

**SECOND QUARTER 2020  
EARNINGS RELEASE**

**VERSABANK REPORTS CONTINUED STRONG FINANCIAL RESULTS FOR THE SECOND QUARTER 2020, WITH 5% YEAR-OVER-YEAR GROWTH IN NET INCOME ON RECORD REVENUE**

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 2020 ("Q2 2020") unaudited Interim Consolidated Financial Statements for the period ended April 30, 2020 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, May 27, 2020** – VersaBank ("VersaBank" or the "Bank") (TSX: VB) today reported its results for the second quarter ended April 30, 2020.

**Financial Summary:**

	For the three months ended April 30			For the six months ended April 30		
	2020	2019	Change	2020	2019	Change
<b>Financial Results</b>						
Revenue	\$14.5 M	\$12.7 M	+14%	\$28.1 M	\$26.2 M	+7%
Cost of Funding	1.75%	1.94%	-19 bps	1.80%	1.89%	-9 bps
Net Interest Margin	3.08%	2.95%	+13bps	3.01%	2.93%	+8 bps
Core Cash Earnings <sup>(1)(2)</sup>	\$7.1 M	\$6.7 M	+5%	\$14.2 M	\$13.5 M	+5%
Core Cash Earnings per Common Share <sup>(1)</sup>	\$0.34	\$0.32	+\$0.02	\$0.67	\$0.64	+\$0.03
Net Income	\$5.1 M	\$4.9 M	+5%	\$10.3 M	\$9.8 M	+5%
Basic and Diluted Net Income per Common Share	\$0.22	\$0.21	+\$0.01	\$0.44	\$0.41	+\$0.03
<b>Balance Sheet and Capital Ratios</b>						
Total Assets	\$1.97 B	\$1.80 B	+9%	\$1.97 B	\$1.80 B	+9%

Book Value per Common Share	\$10.37	\$9.58	+8%	\$10.37	\$9.58	+8%
CET1 Ratio	13.50%	12.17%	+133bps	13.50%	12.17%	+133bps
Leverage Ratio	11.48%	11.43%	+5bps	11.48%	11.43%	+5bps

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q2 2020 Management's Discussion and Analysis.

(2) Core Cash Earnings is calculated as pre-tax earnings less non-core operating income/expenses. See reconciliation of Core Cash Earnings to Net Income below.

## COVID-19 Update

As the COVID-19 pandemic continues to introduce new challenges to the Canadian financial services industry, VersaBank continues to respond with efficient, effective solutions. As it has since the beginning of the pandemic, the Bank continues to work to ensure the safety and wellness of its employees and clients, including continuing to provide substantially all of the Bank's staff with a fully functional Work-from-Home solution, which, as a function of the Bank's branchless, technology driven model supported by its recently implemented two-factor authentication Virtual Private Network is enabling it to operate reasonably seamlessly with the highest level of security and without a material compromise to operational efficiency.

During this period of economic uncertainty, VersaBank continues to strengthen and enhance its risk management processes, with specific focus on the prudent mitigation of potentially elevated credit and liquidity risk exposures. Notably, at the end of the current quarter total cash holdback balances associated with the Bank's Point of Sale Financing portfolio were in excess of three times what the Bank has determined to be the intrinsic at-risk loan amount and, at this time, the Bank anticipates no loan losses to VersaBank from this portfolio. Moreover, the Bank has temporarily increased its cash balance for the near term, which, at the end of the second quarter of 2020 was \$340 million, or 17% of assets, up from the Bank's historical range of 6 to 7% of average assets. At the end of the second quarter of 2020, the Bank had more than \$80 million in surplus total regulatory capital over the Basel III minimum.

## Financial Discussion

Net income for the second quarter of 2020 increased 5% to \$5.1 million and EPS increased 5% to \$0.22, respectively, year over year. The increases were attributable to a higher net interest income contribution resulting from a lower cost of funds (1.75% compared with 1.94%), due primarily to higher total deposits from Insolvency Professionals (on which the bank currently pays 0% interest), lower market rates, as well as higher fees. Net Interest Margin for the second quarter of 2020 increased to 3.08% from 2.95% for the same period of 2019, although it was dampened by management's prudent decision to increase its cash balances as the COVID-19 pandemic negatively impacted the economy. The strong earnings from operations during the second quarter of 2020 were tempered by higher provisions for credit losses ("PCL") as the Bank exercises caution amidst the COVID-19 pandemic, which increased to a provision of \$490,000 from a recovery of \$411,000 for the second quarter of 2019.

Core Cash Earnings ("CCE") and CCE per share for the quarter increased 5% 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).

## Operational Highlights:

- Re-initiated business development activity for the Public Sector Financing component of its Commercial Banking lending business. VersaBank has a track record of success in public sector project financing and its access to low-cost deposit funding enables it to generate strong net interest margins on financing activities in this sector.
- Initiated beta-testing on its newly developed high-volume mortgage software application, Direct-Connect, designed to drive higher sales volumes for home and condominium builders and pre-construction sales brokers by providing "on-the-spot" financing approval for qualified buyers. Beta-testing has been protracted

due to the COVID-19 pandemic, however, VersaBank views this as a sizeable long-term opportunity, which upon successful completion of beta-testing, and a return to more normalized real estate markets, will enable VersaBank to enter the lower risk-weighted residential mortgage category, leveraging its low-cost deposit funding to generate strong net interest margins.

- Implemented its new high security Virtual Private Network (VPN) remote access software solution, developed in partnership with Tailscale, which enables VersaBank employees to securely and directly connect to all the Bank's servers across multiple offices and cloud providers, using two factor authentication and with every connection encrypted. The implementation of the Tailscale-supported VPN has been integral to the Bank's ability to operate unimpeded during the COVID-19 pandemic.

### **Management Commentary:**

"Our continuing strong financial results for the second quarter of 2020 were once again indicative of our success in leveraging our proprietary technology to maximize net interest margin, while mitigating risk, as we continued to grow our loan portfolio by offering innovative solutions that address unmet needs in the banking sector," said David Taylor, President and CEO, VersaBank. "Our 5% year-over-year net income growth was driven by our continued efforts to reduce our cost of funding, primarily through higher deposits from Insolvency Professionals and lower market rates supporting what continues to be the best net interest margin in the industry at 3.08%. In our lending operations, we saw the continued expansion of our Point of Sale Loan and Lease portfolio as we increased volume with existing partners and added new partners as the market continues to recognize the value of access to inexpensive capital."

"VersaBank has a history of no loan losses. However, out of an abundance of caution in the current economic environment we have increased our provisions for credit losses to 0.12% of average loan value - still far lower than the average of the large Canadian banks as a result of our conservative, prudent approach to business and ability to leverage our technology-based model to mitigate operational risk. The holdback structure of our Point of Sale Loans and Leases (previously referred to as e-Commerce) virtually eliminates the risk to VersaBank of loan defaults. We are also confident in the quality of our current Project Financing loan portfolio, in which the majority of projects are nearing completion and are focused on construction in the multi-unit residential sector, which we expect will be insulated to a large degree from the economic downturn."

"Following five consecutive years of strong expansion, we expect our Point of Sale Financing loan portfolio to pause its growth in 2020 due to the impact of COVID-19 on "big ticket" consumer purchases in the near term. We are, however, aggressively pursuing growth in our Project Financing portfolio by pivoting to opportunities in the public sector, where we believe there will be strong demand as governments undertake stimulus projects and grapple with lost tax revenues. With the best leverage ratio amongst the Canadian Scheduled I Banks, we have lending capacity of more than \$2 billion to put to work in these types of loans, with the objective to end fiscal 2020 with an overall loan portfolio approximately equal to, or potentially larger than, that at the end of 2019. With the opportunity to reduce our cost of funding even further through growth of our very low-interest Insolvency Professional deposits, we expect our net interest margin to continue to lead the industry."

"We entered 2020 with significant momentum in our business. Although the COVID-19 pandemic, and the Bank's additional caution in this environment will dampen growth in the second half of the year, we remain very well positioned to capitalize on opportunities presented by the new economic climate and expect to return to our trajectory of earnings growth."

### **Q2 2020 Business Performance**

VersaBank is a Canadian Schedule I Bank with a branchless, business-to-business model that leverages its proprietary technology to provide high-value solutions addressing unmet market needs in both the deposit and lending segments, enabling it to earn superior net interest margins while mitigating risk.

## **Lending Operations**

*Commercial Banking* – Commercial loans are originated through a well-established network of mortgage brokers and syndication partners, as well as through direct contact with VersaBank’s staff. Most of these loans are secured by real estate assets located in Ontario. Over the last approximately 18 months, the Bank has been actively reducing its exposure to the lower-yield multi-unit residential construction loan portion of this portfolio by allowing the loans to run-off, which has resulted in a 11.77% year-over-year net reduction of the Commercial Banking portfolio to \$617 million compared to the same period last year. This has enabled VersaBank to increase its cash position. With the run-off of the non-core loans slowing down and the Bank actively pursuing new opportunities in public sector project financing, the Project Financing Portfolio is expected to return to growth.

*Point of Sale Loan Finance Lending (Previously Referred to as e-Commerce)* – Leveraging its proprietary technology, VersaBank electronically purchases small loan and lease receivables from its network of origination partners who make point of sale loans and leases, primarily for big ticket consumer purchases, throughout Canada. For the second quarter of 2020, the Point of Sale Finance Portfolio increased 5.40% year-over-year to \$974 million due to increased volume from existing partners and the addition of new partners, despite some large repayment of portfolios in the current quarter. This portfolio continues to present strong growth potential for both size and profitability over the long-term, including from the planned commercial launch of “Direct-Connect” for the residential mortgage market (currently in beta-testing), however, the portfolio is expected to contract in the near-term due to the decline in consumer activity as a result of the economic impact of the COVID-19 pandemic.

## **Deposit Funding**

VersaBank has been increasing its proportion of lower-cost commercial deposits, primarily through growth in its well diversified Insolvency Professional deposits for which the Bank currently pays 0% interest. This low-cost diversified deposit channel provides VersaBank with a significant cost of funds advantage. VersaBank’s cost of funds for the second quarter of 2020 was 1.75%, down 19 bps from a year ago. VersaBank expects its Insolvency Professional deposits to increase significantly as bankruptcies increase and is currently exploring other low-cost deposit channels that it hopes will further lower its cost of funds. Commercial deposits were \$458 million at April 30, 2020, up 13.12% from a year ago.

## **Capital**

VersaBank’s regulatory capital is increased by its CCE and at April 30, 2020, VersaBank’s CET1 ratio was 13.50%, up 133 bps from a year ago. VersaBank, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. Historically, VersaBank has lent to asset categories that have higher regulatory risk weightings. However, the shift away from these asset categories has contributed to VersaBank building up a considerable surplus of regulatory capital, which at the end of the second quarter was more than \$80 million. For example, VersaBank’s leverage percentage of 11.48% is nearly three-times that averaged by the large banks. VersaBank plans to take advantage of this surplus regulatory capital to grow in lower risk weighted asset categories.

## **Credit Quality**

For the quarter ended April 30, 2020, VersaBank recorded a provision for credit losses (PCL) in the amount of \$490,000 compared to a recovery of credit losses in the amount of \$411,000 for the same period a year ago. The year over year trend was a function primarily of net remeasurements of expected credit losses across substantially all of the Bank’s lending asset categories attributable to the impact of the changes in the forward looking information used in the current quarter by the Bank in its credit risk models, offset partially by lower lending asset balances. VersaBank’s PCL ratio continues to be one of the lowest in the industry, reflecting the very low risk profile of its lending portfolio. VersaBank’s business strategy involves taking lower credit risk but achieving higher net interest margin by providing superior service in niche markets that are generally not well served by the larger financial institutions.

## 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)	2020	2019	2020	2019
<b>Results of operations</b>				
Interest income	\$ 22,688	\$ 21,125	\$ 44,854	\$ 43,084
Net interest income	14,476	12,743	28,033	26,183
Non-interest income	9	4	34	23
Total revenue	14,485	12,747	28,067	26,206
Provision (recovery) for credit losses	490	(411)	282	(700)
Non-interest expenses	6,899	6,411	13,604	13,365
Core cash earnings*	7,096	6,747	14,181	13,541
Core cash earnings per common share*	\$ 0.34	\$ 0.32	\$ 0.67	\$ 0.64
<b>Net income</b>	<b>5,149</b>	<b>4,896</b>	<b>10,290</b>	<b>9,828</b>
Income per common share:				
Basic	\$ 0.22	\$ 0.21	\$ 0.44	\$ 0.41
Diluted	\$ 0.22	\$ 0.21	\$ 0.44	\$ 0.41
Dividends paid on preferred shares	\$ 542	\$ 550	\$ 1,084	\$ 1,100
Dividends paid on common shares	\$ 528	\$ 317	\$ 1,056	\$ 634
Yield*	4.83%	4.89%	4.81%	4.82%
Cost of funds*	1.75%	1.94%	1.80%	1.89%
Net interest margin*	3.08%	2.95%	3.01%	2.93%
Return on average common equity*	8.64%	8.89%	8.62%	8.88%
Core cash return on average common equity*	12.29%	12.68%	12.26%	12.65%
Book value per common share*	\$ 10.37	\$ 9.58	\$ 10.37	\$ 9.58
Efficiency ratio*	47.63%	50.29%	48.47%	51.00%
Return on average total assets*	0.98%	1.01%	0.99%	0.98%
Gross impaired loans to total loans*	0.41%	1.57%	0.41%	1.57%
Provision (recovery) for credit losses as a % of average loans*	0.12%	(0.03%)	0.04%	(0.04%)
<b>as at</b>				
<b>Balance Sheet Summary</b>				
Cash and securities	\$ 340,326	\$ 132,129	\$ 340,326	\$ 132,129
Loans, net of allowance for credit losses	1,594,968	1,628,116	1,594,968	1,628,116
Average loans*	1,631,844	1,615,651	1,594,628	1,629,571
Total assets	1,966,369	1,796,192	1,966,369	1,796,192
Average assets*	1,910,567	1,771,235	1,875,875	1,802,661
Deposits	1,591,732	1,425,057	1,591,732	1,425,057
Subordinated notes payable	4,885	4,876	4,885	4,876
Shareholders' equity	248,313	231,739	248,313	231,739
<b>Capital ratios*</b>				
Risk-weighted assets	\$ 1,551,796	\$ 1,524,228	\$ 1,551,796	\$ 1,524,228
Common Equity Tier 1 capital	209,495	185,530	209,495	185,530
Total regulatory capital	245,984	219,867	245,984	219,867
Common Equity Tier 1 (CET1) ratio	13.50%	12.17%	13.50%	12.17%
Tier 1 capital ratio	15.39%	14.10%	15.39%	14.10%
Total capital ratio	15.85%	14.42%	15.85%	14.42%
Leverage ratio	11.48%	11.43%	11.48%	11.43%

\* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q2 2020 Management's Discussion and Analysis.

## Reconciliation of Core Cash Earnings

(thousands of Canadian dollars)

	for the three months ended		for the six months ended	
	April 30	April 30	April 30	April 30
	2020	2019	2020	2019
Net income	\$ 5,149	\$ 4,896	\$ 10,290	\$ 9,828
Adjusted for:				
Non-cash income taxes	1,947	1,851	3,891	3,713
Core cash earnings	\$ 7,096	\$ 6,747	\$ 14,181	\$ 13,541

## 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 several 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; the impact of COVID-19 pandemic 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 and our second quarter MD&A ended April 30, 2020.

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 Webcast

VersaBank will be hosting a conference call and webcast today, Wednesday, May 27, 2020, at 9:00 a.m. (EDT) to discuss its second quarter results, featuring a presentation by David Taylor, President & CEO, and other VersaBank executives, followed by a question and answer period.

### Dial-in Details:

Toll-free dial-in number: 1 (800) 898-3989 (Canada/US)  
Local dial-in number: (416) 406-0743  
Participant passcode: 2134015#

Please call between 8:45 a.m. and 8:55 a.m. (EDT).

Webcast Access: For those preferring to listen to the conference call via the Internet, a webcast of Mr. Taylor's presentation will be available via the internet, accessible here <https://bit.ly/3622HJ1> or from the Bank's web site.

### Instant Replay:

Toll-free dial-in number: 1 (800) 408-3053 (Canada/US)  
Local dial-in number: (905) 694-9451  
International dial-in numbers: <https://www.conf solutions.ca/ILT?oss=4P1R8004083053>  
Passcode: 4052592#  
Expiry Date: June 27, 2020, at 11:59 p.m. (EDT)

The archived webcast presentation will also be available via the Internet for 90 days following the live event at <https://bit.ly/3622HJ1> and on the Bank's web site.

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

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