West Town Bancorp, Inc. Announces Second Quarter 2018 Financial Results

Company Release 08/01/2018 04:00 PM Contact: Eric Bergevin, 252-482-4400

RALEIGH, NC, August 1, 2018 -- West Town Bancorp, Inc. (OTC PINK: WTWB) (the "Company" or "West Town"), the multi-bank holding company for West Town Bank & Trust and Sound Bank, reported record quarterly net income of $7,671,000 or $2.47 per diluted share for the second quarter 2018 compared to net income of $514,000, or $0.34 per diluted share for the second quarter of 2017, an increase of $7,157,000, or 1,392%. Return on average assets was 5.72% and return on average shareholders' equity was 41.73% as compared to 0.75% and 6.78%, respectively, in the second quarter 2017.

Eric Bergevin, President and CEO commented, "We are pleased to announce record quarterly earnings for the second consecutive quarter. The Company completed the purchase of the remaining 56.5% of Windsor Advantage, LLC ("Windsor") during the second quarter and recognized a $4.8 million pre-tax gain on consolidation (approximately $3.6 million post tax gain). Additionally, West Town Bank & Trust ("WTBT") reaped the full benefit of its 'originate and hold' strategy for governmental guaranteed lending that was implemented in the fourth quarter of 2017. WTBT sold the remaining inventory held from late-2017 and early-2018 originations into the secondary market and earned net revenue of $4,241,000 in the second quarter 2018 compared to $3,054,000 in the first quarter of 2018 and $730,000 in the second quarter of 2017. The governmental guaranteed lending division originated loans of $148 million in the first half of 2018 as compared to $53 million in the first half of 2017. WTBT has a strong pipeline for the second half of 2018 and with $32 million in loans held for sale as of June 30, 2018, we expect continued success in government guaranteed lending. Absent the one-time gain on the Windsor consolidation, our earnings remain strong as compared to prior years and we expect this trend to continue."

Company Completes Windsor Acquisition with Remaining 56.5% Purchase

On April 30, 2018, the Company exercised its option and acquired the remaining 56.5% of Windsor, a loan servicing company specializing in packaging, servicing and liquidating government guaranteed loans. The Company initially purchased a 43.5% non-managing stake in the company in early 2017 for $6,960,000 and locked in the option to purchase the remaining 56.5% for a fixed price. The initial investment was accounted for using the equity method of accounting. For the current fiscal year, the Company recorded gross revenue of $933,000 through April 30, 2018 from its initial investment in Windsor.

Based on an updated third-party valuation, the Company recorded a $4,776,000 pre-tax gain on consolidation for the original 43.5% interest held. The Company paid $9,219,594 in cash and issued 29,248 shares of common stock, which had a value of approximately $820,406, for a purchase price of $10,040,000 for the remaining 56.5%. The acquisition has been accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Windsor were recorded based on estimates of fair values as of April 30, 2018. In connection with this transaction, the Company recorded $12.7 million in goodwill, which is non-deductible for tax purposes, and $9.0 million in other identifiable intangible assets. Windsor earned gross revenue for the two-month period after acquisition date totaling $1,683,000. Net income earned from Windsor since the acquisition date totaled $526,000 which equates to annualized net income totaling over $3.1 million. Eric Bergevin commented, "Windsor has been an extremely successful investment and we have elected to exercise our purchase right on the remaining shares to capture the full potential of Windsor for our shareholders. Windsor has grown significantly since we made our initial investment and we see continued growth in its servicing portfolio over the next few years as the industry becomes more aware of Windsor's expertise and high quality customer service." Bergevin commented further, "Windsor provides the bank a strong source of fee income that provides a recurring source of revenue that we anticipate will significantly enhance the profitability of West Town Bancorp."

Second quarter 2018 highlights include:

- Record quarterly net income of $7,671,000 driven by net revenue of $4,241,000 in government lending and a $4,776,000 pre-tax gain on consolidation from the Windsor acquisition.
    - WTBT earned net income totaling $3,488,000 for the second quarter of 2018, resulting in a return on average assets of 4.53% and a return on average common shareholders' equity of 37.06%.
    - Sound Bank earned net income of $268,000 for the second quarter of 2018, resulting in a return on average assets of 0.51% and a return on average common equity of 3.87%.
    - Windsor earned net income of $526,000 for the second quarter of 2018, beginning on the acquisition date of April 30, 2018.
    - The holding company earned net income of $3,389,000 for the second quarter of 2018, primarily driven by the gain on consolidation noted above.
- Return on average assets of 5.72%, compared to 0.75% for the second quarter of 2017.
- Return on average common shareholders' equity of 41.73%, compared to 6.97% for the second quarter of 2017.
- Return on average tangible common shareholders' equity of 62.66%, compared to 6.78% for the second quarter of 2017.

Financial Performance (Consolidated)
(Includes Sound Bank as of 9/1/2017)

Dollars in thousands, except per share data; unaudited	**Three Months Ended**					**Year-to-Date**	
	6/30/18	**3/31/18**	**12/31/17**	**9/30/17**	**6/30/17**	**6/30/18**	**6/30/17**
Interest income							
Interest and fees on loans	$ 6,577	$ 6,036	$ 6,062	$ 4,223	$ 3,288	$ 12,613	$ 6,661
Investment securities & deposits	231	184	155	142	78	415	151
Total interest income	6,808	6,220	6,217	4,365	3,366	13,028	6,812
Interest expense							
Interest on deposits	815	771	792	712	684	1,586	1,361
Interest on borrowed funds	474	378	191	102	92	852	148
Total interest expense	1,289	1,149	983	814	776	2,438	1,509
Net interest income	**5,519**	**5,071**	**5,234**	**3,551**	**2,590**	**10,590**	**5,303**
Provision for loan losses	261	469	1,129	491	281	730	557
Noninterest income							
Government lending revenue	4,241	3,054	192	1,537	730	7,295	2,366
Mortgage revenue	868	455	515	699	1,938	1,323	3,492
Service charge revenue	222	219	203	89	15	441	32
Bank owned life insurance income	64	57	60	42	37	121	68
Income from Windsor investment	2,052	564	203	519	573	2,616	778
Loss on sale of securities	0	0	0	(7)	0	0	0
Gain on consolidation	4,776	0	0	0	0	4,776	0
Other noninterest income	133	172	373	134	119	305	232
Total noninterest income	12,356	4,521	1,546	3,013	3,412	16,877	6,968
Noninterest expense							
Compensation	4,050	3,266	3,248	2,481	2,812	7,316	5,613
Occupancy and equipment	462	413	434	303	314	875	680
Loan and special assets	407	362	373	287	408	769	593
Professional services	317	274	313	155	404	591	662
Data processing	325	313	316	247	143	638	291
Communication	203	235	188	112	85	438	169
Advertising	418	54	109	91	77	472	169
(Gain) loss on sale of foreclosed assets	41	0	0	0	0	41	(165)
Transaction-related expenses	74	14	60	231	125	88	296
Other operating expense	1,118	864	856	547	438	1,982	920
Total noninterest expense	7,415	5,795	5,897	4,454	4,806	13,210	9,228
Income (loss) before income taxes	10,199	3,328	(246)	1,619	915	13,527	2,486
Income tax expense (benefit)	2,528	847	(798)	672	401	3,375	1,093
Net income	**$ 7,671**	**$ 2,481**	**$ 552**	**$ 947**	**$ 514**	**$ 10,152**	**$ 1,393**
Basic earnings per common share [1]	$ 2.58	$ 0.84	$ 0.21	$ 0.59	$ 0.35	$ 3.42	$ 0.95
Diluted earnings per common share [1]	$ 2.47	$ 0.80	$ 0.20	$ 0.56	$ 0.34	$ 3.27	$ 0.91
Weighted average common shares outstanding [1]	2,980	2,952	2,649	1,626	1,467	2,966	1,466
Diluted average common shares outstanding [1]	3,115	3,087	2,755	1,932	1,534	3,101	1,533

Performance Ratios

	Three Months Ended					Year-to-Date	
	6/30/18	3/31/18	12/31/17	9/30/17[1]	6/30/17[2]	6/30/18	6/30/17
PER COMMON SHARE							
Basic earnings per common share	$ 2.58	$ 0.84	$ 0.21	$ 0.59	$ 0.35	$ 3.42	$ 0.95
Diluted earnings per common share	$ 2.47	$ 0.80	$ 0.20	$ 0.56	$ 0.34	$ 3.27	$ 0.91
Book value per common share	$ 25.11	$ 23.02	$ 22.21	$ 22.03	$ 20.62	$ 25.11	$ 20.38
Tangible book value per common share	$ 14.96	$ 19.94	$ 19.07	$ 18.69	$ 20.62	$ 14.96	$ 20.38
FINANCIAL RATIOS (ANNUALIZED)							
Return on average assets	5.72%	1.88%	0.44%	1.09%	0.75%	3.81%	1.03%
Return on average common shareholders' equity	41.73%	15.02%	3.62%	9.62%	6.78%	29.08%	9.96%
Return on average tangible common shareholders' equity	61.68%	18.30%	4.31%	9.99%	6.96%	38.04%	9.96%
Net interest margin (FTE)	4.68%	4.26%	4.66%	4.58%	4.27%	4.47%	4.25%
Efficiency ratio	56.6%	60.4%	87.0%	67.8%	80.1%	58.2%	75.2%

(1) Calculation of book value per common share and tangible book value per common share for September 30, 2017, includes the 698,580 common shares that were issued in October 2017 for the Sound Bank acquisition and the convertible preferred equity as if converted to 329,130 shares of common stock. **These incremental shares are not included in EPS calculations for the quarter ended September 30, 2017.**

(2) Calculation of book value per common share and tangible book value per common share for June 30, 2017 include the convertible preferred equity outstanding as of such dates as if converted to 21,739 shares of common stock. **These incremental shares are not included in the quarter-end EPS calculations as of June 30, 2017.**

Noninterest Income and Expense Data (Consolidated)
(Includes Sound Bank as of 9/1/2017)

Dollars in thousands; unaudited	Three Months Ended					Year-to-Date	
	6/30/18	3/31/18	12/31/17	9/30/17	6/30/17	6/30/18	6/30/17
Noninterest income							
Government lending revenue	$ 4,241	3,054	192	1,537	730	7,295	2,366
Mortgage revenue	868	455	515	699	1,938	1,323	3,492
Service charge revenue	222	219	203	89	15	441	32
Bank owned life insurance income	64	57	60	42	37	121	68
Income from Windsor investment	2,052	564	203	519	573	2,616	778
Loss on sale of securities	0	0	0	(7)	0	0	0
Gain on consolidation	4,776	0	0	0	0	4,776	0
Other noninterest income	133	172	373	134	119	305	232
Total noninterest income	$ 12,356	4,521	1,546	3,013	3,412	16,877	6,968
Noninterest expense							
Compensation	$ 4,050	3,266	3,248	2,481	2,812	7,316	5,613
Occupancy and equipment	462	413	434	303	314	875	680
Loan and special assets	407	362	373	287	408	769	593
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(Gain) loss on sale of foreclosed assets	41	0	0	0	0	41	(165)
Transaction-related expense	74	14	60	231	125	88	296
Other operating expense	1,118	864	856	547	438	1,982	920
Total noninterest expense	$ 7,415	5,795	5,897	4,454	4,806	13,210	9,228

Total noninterest income for the second quarter of 2018 was $12,356,000, an increase of $7,835,000 or 173% from $4,521,000 for the first quarter of 2018. The increase in noninterest income was primarily attributable to the $4,776,000 pre-tax gain on consolidation in connection with the Windsor acquisition. Other notable increases include a $1,187,000 or 38% increase in governmental lending revenue from sales into the secondary market revenue, a $1,488,000 or 263% increase in income from Windsor due to the Company's increased ownership to 100% as of April 30, 2018, and a $413,000 or 91% increase in mortgage revenue primarily due to seasonal effects on new originations.

Total noninterest income for the second quarter of 2018 increased $8,944,000 or 262%, as compared to the second quarter of 2017 primarily due to a $3,511,000 or 481% increase in governmental lending revenue and the $4,776,000 pre-tax gain on consolidation. Mortgage revenue was down $1,070,000 or 55% from the second quarter 2017 due to the Company's shift away from a national mortgage operation that was completed in mid-year 2017. Revenue earned from Windsor increased $1,479,000 or 258% from the second quarter of 2017 due to the Company's increased ownership to 100% as of April 30, 2018. Service charge revenue increased $207,000 or 1,380% as compared to the second quarter of 2017 due to the inclusion of Sound Bank in the second quarter of 2018.

Total noninterest expense was $7,415,000 for the second quarter of 2018, an increase of $1,620,000, or 28%, from the $5,795,000 for the linked quarter ended March 31, 2018. The notable increases were primarily due to the inclusion of Windsor expenses beginning at acquisition date.

Total noninterest expense increased $2,609,000, or 54%, from the $4,806,000 recorded in the second quarter 2017. The increases are primarily related to activity in the first six months for Sound Bank and two months of Windsor that were not included in the 2017 results.

Selected Consolidated Balance Sheet Data

Dollars in thousands; unaudited			Ending Balance		
	6/30/18	**3/31/18**	**12/31/17**	**9/30/17**	**6/30/17**
Portfolio loans:					
Originated loans	$ 294,471	$ 265,887	$ 242,744	$ 206,133	$ 200,863
Acquired loans, net	110,439	124,919	135,808	144,994	0
Allowance for loan losses	(3,835)	(3,791)	(3,427)	(2,841)	(2,580)
Portfolio loans, net	401,075	387,015	375,125	348,286	198,283
Loans held for sale	31,994	61,286	66,706	21,023	30,166
Investment securities and deposits	41,301	44,470	48,080	64,970	25,953
Total interest-earning assets	474,370	492,771	489,911	433,896	254,402
Loan servicing rights	4,598	4,969	5,237	5,568	5,721
Goodwill	19,745	7,016	7,016	7,016	0
Other intangible assets, net	10,837	2,102	2,272	2,450	0
Total assets	544,488	549,427	544,134	487,904	283,628
Deposits					
Noninterest-bearing deposits	$ 88,172	$ 86,561	$ 84,178	$ 70,984	$ 24,141
Interest-bearing deposits	289,416	298,711	308,556	317,714	201,072
Total deposits	377,588	385,272	392,734	388,698	225,213
Borrowings	81,154	87,814	78,903	19,309	22,599
Total fundings	458,742	473,086	471,637	408,007	247,812
Shareholders' equity:					
Preferred equity	$ 0	$ 0	$ 0	$ 7,570	$ 500
Common equity	47,418	47,337	47,300	39,485	13,218
Retained earnings	28,436	20,765	18,284	17,895	16,949
Accumulated other comprehensive income (loss)	(174)	(134)	(4)	28	50
Total shareholders' equity	$ 75,680	$ 67,968	$ 65,580	$ 64,978	$ 30,717

Total assets were $544,488,000, a decrease of $4,939,000 or 1% as compared to total assets of $549,427,000 at March 31, 2018. Total net portfolio loans were $401,075,000 at June 30, 2018, an increase of $14,060,000, or 4% as compared to $387,015,000 at March 31, 2018. Loans held for sale decreased $29,292,000 or 48% to $31,994,000 as compared to $61,286,000 at March 31, 2018.

Total deposits were $377,588,000 at June 30, 2018, a decrease of $7,684,000 or 2% as compared to total deposits of $385,272,000 at March 31, 2018. Borrowings also decreased $6,660,000 or 8% quarter over quarter.

Total shareholders' equity was $75,680,000 at June 30, 2018, an increase of $7,712,000 or 11% as compared to $67,968,000 at March 31, 2018. At June 30, 2018, both banks' capital ratios exceed the minimum thresholds established for well-capitalized banks by regulatory measures.

	"Well Capitalized" Minimums	West Town Bank & Trust	Sound Bank
Tier 1 common equity ratio	6.5%	13.9%	11.7%
Tier 1 risk based capital ratio	8.0%	13.9%	11.7%
Total risk based capital ratio	10.0%	15.2%	12.1%
Tier 1 leverage ratio	5.0%	11.3%	9.5%

Acquired Loan Summary

Dollars in thousands	6/30/18	3/31/18	12/31/17	9/30/17
Performing acquired loans	$ 107,404	$ 121,852	$ 132,846	142,087
Less: remaining fair market value (FMV) adjustments	(1,181)	(1,400)	(1,592)	(1,783)
Performing acquired loans, net	$ 106,223	$ 120,452	$ 131,254	140,304
FMV adjustment %	1.1%	1.1%	1.2%	1.3%
Purchase credit impaired loans (PCI)	$ 5,017	$ 5,293	$ 5,386	5,657
Less: remaining FMV adjustments	(801)	(826)	(832)	(967)
PCI loans, net	$ 4,216	$ 4,467	$ 4,554	4,690
FMV adjustment %	16.0%	15.6%	15.4%	17.1%
Total acquired performing loans	106,223	120,452	131,254	140,304
Total acquired PCI loans	4,216	4,467	4,554	4,690
Total acquired loans	110,439	124,919	135,808	144,994
FMV adjustment %	1.8%	1.8%	1.8%	1.9%

The performing acquired loan pool decreased $14,229,000 during the second quarter of 2018. The reduction is due to $9,936,000 in net principal payments and $4,293,000 in renewals which moved to the originated category at the time of renewal. The PCI loan pool decreased $251,000 during the second quarter due primarily to net principal payments. Income from accretion of net discounts totaled $238,000 in the second quarter of 2018, an increase of $52,000 or 28% as compared to the $186,000 in the first quarter of 2018. The increase is primarily attributable to an increase in principal payments and renewals.

Asset Quality

The Company's nonperforming assets to total assets ratio increased 5 basis points during the second quarter of 2018 from 1.26% at March 31, 2018 to 1.31% at June 30, 2018.

- West Town Bank & Trust's nonperforming assets to total assets ratio increased from 1.85% at March 31, 2018 to 2.04% at June 30, 2018 while it's past due ratio decreased from 0.59% to 0.46% during the same period. In comparison to June 30, 2017, West Town Bank & Trust's nonperforming assets to total assets ratio decreased from 2.62% to 2.04% and its past due ratio decreased from 1.73% to 0.46%.

- Sound Bank's nonperforming assets to total assets ratio increased from 0.41% to 0.44% during the second quarter of 2018 while its past due ratio decreased from 0.65% to 0.29% during the same period.

Excluding acquired loans, the Company's nonperforming assets to total loans and OREO declined 17 basis points, from 2.31% at March 31, 2018 to 2.14% at June 30, 2018. In comparison to the prior year, the Company's nonperforming assets to total loans and OREO ratio decreased 146 basis points from 3.60% at June 30, 2017 as nonaccrual loan balances have declined and the portfolio loans has doubled due in part to the Sound Bank acquisition.

The Company recorded a $261,000 provision for loan losses during the second quarter of 2018, as compared to a provision of $469,000 in the first quarter 2018 and $281,000 in second quarter 2017. Excluding acquired loans, the ratio of allowance for loan and lease losses as a percentage of total originated loans increased 2 basis points from one year earlier, from 1.28% at June 30, 2017 to 1.30% at June 30, 2018.

Dollars in thousands			**Ending Balance**		
	6/30/18	**3/31/18**	**12/31/17**	**9/30/17**	**6/30/17**
Nonaccrual loans – originated	$ 6,233	$ 5,910	$ 6,218	$ 6,803	$ 6,967
Nonaccrual loans – acquired	292	182	413	0	0
OREO – originated	54	54	0	0	270
OREO – acquired	0	0	0	0	0
90 days past due – originated	8	186	0	0	0
90 days past due – acquired	553	594	697	1,396	0
Total nonperforming assets	7,140	6,926	7,328	8,199	7,237
Total nonperforming assets – originated	6,295	6,150	6,218	6,803	7,237
Net charge-offs	$ 216	$ 105	$ 543	$ 230	$ 238
Annualized net charge-offs to total average portfolio loans	0.20%	0.09%	0.54%	0.34%	0.43%
Ratio of total nonperforming assets to total assets	1.31%	1.26%	1.35%	1.68%	2.55%
Ratio of total nonperforming loans to total portfolio loans	1.77%	1.78%	1.95%	2.35%	3.51%
Ratio of total allowance for loan losses to total portfolio loans	0.95%	0.97%	0.91%	0.81%	1.28%
Excluding acquired (Non-GAAP)					
Ratio of nonperforming assets to loans and OREO	2.14%	2.31%	2.56%	3.30%	3.60%
Ratio of nonperforming loans to loans	2.12%	2.29%	2.56%	3.30%	3.47%
Ratio of allowance for loan losses to loans	1.30%	1.43%	1.41%	1.38%	1.28%

Net Interest Income and Margin
(Includes Sound Bank as of 9/1/2017)

Dollars in thousands	Three Months Ended					Year-to-Date	
	6/30/18	3/31/18	12/31/17	9/30/17	6/30/17	6/30/18	6/30/17
Quarterly average balances:							
Loans	$ 435,778	$ 446,857	$ 400,324	$ 273,225	$ 222,099	$ 441,287	$ 224,147
Investment securities	13,949	11,353	7,346	6,944	4,778	12,658	4,865
Interest-bearing balances and other	23,258	24,803	37,640	27,171	16,482	24,026	18,597
Total interest-earning assets	472,985	483,013	445,310	307,340	243,359	477,971	247,609
Noninterest-bearing deposits	82,971	82,849	75,707	40,028	21,089	82,910	21,828
Interest-bearing liabilities:							
Interest-bearing deposits	292,409	302,119	312,155	239,475	201,027	297,237	200,218
Borrowed funds	78,457	76,422	31,574	13,748	15,680	77,445	15,963
Total interest-bearing liabilities	370,866	378,541	343,729	253,223	216,707	374,682	216,181
Total assets	538,249	536,185	495,958	343,328	274,137	537,222	273,082
Common shareholders' equity	73,725	67,013	60,432	40,848	29,629	70,387	29,026
Tangible common equity	49,882	57,799	50,795	37,617	29,629	53,818	29,026

Dollars in thousands	Three Months Ended					Year-to-Date	
	6/30/18	3/31/18	12/31/17	9/30/17	6/30/17	6/30/18	6/30/17
Interest Income/Expense:							
Loans	$ 6,577	$ 6,036	$ 6,061	$ 4,223	$ 3,288	$ 12,613	$ 6,661
Investment securities, tax	105	64	39	47	29	168	68
Interest-bearing balances and other	126	120	117	95	49	247	83
Total interest income	6,808	6,220	6,217	4,365	3,366	13,028	6,812
Deposits	815	771	791	712	684	1,586	1,361
Borrowings	474	378	192	102	92	852	148
Total interest expense	1,289	1,149	983	814	776	2,438	1,509
Net interest income	$ 5,519	$ 5,071	$ 5,234	$ 3,551	$ 2,590	$ 10,590	$ 5,303
Average Yields and Costs:							
Loans	6.05%	5.48%	6.01%	6.13%	5.94%	5.76%	5.99%
Investment securities	3.01%	2.25%	2.12%	2.71%	2.43%	2.65%	2.81%
Interest-bearing balances and other	2.17%	1.96%	1.23%	1.39%	1.19%	2.07%	1.06%
Total interest-earning assets	5.77%	5.22%	5.54%	5.63%	5.55%	5.50%	5.55%
Total interest-bearing deposits	1.12%	1.03%	1.01%	1.18%	1.36%	1.08%	1.37%
Borrowed funds	2.42%	2.01%	2.41%	2.94%	2.35%	2.22%	1.87%
Total interest-bearing liabilities	1.39%	1.23%	1.13%	1.28%	1.44%	1.31%	1.37%
Cost of funds	1.14%	1.01%	0.93%	1.10%	1.31%	1.07%	1.28%
Net interest margin	4.68%	4.26%	4.66%	4.58%	4.27%	4.47%	4.37%

Net interest income for the second quarter of 2018 was $5,519,000, an increase of $448,000 from $5,071,000 for the first quarter of 2018.

- West Town Bank & Trust contributed $3,619,000 for the second quarter of 2018, as compared to $3,216,000 for the first quarter of 2018, an increase of $403,000 or 13%. The increase is primarily due to increased accretion income related to several early loan payoffs in the government guaranteed lending portfolio.
- Sound Bank contributed $2,044,000 for the second quarter of 2018, as compared to $1,925,000 for the first quarter of 2018, an increase of $119,000 or 6% primarily due to loan growth.
- Interest expense at the holding company totaled $144,000 for the first quarter of 2018, as compared to $111,000 for the first quarter of 2018, an increase of $33,000 or 30% due to increased borrowings to affect the purchase of Windsor.

Net interest margin was 4.68% for the second quarter of 2018, a 42 basis-point increase as compared to 4.26% for the first quarter of 2018.

- West Town Bank & Trust's net interest margin was 5.05% for the second quarter 2018, as compared to 4.30% for the first quarter of 2018. The increase is primarily due to several early loan payoffs which resulted in increased accretion income as noted above.

- Sound Bank's net interest margin was 4.38% for the second quarter 2018, as compared to 4.45% for the first quarter. Excluding accretion of the loan and deposit fair value marks, Sound Bank's net interest margin was 3.84% for the second quarter 2018, as compared to 3.95% for the first quarter 2018. The reduction in net interest margin is primarily related to the increase in cost of funds at Sound Bank due to increased rates on its time deposit portfolio.
- On a consolidated basis, the Company's cost of funds increased 13 basis points as compared to the first quarter of 2018. This is primarily due to an increase in overnight borrowing costs and increased average borrowing balances, as well as an increase in rates on new and renewed time deposits.

Average interest-earning assets for the second quarter of 2018 were $472,985,000, a decrease of $10,028,000, or 2% as compared to $483,013,000 for the first quarter of 2018. The decrease was primarily due to the "originate and hold" strategy that began to unwind late in the first quarter and was completed in early second quarter 2018. Likewise, average interest-bearing liabilities were $370,866,000, a decrease of $7,675,000, or 2%, as compared to the $378,541,000 for the first quarter of 2018.

Branch Network Reorganization

On July 16, 2018, Sound Bank and West Town Bank & Trust entered into a purchase and assumption agreement pursuant to which Sound Bank would acquire West Town Bank & Trust's two North Carolina branches located in Edenton, NC and Winterville, NC. The branch transaction, which is subject to state and federal regulatory approval, is expected to close during the third or fourth quarter of 2018. In addition to the transfer of certain real property in Edenton, NC, the branch reorganization would result in the transfer of approximately $34.3 million in loan assets and $31.7 million in deposit liabilities to Sound Bank from its sister institution, West Town Bank & Trust.

About West Town Bancorp, Inc.

West Town Bancorp, Inc. is the multi-bank holding company for West Town Bank & Trust, a North Riverside, IL based state-chartered bank, and Sound Bank, a Morehead City, NC based state-chartered bank. West Town Bank & Trust provides banking services through its offices in Illinois and North Carolina, while Sound Bank provides banking services through its offices in North Carolina. Primary deposit products are checking, savings, and time certificate accounts, and primary lending products are government guaranteed lending, residential mortgage, commercial, and installment loans. The Company is registered with, and supervised by, the Federal Reserve. West Town Bank & Trust's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. Sound Bank's primary regulators are the North Carolina Commissioner of Banks and the FDIC.

For more information, visit www.westtownbank.com.

Important Note Regarding Forward-Looking Statements

This release contains certain forward-looking statements with respect to the financial condition, results of operations, and business of the Company. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of the management of the Company and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate," and "believe," variations of these words, and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause a difference include, among others: changes in the national and local economies or market conditions; changes in interest rates, deposit flows, loan demand, and asset quality, including real estate and other collateral values; changes in Small Business Administration rules, regulations, or loan products, including the section 7(a) program; changes in other government guaranteed loan programs or our ability to participate in such programs; recent changes in tax law, including the impact of such changes on our tax assets and liabilities; changes in banking regulations and accounting principles, policies, or guidelines; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with the Sound Banking Company acquisition; the failure of our strategic investments or acquisitions to perform as anticipated and the impact of any impairments to our intangible assets, such as goodwill; and the impact of competition from traditional or new *sources. These, and other factors that may emerge, could cause decisions and actual results to differ materially from current expectations. The Company assumes no obligation to revise, update, or clarify forward-looking statements to reflect events or conditions after the date of this release.*