

STONE CASTLE

FINANCIAL CORP.

Annual Report

December 31, 2016



NASDAQ | BANX

stonecastle-financial.com

STONECASTLE FINANCIAL CORP.

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Letter To Shareholders

February 28, 2017

Dear Shareholders:

In November, 2016, StoneCastle Financial Corp. ("StoneCastle Financial" or the "Company") celebrated its third anniversary as a public company. In thinking back to the initial days of the IPO, we set out determined to provide shareholders with a Company focused on a long term strategy of investing in American community banks, producing a consistent and stable income stream, with a focus on strong credit quality. We are proud of our achievements over these last years, including our 2016 financial results.

At year-end, the share price of StoneCastle Financial closed at \$18.69, up nearly 24% for the year including dividend reinvestment and with a market capitalization of \$122 million. The Company had a dividend yield of approximately 8% and total cumulative distributions of \$5.25 per share since inception. Total assets reached \$205.9 million with 96% of total assets invested. The estimated annualized portfolio yield was 9.08%.

We believe the Company's success continues to be based on the exceptional work of our investment team in sourcing new deals to find value for shareholders.

As with all investments, timing is an important factor and we believe the timing is right to invest in the community bank sector. We believe our expertise in this sector, along with improving macro trends, potential for legislative relief in the regulatory environment and increasing steepness in the interest rate curve offer current and prospective shareholders a unique and timely opportunity to invest broadly into the community banking industry.

For example, banks are poised to see regulatory relief under the new administration, from both amendments and rollbacks of regulations. We believe U.S. banks could experience increased profits through reduced regulatory compliance costs, flexibility to expand into new lines of business and an increase in the pace of mergers (which also brings significant cost savings).

The new Administration has suggested a path of economic growth, fueled in part by significant spending on much needed infrastructure repair and expansion. Infrastructure requires mass amounts of goods and services, from heavy equipment and raw materials to engineering work and the transportation of goods.

An important secondary effect of this spending is the trickle-down effect to smaller businesses and local economies. Tens of thousands of local businesses provide the daily needs of food, goods and services sold to the very people working at the companies supplying the heavy equipment, raw materials and engineering for such infrastructure projects. As we have mentioned before, community banks are the likely beneficiaries from such economic stimulus, since they provide over 55% of all small business loans issued by banks across America.

Letter To Shareholders

Turning to the interest rate environment, most community banks could benefit from a steepening of the interest rate curve as lending rates (the interest earned on loans) increase faster than bank deposit costs. The difference between the loan rates and deposit rates is called “net-interest margins or NIM” and is comparable to gross profits for a bank. NIM tends to increase in higher interest rate environments, and the interest earned increases even more when the interest rate curve steepens, likely benefitting community banks.

Another point I would like to mention is consolidation. Most industry experts agree that timing is right for an increase in the pace of consolidation. A wave of mergers will continue to be driven by the intergenerational change of bank leadership, a direct result of aging management teams and boards of directors, especially at many smaller and family owned banks. This industry consolidation will fuel the growth of more successful banks and allow smaller bank investors an opportunity to exit at attractive prices.

Finally, community banks are not given enough credit for the tremendous impact they have on their communities and local economic development. It is not widely known that community banks are the exclusive financial institutions serving nearly 900 counties, representing 28% of all U.S. counties. They serve a geographically and socio-economic diverse client base and make a contribution to two important societal themes: financial access and financial inclusion. Community banks have a strong reputation for community service in support of the health and well-being of communities in which they operate.

Given these factors, we believe that StoneCastle Financial will continue to offer investors a unique opportunity unparalleled in the public markets and provide a societal good. We believe the combination of our long-term investment strategy, consistent and stable income stream and rigorous credit standards, positions StoneCastle to deliver sustainable value creation for our shareholders.

On the following pages, we provide additional details on our 2016 financial and operational results.

We appreciate your continued support and interest in StoneCastle Financial and its mission. We look forward to updating you on our progress throughout the year.

Sincerely,

Joshua S. Siegel
Chairman & CEO

About StoneCastle Financial Corp.

MANAGEMENT DISCUSSION AND SUMMARY

This report provides information on the financial performance for StoneCastle Financial Corp. ("StoneCastle Financial" or the "Company") for the year ended December 31, 2016. StoneCastle Financial (BANX) is a closed-end management investment company listed on the NASDAQ Global Select Market.

As of year-end, the Company had total assets of \$205.9 million, consisting of total portfolio investments of \$197.7 million and cash and other assets of \$8.2 million. The total portfolio investments consisted of 19.5% term loans, 4.4% debt securities, 20.3% trust preferred securities, 22.4% credit securitizations, 29.8% preferred stock, 1.7% common stock, and 1.9% in a limited partnership interest and short term investments.

For the full year, StoneCastle Financial had gross investment income of \$17.0 million and operating expenses net of waivers of \$6.9 million. This resulted in net investment income of \$10.2 million or \$1.56 per share based on average shares outstanding during the year. The Company had realized and unrealized losses of (\$3.2 million) or (\$0.50) per share. During the year, StoneCastle Financial declared distributions of \$1.46 per share.

Based on the fourth quarter 2016 dividend rate of \$0.37 per share and the closing price of \$18.69 per share on December 31, 2016, the year-end distribution yield was 7.92%. For the full year, an investment in StoneCastle Financial resulted in a total annual return of 24.45%, including the reinvestment of distributions based on the closing market prices of StoneCastle Financial's stock.

Net Asset Value at year end was \$21.22 per share, reflecting a decrease of \$0.40 from the prior year end. This was comprised of net investment income of \$1.56 per share, offset by net realized and unrealized losses of (\$0.50) per share, and distributions declared to shareholders of (\$1.46) per share.

To review the Company's change in NAV since inception, StoneCastle Financial's Initial Public Offering Price/Net Asset Value was \$23.49 in November 2013, net of initial sales charge and expenses. In 2014, the Company incurred secondary offering expenses of \$0.05 per share. Since inception, StoneCastle Financial net investment income of \$3.75 per share and incurred net realized and unrealized losses of (\$0.72) per share. We declared total distributions of \$5.25 per share, including a return of capital back to investors of \$1.87 per share. This results in a NAV of \$21.22 per share at year end 2016.

PORTFOLIO DISCUSSION

THE PORTFOLIO

StoneCastle Financial makes long-term, non-control investments in community banks seeking capital for organic growth, acquisitions, and share repurchases along with other investment opportunities. The Company primarily invests in senior debt and term loans, subordinated debt, credit securitizations, preferred securities and to a lesser extent, common stock.

About StoneCastle Financial Corp.

Over the course of 2016, StoneCastle Financial purchased securities totaling \$75.6 million, which consisted of 20 transactions. During the same period, the Company executed sales of \$13.2 million in 10 transactions. In addition, the Company received call (redemption) notices for 28 transactions totaling \$48.9 million for the year.

As of December 31, 2016, the Company had a total investment portfolio of \$197.7 million representing 96% of total assets and consisting of:

Investment Type	Amount
Term Loans	19.5%
Debt Securities	4.4%
Trust Preferred Securities	20.3%
Credit Securitizations	22.4%
Preferred Securities	29.8%
Common Stocks	1.7%
Limited Partnership Interest	0.5%
Short Term Investment	1.4%
Total Investments in Securities	<u>100.0%</u>

TERM LOANS

StoneCastle Financial purchased \$34.5 million of term loans in six transactions in 2016. At year-end, the Company held seven investments in term loans totaling \$38.5 million or 19.5% of total investments. The Company's largest holding in a term loan is \$13.0 million to Baraboo Bancorporation, Inc. in Wisconsin (Senior Secured Term Loan, 10.50%, 12/28/2026).

DEBT SECURITIES

StoneCastle Financial purchased \$3.0 million of debt securities in two transactions in 2016. At year-end, the Company held two debt security investments valued at \$8.7 million or 4.4% of total assets. The largest debt investment is \$5.7 million in MMCaps Funding I, Ltd. (Fixed Rate Senior Notes, 8.04%, 6/8/2031).

TRUST PREFERRED SECURITIES

At year-end, the Company held eight trust preferred investments totaling \$40.2 million, or 20.3% of the total investments. Trust preferred securities are debt securities that may qualify as capital for a bank or bank holding company.

While trust preferred securities may have been issued by both public and private banks, the securities held by the Company are typically more liquid securities, offered by large public banking institutions. The largest trust preferred investment is \$15.4 million in Amboy Capital Trust I, Trust Preferred Security, 9.00%, 7/29/2029, 144A.

About StoneCastle Financial Corp.

CREDIT SECURITIZATIONS

During the year, the Company added \$1.0 million to the U.S. Capital Funding I credit securitization. At year-end the Company held two positions in credit securitizations totaling \$44.3 million or 22.4% of total investments. The Community Funding CLO, Ltd. is the largest holding in this category valued at \$43.3 million. Community Funding CLO contains direct capital investments in 35 community and regional banks from 24 states. The estimated effective yield for Community Funding at inception was 10.49%.

PREFERRED SECURITIES

During 2016, StoneCastle Financial purchased \$37.0 million of preferred securities in 11 transactions. At year-end, the Company held 19 distinct investments in preferred securities totaling \$58.9 million, or 29.8% of total investments. The Company's largest holdings in preferred securities were \$11.8 million in Citizens Bancshares Company in Missouri (Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%); \$10.7 million in First United Corporation in Maryland (Floating Rate Non-Cumulative Preferred Stock, Series A, 9.00%); and \$10 million in Katahdin Bankshares Corporation in Maine (Floating Rate Non-Cumulative Preferred Stock, Series D, 8.75%).

A majority of these investments qualify for dividend received deduction (DRD) or qualified dividend income (QDI) tax treatment. For more details, please see the 2016 Tax Information posted on the StoneCastle Financial website (www.Stonecastle-Financial.com).

Please note that StoneCastle Financial is not a tax advisor and advises that shareholders consult a tax advisor regarding their personal tax status.

COMMON STOCK

At the end of 2016, the Company had two equity investments totaling \$3.3 million, or 1.7% of the total investments. Equity securities are typically held for capital appreciation, however, some positions may be held for both dividend income and capital appreciation. In addition, the Company may utilize certain exchange traded funds as short-term positions expected to be redeployed into higher yielding, long-term investments.

LIMITED PARTNERSHIP INTEREST & MONEY MARKET FUND

At year-end, StoneCastle Financial held an interest in Priam Capital Fund I, L.P, a holding company organized for the sole purpose of investing in First Mariner Bank in Baltimore, Maryland. This position was valued at \$896,500, or less than 0.5% of total investments. In addition, the Company utilizes The Morgan Stanley Institutional Liquidity Fund-Treasury Portfolio as a short-term position for cash to be redeployed into higher yielding, long-term investments.

About StoneCastle Financial Corp.

PORTFOLIO CONSIDERATIONS

StoneCastle Financial is steadfast in its pursuit of constructing a portfolio able to generate long-term, consistent and stable returns, primarily for income distribution and to a lesser extent, capital appreciation. The Company seeks to achieve this goal while maintaining high credit quality standards. At year end, the Company reported zero credit losses, zero impaired assets and no material deterioration of credit quality within the underlying portfolio. The Company also maintains an A3 rating from Moody's Investor Services on its revolving credit facility.

Among the factors that affect the timing of capital deployment are: (i) a bank's timeframe to obtain internal approvals to issue, (ii) the protracted nature of mergers and acquisitions, and (iii) an approval process from government regulators which must provide final regulatory approvals for a bank merger, capital issuances and capital redemptions (refinancing).

In the first quarter, 2016, the Company received notification that Chicago Shore Corporation, Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9% and Chicago Shore Corporation, Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9% elected to defer dividend payments as permitted by terms of their security. At year-end 2016, StoneCastle had a fair value investment of \$5.4 million in these positions. Under GAAP, income from an investment in a preferred stock deferring payments on a cumulative basis cannot be accrued. StoneCastle monitors the positions for accrued and compounded payments. At the time the bank resumes dividend payments, the bank will be required to pay all deferred payments and the compounded rate of return on the missed payments, along with the current dividend due.

INVESTMENT PROCESS

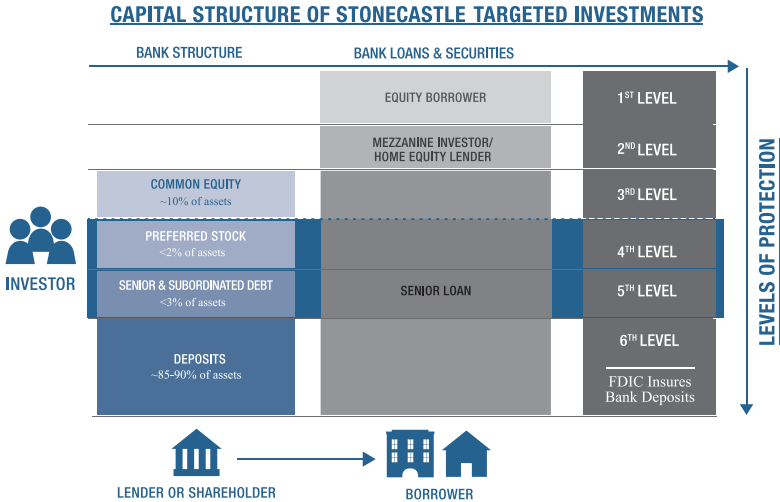
The Company conducts due diligence on pending investments in several phases, beginning with a preliminary screening and ending, in most cases, with an on-site management visit. The investment process includes both quantitative and qualitative reviews with investment decisions made by an investment committee with over 110 years of combined investment experience in the bank sector. The Company's disciplined approach to due diligence and commitment to credit quality reflects its long-term view. The Company believes shareholders have high regard for this dedicated and disciplined approach to portfolio construction, as we expect it will serve to provide predictable cash flows over an extended period of time.

INVESTMENT FOCUS

The following graphic helps to illustrate the range of investments StoneCastle typically pursues at a bank relative to a traditional bank's capital structure. A bank's capital structure includes subordinated debt, preferred stock and common equity. Bank holding company senior debt can also be absorbed at the bank level and become part of the bank's capital structure. As a lender, a bank makes senior and mezzanine loans to borrowers. A bank's common equity and loan loss reserves offer a capital buffer to absorb credit losses from bank loans. StoneCastle typically invests in securities that rank senior to the common equity of a bank. As investors in

About StoneCastle Financial Corp.

senior and subordinated debt, StoneCastle would only incur a credit loss if the bank's common equity plus loan loss reserves were exhausted.



Conclusion

We believe that StoneCastle Financial offers investors a unique opportunity to participate in the community banking industry.

The Company will continue to work diligently for our shareholders by prudently constructing an investment portfolio with the capital entrusted to us. As we work to deploy capital with a long-term view, credit quality and a rigorous investment approach are of paramount focus to our shareholders.

While StoneCastle Financial continued its solid progress in 2016, we look forward to our work ahead in pursuit of our goals.

We appreciate the feedback we receive from our shareholders. Thank you for your support of StoneCastle Financial Corp.

StoneCastle Financial Corp.

Schedule of Investments

As of December 31, 2016

Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Term Loans – 27.8%			
Banking – 27.8%			
Baraboo Bancorporation, Inc.	Senior Secured Term Loan, 10.50%, 12/28/2026	\$ 13,000,000	\$ 13,000,000
Community1st Bancorp	Subordinated Term Loan, 7.99%, 1/1/2026	\$ 5,000,000	5,000,000
First Colebrook Bancorp, Inc.	Subordinated Term Loan, 7.99%, 4/1/2026	\$ 5,000,000	5,000,000
Halbur Bancshares, Inc.	Subordinated Term Loan, 8.75%, 10/1/2026	\$ 3,000,000	3,000,000
Lincoln Park Bancorp	Subordinated Term Loan, 8.25%, 1/1/2026	\$ 5,000,000	5,000,000
MidWest Community Financial Corporation	Subordinated Term Loan, 7.25%, 1/1/2026	\$ 2,500,000	2,500,000
Midwest Regional Bank	Subordinated Term Loan, 8.625%, 1/1/2027	\$ 5,000,000	5,000,000
Total Term Loans (Cost \$38,500,000)			38,500,000
Debt Securities – 6.3%			
Banking – 6.3%			
MMCapS Funding I, Ltd. / MMCapS Funding I, Inc.	Fixed Rate Senior Notes, 8.04%, 6/8/2031, 144A ⁽⁴⁾	\$ 6,512,291	5,673,834
Preferred Term Securities, Ltd. / Preferred Term Securities, Inc.	Fixed Rate Mezzanine Notes, 9.74%, 9/15/2030, 144A ⁽¹⁾	\$ 3,037,918	3,023,487
Total Debt Securities (Cost \$8,137,708)			8,697,321
Trust Preferred Securities – 29.0%			
Banking – 29.0%			
Amboy Capital Trust I	Trust Preferred Security, 9.00%, 7/29/2029, 144A ⁽⁴⁾	\$ 15,500,000	15,441,875
Capital City TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 1,913,432	1,899,082
Central Trust Company Capital Trust I	Junior Subordinated Debt (Trust Preferred Security), 10.25%, 7/25/2031	\$ 2,500,000	2,512,500
First Alliance Capital Trust I	Junior Subordinated Debt (Trust Preferred Security), 10.25%, 7/25/2031	\$ 6,500,000	6,500,000
First Citizens TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 2,232,338	2,215,595
M&T TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 2,551,242	2,544,864
Mercantil TPS LLC	Trust Preferred Security Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 4,783,580	4,771,621
National Bank of Indianapolis TPS LLC	Trust Preferred Security, Series 2015-1 9.74%, Note, 9/30/2030, 144A ⁽⁴⁾	\$ 4,305,222	4,294,459
Total Trust Preferred Securities (Cost \$40,841,627)			40,179,996

Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Credit Securitizations – 32.0%			
Banking – 32.0%			
Community Funding CLO, Ltd.	Preferred Shares ⁽⁵⁾ (Estimated effective yield 10.49%), 144A ⁽⁴⁾	\$ 45,500,000	\$ 43,253,438
U.S. Capital Funding I, Ltd. / U.S. Capital Funding I, Corp.	Subordinate Income Note, Due 5/1/2034, 144A ⁽⁴⁾⁽⁶⁾	\$ 4,700,000	1,092,750
Total Credit Securitizations (Cost \$46,699,709)			44,346,188
Preferred Stocks – 42.5%			
Banking – 42.5%			
Blue Ridge Bancshares, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 338,000	338,000
Chicago Shore Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9% ⁽⁶⁾	\$ 6,400,000	5,264,000
Chicago Shore Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9% ^{(6)**}	\$ 150,000	123,375
Citizens Bancshares Company	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 12,000,000	11,760,000
Citizens Bancshares Company	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 750,000	735,000
Fidelity Financial Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 3,678,000	3,662,675
Fidelity Financial Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 232,000	231,033
First Priority Financial Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series C, 9%	\$ 428,000	428,000
First United Corporation	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 10,666,670	10,666,670
First Western Financial, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 131,000	131,000
First Western Financial, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series C, 9%	\$ 219,000	219,000
Katahdin Bankshares Corporation	Floating Rate Non-Cumulative Preferred Stock, Series D, 8.75%	\$ 10,000,000	10,000,000
Reliance Bancshares, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 9,000,000	9,000,000
SouthCrest Financial Group, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 1,900,000	1,881,000
SouthCrest Financial Group, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 345,000	341,550
Tennessee Valley Financial Holdings, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 100,000	98,500
Tennessee Valley Financial Holdings, Inc.	Fixed Rate Cumulative Perpetual Preferred Stock, Series B, 9%	\$ 49,000	48,510
The Queensborough Company	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 1,218,000	1,199,730
TriSummit Bank	Fixed Rate Cumulative Perpetual Preferred Stock, Series A, 9%	\$ 2,765,000	2,765,000
Total Preferred Stocks (Cost \$60,872,724)			58,893,043

Company ⁽¹⁾	Investment	# of Shares/Par Amount (\$) ⁽²⁾	Fair Value ⁽³⁾
Common Stocks – 2.4%			
Banking – 2.4%			
Happy Bancshares, Inc.	Equity Security - Private Placement, 144A ⁽³⁾⁽⁴⁾⁽⁶⁾	44,000	\$ 1,238,600
Pioneer Bancshares, Inc.	Equity Security - Private Placement, 144A ⁽³⁾⁽⁴⁾⁽⁶⁾	83,400	2,071,656
Total Common Stocks (Cost \$2,502,200)			3,310,256
Limited Partnership Interest – 0.6%			
Banking – 0.6%			
Priam Capital Fund I, L.P.	Private Placement of Limited Partnership Interest ⁽³⁾⁽⁶⁾⁺	\$ 1,000,000	896,500
Total Limited Partnership Interest (Cost \$1,003,317)			896,500
Total Long Term Investments (Cost \$198,557,285)			194,823,304
Short-Term Investment – 1.9%			
Morgan Stanley Institutional Liquidity Funds - Treasury Portfolio	Institutional Share Class	2,658,348	2,658,348
Total Short-Term Investment (Cost \$2,658,348)			2,658,348
Total Investments (Cost \$201,215,633)^{(7)(8)†} - 142.5%			197,481,652
Other assets and liabilities, net - (42.5)%⁽⁹⁾			(58,926,446)
Total Net Assets - 100.0%			\$ 138,555,206

⁽¹⁾ We do not “control” and are not an “affiliate” of any of our investments, each as defined in the Investment Company Act (the “1940 Act”).

⁽²⁾ \$ represents security position traded in par amount.

⁽³⁾ Fair Value is determined in good faith in accordance with the Company’s valuation policy and is reviewed and accepted by the Company’s Board of Directors.

⁽⁴⁾ Security is exempt from registration under Rule 144A of the Securities Act of 1933.

⁽⁵⁾ The preferred shares are considered an equity position in the credit securitization. Equity investments are entitled to recurring distributions which are generally equal to the remaining cash flow of the payments made by the underlying company’s securities less contractual payments to debt holders and company expenses. The estimated effective yield indicated is based upon a current projection of the amount and timing of these recurring distributions and the estimated amount of repayment of principal upon termination. Such projections are periodically reviewed and adjusted as needed. The estimated effective yield may ultimately not be realized.

⁽⁶⁾ Currently non-income producing security.

⁽⁷⁾ Investments are income producing assets unless otherwise noted by footnote (6).

⁽⁸⁾ Cost values reflect accretion of original issue discount or market discount, and amortization of premium.

⁽⁹⁾ Includes \$61,500,000 in bank loans from Texas Capital Bank.

+ The Limited Partnership is an entity organized solely for the purpose of investing in First Mariner Bank.

* As of December 31, 2016, this investment has deferred, undeclared and compounding dividends of \$675,747 that will be recognized by StoneCastle Financial Corp. once they are declared by Chicago Shore Corporation.

** As of December 31, 2016, this investment has deferred, undeclared and compounding dividends of \$15,838 that will be recognized by StoneCastle Financial Corp. once they are declared by Chicago Shore Corporation.

† As of December 31, 2016, the cost basis of investment securities owned was substantially identical for both book and tax purposes. Gross unrealized appreciation of investments was \$1,550,196 and gross unrealized depreciation was \$5,284,177, resulting in net unrealized depreciation of \$3,733,981.

* The following is a listing of the underlying unsecured loans, subordinated debentures and notes that were made by Community Funding CLO, Ltd. See Notes to Financial Statements for additional information on StoneCastle Financial Corp's. investment in Community Funding CLO, Ltd.

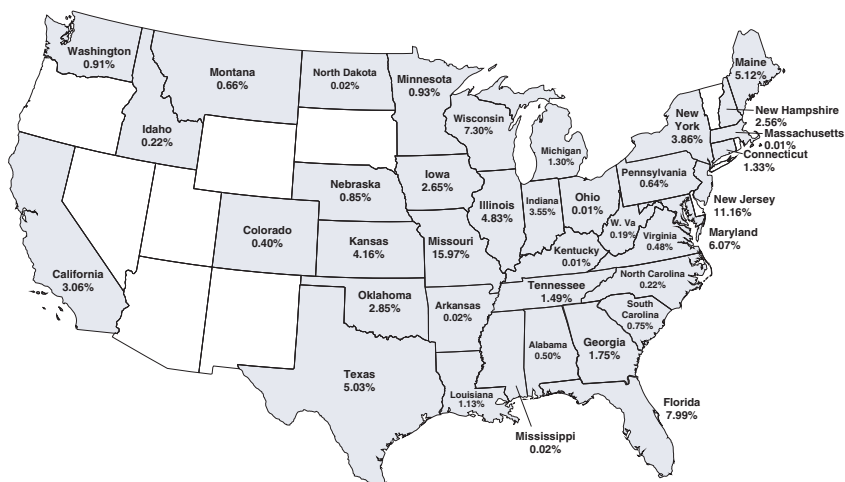
Bank Name	Principal Amount	State	Bank Name	Principal Amount	State
First Partners Financial, Inc.	\$ 5,500,000	Alabama	InterMountain Bancorp, Inc.	\$ 7,500,000	Montana
Cornerstone Community Bancorp	5,000,000	California	First State Holding Co.	9,350,000	Nebraska
Stockmens Bank	2,500,000	Colorado	Highlands Bancorp, Inc.	7,500,000	New Jersey
Bankwell Financial Group	7,500,000	Connecticut	Country Bank Holding Co., Inc.	7,500,000	New York
SBT Bancorp, Inc.	7,500,000	Connecticut	Pathfinder Bancorp, Inc.	10,000,000	New York
Biscayne Bancshares, Inc.	7,500,000	Florida	Quontic Bank Holdings Corporation	3,000,000	New York
Idaho Trust Bancorp	5,000,000	Idaho	MidWest Community Financial Corp.	7,500,000	Oklahoma
Bancorp Financial, Inc.	12,500,000	Illinois	Myers Bancshares, Inc.	10,000,000	Oklahoma
Freeport Bancshares, Inc.	3,150,000	Illinois	First Resource Bank	2,000,000	Pennsylvania
Market Street Bancshares, Inc.	7,500,000	Illinois	Victory Bancorp, Inc.	5,000,000	Pennsylvania
First Internet Bancorp	10,000,000	Indiana	Sandhills Holding Company, Inc.	8,500,000	South Carolina
Treynor Bancshares, Inc.	12,500,000	Iowa	First Citizens Bancshares, Inc.	10,000,000	Texas
Freedom Bancshares, Inc.	2,000,000	Kansas	Happy Bancshares, Inc.	7,500,000	Texas
Williams Holding Company, Inc.	1,000,000	Kansas	Linden Bancshares, Inc.	4,000,000	Texas
CB&T Holding Corp.	12,500,000	Louisiana	First National Corporation	5,000,000	Virginia
Delmar Bancorp	2,000,000	Maryland	FS Bancorp, Inc.	10,000,000	Washington
Citizens Bancshares	12,500,000	Missouri	Partnership Community Bancshares	7,000,000	Wisconsin
Security State Bancshares, Inc.	12,500,000	Missouri			
			Total	<u><u>\$250,000,000</u></u>	

StoneCastle Financial Corp.

As of December 31, 2016

Geographic Distribution of Bank Issuers⁽¹⁾ (unaudited)

State	% of Total Investments ⁽²⁾	State	% of Total Investments ⁽²⁾
Alabama	0.50%	Missouri	15.97%
Arkansas	0.02%	Montana	0.66%
California	3.06%	Nebraska	0.85%
Colorado	0.40%	New Hampshire	2.56%
Connecticut	1.33%	New Jersey	11.16%
Florida	7.99%	New York	3.86%
Georgia	1.75%	North Carolina	0.22%
Idaho	0.22%	North Dakota	0.02%
Illinois	4.83%	Ohio	0.01%
Indiana	3.55%	Oklahoma	2.85%
Iowa	2.65%	Pennsylvania	0.64%
Kansas	4.16%	South Carolina	0.75%
Kentucky	0.01%	Tennessee	1.49%
Louisiana	1.13%	Texas	5.03%
Maine	5.12%	Virginia	0.48%
Maryland	6.07%	Washington	0.91%
Massachusetts	0.01%	West Virginia	0.19%
Michigan	1.30%	Wisconsin	7.30%
Minnesota	0.93%		
Mississippi	0.02%		100.00%



⁽¹⁾ The term "Bank Issuers" as used herein refers to banks or holding companies thereof and includes issuers in which we have direct and indirect investments. Includes Community Funding CLO, Ltd.

⁽²⁾ For purposes of this table the calculation of the percentage of total Long-Term Investments are based on the Bank Issuers in which SCFC directly and indirectly holds investments. With respect to direct investments that are secured by obligations issued by Bank Issuers (each a "Secured Bond"), the percentage was calculated by prorating the market value of the Secured Bond among the obligations issued by the underlying Bank Issuers that collateralize such Secured Bond and dividing each such amount by total Long-Term Investments.

StoneCastle Financial Corp.

As of December 31, 2016

Geographic Distribution of Community Funding CLO, Ltd.⁽¹⁾ (unaudited)

State	% of Total Investment ⁽¹⁾	State	% of Total Investment ⁽¹⁾
Alabama	2.20%	Missouri	10.00%
California	2.00%	Montana	3.00%
Colorado	1.00%	Nebraska	3.74%
Connecticut	6.00%	New Jersey	3.00%
Florida	3.00%	New York	8.20%
Idaho	2.00%	Oklahoma	7.00%
Illinois	9.26%	Pennsylvania	2.80%
Indiana	4.00%	South Carolina	3.40%
Iowa	5.00%	Texas	8.60%
Kansas	1.20%	Virginia	2.00%
Louisiana	5.00%	Washington	4.00%
Maryland	0.80%	Wisconsin	2.80%
			<u>100.00%</u>



⁽¹⁾ For purposes of this table the calculation of the percentage of total Investment in the Community Funding CLO, Ltd. are based on the Bank Issuers in which Community Funding directly holds investments.

Financial Statements

Statement of Assets and Liabilities As of December 31, 2016

Assets	
Investments in securities, at fair value (Cost \$201,215,633)	\$ 197,481,652
Cash (see Note 7) ¹	3,765,463
Interest and dividends receivable	3,890,480
Prepaid assets	801,403
Total assets	205,938,998
Liabilities	
Loan payable (see Note 7)	61,500,000
Dividends payable	2,415,399
Payable for securities purchased	2,252,539
Investment advisory fees payable	790,907
Loan interest payable	70,325
Directors' fees payable	13,326
Accrued expenses payable	341,296
Total liabilities	67,383,792
Net Assets	<u>\$ 138,555,206</u>
Net assets consist of:	
Common stock, at par (\$0.001 per share)	\$ 6,528
Paid-in capital	144,588,229
Accumulated net investment loss	(1,625,496)
Accumulated net realized loss on investments	(680,074)
Net unrealized depreciation on investments	(3,733,981)
Net Assets	<u>\$ 138,555,206</u>
Net asset value per share	
Common Stock Shares Outstanding	6,528,105
Net asset value per common share	<u>\$ 21.22</u>
Market price per share	<u>\$ 18.69</u>
Market price discount to net asset value per share	<u>-11.92%</u>

¹ Includes \$3,500,000 of restricted cash held in a segregated account at Texas Capital Bank to cover collateral requirements.

Statement of Operations For the Year Ended December 31, 2016

This Statement of Operations summarizes the Company's investment income earned and expenses incurred in operating the Company. It also shows net gains (losses) for the period stated.

Investment Income	
Interest	\$ 10,899,369
Dividends	5,690,604
Origination fee income	138,954
Other income	306,013
Total investment income	17,034,940
Expenses	
Investment advisory fee	3,416,253
Interest expense	1,777,067
Transfer agent, custodian fees and administrator fees	289,342
Professional fees	257,613
ABA marketing and licensing fees	250,000
Bank fees	214,834
Directors' fees	168,058
Investor relations fees	121,330
Insurance expense	90,000
Printing fees	75,000
Valuation service fees	63,012
Due diligence expense	63,000
Miscellaneous fees (proxy, printing, rating agency, etc.)	189,186
Total expenses	6,974,695
Less: Advisory fee waiver	(115,000)
Net expenses after waivers	6,859,695
Net investment income	10,175,245
Realized and Unrealized Loss on Investments	
Net realized gain on investments	327,807
Net change in net unrealized depreciation on investments	(3,489,006)
Net realized and unrealized loss on investments	(3,161,199)
Net Increase in Net Assets Resulting From Operations	\$ 7,014,046

Statements of Changes In Net Assets

These statements of changes in net assets show how the value of the Company's net assets has changed during the last two periods. The difference reflects earnings less expenses, any investment gains and losses, distributions, if any, paid to shareholders and the net of Company share transactions.

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Increase (Decrease) in Net Assets		
From Operations		
Net investment income	\$ 10,175,245	\$ 9,349,924
Net realized gain/(loss) on investments	327,807	(1,007,881)
Net change in unrealized depreciation on investments	<u>(3,489,006)</u>	<u>(55,305)</u>
Net increase in net assets resulting from operations	7,014,046	8,286,738
Distributions to shareholders		
From net investment income	(9,521,907)	(8,378,240)
Return of capital	<u>—</u>	<u>(1,446,765)</u>
Total distributions	(9,521,907)	(9,825,005)
From Company share transactions		
Reinvestment of distributions	<u>293,147</u>	<u>176,402</u>
Increase in net assets resulting from Company share transactions	293,147	176,402
Total decrease	(2,214,714)	(1,361,865)
Net assets		
Beginning of year	<u>140,769,920</u>	<u>142,131,785</u>
End of year¹	\$ 138,555,206	\$ 140,769,920
Shares outstanding		
Beginning of year	6,510,953	6,501,035
Reinvestment of distributions	<u>17,152</u>	<u>9,918</u>
End of year	6,528,105	6,510,953

¹ Includes accumulated net investment loss of (\$1,625,496) and (\$2,278,834), respectively.

Statement of Cash Flow

This Statement of Cash Flows shows cash flow from operating and financing activities for the period stated.

	For the Year Ended December 31, 2016
Cash flows from operating activities	
Net increase in net assets from operations	\$ 7,014,046
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(75,564,649)
Proceeds from sales and redemption of investment securities	62,006,587
Net purchase of short-term investments	(2,331,473)
Net realized gain on investments	(327,807)
Net change in unrealized depreciation on investments	3,489,006
Net accretion of premium	556
Decrease in prepaid expenses	20,442
Increase in interest receivable and dividends receivable	(941,661)
Decrease in payable for securities purchased	(20,932,404)
Decrease in advisory fees payable	(58,352)
Increase in loan interest payable	36,293
Increase in Directors' fees payable	326
Decrease in accrued fees payable	(62,385)
Net cash used by operating activities	<u>(27,651,475)</u>
Cash flows from financing activities	
Increase in loan payable	36,500,000
Cash distributions to shareholders	(9,092,195)
Net cash provided by financing activities	<u>27,407,805</u>
Net decrease in cash	(243,670)
Cash:	
Beginning of year	4,009,133
End of year	<u>\$ 3,765,463</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	\$ 1,740,774

Financial Highlights

The financial highlights show how the Company's net asset value for a common stock share has changed during the period.

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Period Ended December 31, 2013†
Per share operating performance				
Net Asset value, beginning of year	\$ 21.62	\$ 21.86	\$ 23.07	\$23.49¹
Net investment income/(loss) ²	1.56	1.44	0.84	(0.09)
Net realized and unrealized gain (loss) on investments ²	(0.50)	(0.17)	0.01	(0.05)
Offering costs ²	—	—	(0.06)	—
Total from investment operations	1.06	1.27	0.79	(0.14)
Less distributions to shareholders				
From net investment income	(1.46)	(1.29)	(1.22)	(0.28)
Return of capital	—	(0.22)	(0.78)	—
Total distributions	(1.46)	(1.51)	(2.00)	(0.28)
Net asset value, end of year	\$ 21.22	\$ 21.62	\$ 21.86	\$23.07
Per share market value, end of year	\$ 18.69	\$ 16.30	\$ 19.47	\$24.56
Total Investment Return³				
Based on market value	24.45%	(8.68%)	(13.59%)	(0.62%)
Based on net asset value	6.53%	7.88%	3.28%	(0.65%)
Ratios and supplemental data				
Net assets end of year (in millions)	\$ 138.6	\$ 140.8	\$ 142.1	\$ 108.3
Ratios (as a percentage of average net assets):				
Expenses before waivers if any ⁴	5.02%	4.87%	3.73%	3.04%**
Expenses after waivers if any ^{5,6}	4.94%	4.50%	3.73%	3.04%**
Net investment income/(loss) ⁷	7.33%	6.56%	3.41%	(3.00)***
Portfolio turnover rate	34%	101%	30%	81%*
Revolving credit agreement				
Total revolving credit agreement outstanding (000s)	\$61,500	\$25,000	\$22,500	\$ —
Asset Coverage per \$1,000 for revolving credit agreement ⁸	3,253	6,631	7,317	—

¹ Net asset value at beginning of period reflects a deduction of \$1.51 per share of sales load and offering expense from the initial public offering price of \$25 per share.

² The net investment income, unrealized gain/(loss) on investments and offering costs per share was calculated using the average shares outstanding method.

³ Reflects reinvestment of distributions at the price obtained under the Dividend Reinvestment Plan. Total return does not include sales load and offering expenses, and are not annualized.

⁴ Ratio of expenses before waivers to managed assets equals 3.58% and 3.62% for the years ended December 31, 2016 and 2015, respectively.

⁵ Ratio of expenses after waivers to managed assets equals 3.52% and 3.35% for the years ended December 31, 2016 and 2015, respectively.

⁶ Excluding interest expense, net operating expenses would have been 3.74% and 3.54% for the years ended December 31, 2016 and 2015, respectively.

⁷ Ratio of net investment income to managed assets equals 5.23% and 4.88% for the years ended December 31, 2016 and 2015, respectively.

⁸ Calculated by subtracting the Company's total liabilities (excluding the loan) from the Company's total assets and dividing that amount by the loan outstanding in 000's.

* Not-annualized.

** Annualized.

† The Company commenced operations on November 13, 2013.

Notes to Financial Statements

Note 1 — Organization

StoneCastle Financial Corp. (“SCFC” or the “Company”) is a Delaware corporation registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended, (the “Investment Company Act”) which commenced investment operations on November 13, 2013. In addition, SCFC has elected to be treated for tax purposes as a regulated investment company, or “RIC” under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). As an investment company, the Company follows the accounting and reporting guidance of the Financial Accounting Standards Board and the Accounting Standards Codification Topic 946 “Financial Services — Investment Companies.”

SCFC’s primary investment objective is to provide stockholders with current income, and to a lesser extent capital appreciation. We attempt to achieve our investment objectives through investments in preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity primarily in the U.S. community bank sector. We may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies. Together with banks, we refer to these types of companies as banking-related and intend, under normal circumstances, to invest at least 80% of the value of our net assets plus the amount of any borrowings for investment purposes in such businesses. There is no guarantee that we will achieve our investment objective.

Note 2 — Significant accounting policies

The following is a summary of significant accounting policies consistently followed by SCFC in the preparation of its financial statements. The preparation of the financial statements is in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and requires the Board of Directors, inclusive of the sub-committees, and the Advisor to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — SCFC considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Investment Valuation — The most significant estimates made in the preparation of the Company’s financial statements are the valuation of equity and debt investments and the effective yield calculation with respect to certain debt securities, as well as the related amounts of unrealized appreciation and depreciation of investments recorded. The Company believes that there is no single definitive method for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments that SCFC makes. The Company is required to specifically fair value each individual investment on a quarterly basis.

The Company complies with ASC 820-10, Fair Value Measurements and Disclosure, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. ASC 820-10 clarified the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual

periods subsequent to initial recognition. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes the following three-tier fair value hierarchy:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 — Valuations based on inputs, other than quoted prices included in Level 1, that are observable either directly or indirectly; and
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

To the extent securities owned by the Company are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Securities traded on inactive markets or valued by reference to similar instruments are generally categorized in Level 2 of the fair value hierarchy.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by SCFC in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk associated with investing in those securities.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, SCFC’s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. SCFC uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

SCFC will determine fair value of its assets and liabilities in accordance with valuation procedures adopted by its Board of Directors. The Company may utilize the services of one or more regionally or nationally recognized independent valuation firms to help it determine the value of each investment for which a market price is not available. SCFC’s board will also review valuations of such investments provided by the Advisor. Securities for which market quotations are readily available shall be valued at “market value.” If a market value cannot be obtained or if SCFC’s Advisor determines that the value of a security as so obtained does

not represent a fair value as of the measurement date (due to a significant development subsequent to the time its price is determined or otherwise), fair value shall be determined pursuant to the methodologies established by our Board of Directors. In making these determinations, the Company may engage an independent valuation firm from time to time to assist in determining the fair value of our investments. The methods for valuing these investments may include fundamental analysis, discounts from market prices of similar securities, purchase price of securities, subsequent private transactions in the security or related securities, or discounts applied to the nature and duration of restrictions on the disposition of the securities, as well as a combination of these and other factors.

Investment in Credit Securitization. On October 15, 2015, SCFC made an investment in Community Funding CLO, Ltd. ("Community Funding") a credit securitization. SCFC purchased \$45.5 million of Preferred Shares issued by Community Funding.

Community Funding was structured in two tranches: \$205.0 million of senior secured Class A Notes rated A3 by Moody's Investors Service and \$45.5 million of unrated Preferred Shares, for a total issuance of \$250.5 million. The collateral has an average yield of 7.00% and the Class A Notes initially pay a fixed rate coupon of 5.75%. The net proceeds were primarily used to fund direct capital investments into 35 community and regional banks from 24 different states. The capital issued to the banks was predominantly in the form of subordinated loans that rank senior in priority to Trust Preferred Securities, TARP, SBLF, Preferred Shares and Common Shares.

SCFC was the sole purchaser of the \$45.5 million Preferred Shares, funding their purchase with portfolio securities and cash. Income received by SCFC from its investments in the Preferred Shares is characterized as ordinary income. Income from the investment in Community Funding is recorded based upon an estimate of effective yield to maturity utilizing assumed cash flows. SCFC monitors the expected cash flows from its investment in Community Funding and the effective yield is determined and updated as needed. The Preferred Shares receive the remaining cash flows generated from the pooled transaction after expenses are paid. Expenses consist of administrative expenses and interest expense on the Class A notes, as well as, a service fee paid to StoneCastle Investment Management, LLC, an affiliate of StoneCastle Asset Management, StoneCastle Financial Corp.'s advisor. The Servicer rebates the entire service fee to SCFC quarterly. For the year ended December 31, 2016 this amounted to \$250,000 and is included in Other Income on the Statement of Operations.

The fair value of the credit securitization is determined using market price quotations (where observable) and other observable market inputs. When using market price quotations from brokers, fair value is calculated using the average of two or more indicative broker quotes obtained as of the valuation date. When quotations are unobservable, internal valuation models (typically including discounted cash flow analysis and comparable analysis) are employed. Credit securitizations are generally categorized as Level 2 or 3 in the fair value hierarchy, depending on the availability of broker quotes and observable inputs. At December 31, 2016, SCFC's investment in Community Funding was valued on the basis of the average of two broker quotes.

Preferred and Trust Preferred Securities. The fair value of preferred securities and trust preferred securities is generally determined using market price quotations (where observable) and other observable market inputs (including recently executed transactions). When using market price quotations from brokers, fair value is calculated using the average of two or more

indicative broker quotes obtained as of the valuation date. When quotations are unobservable, internal valuation models (typically including discounted cash flow analysis and comparable analysis) are employed. Perpetual preferred securities are generally categorized as Level 2 or 3 in the fair value hierarchy, depending on the availability of observable inputs.

Debt Securities. Under procedures established by our Board of Directors, we value secured debt, unsecured debt, senior term loans, subordinated term loans and other debt securities, for which market quotations are readily available, at such market quotations (unless they are deemed not to represent fair value). We attempt to obtain market quotations from at least two brokers if available. If not available or when market quotations are deemed not to represent fair value, we typically utilize independent third party valuation firms to assist us in determining fair value. Our independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations for such Level 2 and Level 3 categorized assets. Investments that are not publicly traded or whose market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of our Board of Directors. Such determination of fair values may involve subjective judgments and estimates.

Equity Securities. SCFC may invest in equity securities (including exchange traded funds) for which bid and ask prices can be observed in the marketplace. Bid prices reflect the highest price that the marketplace participants are willing to pay for an asset. Ask prices represent the lowest price that the marketplace participants are willing to accept for an asset. The Company's policy for listed securities for which no sale was reported on that date is generally to value the security using the last reported "bid" price if held long, and last reported "ask" price if sold short. Equity securities are generally categorized as Level 1 or 2 in the fair value hierarchy, depending on trading volume levels.

The Company's assets measured at fair value subject to the disclosure requirements of ASC 820-10-35 at December 31, 2016, were as follows:

	TOTAL FAIR VALUE AT 12-31-16	LEVEL 1 QUOTED PRICE	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS	LEVEL 3 SIGNIFICANT UNOBSERVABLE INPUTS
Term Loans	\$ 38,500,000	\$ —	\$ 38,500,000	\$ —
Debt Securities	8,697,321	—	8,697,321	—
Trust Preferred Securities	40,179,996	—	40,179,996	—
Credit Securitizations	44,346,188	—	44,346,188	—
Preferred Stock	58,893,043	—	58,893,043	—
Common Stock	3,310,256	—	—	3,310,256
Limited Partnership Interest	896,500	—	—	896,500
Short-Term Investment	2,658,348	2,658,348	—	—
Total Investments in Securities	\$197,481,652	\$2,658,348	\$190,616,548	\$4,206,756

The Level 3 categorized assets listed above have been valued via the use of a) independent third party valuation firms, or, b) fair valued as determined in good faith by the Board of Directors, in accordance with procedures established by the Board of Directors.

For fair valuations using significant unobservable inputs, U.S. GAAP requires SCFC to present reconciliation of the beginning to ending balances for reported market values that presents changes attributable to total realized and unrealized gains or losses, purchase and sales, and transfers in and out of Level 3 during the period. Transfers in and out between levels are based on values at the end of a period. U.S. GAAP also requires SCFC to disclose amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. A reconciliation of Level 3 investments is presented below:

	COMMON STOCK	LIMITED PARTNERSHIP INTEREST	TOTAL
Balance at December 31, 2015	\$2,816,622	\$895,500	\$3,712,122
Realized gains including earnings	—	—	—
Unrealized appreciation/ (depreciation) on investments	493,634	1,000	494,634
Purchases	—	—	—
Sales	—	—	—
Transfers in	—	—	—
Transfers out	—	—	—
Balance at December 31, 2016	<u>\$3,310,256⁽¹⁾</u>	<u>\$896,500⁽¹⁾</u>	<u>\$4,206,756</u>

⁽¹⁾ Fair Value based on price to book valuation analysis.

The change in unrealized appreciation on Level 3 securities still held as of December 31, 2016 was \$494,634.

	FAIR VALUE AT 12-31-16	VALUATION TECHNIQUES	UNOBSERVABLE INPUTS	RANGE
Common Stock	\$ 3,310,256	Prior transaction analysis	Price to book ratio Discount for transaction costs	1.24% - 1.45% 3%
Limited Partnership Interest	896,500	Prior transaction analysis	Price to book ratio Discount for transaction costs	0.96% 3%
	<u>\$ 4,206,756</u>			

Securities Transactions, Investment Income and Expenses — Securities transactions are recorded on trade date for accounting and financial statement preparation purposes. Realized gains and losses on investments sold are recorded on the identified cost basis. Interest income is recorded on the accrual basis. Accretion of discounts and amortization of premiums are recorded on a daily basis using the effective yield method except for short term securities, which records discounts and premiums on a straight-line basis. Dividends are recorded on the ex-dividend date.

Dividends and Distributions to Shareholders — Dividends from net investment income, if any, are declared and paid quarterly. Distributions, if any, of net short-term capital gain and net capital gain (the excess of net long-term capital gain over the short-term capital loss) realized by SCFC, after deducting any available capital loss carryovers are declared and paid

to shareholders at least annually. Income dividends and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which may differ from U.S. GAAP. These differences include the treatment of non-taxable dividends, losses deferred due to wash sales and excise tax regulations. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications within the components of net assets.

Note 3 — Investment Advisory Fee and Other Fee Arrangements

StoneCastle Asset Management, LLC (“Advisor”), a subsidiary of StoneCastle Partners, LLC (“StoneCastle Partners”), serves as investment advisor to SCFC pursuant to a management agreement with SCFC (the “Management Agreement”). For its services as the investment advisor, SCFC pays the Advisor a fee at the annual rate of 1.75% of total assets. SCFC will pay the management fee quarterly in arrears, and it will be equal to 0.4375% (1.75% annualized) of our assets at the end of such quarter, including cash and cash equivalents and assets purchased with borrowings.

Pursuant to an agreement between SCFC and the Advisor, the Advisor agreed to waive \$115,000 representing a portion of the management fee that would otherwise be payable to the Advisor for the quarter ended December 31, 2016. This fee may be recaptured by the Advisor for a period of one year ending December 31, 2017 to the extent net income earned by SCFC exceeds \$0.39 per share in any quarter. After the one year period, this waiver may not be recouped by StoneCastle Asset Management.

SCFC currently pays each Director who is not an officer or employee of the Advisor a fee of \$45,000 per annum, plus \$1,000 for each in-person meeting of the Board of Directors or committee meeting. The chairman of SCFC’s audit committee and the Lead Independent Director are each to be paid an additional amount not expected to exceed \$10,000 per year. Directors do not receive any pension or retirement plan benefits and are not part of any profit sharing plan. Interested Directors do not receive any compensation from SCFC. SCFC has incurred \$168,058 of Directors fees for the year ended December 31, 2016.

Note 4 — Purchases and Sales and Redemptions of Securities

For the year ended December 31, 2016, (i) the cost of purchases was \$75,564,649, (ii) the sales and redemptions of securities was \$62,006,587. At December 31, 2016, the aggregate cost basis of securities for federal income tax purposes was \$201,215,633 and the aggregate net unrealized depreciation for all securities in which there is an excess of tax cost over value was \$3,733,981 (gross unrealized appreciation \$1,550,196; gross unrealized depreciation \$5,284,177).

Note 5 — Federal Tax Information

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Internal Revenue Code and, as such, to not be subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify for RIC tax treatment, SCFC is required to distribute at least 90% of its investment company taxable income, as defined by the Code.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise

when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

SCFC has followed the authoritative guidance on accounting for and disclosure of uncertainty in tax positions, which requires SCFC to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. SCFC has determined that there was no effect on the financial statements from following this authoritative guidance. In the normal course of business, SCFC is subject to examination by federal, state and local jurisdictions, where applicable, for tax years for which applicable statutes of limitations have not expired.

As of December 31, 2016, the components of distributable earnings on a tax basis were as follows:

Capital loss carryforwards	(\$ 680,074)
Unrealized depreciation	(3,733,981)
Other temporary differences	<u>(1,625,496)</u>
Total	<u><u>(\$ 6,039,551)</u></u>

The Company utilized \$327,007 of short-term capital loss carry forwards and the other temporary differences consists of distributions payable.

For the year ended December 31, 2016, the tax character of distributions paid by the Company was \$9,385,342 of ordinary income dividends. For the year ended December 31, 2015, the tax character of distributions paid by the Company was \$9,349,924 of ordinary income dividends and \$1,446,765 return of capital. Distributions from net investment income and short-term capital gains are treated as ordinary income for federal tax purposes.

The Company declared a \$0.35 per share dividend on March 7, 2016 and \$0.37 per share dividend on June 6, 2016, September 13, 2016 and December 8, 2016, which was paid on March 29, 2016, June 29, 2016, September 30, 2016 and January 3, 2017, respectively. Shareholders have been notified of the tax character of these distributions.

At December 31, 2016, the federal tax cost, aggregate gross unrealized appreciation and depreciation of securities held by SCFC were as follows:

Federal tax cost	<u>\$ 201,215,633</u>
Gross unrealized appreciation	1,550,196
Gross unrealized depreciation	<u>(5,284,177)</u>
Net unrealized depreciation	<u><u>(\$ 3,733,981)</u></u>

Pursuant to federal income tax rules applicable to regulated investment companies, SCFC may elect to treat certain capital losses up to and including December 31 as occurring on the first day of the following tax year. For the period after October 31, 2016 and ending December 31, 2016, any amount of losses elected within the tax year will not be recognized for federal income tax purposes until 2017. For the year ended December 31, 2016, SCFC had no ordinary income or long-term capital loss deferrals.

Accumulated capital losses represent net capital loss carry forwards as of December 31, 2016 that may be available to offset future realized capital gains and thereby reduce future capital gains distributions. Under the Regulated Investment Company Modernization Act of 2010, SCFC is permitted to carry forward capital losses incurred for an unlimited period. Additionally, capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. For the year ended December 31, 2016, SCFC had capital loss carryforwards of \$680,074 all of which are short-term capital losses.

Note 6 — Risk Considerations

Risks are inherent in all investing. The following summarizes some, but not all, of the risks that should be considered for the Company. For additional information about the risks associated with investing in the Company, please see the Company's prospectus as well as other Company regulatory filings.

Investment and Market Risk — An investment in the Company's common shares ("Common Shares") is subject to investment risk, including the possible loss of the entire principal invested. Common Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of Company dividends and distributions. The Company expects to utilize leverage, which will magnify investment risk.

Preferred and Debt Securities Risk — Preferred and debt securities in which the Company invests are subject to various risks, including credit risk, interest rate risk, call/prepayment risk and reinvestment risk. In addition, preferred securities are subject to certain other risks, including deferral and omission risk, subordination risk, limited voting rights risk and special redemption rights risk.

Credit Risk — The Company is subject to credit risk, which is the risk that an issuer of a security may be unable or unwilling to make dividend, interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability or willingness to make such payments.

Leverage Risk — The use of leverage by the Company can magnify the effect of any losses. If the income and gains from the securities and investments purchased with leverage proceeds do not cover the cost of leverage, the return on the Common Shares will be less than if leverage had not been used. Moreover, leverage involves risks and special considerations for holders of Common Shares including the likelihood of greater volatility of net asset value and market price of the Common Shares than a comparable portfolio without leverage, and the risk that fluctuations in interest rates on reverse repurchase agreements, borrowings and short-term debt or in the dividend rates on any preferred shares issued by the Company will reduce the return to the holders of Common Shares or will result in fluctuations in the dividends paid on the Common Shares. There is no assurance that a leveraging strategy will be successful. See Note 7 for additional information on leverage.

Call/Prepayment and Reinvestment Risk — If an issuer of a security exercises an option to redeem its issue at par or prepay principal earlier than scheduled, the Company may be forced to reinvest in lower yielding securities. A decline in income could affect the Common Shares' market price or the overall return of the Company.

Risks of Concentration in the Banking Industry/Financial Sector — Because the Company concentrates in the banking industry and may invest up to 100% of its managed assets in the banking industry and financials sector, it will be more susceptible to adverse economic or regulatory occurrences affecting the banking industry and financials sector, such as changes in interest rates, loan concentration and competition.

Regulatory Risk — Financial institutions, including community banks, are subject to various state and federal banking regulations that impact how they conduct business, including but not limited to how they obtain funding. Changes to these regulations could have an adverse effect on their operations and operating results and our investments. We expect to make long-term investments in financial institutions that are subject to various state and federal regulations and oversight. Congress, state legislatures and the various bank regulatory agencies frequently introduce proposals to change the laws and regulations governing the banking industry in response to the Dodd-Frank Act, Consumer Financial Protection Bureau (the “CFPB”) rulemaking or otherwise. The likelihood and timing of any proposals or legislation and the impact they might have on our investments in financial institutions affected by such changes cannot be determined and any such changes may be adverse to our investments. Federal banking regulators recently proposed amended regulatory capital regulations in response to The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and Basel III protocols which would impose even more stringent capital requirements. In the event that a regulated bank falls below certain capital adequacy standards, it may become subject to regulatory intervention including, but not limited to, being placed into a FDIC-administered receivership or conservatorship. The effect of inadequate capital can have a potentially adverse consequence on the institution’s financial condition, its ability to operate as a going concern and its ability to operate as a regulated financial institution and may have a material adverse impact on our investments.

Interest Rate Risk — The Company is subject to interest rate risk, which is the risk that the preferred and debt securities in which the Company invests will decline in value because of rising market interest rates.

Convertible Securities/Contingent Convertible Securities Risk — The market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. Contingent convertible securities provide for mandatory conversion into common stock of the issuer under certain circumstances. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero; and conversion would deepen the subordination of the investor, hence worsening standing in a bankruptcy. In addition, some such instruments have a set stock conversion rate that would cause a reduction in value of the security if the price of the stock is below the conversion price on the conversion date.

Illiquid and Restricted Securities Risk — Investment of the Company’s assets in illiquid and restricted securities may restrict the Company’s ability to take advantage of market opportunities. Illiquid and restricted securities may be difficult to dispose of at a fair price at the times when the Company believes it is desirable to do so. The market price of illiquid and restricted securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Company pays for or recovers upon the sale of such

securities. Illiquid and restricted securities are also more difficult to value, especially in challenging markets. The risks associated with illiquid and restricted securities may be particularly acute in situations in which the Company's operations require cash and could result in the Company borrowing to meet its short-term needs or incurring losses on the sale of illiquid or restricted securities.

Note 7 — Revolving Credit Agreement

On June 9, 2014, the Company entered into a revolving credit agreement (the "Credit Agreement") with a syndicate of financial institutions led by Texas Capital Bank, N.A. (collectively, the "Syndicates") to borrow up to \$45,000,000. On January 16th, 2015 the Company closed an additional \$25 million on the Credit Agreement, which increased the maximum borrowing amount to \$70 million. As of December 31, 2016, \$61,500,000 has been committed and drawn and is at fair value. Such borrowings constitute financial leverage. The Agreement has a five year term and a stated maturity of June 2019 and was priced at LIBOR +2.85%. The Company is charged a fee of 0.50% on any undrawn commitment balance. The Credit Agreement contains customary covenants, negative covenants and default provisions, including covenants that limit the Company's ability to incur additional debt or consolidate or merge into or with any person, other than as permitted, or sell, lease or otherwise transfer, directly or indirectly, all or substantially all of its assets. The covenants also impose on the Company asset coverage requirements, which are more stringent than those imposed on the Company by the Investment Company Act, as well as the Company's policies. For the year ended December 31, 2016, the average daily loan balance was \$49,711,749 at a weighted average interest rate of 3.56%. With respect to these borrowings, interest of \$1,777,067 is included in the Statement of Operations. As of December 31, 2016, the Company has cash collateral segregated with Capital Bank in the amount of \$3,549,366 in lieu of the Credit Agreement.

Note 8 — Indemnification

In the normal course of business, SCFC may enter into contracts that provide general indemnifications. SCFC's maximum exposure under these arrangements is dependent on claims that may be made against SCFC in the future, and therefore, cannot be estimated; however, based on experience, the risk of material loss from such claims is considered remote.

Under the SCFC's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to SCFC.

Note 9 — Origination Fees and Other Income

Includes closing fees (or origination fees) associated with investments in portfolio companies. Such fees are normally paid at closing of the Company's investments, are fully earned and non-refundable, and are generally non-recurring. Other Income includes service fees earned from the Community Funding CLO, Ltd. credit securitization and due diligence fees. SCFC had origination fee income of \$138,954 and other income of \$306,013 for the year ended December 31, 2016.

Note 10 — Capital Share Transactions

As of December 31, 2016, 50,000,000 shares of \$0.001 par value capital stock were authorized. Of the authorized shares, SCFC is authorized to issue 40,000,000 shares of common stock and 10,000,000 shares of preferred stock. Prior to commencement of operations on November 13, 2013, SCFC issued 4,001 shares of common stock. On November 13, 2013, SCFC sold 4,400,000 shares of our common stock via an initial public

offering at a price of \$25.00 per share. On December 3, 2013 and December 11, 2013 SCFC sold an additional 125,000 shares and 167,047 shares, respectively, of our common stock at a public offering price of \$25.00 per share pursuant to the underwriters' exercise of the over-allotment option. On November 7, 2014, SCFC sold an additional 1,600,000 shares via an initial public offering at a price of \$23.00 per share. On December 2, 2014, SCFC sold an additional 202,000 shares of our common stock at a public offering price of \$23.00 per share pursuant to the underwriters' exercise of the over-allotment option. Total shares issued and outstanding at December 31, 2016 were 6,528,105.

Note 11 — Subsequent Events

Management has evaluated the impact of all subsequent events on the company and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Auditor's Report

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of StoneCastle Financial Corp.

We have audited the accompanying statement of assets and liabilities, of StoneCastle Financial Corp. (the "Company"), including the schedule of investments, as of December 31, 2016, and the related statements of operations and cash flows for the year then ended, and the changes in net assets and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The financial highlights for the year ended December 31, 2014 and for the period November 13, 2013 (commencement) to December 31, 2013 were each audited by other auditors, and in their opinions dated February 27, 2015 and February 24, 2014 (respectively), they each expressed unqualified opinions on said financial highlights.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of StoneCastle Financial Corp. as of December 31, 2016, and the results of its operations and cash flows for the year then ended, and the changes in its net assets and its financial highlights for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP
Philadelphia, Pennsylvania
February 28, 2017

Dividends and Distributions

Dividends and Distributions

Dividends from net investment income are declared and paid on a quarterly basis. Distributions of net realized capital gains, if any, will be made at least annually. It is the Company's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to "regulated investment companies" or "RICs" and to distribute substantially all of its taxable income to its shareholders. In order to provide shareholders with a more stable level of dividend distributions, the Company may at times pay out more or less than distributable income earned in any particular quarter. The Company's current accumulated but undistributed net investment income, if any, is disclosed in the Statement of Assets and Liabilities, which comprises part of the financial information included in this report. The character and timing of dividends and distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP.

Summary of Dividends Declared in 2016

Period	Amount Declared
1st Quarter 2016	\$0.35
2nd Quarter 2016	\$0.37
3rd Quarter 2016	\$0.37
4th Quarter 2016	\$0.37
	<u>\$1.46</u>

Dividend Reinvestment Plan

We have a common stock dividend reinvestment plan for our stockholders. Our plan is implemented as an "opt out" dividend reinvestment plan. As a result, if a stockholder participates in our Automatic Dividend Reinvestment Plan ("Plan") all distributions will automatically be reinvested in additional common stock (unless a stockholder is ineligible or elects otherwise). If a stockholder opts out of the Plan, such stockholder will receive distributions in cash. If a stockholder holds shares with a brokerage firm that does not participate in the Plan, the stockholder may not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those of the Plan.

In the case that newly issued shares of our common stock are used to implement the Plan, the number of shares of common stock to be delivered to a participating stockholder shall be determined by (i) dividing the total dollar amount of the dividends payable to such stockholder by (ii) 97% of the average market prices per share of common stock at the close of regular trading on the NASDAQ Global Select Market for the five trading days immediately prior to the valuation date to be fixed by our Board of Directors.

In the case that shares repurchased on the open market are used to implement the Plan, the number of shares of common stock to be delivered to a participating stockholder shall be determined by dividing (i) the total dollar amount of the dividends payable to such stockholder by (ii) the weighted average purchase price of such shares.

We intend to use primarily newly issued shares to implement the dividend reinvestment plan (so long as we are trading at a premium to net asset value). If our shares are trading at a

significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan. However, we reserve the right to issue new shares of our common stock in connection with our obligations under the dividend reinvestment plan even if our shares are trading below net asset value. Automatically reinvesting dividends and distributions does not mean that a stockholder does not have to pay income taxes due upon receiving dividends and distributions. Capital gains and income are realized although cash is not received by the stockholder.

For further information or to opt-out of or withdraw from the Plan, contact the Plan Agent, Computershare Trust Company, N.A. by writing to 250 Royall Street, Canton, Massachusetts 02021.

Tax Information

For federal income tax purposes, the following information is furnished with respect to the distributions of the Company, if any, paid during its taxable year ended December 31, 2016.

55.12% of ordinary income dividends paid qualify for the corporate dividends-received deduction.

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), 55.37% of ordinary dividends paid during the fiscal year ended December 31, 2016 are designated as "qualified dividend income," as defined in the Act, and are subject to reduced tax rates.

Eligible shareholders were mailed a 2016 Form 1099-DIV in early 2017. This reflected the tax character of all distributions paid in calendar year 2016.

Additional Information

Availability of Quarterly Schedule of Investments

The Company files their complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Company's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on how to access documents on the SEC's website without charge may be obtained by calling (800) SEC-0330. The Company's Form N-Q may also be obtained upon request and without charge by calling Investor Relations (212) 354-6500 or on the Company's website at www.StoneCastle-Financial.com.

Availability of Proxy Voting Policies and Procedures

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling Investor Relations (212) 354-6500; (2) at www.StoneCastle-Financial.com; and (3) on the SEC's website at <http://www.sec.gov>.

Availability of Proxy Voting Record

Information about how the Company voted proxies relating to securities held in the Company's portfolio during the Annual period ended June 30 is available upon request and without charge (1) at www.StoneCastle-Financial.com or by calling Investor Relations (212) 354-6500 and (2) on the SEC's website at <http://www.sec.gov>.

Board Approval of the Management Agreement

At a meeting held on September 13, 2016, the Company's Board of Directors, including those Directors who are not "interested persons" as such term is defined in the Investment Company Act of 1940 ("Independent Directors"), reviewed and unanimously approved the continuance of the management agreement (the "Management Agreement") between the Company and StoneCastle Asset Management, LLC (the "Advisor").

Prior to approval of the continuance of the Management Agreement, the Directors had requested from the Advisor, and received and evaluated, extensive materials. They reviewed the proposed continuance of the Management Agreement with experienced counsel who is independent of the Advisor, who advised on the relevant legal standards.

The Directors considered the services provided by the Advisor to the Company. The Directors considered the Advisor's personnel and the depth of the Advisor's personnel who possess the experience to provide investment management services to the Company. Based on the information provided by the Advisor, the Directors concluded that (i) the nature, extent and quality of the services provided by the Advisor are appropriate and consistent with the terms of the Management Agreement, (ii) the quality of those services has been consistent with industry norms, (iii) the Company is likely to benefit from the continued provision of those services by the Advisor, (iv) the Advisor has sufficient personnel, with the appropriate education and experience, to serve the Company effectively and has demonstrated its continuing ability to attract and retain qualified personnel, and (v) the satisfactory nature, extent, and quality of services currently provided to the Company and its stockholders is likely to continue. In addition, the Board noted the Advisor's expertise in, and numerous relationships with investment professionals within, the banking industry in which the Company concentrates.

The Directors considered the overall investment performance of the Advisor and the Company since the Advisor was appointed the Company's investment adviser in November 2013. The Directors reviewed and considered the Company's performance relative to a peer group of 31 registered closed-end investment companies ("CEIC") and business development companies ("BDCs") selected by the Advisor that operate in a similar manner as the Company (the "Peer Group") noting, however, the limited usefulness of such information in light of the Company's unique investment strategy and industry focus. The Directors also reviewed and considered the Company's performance based on market price and net asset value versus the performance of the Barclays Aggregate Bond Index (the "Aggregate Bond Index") and the Barclays US Corporate High Yield 2% Issuer Capped Index (the "High Yield Index") for the 12 months ended December 31, 2015, for the six months ended June 30, 2016 and since inception (November 13, 2013) through June 30, 2016. The Directors noted that the indices were selected by the Advisor for comparison purposes because the indices' constituents had similar characteristics to those of the Company may invest but acknowledged that no index was likely to correspond to the Company's holdings in light of the Company's unique investment strategy. The Directors noted that: (a) based on net asset value, the Company outperformed both indices for the six months ended June 30, 2016 and since inception

(November 13, 2013) through June 30, 2016, and underperformed both indices for the 12 months ended December 31, 2015; and (b) based on market price, the Company underperformed both indices for the 12 months ended December 31, 2015 and since inception (November 13, 2013 through June 30, 2016) and outperformed both indices for the six months ended June 30, 2016. The Directors acknowledged that the underperformance of the Company based on market price was largely attributable to the Company's discount to the net asset value which narrowed (improved) significantly in the six months ended June 30, 2016 and that the factors contributing to CEIC discount are difficult to identify. The Directors also noted their review and evaluation of the Company's investment performance on an on-going basis throughout the year.

The Directors considered the consistency of performance results and the short-term and long-term performance of the Company and recognized that such performance was impacted by, among other things, the limited operating history of the Company, issuer prepayment and calls and the time lag required for the initial deployment and subsequent redeployments of assets. They concluded that the performance of the Company and the Adviser represented satisfactory performance in light of the Company's investment objective and strategy.

The Directors considered the costs of the services provided by the Adviser, the compensation and benefits received by the Adviser in providing services to the Company, as well as the Adviser's profitability. The Directors were provided with and had reviewed the Adviser's unaudited balance sheet and income statement for the six months ended June 30, 2016 and the year ended December 31, 2015. The Directors noted that the Adviser appeared to be a viable concern generally and as investment adviser of the Company specifically, notwithstanding that the Adviser's profitability analysis indicated that the Adviser was not currently earning a profit in its capacity as investment adviser to the Company. The Directors concluded that the Adviser's fees and profits (if any) derived from its relationship with the Company in light of the Company's expenses were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other investment advisers of CEICs and BDCs in the Peer Group. The Directors noted that the Company's management fee was in line with the average and median management fee of the Peer Group and, specifically, with two registered CEICs in the Peer Group. The Directors also concluded that the overall expense ratio of the Company (lower than the peer group median and average) was reasonable, taking into account the size of the Company, the quality of services provided by the Adviser, and the investment performance of the Company. On the basis of these considerations, together, with the other information it considered, the Board determined that the advisory fee to be received by the Adviser is reasonable in light of the services provided.

The Directors considered the extent to which economies of scale would be realized relative to fee levels as the Company grows, and whether the advisory fee levels reflect these economies of scale for the benefit of stockholders. The Directors determined that economies of scale would be achieved at higher asset levels for the Company to the benefit of Company stockholders as fixed expenses are spread over a larger asset base, however, the Directors noted that the opportunity for asset growth was limited because the Company is a closed-end investment company currently trading at a discount to its NAV.

The Directors considered whether any events have occurred that would constitute a reason for the Directors not to renew the Management Agreement and determined that there were none.

The Board concluded that the investment advisory fee rate under the Management Agreement is reasonable in relation to the services provided and that continuation of the Management Agreement is in the best interests of the stockholders of the Company. The Directors also concluded that the investment advisory fees are at acceptable levels in light of the quality of services provided to the Company. On these bases, the Directors concluded that the investment advisory fees for the Company under the Management Agreement are reasonable. In arriving at their decision, the Directors did not identify any single matter as controlling, but made their determination in light of all the circumstances.

Management

Board of Directors and Executive Officers

Our business and affairs are managed under the direction of our board of directors. Accordingly, our board of directors provides broad supervision over our affairs, including supervision of the duties performed by our Advisor. Our Advisor is responsible for our day-to-day operations. The names, ages and addresses of our directors and officers and specified employees of our Advisor, together with their principal occupations and other affiliations during the past five years, are set forth below. Each director and officer will hold office for the term to which he is elected and until his successor is duly elected and qualifies, or until he resigns or is removed in the manner provided by law. Unless otherwise indicated, the address of each director is c/o StoneCastle Partners, 152 West 57th Street, 35th Floor, New York, New York 10019. Our board of directors will initially consist of three directors who are not "interested persons" (as defined in the Investment Company Act of 1940 (the "Investment Company Act")) of our Advisor or its affiliates and two directors who are "interested persons." Our directors who are not interested persons are also independent pursuant to the NASDAQ stock exchange listing standards, and we refer to them as "independent directors." We refer to the directors who are "interested persons" (as defined in the Investment Company Act) are referred to below as "interested directors." Under our certificate of incorporation, the board is divided into three classes. Each class of directors will hold office for a three-year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualified.

Interested Directors

Name	Age	Position(s) Held with Company	Term End	Principal Occupation(s) Last 5 Years	Other Directorships Last 5 Years
Joshua Siegel	45	Chairman of the Board & Chief Executive Officer	2018	Managing Partner and CEO of StoneCastle Partners, LLC	StoneCastle Partners, LLC; StoneCastle Cash Management, LLC
George Shilowitz	51	Director & President	2017	Managing Partner and Co-CEO of StoneCastle Partners, LLC; Senior Portfolio Manager of StoneCastle Partners, LLC	StoneCastle Partners, LLC

Independent Directors

Name	Age	Position(s) Held with Company	Term End	Principal Occupation(s) Last 5 Years	Other Directorships Last 5 Years
Alan Ginsberg	55	Director, Chairman of Audit Committee	2019	Managing Director, Bank America Securities until 5/08; Partner, Change Investments 5/08 to 8/09; Senior Advisor, StoneCastle Partners 5/10 to 5/13	Chairman, External Advisory Board of Peabody Museum at Yale University

<u>Name</u>	<u>Age</u>	<u>Position(s) Held with Company</u>	<u>Term End</u>	<u>Principal Occupation(s) Last 5 Years</u>	<u>Other Directorships Last 5 Years</u>
Emil Henry	56	Director, Member of Audit Committee and Lead Independent Director	2018	CEO and Founder of Tiger Infrastructure Partners	Tiger Cool Express, Hudson Fiber Network, Easterly Government Properties, American National
Clara Miller	67	Director, Member of Audit Committee	2017	Non-Profit Finance Fund 10/84 to 3/11; The F.B. Heron Foundation 3/11 to present	GuideStar, The Robert Sterling Clark Foundation, and Family Independence Initiative

Executive Officers Who are not Directors

<u>Name</u>	<u>Age</u>	<u>Position(s) Held with Company</u>	<u>Term Served</u>	<u>Principal Occupation(s) Last 5 Years</u>
Patrick J. Farrell	57	Chief Financial Officer	Since April 1, 2014	Chief Financial Officer of StoneCastle Partners, LLC from April 2014 to date; Chief Financial Officer of Emerging Managers Group, LP
Rachel Schatten	46	General Counsel, Chief Compliance Officer and Secretary	Since July 2013	General Counsel and Chief Compliance Officer of StoneCastle Partners, LLC, General Counsel and Chief Compliance Officer of Hardt Group

Biographical Information

Interested Directors

The following sets forth certain biographical information for our Interested Directors. An Interested Director is an "interested person" as defined in Section 2(a)(19) of the 1940 Act:

Joshua S. Siegel. Chief Executive Officer & Chairman of the Board. Mr. Siegel is the founder and Managing Partner of StoneCastle Partners and serves as its Chief Executive Officer. With over two decades of experience in financial services, 18 of which have been spent advising clients and investing in financial institutions or assets, he is widely regarded as a leading expert and investor in the banking industry and is often quoted in financial media, including The Wall Street Journal, The New York Times, American Banker, and CNNMoney. In addition, he speaks frequently at industry events, including those hosted by the American Bankers Association, Conference of State Bank Supervisors, FDIC, Federal Reserve Bank and SNL Financial. A creative instructor with a passion for teaching, Joshua has regularly been invited to educate government regulators about the specialized community banking sector. He also serves as Adjunct Professor at the Columbia Business School in New York City. Immediately prior to co-founding StoneCastle, Joshua was a co-founder and Vice President of the Global Portfolio Solutions Group at Citigroup, a group organized to finance portfolios of financial assets for corporations and to invest in the sector as a principal and market maker. He later assumed responsibility for developing new products, including pooled investment strategies for the community banking sector. Joshua originally joined Salomon Brothers in 1996 (which was merged into Travelers in 1998 and into Citigroup in 1999) in the tax and lease division, providing financing and advisory services to government-sponsored enterprises and Fortune 500 corporations. Prior to his tenure at Citigroup, Joshua worked at Sumitomo Bank where

he served as a corporate lending officer, as a banker managing equipment lease and credit derivative transactions, and as a member of the New York Credit Committee and at Charterhouse, carrying out merchant banking and private equity transactions. Joshua has provided strategic advice to the Global Food Banking Network. He also provides annual economic support to Prep for Prep to make sure academic brilliance is recognized and nurtured without regard to a student's economic, demographic or sociological impediments. He holds a B.S. in Management and Accounting from Tulane University.

George Shilowitz. President and Director. Mr. Shilowitz is a Managing Partner and Co-CEO of StoneCastle Partners and serves as the Senior Portfolio Manager of StoneCastle Partners. Mr. Shilowitz has two decades of fixed income and principal investment experience. Mr. Shilowitz worked with StoneCastle since its founding in 2003 and became a partner in 2007. Prior to joining StoneCastle, Mr. Shilowitz was a senior executive at Shinsei Bank and participated in its highly successful turnaround, sponsored by J.C. Flowers & Co. and Ripplewood Partners. At Shinsei, Mr. Shilowitz managed various business units, including Merchant Banking and Principal Finance and was the President of its wholly-owned subsidiary, Shinsei Capital (USA) Limited. Prior to Shinsei, Mr. Shilowitz was a senior member of the Principal Transactions Group at Lehman Brothers in Asia from 1997-2000, focusing on proprietary investments and debt portfolio acquisitions from distressed financial institutions. From 1995-1997, he was a member of Salomon Brothers' asset finance group where he met and first collaborated with Mr. Siegel. Mr. Shilowitz began his career in 1991 at First Boston Corporation (now Credit Suisse) as a member of the fixed income mortgage arbitrage group and also held positions in the financial engineering group and in asset finance investment banking where he focused on banks and specialty finance companies. He holds a B.S. in Economics from Cornell University.

Independent Directors

The following sets forth certain biographical information for our Independent Directors. Independent Directors are not "interested persons" of StoneCastle Financial Corp., as defined by the 1940 Act:

Alan Ginsberg. Mr. Ginsberg has more than 25 years of experience in providing financial advisory services to financial institutions. Mr. Ginsberg began his investment banking career at Salomon Brothers Inc. in 1983, followed by being a key member of a group that moved to UBS Financial Services Inc. in 1995 and to Donaldson, Lufkin & Jenrette in 1998. He remained at DLJ through the merger with Credit Suisse First Boston until 2004, when he was recruited to Head HSBC Bank USA's Financial Institutions Group Americas, remaining there until mid-2006. Following HSBC, Mr. Ginsberg was a senior member of the Banc of America Securities Financial Institutions Group. Mr. Ginsberg has advised on more than 65 strategic transactions and advisory assignments during his tenure as an investment banker. Mr. Ginsberg received his B.A. in Economics from Yale University. He currently serves on Yale's Peabody Museum Advisory Board, and he served as a Senior Advisor to StoneCastle Partners from 2010 until May 2013.

Emil W. Henry, Jr. Mr. Henry is the CEO and Founder of Tiger Infrastructure Partners, a private equity firm focused on infrastructure investment opportunities. Prior to founding Tiger Infrastructure Partners, he was Global Head of the Lehman Brothers Private Equity Infrastructure businesses, where he oversaw global infrastructure investments. In 2005, Mr. Henry was appointed Assistant Secretary of the Treasury for Financial Institutions by the

President of the United States. Until his departure in 2007, he was a key advisor to two Treasury Secretaries on economic, legislative and regulatory matters affecting U.S. financial institutions and markets. Before joining the Treasury, Mr. Henry was a partner of Gleacher Partners LLC, an investment banking and investment management firm, where he served as Chairman of Asset Management, and Managing Director, and where he oversaw the firm's investment activities. Before attending business school, Mr. Henry was a member of the principal investing arm of Morgan Stanley, where he was involved in the execution of leveraged buyouts on the firm's behalf. He holds an M.B.A. from Harvard Business School and a B.A. in Economics from Yale University.

Clara Miller. Clara Miller is President and a Director of The F. B. Heron Foundation, which helps people and communities help themselves out of poverty. Prior to assuming the Foundation's presidency, Ms. Miller was President and CEO of Nonprofit Finance Fund which she founded and ran from 1984 through 2010. Ms. Miller is on the boards of the Sustainability Accounting Standards Board (SASB), Family Independence Initiative, and StoneCastle Financial Corp. From 2010-2014, Ms. Miller was a member of the Nonprofit Advisory Committee of the Financial Accounting Standards Board. Ms. Miller is a member of the G8 U.S. Advisory Committee on Impact investing. In 2015, Ms. Miller received Investor of the Year award from Institutional Investor Magazine in the category of "small foundations." Ms. Miller was appointed by President Clinton to the U.S. Treasury's first Community Development Advisory Board for the then-newly-created Community Development Financial Institutions Fund in 1996 and served later as its Chair. She also chaired the Opportunity Finance Network board for six years and was a member of the Community Advisory Committee of the Federal Reserve Bank of New York for eight years.

Executive Officers Who Are Not Directors

Patrick J. Farrell. Chief Financial Officer. Mr. Farrell has over 30 years of hands-on management experience in finance and accounting, specifically focused on domestic and offshore mutual funds, bank deposit account programs, investment advisory and broker dealer businesses. Prior to joining StoneCastle Partners as Chief Financial Officer in February 2014, Mr. Farrell was CFO/COO of the Emerging Managers Group, L.P., a specialty asset management firm focused on offshore mutual funds. Prior to that, Mr. Farrell was CFO at Reserve Management, where he oversaw all financial activities for the company. Earlier in his career, he held financial positions at Lexington Management, Drexel Burnham, Alliance Capital and New York Life Investment Management, all focused on investment advisory and mutual fund activities. He began his career at Peat Marwick Mitchell & Co. Mr. Farrell holds a B.S. in Business Administration-Accounting from Manhattan College. Mr. Farrell is a Certified Public Accountant in New York State and a member of the American Institute of Certified Public Accountants.

Rachel Schatten. General Counsel, Chief Compliance Officer and Secretary. Ms. Schatten had over 12 years of investment adviser experience prior to joining StoneCastle Partners as General Counsel and Chief Compliance Officer in 2013. From 2004 to 2013, she served as the U.S. General Counsel and Chief Compliance Officer of a subsidiary of Hardt Group Investments AG, an international fund of funds, and the General Securities Principal of its affiliated broker-dealer since its inception through its subsequent sale. Prior to her tenure at the Hardt Group, Ms. Schatten was an Associate in the investment management group of Schulte Roth & Zabel LLP, where she counseled investment advisers on developing and structuring new hedge funds, including domestic and offshore entities, master feeder funds,

and funds of funds. She holds Series 7, 63 and 24 licenses and is admitted to practice law in New York. She graduated Cum Laude from Albany Law School of Union University, where she was an associate editor of the Albany Law Review and a member of the Justinian Society.

Additional information regarding the Directors of StoneCastle Financial Corp. can be found in the Statement of Additional Information, which is available, without charge, upon request, by calling 1-877-373-6374 and is also available on the Company's website at <http://www.stonecastle-financial.com>

Privacy Notice

StoneCastle Financial Corp. (“we” or “us”) is committed to maintaining your right to privacy. Protecting the information we receive as part of our relationship with you is of primary importance to us. Please take the time to read and understand the privacy policies and procedures that we have implemented to safeguard your nonpublic personal information.

Information We Collect

We must collect certain personally identifiable financial information about our customers to provide financial services and products. Nonpublic personal information means personally identifiable financial information and any list, description or other grouping of consumers that is derived using any personally identifiable financial information that is not publicly available. The personally identifiable financial information that we gather during the normal course of doing business with you may include:

1. information we receive from you on applications or other forms;
2. information about your transactions with us, our affiliates, or others;
3. information collected through the Internet; and
4. information we receive from a consumer reporting agency.

Information We Use

The information that we collect and store relating to you is primarily used to enable us to provide our services to you in the best possible manner. In addition, we may use the information for the following purposes:

1. To provide you with information relating to us;
2. To provide third parties with statistical information about the users of our website;
3. To monitor and conduct an analysis of our Website traffic and usage patterns; and
4. To analyze trends.

Information We Disclose

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted or required by law, or as necessary to provide services to you. We may disclose all of the information we collect, as described above, to certain nonaffiliated third parties such as attorneys, accountants, auditors, regulators and persons or entities that are assessing our compliance with industry standards. We enter into contractual agreements with all nonaffiliated third parties that prohibit such third parties from disclosing or using the information other than to carry out the purposes for which we disclose the information.

If you have questions or comments about our privacy practices, please call us at (212) 354 6500.

StoneCastle Financial Corp.

BOARD OF DIRECTORS

Interested Directors⁽¹⁾

Joshua S. Siegel, Chairman of the Board of Directors

George Shilowitz

Independent Directors

Alan Ginsberg

Emil Henry, Jr.

Clara Miller

OFFICERS

Joshua S. Siegel, Chief Executive Officer

George Shilowitz, President

Patrick J. Farrell, Chief Financial Officer

Rachel Schatten, General Counsel, Chief Compliance Officer and Secretary

INVESTMENT ADVISOR

StoneCastle Asset Management LLC
152 West 57th St, 35th Floor
New York, NY 10019

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Tait, Weller & Baker LLP
1818 Market Street, Suite 2400
Philadelphia, PA 19103

TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021

(1) As defined under the Investment Company Act of 1940, as amended.