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West Town Bancorp, Inc. (WTWB - OTC Pink)

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Price:	\$24.10	EPS *	2015A:	\$ 2.83	P/E	2015A:	8.5 x
52 Wk. Range:	\$19.50 - \$25.75	(FY: DEC)	2016A:	\$ 1.24		2016A:	19.4 x
Div/Div Yld:	\$0.00 / 0.0%		2017E:	\$ NA		2017E:	NA
Shrs/Mkt Cap:	1.4 mm / \$35 mm	Book Value:		\$ 20.38	Price/Book Value:		1.18 x

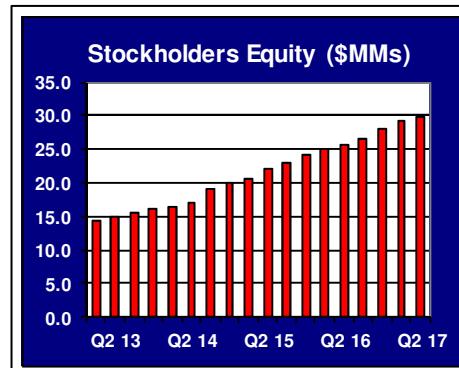
* EPS are diluted. 2017 earnings projections are temporarily suspended due to pending transaction with Sound Bank.

Background

With \$284 million in assets, West Town Bank & Trust is a North Riverside, IL based state chartered bank. The Bank provides banking services through its offices in Illinois and North Carolina and also maintains loan production offices in North Carolina. Its primary deposit products are checking, savings, and time certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. The Bank also engages in originating and selling government guaranteed loans (SBA, USDA) in multiple states. The Bank's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. *The Company is in the process of acquiring Sound Banking Company (based in Morehead City, NC), which is expected to close in the third quarter of 2017.*

Second Quarter Earnings Were Down but Balance Sheet Growth Was Encouraging

West Town Bancorp reported second quarter earnings that were below the year-ago figures, although part of that decline was due to the presence of merger-related charges. Additionally, earnings were negatively affected by: 1) a decline in government lending revenue (which tends to be quite variable from one quarter to the next), and 2) a slowdown in the mortgage area, and the Company's decision to shut down its national mortgage operation (which was mainly focused on refinancings). As part of the decision to shut down the national mortgage operation, it divested five out of market loan production offices and reduced staffing in its mortgage administrative area. Although this move will lead to softer revenues going forward, much of that effect should be mitigated by lower commissions and other operating costs. But getting back to the quarterly results, despite the lower earnings, there were some encouraging trends, one notable being balance sheet growth. Most major areas of the balance sheet had yearly percentage growth between the low teens to the mid-20s, and total equity continued to steadily build, as can be seen in the adjacent chart. Finally, we would note that the transaction with Sound Banking Company continues to proceed on course, with the expectation that it will close in the third quarter of this year.



In terms of specific results, net income in the second quarter of 2017 was \$514,000, or \$0.34 per diluted share, versus \$712,000, or \$0.49 per diluted share, in the year-ago quarter. As was mentioned above, the current quarter included nonrecurring merger and acquisition charges totaling \$124,000 (pretax), whereas the year-ago quarter had none. Net interest income reflected solid growth, increasing 13% to \$2,590,000 in 2017's second quarter, versus \$2,282,000 in 2016's second quarter. The net interest margin was under modest pressure, dropping to 4.12% in 2017's second quarter from 4.25% in the year-ago quarter, although strong average earning assets growth (+18%) more than offset this

2nd QUARTER HIGHLIGHTS:

EARNINGS DECLINED, PARTLY AS A RESULT OF LOWER GOVERNMENT LENDING REVENUE AND THE PRESENCE OF M&A EXPENSES

BALANCE SHEET GROWTH WAS COMMENDABLE THOUGH

EPS: \$0.34 VS. \$0.49

MERGER-RELATED EXPENSES IN 2017'S SECOND QUARTER WERE \$124,000

NET INTEREST INCOME INCREASED 13%, ALL OF WHICH WAS VOLUME BASED

THE PROVISION FOR LOAN LOSSES DROPPED TO \$281,000 FROM \$400,000

NONINTEREST INCOME DECLINED 20% MAINLY DUE TO LOWER GOVERNMENT LENDING REVENUE

ALTHOUGH GOVERNMENT LENDING REVENUES WERE DOWN, THAT AREA IS EXPECTED TO STRENGTHEN IN THE LAST HALF OF 2017

NONINTEREST EXPENSE DROPPED 4%, OR 7% EXCLUDING MERGER-RELATED EXPENSES

FIRST HALF HIGHLIGHTS:

EPS: \$0.91 VS. \$1.04

BALANCE SHEET GROWTH REMAINS IMPRESSIVE AND THE CAPITAL POSITION IS STRONG

NPAs INCREASED IN THE SECOND QUARTER

ONE OF THE NEW NONACCRUAL LOANS IS EXPECTED TO BE RESOLVED BY YEAR END

NPAs/ASSETS: 2.62%

RESERVES/LOANS HFI: 1.28%

**EPS:
2015A: \$2.83
2016A: \$1.24
2017E: NA**

margin impact. Earnings also benefitted from a lower provision for loan losses, which was \$281,000 in 2017's second quarter, versus \$400,000 in the year-ago quarter. Noninterest income, reflecting the previously mentioned slowdown in government lending revenue and the mortgage area, decreased to \$3,412,000 in 2017's second quarter from \$4,266,000 in the year-ago quarter. As can be seen from the adjacent chart, the largest drop in noninterest income came from the government lending area, although management has noted that second quarter results for government lending were expected due

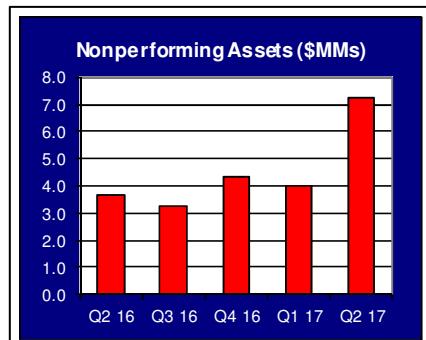
to seasonality in the pipeline and that this area is expected to pick up in the second half of this year. One other observation we find interesting from the adjacent chart is the Company's declining dependence on origination sensitive sources of income over time. In the most recent quarter, total noninterest income (most of which was origination sensitive) represented 57% of total revenues, down from roughly 78% a couple of years ago. (A smaller percentage could lead to lower volatility in revenue and earnings, and potentially a higher earnings multiple). Finally, we would note that

West Town Bancorp did a great job containing costs in the second quarter. Noninterest expense was \$4,806,000 in 2017's second quarter, a drop of 4% from \$5,008,000 in the year-ago quarter, with most categories of expense dropping relative to the year ago level. Excluding merger-related expenses, the noninterest expense decrease was 7%.

For the first half of 2017, West Town Bancorp reported earnings of \$1,393,000, or \$0.91 per diluted share, versus \$1,500,000, or \$1.04 per diluted share, in the year-ago period. Net interest income increased 19%, noninterest income was down 15% and noninterest expense declined 3% from the first half of 2016. As was stated earlier, balance sheet growth has remained quite strong over the past year. From June 30, 2016 to June 30, 2017, loans held for investment were up 25% (11% if we exclude the loans transferred to held for investment), while deposits grew 26% and total assets increased 17%. The addition of Sound Banking Company's financials (\$189 million in assets, \$154 million in loans and \$171 million in deposits at March 31, 2017) will obviously result in a significant increase in the balance sheet size next quarter. West Town Bancorp remains in solid shape from a capital standpoint. The tangible common equity-to-tangible assets ratio was 10.4% as of June 30, 2017, versus 10.6% at the year-ago date.

NPAs Increased Due Mainly to Two Credits

At June 30, 2017, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) increased to \$7.2 million, or 2.62% of assets, at June 30, 2017, versus \$4.0 million, or 1.48% of assets, at March 31, 2017 and \$3.7 million, or 1.52% of total assets, at June 30, 2016. The increase mainly related to two credits totaling \$3.1 million that were moved to nonaccrual status in the second quarter, and one of those is secured by real estate that is expected to be sold by the end of the year. The allowance for loan losses totaled \$2.6 million, or 1.28% of loans held for investment, at June 30, 2017, as compared to \$2.0 million, or 1.22% of loans held for investment, at the year-ago date.



Projections Temporarily Suspended Until Merger Is Completed

Given the upcoming merger with Sound Banking Company, we are temporarily suspending our earnings projections. We will resume publishing projections once the transaction is completed.

ADDITIONAL INFORMATION UPON REQUEST

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