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REGULATORY EVENT DRIVEN INVESTMENTS

[www.ejfi.com](http://www.ejfi.com)  
Ticker: EJFI LN

INVESTOR UPDATE  
SEPTEMBER 2018

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# Legal Disclaimer



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# EJF Investments - Regulatory Event-Driven Strategy



- **Seeking to benefit from strengthening of U.S. community banks**
  - Focus on subordinated debt of U.S. community banks and insurance companies
    - Conservative balance sheets, benefiting from rising interest rates and tax cuts
    - Regulatory driven M&A
      - Fuels early repayment of legacy debt
  - Exposure through equity stakes in EJF CDOs
    - CDO manager fee income boosts returns
  - Opportunistic investments sourced through industry relationships
  
- **Strongly performing portfolio generating stable, sustainable and attractive long-term cash flows**
  - Targeting 8%-10% pa<sup>1</sup>
  - Target dividends of 10p pa, equivalent to 5.5% yield on share price, paid quarterly<sup>1</sup>
  - NAV total returns of 35% since launch in April 2017
  
- **Admitted to Specialist Fund Segment of Main Market LSE in April 2017**
  - £111 million market cap, £15 million of ZDPs
  - Ongoing operating costs covered by manager until Jan 2019
  - Active pipeline of up to £100 million of investment opportunities<sup>1</sup>

1. The target returns and target dividend are targets only and not a profit forecast. There can be no assurance that the target returns and target dividend will be achieved and investors should place no reliance on such targets when making an investment decision. This information is intended to be illustrative only and is not designed to predict the future performance of the Company or its investment portfolio.

# EJF Capital LLC – Experienced Investors in Financial Services



- **EJF Capital LLC founded in 2005 by Emanuel Friedman and Neal Wilson**
  - SEC registered
  - Headquartered in Arlington, Virginia, with offices in London and Shanghai
- **\$6.7billion<sup>1</sup> of AUM focused on financial services sectors; additional \$3.1 billion of securitised AUM**
  - c.80 employees, including c. 30 investment professionals

## MANAGEMENT TEAM & INVESTMENT COMMITTEE



**Neal Wilson, CEO**

- Over 25 years of experience



**Emanuel Friedman, Chairman and Co-CIO**

- Over 40 years of experience



**Peter Stage, CFO**

- Over 23 years of experience



**Lindsay Sparacino, Co-CIO**

- Over 15 years of experience



**Hammad Khan, Senior Managing Director, Europe**

- Over 14 years of experience

1. Figure includes uncalled capital commitments. Total uncalled capital commitments across the firm are \$491.4 million. As pf 31 July 2018.

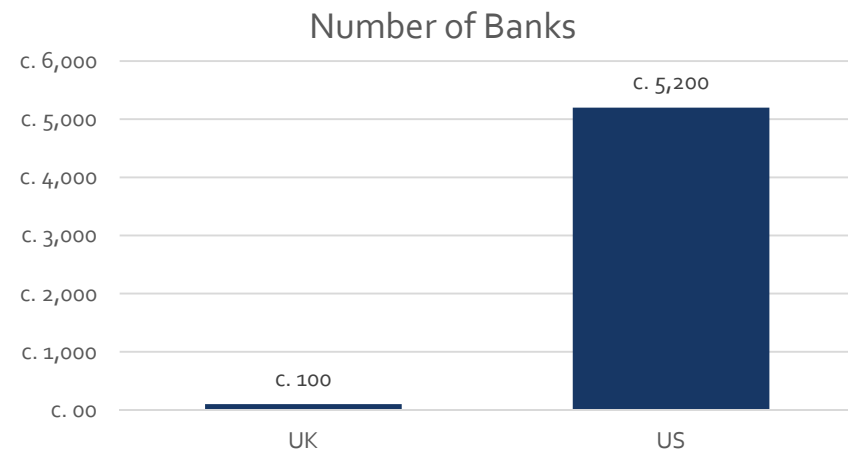
# What is a U.S. Community Bank?

- **Small banks supporting local communities**

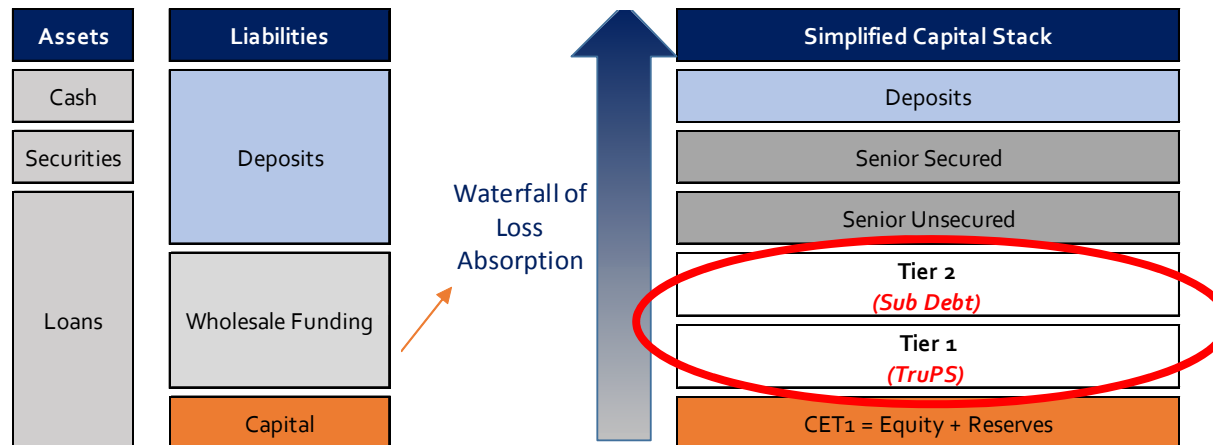
- c. 5,200 banks in the U.S.
  - Versus c. 100 banks in the UK
- 60% of assets in largest 13 U.S banks
  - But >\$4.5 trillion of assets in smaller banks

- **Target “Main Street” / Community Banks**

- \$200 million – \$10 billion assets
- Support for local lending
- Advantageous regulatory environment



## Sample Bank Balance Sheet

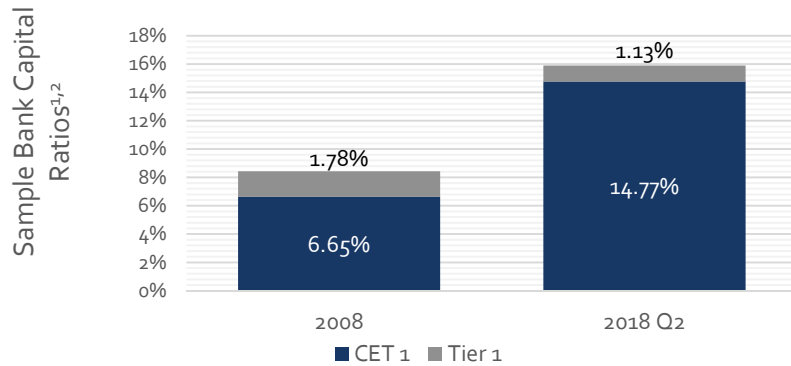


1. Figures and images listed above are not representative of any single bank or investment made by the Company, but are included for discussion and illustrative purposes only.

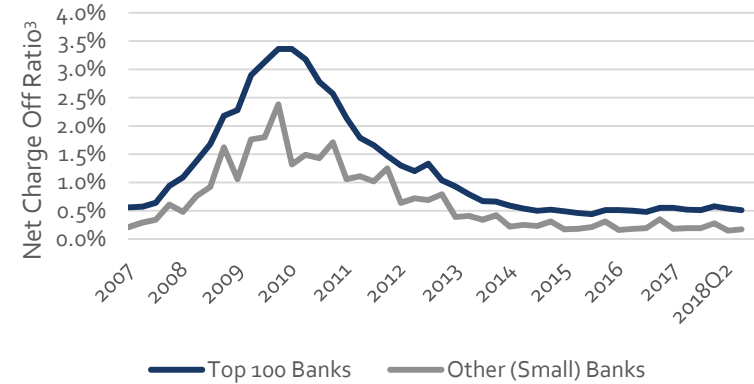
# Why Invest In U.S. Community Bank Debt?



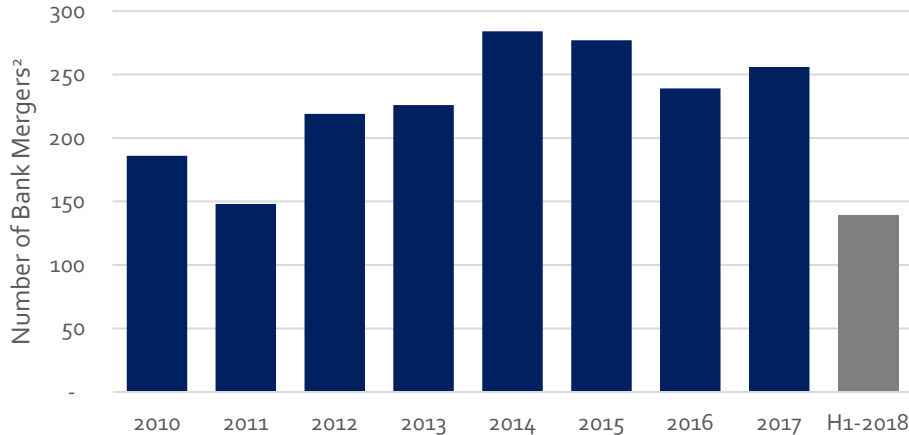
## Healthy Balance Sheets



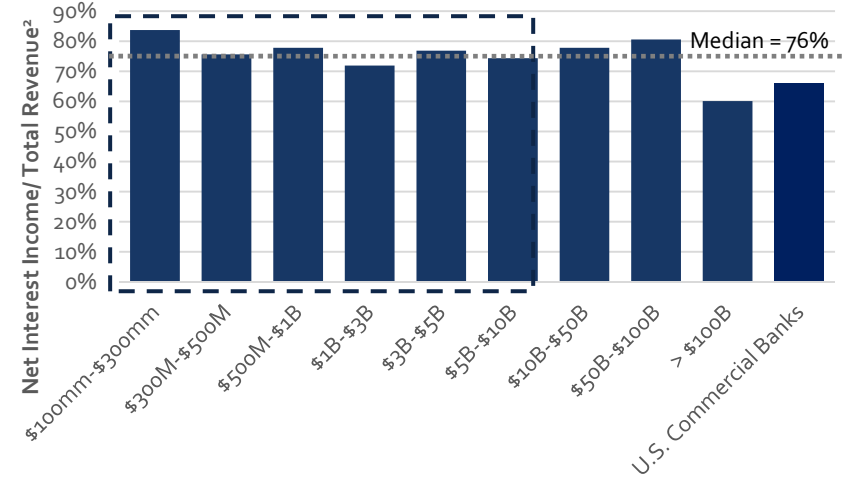
## Community Banks Resilient in Downturn



## Regulation Driving M&A – Fuels Debt Repayment



## Rising Interest Rates have Positive Impact on Profitability



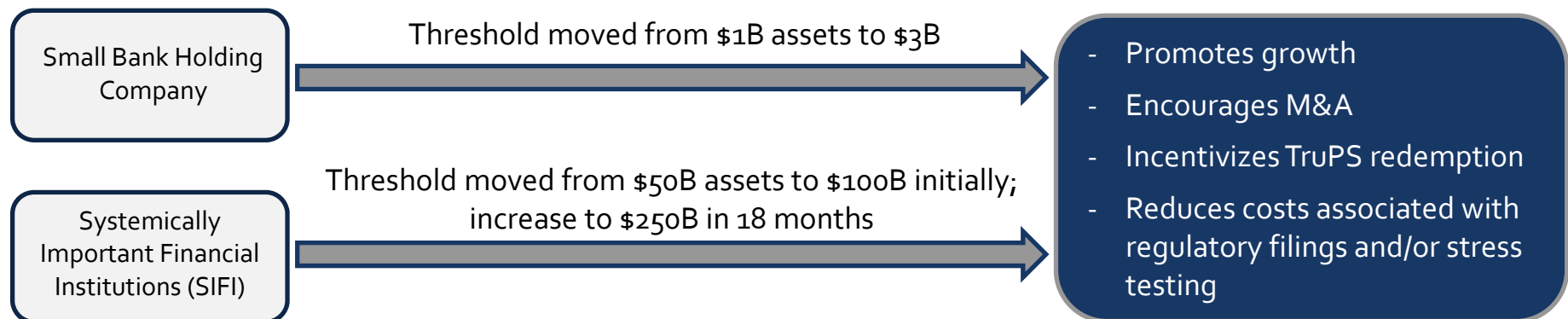
1. Based on the financial data of Carolina Financial Corp, one of the TruPS issuers in EJF sponsored securitisations. The Company has exposure to this credit in its risk retention portfolio.
2. Source: S&P Global Market Intelligence.
3. Source: Federal Reserve.

# Regulatory Change Driving Consolidation

- U.S. bank regulatory relief bill signed into law in May 2018
- Regulatory pendulum shifts away from Dodd Frank
- Clear regulatory drive to simplify rules to foster growth and consolidation in the U.S. banking industry

## Aggregate Effects

- Banks grow more rapidly both organically and through M&A
- Reduced cost of compliance enhances performance
- Equity valuation increases and cost of capital decreases
- Economics of prepaying and credit quality of TruPS improves

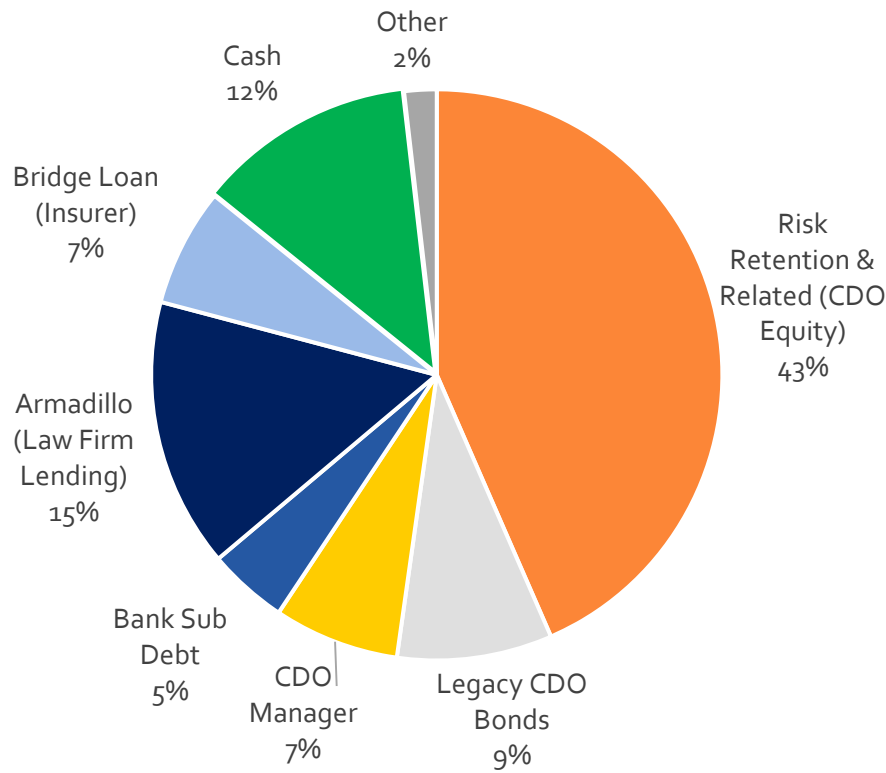




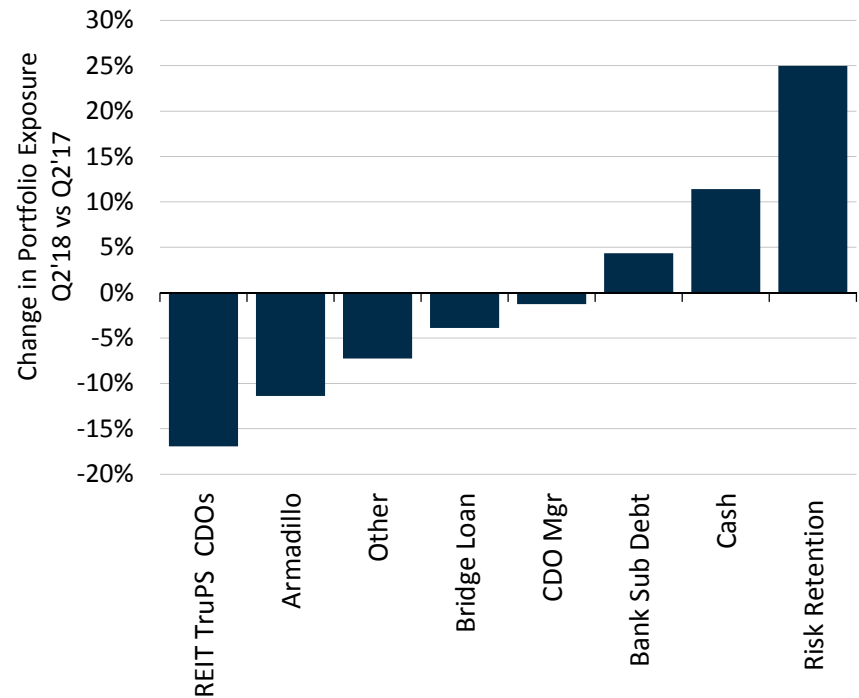
# Portfolio - Increasingly Focused on EJV Risk Retention Equity



**Assets as at 31 July 2018**



**Portfolio Evolution  
Focus on Risk Retention Equity Stakes**



Note: Cash position includes restricted cash which is related to the foreign currency hedges and net of the £6.2 million mark-to-market valuation of derivative open positions.

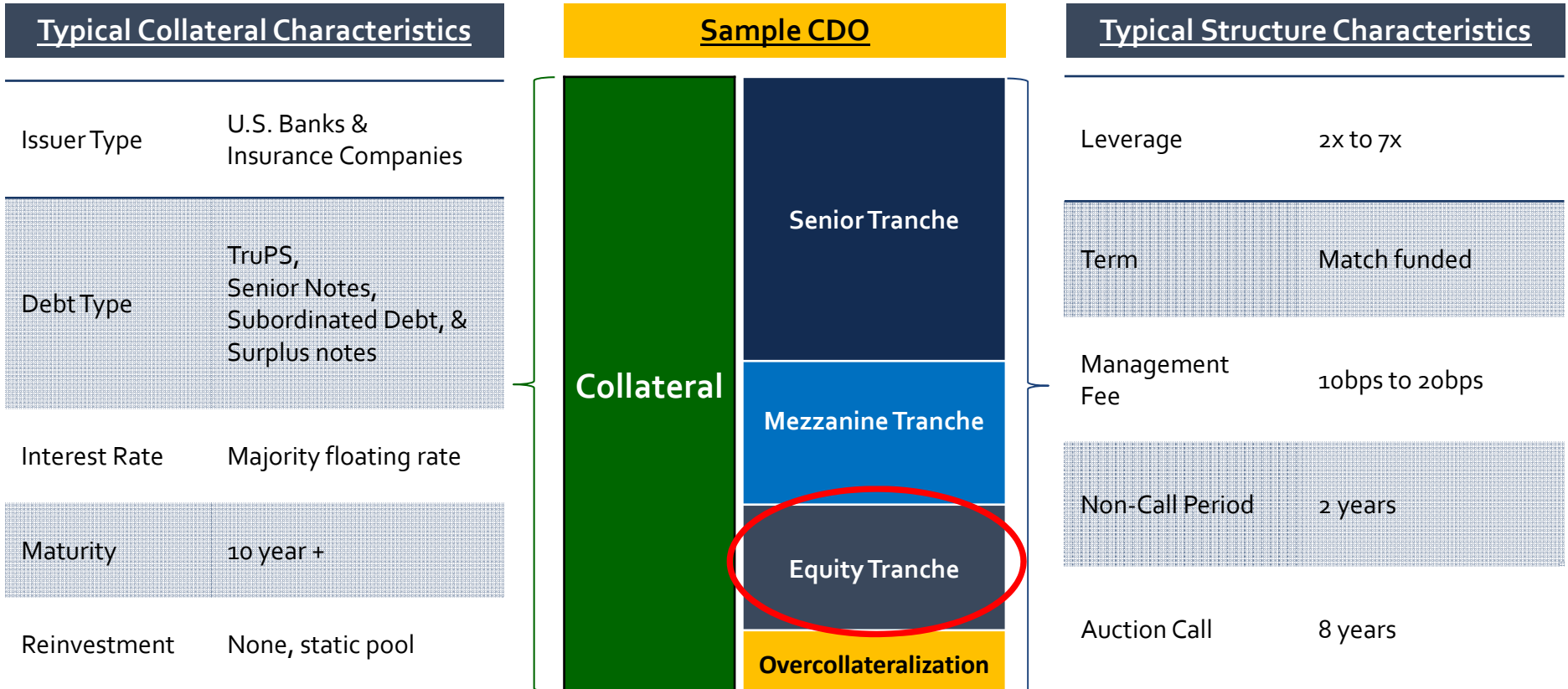
# CDO Equity Investments – Highlights



	TFINS 2017-1 March 2017	TFINS 2017-2 October 2017	TPINS 2016 Restructuring December 2017	TFINS 2018-1 May 2018
Collateral consists of TruPS, senior notes, subordinated notes and surplus notes issued by U.S. banks and insurance companies.				
<b>Collateral Overview (on closing date)</b>				
Collateral Principal Balance	\$360.0	\$353.0	\$327.2	\$537.8
WA Collateral Yield	L + 3.1%	L + 3.1%	L + 4.0%	L + 2.7%
Implied Rating	Baa3/Ba1	Ba1	Ba2	Baa3
<b>CDO Structure (on closing date)</b>				
WA Cost of Debt	L + 2.4%	L + 2.3%	L + 2.0%	L + 1.7%
Leverage Ratio	4.0X	4.3X	1.6X	6.7X
<b>Estimated Return Profile<sup>1</sup></b>				
EJFI - CDO Equity Amount (\$ millions)	\$20.1	\$14.5	\$13.4	\$22.7
Current Yield	10.5%	12.3%	9.5%	11.3%
Current Yield including CDO mgmt fee income	11.3%	13.1%	10.9%	12.3%
<b>IRR Range (YTM - YTC)</b>	<b>15% to 23%</b>	<b>13% to 16%</b>	<b>10% to 12%</b>	<b>11% to 13%</b>
<b>Other Key Terms</b>				
Non Call Date / Auction Call Date	April 2019 / April 2025	Sept 2019 / Sept 2025	April 2019 / April 2024	March 2020 / March 2026
Management Fee	10bps	10bps	20 bps	20 bps

1. Estimated returns are as of September 2018 and they may not reflect the required post closing 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. Any changes in cash flows can materially impact returns. There can be no assurances that the estimated returns will be realized 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.

# Sample CDO<sup>1</sup>



CDO equity tranche provides an attractive current yield with potential upside due to overcollateralization

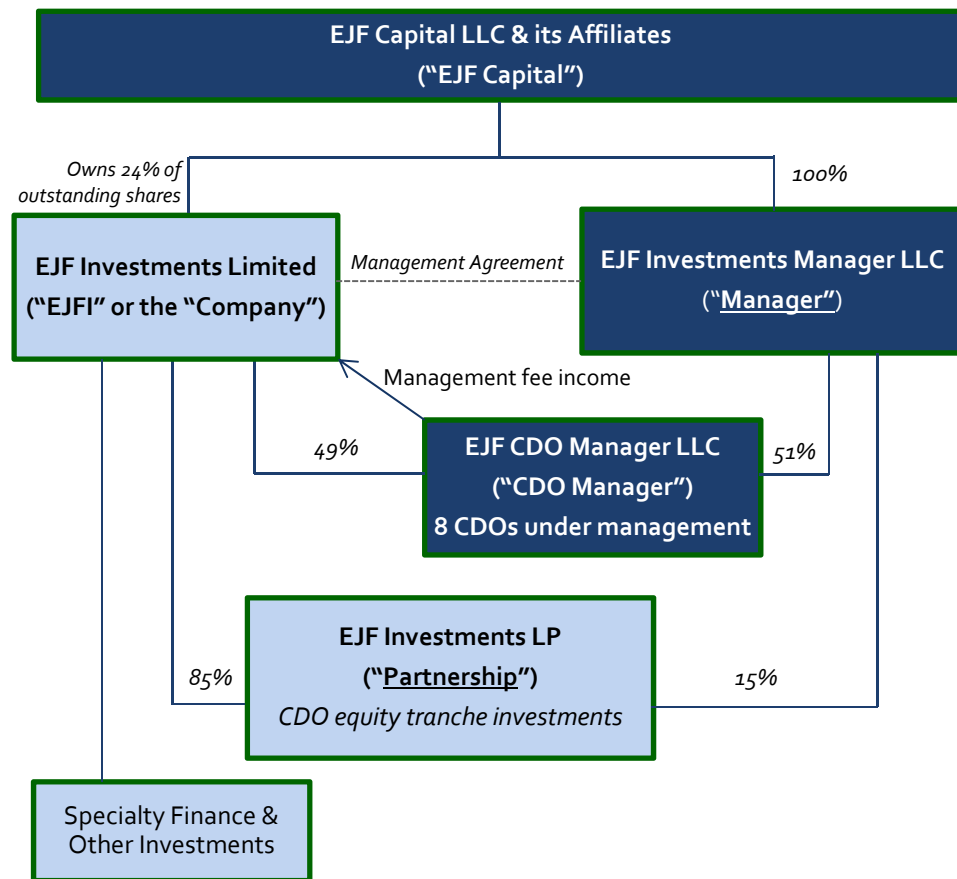
EJFI receives a portion of the collateral management fee through its subsidiary's 49% ownership interest in the CDO Manager

1. Illustrative capital structure for sample EJF Capital sponsored bank and insurance TruPS CDO transaction.

# CDO Manager – Fee Income Provides Additional Yield



- 7% of assets
  - DCF of expected cash flows
  - Uplift to NAV on origination of CDO
  
- Fee income stream from stake in CDO manager
  - 49% owned by EJFI
  - 51% by EJF Capital<sup>1</sup>
  - 10-20bps of gross CDO assets
  - Provides boost to EJFI’s CDO equity return
  
- 8 CDOs under management
  - £1.9 billion of collateral



1. Through EJF Investments Manager.  
 Note: parcel organizational structure excludes certain subsidiaries.

# Speciality Finance – Opportunistic Investments



## ▪ Armadillo – law firm lending strategy

- 15% of assets
- Portfolio of high rate loans to law firms engaged in mass tort litigation
  - 19.5% WA interest rate, 1.7% WA servicing fee, 2.0% WA discount<sup>1</sup>
- Mature litigation, lending after bellweather case establishes liability
- Specialist six person team in Houston
  - JV with EJF Capital
  - Issued more than \$450 million in loans since 2014
- Expect loan portfolio to run-off over next two years

## ▪ Insurer Bridge Loan– co-investment opportunity alongside EJF managed funds

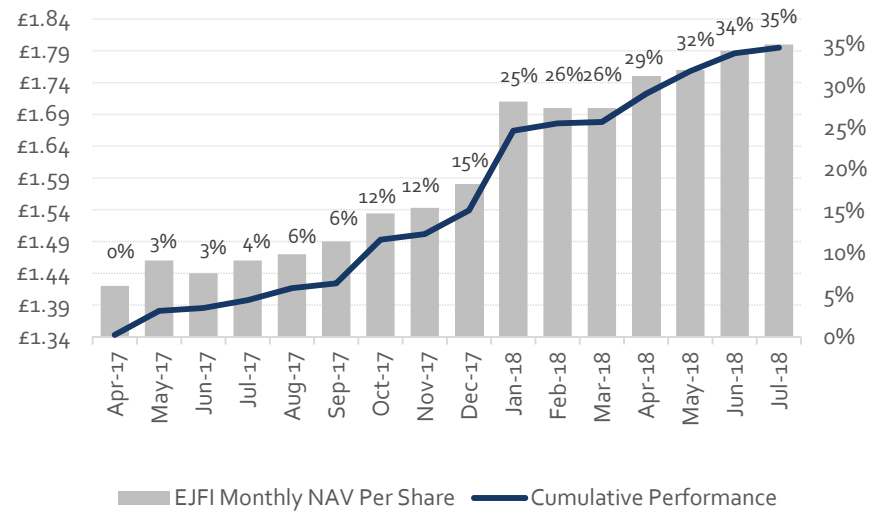
- 7% of assets
- Sourced through existing EJF Capital relationship
- Short-term liquidity need for monoline insurer
  - January 2020 maturity
- 14% interest rate (PIK or cash)
  - 3% commitment fee
- Secured against CDO assets

1. Reflects the weighted average characteristics of loans issued by only one of the Armadillo funds which the Company has invested in. Such characteristics do not include the results of actual collections, impairment reserves, or other events that may affect cash flows.

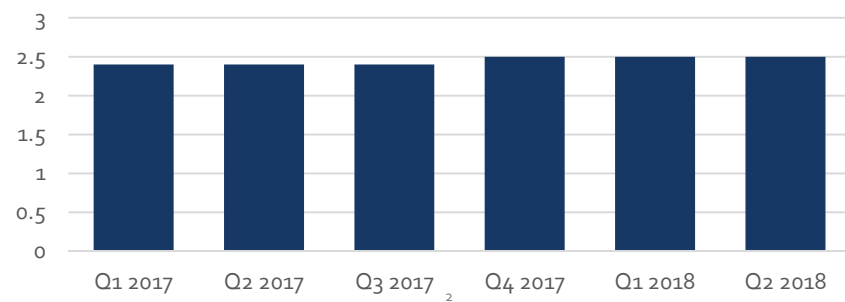
# Strong NAV Total Returns Since Launch

- **35% NAV total return since IPO in April 2017<sup>1</sup>**
  - Sale of legacy REIT TruPS CDOs
  - Crystallising value from asset acquired at deep discounts
  - Supported by yield on CDO equity and Specialty Finance investments
  
- **Target 8-10% pa total returns<sup>2</sup>**
  - Based on IPO NAV of £1.41
  - Equivalent to 6.3%-7.8% of current NAV
  
- **Dividend target 10p<sup>2</sup>**
  - 5.5% yield on share price
  - Paid quarterly

Monthly NAV Per Share Performance<sup>1</sup>



Quarterly Dividends



1. Cumulative Performance (total return) inclusive of dividends declared from April 2017 through July 2018.  
 2. The target returns and target dividend are targets only and not a profit forecast. There can be no assurance that the target returns and target dividend will be achieved and investors should place no reliance on such targets when making an investment decision. This information is intended to be illustrative only and is not designed to predict the future performance of the Company or its investment portfolio.

# Alignment of Interest



- **c.25% of EJFI share capital owned by Principals and affiliates of the Manager**
- **EJF Capital retains 15% stake in Partnership (risk retention vehicle)<sup>1</sup>**
  - 100% of equity issued by EJF Capital sponsored CDOs is owned by EJF Capital managed entities
- **Joint ownership of the CDO manager**
- **Costs**
  - EJF Capital covered all launch costs
  - EJF Capital covering ongoing operational costs until January 2019
- **Long term strategy to grow EJFI**
  - Broaden investor appeal
  - Strategic relationship through CDO origination flow and co-investment in CDO equity positions

1. Through EJF Investments Manager.

## Pipeline – Wide Opportunity Set



Investment Type	Description	Estimated Investment Amount
Securitisations and Related Investments	U.S. Bank and Insurance TruPS CDO Equity Investments*	£10 to £20 million
Securitisations and Related Investments	U.S. Bank and Insurance Sub Debt CDO Equity Investments*	£10 to £20 million
Securitisations and Related Investments	European Bank TruPS and Sub Debt CDO Equity Investments*	£10 to £20 million
Securitisations and Related Investments	Bank Subordinated Debt	£10 to £20 million
Securitisations and Related Investments	Legacy TruPS CDO Bonds	£1 to £10 million
Securitisations and Related Investments	Bank Capital Relief Trade	£5 to £10 million

*\*EJFI will also receive a portion of the associated collateral management fee through its 49% ownership interest in the CDO Manager*

### ▪ Other Opportunities

- Bank funding transactions
- European subordinated debt opportunities



- **EJF Investments offers:**

- Diversified pool of performing cash generative assets with bespoke characteristics united by a common regulatory theme
- High barriers to entry for competitors

- **Supportive Environment:**

- Improving macro-economic environment underpins the target investment set
- Favorable political and regulatory climate encouraging credit expansion and seeking corporate tax rate reduction

- **Excellent Heritage:**

- Strong managerial track record across all areas of target investments
- Demonstrable managerial expertise and ingenuity particularly in areas that are difficult to replicate

- **Alignment of Interests:**

- Principals and affiliates of the Manager own c. 25% of the outstanding shares in EJFI
- Principals of the Manager invested £3.9 million in the June 2017 equity placement
- EJF Capital, through the Manager, will hold not less than 15% of the Partnership (risk retention vehicle)

# Appendix

# Term Sheet



Listing/Currency	London Stock Exchange Main Market - Specialist Fund Segment / GBP
Structure	Jersey domiciled closed-ended investment company
Strategy	Focus on subordinated debt of US community banks, insurance and specialty finance
Manager	EJF Investments Manager LLC (the "Manager"), wholly owned by EJF Capital
Target Return	8-10% p.a. NAV total return inclusive of dividends <sup>1</sup>
Dividend	Dividend target 10p; 5.5% yield on current share price; paid quarterly
Management Fees	Fees: 1% pa of NAV; 10% of NAV total return over 8% pa compound hurdle (paid in stock)
Expenses	EJF Capital is absorbing recurring operating expenses through 1st January 2019
Discount Control	Share Buyback Authority with 5 year continuation vote (2022)
Size/Structure	Ordinary shares – £111 million market cap ZDP – £15 million issuance
NAV Reporting	Monthly

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# EJFI Board and Advisory Team



## Board Of Directors

### Joanna Dentskevich – Independent NED

- Joanna is an independent director for a number of investment companies and financial services businesses
- Joanna also has her own risk consultancy focusing on AIFMD risk management
- Joanna worked for nearly 20 years in investment banking in London and Asia where she was Director of Risk at Deutsche Bank and Morgan Stanley
- Joanna is a Chartered Member of the Chartered Institute of Securities & Investments

### Alan Dunphy – Independent NED

- Alan has over 18 years' experience in the offshore financial industry
- Alan is currently a director at LGL Trustees where he works on fund and corporate client structures
- Previously a Managing Director at Bennelong Asset Management
- Fellow of the Institute of Chartered Accountants in Ireland

### Nick Watkins – Independent NED

- Nick is a Jersey resident and a partner and director of Altair Partners
- Previously, Nick was Global Head of Transaction Management for Deutsche Bank's Alternative Fund Services Division
- Nick is a qualified solicitor in England and Wales and a member of the Jersey branch of Institute of Directors

### Neal Wilson - NED

- Neal is a co-founder and COO of EJF Capital with more than 25 years of capital market and asset management experience
- Previously ran the Alternative Asset Management and Wealth Management Groups at FBR & Co
- Previously a securities attorney with Dechert LLP and the U.S. Securities and Exchange Commission
- Neal serves on the board of Urban Exposure Finance Limited

## Advisers & Service Providers to EJF Investments Limited

**KPMG LLP** – Auditors

**PricewaterhouseCoopers LLP** - Tax

**Citigroup Global Markets, Ltd.** – Prime Brokerage

**Clifford Chance** – Legal (U.S. and UK)

**Carey Olsen** – Legal (Jersey)

**Numis Securities Limited** – Financial advisor and bookrunner

**Crestbridge** – Fund Administrator

**Computershare Limited** – Registrar

# TruPS CDO Equity Offers Strong Relative Value to Traditional CLOs



TruPS CDO <sup>(1)</sup>			Sample CLO <sup>(2)</sup>	
<ul style="list-style-type: none"> <li>Static pool with geographic diversification</li> <li>Pool of static assets allows "AA" and Mezz buyers to evaluate exact collateral</li> <li>Simple structure with significant excess cash flows</li> <li>Underlying securities often purchased at a discount to par value</li> </ul>		Structure		<ul style="list-style-type: none"> <li>Complex structure with multiple triggers</li> <li>4yr reinvestment period allows for significant changes to collateral base</li> <li>CLO 2.0 Equity NAV can be volatile due to underlying syndicated loan market</li> </ul>
<ul style="list-style-type: none"> <li>Discounted assets in a highly regulated industry</li> <li>Regulatory tailwinds benefitting underlying credits</li> <li>W.A. credit rating of c. BBB- / BB+</li> </ul>		Collateral Credit Quality	<ul style="list-style-type: none"> <li>Exposure to various industries such as energy, metals, mining and retail</li> <li>High yield spreads are near post-crisis lows</li> <li>W.A. credit rating of c. B+ / B</li> </ul>	
<ul style="list-style-type: none"> <li>Leverage of c. 2-7x D/E</li> <li>Equity tranche benefits from underlying securities pull to par</li> </ul>		Leverage	<ul style="list-style-type: none"> <li>Leverage of c. 9-10x D/E</li> <li>Increases exposure to credit market volatility</li> </ul>	
<ul style="list-style-type: none"> <li>Benefits from higher rates:                             <ul style="list-style-type: none"> <li>Credit Perspective (banks and insurance collateral)</li> <li>Return Perspective (collateral contributed to CDOs at a discount to par)</li> </ul> </li> </ul>		Interest Rates	<ul style="list-style-type: none"> <li>Consequence of higher rates:                             <ul style="list-style-type: none"> <li>Increases debt burden on underlying credits</li> </ul> </li> </ul>	

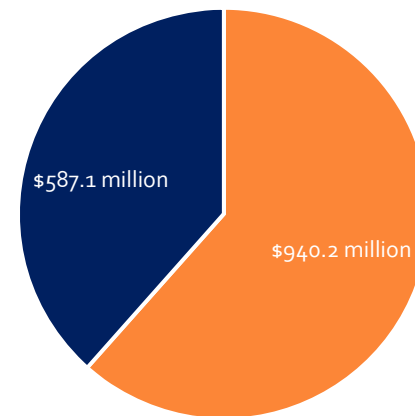
1. Illustrative capital structure for sample EJF Capital sponsored bank and insurance TruPS CDO transaction.

2. Illustrative structure of broadly syndicated loan ("Sample") CLO.

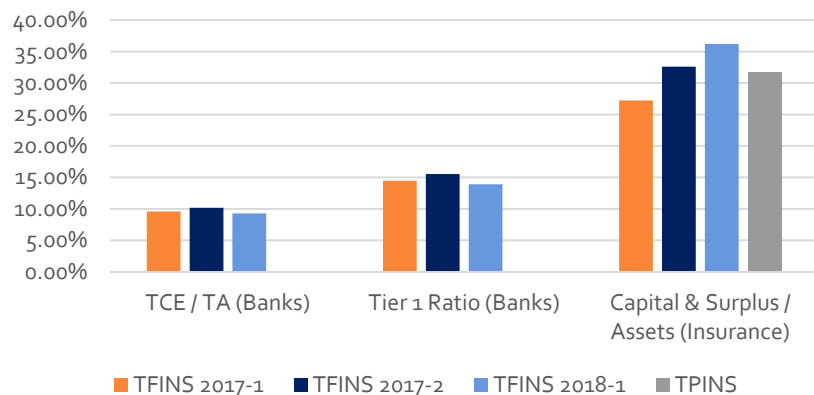
# Collateral Description<sup>1</sup>

	TFINS 2017-1	TFINS 2017-2	TPINS	TFINS 2018-1
# of Bank Issuers	48	29	-	62
# of Insurance Issuers	10	22	33	4
Total Issuers	58	51	33	66
TruPS / Subordinated Debt	98%	97%	90%	99%
Floating Rate	83%	90%	100%	93%
W.A. Asset Spread	3.19%	3.10%	3.99%	2.70%

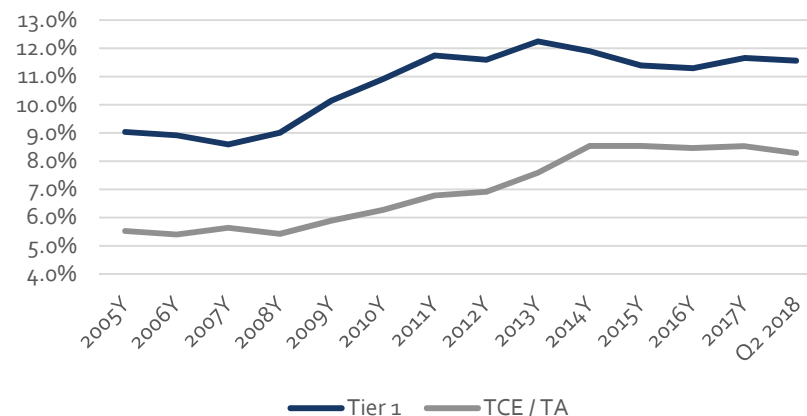
## Aggregate Collateral Composition



## Leverage Ratios (Bank & Insurance Issuers)

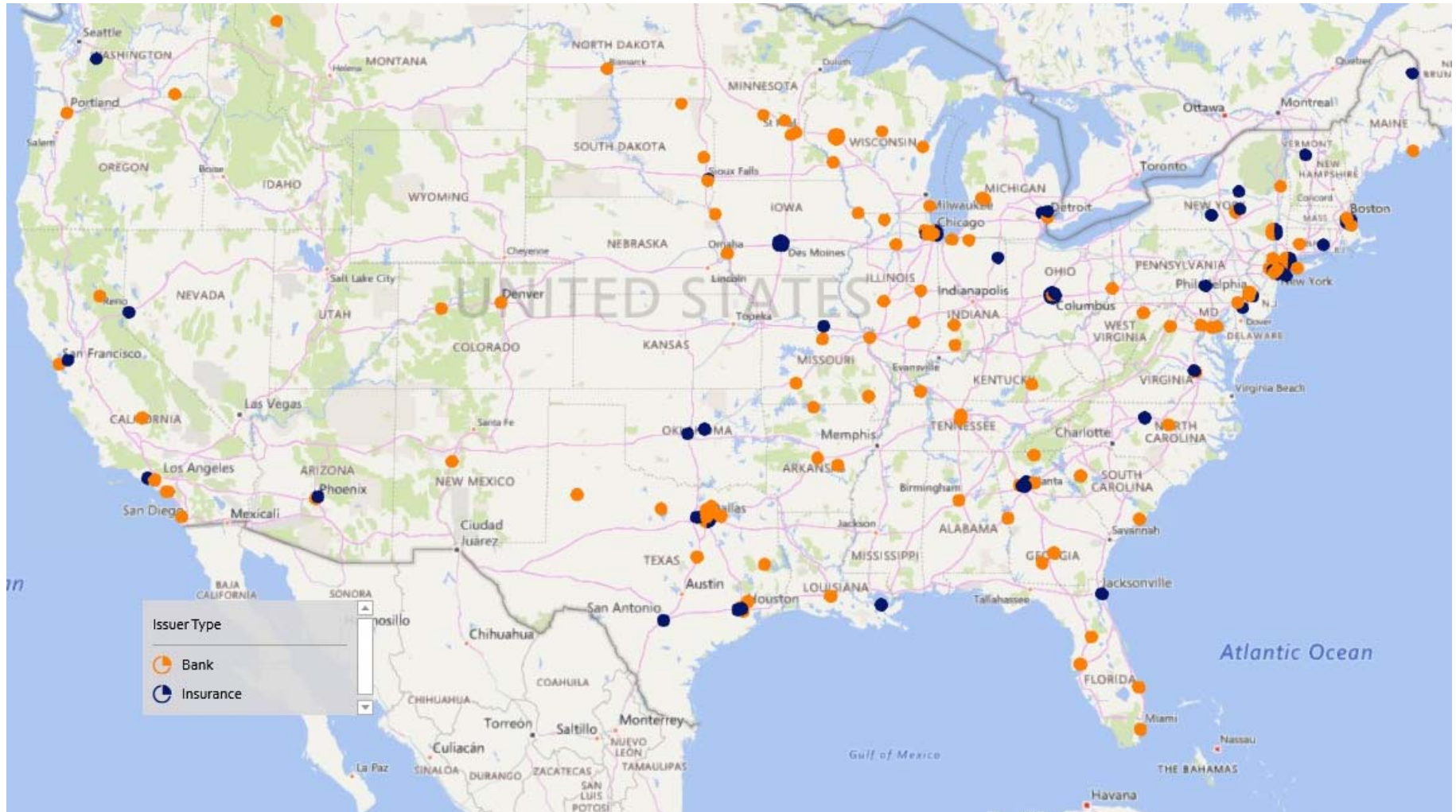


## Historical Leverage Ratios (Bank Issuers)



1. Based on the underlying collateral of TFINS 2017-1, TFINS 2017-2, TFINS 2018-1, and TPINS; underlying borrower information as of Q2 2018.

# Geographic Diversification of Underlying Collateral<sup>1</sup>



1. Based on the headquarters of the underlying issuers of TFINS 2017-1, TFINS 2017-2, TFINS 2018-1, and TPINS; as of the CDO closing date.