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

John A. (Buddy) Howard, CFA
August 19, 2016

Price:	$19.75	**EPS ***	**2014A:**	$ 3.00	**P/E**	**2014A:**	6.6 x
52 Wk. Range:	$17.60 - $23.00	(FY: DEC)	**2015A:**	$ 2.83		**2015A:**	7.0 x
Div/Div Yld:	$0.00 / 0.0%		**2016E:**	$ 2.15		**2016E:**	9.2 x
Shrs/Mkt Cap:	1.374 mm / $27 mm	**Book Value:**		$ 18.75	**Price/Book Value:**		1.05 x

* EPS are diluted.

ASSETS: $242 MM

HQ: NORTH RIVERSIDE, IL

CONTACT:
ERIC J. BERGEVIN
PRESIDENT & CEO
(252) 482-4400

Background

With $242 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, New York, Maryland, Pennsylvania, Florida, Idaho and New Jersey. 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 mortgage banking activities, originating and selling one-to-four family residential mortgage loans in multiple states. The Bank's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. The Company has achieved high levels of profitability and was recently ranked in the top two position of the top performing community banks and thrifts in the Nation by American Banker Magazine.

2ND QUARTER HIGHLIGHTS

EPS: $0.49 VS. $0.76

EARNINGS WERE A BIT BELOW PROJECTIONS, PARTLY DUE TO CORE PROCESSOR CONVERSION COSTS AND A HIGHER PROVISION BUT ALSO DUE TO A SLOWDOWN IN THE MORTGAGE AREA

EVEN THOUGH EARNINGS WERE DOWN, KEY PROFITABILITY METRICS SUCH AS ROAE REMAINED HIGH

MORTGAGE INCOME WAS DOWN BUT GOVERNMENT LENDING INCOME (SBA AND USDA) WAS UP SHARPLY

EXPENSE CONTAINMENT WAS EXCELLENT

Second Quarter Earnings Were Partly Affected By One-Time Expenses

West Town Bancorp reported second quarter earnings that were a bit below our projections, although a portion of that shortfall was due to $160,000 in one-time charges relating to a core processing conversion, as well as a higher provision for loan losses. Overall mortgage income remained soft, particularly relative to last year's quarter, though total expenses contracted as well, mitigating the impact on earnings. Revenues for other business lines held up well, though, most notably the government area, which includes SBA and USDA lending. The net effect was that total revenues were down from the year ago level but were actually up from the first quarter of 2016.

Net income in 2016's second quarter was $712,000, or $0.49 per diluted share, versus $1,066,000, or $0.76 per diluted share, in the year-ago quarter. (We had projected earnings would be $0.63 per share.) Net interest income continued to advance, increasing 15% to $2.3 million in 2016's second quarter from $2.0 million in the year-ago quarter. Most of that growth came from higher average earning assets, though the net interest margin did improve slightly to 4.25% in 2016's second quarter from a year-ago level of 4.22%. More than offsetting the increase in net interest income was the provision for loan losses, which was a good deal higher than normal due to a charge-off of $300,000 relating to a decision to sell a portion of the Bank's classified assets portfolio. We actually applaud the Bank for taking that step, as it likely expedites the resolution of those problem assets. From a shorter term standpoint, the charge-off necessitated boosting the provision for loan losses, which increased to $400,000 from $18,000 in the year-ago quarter. On the noninterest income side, mortgage revenue was, as expected, down from the year ago level, totaling $2.1 million in 2016's second quarter, versus $4.1 million in the year-ago quarter, while government lending revenue (SBA and USDA lending) was up strongly to $1.6 million from $1.2 million. The outlook for government lending remains favorable, as the Bank continues to build its pipeline of loans in both areas. Other components of noninterest income (the change in the fair value of loan servicing rights, BOLI, and other miscellaneous income) were essentially unchanged on an aggregate basis. Finally, noninterest expense declined to $5.0 million in the second quarter of 2016 from $6.1 million in the second quarter of 2015, reflecting the mortgage slowdown. Management is continuing to restructure the mortgage department in order to

ROAA: 1.21%

ROAE: 11.2%

bring expenses in line with anticipated production levels. Importantly, profitability levels remained quite impressive, even with the lower level of profitability. Annualized ROAA in the quarter was 1.21%, while the annualized ROAE was 11.2%.

FIRST HALF HIGHLIGHTS:

EPS: $1.04 VS. $1.45

CAPITAL POSITION REMAINS QUITE STRONG, WITH AN EQUITY-TO-ASSETS RATIO OF 10.6%

For the first half of 2016, West Town Bancorp reported earnings of $1.5 million, or $1.04 per diluted share, versus $2.0 million, or $1.45 per diluted share, in the year-ago period. Net interest income increased 17%, noninterest income was down 34% and noninterest expense declined 25% from the first half of 2015. We would also note that balance sheet growth remained solid. From June 30, 2015 to June 30, 2016, loans held for investment were up 8% to $159 million, with most of that growth coming from SBA and USDA loans that were retained in the portfolio. Assets grew 19% and deposits increased 10%. Deposits would have grown more rapidly had it not been for higher cost CDs that are being allowed to roll off the books. Overall deposit growth continues to be helped by the newest location in Edenton, NC, which opened in April 2016. From a capital standpoint, West Town Bancorp is in excellent shape. The equity-to-assets ratio was 10.6% as of June 30, 2016, and the high ROAE (and lack of a cash dividend) should allow capital to expand at a fairly rapid rate.

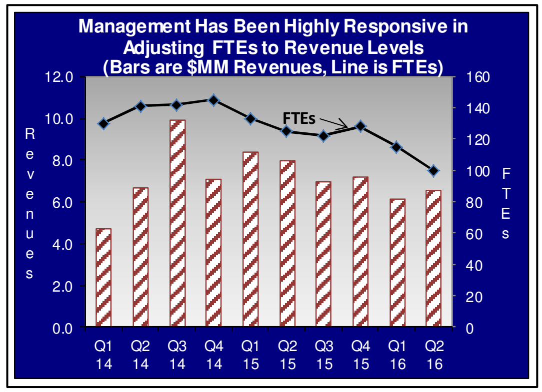
West Town Bancorp Has Been Highly Profitable Even With Variability in Volume

MANAGEMENT'S ABILITY TO "RIGHT SIZE" THE MORTGAGE OPERATION MITIGATES MUCH OF THE RISK ASSOCIATED WITH VOLATILITY OF THE SECTOR

EVEN THOUGH VOLUME HAS DROPPED OVER THE PAST SEVERAL YEARS, WEST TOWN BANCORP HAS REMAINED HIGHLY PROFITABLE

A GOOD DEAL OF THIS ABILITY TO REMAIN HIGHLY PROFITABLE RELATES TO THE VARIABLE NATURE OF COMPENSATION, AS WELL AS TO MANAGEMENT'S ABILITY TO SCALE THE OPERATION TO MATCH REVENUE TRENDS

One of the risks that some banks engaging in origination-intensive income strategies face is the concern that a slowdown in volume would lead to losses or at least a low level of profitability. In the case of West Town Bancorp, two things that greatly mitigate that risk are: 1) the variable nature of origination-based compensation (i.e., commissions) and 2) management's ability to adjust its overhead according to loan demand. The latter can be seen quite clearly in the chart to the right, which shows total quarterly revenues (bars) on the left axis and the number of full time equivalent employees (line) on the right scale. Total revenues peaked in the third quarter of 2014 at nearly $10 million, which also corresponded to a time when the Company had 142 full time equivalent employees (FTEs). As volume subsequently dropped, so did the number of FTEs, with total FTEs declining to 100 at June 30, 2016. The Company remained highly profitable throughout the ten quarterly periods shown in the chart (the *lowest* ROAE in the period was still a very respectable 10.6%). Interestingly, if we look at the revenue per FTE for West Town Bancorp (using the FTEs at the end of the respective quarter), it has had an average revenue per employee of close to $60,000 over the past eight quarters, and was over $65,000 in the most recent quarter. For the typical community bank, that figure usually runs around $42,000 to $43,000.



Nonperforming Assets Have Been Holding Fairly Steady

NPAS/ASSETS: 1.52%

RESERVES/LOANS HFI: 1.14%

At June 30, 2016, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were $3.7 million, or 1.52% of assets, versus $3.6 million, or 1.55% of assets, at March 31, 2016 and $3.5 million (1.94% of total assets) at June 30, 2015. The allowance for loan losses totaled $2.0 million, or 1.22% of loans held for investment, at June 30, 2016, as compared to $1.8 million, or 1.17% of loans held for investment, at the year-ago date.

Projections Lowered

EPS:
2014A: $3.00
2015A: $2.83
2016E: $2.15

Based on the second quarter results, we projecting the Company will earn $3.1 million, or $2.15 per diluted share, in 2016, versus $3.6 million, or $2.50 per diluted share, projected previously. These projections are subject to wide variation based on economic and other conditions.

ADDITIONAL INFORMATION UPON REQUEST