



FOURTH QUARTER 2020 EARNINGS RELEASE

VERSABANK REPORTS STRONG FINANCIAL RESULTS FOR THE FOURTH QUARTER 2020

– Strong Sequential Improvements in Key Financial and Operational Metrics Driven by Redeployment of Cash – Bank Well Positioned for Return to Strong Growth in Profitability in 2021 –

VersaBank's 2020 annual audited Consolidated Financial Statements and Management's Discussion and Analysis ("MD&A") will be available today 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. 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 2020 annual audited Consolidated Financial Statements. All amounts are stated in Canadian dollars.

LONDON, ONTARIO, November 25, 2020 – VersaBank ("VersaBank" or the "Bank") (TSX: VB) today reported its results for the fourth quarter and year ended October 31, 2020.

Financial Summary:

	For the three months ended October 31			For the year ended October 31		
	2020	2019	Change	2020	2019	Change
Financial Results						
Revenue	\$13.7 M	\$13.6 M	+1%	\$54.2 M	\$53.9 M	+1%
Cost of Funding	1.51%	1.92%	-41 bps	1.71%	1.91%	-20 bps
Net Interest Margin	2.82%	3.04%	-22 bps	2.90%	3.00%	-10 bps
Core Cash Earnings ⁽¹⁾⁽²⁾	\$6.5 M	\$7.4 M	-12%	\$26.8 M	\$27.8 M	-4%
Core Cash Earnings per Common Share ⁽¹⁾	\$0.31	\$0.36	-\$0.05	\$1.27	\$1.32	-\$0.05
Net Income	\$4.7 M	\$5.4 M	-12%	\$19.4 M	\$20.2 M	-4%
Basic and Diluted Net Income per Common Share	\$0.20	\$0.23	-\$0.03	\$0.82	\$0.85	-\$0.03
Balance Sheet and Capital Ratios						
Total Assets	\$1.94 B	\$1.79 B	+9%	\$1.94 B	\$1.79 B	+9%
Book Value per Common Share	\$10.70	\$9.98	+7%	\$10.70	\$9.98	+7%
CET1 Ratio	13.88%	13.16%	+72bps	13.88%	13.16%	+72bps
Leverage Ratio	12.19%	11.99%	+20bps	12.19%	11.99%	+20bps

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

(2) Core Cash Earnings is calculated as pre-tax earnings less non-core operating income/expenses.

Highlights for the Fourth Quarter of 2020

- Achieved strong sequential growth in all key financial metrics as the Bank continued to lower its cost of funding and began to redeploy cash post-pandemic uncertainty, resulting in:
 - Net interest margin increased 29 basis points;
 - Net income increased 9%; and,
 - Core cash earnings increased 9%.
- Partnered with Simply Group Financial under which the Bank will provide financing to facilitate ongoing loan origination utilizing the Bank's proprietary software solution. In their first transaction, VersaBank initially provided Simply Group Financial with a financing facility of \$72 million.

Highlights Subsequent to the End of the Fourth Quarter 2020

- The Bank's wholly owned, Washington, DC-based subsidiary, DRT Cyber, Inc., signed a definitive agreement to acquire all of the outstanding shares of privately-owned Digital Boundary Group, one of North America's premiere information technology (IT) security assurance services firms. Upon closing, the acquisition of Digital Boundary Group will be immediately accretive to VersaBank's earnings;
- Appointed veteran real estate finance executive, Jim Gardiner, to the position of Product Champion, Instant Mortgage;
- Began beta testing with its third partner for Instant Mortgage, a leading non-bank mortgage lender, with the expectation of beginning to add home financing loans as early as the first quarter of 2021.

Highlights for 2020

- Grew total assets by 9% year-over-year to \$1.94 billion;
- Lowered cost of funding by 20 basis points year-over-year as a result of continuing to expand the Bank's ultra-low-cost Bankruptcy Trust deposit base (up 14% year-over-year) through the addition of new partners and increased deposits with existing partners; and,
- Established its third lending vertical, leveraging the underlying technology and value proposition of the Bank's highly successful Point-of-Sale software solution to launch a high-volume application for real estate developers and brokers called Instant Mortgage, enabling the Bank to enter the \$200-billion home financing market.

Management Commentary

"As expected, the fourth quarter benefitted from the redeployment of capital into interest earning loans across our lending business following our decision during the second quarter to temporarily increase our cash balance early in the COVID-19 pandemic out of an abundance of caution," said David Taylor, President and CEO, VersaBank. "As a result, we achieved strong quarter-over-quarter improvements in all key financial and operational metrics, driven by our continued success in leveraging our proprietary technology to offer innovative solutions that address unmet needs in the banking sector. The credit quality of our loan portfolio remains very strong, with a significant recovery of credit losses during the quarter, as the low risk nature of our business model once again proved itself out. Even amidst a very challenging environment for many sectors of the economy, we have no non-performing loans and no loan losses."

"Importantly, our cost of funds decreased for the fifth consecutive quarter to 1.51%, bettering our third quarter result, already one of our lowest on record, by 8 basis points, and lower than the fourth quarter of last year by 41 basis points. This was driven by the continued expansion of our Insolvency Professional deposits base from existing and new partners, despite a precipitous decline in bankruptcies in the back half of the year due to government COVID relief, and contributed to a strong sequential increase in net interest margin, still the highest in the Canadian banking sector. We expect continued growth in our Insolvency Professional deposits going forward to drive our cost of funding even lower."

"Our strong fourth quarter contributed to a very good year for VersaBank, even with the impact of our prudent short-term strategy to forego some 2020 earnings to ensure the long-term health of the Bank amidst early pandemic uncertainty. Importantly, it was a year in which we positioned the Bank for a return to outsized growth in 2021 as we capitalized not only on the strength of our offerings but also our significantly improved competitive position as a

lender due to our excellent financial health. We launched our third lending channel Instant Mortgage, which is well positioned to drive long-term growth via our entry into the \$200 billion home financing market. We added a major new partner in our Point of Sale of business, which continues to expand. We are also experiencing strong commercial real estate origination as real estate activity in the areas around Toronto has increased and we have a strengthened competitive position. Our focus remains on deploying our approximately \$2 billion of available lending capacity in the pursuit of superior net interest margins while mitigating risk.”

“The acquisition of Digital Boundary Group fundamentally changes the Bank’s DRT Cyber opportunity, adding profitable, rapidly growing operations that complement DRT Cyber’s existing capabilities. With Digital Boundary Group’s leading solutions, alongside our own suite of offerings, DRT Cyber has a significantly strengthened position from which to pursue large segments of the global cyber security market, estimated to grow to in excess of \$130 billion in the coming years.”

COVID-19 Update

COVID-19 continues to negatively affect the Canadian financial services industry and as we navigate through this challenging operating environment our focus has remained on the safety and wellness of our employees and clients as well as on the prudent mitigation of elevated credit and liquidity risk exposures, enabled by our fully functional Work-From-Home solution which was a natural and seamless evolution of the Bank’s branchless, technology driven model. Over the course of the fourth quarter the Bank’s lending portfolio has not only further stabilized, but grown 7% quarter over quarter, and 4% year over year while concurrently active loan deferrals have reduced to 0.1%. Cash holdback balances associated with the Bank’s Point-of-Sale Loan and Lease portfolio, which is the largest of the Bank’s lending portfolios remain in excess of four times what the Bank has determined to be the intrinsic at-risk loan amount. Further the Bank undertook appreciable precautionary measures to strengthen its liquidity position in response to the impact of COVID-19 and has maintained measurably higher than normal liquidity levels over the last three quarters of fiscal 2020. Notwithstanding the above, the Bank began to moderate its liquidity position in the fourth quarter reducing its cash balances to \$258 million, or 13% of assets as at October 31, 2020. Finally, the Bank continues to maintain a robust capital position having approximately \$90 million in surplus total regulatory capital over the Basel III minimum as at October 31, 2020.

Financial Discussion

Net income for the fourth quarter of 2020 was \$4.7 million, or \$0.20 per common share (basic and diluted), compared to \$4.4 million, or \$0.18 per common share (basic and diluted), for the third quarter of 2020 and \$5.4 million, or \$0.23 per common share (basic and diluted), for the same period of 2019. The quarter over quarter trend was a function primarily of higher net interest income and a higher recovery of credit losses offset partially by higher non-interest expenses. The year over year trend was a function primarily of higher non-interest expenses offset partially by higher net interest income and a higher recovery of credit losses.

Net interest margin (or spread) for the quarter was 2.82% compared to 2.53% last quarter and 3.04% for the same period a year ago. The quarter over quarter trend was a function primarily of higher interest income attributable to higher fees and lower cost of funds. The year over year trend was a function of lower interest income attributable to lower yields earned on lending assets and elevated cash balances offset partially by lower cost of funds.

Net interest income for the quarter was \$13.7 million compared to \$12.4 million last quarter and \$13.7 million for the same period a year ago. The quarter over quarter trend was a function primarily of higher interest income attributable to strong commercial real estate origination activity, higher receivable purchase volumes, higher fees and lower cost of funds. The year over year trend was a function primarily of lower cost of funds offset partially by lower interest income attributable to lower yields earned on lending assets and elevated cash balances.

Non-interest expenses of the Bank for the quarter were \$7.8 million compared to \$6.4 million last quarter and \$6.2 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher salary and benefits expenses incurred in the current quarter attributable to an increase in staff complement

and a general increase in staff related costs including higher vacation expense accruals attributable principally to employees taking less vacation time as a result of COVID-19 limiting travel and tourism opportunities.

The Bank recognized a recovery of credit losses for the quarter in the amount of \$582,000 compared to a recovery of \$44,000 last quarter and a provision for credit losses in the amount of \$21,000 for the same period a year ago. The quarter over quarter trend was a function primarily of the partial, early repayment and restructuring of multiple commercial real estate loans with exposure to the travel and tourism industry, improved key macroeconomic indicator trends included in the macroeconomic scenario data used as forward looking information in the Bank's credit risk models, and net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs. The year over year trend was a function primarily of net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs, offset partially by changes in the macroeconomic scenario data used as forward looking information in the Bank's credit risk models and higher lending asset balances.

Core cash earnings for the quarter were \$6.5 million or \$0.31 per common share (basic and diluted), compared to \$6.0 million or \$0.29 per common share (basic and diluted) last quarter and \$7.4 million or \$0.36 per common share (basic and diluted) for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of the factors set out above.

Q4 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. As noted last quarter, the Bank has been actively reducing its non-core, lower-yield construction loan exposure by allowing existing loans to run-off. Over the course of the fourth quarter the Bank experienced exceptionally strong deal flow in the commercial mortgage space, comprised of transactions that not only were well within the Bank's risk appetite but also priced such that the Bank was more than adequately compensated for the associated credit risk exposure which resulted in the commercial banking portfolio growing 13% year-over-year to \$669 million. The Bank expects to continue to see strong, high quality deal flow in the commercial mortgage space over the course of fiscal 2021, and further is monitoring the public sector space in anticipation of more robust demand for Federal, Provincial and Municipal infrastructure and other project financings, partially in response to additional Government policy measures that may be established to support the recovery of the Canadian economy.

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 fourth quarter of 2020, the Point-of-Sale Finance Portfolio declined 1% year-over-year to \$981 million as a function primarily of lower origination activity by the Bank's point of sale origination partners in both the second and third quarter of the current year attributable to the impact of COVID-19 on their respective markets, and the negotiated, early repurchases of a series of portfolios of loan and lease receivables by the Bank's point of sale origination partners over the course of the year. Despite an anticipated general reduction in household spending attributable to the second wave of COVID-19, recent elevated savings rates, combined with the fact that consumers have limited opportunities to spend their savings due to the impact of COVID-19 on industry segments such as travel and tourism are expected to support robust consumer spending on home improvement, for which a number of the Bank's point of sale loan and lease origination partners provide financing. This, combined with the anticipation of new partners being added over the coming year is expected to drive increased purchase volumes in the coming

quarters, including from the planned commercial launch of the Bank's proprietary "Instant Mortgage" (previously referred to as "Direct-Connect") solution for the residential mortgage market (currently in beta-testing).

Deposit Funding

VersaBank continues to increase its proportion of lower-cost commercial deposits by growing its well diversified Insolvency Professional deposit base which currently attracts an interest rate of 0%. This low-cost diversified deposit channel provides VersaBank with a significant cost of funds advantage, enabling it to generate superior net interest margins while maintaining its conservative risk profile. VersaBank's cost of funds for the fourth quarter of 2020 was 1.51%, down 41 bps year over year. VersaBank expects its Insolvency Professional deposits to increase as a function of an anticipated increase in the volume of consumer bankruptcy and proposal restructuring proceedings which will be administered by Canadian insolvency professionals as a result of the ongoing economic impact of COVID-19. Further, the Bank continues to explore other low-cost deposit channels that it believes will further lower its cost of funds.

Commercial deposits at October 31, 2020 were \$508 million, up 16% year over year, attributable almost entirely to growth in Insolvency Professional deposits.

Capital

VersaBank's regulatory capital is increased by its CCE and at October 31, 2020, VersaBank's CET1 ratio was 13.88%, up 72 bps year over year. 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 fourth quarter was approximately \$90 million. For example, VersaBank's leverage percentage of 12.19% 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

Gross impaired loans at October 31, 2020 were \$nil, compared to \$6.3 million in 2019. The prior year's balance was comprised of a single loan which was repaid in full in the fourth quarter of 2020.

The Bank's allowance for expected credit losses, or ECL at October 31, 2020 was \$1.8 million, down from \$2.1 million in 2019. The year over year trend was a function primarily of net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs, offset partially by changes in the macroeconomic scenario data used as forward looking information in the Bank's credit risk models and higher 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, enabling it to generate superior net interest margins by offering high-value deposit and lending solutions that address unmet needs in the banking industry through a highly efficient partner model.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended				for the year ended	
	October 31 2020	October 31 2019	October 31 2020	October 31 2019		
(\$CDN thousands except per share amounts)						
Results of operations						
Interest income	\$ 21,068	\$ 22,263	\$ 86,094	\$ 88,305		
Net interest income	13,708	13,655	54,125	53,897		
Non-interest income	18	(20)	60	22		
Total revenue	13,726	13,635	54,185	53,919		
Provision (recovery) for credit losses	(582)	21	(344)	(298)		
Non-interest expenses	7,763	6,171	27,777	26,396		
Core cash earnings*	6,545	7,443	26,752	27,821		
Core cash earnings per common share*	\$ 0.31	\$ 0.36	\$ 1.27	\$ 1.32		
Net income	4,746	5,405	19,405	20,196		
Income per common share:						
Basic	\$ 0.20	\$ 0.23	\$ 0.82	\$ 0.85		
Diluted	\$ 0.20	\$ 0.23	\$ 0.82	\$ 0.85		
Dividends paid on preferred shares	\$ 542	\$ 550	\$ 2,168	\$ 2,201		
Dividends paid on common shares	\$ 528	\$ 422	\$ 2,112	\$ 1,477		
Yield*	4.33%	4.96%	4.62%	4.91%		
Cost of funds*	1.51%	1.92%	1.71%	1.91%		
Net interest margin*	2.82%	3.04%	2.90%	3.00%		
Return on average common equity*	7.46%	9.23%	7.89%	8.89%		
Core cash return on average common equity*	10.66%	13.11%	11.26%	12.65%		
Book value per common share*	\$ 10.70	\$ 9.98	\$ 10.70	\$ 9.98		
Efficiency ratio*	56.56%	45.26%	51.26%	48.95%		
Return on average total assets*	0.86%	1.08%	0.92%	1.00%		
Gross impaired loans to total loans*	0.00%	0.39%	0.00%	0.39%		
Provision (recovery) for credit losses as a % of average loans*	(0.14%)	0.00%	(0.02%)	(0.02%)		
as at						
Balance Sheet Summary						
Cash and securities	\$ 257,644	\$ 149,206	\$ 257,644	\$ 149,206		
Loans, net of allowance for credit losses	1,654,910	1,594,288	1,654,910	1,594,288		
Average loans*	1,601,336	1,604,050	1,624,599	1,612,657		
Total assets	1,943,885	1,785,381	1,943,885	1,785,381		
Average assets*	1,937,071	1,781,020	1,864,633	1,797,256		
Deposits	1,567,570	1,399,889	1,567,570	1,399,889		
Subordinated notes payable	4,889	4,881	4,889	4,881		
Shareholders' equity	255,288	240,163	255,288	240,163		
Capital ratios*						
Risk-weighted assets	\$ 1,580,939	\$ 1,501,435	\$ 1,580,939	\$ 1,501,435		
Common Equity Tier 1 capital	219,359	197,545	219,359	197,545		
Total regulatory capital	255,471	231,882	255,471	231,882		
Common Equity Tier 1 (CET1) ratio	13.88%	13.16%	13.88%	13.16%		
Tier 1 capital ratio	15.73%	15.11%	15.73%	15.11%		
Total capital ratio	16.16%	15.44%	16.16%	15.44%		
Leverage ratio	12.19%	11.99%	12.19%	11.99%		

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Annual 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 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, 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.

VersaBank will be hosting a conference call and webcast today, Wednesday, November 25, 2020, at 9:00 a.m. (EDT) to discuss its fourth 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 (888) 664-6392 (Canada/US)
Local dial-in number:	(416) 764-8659
Participant passcode:	37337168#

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/32XW0Y6> or from the Bank's web site.

Instant Replay:

Toll-free dial-in number:	1 (888) 390-0541 (Canada/US)
Local dial-in number:	(416) 764-8677
Passcode:	337168#
Expiry Date:	December 25th, 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/3kQOcgN> and on the Bank's web site.

About VersaBank

VersaBank is a Canadian Schedule I chartered bank with a difference. VersaBank became the world's first fully digital financial institution when it adopted its highly efficient business-to-business model using its proprietary state-of-the art financial technology to profitably address underserved segments of the Canadian banking market in the pursuit of superior net interest margins while mitigating risk. VersaBank obtains all of its deposits and provides the majority of its loans and leases electronically, with innovative deposit and lending solutions for financial intermediaries that allow them to excel in their core businesses. In addition, leveraging its internally developed IT security software and capabilities, VersaBank established wholly owned, Washington, DC-based subsidiary, DRT Cyber Inc. to pursue significant large-market opportunities in cyber security and develop innovative solutions to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations and government entities on a daily basis.

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. For more information, visit: www.versabank.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

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