BANK PERFORMANCE NEWSLETTER – Q1 2019
RPCA OPPORTUNISTIC FINANCIAL VENTURES LP ("FUND 2")

Important Market Update: Before presenting the good news about the earnings produced by our banks for the 1st Quarter of 2019, we wanted to highlight that as of May 17th, Fund 2 has *increased in value by approximately 10.42%* since December 31, 2018. Markets began increasing in the 1st quarter and continued to move up in April. Even with increased volatility in May, we have held April's gains. These past ten days have seen some choppy results due to the renewed uncertainty over a trade deal with China. Nonetheless, the general mood among investors is more positive than it was during Q4 of '18. Strong Q1 GDP numbers, a "patient" Fed and continued robust job growth have all contributed to improved sentiment. Most importantly, and as we've said a hundred times, *good earnings* eventually drive stock prices higher. As you will read below, profits at our banks have been great.

Prologue: Ever since the passage of the Tax Cuts and Jobs Act of 2017 on December 22nd of that year, making relevant earnings comparisons between various periods has been somewhat difficult. First of all, in Q4 '17 banks had to revalue their deferred tax asset accounts. This one-time, non-cash/non-operating expense caused backwards comparisons using Net Income after tax to be inconsistent and irrelevant. Then, starting in Q1 '18, since effective tax rates were much lower for banks at that time, comparing Net Income after tax to prior periods would have provided a significantly higher percentage increase to EPS than "pre-tax" results. Accordingly, for the purposes of this letter and to show *core* earnings performance, beginning in Q4 '17 through Q4 '18 we presented "earnings data" on a pre-tax, pre-provision basis. But now that the year-over-year results are once again comparable (since the tax law changes have been in effect for more than one year) we are happily switching back to the standard convention of comparing Net Income after tax to show earnings comparisons. Phew! I hope all this makes sense!

1st Quarter 2019 Headlines

- **Year-Over-Year Weighted Average ("Wtd. Avg.") EPS for Banks in Fund 2 up a Notable 19%!**
- **Key Operating Takeaways from Q1:**
  - **9 Banks in our Portfolio Post Record High Quarterly Earnings**
  - **Wtd. Avg. Net Interest Margin down 3 Basis Points vs. Q4 '18 but up 13 BP's from Q1 '18**
  - **Excellent Overall Loan Quality Continues with Wtd. Avg. NPA's at 0.61% of Assets – well Below the 1% Level Considered Good/Normal**
  - **Wtd. Avg. Capital Remains Strong at our Banks Increasing Nicely from 8.7% to 8.9%**
  - **Dividend Yield(1) for Fund 2 is 2.6%**
- **Profile for Allegiance Bancshares, Inc. ("ABTX") Included Below**

(1) Using the "cost basis" vs. "current market price"

Net Interest Margins: Margins remain a key focus for us and other bank stock investors. The fear of dramatically shrinking margins, especially for community banks, has proven to be overdone – as we anticipated. Many analysts, (and investors who listened to them) believed margins would decline more significantly due to the flattening yield curve. While increasing deposit costs *may* be an issue for some "larger banks" who rely more heavily on *interest-bearing* liabilities as a funding source, they are not as meaningful for our community banks who generally enjoy a higher percentage of *non-interest* bearing deposits as a portion of their core funding. Part of the reason margins are holding up pretty well is continued strong loan growth at our banks. During the upcoming Annual Bank Investment Summit to be held on June 3rd at the Morris Inn, we will show a chart delineating that loans at the banks within our three Funds grew by much more than the industry average. Specifically, Wtd. Avg. loans grew by 8.7%, 23.6% and 9.9% for Funds 1, 2 and 3 respectively; compared to 7.2% for the industry as a whole! (As mentioned previously, this is important because growing loans usually helps margins as loans earn more interest than investments.)

Other Key Metrics: In addition to NIM, the other key metrics we routinely present, (which outline the strong performance of our banks) remain the same as in past Newsletters. YOY EPS are up a very handsome 19%. Additionally, outstanding loan quality – as measured by already historic low levels of non-performing assets to total assets – was virtually flat at 0.61%; and increasing tangible capital levels all point to the successful and excellent results for our banks. Frustratingly, banks Price/Earnings ratios remain lower than historical levels. Today, the P/E for banks is 11.4X compared to 14.1X this same time last year. Yet book value continues to increase, dividends were being upped by many of our banks, and overall long-term value was being created. Even without "P/E's" rebounding fully, the unjustified (our opinion) drop in our bank stocks during Q4 '18 has begun to correct itself and the value of Fund 2 is up ~10.42% YTD.

We hope this information is helpful and comforting to you. As always, if you have any questions or comments, we welcome your call to us at 574-243-6501. Our emails: john@rosenthalpartners.net or adam@rosenthalpartners.net

Allegiance Bancshares, Inc. ("ABTX") – our "Bank of the Quarter" for Fund 2:

By: Adam Henry, Esq., Senior Portfolio Manager, John W. Rosenthal Capital Management, Inc.

Earlier this year we met with the management team of Allegiance Bancshares, Inc. ("Allegiance") in Houston Texas, and walked away from that meeting saying, "these guys are the real deal." Allegiance is a newer position to our portfolio, only added in the last 6 months. Headquartered in Houston, Texas, Allegiance is the holding company for its wholly owned subsidiary, Allegiance Bank, which currently holds roughly $4.5 billion in total assets. Allegiance provides a diversified range of commercial banking services primarily to small- to medium-sized businesses and individual customers in the Houston region. Allegiance Bank operates 27 full-service banking locations, with 26 bank offices and one loan production office in the Houston metropolitan area and one bank office location in Beaumont, just outside of the MSA.

Allegiance is off to a strong start in 2019 as evidenced by the following first quarter highlights:

- Net income increase of 64.4% compared to the first quarter 2018;
- Core loan growth of $1.52 billion year over year, or 67.6%, and $109.4 million for the first quarter 2019 compared to the fourth quarter 2018, or 12.0% (annualized); and
- The successful completion of the Lowery Bank branch acquisition in Sugar Land, Texas with approximately $45.0 million in loans and $16.0 million in customer deposits

We expect the management team and the Allegiance employees to continue executing the organization's growth plans to generate increased returns for its shareholders. Our expectations stem not only from our meetings in Texas, but also the companies recognition as the #4 small business lender in Houston, and as a *2019 Best Companies to Work for in Texas* by Texas Monthly (Allegiance Bank ranked #17 in the Medium Employer Category).

Even though this is one of our newer holdings, we couldn't be more excited about the long-term potential of this bank and the positive impact it will have on our Fund 2 portfolio.

Fund 2 Q1 2019 Recap

Ticker	Quarterly Record EPS?	Total Assets ($bils)	Diluted EPS 1Q '19	Diluted EPS % Change from 4Q '18	Diluted EPS % Change from 1Q '18	Tangible CE / Tangible 1Q '19	Tangible CE / Tangible 4Q '18	Net Interest Margin 1Q '19	Net Interest Margin 4Q '18	NPAs + Loans 90+ Days PD / Assets 1Q '19	NPAs + Loans 90+ Days PD / Assets 4Q '18	Reserves / Total Loans 1Q '19	Reserves / Total Loans 4Q '18	Beta vs. S&P 500	Beta vs. SNL Bank
A		$3.7	$4.27	9%	3%	14.0%	13.5%	3.63%	3.67%	0.89%	0.89%	0.97%	0.98%	0.16	0.05
B	Yes	$6.4	$0.86	5%	18%	11.0%	10.9%	3.74%	3.82%	0.39%	0.57%	2.06%	2.07%	0.94	0.87
C	Yes	$1.9	$0.65	59%	10%	9.2%	9.2%	3.19%	3.20%	0.88%	0.95%	0.97%	0.97%	0.52	0.40
D		$5.3	$1.69	-5%	22%	5.8%	5.8%	2.08%	2.15%	0.12%	0.12%	1.25%	1.25%	0.48	0.45
E	Yes	$0.6	$0.48	12%	20%	10.3%	7.1%	3.77%	3.72%	0.08%	0.07%	1.25%	1.19%	-0.04	0.00
F		$6.0	$0.33	-43%	154%	8.8%	8.8%	3.30%	3.29%	1.01%	1.18%	0.74%	0.77%	0.99	0.93
G	Yes	$3.1	$0.74	35%	28%	8.5%	8.4%	3.94%	4.09%	1.00%	1.05%	1.41%	1.42%	0.80	0.67
H		$4.1	($0.26)	-142%	-145%	7.5%	7.7%	3.44%	3.75%	1.80%	0.97%	1.00%	0.44%	0.63	0.61
I		$9.5	$0.48	-6%	7%	8.8%	9.4%	3.42%	3.40%	0.51%	0.59%	0.78%	0.91%	0.88	0.85
J	Yes	$2.0	$0.67	46%	60%	8.7%	8.6%	3.79%	3.69%	1.31%	1.43%	1.23%	1.26%	0.47	0.50
K		$6.0	$0.25	-19%	9%	8.0%	8.0%	2.89%	3.05%	0.29%	0.25%	0.39%	0.40%	0.81	0.74
L		$5.1	$0.28	-18%	-16%	8.9%	8.8%	3.49%	3.55%	0.46%	0.41%	0.49%	0.59%	0.78	0.77
M		$14.1	$0.85	-23%	-17%	8.7%	9.2%	4.02%	4.03%	0.12%	0.17%	0.42%	0.57%	1.13	1.08
N		$3.6	$0.72	3%	9%	9.4%	9.7%	3.83%	4.01%	0.70%	0.72%	0.83%	0.81%	0.91	0.81
O		$6.1	$0.81	108%	-25%	8.0%	6.8%	4.99%	4.64%	0.69%	0.79%	1.39%	0.63%	0.87	1.20
P		$3.3	$0.60	-3%	-6%	9.0%	8.8%	3.51%	3.62%	0.82%	0.79%	1.23%	1.22%	0.85	0.72
Q		$1.1	$0.38	3%	9%	9.3%	8.7%	4.10%	4.02%	0.09%	0.08%	1.23%	1.22%	0.44	0.25
R		$2.8	$0.01	-75%	-67%	8.5%	8.6%	2.96%	3.12%	0.82%	0.83%	0.53%	0.59%	0.98	0.83
S	Yes	$8.3	$0.85	18%	39%	9.3%	9.0%	3.57%	3.60%	0.50%	0.46%	0.80%	0.81%	0.88	0.84
T	Yes	$1.8	$0.62	114%	265%	8.9%	8.8%	3.41%	3.24%	1.35%	1.43%	0.61%	0.60%	0.45	0.34
U		$11.6	$0.44	-12%	22%	9.5%	9.7%	3.52%	3.58%	0.40%	0.41%	0.64%	0.63%	0.97	0.89
V	Yes	$0.6	$0.28	155%	22%	8.4%	8.3%	3.54%	3.78%	0.27%	0.25%	0.50%	0.50%	0.22	0.09
W		$4.8	$0.58	-2%	2%	10.1%	10.3%	4.25%	4.49%	0.99%	1.01%	0.71%	0.71%	0.93	0.81
X	Yes	$1.4	$0.27	286%	8%	11.0%	11.2%	3.60%	3.62%	0.83%	0.57%	0.81%	0.81%	0.14	0.07
Wtg. Avg.		**$5.5**		**6%**	**19%**	**8.9%**	**8.7%**	**3.59%**	**3.62%**	**0.61%**	**0.62%**	**0.99%**	**0.93%**	**0.73**	**0.70**

Note: For certain performance metrics, if data was not available, consolidated and/or bank regulatory data may have been used.

Legend: Our color coded legend above gives an overview of GREAT, GOOD and BELOW PAR – but oftentimes does not tell the whole story. We do NOT adjust earnings for one-time events such as acquisition costs. So, a "red" in one quarter may end up being a bit misleading. Furthermore, given the lines of business for certain of our banks, there is some seasonality to income; which makes quarterly comparisons difficult. Green is outstanding and represents banks which have posted EPS increases of more than 5%, whose net interest margin is up and whose non-performing loans are down. Yellow is good and represents banks which have posted EPS gains within a range, up or down, of 4.9%. Red represents banks which have posted EPS declines of greater than 5%, had a decrease in their net interest margin or an increase in non-performing loans.