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

John A. (Buddy) Howard, CFA
February 26, 2019

Price:	$23.65	**EPS ***	**2017A:**	$ 1.54	**P/E**	**2017A:**	15.4 x
52 Wk. Range:	$20.51 - $29.49	(FY: DEC)	**2018A:**	$ 2.75		**2018A:**	8.6 x
Div/Div Yld:	$0.00 / 0.0%		**2019E:**	$ 2.00		**2019E:**	11.8x
Shrs/Mkt Cap:	3.0 mm / $72 mm	**Book Value: ****		$ 25.52	**Price/Book Value:**		**0**.93 x

* EPS in 2017 includes a nonrecurring tax benefit of $0.22 per share. 2018 EPS excludes $1.15 per share in a nonrecurring gain.

** Tangible book value is $15.68 per share; price to tangible book value is 1.51x.

ASSETS: $555 MM

CONTACT:
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PRESIDENT & CEO
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Background

With $555 million in assets, West Town Bancorp, Inc. is the Raleigh, NC based 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, 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 Government Guaranteed Lending (SBA and USDA) activities as well as mortgage banking activities and, as such, originate and sell loans from multiple states into the secondary markets. Finally, through Windsor Advantage, LLC ("Windsor"), the Company also provides a platform to other banks and credit unions to assist those institutions in SBA and USDA lending strategies by providing prequalification, packaging, closing, secondary market sales, servicing and liquidation services. 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.

4TH QUARTER HIGHLIGHTS:

FOURTH QUARTER AND YEARLY RESULTS WERE GOOD

EPS: $0.30 VS. $0.20

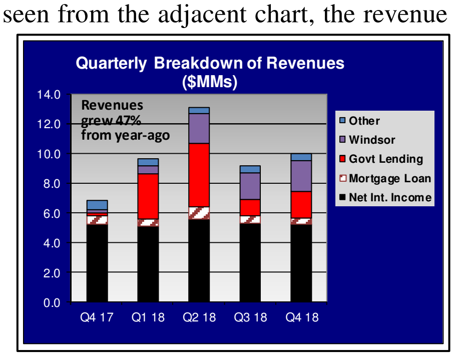
THE REVENUE TRENDS REMAIN POSITIVE, ALTHOUGH THE BLIP IN THE FIRST HALF OF 2018 SKEWS THE COMPARISONS

MARGINS HAVE BEEN SOFT BUT AVERAGE EARNING ASSET GROWTH HAS BEEN STRONG

Fourth Quarter EPS Was Up 50% and Was Better Than Expected

West Town Bancorp reported strong results in the fourth quarter of 2018. Earnings were up sharply, principally reflecting large increases in noninterest income, though earnings also benefitted from a drop in the provision for loan losses. Government guaranteed loan revenues were particularly strong, and were a good bit higher than we had anticipated. Balance sheet growth rates varied a good deal, but deposits (especially noninterest-bearing deposits) showed particular strength. Finally, in terms of asset quality, nonperforming assets increased from the linked quarter and the year-ago date, but were still at a reasonable level given the reserve and capital positions of the Bank.

Earnings in 2018's fourth quarter were $956,000, or $0.30 per diluted share, up from $552,000, or $0.20 per diluted share, in 2017's fourth quarter. As can be seen from the adjacent chart, the revenue trends are still somewhat skewed from the "originate and hold" strategy in the government guaranteed loan segment (red bar), which shows the effects of the Bank deferring the sale of those loans in late 2017 into the first half of 2018. (If we "normalize" those quarters, the trend in revenues is more consistently upward sloping and less choppy.) Bottom line, the Bank is doing a good job of building its revenue base, as it layers revenues from specialty lines of business and recently acquired Windsor (the SBA platform company shown by the purple bar) on top of a stable base of net interest income. Margins have been somewhat soft, partly due to rising rates on deposits, though



average earning assets growth has offset the effects of the margin erosion. In 2018's fourth quarter, for example, net interest income was flat at $5,233,000, versus $5,234,000 in 2017's fourth quarter, even though the net interest margin dropped dramatically over that period from 4.66% to 4.26%. We expect net interest income growth to accelerate as margins stabilize. Earnings were helped by a drop in the provision for loan losses to $434,000 in 2018's fourth quarter from $1,129,000 in 2017's fourth quarter, as well as from growth in noninterest income, which more than tripled to $4,717,000 in the fourth quarter of 2018 from $1,546,000 in the year-ago quarter. Windsor, which became a wholly owned subsidiary in last year's second quarter, accounted for roughly 45% of total noninterest income. Government lending was another bright spot in the quarter, as fees from this area were $1,793,000 in 2018's fourth quarter, up from $1,121,000 in the third quarter of 2018 (comparisons to the fourth quarter of 2017 are not applicable given the "originate and hold" strategy). The comparisons for mortgage revenues were generally soft, although service charge and other traditional bank fees held up quite well. Finally, noninterest expense was $8,187,000 in 2018's fourth quarter, versus $5,897,000 in the year-ago quarter, although most of that growth came from the addition of Windsor's expense being added in the mid-year of 2018.

WHILE NET INTEREST INCOME WAS FLAT, WE EXPECT ITS GROWTH WILL ACCELERATE

NONINTEREST INCOME MORE THAN TRIPLED

WINDSOR ACCOUNTED FOR 45% OF NONINTEREST INCOME

For the full year, earnings (excluding a one-time pretax gain totaling $4.8 million from the completion of the purchase of Windsor Advantage, LLC) were $8,544,000, or $2.75 per diluted share, versus $2,892,000, or $1.54 per diluted share, in 2017. Net interest income increased 50%, while core noninterest income was up 79% and noninterest expense grew 45%. From a balance sheet standpoint, annual growth rates were reasonably strong, with loans held for investment increasing 8%, assets up modestly at 2% but deposits up a solid 10%. And within deposits, noninterest-bearing deposits were up a healthy 16%, reflecting a strategic focus for the Bank. Shareholders' equity at year-end 2018 was $77.6 million, or 14.0% of assets, while tangible equity was $47.7 million, or 9.1% of tangible assets.

FULL YEAR HIGHLIGHTS:

EPS: $2.75 (EXCLUDES NONRECURRING GAIN) VS. $1.54

NONINTEREST-BEARING DEPOSIT GROWTH WAS PARTICULARLY STRONG

Windsor's Business Could Redefine How West Town is Valued

We continue to believe the business of Windsor, which focuses on enabling financial institutions to better capitalize upon opportunities in SBA lending, is a scalable platform with unusual upside opportunity. SBA lending has typically been more prevalent at larger banks, and smaller banks often lacking the resources to fully implement an SBA program, which is where Windsor comes in, with its "No increase in staff. No fixed costs." promotion. The notion of having an outside entity like Windsor enabling community banks to engage in this highly profitable but complex area of lending is a compelling one, and it potentially changes, at least in our view, how West Town might one day be valued. If the Company can continue to build Windsor's revenues, and potentially even move to more of a recurring, fee-based "platform as a service" model, the implications for valuation get pretty interesting. In fact, at some point, the Company might even begin to be viewed more as a technology company than a bank. The multiples for "platform-as-a-service" companies tend to be quite high, and are often expressed as multiples of revenues as opposed to multiples of earnings or EBITDA.

WINDSOR'S BUSINESS MODEL IS QUITE DIFFERENT FROM TRADITIONAL BANKING

IF WINDSOR CAN CONTINUE TO BUILD REVENUES, PARTICULARLY RECURRING REVENUES, IT COULD BOOST THE VALUATION METRIC FOR THE COMPANY

Nonperforming Assets Inched Up

At December 31, 2018, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were $7.9 million, or 1.41% of assets, versus $7.2 million, or 1.30% of assets, at September 30, 2018 and $7.0 million, or 1.29% of assets, at December 31, 2017. The allowance for loan losses totaled $4.0 million, or 0.97% of loans held for investment, at December 31, 2018, as compared to $3.4 million, or 0.91% of loans held for investment, at the year-ago date.

NPAS/ASSETS: 1.41%

RESERVES/LOANS HFI: 0.97%

Projections

We are projecting 2019 earnings of $6.2 million, or $2.00 per diluted share. It should be noted that the year-ago 2018 earnings included business deferred from 2017. These projections are subject to wide variation given the large amount of income coming from the Bank's specialty lines of business.

EPS:
2017A: $1.54
2018A: $2.75 (EXCLUDES $1.15 PER SHARE IN NONRECURRING GAIN)
2019E: $2.00

ADDITIONAL INFORMATION UPON REQUEST