8 bps from 3.04%)
- Core Cash Earnings⁽²⁾ of \$7.1 million (down 5% from \$7.4 million)
- Core cash earnings per common share of \$0.34 (down \$0.02 from \$0.36)
- Net income of \$5.1 million (down 5% from \$5.4 million)
- Basic and diluted EPS of \$0.22 (down \$0.01 from \$0.23)
- Common share book value of \$10.17 (up 2% from \$9.98)
- CET1 ratio of 13.05% (down from 13.16%)
- Leverage ratio of 11.86% (down from 11.99%)

(1) Certain highlights include non-GAAP measures. See definitions under ‘Basis of Presentation’ in the Q1 2020 Management’s Discussion and Analysis.

(2) Core Cash Earnings is calculated as:

(thousands of Canadian dollars)	for the three months ended	
	January 31 2020	January 31 2019
Net income	\$ 5,141	\$ 4,932
Adjusted for:		
Non-cash income taxes	1,944	1,862
Core cash earnings	\$ 7,085	\$ 6,794

Q1 2020 Business Performance

VersaBank adopted an electronic branchless B2B model in 1993, becoming the world’s first branchless financial institution. It holds a Canadian Schedule I chartered bank license and operates in niche markets where it obtains deposits, and most 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 as well as through direct contact with VB's staff. Most of these loans are secured by real estate assets located in Ontario. VB has been allowing the thinly priced non-core portion of this portfolio to run-off which has led to a 11.04% net reduction of the portfolio over the previous year. Loans at January 31, 2020 were \$603 million, and with the run-off of the non-core loans slowing down this portfolio should resume gradual growth.

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 growth potential for both size and profitability. Accordingly, we continue to allocate considerable resources for the development of innovative enhancements to our technology to better serve our current partners as well as attract new partners. New partners and increased volume from existing clients are fueling the growth of this portfolio. Lending assets at January 31, 2020 were \$1.1 billion, up 15.19% from a year ago.

Funding - VB has established three core funding channels, those being personal deposits, commercial deposits, and holdbacks retained from VB's eCommerce origination partners that are classified as other liabilities. Personal deposits, consisting principally of guaranteed investment certificates, are sourced through a well-established and well-diversified deposit broker network that we continue to grow and expand across Canada. Commercial deposits are sourced through specialized chequing accounts made available to insolvency professionals. VB has developed state of the art customized banking software that is used by most insolvency professionals across Canada. 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 1.88%, down 2 bps from a year ago. VB is presently exploring other low-cost deposit channels that it hopes will further lower its cost of funds.

Capital – VB's regulatory capital is increased by its CCE and at January 31, 2020, VB's CET1 ratio was 13.05%, up 79 bps from a year ago. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. Historically VB has lent to asset categories that have higher regulatory risk weightings. This has enabled VB to build up a considerable surplus of regulatory capital. For example, VB's leverage percentage of 11.86% is nearly 3X that averaged by the large banks. VB plans to take advantage of this surplus regulatory capital to grow in lower risk weighted asset categories such as residential mortgages acquired through its recently announced 'Direct-Connect' program.

Credit Quality – For the quarter ended January 31, 2020, VB recorded a recovery of credit losses in the amount of \$208,000 compared to a recovery of credit losses in the amount of \$289,000 for the same period a year ago. The year over year trend was a function primarily of lending asset growth, changes in lending asset mix and the impact of net remeasurements of expected credit loss amounts last year as a result of the conversion to the expected credit loss methodology under IFRS 9. VB's PCL ratio continues to be one of the lowest in the industry, reflecting the very low risk profile of its lending portfolio. VB's business strategy involves taking lower credit risk but achieving higher NIM by providing superior service in niche markets that are generally not well served by the larger financial institutions.

DRT Cyber Inc. – DRT Cyber Inc. ("DRTC") was formed to develop innovative cyber security solutions for VersaBank and the broader digital world. VersaVault, a first of its kind digital safety deposit box, is owned by DRTC and is presently licensed to a European financial services company (Chairman). Chairman is using VersaVault technology to service a number of digital currency exchanges and DRTC derives a modest revenue from the licensing agreement. DRTC's mission is to identify and address cyber security challenges experienced by VersaBank, corporations and government entities. DRTC is presently working on several exciting projects that are likely to benefit VersaBank directly and could produce additional revenue.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		
(\$CDN thousands except per share amounts)	January 31 2020	October 31 2019	January 31 2019
Results of operations			
Interest income	\$ 22,166	\$ 22,263	\$ 21,959
Net interest income	13,557	13,655	13,440
Non-interest income (loss)	25	(20)	19
Total revenue	13,582	13,635	13,459
Provision (recovery) for credit losses	(208)	21	(289)
Non-interest expenses	6,705	6,171	6,954
Core cash earnings*	7,085	7,443	6,794
Core cash earnings per common share*	\$ 0.34	\$ 0.36	\$ 0.32
Net income	5,141	5,405	4,932
Income per common share:			
Basic	\$ 0.22	\$ 0.23	\$ 0.21
Diluted	\$ 0.22	\$ 0.23	\$ 0.21
Dividends paid on preferred shares	\$ 542	\$ 550	\$ 550
Dividends paid on common shares	\$ 528	\$ 422	\$ 317
Yield*	4.84%	4.96%	4.90%
Cost of funds*	1.88%	1.92%	1.90%
Net interest margin*	2.96%	3.04%	3.00%
Return on average common equity*	8.60%	9.23%	8.86%
Core cash return on average common equity*	12.23%	13.11%	12.62%
Book value per common share*	\$ 10.17	\$ 9.98	\$ 9.39
Efficiency ratio*	49%	45%	52%
Return on average total assets*	1.01%	1.08%	0.98%
Gross impaired loans to total loans*	0.38%	0.39%	1.22%
Provision (recovery) for credit losses as a % of average loans*	(0.01%)	0.00%	(0.02%)
as at			
Balance Sheet Summary			
Cash and securities	\$ 134,253	\$ 149,206	\$ 105,193
Loans, net of allowance for credit losses	1,668,720	1,594,288	1,603,185
Average loans*	1,631,504	1,604,050	1,617,106
Total assets	1,854,765	1,785,381	1,746,278
Average assets*	1,820,073	1,781,020	1,777,704
Deposits	1,454,979	1,399,889	1,371,123
Subordinated notes payable	4,883	4,881	9,859
Shareholders' equity	244,234	240,163	227,710
Capital ratios*			
Risk-weighted assets	\$ 1,558,070	\$ 1,501,435	\$ 1,466,154
Common Equity Tier 1 capital	203,399	197,545	179,811
Total regulatory capital	237,736	231,882	213,148
Common Equity Tier 1 (CET1) ratio	13.05%	13.16%	12.26%
Tier 1 capital ratio	14.94%	15.11%	14.27%
Total capital ratio	15.26%	15.44%	14.54%
Leverage ratio	11.86%	11.99%	11.56%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q1 2020 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, February 26, 2020, at 9:00 a.m. EST to discuss the results for VB's first 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 2134015#.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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