EJF Investments Ltd.

# EJF Investments Limited
# H1 2023 Results Presentation

2023

www.ejfi.com
Ticker: EJFI LN

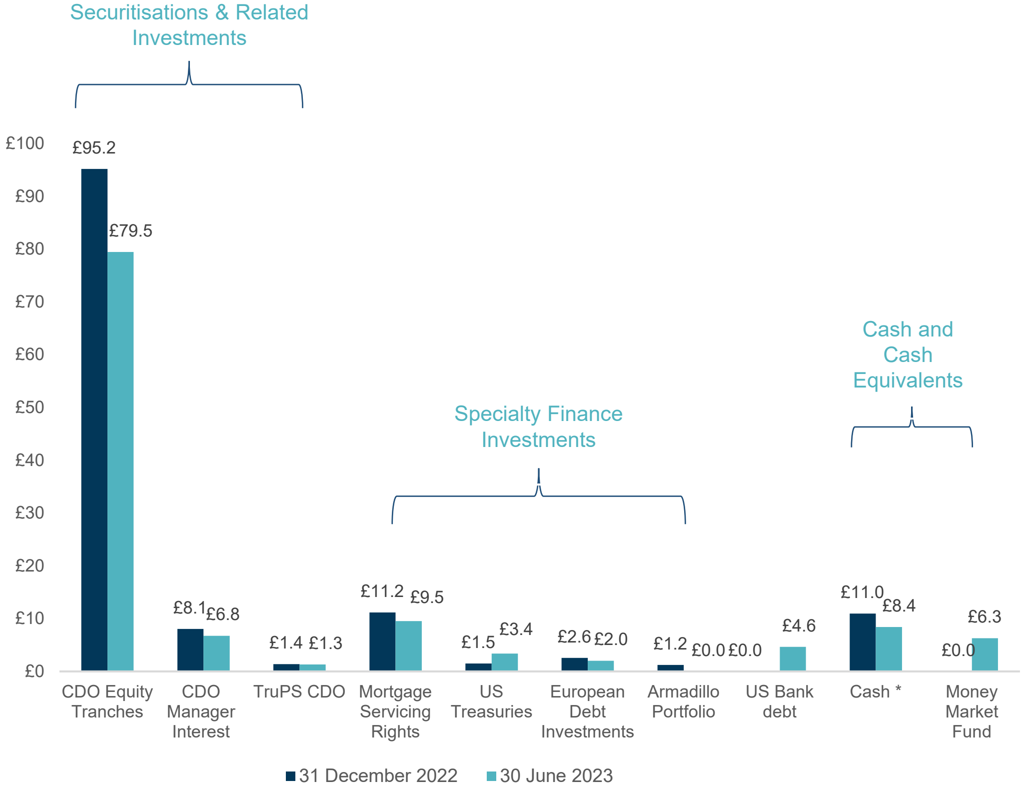
# Portfolio Summary

EJF Investments Limited ('EJFI' or the 'Company') primarily invests in a diversified portfolio of debt issued by smaller U.S. banks and insurance companies via CDO Equity Tranches, which are structured by an affiliate of EJF Capital LLC ('EJF').

EJFI also owns a 49% interest in the CDO Manager that manages CDOs generating regular income for the Company.

In addition, EJFI invests in specialty finance investments, including MSRs which provide regular income in exchange for servicing pools of U.S. mortgages.

The chart below provides a breakdown of the portfolio in £ million at 31 December 2022 and 30 June 2023.




*includes restricted cash

# Returns Profile

**Total Return for the Period**[1]
(9.57%)

**Total Return since Inception**[1]
74.86%

**Annualised Total Return since Inception**[1]
9.14%

[1]All figures are as at 30 June 2023. These are APMs as defined on pages 47 to 48 of the Interim Report.

# Valuation and Dividends

## Valuation

**Net Asset Value**
30 June 2023: £98.7m
31 December 2022: £112.5m

**NAV per ordinary share[1]**
30 June 2023: 162p
31 December 2022: 184p

**Share price discount to NAV per ordinary share[1]**
30 June 2023: 33.0%
31 December 2022: 28.3%

## Market View

**Ordinary Share price**
30 June 2023: 108.5p
31 December 2022: 132p

**2025 ZDP Share price**
30 June 2023: 118.0p
31 December 2022: 118.5p

**Market Capitalisation**
30 June 2023: £66.3m
31 December 2022: £80.7m

## Dividends

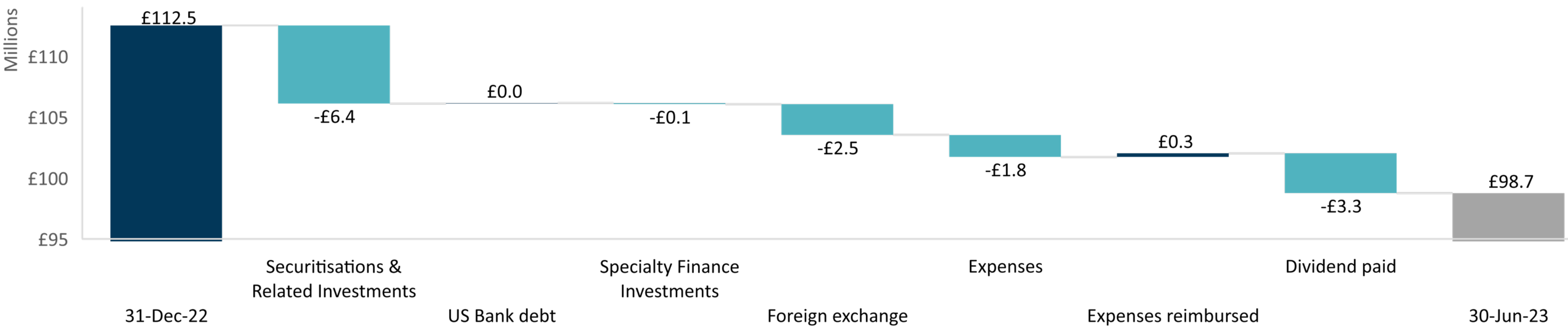
On course to pay Target Dividend of 10.7p for the year.

**Dividends Declared**
30 June 2023: 5.35p
30 June 2022: 5.35p

**Annualised Dividend Yield[1]**
30 June 2023: 9.86%
30 June 2022: 8.84%

[1]These are APMs as defined on pages 47 to 48 of the Interim Results.

# NAV Bridge - Gross and Net[1]




Of the above – CDO Equity Tranches generated a loss of £7.3m loss, whilst CDO Manager Interest and MSRs generated a gain of £0.4m and £0.2m respectively.


[1]Expenses and Expenses reimbursed allocated to each portfolio line above based on average fair value during the period.

# Significant Investment Exposures at 30 June 2023

**CDO Equity Tranches**
**£79.5m**

The investments into the equity tranches of **7** CDOs, via EJF Investments LP, provide the Company exposure to underlying collateral comprising **355** debt instruments issued by **160** US banks and **37** US insurance company unique issuers with a combined principal outstanding balance of **$1.89bn**.

**CDO Manager Interest**
**£6.8m**

Through its 49% interest in the CDO Manager, which currently manages **11** different CDO structures with an underlying AUM of **$3.2bn**, the Company receives regular streams of income that rank senior in the cashflow waterfall of these CDOs.

**Mortgage Servicing Rights**
**£9.5m**

MSRs are a stream of regular and predictable servicing income cashflows originally attached to US prime mortgages underwritten to Fannie Mae & Freddie Mac standards. The Company's investments in MSRs via Seneca, which is fully owned by EJF, services **5,745** mortgages with an unpaid balance of **$1.33bn**.

# Banking Turmoil in the First Half of 2023

**WHY THE FAILED BANKS WERE UNIQUE**

- **Silvergate Bank, Silicon Valley Bank, and Signature Bank** all had outsized exposures, if not focusing their entire business models, on serving the digital assets, venture-backed companies, or other technology-related industries.
- Silicon Valley (94%), Signature (90%), and **First Republic** (68%) were the major outliers in the banking industry for uninsured deposits at the end of the year, and Silvergate (89% in Q3'22) relied on uninsured deposits before seeing large outflows in Q4 2022.
- Silicon Valley and First Republic were some of the few banks with negative equity values if unrealised marks on held-to-maturity loans and securities were to be marked to fair value at the end of 2022.

**FDIC-ASSISTED DEALS**

- New York Community Bancorp (NYCB) acquired most of the remnants of Signature Bank on 20 March 2023, at a discount of $2.725bn, which led to a bargain purchase gain of $2.0bn and NYCB's tangible book value per share to increase an estimated 15%.
- First Citizens BancShares, Inc. (FCNCA) acquired the remnants of Silicon Valley Bank on 27 March 2023, at a discount of $16.45bn, which led to a bargain purchase gain of $9.82bn post-tax and FCNCA's tangible book value per share to increase an estimated 106%.
- JPMorgan Chase & Co. (JPM) acquired the remnants of First Republic Bank on 1 May 2023, at a discount of $7.4bn which led to a $2.6bn after-tax gain and small accretion to tangible book value per share.

**POTENTIAL REGULATORY CHANGES**

- The elimination of Accumulated Other Comprehensive Income (AOCI) opt-out of regulatory capital for some or all banks. Currently, banks under $700bn can remove AOCI changes from regulatory capital.
- Total Loss Absorbing Capital (TLAC) debt issuance to be required from larger banks under $700bn of assets.
- Increased liquidity coverage ratio requirements for banks in the digital age.
- Longer-term, but potential legislative changes to update Federal Deposit Insurance Corporation ('FDIC') insurance limits, which have been in place, including the possible "targeted" expansion for business operating payroll accounts.
- Overall, these potential regulatory changes are expected to strengthen the US banking sector and therefore seen as beneficial to EJFI considering its exposure to debt issued by smaller U.S. banks.

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- Silicon Valley and First Rep... with negative equity values if unrealized marks on held-to-maturity loans and sec... end of 2022.

Of the four banks, the Company's only exposure was to Silvergate which was equivalent to less than 2.5% of the then NAV, on a look through basis. A meaningful recovery is currently anticipated in due course.

**FDIC-ASSISTED DEAL...**

- N... Bank on 20 March 2023, at a ...ble book value per share to
- ... at a discount ... share to
- ...ount of $7.4bn

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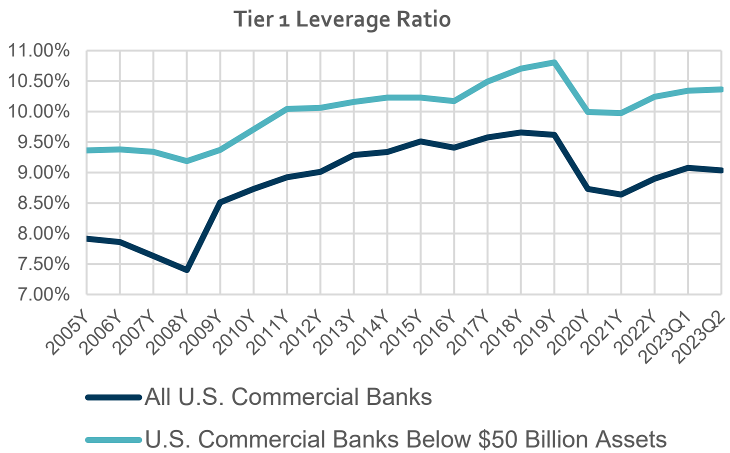
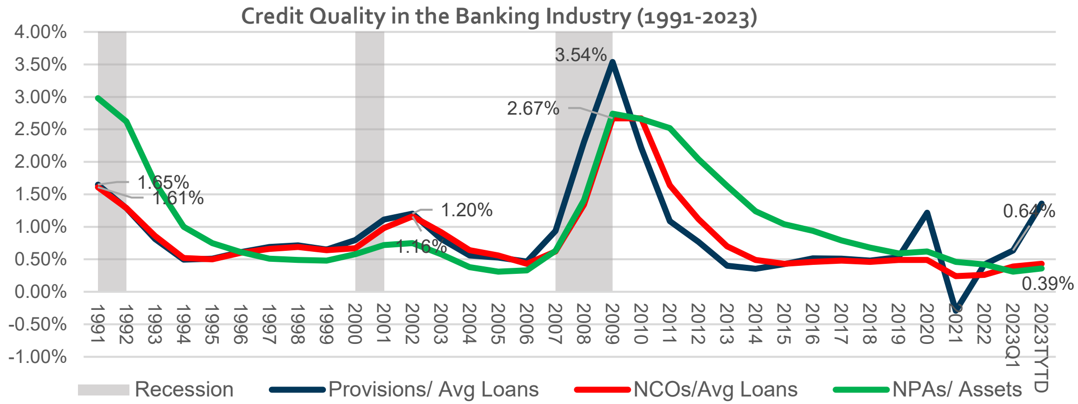
# Why invest in U.S. Community Banks

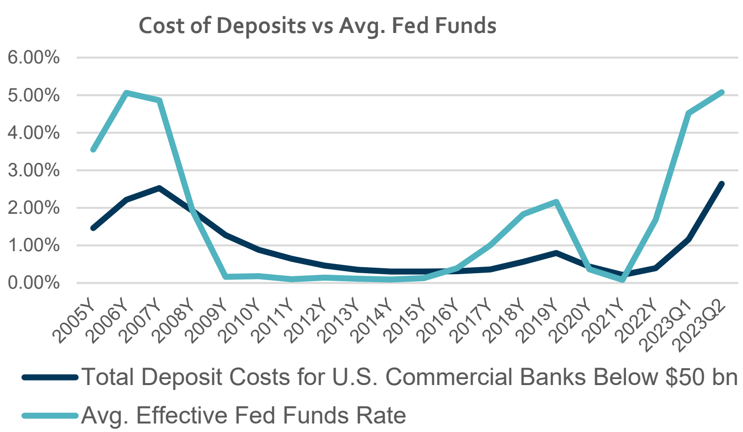
## Smaller Banks Have Greater Capital Ratios[1]



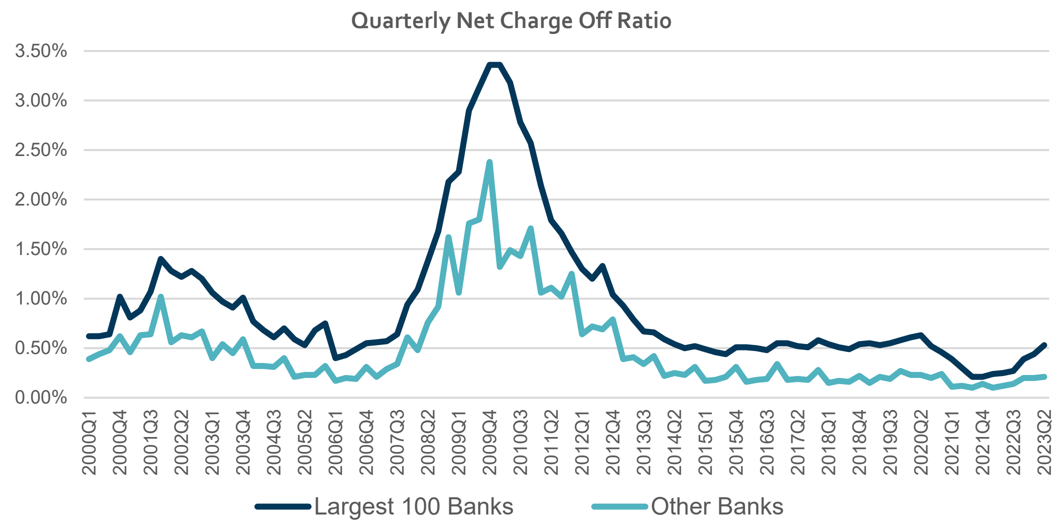

## Commercial Bank Credit Quality Remains Pristine[1]




## Banks Have the Deposit Funding Advantage During Higher Rates[1,2]

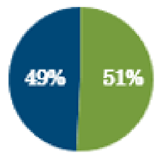
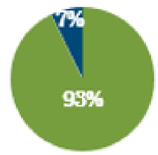
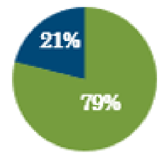
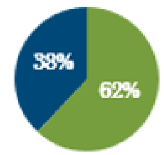
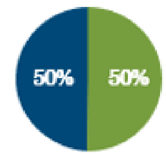
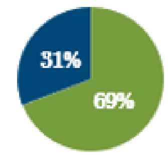
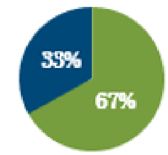



## Small Banks Outperform Large Banks on Credit Losses[3]




1. Source: S&P Capital IQ Pro.
2. Source: Bloomberg.
3. Source: Federal Reserve.

# CDO Equity Tranches at 30 June 2023

| | TFINS 2017-2<br>October 2017 | TFINS 2018-1<br>May 2018 | TFINS 2018-2<br>December 2018 | TFINS 2019-1<br>March 2019 | TFINS 2019-2<br>December 2019 | TFINS 2020-1<br>September 2020 | TFINS 2020-2<br>December 2020 |
|---|---|---|---|---|---|---|---|
| **Equity Tranches amount ($ million)** | 13.9 | 18.4 | 13.9 | 13.3 | 13.9 | 13.4 | 8.3 |
| **Estimated return profile[1]** | | | | | | | |
| Yield to Call[2] / Maturity (%) | 17.3 / 11.0 | 15.8 / 10.7 | 15.6 / 10.3 | 13.3 / 9.9 | 17.8 / 11.3 | 16.5 / 11.8 | 20.6 / 14.2 |
| Yield to Call[2] / Maturity including management fee income (%) | 17.5 / 11.2 | 16.5 / 11.1 | 16.3 / 10.9 | 13.9 / 10.4 | 18.5 / 11.8 | 17.3 / 12.4 | 21.7 / 15.3 |
| **Collateral overview** (on closing date) TruPS, senior, subordinated and surplus notes issued by US banks and insurers. Insurance companies, Banks |  |  |  |  |  |  |  |
| **CDO structure** | | | | | | | |
| Original collateral principal balance ($ million) | 353.0 | 537.8 | 351.0 | 313.9 | 338.4 | 282.9 | 177.2 |
| Initial implied rating[3] | Ba1 | Baa3 | Baa3 | Baa3 | Ba1 | Ba2 | Ba3 |
| Initial leverage ratio[4] | 4.3x | 6.7x | 5.7x | 4.6x | 5.8x | 4.5x | 5x |
| **Other key terms** | | | | | | | |
| Non call/Auction call | Passed/ Sept 2025 | Passed/ Mar 2026 | Passed/ Dec 2026 | Passed/ Feb 2026 | Passed/ Nov 2027 | Passed/ July 2028 | Passed/ Oct 2028 |
| Legal final deadline | Sept 2039 | Mar 2039 | Sept 2039 | Feb 2039 | Feb 2039 | Apr 2040 | Jul 2041 |
| Senior collateral management fee (bps) | 10 | 20 | 20 | 20 | 20 | 30 | 30 |

1. Estimated returns are as of 30 June 2023 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 on a rolling basis.
3. Implied Ratings are as of issuance by the engaged nationally recognised statistical rating organisation. Ratings are subject to change and may not reflect current creditworthiness of issuer.
4. Initial leverage ratio calculated as par value of debt tranches over par value of underlying collateral less par value of debt tranches.

# Recap, Events Post Interim Period End and Outlook

- **Update to the composition of the Board** of EJFI in line with corporate governance **best practices**.
- Events in first half of the year may be regarded as a **liquidity stress test of the system**, resulting in **limited failures** largely driven by idiosyncrasies, although some additional reverberations cannot be ruled out.
- Banking sector **share prices rallied materially in July 2023** as investors revisited the sector after better than feared second quarter earnings reports. **This demonstrated the resilience** of the U.S. banking sector following the events of March.
- **No recent failures** in the broader U.S. banking system.
- The announced sale of **PacWest Bancorp ("PACW") to Banc of California ("BANC") was favourably received** as a market solution supported by private equity firms Warburg Pincus and Centerbridge Partners.
- EJFI's combined **exposure to PacWest is equivalent to just over 4.5% of the Company's NAV on a look through basis**. The Manager see this merger as **positive news** considering the market rumours noted in the May 2023 monthly factsheet.
- The Manager believes that the **unrealised mark-to-market losses booked during the period are in the vast majority of cases likely to be temporary** and relate to a catchup of broader market sentiment and a recommencement of limited trading activity of illiquid assets post the U.S. banking market stress.
- The **unrealised mark-to-market gains on CDO Equity Tranches in July 2023 (as announced on 21 August 2023)** is consistent with the Manager's view of prior mark-to-market losses being temporary in nature.
- The Company's **insurance exposures are largely insulated** from the issues being faced by various banks.
- **Mortgage rates at a record levels in the U.S. favourably supports the MSRs** as lower prepayments are expected resulting in a service fee for a longer duration.
- The Manager believes that EJFI is well placed to take advantage of its **healthy cash balances**.
- Overall, the Manager believes that EJFI's **diversified portfolio provides** the conditions for **performance to improve over the remainder of the year**.

# Summary

## 74.86% Total Return[1] and 9.14% Annualised Total Return[1] since inception to June 2023

- **Risk Retention Vehicle:** Supports the $3.2bn securitisation platform of EJF.
- **Underlying exposure:** Exposure to a portfolio of loans to US financial institutions and related assets, with an emphasis on floating rate debt and with strong credit fundamentals.
- **Interest Rates:** Majority of the portfolio benefits from higher interest rates.
- **Regular Income:** EJFI receives regular income from the CDO Equity Traches, participates in 49% of the management fee stream from the CDO Manager Interest and receives regular service fee income from MSRs.
- **Consistent Dividends:** Consistent quarterly dividends paid, with no suspensions or reductions, totaling 10.7 pence per Ordinary Share per annum (9.86% Annualised Dividend Yield[1]).
- **Cost reimbursement:** 60% of the recurring operating expenses (other than management fees) reimbursed by the Manager.
- **Management team:** Highly experienced management team.

All figures are as at 30 June 2023. [1] These are APMs as defined on pages 47 to 48 of the Interim Report.

? Any Questions

# Appendix

# Banking Turmoil in the First Half of 2023

### Silvergate Capital Corporation ("SI") / Silvergate Bank:

- SI focused almost entirely on serving the digital asset industry. With the turmoil in the digital asset industry in the fourth quarter of 2022, Silvergate Bank saw customer-related deposits fall from $11.9bn to $3.8bn in just the fourth quarter of 2022.
- On 1 March 2023, SI filed a "NT 10-K" stating that the company did not have its Form 10-K ready to file in time and that the company sold additional debt securities in 2023 that could result in the company and bank subsidiary being less than well-capitalized. On the evening of 8 March 2023, SI announced its intent to wind down operations and voluntarily liquidate its bank subsidiary in a way that included the full repayment of all deposits.

### SVB Financial Group ("SIVB") / Silicon Valley Bank ("SVB"):

- SIVB primarily served customers in the technology and life sciences industries, particularly start-up and other early-stage companies. SIVB's 10-K in February 2023 showed large unrealized losses on both Available-for-Sale (AFS) and Held-to-Maturity (HTM) securities, and that SIVB would have negative tangible equity and capital if these losses were realized.
- On the morning of 10 March 2023, Silicon Valley Bank was closed by California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. In the press release, the FDIC stated that "Uninsured depositors will receive a receivership certificate for the remaining amount of their uninsured funds. As the FDIC sells the assets of Silicon Valley Bank, future dividend payments may be made to uninsured depositors. Per bank regulatory filings, approximately 94% of SVB's domestic deposits were uninsured deposits.

### Signature Bank ("SBNY"):

- SBNY was a more diversified commercial bank but did have deposit concentrations to the digital asset industry (20% of deposits at the end of 2022) and a lending concentration to venture capital and private equity firms (37% of loans), mainly in the form of capital call lines.
- Following SI's voluntary liquidation and SVB's failure with the FDIC press release noting that uninsured depositors would not get their money back immediately, SBNY saw a run on the bank on 10 March 2023.
- On the evening of 12 March 2023, SBNY was closed by the New York State Department of Financial Services, which appointed the, which appointed the FDIC as receiver.

### First Republic Bank ("FRC"):

- FRC operated in similar geographic areas of the country as SIVB and SBNY, with a focus on high-net-worth individuals and some exposure to venture capital and private equity firms and partners. Per bank regulatory flings, approximately 68% of FRC's deposits were uninsured deposits.
- On 24 April 2023, FRC reported first quarter earnings which showed the extent of the deposit declines. Deposits declined from $176.4bn at previous year-end to $104.5bn at the end of the first quarter of 2023, or $74.5bn excluding the large bank temporary deposits.
- On the morning of 1 May 2023, FRC was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC immediately entered into a purchase and assumption agreement with JPMorgan Chase Bank.

# Summary Unaudited Financials

| Income Statement | 1 January 2023 to 30 June 2023 | 1 January 2022 to 30 June 2022 |
|---|---:|---:|
| | £ million | £ million |
| Dividend Income from Subsidiary | 4.0 | 4.5 |
| Net (loss)/gain from Investment in Subsidiary | (13.0) | 8.1 |
| **Total Income** | **(9.0)** | **12.6** |
| | | |
| Investment Management fee | (0.5) | (0.5) |
| Other Operating Expenses | (0.5) | (0.4) |
| Expenses reimbursed by the Manager | 0.3 | 0.3 |
| **Net Operating Expenses** | **(0.7)** | **(0.6)** |
| | | |
| **Finance Costs** | **(0.8)** | **(0.9)** |
| | | |
| **(Loss) / Profit for the Period** | **(10.5)** | **11.0** |

# Summary Unaudited Financials

| Balance sheet | 30 June 2023 | 31 December 2022 |
|---|---|---|
| | £ million | £ million |
| Investment in Subsidiary | 121.7 | 132.0 |
| Cash at EJFI level | 0.3 | 0.4 |
| Other Assets | 0.4 | 0.4 |
| **Total Assets** | **122.4** | **132.7** |
| | | |
| ZDP shares | (23.2) | (19.7) |
| Other Liabilities | (0.5) | (0.5) |
| **Total Liabilities** | **(23.6)** | **(20.2)** |
| | | |
| **Net Assets** | **98.7** | **112.5** |

# Enquiries

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