BANK PERFORMANCE NEWSLETTER – Q2 2020
RPCA OPPORTUNISTIC FINANCIAL VENTURES LP ("FUND 2")

Prologue: Bank stock prices continue to rise in the 3rd Quarter. As of this writing, the QTD increase in Fund 2 is ~4%. Both macro-economic factors & actual operating results from our banks have contributed to this uptick in values. We encourage you to read on for more details. Also, in case you missed it, the following is a link to the *2nd Quarter 2020 "General Newsletter"* which we sent you on July 24th. These two communications provide a comprehensive update on your investment(s) with us.

2nd Quarter 2020 Headlines

- **Bank Earnings/Operating Performance Exceeds Analysts Expectations!**
- **Year-Over-Year Pre-Provision EPS for Banks in Fund 2 Increased an Incredible 21%**
- **Tangible Book Value for Our Banks Continues to Grow, Creating Long-Term Value**
- **Other Key Operating Takeaways from Q2:**
    - **Strong Revenues Enable Reserve Building to Continue in Pandemic Environment**
    - **Record Mortgage Loan Fees Contribute to Non-Interest Income Increases**
    - **SBA Loan Origination Fees Balloon Due to Government Guaranteed Payroll Protection Loan Program ("PPP Loans")**
    - **As anticipated, Wtd. Avg. NIM declined 36 Basis Points vs. Q4 '19 due to PPP Loans.**
    - **Loan Quality Remains Very Good with Wtd. Avg. Non-Performing Assets/Assets at 0.50% Decreasing from 0.51% at the end of 2019; far Below the 1% Level Considered Normal. Detailed Commentary on Loan Quality Below**
    - **Dividend Yield(1) for Fund 2 is 3.1%**

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

- **Detailed Portfolio Rebalancing Update Provided Below**

Analysts Expectations Exceeded: Overall, bank earnings have surprised to the upside and there have been many upward revisions to EPS forecasts. Industry wide, 82% of banks which have reported have beaten consensus forecasts (despite continued reserve builds) on strong mortgage banking results and good expense management. Also, we note that PPP Loans, while adding some noise to certain metrics we track (i.e. net interest margin, loan growth, reserves/loans, etc.), have resulted in meaningful additional interest and fee income and contributed to EPS beats.

Despite certain pressures, industry-wide, median *total* revenue growth was 3.7% (linked quarter) as extraordinarily strong mortgage banking revenues have driven median *fee* income growth up 7.7%. And due to strong expense management, median efficiency ratios have declined to 57%, compared to 60% in Q1 '20 and 58% Q2 '19.

Pre-provision Results Shine, Tangible Book Value Grows: For reasons mentioned above, pre-provision earnings increased 21%. Importantly, net income less dividends paid to shareholders have generally resulted in increased tangible book values for our banks. This is very meaningful. Ultimately, stock prices are partially determined based on a multiple of book value and earnings. Currently, those multiples have been somewhat depressed compared to historical standards. We believe that as P/B and P/E ratios return to more customary levels, the increase in book value being generated by our banks will translate into higher stock prices.

Fee Income Expands Robustly and Reserves Increase: We've added an important metric to our Performance Recap Chart included at the end of this letter. As a result of the expanded fee income from mortgage origination activities and the PPP Loan program, total non-interest income as a percentage of overall revenue at our banks was 21% in Q2. This has been a contributing factor which allowed banks to build reserves without significant negative consequences to net income.

Again, as highlighted in the Performance Recap Chart, Reserves/Total Loans have increased from 0.95% at the end of 2019 to 1.26% at the end of the 2nd quarter. This is despite of an abnormally large increase in Total Loans, as PPP Loans exploded banks' loan portfolios. The point is: excluding the huge amount of fully guaranteed PPP Loans, this important ratio would be much higher! These heightened reserve levels serve to protect banks earning should non-performing loans increase in the future.

Interest Income Up Even though Margins Contract: Net interest margins have long been a key metric in analyzing banks. However, it is not the only determinant of *net interest income*. Loan spreads, i.e. the difference between the yields on earning assets and the cost of liabilities (deposits and other borrowings) is only part of the equation to determine net interest income. The actual *volume* of loans is another key factor governing net interest income growth. This quarter, the low-priced PPP Loans (1% rate) definitely hurt margins – but the massive volume of these loans generally contributed to an overall increase in net interest income. The 25 bp median decline in industry-wide bank margins, as well as the 36 basis point decrease from the banks in our portfolio, is therefore likely overstated due to the lower yielding PPP loans. Even so, we must acknowledge that the excess liquidity from all the Fed stimulus and the impact of Fed rate cuts have been a drag on *core* margins this year. Once again, we bring up the all-important notion that it's not only the actual level of rates, but the shape of the yield curve that ultimately drives net interest margins. Happily, the yield curve has steepened – meaning long-term rates are higher than short term rates – and this phenomenon should allow banks to improve their margins over time as liabilities reprice to lower absolute rates. Therefore, we are NOT unduly concerned about the new level of margins at our banks; but rather, we're pleased with the higher revenue from the PPP Loans - which have a zero risk-based capital weighting due to the 100% government guarantee.

Loan Quality Holding Up: The traditional measure of loan quality is Non-Performing Assets to Total Assets. Again, noise due to PPP Loans makes this bellwether less indicative of overall loan quality than usual. It is, however, still relevant. As noted in the headlines, year to date NPA/Total Assets decreased from 0.51% to 0.50%, which is very much in a historically acceptable range. Emphasizing once again, strong revenue growth and good expense management have driven earnings generally above consensus expectations and allowed banks to build reserves even more than we saw in Q1. While visibility into the next two quarters and beyond remains murky due to uncertainty presented by the disease, and management teams have maintained a cautious tone on earnings calls, consensus earnings estimates are more positive this quarter compared to the significant forecast reductions in Q1. To date 2020 and 2021 consensus EPS expectations are up at (not by) 68% and 50% respectively for the banks which have reported 2nd quarter results.

In spite of good loan quality outcomes so far, NPA's are likely to continue to rise due to the lingering effects of the pandemic. We are staying in close touch with our banks and monitoring how borrowers who accepted temporary payment deferrals for certain loan payments begin to repay their loans now that the deferral period is over. We are also closely watching bank portfolios that have somewhat higher overall exposures to so-called "at-risk industries"; namely, entertainment, lodging, restaurants, and energy. Banks with higher concentrations in non-owner occupied commercial real-estate – especially retail and office building loans – are also receiving our special attention. That said, we reiterate our confidence in the long-standing conservative loan underwriting practices of our banks which have generated substantially better-than-peer outcomes throughout various credit cycles.

Now, let's switch gears…

Portfolio Rebalancing Update: We constantly strive for transparency. But we don't intend to overload or bore you with too much information either. Given all that is occurring in these uncertain times, we've added the following detailed table to keep you abreast of the actions we've taken and the logic behind them. **[Note: the *Culture* of any organization we buy is of utmost importance. All companies on this list have passed our rigorous screening criteria from a cultural perspective.]**

Changes to Portfolio – 2nd Quarter 2020

Bank	Action	Reasons for Change
L	Partial Sale	Sold 20,0000 shares in a rebalancing exercise repositioning this company in line with our target allocation. This position remains a strong long-term position in the portfolio. Internal rating: C. External rating: Outperform.
J	Full Sale	Initiated sale of entire position in the company in anticipation of negative economic impact due to the company's exposure in restaurant/hospitality lending. Internal rating: B. External rating: Neutral.
R	Partial Sale	Sold 29,000 shares in a rebalancing exercise repositioning this company in line with our target allocation. This position remains a strong long-term position in the portfolio. Internal rating: B. External rating: Market Perform.
W	Buy	Bought 3,500 shares to initiate our position in this new name. With a price target 15% above its current price per share, we are excited about this growth story. 2Q2020 showed solid results with fee income exceeding projections due to strong investment banking fees and other gains. Balance sheet growth was also remarkable as deposits rose 21%. Internal rating: A. External rating: Outperform.
E	Buy	Bought 15,000 shares expanding our current position. Having identified a value in the current pricing we took this opportunity to solidify the Fund's holding in what has proven to be a strong company. Internal rating: A. External rating: Buy.
T	Buy	Bought 15,000 shares expanding our current position. Having identified a value in the current pricing we took this opportunity to solidify the Fund's holding in what has proven to be a strong company. We believe that the company has demonstrated preparedness and that the proven credit culture will serve it well going forward. Internal rating: B. External rating: Strong Buy.
NA	Full Sale	Sold entire position in this company. The sale was prompted by a credit portfolio with a disproportionately high exposure to the energy sector that could prove problematic given the current state of the market segment. Internal rating: B. External rating: Market Perform.

B	Partial Sale	Sold 6,5000 shares in a rebalancing exercise repositioning this company in line with our target allocation. This position remains a strong long-term position in the portfolio. In Q2 the company was able to expand the core NIM and potential for further expansion is real. Internal rating: B. External rating: Market Perform.
F	Partial Sale	Sold 16,000 shares in a rebalancing exercise to harvest short-term capital losses needed to offset hedging activity. We maintain a strong position in this company which had a solid 2Q2020 led by core pre-tax, pre-provision income that beat expectations. Internal rating: B. External rating: market Perform.
NA	Full Sale	Sold entire position in this company. The sale was prompted by perceived headwinds from slower business activity. Internal rating: C. External rating: Outperform.
NA	Full Sale	Sold entire position in this company. The disposition was made upon belief that the company's market may be disproportionately affected by COVID related disruptions. Internal rating: A. External rating: Neutral.
NA	Full Sale	Sold entire position in this company. Recognized opportunity to liquidate position while share price while shares traded at a premium to peers on a price to tangible book value basis. Internal rating: B. External rating: Outperform.

Refreshing portfolios thoughtfully and deliberately is part of our ongoing work on your behalf. We take great joy in doing it.

We hope all this information is helpful to you. As always, if you have any questions or comments, we welcome your call to us at 574-243-6501. Or, shoot us an email to: john@rosenthalpartners.net or adam@rosenthalpartners.net

With warmest personal regards,

John Adam

Fund 2 Q2 2020 Recap

Ticker	Quarterly Record Pre-Prov. EPS?	Total Assets ($bils)	Pre-Provision EPS (1) 2Q '20	% Change from 1Q '20	% Change from 2Q '19	Tangible CE / Tangible Assets 2Q '20	Tangible CE / Tangible Assets 4Q '19	Net Interest Margin 2Q '20	Net Interest Margin 4Q '19	Non Int. Inc. / Total Revenue 2Q '20	Non Int. Inc. / Total Revenue 2Q '19	NPAs + Loans 90+ Days PD / Assets 2Q '20	NPAs + Loans 90+ Days PD / Assets 4Q '19	Reserves / Total Loans 2Q '20	Reserves / Total Loans 4Q '19	Beta vs. S&P 500	Beta vs. SNL Bank
A		$7.4	$1.06	5%	-1%	10.7%	11.4%	3.22%	3.54%	32%	31%	0.95%	0.45%	2.29%	2.18%	1.09	0.90
B	Yes	$5.8	$0.86	49%	26%	8.8%	9.8%	4.08%	4.14%	3%	6%	0.97%	1.12%	1.04%	0.75%	1.14	0.93
C	Yes	$2.9	$0.78	88%	23%	9.3%	10.4%	3.13%	3.47%	65%	61%	0.22%	0.37%	1.28%	1.35%	0.40	0.29
D		$2.0	$0.53	12%	-14%	8.2%	9.6%	2.81%	2.92%	4%	8%	0.91%	1.16%	1.22%	0.84%	0.86	0.65
E	Yes	$2.8	$0.34	7%	43%	9.2%	10.7%	3.36%	3.68%	3%	4%	0.05%	0.03%	1.27%	1.18%	NA	NA
F		$5.5	$0.19	-26%	-21%	11.1%	12.1%	3.17%	3.25%	5%	4%	0.91%	1.20%	1.61%	1.48%	NA	NA
G		$5.9	$1.81	12%	29%	5.9%	6.0%	1.96%	2.16%	13%	18%	0.06%	0.08%	1.16%	1.22%	0.87	0.68
H	Yes	$0.9	$0.83	18%	41%	6.7%	7.0%	3.18%	3.78%	13%	11%	0.00%	0.01%	1.19%	1.31%	0.14	0.11
I	Yes	$7.6	$0.79	23%	31%	8.7%	9.4%	3.42%	3.35%	7%	4%	1.19%	1.20%	1.08%	0.74%	1.21	1.02
J		$4.0	$0.81	7%	11%	7.7%	9.0%	3.59%	3.95%	11%	12%	0.83%	0.80%	1.33%	1.31%	1.49	1.06
K		$10.8	$0.64	24%	17%	8.3%	9.1%	3.02%	3.30%	27%	28%	0.31%	0.39%	1.31%	0.80%	1.13	0.93
L		$2.5	$0.70	3%	51%	7.6%	8.7%	3.34%	3.73%	25%	26%	1.03%	1.13%	1.33%	1.13%	1.06	0.83
M	Yes	$7.1	$0.47	19%	40%	7.7%	8.3%	2.96%	2.87%	15%	18%	0.26%	0.26%	0.54%	0.41%	1.18	0.91
N	Yes	$1.8	$0.35	13%	14%	9.7%	11.1%	3.15%	3.31%	5%	4%	0.70%	1.20%	0.87%	0.80%	1.12	0.81
O		$5.7	$0.42	11%	8%	8.6%	9.4%	3.36%	3.50%	20%	20%	0.53%	0.47%	1.38%	0.49%	1.20	0.99
P	Yes	$4.3	$0.90	34%	34%	8.7%	10.1%	3.16%	3.66%	26%	14%	0.45%	0.40%	0.97%	0.84%	1.10	0.91
Q		$8.8	$0.70	-58%	-5%	5.6%	8.1%	3.27%	4.97%	40%	39%	0.59%	0.53%	1.84%	0.78%	1.21	1.37
R		$5.2	$0.93	10%	6%	7.8%	8.5%	3.37%	3.82%	18%	18%	0.87%	1.07%	1.54%	0.84%	1.23	0.99
S	Yes	$1.5	$0.52	33%	31%	7.9%	9.5%	3.54%	4.05%	8%	11%	0.06%	0.10%	1.15%	1.22%	0.90	0.63
T		$11.3	$0.51	-6%	6%	8.3%	9.7%	3.21%	3.51%	13%	13%	0.33%	0.44%	0.46%	0.27%	0.94	0.80
U	Yes	$13.3	$1.15	44%	34%	7.6%	9.4%	3.45%	3.40%	18%	20%	0.61%	0.50%	1.57%	0.83%	1.05	0.88
V		$10.5	$0.44	-2%	-17%	9.7%	10.4%	2.96%	3.25%	17%	17%	0.73%	0.87%	1.11%	0.76%	1.11	1.29
W		$85.7	$5.37	-7%	-12%	7.9%	8.4%	2.78%	3.29%	39%	35%	0.18%	0.19%	1.61%	0.92%	1.53	1.15
X	Yes	$15.6	$0.72	95%	42%	8.0%	10.0%	2.85%	3.38%	42%	38%	0.28%	0.40%	0.87%	0.66%	1.10	0.88
Y		$13.6	$1.03	-6%	-5%	9.7%	11.0%	3.89%	4.38%	26%	25%	0.39%	0.46%	2.45%	0.56%	1.22	1.35
Wtg. Avg.		**$8.8**		**19%**	**21%**	**8.1%**	**9.1%**	**3.13%**	**3.49%**	**21%**	**20%**	**0.50%**	**0.51%**	**1.26%**	**0.95%**	**0.99**	**0.83**

Note: For certain performance metrics, if data was not reported, consolidated and/or bank regulatory data for the most recent quarter available may have been used.

(1) Pre-Provision EPS = Pre-provision net revenue per share assuming a 21% federal marginal tax rate and based on average diluted shares outstanding. Pre-Provision Net Revenue = Net Interest Income + Noninterest Income - Noninterest Expense

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.

Finally, as always, past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the advisor), will be profitable or equal to past performance levels.