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

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John A. (Buddy) Howard, CFA
May 29, 2016

Price:	\$19.75	EPS *	2014A:	\$ 3.00	P/E	2014A:	6.6 x
52 Wk. Range:	\$17.60 - \$20.00	(FY: DEC)	2015A:	\$ 2.83		2015A:	7.0 x
Div/Div Yld:	\$0.00 / 0.0%		2016E:	\$ 2.50		2016E:	7.9 x
Shrs/Mkt Cap:	1.374 mm / \$27 mm	Book Value:		\$ 18.21	Price/Book Value:		1.08 x

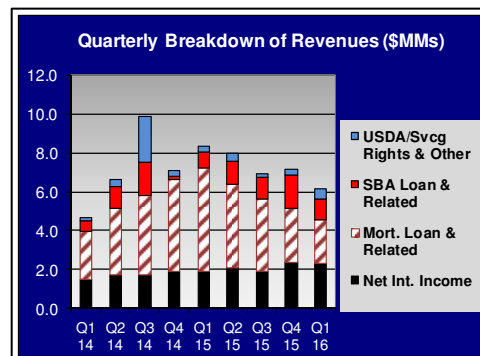
* EPS are diluted.

Background

With \$230 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 regulator is the Illinois Department of Financial and Professional Regulation. 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. With this report, we initiate coverage on the Company.

Business Model Emphasizes Diverse But Highly Profitable Sources of Noninterest Income

West Town Bancorp has a unique business model within the community banking sector. Whereas most community banks derive the majority of their revenues from net interest income, West Town Bancorp derives between two thirds to three quarters of its revenues from SBA/USDA Loans, Mortgage Banking, and Insurance Services (the balance coming from Community Banking). Those categories have a tendency to be somewhat lumpy, although the fact that they are driven by different macroeconomic factors mitigates some of the aggregate variation. The Company's variable cost structure further reduces the impact on earnings. On the other hand, the high fees that it earns in these niche areas have allowed the Company to achieve impressive profitability levels. In the past three years, West Town's average ROAE has been around 19%.



Approach Emphasizes Entrepreneurial Culture, Scalability and Speed

In the SBA area (which is expected to account for as much as three-fourths of the Company's 2016 earnings), the Bank outsources almost all of its back office functions, allowing it to focus on originations and credit. It primarily originates loans that are secured by real estate, and the average loan to value is around 50% to 55%, with global debt service ratios of over two times. Bottom line, these are high quality loans. By targeting underserved industries (hotels are one example), the Bank has been able to carve out a highly lucrative niche, whereby it can originate the loan, sell off the guaranteed portion (usually 75%), and book a fee (sometimes as high as 10%) that often exceeds the interest that would have accrued for as much as two years had the loan been inventoried. The mortgage operation is also somewhat unique, in that the Company targets high quality, independent mortgage banking teams who desire to affiliate with a bank that has the infrastructure to allow them to focus on

ASSETS: \$230 MM

HQ: NORTH RIVERSIDE, IL

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1ST QUARTER HIGHLIGHTS

WEST TOWN BANCORP HAS A HIGHLY LUCRATIVE NICHE IN A NUMBER OF KEY MARKETS

ALTHOUGH NONINTEREST INCOME IS HIGHLY ORIENTATION SENSITIVE, THE COMPANY HAS ACHIEVED GOOD DIVERSITY BY ACTIVELY DEVELOPING EACH OF FOUR BUSINESS LINES: SBA/USDA, MORTGAGE BANKING, INSURANCE SERVICES AND TRADITIONAL COMMUNITY BANKING

PROFITABILITY HAS BEEN QUITE HIGH, WITH ROAE AVERAGING ABOUT 19% OVER THE PAST THREE YEARS

UNIQUE APPROACH ENCOURAGES AN ENTREPRENEURIAL CULTURE AND ALLOWS FOR FAST SERVICE

origination rather than administrative functions such as quality control, credit, sale of loans, etc. Profits are shared with the team when they exceed agreed upon targets. It is a highly scalable approach.

First Quarter Profitability Level Was High Despite Drop in Revenues

In 2016's first quarter, net income was \$788,000, or \$0.55 per diluted share, versus \$949,000, or \$0.68 per diluted share, in the year-ago quarter. Net interest income had excellent growth (up 24%), with the improvement coming from both higher margins (4.63% in 2016's first quarter, versus 4.38% in the year-ago quarter) as well as growth in volume (up 18%.) The biggest driver of the comparisons was noninterest income, which was affected by a moderation in mortgage refinancings. Total mortgage related income for West Town in 2016's first quarter was \$2.2 million, down from \$5.3 million in the year-ago quarter. However, income related to SBA lending was up to \$1.1 million from \$0.8 million over the same period, and other noninterest income (principally USDA loan income, service charges, and servicing rights valuation adjustments) more than doubled to \$655,000 from \$315,000 over the same respective periods. Lower expenses offset most of this softness. Total noninterest expense declined to \$4.6 million in the first quarter of 2016, versus \$6.6 million in the first quarter of 2015. Finally, we would note that income taxes were a bit higher than normal due to a deferred tax valuation adjustment (the effective tax rate was 48% in 2016's first quarter), although we expect the tax rate to drop back to a normal rate going forward. Also, balance sheet growth was impressive. Over the past year (from March 31, 2015 to March 31, 2016), loans held for investment increased 17% to \$163 million, while assets grew 11% and deposits increased 7% (the Company has no brokered deposits.) Future growth should be supported by the April 2016 opening of its newest location in Edenton, NC.

EPS: \$0.55 vs. \$0.68

THE BANK STILL ACHIEVED EXCELLENT PROFITABILITY DESPITE A SHARP DROP IN REVENUES

NONINTEREST INCOME DECLINED DUE TO A MODERATION IN MORTGAGE BANKING INCOME

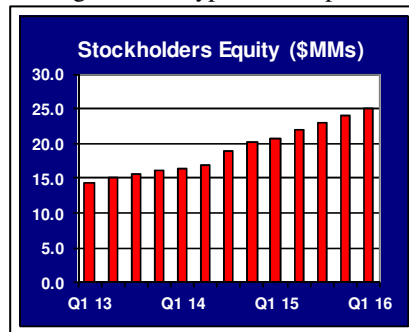
MUCH OF THAT DECLINE WAS OFFSET BY A COMMENSURATE DROP IN NONINTEREST EXPENSE

A Few Comments About Relative Value

West Town Bancorp's stock is currently trading at roughly 1.08x book value and 7.9x projected 2016 earnings, versus typical multiples for community banks that are around 1.08x and 15.0x, respectively.

THE STOCK TRADES IN LINE WITH COMMUNITY BANKS BASED ON THE MULTIPLE OF BOOK VALUE, BUT AT A LARGE DISCOUNT BASED ON EARNINGS

WEST TOWN BANCORP'S HIGH ROAE HAS ALLOWED EQUITY TO NEARLY DOUBLE IN A LITTLE OVER THREE YEARS



While some of that P/E discount is arguably related to the origination sensitivity of noninterest income, we would point out the success that the Company has had managing the potential volatility of these segments for the past several years, not to mention the high earnings it has achieved. In fact, the high profitability (as measured by the ROAE) has allowed book value to nearly double in only three and a quarter years. From a long-term investor's standpoint, if the Company can maintain an ROAE in the low double digits (it was 12.4% in the most recent quarter on lower earnings), this

ongoing build up in equity should provide a solid tailwind in terms of long-term returns, especially if the entry point for an investor is a modest premium to book value.

Asset Quality Remains Good

West Town Bancorp's credit quality has been improving. At March 31, 2016, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$3.6 million, or 1.55% of assets, versus \$4.3 million, or 2.02% of assets, at December 31, 2015 and \$5.3 million (2.59% of total assets) at March 31, 2015. The allowance for loan losses totaled \$1.9 million, or 1.14% of loans held for investment, at March 31, 2016, as compared to \$1.8 million, or 1.26% of loans held for investment, at the year-ago date.

NPAs/ASSETS: 1.55%

RESERVES/LOANS HFI: 1.14%

Projections

We are projecting West Town Bancorp will earn \$3.6 million, or \$2.50 per diluted share, in 2016, versus \$4.0 million, or \$2.83 per diluted share, in 2015. About three fourths of 2016's earnings are expected to come from SBA, with about 20% from community banking and about 5% from mortgage banking. These projections are subject to wide variation based on economic and other conditions.

EPS:
2014A: \$3.00
2015A: \$2.83
2016E: \$2.50

ADDITIONAL INFORMATION UPON REQUEST

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