EJF Investments Manager LLC
2107 Wilson Boulevard, Suite 410
Arlington, VA 22201

August 12, 2019

Dear Shareholder,

As we enter the third quarter, trade war tensions and interest rate movements have been at the forefront of investors' minds in 2019. Although these macro factors will undoubtedly have an impact on market volatility, EJF Investments Manager LLC ("EJF" or "we") believe that the US community bank sector remains healthy and continues to present substantial investment opportunities.

After evaluating second quarter earnings releases, we believe that credit quality within the US banking industry remains pristine. Nonperforming assets to total assets declined 3bps from the previous quarter and 8bps year over year to just 0.65%. From an actual loss experience perspective, net charge-offs for the industry averaged 53bps. These levels remain near the lows that we have seen over the past 30 years. For the most part, we have not seen a relaxation of credit standards and banking regulators continue to remain vigilant in monitoring and policing potential loan concentration issues. In our estimation, regulatory recalibration post crisis will play a meaningful role in both delaying and muting potential credit stress in the industry.

Capital levels within the US banking industry are also robust, with $1.7 trillion of tangible capital supporting $18 trillion of assets at the bank level. On average, banks have over 9% equity to assets while also maintaining greater than a 1% reserve against potential credit loss. We expect that this reserve may be required to increase as the Financial Accounting Standards Board's (FASB) new Current Expected Credit Losses (CECL) guidelines start phasing-in January 2020. Furthermore, annual return on equity run-rates of over 12% at the bank level can help to provide additional buffers. Given the health of the overall system, we believe that the 2018 regulatory changes increasing both the SIFI designation as well as the Small Bank Holding Company rule allows for differentiated investment opportunity within the space.

After several years of growth and margin expansion post-crisis, a decline in global rates and an inversion of the yield curve has created a recent compression in net interest margins ("NIM") for the sector. For the bank universe, we feel that margin pressure has been manageable as NIM decreased just 1bp over the past quarter and actually increased 6bps over the past 12 months. As profitability is likely challenged in the near-term, we expect further rationalization of cost infrastructures as well as continued merger and acquisition activity. While large deals like the BB&T Corporation and SunTrust Banks, Inc. merger grab headlines, the first half of 2019 has seen 119 deals which continues the pace of over 200 per year seen over the past decade. Over this period, the number of US banks has declined from about 8,000 to approximately 5,000 today. M&A activity remains a powerful tailwind for our investment strategies as cost savings in these deals can drive substantial earnings accretion.

We look forward to updating you on the sector in the fourth quarter and thank you for your continued confidence in EJF.

If you have any questions, or would like to discuss this in further detail, please contact EJF Investments Manager LLC at info@ejfi.com.

Thank you,

Neal J. Wilson
Chief Executive Officer

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