VersaBank
Choice Through Innovation

For Immediate Release: September 1, 2021
Attention: Business Editors

VERSABANK REPORTS CONTINUED STRONG RESULTS FOR THIRD QUARTER 2021

– Quarter Highlighted by Continued Strong Year-over-Year Growth as Bank Achieves Another Loan Portfolio Record –

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 2021 ("Q3 2021") unaudited Interim Consolidated Financial Statements for the period ended July 31, 2021 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, ON/CNW – VersaBank ("VersaBank" or the "Bank") (TSX: VB), a North American leader in business-to-business digital banking, as well as technology solutions for cybersecurity, today reported its results for the third quarter of 2021 ended July 31, 2021.

Financial Summary

NOTE: VersaBank's financial performance for the third quarter ended July 31, 2021 reflects the Bank's strengthening of its capital base through the issuance on April 30, 2021 (the last day of the preceding quarter) of non-viability contingent capital compliant fixed to floating rate subordinated notes payable ("the Notes") in the principal amount of USD $75.0 million. The Notes, which were issued to fund future growth in the Bank's loan portfolio, added 16 bps (or a total of $1.2 million to the Bank's interest expense during the third quarter) and generated minimal interest income as the vast majority of these funds were not deployed into interest generating loans, thereby resulting in a temporarily lower net interest margin. Adjusting for this amount the Bank's cost of funds would have been 1.25%, down 3 bps sequentially, and net interest margin would have been 2.94%, which is in line with recent historical net interest margin results.

(unaudited)	As at or for the three months ended					As at or for the nine months ended		
(thousands of Canadian dollars except per share amounts)	July 31 2021	April 30 2021	Change	July 31 2020	Change	July 31 2021	July 31 2020	Change
Financial results								
Revenue	$ 15,729	$ 15,970	(2%)	$ 12,392	27%	$ 47,121	$ 40,459	16%
Cost of funding	1.41%	1.28%	10%	1.59%	(11%)	1.36%	1.77%	(23%)
Net interest margin	2.61%	2.96%	(12%)	2.53%	3%	2.78%	2.91%	(4%)
Core cash earnings(1)(2)	7,433	7,940	(6%)	6,026	23%	22,651	20,207	12%
Core cash earnings per common share(1)	0.35	0.38	(8%)	0.29	21%	1.07	0.96	11%
Net income	5,436	5,744	(5%)	4,369	24%	16,470	14,659	12%
Net income per common share basic and diluted	0.25	0.25	0%	0.18	39%	0.72	0.62	16%
Balance sheet and capital ratios								
Total assets	$ 2,285,771	$ 2,139,757	7%	$ 1,930,256	18%	$ 2,285,771	$ 1,930,256	18%
Book value per common share(1)	11.29	11.06	2%	10.52	7%	11.29	10.52	7%
Common Equity Tier 1 (CET1) capital ratio	11.94%	12.52%	(5%)	14.11%	(15%)	11.94%	14.11%	(15%)
Total capital ratio	17.93%	18.89%	(5%)	16.51%	9%	17.93%	16.51%	9%
Leverage ratio	9.99%	10.46%	(4%)	11.99%	(17%)	9.99%	11.99%	(17%)

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q3 2021 Management's Discussion and Analysis.
(2) Core Cash Earnings is calculated as pre-tax earnings less non-core operating income and expenses.

Highlights for the Third Quarter of 2021

- Continuing positive year-over-year trends across substantially all key financial metrics, as well as sequentially after adjusting for the April 30, 2021 issuance of the Notes in the principal amount of USD $75.0 million. The Notes added 16 bps to the Bank's cost of funds over the course of the three months ended July 31, 2021, and adjusting for this amount the Bank's cost of funds would have been 1.25%, down 3 bps compared to the last quarter;
  - Total revenue increased 27% year-over-year and decreased 2% sequentially, to $15.7 million;
  - Net income increased 24% year-over-year and decreased 5% sequentially to $5.4 million;
  - Cost of funds decreased 18 bps, or 11%, year-over-year and increased 13 bps, or 10%, sequentially to 1.41%;
  - Net interest margin increased 8 bps, or 3%, year-over-year and decreased 35 bps, or 12%, sequentially, to 2.61%. Adjusting for the impact of the Notes, net interest margin also increases to 2.94%, which is in line with recent historical net interest margin results;
  - Recorded a Provision for Credit Losses ("PCLs") of $96,000 compared to a recovery of PCLs of $44,000 for the third quarter of 2020 and a recovery of PCLs of $312,000 for the second quarter of 2021. PCLs as a percentage of average loans was 0.02%, compared with a 12-quarter average of 0.00%, which remains amongst the lowest of the publicly traded Canadian Schedule I Banks;
  - Loans increased 26% year-over-year and 7% sequentially to a record $1.95 billion, as a function of strong growth in the Bank's Commercial Real Estate ("CRE") and Point-of-Sale ("POS") Loan and Lease Receivable portfolios.
- Entered into a reseller and development agreement with EzoTech Inc., developers of the world's first Artificial Intelligence (AI)-powered Autonomous cybersecurity penetration testing platform, under which DRT Cyber will expand its offerings to existing and future customers throughout the U.S., Canada and Europe with an AI-powered, automated, on-demand penetration testing platform, as well as leverage EzoTech's advanced AI Cyber Security technology and capabilities to develop and launch what it expects will be the world's first AI- powered, automated and continuous cyber security posture reporting platform for organizations of all types and sizes.

Highlights Subsequent to the End of Third Quarter of 2021

- Relaunched Indigenous and Remote Community Lending business and announced the appointments of Roland Bailey as Executive Director, Indigenous Infrastructure Program and Robert-Falcon Ouellette as Executive Director, Indigenous Housing Initiatives, to lead the infrastructure and home financing channels, respectively;
- Initiated closed ecosystem testing of VCAD, the Bank's highly-encrypted Digital Deposit Receipt (DDR) offering, with each VCAD unit representing a one-dollar deposit with the Bank. Testing is being conducted in partnership with VersaBank's partner for VCAD, Stablecorp, with transactions initially occurring on the public and live Stellar blockchain, and plans to execute similar transactions on the Algorand blockchain in the near future; and,
- DRT Cyber, Inc. ("DRT Cyber") has entered into a Reseller agreement (the "Agreement"), with UK-based Syrenis, under which DRT Cyber will sell Syrenis' subscription-based, flagship product, Cassie, a world leading Consent and Preference Management solution for organizations globally. DRT Cyber will add Cassie to its suite of innovative solutions for data protection, cyber security and compliance.

Management Commentary

“The third quarter of 2021 continued the recent momentum in the performance of our digital banking operations, highlighted once again by strong year-over-year growth across all of our key performance metrics as we achieved yet another record for our loan portfolio at just under $2 billion – a milestone we have since surpassed,” said David Taylor, President and Chief Executive Officer, VersaBank. “We are especially proud to have achieved this performance amidst the short-term dampening effect of our decision to raise capital at the end of the preceding quarter to support what we believe are significant opportunities to drive the continued growth of our loan portfolio. As that capital is deployed into interest generating loans over the next few quarters, we expect net interest margin to return to historical levels and drive continued growth in profitability based on our larger loan portfolio.”

“Subsequent to the end of the quarter, we achieved a major milestone in our new funding initiative with the initiation of closed ecosystem testing of our VCAD Digital Deposit Receipts, a natural extension of our digital banking model, and yet another example of VersaBank leading the way in the evolution of banking. As a highly secure digital deposit based on the Bank’s proprietary VersaVault technology, and represented one-for-one by actual Canadian dollar deposits, when commercially launched we expect VCAD to be in high demand based on its ability to be used as a digital currency, with the backing by an investment grade-rated, Schedule I bank.”

“As our core digital banking operations continue to grow in both scale and profitability, we continue to steadily advance to provide a comprehensive cyber security offering, leveraging Digital Boundary Group’s position as a leading North American penetration tester. With the addition of two reseller agreements for what we believe are best-in-class products on the heels of our launch of our proprietary Raven, the first and only fully automated and integrated solution that provides comprehensive compliance with major global anti-SPAM legislation, DRT Cyber is continuing to build momentum for long-term future growth, providing meaningful potential for additional upside beyond the strength of our banking operations.”

Update on Management of COVID-19 Impact

As a digital bank with a business-to-business, partner-based model, VersaBank believes that it is well insulated from many of the negative influences of COVID-19 and our staff continues to work remotely leveraging our fully functional Work-From-Home solution which was a natural and seamless evolution of the Bank’s branchless, technology-driven model. Notwithstanding the above, management is working to finalize the Bank’s return-to-work strategy, which is anticipated to begin to roll out, in stages in the Fall.

We continue to have no loans on our balance sheet that are subject to payment deferrals, no impaired loans and no loans in arrears, however; at the same time, we continue to operate at a heightened level of awareness to ensure that our origination and underwriting practices remain highly disciplined and focused. The Bank continues to maintain liquidity levels that are somewhat higher than normal, or more specifically higher than pre-COVID-19 levels; however, management expects that liquidity will normalize somewhat prior to the end of fiscal 2021.

The velocity of the distribution of the vaccines as well as the rate of spread of the virus, including the new variants remain, in our view, the key drivers of the recovery of the Canadian economy in the short to medium term. Despite the business and operational challenges imposed by the pandemic, the Bank continues to focus on enhancing Core Cash Earnings performance by concentrating on niche markets that support more attractive pricing for its products and by leveraging its diverse deposit gathering network.

Financial Review

Net Income – Net income for the quarter was $5.4 million, or $0.25 per common share (basic and diluted), compared to $5.7 million, or $0.25 per common share (basic and diluted) last quarter and $4.4 million, or $0.18 per common share (basic and diluted), for the same period a year ago. The quarter-over-quarter trend was a function primarily of higher cost of funds attributable to higher interest expense attributable to the Notes, lower yields earned on elevated cash balances and higher provisions for credit losses offset partially by higher interest income earned on lending assets and higher non-interest income contribution from DBG. The year-over-year trend was a function primarily of higher revenue offset partially by higher provisions for credit losses. Year-to-date net income and EPS were $16.5 million and $0.72 respectively, compared to $14.7 million and $0.62 for the same period a year ago. The year-over-year trend was a function primarily of higher revenues and a recovery of credit loss provisions in the current period, offset partially by higher non-interest expense.

Net Interest Margin – Net interest margin (or spread) for the quarter was 2.61% compared to 2.96% last quarter and 2.53% for the same period a year ago. The quarter-over-quarter trend was a function primarily of higher interest expense attributable to the Notes, (adjusting for the interest expense on the Notes for the three months ended July 31, 2021, the Bank's net interest margin increases to 2.94% for the same period) and lower yields earned on higher cash balances. The year-over-year trend was a function primarily of lower cost of funds attributable primarily to growth in operating accounts that the Bank makes available to Canadian insolvency professionals, offset partially by lower yields earned on elevated cash balances and higher interest expense attributable to the Notes.

Net Interest Income – Net interest income for the quarter was $14.5 million compared to $15.1 million last quarter and $12.4 million for the same period a year ago. The quarter-over-quarter trend was a function primarily of higher interest expense attributable to the Notes and lower yields earned on higher cash balances, offset partially by higher interest income earned on the Bank's CRE and POS loan and lease receivable portfolios attributable primarily to lending asset growth and lower interest expense on commercial deposits attributable to growth in operating accounts that the Bank makes available to Canadian insolvency professionals. The year-over-year trend was a function of higher interest income earned on the Bank's CRE and POS loan and lease receivable portfolios attributable primarily to lending asset growth, the redeployment of cash into higher yielding assets and lower interest expense on commercial deposits attributable to growth in operating accounts that the Bank makes available to Canadian insolvency professionals offset partially by higher interest expense attributable to the Notes in the current quarter and higher fees recognized in the comparative quarter resulting from the negotiated, early repurchase of a portfolio of loan and lease receivables by one of the Bank's POS origination partners. Year-to-date net interest income was $44.0 million compared to $40.4 million for the same period a year ago.

Non-Interest Expenses – Non-interest expenses for the quarter were $8.2 million compared to $8.3 million last quarter and $6.4 million for the same period a year ago. The year-over-year trend was a function primarily of the consolidation of the operating expenses of DBG, increased salary and benefits expense, and investments in the Bank's corporate development initiatives. Year-to-date non-interest expenses were $24.6 million compared to $20.0 million for the same period a year ago.

Provision for/Recovery of Credit Losses – The Bank recognized a provision for credit losses for the current quarter in the amount of $96,000 compared to a recovery of credit loss provisions in the amount of $312,000 last quarter and a recovery of credit loss provisions in the amount of $44,000 for the same period a year ago. The quarter-over-quarter trend was a function primarily of higher lending asset balances and the impact of a recovery of a prior period write-off in the amount of $116,000 last quarter, offset partially by changes in the forward-looking information used by the Bank in its credit risk models in the current quarter. The year-over-year trend was a function primarily of higher lending asset balances offset partially by changes in the forward-looking information used by the Bank in its credit risk models.

Capital – At July 31, 2021, VersaBank's Total regulatory capital was $340 million compared to $333 million last quarter and $251 million a year ago. The quarter-over-quarter trend was a function primarily of retained earnings growth. The year-over-year trend was a function primarily of retained earnings growth and the issuance of the Notes on April 30, 2021, offset partially by the redemption of the Bank's outstanding Non-cumulative Series 3 Preferred Shares on April 30, 2021 and the regulatory adjustment attributable to the goodwill and intangible assets acquired from DBG on November 30, 2021. At July 31, 2021, VersaBank's CET1 capital ratio was 11.94%, compared 12.52% last quarter and 14.11% a year ago. The quarter-over-quarter and year-over-year trends were a function of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, and changes to the Bank's risk-weighted asset balances and composition in the respective periods. The year-over-year trend also reflects the issuance of the Notes and the redemption of the Bank's outstanding Non-cumulative Series 3 Preferred Shares, the regulatory adjustment attributable to the goodwill and intangible assets acquired from DBG and the inclusion of eligible expected credit loss allowance amounts related to the transitional arrangements pertaining to the capital treatment of expected loss provisioning as set out by the Office of the Superintendent of Financial Institution (OSFI).

Credit Quality -- Gross impaired loans at July 31, 2021 were $nil, compared to $6.7 million a year ago. 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 July 31, 2021 was $1.7 million compared to $1.6 million last quarter and $2.4 million a year ago. The quarter-over-quarter and year-over-year ECL trends were a function primarily of the factors set out in the *Provision for/Recovery of Credit Losses* section above.

VersaBank's Provision for Credit Losses (PCL) ratio continues to be one of the lowest in the industry, reflecting the very low risk profile of the Bank's 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 nine months ended	
($CDN thousands except per share amounts)	July 31 2021	July 31 2020	July 31 2021	July 31 2020
Results of operations				
Interest income	$ 22,400	$ 20,172	$ 65,564	$ 65,026
Net interest income	14,542	12,384	44,011	40,417
Non-interest income	1,187	8	3,110	42
Total revenue	15,729	12,392	47,121	40,459
Provision for (recovery of) credit losses	96	(44)	(159)	238
Non-interest expenses	8,200	6,410	24,629	20,014
Core cash earnings*	7,433	6,026	22,651	20,207
Core cash earnings per common share*	$ 0.35	$ 0.29	$ 1.07	$ 0.96
Net income	**5,436**	**4,369**	**16,470**	**14,659**
Income per common share:				
Basic	$ 0.25	$ 0.18	$ 0.72	$ 0.62
Diluted	$ 0.25	$ 0.18	$ 0.72	$ 0.62
Dividends paid on preferred shares	$ 247	$ 542	$ 1,331	$ 1,626
Dividends paid on common shares	$ 528	$ 528	$ 1,584	$ 1,584
Yield*	4.02%	4.12%	4.14%	4.68%
Cost of funds*	1.41%	1.59%	1.36%	1.77%
Net interest margin*	2.61%	2.53%	2.78%	2.91%
Return on average common equity*	8.72%	6.90%	8.72%	8.04%
Core cash return on average common equity*	12.08%	9.89%	12.28%	11.46%
Book value per common share*	$ 11.29	$ 10.52	$ 11.29	$ 10.52
Efficiency ratio*	52.13%	51.73%	52.27%	49.47%
Return on average total assets*	0.93%	0.78%	0.96%	0.94%
Gross impaired loans to total loans*	0.00%	0.43%	0.00%	0.43%
Provision (recovery) for credit losses as a % of average loans*	0.02%	(0.01%)	(0.01%)	0.02%
		as at		
Balance Sheet Summary				
Cash and securities	$ 297,005	$ 353,794	$ 297,005	$ 353,794
Loans, net of allowance for credit losses	1,952,154	1,547,761	1,952,154	1,547,761
Average loans*	1,890,965	1,571,365	1,803,532	1,571,025
Total assets	2,285,771	1,930,256	2,285,771	1,930,256
Average assets*	2,212,764	1,948,313	2,114,828	1,857,819
Deposits	1,817,746	1,565,334	1,817,746	1,565,334
Subordinated notes payable	95,683	4,887	95,683	4,887
Shareholders' equity	252,032	251,612	252,032	251,612
Capital ratios*				
Risk-weighted assets	$ 1,897,695	$ 1,518,918	$ 1,897,695	$ 1,518,918
Common Equity Tier 1 capital	226,516	214,272	226,516	214,272
Total regulatory capital	340,270	250,739	340,270	250,739
Common Equity Tier 1 (CET1) ratio	11.94%	14.11%	11.94%	14.11%
Tier 1 capital ratio	12.66%	16.04%	12.66%	16.04%
Total capital ratio	17.93%	16.51%	17.93%	16.51%
Leverage ratio	9.99%	11.99%	9.99%	11.99%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q3 2021 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 the 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 and others 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 the related management's discussion and analysis or made from time to time by the Bank or on its behalf.

Conference Call:

VersaBank will be hosting a conference call and webcast today, Wednesday, September 1, 2021, at 9:00 a.m. (EDT) to discuss its third 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:	38726093

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/2Ula5Oe 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:	726093
Expiry Date:	October 1st, 2021, 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/2Ula5Oe 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 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 Preferred Shares trade under the symbols VB.PR.A.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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