EJF Investments Manager LLC
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November 23, 2020

Vaccine Breakthroughs and An Election Victory for Biden (and Small Banks)

Dear EJFI Shareholders,

The spring of 2020 brought the world a pandemic and extreme market volatility and valuation declines as money center banks de-risked and investors prepared for a severe recession. As a predictable consequence, the equity and credit markets in financial related assets, alongside many others, violently legged downward, with the larger-cap KBW Nasdaq Bank Index (NASDAQ: BKX), as a point of reference, falling approximately 50% between January 1st and March 23rd, with most of that decline taking place in March.

November has so far provided a different and more hopeful narrative. On November 9th, Pfizer Inc. reported that its coronavirus vaccine had shown in trials to have over a 90% efficacy rate, and on November 16th Moderna, Inc. announced that its vaccine had shown a 94.5% efficacy rate. Following these announcements, on the 23rd November, AstraZeneca plc announced that its vaccine is up to 90% effective when a certain dosage is administered. These encouraging announcements have buoyed a market that had already reacted to unprecedented fiscal and monetary stimulus from the U.S. government, and an economic recovery that appears to be somewhat "V" shaped. Globally, we saw policy makers act swiftly with fiscal stimulus after the pandemic struck and economic lockdowns were imposed. U.S. policy makers acted with heft, putting in place remarkably large programs directed at individuals and small businesses (such as the Paycheck Protection Program); the estimated stimulus impact from the Coronavirus Aid, Relief, and Economic Security Act (the "CARES" Act) and its progeny is over $10 trillion[1].

November also brought a U.S. election result that was surprising as it was lauded as economically positive. Although it was largely expected that Joe Biden would win the Presidency, it was unexpected that the Republicans would have such a strong election, most likely holding the Senate majority and successfully defending every one of its party's House seats. The Republicans also picked up at least 12 new House seats from the Democrats, who now only hold a slim majority in the lower chamber. It is very unusual in American elections to have the winning Presidential candidate not bring along strong results for his party in the two chambers of Congress. We attribute this outcome (and the highest eligible voter participation in a presidential election since 1900) to the unique binary nature of voter reactions to President Trump.

The Senate outcome is the key as it portends a more moderate government and a certain status quo from a regulatory perspective for financial services companies. President-elect Biden's new Cabinet members must be approved by the Republican majority Senate. And any new legislative measures, such as corporate tax increases and expansive new government programs, must garner some meaningful Republican support. In the view of EJF Investments Manager LLC (the "Manager" to EJFI), this means that banks will not see much change in the regulatory environment in which they operate. We believe there will be only modest, if any, increases in

[1] Source: EJF estimates.

corporate taxes, and a Treasury secretary nominee, reportedly former Chair of the Federal Reserve Board, Janet Yellen, who is moderate in keeping with President-elect Biden's historic political predilections. Similarly, at the Federal Reserve, we anticipate very little change will occur as the term of the Chairman Jay Powell, a moderating influence, expires in 2022 and the term of the Federal Reserve's Vice Chair for Regulation, Randal Quarles, does not expire until October 2021. The "Goldilocks" election result -- a split decision and a split Congress -- portends stability and little change on the financial services front, both for banks and insurance companies. Perhaps one of the few changes President-elect Biden can make without Republican Senate approval is the replacement of the Director of the Consumer Finance Protection Bureau ("CFPB") with a more progressive-minded individual. We do not believe that policy changes at the CFPB will have a material impact on EJFI's small bank and insurance company portfolio.

In response to (1) the election results, (2) the vaccine development announcements, (3) the emerging shape of the economic recovery, and (4) the promise of future stimulus, the equity and credit markets in financial related assets have dramatically recovered. The BKX equity bank index, again as a point of reference, has moved up over 60% between March 23rd and November 20th, most of that recovery has been over the past two months, and in particular, November.

What does all this mean for EJFI shareholders? Underlying approximately 74% of EJFI's assets is debt issued by highly regulated United States small banks and approximately 26% is debt issued by highly regulated United States small insurance companies. From a credit perspective, we believe both asset types remain strong, a view that is reflected in the dramatic moves in the public equity valuations of small banks. The small banks in EJFI's portfolio are increasing tangible common equity amounts by an average of approximately 12.5% over the past year. In terms of credit quality, small banks came into the COVID-19 crisis with historically high equity levels – approximately 10.5% tangible common equity for the banks in EJFI's portfolio --- and loan losses since the beginning of the COVID-19 crisis have been shown to be materially lower (ranging between 1 and 5%) than initial expectations of 20 to 25%. **Further, no collateral position in small bank and insurance company debt in the EJFI portfolio has deferred an interest payment, defaulted or otherwise shown stress and thus EJFI did not suspend or reduce its dividend during any quarter since the COVID-19 crisis began**. Indeed, every portfolio bank has continued to make common dividend payments and even 6% have engaged in regulatory-approved buybacks of shares since the beginning of May. As such, we believe that small U.S. banks and insurance companies are coping with an unforeseeable, unprecedented real-world stress test far better than had been expected. We attribute this in large part due to regulatory mandated de-risking of their business models post the 2007-2008 Global Financial Crisis ("GFC") and significant M&A activity in recent years. These developments have been, and remain, key underpinnings of EJFI's investment strategy since the Company became public in April 2017.

In the view of the Manager, the market is now starting to price in stabilisation and a more positive outlook. We feel the current macro backdrop sets the stage for the beginning of the unwind of the COVID-19 trade (i.e. re-rotation into value and cyclical industries, such as banks and insurance). CMBS, CLOs, high-yield, and risk assets in general have started to tighten and we expect will further continue to do so. Financials have underperformed the broader markets since the onset of the COVID-19 crisis due, in part, to concerns that interest rates will remain very low, the yield curve will remain flat for an extended period of time and credit losses could be significant. While short term interest rates have been historically low, in the last few weeks we have seen a material move in the 10-year U.S. Treasury rate and we believe the long end of the yield curve could continue a move upward as liquidity and stimulus is pumped into the system and a sense of returning to normality dominates.

EJFI's exposure to small bank debt is through floating rate Trust Preferred Securities ("TruPS") and post-GFC issued fixed-to-floating rate subordinated debt. Spreads on the newly issued subordinated debt continues to tighten, which we believe could result in the resumption of very healthy and increasing prepayment activity of legacy debt, such as bank and insurance TruPS. With the recent rally in bank equities, positive vaccine news and recovery in business confidence, we also believe we could start to see a steady increase in small bank M&A activity, further contributing to prepayments and consequently yield pick-up and additional credit spread tightening. Indeed, M&A activity has resumed. For example, FirstCitizens BancShares, Inc. announced the acquisition of CIT Group Inc. in October to create a bank with assets over $100 billion, and PNC Financial Services Group, Inc. (NYSE: PNC) agreed to buy the U.S. banking subsidiary of the Spanish financial group Banco Bilbao Vizcaya Argentaria, S.A. (NYSE and MAD: BBVA) for a purchase price of $11.6 billion last week. We believe this is further evidence that we are trending back towards normality.

Given the NAV of EJFI at October 31 of 165p per share, the Manager believes that EJFI ordinary shares are a strong buy, paying an annualised dividend yield of greater than 9% at the current share price of 116p per share. The Manager also believes that EJFI's zero dividend preference shares offer a highly attractive risk reward profile. As of October 31st, EJFI's total assets covered the November 2022 ZDP (Ticker: EJFZ LN) final capital entitlement by greater than 6.2 times, and the June 2025 ZDP (Ticker: EJF0 LN) final capital entitlement by greater than 4.4 times.

While we continue to believe short term uncertainty will persist as further news on vaccinations emerge and the application of such vaccines to the broader populations is yet to be seen, we do believe we are past the worst of the crisis and a recovery is underway, with the aid of unprecedent amounts of stimulus, greater political stability and positive medical results from multiple vaccines. EJFI provides investors exposure to a sector we believe to be undervalued while being demonstrably very defensive and positioned to largely benefit from such recovery.

We believe that there are very few opportunities in the closed-end space to obtain stronger current yields given the level of risk required to obtain those yields. We would invite shareholders to review the many materials regarding EJFI on the company's website, www.ejfi.com.

Thank you for your continued confidence in EJFI.

Neal J. Wilson
Chief Executive Officer
EJF Investments Manager LLC