EJF Investments Ltd

Annual Report and Audited Financial Statements 2020

Contents

2020 Performance Highlights

Performance

Total Return[1]
2020: (7.0)%
2019[1]: 11.9%

Total Return since inception[1]
53.0%

Market View

Ordinary Share Price
2020: 117p
2019: 171p

2022 ZDP Share Price
2020: 117.5p
2019: 116.5p

2025 ZDP Share Price[2]
2020: 102p
2019: –[2]

Market Capitalisation
2020: £71.5m
2019: £109.7m

Asset Performance

Net Asset Value
2020: £100.6m
2019: £121.0m

NAV per ordinary share[1]
2020: 164p
2019[1]: 189p

Share price discount to NAV per ordinary share[1]
2020: (28.7)%
2019[1]: (9.5)%

Delivered on Dividends

Dividends paid
2020: 10.7p
2019: 10.7p

Annualised Dividend Yield[1]
2020: 9.1%
2019[1]: 6.3%

Portfolio Investments

Securitisation & Related Investments
£99.8m

Specialty Finance
£3.3m

Other
£3.2m

1 These are APMs as defined on pages 91 to 92.
2 Issued in June 2020 at par.

Corporate Summary

Overview

EJFI is a closed-ended investment company incorporated with limited liability in the Bailiwick of Jersey on 20 October 2016 under the provisions of the Companies Law with registered number 122353. The Company's registered office and principal place of business is IFC1, The Esplanade, St. Helier, Jersey, JE1 4BP, Channel Islands. The principal legislation under which the Company operates is the Companies Law. The Company's capital comprises Ordinary Shares and ZDP Shares admitted to trading on the SFS.

Purpose

The Company is an essential part of EJF's overall strategy and acts as a public vehicle to provide exposure to investments in the equity tranches of EJF sponsored securitisations, subject to Directors' approval. The Manager believes the Company offers attractive risk adjusted returns for its shareholders in a niche asset class, with a target of paying quarterly dividends and growing the Net Asset Value.

Strategy

The Company aims to achieve its purpose by pursuing a policy of investing in a diversified portfolio of investments that are derived from the changing financial services landscape. These investments are anticipated to include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in cash and potentially synthetic formats issued by entities domiciled in the US, UK and Europe.

Values

To promote the long-term success of the Company through responsible investing, focussing on the values of the Company in a world with constantly evolving social and economic demographics. We believe that a strong corporate governance structure is crucial to the pursuit of this goal along with trusted relationships with our advisors.

Investment Objective

The Company seeks to generate risk adjusted returns for its shareholders by investing, through its Subsidiary, in opportunities created by regulatory and structural changes impacting the financial services sector. These opportunities can include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in both cash and synthetic formats issued by entities domiciled in the US, UK and Europe. Investments consist primarily of Securitisation and Related Investments and Specialty Finance Investments.

The Company targeted a Total Return of 8% to 10% per annum for the financial year to 31 December 2020 (31 December 2019: 8% to 10%), and paid the Target Dividend for the year of 10.7 pence per Ordinary Share (31 December 2019: 10.7 pence per ordinary share). The Target Dividend for the financial year to 31 December 2021 remains at 10.7 pence per Ordinary Share.

The Company's detailed Investment Policy can be found on pages 64 to 67 of its Prospectus, which is available on the Company's website, www.ejfi.com

Structure

Since incorporation, the Company has incorporated two subsidiaries: EJFIH (incorporated on 9 June 2017), of which the Company owns 100% of the stated capital, and EJFIF (incorporated on 5 September 2018), of which EJFIH owned 100% of the stated capital.

During 2020, the Directors of the Company assessed the purpose of EJFIF and the wider group structure, subsequent to the change in classification of the Company to a corporation for US federal income tax purposes on 31 December 2019. As a result of that assessment, the Directors concluded that EJFIF was no longer required as a holding company and thus could be liquidated, so as to reduce the ongoing administration and costs of operating the group structure. EJFIF was liquidated on 15 December 2020 after all assets were distributed to EJFIH.

The holding of assets via EJFIH allows the Company to manage the upstreaming of portfolio income with greater flexibility and cash flow management and conduct its affairs in accordance with the criteria for the non-UK investment trust exemption to the UK Unregulated Collective Investment Schemes and Close Substitutes Instrument 2013.

Manager

The Company is externally managed by the Manager. EJF holds 100% of the voting rights in the Manager. EJF is an investment adviser principally located in the US and registered as such with the SEC and as a CPO and CTA with the CFTC.

To meet the requirements of Rule 206(4)-2 under the Investment Advisors Act 1940 (the "Custody Rule") the Audited Financial Statements of the Company have also been audited in accordance with US GAAS.

The Company has appointed the Manager to act as the AIFM for the purposes of the AIFM Directive.

Share Issuance and Buyback

Buy-back Programme

On 9 March 2020, the Company announced that the Directors had approved a share buy-back, under the authorities given at the AGM held on 21 June 2019, of up to £5,000,000 worth of the Company's Ordinary Shares. Between 10 March 2020 and 13 March 2020, the Company bought back 3,030,108 Ordinary Shares at a total cost of £5,005,006 (inclusive of transaction costs).

Issuance

The Company announced on 22 May 2020 that the Board had approved the issue of 7,396,515 new Ordinary Shares to the Corporate Broker, under the Placing Programme. Immediately following admission to trading on SFS on 28 May 2020, these shares were repurchased by the Company to be held in treasury. Ordinary Shares held in treasury are available to be sold to meet ongoing market demand.

Capital Raise through Placing of 2025 ZDP Shares

On 12 June 2020, the Company announced its intention to raise new capital pursuant to its Placing Programme as detailed in the Prospectus. The Company sought to raise additional capital via a conditional placing of up to 6.06 million 2025 ZDP Shares at a price of 100 pence per 2025 ZDP Share.

On 17 June 2020, the Company announced that it had raised gross proceeds of £6 million pursuant to a placing of 6,000,000 new 2025 ZDP Shares at a price of 100 pence per 2025 ZDP Share.

The 2025 ZDP Shares have a gross redemption yield of 7.0%, with a final capital entitlement of 140 pence per 2025 ZDP Share on the repayment date of 18 June 2025 and were admitted to trading on the SFS on 22 June 2020.

Listing Information

As at 31 December 2020

	Ordinary Shares	2022 ZDP Shares	2025 ZDP Shares
ISIN	JE00BF0D1M25	JE00BDG12N48	JE00BK1WV903
SEDOL	BF0D1M2	BDG12N4	BK1WV90
TICKER	EJFI	EJFZ	EJF0
Total issued shares at year end	76,953,707	15,000,000	6,000,000
Total issued shares held in treasury at year end	15,808,509	–	–
Total issued shares with voting rights at year end	61,145,198	–	–

As at 31 December 2019

	Ordinary Shares	2022 ZDP Shares
ISIN	JE00BF0D1M25	JE00BDG12N48
SEDOL	BF0D1M2	BDG12N4
TICKER	EJFI	EJFZ
Total issued shares at year end	69,557,192	15,000,000
Total issued shares held in treasury at year end	5,381,886	–
Total issued shares with voting rights at year end	64,175,306	–

Significant Events during the Year

Appointment of The ID Register

On 3 January 2020, the Company announced that The ID Register had been appointed to provide CDD services in relation to non-CREST investors in the Company and also to assist with certain ongoing monitoring obligations pursuant to Jersey legal and regulatory requirements.

Publication of Supplementary Prospectus

On 30 April 2020, the Company announced that the FCA had approved a supplementary prospectus relating to the publication by the Company of its audited financial statements for the year ended 31 December 2019 and in connection with certain additional risk factors faced by the Company in light of the ongoing COVID-19 pandemic.

General Information

The Board

Joanna Dentskevich (Chair)
Alan Dunphy
Nick Watkins
Neal J. Wilson
All c/o the Company's registered office

Registered Office

IFC1
The Esplanade
St. Helier
Jersey JE1 4BP
Channel Islands

Administrator and Company Secretary

BNP Paribas Securities Services S.C.A. Jersey Branch
IFC1
The Esplanade
St. Helier
Jersey JE1 4BP
Channel Islands

Manager

EJF Investments Manager LLC
The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, DE 19801-1120
USA

Corporate Broker & Financial Adviser

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
UK

Custodians

Citigroup Global Markets Inc.
390 Greenwich Street
New York City
NY 10013-2396
USA

Citibank N.A.
399 Park Avenue
New York City
NY 10043
USA

Registrar

Computershare Investor Services (Jersey) Limited
13 Castle Street
St. Helier
Jersey JE1 1ES
Channel Islands

Legal Adviser to the Group

(as to English and US law)

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ
United Kingdom

(as to Jersey law)

Carey Olsen
47 Esplanade
St. Helier
Jersey JE1 0BD
Channel Islands

(as to Delaware law)

Richards, Layton & Finger, P.A.
One Rodney Square
920 N. King Street
Wilmington, DE 19801
USA

Independent Auditor

KPMG LLP
15 Canada Square
London E14 5GL
UK

Investor Screening Service[1]

The ID Register
5th Floor Market Building
Fountain Street
St. Peter Port
Guernsey GY1 1BX
Channel Islands

Websites

Company: www.ejfi.com
Manager: www.ejfimanager.com

1 The ID Register was appointed from 3 January 2020.

Chair's Statement

Introduction

On behalf of the Board, I am pleased to present the Annual Report for the year ended 31 December 2020.

In an unprecedented year, which saw COVID-19 cause significant turmoil and volatility in financial markets and impact the modus operandi of every person and business, I am pleased to say that the Company, although presented with challenges of its own, remained stable and continued to meet its Target Dividend.

Performance and Portfolio Activity

The Total Return for the year ended 31 December 2020 was -7.0%, representing a total return since inception of 53.0%.

The total return for the year ended 31 December 2020 was predominantly driven by losses incurred from pre-emptively removing currency hedging contracts and reductions in the valuations of certain investments when the pandemic took hold as described below. I am pleased to confirm that by the year-end the investment portfolio had largely recovered from these negative mark-to- market valuations.

As previously reported, the Manager believes the mark-to-market declines in valuations experienced in the portfolio in March reflected the de-risking by primary dealers in the credit markets, low marks in CLO equity valuations which are predicated on high yield loan collateral, that has fundamental differences with the lower risk profile of regulatory debt issued by bank and insurance companies in the Company's portfolio, and a lack of clarity over what collateral primary dealers were able to take to the Federal Reserve window for repo and the scope of credit assets eligible for the government-backed TALF program. These influences subsided during the year when clarity was provided and confidence returned in the credit markets.

Additionally, in March, as a result of depreciation of GBP against the USD, significant margin calls were needing to be met on the Company's currency hedges and, in light of the ongoing uncertainty and volatility, the Board and the Manager made a decision to close those hedges in order to preserve cash and maintain liquidity. By the end of June, volatility had declined and the Company had fully re-instated these currency hedges.

> "All expected interest income from the underlying investments was received during the year."

Post year-end, the Board and the Manager reviewed the Company's anticipated cash requirements again and decided to reduce the hedges to cover only the final capital entitlement of the zero dividend preference shares. It is anticipated that the reduction in the hedging costs together with the release of the cash on hand for pipeline investments will positively contribute to the Company's overall unhedged investment returns.

It is important to add that all expected interest income from the underlying investments was received during the year and to date there has been no noteworthy credit deterioration in the Portfolio.

During the second half of the year, the Company made investments into its ninth and tenth EJF sponsored Risk Retention Investments, which was a positive sign given the unprecedented events of the year.

The first Risk Retention Investment comprised an investment of approximately £10.8 million in the preferred shares of TFINS 2020-1 in August. This is a securitisation collateralised by trust preferred securities and surplus notes issued by 51 US banks and 21 US insurance companies with an aggregate par value of approximately US$282.9 million.

> "In December the Company committed £6.7 million in the preferred shares of TFINS 2020-2."

The second Risk Retention Investment comprised an investment of approximately £6.7 million in the preferred shares of TFINS 2020-2 in December. This is a securitisation collateralised by trust preferred securities and surplus notes issued by 26 US banks and 10 US insurance companies with an aggregate par value of approximately US$177.25 million.

As at 31 December 2020, via the seven outstanding Risk Retention Investments, the Company had a well-diversified exposure to over 200 unique US banks and 40 unique US insurance companies.

In addition, at the end of December, the proceeds raised from the issuance of the 2025 ZDP Shares were partially deployed into the first investment in Seneca. Further calls amounting to £1.2 million have been paid post year end. The Manager has significant experience in the area of MSRs and anticipates this investment will return regular and predictable strongly NAV accretive returns and provides an attractive element of portfolio diversification.

Corporate Activity

In early March, prior to the full impact of the pandemic being felt in Europe, the Company repurchased £5 million of Ordinary Shares as part of its discount management strategy to address the imbalance between the supply of, and demand for, the Ordinary Shares, to increase the NAV per Ordinary Share and to assist in minimising any discount to the NAV per Ordinary Share at which Ordinary Shares were trading.

> "The Manager has agreed to absorb at least 75% of recurring operating expenses from 1 January 2021 until the NAV exceeds £300 million."

In May, the Company utilised its Placing Programme to execute a share issuance and repurchase into treasury of 7,396,515 new Ordinary Shares.

This was followed in June, by the placing of the 2025 ZDP Shares at a gross redemption yield of 7% raising gross proceeds of £6.0 million.

The Company's AGM was held on 2 July 2020. All resolutions were approved by shareholders, including the re-election of all the Directors to the Board.

During 2020, the Company continued to benefit from the Manager's absorption of 80% of the Company's recurring operating expenses. The Manager has committed to continue to absorb 75% of the Company's recurring operating expenses for 2021 until such time as the Company's NAV exceeds £300 million demonstrating its ongoing commitment and alignment with the Company.

Finally, as a planned result of the change to the Company's US tax status in 2019, the Directors concluded that EJFIF was no longer required as a holding company and thus could be liquidated so as to reduce the ongoing administration and costs of operating the group structure.

Share Price

The Company's Ordinary share price began the year trading at £1.71 representing a discount of 9.5%. At the year end, the share price was £1.17 representing a discount of 29%. A similar pattern of discount during 2020 was experienced by many issuers in the alternative credit markets. The Directors and Manager are of the view that the discount should reduce following the removal of the share overhang and as the world recovers from COVID-19 related lock downs.

Dividends

Cash dividends of 2.675p per Ordinary Share were announced in April 2020, July 2020, October 2020 and January 2021. It is a reflection of the robustness of the investment portfolio that no suspension or reduction of the dividends were needed to be made during the period.

The total dividend paid for 2020 equates to an Annualised Dividend Yield[1] of 9.1% of the share price at 31 December 2020 and is consistent with Target Dividend of 10.7 pence per share and which will remain the target for financial year 2021.

Corporate Governance

The Company continues to uphold the principles of good corporate governance and, by reporting against the AIC Code, meeting our obligations in relation to the UK Code and in particular for this year section 172(1). With respect to Section 172(1), the table on pages 29 to 31 identifies the Company's key stakeholders, their particular focus and how we engage with them. Through this we aim to ensure understanding of each stakeholder's interests and the importance of engagement with all stakeholders in building the long-term success of the Company.

ESG

The Directors recognise the importance of ESG and ethical factors, including climate change, when pursuing the Investment Objective and in the selection of the service providers and advisers the Company works with. Please refer to page 28 for the Company's and the Manager's approach to ESG matters.

1 This is an APM as defined on pages 91 to 92.

Principal Risks and Uncertainties

The Directors have carried out a robust review and assessment of the emerging and principal risks facing the Company along with the continued uncertainty around COVID-19 and the roll out of vaccination programmes. A summary of those risks and any changes from last year can be found on pages 15 to 21.

Outlook

With COVID-19 still causing substantial volatility in many markets with the long term impact on the global economy expected to be substantial, the Directors and the Manager continue to closely monitor the situation to ensure liquidity is preserved and underlying assets remain robust. However, the Directors also believe the Company is well positioned to be able to participate in further opportunities as they arise and continues to represent an attractive risk adjusted return.

The Board again expresses its thanks for the continued support from its shareholders and, along with the Manager and the Group's advisers, looks forward to developing the Group further and expanding the shareholder base.

2021 AGM

The 2021 AGM is scheduled for 1 July 2021. The Directors recognise the importance of shareholder engagement and the opportunity for shareholders to attend the AGM should they wish. The Directors will continue to monitor the level of restrictions in place due to COVID-19, and if physical attendance at the AGM is legally permitted, will ensure all necessary arrangements are in place to facilitate that. Any changes to the AGM date will be communicated via the Company's website (www.ejfi.com) and the London Stock Exchange.

Joanna Dentskevich
Chair
31 March 2021

Manager's Report

We are pleased to present our review of the year ended 31 December 2020 and outlook for 2021.

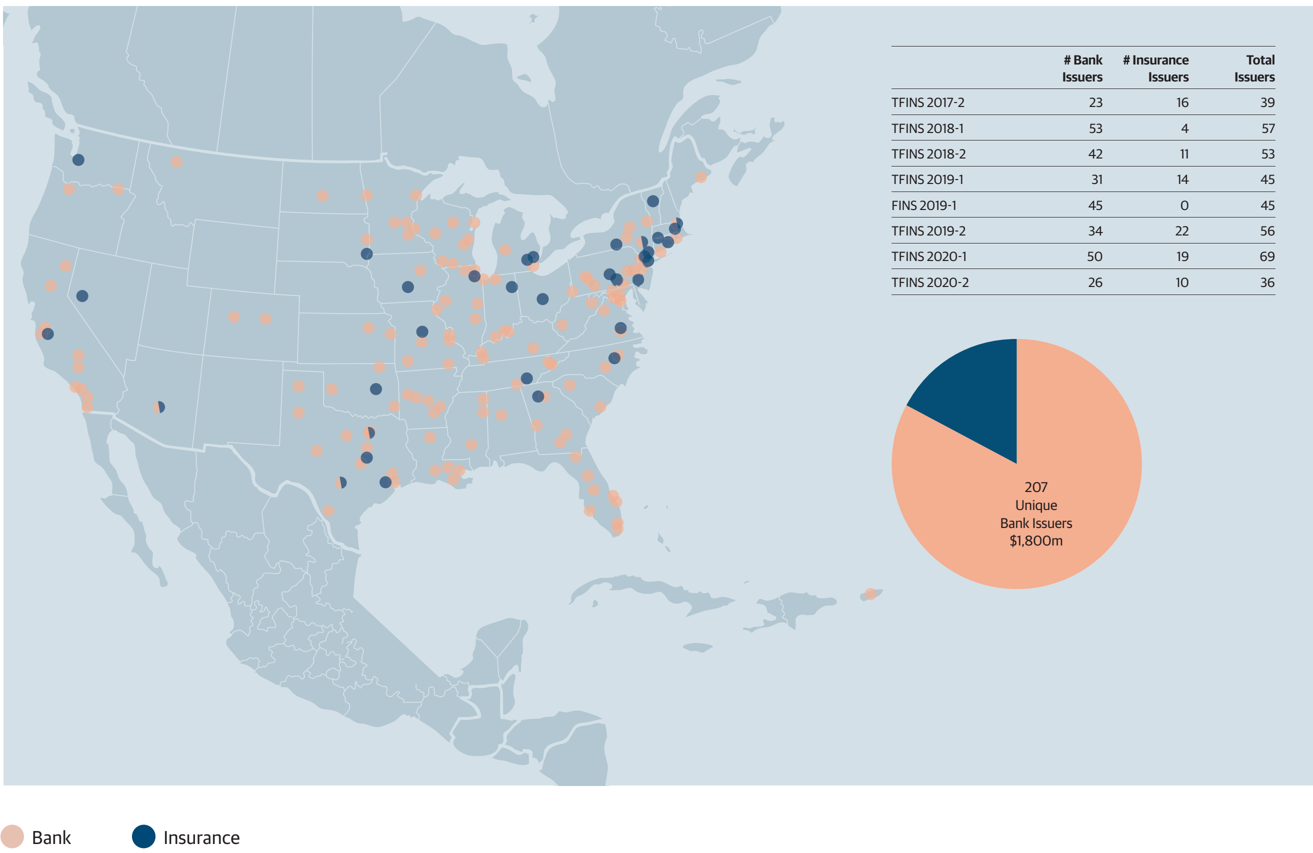
Through its main investment strategy of acquiring bank and insurance CDO equity positions as the risk retention partner to EJF, the Group has exposure to a diversified portfolio of more than 200 unique banks and 40 unique insurance companies located across the US. We believe the Group's investment strategy will benefit further from the continued consolidation in the US banking and insurance sectors, which has been driven by recent regulatory developments. These factors, supported by a favourable macroeconomic environment, will in our opinion continue to provide the Group with very attractive investment opportunities.

US Bank Market Update

The Manager believes the US community banks and insurance sectors have remained, and will remain, resilient through the COVID-19 pandemic and that these strategies represent a powerful way to gain exposure to the continued re-opening and recovery of the US economy as COVID-19 vaccines are administered. The health of the industry entering the pandemic, as measured by both capital and problem asset levels, was historically strong. Additionally, cohesive regulatory, fiscal, and monetary policy afforded the industry substantial latitude to manage new problem assets and provided much needed stimulus to hard-hit industries such as hospitality and retail. As we assess the current operating environment, we note improving asset quality trends, bolstered reserves and a more supportive interest rate environment. Loans on deferral, which we believe peaked at roughly 15% at the end of the second quarter, have fallen to low single digits at the end of the year, a support signal suggesting improving prospects for loan growth and provisioning in 2021.

Following the sweep of the Georgia Senate runoff races in early January, Democrats controlled Congress for the first time in a decade as Joe Biden began his term on January 20. The Manager expects this narrow Democratic majority to be particularly positive for the US banks, as it increases the

Geographic diversification of bank and insurance debt[1]



	# Bank Issuers	# Insurance Issuers	Total Issuers
TFINS 2017-2	23	16	39
TFINS 2018-1	53	4	57
TFINS 2018-2	42	11	53
TFINS 2019-1	31	14	45
FINS 2019-1	45	0	45
TFINS 2019-2	34	22	56
TFINS 2020-1	50	19	69
TFINS 2020-2	26	10	36

1 Based on the headquarters of the underlying collateral issuers of TFINS 2017-2, TFINS 2018-1, TFINS 2018-2, TFINS 2019-1, FINS 2019-1, TFINS 2019-2, TFINS 2020-1 and TFINS 2020-2; as of 31 December 2020.

likelihood of additional fiscal stimulus in 2021. In combination with the Fed's inflation averaging approach which intends to keep short-term rates low for the foreseeable future in order to stoke inflation, the Manager sees the ingredients for higher economic growth and a steepening yield curve. The Manager also notes that the yield curve has already begun to steepen, with the spread between the 2-year and 10-year US Treasuries widening to 0.82% from 0.55% at the beginning of the third quarter in 2020. With greater certainty around credit quality from stimulus measures and vaccine distribution as well as a potential bottoming in net interest margins, the Manager believes that US banks are poised for further strong performance. Additionally, we expect financial regulation to initially remain relatively unchanged by the current administration, as agency heads must be approved by the Senate, and FOMC Chairman Jay Powell's term does not end until early 2022. The appointment of Janet Yellen as Treasury Secretary was cheered by the markets as her experience will be valuable in leading the post-pandemic economic recovery. Lastly, given the very narrow Democrat majority, we consider it is unlikely that we see any major rollbacks of the current corporate tax rate of 21%.

The Manager anticipates that ongoing policy stimulus will remain key to the re-emergence from the pandemic. On December 29, President Trump signed the second COVID-19 relief bill estimated at US$900 billion which was passed by Congress at the end of December. The relief bill will be important for banks as it includes US$325 billion of additional relief to small businesses, particularly operating in the hardest hit industries, such as hospitality, restaurants and entertainment venues. A second round of PPP is estimated at US$284.5 billion and will be crucial in extending support to those bank customers with fewer than 300 employees that have seen revenues decline by at least 25% during the first three quarters of 2020. Additionally, US$286 billion of benefits have been earmarked for qualifying individuals including a US$600 per person direct cash payment which should act as a bridge to allow for additional time to roll out vaccines.

Subtitle C of the COVID-19 relief bill also provides for a historic investment in CDFIs and MDIs. In particular, the US$9 billion Emergency Capital Investment Program aims to expand significant lending activity in minority communities, especially those disproportionately impacted by COVID-19 and those with unmet financial service needs. The Treasury-led capital initiative will consist of cumulative preferred stock issued by qualifying MDI and CDFI institutions. Although full program terms have not yet been released, the Manager views the program as more powerful in some ways than the Troubled Asset Relief Program's Capital Purchase Program or Community Development Capital Initiative programs from the 2008 Global Financial Crisis. These aforementioned programs only allowed for preferred stock to be issued at 3%-5% of risk-weighted assets. With the ability to lower coupons to 0.5%, the Manager believes that the Emergency Capital Investment Program would produce the lowest cost of capital instrument in the US banking industry. This capital can be used to replace higher costing liabilities such as subordinated debt and Trust Preferred Securities.

In mid-December, the Fed released the results of the new mid-cycle CCAR stress tests for the largest 33 banks, measured by having more than US$100 billion in total assets. Similar to the primary test, banks were required to resubmit their capital plans, potentially limiting future capital return in the form of stock buybacks, dividends, and M&A, should the Fed determine that a bank lacked sufficient capital in a stress scenario. All banks passed and performed well on the test given the recovery in the markets. Importantly, the Fed will allow all banks to repurchase shares beginning in the first quarter of 2021 and pay dividends in an amount equal to the preceding four quarters of net income. The Manager views this guidance as materially positive for the US banking sector as some market participants had not expected an end to the share repurchase moratorium on large banks until the middle of 2021. The Manager also expects current capital limitations to ease as the economy recovers and vaccines are administered over the first half of 2021. Furthermore, many non-CCAR qualifying bank holding companies have been returning capital in the form of buybacks throughout the pandemic. The Manager estimates that approximately 150 banks have engaged in, or announced, stock buybacks since the onset of the pandemic.

Bank M&A activity, a major secular theme within the small bank space for many years, slowed to 110 announced transactions in 2020 given virus-related uncertainty and its effect on bank stock prices and credit transparency. However, the pace of M&A accelerated in the fourth quarter of 2020 as stock prices rebounded and credit loss estimates mitigated. The Manager is optimistic that M&A activity is set to rebound in 2021 as the many of the fundamental drivers of M&A, such as the need for scale, better expense leverage through cost synergies, and board and management fatigue, have been accentuated by pandemic. Additionally, the fourth quarter and early parts of the first quarter of 2021 brought elevated M&A activity in the regional and super-regional space, with four notable deals announced. The first, First Citizens Bancshares and CIT Group merger of equals highlighted in previous commentary, was followed by PNC Financial Services Group Inc. announcing its intention to purchase the US$104 billion in assets US subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. for approximately US$11.6 billion in cash on November 16th. On December 13th, Huntington Bancshares, Inc. announced its intention to acquire TCF Financial, a US$48 billion in assets in-market peer, for approximately US$5.9 billion in an all-stock transaction. Lastly, SVB Financial announced its intention to acquire Boston Private Financial Holdings on January 4th for approximately US$941 million in cash and stock. We believe additional deals, both large and small, will materialise over the coming quarters as banks face continued margin and cost pressure with diminished opportunity for organic growth. We expect M&A will continue to lead to early redemption of trust preferred securities and other high cost liabilities or inefficient forms of capital.

Capital markets remain wide open for US banks. New subordinated debt and non-cumulative preferred issuances continue at record levels, with approximately US$10.8 billion and US$3.83 billion raised by banks with US$100 billion in assets and below in 2020, respectively. This compares to US$4.4 billion and US$1.5 billion, respectively, in 2019. We believe the credit markets are viewing the current environment as an earnings issue rather than an acute credit event. Additionally, we anticipate this capital is likely to be deployed in 2021, primarily through M&A. Increased M&A brings forward value in the Company's risk retention holdings and improves the internal rate of return of the positions.

US Insurance Market Update

As for many industries in 2020, COVID-19 presented a new series of challenges to the insurance industry. Predominantly, COVID-19 related losses, business interruption litigation, a decline in premium growth and volatility in capital markets affected the industry throughout the year. Encouragingly for the Group's portfolio, most COVID-19 related losses are expected to be picked up by reinsurers, and technical performance for most insurers is unlikely to materially deteriorate. Many of the companies within the Group's securitisations have experienced limited losses due to COVID-19 as they are smaller, niche operators writing mostly standard insurance contracts with either clear pandemic and communicable diseases coverage exclusions, or robust reinsurance coverage. With strict lockdowns in place across the country, motor and medical claims remained low which had a positive impact on loss ratios, while developing CAT losses, social unrest, and massive wildfires have led to underwriters raising rates, lowering capacity and transferring risk.

However, despite common virus and bacteria exclusions, a significant number of lawsuits and class actions have been filed against US insurers for denying business interruption claims resulting from COVID-19 related losses over the course of the year. The industry has taken a united stance in that they cannot pay claims on insurance policies for which they collected no premiums due to the virus and bacteria exclusions. Nevertheless, this has not stopped some policymakers from suggesting retroactive measures that would essentially force insurers to rewrite contracts and pay out business interruption losses. The suggestion of retroactive measures has caused some anxiety in the industry albeit primarily focused on the larger insurers which have a larger exposure to such claims. Thus far insurers have been winning the majority of the business interruption lawsuits that have been filed and the Insurance Journal has reported judges dismissing in excess of four times the cases they have allowed to proceed as at December of 2020.

Regarding the operating environment, an already hard pricing environment is continuing to harden into 2021 amidst increased competition, environmental and social factors, and increased scrutiny of the risk profile of insureds. Rate increases, capacity restraints, and tighter underwriting standards are expected to continue across primary general/products liability and other casualty markets. Furthermore, with low interest rates restricting insurers' ability to offset underwriting losses with investment income, the hard market provides an important mitigant that is likely to last for some time.

Portfolio Update

EJFI's investment portfolio had recovered from the March lows by the year end and continued to perform in line with expectations from an income yield perspective, which supported the payment of regular dividends.

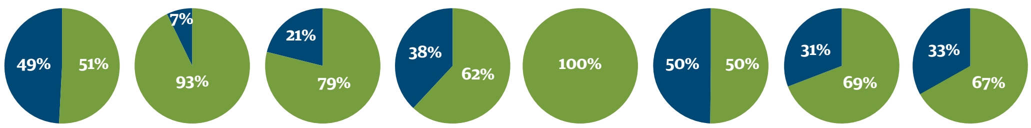
Risk Retention and Related Investments, in addition to the other Securitisation and Related Investments, represented approximately 80% of the Group's assets as at 31 December 2020. These investments are consistent with the Group's strategy of generating risk adjusted shareholder returns by investing in a diversified portfolio of long-term, cash-flow generating assets.

A summary of the CDO equity investments and underlying collateral diversification is below, along with forward projected returns analysis:

EJF Investments Ltd – Risk Retention Investments as of 31 December 2020

	TFINS 2017-2 October 2017	TFINS 2018-1 May 2018	TFINS 2018-2 December 2018	TFINS 2019-1 March 2019	FINS 2019-1 September 2019	TFINS 2019-2 December 2019	TFINS 2020-1 September 2020	TFINS 2020-2 December 2020
EJFI — CDO Equity amount ($ million)	14.5	22.7	17.4	15.7	12.9	16.4	11.6	8.9
Estimated return profile[1]								
Yield to Maturity (%)	7.9	7.2	6.6	6.6	7.8	8.6	7.3	6.4
Yield to Maturity including CDO management fee income (%)	**8.3**	**8.5**	**7.9**	**7.7**	**9.5**	**9.9**	**8.4**	**7.9**
Yield to Call[2] (%)	11.6	9.6	8.7	8.0	9.3	12.9	10.5	9.1
Yield to Call[2] including CDO management fee income (%)	**12.0**	**11.1**	**10.2**	**9.1**	**11.2**	**14.4**	**11.9**	**10.8**

Collateral overview (on closing date)
TruPS, senior, subordinated and surplus notes issued by US banks and insurers.



• Insurance companies • Banks

	TFINS 2017-2 October 2017	TFINS 2018-1 May 2018	TFINS 2018-2 December 2018	TFINS 2019-1 March 2019	FINS 2019-1 September 2019	TFINS 2019-2 December 2019	TFINS 2020-1 September 2020	TFINS 2020-2 December 2020
CDO structure								
Original collateral principle balance ($ million)	353.0	537.8	351.0	313.9	250.5	338.4	282.9	177.2
Implied rating	Ba1	Baa3	Baa3	Baa3	Baa3	Ba1	Ba2	Ba3
Leverage ratio	4.3x	6.7x	5.7x	4.6x	4.9x	5.8x	4.5x	5x
Other key terms								
Non call/Auction call	Passed/ Sept 2025	Mar 2020/ Mar 2026	Dec 2020/ Dec 2026	Feb 2021/ Feb 2026	July 2021/ NA	Jan 2023/ Nov 2027	July 2022/ July 2028	Oct 2022/ Oct 2028
Senior collateral management fee (bps)	10	20	20	20	30	20	30	30

1 Estimated returns are as of 31 December 2020 and they reflect the fair valuation of the bonds. Estimated returns assume, among other things, no delinquency, deferral or other non-payment by collateral, and do not include cash flows previously received. Prepayments are estimated by EJF based on past experience and judgements. Any changes in cash flows can materially impact returns. There can be no assurances that the estimated returns will be realised as portrayed in this document and investors should place no reliance on such estimated returns in making any investment decision. Estimated returns are targets only and not a profit forecast. This information is intended to be illustrative only and is not designed to predict the future performance of the Company or its investment portfolio.

2 Call assumed to be in 5 years from yield calculation date.

The Group invested approximately £17.5 million across two securitisations during the year. The first CDO transaction was a £10.8 million investment in the equity tranche of TFINS 2020-1 in August 2020. TFINS 2020-1 is a securitisation primarily consisting of trust preferred securities, subordinated debt and issued surplus notes issued by 51 US banks and 21 US insurance companies with an aggregate par value of approximately US$282.9 million.

Approximately 50% of the collateral is indexed to three-month LIBOR, while the balance of the collateral is fixed rate. The weighted average spread of the floating assets is approximately 3.54%. Approximately 12% of the underlying securities have a fixed interest rate with a weighted average coupon of approximately 6.16%. The remaining 39% of the underlying securities have a fixed-to-float interest rate. TFINS 2020-1 has a final maturity date in 2039 and is callable after August 2022 at the option of the majority preferred shareholders, with mandatory auction calls commencing after August 2028. As part of this transaction, the Group contributed a £4.4 million US bank sub debt security to the securitisation. The CDO Manager serves as the collateral manager for TFINS 2020-1 and receives a 30-basis points p.a. fee in addition to earning an incentive management fee equal to 20% of profits over a 10% hurdle, subject to certain exceptions.

The second CDO transaction was a £6.7 million investment in the equity tranche of TFINS 2020-2. The underlying collateral of TFINS 2020-2 mainly consists of trust preferred securities, subordinated debt senior notes, and surplus notes of 26 US banks and 10 insurance companies with an aggregate par value of approximately US$177.25 million. Approximately 40% of the collateral is indexed to three-month LIBOR, while the balance of the collateral is fixed rate. The weighted average spread of the floating assets is approximately 3.58%. Approximately 14% of the underlying securities have a fixed interest rate with a weighted average coupon of approximately 7.0%. The remaining 46% of the underlying securities have a fixed-to-float interest rate. TFINS 2020-2 has a final maturity date in 2041 and is callable after October 2022 at the option of the majority preferred shareholders, with mandatory auction calls commencing after October 2028. The CDO Manager serves as the collateral manager for TFINS 2020-2 and receives a 30-basis points p.a. fee in addition to earning an incentive management fee equal to 20% of profits over a 10% hurdle, subject to certain exceptions.

An important part of the Group's investment thesis is the consolidation trend among US banks and insurance companies and the potential prepayment impact on the Group's CDO equity investments. We believe that the likelihood of calling a securitisation prior to maturity increases as prepayment activity increases, which we anticipate may enhance the overall returns to the Group's investment portfolio.

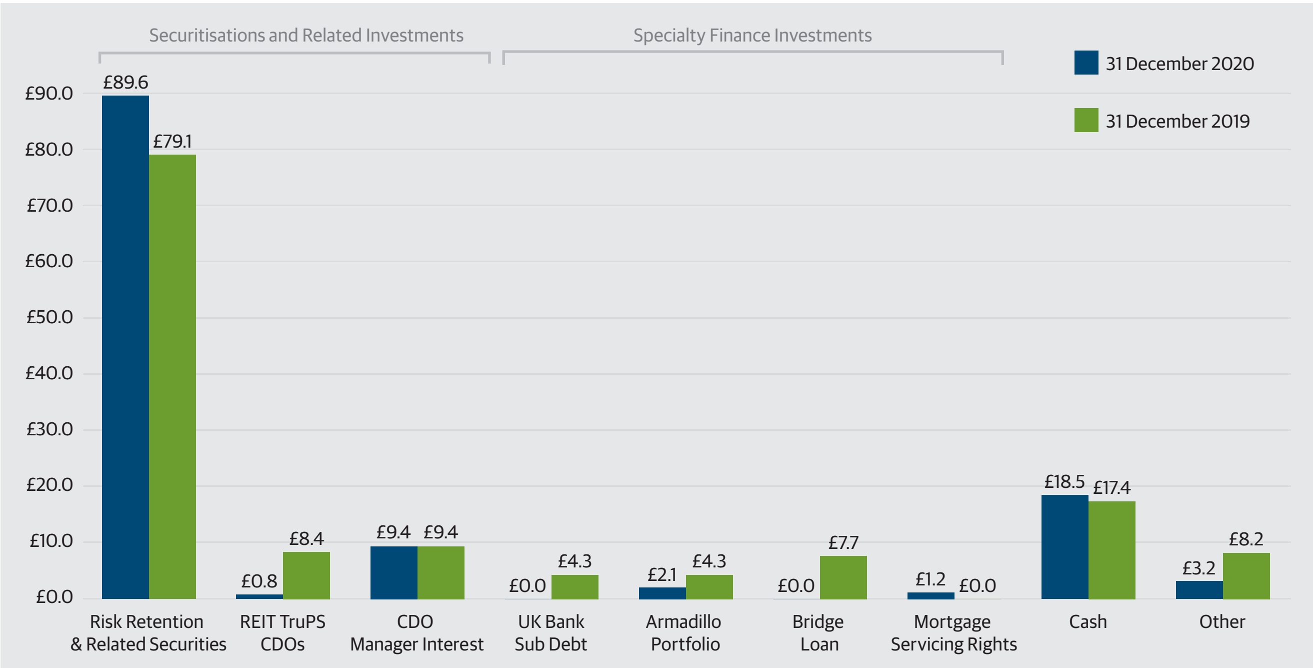
The Group also sold a number of its specialty finance investments during the year to generate liquidity for investment into the new securitisations and to ensure a healthy cash buffer to protect against any margin calls on the forward foreign exchange contracts.

At the end of December the Group made its first investment into an affiliate of Seneca of approximately £1.2 million with approval from the Board to invest up to US$10 million. We consider that this investment will enable the Company to take advantage of the economics derived from MSRs as a result of the current interest rate environment. We expect this investment to be an accretive investment to the Company's portfolio in an area with high barriers to entry and in which we believe Seneca has significant experience and a strong competitive advantage.

The Armadillo portfolio continues to wind down as the underlying loans repay. During the year, the Armadillo strategy experienced a further write-down on a portion of its loan portfolio, which negatively impacted the Group's NAV (by 0.42%). The Group's remaining exposure to the Armadillo strategy is approximately £2.1 million or 2% of NAV. EJF is still working toward realising the recovery value of the remaining Armadillo loan portfolio.

The split of the investment portfolio as at 31 December 2020 was as follows:

Portfolio comparison in £ million



Risk Management

We believe the Group's investment portfolio contains a diversified portfolio of strong borrowers. The Manager's credit team conducts regular surveillance on issuer financial and business profiles and the broader portfolio.

The Group's base currency is denominated in Sterling although most of the Group's investments are denominated in US Dollars. At the start of 2020, the Company continued to adopt a hedging strategy whereby 100% of its US Dollar exposure was hedged against Sterling, and as a result the Company was required to hold significant levels of cash, including amounts already on margin as a buffer to protect against margin calls. This strategy was halted temporarily during March 2020 to preserve liquidity in light of the volatility in financial markets caused by the COVID-19 pandemic, with the 100% hedging strategy fully reinstated by 23 June 2020.

It was decided, after discussions with the Board, that from 16 February 2021, the Company would no longer hedge 100% of exposure and would enter into contracts to hedge only the final Sterling capital entitlement of its outstanding ZDP Shares. It is anticipated that the reduction in the hedging costs together with the release of the cash on hand for pipeline investments will positively contribute to the Company's overall unhedged investment returns.

Outlook

The Manager continues to believe that the Group's current investment portfolio remains well positioned to continue to benefit from favourable regulatory and improving economic conditions, and that the Group's addressable investment universe provides ample opportunity to allow it to continue to harvest and add attractive risk-adjusted returns and gain in scale. Anticipated 2021 securitisations and CDO management fees are expected to offer similar risk and return profiles as the recent securitisation investments. Additionally, EJF continues to support the operations of the Group through its commitment to cover 75% of operating expenses until such time as the Company's NAV exceeds £300 million.

Statement of Principal Risks

Principal Risks, Uncertainties and Emerging Risks

The Principal Risks of the Company are those risks, or a combination thereof, that the Directors believe may materially threaten the Company's ability to meet its Investment Objectives, solvency, liquidity or viability.

Risks faced by the Group include (but are not limited to) strategic risk, financial risk, investment risk, compliance risk and operational risk, as summarised in the Prospectus on pages 16 to 49.

In determining the principal risks, a robust assessment of all risk factors that the Directors believe the Company is exposed to has been performed. In doing so, the Directors have also considered the impact of the ongoing uncertainties of the outcome that the post Brexit negotiations and the COVID-19 pandemic might have on the principal risks, and the structure and economies within which the Group operates.

As at 31 December 2020, the principal risks and uncertainties that the Company faces, along with related mitigants and changes to the principal risks from last year, and consideration of emerging risks, are set out below.

Principal Risks: Strategic

Changes in the macro economic environment

Changes in global, market and economic conditions may adversely impact the availability of investment opportunities, the Manager's ability to source and securitise investments and prevent the Company from meeting its Investment Objective.

Mitigants

The Manager evaluates and monitors the macro, economic, political and market cycle risks it deems material to the Company's Investment Policy, both on an ongoing basis and ahead of any new investment. The Manager can control the timing of entry into investments and markets to ensure that the Portfolio adheres to the Investment Policy and to manage the aforementioned risks. The Board is kept informed on a regular basis by the Manager and is also updated at quarterly Board meetings.

Analysis and Change during the year

During the first six months of the year and as reported in the 2020 Interim Report, the Directors consider that this risk increased as the impact of COVID-19 intensified.

However, during the second half of the year, as global credit markets stabilised, US support packages were put in place and confidence grew around the success of a vaccination programme, the Directors consider this risk to have decreased. This was evidenced by the Manager's ability to close two new securitisations in the second half of the year.

The Company continues to have an active pipeline of securitisation and other investments and the Company's target investment sectors remain stable, and thus the Directors believe that despite fluctuations in this risk during 2020, overall there has been no material change in the residual risk at the year end.

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Changes in law, taxes and regulation reduce investment opportunities

The Group's investments are subject to regulations enacted by national and local governments, changes to which may reduce the investment opportunities available and make it difficult to pursue the Investment Policy.

Mitigants

The Manager, along with the Company's Financial Adviser, Administrator and legal advisers, continually monitors and evaluates the legal and regulatory horizon for any new or changes to existing legislation and regulation that could potentially invalidate the Investment Policy. The Board is kept abreast of any potential changes on a regular basis through its committee and Board meetings and regular communication with the Manager and advisers.

In addition, the Company's Investment Policy allows the Company to pursue a wide variety of investment opportunities.

Analysis and Change during the year

The Directors believe that any changes as a result of post Brexit trade negotiations or COVID-19 should not impact availability of investment opportunities, noting that most investments are US based. In addition, as at the date of the Annual Report, the Directors have not been advised of any expected changes that would materially impact the Investment Policy.

Therefore, the Directors believe there has been no material change in the residual risk during the year.

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Changes in law, taxes and regulation undermine the Company's or Subsidiary's legal, tax or regulatory structure

The Group is subject to taxes, laws and regulations enacted by national and local governments, changes to which may undermine or invalidate the tax, legal or regulatory rationale for the group structure.

Mitigants

The Manager, along with the Company's legal and tax advisers, keeps abreast of potential changes to the regulatory, legislative and tax environment that may undermine or invalidate the rationale for the group structure. The Company takes a proactive approach to tax structuring as evidenced by:

- The EGM resolutions passed in December 2019 to change the US tax classification of the Company.
- The engagement of PwC and Carey Olsen to assess and advise the Company on the new substance requirements in Jersey.
- The liquidation of EJFIF as a result of changing the US tax classification of the Company, saving administration expenses going forward.

Changes are communicated to the Board on a regular basis through its committee and Board meetings. The staff at the Manager and the Administrator are sufficiently experienced and trained to deal with changes which may occur.

Analysis and Change during the year

As at the date of the Annual Report, the Directors have not been advised of any upcoming legal, tax or regulatory changes that are likely to materially impact the Investment Policy. The Company, the Manager and the Company's primary target assets under the Investment Policy are all domiciled in non-EU third countries and accordingly the Directors believe that the group structure should not be adversely impacted by the outcome of post Brexit trade negotiations.

The Directors believe there has been no material change in the residual risk during the year.

Availability of cash for investment opportunities and payment of liabilities

The Company requires regular ongoing funding and available cash to be in a position to take full advantage of investment opportunities as and when they arise, along with meeting liabilities as and when they fall due. The risk of the Company having insufficient cash to meet investment opportunities continues to be a principal risk due to several factors:

(i) the impact of the uncertainty surrounding post Brexit trade negotiations and volatility of Sterling has required previously unencumbered cash to be used to meet margin calls on the currency hedge;

(ii) the share price discount to NAV and difficulty in raising capital which impact most investment funds in the Company's peer group;

(iii) the complex nature of the underlying investments continues to have the potential to deter some investors from investing; and

(iv) the approaching maturity of the 2022 ZDPs in November 2022 which will require the payment of approximately £19.9 million to settle the final capital entitlement.

Mitigants

The Manager continually monitors the current and projected cash flows required by the Company to meet its current and future liabilities, including control over the timing of entry into investments and expectations on when the Manager may recommend calling and/or refinancing underlying securitisations.

On a quarterly basis, the Manager produces for the Board a working capital memo showing forecast balances covering a period of at least 18 months which is also supplemented every six months by appropriate scenario analysis.

In addition, the Manager continually seeks to improve the discount of the share price to NAV and the liquidity of the Ordinary Shares stock by working with the Company's Corporate Broker, public relations consultant and research agent and meeting investors and conducting roadshows to raise market awareness and explain the Company's strategy and investment thesis.

Analysis and Change during the year

In the Interim Report, the Directors assessed the residual risk of this principal risk as having increased mainly due to the negative impact that the prevailing economic and political environment caused by the uncertainty of COVID-19 and Brexit was having on global investor sentiment and the strength of Sterling. This resulted in the Company having to place further margin with respect to the currency hedges, thereby reducing availability of cash.

Although post year end, steps were taken to reduce the impact of currency volatility on this principal risk, the Directors still consider the residual risk to have increased during the year.

Dependency on the Manager

The Company is dependent on the Manager for successfully pursuing its Investment Objective and on its ability to retain and recruit staff. The loss of one or more senior members of the Manager's management team could adversely impact the ability of the Manager to support the Company in pursuing its Investment Objective.

Mitigants

The Manager's senior management team has a proven track record, with strength and depth of relevant experience and is recognised as an expert in their field. The Manager employs experienced individuals and regularly reviews remuneration levels against the employment market and the requirements for skills and headcount. The Manager's remuneration policies are designed to strike an appropriate balance between short-term and long-term rewards, alignment and retention.

Analysis and Change during the year

The Company continues to have no direct competitors with the same investment thesis. Due to COVID-19 restrictions during the year, the independent Directors were unable to carry out their planned due diligence visit to the London office of the Manager. In lieu of this, the Directors held a virtual meeting with each key function within the Manager to gain comfort over their continued performance and operations. The independent Directors reaffirm their positive view of the Manager and believe that the senior management team, and the business generally, is highly cohesive and aligned with the Company in pursuing its Investment Objective.

The Directors believe there has been no material change in the residual risk during the year.

Valuation

The nature of the Group's investments can make them inherently difficult to value compared to more liquid investments due to the number of assumptions involved. Furthermore, a general market collapse and/or a seizing-up of credit markets may render it difficult to price certain investments with any degree of accuracy, or at all.

Mitigants

There is a stated valuation policy, reviewed and updated periodically for all underlying investments, which is applied by the Manager and the Administrator when preparing the monthly NAV. In most cases, the Manager obtains quotes from multiple independent brokers to mark the securities. The Manager has also appointed a recognised independent valuation agent to provide comfort over the valuations derived from models developed by the Manager where appropriate.

The Manager has a valuation committee which meets monthly to review the valuation of investments which feeds into the NAV process. The NAV is prepared by the Administrator, and then reviewed and approved by the Manager and the Board on a monthly basis.

Analysis and change during the year

The Group's core investment allocation continues to be focused on Risk Retention assets which are inherently difficult to value compared to more liquid investments.

The Directors believe there has been no material change in the residual risk during the year.

Principal Risks: Investments

Credit Risk

The value of the Group's investments may be impacted by adverse credit events with recovery of initial investments being lengthy and uncertain.

Mitigants

The Manager carefully assesses the credit risks of every investment, including the underlying collateral held in the securitisation vehicles. Assessments of credit risk are derived from various credit analyses, market and macro conditions and underwriting stress scenarios. The Manager conducts regular credit surveillance on the portfolio of investments and underlying collateral in the securitisation vehicles.

Analysis and change during the year

The Group's investment allocation continues to be focused on Risk Retention assets with credit analysis focusing on underlying collateral in the securitisation vehicles. There have been no changes to the credit risk of the underlying collateral during the year.

The Directors believe there has been no material change in the residual risk during the year.

Interest Rate Risk

A large percentage of the Group's assets are linked to floating interest rates. The translated cashflows and valuation of the assets are correlated to interest rates. A decline in interest rates may have a negative impact on expected future cashflows and the underlying valuation of the assets depending on the effective duration of each asset.

Mitigants

The Manager carefully evaluates the interest rate environment at the time of an investment and on an ongoing basis for the Portfolio and may utilise appropriate strategies to mitigate any interest rate risk, for example interest rates swaps, if required.

The Manager continues to follow and assess the impacts of the cessation of LIBOR and recognises the importance of facilitating the transition from US Dollar LIBOR-based floating rates to SOFR-based floating rates on its sponsored securitisations. Additionally, the Portfolio is not exposed to any EUR or GBP LIBOR linked instruments.

Analysis and change during the year

During the year, it was announced that USD LIBOR retirement would be delayed until June 2023 and the Manager is currently working with third party advisers to review the collateral positions held within all EJF sponsored securitisations and assessing the key areas of risk around the transition.

It is not anticipated that the change from LIBOR will materially impact the economics of EJF sponsored securitisations provided the transition is managed appropriately. In addition, the Manager has confirmed that both the collateral and interest due to noteholders will use the same reference rate to avoid any unnecessary interest rate risk for the securitisations.

As a result the Directors believe there has been no material change in the residual risk during the year.

Principal Risks: Operational

Dependency on service providers

The Company is dependent on the ability of all its service providers for the successful management and administration of the Company's affairs. This includes a reliance on the strength of their internal controls, their ability to retain and recruit sufficient appropriately qualified and experienced staff as well as cyber security, data protection and business continuity planning.

Mitigants

The Company's service providers are selected through a process based on recommendation and their experience and ability to meet the Company's requirements. The Board is in regular contact with the Administrator and Manager to ensure that the policies and procedures implemented are appropriate and effective and meet regularly to review the service level. The Board has established a Management Engagement Committee which reviews the performance of all key service providers on an annual basis.

Analysis and change during the year

The Directors and Management Engagement Committee continue to review all service providers on an ongoing basis with a view to ensuring that the Company's service requirements and objectives continue to be fully met. The review for the period also considered the ability of each service provider to continue without disruption whilst working from home due to COVID-19 restrictions.

The Directors believe that although the Company has not experienced any downturn in their service providers' performance, there is an increased cyber security risk from staff members working from home as a result of implementation of business continuity plans, and as a result there has been an increase in the residual risk during the year.

Uncertainties

Brexit

As a Jersey domiciled entity with a US Manager, the Company markets to EU investors through the national private placement regimes of the EU countries concerned in accordance with AIFMD. This third country status, along with primarily US Dollar denominated investments, is expected to afford the Group a relative safe harbour from many of the potential structural and regulatory impacts of Brexit.

For these reasons, the Directors continue to believe that the outcome of post Brexit trade negotiations itself is not a principal risk for the Company but factors such as long term uncertainty, negative investor sentiment, sector contagion and a weak Sterling arising as a result of the next stage of Brexit negotiations could increase the Principal Risks.

The potential negative impact of these factors has been considered when applying the scenarios used to stress test the Company's working capital model and when assessing the Company viability.

COVID-19

The Directors continue to consider the impact of the COVID-19 pandemic on the Company as an uncertainty.

The Manager is constantly monitoring the situation and continues to believe that the Company's underlying assets remain robust and are able to withstand significant stress following various financial and regulatory improvements witnessed in recent years with all expected near-term cash inflows being received to date.

The Company's forward foreign exchange instruments used to hedge US Dollar denominated assets into Sterling were reinstated during the second quarter of 2020 with a reasonable cash buffer being held to meet potential margin calls. Post year-end, the Board and the Manager reviewed the Company's anticipated cash requirements again and decided to reduce the hedges to cover only the final capital entitlement of the zero dividend preference shares.

Elsewhere, the Board has been informed that the business continuity plans of all of the Company's service providers have been successfully implemented and there has been no material impact on the Company's operations.

As noted above, there has been an increase in the residual risk of certain of the Principal Risks due to several factors including, but not limited to, long term uncertainty, reduced investment opportunities, negative investor sentiment and a weak Sterling/ strong USD, which have been integrated into the scenarios used to stress test the Company's working capital model and considered when assessing the Company's ability to continue as a going concern.

Emerging Risks

Emerging risks, along with all other risks that the Directors consider the Company is exposed to, are monitored via the Company's risk register which, for each risk, identifies current aggravants and mitigants, their potential impact on the Investment Objective and key performance indicators and the Company's risk appetite.

The Directors had previously identified climate risk as an emerging risk although not considered it to be a material risk to the Company's business model or long-term viability. As detailed on page 28 , the Directors and the Manager have committed to integrating ESG, including climate change risk, into its governance structure and therefore do not consider climate change risk to be an emerging risk for this year.

As part of their review of risks for the period, the Directors have not identified any new risk they consider to be an emerging risk to the Company.

The Board

Joanna Dentskevich

Non-executive Chair
Appointed in 2017

Considered to be independent

Skills & experience

Joanna Dentskevich has over 30 years of finance, risk and investment banking experience gained in London and Asia. She started her career in 1986 as an auditor in financial services group of a London accountancy firm before moving into investment risk at Bankers Trust. Prior to moving to Jersey in 2008, she was director of risk at Deutsche Bank and Morgan Stanley and chief risk officer and a co-founder of a London based systematic hedge fund. Joanna sits on the board of a number of investment companies.

Committees

Audit and Risk Committee
Management Engagement Committee

Other public appointments

GCP Asset Backed Income Fund Ltd

Executive appointments

None

Alan Dunphy

Non-executive Director
Appointed in 2016

Considered to be independent

Skills & experience

Alan Dunphy has over 20 years of experience in the offshore financial industry moving to Jersey in 2008 to join the Assurance and Business Advisory Division of PricewaterhouseCoopers. He currently works for LGL Group as a director on fund and corporate client structure before which he was managing director of Bennelong Asset Management, a director of Capita Fiduciary Group. He also worked at Abacus Financial Services Group. Alan is a fellow of the Institute of Chartered Accountant in Ireland.

Committees

Audit and Risk Committee (Chair)
Management Engagement Committee

Other public appointments

None

Executive appointments

LGL Group

Nick Watkins

Non-executive Director
Appointed in 2017

Considered to be independent

Skills & experience

Nick Watkins started his career as a corporate tax lawyer with Dechert LLP in London in 1997. He is currently a partner and director of Altair Partners Limited, which provides independent directors to funds and regulated entities. Prior to joining Altair in 2014, he was global head of transaction management for Deutsche Bank's Alternative Fund Services division in Jersey and prior to that was assistant managing director and senior in-house legal counsel at Citco in the Cayman Islands. Nick is a qualified solicitor in England and Wales.

Committees

Audit and Risk Committee
Management Engagement Committee (Chair)

Other public appointments

None

Executive appointments

Altair Partners Limited

Neal J. Wilson

Non-executive Director
Appointed in 2017

Considered to be non-independent

Skills & experience

Neal Wilson has over 29 years of capital market and asset management experience and is Co-CEO of EJF which he co-founded in 2005. Neal is also the CEO of the Manager. Prior to EJF, Neal was in charge of the Alternative Asset Investments and Private Wealth Management divisions at FBR, a senior securities attorney at Dechert LLP and Branch Chief of the Division of Enforcement at the SEC in Washington, D.C. Neal is a non-active member of the bars of Pennsylvania and Washington, DC.

Committees

None

Other public appointments

None

Executive appointments

CEO of EJF and the Manager

The Manager

EJF Capital LLC

EJF is a global alternative asset management firm focused primarily on regulatory event-driven investing within the financial sector. EJF was founded by Emanuel Friedman and Neal Wilson in 2005 and is headquartered just outside of Washington, D.C., with additional offices in London and Shanghai. EJF manages approximately US$5.9 billion[1] of hedge fund assets, separately managed accounts, and private equity assets, as well as US$3.5 billion[1] of CDO assets through its affiliates. EJF's approach combines investment expertise across the capital structure with a corporate finance focus to unearth creative solutions for investing in complex, mispriced securities and other assets.

The key employees of the Manager involved with the Company, excluding Neal Wilson who has been included in the Directors on page 22, are listed below:

Peter Stage

Co-chief Investment Officer of the Manager and Member of the Investment Committee

Skills & experience

Peter Stage is responsible for identifying investment opportunities in the European fixed income, equity and private markets with a focus on the banking sector. Peter was previously Head of Credit Research at F&C Asset Management where he also analysed the banking sector. Prior to joining F&C in 2008, He was Head of Credit at Gordian Knot Limited, an investment management company, which he joined in 1998 as a bank analyst. Peter holds a BA in Economics from the University of Manchester.

Hammad Khan

Co-chief Investment Officer of the Manager and Member of the Investment Committee

Skills & experience

Hammad Khan has 15 years' experience in the financial services industry touching on various securities analysis within the European financial sector. He previously worked at Oak Circle Capital LLC in New York as a credit analyst where he analysed opportunities within the US RMBS & CMBS sectors. Prior to joining Oak Circle Capital LLC, Hammad worked at Ivy Square Ltd and Ceres Capital Partners LLC in New York where he analysed investment opportunities in the credit markets, modelled complex structured deals and aided with trading/ops. Hammad holds a BA in International Economics from Suffolk University in Boston.

Matt Gill

Chief Financial Officer of the Manager

Skills & experience

Matt Gill has 10 years' experience in the financial services industry and previously worked at PwC in Guernsey managing assurance engagements for both London listed and private alternate investment funds, focused on debt origination, asset backed securities and private equity. He also managed reporting accountant engagements for investment fund initial price offerings on the London Stock Exchange. Matt is a CFA charterholder, Chartered Accountant (ICAEW) and holds a BSc. (hons) in Physics from the University of Leeds.

Omer Ijaz

Member of the Investment Committee

Skills & experience

Omer Ijaz serves as a Senior Managing Director, Portfolio Management, at EJF. Omer joined EJF in 2011 as a specialty finance insurance and bank analyst, and currently leads the credit analysis and trust preferred CDOs structuring for the Insurance and Bank TruPS. He has designed the framework for four EJF sponsored securitizations, totaling approximately $1.3 billion. Omer also manages the investments of legacy TruPS CDOs. Omer came to EJF from Merrill Lynch, where he was employed as a summer research analyst in the Global Private Client Division. Prior to his time at Merrill Lynch, he worked for Citibank N.A. and Muslim Commercial Bank. Omer earned a BA in Business Economics from the College of Wooster.

1 As of 31 December 2020. Firm AUM includes US $102.7 million of uncalled capital.

Emanuel J. Friedman

Member of the
Investment Committee

Skills & experience

Emanuel Friedman co-founded EJF. Over the course of his 40+ year career in capital markets and asset management, Emanuel has structured and built numerous innovative investment strategies that have focused on some of the most powerful trends in the financial sector driven by regulatory change. Prior to forming EJF, he was a founder and the former Co-Chairman and Co-Chief Executive Officer of Friedman, Billings, Ramsey Group, Inc. ("FBR"). At FBR, he assisted in designing property and mortgage REIT vehicles. Throughout the 1990s, Emanuel was active in building out FBR's alternative asset management platform. He was instrumental in the creation of hedge, private equity and venture capital funds at FBR, and maintains an extensive network of contacts within the CDO, hedge fund, and private equity fund communities. Emanuel received his BA in Education from the University of North Carolina at Chapel Hill and his JD from Georgetown University.

Jason Ruggiero

Member of the
Investment Committee

Skills & experience

Jason Ruggiero joined EJF at its founding in 2005 and is a member of the Executive Committee. Prior to joining EJF, Jason was an equity trader in FBR's Alternative Asset Investment group, where he assisted Emanuel in the day-to-day operations of FBR Ashton, L.P., a long/short hedge fund. In 2004, Jason assumed co-portfolio manager responsibilities for FBR Ashton, L.P. Before joining FBR, Jason was an auditor for Deloitte and Touche in Washington, DC, where he focused on the financial services industry. He holds a BBA in accounting from James Madison University and an MBA in finance from the University of Maryland.

Corporate Governance Report

Corporate Governance Compliance Statement

The Company's shares are traded on the SFS. The Listing Rules, applicable to companies which are listed on the premium listing segment of the Official List of the UK therefore do not apply to the Company. The Directors are committed to the application and practice of high standards of corporate governance and so the Company has voluntarily adopted certain provisions of the Listing Rules as detailed on page 58 of the Prospectus.

The Directors recognise the value of the 2018 UK Code and have also considered the principles and recommendations of the 2019 AIC Code. The 2019 AIC Code addresses all the principles set out in the 2018 UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. This statement outlines how the principles of the UK Code, which can be found at www.frc.org.uk, and the principles of the AIC Code were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at www.theaic.co.uk.

The Directors consider that reporting in line with the principles and recommendations of the 2019 AIC Code will provide better information to shareholders. Consequently, throughout the year from 1 January 2020 to 31 December 2020, the Company complied with the provisions of the 2018 UK Code and the recommendations of the 2019 AIC Code, with the exception of the recommendations from the 2018 UK Code and the 2019 AIC Code listed below.

- The role of chief executive: The Board considers that the post of chief executive is not relevant for the Company, being an externally managed investment company.
- The appointment of a senior independent director: Given the size and composition of the Board it is not felt necessary to appoint a senior independent director. However, should a situation arise where it is felt necessary to appoint a senior independent director, the Chair of the Audit and Risk Committee will perform the role.
- Internal audit function: The Board has reviewed the need for an internal audit function and due to the size of the Company and the delegation of day-to-day operations to regulated service providers, an internal audit function is not considered necessary. The Directors will continue to monitor the systems of internal controls in place in order to provide assurance that they operate as intended.
- Executive directors' remuneration: All of the Company's day-to-day management and administrative functions are outsourced to third parties (subject to appropriate systems, controls and oversight). As a result, the Company has no executive directors, employees or internal operations and is not required to comply with the principles of Executive Directors' remuneration.
- Committees: Given the size of the Board it is considered that it would be unnecessarily burdensome to establish separate nomination and remuneration committees, therefore such committees have not been established and the matters are reserved for the Board.
- The Chair of the Company is a member of the Audit and Risk Committee. Given the size of the Company and that the Chair is considered to be independent, the Board believe this is appropriate.

Board Composition and Director Independence

As at 31 December 2020, the Board comprised four non-executive Directors, the biographies of which are disclosed on page 22. The Company has no executive directors or any employees.

The Board assesses and reviews the independence of each Director with respect to the 2019 AIC Code annually, having regard to the potential relevance and materiality of any Directors' interests and relationships.

For the reasons disclosed on page 94 of the Prospectus, the Directors believe it is appropriate that Alan Dunphy be considered as independent.

The Directors do not consider Neal Wilson to be independent given he is an officer of the Manager but believe his position on the Board does not compromise the independence of the Company from the Manager on the basis that half the Board, excluding the Chair, comprise independent non-executive Directors.

Matters Reserved for the Board

The Board meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its attention. At the quarterly meetings, the Directors monitor the investment performance of the Company and review its activities to ensure it adheres to the Investment Policy. Additional ad-hoc reports are received as required and the Directors have access at all times to the advice and services of the Company Secretary. Once a year, the Board also considers the remuneration of the Directors as a separate remuneration committee has not been established. Representatives of the Manager are invited to attend Board meetings on at least a quarterly basis.

The Board monitors the level of the share price premium or discount to determine what action is desirable (if any).

During the year all Directors attended formal training sessions provided by professional firms and other recognised providers in order to keep up to date with all relevant corporate governance, regulatory and market issues.

The Board and relevant personnel of the Manager acknowledge and adhere to the MAR and the Board has adopted procedures in relation to the management, identification and disclosure of inside information and share dealing in accordance with MAR.

Tenure and Succession

In deciding upon the tenure of the Directors, the Board is strongly committed to balancing the benefit to the Company of continuity and experience against independence, perspective and the effective functioning of the Board.

The Board does not consider length of service in itself to necessarily undermine a Director's independence nor that each Director, including the Chair, should serve for a finite fixed period. However, subject to re-election, succession will be measured by rotation in order that Directors can continue to be considered independent.

The Articles include provisions for retirement of directors and eligibility for re-appointment including that any Directors not independent of the Manager are required to retire at every AGM. However, notwithstanding the Articles, the Board has adopted a policy that all Directors will retire and seek re-election on an annual basis. The Directors are all strongly committed to the Company and the Board considers the re-election of all Directors on an annual basis to be in the best interests of the Company.

All Directors were subject to re-election at the Company's AGM, held on 2 July 2020, and were duly re-elected.

Diversity

The Directors recognise the benefits and effectiveness that diversity, including gender, age, professional experience and cultural background, brings to the Board and its committees and have a strong commitment to ensuring a correct balance of knowledge, experience and independence. Board appointments are based on merit as well as being an appropriate fit for the Company.

The Board currently comprises one female and three male Directors. As the Company has no employees there is no further requirement to report in respect of diversity quotas.

Over-boarding

As a member of the AIC, the Company reports against the principles and provisions of the AIC Code, as endorsed by the FRC and the Jersey Financial Services Commission, and considers by doing so it provides better information to shareholders on specific relevance to investment companies.

Principle H of the AIC Code states that non-executive directors should have sufficient time to discharge their Board responsibilities.

As an investment company, the Directors consider the Company to demand less time commitment than would be required of an executive of an operating company and that a formulaic approach to assessing whether a Director is able to effectively discharge their duties is not appropriate.

Prior to accepting the appointment as a Director of the Company, each Director must disclose existing significant commitments and confirm they have sufficient time to attend to the business of the Company. In addition, before accepting another significant role a Director should confirm to the Chair their ability to meet the ongoing commitments of the Company. The Company Secretary must also be informed in order that the appropriate records can be updated and announcements made if required.

Prior to recommendation for re-election to the Board, each Director's continuing ability to meet the requirements of the role will be assessed by the other Directors by considering, amongst other things, their attendance at board, committee and other ad hoc meetings or events held during the year.

Director Meetings and Attendance

The table below shows the attendance at Board and Committee meetings held from 1 January 2020 to 31 December 2020.

Name	Quarterly Board	Audit and Risk Committee	Management Engagement Committee
Joanna Dentskevich	4/4	5/5	2/2
Alan Dunphy	3/4	5/5	2/2
Nick Watkins	4/4	5/5	2/2
Neal J. Wilson	4/4	N/A	N/A

N/A – attendance record not applicable, as the Director concerned is not a member of the stated Committee.

There were 14 other ad-hoc Board meetings held during the year relating to matters such as approval of interim and annual reports, capital raises, restructuring and conflicted investments.

Directors' Performance Evaluation

The Board has established a formal system for the evaluation of its effectiveness and performance and that of the individual Directors, which is carried out on an annual basis. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers. The evaluation considers the balance of skills, experience, independence and knowledge of the Board and also the Board's oversight and monitoring of the performance of the Manager and other key service providers.

Director Remuneration

Details of the Director's remuneration can be found on pages 35 to 36.

Relations with Shareholders

The Company reports to its shareholders twice a year by way of interim and annual reports. In addition, NAVs are released to the market along with monthly performance reports, both of which are published monthly on the Company's website, www.ejfi.com.

Regular communication with major shareholders is undertaken by the Company's Corporate Broker and the Manager by way of webinars and arranged video conferencing. Any concerns raised by major shareholders are reported to the Board. In addition, the Chair and individual Directors are willing to meet major shareholders to discuss performance of the Company and are available to answer any questions that may be raised by shareholders at the Company's AGM.

Board Committees

Audit and Risk Committee

The Audit and Risk Committee comprises Alan Dunphy, Joanna Dentskevich and Nick Watkins and meets at least three times a year. It is chaired by Alan Dunphy. The Board considers it appropriate for the Chair of the Company to be a member of the Committee given the size of the Company and as she is considered independent.

In December 2020, the Board resolved to expand the delegated authorities of the Audit Committee to include risk oversight. As such, the "Audit Committee" was renamed the "Audit and Risk Committee" and updated Terms of Reference were approved by the Board and published on the Company's website.

The key objectives of the Audit and Risk Committee include a review of the Audited Financial Statements of the Company to ensure that they are prepared to a high standard and comply with relevant legislation and guidelines, as appropriate, review of the Company's internal control and risk management systems and to maintain an effective relationship with the Auditor. With respect to the Auditor, the Audit and Risk Committee's role will include the assessment of auditor independence, the effectiveness of the audit, and a review of the Auditor's engagement letter, remuneration and any non-audit services provided by the Auditor. The Audit and Risk Committee Report on pages 37 to 40 provides further detail of the Audit and Risk Committee's activities during the year.

Management Engagement Committee

The Management Engagement Committee comprises Nick Watkins, Joanna Dentskevich and Alan Dunphy and meets at least once a year. It is chaired by Nick Watkins.

The Committee is responsible for the regular review of the terms of the Management Agreement, along with the performance of the Administrator, the Manager and the Company's other service providers. A formal review is conducted annually which includes service delivery, the quality of the personnel assigned to handle the Company's affairs and the investment process.

Internal Control and Risk Management System

The Board is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks faced by the Company. The internal controls are implemented by the Company's main service providers: the Manager, the Administrator, the Registrar and the Custodians. The Board continues to be responsible for reviewing the adequacy and effectiveness of the Company's ongoing risk management systems and processes. Its system of internal controls, along with its design and operating effectiveness, is subject to review by the Board through reports and periodic updates received from service providers at the quarterly Board meetings of the Company. The Members of the Management Engagement Committee met with representatives of the Manager via video-conference in November 2020 to review any changes to the Manager's controls and the operating effectiveness of the Manager's existing controls. The Board is satisfied that each service provider has effective controls in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

Anti-bribery and Corruption and Anti-facilitation of Tax Evasion

The Board acknowledges that the Company's operations may give rise to possible claims of bribery and corruption.

In consideration of the UK Bribery Act 2010, the Board has conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. In consideration of the UK Criminal Finances Act 2017, the Company has adopted an anti-facilitation of tax evasion policy. The Board has adopted a zero-tolerance policy towards bribery and facilitation of tax evasion and has affirmed its commitment to carry out business fairly, honestly and openly.

AIFM Directive

The Manager is the AIFM of the Company. In such capacity, the Manager is responsible for the portfolio and risk management of the Company, including managing the Company's assets and its day-to-day operations, further details of which are set out in paragraph 11.2 in the section entitled "Material Contracts" in Part XII: "Additional Information" of the Prospectus. AIFMD requires the AIFM to comply with certain disclosure, reporting and transparency obligations for AIFs that it markets in the EU. The Company's Prospectus contains a schedule of disclosures prepared by the Directors for the purposes of AIFMD.

In addition, AIFMD requires the Company's Annual Report to include details of any material changes to the information contained in that schedule. The Directors confirm that no material changes have occurred in relation to the information contained in the schedule.

In making this confirmation, the Directors consider that any change in respect of which a reasonable investor, becoming aware of such information, would reconsider its investment in the Company, including because the information could impact on the investor's ability to exercise its rights in relation to its investment, or otherwise prejudice that investor's (or any other investor's) interest in the Company, should be considered material.

In setting this threshold, the Directors have had due regard to the current risk profile of the Company, which outlines the relevant measures to assess the Company's exposure or potential exposure to those risks, as well as the Company's investment restrictions set out in the Company's Prospectus. As required by the Listing Rules, any material change to the Investment Policy of the Company will be made only with the approval of the shareholders.

AIFMD also requires the Company to disclose the remuneration of the Manager as AIFM, providing analysis between fixed and variable fees along with information on how much of such remuneration was paid to senior management at the Manager and how much was paid to members of staff. As the Manager has no employees there is no information to report in that respect and details of the remuneration paid to the Manager are disclosed in note 17.

ESG

In carrying out its activities, the Company aims to conduct itself responsibly, ethically and fairly. Whilst the Investment Objective of the Company has no direct impact on the environment per se, the Directors recognise the importance of environmental, social and ethical factors, including climate change, when pursuing the Investment Objective and in the selection of the service providers and advisers the Company works with.

Both the Directors' and Managers' approach to addressing ESG is evolving and, following discussions during the year, have committed to developing a formal ESG policy for the Company during 2021. Currently, the Manager does not consider the principal adverse impacts of investment decisions on sustainability factors, which is due to the lack of consistent data in respect of ESG factors on the investments made by the Company to date to support this analysis,

However, in accordance with Article 3 of the SFDR, the Manager recognises that sustainability risks can have an impact on the performance of assets and therefore, as part of its fiduciary responsibility, the Manager will look to recognise sustainability risks more formally within the investment due diligence process and more broadly account for sustainability risks as increasing ESG reporting from issuers and inclusion of ESG data by credit rating agencies and research providers becomes available. In November 2020, the Manager formed an ESG Committee to initiate the process of reviewing more formally how they can develop and implement ESG factors into investment analyses and processes. The Manager will look to use ESG (sustainability) considerations as a risk management tool that can be used to analyse the underlying fundamentals of an investment and identify risk within existing investments. The goal is to merge and integrate these considerations across all asset classes and investments.

Additionally, the Company's service providers and advisers recognise the importance of strong corporate governance with a culture based on integrity, respect and diversity and have adopted ESG standards based on internationally recognised principles and international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption. Further, they have documented and implemented policies on day-to-day functioning and supporting initiatives to minimise the environmental impact they have on the climate and, where possible or relevant, have integrated ESG criteria into their investment processes through the larger group within which they operate. Further details on the ESG and corporate responsibility of our service providers are available on their websites.

Modern Slavery

The Company is not within scope of the Modern Slavery Act 2015, because it has no turnover as defined by the Modern Slavery Act 2015 and is therefore not obliged to make a human trafficking statement.

Section 172(1) report

The Board believes in a strong corporate governance structure to ensure responsible investing focussed on the values of the Company and that building trusted relationships with the Company's stakeholders is crucial for the long-term success of the Company.

Through the Company's policies and procedures, internal controls and corporate governance, the Directors believe they have acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole having regard to the stakeholders, as identified below, and matters set out in Section 172(1) as required through their compliance with the AIC Code, in the decisions taken during the year.

Stakeholders

An analysis has been carried out, as shown in the diagram below, to identify the key stakeholders of the Company, interests and how the Directors have considered the interests of the Company's stakeholders.

Ordinary Shareholders
2022 ZDP Shareholders
2025 ZDP Shareholders

Interests
Provision of capital to pursue the Investment Policy and targeting growth and income for the long term success of the Company. Robust governance framework and safeguarding of assets

Engagement
Investor Meetings, Broker and Registrar, Annual General Meeting, Extraordinary General Meetings, RNS announcements, Financial Reports, Fact Sheets, Ad hoc Manager Communications

Regulators
Local Governments and Jurisdictions

Interests
Compliance, openness and transparency within a respected framework to protect, joint interests of long term success

Engagement
Annual returns, official reporting and communications, ad hoc requests and approvals

Manager, Administrator, Broker, Registry Services, Lawyers, Auditors, Reporting Accountant, Printer, PR Firm, CDD Services

Interests
Knowledge, experience, aligned values and culture within an effective framework for pursuance of the Investment Policy and long term success of the Company

Engagement
Quarterly and Ad Hoc Board Meetings, Committee Meetings, Due Diligence Meetings and Reviews, Audit and Interim Review, Specialist Advice, Informal Meetings, Board Training

Principal Decisions

Beyond that of usual engagement and decision making by the Directors, the table below highlights specific actions where the Directors have had regard for stakeholder interests during the year.

Principal decisions taken during the year	Description	Stakeholders
Approving conflicted investments	A majority of the Company's investments are securities in respect of which EJF or an affiliate of EJF has participated in the original lending group, structured or originated the asset. In such cases consent and approval of the independent Directors is required. During the year, following a review of each conflicted investment proposal, the Directors provided consent and approval for four EJF or EJF affiliated investments.	Shareholders The Manager
Restructuring	During 2020, the Directors assessed the purpose of EJFIF and the structure of the Group, subsequent to the change in classification of the Company to a corporation for US federal income tax purposes on 31 December 2019. As a result of that assessment, the Directors concluded that EJFIF was no longer required as a holding company and its liquidation would result in a reduction of the ongoing administration and costs of operating the Group. EJFIF was liquidated on 15 December 2020 after all assets had been transferred to EJFIH.	Shareholders Administrator
Buyback Programme	At the 2019 AGM, a special resolution was passed granting the Company authority to make market purchases of up to 14.99% of the Ordinary Shares in issue as at 14 May 2019. In early 2020, given the then excess cash reserves, the Directors approved a buy-back of Ordinary Shares of up to £5 million with a view to increasing the NAV to address the imbalance between the supply of, and demand for the Ordinary Shares, to increase the NAV per Ordinary Share and to assist in minimising any discount to the NAV per Ordinary Share at which Ordinary Shares were trading. The Company purchased a total of 3,030,108 Ordinary Shares in the amount of £5 million under the Buy-back Programme.	Shareholders
Issuance and Repurchase	In order to maximise the benefit of the Company's Placing Programme, in May 2020, the Directors approved the issue of 7,396,515 new Ordinary Shares to the Corporate Broker under the Placing Programme as described in the Prospectus at a price of 162 pence per Ordinary share, being equivalent to the NAV per Ordinary Share as at 30 April 2020. Following admission the shares were immediately repurchased by the Company at the same price to be held in treasury to be sold in the future to meet any potential ongoing market demand.	Shareholders
FX Hedge	The Company's policy to target hedging of 100% of its US Dollar exposure against Sterling requires significant levels of cash to be held as margin to protect against margin calls. In March 2020, the depreciation of GBP against USD due to the impact of the ongoing uncertainty and volatility caused by the outbreak of the COVID-19 pandemic resulted in significant margin calls having to be made for the currency hedges in place. Consequently, the Board and the Manager made a decision to temporarily close the GBP hedges to preserve cash and maintain liquidity. By the end of June the Company was again fully hedged.	Shareholders The Manager

Principal decisions taken during the year	Description	Stakeholders
Issue of ZDP Shares	In order to position the Company to take advantage of the attractive pipeline of potential investments that the Manager continued to see, in May 2020 the Directors approved the raising of additional capital through the issue of new 2025 ZDP Shares under the Placing Programme established by the Prospectus. The Directors considered that the creation and issue of the new ZDP Shares would be beneficial for the Company by providing greater diversity to the Company's sources of capital and operational flexibility enabling the Company to grow its portfolio of investments and generate attractive returns for holders of Ordinary Shares. The Company raised gross proceeds of £6 million pursuant to a placing of 6,000,000 new ZDP Shares that were admitted to trading on the SFS on 22 June 2020.	Shareholders The Manager

By Order of the Board

Joanna Dentskevich
Chair
31 March 2021

Directors' Report

The Directors present their Annual Report on the affairs of the Company, together with the Independent Auditor's Reports, for the year ended 31 December 2020. The Corporate Governance Report set out on pages 25 to 31 forms part of this report.

Principal Activities, Business Review and Future Developments

The principal activities of the Group during the year were to invest in opportunities created by regulatory and structural changes impacting the financial services sector. No changes are envisaged in the Group's principal activities although future opportunities may include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in both cash and synthetic formats which may be issued by entities domiciled in the US, UK and Europe. Information about the use of financial instruments by the Group is given in note 15 to the Audited Financial Statements.

Details of significant events since the Statement of Financial Position date are contained in note 19 to the Audited Financial Statements.

An indication of likely future developments in the business of the Company are included in the Chair's Statement on pages 6 to 8 and the Manager's report on pages 9 to 14.

Results and Dividends

Results for the year ended 31 December 2020 are set out in the Statement of Comprehensive Income on page 50.

The Directors declared and paid dividends of £6,623,592 (2019: £6,866,756) during the year ended 31 December 2020. Further details can be found in notes 13 and 19.

Share Capital

At 31 December 2020, the Company's issued share capital comprised 76,953,707 Ordinary Shares (31 December 2019: 69,557,192 Ordinary Shares), of which 15,808,509 were held in treasury (31 December 2019: 5,381,886). The total number of voting rights of the Ordinary Shares is 61,145,198 (31 December 2019: 64,175,306). Further details can be found in note 12.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a director to make them aware of any relevant audit information and to establish that the Auditor is aware of that information.

Financial Risk Management

Information about the Company's and the Subsidiary's financial risk management objectives is set out in note 15 to the Audited Financial Statements.

Directors and Directors' Interests

The Directors are listed on page 22.

Details of the Directors' remuneration are included in the Remuneration Report on pages 35 to 36.

Director's Insurance

During the financial year ended 31 December 2020 and up until the date of the signing of the Audited Financial Statements, the Company has maintained director's and officer's liability insurance, which is deemed to give appropriate cover for any potential legal action that could be brought against the Directors.

Significant Shareholdings

On 31 December 2020, the Company had been notified, in accordance with chapter five of the Disclosure Guidance and Transparency Rules, of the following voting rights as shareholders of the Company:

	31 December 2020	
Name	**Ordinary Shares**	**% of Issued Ordinary Shares[1]**
Cheetah Holdings	**11,816,558**	**19.33**
Premier Miton Investors	**5,093,928**	**8.33**
Newton Investment Management Limited	**4,329,552**	**7.08**
Leon Cooperman	**4,000,000**	**6.54**
Expert Investor V ICAV – TwinFocus Global Asset Fund	**3,588,358**	**5.87**
Wolfson Equities	**3,314,960**	**5.42**
Credit Suisse Private Banking	**3,147,101**	**5.15**
William E Conway Jr	**3,113,415**	**5.09**
	38,403,872	**62.81**
Total Issued shares (after adjusting for treasury shares)	**61,145,198**	**100.00**

1 The calculation of shareholding % is based on number of Ordinary Shares in issue after adjusting for treasury shares.

Independent Auditor

A resolution to re-appoint KPMG LLP as the Independent Auditor will be put to shareholders at the AGM.

Manager

The Directors are responsible for the determination of the Company's Investment Policy and have overall responsibility for the Group's activities. The Company has, however, entered into a Management Agreement with the Manager under which the Manager has been appointed to manage the assets of the Group which include research, analysis and selection of investment opportunities for the Group and monitoring the ongoing performance of the investments.

The Directors consider that the interests of shareholders, as a whole, are best served by the continued appointment of the Manager to achieve the Company's Investment Objective.

Political Contributions

The Group did not make any political donations or incur any political expenditure during the year.

Going Concern

The Directors have performed a detailed assessment of the Company's ability to meet its liabilities as they fall due for the period of at least twelve months, including evaluating severe but plausible downside scenarios of significant reduction in the liquidity positions and fair value of its investments. The assessment was completed with reference to the cash position of the Company and its Subsidiary, the operating expenses, the valuations of the assets subsequent to the year end and the potential default risk of the investments held. The Directors also considered the 2022 ZDP liabilities, which will mature on 30 November 2022 and the continuation vote due in 2022. Based on the Company's performance, the voting history in the general meetings, and the future prospects of the Company, the Directors consider the risk of the continuation vote not being passed to be low. The continuation vote, which occurs every five years from Admission, requires a majority of greater than 50% of those voting to be passed. In light of this analysis, the Directors are satisfied that, at the time of approving the financial statements, there is a reasonable expectation that based on the Company's performance, the voting history in the general meetings, and the future prospects of the Company, the Directors consider the risk of the continuation vote not being passed (the resolution will require a simple majority of votes cast at the EGM in order to be passed) to be low and that the Company will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements, and have therefore prepared the financial statements on a going concern basis.

Viability Statement

The Directors, in conjunction with the Audit and Risk Committee and the Manager, have conducted a robust assessment of the viability of the Company, taking into account the Principal Risks and uncertainties that the Group faces, including that of COVID-19, and the impact of extreme but plausible market scenarios on the viability of the Company and the ability to meet its Target Dividend and financial covenants over a three year period albeit the Directors consider the Company to be a much longer term investment proposition for its shareholders.

In establishing the time horizon over which to consider the longer-term viability of the Company, the Directors considered the nature of the investment portfolio of the Group, and also the Investment Objective of the Company taking into account the working capital model forecasting, the continuation vote due in April 2022 and the maturity of the 2022 ZDPs in November 2022.

The extreme market scenarios used in its stress testing included severe but plausible adverse movements in bank and insurance company default rates and recovery rates, foreign exchange movements impacting margin calls on the forward currency contracts and working capital availability. The Directors, working with the Manager, have made assumptions in respect of the continuation vote passing and in respect of the payment of the final capital entitlement of the 2022 ZDPs whilst continuing to meet the Target Dividend.

Having considered each of these scenarios and the potential for any of its Principal Risks or uncertainties to increase, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its financial covenants and operating expenses as they fall due over the three-year assessment period.

2021 AGM

The 2021 AGM is scheduled for 1 July 2021. The Directors recognise the importance of shareholder engagement and the opportunity for shareholders to attend the AGM should they wish. The Directors will continue to monitor the level of restrictions in place due to COVID-19, and if physical attendance at the AGM is legally permitted, will ensure all necessary arrangements are in place to facilitate that. Any changes to the AGM date will be communicated via the Company's website (www.ejfi.com) and the London Stock Exchange.

By Order of the Board

Joanna Dentskevich
Chair
31 March 2021

Registered Office
IFC1
The Esplanade
St. Helier
Jersey JE1 4BP
Channel Islands

Directors' Remuneration Report

The Directors are pleased to present their report on remuneration for the year ended 31 December 2020.

The Directors believe that due to the size and nature of the Company it would be unnecessarily burdensome to establish a separate remuneration committee. Remuneration matters are therefore included in matters reserved for the Board.

Remuneration Policy

Directors are entitled to receive a fixed fee based upon their duties, responsibilities and time spent up to an aggregate limit of £150,000 per annum as well as a fee for any special service at the request of the Company. As such the Chair of the Company and the Chair of the Audit and Risk Committee receive an additional fee. Directors are also paid all reasonable travel expenses.

No element of the Directors' remuneration is performance related nor does any Director have any entitlement to pensions, share options or any long term incentive plans from the Company. In accordance with the 2019 AIC Code, no Director is involved in deciding their remuneration.

No Director has a service contract with the Company, and no such contracts are proposed. Directors' appointments can be terminated in accordance with the Company's Articles of Association and without compensation.

Directors' Remuneration

The Directors are each entitled to a fee of £40,000 per annum with additional fees being paid to the Chair of the Company of £10,000 per annum and to the Chair of the Audit and Risk Committee of £5,000 per annum. Neal Wilson has waived his right to receive remuneration.

For the year under consideration, the Directors received the following amounts:

Director	2020 £	2019 £
Joanna Dentskevich	**50,000**	50,000
Alan Dunphy	**45,000**	45,000
Nick Watkins	**40,000**	40,000
Neal Wilson	**–**	–
Total	**135,000**	135,000

Directors' expenses for the year were £204 (2019: £4,112).

No other remuneration or compensation was paid by the Company to the Directors during the year (2019: £nil).

Directors' and officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The terms of the Directors' appointments as non-executive Directors are set out in letters issued in April 2017 (as amended in January 2019).

Ordinary Shares held by Directors

Shareholdings by the Directors in the Company as at year end were as follows:

Name	Ordinary Shares 31 December 2020[1]	Percentage of Ordinary Shares in Issue 31 December 2020[2]	Ordinary Shares 31 December 2019[1]	Percentage of Ordinary Shares in Issue 31 December 2019[2]
Neal Wilson	**1,516,381**	**2.480%**	1,408,070	2.194%
Joanna Dentskevich	**49,548**[3]	**0.081%**	49,548	0.077%
Nick Watkins	**3,000**	**0.005%**	3,000	0.005%

1 The Directors' shareholdings are either direct and/or indirect holdings of Ordinary Shares in the Company.

2 The calculation of shareholding % is based on number of Ordinary Shares in issue after adjusting for treasury shares.

3 Refer to note 19 for changes subsequent to the reporting period.

ZDP Shares held by Directors

Shareholdings by the Directors in the Company as at year end were as follows:

Name	2022 ZDP Shares 31 December 2020	Percentage of 2022 ZDP Shares in Issue 31 December 2020	2022 ZDP Shares 31 December 2019	Percentage of 2022 ZDP Shares in Issue 31 December 2019
Neal Wilson	**-**	**-**	375,000	2.500%

Name	2025 ZDP Shares 31 December 2020	Percentage of 2025 ZDP Shares in Issue 31 December 2020
Neal Wilson	**1,000,000**	**16.667%**
Joanna Dentskevich	**30,000**	**0.500%**
Nick Watkins	**10,000**	**0.167%**

Joanna Dentskevich
Chair
31 March 2021

Audit and Risk Committee Report

The Board is supported by the Audit and Risk Committee with formally delegated duties and responsibilities relating to audit and risk, as set out in written terms of reference which are available from the Company's website. In December 2020, the Board resolved to expand the remit of the then "Audit Committee" to include additional delegated duties and responsibilities in relation to certain risk matters and as such, the Audit Committee was renamed the "Audit and Risk Committee" and updated terms of reference were adopted.

Chair and Membership

The Audit and Risk Committee is chaired by Alan Dunphy with its other members being Joanna Dentskevich and Nick Watkins. All members are independent, have no links with the Auditor and are independent of the Manager. The Audit and Risk Committee's intention is to meet at least twice a year at appropriate times in the financial reporting cycle and to meet with the Auditor as appropriate. The membership of the Audit and Risk Committee and its terms of reference are kept under review.

The Board has considered the composition of the Audit and Risk Committee and is satisfied it has sufficient recent and relevant skills and experience. In particular the Board has considered the requirements of the 2018 UK Code that the Audit and Risk Committee should have at least one member who has recent and relevant financial experience and that the Audit and Risk Committee as a whole has competence relevant to the sector in which the Company invests. The Board considers all of the relevant requirements to have been met. The relevant qualifications and experience of each member are detailed on page 22.

Key Responsibilities

The Audit and Risk Committee's primary role and responsibility is to review and monitor the integrity of the Company's Annual Report and Interim Report to ensure they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy and reporting to the Board accordingly. This includes reviewing the Independent Auditor's Report.

The Audit and Risk Committee's other roles and responsibilities include, but are not limited to:

- reporting to the Board on any significant financial reporting issues and judgements;
- reviewing and challenging where necessary significant accounting policies and practices, including the basis on which the Company is determined as a going concern and a review of the viability statement included in the annual report taking into account the Company's financial position and principal risks identified;
- reviewing the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- assessing any correspondence from regulators in relation to the Company's financial reporting;
- reviewing the external auditor's performance, independence and objectivity to include a report from the external auditor on its own internal quality procedures;
- making recommendations to the Board in relation to the appointment, re- appointment or removal of the external auditor, the approval of the external auditor's remuneration and the terms of the engagement;
- developing and implementing policies surrounding the engagement of the external auditor to supply non- audit services, where appropriate;
- considering regularly whether the Company should have an internal audit function and making a recommendation to the Board accordingly;
- advising the Board on the Company's overall risk strategy and to establish the risk assessment measures and methodologies to be employed by the Company; and
- reporting to the Board on how it has discharged its responsibilities.

How the Audit and Risk Committee has Discharged Its Responsibilities

The Audit and Risk Committee met five times during the year and the individual attendance of Directors is outlined on page 26. Representatives of the Manager, Auditor and Administrator were present as required. The main matters discussed at those meetings were:

- Detailed review of the 2019 Annual Report and recommendation for approval by the Board;
- Review of the Company's and the Subsidiary's key risks and internal controls;
- Assessment of the final audit findings document presented by the Auditor in respect of the audit of the 2019 Annual Report;
- Consideration of the independence of the Auditor;
- Review and approval of the interim review plan of the Auditor in respect of the 2020 Interim Report;
- Review and approval of the annual audit plan of the Auditor in respect of the 2020 Annual Report;
- Detailed review of the 2020 Interim Report and recommendation for approval by the Board;
- Review and recommendation to the Board of revised terms of reference for the Audit and Risk Committee; and
- Review of the effectiveness of the Auditor.

Subsequent to year end, up to the date of approval of the Annual Report the Audit and Risk Committee met three times to discuss risk matters and undertake detailed reviews of the 2020 Annual Report. The main matters discussed at those meetings were:

- Review and update of the Company's risk register and corresponding principal risks for inclusion in the Annual Report;
- Review and challenge of the Manager's stress tests for the purposes of the viability statement and consideration of the duration of the viability period;
- Review of the 2020 Annual Report and recommendation for approval by the Board;
- Assessment of the final audit findings document presented by the Auditor in respect of the audit of the 2020 Annual Report;
- Discussion and final approval of the 2020 external auditor fees for the annual audit; and
- Assessment of the independence of the Auditor.

Monitoring the Integrity of the Audited Financial Statements including Significant Judgement and Estimates

The Audit and Risk Committee reviewed the Company's 2020 Interim Report and 2020 Annual Report prior to discussion and approval by the Board, and the significant financial reporting issues and judgements contained therein. It also reviewed the Auditor's reports thereon and reviewed the appropriateness of the Company's accounting principles and policies and monitored changes to, and compliance with, accounting standards on an ongoing basis.

Prior to the year end and the commencement of the audit, the Audit and Risk Committee met and determined that the Company continues to meet the definition of an Investment Entity in accordance with IFRS 10 and further that the Company's investment in EJFIH should be classified at Level 3, as it is not traded and contains unobservable inputs and due to its materiality in the context of the Audited Financial Statements as a whole, investments are considered to be the area which should have the greatest effect on the overall audit strategy and allocation of resources in planning and completing the audit.

In undertaking this review, the Audit and Risk Committee discussed with the Auditor, the Manager and the Administrator the critical accounting policies and judgements that have been applied.

As requested by the Board, the Audit and Risk Committee also reviewed the Annual Report and was able to confirm to the Board that, in their view, the Annual Report, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Significant and other Accounting Matters

The significant accounting matters associated with the preparation of the Annual Report are:

Significant accounting matter	How addressed by the Audit and Risk Committee
Valuation of the investment in EJFIH	EJFIH is not traded and contains unobservable inputs and is therefore classified as a Level 3 investment under IFRS 13. The Company holds a direct investment in EJFIH and the Board considers that the NAV of EJFIH is representative of its fair value. The NAV of EJFIH has been presented in the Annual Report on a look through basis to the underlying investment positions. See details in notes 9 and 15. The Group holds a number of different Level 3 investments which are also measured at fair value. The Company values the underlying positions held in the Subsidiary as follows: Armadillo Portfolio The Armadillo Portfolio is valued based on the EJFIH's proportionate share of the reported net asset value of each entity. Partnership The Partnership is valued by reference to the Company's proportionate share of the net asset value. The underlying investments by the Partnership into Risk Retention Investments are marked clean to broker quotes with the Manager estimating the expected accrual of interest earned on each security. CDO Manager The Manager has appointed a recognised independent valuation agent to value the CDO Manager based on the underlying CDO management contract cash flows expectations, using inputs and models developed by the Manager. CDO Securities Current cash-yielding securities are marked clean to broker quotes with interest accrued separately. Legacy CDO securities are valued dirty using acceptable probability based discounted cash flow methodologies by the Manager. Preference Shares The shares are marked clean to broker quotes with the Manager estimating the expected accrual of interest earned on each security. Derivative financial instruments at FVTPL The Manager determines the fair value of the forward foreign currency contracts using quoted mid forward exchange rates as at the reporting date. Seneca Portfolio Seneca is valued based on EJFIH's proportionate share of the reported net asset value. The Audit and Risk Committee receives regular updates on the performance of the Portfolio from the Board and the Manager. The Audit and Risk Committee is not aware of any discrepancies with the valuation methodologies adopted or the independent valuation procedures carried out by the valuation agents. Further information regarding the valuation methodologies and the resultant valuations can be found on pages 72 to 77.

Risk Management

The Board as a whole is responsible for the Company's system of internal controls and the Audit and Risk Committee assists the Board in meeting those obligations, as set out in its terms of reference. The Board does not currently consider an internal audit function to be required given the size and nature of the Company's operations and instead places reliance on the external and internal controls applicable to the service providers as regulated entities. The Audit and Risk Committee has reviewed the Administrator's most recent ISAE 3402 report (Report on the description of controls placed in operation, their design and operating effectiveness for the period from 1 October 2019 to 30 September 2020) on Fund Administration and is pleased to note that no significant issues were identified. Additionally, the Company receives confirmations from the principal service providers that no material issues have arisen in respect of the system of internal controls and risk management operated within the Company's service providers.

During the year, the independent Directors met with representatives of the Manager via video-conference to review any changes to the Manager's controls and the operating effectiveness of the Manager's existing controls. The Audit and Risk Committee reaffirms that, to date, there are no risk issues identified in this area which need to be brought to shareholders' attention.

External Auditor

It is the responsibility of the Audit and Risk Committee to monitor the performance, independence, objectivity and reappointment of the Auditor. The Audit and Risk Committee met with the Auditor to consider the audit strategy and plan for the audit. The audit plan for the reporting period was reviewed, including consideration of the key Audited Financial Statements and audit risks, to seek to ensure that the audit was appropriately focused.

The Auditor attended a number of the Audit and Risk Committee meetings throughout the period, which allowed the Auditor the opportunity to discuss any matters it wished to raise. The Auditor provided feedback at each Audit and Risk Committee meeting on topics such as the key accounting matters, mandatory communications and the control environment. The Audit and Risk Committee chair meets with the Auditor ahead of Audit and Risk Committee meetings to review key audit and review areas for discussion with the Audit and Risk Committee. The Auditor is not in attendance when their performance and/or levels of remuneration are discussed.

During the year ended 31 December 2020 and 31 December 2019, no non-audit services were provided by the Auditor to the Company.

	For the year ended 31 December 2020 £	For the year ended 31 December 2019 £
KPMG – audit services		
Annual audit	**133,250**	151,520
Interim review	**18,000**	18,000
Total audit fees	**151,250**	169,520
Total fees to KPMG	**151,250**	169,520

The Audit and Risk Committee continues to be satisfied with the performance of the Auditor. We have therefore recommended to the Board that the Auditor, in accordance with agreed terms of engagement and remuneration, should continue as the Company's Auditor. Accordingly, a resolution proposing the reappointment of KPMG as the Company's auditor will be put to the shareholders at the forthcoming AGM.

KPMG LLP's iRadar team, engaged by the Auditor, supports the audit of the Company's asset valuations. The iRadar team is based in Frankfurt and consists of 75 valuation specialists. They perform valuation testing by repricing complex financial assets. The team undertook an independent revaluation exercise which resulted in an acceptable level of deviation from an audit perspective for any differences between the repricing and the Company's valuations.

A member of the Audit and Risk Committee will be available to shareholders at the forthcoming AGM of the Company to answer any questions relating to the role of the Audit and Risk Committee.

KPMG LLP has been the Company's external auditor since its commencement of trading. The Audit and Risk Committee is satisfied that the lead audit partner has the experience, independence and industry knowledge to be an effective lead audit partner.

The Audit and Risk Committee is also responsible for the audit tender process and will take all key decisions covering timing, approach, evaluation criteria and recommendations. The tender is expected to occur seven years following the conclusion of the 2020 Annual Report.

Alan Dunphy
Audit and Risk Committee Chair
31 March 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, including the Directors' Remuneration Report in accordance with applicable law and regulations.

The Companies Law requires the Directors to prepare Audited Financial Statements for each financial year. Under the Companies Law they are required to prepare the Audited Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

Under the Companies Law the Directors must not approve the Audited Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that year. In preparing these Audited Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Audited Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Audited Financial Statements comply with the Companies Law. They are responsible for such internal control as they determine is necessary to enable the preparation of Audited Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of Audited Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and Audited Financial Statements

We confirm that to the best of our knowledge:

- the Audited Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as at and for the year ended 31 December 2020, as required by DTR 4.1.12R; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces, as required by DTR 4.1.8R and DTR 4.1.11R.

We consider the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement has been approved by the Board on 31 March 2021 and is signed on its behalf by:

By Order of the Board

Joanna Dentskevich
Chair
31 March 2021

Independent Auditor's Report to the Members of EJF Investments Limited

1. Our opinion is unmodified

We have audited the financial statements of EJF Investments Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) of the state of the Company's affairs as at 31 December 2020 and its loss for the year then ended; and
- have been prepared in accordance with the requirements of the Companies Law (Jersey) 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the directors on 5 July 2017. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole	£1.2m (2019: £1.4m) 1% (2019: 1%) of Total assets	
Key audit matters		**vs 2019**
Recurring risks	Valuation of financial asset at fair value through profit or loss	⟷

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address this matter and our findings from those procedures in order that the Company's members, as a body, may better understand the process by which we arrived at our audit opinion. This matter was addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter. In arriving at our audit opinion above, the key audit matter was as follows:

	The risk	Our response
Valuation of financial asset at fair value through profit or loss (£124.2 million; 2019: £138.1 million) Refer to page 37-40 for Audit Committee Report, page 54-57 for accounting policies and page 60 to 64 for financial disclosures	**Subjective valuation:** The financial asset at fair value through profit or loss represents a 100% holding in EJF Investment Holdings Limited ("the Holdco") and constitutes 99% of the Company's total assets. As the investments held by the Holdco are all held at fair value, which ultimately represents the fair value of the investment in the Holdco, the valuation is calculated by reference to the underlying investments. As those investments are largely made up of financial instruments for which no reliable external price is readily available, determining the Holdco's fair value involves the application of significant judgement.	Our procedures included: • **Comparing valuations:** For investments in funds and entities valued on a net assets value basis, we assessed whether this basis is an appropriate representation of the fair value of the investments. For the valuation of interests in funds, we obtained and agreed the net asset value to the latest audited funds' financial statements. We recalculated the valuation of the investment by applying the ownership percentages confirmed by the investment manager to the audited net asset value of the funds. For the valuation of interests in other entities, where audited financial statements were not available, we performed an independent assessment of the net asset values, including the use of our valuation specialists to independently value underlying investments held by those entities. We recalculated the valuation of interests by applying the ownership percentages to the relevant net asset value. • **Independent re-performance:** For other investments, our valuation specialists compared the investment market value with our own valuation derived from a valuation model with independently observed inputs. • **Assessing transparency:** Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. • **Our findings:** We found the Company's valuation of the financial asset at fair value through the profit and loss to be balanced (2019: balanced).

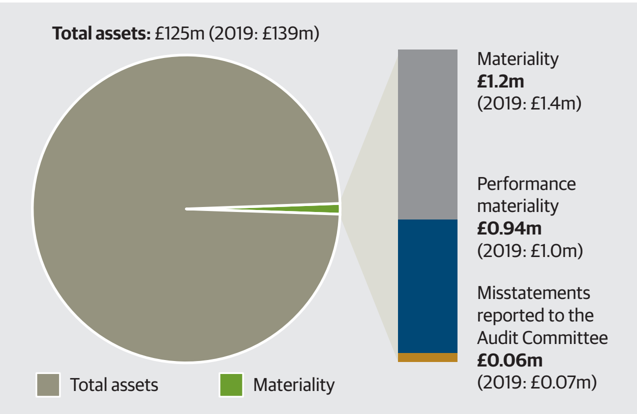
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £1.2m (2019: £1.4m), determined with reference to a benchmark of total assets, of which it represents1%(2019: 1%).

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £0.94m (2019: £1.0m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06m (2019: £0.07m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above..



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources, and its ability to operate over this period were:

- The impact of a significant reduction in the valuation of the assets in the portfolio including default on underlying collateral in securitization investments;
- Adverse foreign exchange margin calls reducing the availability of cash to meet ongoing obligations as they fall due; and
- Insufficient votes secured for the continuation vote in April 2022.

We assessed the severe but plausible downside scenarios in which these risks could affect the liquidity of the Company in the going concern period. This took into account the Company's current and projected cash positions, the investment period of each investment as well as the valuation and liquidity of underlying assets. We also considered the likelihood of the Company being able to secure sufficient vote at the next continuation vote.

We considered whether the going concern disclosure in note 2.1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- We have nothing material to add or draw attention to in relation to the Directors' statement in note 2.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2.1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Directors and Administrator as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Assessing the segregation of duties in place between the Directors, the Administrator and the Company's Investment Manager; and
- Reading Board minutes and Audit Committee minutes.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular to the risk that management may be in a position to make inappropriate accounting entries. We evaluated the design and implementation of the controls over journal entries and other adjustments and made inquiries of the Administrator about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.We substantively tested all material post-closing entries by comparing the identified entries to supporting documentation and, based on the results of our risk assessment procedures and understanding of the process, including the segregation of duties between the Directors and the Administrator, no further high-risk journal entries or other adjustments were identified.

On this audit we have rebutted the fraud risk related to revenue recognition because the revenue is non-judgemental and straightforward, with limited opportunity for manipulation. We did not identify any significant unusual transactions or additional fraud risks.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and the Administrator (as required by auditing standards) and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation as set out by Companies (Jersey) Law 1991, taxation legislation, and the Listing Rules, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

5. Fraud and breaches of laws and regulations – ability to detect (continued)

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery, data protection, anti-money laundering, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and the Administrator and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks, uncertainties and emerging risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 34 that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks, Uncertainties and Emerging Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 41, the Directors are responsible for: the preparation of financial statements that give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities

8. Respective responsibilities (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP

Chartered Accountants and Recognised Auditor
15 Canada Square
London
E14 5GL
31 March 2021

Independent Auditors' Report

The Board of Directors
EJF Investments Limited

Report on the Financial Statements

We have audited the accompanying financial statements of EJF Investments Limited, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EJF Investments Limited. as of December 31, 2020, and 2019, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies Law (Jersey), 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

London, United Kingdom
March 31, 2021

Statement of Comprehensive Income for the years ended 31 December 2020 and 31 December 2019

	Notes	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
Dividend income	5	**7,700,000**	8,500,000
Net foreign exchange gain		**756**	20,868
Net unrealised (loss)/gain on financial assets held at fair value through profit or loss	9	**(13,962,324)**	8,191,118
Total (loss)/income		**(6,261,568)**	16,711,986
Incentive fee	17	**–**	(496,023)
Investment Management fee	17	**(902,003)**	(1,118,440)
Legal fees		**(199,732)**	(342,228)
Professional fees		**(346,313)**	(322,842)
Prospectus expenses		**–**	(509,387)
Administration fees		**(246,114)**	(310,159)
Directors' fees	17	**(135,000)**	(135,000)
Directors' and professional indemnity insurance	17	**(95,914)**	(73,097)
Audit fees	6	**(151,250)**	(169,520)
Printing fees		**(28,226)**	(30,417)
Listing fees		**(36,866)**	–
Tax services fees		**(207,036)**	(103,204)
Other expenses		**(83,459)**	12,879
Total operating expenses		**(2,431,913)**	(3,597,438)
Expenses reimbursed by the Manager	17	**1,161,981**	1,211,581
Net operating expenses		**(1,269,932)**	(2,385,857)
Operating (loss)/profit		**(7,531,500)**	14,326,129
Finance costs	7	**(1,254,786)**	(976,319)
(Loss)/profit and total comprehensive (loss)/income for the year attributable to shareholders		**(8,786,286)**	13,349,810
Weighted average number of Ordinary Shares in issue during the year		**61,740,143**	64,175,306
Basic and diluted (losses)/earnings per Ordinary Share	18	**(14.2)p**	20.8p

All items in the above statement are derived from continuing operations. No operations were acquired or discontinued during the year.

The accompanying notes on pages 54 to 87 form an integral part of these Audited Financial Statements

Statement of Financial Position as at 31 December 2020 and 31 December 2019

	Notes	31 December 2020 £	31 December 2019 £
Non-current assets			
Financial assets at fair value through profit or loss	9	**124,151,399**	138,113,723
Current assets			
Cash and cash equivalents		**347**	263,781
Balance due from the Manager	17	**570,728**	563,525
Prepaid expenses and other assets	8	**39,788**	13,822
Total current assets		**610,863**	841,128
Total assets		**124,762,262**	138,954,851
Non-current liabilities			
ZDP Shares	11	**23,606,438**	16,586,361
Current liabilities			
Accounts payable and accrued expenses	10	**587,163**	1,384,945
Total liabilities		**24,193,601**	17,971,306
Net assets		**100,568,661**	120,983,545
Equity			
Stated capital		**85,254,127**	90,259,133
Retained earnings		**15,314,534**	30,724,412
Total Equity		**100,568,661**	120,983,545
Number of Ordinary Shares in issue at year end (excluding treasury shares)	12	**61,145,198**	64,175,306
Net Asset Value per Ordinary Share		**164p**	189p

The Audited Financial Statements were approved and authorised for issue by the Board on 31 March 2021 and signed on its behalf by:

Alan Dunphy
Director

The accompanying notes on pages 54 to 87 form an integral part of these Audited Financial Statements

Statement of Changes in Equity for the years ended 31 December 2020 and 31 December 2019

For the year ended 31 December 2020	Notes	Number of shares	Stated capital £	Retained earnings £	Net assets attributable to shareholders £
Balance at 1 January 2020		**64,175,306**	**90,259,133**	**30,724,412**	**120,983,545**
Total comprehensive loss for the year attributable to shareholders		**–**	**–**	**(8,786,286)**	**(8,786,286)**
Transactions with shareholders					
Shares issued for repurchase		**7,396,515**	**11,982,354**	**–**	**11,982,354**
Purchase of own shares to hold in treasury		**(7,396,515)**	**(11,982,354)**	**–**	**(11,982,354)**
Share buyback		**(3,030,108)**	**(5,005,006)**	**–**	**(5,005,006)**
Dividends paid	13	**–**	**–**	**(6,623,592)**	**(6,623,592)**
Balance at 31 December 2020	12	**61,145,198**	**85,254,127**	**15,314,534**	**100,568,661**

For the year ended 31 December 2019	Notes	Number of shares	Stated capital £	Retained earnings £	Net assets attributable to shareholders £
Balance at 1 January 2019		64,175,306	90,259,133	24,241,358	114,500,491
Total comprehensive income for the year attributable to shareholders		–	–	13,349,810	13,349,810
Transactions with shareholders					
Dividends paid	13	–	–	(6,866,756)	(6,866,756)
Balance at 31 December 2019	12	64,175,306	90,259,133	30,724,412	120,983,545

The accompanying notes on pages 54 to 87 form an integral part of these Audited Financial Statements.

Statement of Cash Flows
for the years ended 31 December 2020 and 31 December 2019

	Notes	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
Cash flows from operating activities			
(Loss)/profit and total comprehensive (loss)/income for the year		**(8,786,286)**	13,349,810
Adjustments for:			
Amortisation of ZDP Shares, including finance costs and issue cost	11	**1,233,597**	1,040,836
Net loss/(gain) on financial assets held at fair value through profit or loss	9	**13,962,324**	(8,191,118)
Net foreign exchange gain		**(756)**	(20,868)
		6,408,879	6,178,660
Changes in net assets and liabilities:			
Balance due from the Manager		**(7,203)**	1,159,049
Prepaid expenses and other assets		**(25,966)**	79,595
Accounts payable and accrued expenses		**(797,782)**	(955,954)
Net cash (used in)/generated from operating activities		**(830,951)**	282,690
Cash flow from financing activities			
Proceeds from issue of ZDP shares		**6,000,000**	–
2025 ZDP shares issue costs		**(213,520)**	–
Purchase of own shares to hold in treasury		**(5,005,006)**	–
Dividends paid	13	**(6,623,592)**	(6,866,756)
Net cash used in financing activities		**(5,842,118)**	(6,866,756)
Net decrease in cash and cash equivalents		**(264,190)**	(405,406)
Cash and cash equivalents at the start of the year		**263,781**	648,319
Effect of movements in exchange rates on cash and cash equivalents		**756**	20,868
Cash and cash equivalents at the end of the year		**347**	263,781

The accompanying notes on pages 54 to 87 form an integral part of these Audited Financial Statements.

Notes to the Audited Financial Statements for the year ended 31 December 2020

1. General information

EJFI is a registered closed-ended investment company incorporated with limited liability in the Bailiwick of Jersey on 20 October 2016 under the provisions of the Companies Law with registered number 122353. The Company's registered office and principal place of business is IFC1, The Esplanade, St. Helier, Jersey, JE1 4BP, Channel Islands. The principal legislation under which the Company operates is the Companies Law. The Company's stated capital comprises Ordinary Shares admitted to trading on the SFS.

The Company does not have a fixed life. Under the Company's Articles, on or about each fifth anniversary of the Company's Shares being admitted to trading on LSE, the Directors shall procure that an EGM of the Company be convened at which a continuance resolution will be proposed. The first such continuance resolution is expected to take place in or around April 2022.

The Manager has been appointed by the Company to provide management and investment management services and the Administrator has been appointed to provide administration services to the Company.

EJF holds 100% of the voting rights in the Manager. EJF is an investment adviser principally located in the US and registered as such with the SEC and as a CPO and CTA with the CFTC. The Company has appointed the Manager to act as its AIFM for the purposes of the AIFM Directive.

Additional information has been provided in Note 20 to allow the Manager to avail of the audit exemption as prescribed in Rule 206 (4)-2 of the US Investment Adviser Act 1940.

Since incorporation, the Company has incorporated two subsidiaries: EJFIH (incorporated on 9 June 2017), of which the Company owns 100% of the share capital, and EJFIF (incorporated on 5 September 2018 and liquidated on 15 December 2020), of which EJFIH owned 100% of the share capital. Refer to note 14.

EJFIH holds 85% (31 December 2019: 85% held by EJFIF) of the Partnership's interests (refer to note 9 for further information).

Through the Subsidiary, the Company primarily invests in opportunities created by regulatory and structural changes impacting the financial services sector. These opportunities can include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in both cash and synthetic formats issued by entities domiciled in the US, UK and Europe.

2. Significant accounting policies

2.1 Basis of preparation

(a) Statement of Compliance

The Audited Financial Statements of the Company have been prepared in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board together with the interpretations of the International Accounting Standards and Standing Interpretations Committee as approved by the International Accounting Standards Committee which remain in effect. The Audited Financial Statements give a true and fair view of the Company's affairs and comply with the requirements of the Companies Law.

(b) Basis of measurement

These Audited Financial Statements have been prepared on the historical cost basis except for the revaluation of financial assets held at fair value through profit or loss.

(c) Going concern

The Directors have performed a detailed assessment of the Company's ability to meet its liabilities as they fall due for the period of at least twelve months, including evaluating severe but plausible downside scenarios of significant reduction in the liquidity positions and fair value of its investments. The assessment was completed with reference to the cash position of the Company and its Subsidiary, the operating expenses, the valuations of the assets subsequent to the year end and the potential default risk of the investments held. The Directors also considered the 2022 ZDP liabilities, which will mature on 30 November 2022 and the continuation vote due in 2022. Based on the Company's performance, the voting history in the general meetings, and the future prospects of the Company, the Directors consider the risk of the continuation vote not being passed to be low. The continuation vote, which occurs every five years from Admission, requires a majority of greater than 50% of those voting to be passed. In light of this analysis, the Directors are satisfied that, at the time of approving the financial statements, there is a reasonable expectation that based on the Company's performance, the voting history in the general meetings, and the future prospects of the Company, the Directors consider the risk of the continuation vote not being passed (the resolution will require a simple majority of votes cast at the EGM in order to be passed) to be low and that the Company will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements, and have therefore prepared the financial statements on a going concern basis.

(d) Functional and presentation currency

The Company's functional currency is Sterling, which the Directors deem to be the currency of the primary economic environment in which it operates, the currency in which finance is raised, the currency in which distributions are made, the currency in which investment management fees are paid and ultimately the currency that would be returned to shareholders if the Company was wound up. The Group enters into investment transactions that are denominated in currencies other than the functional currency, primarily in US Dollars and therefore is exposed to currency risk. The Company's performance is evaluated and reported to shareholders in Sterling and its liquidity is managed in Sterling. Sterling is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Audited Financial Statements are presented in Sterling, except where otherwise indicated, and are rounded to the nearest Sterling.

(e) Standards and amendments to existing standards effective from 1 January 2020

Definition of material (amendments to IAS 1 and IAS 8)

The International Accounting Standards Board has redefined its definition of material, issued practical guidance on applying the concept of materiality and issued proposals focused on the application of materiality to disclosure of other accounting policies. The amendments do not have a material impact on the Company's financial statements.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2020 that have a material effect on the Audited Financial Statements of the Company.

(f) Standards, amendments and interpretations issued but not yet effective

Standards that become effective in future accounting periods and have not been early adopted by the Company:

Standard	Effective for annual periods beginning on or after
Annual improvements to IFRS standard 2018 to 2020	1 January 2022
IFRS 17	1 January 2023

As the Company does not participate in insurance contracts in the normal course of its business, the Directors believe that the application of this IFRS 17 will not have an impact on the Company's Audited Financial Statements.

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been early adopted in preparing these Audited Financial Statements. None of these are expected to have a material effect on the Audited Financial Statements of the Company.

2.2 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Statement of Comprehensive Income within 'net foreign exchange gain/(loss)'.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at FVTPL are presented in the Statement of Comprehensive Income within 'Net (loss)/gain on financial assets held at fair value through profit or loss'.

2.3 Accounting for subsidiaries

In accordance with IFRS 10 as amended, the Board has determined that the Company meets the definition of an investment entity which is exempted from the consolidation of investment entity subsidiaries. The services provided by the Subsidiary are undertaken to maximise the Company's investment returns and do not represent a separate substantial business activity.

The Company has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- The Company has obtained funds from investors for the purpose of providing investors with investment management services.
- The Company's business purpose, which was communicated directly to investors, is investing funds solely for returns from capital appreciation and investment income.
- The Company measures and evaluates all of its investments on a fair value basis.

The Company obtains funding from a diverse group of external shareholders, to whom it has committed that its business purpose is to invest funds solely for returns from capital appreciation and investment income.

The Company ultimately owns 100% of the equity of the Subsidiary. The Company is exposed to, and has rights to the returns from, the Subsidiary and has the ability, either directly or through the Manager, to affect the amount of its returns from the Subsidiary, representing all the elements of control as prescribed by IFRS 10.

The Subsidiary is used to acquire exposure to a portfolio comprising a large number of investments. The fair value method is used to represent the Subsidiary's performance in its internal reporting to the Board, and to evaluate the performance of the Subsidiary's investments and to make investment decisions for mature investments. Those investments have documented maturity/redemption dates, or will be sold if other investments with a better risk/reward profile are identified, which the Manager considers demonstrate a clear exit strategy.

As a result, under the terms of IFRS 10, the Company does not consolidate the Subsidiary, and must measure its investment in the Subsidiary at FVTPL. The Company has determined that the fair value of the Subsidiary is the Subsidiary's net asset value

2. Significant accounting policies (continued)

and has concluded that the Subsidiary meets the definition of an unconsolidated subsidiary under IFRS 12 and has made the necessary disclosures (see notes 9 & 14).

Additionally, the Subsidiary has been deemed to meet the definition of an investment entity per IFRS 10 as the above-mentioned conditions are met.

2.4 Taxation

Under Article 123C of the Jersey Income Tax Law and on the basis that the Company is tax resident in Jersey, the Company is regarded as subject to Jersey income tax at a rate of 0%. The Company is not subject to UK income tax or corporation tax. The Company changed its US tax classification status from a partnership to a non-US corporation from 1 January 2020.

2.5 Financial instruments

(a) Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- those to be measured subsequently at fair value, and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Financial assets held at fair value through profit or loss
The Company has been classified as an investment entity and as such, its investment in EJFIH is held at FVTPL and measured in accordance with the requirements of IFRS 9.

Cash and cash equivalents and trade and other receivables

(i) Cash and cash equivalents
Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

(ii) Trade and other receivables
Trade and other receivables, including balance due from the Manager, are balances that have been contracted for but not yet delivered on the Statement of Financial Position date. These financial assets are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets.

On initial recognition, the Company classifies financial assets as measured at amortised cost or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial liabilities measured at amortised cost
These include trade payables and other short-term monetary liabilities, which are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue. They are subsequently carried at amortised cost.

ZDP Shares
In accordance with IAS 32, ZDP Shares have been disclosed as a financial liability as the shares are redeemable at a fixed date and holders are entitled to a final capital entitlement on the repayment date. ZDP Shares are measured at amortised cost using the effective interest rate method.

(b) Recognition and initial measurement

Investments made by the Company in EJFIH are recognised on the trade date when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value. No transaction costs are incurred.

All other financial assets (cash and cash equivalents and balance due from Manager) and financial liabilities (accounts payables and accrued expenses) are also recorded on the trade date and recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs.

The Company offsets financial assets and financial liabilities if the Company has a legally enforceable right to offset the recognised amounts and interests and intends to settle on a net basis or realise the asset and liability simultaneously.

(c) Subsequent measurement of financial assets

Financial assets at fair value through profit or loss ("Investment in EJFIH")
Subsequent to initial recognition, the Investment in EJFIH is measured at each subsequent reporting date at FVTPL. The Company holds all of the shares in EJFIH, which is a holding vehicle used to hold the Company's investments. EJFIH is not traded and contains unobservable inputs and is therefore classified as a Level 3 investment under IFRS 13. The Board considers that the net asset value of EJFIH is representative of its fair value. EJFIH itself holds a number of Level 3 investments which are also measured at fair value.

Changes in the fair value of financial assets held at FVTPL are recognised in net gain on financial assets held at FVTPL in the Statement of Comprehensive Income as applicable.

Note 9 provides an analysis of the financial assets and financial liabilities of the Subsidiary on a look-through basis that ties to the Company's investment in financial assets at FVTPL.

Derivative financial instruments held by EJFIH

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each financial reporting date. The resulting gain or loss is recognised in EJFIH's Statement of Comprehensive Income immediately.

Derivatives are classified as financial assets or financial liabilities at fair value through profit or loss, attributable transaction costs are recognised in the Statement of Comprehensive Income when incurred. EJFIH holds derivative financial instruments to minimise its exposure to foreign exchange risks.

The fair values of derivative transactions are measured at their market prices at the reporting date.

Cash and cash equivalents and trade and other receivables

Subsequent measurement of cash and cash equivalents and trade and other receivables depends on the entity's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the Statement of Comprehensive Income.

(d) Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its cash and cash equivalents and trade and other receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk or indicators of impairment.

For cash and cash equivalents and trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected 12-month losses to be recognised from initial recognition of the receivables, see note 15 for further details.

(e) De-recognition of financial assets and financial liabilities

A financial asset (in whole or in part) is derecognised either:

- when the Company has transferred substantially all the risks and rewards of ownership; or
- when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or
- when the contractual right to receive cash flow has expired.

A financial liability (in whole or in part) is derecognised when the Company has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on de-recognition is taken to Statement of Comprehensive Income.

2.6 Dividend income

Dividend income is recognised in the Statement of Comprehensive Income on the date on which the right to receive payment is established. This is usually the date on which the directors approve the payment of a dividend. Dividend income from EJFIH is recognised in the Statement of Comprehensive Income as a separate line item.

2.7 Interest income and expense

Interest income and expense, are recognised as other income in the Statement of Comprehensive Income, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition.

2.8 Dividends payable

Dividends declared and approved are charged against equity. A corresponding liability is recognised for any unpaid dividends prior to year-end. Dividends approved but not declared will be disclosed in the notes to the Audited Financial Statements.

2.9 Expenses

Fees and other operating expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

2.10 Ordinary shares

The Ordinary Shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32. The proceeds from the issue of Ordinary Shares are recognised in the Statement of Changes in Equity, net of issue costs.

Where the Company repurchases its own Ordinary Shares (treasury shares), the consideration paid, including any directly attributable costs, is deducted from equity attributable to the shareholders until the Ordinary Shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable issue costs, is included in equity attributable to the shareholders.

3. Use of judgements and estimates

In the application of the Company's accounting policies, the Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The critical judgements and estimations of uncertainty at the Statement of Financial Position date that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the Audited Financial Statements are as set out below:

(a) Significant judgements

Non-consolidation of EJFIH

The Directors have used their judgement to determine that the Company meets the definition of an investment entity as defined in IFRS 10.

As the Company satisfies the criteria for an investment entity and has the typical characteristics of an investment entity as explained in note 2.3 "Accounting for subsidiaries", the Board considers that the Company is an investment entity. Accordingly the Company's subsidiary, EJFIH, has not been consolidated but has been fair valued and accounted for at fair value through profit or loss.

(b) Significant estimates

Fair value measurements and valuation processes

The Company's investment in EJFIH has been classified as a Level 3 investment and is measured at fair value for financial reporting purposes. The estimate of the net asset value of EJFIH relies heavily on the estimate of the fair value of the underlying assets and liabilities. EJFIH uses market-observable data to the extent it is available. The Manager has also appointed a recognised independent valuation agent to provide comfort over the valuations derived from models developed by the Manager where appropriate.

The Manager works closely with the independent valuation agent to establish the appropriate valuation techniques and inputs to the model. The fair value of assets and liabilities classified as Level 3 is determined by the use of valuation models. These include the net asset value model, discounted cash flow analysis or the use of observable inputs that require significant adjustments (see note 15 for further information).

4. Segmental reporting

IFRS 8 requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board has considered the requirements of IFRS 8, and is of the view that the Company is engaged in a single segment of business via its investment in EJFIH mainly in one geographical area, Jersey, and therefore the Company has only a single operating segment.

5. Dividend income

The Company received the following dividends from EJFIH during the years ended 31 December 2020 and 31 December 2019:

Date received	31 December 2020 £	31 December 2019 £
28 February 2019	–	1,750,000
16 May 2019	–	1,750,000
30 June 2019	–	3,000,000
29 October 2019	–	2,000,000
28 January 2020	**2,700,000**	–
29 April 2020	**2,000,000**	–
24 July 2020	**1,200,000**	–
4 November 2020	**1,800,000**	–
	7,700,000	8,500,000

6. Auditor's remuneration

The analysis of KPMG's remuneration is as follows:

	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
The analysis of KPMG's remuneration is as follows:		
KPMG LLP – audit and audit related services		
Annual audit	**133,250**	151,520
Audit related services – interim review	**18,000**	18,000
Total audit and audit related fees	**151,250**	169,520
Total fees to KPMG LLP	**151,250**	169,520

7. Finance costs

	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
ZDP Shares finance costs (see note 11)	**1,233,597**	935,836
Prime broker costs	**21,596**	(63,442)
Other finance costs	**(407)**	(1,075)
Total finance costs	**1,254,786**	871,319

8. Prepaid expenses and other assets

	31 December 2020 £	31 December 2019 £
Prepaid Directors' and professional indemnity insurance	**6,921**	5,413
Prepaid listing fee	**1,919**	–
Prepaid website fee	**6,132**	–
Prepaid professional fees	**24,816**	8,409
	39,788	13,822

9. Financial assets at fair value through profit or loss

Investment in EJFIH

During the year ended 31 December 2020 the Company made no further investment in EJFIH (31 December 2019: no investment made).

The investment in EJFIH is used to acquire exposure to a portfolio comprising a large number of investments. The investment in EJFIH is measured at FVTPL. The Company has determined that the fair value of EJFIH is its net asset value.

Below is a summary of the movement in the investment in EJFIH, held by the Company:

	31 December 2020 £	31 December 2019 £
Opening balance	**138,113,723**	129,922,605
Net (loss)/gain on investment in EJFIH*	**(13,962,324)**	8,191,118
Investment in EJFIH at fair value through profit or loss at the end of the year	**124,151,399**	138,113,723

* Net (loss)/gain comprise distributions received during the reporting year in the amount of £7,700,000 (31 December 2019: £8,500,000) and unrealised losses on investment in EJFIH in the amount of £6,262,324 (31 December 2019: unrealised gains of £16,691,118)

On a look-through basis, the following table discloses the Subsidiary's financial assets at FVTPL which agrees to the Company's financial assets at FVTPL:

	31 December 2020 £	31 December 2019 £
Subsidiary's investments at fair value through profit or loss:		
Armadillo Portfolio	**2,053,370**	4,260,152
Investment in the Partnership[1]	**88,334,641**	77,794,613
Investment in the CDO Manager	**9,463,395**	9,399,029
CDO securities	**772,225**	8,383,554
UK bank sub-debt	**–**	4,337,960
Bridge Loan	**–**	7,669,797
Preference Shares[1]	**1,234,324**	1,315,095
Net Derivative financial assets (note 15)	**2,533,786**	6,649,760
Seneca	**1,244,059**	–
Total Subsidiary's investments at fair value through profit or loss	**105,635,800**	119,809,960
Subsidiary's other assets and liabilities:		
Cash and cash equivalents[2]	**14,867,476**	16,765,867
Cash and cash equivalents held as margin	**3,611,325**	375,590
Other receivables[2]	**36,798**	1,162,306
Subsidiary's net asset value at the end of the year	**124,151,399**	138,113,723

1 Held by EJFIH at 31 December 2020 and by EJFIF at 31 December 2019

2 Held by EJFIH as at 31 December 2020 and EJFIH and EJFIF as at 31 December 2019

(a) Subsidiary's investments in private investment companies

Investments in the Armadillo Portfolio

The Subsidiary's investments in private investment companies include the partnership interests in the Armadillo Portfolio. The investment strategy of the Armadillo Portfolio is to make high interest rate loans to third-party law firms engaged in mass tort litigation. The Company, through its investment in EJFIH, had a 35.9% holding in Armadillo I and 0.5% holding in Armadillo II as at 31 December 2020 (30.2% holding in Armadillo I and 0.3% holding in Armadillo II as at 31 December 2019).

The following table summarises activity for the investment in the Armadillo Portfolio:

	31 December 2020 £	31 December 2019 £
Opening balance	**4,260,152**	6,448,996
Distributions	**(1,970,153)**	(918,564)
Realised gains/(losses) on distributions[1]	**268,359**	(129,081)
Unrealised (losses)/gains[1]	**(504,988)**	(1,141,199)
Investments in the Armadillo Portfolio at fair value through profit or loss	**2,053,370**	4,260,152

1 Includes fluctuations in foreign exchange rates

Investment in the Partnership

As at 31 December 2020, EJFIH held 85% or 122,851,798 units (31 December 2019: 85% or 96,821,048 units held directly by EJFIF) issued by the Partnership. The Partnership's purpose is to retain an interest of at least 5% in securitisations sponsored by EJF pursuant to regulatory requirements within the Dodd-Frank reforms in the US and EU risk retention rules. The investment in the Partnership is valued at £88,334,641 (31 December 2019: £77,794,613).

As at 31 December 2020, the remaining units outstanding are held by the Manager (21,680,346 units) (31 December 2019: 17,086,096 units) and EJF Investments GP Inc. (165 units) (31 December 2019: 165 units).

The following table summarises activity for the investment in the Partnership:

	31 December 2020 £	31 December 2019 £
Opening balance	**77,794,613**	66,961,764
Additions	**29,972,364**	22,400,379
Return of Capital	**(10,390,904)**	(10,439,891)
Distributions	**(8,992,709)**	(10,217,324)
Realised gains on distributions[1]	**8,829,146**	9,979,943
Unrealised losses	**(8,877,869)**	(890,258)
Investment in the Partnership at fair value through profit or loss	**88,334,641**	77,794,613

1 Includes fluctuations in foreign exchange rates

Investment in Seneca

The Subsidiary's investments in private investment companies include the partnership and loan interests in Seneca. The investment strategy of Seneca is to invest in MSRs.

The following table summarises activity for the investment in Seneca:

	31 December 2020 £
Opening balance	**–**
Additions	**1,248,056**
Unrealised losses[1]	**(3,997)**
Investment in Seneca at fair value through profit or loss	**1,244,059**

1 Includes fluctuations in foreign exchange rates

9. Financial assets at fair value through profit or loss (continued)

(b) Subsidiary's investment in private operating company

Investment in the CDO Manager

The CDO Manager, which is 51% owned by the Manager and 49% owned by EJFIH, provides collateral management services to various CDO structures. The CDO Manager provides such services directly to those CDO structures on commercially reasonable terms. The CDO Manager is also expected to provide collateral management services to future EJF sponsored securitisations as it will have the benefit, for so long as the Manager is the manager of the Company, of a right of first refusal to be appointed as the provider of collateral administration, monitoring and management services in respect of each EJF Securitisation. The CDO Manager may also provide collateral management services to non-EJF securitisations. The CDO Manager is expected to benefit from collateral management fees on all CDOs it services and manages until maturity of such CDOs.

The following table summarises activity for the investment in the CDO Manager:

	31 December 2020 £	31 December 2019 £
Opening balance	**9,399,029**	9,606,049
Distributions	**(2,179,635)**	–
Unrealised gains/(losses)[1]	**2,244,001**	(207,020)
Investment in the CDO Manager at fair value through profit or loss	**9,463,395**	9,399,029

1 Includes fluctuations in foreign exchange rates

EJFIH through its 49% interest in the CDO Manager, has an exposure to the cash flows of four REIT TruPS CDO collateral management contracts plus cash flow from TFINS 2017-2, TFINS 2018-1, TFINS 2018-2, TFINS 2019-1, TFINS 2019-2,FINS 2019-1, TFINS 2020-1 and TFINS 2020-2. The CDO Manager has a total net asset value of £19,313,053 as at 31 December 2020 (31 December 2019: £19,181,694). EJFIH's interest in the CDO Manager has a net asset value of £9,463,396 as at 31 December 2020 (31 December 2019: £9,399,029).

The management fees of each REIT TruPS CDO collateral management contract vary, ranging from 15bps to 30bps of the outstanding collateral balance. The TFINS 2017-2 securitisation produces management fees of 10bps on outstanding collateral. The TFINS 2018-1, TFINS 2018-2, TFINS 2019-1 and TFINS 2019-2 securitisations produce management fees of 20bps on outstanding collateral. The FINS 2019-1 securitisation produces management fees of 30bps on outstanding collateral. TFINS 2020-1 and TFINS 2020-2 securitisations produce management fees of 30bps on outstanding collateral.

(c) Subsidiary's investments in trading securities

CDO securities

The Subsidiary's CDO securities portfolio consists of REIT TruPS CDO securities issued prior to the financial crisis by an unaffiliated third-party sponsor. The remaining CDO security is generating current income. The bond holdings range from senior class A bonds to subordinated class F bonds. For the year ended 31 December 2020, EJFIH accrued £64,791 and EJFIF accrued £195,494 (EJFIH 2019: £316,742 and EJFIF 2019: accrued £304,843) of interest income presented as investment income in EJFIH and EJFIF, up until liquidation, respectively.

The following table summarises activity for the investment in CDO securities:

	31 December 2020 £	31 December 2019 £
Opening balance	**8,383,554**	9,695,693
Reclassification from – (d) Due under repurchase agreement	**–**	7,634,452
Proceeds on disposal	**(7,280,472)**	(9,201,266)
Realised (losses)/gains on disposal[1]	**(449,444)**	313,285
Unrealised gains/(losses) from CDO securities[1]	**118,587**	(58,610)
CDO securities at fair value through profit or loss	**772,225**	8,383,554

1 Includes fluctuations in foreign exchange rates

UK Bank Sub-Debt

The UK Bank Sub-Debt portfolio was held by EJFIF and consisted of UK specialised bank securities issued in 2019. The securities yielded fixed coupons of 7.5 – 7.75% denominated in Sterling and were sold during the year.

The following table summarises activity for the investment in UK Bank Sub-Debt:

	31 December 2020 £	31 December 2019 £
Opening balance	**4,337,960**	–
Additions	**–**	4,313,000
Proceeds on disposal	**(4,054,650)**	–
Realised losses on disposal	**(283,310)**	–
Unrealised gains from UK bank sub-debt[1]	**–**	24,960
UK Bank Sub-Debt at fair value through profit or loss	**–**	4,337,960

Interest income recognised on UK Bank Sub-Debt was £207,432 (31 December 2019: £60,360).

9. Financial assets at fair value through profit or loss (continued)

Bridge Loan

The Bridge Loan was structured as a senior secured note with a three-year maturity and an interest rate of 12%. Additionally, the Bridge Loan investors received a 2% commitment fee in 2019. The Bridge Loan was secured by the collateral of two CDOs that were wrapped by an affiliate of the borrower. For the year ended 31 December 2020, EJFIF accrued £376,937 (2019: EJFIF accrued £491,233 and EJFIH accrued £600,721) of interest income presented as investment income in EJFIF prior to liquidation.

The following table summarises activity for the investment in the Bridge Loan:

	31 December 2020 £	31 December 2019 £
Opening balance	**7,669,797**	9,161,668
Acquisition of interest in the Bridge Loan/PIK capitalised	**215,028**	8,717,966
Repayments	**(6,615,024)**	(9,902,170)
Realised (losses)/gains on disposal[1]	**(1,269,801)**	91,722
Unrealised gains/(losses) from the Bridge Loan[1]	**–**	(399,389)
Bridge Loan at fair value through profit or loss	**–**	7,669,797

1 Includes fluctuations in foreign exchange rates

Preference Shares

EJFIH owns an interest in a depositor vehicle which holds an interest in the TFINS 2017-2 Preference Shares originally issued as part of the securitisation in October 2017.

The following table summarises activity for the investment in Preference Shares:

	31 December 2020 £	31 December 2019 £
Opening balance	**1,315,095**	5,506,737
Acquisition of interest in Preference Shares	**–**	2,106,563
Distributions	**(138,704)**	(8,253,312)
Realised gains on distribution[1]	**–**	2,150,053
Unrealised gains/(losses) from Preference Shares[1]	**57,933**	(194,946)
Preference Shares at fair value through profit or loss	**1,234,324**	1,315,095

1 Includes fluctuations in foreign exchange rates

10. Accounts payable and accrued expenses

	31 December 2020 £	31 December 2019 £
Amount due to EJFIH[1]	**36,412**	201,828
Incentive fees payable	**–**	496,023
Management fee payable	**212,083**	287,418
Legal fees payable	**9,064**	22,391
Professional fees payable	**141,944**	154,622
Audit fees payable	**133,250**	151,522
Sundry creditors	**54,410**	71,141
	587,163	1,384,945

1 For the year ended 31 December 2019, the amount was due to EJFIH and EJFIF

The amount due to EJFIH is interest free and repayable on demand. The balance consists of amounts paid by EJFIH in respect of the Company's expenses.

11. ZDP shares

On 1 December 2017, the Company issued 15,000,000 2022 ZDP Shares at a gross redemption yield of 5.75%. Approximately 30% of the available 2022 ZDP Shares were issued pursuant to the initial placing and offer for subscription at a price per 2022 ZDP Share of 100 pence. The holders of the 2022 ZDP Shares will have a final capital entitlement of 132.25 pence on the repayment date of 30 November 2022. As of 31 December 2020 and 31 December 2019, there were 15,000,000 2022 ZDP Shares outstanding.

On 17 June 2020, the Company issued 6,000,000 2025 ZDP shares at a gross redemption yield of 7.00%. The 2025 ZDP Shares were issued pursuant to the initial placing and offer for subscription at a price per 2025 ZDP Share of 100 pence. The holders of the 2025 ZDP Shares will have a final capital entitlement of 140 pence on the repayment date of 18 June 2025. As of 31 December 2020, there were 6,000,000 2025 ZDP Shares outstanding.

The 2022 ZDP Shares rank senior to the 2025 ZDP Shares which in turn rank senior to the Ordinary Shares in respect of repayment of the final entitlement. However, they rank behind any borrowings that remain outstanding. They carry no entitlement to income and do not carry the right to vote at general meetings of the Company.

Holders of ZDP Shares are not entitled to any dividends paid by the Company. The following table reconciles the liability for ZDP Shares, held at amortised cost, for the reporting period.

The table below details changes in the Company's liabilities from financing activities, including both cash and non-cash changes.

	31 December 2020 **£**	**31 December 2019** **£**
Opening balance	**16,586,361**	15,545,525
Issuance of 2025 ZDP Shares	**6,000,000**	–
Issue costs	**(213,520)**	–
Finance costs	**1,233,597**	1,040,836
ZDP Shares closing balance	**23,606,438**	16,586,361

Capitalised issue costs are being amortised using the effective interest rate method.

12. Stated capital

The Ordinary Shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32. The proceeds from the issue of Ordinary Shares are recognised in the Statement of Changes in Equity, and are net of the incremental issuance costs when applicable.

Net assets attributable to shareholders is represented by Ordinary Shares that carry one vote each and have equal voting rights. Ordinary Shares are entitled to dividends when declared. The Company has no restrictions or specific capital requirements on the issue and repurchase of Ordinary Shares.

The analysis of movements in the number of Ordinary Shares and the corresponding changes to the Company's stated capital as a result of transactions with shareholders during the year were as follows:

Ordinary Shares issued and fully paid	Number of Shares	Stated Capital £
Opening balance as at 1 January 2020	**64,175,306**	**90,259,133**
Issuance of Ordinary Shares	**7,396,515**	**11,982,354**
Repurchased during the year at £1.62 per share	**(7,396,515)**	**(11,982,354)**
Repurchased during the year at £1.65 per share	**(2,998,000)**	**(4,951,653)**
Repurchased during the year at £1.66 per share	**(32,108)**	**(53,353)**
Closing balance as at 31 December 2020	**61,145,198**	**85,254,127**

Ordinary Shares issued and fully paid	Number of Shares	Stated Capital £
Opening balance as at 1 January 2019	**64,175,306**	90,259,133
Closing balance as at 31 December 2019	**64,175,306**	90,259,133

On 9 March 2020, before the effects of the COVID-19 pandemic were realised, the Directors approved and subsequently completed the buyback of 3,030,108 Ordinary Shares totalling £5,005,006 (inclusive of transaction costs of £5,006) to address any imbalance between the supply of, and demand for, the Ordinary Shares, to increase the NAV per Ordinary Share and to assist in minimising any discount to the NAV per Ordinary Share at which the Ordinary Shares were trading.

As at 31 December 2020, the Company had 15,808,509 treasury shares (31 December 2019: 5,381,886).

13. Dividends paid

The Company paid the following dividends on its Ordinary Shares during the year ended 31 December 2020:

Period to:	Declared date	Ex-dividend date	Record date	Payment date	Dividend rate per Ordinary Share £	Net dividend paid £
31 Dec 2019	23 Jan 2020	6 Feb 2020	7 Feb 2020	28 Feb 2020	**0.02675**	**1,716,687**
31 Mar 2020	23 Apr 2020	7 May 2020	11 May 2020	29 May 2020	**0.02675**	**1,635,635**
30 June 2020	23 Jul 2020	6 Aug 2020	7 Aug 2020	28 Aug 2020	**0.02675**	**1,635,635**
30 Sep 2020	23 Oct 2020	5 Nov 2020	6 Nov 2020	30 Nov 2020	**0.02675**	**1,635,635**
						6,623,592

The Company paid the following dividends on its Ordinary Shares during the year ended 31 December 2019:

Period to:	Declared date	Ex-dividend date	Record date	Payment date	Dividend rate per Ordinary Share £	Net dividend paid £
31 Dec 2018	25 Jan 2019	7 Feb 2019	8 Feb 2019	4 Mar 2019	0.02675	1,716,689
31 Mar 2019	25 Apr 2019	9 May 2019	10 May 2019	7 Jun 2019	0.02675	1,716,689
30 June 2019	26 Jul 2019	8 Aug 2019	9 Aug 2019	6 Sep 2019	0.02675	1,716,689
30 Sep 2019	23 Oct 2019	31 Oct 2019	1 Nov 2019	29 Nov 2019	0.02675	1,716,689
						6,866,756

14. Interest in unconsolidated subsidiary and associates

The table below discloses the unconsolidated subsidiaries and associates in which the Company holds an interest, but does not consolidate in accordance with IFRS 12:

Name of entity	Type of entity	Principal place of business	Purpose	Interest held by the Company	Interest held
EJFIH	Private Company	Jersey	To hold a portfolio of investments in order to generate capital appreciation and investment income.	100%	Direct
Partnership	Limited Partnership	Delaware	To hold a portfolio of investments in order to generate capital appreciation and investment income.	85%	Indirect
CDO Manager	Limited Liability Company	Delaware	To generate management fee income.	49%	Indirect
Armadillo I	Limited Partnership	Delaware	To generate income from high-yielding loans to US law firms engaged in mass tort litigation.	35.9% (31 December 2019: 30%)	Indirect
Seneca	Limited Partnerships	Delaware	To generate income from MSRs.	100%	Indirect

15. Financial risk management

The Board has overall responsibility for the oversight of the Company's risk management framework. The Company's risk management policies are established by the Manager to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly by the Manager to reflect changes in market conditions and the Company's activities. This note presents information about the Company's exposure to each of the financial risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Company is exposed to a number of risks through its investment in the Subsidiary. The risks set out below relate to those risks faced by the Company through its underlying investments.

(a) Market risk

Market risk is the risk that changes in market prices such as interest rates, foreign exchange rates, other price risk and credit spreads will affect the Company's income and/or the value of its holding in EJFIH. The changes in credit spreads affect the Subsidiary's net equity or net income, and hence the value of the Company's investment in EJFIH.

The Company's exposure to market risk comes mainly from movements in the value of its investment in EJFIH and on a look-through basis to the underlying investments in the Subsidiary's portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company's strategy for the management of market risk is driven by the Company's investment objective. The Company seeks to generate attractive risk-adjusted returns for its shareholders, by investing in opportunities created by regulatory and structural changes impacting the financial services sector. These opportunities are anticipated to include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in both cash and synthetic formats, and may be issued by entities domiciled in the US, UK and Europe. The various components of the Company's market risk are managed on an ongoing basis by the Manager in accordance with policies and procedures in place, as detailed below.

In addition, the Company, through the underlying Subsidiary, intends to mitigate market risk generally by not making investments that would cause it to have exposure to any one individual asset exceeding:

- 20% of the Company's gross assets invested in any single Capital Solutions, ABS Investment or Specialty Finance Investment at the time of investment; and
- 25% of the Company's gross assets in any single non-EJF sponsored Risk Retention Investment.

The Company's position exposure is monitored on an ongoing basis by the Manager and reviewed on a quarterly basis by the Board and the Administrator.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's and Subsidiary's interest-bearing financial assets and liabilities expose the Company to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group is exposed to the risk that the fair value of their investments or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates. The Group is also exposed to interest rate risk in respect of their cash and cash equivalents and the investments held.

The Manager assesses interest rate risk on an ongoing basis and may, if deemed necessary, choose to utilise appropriate strategies to manage interest rate risk using, for example, interest rate swaps.

Sensitivity analysis

The weighted average effective duration of the portfolio has been used to identify the potential NAV impact of a 0.25% parallel shift in the relevant reference rate curve.

The percentage has been determined as reasonable by the Directors based on potential volatility due to changes in interest reference rates.

	31 December 2020 Change in fair value	
	£	**£**
Change in rate	0.25%	(0.25%)
Net asset value	644,510	(644,510)

	31 December 2019 Change in fair value	
	£	**£**
Change in rate	0.25%	(0.25%)
Net asset value	(493,485)	493,485

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is directly exposed to currency risk in respect of their cash and cash equivalents and derivatives denominated in currencies other than Sterling, and their investments.

The Group enters into transactions that are denominated in currencies other than their functional currency, primarily in US Dollar. Consequently, the Group is exposed to risk that the exchange rate of their currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of financial assets or financial liabilities denominated in currencies other than Sterling.

The Manager monitors the exposure to foreign currencies and reports to the Board monthly. The Manager measures the risk of the foreign currency exposure by considering the effect on the NAV and income of a movement in the rates of exchange to which the assets, liabilities, income and expenses are exposed.

As at 31 December 2020 and 31 December 2019, the following forward foreign exchange contracts were held by EJFIH and are included within the financial assets/(liabilities) of EJFIH:

Maturity date	Counterparty	Contract amount (GBP)	Buy	Sell	31 December 2020 £
8 January 2021	Citibank N.A.	106,267,878	GBP	USD	**2,323,977**
8 January 2021	Citibank N.A.	5,641,608	GBP	USD	**154,512**
8 January 2021	Citibank N.A.	1,430,393	GBP	USD	**3,748**
8 January 2021	Citibank N.A.	2,978,000	GBP	USD	**51,549**
Derivative financial assets held by EJFIH					**2,533,786**

15. Financial risk management (continued)

Refer to note 19 for further details on changes to the foreign exchange hedging after the year end.

Maturity date	Counterparty	Contract amount (GBP)	Buy	Sell	31 December 2019 £
31 January 2020	Citibank N.A.	15,924,339	GBP	USD	1,076,577
31 January 2020	Citibank N.A.	7,898,202	GBP	USD	511,984
3 February 2020	Citibank N.A.	62,212,168	GBP	USD	4,183,747
10 February 2020	Citibank N.A.	7,910,618	GBP	USD	602,444
25 February 2020	Citibank N.A.	3,162,060	GBP	USD	(964)
22 June 2020	Citibank N.A.	22,128,588	GBP	USD	275,972
Derivative financial assets held by EJFIH					**6,649,760**

There were no forward foreign exchange derivatives held by the Company during the years ended 31 December 2020 and 31 December 2019.

At 31 December 2020, the carrying amount of the Group's financial assets in individual foreign currencies, expressed in Sterling and as a percentage of its net assets, was as follows:

Currency	£	% of net assets
US Dollar	114,360,669	114%

At 31 December 2019, the carrying amount of the Company's financial assets in individual foreign currencies, expressed in Sterling and as a percentage of its net assets, was as follows:

Currency	£	% of net assets
US Dollar	108,822,242	90%

Sensitivity analysis

The table below sets out the effect on the net assets/increase in net assets attributable to holders of tradable Ordinary Shares of a reasonably possible weakening of Sterling against the US Dollar by 10% at 31 December 2020 (10% at 31 December 2019). 10% is considered to continue to be deemed reasonable as it reflects movements experienced in 2020 as a result of Brexit negotiations and UK general election. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2020	31 December 2019
Effect in Sterling	£ 12,706,741	£ 14,424,638
Effect in % of net assets attributable to the holders of tradable Ordinary Shares	13%	12%
Effect in % of increase in total comprehensive (loss)/income attributable to the holders of tradable Ordinary Shares	(145)%	108%

A strengthening of the Sterling against the US Dollar would have resulted in an equal but opposite effect to the amounts shown above. The analysis does not consider the effects of the hedges.

(ii) Other price risk

Other price risk is the risk that the fair value of the investment in EJFIH will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

Price risk is managed by the Manager by diversifying the portfolio geographically across the US and UK and through holding diversified collateral in the underlying securitisations. Also, if the price risk is not in accordance with the Investment Policy or guidelines of the Company, then the Manager is required to rebalance the portfolio prior to the end of the reporting period following each determination of such occurrence.

Exposure

The following table sets out the concentration of the portfolio profile which shows the total exposure to market risk, held by the Group at the reporting date.

	31 December 2020		31 December 2019	
	£	%	£	%
Armadillo Portfolio	**2,053,370**	**2**	4,260,152	3
Investment in the Partnership[1,2]	**88,334,641**	**71**	77,794,613	56
Investment in CDO Manager	**9,463,395**	**8**	9,399,029	7
CDO securities	**772,225**	**0**	8,383,554	6
UK bank sub-debt	**–**	**–**	4,337,960	3
Bridge Loan	**–**	**–**	7,669,797	6
Preference Shares[2]	**1,234,324**	**1**	1,315,095	1
Net Derivative financial assets	**2,533,786**	**2**	6,649,760	5
Seneca	**1,244,059**	**1**		6
Financial assets and liabilities at fair value through profit or loss	**105,635,800**	**85**	119,809,960	87
Cash and cash equivalents[3]	**14,867,476**	**12**	16,765,867	12
Cash and Cash equivalents held as margin	**3,611,325**	**3**	375,590	0
Other[3,4]	**36,798**	**0**	1,162,306	1
Investment in EJFIH	**124,151,399**	**100**	138,113,723	100

1 See table below

2 Held by EJFIH at 31 December 2020 and by EJFIF at 31 December 2019

3 Held by EJFIH as at 31 December 2020 and EJFIH and EJFIF as at 31 December 2019

4 No individual financial asset held by the Group and included in this category exceeded 5% of the net assets attributed to the Group as at 31 December 2020 and 31 December 2019

The investment held in the Partnership includes the following underlying investment positions:

	31 December 2020		31 December 2019	
	£	% of NAV	£	% of NAV
TPINS 2016-1 (Class A)*	**–**	**–**	105,242	0
TPINS 2016-1 (Class B)*	**–**	**–**	167,173	0
TFINS 2017-2	**12,561,821**	**12**	13,705,123	11
TFINS 2018-1	**18,969,375**	**19**	20,473,434	17
TFINS 2018-2	**14,098,212**	**14**	15,430,539	13
TFINS 2019-1	**12,711,085**	**13**	14,119,570	12
FINS 2019-1	**10,564,514**	**11**	11,538,704	10
TFINS 2019-2	**13,447,514**	**13**	–	–
TFINS 2020-1	**12,181,382**	**12**	–	–
TFINS 2020-2	**7,628,545**	**8**	–	–
Investments held by the Partnership	**102,162,448**	**102**	75,539,785	63
Other net assets	**1,760,882**	**2**	15,983,290	13
Net asset value of the Partnership	**103,923,330**	**104**	91,523,075	76
% held by the Subsidiary		**85**		85
Fair value of the Subsidiary's investment in the Partnership	**88,334,641**	**88**	77,794,613	64

* The balances relating to TPINS 2016-1 were escrow receivables subsequently received in 2020

15. Financial risk management (continued)

Fair value of financial instruments

The Company holds all of the shares in EJFIH, which is a holding vehicle used to hold the Company's investments. The Board believes it is appropriate to value this entity based on the fair value of its portfolio of investment assets held plus its other assets and liabilities.

Valuation models

IFRS 13 requires disclosure of fair value measurement by level. The level of financial assets or financial liabilities within the fair value hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company's investment in EJFIH, through the acquisition of shares, is classified within Level 3, as it is not traded and contains unobservable inputs. The Board considers that the net asset value of EJFIH is representative of its fair value.

The investments held by the Subsidiary in the underlying portfolio are measured as below:

The fair values of financial assets and financial liabilities that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA multiples and revenue multiples and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Company uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses proprietary valuation models, which are developed from discounted cash flow models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company believe that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa, such as interest rate swaps, fair values include adjustment for both own credit risk and counterparty credit risk.

The Manager has also appointed a recognised independent valuation agent to provide comfort over the valuations derived from models developed by the Manager where appropriate.

Valuation approach for specific instruments

Foreign currency forward contracts
The fair value of the foreign currency forward contracts is determined using quoted mid forward exchange rates at the reporting date.

Valuation approach for specific instruments held through the Group

Investments in private investment companies and private operating company
The fair value of investments in the private investment companies and private operating company is determined using the net asset value of the entity (Level 3 valuation). The net asset value is used when the units or partnership interests in a fund are redeemable at the reportable net asset value at, or approximately at, the measurement date. If this is not the case, then net asset value is used as a valuation input and an adjustment is applied for lack of marketability/restricted redemptions. This adjustment is based on management judgement after considering the period of restrictions and the nature of the underlying investments. No such adjustment was deemed necessary for the year ended 31 December 2020 and the year ended 31 December 2019.

Investments trading securities
At 31 December 2020, the investment portfolio included bonds issued by Kodiak, Attentus and Taberna, which are unaffiliated third-party CDO sponsors. These distressed bonds are valued at their dirty prices (including any expected interest accruals).

The fair value of distressed bonds is determined by the Manager using acceptable probability based discounted cash flow methodologies.

15. Financial risk management (continued)

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes the Manager's valuation committee, which operates independently of the Manager's investment team, and feeds into the monthly NAV process for review by the Board, and has overall responsibility for fair value measurements. Specific controls include:

- verification of observable pricing inputs;
- re-performance of model valuations;
- a review and approval process for new models and changes to such models;
- analysis and investigation of significant valuation movements; and
- review of unobservable inputs and valuation adjustments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, the portfolio valuation function assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified. This includes:

- verifying that the broker or pricing service is approved by the Manager for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- when prices for similar instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then understanding how fair value has been determined using those quotes.

For underlying instruments not traded in an active market and defined as Level 3 investments, the fair value is determined by using appropriate valuation techniques. Management also makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets are outlined below.

Fair value hierarchy – financial assets at fair value through profit or loss held by the Company

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private equity, CDO securities and the Bridge loan. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value.

The Company's investment in EJFIH is classified within Level 3, as it is not traded and contains unobservable inputs. The Board considers that the net asset value of EJFIH is representative of its fair value.

The table below analyses financial instruments, held by the Company, measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position as at 31 December 2020. All fair value measurements below are recurring.

As at 31 December 2020	Level 1 £	Level 2 £	Level 3 £
Investment held in EJFIH	–	–	**124,151,399**
Financial assets at fair value through profit or loss	**–**	**–**	**124,151,399**

The following table shows the movement of level 3 assets during the year ended 31 December 2020:

	Opening fair value £	Additions £	Realised gains £	Unrealised loss £	Distributions £	Ending fair value £
EJFIH	**138,113,723**	**–**	**–**	**(13,962,324)**	**–**	**124,151,399**
Total financial assets	**138,113,723**	**–**	**–**	**(13,962,324)**	**–**	**124,151,399**

The table below analyses financial instruments, held by the Company, measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position as at 31 December 2019. All fair value measurements below are recurring.

As at 31 December 2019	Level 1 £	Level 2 £	Level 3 £
Investment held in EJFIH	–	–	138,113,723
Financial assets at fair value through profit or loss	–	–	138,113,723

Fair value hierarchy – financial assets at fair value through profit or loss held by the Subsidiary

The tables below are supplemental disclosures of the financial instruments, held by the Subsidiary, measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position as at 31 December 2020 and 31 December 2019. All fair value measurements below are recurring.

As at 31 December 2020	Level 1 £	Level 2 £	Level 3 £
Armadillo Portfolio	**–**	**–**	**2,053,370**
Investment in the Partnership	**–**	**–**	**88,334,641**
Investment in the CDO Manager	**–**	**–**	**9,463,395**
CDO securities	**–**	**–**	**772,225**
Seneca	**–**	**–**	**1,244,059**
Investment in Preference Shares	**–**	**–**	**1,234,324**
Financial assets at fair value through profit or loss	**–**	**–**	**103,102,014**

	Level 1 £	Level 2 £	Level 3 £
Derivative financial assets	**–**	**2,533,786**	**–**
Financial assets at fair value through profit or loss	**–**	**2,533,786**	**–**

As at 31 December 2019	Level 1 £	Level 2 £	Level 3 £
Armadillo Portfolio	–	–	4,260,152
Investment in the Partnership	–	–	77,794,613
Investment in the CDO Manager	–	–	9,399,029
CDO securities	–	7,305,930	1,077,624
UK bank sub-debt	–	4,337,960	–
Bridge Loan	–	–	7,669,797
Investment in Preference Shares	–	–	1,315,095
Financial assets at fair value through profit or loss	–	11,643,890	101,516,310

	Level 1 £	Level 2 £	Level 3 £
Derivative financial assets	–	6,649,760	–
Financial assets at fair value through profit or loss	–	6,649,760	–

15. Financial risk management (continued)

Level 3 reconciliation

The following tables show a reconciliation of all movements in the fair value of financial assets held at fair value through profit or loss of level 3 assets held by the Subsidiary categorised within level 3 between the beginning and the end of the reporting period:

	Opening fair value as at 1 January 2020 £	Additions £	Realised gains/ (losses) £	Unrealised gains/ (losses) £	Disposals £	Ending fair value as at 31 December 2020 £
Armadillo Portfolio	**4,260,152**	**–**	**268,359**	**(504,988)**	**(1,970,153)**	**2,053,370**
Investments in the Partnership	**77,794,613**	**29,972,364**	**8,829,146**	**(8,877,869)**	**(19,383,613)**	**88,334,641**
Investment in CDO Manager	**9,399,029**	**–**	**–**	**2,311,771**	**(2,247,405)**	**9,463,395**
CDO securities	**1,077,624**	**–**	**–**	**(305,399)**	**–**	**772,225**
Bridge Loan	**7,669,797**	**215,028**	**(1,437,400)**	**167,599**	**(6,615,024)**	**–**
Seneca	**–**	**1,248,056**	**–**	**(3,997)**	**–**	**1,244,059**
Investment in Preference Shares	**1,315,095**	**–**	**–**	**57,933**	**(138,704)**	**1,234,324**
Total financial assets	**101,516,310**	**31,435,448**	**7,660,105**	**(7,154,950)**	**(30,354,899)**	**103,102,014**

During the year ended 31 December 2020 there were no reclassifications between levels of the fair value hierarchy.

The following table is for the year ended 31 December 2019.

	Opening fair value as at 1 January 2019 £	Additions £	Realised gains/ (losses) £	Unrealised gains/ (losses) £	Disposals £	Ending fair value as at 31 December 2019 £
Armadillo Portfolio	6,448,996	–	(129,081)	(1,141,199)	(918,564)	4,260,152
Investments in the Partnership	66,961,764	22,400,379	9,979,942	(890,257)	(20,657,215)	77,794,613
Investment in CDO Manager	9,606,049	–	–	(207,020)	–	9,399,029
CDO securities	644,507	–	–	433,117	–	1,077,624
Bridge Loan	9,161,668	8,717,966	91,722	(399,389)	(9,902,170)	7,669,797
Investment in Preference Shares	5,506,737	2,106,563	3,285,217	(194,944)	(9,388,478)	1,315,095
Total financial assets	98,329,721	33,224,908	13,227,800	(2,399,692)	(40,866,427)	101,516,310

During the year ended 31 December 2019 there were no reclassifications between levels of the fair value hierarchy.

Significant unobservable inputs used in measuring fair value held by the Company – Level 3

The following table shows the sensitivity of fair values in Level 3 to the net asset value of the investment in EJFIH.

Financial assets	Company fair value at 31 December 2020 £	Company fair value at 31 December 2019 £	Valuation techniques and inputs	Significant unobservable inputs
Investment in EJFIH	**124,151,399**	138,113,723	Net asset value of EJFIH	The net asset value of EJFIH is calculated under IFRS

Sensitivity analysis for significant changes for unobservable inputs within Level 3 hierarchy

It is assumed that the net asset value of EJFIH was changed by 10% while all the other variables were held constant. An increase in the net asset value of EJFIH would have resulted in an equal but opposite effect to the amounts shown below.

Financial assets	31 December 2020 £	31 December 2019 £
Investment in EJFIH	**124,151,399**	138,113,723
Increase by 10%	**136,566,539**	151,925,095
Decrease by 10%	**111,736,259**	124,302,351

Significant unobservable inputs used in measuring fair value held by the Subsidiary – Level 3

The estimated fair values of EJFIH's investment in the CDO Manager was determined through the use of level 3 inputs. A discounted cash flows method was employed to estimate the fair values as of 31 December 2020 and 31 December 2019. Projected cash flows were calculated using a third-party provider of cash flow information for structured securities for each bond. Key assumptions included:

prepayment assumptions, default rates and loss severity, recovery lags, and the discount rate. These inputs were based on internal assumptions and market participant benchmarks for comparable bonds. An independent valuation agent was used to provide a final valuation report for CDO Manager.

The Subsidiary's remaining Level 3 investments have been valued using broker quotes or the Subsidiary's proportionate share of the net asset value of the entity.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company or the Subsidiary or a vehicle in which the Company or the Subsidiary invest, resulting in a financial loss to the Company. It arises principally from debt securities, derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

Credit risk is monitored on an ongoing basis by the Manager in accordance with the policies and procedures in place. The Manager monitors the Company's and the Subsidiary's cash activity, concentrations of deposits with counterparties and the credit worthiness of said counterparties, and obtains periodic collateral assessments from an affiliate managing Armadillo Portfolio's loan portfolio. The Company's credit risk is monitored on a quarterly basis by the Board. If the credit risk is not in accordance with the Investment Policy or guidelines of the Company, then the Manager is obliged to address the impact and to liquidate holdings within a reasonable amount of time, however as the Subsidiary's portfolio assets are generally illiquid in nature more time may be required to address the impact the credit risk has on any such illiquid assets.

The Subsidiary's activities may give rise to settlement risk. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For the majority of transactions, the Manager mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes described below.

In the opinion of the Board, the carrying amount of financial assets best represent the maximum credit risk exposure to the Company. The Company's financial assets exposure to credit risk amounted to the following:

	31 December 2020 £
Cash and cash equivalents[1]	**14,867,476**
Cash and cash equivalents held as margin[1]	**3,611,325**
Derivative financial assets[1]	**2,533,786**
CDO securities[1]	**772,225**
Armadillo Portfolio[1]	**2,053,370**
Investment in the Partnership[1]	**88,334,641**
Preference Shares[1]	**1,234,324**
Investment in CDO Manager[1]	**9,463,395**
Seneca[1]	**1,244,059**
Investment in EJFIH	**124,114,601**
Cash and cash equivalents	**347**
Balance due from the Manager	**570,728**
Total financial assets	**124,685,676**

1 Held by the Subsidiary

Cash and cash equivalents

The Company's and the Subsidiary's cash is predominantly held with BNPP, AUB and Citibank N.A. The Manager monitors the financial position and creditworthiness of all its financial institutions on a quarterly basis.

Balances due from brokers

Balances due from brokers represent margin accounts, cash collateral for currency contracts and transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. As at the reporting date, the balance due from brokers was held by Citibank N.A. The Manager monitors the financial position and creditworthiness of the brokers on a quarterly basis.

15. Financial risk management (continued)

The following table shows the external ratings of the financial institutions holding cash or collateral deposits on behalf of the Group, using available ratings from Moody's. Publicly available ratings are not published for AUB.

Institution	Rating Agency	31 December 2020	31 December 2019
Citibank N.A.	Moody's	Aa3	Aa3
BNPP	Moody's	Aa3	Aa3

As at the Statement of Financial Position date, no cash balances were held with AUB.

Balance due from the Manager

The balance due from the Manager relates to the arrangement with the Manager to absorb ongoing operating expenses incurred by the Company, excluding management fees, incentive fees and expenses considered not ongoing. The Company applies the simplified approach permitted by IFRS 9, which requires expected 12 month losses to be recognised from initial recognition. The balance due from the Manager are considered to be low credit risk. Accordingly no impairment losses have been recognised in the Statement of Comprehensive Income.

Preference shares

The Company, through its investment in the Subsidiary, is exposed to the credit risk of its counterparties or the counterparties of the securitisation preference shares in which it invests. In the event of a bankruptcy or insolvency of such a counterparty, the preference shares could suffer significant losses resulting in declines in the value of the shares, including the inability to realise any gains on their investment during such period and fees and expenses incurred in enforcing their rights. This would also affect the Company's investment in the Subsidiary as it is exposed to any fair value movements in the Subsidiary. The preference shares in which the Subsidiary has invested are not rated.

Investment in CDO securities

At 31 December 2020, the Company, through its investment in EJFIH, was invested in distressed and cash yielding CDO securities issued by Attentus, Kodiak and Taberna, which are unaffiliated third-party CDO sponsors.

The Subsidiary is exposed to the credit risk of their CDO security counterparties or the counterparties of the securitisations in which it invests. In the event of a bankruptcy or insolvency of such a counterparty, the Subsidiary, or a securitisation in which such an investment is held, could suffer significant losses including the loss of that part of the Subsidiary's or securitisation's portfolio financed through such a transaction, declines in the value of their investment, including declines that may occur during an applicable stay period, the inability to realise any gains on their investment during such period and fees and expenses incurred in enforcing their rights. This would also affect the Company's investment in the Subsidiary as it is exposed to any fair value movements in the Subsidiary.

The CDO securities are not rated (31 December 2019: not rated).

Armadillo Portfolio

At 31 December 2020, the Company, through its investment in EJFIH, held an interest in the Armadillo Portfolio. In the event of any default on the Armadillo Portfolio's loan investments by a counterparty, EJFIH will bear a risk of loss of principal and accrued interest on the loan investment, which could have a material adverse effect on EJFIH's income and ability to meet financial obligations. This would also affect the Company's investment in EJFIH as it is exposed to any fair value movements in EJFIH.

The Armadillo Portfolio is not rated (31 December 2019: not rated).

Investment in the Partnership

At 31 December 2020, the Company, through its investment in the Subsidiary, held an interest in the Partnership. The Subsidiary is exposed to the credit risk of its counterparties or the counterparties of the securitisations in which it invests. In the event of a bankruptcy or insolvency of such a counterparty, the securitisation in which such an investment is held could suffer significant losses, including the loss of that part of the Subsidiary's or securitisation's portfolio financed through such a transaction, declines in the value of their investment, including declines that may occur during an applicable stay period, the inability to realise any gains on their investment during such period and fees and expenses incurred in enforcing their rights. This would also affect the Company's investment in the Subsidiary as it is exposed to any fair value movements in the Subsidiary.

The securitisations in which the Partnership has invested are not rated (31 December 2019: not rated).

Concentration of credit risk

The Manager reviews the credit risk of counterparties (primarily prime brokers or custodians when applicable) that hold a concentration of the Company's and the Subsidiary's assets, in particular, the Company's and the Subsidiary's cash deposits.

The Group's exposure was concentrated as below:

	31 December 2020		31 December 2019	
	£	%	£	%
Citibank N.A.	**12,429,781**	**83.6**	15,585,100	91.5
BNPP	**2,438,042**	**16.4**	1,120,791	6.6
AUB	**–**	**–**	323,758	1.9
Total	**14,867,823**	**100%**	17,029,649	100%

Collateral and other credit enhancements, and their financial effect

The Group mitigate the credit risk of derivatives by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivatives

Derivative transactions are either transacted on an exchange with central clearing counterparties (CCPs) or entered into under ISDA master netting agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. EJFIH has executed a credit support annex in conjunction with the ISDA agreement, which requires EJFIH and its counterparties to post collateral to mitigate counterparty credit risk.

The derivatives are entered into with Citibank N.A., which is rated Aa3 (31 December 2019: A1), based on Moody's Agency.

Impairment of financial assets

The Company is subject to the ECL model on its financial assets that are carried at amortised cost. While cash and cash equivalents and balances due from brokers are also subject to the impairment requirements of IFRS 9, the identified impairment loss was nil. The Company is also exposed to credit risk in relation to financial assets that are measured at FVTPL. The maximum exposure at the end of the reporting period is the carrying amount of these financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with their financial liabilities that are settled by delivering cash or another financial asset.

The Company's policy and the Manager's approach to managing liquidity risk in the Group is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet their liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Prospectus provides for the Board to pay quarterly dividends of available cash to shareholders following the recommendation of the Manager. Therefore, the Company may be exposed to the liquidity risk of not meeting this target at each quarterly distribution date.

The Group's financial assets include illiquid investment securities and investments in private investment companies. As a result, the Group may not be able to liquidate some of their interest in these instruments in due time to meet their liquidity requirements.

The Company's liquidity is managed on an ongoing basis by the Manager in accordance with the policies and procedures in place. Since the Company's liability obligations consist of current liabilities related to its standard operating activity, liquidity risk is deemed to be low. Current liabilities are paid and reported to the Board on a quarterly basis unless a special meeting is required.

	31 December 2020	31 December 2019
Liquid assets	**£15,438,551**	£17,593,173
Current liabilities	**£590,538**	£1,388,320
Liquid assets as a % of current liabilities	**2614%**	1227%

15. Financial risk management (continued)

The Group manages its liquidity risk by maintaining a current ratio (liquid assets divided by current liabilities) of no less than approximately 100%. The tables below set out the Group assets with an expected liquidation period within 90 days (liquid assets) to the Company's current liabilities (presented inclusive of interest) as at 31 December 2020 and 31 December 2019:

31 December 2020	Carrying Amount £	Total £	Less than 7 days £	7 days to 1 month £	1 month to 3 months £	3 months to over 1 year £
Liquid Assets						
Cash	**14,867,823**	**14,867,823**	**14,867,823**	**–**	**–**	**–**
Balance due from the Manager	**570,728**	**570,728**	**–**	**570,728**	**–**	**–**
Total	**15,438,551**	**15,438,551**	**14,867,823**	**570,728**	**–**	**–**

31 December 2020	Carrying Amount £	Total £	Less than 7 days £	7 days to 1 month £	1 month to 3 months £	3 months to over 1 year £
Financial liabilities						
Amount payable to EJFIH	**36,412**	**36,412**	**–**	**–**	**36,412**	**–**
Accounts payable and accrued expenses	**550,751**	**550,751**	**–**	**–**	**550,751**	**–**
Total	**587,163**	**587,163**	**–**	**–**	**587,163**	**–**

31 December 2019	Carrying Amount £	Total £	Less than 7 days £	7 days to 1 month £	1 month to 3 months £	3 months to over 1 year £
Liquid Assets						
Cash	17,029,648	17,029,648	17,029,648	–	–	–
Balance due from the Manager	563,525	563,525	–	563,525	–	–
Total	17,593,173	17,593,173	17,029,648	563,525	–	–

31 December 2019	Carrying Amount £	Total £	Less than 7 days £	7 days to 1 month £	1 month to 3 months £	3 months to over 1 year £
Financial liabilities						
Amount payable to EJFIH	201,828	201,828	–	–	201,828	–
Accounts payable and accrued expenses	1,183,122	1,183,122	–	–	1,183,122	–
Total	1,384,950	1,384,950	–	–	1,384,950	–

The tables above shows the undiscounted cash flows of the Company's financial liabilities on the basis of their earliest possible contractual maturity. The Company's expected cash flows on these instruments are not expected to vary significantly from this analysis.

The Group further manages its liquidity risk by holding at least 2.0% of its net asset value in assets with an expected liquidation period within 90 days. The ratio of assets with an expected liquidation period within 90 days (liquid assets) to total net assets is set out below:

	31 December 2020	31 December 2019
Liquid assets	**£15,438,551**	£17,593,173
Total Net Asset Value	**£100,568,661**	£120,983,545
Liquid assets as % of total Net Asset Value	**15%**	15%

16. Capital risk management

The Company's issued capital is represented by Ordinary Shares.

As a result of the ability to issue, repurchase and resell shares, the capital of the Company can vary. The Company is not subject to externally imposed capital requirements and has no restrictions on the issue, repurchase or resale of its shares. The Company's objectives for managing capital are:

- to invest the capital in investments meeting the description, risk exposure and expected return indicated in its Prospectus;
- to achieve consistent returns while safeguarding capital by investing in a diversified Portfolio;
- to maintain sufficient liquidity to meet the expenses of the Company; and
- to maintain sufficient size to make the operation of the Company cost-efficient.

The policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, as well as the level of dividends to Ordinary Shareholders.

The Company may utilise borrowings for share buybacks, short-term liquidity purposes and investments, seeking leverage via bank financing, term loans, or debt instruments. The Company has the availability to borrow up to 35% of its NAV (calculated at the time of drawdown), provided that:

i. the maximum amount for borrowings for long-term investment purposes within such limit will be 30% of the NAV; and

ii. borrowings for long-term investment purposes may only be incurred when the minimum cover amount, 3.5x for ZDP Shares, is met (calculated at the time of drawdown).

The Company's net debt to equity ratio at the year end was as follows:

	31 December 2020 £	31 December 2019 £
ZDP Shares	**23,606,438**	16,586,361
Accounts payable and accrued expenses	**587,163**	1,384,945
Less: cash and cash equivalents	**(347)**	(263,781)
Net debt	**24,193,254**	17,707,525
Total equity	**100,568,661**	120,983,545
Net debt to adjusted equity ratio	**0.24**	0.15

17. Related party transactions and other material contracts

Transactions

On 15 January 2020, the Company, through its investment in the Partnership, closed on a new Risk Retention Investment TFINS 2019-2 totalling approximately £12.6 million. The underlying collateral of TFINS 2019-2 mainly consists of trust preferred securities, issued surplus notes, and senior notes issued by 34 US banks and 24 US insurance companies and their holding companies with an aggregate par value of approximately US$338.4 million. The transaction was executed using pricing established through independent third-party valuations and following the review and approval by the independent non-conflicted members of the Board.

The Company also participates in the collateral management fee income via its 49% ownership interest in the CDO Manager, which serves as the collateral manager for TFINS 2019-2 and receives its share of a 20bps collateral management fee in addition to earning an incentive management fee, subject to certain criteria.

On 6 August 2020, the Company, through its investment in the Partnership, closed on a new Risk Retention Investment TFINS 2020-1 totalling approximately £10.8 million. The underlying collateral of TFINS 2020-1 mainly consists of trust preferred securities and issued surplus notes issued by 51 US banks and 21 US insurance companies with an aggregate par value of approximately US$282.9 million. The transaction was executed using pricing established through independent third-party valuations and following the review and approval by the independent non-conflicted members of the Board.

The Company also participates in the collateral management fee income via its 49% ownership interest in the CDO Manager, which serves as the collateral manager for TFINS 2020-1 and receives its share of a 30bps collateral management fee in addition to earning an incentive management fee, subject to certain criteria.

On 16 December 2020, the Company, through its investment in the Partnership, closed on a new Risk Retention Investment TFINS 2020-2 totalling approximately £6.7 million. The underlying collateral of TFINS 2020-2 mainly consists of trust preferred securities and issued surplus notes issued by 26 US banks and 10 US insurance companies with an aggregate par value of approximately US$177.2 million. The transaction was executed using pricing established through independent third-party valuations and following the review and approval by the independent non-conflicted members of the Board.

The Company also participates in the collateral management fee income via its 49% ownership interest in the CDO Manager, which serves as the collateral manager for TFINS 2020-2 and receives its share of a 30bps collateral management fee in addition to earning an incentive management fee, subject to certain criteria.

On 31 December 2020, the Board of the Company announced that approximately £3.75 million or US$5 million had been initially committed towards an investment in Seneca, with the potential to increase the commitment up to approximately £7.5 million or US$10 million. Seneca is a residential mortgage servicer in the United States which is owned and controlled by EJF. As at 31 December 2020, £1.2m had been called by Seneca.

Investment Management fee

The Company, the General Partner of the Partnership and the Partnership entered into a Management Agreement with the Manager and EJF on 31 January 2017. In accordance with the Management Agreement, the Manager has been appointed as the manager of the Company, the Partnership and the Partnership's General Partner. In such capacity, the Manager is responsible for the portfolio and risk management of the Group, including: (i) managing the Company's assets and its day-to-day operations; (ii) the selection, purchase and sale of investment securities held via its Subsidiary; (iii) providing financing and risk management services; and (iv) providing advisory services to the Board.

The Management Agreement was subsequently amended and restated on 30 March 2017 to account for the management of the risk retention investments and revise the terms of the incentive fee charged to the Company.

On 27 February 2019, the Management Agreement was further amended and restated to allow settlement of the Incentive Fee through multiple transactions over an agreed upon timeframe between the Company and the Manager.

On 22 August 2019, the Management Agreement was again further amended and restated to provide flexibility in the cash settlement of the Incentive Fee being used to facilitate a share purchase on the secondary market or subscription for new shares.

In accordance with the terms of the Management Agreement, the Company pays a management fee calculated monthly and payable quarterly in arrears. Subject to certain limitations, the management fee is equal to 0.0833% (one-twelfth of 1%) of the Company's NAV.

For the year from the 1 January to 31 December 2020, the Company accrued management fees of £902,003 (2019: £1,118,440) which is presented within operating expenses on the Statement of Comprehensive Income

The Company recognised an outstanding liability of £212,083 as at 31 December 2020 (31 December 2019: £287,418 presented in accounts payable and accrued expenses on the Statement of Financial Position.

Directors' fees

The Directors are entitled to a fee for their services at a rate to be determined from time to time by the Board. For the year ended 31 December 2020, the Company recorded Directors' fees of £135,000 (2019: £135,000). As at 31 December 2020, £nil (31 December 2019: £nil) of this amount was outstanding.

Director's fees are currently £40,000 each per annum. Neal Wilson has waived his right to receive remuneration for his service as Director.

Joanna Dentskevich is entitled to an additional fee of £10,000 per annum in respect of her role as Chair of the Board.

Alan Dunphy is entitled to an additional fee of £5,000 per annum in respect of his role as Chair of the Audit and Risk Committee.

Neal Wilson, also serves as an officer (Chief Executive Officer) of the Manager and an officer and director of other affiliates of the Manager including EJF, the General Partner of the Partnership, and the general partner of Armadillo I and Armadillo II. Therefore, conflicts may arise as this individual allocates his time between the Company, EJF and other programmes and activities in which they are involved. The independent Directors must consent to and approve any of the Company's conflicted trades, which also involve approval by one of these affiliates and its officers, directors and employees. With respect to EJF Risk Retention investments to be issued in connection with all future EJF Securitisations, the Partnership has the right of first refusal over other funds managed by EJF.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors. During the year ended 31 December 2020, the Company recorded Directors' and Officers' liability and professional indemnity insurance expense of £95,914 (2019: £73,097).

Incentive fee

The Manager is entitled to an incentive fee which is calculated in relation to the assets attributable to Ordinary Shares, in accordance with the Management Agreement. The Incentive Fee amount is equal to 10% of the amount by which the Adjusted NAV attributable to Ordinary Shares exceeds the higher of (i) the Incentive Hurdle at the relevant time and (ii) the High Watermark at the relevant time, in respect of the relevant Incentive Fee Period.

The Incentive Fee is calculated in respect of each Incentive Fee Period, save for the first Incentive Fee Period which was the period commencing on Admission and ending on 31 December 2017 and the final Incentive Fee Period being the date that the Management Agreement is terminated or, where the Management Agreement has not been terminated, the actual date of termination of the provision by the Manager of the Non-Retained Services as defined in the Management Agreement.

For the year from 1 January to 31 December 2020, the Company did not accrue an incentive fee liability (31 December 2019: £496,023), which is presented within operating expenses on the Statement of Comprehensive Income and accounts payable and accrued expenses on the Statement of Financial Position.

On 28 January 2020, the Company announced that the Manager had acquired 283,441 Ordinary Shares of no par value in the Company at an average price of £1.75 per share. The Company was also notified on the same date that the Manager had allocated these Ordinary Shares as follows:

- Neal J. Wilson, the Chief Executive Officer of the Manager, acquired 56,688 Ordinary Shares from the Manager;
- Lindsay J. Sparacino, the then Co-Chief Investment Officer of the Manager, acquired 28,344 Ordinary Shares from the Manager;
- Peter A. Stage, the Chief Financial Officer of the Manager, acquired 28,344 Ordinary Shares from the Manager;
- Hammad W. Khan, the Senior Managing Director, Europe, of the Manager, acquired 28,344 Ordinary Shares from the Manager; and
- EJF Capital Limited, a wholly-owned subsidiary of EJF Capital LLC, acquired 141,721 Ordinary Shares from the Manager.

This transaction represents full satisfaction of the Incentive Fee payable by the Company to the Manager for the Incentive Fee Period ended 31 December 2019 and the recipients of the Ordinary Shares are subject to the Lock-Up Deed.

On 3 July 2020, Jason Ruggiero, a member of the investment committee of the Manager, unconditionally agreed to acquire 165,336 Ordinary Shares in the Company at an average price of £1.20 per share from Lindsay Sparacino, the former Co-Chief Investment Officer of the Manager. Following the settlement of this transaction, Mr. Ruggiero is interested in 165,336 Ordinary Shares, representing approximately 0.27% of the issued Ordinary Shares.

17. Related party transactions and other material contracts (continued)

Ordinary Shares held by related parties

Shareholdings in the Company by the Directors as at the year end were as follows:

Name	Ordinary Shares 31 December 2020[1]	Percentage of Ordinary Shares in Issue 31 December2020[2]	Ordinary Shares 31 December 2019[1]	Percentage of Ordinary Shares in Issue 31 December 2019[2]
Neal Wilson	**1,516,381**	**2.480%**	1,408,070	2.19%
Joanna Dentskevich	**49,548**	**0.081%**	49,548	0.05%
Nick Watkins	**3,000**	**0.005%**	3,000	0.00%

The Manager did not own any Ordinary Shares as at 31 December 2020 (31 December 2019: nil). Ordinary shares previously held by the Manager have been allocated to EJF affiliates, including EJF Capital Limited. EJF Capital Limited owned 1,807,495 (2.96%) as of 31 December 2020 (31 December 2019: 565,774 (0.88%))

As at 31 December 2020, entities affiliated to Emanuel J. Friedman, chair and Co-CIO of EJF, held an aggregate of 11,816,558 Ordinary Shares, equal to 19.33%[2] of the issued Ordinary Shares (31 December 2019: 11,552,344 Ordinary Shares, equal to 18.00%[2] of the issued Ordinary Shares).

1 The Directors' holdings of Ordinary Shares are either direct and/or indirect holdings of Ordinary Shares in the Company

2 The calculation of shareholding % is based on number of Ordinary Shares in issue after adjusting for treasury shares

ZDP Shares held by related parties

On 24 June 2020, the Company announced that the following acquisitions of 2025 ZDP Shares took place under the related placing:

- The Manager acquired 716,445 2025 ZDP Shares at an average price of 100 pence per share;
- Neal Wilson, the Chief Executive Officer of the Manager, acquired 1,000,000 2025 ZDP Shares at a price of 100 pence per share through the Placing;
- Joanna Dentskevich, Chair of the Board of the Company, acquired 30,000 2025 ZDP Shares at a price of 100 pence per share; and
- Nick Watkins, a Non-Executive Director of the Company, acquired 10,000 2025 ZDP Shares at a price of 100 pence per share.

Between 10 August and 25 September 2020 the Company announced that Neal Wilson sold all his 375,000 2022 ZDP shares at an average price of 115 pence per share. Neal Wilson does not hold any 2022 ZDP shares but holds 1,000,000 2025 ZDP shares issued in July 2020, which are subordinate in priority to the 2022 ZDP shares, representing approximately 16.67% of the issued 2025 ZDP shares.

ZDP shareholdings in the Company by the Directors as at year end were:

Name	2025 ZDP Shares 31 December 2020	Percentage of ZDP 2025 Shares in Issue 31 December 2020	2025 ZDP Shares 31 December 2019	Percentage of ZDP 2025 Shares in Issue 31 December 2019
Neal Wilson	1,000,000	16.67%	–	–
Joanna Dentskevich	30,000	0.50%	–	–
Nick Watkins	10,000	0.17%	–	–

Name	2022 ZDP Shares 31 December 2020	Percentage of ZDP 2022 Shares in Issue 31 December 2020	2022 ZDP Shares 31 December 2019	Percentage of ZDP 2022 Shares in Issue 31 December 2019
Neal Wilson	–	–	375,000	2.5%

The Manager owned no 2022 ZDP Shares and 716,445 2025 ZDP shares as at 31 December 2020 (31 December 2019: 375,000 2022 ZDP Shares).

Other material contracts

On 12 November 2019, the Company announced that with effect from 1 January 2020 the Manager voluntarily committed to absorb 80% of future ongoing operating expenses, aside from management and incentive fees, incurred by the Company until no earlier than 1 January 2021. For the year ended 31 December 2020, £1,161,981 (2019: £1,211,581) of operating expenses were offset by reimbursements from the Manager and are presented in the Statement of Comprehensive Income.

As at 31 December 2020, the Company had a receivable balance of £570,728 (31 December 2019: £563,525) from the Manager relating to the reimbursement of these operating expenses and is included in the balance due from the Manager on the Statement of Financial Position.

18. Basic and diluted (losses)/earnings per Ordinary Share

Basic (losses)/earnings per share is calculated by dividing the (losses)/earnings for the year by the weighted average number of Ordinary Shares in issue during the year.

The weighted average number of Ordinary Shares in issue is 61,740,143 (31 December 2019: 64,175,306).

The diluted (losses)/earnings per share is calculated by considering adjustments required to the earnings and weighted average number of shares for the effects of potential dilutive Ordinary Shares. The weighted average of the number of Ordinary Shares is adjusted for any convertible instruments. At 31 December 2020 and 31 December 2019, there were no convertible instruments that would have an impact on the weighted average number of Ordinary Shares.

19. Subsequent events

The Board has evaluated subsequent events for the Company through to 31 March 2021, the date the Audited Financial Statements are available to be issued, and other than those listed below, concluded that there are no material events that require disclosure or adjustment to the Audited Financial Statements.

Hedging Strategy

The Company previously adopted a hedging strategy whereby 100% of its US Dollar exposure was hedged against Sterling. As a result, the Company was required to hold significant levels of cash, including amounts already on margin as a buffer to protect against margin calls. The Board announced that, with effect from 15 February 2021, the Company would no longer hedge 100% of its US Dollar exposure and would enter into contracts to hedge only the final Sterling capital entitlement of its outstanding 2022 and 2025 ZDP Shares. The Board anticipates that the reduction in the hedging costs together with the release of the cash on hand for pipeline investments will positively contribute to the Company's overall investment returns. The hedged and unhedged proportions of US Dollar assets will be disclosed in the monthly factsheet. The Board will review the Company's hedging policy regularly and will communicate any material changes to the strategy in future.

Dividends

On 28 January 2020, the Company declared a final dividend of 2.675p per share in respect of the quarter ended 31 December 2020. The dividend was payable to shareholders on the register as at close of business on 5 February 2021, and the corresponding ex-dividend date was 4 February 2021. Payment was made on or about 26 February 2021.

Investments

Since period end, up to the date of this report, a further £1,177,382 had been called and invested into Seneca.

Ordinary Shares held by related parties

On 15 February 2021, the Company announced that Neal Wilson had purchased 35,476 Ordinary Shares on 12 February 2021 at a price of 126 pence per share in a private transaction. Following the settlement of this transaction, Neal Wilson is interested in 1,551,857 Ordinary Shares representing approximately 2.54% of the issued Ordinary Shares, and 1,000,000 2025 ZDP Shares, representing approximately 16.67% of the issued 2025 ZDP Shares.

On 19 February 2021, the Company announced that Joanna Dentskevich conditionally agreed to purchase 28,348 Ordinary Shares on 17 December 2020 at a price of 115 pence per share in a private transaction. Following the settlement of this transaction, Joanna Dentskevich is interested in 77,896 Ordinary Shares, representing approximately 0.13% of the issued Ordinary Shares, and 30,000 2025 ZDP Shares, representing approximately 0.50% of the issued 2025 ZDP Shares.

20. Reconciliation of IFRS to US GAAP

The Manager is a registered adviser with the SEC. To meet the requirements of Rule 206(4)-2 under the Investment Advisors Act 1940 (the "Custody Rule") the Audited Financial Statements of the Company have also been audited in accordance with US GAAS. As such, two independent Auditor's reports are included on pages 42 to 49, one under International Standards on Auditing as required by the Crown Dependencies Audit Rules and the other under US GAAS. Compliance with the Custody Rule also requires a reconciliation of the operating profit and net assets under IFRS to US GAAP.

The Company has been assessed to be an investment entity in accordance with IFRS 10 as well as an investment company in accordance with ASC 946. Hence, under both accounting frameworks, the Company does not need to consolidate its investment in EJFIH and instead has accounted for it at fair value through profit or loss.

The Directors have assessed the operating profit and NAV of the Company under both IFRS and US GAAP and have concluded that no material differences were identified and therefore no reconciliation has been presented in these Audited Financial Statements.

Under US GAAP, the Company is required to disclose its financial highlights and a schedule of investments.

Financial highlights

Financial highlights for the year ended 31 December 2020 are as follows:

NAV total return, since inception	
Beginning of year	64.53%
End of year	53.00%
Expense ratio to average NAV	
Expenses before incentive fees	2.34%
Expenses reimbursed by the Manager	(1.12 %)
Incentive fees	–
Expenses, including incentive fees	**1.22%**
Investment income	7.40%
Expenses	(2.34%)
Net investment income ratio	**5.06%**

Schedule of investments

31 December 2020 Investments in trading securities	Cost US$	Cost £	Fair Value £	% of NAV
Cayman Islands				
TR PFD INS NOTE 2017-2 – Equity Notes (Z Notes), 1,631,250	**1,648,053**	**1,272,936**	**1,234,324**	**1.23**
ATTN 2006-1X J 2% 06-10/05/2036 DFLT – Combination Notes, 10,074,040	**404,932**	**303,990**	**772,225**	**0.77**
ATTN 2007-3A F 9.532% 07-11/10/2042 DFLT – Class F Notes, 62,634,884	**–**	**–**	**–**	**–**
TBRNA 2006-6A C 06-05/12/2036 FRN DFLT – Class C Notes, 2,500,000	**1,563**	**1,166**	**–**	**–**
ATTN 2006-1A D 06-10/05/2036 FRN – Class D Notes, 11,000,000	**–**	**–**	**–**	**–**
KDIAK 2006-1A G 06-07/08/2037 FRN – Class G Notes, 49,500,000	**–**	**–**	**–**	**–**
KDIAK 2007-2A F 07-07/11/2042 FRN – Class F Notes, 43,000,000	**–**	**–**	**–**	**–**
TBRNA 2005-4A C3 0% 05-05/05/2036 – Class C-3 Notes, 35,000,000	**–**	**–**	**–**	**–**
TBRNA 2006-5A A3FV 06-05/08/2036 FRN – Class A-3 Notes, 35,000,000	**–**	**–**	**–**	**–**
Total Cayman Islands	**2,054,548**	**1,578,092**	**2,006,549**	**2.00**

Investments in private investment companies

United States				
EJF Investments LP – Shares, 122,851,798	**121,098,535**	**93,286,624**	**88,334,641**	**87.84**
Investment in Armadillo Finance FD LP	**6,658,377**	**4,617,322**	**1,929,640**	**1.92**
Investment in Armadillo Finance FD II LP	**1**	**1**	**123,730**	**0.12**
Seneca	**1,700,430**	**1,248,055**	**1,244,059**	**1.24**
Total United States	**129,457,343**	**99,152,002**	**91,632,070**	**91.12**

Investments in private operating company

United States				
EJF CDO manager LLC	**8,547,026**	**6,379,606**	**9,463,395**	**9.41**
Total United States	**8,547,026**	**6,379,606**	**9,463,395**	**9.41**

Derivatives

Forward currency contracts	Maturity	Fair Value £	% of NAV
Purchase £106.3m/sell US$142.1m	8 January 2021	2,323,977	2.31
Purchase £5.6m/sell US$7.5m	8 January 2021	154,512	0.15
Purchase £1.4m/sell US$2.0m	8 January 2021	3,748	0.00
Purchase £2.9m/sell US$4.0m	8 January 2021	51,549	0.05
Total Derivatives		**2,533,786**	**2.51**
Other net assets[1]		**18,515,599**	**18.41**
Total investments		**124,151,399**	**123.45**

1 Other net assets comprises the Subsidiary's cash and cash equivalents, cash and cash equivalents held as margin and other receivables

Refer to note 19 for further details on changes to the foreign exchange hedging after the year end.

Glossary of Terms

Term	Definition
ABS	Asset backed securities.
Adjusted NAV attributable to Ordinary Shares	Adjusted NAV attributable to Ordinary Shares is calculated as an amount equal to the NAV attributable to Ordinary Shares: (i) excluding any increases or decreases in NAV attributable to Ordinary Shares attributable to the issue or repurchase of any Ordinary Shares; (ii) adding back the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares; (iii) excluding the aggregate amount of dividends and distributions accrued but unpaid in respect of any Ordinary Shares; and (iv) excluding the amount of any accrued but unpaid Incentive Fees payable in relation to the NAV attributable to Ordinary Shares, in each case without double counting.
Administrator	BNP Paribas Securities Services S.C.A. Jersey Branch.
Admission	The Company's Ordinary Shares which were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on the 7th April 2017.
AGM	Annual general meeting.
AIC Code	The AIC Code of Corporate Governance.
AIF	An alternative investment fund, as defined in the AIFM Directive.
AIFM	An alternative investment fund manager, as defined in the AIFM Directive.
AIFMD or AIFM Directive	The Alternative Investment Fund Managers Directive 2011/61/EU.
Annual Report	Annual Report and Audited Financial Statements.
Annualised Dividend Yield	Has the meaning on page 92.
APM	Alternative performance measure. The calculation methodology and rationale for disclosing each of the APMs has been disclosed on pages 91 to 92.
Armadillo I	Armadillo Financial Fund LP.
Armadillo II	Armadillo Financial Fund II LP.
Armadillo Portfolio	A portfolio of high-yielding loans to US law firms engaged in mass tort litigation by way of the holding of limited partner interests in Armadillo I and Armadillo II.
Articles	The articles of association of the Company.
AUB	Atlantic Union Bank.
Auditor	KPMG LLP.
Brexit	Brexit is the withdrawal of the UK from the EU.
BNPP	BNP Paribas Securities Services S.C.A.
Board	The board of Directors of the Company.
Bridge Loan	An interest in a bridge loan to an affiliate of a publicly listed insurer.
CCAR	Comprehensive Capital Analysis and Review.
CDO	Collateralised debt obligation.
CDO securities	Bonds issued by Kodiak, Attentus, Taberna and Credit Suisse, which are unaffiliated third-party CDO sponsors.
CDO Manager	EJF CDO Manager LLC, a Delaware limited liability company.
CDD	Customer due diligence.
CDFI	Community Development Financial Institutions.
CFTC	US Commodities and Futures Trading Commission.
CLO	Collateralised loan obligation.
Companies Law	The Companies (Jersey) Law 1991, as amended.
Company or EJFI	EJF Investments Limited, a closed-ended investment company incorporated with limited liability in the Bailiwick of Jersey under the Companies Law on 20 October 2016 with registered number 122353.
Corporate Broker or Numis	Numis Securities Limited.
CPO	Commodity pool operator.
CTA	Commodity trading adviser.
Dodd-Frank	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
ECL	Expected credit loss.
EGM	Extraordinary general meeting.
EJF	EJF Capital LLC.
EJFIF	EJF Investments Funding Limited.
EJFIH	EJF Investments Holdings Limited.
EJF Risk Retention Securities	Has the meaning given to it in paragraph 5.1(a) of Part I: "The Company" of the Prospectus.
EJF Securitisations	EJF or EJF Affiliate-sponsored securitisations.
ESG	Environmental, social and governance.

Term	Definition
EU	The European Union.
FCA	Financial Conduct Authority.
FDIC	Federal Deposit Insurance Corporation.
Fed	US Federal Reserve.
FINS 2019-1	Financial Note Securitization 2019-1 Ltd.
FOMC	Federal Open Market Committee.
FRC	Financial Reporting Council.
FVTPL	Fair value through profit or loss.
General Partner	EJF Investments GP Inc., being general partner of the Partnership.
Group	Means the Company and its subsidiary.
High Watermark	High Watermark is calculated using the Adjusted NAV attributable to Ordinary Shares as determined on the last day of the latest previous Incentive Fee Period in respect of which an Incentive Fee was payable to the Manager.
IAS 32	Financial Instruments: Presentation.
IFRS	International Financial Reporting Standards as adopted by the European Union.
IFRS 8	IFRS 8 IFRS 8 Operating Segments.
IFRS 10	IFRS 10 Consolidated Financial Statements.
IFRS 12	IFRS 12 Disclosure of Interest in Other Entities.
IFRS 13	IFRS 13 Fair Value Measurement.
IFRS 17	IFRS 17 Insurance Contracts.
Incentive Fee	The incentive fee to which the Manager is entitled as described in the section entitled "Fees and Expenses" in Part IV: "Directors, the Manager and Administration" of the Prospectus.
Incentive Fee Period	Each 12-month period starting on 1 January and ending on 31 December in each calendar year.
Incentive Hurdle	Incentive hurdle is calculated using the Adjusted NAV attributable to Ordinary Shares on the date of Admission, and then the beginning NAV of each subsequent period, compounded annually (with effect from 31 December 2017) at a rate equal to an internal rate of return of 8% per annum.
Incentive Shares	The Ordinary Shares used to pay the Incentive Fee.
Interim Report	Interim Report and Unaudited Condensed Interim Financial Statements.
Investment Objective	The Company seeks to generate attractive risk adjusted returns for its shareholders by investing in opportunities created by regulatory and structural changes impacting the financial services sector. These opportunities are anticipated to include structured debt and equity, loans, bonds, preference shares, convertible notes and private equity, in both cash and synthetic formats, and may be issued by entities domiciled in the US, UK and Europe.
Investment Policy	The Company seeks to achieve its Investment Objective by pursuing a policy of investing in a diversified portfolio of investments that are derived from the changing financial services landscape.
Listing Rules	The listing rules made by the FCA under Part VI of the FSMA.
Lock-Up Deed	Has the meaning given to it in paragraph 11.6 of Part XIII: "Additional Information" of the Prospectus.
Management Agreement	The Amended and Restated Management Agreement dated 30 March 2017 between the Company, the Partnership, the General Partner, the Manager and EJF (as amended).
Manager	EJF Investments Manager LLC.
MAR	Market Abuse Regulations.
MDIs	Minority Depository Institutions.
MSRs	Mortgage servicing rights.
NAV per Ordinary Share	Has the meaning on page 91.
Net Asset Value or NAV	The NAV means the Company's assets less liabilities. The Company's assets and liabilities are valued in accordance with International Financial Reporting Standards as adopted by the European Union.
Ordinary Shares	The non-redeemable Ordinary Shares of no par value in the share capital of the Company which, for the avoidance of doubt, includes all classes of Ordinary Shares (denominated in such currency) as the Directors may determine in accordance with the Articles (and for the purposes of the Prospectus, the Ordinary Shares shall be denominated in Sterling) having the rights and subject to the restrictions set out in the Articles.
Ordinary Shareholders	The holder or one or more Ordinary Shares.
Ordinary Share Price	Closing price as the respective reporting date as published on the London Stock Exchange.
Partnership	EJF Investments LP (a Delaware limited partnership formed under the laws of the US state of Delaware).
Placing Programme	The placing programme of the Company of up to 150 million Ordinary Shares and/or C Shares and up to 75 million ZDP Shares.
Portfolio	The Company's and the Subsidiary's portfolio of investments from time to time.
PPP	Paycheck Protection Program.

Term	Definition
PIK	Payment in kind.
Preference Shares	Investment in TFINS 2017-2 depositor vehicle.
Principal Risks	Those risks, or a combination thereof, that are considered to materially threaten the Company's ability to meet its Investment Objective, solvency or liquidity.
Prospectus	The Company's prospectus dated 24 June 2019 and the supplementary prospectuses dated 19 December 2019 and 30 April 2019.
REIT	Real estate investment trust.
Risk Retention	Has the meaning given to it in Part II: "The Market Opportunity" of the Prospectus.
Risk Retention and Related Investments	Risk Retention Investments, together with investments in non-risk retention securities of EJF securitisations and other non-EJF sponsored securitisations.
Risk Retention Investments	Has the meaning given to it in paragraph 5.1(a) of Part I: "The Company" of the Prospectus.
SEC	US Securities and Exchange Commission.
Section 172 (1)	Section 172(1) of the UK Companies Act 2006.
Securitisation and Related Investments	Risk Retention and Related Investments, capital solutions and ABS investments and the CDO Manager.
Seneca	Seneca Base Offshore LP and Seneca EJFI Excess LP, being affiliates of Seneca Mortgage Servicing LLC, which is a residential mortgage servicer in the United States which is owned and controlled by EJF.
SFS	The Specialist Fund Segment of the London Stock Exchange.
SOFR	Secured overnight financing rate.
Specialty Finance Investments	Represent less liquid UK, European and US specialty finance investments such as (but not limited to): (i) growth equity capital to newly formed companies with scalable specialty finance platforms; (ii) secured and unsecured lending; (iii) investments collateralized by real estate and real estate related assets; and (iv) other illiquid, specialty finance investment opportunities.
Sterling or GBP or £	Pound sterling – the currency of the UK.
Subsidiaries	EJF Investments Holdings Limited and EJF Investments Funding Limited.
Subsidiary	EJF Investments Holdings Limited.
TALF	Term Asset-Backed Securities Loan Facility.
Target Dividend	The Company targeted an annual dividend of 10.7p per Ordinary Share for the financial year to 31 December 2020. The Target Dividend for the year ending 31 December 2021 is also 10.7p per Ordinary Share.
Target Investments	Investments that consist primarily of securitisation and related investments and specialty finance investments. Has the meaning given to it in Part I: "The Company" of the Prospectus.
Target Return	The Company targets an annual total return on NAV per Share of 8% to 10% per annum.
TFINS 2017-2	TruPS Financials Note Securitization 2017-2 Ltd.
TFINS 2018-1	TruPS Financials Note Securitization 2018-1 Ltd.
TFINS 2018-2	TruPS Financials Note Securitization 2018-2 Ltd.
TFINS 2019-1	TruPS Financials Note Securitization 2019-1 Ltd.
TFINS 2019-2	TruPS Financials Note Securitization 2019-2 Ltd.
TFINS 2020-1	TruPS Financials Note Securitization 2020-1 Ltd.
TFINS 2020-2	TruPS Financials Note Securitization 2020-2 Ltd.
Total Return	As defined on page 91.
TPINS	Insurance-backed TruPS CDO, Trust Preferred Insurance Note Securitization 2016-1.
TruPS	Trust preferred securities.
TruPS CDO Collateral	Has the meaning given in paragraph 3.3(d) in the section entitled "Risk Factors" in the Prospectus.
UK	United Kingdom.
UK Code	2018 UK Corporate Governance Code.
US	United States of America.
US$	United States Dollar.
US GAAS	Generally Accepted Auditing Standards applicable in the United States.
2022 ZDP Shares	The redeemable Zero Dividend Preference shares of no par value in the Company with a repayment date during November 2022 and bearing a gross redemption yield of 5.86%.
2025 ZDP Shares	The redeemable Zero Dividend Preference shares of no par value in the Company with a repayment date during June 2025 and bearing a gross redemption yield of 7.00%.
ZDP Shares	2022 ZDP Shares and 2025 ZDP Shares.
ZDP Shareholder	The holder of one or more ZDP Shares.
ZDP Share Price	Closing price as at the respective reporting date as published on the London Stock Exchange.

Alternative Performance Measures

NAV per Ordinary Share

NAV per Ordinary Share means an amount equal to, as at the relevant date, the NAV attributable to Ordinary Shares divided by the Ordinary Shares in issue as at such date.

Reason for use

Common industry performance benchmark for calculating the Total Return and Share Price (Discount)/Premium to NAV per Ordinary Share.

Recalculation

NAV per Ordinary Share is calculated as follows:

	31 December 2020	31 December 2019
Net Assets as per Statement of Financial Position	**£100,568,661**	£120,983,547
Number of Ordinary Shares in issue at year (excluding treasury shares)	**61,145,198**	64,175,306
NAV per Ordinary Share	**164p**	189p

Total Return

The increase in the NAV per Ordinary Share plus the total dividends paid per Ordinary Share during the period, with such dividends paid being re-invested at NAV, as a percentage of the NAV per share as at period end.

Reason for use

To provide transparency in the Company's performance and to help investors identify and monitor the compounded returns of the Company.

Recalculation

Total Return has been calculated using the following monthly returns and compounded as follows:

	From inception to 31 December 2020	2020	2019	2018	2017
Compounded monthly return					
January		**0.47%**	0.35%	8.28%	0.51%
February		**0.18%**	0.41%	0.70%	2.96%
March		**(13.57)%**	1.77%	0.12%	3.65%
April		**0.58%**	5.61%	2.70%	0.24%
May		**3.33%**	0.83%	2.10%	2.85%
June		**0.15%**	0.26%	1.62%	0.34%
July		**1.25%**	0.56%	0.50%	0.90%
August		**0.34%**	0.62%	2.39%	1.37%
September		**0.40%**	0.21%	0.08%	0.54%
October		**(0.73)%**	0.04%	0.32%	4.92%
November		**1.16%**	0.13%	0.22%	0.59%
December		**0.25%**	0.63%	(1.13)%	2.53%
Compounded monthly return	**52.98%**	**(7.02)%**	11.88%	19.08%	23.47%

Annualised Dividend Yield

Dividends declared in respect of the relevant period divided by the share price mid quote as at the end of the relevant period.

Reason for use

To measure the Company's distribution of dividends to the Company's Ordinary Shareholders relative to share price to allow comparability to other companies in the market.

Recalculation

Annualised Dividend Yield is calculated as follows:

	31 December 2020
Dividends declared and paid for the quarter ended 31 March 2020 (see note 13)	**2.675p**
Dividends declared and paid for the quarter ended 30 June 2020 (see note 13)	**2.675p**
Dividends declared and paid for the quarter ended 30 September 2020 (see note 13)	**2.675p**
Dividends declared for the quarter ended 31 December 2020 (see note 19)	**2.675p**
Total Dividends declared in respect of the year ended 31 December 2020	**10.700p**
Share price mid quote	**117.0p**
Annualised Dividend Yield	**9.1%**

	31 December 2019
Dividends declared and paid for the quarter ended 31 March 2019 (see note 13)	2.675p
Dividends declared and paid for the quarter ended 30 June 2019 (see note 13)	2.675p
Dividends declared and paid for the quarter ended 30 September 2019 (see note 13)	2.675p
Dividends declared for the quarter ended 31 December 2019 (see note 19)	2.675p
Total Dividends declared in respect of the year ended 31 December 2019	10.700p
Share price mid quote	171.0p
Annualised Dividend Yield	6.3%

Share Price Discount to NAV per Ordinary Share

Closing price as at such date as published on the London Stock Exchange divided by the NAV per Ordinary Share.

Reason for use

Common industry measure to understand the price of the Company's shares relative to its net asset valuation.

Recalculation

Share Price Discount to NAV per Ordinary Share is calculated as follows:

	31 December 2020	31 December 2019
Closing price as at 31 December as published on the London Stock Exchange	**117.0p**	171.0p
NAV per Ordinary Share	**164.0p**	189.0p
Share Price Discount to NAV Per Ordinary Share	**(28.7)%**	(9.5)%

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