



**Interim Consolidated Financial Statements  
July 31, 2017  
(Unaudited)**

# VERSABANK

## Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)

As at	July 31 2017	October 31 2016	July 31 2016
<b>Assets</b>			
Cash and cash equivalents	\$ 103,323	\$ 93,964	\$ 142,048
Securities (note 4)	256	9,958	9,980
Loans, net of allowance for credit losses (note 5a)	1,534,893	1,563,612	1,499,006
Other assets (note 6)	46,051	36,866	34,260
	<u>\$ 1,684,523</u>	<u>\$ 1,704,400</u>	<u>\$ 1,685,294</u>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$ 1,343,612	\$ 1,369,647	\$ 1,357,963
Subordinated notes payable (note 7)	9,772	14,067	14,039
Securitization liabilities (note 8)	33,409	43,585	43,685
Other liabilities (note 9)	91,463	91,217	85,070
	<u>1,478,256</u>	<u>1,518,516</u>	<u>1,500,757</u>
Shareholders' equity:			
Share capital (notes 10 and 19)	182,094	176,706	176,706
Retained earnings	24,172	9,172	7,827
Accumulated other comprehensive income	1	6	4
	<u>206,267</u>	<u>185,884</u>	<u>184,537</u>
	<u>\$ 1,684,523</u>	<u>\$ 1,704,400</u>	<u>\$ 1,685,294</u>

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

# VERSABANK

## Consolidated Statements of Income (Unaudited)

(thousands of Canadian dollars, except per share amounts)

	for the three months ended		for the nine months ended	
	July 31	July 31	July 31	July 31
	2017	2016	2017	2016
Interest income:				
Loans	\$ 17,259	\$ 17,288	\$ 52,721	\$ 51,287
Securities and other	325	340	912	913
	17,584	17,628	53,633	52,200
Interest expense:				
Deposits and other	6,443	7,438	20,064	22,812
Subordinated notes	390	354	1,094	1,050
	6,833	7,792	21,158	23,862
Net interest income	10,751	9,836	32,475	28,338
Non-interest income (loss)	12	343	(154)	953
Total revenue	10,763	10,179	32,321	29,291
Provision (recovery) for credit losses (note 5b)	38	24	(241)	449
	10,725	10,155	32,562	28,842
Non-interest expenses:				
Salaries and benefits	3,449	3,589	10,139	10,493
General and administrative	3,047	2,302	7,969	6,870
Premises and equipment	516	763	1,582	1,814
	7,012	6,654	19,690	19,177
Restructuring charges (note 14)	-	98	2,045	543
	7,012	6,752	21,735	19,720
Income before income taxes	3,713	3,403	10,827	9,122
Income tax provision (recovery) (note 11a)	1,031	947	(5,823)	2,548
Net income	\$ 2,682	\$ 2,456	\$ 16,650	\$ 6,574
Basic and diluted income per common share (note 12)	\$ 0.10	\$ 0.09	\$ 0.72	\$ 0.25
Weighted average number of common shares outstanding	21,124,000	20,095,000	20,777,000	19,783,000

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## Consolidated Statements of Comprehensive Income (Unaudited)

(thousands of Canadian dollars)

	for the three months ended		for the nine months ended	
	July 31	July 31	July 31	July 31
	2017	2016	2017	2016
Net income	\$ 2,682	\$ 2,456	\$ 16,650	\$ 6,574
Other comprehensive income (loss), net of tax				
Net unrealized gains (losses) on assets held as available-for-sale <sup>(1)</sup>	(4)	(2)	(5)	(9)
Comprehensive income	\$ 2,678	\$ 2,454	\$ 16,645	\$ 6,565

(1) Net of income tax benefit for the three months of \$1 (2016 – \$1 benefit) and income tax benefit for the nine months of \$2 (2016 - \$3 benefit).

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(thousands of Canadian dollars)

	for the three months ended		for the nine months ended	
	July 31 2017	July 31 2016	July 31 2017	July 31 2016
Common shares (note 10):				
Balance, beginning of the period	\$ 152,612	\$ 147,224	\$ 147,224	\$ 142,224
Issued during the period	-	-	-	5,000
Impact of amalgamation of PWC Capital Inc. (note 19)	-	-	5,388	-
<b>Balance, end of the period</b>	<b>\$ 152,612</b>	<b>\$ 147,224</b>	<b>\$ 152,612</b>	<b>\$ 147,224</b>
Preferred shares (note 10):				
<i>Series 1 preferred shares</i>				
Balance, beginning and end of the period	\$ 13,647	\$ 13,647	\$ 13,647	\$ 13,647
<i>Series 3 preferred shares</i>				
Balance, beginning and end of the period	\$ 15,690	\$ 15,690	\$ 15,690	\$ 15,690
Contributed surplus:				
Balance, beginning and end of the period	\$ 145	\$ 145	\$ 145	\$ 145
<b>Total share capital</b>	<b>\$ 182,094</b>	<b>\$ 176,706</b>	<b>\$ 182,094</b>	<b>\$ 176,706</b>
Retained earnings:				
Balance, beginning of the period	\$ 22,040	\$ 5,921	\$ 9,172	\$ 2,903
Net income	2,682	2,456	16,650	6,574
Dividends paid on preferred shares	(550)	(550)	(1,650)	(1,650)
<b>Balance, end of the period</b>	<b>\$ 24,172</b>	<b>\$ 7,827</b>	<b>\$ 24,172</b>	<b>\$ 7,827</b>
Accumulated other comprehensive income, net of taxes:				
Balance, beginning of the period	\$ 5	\$ 6	\$ 6	\$ 13
Other comprehensive income (loss)	(4)	(2)	(5)	(9)
<b>Balance, end of the period</b>	<b>\$ 1</b>	<b>\$ 4</b>	<b>\$ 1</b>	<b>\$ 4</b>
<b>Total shareholders' equity</b>	<b>\$ 206,267</b>	<b>\$ 184,537</b>	<b>\$ 206,267</b>	<b>\$ 184,537</b>

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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## Consolidated Statements of Cash Flows (Unaudited)

(thousands of Canadian dollars)

	July 31	July 31
For the nine months ended	2017	2016
Cash provided by (used in):		
Operations:		
Net income	\$ 16,650	\$ 6,574
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision (recovery) for credit losses	(241)	449
Income tax provision (recovery)	(5,823)	2,548
Interest income	(53,633)	(52,200)
Interest expense	21,158	23,862
Interest received	52,872	51,300
Interest paid	(22,608)	(23,812)
Change in operating assets and liabilities:		
Loans	29,729	(50,339)
Deposits	(24,290)	32,325
Change in other assets and liabilities	6,009	9,891
	19,823	598
Investing:		
Purchase of securities	-	(9,583)
Proceeds from sale and maturity of securities	9,593	21,844
Purchase of property, plant and equipment	(1,681)	-
Cash acquired on amalgamation	1,569	-
Transaction costs associated with share issuance	(1,852)	-
	7,629	12,261
Financing:		
Repayment of subordinated notes	(4,500)	-
Redemption of securitization liability	(10,307)	-
Dividends paid	(1,650)	(1,650)
Income taxes paid	(1,636)	(1,239)
Proceeds from shares issued	-	5,000
	(18,093)	2,111
Increase in cash and cash equivalents	9,359	14,970
Cash and cash equivalents, beginning of the period	93,964	127,078
Cash and cash equivalents, end of the period	\$ 103,323	\$ 142,048
Cash and cash equivalents is represented by:		
Cash	\$ 98,324	\$ 142,048
Cash equivalents	4,999	-
Cash and cash equivalents, end of the period	\$ 103,323	\$ 142,048

The accompanying notes are an integral part of these interim Consolidated Financial Statements.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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### 1. Reporting entity:

VersaBank (the “Bank”) operates as a Schedule I bank under the *Bank Act (Canada)* and is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Bank’s shares trade on the Toronto Stock Exchange.

The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2. On January 31, 2017, the Bank and PWC Capital Inc. (“PWC”), whose shares also traded on the Toronto Stock Exchange, amalgamated pursuant to section 228 of the Bank Act (Canada) with the amalgamated entity continuing under the name VersaBank (see Note 19). Prior to the Amalgamation PWC owned approximately 63% (January 31, 2016 – 65%) of the common shares of the Bank.

### 2. Basis of preparation:

#### a) Statement of compliance:

These interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim Consolidated Financial Statements should be read in conjunction with the Bank’s audited Consolidated Financial Statements for the year ended October 31, 2016.

The interim Consolidated Financial Statements for the three and nine months ended July 31, 2017 and 2016 were approved by the Audit Committee of the Board of Directors on August 28, 2017.

#### b) Basis of measurement:

These interim Consolidated Financial Statements have been prepared on the historical cost basis except for securities designated as available-for-sale that are measured at fair value in the Consolidated Balance Sheets.

#### c) Functional and presentation currency:

These interim Consolidated Financial Statements are presented in Canadian dollars which is the Bank’s functional currency. Except as indicated, the financial information presented has been rounded to the nearest thousand.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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### d) Use of estimates and judgments:

In preparing these interim Consolidated Financial Statements, management has exercised judgment and developed estimates in applying accounting policies and generating reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Areas where significant judgment was applied were in the assessments of impairment of financial instruments. Estimates include the calculation of the allowance for credit losses and the measurement of deferred income taxes.

It is reasonably possible, on the basis of existing knowledge, that actual results may vary from that expected in the generation of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied prospectively once they are recognized.

### 3. Significant accounting policies:

The accounting policies applied by the Bank in these interim Consolidated Financial Statements are the same as those applied by the Bank as at and for the year ended October 31, 2016 and are detailed in Note 3 of the Bank's 2016 Audited Consolidated Financial Statements.

### 4. Securities:

Portfolio analysis:

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	July 31	October 31	July 31
	2017	2016	2016
<b>Available-for-sale securities</b>			
Securities issued or guaranteed by:			
Canadian provincial governments	\$ -	\$ 9,687	\$ 9,713
Canadian municipal governments	256	271	267
<b>Total available-for-sale securities</b>	<b>\$ 256</b>	<b>\$ 9,958</b>	<b>\$ 9,980</b>

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Canadian provincial government securities are carried at fair value based on quoted market prices (Level 1). Canadian municipal debt falls into Level 2 of the fair value hierarchy. See Note 3 (c) of the October 31, 2016 Audited Consolidated Financial Statements for more information.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

### 5. Loans:

a) Portfolio analysis:

	July 31 2017	October 31 2016	July 31 2016
Government loans	\$ 56,568	\$ 66,016	\$ 65,112
Loan and lease receivables	800,215	783,669	739,735
Residential mortgages	88,213	95,624	99,681
Commercial mortgages	262,015	227,816	220,699
Construction mortgages	215,565	256,429	260,711
Commercial loans	106,031	102,265	82,023
Credit card receivables and other	2,982	29,373	28,733
	1,531,589	1,561,192	1,496,694
Allowance for credit losses	(2,309)	(3,031)	(2,893)
Accrued interest	5,613	5,451	5,205
Total loans, net of allowance for credit losses	\$ 1,534,893	\$ 1,563,612	\$ 1,499,006

The allowance for credit losses relates to the following loan portfolios:

	July 31 2017	October 31 2016	July 31 2016
Government loans	\$ 8	\$ 14	\$ 14
Loan and lease receivables	359	344	332
Residential mortgages	26	26	121
Commercial mortgages	669	551	483
Construction mortgages	663	765	747
Commercial loans	575	276	138
Credit card receivables and other	9	1,055	1,058
	\$ 2,309	\$ 3,031	\$ 2,893

The Bank holds security against the majority of its loans in the form of either mortgage interests over property, other registered securities over assets, guarantees and holdbacks on loan and lease receivables (see note 9).

The Bank terminated its credit card program with Home Hardware Stores Limited in December 2016 and sold the outstanding credit card receivables portfolio in April 2017.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

b) Allowance for credit losses:

The allowance for credit losses results from the following:

			July 31 2017 Total	July 31 2016 Total
For the three months ended	Collective	Individual	Allowance	Allowance
Balance, beginning of the period	\$ 2,271	\$ -	2,271	\$ 3,104
Provision (recovery) for credit losses	(162)	200	38	24
Write-offs	-	-	-	(235)
Balance, end of the period	\$ 2,109	\$ 200	\$ 2,309	\$ 2,893

			July 31 2017 Total	July 31 2016 Total
For the nine months ended	Collective	Individual	Allowance	Allowance
Balance, beginning of the period	\$ 3,031	\$ -	3,031	\$ 3,212
Provision (recovery) for credit losses	(441)	200	(241)	449
Write-offs	(481)	-	(481)	(768)
Balance, end of the period	\$ 2,109	\$ 200	\$ 2,309	\$ 2,893

c) Impaired loans:

At July 31, 2017, impaired loans were \$627,000 (October 31, 2016 - \$nil). Notwithstanding the foregoing, loans past due were \$nil as at July 31, 2017 (October 31, 2016 - \$936,000).

## 6. Other Assets

	July 31 2017	October 31 2016	July 31 2016
Accounts receivable	\$ 479	\$ 1,820	\$ 1,674
Funds held for securitization liabilities	5,019	14,719	11,600
Prepaid expenses and other	7,606	9,599	9,732
Property and equipment	7,625	4,330	4,335
Deferred income tax asset (note 11b)	25,322	6,398	6,919
	\$ 46,051	\$ 36,866	\$ 34,260

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

### 7. Subordinated notes payable:

	July 31 2017	October 31 2016	July 31 2016
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of \$4.5 million, interest rate of 11%, maturing 2019.	\$ -	\$ 4,335	\$ 4,320
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of \$10 million, interest rate of 8%, maturing 2021.	9,772	9,732	9,719
	<u>\$ 9,772</u>	<u>\$ 14,067</u>	<u>\$ 14,039</u>

In May 2017 the Bank redeemed the 11% subordinated note for \$4.5 million. The remaining subordinated note payable has an effective interest rate of 8.77%.

### 8. Securitization liabilities:

Securitization liabilities include amounts payable to counterparties for cash received upon initiation of securitization transactions, accrued interest on amounts payable to counterparties, and the unamortized balance of deferred costs and discounts which arose upon initiation of the securitization transactions.

The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Securitized residential insured mortgages and other assets are pledged as collateral for these liabilities.

A securitization liability totalling \$10,307,000 with an interest rate of 1.97% matured in December 2016.

### 9. Other liabilities:

	July 31 2017	October 31 2016	July 31 2016
Accounts payable and other	\$ 8,524	\$ 8,653	\$ 7,387
Holdbacks payable on loan and lease receivables	82,939	82,564	77,683
	<u>\$ 91,463</u>	<u>\$ 91,217</u>	<u>\$ 85,070</u>

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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### 10. Share capital:

#### a) Common shares:

At July 31, 2017, there were 21,123,559 (October 31, 2016 – 20,095,065) common shares outstanding. The net increase of 1,028,494 shares was issued as part of the Amalgamation with PWC Capital Inc. (see note 19). In March 2016, 657,894 common shares were issued for cash proceeds of \$5,000,000 under a private placement.

#### b) Preferred shares:

At July 31, 2017, there were 1,461,460 (October 31, 2016 – 1,461,460) Series 1 preferred shares and 1,681,320 (October 31, 2016 – 1,681,320) Series 3 preferred shares outstanding. These shares are Basel III compliant, non-cumulative rate reset preferred shares which include non-viability contingent capital provisions (NVCC). As a result, these shares qualify as Additional Tier 1 Capital (see note 16).

#### c) Stock options:

At July 31, 2017, there were 47,059 common share stock options outstanding (October 31, 2016 – 40,000).

### 11. Income taxes:

#### a) Income tax provision (recovery):

	for the three months ended		for the nine months ended	
	July 31	July 31	July 31	July 31
	2017	2016	2017	2016
Income tax on earnings	\$ 1,031	\$ 947	\$ 3,008	\$ 2,548
Recognition of previously unrecognized deferred income tax asset	-	-	(8,831)	-
	\$ 1,031	\$ 947	\$ (5,823)	\$ 2,548

#### b) Deferred income tax asset:

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

	July 31 2017	July 31 2016
Balance, beginning of period	\$ 6,398	\$ 8,804
Income taxes on earnings	(3,008)	(2,548)
Recognition of previously unrecognized deferred income tax asset	8,831	-
Recognition of deferred income tax asset on amalgamation	11,939	-
Income taxes on transaction costs	500	-
Deferred income tax impact of payment of dividends	660	660
Income taxes on other comprehensive income	2	3
Balance, end of period	\$ 25,322	\$ 6,919

### 12. Income per common share:

	for the three months ended		for the nine months ended	
	July 31 2017	July 31 2016	July 31 2017	July 31 2016
Net income	\$ 2,682	\$ 2,456	\$ 16,650	\$ 6,574
Less: dividends on preferred shares	(550)	(550)	(1,650)	(1,650)
	<u>2,132</u>	<u>1,906</u>	<u>15,000</u>	<u>4,924</u>
Average number of common shares outstanding	21,124,000	20,095,000	20,777,000	19,783,000
Income per common share:	\$ 0.10	\$ 0.09	\$ 0.72	\$ 0.25

Employee stock options do not have a dilutive impact as the exercise price is greater than the average market price. The Series 1 and Series 3 NVCC preferred shares are contingently issuable shares and do not have a dilutive impact.

### 13. Commitments and contingencies:

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obligated to extend. Under certain circumstances, the Bank may cancel loan commitments at its option. The amounts with respect to the letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon. Undrawn credit card lines at July 31, 2017 were zero as a result of the termination of the credit card agreement with Home Hardware Stores Limited on December 31, 2016.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

	July 31 2017	October 31 2016	July 31 2016
Loan commitments	\$ 184,790	\$ 265,631	\$ 300,924
Undrawn credit card lines	-	127,116	129,955
Letters of credit	\$ 44,007	42,809	41,418
	\$ 228,797	\$ 435,556	\$ 472,297

### 14. Restructuring charges:

Restructuring charges relate primarily to termination benefits for employees and key management personnel incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization. The restructuring charges incurred in the prior year were primarily costs associated with the Bank's corporate rebranding and strategic review that resulted in the Amalgamation.

### 15. Related party transactions:

During the three months and nine months ended July 31, 2017 the Bank incurred management and other fees totalling \$nil (July 31, 2016 - \$225,000) and \$225,000 (July 31, 2016 - \$525,000), respectively, to PWC and a subsidiary of PWC.

The Bank's Board of Directors and senior executive officers represent key management personnel.

The Bank has loans to employees and key management personnel. At July 31, 2017, amounts due from related parties totalled \$707,000 (October 31, 2016 - \$748,000). The interest rates charged on these loans are similar to those charged in an arms-length transaction. Interest income earned on the above loans for the three months and nine months ended July 31, 2017 was \$5,000 (July 31, 2016 - \$18,000) and \$15,000 (July 31, 2016 - \$52,000) respectively. There were no provisions for credit losses related to loans issued to key management personnel for the three and nine months ended July 31, 2017 and 2016.

### 16. Capital management:

#### a) Overview:

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also important and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater leverage and the advantages and security afforded by a sound capital position.

OSFI sets and monitors capital requirements for the Bank. Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and conditions in financial markets.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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The goal is to maintain adequate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory return to shareholders. The Bank's regulatory capital is comprised of share capital, retained earnings and unrealized gains and losses on available-for-sale securities (Common Equity Tier 1 capital), preferred shares (Additional Tier 1 capital) and the qualifying amount of subordinated notes (Tier 2 capital).

The Bank monitors its capital adequacy and related capital ratios on a daily basis and has policies setting internal threshold amounts for its capital ratios. These capital ratios consist of the leverage ratio and the risk-based capital ratios.

During the period ended July 31, 2017, there were no material changes in the Bank's management of capital.

### b) Risk-Based Capital Ratios:

The Basel Committee on Banking Supervision has published the Basel III rules supporting more stringent global standards on capital adequacy and liquidity (Basel III).

OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis that became effective January 1, 2013 for the purpose of determining its risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 (CET1) capital ratio and effective January 1, 2014, an 8.5% Tier 1 capital ratio and 10.5% total capital ratio, all of which include a 2.50% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios is related to the 10 year phase out of non-qualifying capital instruments.

OSFI also requires banks to measure capital adequacy in accordance with guidelines for determining risk adjusted capital and risk-weighted assets including off-balance sheet credit instruments as specified in the Basel III regulations. Based on the deemed credit risk for each type of asset, assets held by the Bank are assigned a weighting of 0% to 150% to determine the risk-based capital ratios.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

The Bank's risk-based capital ratios are calculated as follows:

	July 31, 2017		October 31, 2016	
	"All-in"	"Transitional"	"All-in"	"Transitional"
<b>Common Equity Tier 1 (CET1) capital</b>				
Directly issued qualifying common share capital	\$ 152,757	\$ 152,757	\$ 147,369	\$ 147,369
Retained earnings	24,172	24,172	9,172	9,172
Accumulated other comprehensive income	1	1	6	6
CET1 capital before regulatory adjustments	176,930	176,930	156,547	156,547
Total regulatory adjustments to CET1	(27,328)	(21,862)	(6,562)	(3,937)
Common Equity Tier 1 capital	\$ 149,602	\$ 155,068	\$ 149,985	\$ 152,610
<b>Additional Tier 1 (AT1) capital</b>				
Directly issued qualifying AT1 instruments	\$ 29,337	\$ 29,337	\$ 29,337	\$ 29,337
Tier 1 capital	\$ 178,939	\$ 184,405	\$ 179,322	\$ 181,947
<b>Tier 2 capital</b>				
Directly issued capital instruments subject to phase out from Tier 2	\$ 6,000	\$ 6,000	\$ 9,800	\$ 9,800
Tier 2 capital before regulatory adjustments	6,000	6,000	9,800	9,800
Total regulatory adjustments to Tier 2 capital	-	-	-	-
Tier 2 capital	\$ 6,000	\$ 6,000	\$ 9,800	\$ 9,800
Total capital	\$ 184,939	\$ 190,405	\$ 189,122	\$ 191,747
Total risk-weighted assets	\$ 1,360,050	\$ 1,365,516	\$ 1,425,171	\$ 1,427,796
<b>Capital ratios</b>				
CET1 Ratio	11.00%	11.36%	10.52%	10.69%
Tier 1 Capital Ratio	13.16%	13.50%	12.58%	12.74%
Total Capital Ratio	13.60%	13.94%	13.27%	13.43%

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## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

### c) Leverage Ratio:

The leverage ratio, which is prescribed under the Basel III Accord, is a supplementary measure to the risk-based capital requirements and is defined as the ratio of Tier 1 capital to its total exposures. The leverage ratio is calculated as follows:

	July 31 2017	October 31 2016
On-balance sheet assets	\$ 1,684,523	\$ 1,704,400
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(27,328)	(6,562)
Total on-balance sheet exposures	1,657,195	1,697,838
Off-balance sheet exposure at gross notional amount	\$ 228,797	\$ 435,556
Adjustments for conversion to credit equivalent amount	(142,957)	(306,877)
Off-balance sheet exposures	85,840	128,679
Tier 1 Capital	178,939	179,322
Total Exposures	1,743,035	1,826,517
Leverage Ratio	10.27%	9.82%

As at July 31, 2017, the Bank was in compliance with the leverage ratio prescribed by OSFI.

### 17. Interest rate position:

The Bank is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The following table provides the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholders' equity over a 60 month period if no remedial actions are taken.

	July 31, 2017		October 31, 2016	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	\$ 2,481	\$ (2,480)	\$ 2,387	\$ (2,243)
Impact on reported equity during a 60 month period	\$ (1,695)	\$ 1,818	\$ (1,631)	\$ 1,667
Duration difference between assets and liabilities (months)	0.1		0.6	

# VERSABANK

## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

### 18. Fair Value of Financial Instruments:

Fair values are based on management's best estimates of market conditions and valuation policies at a certain point in time. The estimates are subjective and involve particular assumptions and matters of judgment and as such, may not be reflective of future fair values. The Bank's loans and deposits lack an available market as they are not typically exchanged. Therefore, they are not necessarily representative of amounts realizable upon immediate settlement. See Note 22 to the October 31, 2016 consolidated financial statements for more information on fair values.

	July 31, 2017		October 31, 2016	
	Book Value	Fair value of assets and liabilities	Book Value	Fair value of assets and liabilities
<b>Assets</b>				
Cash and cash equivalents	\$ 103,323	\$ 103,323	\$ 93,964	\$ 93,964
Securities	256	256	9,958	9,958
Loans	1,534,893	1,526,329	1,563,612	1,563,299
Other financial assets	5,498	5,398	16,539	16,539
<b>Liabilities</b>				
Deposits	\$ 1,343,612	\$ 1,327,813	\$ 1,369,647	\$ 1,380,685
Subordinated notes payable	9,772	10,000	14,067	14,500
Securitization liabilities	33,409	35,194	43,585	46,923
Other financial liabilities	91,463	91,463	91,217	91,217

### 19. Amalgamation of PWC and the Bank:

On September 12, 2016 and November 15, 2016, PWC and the Bank jointly announced that they had entered into an agreement to merge by amalgamation under the Bank Act (Canada) (the "Amalgamation"). This transaction was completed on January 31, 2017, pursuant to section 228 of the Bank Act (Canada), with the amalgamated entity continuing under the name VersaBank. Pursuant to the Amalgamation: (i) each issued and outstanding common share of PWC (other than PWC common shares with respect to which dissent rights were exercised) was converted into common shares of the Bank on the basis of 54.508758 PWC common shares for 1 Bank common share, resulting in a total of 13,643,713 Bank common shares being issued, (ii) 12,615,219 outstanding common shares of VersaBank held by PWC prior to the Amalgamation were cancelled, and (iii) each issued and outstanding security of VersaBank held prior to the Amalgamation continues on under the same arrangement subsequent to the Amalgamation. As a result of the above, at January 31, 2017 the issued and outstanding common shares of the Bank increased by 1,028,494 shares to 21,123,559 common shares.

# VERSABANK

## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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In addition, each outstanding option to acquire PWC common shares was converted into an option to purchase Bank common shares resulting in 7,059 additional options being issued.

The fair values of the assets and liabilities acquired by the Bank on Amalgamation are as follows:

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Incremental assets recognized:		
Cash	\$	1,569
Deferred income tax asset		11,939
Other assets		2,025
Other net liabilities assumed		(8,793)
Transaction costs, net of income taxes of \$500		(1,352)
<b>Total impact of amalgamation</b>	<b>\$</b>	<b>5,388</b>

# **VERSABANK**

## Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2017 and 2016

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VersaBank is a technologically proficient Canadian Schedule I chartered bank which operates using an electronic branchless model. The Bank sources its funding through a well-established and widely diversified nationwide network of deposit brokers, holdback balances retained from vendor partners, and from insolvency industry professionals through a customized banking software solution. The Bank purchases loan and lease receivables from non-bank financial companies and also originates and services real estate development and commercial loans that are sourced through direct contact with its clients as well as through mortgage brokers and syndication partners. The Bank's Common Shares, Series 1 Preferred Shares, and Series 3 Preferred Shares trade on the Toronto Stock Exchange.

## CORPORATE INFORMATION

### DIRECTORS

**The Honourable Thomas A. Hockin, P.C., B.A, M.P.A., Ph.D., ICD.D**  
Chairman of the Board  
Retired, former Executive Director of the International Monetary Fund

**The Honourable Maurizio Bevilacqua, P.C., B.A.**  
Vice Chairman of the Board  
Mayor of the City of Vaughan

**Robbert-Jan Brabander, M.Sc. and B.Sc. (Economics)**  
Managing Director of Bells & Whistles Communications, Inc.

**David A. Bratton, B.A.(Hons), M.B.A., CHRP, FCMC**  
Retired, President of Bratton Consulting Inc.

**R.W. (Dick) Carter, FCPA, FCA, C. Dir**  
Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan

**Arnold E. Hillier, B.Comm., CPA, ACCA**  
Retired, former Chairman, Chief Executive Officer and Chief Financial Officer, Claude Resources Inc.

**Colin Litton, FCPA, FCA, ICD.D.**  
Retired, former senior partner of KPMG LLP

**Susan T. McGovern, B.Sc.**  
Vice-President, External Relations and Advancement  
University of Ontario Institute of Technology

**Paul G. Oliver, FCPA, FCA, ICD.D.**  
Retired, former senior partner of PricewaterhouseCoopers LLP

**Avery Pennarun, B.A.Sc.(Hons) Computer Engineering**  
Senior Staff Software Engineer, Google Fiber Inc.

**David R. Taylor, B.Sc. (Hons), M.B.A., F.I.C.B.**  
President and Chief Executive Officer, VersaBank

### OFFICERS

**David R. Taylor, B.Sc. (Hons), M.B.A., F.I.C.B.**  
President & Chief Executive Officer

**Shawn Clarke, M.Eng., P.Eng., M.B.A.**  
Chief Financial Officer

**Michael Dixon, B.Comm., M.B.A.**  
Executive Head e-Commerce & Senior Vice President

**Ross P. Duggan**  
Executive Head Commercial Lending & Senior Vice President

**Nick Kristo, B.Comm., M.B.A.**  
Chief Risk Officer & Senior Vice President, Credit

**Jonathan F.P. Taylor, B.B.A., CHRP**  
Executive Head Deposit Services & HR & Senior Vice President

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Vice President, Real Estate Lending

**Steve Creery, B.A. (Economics)**  
Vice President, Credit

**Joanne Johnston, CPA, CA**  
Chief Internal Auditor

**Aly Lalani, B.A., M.B.A., CPA, CA**  
Treasurer

**Cameron Mitchell, B.A., LL.B.**  
Vice President, General Counsel & Corporate Secretary

**Andy Min, B.A., CPA, CA**  
Vice President, Finance & Corporate Accounting

**Scott A. Mizzen, B.A., LL.B.**  
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**David Thoms, B.A., M.B.A.**  
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