



**Interim Consolidated Financial Statements
July 31, 2018
(Unaudited)**

VERSABANK

Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)

As at	July 31 2018	October 31 2017	July 31 2017
Assets			
Cash and cash equivalents	\$ 122,257	\$ 159,909	\$ 103,323
Securities	2,974	262	256
Loans, net of allowance for credit losses (note 4)	1,649,326	1,520,857	1,534,893
Other assets (note 5)	40,677	44,021	46,051
	\$1,815,234	\$1,725,049	\$1,684,523
Liabilities and Shareholders' Equity			
Deposits	\$1,450,615	\$1,376,006	\$1,343,612
Subordinated notes payable (note 6)	9,829	9,786	9,772
Securitization liabilities (note 7)	33,462	33,256	33,409
Other liabilities (note 8)	102,164	97,460	91,463
	1,596,070	1,516,508	1,478,256
Shareholders' equity:			
Share capital (note 9)	182,094	182,094	182,094
Retained earnings	37,070	26,443	24,172
Accumulated other comprehensive income	-	4	1
	219,164	208,541	206,267
	\$1,815,234	\$1,725,049	\$1,684,523

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

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Consolidated Statements of Comprehensive Income (Unaudited)

(thousands of Canadian dollars, except per share amounts)

	for the three months ended		for the nine months ended	
	July 31 2018	July 31 2017	July 31 2018	July 31 2017
Interest income:				
Loans	\$ 19,894	\$ 17,259	\$ 57,194	\$ 52,721
Securities	552	325	1,684	912
	20,446	17,584	58,878	53,633
Interest expense:				
Deposits and other	7,264	6,443	20,444	20,064
Subordinated notes	217	390	642	1,094
	7,481	6,833	21,086	21,158
Net interest income	12,965	10,751	37,792	32,475
Non-interest income (loss)	17	12	66	(154)
Total revenue	12,982	10,763	37,858	32,321
Provision (recovery) for credit losses (note 4b)	128	38	143	(241)
	12,854	10,725	37,715	32,562
Non-interest expenses:				
Salaries and benefits	3,731	3,449	10,638	10,139
General and administrative	2,147	3,047	7,640	7,969
Premises and equipment	530	516	1,637	1,582
	6,408	7,012	19,915	19,690
Restructuring charges (note 13)	-	-	-	2,045
	6,408	7,012	19,915	21,735
Income before income taxes	6,446	3,713	17,800	10,827
Income tax provision (recovery) (note 10)	1,768	1,031	4,890	(5,823)
Net income	\$ 4,678	\$ 2,682	\$ 12,910	\$ 16,650
Other comprehensive income (loss), net of income taxes				
Net unrealized gains (losses) on assets held as available-for-sale ⁽¹⁾	-	(4)	(4)	(5)
Comprehensive income	\$ 4,678	\$ 2,678	\$ 12,906	\$ 16,645
Basic and diluted income per common share (note 11)	\$ 0.20	\$ 0.10	\$ 0.53	\$ 0.72
Weighted average number of common shares outstanding	21,123,559	21,123,559	21,123,559	20,776,960

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

(1) Net of income tax expense for the three months of \$nil (2017 – \$1 benefit) and income tax benefit for the nine months of \$2 (2017 – \$2 benefit).

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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	July 31	July 31	July 31
	2018	2017	2018	2017
Common shares (note 9):				
Balance, beginning of the period	\$ 152,612	\$ 152,612	\$ 152,612	\$ 147,224
Impact of amalgamation of PWC Capital Inc.	-	-	-	5,388
Balance, end of the period	\$ 152,612	\$ 152,612	\$ 152,612	\$ 152,612
Preferred shares (note 9):				
<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
Total share capital	\$ 182,094	\$ 182,094	\$ 182,094	\$ 182,094
Retained earnings:				
Balance, beginning of the period	\$ 33,153	\$ 22,040	\$ 26,443	\$ 9,172
Net income	4,678	2,682	12,910	16,650
Dividends paid on common and preferred shares	(761)	(550)	(2,283)	(1,650)
Balance, end of the period	\$ 37,070	\$ 24,172	\$ 37,070	\$ 24,172
Accumulated other comprehensive income, net of taxes:				
Balance, beginning of the period	\$ -	\$ 5	\$ 4	\$ 6
Other comprehensive income (loss)	-	(4)	(4)	(5)
Balance, end of the period	\$ -	\$ 1	\$ -	\$ 1
Total shareholders' equity	\$ 219,164	\$ 206,267	\$ 219,164	\$ 206,267

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	2018	2017
Cash provided by (used in):		
Operations:		
Net income	\$ 12,910	\$ 16,650
Adjustments to determine net cash flows:		
Items not involving cash:		
Provision (recovery) for credit losses	143	(241)
Income tax provision (recovery)	4,890	(5,823)
Interest income	(58,878)	(53,633)
Interest expense	21,086	21,158
Amortization of property and equipment	401	553
Interest received	56,032	52,872
Interest paid	(20,120)	(22,608)
Change in operating assets and liabilities:		
Loans	(125,775)	29,729
Deposits	73,893	(24,290)
Change in other assets and liabilities	4,232	5,456
	(31,186)	19,823
Investing:		
Purchase of securities	(2,719)	-
Proceeds from sale and maturity of securities	-	9,593
Purchase of property, plant and equipment	(380)	(1,681)
Cash acquired on amalgamation	-	1,569
Transaction costs associated with share issuance	-	(1,852)
	(3,099)	7,629
Financing:		
Repayment of subordinated notes	-	(4,500)
Redemption of securitization liability	-	(10,307)
Dividends paid	(2,283)	(1,650)
Income taxes paid	(1,084)	(1,636)
	(3,367)	(18,093)
Change in cash and cash equivalents	(37,652)	9,359
Cash and cash equivalents, beginning of the period	159,909	93,964
Cash and cash equivalents, end of the period	\$ 122,257	\$ 103,323
Cash and cash equivalents is represented by:		
Cash	\$ 122,257	\$ 98,324
Cash equivalents	-	4,999
Cash and cash equivalents, end of the period	\$ 122,257	\$ 103,323

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, 2018 and 2017

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, whose shares trade on the Toronto Stock Exchange, provides commercial lending services to selected niche markets in Canada.

The Bank is incorporated and domiciled in Canada, and maintains its registered office at Suite 2002, 140 Fullarton Street, London, Ontario, Canada, N6A 5P2.

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, 2017.

The interim Consolidated Financial Statements for the three and nine months ended July 31, 2018 and 2017 were approved by the Audit Committee of the Board of Directors on August 27, 2018.

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.

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.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

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 and future accounting changes:

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, 2017 and are detailed in Note 3 of the Bank's 2017 audited Consolidated Financial Statements.

There have been a number of standards and amendments that have been issued by the IASB that are not effective for the Bank's fiscal year end of October 31, 2018 and therefore have not been applied in preparing these consolidated financial statements. Expanded discussions on future accounting that may impact the Bank's future financial statements are detailed in Note 4 of the Bank's 2017 audited Consolidated Financial Statements.

Financial Instruments (IFRS 9)

In July, 2014, the IASB issued the final revised IFRS 9 standard which addresses classification, measurement and impairment of financial instruments and hedge accounting. IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss, or financial assets measured at fair value through other comprehensive income. The standard also includes an expected credit loss model and a general hedging model.

IFRS 9 will be mandatorily effective for the Bank's fiscal year beginning on November 1, 2018. The Bank has finalized its expected credit loss modeling framework and is also in the final stages of upgrading its data management systems, processes and procedures to measurably increase the scope, quality and granularity of data captured from operations as well as to allow for rapid retrieval of same in order to efficiently support the calculation and recognition of expected credit losses under IFRS 9. The Bank has sourced credit risk modeling systems and economic forecast data developed by an established, expert third party for the purpose of computing forward-looking risk parameters under multiple economic scenarios that consider both market-wide and idiosyncratic factors and influences. These systems have been integrated with the Bank's internally developed expected credit loss models. Given that the Bank has experienced very limited historical losses and, therefore, does not have available statistically significant loss data inventory for use in developing forward looking expected credit loss trends, the development of sophisticated, forward-looking risk parameter modeling systems and capabilities is particularly important for the Bank in the context of the computation of expected credit losses under IFRS 9.

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Three month & nine month periods ended July 31, 2018 and 2017

The Bank is currently conducting end to end testing of its data management and expected credit loss modeling systems which includes extensive testing of the third party credit risk parameter models as well as the Bank's internally developed IFRS 9 impairment model, or staging methodology.

The Bank remains on track to complete its IFRS 9 implementation initiative on schedule. The comprehensive impact of IFRS 9 on the Bank's consolidated financial statements upon adoption of IFRS 9 cannot be quantified at this time.

Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, requiring most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low value leases will be capitalized, and will result in an increase in lease assets and lease liabilities on the balance sheet accompanied by a decrease in operating lease expenses and an increase in financing costs and amortization expense on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for the Bank's fiscal year beginning November 1, 2019 with early adoption permitted if IFRS 15 Revenue from Contracts with Customers is also applied. The Bank is currently reviewing IFRS 16 to determine the impact of adoption on its consolidated financial statements.

4. Loans:

a) Portfolio analysis:

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Government loans	\$ 18,410	\$ 22,574	\$ 56,568
Loan and lease receivables	888,078	806,347	800,215
Residential mortgages	101,274	81,190	88,213
Commercial mortgages	292,743	284,329	262,015
Construction mortgages	259,102	224,727	215,565
Commercial loans	82,758	95,293	106,031
Other	2,727	3,012	2,982
	1,645,092	1,517,472	1,531,589
Allowance for credit losses	(2,568)	(2,425)	(2,309)
Accrued interest	6,802	5,810	5,613
Total loans, net of allowance for credit losses	\$ 1,649,326	\$ 1,520,857	\$ 1,534,893

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

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

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Government loans	\$ 5	\$ 5	\$ 8
Loan and lease receivables	400	361	359
Residential mortgages	323	314	26
Commercial mortgages	603	445	669
Construction mortgages	815	769	663
Commercial loans	404	522	575
Other	18	9	9
	\$ 2,568	\$ 2,425	\$ 2,309

The Bank holds security against the majority of its loans in the form of mortgage interests over property, other registered securities over assets, or guarantees and holdbacks on loan and lease receivables (see note 8).

b) Allowance for credit losses:

The allowance for credit losses results from the following:

(thousands of Canadian dollars)

For the three months ended	Collective	Individual	July 31 2018 Total Allowance	July 31 2017 Total Allowance
Balance, beginning of the period	\$ 2,240	\$ 200	\$ 2,440	2,271
Provision for credit losses	128	-	128	38
Write-offs	-	-	-	-
Balance, end of the period	\$ 2,368	\$ 200	\$ 2,568	\$ 2,309

For the nine months ended	Collective	Individual	July 31 2018 Total Allowance	July 31 2017 Total Allowance
Balance, beginning of the period	\$ 2,225	\$ 200	\$ 2,425	3,031
Provision (recovery) for credit losses	143	-	143	(241)
Write-offs	-	-	-	(481)
Balance, end of the period	\$ 2,368	\$ 200	\$ 2,568	\$ 2,309

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Three month & nine month periods ended July 31, 2018 and 2017

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 which resulted in the corresponding recovery of credit losses in the same period.

c) Impaired loans and loans in arrears:

At July 31, 2018, impaired loans were \$627,000 (October 31, 2017 - \$627,000).

Loans in arrears were \$18.7 million as at July 31, 2018 (October 31, 2017 - \$nil). Loans are considered in arrears when the borrower has not met the contractual payment obligations associated with same. However, a loan in arrears is not classified as impaired if it is either less than 90 days past due or if it is well secured such that it is reasonable to expect that recovery efforts will result in repayment of the loan or in restoring the loan to current status as set out in the Bank's policies.

5. Other assets

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Accounts receivable	\$ 488	\$ 504	\$ 479
Funds held for securitization liabilities	5,863	5,227	5,019
Prepaid expenses and other	6,098	5,812	7,606
Property and equipment	7,999	8,020	7,625
Deferred income tax asset	20,229	24,458	25,322
	<u>\$ 40,677</u>	<u>\$ 44,021</u>	<u>\$ 46,051</u>

6. Subordinated notes payable:

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of \$10 million, interest rate of 8% (effective interest of 8.77%), maturing 2021.	\$ 9,829	\$ 9,786	\$ 9,772
	<u>\$ 9,829</u>	<u>\$ 9,786</u>	<u>\$ 9,772</u>

7. 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.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

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.

8. Other liabilities:

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Accounts payable and other	\$ 3,131	\$ 3,737	\$ 2,654
Cash collateral and amounts held in escrow	4,855	4,945	3,778
Holdbacks payable on loan and lease receivables	94,178	88,778	85,031
	<u>\$ 102,164</u>	<u>\$ 97,460</u>	<u>\$ 91,463</u>

9. Share capital:

a) Common shares:

At July 31, 2018, there were 21,123,559 (October 31, 2017 – 21,123,559) common shares outstanding. On January 31, 2017, 1,028,494 shares were issued as part of an amalgamation with PWC Capital Inc.

b) Preferred shares:

At July 31, 2018, there were 1,461,460 (October 31, 2017 – 1,461,460) Series 1 preferred shares and 1,681,320 (October 31, 2017 – 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 15).

c) Stock options:

At July 31, 2018, there were 43,851 common share stock options outstanding (October 31, 2017 – 46,617).

10. Income taxes (recovery):

(thousands of Canadian dollars)

	for the three months ended		for the nine months ended	
	July 31 2018	July 31 2017	July 31 2018	July 31 2017
Income tax on earnings	\$ 1,768	\$ 1,031	\$ 4,890	\$ 3,008
Recognition of previously unrecognized deferred income tax asset	-	-	-	(8,831)
	<u>\$ 1,768</u>	<u>\$ 1,031</u>	<u>\$ 4,890</u>	<u>\$ (5,823)</u>

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

11. Income per common share:

(thousands of Canadian dollars, except per share amounts)

	for the three months ended		for the nine months ended	
	July 31 2018	July 31 2017	July 31 2018	July 31 2017
Net income	\$ 4,678	\$ 2,682	\$ 12,910	\$ 16,650
Less: dividends on preferred shares	(550)	(550)	(1,650)	(1,650)
	4,128	2,132	11,260	15,000
Average number of common shares outstanding	21,123,559	21,123,559	21,123,559	20,776,960
Income per common share:	\$ 0.20	\$ 0.10	\$ 0.53	\$ 0.72

The Series 1 and Series 3 NVCC preferred shares are contingently issuable shares and do not have a dilutive impact.

12. Commitments and contingencies:

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obligated to extend.

(thousands of Canadian dollars)

	July 31 2018	October 31 2017	July 31 2017
Loan commitments	\$ 215,143	\$ 249,682	\$ 184,790
Letters of credit	47,312	45,442	44,007
	\$ 262,455	\$ 295,124	\$ 228,797

13. Restructuring charges:

Restructuring charges incurred in the prior year 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. It also reflects costs related to the amalgamation of the Bank and PWC Capital Inc. that were expensed by the Bank.

14. Related party transactions:

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, 2018 the amounts due from related parties was \$678,000 (October 31, 2017 - \$746,000). 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

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

the three months and nine months ended July 31, 2018 was \$6,000 (July 31, 2017 - \$5,000) and \$17,000 (July 31, 2017 - \$15,000) 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, 2018 and 2017.

15. 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 as well as financial market conditions.

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 accumulated other comprehensive income (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 metrics on a daily basis and has policies that set out internal thresholds for same. These capital metrics consist of the leverage ratio and the risk-based capital ratios.

During the period ended July 31, 2018, 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.

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Notes to Interim Consolidated Financial Statements (Unaudited)

Three month & nine month periods ended July 31, 2018 and 2017

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 Bank's risk weighted equivalent assets and its risk-based capital ratios.

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

(thousands of Canadian dollars)

	July 31, 2018		October 31, 2017	
	"All-in"	"Transitional"	"All-in"	"Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	\$ 152,757	\$ 152,757	\$ 152,757	\$ 152,757
Retained earnings	37,070	37,070	26,443	26,443
Accumulated other comprehensive income	-	-	4	4
CET1 capital before regulatory adjustments	189,827	189,827	179,204	179,204
Total regulatory adjustments to CET1	(22,052)	(17,641)	(26,415)	(21,132)
Common Equity Tier 1 capital	\$ 167,775	\$ 172,186	\$ 152,789	\$ 158,072
Additional Tier 1 (AT1) capital				
Directly issued qualifying AT1 instruments	\$ 29,337	\$ 29,337	\$ 29,337	\$ 29,337
Tier 1 capital	\$ 197,112	\$ 201,523	\$ 182,126	\$ 187,409
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Tier 2 capital before regulatory adjustments	10,000	10,000	10,000	10,000
Total regulatory adjustments to Tier 2 capital	(6,000)	(6,000)	(4,000)	(4,000)
Tier 2 capital	\$ 4,000	\$ 4,000	\$ 6,000	\$ 6,000
Total capital	\$ 201,112	\$ 205,523	\$ 188,126	\$ 193,409
Total risk-weighted assets	\$1,532,135	\$1,536,545	\$1,420,276	\$1,425,559
Capital ratios				
CET1 Ratio	10.95%	11.21%	10.76%	11.09%
Tier 1 Capital Ratio	12.87%	13.12%	12.82%	13.15%
Total Capital Ratio	13.13%	13.38%	13.25%	13.57%

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Three month & nine month periods ended July 31, 2018 and 2017

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:

(thousands of Canadian dollars)

	July 31 2018	October 31 2017
On-balance sheet assets	\$ 1,815,234	\$ 1,725,049
Regulatory adjustments	(22,052)	(26,415)
Total on-balance sheet exposures	1,793,182	1,698,634
Off-balance sheet exposure at gross notional amount	\$ 262,455	\$ 295,124
Adjustments for conversion to credit equivalent amount	(157,101)	(182,977)
Off-balance sheet exposures	105,354	112,147
Tier 1 Capital	197,112	182,126
Total Exposures	1,898,536	1,810,781
Leverage Ratio	10.38%	10.06%

The Bank was in compliance with the leverage ratio prescribed by OSFI throughout the periods presented.

16. 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 action is taken.

(thousands of Canadian dollars)

	July 31, 2018		October 31, 2017	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	\$ 2,990	\$ (2,962)	\$ 3,043	\$ (3,060)
Impact on reported equity during a 60 month period	\$ (1,985)	\$ 2,116	\$ (1,445)	\$ 1,572
Duration difference between assets and liabilities (months)	0.1		0.1	

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Three month & nine month periods ended July 31, 2018 and 2017

17. 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 23 to the October 31, 2017 audited Consolidated Financial Statements for more information on fair values.

(thousands of Canadian dollars)

	July 31, 2018		October 31, 2017	
	Book Value	Fair value of assets and liabilities	Book Value	Fair value of assets and liabilities
Assets				
Cash and cash equivalents	\$ 122,257	\$ 122,257	\$ 159,909	\$ 159,909
Securities	2,974	2,974	262	262
Loans	1,649,326	1,647,606	1,520,857	1,513,175
Other financial assets	6,351	6,351	5,731	5,731
Liabilities				
Deposits	\$1,450,615	\$ 1,428,436	\$1,376,006	\$ 1,365,690
Subordinated notes payable	9,829	10,000	9,786	10,000
Securitization liabilities	33,462	34,054	33,256	34,469
Other financial liabilities	102,164	102,164	97,460	97,460

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

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, former 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

Jean-Paul Beker, B.A. (Economics), CFA
Vice President, Real Estate Lending

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

Joanne Johnston, CPA, CA
Chief Internal Auditor

Wooi Koay, B.Comm., B.Sc.
Vice President, Information Technology

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.
Vice President, Real Estate Lending

David Thoms, B.A., M.B.A.
Vice President, Structured & Corporate Finance

SOLICITORS

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TRANSFER AGENT

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BANK

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Toronto Stock Exchange
Trading Symbol: VB

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