For Immediate Release: February 24, 2021
Attention: Business Editors

VERSABANK REPORTS CONTINUING STRONG FINANCIAL RESULTS FOR FIRST QUARTER 2021 – RECORD PERFORMANCE IN BANKING OPERATIONS PLUS SIGNIFICANT MOMENTUM IN CYBERSECURITY BUSINESS

– Quarter Highlighted by Record Revenue and Near-Record Net Income Driven by Continued Redeployment of Cash to Propel Record Loan Growth, Plus Significant Initial Contribution from Digital Boundary Group Acquisition –

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 2021 ("Q1 2021") unaudited Interim Consolidated Financial Statements for the period ended January 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 and technology solutions for cybersecurity, today reported its results for the first quarter of 2021 ended January 31, 2021.

Financial Summary

Note: VersaBank's financial results for the first quarter of 2021 include 62 days of contribution from Digital Boundary Group ("DBG"), which was acquired on November 30, 2020 through the Bank's wholly owned subsidiary DRT Cyber Inc ("DRT Cyber"). DRT Cyber's gross profit contribution, including that of DBG, is accounted for as "Non-interest Income" under Revenue and DRT Cyber's corporate expenses are accounted for as "Non-interest Expenses".

(unaudited)	As at or for the three months ended				
(thousands of Canadian dollars except per share amounts)	January 31 2021	October 31 2020	Change	January 31 2020	Change
Financial results					
Revenue	$ 15,422	$ 13,726	12%	$ 13,582	14%
Cost of funding	1.42%	1.51%	(6%)	1.88%	(24%)
Net interest margin	2.86%	2.82%	1%	2.96%	(3%)
Core cash earnings(1)(2)	7,278	6,545	11%	7,085	3%
Core cash earnings per common share(1)	0.34	0.31	10%	0.34	0%
Net income	5,290	4,746	11%	5,141	3%
Net income per common share basic and diluted	0.22	0.20	10%	0.22	0%
Balance sheet and capital ratios					
Total assets	2,044,976	1,943,885	5%	1,854,765	10%
Book value per common share(1)	$ 10.90	$ 10.70	2%	$ 10.17	7%
Common Equity Tier 1 (CET1) capital ratio	12.48%	13.88%	(10%)	13.05%	(4%)
Leverage ratio	11.40%	12.19%	(6%)	11.86%	(4%)

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q1 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 First Quarter of 2021

- Sequential growth in all key financial metrics and year over year growth in substantially all key financial metrics as the Bank continued to lower its cost of funding and redeploy the atypically high cash balances it accumulated out of an abundance of caution at the start of the pandemic:
  - Total revenue increased 14% year over year and 12% sequentially, to a record $15.4 million;
  - Net income increased 3% year over year and 11% sequentially to $5.3 million, its third highest reported net income in its history;
  - Core cash earnings increased 3% year over year and 11% sequentially;
  - Cost of funds decreased 46 bps or 24% year over year and 9 bps or 6% sequentially to a record 1.42%;
  - Net interest margin decreased 10 bps or 3% year over year, however, increased 4 bps or 1% sequentially, to 2.86%, which was dampened by atypically high cash balances following the Bank's decision amidst the uncertainty near the beginning of the COVID-19 pandemic to increase cash balances out of an abundance of caution. As it did in the third and fourth quarters of fiscal 2020, the Bank continued to redeploy its cash balances to higher interest earning loans in the first quarter of 2021, which is expected to contribute to a higher net interest margin.
- Record sequential loan growth of $139 million, or 8%, to a new high of $1.8 billion, driven by significant loan origination activity;
- Wholly-owned subsidiary DRT Cyber acquired DBG, one of North America's premier information technology security assurance services firms, on November 30, 2020, for cash and a deferred payment obligation totaling $9.9 million:
  - DBG contributed revenue of $1.7 million for the 62 days of the quarter following its acquisition;
  - DBG contributed net income of $0.3 million for the 62 days of the quarter following its acquisition.

Management Commentary

"Amidst the most rapid loan growth in our history and the continuing decrease in our cost of funds, VersaBank delivered an outstanding quarter, punctuated by record revenue as our loan portfolio reached a new high watermark and we recognized our first contribution from DRT Cyber's acquisition of Digital Boundary Group part way through the quarter," said David Taylor, President and CEO, VersaBank. "Despite net interest income continuing to be dampened by the Bank's still higher than typical cash balances resulting from our cautionary stance amidst the uncertainty at the beginning of the pandemic our net income results this quarter were the third-highest in our history. Importantly, provisions for credit losses remained very low, as our low-risk, business-to-business model continued to insulate the Bank from the impacts of the economic challenges resulting from the pandemic."

"Alongside the strong performance in our digital banking operations, Digital Boundary Group is experiencing strong momentum, which we expect to accelerate in 2021 and beyond as we begin to leverage selling opportunities afforded by DRT Cyber's extensive network, and launch new, best-in-class solutions that protect businesses and governments from the increasing and potentially devastating threat of cyberattacks."

"The first quarter of 2021 was a great start to the expected resumption of our long-term trend of outsized growth in our digital banking operations as we expect continued strong loan growth in our Commercial Real Estate and Point-of-Sale Financing channels with the significant additional potential upside from the roll out of our Instant Mortgage application, and the additional profitability and growth generated by the acquisition of DBG."

Update on Management of COVID-19 Impact

As a digital bank with a low-risk business-to-business, partner-based model, VersaBank was well positioned for, and highly insulated from, many of the impacts of COVID-19. The Bank has been able to significantly mitigate the impact of COVID-19, as well as benefit from opportunities created by COVID-19, both operationally and financially. Throughout COVID-19, the Bank has operated, and continues to operate, efficiently and effectively, remaining focused on the safety and wellness of both its employees and clients, as well as on continuously evaluating and, where opportunity exists, enhancing its prudent risk management processes and activities. COVID-19 has had only a modest impact on the Bank's financial results, most notably, a temporary dampening of net income as a result of the Bank's cautionary stance amidst the uncertainty in the early days of the pandemic in which it increased its cash balances. Since the end of the third quarter of fiscal 2020, the Bank has been redeploying cash to higher interest generating loans amidst strong activity driven by certain economic shifts resulting from COVID-19 and a strengthened competitive position resulting from the Bank's financial health due to its cautionary stance and low-risk model. The Bank continues to maintain liquidity levels higher than pre-COVID-19 levels, however, management expects the Bank's liquidity levels to normalize during the first half of fiscal 2021. VersaBank management believes that the Bank remains well-insulated from potential economic and other impacts of COVID-19. The credit risk department continues to operate at a heightened level of awareness, ensuring that the Bank's origination and underwriting practices remain highly disciplined and focused. Management expects to continue to benefit from certain economic impacts of COVID-19.

Financial Review

Net Income – Net income for the first quarter of 2021 was $5.3 million, or $0.22 per common share (basic and diluted), compared to $4.7 million, or $0.20 per common share (basic and diluted) for the fourth quarter of 2020 and $5.1 million, or $0.22 per common share (basic and diluted), for the same period of 2020. The sequential increase was a function primarily of higher net interest income (despite the dampening effect of atypically high cash balances) and the consolidation of the gross profit of DBG in the amount of $1.1 million earned in the last two months of the current quarter, offset partially by higher non-interest expenses and a recovery of credit losses in the prior quarter. The year over year trend was a function primarily of higher revenue offset partially by higher non-interest expense. First quarter net income was the third highest in the Bank's history.

Net Interest Margin – Net interest margin (or spread) for the quarter was 2.86% compared to 2.82% for the fourth quarter of 2020 and 2.96% for the same period a year ago, with net interest margin for the first quarter of 2021 and fourth quarter of 2020 both dampened by atypically high cash balances following the Bank's decision amidst the uncertainty near the beginning of the COVID-19 pandemic to increase cash balances out of an abundance of caution. The quarter over quarter trend was a function primarily of the redeployment of cash into higher yielding lending assets over the course of the current quarter and lower cost of funds, which were offset partially by lower yields earned in the current quarter attributable to a high volume of commercial real estate loan financings occurring late in the period. The year over year trend was a function primarily of lower yields earned on lending assets and elevated cash balances in the current quarter offset partially by lower cost of funds.

Net Interest Income – Net interest income for the quarter was $14.4 million compared to $13.7 million for the fourth quarter of 2020 and $13.6 million for the same period a year ago. The sequential trend was a function primarily of higher interest income attributable to strong origination activity in the Commercial Real Estate lending portfolios (up 18% sequentially and 32% year over year) due to elevated construction activity in smaller communities surrounding the Greater Toronto Area, and the Point-of-Sale Loans and Leases portfolio (up 3% sequentially and down 5% year over year), specifically amongst the home improvement sector and lower cost of funds (down 9 bps sequentially and 46 bps year over year to a record low of 1.42%) offset partially by higher fees recognized in the previous quarter. The year over year trend was a function primarily of higher interest income driven by growth in the Bank's Commercial Real Estate Mortgages and Loans portfolios and lower cost of funds offset partially by lower interest income from Point-of-Sale Loans and Leases and lower yields earned on both floating rate lending assets and elevated cash balances. Commercial deposits at January 31, 2021 were $523 million, up 19% year over year, attributable almost entirely to growth in Insolvency Professional deposits.

Non-Interest Expenses – Non-interest expenses for the quarter were $8.1 million compared to $7.8 million for the fourth quarter of 2020 and $6.7 million for the same period a year ago. The quarter over quarter trend was a function primarily of the consolidation of the operating expenses of Digital Boundary Group, higher salary and benefits expenses incurred in the current quarter attributable to an increase in staff complement and the impact of 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 in the previous quarter. The year over year trend was a function primarily of the consolidation of the operating expenses of Digital Boundary Group, increased salary and benefits attributable to increased staff levels to support expanded business activity across the Bank, and investments in the Bank's corporate development initiatives.

Provision for/Recovery of Credit Losses – The Bank recognized a provision for credit losses for the quarter in the amount of $57,000 compared to a recovery of $582,000 for the fourth quarter of 2020 and a recovery in the amount of $208,000 for the same period a year ago. The quarter over quarter trend was a function primarily of higher lending asset balances and net remeasurements of expected credit losses attributable to changes in the forward-looking information used by the Bank in its credit risk models in the current quarter as well as the impact of the partial, early repayment and restructuring of multiple commercial real estate loans with exposure to the travel and tourism industry last quarter. The year over year trend was a function of higher lending asset balances, net remeasurements of expected credit losses attributable to changes in the forward-looking information used by the Bank in the current quarter, as well as net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs introduced in the third quarter of fiscal 2020.

Core Cash Earnings – Core cash earnings for the quarter were $7.3 million or $0.34 per common share (basic and diluted), compared to $6.5 million or $0.31 per common share (basic and diluted) for the fourth quarter of 2020 and $7.1 million or $0.34 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.

Capital – VersaBank's regulatory capital decreased as a result of the regulatory adjustment attributable to the goodwill and intangible assets acquired from DBG offset partially by the increase in CCE. At January 31, 2021, VersaBank's CET1 capital ratio was 12.48%, down 57 bps year over year.

Credit Quality -- Gross impaired loans at January 31, 2021 were $nil, compared to $6.4 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 January 31, 2021 was $1.8 million compared to $1.8 million in the fourth quarter and $1.9 million a year ago. The quarter over quarter trend was a function primarily of higher lending asset balances and net remeasurements of expected credit losses attributable to changes in the forward-looking information used by the Bank in its credit risk models in the current quarter as well as the impact of the partial, early repayment and restructuring of multiple commercial real estate loans with exposure to the travel and tourism industry last quarter. The year over year trend was a function of lending asset growth, net remeasurements of expected credit losses attributable to changes in the forward-looking information used by the Bank in the current quarter as well as net remeasurements of expected credit losses attributable to the impact of planned refinements to specific real estate asset loan and credit data inputs introduced in the third quarter of fiscal 2020.

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)	As at or for the three months ended		
(thousands of Canadian dollars except per share amounts)	January 31 2021	October 31 2020	January 31 2020
Results of operations			
Interest income	$ 21,515	$ 21,068	$ 22,166
Net interest income	14,374	13,708	13,557
Non-interest income (loss)	1,048	18	25
Total revenue	15,422	13,726	13,582
Provision (recovery) for credit losses	57	(582)	(208)
Non-interest expenses	8,087	7,763	6,705
Core cash earnings*	7,278	6,545	7,085
Core cash earnings per common share*	$ 0.34	$ 0.31	$ 0.34
Net income	**5,290**	**4,746**	**5,141**
Income per common share:			
Basic	$ 0.22	$ 0.20	$ 0.22
Diluted	$ 0.22	$ 0.20	$ 0.22
Dividends paid on preferred shares	$ 542	$ 542	$ 542
Dividends paid on common shares	$ 528	$ 528	$ 528
Yield*	4.28%	4.33%	4.84%
Cost of funds*	1.42%	1.51%	1.88%
Net interest margin*	2.86%	2.82%	2.96%
Return on average common equity*	8.26%	7.46%	8.60%
Core cash return on average common equity*	11.72%	10.66%	12.23%
Book value per common share*	$ 10.90	$ 10.70	$ 10.17
Efficiency ratio*	52%	57%	49%
Return on average total assets*	0.94%	0.86%	1.01%
Gross impaired loans to total loans*	0.00%	0.00%	0.38%
Provision (recovery) for credit losses as a % of average loans*	0.01%	(0.14%)	(0.01%)
Balance Sheet Summary			
Cash and securities	$ 212,016	$ 257,644	$ 134,253
Loans, net of allowance for credit losses	1,793,724	1,654,910	1,668,720
Average loans*	1,724,317	1,601,336	1,631,504
Total assets	2,044,976	1,943,885	1,854,765
Average assets*	1,994,431	1,937,071	1,820,073
Deposits	1,664,694	1,567,570	1,454,979
Subordinated notes payable	4,891	4,889	4,883
Shareholders' equity	259,508	255,288	244,234
Capital ratios*			
Risk-weighted assets	$ 1,721,935	$ 1,580,939	$ 1,558,070
Common Equity Tier 1 capital	214,851	219,359	203,399
Total regulatory capital	251,020	255,471	237,736
Common Equity Tier 1 (CET1) capital ratio	12.48%	13.88%	13.05%
Tier 1 capital ratio	14.18%	15.73%	14.94%
Total capital ratio	14.58%	16.16%	15.26%
Leverage ratio	11.40%	12.19%	11.86%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q1 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, February 24, 2021, at 9:00 a.m. (EST) to discuss its first 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:	51182981

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

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/3tTumHB 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:	182981#
Expiry Date:	March 24th, 2021, at 11:59 p.m. (EST)

The archived webcast presentation will also be available via the Internet for 90 days following the live event at https://bit.ly/3tTumHB 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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