



West Town Bancorp, Inc. Announces Third Quarter 2017 Financial Results

Company Release 10/31/2017 08:30 AM

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RALEIGH, NC, October 31, 2017 -- 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, announced today its financial results for the quarter ended September 30, 2017. Highlights for the third quarter of 2017 include the following:

- **Net income of \$947,000, or \$0.56 per diluted share, compared to \$837,000 or \$0.58 per diluted share for the third quarter of 2016.**
 - Return on average assets of 1.09%, compared to 1.33% for third quarter of 2016.
 - Return on average common equity of 9.20%, compared to 12.71% for the third quarter of 2016.
 - Return on average tangible common equity of 9.99%, compared to 12.71% for third quarter of 2016.
 - West Town Bank & Trust earned net income totaling \$887,000 for the third quarter of 2017, resulting in a return on average assets of 1.29% and a return on average common equity of 12.02%.
 - Sound Bank contributed net income of \$135,000 for the third quarter of 2017 resulting in a return on average assets of 0.83% and a return on average common equity of 6.51%. Due to acquisition on August 31, 2017, third quarter earnings only include the month of September 2017.

- **Completed acquisition of Sound Banking Company on August 31, 2017.**
 - In connection with the acquisition, the Company made the strategic decision to operate as a multi-bank holding company with two separately chartered banking subsidiaries.
 - Pursuant to the merger agreement, each share of Sound Banking Company common stock was converted into the right to receive either \$12.75 in cash or 0.60 shares of West Town voting common stock. Shareholders had the opportunity to elect between West Town common stock, cash or a combination of West Town stock and cash, subject to the limitation that 65% of Sound Banking Company shares would be converted to West Town stock and 35% of shares would be converted to the cash consideration. The election period ended on October 9, 2017 with approximately 83% of Sound Banking Company shareholders making an election (“Electors”).
 - The Electors elected 75.5% stock and 7.5% cash. As a result of the 65% stock limitation, the stock election was prorated using a proration factor of 0.86.
 - All Sound Banking Company shareholders who did not make an election received the cash merger consideration.
 - As of the acquisition date, Sound Banking Company had total assets of \$190,298,000, including \$152,572,000 in loans and \$171,486,000 in deposits.
 - In connection with the acquisition, goodwill totaling \$7,399,000 and a core deposit intangible totaling \$2,510,000 was recorded by Sound Bank.
 - The operating results of West Town for the period ended September 30, 2017 include the results of Sound Bank subsequent to the acquisition date of August 31, 2017. The conversion of Sound Bank’s computer systems occurred in October 2017.

- **Closed on private placement of securities with aggregate gross proceeds of approximately \$17.5 million and a \$4.0 million debt facility with The Private Bank.**
 - Issued 453,490 shares of West Town voting common stock, \$1.00 par value, at a purchase price of \$23.00 per share.
 - Issued 30,738 shares of a non-voting, convertible perpetual preferred stock, Series A, \$100.00 par value, at a purchase price of \$230.00 per share.
 - Issued a warrant to purchase 43,478 shares of West Town common stock, \$1.00 par value, at a purchase price of \$23.00 per share. The warrant expires on August 31, 2022.
 - The Company down-streamed \$6.0 million to West Town Bank & Trust and \$2.0 million to Sound Bank during September 2017 to further strengthen bank capital ratios and support continued growth.
 - West Town Bank & Trust plans on leveraging down-streamed capital by funding and holding whole loans (SBA/USDA) for the entire 4th quarter and then resume the sale of the guaranteed portion of these loans into the secondary market in the first quarter of 2018. This will impact short-term earnings, but will enhance our earning assets and consequently the overall earnings profile of West Town Bank & Trust and the Company.

Financial Performance (Consolidated)

In thousands, except per share data

	Three Months Ended					Nine Months Ended	
	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16	9/30/17	9/30/16
Interest income							
Interest and fees on loans	\$ 4,223	\$ 3,288	\$ 3,373	\$ 3,311	\$ 3,111	\$ 10,884	\$ 8,584
Investment securities & deposits	142	78	73	55	58	293	153
Total interest income	4,365	3,366	3,446	3,366	3,169	11,177	8,737
Interest expense							
Interest on deposits	712	684	677	674	594	2,073	1,679
Interest on borrowed funds	102	92	56	38	39	250	80
Total interest expense	814	776	733	712	633	2,323	1,759
Net interest income	3,551	2,590	2,713	2,654	2,536	8,854	6,979
Provision for loan losses	491	281	276	570	225	1,048	749
Noninterest income							
Government lending revenue	1,537	730	1,636	2,111	1,651	3,903	5,017
Mortgage revenue	699	1,938	1,555	1,809	2,406	4,192	6,730
Service charge revenue	89	15	17	21	25	121	84
Bank owned life insurance income	42	37	31	32	34	110	107
Income from Windsor	519	573	205	0	0	1,297	0
Gain (loss) on sale of securities	(7)	0	0	2	0	(7)	(2)
Other noninterest income	134	119	112	118	135	365	540
Total noninterest income	3,013	3,412	3,556	4,093	4,251	9,981	12,476
Noninterest expense							
Compensation	2,481	2,812	2,801	3,525	3,075	8,094	8,767
Occupancy and equipment	303	314	366	331	328	983	1,005
Loan, foreclosure and OREO	287	408	19	275	606	714	1,321
Professional services	155	404	258	1,606	393	817	916
Data processing	247	143	148	303	168	538	612
Communication	112	85	84	106	82	281	266
Advertising	91	77	92	185	118	260	481
Transaction-related expenses	231	125	172	176	122	528	122
Other operating expense	547	438	482	488	269	1,467	1,167
Total noninterest expense	4,454	4,806	4,422	6,995	5,161	13,682	14,657
Income before income taxes	1,619	915	1,571	(818)	1,401	4,105	4,048
Income tax expense	672	401	692	(281)	564	1,765	1,711
Net income (loss)	\$ 947	\$ 514	\$ 879	\$ (537)	\$ 837	\$ 2,340	\$ 2,337
Basic earnings (loss) per common share ⁽¹⁾	\$ 0.59	\$ 0.35	\$ 0.60	\$ (0.39)	\$ 0.60	\$ 1.54	\$ 1.70
Diluted earnings (loss) per common share ⁽¹⁾	\$ 0.56	\$ 0.34	\$ 0.57	\$ (0.38)	\$ 0.58	\$ 1.47	\$ 1.62
Weighted average common shares outstanding ⁽¹⁾	1,626	1,467	1,465	1,380	1,375	1,597	1,373
Diluted average common shares outstanding ⁽¹⁾	1,932	1,534	1,531	1,445	1,445	1,667	1,446

Performance Ratios

	Three Months Ended					Nine Months Ended	
	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16	9/30/17	9/30/16
PER COMMON SHARE							
Basic earnings (loss) per common share	\$ 0.59	\$ 0.35	\$ 0.60	\$ (0.39)	\$ 0.60	\$ 1.54	\$ 1.70
Diluted earnings (loss) per common share	\$ 0.56	\$ 0.34	\$ 0.57	\$ (0.38)	\$ 0.58	\$ 1.47	\$ 1.62
Book value per common share ⁽¹⁾	\$ 24.65	\$ 20.04	\$ 19.67	\$ 19.11	\$ 19.35	\$ 24.65	\$ 19.35
Tangible book value per common share ⁽¹⁾	\$ 20.90	\$ 20.04	\$ 19.67	\$ 19.11	\$ 19.35	\$ 20.90	\$ 19.35
FINANCIAL RATIOS (ANNUALIZED)							
Return on average assets	1.09%	0.75%	1.31%	(0.80%)	1.34%	1.05%	1.34%
Return on average shareholders' equity	9.20%	6.96%	12.57%	(7.82%)	12.70%	9.49%	12.39%
Return on tangible common equity	9.99%	6.96%	12.57%	(7.82%)	12.70%	9.81%	12.39%
Net interest margin (FTE)	4.58%	4.27%	4.46%	4.33%	4.47%	4.45%	4.41%
Efficiency ratio	67.8%	80.1%	70.5%	103.7%	76.0%	72.6%	75.3%

⁽¹⁾ Calculation of book value per common share and tangible book value per common share includes the 698,580 shares that were issued in October 2017 for the Sound Bank acquisition. While these shares are not issued and outstanding as of September 30, 2017, and thus not included for EPS purposes, the equity related to the Sound Bank acquisition is included in the Company's financial statements; therefore, the Company believes book value is more accurately presented in this manner.

Eric Bergevin, President and CEO commented, "We are pleased to report another quarter of strong earnings and growth. We continue to see positive results from the execution of our 2017 strategic initiatives, including the Windsor Advantage LLC ("Windsor") investment made earlier this year, the acquisition of Sound Bank completed in the third quarter and the completion of the private placement in the third quarter. We have shifted our governmental guaranteed lending strategy in the fourth quarter for West Town Bank & Trust to originate and hold whole loans, including the guaranteed portion of the new originations for a period of time to leverage our increased capital. This shift in strategy will notably reduce short-term profitability, but will enhance the earnings profile for the bank. It is not anticipated that the seasoning of these loans on our balance sheet will materially impact the gain on sale premium when we resume selling these loans in 90 – 120 days, but will result in a larger balance sheet producing heightened levels of interest income on a go-forward basis. We extend a special welcome to the customers and shareholders of Sound Bank and are pleased to report that we successfully completed the conversion of the Sound Bank computer systems earlier this month."

Noninterest Income and Expense Data (Consolidated)

In thousands	Three Months Ended					Nine Months Ended	
	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16	9/30/17	9/30/16
Noninterest income							
Government lending revenue	1,537	730	1,636	2,111	1,651	3,903	5,017
Mortgage revenue	699	1,938	1,555	1,809	2,406	4,192	6,730
Service charge revenue	89	15	17	21	25	121	84
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Income from Windsor	519	573	205	0	0	1,297	0
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Total noninterest income	3,013	3,412	3,557	4,093	4,251	9,981	12,476
Noninterest expense							
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Other operating expense	547	438	482	488	269	1,467	1,167
Total noninterest expense	4,454	4,806	4,422	6,995	5,161	13,682	14,657

Total noninterest income for the third quarter of 2017 was \$3,013,000, a decrease from \$3,412,000 for the second quarter. The decrease in non-interest income was due to decreased revenue from mortgage operations as a result of the strategic decision to curtail the West Town Bank & Trust's national mortgage operations that were primarily dependent on refinance loans. On June 30, 2017, West Town Bank & Trust divested five of its out of market loan production offices and downsized its corresponding operational staff in the mortgage administrative offices. West Town Bank & Trust has shifted its focus to local, in-market realtor relationships to capture the purchase loan transaction and expand cross-selling opportunities for deposit relationships. As anticipated, revenue from government guaranteed lending increased in the third quarter, partially offsetting the decreased mortgage revenue.

Total noninterest expense was \$4,454,000 for the third quarter of 2017, a decrease from \$4,806,000 for the second quarter. The reduction is mainly driven by a reduction in compensation expense at West Town Bank & Trust primarily due to the reduction in overall mortgage compensation as a result of the shift in strategy discussed above. Also contributing to the reduction in noninterest expense is a decrease in loan expense attributable to mortgage operations and a decrease in professional services driven by a significant reduction in legal fees. The Company's efficiency ratio improved to 67.8% for the third quarter 2017, as compared to 80.1% for the second quarter 2017.

Selected Consolidated Balance Sheet Data

In thousands	Ending Balance				
	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16
Portfolio loans:					
Originated loans	\$ 205,423	\$ 200,863	\$ 175,862	\$ 170,112	\$ 173,871
Acquired loans	145,321	-	-	-	-
Allowance for loan and lease losses	(2,841)	(2,580)	(2,537)	(2,318)	(2,168)
Portfolio loans, net	347,903	198,283	173,325	167,794	171,703
Loans held for sale	21,023	30,166	45,266	58,923	41,165
Investment securities and deposits	64,970	25,953	26,807	28,399	22,210
Total interest-earning assets	433,896	254,402	245,398	255,116	235,078
Loan servicing rights	5,568	5,721	5,624	5,569	5,354
Goodwill	7,399	-	-	-	-
Other intangible assets, net	2,450	-	-	-	-
Total assets	487,904	283,628	275,343	280,158	259,300
Deposits					
Noninterest bearing deposits	70,984	24,141	22,926	20,820	14,544
Interest-bearing deposits	317,714	201,072	201,179	195,999	184,665
Total deposits	388,698	225,213	224,105	216,819	199,209
Borrowings	19,309	22,599	16,000	30,000	30,000
Total interest-bearing liabilities	408,007	247,812	240,105	246,819	229,209
Shareholders' equity:					
Preferred equity	7,570	500	500	-	-
Common equity	64,578	29,370	28,796	27,915	26,568
Accumulated other comprehensive income	28	50	42	40	61
Total shareholders' equity	72,176	29,920	29,338	27,955	26,629

Total assets were \$487,904,000, an increase of 72% as compared to total assets of \$283,628,000 at June 30, 2017. Total net portfolio loans were \$347,903,000 at September 30, 2017, an increase of 75% as compared to \$198,283,000 at June 30, 2017. The increases in total assets and portfolio loans are primarily attributable to the Sound Banking Company acquisition.

Total deposits were \$388,698,000 at September 30, 2017, an increase of \$163,485,000 or 73% as compared to total deposits of \$225,213,000 at June 30, 2017. Increases in deposits are primarily attributable to the Sound Banking Company acquisition.

Total shareholders' equity was \$72,176,000 at September 30, 2017, an increase of \$42,256,000 or 141% as compared to \$29,920,000 at June 30, 2017. The increase is attributable to the new capital raised totaling \$17,500,000 (prior to fees and expenses) and the \$24,902,000 resulting from the Sound Banking Company acquisition. At September 30, 2017 both bank's capital ratios exceed the minimum thresholds established for a well-capitalized bank by regulatory measures:

	"Well Capitalized" Minimums	West Town Bank & Trust	Sound Bank
Tier 1 common equity ratio	6.5%	14.73%	13.23%
Tier 1 risk based capital ratio	8.0%	14.73%	13.23%
Total risk based capital ratio	10.0%	15.94%	13.23%
Tier 1 leverage ratio	5.0%	12.65%	9.71%

Acquired Loan Summary

In thousands	<u>Ending Balance</u> <u>9/30/17</u>
Performing acquired loans	\$ 142,087
Less: remaining FMV adjustments	<u>(1,783)</u>
Performing acquired loans, net	\$ 140,304
FMV adjustment %	1.3%
Purchase credit impaired loans (PCI)	\$ 6,369
Less: remaining FMV adjustments	<u>(1,352)</u>
PCI loans, net	\$ 5,017
FMV adjustment %	21.2%
Total acquired performing loans	140,304
Total acquired PCI loans	<u>5,017</u>
Total acquired loans	145,321
FMV adjustment % all acquired loans	2.2%

Asset Quality

The Company's nonperforming assets to total assets ratio decreased 87 basis points during the third quarter of 2017 from 2.55% at June 30, 2017 to 1.68% at September 30, 2017. Excluding acquired loans during the quarter, the nonperforming assets to total assets declined 24 basis points from 3.60% at June 30, 2017 to 3.36% at September 30, 2017. The reduction is related to the sale of OREO property and a decline in nonaccrual balances.

The Company recorded a \$491,000 provision for loan losses during the third quarter of 2017, as compared to a provision of \$281,000 in the second quarter 2017. This provision expense is reflective of the organic growth in portfolio loans (primarily government guaranteed lending) and the \$230,000 in net charge-offs recorded during the quarter. Excluding acquired loans, the ratio of allowance for loan and lease losses as a percentage of total portfolio loans increased from 1.28% at June 30, 2017 to 1.40% at September 30, 2017.

In thousands	<u>Ending Balance</u>				
	<u>9/30/17</u>	<u>6/30/17</u>	<u>3/31/17</u>	<u>12/31/16</u>	<u>9/30/16</u>
Nonaccrual loans – non-acquired	\$ 6,803	\$ 6,967	\$ 3,717	\$ 3,447	\$ 2,396
Nonaccrual loans – acquired	0	0	0	0	0
OREO – non-acquired	0	270	270	873	873
OREO – acquired	0	0	0	0	0
90 days past due – non-acquired	0	0	0	0	0
90 days past due – acquired	<u>1,396</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total nonperforming assets	8,199	7,237	3,987	4,320	3,269
Total nonperforming assets – non-acquired	6,803	7,237	3,986	4,320	3,269
Net charge-offs, QTD	\$ 230	\$ 238	\$ 58	\$ 420	\$ 28
Annualized net charge-offs to total average portfolio loans	0.34%	0.43%	0.10%	0.74%	0.05%
Ratio of total nonperforming assets to total assets	1.68%	2.55%	1.45%	1.54%	1.26%
Ratio of total nonperforming loans to total portfolio loans	2.36%	3.51%	2.14%	2.05%	1.40%
Ratio of total allowance for loan losses to total portfolio loans	0.81%	1.28%	1.44%	1.36%	1.25%
Excluding acquired					
Ratio of nonperforming assets to loans and OREO	3.31%	3.60%	2.26%	2.53%	1.87%
Ratio of nonperforming loans to loans	3.31%	3.47%	2.11%	2.03%	1.38%
Ratio of allowance for loan losses to loans	1.38%	1.28%	1.44%	1.36%	1.25%

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

In thousands	Three Months Ended					Nine Months Ended	
	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16	9/30/17	9/30/16
Quarterly average balances:							
Loans	\$ 273,225	\$ 222,099	\$ 226,218	\$ 226,624	\$ 205,484	\$ 240,686	\$ 192,661
Investment securities	6,944	4,778	4,954	5,178	5,407	5,566	5,780
Interest-bearing balances and other	27,171	16,482	15,384	11,627	14,477	19,722	12,964
Total interest-earning assets	307,340	243,359	246,556	243,429	225,368	265,974	211,405
Noninterest deposits	40,028	21,089	22,576	19,339	14,912	27,961	13,447
Interest-bearing liabilities:							
Interest bearing deposits	239,475	201,027	199,399	191,852	170,106	213,447	164,263
Borrowed funds	13,748	15,680	16,249	23,784	34,760	15,217	27,710
Total interest-bearing liabilities	253,223	216,707	215,648	215,636	204,866	228,664	191,973
Total assets	343,328	274,137	272,015	266,066	248,913	296,754	233,589
Common shareholders' equity	40,848	29,629	28,334	27,264	26,207	32,983	25,216
Tangible common equity	37,617	29,629	28,334	27,264	26,207	31,894	25,216
Interest Income/Expense:							
Loans	\$ 4,223	\$ 3,288	\$ 3,373	\$ 3,311	\$ 3,111	\$ 10,884	\$ 8,584
Investment securities, tax	47	29	29	28	22	105	73
Interest-bearing balances and other	95	49	44	27	36	188	80
Total interest income	4,365	3,366	3,446	3,366	3,169	11,177	8,737
Deposits	712	684	677	674	594	2,073	1,679
Borrowings	102	92	56	38	39	250	80
Total interest expense	814	776	733	712	633	2,323	1,759
Net interest income	\$ 3,551	\$ 2,590	\$ 2,713	\$ 2,654	\$ 2,533	\$ 8,854	\$ 6,978
Average Yields and Costs:							
Loans	6.13%	5.94%	6.05%	5.80%	6.01%	6.05%	5.96%
Investment securities	2.71%	2.43%	2.34%	2.16%	1.63%	2.52%	1.68%
Interest-bearing balances and other	1.39%	1.19%	1.16%	0.92%	0.99%	1.27%	0.83%
Total interest-earning assets	5.63%	5.55%	5.67%	5.49%	5.58%	5.62%	5.53%
Total interest-bearing deposits	1.18%	1.36%	1.38%	1.39%	1.39%	1.30%	1.37%
Borrowed funds	2.94%	2.35%	1.40%	0.63%	0.45%	2.20%	0.39%
Total interest-bearing liabilities	1.28%	1.44%	1.38%	1.31%	1.23%	1.36%	1.23%
Cost of funds	1.10%	1.31%	1.25%	1.20%	1.14%	1.21%	1.14%
Net interest margin	4.58%	4.27%	4.46%	4.33%	4.47%	4.45%	4.41%

Net interest income for the third quarter of 2017 was \$3,551,000, an increase from \$2,591,000 for the second quarter of 2017.

- West Town Bank & Trust contributed \$2,980,000 for the third quarter of 2017 as compared to \$2,662,000 for the second quarter of 2017.
- Sound Bank contributed \$656,000 for the third quarter of 2017. Note this reflects only one full month of earnings for Sound Bank. Accretion earned on the acquired loan portfolio was \$111,000 for the third quarter.
- The holding company recorded (\$86,000) for the third quarter of 2017 as compared to (\$70,000) for the second quarter of 2017.

Net interest margin was 4.58% for the third quarter of 2017 as compared to 4.27% for the second quarter of 2017.

- West Town Bank & Trust net interest margin was 4.71% for the third quarter 2017.
- Sound Bank net interest margin was 4.46% for the third quarter 2017. Excluding accretion, the Sound Bank net interest margin was 3.67% for the third quarter 2017.

Average interest-earning assets for the third quarter of 2017 were \$307,340,000, an increase from \$243,359,000 for the second quarter of 2017. Average interest-bearing liabilities were \$253,223,000, an increase from \$216,707,000 for the second quarter of 2017. The increases were primarily due to the Sound Banking Company acquisition.

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 residential mortgage, commercial, and installment loans. Additionally, both banks engage in mortgage banking activities and, as such, originates and sells one-to-four family residential mortgage loans in multiple states. 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 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; 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.