PL Capital Advisors, LLC

QUARTERLY REPORT TO THE PARTNERS Q1 2022

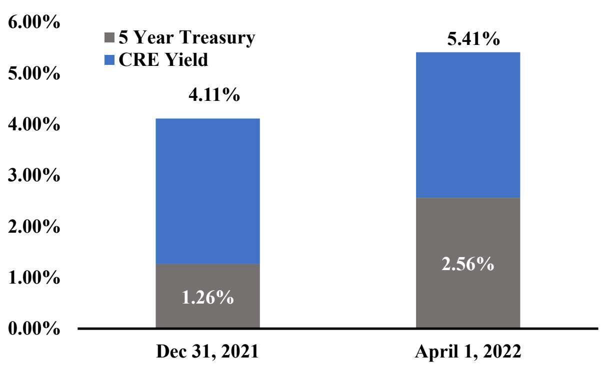
QUARTERLY RESULTS

The declines in bank stocks and the broader stock market were driven by increasing inflationary pressures, the war in Ukraine, supply chain constraints, the beginning of a monetary policy tightening cycle, and treasury yield curve inversion concerns. Bank stocks and the broader market also experienced significantly increased volatility. The number of trading days the Bank index moved more than 1% was 50% in 1Q 2022, up from 39% in 4Q 2021. Likewise, the number of trading days the S&P 500 index moved more than 1% was 52% in 1Q 2022, up from 39% in 4Q 2021.

The quarter started strongly before declining when the war in Ukraine broke out. As measured by the Nasdaq Bank index, bank stocks were up 9% as of January 14, 2022, but ended the quarter down 5%, a swing of 14%. We believe the decrease in bank valuations in Q1 2022 is not reflective of fundamentals and remain constructive on future bank earnings due to higher benchmark interest rates combined with increased loan growth that will positively affect net interest income and EPS. Bank stocks also remain undervalued, with most banks trading at 9-11x earnings vs. over 20x earnings for the S&P 500.

RISING RATES ARE GOOD FOR BANKS

EXHIBIT 1: U.S. 5 Year Treasury Yield and Typical CRE Loan Yield



Source: S&P Capital IQ and PL Capital; CRE Yield assumes a loan spread of 2.85% over 5 Year Treasury Rate.

As shown in Exhibit 1, the U.S. 5 Year Treasury rate (grey bar) increased significantly from 1.26% at year-end 2021 to 2.56% on April 1, 2022. Most commercial real estate loans, a significant component of typical loan portfolios of banks the Partnership owns, are priced at a spread over the 5 Year Treasury. Typically, commercial real estate loan spreads are approximately 2.80 – 2.90% over the 5 Year Treasury.

The blue bar in Exhibit 1 shows that today's new commercial real estate loan yields are 5.41% vs. 4.11% at year-end 2021 (both dates assume a 2.85% spread). These are attractive levels compared to the current average loan portfolio yields of roughly 4.00% - 4.50%, mainly because those loans are funded with low-cost deposits which have not risen in cost despite open market interest rates rising.

And not just fixed rate commercial real estate loans will enjoy increasing yields. Variable-rate commercial, consumer and construction loan yields will also increase, as these loans are often tied to the prime rate, which is tied to the federal funds rate. The prime rate increased from 3.25% to 3.50% when the Fed raised its target fed funds rate 0.25% on March 16, 2022, and it will continue to rise in lockstep as the Fed continues to raise the federal funds rate throughout 2022 and 2023.

Banks will also be able to move some of their excess funding and liquidity into higher yielding investment securities now that interest rates have risen.

Despite the expected rapid rise in open market interest rates and loan yields, deposit costs will not rise anywhere near as quickly. This is a huge tailwind for bank net interest margins, net interest income, and EPS in 2022 and 2023.

Why will banks be able to increase loan and securities yields more than they increase deposit costs? Most banks have more deposits and liquid assets than they need, reducing the need to pay higher rates to keep those funds from leaving the bank. Additionally, no matter how high interest rates rise, banks will benefit significantly from the 'free' funds banks hold in the form of noninterest-bearing deposits and equity capital.

The positive impact of this phenomenon is shown below. The median publicly traded bank with assets greater than $1.0 billion is estimated to grow net interest income per share by ~7.0% in 2022 and ~10.0% in 2023. Banks with assets greater than $100 billion are estimated to grow net interest income per share by ~15% in 2022 and 2023!

EXHIBIT 2: Estimated Net Interest Income Per Share Growth

	Year over Year: Net Interest Income per Share				
Median Asset Size (#)	FY23E	FY22E	FY21	FY20	FY19
Banks > $100 Billion (20)	15.3%	14.6%	-0.4%	1.6%	7.6%
$20 - 100 Billion (47)	11.5%	7.6%	2.6%	2.4%	5.0%
$10 - 20 Billion (37)	9.6%	5.3%	4.4%	2.6%	4.2%
$5 - 10 Billion (68)	8.9%	6.3%	6.8%	4.9%	5.3%
$3 - 5 Billion (34)	9.6%	5.6%	6.6%	8.7%	5.3%
$1 - 3 Billion (81)	8.0%	6.4%	13.1%	10.2%	5.1%
All Banks (287)	**9.6%**	**6.6%**	**6.8%**	**5.2%**	**5.2%**

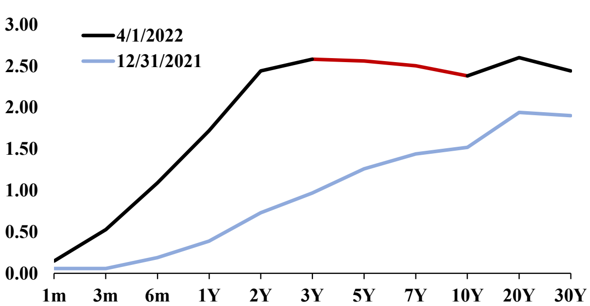
Source: Janney Research (FIG Group), S&P Capital IQ

While higher interest rates are favorable for banks because they typically increase net interest income and EPS, one negative is that higher rates will reduce tangible book value per share. As interest rates rise, bond prices fall, which is reflected on bank balance sheets as a reduction in bank equity and tangible book value per share. Fortunately, if banks simply hold on to these securities, the *unrealized* losses do not affect reported EPS or net income.

While banks will hold off increasing their funding costs for as long as possible, eventually funding costs will increase. However, our view is that deposit costs will grow at a much slower pace than asset yields will rise for a significant amount of time. This is a huge positive for the banking industry.

YIELD CURVE INVERSIONS

EXHIBIT 3: The U.S. Treasury Yield Curve: Today vs. Year-End 2021



Source: S&P Capital IQ

Much has been written recently in the financial press on yield curve inversions. A yield curve represents current yields of similar fixed income securities across different maturity time frames. The most well-known yield curve is the U.S. Treasury Curve (Exhibit 3). Normally one would expect to see higher interest rates for longer-dated maturities because investors typically require a higher rate of return to tie up their money for longer periods. This natural tendency typically results in a yield curve that slopes up and out to the right, as was the case at year-end 2021 (light blue line).

As shown in Exhibit 4, the yield curve slopes downward from 3 Years to 10 Years, as the 2 Year and 3 Year Treasury yields are higher than the 5, 7 and 10 Year Treasury yields (see red highlights where yields are lower for longer-dated maturities).

EXHIBIT 4: Selected U.S. Treasury Yields: Today vs. Year-End 2021

Date	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
4/1/2022	1.72	2.44	2.58	**2.56**	**2.50**	**2.38**
12/31/2021	0.39	0.73	0.97	1.26	1.44	1.52

Source: S&P Capital IQ

This 'flat' to 'inverted' yield curve is often said to be the bond markets way of predicting a recession at some point in the future. In effect, the bond market is positing that the Federal Reserve will cause a recession at some point by raising interest rates too much, after which the Fed will be forced to lower interest rates.

As noted in Exhibit 5 below, an inverted yield curve (as measured by the spread between the 2-year and 10-year US Treasury) is a powerful leading indicator of a recession.

EXHIBIT 5: An Inverted Yield Curve Often Occurs Before a Recession

Source: Federal Reserve Bank of St. Louis; Shaded areas indicate U.S. recessions

Of course, markets are not perfect predictors, and even if there is a recession in the future, the timing of its arrival is not predictable. For the foreseeable future we believe the economy is too strong to lapse into recession. Nevertheless, we plan to be vigilant to see if other leading and coincident economic indicators confirm the yield curve's prediction. We also believe the Fed's unprecedented amount of quantitative easing over the past 10+ years, and its vast holdings of securities, have created anomalies in how US Treasuries are priced, which is likely reducing the predictive power of the yield curve compared to more normal times.

NOTABLE Q1 2022 PARTNERSHIP ACTIVITY

The Partnership had one bank announce a sale in Q1 2022. On February 28, 2022, **First Horizon Corporation (FHN)** announced it was being acquired by Toronto-Dominion Bank for $25.00 cash, which was a 37% premium to FHN's stock price the day before the announcement. The acquisition price represents 227% of Tangible Book Value per Share and 10x cost synergized 2023E earnings.

In January 2022, PL Capital received approval from the Federal Reserve and the State of Virginia to acquire up to 14.9% of **Old Point Financial Corporation (OPOF)**. On March 25, 2022, we filed an amended Form 13-D with the Securities and Exchange Commission ("SEC"), disclosing that our ownership had increased to 11.9%. This is the first time PL Capital has sought approval to own more than 9.9% of any banking institution. For the reasons we discussed at length in previous letters, the ability to increase our ownership % above 9.99% should enhance PL Capital's ability to drive improvements and changes in the operating performance and strategic direction of our portfolio banks.

In February 2022, PL Capital filed an initial Form 13-D with the SEC, disclosing our ownership of **Hawthorn Bancshares, Inc. (HWBK)** had exceeded 5.0%. We believe HWBK shares are undervalued. We plan to monitor the financial performance of HWBK and engage with management.

In March 2022, PL Capital filed an amended Form 13-D with the SEC as our ownership of **Community West Bancshares (CWBC)** increased to 7.3%. We believed CWBC shares were undervalued when we acquired the stock. We plan to monitor the financial performance of CWBC and engage with management.

2021 K-1s

Good news! After working closely with KPMG, K-1s are being sent out as we write this letter. We sincerely apologize for the delay.

Please feel free to contact us at any time.

Best regards,

Rich, John, Curt, and Martin

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