BANK PERFORMANCE NEWSLETTER – Q4 2020
RPCA FINANCIAL VENTURES QP & LP ("FUND 1")

Prologue: The robust increase in bank stock prices which began in Q4 '20, have blossomed further so far this year. *At this writing bank stocks are up roughly 14% year-to-date '21.* While this letter is primarily focused on actual operating and earnings results posted by our banks in Q4 2020, we can't help but provide some additional stock price info on certain of our portfolio holdings. (See "Changes to Portfolio 2020" below.) And, in case you missed it, we are delighted to attach the following link to our *2020 Annual Investor Letter*. *We are very bullish about banks and their prospects during 2021 and strongly encourage you to consider adding to your investment(s) with us at this time.*

4th Quarter 2020 Headlines – Operating and Earnings Performance

- **Again this Quarter, Bank Earnings/Operating Performance Radically Exceeds Analysts Expectations!**
- **Year-Over-Year EPS for Banks in Fund 1 Increased a Stout 22% while Linked-Quarter EPS Pop 20%!**
- **Tangible Book Values Continues to Grow for our Banks, Creating Long-Term Shareholder Value**
- **Other Key Operating Takeaways from Q4:**
    - **Curtailment, Elimination or Reversal of Provisioning Expenses in Q4 is the Main Driver of Outstanding EPS Gains by our Banks**
    - **Record Mortgage Loan Fees Contribute to Big Non-Interest Income Increases**
    - **Accretion of SBA Loan Origination Fees Accelerated Due to Forgiveness of Government Guaranteed Payroll Protection Program ("PPP") Loans**
    - **As Anticipated, Wtd. Avg. NIM Stabilizes As Yield Curve Steepened Dramatically in Q4**
    - **Loan Quality Remains Very Good with Wtd. Avg. Non-Performing Assets/Assets at 0.50% – Still far Below the 1% Level Considered Normal. More Commentary on Loan Quality Below**
    - **Dividend Yield(1) for Fund 1 is 3.03%**

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

Recap of Stock Price Gains on Certain Holdings from Portfolio Rebalancing During '20 Provided Below:

While we remain *absolutely committed to our core investment philosophy and approach*, rebalancing, refreshing and updating our portfolio is an essential part of our responsibility to all of our investors. Our philosophy of buying the best-of-the-best community banks that have produced consistently strong operating and earnings metrics remains sacrosanct. Furthermore, *culture remains king!* If we've said it once, we've said it a thousand times: "we *screen* on financials but *invest* based on the culture of the company". That has not and will not change.

In the past year we are pleased to have expanded our portfolios with banks having higher betas and growth potential as well as those with unique niches in certain market segments and product lines. In that vein, we are delighted to provide the following information about certain exciting holdings we added in late 2019 and 2020.

Changes to Portfolio 2020

Bank	Shares Added	Cost Basis	12/31/2020 Value	$Gain	% Gain
B	40,050	$896,750	$1,142,451	$245,701	27%
D	236,936	$2,129,750	$3,273,988	$1,144,239	54%
J	20,372	$651,981	$863,661	$211,679	32%
N	113,640	$2,700,194	$3,667,318	$967,123	36%
O	68,157	$1,361,838	$2,197,872	$836,035	61%
P	131,445	$1,345,641	$2,139,267	$793,627	59%
Q	97,361	$2,227,392	$2,867,281	$639,889	29%
R	14,100	$1,481,223	$1,965,245	$484,022	33%
T	8,250	$1,521,341	$3,199,598	$1,678,256	110%
W	46,023	$1,919,283	$2,849,871	$930,588	48%
X	47,300	$1,570,405	$2,119,764	$549,359	35%

As you can see, these augmentations to our portfolio last year significantly boosted the overall returns for the Fund. Coupled with the hedging strategy we utilized in 2020, **we delivered alpha and beat our benchmark on a full year basis by a net (i.e. after all fees and expenses) 12.5%!**

Earnings Exceed Analyst's Expectations: Overall, bank earnings have again surprised to the upside and caused many upward revisions to EPS forecasts and target stock prices. Industry wide, a whopping 85% of banks which have reported have *beaten* consensus forecasts due to moderating provision expense, 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 – especially due to the acceleration of realized fees from the forgiveness of PPP Loans.

Industry-wide, median *total revenue growth* was a healthy 3.1% (linked quarter) on top of 3.9% growth in Q3 as extraordinarily strong mortgage banking revenues have continued during Q4. Median *fee* income remained very strong. Q4 growth increased yet another 0.4% over and above the torrid pace of 12.7% in Q3. And due to solid expense management, median efficiency ratios have declined to 57%, compared to 60% in Q4 '19. (Lower is better!) As expected, fee income as a percentage of total revenue has increased to 27% this quarter compared to 26% in Q4 '19!

YOY and Linked-quarter EPS Results Shine, Tangible Book Value Grows: Repeating the main story, moderating provision expenses industry-wide this quarter drove YOY EPS up a stout 22%, while YOY *pre-provision* earnings were up a whopping 27%. 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. Even with the increased stock prices generated in Q4 and so far this year, those multiples remain below historical standards. We believe that as P/B and P/E ratios continue to return to more customary levels, the increase in book value being generated by our banks will translate into even higher stock prices.

Reserves for Possible Loan Losses Continue to Increase: As highlighted in the Performance Recap Chart, Reserves/Total Loans have increased from 0.87% at the end of 2019 to 1.40% at the end of the 4th quarter. This is despite 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 earnings should non-performing loans and any potential resulting charge-offs increase in the future.

Margins Stabilize and Actually Increase on a Linked-Quarter Basis: 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 compared to a year ago – but the massive volume of these loans generally contributed to an overall increase in net interest income. Reviewing the table at the end of this letter, you'll see YOY margin compression of 33 basis points. Not shown however, is the fact margins actually improved 9 bp's from Q3 '20, leading to our claim of stabilizing margins.

As PPP Loans continue to be forgiven, margins will rebound. 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 meaningfully with the 10/2 spread on UST's now hovering around 120 basis points compared to 70 bp's last quarter. We are NOT unduly concerned about the current 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, NPA/Total Assets were a very modest 0.50% at the end of 2020 compared to 0.51% a year ago, which is very much in the historically acceptable range. While visibility into the next several quarters and beyond remains a bit uncertain due to the pandemic and its ultimate impact on borrowers, consensus earnings estimates for most all banks have increased. Since the market is both backward AND forward looking, this too has caused bank stock prices to rally so far this quarter.

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 initial deferral period is over. Loan deferrals continue to decline – by meaningful amounts at our banks. We continue to closely watch 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 – also continue 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.

We trust 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 1 Q4 2020 Recap

Ticker	Quarterly Record Pre-Prov. EPS?	Total Assets ($bils)	Pre-Provision EPS (1)			Earnings Per Share			Tg. CE / Tg. Assets		Net Interest Margin		Non Int. Inc. / Revenue		NPAs+90 PD/		Reserves / Total Loans		Beta vs.	
				% Change from			% Change from												S&P	SNL
			4Q '20	3Q '20	4Q '19	4Q '20	3Q '20	4Q '19	4Q '20	4Q '19	4Q '20	4Q '19	4Q '20	4Q '19	4Q '20	4Q '19	4Q '20	4Q '19	500	Bank
A		$3.4	$0.60	-4%	-10%	$0.58	-3%	-5%	10.3%	12.8%	3.20%	4.75%	21%	12%	0.33%	1.38%	2.41%	1.85%	1.24	0.98
B		$3.0	$0.68	-39%	32%	$0.57	-42%	33%	9.3%	10.4%	3.25%	3.47%	63%	62%	0.28%	0.37%	1.63%	1.35%	0.49	0.37
C	Yes	$9.2	$1.16	10%	13%	$1.06	68%	-1%	9.9%	9.9%	3.56%	3.81%	31%	32%	0.81%	0.58%	1.42%	0.96%	1.18	1.03
D	Yes	$6.3	$0.45	1%	125%	$0.41	2%	NM	9.2%	8.5%	3.59%	3.10%	31%	37%	1.06%	1.14%	0.36%	0.34%	1.35	1.11
E		$2.9	$0.60	-7%	-19%	$0.60	9%	-9%	11.3%	11.3%	3.48%	3.91%	7%	9%	0.49%	0.42%	1.10%	0.90%	1.07	0.86
F		$0.5	NA	NA	NA	$0.31	3%	-3%	10.3%	11.5%	3.85%	4.13%	22%	11%	1.31%	0.50%	1.25%	1.43%	0.28	0.21
G		$15.0	$1.16	-13%	1%	$1.10	7%	16%	8.7%	9.8%	3.66%	4.30%	16%	14%	0.29%	0.37%	1.65%	1.06%	1.31	1.09
H		$5.4	$0.73	-12%	-18%	$0.78	18%	-4%	8.1%	8.1%	3.05%	3.39%	36%	39%	0.23%	0.30%	1.48%	0.61%	1.15	0.95
I	Yes	$2.9	$0.44	21%	54%	$0.17	-32%	-41%	9.0%	10.7%	3.63%	3.68%	4%	5%	0.04%	0.03%	1.50%	1.18%	NA	NA
J		$31.0	$3.01	-33%	220%	$2.83	-27%	183%	6.6%	7.0%	2.79%	2.94%	64%	52%	0.33%	0.34%	0.98%	0.59%	1.09	1.09
K	Yes	$5.0	$0.77	19%	26%	$0.79	44%	34%	10.2%	10.3%	3.72%	4.04%	23%	21%	0.44%	0.32%	1.51%	0.53%	0.94	0.76
L	Yes	$5.8	$0.98	8%	15%	$0.97	9%	13%	11.2%	12.0%	3.30%	3.32%	21%	22%	0.30%	0.50%	1.32%	1.24%	0.96	0.77
M	Yes	$2.4	$1.14	10%	108%	$1.02	52%	70%	6.2%	10.2%	3.30%	3.60%	30%	22%	0.82%	1.29%	1.26%	1.02%	NA	NA
N		$7.3	$0.88	64%	37%	$0.84	121%	50%	6.7%	8.1%	4.68%	4.97%	41%	40%	0.77%	0.53%	2.02%	0.78%	1.21	1.36
O		$19.7	$0.76	-5%	8%	$0.71	1%	3%	9.4%	10.2%	3.63%	4.37%	10%	5%	0.15%	0.10%	2.02%	0.41%	1.31	1.11
P		$147.4	$0.54	-2%	12%	$0.61	17%	61%	7.8%	8.3%	3.14%	3.42%	39%	38%	0.93%	0.96%	2.49%	1.04%	1.40	1.17
Q		$8.3	$0.57	12%	-2%	$0.53	26%	2%	11.1%	11.1%	3.61%	3.87%	18%	18%	0.64%	0.71%	1.60%	0.67%	1.27	1.06
R	Yes	$73.9	$3.89	2%	22%	$3.26	24%	18%	6.9%	9.3%	2.24%	2.74%	6%	5%	0.50%	0.35%	1.03%	0.63%	1.12	1.01
S		$4.6	$0.73	-1%	7%	$0.78	22%	7%	9.3%	10.6%	3.37%	3.74%	27%	28%	0.29%	0.34%	1.46%	0.94%	1.06	0.86
T		$115.5	$5.48	2%	6%	$7.40	-13%	46%	6.7%	8.4%	2.41%	3.29%	44%	35%	0.10%	0.19%	0.99%	0.92%	1.48	1.10
U		$7.6	$1.60	-1%	22%	$1.61	-1%	15%	8.2%	8.5%	3.14%	3.47%	25%	25%	0.61%	0.47%	0.98%	0.81%	1.01	0.83
V	Yes	$3.2	$0.71	4%	49%	$0.52	6%	13%	7.0%	8.6%	3.21%	2.98%	9%	11%	0.51%	0.02%	1.29%	0.89%	1.00	0.80
W		$45.1	$1.74	-14%	4%	$1.63	-2%	13%	6.8%	8.0%	2.55%	3.22%	38%	30%	0.42%	0.52%	0.96%	0.58%	1.33	1.17
X		$81.5	$1.28	4%	19%	$1.66	64%	71%	7.8%	8.5%	2.96%	3.49%	22%	21%	0.71%	0.49%	1.45%	1.01%	1.03	0.98
Wtg. Avg.		**$27.6**		**4%**	**27%**		**20%**	**22%**	**8.8%**	**9.7%**	**3.31%**	**3.64%**	**27%**	**26%**	**0.50%**	**0.51%**	**1.40%**	**0.87%**	**1.08**	**0.92**

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.