THIRD QUARTER 2020
EARNINGS RELEASE

VERSABANK REPORTS SOLID FINANCIAL RESULTS FOR THE THIRD QUARTER 2020

– Q3 Results Reflect Bank's Prudent Decision to Temporarily Increase Cash Balance Out of an Abundance of Caution in Early Months of Pandemic / Year-to-Date Net Income and Core Cash Earnings Stable Year-over-Year –

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 2020 ("Q3 2020") unaudited Interim Consolidated Financial Statements for the period ended July 31, 2020 and Management's Discussion and Analysis, are available online at www.versabank.com/investor-relations and at www.sedar.com. Supplementary Financial Information will also be available on our website at www.versabank.com/investor-relations.

LONDON, ONTARIO, August 26, 2020 – VersaBank ("VersaBank" or the "Bank") (TSX: VB) today reported its results for the third quarter ended July 31, 2020.

Financial Summary:

	For the three months ended July 31			For the nine months ended July 31		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Financial Results						
Revenue	$12.4 M	$14.1 M	-12%	$40.5 M	$40.3 M	+1%
Cost of Funding	1.59%	1.98%	-39 bps	1.77%	1.92%	-15 bps
Net Interest Margin	2.53%	3.12%	-59 bps	2.91%	3.00%	-9 bps
Core Cash Earnings(1)(2)	$6.0 M	$6.8 M	-12%	$20.2 M	$20.4 M	-1%
Core Cash Earnings per Common Share(1)	$0.29	$0.32	-$0.03	$0.96	$0.96	+$0.00
Net Income	$4.4 M	$5.0 M	-12%	$14.7 M	$14.8 M	-1%
Basic and Diluted Net Income per Common Share	$0.18	$0.21	-$0.03	$0.62	$0.62	+$0.00
Balance Sheet and Capital Ratios						
Total Assets	$1.93 B	$1.78 B	+9%	$1.93 B	$1.78 B	+9%
Book Value per Common Share	$10.52	$9.77	+8%	$10.52	$9.77	+8%
CET1 Ratio	14.11%	12.71%	+140bps	14.11%	12.71%	+140bps
Leverage Ratio	11.99%	11.90%	+9bps	11.99%	11.90%	+9bps

(1) Certain highlights include non-GAAP measures. See definitions under 'Basis of Presentation' in the Q3 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.

Management Commentary

“During the third quarter, we continued to reap the benefits of success in leveraging our proprietary technology to offer innovative solutions that address unmet needs in the banking sector,” said David Taylor, President and CEO, VersaBank. “On the deposit side of our business, our cost of funds significantly decreased, both year-over-year and sequentially to 1.59% – one of our lowest on record – as we continued to grow the size of our Insolvency Professional deposit base.”

“Our financial results for the quarter, while still very healthy, reflect the Bank’s conscious and prudent decision to temporarily increase our cash balance amidst the initial lack of visibility into the economic impacts of the COVID-19 pandemic. Our cash balance peaked at more than $400 million, approximately three-times our typical level, which dampened net interest income earned during the quarter. Even during this unprecedented environment, VersaBank continues to generate the highest net interest margin amongst publicly traded Canadian banks. With better visibility into the economic effects of the pandemic, we have been steadily redeploying cash into interest earning loans. In particular, we are seeing renewed activity in our Point-of-Sale Loan and Lease business as Canadians have emerged from lock-down and resumed “big-ticket” discretionary purchases. We are encouraged by this activity and expect a resumption of growth through the fourth quarter such that the size of the Point-of-Sale portfolio ends the year in the range of where it started, and, assuming no further major pandemic impacts on consumer purchasing, return to our long-term growth trend next year.”

“Importantly, amidst the very challenged Canadian economy marked by record contraction and job losses, the Bank recorded a recovery of credit losses in the third quarter of 2020. This is yet further testament to our low-risk model and culture of risk mitigation throughout our organization. And we continue our track record of no loan losses throughout our history.”

“Looking ahead, as we continue to deploy our excess cash balances, we expect to return to our trajectory of earnings growth next year. Our cost of funds should continue to decline with the recent addition of new Insolvency Professional partners, as well as an expected increase in insolvency activity as COVID-19-related government aid abates. In our lending business, in addition to a return to expansion of the Point-of-Sale portfolio, we are optimistic about the prospects for the launch of our revolutionary Instant Mortgage high-volume app for real estate developers and brokers, for which beta testing has resumed post-“lock down”. This new channel for our very successful Point-of Sale-solution will enable us to meaningfully enter the $200-billion home financing market, creating a third lending business to drive our future growth. We have in excess of $2 billion to deploy, and no shortage of opportunities to do so, in pursuit of superior net interest margins while mitigating risk.”

COVID-19 Update

COVID-19 continues to notably 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. In particular, 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, and further, loan balances with active deferrals in the portfolio have reduced to less than 0.3%. Additionally, in its continued efforts to mitigate liquidity risk in this uncertain economic environment, the Bank modestly increased its cash balances quarter over quarter to $354 million, or 18% of assets as at July 31, 2020. Further, the Bank continues to maintain a robust capital position having more than $90 million in surplus total regulatory capital over the Basel III minimum as at July 31, 2020.

Financial Discussion

Net income for the third quarter of 2020 decreased to $4.4 million, or $0.18 on a per share basis, as a function primarily of lower interest income attributable to lower average earning assets and higher liquidity costs, offset partially by lower cost of funds, lower provision for credit losses and lower non-interest expenses. Net Interest

Margin for the third quarter of 2020 decreased to 2.53% from 3.12% year over year, with the primary driver of this trend being higher liquidity costs attributable to management's decision to maintain higher cash balances as a prudent liquidity practice given the material deterioration of the Canadian economy due to COVID-19. Despite a modest recovery of credit losses in the current quarter, earnings from operations in fiscal 2020 continue to be impacted by higher provisions for credit losses which were $238,000 on a year to date basis compared to a recovery of credit losses of $319,000 for the same period a year ago as the Bank remains cautious given the uncertainty of the recovery profile of the Canadian economy.

Core Cash Earnings ("CCE") and CCE per share for the quarter decreased to $6.0 million and $0.29, respectively, as a function of the same factors set out above. 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:

- Further expanded its access to very-low cost Insolvency Professional deposits, adding four new deposit Insolvency Professional partners to its roster of more than 100 partner offices across Canada; and,
- Further expanded its access to low-cost CDIC-insured GIC deposits, adding FundEX Investments Inc. ("FundEX"), one of Canada's largest mutual fund dealerships with more than 700 financial advisors across the country and more than $17 billion in assets under administration.

Q3 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. The Bank has been actively reducing its exposure to the non-core, lower-yield multi-unit residential construction loan portion of this portfolio by allowing these loans to run-off, which resulted in a 1.22% year-over-year net reduction of the Commercial Banking portfolio to $634 million compared to the same period last year, and further, has contributed to the Bank's decision to temporarily increase its cash position out of an abundance of caution due to economic uncertainty related to the COVID-19 pandemic. With the run-off of the non-core loans now 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 third quarter of 2020, the Point-of-Sale Finance Portfolio decreased 5.86% year-over-year to $910 million, primarily due to decreased origination activity, resulting from a slowdown in consumer discretionary spending amidst the COVID-pandemic lockdown, as well as the sale of three non-strategic portfolios of loan and lease receivables over the course of the second and third quarters of 2020. We expect to see volumes increase in the coming quarters as our origination partners become more active again in the market as the Canadian economy begins to show signs of recovery, as well as through the addition of new partners. This portfolio continues to present strong growth potential for both size and profitability over the long-term, 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 focus on 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, enabling it to generate superior net interest margins while mitigating risk. VersaBank's cost of funds for the third quarter of 2020 was 1.59%, down 39 bps from a year ago and 16 bps from the second quarter of this year. VersaBank expects its Insolvency Professional deposits to increase significantly as bankruptcies increase due to the ongoing economic impact of the COVID-19 pandemic and is currently exploring other low-cost deposit channels that it believes will further lower its cost of funds. Commercial deposits at July 31, 2020 were $486 million, up 15.4% from a year ago. The increase in Commercial deposits was driven almost entirely by growth in Insolvency Professional deposits.

Capital

VersaBank's regulatory capital is increased by its CCE and at July 31, 2020, VersaBank's CET1 ratio was 14.11%, up 140 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 third quarter was more than $90 million**.** For example, VersaBank's leverage percentage of 11.99% 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

The Bank recorded a recovery of credit losses for the third quarter of 2020 in the amount of $44,000, which decreased its total provision for credit losses for the nine months ended July 31, 2020 to $238,000, inclusive of the $490,000 provision for credit losses taken in the second quarter of 2020 out of an abundance of caution due to economic uncertainty stemming from the COVID-19 pandemic. This compares to a recovery of credit losses in the amount $319,000 for the year-to-date 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 year by the Bank in its credit risk models, offset partially by lower lending asset balances. Despite this trend, 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 nine months ended	
($CDN thousands except per share amounts)	July 31 2020	July 31 2019	July 31 2020	July 31 2019
Results of operations				
Interest income	$ 20,172	$ 22,958	$ 65,026	$ 66,042
Net interest income	12,384	14,059	40,417	40,242
Non-interest income	8	19	42	42
Total revenue	12,392	14,078	40,459	40,284
Provision (recovery) for credit losses	(44)	381	238	(319)
Non-interest expenses	6,410	6,860	20,014	20,225
Core cash earnings*	6,026	6,837	20,207	20,378
Core cash earnings per common share*	$ 0.29	$ 0.32	$ 0.96	$ 0.96
Net income	**4,369**	**4,963**	**14,659**	**14,791**
Income per common share:				
Basic	$ 0.18	$ 0.21	$ 0.62	$ 0.62
Diluted	$ 0.18	$ 0.21	$ 0.62	$ 0.62
Dividends paid on preferred shares	$ 542	$ 550	$ 1,626	$ 1,650
Dividends paid on common shares	$ 528	$ 422	$ 1,584	$ 1,056
Yield*	4.12%	5.10%	4.68%	4.92%
Cost of funds*	1.59%	1.98%	1.77%	1.92%
Net interest margin*	2.53%	3.12%	2.91%	3.00%
Return on average common equity*	6.90%	8.56%	8.04%	8.77%
Core cash return on average common equity*	9.89%	12.20%	11.46%	12.50%
Book value per common share*	$ 10.52	$ 9.77	$ 10.52	$ 9.77
Efficiency ratio*	51.73%	48.74%	49.47%	50.21%
Return on average total assets*	0.78%	0.98%	0.94%	0.98%
Gross impaired loans to total loans*	0.43%	1.58%	0.43%	1.58%
Provision (recovery) for credit losses as a % of average loans*	(0.01%)	0.02%	0.02%	(0.02%)
		as at		
Balance Sheet Summary				
Cash and securities	$ 353,794	$ 118,310	$ 353,794	$ 118,310
Loans, net of allowance for credit losses	1,547,761	1,613,811	1,547,761	1,613,811
Average loans*	1,571,365	1,620,964	1,571,025	1,622,419
Total assets	1,930,256	1,776,659	1,930,256	1,776,659
Average assets*	1,948,313	1,786,426	1,857,819	1,792,894
Deposits	1,565,334	1,398,286	1,565,334	1,398,286
Subordinated notes payable	4,887	4,879	4,887	4,879
Shareholders' equity	251,612	235,730	251,612	235,730
Capital ratios*				
Risk-weighted assets	$ 1,518,918	$ 1,504,445	$ 1,518,918	$ 1,504,445
Common Equity Tier 1 capital	214,272	191,235	214,272	191,235
Total regulatory capital	250,739	225,572	250,739	225,572
Common Equity Tier 1 (CET1) ratio	14.11%	12.71%	14.11%	12.71%
Tier 1 capital ratio	16.04%	14.66%	16.04%	14.66%
Total capital ratio	16.51%	14.99%	16.51%	14.99%
Leverage ratio	11.99%	11.90%	11.99%	11.90%

* This is a non-GAAP measure. See definition under 'Basis of Presentation' in the Q3 2020 Management's Discussion and Analysis.

Reconciliation of Core Cash Earnings

(thousands of Canadian dollars)

	for the three months ended		for the nine months ended	
	July 31 2020	July 31 2019	July 31 2020	July 31 2019
Net income	$ 4,369	$ 4,963	$ 14,659	$ 14,791
Adjusted for:				
Non-cash income taxes	1,657	1,874	5,548	5,587
Core cash earnings	$ 6,026	$ 6,837	$ 20,207	$ 20,378

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 third quarter MD&A ended July 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.

Conference Call and Webcast

VersaBank will be hosting a conference call and webcast today, Wednesday, August 26, 2020, 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 (800) 898-3989 (Canada/US)
Local dial-in number:	(416) 406-0743
Participant passcode:	6797031#

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/2PIBfsv 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
Passcode:	5807301#
Expiry Date:	Sept 26th, 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/2PIBfsv and on the Bank's web site**.**

FOR FURTHER INFORMATION, PLEASE CONTACT:

VersaBank Wade MacBain (800) 244-1509 wadem@versabank.com	LodeRock Advisors Lawrence Chamberlain 416-519-4196 lawrence.chamberlain@loderockadvisors.com

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