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

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North Carolina
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John A. (Buddy) Howard, CFA
February 18, 2017

Price:	\$23.50	EPS *	2015A:	\$ 2.83	P/E	2015A:	8.3 x
52 Wk. Range:	\$17.60 - \$23.99	(FY: DEC)	2016A:	\$ 1.24		2016A:	19.0 x
Div/Div Yld:	\$0.00 / 0.0%		2017E:	\$ NA		2017E:	NA
Shrs/Mkt Cap:	1.4 mm / \$34 mm	Book Value:		\$ 19.11	Price/Book Value:		1.23 x

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

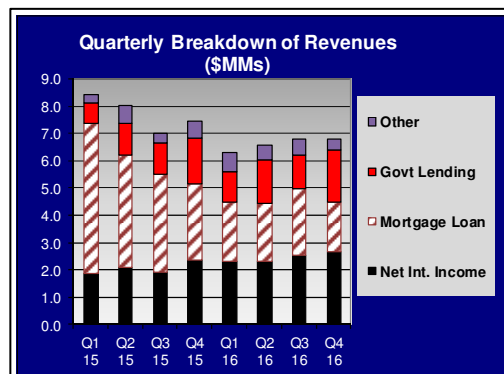
Background

With \$280 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 recently announced its intention to merge with Sound Banking Company.

Fourth Quarter Results Included Nonrecurring Items

West Town Bancorp reported a loss in the fourth quarter of 2016, most of which related to the establishment of a litigation reserve of \$1.4 million. Excluding the reserve, the results were still a bit weaker than we had anticipated, partly reflecting a slowdown in the mortgage area, as well as overall expenses being a bit higher than we had modeled. Despite that shortfall, there were a few bright spots, one being that government lending revenue increased from both the linked and year-ago quarters. The other major bright spot, which actually occurred after quarter end, was the announcement that the Company had agreed to merge with Sound Banking Company. The transaction, which is discussed in more detail on the opposite page, will increase the size of the Company to nearly \$500 million in assets on a pro forma basis.

The net loss in 2016's fourth quarter was \$537,000, or \$0.38 per diluted share, versus net income of \$966,000, or \$0.67 per diluted share, in the year-ago quarter. Excluding the \$1.4 million in the litigation reserve, pretax income would have been roughly \$580,000 in 2016's fourth quarter, versus \$1,387,000 in the year-ago quarter. Total revenues were down from the year-ago figures, although they have actually been trending up relative to earlier in the year, as can be seen in the adjacent chart. Specifically, total revenues were \$6.7 million in 2016's fourth quarter, down from \$7.4 million in 2015's fourth quarter but up from an average of \$6.4 million in the first half of 2016. Not surprisingly, the most consistent increase has come from net interest income, which has also been growing as a percentage of total revenues. That percentage is likely to grow further in our view, especially assuming the aforementioned transaction with Sound Banking Company is completed. The increase in 2016's fourth quarter net interest income (it was up 15%) was all volume based. The net interest margin was 4.28% in 2016's fourth quarter, versus 4.96% in the year-



ASSETS: \$280 MM

HQ: NORTH RIVERSIDE, IL

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4TH QUARTER HIGHLIGHTS

THERE WAS A FOURTH QUARTER LOSS DUE TO THE ESTABLISHMENT OF A LITIGATION RESERVE

EPS (LOSS): (\$0.38) vs. \$0.67

ALTHOUGH THE MORTGAGE AREA WAS WEAK, GOVERNMENT LENDING RESULTS WERE STRONG

THE MAJOR ITEM WAS THE ANNOUNCEMENT OF AN AGREEMENT TO MERGE WITH SOUND BANKING COMPANY

ALTHOUGH TOTAL REVENUES WERE DOWN FROM THE YEAR-AGO LEVEL, THEY HAVE TRENDED UP FROM EARLIER IN THE YEAR

**EARNINGS WERE ALSO
AFFECTED BY A HIGHER
PROVISION**

FULL YEAR HIGHLIGHTS:

EPS: \$1.24 vs. \$2.83

**NET INTEREST INCOME WAS UP
21%**

**THERE WERE MORE THAN \$2.6
MILLION IN NONRECURRING
COSTS/EXPENSES IN THE YEAR**

**WEST TOWN BANCORP
ANNOUNCED ITS INTENTION TO
MERGE WITH SOUND BANKING
COMPANY**

**THE MERGER WILL CREATE A
COMPANY WITH NEARLY \$500
MILLION IN ASSETS**

**THE TRANSACTION IS EXPECTED
TO BE COMPLETED IN THE
SECOND OR THIRD QUARTERS OF
2017**

**PETITION TO APPEAL CLASS
CERTIFICATION WAS DENIED**

**LITIGATION RESERVE
ESTABLISHED**

NPAS/ASSETS: 1.54%

RESERVES/LOANS HFI: 1.36%

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

ago quarter, which was more than offset by rapid growth in average earning assets (up 34%). Earnings were also affected by an increase in the provision for loan losses to \$570,000 in 2016's fourth quarter, versus \$64,000 in the year-ago quarter. Finally, total noninterest income was \$4,093,000, down from \$5,009,000 in the year-ago quarter, while noninterest expense was \$6,995,000 in the fourth quarter of 2016, up from \$5,857,000 in the fourth quarter of 2015.

Annual Results Likewise Affected By Nonrecurring Items

Despite a number of nonrecurring items, West Town Bancorp was still profitable for the full year, as it reported net income of \$1,800,000, or \$1.24 per diluted share, in 2016, versus \$4,001,000, or \$2.83 per diluted share, in 2015. The nonrecurring items in 2016 totaled more than \$2.6 million, as can be seen in the adjacent table. Net interest income increased 21%, while noninterest income was down 27% and noninterest expense declined 8% from 2015.

Nonrecurring Items (\$MMs)	2016
	Full Year
Litigation Reserve & Misc. Legal Costs	1.6
Total M&A Expenses	0.4
Core Conversion Costs	0.3
Legacy Loan Portfolio Sale	0.3
Total (Pretax)	2.6

Sound Bank Acquisition Announced

As was mentioned in the early section of this report, West Town Bancorp recently announced its intention to merge with Sound Banking Company ("Sound"), which is based in Morehead City, NC. Under the terms of the agreement, Sound's shareholders will receive a total of \$24.6 million in cash and stock, based on a price of \$23.00 for West Town Bancorp. On a per share basis, the transaction represents a multiple of roughly 1.38x book value, 1.40x tangible book value and 22.4x trailing 12-month EPS. Sound's shareholders can elect to receive \$12.75 in cash or 0.60 West Town shares for each Sound share they hold, subject to certain adjustments (such as West Town Bancorp's future stock price and the requirement that aggregate merger consideration consist of 65% stock and 35% cash). The transaction is expected to close in the second or third quarter of 2017. On a pro forma basis, the combined entity would have approximately \$485 million in assets, \$374 million in loans and \$384 million in deposits. Sound has three locations in Carteret County, NC and one in New Hanover County, NC. All of the combined branches will operate under the Sound Bank brand. As part of the transaction, West Town has agreed to sell 453,480 common shares at \$23.00 each and 30,739 series A preferred shares at \$230.00 each to institutional and other accredited investors. Gross proceeds are estimated at \$17.5 million.

Litigation Update

As was discussed in our last report, West Town Bancorp is involved in a case that names the Company and 18 other defendants in a suit alleging that payments and free marketing material were provided for referrals to a title insurance company. The US Court of Appeals for the Fourth Circuit denied the petition to appeal class certification in that case, which would have greatly reduced the Company's potential liability. While the outcome of the case is still uncertain, the Company considered it prudent to establish the litigation reserve of \$1.4 million in the fourth quarter.

Asset Quality Continues to Improve

At December 31, 2016, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$4.3 million, or 1.54% of assets, versus \$3.3 million, or 1.26% of assets, at September 30, 2015 and \$4.3 million (2.03% of total assets) at December 31, 2015. The allowance for loan losses totaled \$2.3 million, or 1.36% of loans held for investment, at December 31, 2016, as compared to \$1.8 million, or 1.12% 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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