Bank Performance Newsletter – Q3 2019
RPCA Financial Ventures QP & LP ("Fund 1")

Thanksgiving Greeting & Important Interim Update: At this very special time of year, we'd like to take a moment to extend our warmest wishes to you and your family for a Happy Thanksgiving! As we count our blessings, we most assuredly feel great gratitude to you for the relationship we enjoy and the opportunity to serve you in this venture. We take our duties as stewards of your resources seriously and relish this responsibility. Investing in great community banks is our passion and you allow us to fulfill that calling. Thanks so much for the faith and confidence you have placed in us. Again, a Blessed Thanksgiving to you!

Our 3rd Quarter Bank Performance Newsletter begins below. But before proceeding, we want to provide this quick *stock price* performance update. You may recall from our 3rd Quarter General Newsletter that Q3 was topsy-turvy – but finished basically flat/unchanged. **Happily, since September 30, 2019, the gross increase in Fund 1 is up approximately 4.35% as of November 8th.** The reasons for this include: 1) very strong quarterly earnings from our banks (details imbedded in the letter below), 2) a meaningful steepening of the yield curve, and 3) less concern regarding a possible recession and/or its severity. We've highlighted in past newsletters our beliefs that the economy is stronger than most believe; that the flattening of the yield curve is overdone; and most importantly, that our banks earning powers remains strong. We are very pleased to see our convictions play out. We hope these outcomes reaffirm your commitment to long-term value investing as the best approach to managing your wealth.

Finally, as mentioned in our previous recent letters, we continue to hold slightly higher proportions of cash than usual. Volatility hasn't evaporated. While the *mood* (or psychology) of investors has improved, it's still fickle. We are judiciously deploying our built-up cash reserves into bargains. This, we believe, is exactly how you would have us behave. We shall continue to do so.

3rd Quarter 2019 Headlines

- **Year-Over-Year Weighted Average ("Wtd. Avg.") EPS for Banks in Fund 1 up 6%**
- **Key Operating Takeaways from Q3:**
  - **7 Banks in our Portfolio Post Record High Quarterly Earnings!**
  - **Wtd. Avg. Net Interest Margin down 6 Basis Points vs. Q4 '18 but unchanged/identical to Q2 '19**
  - **Excellent Overall Loan Quality Continues with Wtd. Avg. NPA's at 0.44% of Assets – well Below the 1% Level Considered Good/Normal**
  - **Wtd. Avg. Capital Remains Very Strong at our Banks Increasing Nicely from 9.9% to 10.2%**
  - **Dividend Yield(1) for Fund 1 is 4.16%**
  - **Fee Income Increases Markedly at Our Banks**
  - **Expense Control Stellar**

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

Bank Performance Recap: We shared a sneak peek of drivers impacting Q3 earnings in the General Newsletter sent to you October 22nd. The main themes for stronger-than-expected quarterly performance results included: 1) the consumer remains very strong and borrowings to finance all manner of things has fueled robust balance sheet growth, thereby generating higher interest income, 2) fee income has far outstripped analysts' expectations – primarily driven by a strong resurgence of residential mortgage originations (both purchases and refi's), 3) loan losses remain at historic lows, 4) operating expenses are lower than anticipated, and 5) net interest margins are not contracting to the extent predicted. In fact, as noted in the headlines, they are flat/identical to Q2 2019.

Net Interest Margins: Margins remain a key focus for us and other bank stock investors. Reiterating our previous comments, to date, the fear of dramatically shrinking margins, especially for community banks, has proven to be overdone. Many analysts, (and investors who listened to them) believed margins would decline more significantly due to the flattening yield curve. Thankfully, the yield curve has begun to steepen and "headline risk" over collapsing margins has diminished. As previously emphasized, increasing deposit costs *may* be an issue for some "larger banks" who rely more heavily on *interest-bearing* liabilities as a funding source; but 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. Another reason margins are holding up so well is continued strong loan growth at our banks. This is important because growing loans usually helps margins as loans earn more interest than investments.

Other Key Metrics: In addition to net interest margin, most other key metrics we routinely present, (which outline the strong performance of our banks) continue to meet or exceed our expectations. Year-over-year EPS is up 6%. Additionally, outstanding loan quality – as measured by already historic low levels of non-performing assets to total assets – remains virtually flat at 0.44%; and increasing tangible capital levels all point to the successful and excellent results for our banks. Importantly, this quarter saw a meaningful uptick in fee-based income for our banks. Low rates have once again caused mortgage origination and refinancing activity to move up. Service charge income and fees from trust and wealth management activities also posted solid gains. Frustratingly, banks Price/ Earnings ratios remain lower than historical levels. Yet book value continues to increase, dividends are being upped by many of our banks, and overall long-term value is being created. Even without "P/E's" rebounding fully, the unjustified (our opinion) drop in our bank stocks which occurred during August has continued to correct itself and the gross value of Fund 1 is up ~4.35% since the end of Q3.

We hope 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,

Fund 1 Q3 2019 Recap

Ticker	Quarterly Record EPS?	Total Assets ($bils)	Diluted EPS 3Q '19	Diluted EPS % Change from 2Q '19	Diluted EPS % Change from 3Q '18	Tangible CE / Tangible 3Q '19	Tangible CE / Tangible 4Q '18	Net Interest Margin 3Q '19	Net Interest Margin 4Q '18	NPAs + Loans 90+ Days PD / Assets 3Q '19	NPAs + Loans 90+ Days PD / Assets 4Q '18	Reserves / Total Loans 3Q '19	Reserves / Total Loans 4Q '18	Beta vs. S&P 500	Beta vs. SNL Bank
A		$8.4	$1.00	-2%	2%	9.8%	10.8%	3.92%	3.80%	0.66%	0.56%	0.99%	1.03%	0.91	0.89
B	Yes	$2.6	$0.69	15%	11%	11.7%	11.3%	4.13%	3.94%	0.48%	0.60%	0.90%	0.90%	0.72	0.72
C	Yes	$0.5	$0.36	9%	13%	11.1%	10.6%	4.24%	4.20%	0.41%	0.19%	1.48%	1.53%	0.09	0.11
D		$4.8	$0.81	4%	-1%	8.6%	8.1%	3.57%	3.82%	0.40%	0.49%	0.59%	0.57%	0.80	0.83
E		$4.0	$0.74	10%	12%	12.5%	11.8%	4.15%	4.24%	0.57%	0.45%	0.58%	0.57%	0.85	0.78
F		$9.0	$1.07	-1%	-5%	12.1%	12.1%	3.74%	4.00%	0.65%	0.36%	0.97%	1.00%	0.87	0.91
G	Yes	$4.2	$0.44	2%	13%	9.3%	9.1%	2.55%	2.67%	0.05%	0.08%	0.93%	0.94%	0.79	0.77
H		$4.4	$0.49	-20%	-11%	10.2%	9.0%	3.95%	3.86%	0.32%	0.34%	0.52%	0.58%	0.87	0.85
I		$3.2	$0.26	0%	-7%	9.7%	9.0%	4.28%	4.46%	0.46%	0.49%	1.38%	1.47%	0.82	0.81
J		$5.5	$0.48	12%	14%	10.4%	9.9%	4.21%	4.37%	1.52%	0.95%	0.98%	0.96%	0.99	0.92
K		$4.9	$0.83	-2%	4%	11.7%	10.6%	3.41%	3.55%	0.51%	0.32%	1.26%	1.24%	0.89	0.90
L	Yes	$2.4	$0.59	2%	7%	12.2%	12.1%	5.09%	5.48%	1.09%	0.46%	1.80%	1.49%	0.83	0.79
M	Yes	$3.5	$0.76	6%	27%	10.8%	11.0%	3.88%	3.87%	0.11%	0.13%	0.94%	1.00%	0.82	0.87
N		$6.6	$1.34	6%	-1%	8.6%	7.8%	3.45%	3.37%	0.47%	0.42%	0.85%	0.90%	0.82	0.83
O	Yes	$5.2	$1.08	9%	7%	8.3%	7.6%	2.74%	2.97%	0.37%	0.38%	0.71%	0.73%	0.77	0.82
P	Yes	$2.5	$0.46	12%	7%	8.3%	8.3%	2.94%	2.96%	0.02%	0.08%	0.93%	0.97%	0.92	0.81
Wtg. Avg.		**$4.6**		**3%**	**6%**	**10.2%**	**9.9%**	**3.68%**	**3.74%**	**0.44%**	**0.36%**	**0.98%**	**0.99%**	**0.82**	**0.81**

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.

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.