VersaBank
Choice Through Innovation

FOURTH QUARTER 2018

EARNINGS RELEASE

VERSABANK REPORTS FOURTH QUARTER 2018 RESULTS WITH A 53% INCREASE IN CORE CASH EARNINGS FROM A YEAR AGO(1)(2)

VersaBank's 2018 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 are unaudited and are 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 were derived from VersaBank's 2018 annual audited Consolidated Financial Statements. All amounts are stated in Canadian dollars.

LONDON, ONTARIO, November 28, 2018 – VersaBank ("VB" or the "Bank") (TSX:VB) today reported its results for the fourth quarter and fiscal year ended October 31, 2018. Net income for the quarter was up 83% to $5.2 million from $2.8 million a year ago, while net income for the year was down 7% to $18.1 million from $19.5 million a year ago. Last year's results included an $8.8 million one-time, non-cash gain on the recognition of a deferred income tax asset subsequent to the amalgamation of the Bank with PWC Capital Inc.

Core cash earnings (CCE) for the quarter was up 53% to $7.1 million from $4.7 million a year ago, while CCE for the year was up 40% to $25.4 million from $18.2 million a year ago. CCE reflects the Bank's core operational performance and earnings capacity, (see core cash earnings reconciliation below) (2).

David Taylor, President and CEO stated, "We have completed another very successful year. Core cash earnings continued phenomenal growth this year, achieving a 5 year compounded average growth rate ("CAGR") of 48%. Our Net Interest Margin ("NIM") expanded to an industry leading 2.91%. This expansion coupled with a 5% increase in assets gave rise to an 18% increase in revenue all the while our total Non-Interest Expenses ("NIE") reduced by 3% over the past year. This resulted in core cash EPS for the year increasing by 37% to $1.19 from $0.87 last year. Looking forward we are turning our attention to accelerating asset growth and continuing to improve our industry leading digital services."

Q4 2018 Highlights:

Q4 Core Cash Earnings(1)	Q4 Core Cash EPS(1)	Q4 Core Cash ROCE(1)	Q4 Net Income
$7.1 million	$0.33	13.55%	$5.2 million
⬆ 53% yoy	⬆ $0.11 yoy	⬆ 442 bps yoy	⬆ 83% yoy

The results for the quarter were driven primarily by higher interest income, improved efficiency and continued strong credit quality. NIM for the quarter was up 32 bps to 3.00% from 2.68% a year ago. Non-interest expenses were down 14% to $6.4 million from $7.5 million a year ago, which included non-recurring expenses related to consulting fees as well as fees related to the Bank's capital market activities recognized in the prior period. Efficiency for the quarter improved to 46% from 65% last year and the Bank's provision for credit losses ("PCL") ratio for the quarter was again negligible.

2018 Annual Highlights:

F18 Core Cash Earnings(1)	F18 Core Cash EPS(1)	F18 Core Cash ROCE(1)	F18 Net Income
$25.4 million	$1.19	12.40%	$18.1 million
⬆ 40% yoy	⬆ $0.32 yoy	⬆ 289 bps yoy	⬇ 7% yoy

- Net income for the year was down 7% to $18.1 million or $0.75 per common share (basic and diluted) from $19.5 million or $0.83 per common share (basic and diluted) in 2017. 2017's results included an $8.8 million one-time non-cash gain on the recognition of a deferred income tax asset subsequent to the amalgamation of the Bank with PWC Capital Inc.

- Core cash earnings for the year was up 40% to $25.4 million or $1.19 per common share (basic and diluted) from $18.2 million or $0.87 per common share (basic and diluted) in 2017 due primarily to higher net interest income and lower non-interest expenses.

- Net interest margin or spread for the year was up 34 bps to 2.91% from 2.57% in 2017 due primarily to yield expansion realized over the course of the year.

- Non-interest expenses for the year, excluding restructuring charges were down 3% to $26.3 million from $27.2 million in 2017 due to lower administrative expenses related to consulting fees and the Bank's general corporate functions, partially offset by higher salary and benefits expenses.
- The Bank's efficiency ratio, adjusted for restructuring charges improved to 51% from 62% in 2017 primarily due to higher net interest income and lower non-interest expenses.

Q4 2018 compared to Q4 2017[1]

- Core cash earnings[2] of $7.1 million (up 53% from $4.7 million)
- Core cash earnings per share of $0.33 (up $0.11 from $0.22)
- Net income of $5.2 million (up 83% from $2.8 million)
- NIM of 3.00% (up 32 bps from 2.68%)
- Basic and diluted EPS of $0.21 (up $0.10 from $0.11)
- Common share book value of $9.19 (up 8% from $8.48)
- ROCE of 9.53% (up from 5.06%)
- CET1 ratio of 11.58% (up from 10.76%)
- Leverage ratio of 10.84% (up from 10.06%)

F2018 compared to F2017[1]

- Core cash earnings[2] of $25.4 million (up 40% from $18.2 million)
- Core cash earnings per share of $1.19 (up $0.32 from $0.87)
- Net income of $18.1 million (down 7% from $19.5 million)[3]
- NIM of 2.91% (up 34 bps from 2.57%)
- Basic and diluted EPS of $0.75 (down $0.08 from $0.83) [3]
- Common share book value of $9.19 (up 8% from $8.48)
- ROCE of 8.5% (down from 10.29%)[3]
- CET1 ratio of 11.58% (up from 10.76%)
- Leverage ratio of 10.84% (up from 10.06%)

(1) Certain highlights include non-GAAP measures. See definition under 'Basis of Presentation' in the 2018 annual Management's Discussion and Analysis.

(2) Core cash earnings is calculated as:

(thousands of Canadian dollars)	for the three months		for the year ended	
	October 31 2018	October 31 2017	October 31 2018	October 31 2017
Net income	$ 5,164	$ 2,822	$18,074	$ 19,472
Adjusted for:				
Income taxes (recovery)	2,049	1,083	6,939	(4,740)
Restructuring charges	-	-	-	2,045
Other non-core general and administrative expense items	(105)	745	348	1,391
	1,944	1,828	7,287	(1,304)
Core cash earnings	$ 7,108	$ 4,650	$25,361	$ 18,168

(3) F2017 earnings include the recognition of $8.8 million in deferred income tax assets in January 2017.

Q4 2018 Business Operations

VersaBank adopted an electronic branchless model in 1993, becoming the world's first branchless financial institution. It holds a Canadian Schedule I chartered bank license and obtains its deposits, and the majority of its loans and leases, electronically. 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.

Commercial Banking – Loans are originated through direct contact with the Bank's clients and through mortgage brokers and syndication partners. Loans are well secured by real estate primarily in Ontario and occasionally other areas of Canada. Loans at October 31, 2018 were $718 million, down 2.60% from last quarter and up 3.76% from a year ago.

eCommerce – Small loan and lease receivables are electronically purchased from VB's receivable purchase program originator partners who originate point of sale loans and leases in various markets throughout Canada. Lending assets at October 31, 2018 were $895 million, unchanged from last quarter and up 10.38% from a year ago.

Funding - VB has established three core funding channels, those being personal deposits, commercial deposits, and holdbacks retained from the Bank's receivable purchase program originator partners that are classified as other liabilities. Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada. Commercial deposits are sourced primarily via specialized chequing accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings. VB's cost of funds for the quarter was 1.82%, up 15 bps from last quarter and up 28 bps from a year ago.

Capital – As at October 31, 2018, VB's CET1 ratio was 11.58%, up 63 bps from last quarter and up 82 bps from a year ago. VB, like most small banks, uses the Standardized Approach to calculate its risk weighted assets. Because VB focuses on commercial and consumer loans with lower than average risk (as demonstrated by its long history of low provision for credit losses), it believes the Standardized Approach does not properly reflect the intrinsic risk in its lending portfolio. As a consequence, VB's leverage ratio is conservative, being more than twice the average leverage ratio of the major Canadian banks, which use the Advanced Internal Ratings Based ("AIRB") approach to calculate their risk weighted assets.

Credit Quality – For the quarter ended October 31, 2018, the Bank recorded a provision in the amount of $191,000 compared to a provision of $128,000 last quarter and a provision of $116,000 for the same period a year ago. Further, as at October 31, 2018, total gross impaired loans were approximately 0.04% of total lending assets. The Bank's PCL ratio continues to be one of the lowest in the industry, reflecting the very low risk profile of the Bank's lending portfolio. VB's business strategy involves taking lower credit risk, but achieving higher NIM by lending in niche markets that are not well served by the larger financial institutions.

VersaVault Inc. – VersaVault Inc. ("VV") is a wholly owned subsidiary of the Bank and was formed to develop and provide cyber-security services to commercial entities. VV recently announced the successful completion of its technology Beta-Testing with its target client base and the commencement of the commercialization phase of the developed service offering which will be provided initially to cryptocurrency exchanges and crypto based investment funds.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the year ended	
	October 31	October 31	October 31	October 31
($CDN thousands except per share amounts)	2018	2017	2018	2017
Results of operations				
Interest income	$ 22,036	$ 18,132	$ 80,914	$ 71,765
Net interest income	13,707	11,508	51,499	43,983
Total revenue	13,827	11,521	51,685	43,842
Provision (recovery) for credit losses	191	116	334	(125)
Non-interest expenses	6,423	7,500	26,338	27,190
Restructuring charges	-	-	-	2,045
Core cash earnings*	7,108	4,650	25,361	18,168
Core cash earnings per common share*	$ 0.33	$ 0.22	$ 1.19	$ 0.87
Net income	**5,164**	**2,822**	**18,074**	**19,472**
Income per common share:				
Basic	$ 0.21	$ 0.11	$ 0.75	$ 0.83
Diluted	$ 0.21	$ 0.11	$ 0.75	$ 0.83
Dividends paid on preferred shares	$ 550	$ 550	$ 2,201	$ 2,201
Yield*	4.82%	4.22%	4.58%	4.19%
Cost of funds*	1.82%	1.54%	1.66%	1.62%
Net interest margin*	3.00%	2.68%	2.91%	2.57%
Return on average common equity*	9.53%	5.06%	8.50%	10.29%
Core cash return on average common equity*	13.55%	9.13%	12.40%	9.51%
Book value per common share*	$ 9.19	$ 8.48	$ 9.19	$ 8.48
Efficiency ratio*	46.45%	65.00%	50.96%	62.02%
Return on average total assets*	1.01%	0.53%	0.90%	1.01%
Gross impaired loans to total loans*	0.04%	0.04%	0.04%	0.04%
Full time employees	86	80	86	80
Provision (recovery) for credit losses as a % of average loans*	0.01%	0.01%	0.02%	(0.01%)
		as at		
Balance Sheet Summary				
Cash and securities	$ 139,798	$ 160,171	$ 139,798	$ 160,171
Loans, net of allowance for credit losses	1,631,026	1,520,857	1,631,026	1,520,857
Average loans*	1,640,176	1,527,875	1,575,942	1,542,235
Total assets	1,809,130	1,725,049	1,809,130	1,725,049
Average assets*	1,812,182	1,704,786	1,767,089	1,714,725
Deposits	1,437,431	1,376,006	1,437,431	1,376,006
Subordinated notes payable	9,844	9,786	9,844	9,786
Shareholders' equity	223,567	208,541	223,567	208,541
Capital ratios*				
Common Equity Tier 1 capital	$ 174,055	$ 152,789	$ 174,055	$ 152,789
Total regulatory capital	207,392	188,126	207,392	188,126
Risk-weighted assets	1,502,549	1,420,276	1,502,549	1,420,276
Common Equity Tier 1 (CET1) ratio	11.58%	10.76%	11.58%	10.76%
Tier 1 capital ratio	13.54%	12.82%	13.54%	12.82%
Total capital ratio	13.80%	13.25%	13.80%	13.25%
Leverage ratio	10.84%	10.06%	10.84%	10.06%

* This is a non-GAAP measure. See definition under 'Basis of Presentation Non-GAAP and Additional GAAP Measures' in the Annual 2018 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 a number of 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; 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, 2018.

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.

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