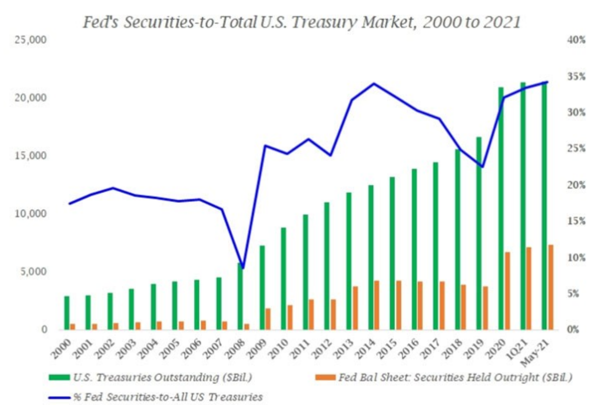
PL Capital Advisors, LLC

QUARTERLY REPORT TO THE PARTNERS Q2 2021

MONTH OF JUNE ENDS 8 MONTHS OF POSITIVE PERFORMANCE

Bank stocks and the Partnership declined in June for the first time in eight months. As we noted in last quarter's letter, the 'reversion' recovery in bank stock valuations from the pandemic extreme lows to more reasonable valuations was expected but could not continue at the rapid pace seen from September to March. Bank stocks also declined in June because the 'slope' of the yield curve, often measured by the spread between the interest rates on the U.S. ten-year treasury and U.S. two-year treasury, declined from 1.46% on June 1st to 1.20% on June 30th. In the past we have written about the frustrating, excessive short-term correlation between bank stocks and the yield curve, so we will not repeat ourselves here. We will, however, offer an observation on the U.S. Treasury market as a whole.

Exhibit 1: Federal Reserve's Securities / Total U.S. Treasury Market, 2000 to 2021



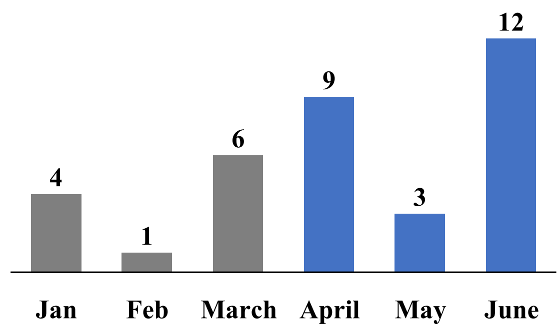
Source: Janney Research (FIG Group), Federal Reserve H.4.1 release, SIFMA industry data

As shown by the blue line, the Federal Reserve now owns 35% of the entire U.S. Treasury market. This is the highest % level since at least 2014. Furthermore, the Federal Reserve's balance sheet is $8.1 **trillion**, double the $4.2 trillion held a little over one year ago in February 2020 (pre-pandemic) and **9x** the $906 billion seen in July 2008 (during the Financial Crisis). The Fed's holdings and ongoing purchases are so massive that they are interfering with the proper functioning of the bond market and therefore interest rates. While there are many other factors effecting interest rates, the Fed's purchases of Treasuries and mortgage-backed securities have undoubtedly reduced interest rates across the board. The Fed's impact on money flows and interest rates also has an enormous influence on all types of asset prices (e.g., stocks, real estate, commodities). As we have discussed in previous letters, eventually there will be a price to pay for the Fed's massive intervention in free markets.

Fortunately, over the long-term, the banking industry's positive fundamentals and attractive valuations matter more than short term movements in the yield curve and interest rates caused by the Fed.

BANK M&A ACTIVITY HAS ACCELERATED

Exhibit 2: Announced Whole Bank M&A by Month
Deals over $100 Million



Source: SNL Financial

Bank M&A activity accelerated in Q2, recovering rapidly from the pandemic induced lull. There were 35 announced whole bank M&A transactions over $100 million in deal value in the first half of 2021, 24 of which were announced in Q2. The Partnership has benefited from five M&A transactions so far in 2021.

Banc of California (BANC): In March, BANC announced its acquisition of Pacific Mercantile Bancorp (PMBC). The transaction is expected to increase BANC's 2022 estimated EPS by ~13%. It also boosts the attractiveness of BANC's deposit franchise, increasing valuable noninterest bearing deposits to 30% of total deposits from 26%.

American River Bankshares (AMRB): In April, northern California based AMRB announced it was being acquired by Bank of Marin Bancorp (BMRC). The announced deal value per share of $22.46 is 175% of tangible book value (TBV), 17x 2022 estimated EPS.

Enterprise Financial Services (EFSC): In April, EFSC announced its acquisition of First Choice Bancorp (FCBP). The transaction is expected to increase EFSC's 2022 estimated EPS by ~8%. FCBP is a top performing bank with consistent returns on tangible common equity above 15%. The transaction increases EFSC's assets to approximately $13.0 billion from approximately $10.0 billion today. The $10.0 billion asset threshold triggers increased regulatory oversight and costs. It makes sense for EFSC to increase its assets meaningfully above $10.0 billion to absorb these incremental costs. EFSC is a consistent top tier performer. Over the last five years, EFSC has grown TBV at a 10% compounded annual growth rate and pre-tax pre-loan loss earnings per share at 15%. At 11.4x 2022E EPS and 179% of TBV, we think EFSC offers attractive value.

Horizon Bancorp (HBNC): In May, HBNC announced a very attractive acquisition of 14 branches from TCF National Bank, consisting of $976 million of deposits and $278 million of loans. HBNC paid a deposit premium of just 1.8% versus a median of 5.0% for comparable branch transactions since 2018. In branch transactions, the buyer generally does not issue additional common shares to fund the deal and that is the case with this transaction. HBNC estimates the transaction will increase 2022 estimated EPS by 17% in the base case and a whopping 32% if they can deploy all excess liquidity into new loans. We like this transaction, think it is a prudent use of capital and applaud the lack of shareholder dilution. HBNC is a consistent top tier performer. Over the last 5 years, HBNC has grown TBV at a 10% compounded annual growth rate and pre-tax pre-loan loss earnings per share at 9%. At 9.6x 2022E EPS, 148% of TBV and with a dividend yield of 3.0%, we think HBNC offers attractive value.

Citizens Financial Group (CFG): In May, CFG announced its acquisition of 80 branches from HSBC Bank USA, consisting of $9.0 billion of deposits and $2.2 billion of loans. The attractively priced transaction expands CFG's footprint into NYC, Washington D.C., and South Florida and is expected to be immediately accretive to earnings per share. CFG is attractively valued at only 10x estimated 2022 EPS and a 3.5% dividend yield.

Q1 2021 INDUSTRYWIDE NET INCOME WAS AN ALL-TIME RECORD

Each quarter the Federal Deposit Insurance Corporation ("FDIC") releases its Quarterly Banking Profile. The Quarterly Banking Profile is a comprehensive summary of financial results for all FDIC insured institutions. Taken at the aggregate level, it is a proxy for the health of the banking industry. Q1 2021 industrywide profits in the banking industry were a **record** $77 billion and aggregate bank level retained earnings and bank level equity were a **record** $871 billion and $2.3 trillion, respectively. While the record Q1 2021 results included some one-time loan loss provision reversals, we are very pleased to see how resilient and profitable the banking industry is despite the pandemic. The Q1 results also validate the positive views we maintained throughout the pandemic. The banking industry is on solid footing.

INDUSTRYWIDE CAPITAL RETURNED TO SHAREHOLDERS TO ACCELERATE

In June, as part of its annual review of the nation's largest banking institutions (the Dodd-Frank Act Stress Tests or 'DFAST' and Comprehensive Capital Analysis Review or 'CCAR'), the Federal Reserve removed the remaining capital distribution restrictions imposed on the nation's largest banks during the COVID-19 pandemic. Those restrictions constrained the largest banks from repurchasing shares and paying dividends in 2020 and the first half of 2021.

As a result of passing the DFAST/CCAR regulatory reviews many of these banks have already announced increased dividends and share repurchase programs.

While the majority of the Partnership's holdings are smaller banks not subject to the Federal Reserve's DFAST/CCAR tests, we view this year's DFAST/CCAR results as positive for the entire industry. In general, we believe a more relaxed regulatory outlook on capital return at the top trickles down to smaller banks.

Even before the DFAST/CCAR results were announced many small banks were increasing their dividends. According to a recent article by SNL Financial, 160 publicly listed banks or bank holding companies declared cash dividends in the month of May. Thirty of these institutions increased their dividend. Two of these institutions are holdings of the Partnership, First Merchants (FRME) and Community West Bancshares (CWBC). We expect additional dividend increases in the future for many of the Partnership's holdings, as well as stock repurchases.

ADDITIONAL NOTEWORTHY PARTNERSHIP ACTIVITY

In February, Magyar Bancorp Inc. (MGYR) announced its so-called 'second step' conversion from a mutual holding company to a fully publicly traded stock holding company. On July 1, 2021, the company announced that MGYR stockholders and Magyar Bank depositors had approved the company's plan of conversion.

In March, we filed a Schedule 13D with the Securities and Exchange Commission because our ownership in Community West Bancshares (CWBC) had increased to over 5.0%. We increased the holdings in CWBC because we believed the market was undervaluing CWBC's franchise value. CWBC is a $1.0 billion asset commercial bank holding company headquartered in southern California. It is an attractive potential acquisition target for a larger bank.

Summer is here. We hope everyone had an enjoyable 4th of July holiday and is enjoying the warm weather!

Please feel free to contact us at any time.

Best regards,

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