PL Capital Advisors, LLC

QUARTERLY REPORT TO THE PARTNERS Q4 2020

VALUATION REVERSION HAS BEGUN AND SHOULD CONTINUE

The S&P 500 index outperformance in 2020 was driven by a small number of large cap tech and other stocks that were considered "pandemic" beneficiaries, as well as speculative trading by many investors who discovered the stock and option markets while working at home during the pandemic.

In the Q3 letter we noted that many of those high-flying stocks were extremely overvalued. We also noted that bank stocks and other "value" stocks were extremely undervalued. The combination of the relative overvaluation of "growth" and "pandemic" stocks and undervaluation of "value" stocks was at historically extreme levels which could not last. One way or the other, the relative values eventually had to converge as valuations reverted to more normal historical levels. This reversion began in Q4, catalyzed by the vaccine approvals.

While markets never move in a straight line, the reversion in valuations should continue in 2021, likely boosting bank stocks on both an absolute and relative basis.

BANK STOCKS SHOULD NOT HAVE GONE DOWN AS MUCH AS THEY DID

Many bank stocks were down over 50% at the beginning of the pandemic. That level of frightful decline did not make sense to us then, in real time, or now, in hindsight.

In the Q1 2020 letter, written at the beginning of the pandemic before banks reported their Q1 results, we made numerous specific observations/predictions about the expected impact of the pandemic on the banking industry. Our views were far more positive than predicted at the time by most observers and the stock market.

In hindsight, the vast majority of our observations/predictions turned out to be accurate, including:

- The market is overstating the losses banks will incur and even those losses will be covered by earnings. Banks will not lose money.
- Loan losses will not be of the magnitude seen in the Financial Crisis.
- Tangible book values will remain intact despite the pandemic (i.e. they won't lose money).
- Banks will not need to raise capital.
- Most banks will maintain their dividends.
- Bank balance sheets will grow at a fast rate, unlike the Financial Crisis when they were forced to shrink.
- Banks will be "part of the solution" by accommodating their customers effected by the pandemic, unlike the Financial Crisis when regulators pressured banks to force customers to repay loans.
- Interest rates are low and will remain low for several years, pressuring net interest margins.
- Banks will have no trouble getting low cost funding, validating the deposit funding business model enjoyed by banks.
- The economy, businesses, individuals and banks will get through the pandemic, after a significant period of disruption.
- Bank M&A is on hold until late 2021 or early 2022, when it will come back strongly.
- Every 10-20 years there is a crisis. There will be a substantial recovery in bank stocks and the economy, similar to the S&L Crisis (1989-91) and Financial Crisis (2007-09).

These facts drove our views: (1) banks were in great shape pre-pandemic, with excess capital and strong earnings; (2) the government appeared willing to provide massive amounts of liquidity and stimulus into the economy; and (3) bank regulators were supportive of the banking industry, unlike the Financial Crisis.

In subsequent quarterly letters written in Q2 and Q3, we consistently maintained our non-consensus, positive view that banks would perform significantly better than implied by the stock market.

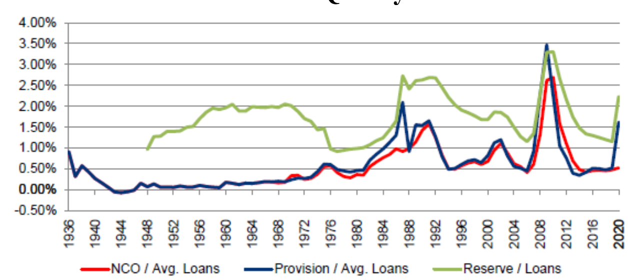
While full year 2020 earnings and outcomes won't be fully known until after banks report Q4 2020 earnings in the next few weeks, it is clear banks are performing incredibly well despite the pandemic.

Earnings have held up despite the pandemic and economic shutdowns. While full year earnings will see a decline versus 2020, by Q3 2020 earnings were almost back to levels seen in the prior year. The median publicly traded bank in Q3 had EPS that was only -3% below Q3 2019.

Tangible book values (TBVs) have grown. Year over year through Q3 2020, the median publicly traded bank has enjoyed TBV per share growth of +7.5%.

Even with the pandemic, as well as additional reserves mandated by a new, harsh loan loss accounting standard required by FASB in 2020, loan losses (whether measured by provisions, reserves or net charge-offs) have been well below Financial Crisis levels, as noted below.

Exhibit 1: Historical Credit Quality Metrics



Data updated as of 3Q20 and annualized. Data for all FDIC-insured commercial banks.
Source: FDIC and KBW Research.

Banks did ***not*** raise capital. In fact, many banks have been repurchasing their shares, creating long-term value for their shareholders through higher TBV and EPS.

Very few banks cut their dividends in 2020. Far more banks raised their dividend and announced increased share repurchases than cut their dividend.

Our non-consensus view that banks would do much better than expected despite the pandemic, did not stop the Partnership from losing value in 2020. However, we are pleased our analysis and positive view kept the Partnership fully invested, enabling the Partnership to be in position to enjoy the (partial) recovery seen in Q4.

REVIEW OF OUR 2020 PREDICTIONS (MADE IN Q4 2019 PRE-PANDEMIC)

In every year-end letter we make predictions about the coming year after reviewing how our prior year predictions panned out. We don't want to spend too much of your time looking back at our 2020 predictions given that we already walked you through our more relevant revised 2020 predictions, made in Q1 2020 after the pandemic began.

But nonetheless, here is a succinct judgement (TRUE or FALSE) on our 2020 pre-pandemic predictions. The pandemic of course overwhelmed many of our predictions.

#1: *The banking industry has record profits in 2020, although the % improvement lags behind the increase seen in 2019.* **FALSE**

#2 *Net interest margins stabilize at +/- 7 bps from the year earlier.* **(FALSE)** *Net interest income in $'s once again hits a new record on balance sheet growth.* **FALSE**

#3: *Bank M&A in absolute numbers is lower than 2019 (***TRUE)*** but remains robust at over 4% of the industry.* **FALSE**

#4: *The economy continues to grow at over 2%, with growth steady vs. 2019 at approximately 2.3%.* **(FALSE)** *Unemployment remains between 3.5% and 4.0%.* **FALSE**

#5: *The presidential election dominates every political and market news cycle. Every zig and zag in the market will be ascribed to some political shift in the wind. Consensus is that a Trump win would be good for the stock market and bank stocks, a Warren or Sanders win would be bad for the market and bank stocks, and a Biden win would be neutral (unless the Democrats take the House and Senate too).* **TRUE**

#6: Despite more volatility, bank stocks have a good year, up over 10%, on improved EPS, some valuation improvements, and continued stock buy backs and dividend increases as a result of excess capital generation. **FALSE**

#7: Bank stocks outperform the S&P 500 index. **FALSE**

#8: Volatility continues, exacerbated by the Presidential election **(TRUE)** *and Fed indecision.* **FALSE**

#9: The Fed does not raise, or cut, the federal funds rate. Year end 2020 long term interest rates are in line with current rates. Inflation picks up a bit, keeping the Fed in check, but is not strong enough to cause rate increases. **FALSE**

#10: The Fed relaxes the rules on how much an investor can own in any one bank without becoming a bank holding company (currently it is 10%). This will create opportunities for PL Capital and the Partnership. **TRUE**

BANK STOCK VALUATION LEVELS REMAIN VERY ATTRACTIVE

At year-end 2019, the median publicly traded bank stock traded at 159% of Tangible Book Value (TBV).

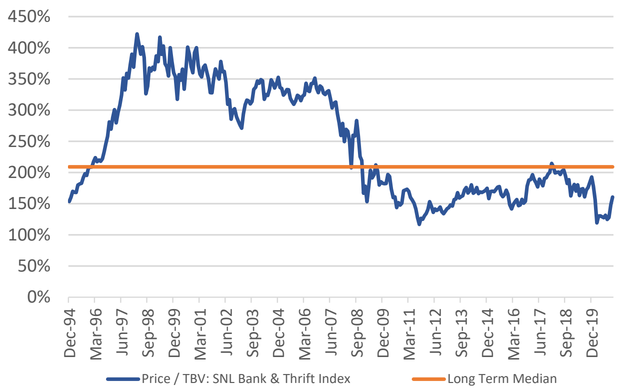
Little did we know that a few months later almost every publicly traded bank stock would trade below TBV during the worst of the pandemic induced bank stock price declines.

Even after banks reported much better than consensus Q2 EPS reports in July, bank stock valuations remained depressed. At 9-30-20 the median publicly traded bank valuation was still low, at 88% of TBV.

It was not until Q4 that Price/TBV levels began to recover, after the vaccines were declared efficacious. At

12-31-20 the median publicly traded bank traded at 114% of TBV, well above the pandemic lows but below the prior year. The current levels are historically attractive.

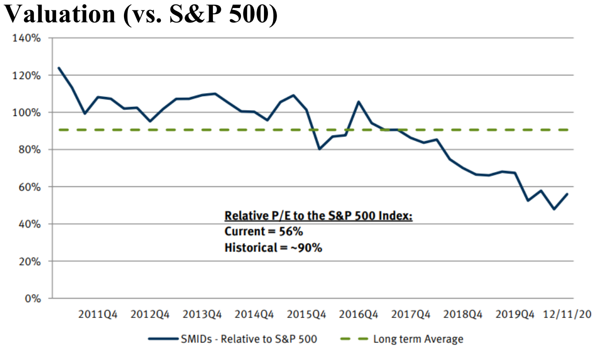
Exhibit 2: Price/TBV Ratio: SNL Bank & Thrift Index



Source: SNL Financial; Index is market cap weighted

On a Price to Earnings (PE) basis, the median publicly traded bank stock was recently trading at approximately 12x 2021 estimates and 11x 2022 estimates. Bank stock PEs are at attractive levels and compare favorably to the S&P 500 at approximately 22x 2021 and 19x 2022 estimated earnings.

Exhibit 3: Small & Mid-Cap Bank Relative PE Valuation (vs. S&P 500)



Source: Keefe, Bruyette & Woods Research

Bank stock PEs on current 2021 and 2022 EPS estimates are even more attractive if the Street 2021 and 2022 bank EPS estimates are understated, which we believe is the case.

Our view is that the current 2021 and 2022 bank EPS estimates will be revised upward as the year progresses, and PEs should rise, lifting bank stocks.

One way to measure the relative undervaluation of financial and bank stocks is to track the market cap weighting of financial stocks as a % of the market cap of the S&P 500 index. Note: banks are the largest subset of the financial sector, generally about 40%.

Exhibit 4: Historical S&P 500 Sector Weights

Sector	Oct. '20	2019	2018	2017	2016	2015	2014
Financials	**10%**	**13%**	**12%**	**15%**	**15%**	**14%**	**15%**
Communication Services	15%	14%	13%	13%	13%	13%	10%
Consumer Discretionary	12%	10%	10%	10%	9%	10%	9%
Consumer Staples	7%	8%	8%	9%	9%	10%	9%
Energy	2%	4%	5%	6%	6%	6%	8%
Health Care	13%	13%	14%	13%	13%	14%	14%
Industrials	8%	8%	8%	9%	10%	9%	10%
Information Technology	26%	22%	22%	19%	17%	16%	16%
Materials	2%	2%	2%	2%	2%	2%	2%
Real Estate	2%	3%	3%	3%	3%	3%	3%
Utilities	3%	3%	3%	3%	3%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Sector	2013	2012	2011	2010	2009	2008	2007
Financials	**15%**	**14%**	**13%**	**16%**	**16%**	**15%**	**18%**
Communication Services	11%	9%	9%	8%	9%	8%	9%
Consumer Discretionary	9%	9%	8%	8%	7%	5%	6%
Consumer Staples	10%	11%	11%	11%	12%	12%	10%
Energy	9%	9%	11%	10%	9%	12%	11%
Health Care	13%	12%	11%	11%	12%	13%	12%
Industrials	11%	10%	10%	11%	10%	10%	12%
Information Technology	16%	18%	17%	17%	17%	16%	14%
Materials	3%	3%	3%	3%	3%	3%	2%
Real Estate	2%	3%	3%	2%	2%	2%	2%
Utilities	3%	3%	3%	3%	3%	4%	4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Sector	2006	2005	2004	2003	2002	2001	2000
Financials	**21%**	**21%**	**21%**	**20%**	**20%**	**20%**	**19%**
Communication Services	8%	6%	6%	5%	5%	6%	6%
Consumer Discretionary	7%	7%	8%	7%	5%	6%	5%
Consumer Staples	10%	10%	11%	12%	13%	12%	11%
Energy	9%	9%	8%	7%	7%	7%	6%
Health Care	12%	13%	14%	15%	15%	16%	16%
Industrials	11%	12%	13%	12%	12%	12%	12%
Information Technology	14%	14%	15%	17%	16%	17%	20%
Materials	2%	2%	2%	2%	2%	2%	1%
Real Estate	2%	2%	2%	1%	1%	1%	1%
Utilities	3%	3%	3%	3%	3%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Due to rounding, columns may not add to 100%

As seen in the tables above, as of October 2020 financials represented only 10% of the market cap of the S&P 500 index, the lowest level in the past 20 years. The recent level is even lower than the 13% seen in the depths of the Financial Crisis, which was far more impactful on the financial sector than the current pandemic. To us this makes no sense and is indicative of the undervaluation of financial and bank stocks.

It is also notable that the financial sector's market cap weighting in the early 2000s was generally 20%, 2x current levels.

While we have never believed the financial sector deserved to be over 20% of the S&P 500's market cap, it clearly deserves to be more than 10%. A fair weighting in our view is approximately 15%, in line with the financial sector's important role in the economy, and the relative amount of earnings generated by the financial sector as a percentage of total corporate earnings. Reversion to even a below average 15% weighting implies 50% upside for financial stocks (on a relative basis at least).

The article linked below is consistent with our views:
https://on.mktw.net/2LzGGuW

OUR OUTLOOK AND PREDICTIONS FOR 2021

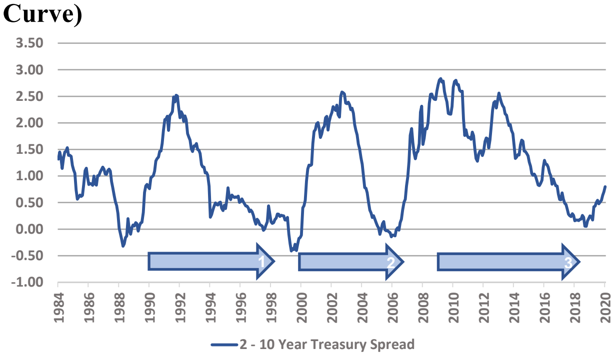
2020 proved once again that markets and economies are often unpredictable. Nonetheless, we will try again. We foresee the following for the banking industry and bank stocks in 2021:

#1. Bank M&A ramps up over the course of 2021, setting the stage for a multi-year M&A boom. Many of the deals that would have happened in 2020 are merely delayed until 2021 and 2022. M&A premiums (to the current stock price) will be lower than historic norms, but the quality of the deals and fair pricing will lead to strong post-deal announcement stock price performance for buyers, benefitting both sellers and buyers. The market's acceptance of M&A for both the buyer and seller will signal a sustainable M&A boom.

#2. Interest rates increase gradually but remain historically low. The 10-year treasury yield, recently at 0.92%, gradually increases and peaks close to 1.50%, a level at which the Fed decides to engage in yield suppression by increasing purchases of longer-term treasuries. The Fed keeps the Fed Funds target at its current level of 0.00% to 0.25%. The yield curve as measured by the spread between 2-year and 10-year treasury bonds was recently at +80 basis points (0.80%). This increases to +130 basis points at some point during 2021. The steeper yield curve is supportive of bank net interest margins (see #4 below) and bank stocks.

#3. History has shown that the optimal time to own bank stocks is in the years after the yield curve flattens or inverts (which occurred in 2020), as well as when "real" (inflation adjusted) interest rates are low. Both of those favorable conditions occur in 2021, even with the Fed's interventions. The graph below shows how this favorable yield curve steepening typically occurs in long dated cycles and that bank stocks have performed incredibly well during each curve steepening cycle, as noted in the table below the graph.

Exhibit 5: 2 – 10 Year Treasury Spread (Yield Curve)



NASDAQ Bank Index Price Return

	(1)	(2)	(3)
Period:	1990 - 1998	2000 - 2007	2009 - 2018
Length:	7 ½ Years	7 Years	9 ½ Years
Return:	+849%	+136%	+205%

#4. Bank net interest margins (in % terms) bottom out in early 2021 then begin to rise, and net interest income in $ terms increases due to balance sheet growth.

#5. Bank stock prices continue to recover, improving by 15% to 25% over year end 2020 levels. Unlike 2020, when bank stock rallies were "sold", in 2021 bank stock dips will be "bought" because most investors are underweighted in bank stocks.

#6. Bank stocks outperform the overall stock market as measured by the S&P 500.

#7. Many banks return excess capital to shareholders through increased dividends and stock buybacks. Very few raise common equity capital.

#8. The economy recovers and grows +3.5% in 2021. Unemployment rates drop rapidly in the second half of 2021 due to the success of the vaccine program and relaxed economic restrictions. The recovery from the pandemic induced deep recession should be stronger but supply chain issues, higher inflation, government deficits, lingering pandemic impacts, and structural changes in the labor force reduce the expected rebound.

#9. Banks close branches and engage in other cost cutting moves.

#10. Aggregate banking industry loan losses remain well below Financial Crisis levels. Some losses are incurred on loans to various borrowers impacted by the pandemic. Some of these losses will be material to an individual bank's quarterly results but will not impact overall banking industry improvement.

#11. Investors will assign higher valuation multiples to banks, an appropriate reward for proving their resilience in the pandemic.

WE ARE GRATEFUL FOR YOUR SUPPORT— 25 YEARS!!

There would be no Partnership or PL Capital without each of you, and all of our partners, many of whom have been with us for a lengthy period of time. PL Capital finished its 25th year in 2020, and we are grateful for your willingness to entrust us with some of your hard-earned capital. Thank you!

Please feel free to contact us at any time with questions or comments.

We wish you and your family a Happy, Healthy and Prosperous New Year!

Best regards,

Rich, John, Curt and Martin

Richard Lashley
(908) 347-7874
RLashley@plcapitalllc.com

John Wm. Palmer
(239) 777-0187
(630) 848-1342 (fax)
JPalmer@plcapitalllc.com

Curtis J. Thompson
(312) 560-2675
(630) 848-1342 (fax)
CThompson@plcapitalllc.com

Martin Alwin
(630) 742-7060
MAlwin@plcapitalllc.com

January 8, 2021