Angel Oak
CAPITAL ADVISORS

Banking Sector Strength Amid Market Volatility

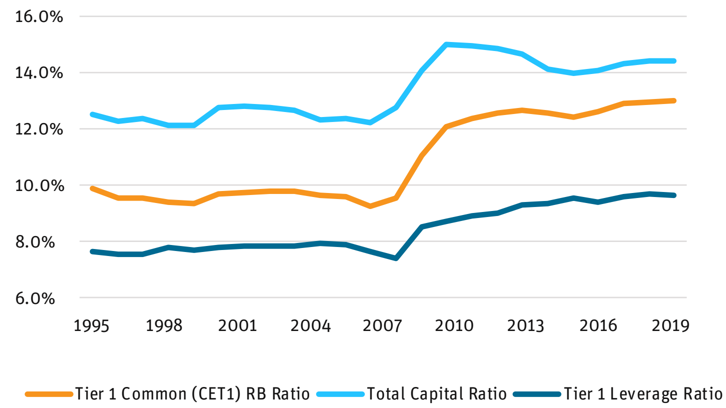
3/17/20

Market volatility has been far-reaching with the increasing spread of the coronavirus (COVID-19), with no asset class spared. The financial debt sector, the focus of the Angel Oak Financials Strategies Income Term Trust ("FINS"), has likewise experienced some pressure on pricing and spreads.

Angel Oak remains highly confident in the overall health and soundness of U.S. financials and the banking system in particular. Currently, approximately 80% of the Fund's portfolio is invested in well-capitalized banks. The capital, liquidity, and funding profiles of banks have improved vastly in the last decade on the back of increased regulations.

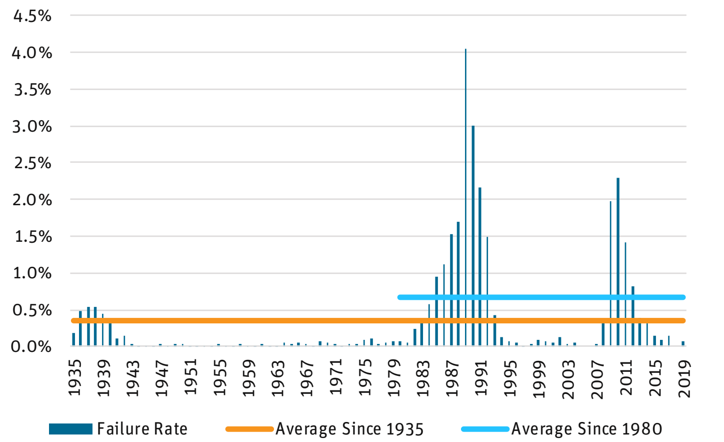
1. Capital ratios are at multi-decade highs for U.S. commercial banks, with common equity tier 1 (CET1) regulatory capital ratios up approximately 40% (to 13%, from a low of 9%). Tangible capital (tangible common equity/tangible assets) has doubled over the same time frame.
2. Liquidity at the banks has increased, helped by stronger regulatory requirements. We also note that from 2008 to 2011, total deposits grew in each annual period. Additionally, banks increased the quality of their funding: term deposit funding (i.e., CDs) declined from a peak of 30% to just 12% today, while low-cost core deposits (checking and savings accounts) have increased.
3. Credit quality: While it is difficult to determine the severity of the likely coming recession, we expect the impact to the banks will be less severe than the prior cycle, as banks have de-risked and de-levered over the past decade. Loan underwriting standards are stricter, and capital levels are higher.
4. Low default rates: Bank failure rates are low, with the vast majority of failures coming in smaller, private banks. Nearly 60% of bank failures are banks with less than $100 million in assets, and nearly 90% of all bank failures are banks with under $500 million in assets. Since 1980, the average annual default rate for the entire banking sector is 0.66%. Going back to 1935, the bank failure rate is just 0.36%.

BANK CAPITAL RATIOS



Source: S&P Global Market Intelligence as of 12/31/19.

COMMERCIAL BANK FAILURE RATE



Source: FDIC as of 12/31/19.

Additionally, with robust capital ratios and liquidity, we believe community-oriented banks are likely prepared to proactively assist small businesses and local consumers throughout this uncertain economic environment, aligning well with the ESG factors incorporated in our investment process.

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Portfolio Manager

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Investing involves risk; Principal loss is possible. An investment in the Fund includes, but is not limited to, risks and considerations related to: Industry Concentration Risk, Closed-End Fund Risk, Conflicts of Interest Risk, Convertible Securities Risk, Credit Risk, Derivatives Risk, Distributions Risk, Equity Risk, Extension Risk, Fixed Income Instruments Risk, Floating or Variable Rate Securities Risk, General Market Risk, High-Yield Securities Risk, Illiquid Securities Risk, Interest Rate Risk, International Securities Risk, Large Investors Risk, Leverage Risk, LIBOR Risk, Limited Investment Opportunities Risk, Limited Operating History Risk, Limited Term Risk, Liquidity and Valuation Risk, Management Risk, Market Discount Risk, Maturity and Duration Risk, Non-Diversification Risk, Portfolio Turnover Risk, Prepayment Risk, Rating Agencies Risk, Regulatory and Legal Risk, Repurchase Agreements Risk, Reverse Repurchase Agreements Risk, Registered Investment Companies Risk, Senior Debt, Subordinated Debt and Preferred Securities of Banks and Diversified Financial Companies Risk, Structured Products Risk, Trust Preferred Securities Risk, Uncertain Tax Treatment Risk, Unrated Securities Risk, U.S. Government Securities Risk, and other risks. For more information on these risks and other risks of the Fund, please see the Prospectus.

Please consider the Fund's investment objective and risks carefully before investing. The Fund may seek to enhance the level of the Fund's current income and capital appreciation potential through the use of leverage. Certain risks are associated with the use of leverage.

Tangible assets: Any asset that has a finite monetary value and usually a physical form.
Tangible common equity: Common equity listed on the balance sheet minus preferred stock and intangible assets.
Tier 1 Common Capital (CET1) RB Ratio: Measurement of a bank's core equity capital compared with its total risk-weighted asset that signifies a bank's financial strength.
Tier 1 Leverage Ratio: The relationship between a banking organization's core capital and its total assets.
Total Capital Ratio: The percentage of a bank's capital to its risk-weighted assets.

For more information, please contact your financial representative, or contact the Fund's secondary market servicing agent, Destra Capital Advisors LLC at 877.855.3434.

Opinions expressed are as of 3/17/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.