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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
November 25, 2016

Price:	\$23.00	EPS *	2015A:	\$ 2.83	P/E	2015A:	8.1 x
52 Wk. Range:	\$17.60 - \$23.03	(FY: DEC)	2016E:	\$ 2.15		2016E:	10.7 x
Div/Div Yld:	\$0.00 / 0.0%		2017E:	\$ 2.32		2017E:	9.9 x
Shrs/Mkt Cap:	1.4 mm / \$32 mm	Book Value:		\$ 19.35	Price/Book Value:		1.19 x

* EPS are diluted.

Background

With \$259 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 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.

Third Quarter Results Were Better Than Expected

West Town Bancorp reported excellent third quarter results. Earnings came in a little ahead of what we had expected, most of which was due to better net interest income growth than we had anticipated. Moreover, balance sheet growth was strong, led by solid loan and deposit growth. The loan growth, in particular, we find encouraging, as West Town's ability to generate significant loan volume (regardless of whether the loans are to be inventoried or sold) continues to be impressive. Most of the other fundamentals, such as asset quality, were also strong. We would also note that the Company appears to be working through some litigation it is involved in (see further discussion on the opposite page). Finally, subsequent to quarter end, the Company filed for approval to acquire a 43.5% stake in a company that provides a comprehensive outsourced platform for SBA lending. Should this transaction be approved and completed, we believe it would give West Town a significant advantage in many of the processes involved in the SBA business (e.g., prequalification, packaging, closing, secondary sale, documentation, servicing, etc.). All in all, it was a great quarter. Reflecting these positives, the stock is up 16% since our last report dated August 19, 2016.

Net income in 2016's third quarter was \$837,000, or \$0.58 per diluted share, versus \$1,020,000, or \$0.71 per diluted share, in the year-ago quarter. The results were \$0.02 per share better than we had projected. Net interest income was quite strong, and was most of the reason that the results were stronger than we had modeled. Specifically, net interest income increased 38% to \$2,536,000 in 2016's third quarter from \$1,832,000 in the year-ago quarter. That growth came from both higher average earning assets (up 27%), as well as improvement in the net interest margin (the margin increased to 4.39% in 2016's third quarter from 4.09% in the year-ago quarter). Additionally, as can be seen from the adjacent chart, net interest income

ASSETS: \$259 MM

HQ: NORTH RIVERSIDE, IL

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3RD QUARTER HIGHLIGHTS

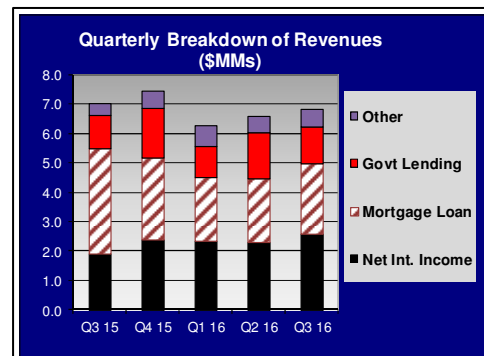
EPS: \$0.58 vs. \$0.71

ALTHOUGH EARNINGS WERE LOWER THAN IN THE YEAR-AGO QUARTER, THEY WERE SLIGHTLY BETTER THAN EXPECTED

LOAN GROWTH WAS ENCOURAGING IN THE QUARTER

THE COMPANY MAY BE ACQUIRING PARTIAL INTEREST IN AN SBA LENDING PLATFORM

NET INTEREST INCOME WAS UP A STRONG 38%, AND INCREASED TO 37% OF REVENUES



NONINTEREST INCOME WAS DOWN BUT NONINTEREST EXPENSE WAS UP ONLY SLIGHTLY

ROAA: 1.33%

ROAE: 12.71%

FIRST NINE MONTH HIGHLIGHTS:

EPS: \$1.62 vs. \$2.16

THE COMPARISONS WERE AFFECTED BY SEVERAL NONRECURRING ITEMS THAT ADVERSELY IMPACTED 2016 RESULTS

THE BANK'S ABILITY TO SUSTAIN LOAN PRODUCTION HAS BEEN IMPRESSIVE

MANAGEMENT IS ATTEMPTING TO RESOLVE TWO PIECES OF LITIGATION IN WHICH THE COMPANY IS INVOLVED

ASSET QUALITY TRENDS REMAIN FAVORABLE

NPAS/ASSETS: 1.26%

RESERVES/LOANS HFI: 1.25%

EPS:
2015A: \$2.83
2016E: \$2.15
2017E: \$2.32

actually increased to 37% of total revenues in 2016's third quarter from 26% in the year-ago quarter. The provision for loan losses likewise increased, reflecting the growth in the loan portfolio, and was \$225,000 in 2016's third quarter, versus \$188,000 in the year-ago quarter. From a noninterest income standpoint, the mortgage business was stronger than we had anticipated, while the SBA was a bit weaker. In total, noninterest income was \$4,251,000, down from \$5,105,000 in the year-ago quarter, while noninterest expense was \$5,161,000 in the third quarter of 2016, up slightly (2%) from \$5,036,000 in the third quarter of 2015. Annualized ROAA in the quarter was 1.33%, while the annualized ROAE was 12.71%.

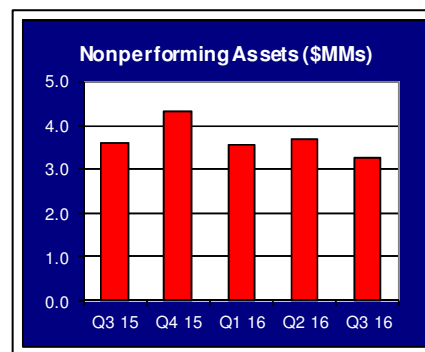
For the first nine months of 2016, West Town Bancorp reported earnings of \$2,337,000, or \$1.62 per diluted share, versus \$3,035,000, or \$2.16 per diluted share, in the year-ago period. Net interest income increased an impressive 24%, noninterest income was down 29% and noninterest expense declined 17% from the first nine months of 2015. A good portion of the drop in income can be attributed to nonrecurring items (such as core processing system conversion costs, charge-offs on the sale of a legacy loan portfolio and tax adjustments). As was stated earlier in this report, we were also impressed with West Town's balance sheet growth in the quarter. Gross loans held for investment jumped during the quarter to \$174 million at September 30, 2016 from \$161 million at June 30, 2016 and \$152 million at September 30, 2015, for an increase of 15% from the year-ago level. As was stated previously, we view this ability to produce loans as one of the most critical functions of a bank, and in the case of West Town Bancorp, it continues to implement systems and take other steps [such as building (or buying) scalable lending platforms] that enhance that ability. Assets over the past year were up 28% and deposits increased 20%, much of latter being low-cost core deposits. West Town Bancorp's also remains in strong shape from a capital standpoint, as the equity-to-assets ratio was 10.3% as of September 30, 2016. The Company's high ROAE (and high retention rate, as it pays no cash dividend) obviously helps to extend the capital (and growth) even further.

Litigation Update

In its most recent press release, the Company provided an update on two pieces of litigation in which it is involved. The first involves a case naming 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 case is ongoing and the outcome is uncertain. However, applying similar settlement terms as those agreed to with other lenders, West Town's implied liability would be about \$1.1 million, assuming the case is treated as a class action suit. If it isn't treated as a class action suit, the Company estimates its liability would be much lower. The other suit involves the purchaser of an SBA loan which subsequently defaulted. The Company and the plaintiffs are attempting to settle the case.

Asset Quality Continues to Improve

At September 30, 2016, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$3.3 million, or 1.26% of assets, versus \$3.7 million, or 1.52% of assets, at June 30, 2016 and \$3.6 million (1.76% of total assets) at September 30, 2015. The allowance for loan losses totaled \$2.2 million, or 1.25% of loans held for investment, at September 30, 2016, as compared to \$1.8 million, or 1.17% of loans held for investment, at the year-ago date.



Projections Maintained

Based on the third quarter results, we projecting the Company will earn \$3.1 million, or \$2.15 per diluted share, in 2016. For 2017, we are projecting earnings of \$3.3 million, or \$2.32 per diluted share. These projections are subject to wide variation based on economic and other conditions.

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