StoneCastle Financial Corp.
Form N-2
May 22, 2015

As filed with the Securities and Exchange Commission on May 22, 2015
Securities Act File No. 333-
Investment Company Act File No. 811-22853

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

x REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

o Pre-Effective Amendment No.

o Post-Effective Amendment No.

and

x REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No.

STONECASTLE FINANCIAL CORP.

(Exact Name of Registrant as Specified in Charter)

152 West 57th Street, 35th Floor, New York, New York 10019

(Address of Principal Executive Offices)

Registrant s Telephone Number, Including Area Code: **(212) 354-6500**

Joshua S. Siegel
StoneCastle Financial Corp.
152 West 57th Street, 35th Floor New York, New York 10019

(Name and Address of Agent for Service)

Copies of communications to:

John P. Falco, Esq.

Pepper Hamilton LLP

3000 Two Logan Square

18th and Arch Streets

Philadelphia, PA 19103

Approximate date of proposed public offering: **As soon as practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective

x when declared effective pursuant to Section 8(c)

If appropriate, check the following box:

o This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

o This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee (2)
Shares of Common Stock, $0.001 par value per share	$	$	$
Shares of Preferred Stock, $0.001 par value per share			
Subscription Rights			
Debt Securities			
Total	$	$ 150,000,000	$ 17,430

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(1) There are being registered hereunder such indeterminate number of shares of common stock, preferred stock, subscription rights and debt securities as shall have an aggregate offering price not to exceed $150,000,000, less the aggregate dollar amount of all securities previously issued hereunder. If any debt securities are issued at an original issue discount, then the offering price of such debt securities shall be in such greater principal amount as shall result in an aggregated offering price not to exceed $150,000,000, less the aggregate dollar amount of all securities previously issued hereunder. The securities registered hereunder also include such indeterminate number of securities of each identified class of securities, which may be offered from time to time in unspecified numbers and at indeterminate prices, and as may be issued upon conversion, redemption, repurchase, exchange or exercise of any securities registered hereunder, including under any applicable anti-dilution provisions of any of such securities. In addition, pursuant to Rule 416 under the Securities Act of 1933, as amended, or the Securities Act, the securities being registered hereunder includes such indeterminate number of securities of each identified class of securities as may be issuable with respect to the securities being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(o) under the Securities Act based on the proposed maximum aggregate offering price of all securities listed.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to completion, dated May 22, 2015

PROSPECTUS

$150,000,000

Common Stock

Preferred Stock

Subscription Rights

Debt Securities

Investment Company. StoneCastle Financial Corp. (we, us, our or the Company) is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the Investment Company Act). We have elected to be treated, and intend to comply with the requirements to qualify annually, as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). We are managed by StoneCastle Asset Management LLC (the Advisor), a subsidiary of Stone Castle Partners, LLC (StoneCastle Partners), a leading asset management firm that invests in community banks and related financial assets throughout the United States. StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks as of December 31, 2014.

Investment Objectives. Our primary investment objective is to provide stockholders with current income, and to a lesser extent capital appreciation. There can be no assurance that we will achieve our investment objectives.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $150 million of our common stock, preferred stock, subscription rights or debt securities, which we refer to, collectively, as the securities. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value (NAV) per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors or (3) under such circumstances as the Securities and Exchange Commission (the SEC) may permit. See Risk Factors for more information.

Investing in our securities involves risks. See Risk Factors beginning on page 44 of this prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Our common stock is listed on the NASDAQ Global Select Market under the symbol BANX . On May 19, 2015, the last reported sale price of our common stock on the NASDAQ Global Select Market was $16.11 per share.

This prospectus sets forth information about us that a prospective investor should know before investing. This prospectus may not be used to consummate sales of securities by us through underwriters, dealers or agents unless it is accompanied by a prospectus supplement. You should read this prospectus any accompanying prospectus supplement carefully and retain it for future reference. We have filed a Statement of Additional Information, dated May 22, 2015, containing additional information about us with the SEC, which is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information or our annual and semi-annual reports or make shareholder inquiries or request other information about us by calling us collect at (212) 354-6500 or by writing to us at 152 West 57th Street, 35th Floor, New York, New York 10019. You can also obtain, free of charge, a copy of our Statement of Additional Information and our annual and semi-annual reports to stockholders on our website at www.stonecastle-financial.com. The content contained in, or that can be accessed through, our website is not a part of this prospectus. You can review and copy documents we have filed at the SEC s Public Reference Room in Washington, DC. Call 1-800-SEC-0330 for information. The SEC charges a fee for copies. You can obtain the same information free from the SEC s website at http://www.sec.gov, on which you may view our Statement of Additional Information, and other materials incorporated by reference to this prospectus and other information about us. You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the SEC s Public Reference Section, 100 F Street N.E., Room 1580, Washington, D.C. 20549.

Our common stock does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. We are offering to sell, and seeking offers to buy, shares of securities only in jurisdictions where offers and sales are permitted. This prospectus and any accompanying prospectus supplement does not constitute an offer to sell or the solicitation of an offer to buy any security other than the securities offered by this prospectus and any accompanying prospectus supplement, nor does this prospectus or any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities by anyone in any jurisdiction in which such offer or solicitation would be unlawful. The information contained in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus and any accompanying prospectus supplement, regardless of the time of delivery of this prospectus, any accompanying prospectus or any sale of securities.

The date of this prospectus is May 22, 2015.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including Risk Factors, before making a decision to invest in our securities. This summary may not contain all of the information that you should consider before investing in the securities of StoneCastle Financial Corp. In the prospectus, unless the context suggests otherwise, references to we, us, Company, our company or our refer to StoneCastle Financial Corp., a Delaware corporation and its subsidiaries; references to Advisor mean StoneCastle Asset Management LLC, a Delaware limited liability company; references to StoneCastle Partners mean Stone Castle Partners, LLC, the parent of StoneCastle Asset Management LLC, our Advisor; references to common stock or shares mean the common stock of StoneCastle Financial Corp; and references to securities mean the common stock, preferred stock, subscription rights and debt securities of StoneCastle Financial Corp.

The Company

StoneCastle Financial Corp. was organized on February 7, 2013 as a Delaware corporation established to continue and expand the business of StoneCastle Partners, which commenced operations in 2003, making investments in the community banking sector throughout the United States. Our primary investment objective is to provide stockholders with current income and, to a lesser extent, capital appreciation. We expect to continue to focus our investments on preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity that will generally be expected to pay us dividends and interest on a current basis and generate capital gains over time. We may seek to enhance our returns through the use of warrants, options and other equity conversion features.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC under Subchapter M of the Code.

Investment Objectives

Our primary investment objective is to provide stockholders with current income, and to a lesser extent, capital appreciation. There can be no assurance that we will achieve our investment objectives.

We attempt to achieve our investment objectives through investment in preferred equity, subordinated debt, convertible securities and common equity in the U.S. community bank sector. See Community Banking Sector Focus. To a lesser extent, we 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 businesses 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.

We expect to continue to focus our portfolio of securities and investments on the bank sector, with an emphasis on community banks. We intend to continue to direct investments in numerous issuers differentiated by asset size, business models and geographies. In addition, we may indirectly invest in securities issued by banks through structured securities and credit derivatives. We expect that these indirect investments will provide exposure to and focus on the same types of investments that we make in banking companies and, accordingly, would complement our overall strategy and enhance the diversity of our holdings. With the proceeds of this equity offering and future equity offerings we will seek to grow and further diversify our portfolio of investments. We may also incur additional leverage to the extent permitted by the Investment

Company Act. See Leverage. Although we normally seek to invest substantially all of our assets in banking-related securities, we reserve the ability to invest up to 20% of our assets in other types of securities and instruments.

Additionally, we may take temporary defensive positions that are inconsistent with our investment strategy in attempting to respond to adverse market, economic, political or other conditions. If we do so, we may not achieve our investment objective. We may also choose not to take defensive positions.

Our Advisor

StoneCastle Asset Management LLC, an SEC-registered investment advisor dedicated to the community banking sector that was formed on November 14, 2012, manages our assets. Our Advisor is registered with the SEC under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act). Our Advisor is staffed with investment professionals from its affiliates, which collectively manage one of the largest portfolios of assets dedicated to the U.S. community bank sector, with over a ten-year history of investing in trust preferred capital securities issued by, or, other obligations of, community, regional and money center banks. As of December 31, 2014, StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks. Our Advisor s investment philosophy is grounded in disciplined, fundamental, bottom-up credit and investment analysis. We intend to continue to use our Advisor s existing community banking infrastructure to identify attractive investment opportunities and to underwrite and monitor our investment portfolio.

Our Advisor is wholly-owned by StoneCastle Partners. StoneCastle Partners is managed by its two managing partners: Joshua S. Siegel (founder & CEO) and George Shilowitz (each, a Managing Partner and, together, the Managing Partners). Charlesbank Capital Partners, LLC, a leading private equity investment manager, and CIBC Capital Corporation (CIBC Capital), a subsidiary of Canadian Imperial Bank of Commerce, own minority interests in StoneCastle Partners.

Each of our Advisor s investment decisions is reviewed and approved for us by our Advisor s investment committee, the members of which may also act as the investment committee for other investment vehicles managed by our Advisor or its affiliates. Our Advisor s two senior officers, Messrs. Siegel and Shilowitz, each have over twenty years of experience advising and investing in financial institutions, investing in financial assets and building financial services companies.

Our Advisor has entered into a staffing agreement with StoneCastle Partners and several of its affiliates. Under the staffing agreement, these companies make experienced investment professionals available to our Advisor and provide our Advisor access to the senior investment personnel of StoneCastle Partners and its affiliates. Our Advisor intends to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of StoneCastle Partners investment professionals. Biographical information for key members of our Advisor s investment team is set forth below under Management Biographical Information. As our investment advisor, our Advisor is obligated to allocate investment opportunities among us and its other clients in accordance with its allocation policy; however, there can be no assurance that our Advisor will allocate such opportunities to us fairly or equitably in the short-term or over time.

Community Banking Sector Focus

We intend to pursue our investment objective by continuing to invest principally in public and privately-held community banks located throughout the United States. For the purpose of our investment objectives and this prospectus, we define community bank to mean banks, savings associations and their holding companies with less than $10 billion in consolidated assets that serve local markets. As of December 31, 2014, the community banking sector is a highly fragmented $2.9 trillion industry, comprised of over 6,400 banks located throughout the United States, including underserved rural, semi-rural, suburban and other niche markets. Community banks generally have simple, straightforward business models and geographically concentrated credit exposure.

Community banks typically do not have exposure to non-U.S. credit and are focused on lending to borrowers in their distinct communities. As a result, we believe that community banks frequently have a better understanding of the local businesses they finance than larger banking organizations. Many of these community banks are well established, having been in business on average for more than 75 years, and having survived many economic cycles, including the most recent financial crisis. We expect to continue to focus our investments in the bank sector with an emphasis on community banks. We intend to continue to direct investments in numerous issuers differentiated by asset sizes, business models and geographies. To a lesser extent, we may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies.

Market Opportunity

We believe that the community banking sector is attractive due to the strong long-term performance of community banks and the general lack of investment competition from institutional investors. The Company was formed to invest in the ongoing capital needs of community banks. We believe that the environment for investing in community banks is attractive for the following reasons:

- *Long-Term Resiliency of Community Banks*. The community banking industry has a long history of resiliency and historically has exhibited a low rate of failure. According to data from the Federal Deposit Insurance Company (FDIC), since 1934, FDIC insured banks and thrifts have failed at an annual rate of 0.37%, with peak cycle one-year failure rates of 3.22% in 1989 (S&L crisis), 1.96% in 2010 (Great Recession) and 0.54% in each of 1937 and 1938 (Great Depression). We believe that these figures are comparable with Baa and Ba Moody s rated corporate bond default rates, which experienced an average annual default rate since 1920 of approximately 0.27% for Moody s Baa-rated corporate bonds and 1.07% for Ba-rated bonds, with the highest one year default rates of 1.99% and 11.69%, for Baa-rated and Ba-rated corporate bonds, respectively, as reported in Annual Default Study: Corporate Default and Recovery Rates, 1920-2013 released on February 28, 2014.

- *Greater Equity Cushions.* While community banks are generally subject to the same regulations as their larger competitors, community banks have historically maintained significantly larger amounts of equity capital. Given that community banks do not typically have access to different forms of capital from the public markets, most equity in community banks is comprised of common equity, a form considered of the highest quality by federal and state banking regulators. As of December 31, 2014, banks with less than $10 billion of assets maintained Tier 1 risk-based capital ratios 17% higher than banks with more than $10 billion of assets. Given that banks over $10 billion have 32% higher non-current loans to loans (1.96% vs. 1.49%), community banks generally have significantly better equity cushions than their larger competitors.

- *Large Fragmented Market.* Community banks collectively controlled nearly $2.9 trillion of financial assets as of December 31, 2014. Despite significant industry consolidation since 1980, as of December 31, 2014 there were still more than 6,400 FDIC-insured banks in the United States. As of such date, more than 98% of these banks had less than $10 billion of assets and many primarily service their local communities. We believe that the highly fragmented nature of the industry poses significant challenges for potential investors seeking to implement a diversified investment strategy.

- *Robust Demand for Capital.* Regulatory changes are requiring all banks to hold increased levels of capital. This requirement creates what we believe to be strong demand for capital in the form of preferred equity, subordinated debt, convertible securities and common equity. Further, capital is needed to facilitate ongoing consolidation within the banking industry, including acquisitions of failed banks from the FDIC. Lastly, organic growth of well-positioned institutions also supports demand. Our Advisor estimates that the community banking sector will require more than $35 billion of capital over the next several years to facilitate (i) compliance with heightened regulatory capital ratios, (ii) acquisition of competitors and failed banks and (iii) organic asset growth. This estimate is in part based on the size of the trust preferred

Collateralized Debt Obligation (CDO) market and the phase out of trust preferred securities from the definition of Tier 1 capital.

- *Constrained Supply of Capital.* We believe that the supply of new capital available to community banks is extremely constrained and will remain so for many years. We also believe that there are many community banks with well-established franchises and cash flow characteristics that are not attracting capital from private equity or other institutional investors because: (i) they are perceived by such investors as risky due to their size; (ii) the companies are located in rural or niche markets that are unfamiliar to institutional investors; or (iii) the investments in these companies are too small given (a) the size of the target companies and (b) limitations on majority ownership dictated by certain banking regulations. We believe that these companies represent attractive investment candidates for us. We believe that this lack of institutional investor interest and the inability of most community banks to access the capital markets will enable us to invest at attractive pricing levels.

- *Sector Overlooked by Institutional Capital Providers.* We believe that many investors historically have avoided investing in community banks due to the small size of these banks, their heavy regulation, the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act) which imposes ownership restrictions and the perception that community banks are riskier than larger financial institutions. In addition, many capital providers lack the necessary technical expertise to evaluate the quality of the small- and mid-sized privately-held community banks and lack a network of relationships to identify attractive opportunities.

- *Favorable Market Conditions.* We believe that the substantial re-pricing of risk resulting from the recent financial crisis along with significantly improved bank balance sheets since the worst period of the crisis has created an ideal environment for us to continue our investment activities. Bank failures and unprecedented losses by large money-center banks and investment banks related to sub-prime mortgages and other higher risk financial products have negatively affected the view of all banks, including smaller banks not engaged in such activities. As a consequence, valuations of financial institutions have declined substantially since 2004, allowing potential investors to dictate favorable terms.

Competitive Advantages

We believe that our significant focus on the community banking sector provides us with a strong competitive advantage relative to non-specialized investors. We believe that we are well-suited to meet the capital needs of the community banking sector for the following reasons:

- *Experience in the Community Banking Sector.* The current investment platform of our Advisor s affiliate, StoneCastle Partners, provides us with significant advantages in sourcing, evaluating, executing and managing investments. StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks as of December 31, 2014.

- *Substantial Access to Deal Flow.* In order to execute our business strategy, we currently rely on what we believe to be our Advisor s and its affiliates strong reputations and deep relationships with issuers, underwriters, financial intermediaries and sponsors, as well as our exclusive investment referral and endorsement relationships with CAB Marketing, LLC and CAB, L.L.C. (collectively referred to as CAB), subsidiaries of the American Bankers Association (ABA). Pursuant to the agreements governing these relationships, CAB assists us with the promotion and identification of potential investment opportunities through marketing campaigns, placements at ABA events and introductions to banks seeking capital. In addition, CAB has granted to us a license to use the CAB name,   Corporation for American Banking,   in connection with our investment program. We may use this name in connection with the promotion and identification activities, including emails, press releases, events and due diligence questionnaires targeting ABA members. Most capital raising activities by community banks are conducted through privately-negotiated transactions that occur outside of traditional institutional investment channels, including the capital markets. We believe that StoneCastle Partners and CAB s large network of relationships will help us to identify attractive investment opportunities and will provide us with a competitive advantage. The ABA and its subsidiaries have not endorsed any future offering, and you should not construe references to them in this prospectus as such an endorsement.

- *Experienced Management Team.* StoneCastle Partners and its affiliates are led by StoneCastle Partners two Managing Partners, Joshua S. Siegel and George Shilowitz, and as of December 31, 2014, had approximately 52 employees. Our investment team is comprised of professionals who have substantial expertise investing in community banks, and includes former senior bankers, credit officers, private equity investors, rating agency analysts, bank examiners, fixed income specialists and attorneys.

- *Specialized / Proprietary Systems.* During the past decade, StoneCastle Partners has invested substantial funds and resources into the development of its proprietary analytic systems/database that is dedicated to analyzing banks (the RAMPART systems). RAMPART currently tracks and analyzes every bank in the United States and provides our investment professionals with significant operational leverage, allowing our team to sort through vast amounts of data to screen for potential investments. We believe that few institutional investors have developed infrastructure comparable to that of StoneCastle Partners and its affiliates.

- *Disciplined Investment Philosophy and Risk Management.* Our Advisor s senior investment professionals have substantial experience structuring investments that balance the needs of community banks with appropriate levels of risk control. Our Advisor s investment approach for us emphasizes current income and, to a lesser extent, capital appreciation through common equity, warrants, options and conversion features. Given that a significant portion of our investments are fixed income-like (including preferred stock), preservation of capital is our priority and we seek to minimize downside risk by investing in banks that exhibit the potential for long-term stability (See The Company Investment Process and Due Diligence).

- *Few Organized Competitors.* We believe that several factors render many U.S. investors and financial institutions ill-suited to lend to or invest in community banks. Historically, the relatively small size of individual community banks and certain regulatory requirements limiting control have deterred many institutional investors, including private equity investors, from making those investments. We believe that, as a consequence, few institutional investors have developed and possess the specialized skills and infrastructure to efficiently analyze and monitor investments in community banks on a large scale. Based on the experience of our management team, investing in community banks requires specialized skills and infrastructure, including: (i) the ability to analyze small community banking institutions and the local economies in which they do business; (ii) specialized systems to analyze and track vast amounts of bank performance data; (iii) a deep understanding and working relationship with state and federal regulators that oversee community banks; and (iv) brand awareness within the community banking industry and a strong reputation as a long-term partner that understands the needs of community banks to originate investment opportunities successfully.

- *Extended Investment Horizon.* Unlike private equity investors, we are not subject to standard periodic capital return requirements. These provisions often force private equity investors to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might prefer, potentially resulting in a lower overall return to investors. We believe that our flexibility to make investments with a long-term view, and without the capital return requirements of traditional private investment funds, provides us with the opportunity to generate attractive returns on invested capital.

Targeted Investment Characteristics

Our business strategy focuses on minimizing risk by using a disciplined underwriting process in providing capital to community banks. We expect to continue to focus on investing in community banks that exhibit the following characteristics:

- *Experienced Management.* We seek to invest in community banks with management teams or sponsors that are experienced in running local banking businesses and managing risk. We seek community banks that have a particular market focus, expertise in that market and a track record of success. Further, we actively seek to invest in banks with senior management teams with significant ties to their local communities.

- *Stability of Earnings.* We seek to invest in community banks with the potential to generate stable cash flows over long periods of time, and therefore we presently seek out institutions that have a defined lending strategy and predictable sources of interest revenues, stable sources of deposits and predictable expenses.

- *Stability of Market.* We seek to invest in community banks whose core business is conducted in one or more geographic markets that have sustainable local economies. The market characteristics we seek include stable or growing employment bases and favorable long-term demographic trends, among other characteristics.

- *Growth Opportunities.* We seek to invest in healthy community banks headquartered in markets which provide significant organic growth opportunities or headquartered in highly fragmented markets where industry consolidation is likely providing the opportunity for community banks to grow through acquisitions of smaller competitors.

- *Strong Competitive Position.* We focus on community banks that have developed strong market positions within their respective markets and that are well positioned to capitalize on growth opportunities. We seek to invest in companies that demonstrate competitive advantages that should help to protect and potentially expand their market position and profitability. Typically, we do not expect to invest in newly organized institutions or community banks having highly speculative business plans.

- *Visibility of Exit.* When investing in common equity, we seek investments that we expect to result in an exit opportunity. Exits may come through the conversion of an investment into public shares; an initial public offering of shares by the bank; the sale of the bank; or the repurchase of shares by the bank or another financial investor.

Investments

We primarily invest in securities issued by public and privately held community banks, initially in amounts generally ranging between approximately $3 million to $20 million (unless our investment size is otherwise constrained or expanded by applicable law, rule or regulation). We have an existing pipeline of potential investments that meet our criteria, consisting primarily of preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity. We invest in accordance with our Advisor s investment policy in primarily the following assets:

TARP Assets: We own and may continue to own one or more portfolios of perpetual preferred stock issued by community banks under the U.S. Department of the Treasury s (U.S. Treasury) Troubled Asset Relief Program

(TARP) Capital Purchase Plan. Under TARP, more than 450 community banks issued in excess of $10 billion of perpetual preferred stock in 2008 and 2009 (TARP Preferred) and approximately $2.2 billion in TARP Preferred issued by approximately 121 institutions. We intend to purchase these securities through secondary market transactions.

Preferred and Common Equity Assets: We continue to receive capital requests from numerous community banks regarding potential investments initially in amounts ranging from approximately $3 million to $20 million per investment. Preferred stock may have fixed or variable dividend rates, which may be subject to rate caps and collars. In connection with our investments, we may also receive options or warrants to purchase common or preferred equity.

Regardless of the type of capital security, we intend to invest the majority of our portfolio in institutions that are currently paying dividends or interest on their securities, that our Advisor believes have the ongoing ability to pay dividends or interest on their securities, and that are not currently a party to any regulatory enforcement actions that would limit or hinder their ability to pay dividends or interest. While we do not intend to invest a significant portion of our funds in institutions that do not meet these criteria, we may invest in institutions that our Advisor believes have the ability to emerge from such conditions, pay any accrued interest or cumulative unpaid dividends at emergence and begin the normalized payment of interest or dividends in arrears and/or as frequently stipulated by the issuance in question.

From time to time, we may also invest in Tier 2 qualifying debt securities (long term subordinated debt securities) and other debt securities or hybrid instruments issued by community banks or their holding companies. Additionally, we may invest in Tier 1 qualifying debt securities. These debt securities may have fixed or floating interest rates.

Regulatory capital regulations adopted in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the Third Basel Accord of the Basel Committee on Banking Supervision (Basel III) require banks to increase their Tier 1 capital and reduce their leverage ratios. These regulations also generally require that, in order to qualify as Tier 1 capital, preferred stock must be non-cumulative in nature (only TARP Preferred and certain securities issued by small bank holding companies, defined as holding companies with less than $500 million in consolidated assets, may be cumulative and qualify as Tier 1 capital). We expect that the majority of the new issue preferred stock in which we invest will be non-cumulative. While these existing and any future regulatory capital requirements may cause community banks to raise additional capital, these regulations may make some community banks less likely to pay dividends on preferred stock and common stock.

In addition, future changes in regulatory capital regulations may negatively or positively affect our investments and may subject us to additional pre-payment and capital redeployment risk.

Most of our assets are and, we expect, will be illiquid, and their fair value may not be readily determinable. Accordingly, there can be no assurance that we will be able to realize the value at which we carry such assets if we need to dispose of them. As a result, we can provide no assurance that any given asset could be sold at a price equal to the value at which we carry it. We believe that a majority of the investments we will make will not be rated by a nationally recognized statistical rating organization (NRSRO). If such investments were rated by a NRSRO, we believe they may be rated below investment grade.

Leverage

We have borrowed funds and expect to continue to borrow to fund our investment activities, which is also known as utilizing leverage. While we may enter into borrowing arrangements with banks or other lenders that are unsecured, we currently fund a portion of our investments with a secured debt facility. We will operate with leverage through recourse and non-recourse collateralized financings, private or public offerings of debt, warehouse facilities, secured and unsecured bank credit facilities, reverse repurchase agreements and other borrowings. Additionally, we may create one or more wholly-owned special purpose subsidiaries to facilitate secured borrowing structures.

We have borrowed to fund a portion of our assets and intend to limit our overall borrowing to meet the limitations set forth under the Investment Company Act. Accordingly, we will limit (i) leverage from debt securities to one-third of our total assets, including the proceeds of such borrowings, at the time such borrowings are calculated and (ii) the total aggregate liquidation value and outstanding principal amount of any preferred stock and debt securities to 50% or less of the amount of our total assets (including the proceeds of debt securities and preferred stock) less liabilities and indebtedness not represented by our debt securities and preferred stock, each in accordance with the requirements of the Investment Company Act. Although we have no present intention to do so, we may also operate with leverage by issuing preferred stock.

We seek a leverage ratio, based on a variety of factors including market conditions and our Advisor s market outlook, where the rate of return, net of applicable expenses, on the Company s investment portfolio investments purchased with leverage exceeds the costs associated with such leverage.

As of December 31, 2014, we incurred leverage through borrowings under a revolving credit facility that permitted the Company to borrow up to $45.0 million as of that date of which $22.5 million has been committed and drawn. This facility increased to $70.0 million in January, 2015. Our asset coverage ratio as of December 31, 2014 was 732%. See Leverage Effects of Leverage for a description of our credit agreement with a syndicate of banks led by Texas Capital Bank, N.A.

Following the completion of the offering, we may increase the amount of leverage outstanding. We may incur additional borrowings in order to maintain our desired leverage ratio of 30%. Leverage creates a greater risk of loss, as well as a potential for more gain, for the common stock than if leverage was not used. Interest on borrowings may be at a fixed or floating rate, and the interest at a floating rate generally will be based on short-term rates. The costs associated with our use of leverage, including the issuance of such leverage and the payment of dividends or interest on such leverage, will be borne entirely by the holders of common stock. As long as the rate of return, net of our applicable expenses, on our investment portfolio investments purchased with leverage exceeds the costs associated with such leverage, we will generate more return or income than will be needed to pay such costs. In this event, the excess will be available to pay higher dividends to holders of common stock. Conversely, if the return on such assets is less than the cost of leverage and our other expenses, the return to the holders of our common stock will diminish. To the extent that we use leverage, the NAV and market price of our common stock and the yield to holders of common stock will be more volatile. Our leveraging strategy may not be successful. Because our Advisor s fee is based on total assets (including certain leverage and any assets acquired with the proceeds of leverage), our Advisor s fee will be higher if we utilize leverage. See Risks Related to Our Use of Leverage.

In order to reduce the interest rate and credit risks associated with our investments and use of leverage, we expect to utilize derivatives including interest rate swaps, caps, floors and forward transactions and credit default swaps, total return swaps and credit-linked notes. In addition, we may utilize futures and warrants in order to hedge against changes in market prices of the securities of the publicly-traded banks in which we invest.

Conflicts of Interest

Our Advisor is subject to certain conflicts of interest in our management. These conflicts arise primarily from the involvement of our Advisor and its affiliates in other activities that may conflict with our activities. Our Advisor and its affiliates engage in a broad spectrum of activities. In the ordinary course of their business activities, they may engage in activities where their interests or the interests of their clients may conflict with our interests and the interest of the holders of our common stock. Other present and future activities of our Advisor and its affiliates may give rise to additional conflicts of interest which may have a negative impact on us and the holders of our common stock.

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Our Advisor s compliance department and legal department oversee its conflict-resolution system. This system emphasizes the principle of fair and equitable allocation of appropriate opportunities to our Advisor s clients over time. As a result of our Advisor s allocation policies, we may not be able to invest in all opportunities that are appropriate for us and this may have the effect of reducing our potential earnings. Although our Advisor has agreed with us that it will allocate opportunities among its clients pursuant to its written policies and procedures, there is no assurance that these policies and procedures will work as intended or that we will be allocated our fair share of investment opportunities over time.

Corporate Information

Our principal executive offices are located at 152 West 57th Street, 35th Floor, New York, New York 10019. Our telephone number is (212) 354-6500.

Advisor Information

The offices of our Advisor are located at 152 West 57th Street, 35th Floor, New York, New York 10019. The telephone number for our Advisor is (212) 354-6500.

Who May Want to Invest

Investors should consider their investment goals, time horizons and risk tolerance before investing in our securities. An investment in our securities is not appropriate for all investors, and our securities are not intended to be a complete investment program. Our securities are designed as a long-term investment and not as a trading vehicle. Our securities may be an appropriate investment for investors who are seeking:

- potential recurring dividend and interest cash flow;
- an investment company focused primarily on the community bank sector;
- an investment company whose capital structure may be significantly leveraged;
- an investment company that will invest in preferred equity, subordinated debt, convertible securities and common equity;

- an investment company that may be suitable for retirement or other tax exempt accounts; and
- professional securities selection and active management by an experienced advisor.

An investment in our securities involves risk, and we urge you to consult your tax and legal advisors before making an investment in our securities. You could lose some or all of your investment. See Risk Factors.

An investment in our common stock involves significant risks, including:

Risks Related to Our Operations

- We have a limited operating history, our Advisor has limited advisory experience, and there can be no assurance that we will achieve our business objectives.
- Our performance is highly dependent on our Advisor.
- Most of our assets will be unrated, illiquid, and their fair value may not be readily determinable.

- Our Advisor may rely on assumptions that prove to be incorrect.

- Our Advisor and its affiliates may serve as investment advisor to other funds, investment vehicles and investors, which may create conflicts of interest not in the best interest of us or our stockholders.

- TARP Preferred are perpetual, which means these securities do not have a maturity date and we are not permitted to cause them to be redeemed.

- TARP Preferred are callable, which means the issuer may buy back these securities. As of December 2014, the current dividend rate on most TARP Preferred is 9%. A majority of these securities experienced a dividend rate increase to 9% from 5% in late 2013 or early 2014. Due to this significant increase in the dividend rate from 5%, there may be a strong incentive for banks to buy back their TARP Preferred.

- We expect that the majority of the new issue preferred stock in which we invest will be non-cumulative and our portfolio may consist of (i) up to 100% of non-cumulative preferred equity securities, (ii) a substantial amount of cumulative preferred equity securities or (iii) any combination thereof.

- We operate with leverage, which may adversely affect our return on our assets and may reduce cash available for distribution.

- Our investment portfolio is recorded at fair value, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is uncertainty as to the value of our investments.

- Our investments will be subject to dividend and interest rate fluctuations, and we are subject to interest rate risk. In particular, our investments in subordinated or unsecured debt securities that are perpetual or have maturities in excess of ten years subject us to a high degree of interest rate risk.

- We may compete with a number of other prospective investors for desirable investment opportunities.

- We may generate low or negative rates of return on capital, and we may not be able to execute our business plans as expected, if at all.

- Our business model depends to a significant extent upon strong referral relationships, and our inability to maintain or develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.

- If we are unable to source investments effectively, we may be unable to achieve our investment objective.

- Our quarterly results may fluctuate.

- We make distributions to our stockholders on a quarterly basis out of assets legally available for distribution, including net investment income, capital gains, paid-in capital and borrowings. If the amount of any distribution exceeds our net investment income or capital gains, then all or a portion of such distribution could constitute a return of capital to stockholders rather than dividend income for tax purposes. A return of capital distribution has the effect of lowering stockholders basis in their shares, which will result in higher tax liability when the shares are sold, even if such shares have not increased in value or have, in fact, lost value. A substantial portion of the distributions to stockholders that we have made to date in 2015 consisted of a return of capital, and not income or gains generated from our investment portfolio.

- Derivatives transactions may limit our income or result in losses.

- Financing arrangements with lenders or preferred shareholders may limit our ability to make dividend payments to our stockholders.

- We may change our business strategy and operational policies without stockholder consent (unless stockholder consent is specifically required by the Investment Company Act), which may result in a determination to pursue riskier business activities.

- Laws and regulations may prohibit the banks in which we invest from paying interest and/or dividends to us.

- Legal and regulatory changes could occur that may adversely affect us.

- We may be required to register as a commodity pool operator.

- Market fluctuations caused by *force majeure*, terrorism or certain other acts may adversely affect our performance.

- Changes in interest rates may affect our net investment income, reinvestment risk and the probability of defaults of our investments.

Risks Related to Our Use of Leverage

- We currently have a bank loan to finance investments as a form of leverage. We also have authority to issue preferred stock or engage in reverse repurchase agreements to finance investments.

- Leverage exaggerates the effects of market downturns or upturns on the NAV and market value of our common stock, as well as on distributions to holders of our common stock.

- Leverage can also increase the volatility of our NAV, and expenses related to leverage can reduce our income.

• In the case of leverage, if our assets decline in value so that asset coverage requirements for any borrowings or preferred stock would not be met, we may be prevented from paying distributions, which could jeopardize our qualification for pass-through tax treatment, make us liable for excise taxes and/or force us to sell portfolio securities at an inopportune time.

• We have entered into a revolving credit facility (the Credit Facility) with a syndicate of financial institutions led by Texas Capital Bank, N.A. (collectively, the Syndicate) with a five-year term maturing in June, 2019 and priced at a term of 1,2 or 3-month London Interbank Offered Rate (LIBOR) plus 2.85%. The Credit Facility permits us to borrow up to $70.0 million of which $22.5 million has been committed and drawn as of the date of this prospectus. The Credit Facility contains customary covenants, negative covenants and default provisions, including covenants that limit our 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 Credit Facility imposes asset coverage requirements, which are more stringent than those imposed by the Investment Company Act, or by our policies. In addition, we agreed not to purchase assets not contemplated by the investment policies and restrictions in effect when the Credit Facility became effective unless changes to these policies and restrictions are consented to by the Syndicate.

- The covenants or guidelines under the Credit Facility could impede the Advisor from fully managing our portfolio in accordance with our investment objectives and policies. Furthermore, non-compliance with such covenants or the occurrence of other events could lead to the cancellation of the Credit Facility.

- For as long as the Credit Facility remains in effect, we may not incur additional debt under any other facility, except in limited circumstances.

- The Credit Facility allows us to prepay borrowings under the Credit Facility at any time. We do not anticipate that such guidelines will have a material adverse effect on the holders of our common stock or on our ability to achieve our investment objectives. We may also consider alternative measures of obtaining leverage in the future.

See Leverage, and also Risk Factors Risks Related to Our Use of Leverage, for further information.

Risks Related to Investing in Community Banking Sector

- Our assets will be concentrated in the banking sector, potentially exposing us to greater risks than companies that invest in multiple sectors.

- We primarily invest in equity and debt securities issued by community banks, subjecting us to unique risks.

- All of our investments are subject to liquidity risk, but we may face higher liquidity risk if we invest in debt obligations and other securities that are unrated and issued by banks that have no corporate rating.

- We expect to keep our portfolio of securities and investments focused on the bank sector, with an emphasis on community banks, which would make us more economically vulnerable in the event of a downturn in the banking industry.

- A large number of community banks may fail during times of economic stress.

- We expect to keep our portfolio of securities and investments focused on the bank sector, with an emphasis on community banks whose business is subject to greater lending risks than larger banks.

Bank Regulatory Risk

- The banking institutions in which we invest are subject to substantial regulations that could adversely affect their ability to operate and the value of our investments.

- We may become subject to adverse current or future banking regulations.

- Ownership of our stock by certain types of regulated institutions may subject us to additional regulations.

- Investments in banking institutions and transactions related to our portfolio investments may require approval from one or more regulatory authorities.

- If we were deemed to be a bank holding company or thrift holding company, bank holding companies or thrift holding companies that invest in us would be subject to certain restrictions and regulations.

Risks Related to Our Advisor and/or its Affiliates

- Our performance is dependent on our Advisor, and we may not find a suitable replacement if the management agreement is terminated.

- The departure or death of any of the members of senior management of our Advisor or StoneCastle Partners may adversely affect our ability to achieve our business objective; our management agreement does not require the availability to us of any particular individuals.

- If our Advisor ceases to be our manager under our management agreement, financial institutions that provided our credit facilities may not provide future financing to us.

- Our Advisor s liability is limited under our management agreement, and we have agreed to indemnify our Advisor against certain liabilities.

- There may be potential conflicts of interest between our management and our Advisor, on one hand, and the interest of our common stockholders, on the other.

- We are limited in our ability to conduct transactions with affiliates.

- Our Advisor s investment committee is not independent from its management.

- We may compete with our Advisor s current and future investment vehicles for access to capital and assets.

- There may be other conflicts of interest in our relationship with our Advisor and/or its affiliates that could negatively affect our earnings.

- Our Advisor s management of our business is subject to the oversight of our board of directors, but our board of directors will not approve each business decision made by our Advisor.

- Our Advisor may be incentivized to incur additional leverage, up to the extent permitted by regulations, even if additional leverage is not in the best interests of the Company s stockholders.

Risks Related to Offerings

- The price for our common stock may be volatile.

- The price for our common stock is subject to market risk.

- Future offerings of debt securities or preferred stock, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market value of our common stock.

Risks Related to Taxation

- Despite our election to be treated as a RIC, we may not be able to meet the requirements to maintain an election to be treated as a RIC.

- We will be subject to corporate-level federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code.

• Whether an investment in a RIC is appropriate for a Non-U.S. Stockholder will depend upon the Non-U.S. Stockholder s particular circumstances and whether certain temporary tax provisions are extended.

We strongly urge you to review carefully the discussion under U.S. Federal Income Tax Considerations and to seek advice based on your particular circumstances from an independent tax advisor.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in shares of our common stock will bear, directly or indirectly. Other expenses are estimated and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses. **We caution you that certain of the indicated percentages in the table below indicating annual expenses are estimates and may vary.**

Stockholder Transaction Expenses (as a percentage of offering price):	
Sales Load (1)	%
Offering Expenses (2)	%
Dividend Reinvestment Plan Expenses(3)	None
Total Stockholder Transaction Expenses	%
Annual Expenses (as a percentage of net assets attributable to common stock):	
Management Fees(4)	2.49%
Interest payments on borrowed funds(5)	1.29%
Other Expenses (estimated for the current fiscal year)(6)	1.36%
Total Annual Expenses	5.14%

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of total offering expenses (which may include offering expenses borne by third parties on our behalf), the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in Other Expenses. For more details about the plan, see Dividend Reinvestment Plan.

(4) For the purposes of calculating our expenses, we have assumed the maximum contractual management fee of 1.75% of Managed Assets. Our Advisor has agreed to waive the management fee that would otherwise be payable in respect of net proceeds to the Company obtained through the issuance of the shares of common stock in any future offering through August 30, 2015. See Management Management Agreement.

(5) We entered into a credit facility on June 9, 2014. Interest expense assumes that leverage will represent approximately 30% of our Managed Assets (as defined under Management Management Agreement Management Fee) and charge interest or involve payment at a rate set by an interest rate transaction at an annual average rate of approximately 3.02%. We have assumed for purposes of these expense estimates that we will utilize leverage for the entire year.

(6) Pursuant to the management agreement, our Advisor furnishes us with office facilities and clerical and administrative services necessary for our operation (other than services provided by our custodian, accounting agent, administrator, dividend and interest paying agent and other service providers). We bear all expenses incurred in our operations, and we will bear the expenses related to any future offering. Other Expenses above includes all such costs not borne by our Advisor, which may include but are not limited to overhead costs of our business, commissions, fees paid to CAB Marketing, LLC and CAB, L.L.C., subsidiaries of the ABA, as part of our exclusive investment referral and endorsement relationships with those subsidiaries, fees and expenses connected with our investments and auditing, accounting and legal expenses. See Management Management Agreement Payment of Our Expenses.

Example

The following example demonstrates the hypothetical dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon the assumption that our annual operating expenses remain at the levels set forth in the table above and that the annual return on investments before fees and expenses is 5%.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return:	$ 100	$ 198	$ 295	$ 534

The purpose of the table and example above is to assist you in understanding the various costs and expenses that an investor in any future offering will bear directly or indirectly. **The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.**

Moreover, while the example assumes a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all distributions at NAV, participants in our dividend reinvestment plan may receive common stock valued at the market price in effect at that time. This price may be at, above or below NAV. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

The Other Expenses shown in the table and related footnote above are based on estimated amounts for our current fiscal year of operation unless otherwise indicated. If we issue fewer shares of common stock, all other things being equal, certain of these percentages would increase. For additional information with respect to our expenses, see Management and Dividend Reinvestment Plan.

FINANCIAL HIGHLIGHTS

The financial highlights table below is intended to help you understand the Company s financial performance. The table sets forth selected data for a share of common stock outstanding for each period presented. The information for the fiscal year ended December 31, 2014 has been audited by [ ], the Company s independent registered public accounting firm. The information for the fiscal period ended December 31, 2013 contained in the table was audited by the Company s former independent registered public accounting firm. Audited financial statements for the Company for the fiscal year ended December 31, 2014 are included in the Annual Report to stockholders. The Annual Report to stockholders is incorporated by reference into the Statement of Additional Information and is available upon request by calling (212) 354-6500.

Per Share Operating Performance:	**For the Fiscal Year Ended December 31, 2014**	**For the period from November 13, 2013 to December 31, 2013+**
Net Asset Value, beginning of period	**$ 23.07**	**$ 23.49(1)**
Net investment income/(loss) (2)	0.84(2)	(0.09)
Net realized and unrealized gain (loss) on investments (2)	0.01	(0.05)
Offering Costs (2)	(0.06)	
Total from investment operations	**0.79**	**(0.14)**
Less distribution to shareholders		

From net investment income		(1.22)		(0.28)
From tax return on capital		(0.78)		
Total Distributions		**(2.00)**		**(0.28)**
Net Asset Value, end of period	**$**	**21.86**	**$**	**23.07**
Market value, end of period	**$**	**19.47**	**$**	**24.56**
Total investment return based on market value (3)		**(13.59)%**		**(0.62)%***

Per Share Operating Performance:	For the Fiscal Year Ended December 31, 2014	For the period from November 13, 2013 to December 31, 2013+
Ratios and supplemental data		
Net Assets, end of period (in millions)	$ 142.1	$ 108.3
Ratio (as a percentage of average net assets)		
Expenses	3.73%(4)	3.04%**
Net Investment income/(loss)	3.41%	(3.00)%**
Portfolio turnover rate(6)	30%	81%*

+ The Company commenced operations on November 13, 2013.

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

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

(3) Based on share market price and reinvestment of distributions at the price obtained under the Dividend Reinvestment Plan. Total return does not include sales load and offering expenses.

(4) Excluding interest expense, operating expenses would have been 3.33%.

* Not Annualized

** Annualized

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

The matters discussed under Prospectus Summary, Risk Factors, Distribution Policy, The Company and elsewhere in this prospectus, as well as in future oral and written statements by our management, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties that could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, targets, projec believes, estimates, predicts, potential or continue or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments and achieve certain levels of return, the availability to us of additional capital and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. Statements regarding the following subjects are forward-looking by their nature:

- our business strategy;
- our ability to use effectively the proceeds of any future offering and manage our anticipated growth;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to make, future distributions;
- our ability to compete in the marketplace;
- market trends;
- projected capital and operating expenditures, including fees paid to our affiliates; and

- the impact of technology on our operations and business.

Our beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this prospectus, including those set forth under the sections captioned Risk Factors and The Company;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in the sectors in which we invest, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates relating to our investments;
- changes in applicable laws, rules or regulations;
- our ability to continue to meet the requirements for treatment as a RIC;
- increased prepayments relating to our investments; and

- the degree and nature of our competition.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. We are not obligated, and do not undertake an obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

TRADING AND NET ASSET VALUE INFORMATION

The following table sets forth, for the quarters indicated, the highest and lowest prices on the NASDAQ Global Select Market per share of common stock, and the NAV per share and the premium to or discount from NAV, on the date of each of the high and low market prices. The table also sets forth the number of Shares traded on the NASDAQ Global Select Market during the respective quarters.

	NAV per Share on Date of Market Price(1)		NASDAQ Global Select Market Price Per Share(2)		Premium/(Discount) to NAV on Date of Market Price(3)		
During Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**	**Trading Volume(4)**
December 31, 2013							
March 31, 2014	$ 22.69	$ 22.69	$ 27.67	$ 23.90	21.9%	5.3%	1,363,942
June 30, 2014	$ 22.31	$ 22.31	$ 26.55	$ 24.50	19.0%	9.8%	878,768
September 31, 2014	$ 22.08	$ 22.08	$ 27.23	$ 24.71	23.3%	11.9%	749,344
December 31, 2014	$ 21.86	$ 21.86	$ 25.19	$ 18.16	15.2%	(16.9)%	2,512,771

(1) Based on our computations.

(2) Source: The NASDAQ Global Select Market.

(3) Based on our computations.

(4) Source: Bloomberg.

On December 31, 2014, our per share NAV was $21.86 and per share market price was $19.47, representing a (10.93)% discount below such NAV.

We cannot predict whether our common stock will trade at a premium or discount to NAV in the future. Our issuance of common stock may have an adverse effect on prices for our common stock in the secondary market by increasing the number of common shares available, which may put downward pressure on the market price for our common stock.

Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a discount). The possibility that our shares will trade at a discount from NAV is a risk separate and distinct from the risk that our NAV will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our shares are not redeemable at the request of stockholders. We may repurchase our shares in the open market or in private transactions, although we have no present intention to do so. Stockholders desiring liquidity may, subject to applicable securities laws, trade their shares on the NASDAQ Global Select or other markets on which such shares may trade at the then current market value, which may differ from the then current NAV.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use substantially all of the proceeds from a sale of our securities, net of expenses, for general corporate purposes, which may include, making investments in accordance with our investment objective and policies. We anticipate that the proceeds will be invested promptly as investment opportunities are identified, depending on market conditions and the availability of appropriate securities, and it is anticipated to take not more than approximately three to six months from the closing of any offering. Pending investment, the proceeds will be invested in short-term cash-equivalent instruments. Although we anticipate that a substantial portion of the proceeds from any offering will be invested pursuant to our investment objective and policies, some of the proceeds may be used to make capital gain distributions required to maintain our tax status as a RIC.

DISTRIBUTION POLICY

We intend to pay quarterly distributions to our stockholders in an amount, and on a timely basis, sufficient to obtain and maintain our status as a RIC; investment company taxable income includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses, reduced by deductible expenses.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC. For federal income tax purposes, as a RIC we are required to distribute substantially all of our net investment income each year both to avoid federal income tax on our distributed income and to avoid a potential excise tax. If our ability to make distributions on our common stock is limited, such limitations could, under certain circumstances, impair our ability to maintain a qualification for taxation as a RIC, which would have adverse consequences for our stockholders. See U.S. Federal Income Tax Considerations.

We will pay all dividends at the discretion of our board of directors, and the dividends we pay will depend on a number of factors, including:

- distribution requirements under the Investment Company Act and to maintain our status as a RIC.
- our financial condition; general business conditions; actual results of operations;
- the timing of the deployment of our capital; debt service requirements;
- availability of cash distributions;
- our operating expenses;
- any contractual, legal and regulatory restrictions on the payment of distributions by us to our stockholders including
- debt covenants imposed by lenders to the Company; and
- other factors our board of directors in its discretion may deem relevant.

If a stockholder s common stock is registered directly with us or with a brokerage firm that participates in our dividend reinvestment plan, distributions will be automatically reinvested in additional common stock under the dividend reinvestment plan unless a stockholder elects to receive distributions in cash. If a stockholder elects to receive distributions in cash, payment will be made by check. See Dividend Reinvestment Plan.

THE COMPANY

StoneCastle Financial Corp. was organized on February 7, 2013, as a Delaware corporation established to continue and expand the business of StoneCastle Partners, which commenced operations in 2003, and makes investments in community banks located throughout the United States. Our investment objective is to provide stockholders with current income and, to a lesser extent, capital appreciation. We attempt to achieve our investment objectives through preferred equity, subordinated debt, convertible securities and common equity investments in the U.S. community banking 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.

We seek to enhance our returns through the use of warrants, options and other equity conversion features. The banks in which we invest may include, as part of the consideration of any new issuance of capital stock to us, a grant of warrants or options to increase our investment in such banks or options to convert our investment from a preferred security to common equity in the event we believe we can increase the returns for our investors through such conversion.

If we enter into derivatives for the purpose of hedging, and such derivatives constitute a senior security under the Investment Company Act, the rules thereunder or applicable guidance from the SEC and its staff, we intend to include that position in our leverage calculation. Warrants, options and conversion features attached to preferred stock investments when we purchase them constitute assets, not liabilities, and we would not expect to consider such assets to constitute a senior security under the Investment Company Act.

Additionally, we may take temporary defensive positions that are inconsistent with our investment strategy in attempting to respond to adverse market, economic, political or other conditions. If we do so, we may not achieve our investment objective. We may also choose not to take defensive positions.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC.

We seek to structure our investments to avoid being regulated by various banking authorities. Therefore, we do not currently expect to be regulated by any state or federal banking regulatory bodies and expect to have significant flexibility with respect to the products we can offer our community banking clients and the manner in which we operate. In the future, we may be subject to such regulation if regulations change or if certain regulated institutions are deemed to control us. Further, while we have no current intent to do so, we may become subject to such federal and state banking regulations if we change our business strategy in a manner that subjects us to such regulation. See Risk Factors Bank Regulatory Risk.

Our Advisor

StoneCastle Asset Management LLC, an SEC-registered investment advisor dedicated to the community banking sector that was formed on November 14, 2012, manages our assets. Our Advisor is registered with the SEC under the Investment Advisers Act. Our Advisor is staffed with investment professionals from its affiliates, which collectively manage one of the largest portfolios of assets dedicated to the U.S. community banking sector, with over a ten-year history of investing in trust preferred capital securities issued by, or, other obligations of, community, regional and money center banks. As of December 31, 2014, StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks. Our Advisor s investment philosophy is grounded in disciplined, fundamental, bottom-up credit and investment analysis. We intend to continue to use our Advisor s existing community banking infrastructure to identify attractive investment opportunities and to underwrite and monitor our investment portfolio.

Our Advisor is wholly-owned by StoneCastle Partners. StoneCastle Partners is managed by its two Managing Partners: Joshua S. Siegel (founder & CEO) and George Shilowitz (Managing Partner). Charlesbank Capital Partners, LLC, a leading private equity investment manager, and CIBC Capital, a subsidiary of Canadian Imperial Bank of Commerce, own minority interests in StoneCastle Partners.

Each of our Advisor s investment decisions is reviewed and approved for us by our Advisor s investment committee, which may also act as the investment committee for other investment vehicles managed by our Advisor and its affiliates. Our Advisor s two senior officers, Messrs. Siegel and Shilowitz, each have over twenty years of experience advising and investing in financial institutions, investing in financial assets and building financial services companies.

Our Advisor has entered into a staffing agreement with StoneCastle Partners and several of its affiliates. Under the staffing agreement, these companies make experienced investment professionals available to our Advisor and provide our Advisor access to the senior investment personnel of StoneCastle Partners and its affiliates. Our Advisor intends to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of StoneCastle Partners investment professionals. Biographical information for key members of our Advisor s investment team is set forth below under Management Biographical Information. As our investment advisor, our Advisor is obligated to allocate investment opportunities among us and its other clients in accordance with its allocation policy; however, there can be no assurance that our Advisor will allocate such opportunities to us fairly or equitably in the short-term or over time.

Community Banking Sector Focus

We intend to pursue our investment objective by continuing to invest principally in public and privately-held community banks located throughout the United States. For the purpose of our investment objectives and this prospectus, we define community bank to mean banks, savings associations and their holding companies with less than $10 billion in consolidated assets that serve local markets. As of December 31, 2014, the community banking sector is a highly fragmented $2.9 trillion industry, comprised of over 6,400 banks located throughout the United States, including under-served rural, semi-rural, suburban and other niche markets. Community banks generally have simple, straight-forward business models and geographically concentrated credit exposure. Community banks typically do not have exposure to non-U.S. credit and are focused on lending to borrowers in their distinct communities. As a result, we believe that community banks frequently have a better understanding of the local businesses they finance than larger banking organizations. Many of these community banks are well established, having been in business on average for more than 75 years and have survived many economic cycles, including the most recent financial crisis. We expect to create a portfolio within the community bank market focused on the bank market, with an emphasis on community banks, through investments in numerous issuers differentiated by asset sizes, business models and geographies. To a lesser extent, we may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies.

Market Opportunity

We believe that the community banking sector is attractive due to the strong long-term performance of community banks and the general lack of investment competition from institutional investors. The Company was formed to invest in the ongoing capital needs of community banks. We believe that the environment for investing in community banks is attractive for the following reasons:

- *Long-Term Resiliency of Community Banks.* The community banking industry has a long history of resiliency and historically has exhibited a low rate of failure. According to data from the FDIC, since 1934, FDIC insured banks and thrifts have failed at an annual rate of 0.37%, with peak cycle one-year failure rates of 3.22% in 1989 (S&L crisis), 1.96% in 2010 (Great Recession) and 0.54% in each of 1937 and 1938 (Great Depression). We believe that these figures are comparable with Baa and Ba Moody s rated corporate bond default rates, which experienced an average annual default rate since 1920 of approximately 0.27% for Moody s Baa-rated corporate bonds and 1.07% for Ba-rated bonds, with the highest one year default rates of 1.99% and 11.69%, for Baa-rated and Ba-rated corporate bonds, respectively, as reported in Annual Default Study: Corporate Default and Recovery Rates, 1920-2013 released on February 28, 2014.

- *Greater Equity Cushions.* While community banks are generally subject to the same regulations as their larger competitors, community banks have historically maintained significantly larger amounts of equity capital. Given that community banks do not typically have access to different forms of capital from the public markets, most equity in community banks is comprised of common equity, a form considered of the highest quality by federal and state banking regulators. As of December 31, 2014, banks with less than $10

billion of assets maintained Tier 1 risk-based capital ratios 17% higher than banks with more than $10 billion of assets. Given that banks over $10 billion have 32% higher non-current loans to loans (1.96% vs. 1.49%), community banks generally have significantly better equity cushions than their larger competitors.

- *Large Fragmented Market.* Community banks collectively controlled nearly $2.9 trillion of financial assets as of December 31, 2014. Despite significant industry consolidation since 1980, as of December 31, 2014 there were still more than 6,400 FDIC-insured banks in the United States. As of such date, more than 98% of these banks had less than $10 billion of assets and many primarily service their local communities. We believe that the highly fragmented nature of the industry poses significant challenges for potential investors seeking to implement a diversified investment strategy.

- *Robust Demand for Capital.* Regulatory changes are requiring all banks to hold increased levels of capital. This requirement creates what we believe to be strong demand for capital in the form of preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity. Further, capital is needed to facilitate ongoing consolidation within the banking industry, including acquisitions of failed banks from the FDIC. Lastly, organic growth of well-positioned institutions also supports demand. Our Advisor estimates that the community banking sector will require more than $35 billion of capital over the next several years to facilitate (i) compliance with heightened regulatory capital ratios, (ii) acquisition of competitors and failed banks and (iii) organic asset growth. This estimate is in part based on the size of the trust preferred CDO market and the phase out of trust preferred securities from the definition of Tier 1 capital.

- *Constrained Supply of Capital.* We believe that the supply of new capital available to community banks is extremely constrained and will remain so for many years. We also believe that there are many community banks with well-established franchises and cash flow characteristics that are not attracting capital from private equity or other institutional investors because: (i) they are perceived by such investors as risky due to their size; (ii) the companies are located in rural or niche markets that are unfamiliar to institutional investors; or (iii) the investments in these companies are too small given (a) the size of the target companies and (b) limitations on majority ownership dictated by certain banking regulations. We believe that these companies represent attractive investment candidates for us. We believe that this lack of institutional investor interest and the inability of most community banks to access the capital markets will enable us to invest at attractive pricing levels.

- *Sector Overlooked by Institutional Capital Providers.* We believe that many investors historically have avoided investing in community banks due to the small size of these banks, their heavy regulation, the Bank Holding Company Act, which imposes ownership restrictions and the perception that community banks are riskier than larger financial institutions. In addition, many capital providers lack the necessary technical expertise to evaluate the quality of the small- and mid-sized privately-held community banks and lack a network of relationships to identify attractive opportunities.

- *Favorable Market Conditions.* We believe that the substantial re-pricing of risk resulting from the recent financial crisis along with significantly improved bank balance sheets since the worst period of the crisis has created an ideal environment for us to continue our investment activities. Bank failures and unprecedented losses by large money-center banks and investment banks related to sub-prime mortgages and other higher risk financial products have negatively affected the view of all banks even those smaller banks not engaged in such activities. As a consequence, valuations of financial institutions have declined substantially, allowing potential investors to dictate favorable terms.

Competitive Advantages

We believe that our significant focus on the community banking sector provides us with a strong competitive advantage relative to non-specialized investors. We believe that we are well-suited to meet the capital needs of the community banking sector for the following reasons:

- *Experience in the Community Banking Sector.* The current investment platform of our Advisor s affiliate, StoneCastle Partners, provides us with significant advantages in sourcing, evaluating, executing and managing investments. StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks as of December 31, 2014.

- *Substantial Access to Deal Flow.* In order to execute our business strategy, we currently rely on what we believe to be our Advisor s and its affiliates strong reputations and deep relationships with issuers, underwriters, financial intermediaries and sponsors, as well as our exclusive investment referral and endorsement relationships with CAB, subsidiaries of the ABA. Pursuant to the agreements governing these relationships, CAB assists us with the promotion and identification of potential investment opportunities through marketing campaigns, placements at ABA events and introductions to banks seeking capital. In addition, CAB has granted to us a license to use the CAB name, Corporation for American Banking, in connection with our investment program. We may use this name in connection with the promotion and identification activities, including emails, press releases, events and due diligence questionnaires targeting ABA members. Most capital raising activities by community banks are conducted through privately-negotiated transactions that occur outside of traditional institutional investment channels, including the capital markets. We believe that StoneCastle Partners and CAB s large network of relationships will help us to identify attractive investment opportunities and will provide us with a competitive advantage. The ABA and its subsidiaries have not endorsed any future offering, and you should not construe references to them in this prospectus as such an endorsement.

- *Experienced Management Team.* StoneCastle Partners and its affiliates are led by StoneCastle Partners two Managing Partners, Joshua S. Siegel and George Shilowitz, and as of December 31, 2014, had approximately 52 employees. Our investment team is comprised of professionals who have substantial expertise investing in community banks, and includes former senior bankers, credit officers, private equity investors, rating agency analysts, bank examiners, fixed income specialists and attorneys.

- *Specialized / Proprietary Systems.* During the past decade, StoneCastle Partners has invested substantial funds and resources into the development of its proprietary analytic systems/database that is dedicated to analyzing banks (the RAMPART systems). RAMPART currently tracks and analyzes every bank in the United States and provides our investment professionals with significant operational leverage, allowing our team to sort through vast amounts of data to screen for potential investments. We believe that few institutional investors have developed infrastructure comparable to that of StoneCastle Partners and its affiliates.

- *Disciplined Investment Philosophy and Risk Management.* Our Advisor s senior investment professionals have substantial experience structuring investments that balance the needs of community banks with appropriate levels of risk control. Our Advisor s investment approach for us emphasizes current income and, to a lesser extent, capital appreciation through common equity, warrants, options and conversion features. Given that a significant portion of our investments to be fixed income-like (including preferred stock), preservation of capital is our priority and we seek to minimize downside risk by investing in banks that exhibit the potential for long-term stability (See The Company Investment Process and Due Diligence).

- *Few Organized Competitors.* We believe that several factors render many U.S. investors and financial institutions ill-suited to lend to or invest in community banks. Historically, the relatively small size of individual community banks and certain regulatory requirements limiting control have deterred many institutional investors, including private equity investors, from making those investments. We believe that, as a consequence, few institutional investors have developed and possess the specialized skills and infrastructure to efficiently analyze and monitor investments in community banks on a large scale. Based on the experience of our management team, investing in community banks requires specialized skills and infrastructure, including: (i) the ability to analyze small community banking institutions and the local economies in which they do business; (ii) specialized systems to analyze and track vast amounts of bank performance data; (iii) a deep understanding and working relationship with state and federal regulators that oversee community banks; and (iv) brand awareness within the community banking industry and a strong reputation as a long-term partner that understands the needs of community banks to originate investment opportunities successfully.

- *Extended Investment Horizon.* Unlike private equity investors, we are not subject to standard periodic capital return requirements. These provisions often force private equity investors to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might prefer, potentially resulting in a lower overall return to investors. We believe that our flexibility to make investments with a long-term view, and without the capital return requirements of traditional private investment funds, provides us with the opportunity to generate attractive returns on invested capital.

Targeted Investment Characteristics

Our business strategy focuses on minimizing risk by using a disciplined underwriting process in providing capital to community banks. We expect to continue to focus on investing in community banks that exhibit the following characteristics:

- *Experienced Management.* We seek to invest in community banks with management teams or sponsors that are experienced in running local banking businesses and managing risk. We seek community banks that have a particular market focus, expertise in that market and a track record of success. Further, we actively seek to invest in banks with senior management teams with significant ties to their local communities.

- *Stability of Earnings.* We seek to invest in community banks with the potential to generate stable cash flows over long periods of time, and therefore we presently seek out institutions that have a defined lending strategy and predictable sources of interest revenues, stable sources of deposits and predictable expenses.

- *Stability of Market.* We seek to invest in community banks whose core business is conducted in one or more geographic markets that have sustainable local economies. The market characteristics we seek include stable or growing employment bases and favorable long-term demographic trends, among other characteristics.

- *Growth Opportunities.* We seek to invest in healthy community banks headquartered in markets which provide significant organic growth opportunities or headquartered in highly fragmented markets where industry consolidation is likely providing the opportunity for community banks to grow through acquisitions of smaller competitors.

- *Strong Competitive Position.* We focus on community banks that have developed strong market positions within their respective markets and that are well positioned to capitalize on growth opportunities. We seek to invest in companies that demonstrate competitive advantages that should help to protect and potentially expand their market position and profitability. Typically, we do not expect to invest in newly organized institutions or community banks having highly speculative business plans.

- *Visibility of Exit.* When investing in common equity, we seek investments that we expect to result in an exit opportunity. Exits may come through the conversion of an investment into public shares; an initial public offering of shares by the bank; the sale of the bank; or the repurchase of shares by the bank or another financial investor.

Investments

We primarily invest in securities issued by public and privately held community banks, initially in amounts generally ranging between approximately $3 million to $20 million (unless our investment size is otherwise constrained or expanded by applicable law, rule or regulation). We have an existing pipeline of potential investments that meet our criteria, consisting primarily of preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity. We invest in accordance with our Advisor s investment policy in primarily the following assets:

TARP Assets: We own and may continue to own one or more portfolios of perpetual preferred stock issued by community banks under the U.S. Treasury s TARP Capital Purchase Plan. Under TARP, more than 450 community banks issued in excess of $10 billion of TARP Preferred in 2008 and 2009 and approximately $2.2 billion million in TARP Preferred issued by approximately 121 institutions. We intend to purchase these securities through secondary market transactions.

According to the U.S. Treasury, the TARP Capital Purchase Program was launched to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. The Capital Purchase Program was designed to bolster the capital position of viable institutions of all sizes and to build confidence in these institutions and the financial system as a whole. The U.S. Treasury initially committed more than one-third of all TARP funding, $250 billion, to the Capital Purchase Program, which was later reduced to $218 billion in March 2009. At the end of the investment period for the program, the U.S. Treasury had invested approximately $205 billion under the Capital Purchase Program in 707 financial institutions in 48 states, including more than 450 small and community banks and 22 certified community development financial institutions. The U.S. Treasury s investments through the Capital Purchase Program, made in the form of cumulative preferred stock or debt securities, generally pay the U.S. Treasury a 5% dividend on preferred shares for the first five years and a 9% rate thereafter. In addition, the U.S. Treasury received warrants to purchase common shares or other securities from the banks during the Capital Purchase Program investment period. The purpose of the additional securities was to enable taxpayers to reap additional returns on their investments as banks recovered.

As reported in the Troubled Asset Relief Program (TARP): Monthly Report to Congress - December 2014, dated January 12,2015, total Capital Purchase Program (CPP) Proceeds amounted to $226.4 billion as of December 31, 2014. In addition, the report states Today, every dollar recovered from CPP participants represents an additional positive return for taxpayers.

While some institutions that received capital from the TARP Capital Purchase Program were troubled and may remain troubled today due to heightened levels of non-performing assets, among other things, we believe that a number of participating institutions currently exhibit healthy fundamental characteristics that will make acceptable investment candidates for us.

While we may invest in TARP Preferred issued by community banks that are current on their dividend payments, we may in certain instances invest in TARP Preferred issued by community banks that are not current if we believe they will become current in the future.

As of December 2014, the current dividend rate on most TARP Preferred is 9%. A majority of these securities experienced a dividend rate increase to 9% from 5% in late 2013 or early 2014. Due to this significant increase in the dividend rate from 5%, there may be a strong incentive for banks to repurchase, or refinance, their TARP Preferred. We believe that the ability for a bank to redeem its outstanding TARP Preferred is primarily predicated upon its ability to raise additional capital, which is likely required to be obtained at a lower cost than its TARP Preferred. While it is possible for an issuer to redeem its TARP Preferred, because these are perpetual securities, they do not include acceleration rights exercisable by the holder. In the event our investments are pre-paid or called, it may take significant time for us to redeploy the proceeds into new acceptable investments.

Preferred and Common Equity Assets: We continue to receive capital requests from numerous community banks regarding potential investments initially in amounts ranging from approximately $3 million to $20 million per investment. Preferred stock may have fixed or variable dividend rates, which may be subject to rate caps and collars. In connection with our investments, we may also receive options or warrants to purchase common or preferred equity.

Regardless of the type of capital security, we intend to invest the majority of our portfolio in institutions that are currently paying dividends or interest on their securities, that our Advisor believes have the ongoing ability to pay dividends or interest on their securities, and that are not currently a party to any regulatory enforcement actions that would limit or hinder their ability to pay dividends or interest. While we do not intend to invest a significant portion of our funds in institutions that do not meet these criteria, we may invest in institutions that our Advisor believes have the ability to emerge from such conditions, pay any accrued interest or cumulative unpaid dividends at emergence and begin the normalized payment of interest or dividends in arrears and/or as frequently stipulated by the issuance in question.

From time to time, we may also invest in Tier 2 qualifying debt securities (long-term subordinated debt securities) and other debt securities or hybrid instruments issued by community banks or their holding companies. Additionally, we may invest in Tier 1 qualifying debt securities. These debt securities may have fixed or floating interest rates.

Regulatory capital regulations adopted in response to the Dodd-Frank Act and Basel III require banks to increase their Tier 1 capital and reduce their leverage ratios. These regulations also generally require that, in order to qualify as Tier 1 capital, preferred stock must be non-cumulative in nature (only TARP Preferred and certain securities issued by small bank holding companies, defined as holding companies with less than $500 million in consolidated assets, may be cumulative and qualify as Tier 1 capital). We expect that the majority of the new issue preferred stock in which we invest will be non-cumulative. While these existing and any future regulatory capital requirements may cause community banks to raise additional capital, these regulations may make some community banks less likely to pay dividends on preferred stock and common stock.

In addition, future changes in regulatory capital regulations may negatively or positively affect our investments and may subject us to additional pre-payment and capital redeployment risk.

Most of our assets are and, we expect, will be illiquid, and their fair value may not be readily determinable. Accordingly, there can be no assurance that we will be able to realize the value at which we carry such assets if we need to dispose of them. As a result, we can provide no assurance that any given asset could be sold at a price equal to the value at which we carry it. We believe that a majority of the investments we will make will not be rated by a NRSRO. If such investments were rated by a NRSRO, we believe they may be rated below investment grade.

Investment Selection

Our Advisor uses an investment selection process modeled after the selection process utilized by our Advisor and its affiliates for the various funds they manage. Both of our Advisor s senior investment professionals, Messrs. Siegel and Shilowitz are responsible for negotiating, structuring and managing our investments, and operate under the oversight of our board of directors and the Advisor s investment committee. Messrs. Siegel and Shilowitz are also both members of our board of directors, and may be subject to conflicts of interest. See Certain Relationships and Related Party Transactions Conflicts of Interest Within StoneCastle Partners.

Current Yield Plus Growth Potential

We intend to focus on securities issued by community banks that generate substantial current income in the form of dividends or interest. See Risk Factors Risks Related to Our Operations. In the case of investments with fixed dividends or interest, the continuity of these payments is paramount, and consequently we seek issuers that have business models that we believe will be stable over long periods of time. We also continue to seek to generate capital gains by investing in banks using various equity strategies, including common equity, warrants, convertible securities and options. We continue to seek to invest in equity-related instruments in circumstances where we believe a company has the potential to generate above average growth or is undervalued. To a lesser extent, we may also generate revenue in the form of commitment, origination or structuring fees.

Target Portfolio Company Characteristics

We have identified several quantitative, qualitative and relative value criteria that we believe are important in identifying and investing in prospective community banks. While these criteria provide general guidelines for our investment decisions, each prospective community bank in which we choose to invest may not meet all of these criteria. Generally, we intend to utilize our access to information generated by our Advisor s investment professionals to identify prospective portfolio companies and to structure investments efficiently and effectively.

Qualified Management Team

We generally require that the community banks we invest in have management teams that are experienced in running banking businesses and managing risk. We seek management teams that have expertise in their market, thorough knowledge of the loans held by their institution and a track record of success. Further, we seek senior management teams with significant ties to their local communities. These management teams may have strong technical, financial, managerial and operational capabilities, established governance policies and incentive structures to encourage management to succeed while acting in the best long-term interests of their investors.

Undervalued Investments

We focus on those investments that appear undervalued.

Sensitivity Analyses

We typically perform sensitivity analyses to determine the effects of changes in market conditions on any proposed investment. These sensitivity analyses may include, among other things, simulations of changes in interest rates, changes in unemployment rates, changes in home prices, changes in economic activity and other events that would affect the performance of our investment. In general, we do not commit to any proposed investment that will not provide at least a minimum return under any of these analyses and, in particular, the sensitivity analysis relating to changes in interest rates and unemployment rates.

Business Combinations

We seek to invest in community banks whose business models and expected future cash flows make them attractive business combination transaction candidates, either as buyer or seller. These companies include candidates for strategic acquisition by other industry participants and companies that may conduct an initial public offering of common stock.

Investment Process and Due Diligence

In conducting due diligence, our Advisor typically uses and intends to continue to use available public information, including call reports and other quarterly filings required by bank regulators, due diligence questionnaires and discussions with the management teams at the respective institutions. In many cases, our Advisor will also compile private information obtained pursuant to confidentiality agreements about the institution, its portfolio of loans and securities, its customers and related deposits, compliance information, regulatory information and any such additional information that could be necessary to complete its due diligence on the company. Although our Advisor may use research provided by third parties when available, primary emphasis is placed on proprietary analysis and valuation models conducted and maintained by our Advisor s investment professionals.

The due diligence process followed by our Advisor s investment professionals is highly detailed and follows a structure they have developed over the past decade. Our Advisor seeks to exercise discipline with respect to the pricing of its investments and institute appropriate structural protections in our investment agreements to the extent banking regulations permit. After our Advisor s investment professionals undertake initial due diligence of a prospective investment, our Advisor s investment committee determines whether to approve the initiation of more extensive due diligence. At the conclusion of the diligence process, our Advisor s investment committee is informed of critical findings and conclusions. The due diligence process typically includes many of the following:

- review of historical and prospective financial information;
- review of regulatory filings and history of relevant regulatory actions or other legal proceedings against the institution;
- review and analysis of financial models and projections;
- review of due diligence questionnaires that include detail on loans and other assets;
- interviews with management and key employees of the prospective bank;
- review of the prospective bank s geographic footprint and competitive and economic conditions within the operating area; and
- review of contingent liabilities.

Additional due diligence with respect to any investment may be conducted on our behalf by our legal counsel and accountants, as well as by other outside advisors and consultants, as appropriate.

Upon the conclusion of the due diligence process, our Advisor s investment professionals present a detailed investment proposal to our Advisor s investment committee. All decisions to invest in a company must be approved by the unanimous decision of our Advisor s investment committee.

Investment Structure

Once we have determined that a prospective community bank is suitable for a newly originated direct investment, we work with the management of that company to structure an investment that the parties believe is suitable from an economic and regulatory perspective.

We anticipate structuring our direct investments in a variety of forms to meet our investment criteria and to meet the capital needs of the community banks in which we invest. Banking is a highly regulated industry and investments in these institutions must be tailored to adhere to various regulatory standards, which change from time to time.

Typically, FDIC-insured banks are wholly-owned by a regulated holding company, and the primary asset of the holding company is the stock of the bank(s). We intend to invest in both community banks and their holding companies.

We anticipate structuring the majority of our direct investments as preferred equity, subordinated debt, convertible securities and common equity that pay cash dividends and interest on a recurring or customized basis. In conjunction with our preferred stock (and to a lesser extent, our debt investments), we intend to obtain warrants or equity conversion options by which we may increase our investments in banks. We do not intend to become regulated as a bank holding company or savings and loan holding company and intend to structure our investments such that they represent less than 24.9% of any portfolio bank s equity capital and thereby avoid causing us to be deemed a bank holding company. See Risk Factors Risks Related to Banking Regulations Affecting Our Business.

The types of securities in which we may invest include, but are not limited to, the following:

• *Preferred Stock.* We anticipate structuring these investments as perpetual preferred stock to allow our portfolio company issuers to treat our investment in them as Tier 1 capital under current regulatory capital standards. We believe that nearly all newly issued preferred stock will be non-cumulative in order for it to qualify as Tier 1 capital of the applicable portfolio company. Such preferred stock may also include rights to convert the preferred stock into common stock under specified circumstances and on specified terms. While we do not intend to invest a significant portion of the proceeds of any future offering in the preferred stock of institutions that are not current in their dividends, we may invest in them to some extent if we believe their institutions have the ability to become current in their dividend payments in the future.

• *TARP Preferred.* We will also seek to invest in cumulative and non-cumulative, preferred stock issued under the TARP Capital Purchase Program. While a number of community banks that have issued TARP Preferred have deferred one or more schedule payments on a cumulative basis, we believe numerous institutions exhibit fundamentally strong characteristics and may be attractive investment candidates for us. While these attractive candidates will generally be those that are current on their dividend payments, we may in certain instances invest in TARP Preferred of community banks that are not current if we believe they will become current in the future and by contract have an obligation to pay all dividend payments that were not previously paid. While the majority of TARP Preferred is cumulative, a portion of TARP Preferred currently outstanding is non-cumulative in nature. Presently, we do not intend to invest in non-current, non-cumulative TARP Preferred.

• *Subordinated Debt.* We anticipate structuring these investments as subordinated unsecured debt. Subordinated loans are expected to have maturities often years or longer with no amortization until loan maturity to allow our portfolio company borrowers to treat the investment as Tier 2-qualifying capital. Under current market conditions, the interest rate on subordinated loans ranges between 7-9%, excluding any equity warrants we may receive.

• *Common Stock.* We will also seek to make minority common equity investments in publicly-traded and select privately-held institutions. We will target internal rates of return between 15%-20%, including dividends. Under market conditions as of the date of this prospectus, the dividend rate on common stock of community banks ranges between 2-4%.

• *Warrants and Options.* We may receive warrants or options to buy minority equity interests in connection with our direct subordinated debt and preferred equity investments. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from these equity interests. We may structure such warrants to include provisions protecting our rights as a minority-interest holder. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

Monitoring of Investments

The investment professionals of our Advisor and its affiliates maintain a continuous relationship with the management teams of the companies in which we invest and will monitor each individual portfolio company relative to performance benchmarks set by our investment professionals. This monitoring may be accomplished by review of quarterly regulatory filings, other financial data, local and national economic data, news reports, and regulatory actions and changes to bank regulations, tax laws and US GAAP that may impact the banks in which we invest. Our Advisor has adopted a grading scale developed by StoneCastle Partners that is designed to provide initial and on-going support. Our Advisor uses this scale to assess investment performance and highlight investments that may require additional attention.

Our Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. Our Advisor reviews these investment ratings on at least a quarterly basis and may modify a rating at any time.

Valuation Process

We value our assets in accordance with US GAAP and rely on multiple valuation techniques, reviewed on a quarterly basis by our board of directors. As most of our investments are not expected to have market quotations, our board of directors undertakes a multi-step valuation process each quarter, as described below and as described in more detail in Net Asset Value below:

- *Investment Team Valuation.* Each investment will be valued by the investment professionals of our Advisor.

- *Third Party Valuation.* We have retained an independent valuation firm to provide a valuation report for each investment at least once per fiscal year.

- *Investment Committee.* The investment committee of our Advisor will review the valuation report provided by the investment team and the independent valuation firm.

- *Final Valuation Determination.* Our board of directors discusses and reviews the valuations with our Advisor s investment committee and, where warranted, with the independent valuation firm. Our board of directors then determines the fair value of each investment in our portfolio in good faith.

Competition

Our primary competitors in providing financing and capital to community banks include public and private funds, commercial banks, investment banks, correspondent banks, commercial financing companies, high net worth individuals, private equity funds and hedge funds. Some of our competitors are substantially larger and may have considerably greater financial, technical and marketing resources than we do. For example, we believe that some competitors have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assumptions, which could allow them to consider a wider variety of investments than us. Also, certain of our competitors may be better able to hedge against these risks due to having a more diversified portfolio or being registered as a commodity pool operator. We also believe that many of our competitors are established bank holding companies, which allows them to make investments that are in excess of

24.9% ownership interest, investments that are not feasible for us since we do not intend to become a bank holding company. Further, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as an investment company or to the source-of-income, asset diversification and distribution requirements we intend to satisfy to qualify as a RIC.

Brokerage Allocation and Other Practices

Because we expect that most of the assets that we hold will be illiquid, we will generally acquire and dispose of our investments in privately negotiated transactions, and we may use brokers in the course of our business. Subject to policies established by our board of directors, we do not expect to execute transactions through any particular broker or dealer, but we will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, operational facilities of the firm, the firm s risk and skill in positioning blocks of securities. While we will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly on brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided.

Staffing

We do not currently have or expect to have any employees. Employees of StoneCastle Partners and its affiliates provide the services necessary for our business pursuant to the terms of the staffing agreement. Each of our executive officers described under Management is an employee or principal of our Advisor, StoneCastle Cash Management, LLC or StoneCastle Partners.

Properties

Our principal executive offices are located at 152 West 57th Street, 35th Floor, New York, New York 10019. Our telephone number is (212) 354-6500. Our Advisor has entered into arrangements with StoneCastle Partners pursuant to which StoneCastle Partners has agreed to provide us and our Advisor with office space and facilities. See Management Management Agreement Administration Services.

Legal Proceedings

We are not currently a party to any material legal proceedings. On February 7, 2013, the former general counsel and a co-founder of StoneCastle Partners commenced a lawsuit against StoneCastle Partners, Messrs. Siegel and Shilowitz and several other affiliates of StoneCastle Partners seeking $10 million in damages for alleged breaches of the StoneCastle Partners operating agreement and a separate agreement between the plaintiff and Mr. Shilowitz. This case is pending in the Commercial Division of the Supreme Court of the State of New York, New York County. The dispute arose in connection with the plaintiff s separation from StoneCastle Partners. StoneCastle Partners believes that the claims are without merit and intends to vigorously defend the action. Furthermore, we would not bear any expenses relating to this legal proceeding or any damages or settlement amounts relating to this legal proceeding, if any. Neither we nor our Advisor is a party to this litigation or will have any reimbursement obligation in respect thereof. Apart from the foregoing, neither we, our Advisor, nor StoneCastle Partners is currently subject to any material legal proceedings.

Portfolio Turnover

From the commencement of operations through the fiscal year ended December 31, 2013, our portfolio turnover rate was 81%. In addition, for the fiscal year ended December 31, 2014, our portfolio turnover rate was 30%. Portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for us. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that we bear.

LEVERAGE

Use of Leverage

We intend to operate with leverage through recourse and non-recourse collateralized financings, private or public offerings of debt, warehouse facilities, secured and unsecured bank credit facilities, reverse repurchase agreements and other borrowings. We may also operate with leverage by issuing preferred stock. Under normal circumstances, we will not employ leverage above one-third of our total assets at time of incurrence.

The borrowing of money and the issuance of preferred securities represent the leveraging of our common stock. We do not use leverage unless our board of directors believes that leverage will serve the best interests of our stockholders. The principal factor used in making this determination is whether the potential return is likely to exceed the cost of leverage. Therefore, in making the determination whether to use leverage, we must rely on estimates of leverage costs and expected returns. Actual costs of leverage vary over time depending on interest rates and other factors, and actual returns vary depending on many factors. We do not anticipate using leverage where the estimated costs of using such leverage and the ongoing cost of servicing the payment obligations on such leverage exceed the estimated return on the proceeds of such leverage. Our board of directors will also consider other factors, including whether the current investment opportunities will help us achieve our investment objectives and strategies.

Leverage creates a greater risk of loss, as well as potential for more gain, for our common stock than if leverage is not used. Leverage capital would have complete priority upon distribution of assets on liquidation or otherwise over common stock. We expect to invest the net proceeds derived from any use or issuance of leverage capital according to the investment objectives and strategies described in this prospectus. As long as our leverage capital is invested in securities that provide a higher rate of return than the dividend rate or interest rate of the leverage capital after taking its related expenses into consideration, the leverage will cause our common stockholders to receive a higher rate of income than if we were not leveraged. Conversely, if the return derived from such securities is less than the cost of leverage (including increased expenses to us), our total return will be less than if leverage had not been used, and, therefore, the amount available for distribution to our common stockholders will be reduced. In the latter case, our Advisor in its best judgment nevertheless may determine to maintain our leveraged position if it expects that the long term benefits to our common stockholders of so doing will outweigh the current reduced return. There is no assurance that we will be successful in enhancing the level of our total return. The NAV of our common stock will be reduced by the fees and issuance costs of any leverage capital. There is no assurance that outstanding amounts we borrow may allow prepayment by us prior to final maturity without significant penalty, but we do not expect any sinking fund or mandatory retirement provisions. Outstanding amounts would be payable at maturity or such earlier times as we may agree. We may be required to prepay outstanding amounts or incur a penalty rate of interest in the event of the occurrence of certain events of default. We may be expected to indemnify our lenders, particularly any banks, against liabilities they may incur related to their loan to us. Utilizing leverage may also restrict our ability to pay dividends, which could lead to a loss of our RIC status. We may also be required to secure any amounts borrowed from a bank by pledging our investments as collateral.

Leverage creates risk for holders of our common stock, including the likelihood of greater volatility of our NAV and the value of our shares, and the risk of fluctuations in interest rates on leverage capital, which may affect the return to the holders of our common stock or cause fluctuations in the distributions paid on our common stock. The fee paid to our Advisor is calculated on the basis of our Managed Assets, including proceeds from leverage capital. During periods in which we use leverage, the fee payable to our Advisor is and will be higher than if we did not use leverage. Consequently, we and our Advisor may have differing interests in determining whether to leverage our assets. Our board of directors monitors our use of leverage and this potential conflict.

Under the Investment Company Act, we are not permitted to issue preferred stock unless immediately after such issuance, the value of our total assets (including the proceeds of such issuance) less all liabilities and indebtedness not represented by senior securities is at least equal to 200% of the total of the aggregate amount of senior securities representing indebtedness plus the aggregate liquidation value of the outstanding preferred stock. Stated another way, we may not issue preferred stock that, together with outstanding preferred stock and debt securities, has a total aggregate liquidation value and outstanding principal amount of more than 50% of the amount of our total assets, including the proceeds of such issuance, less liabilities and indebtedness not represented by senior securities. In addition, we are not permitted to declare any cash dividend or other distribution on our common stock, or purchase any of our shares of common stock (through tender offers or otherwise), unless we would satisfy this 200% asset coverage after deducting the amount of such dividend, distribution or share purchase price, as the case may be. We may, as a result of market conditions or otherwise, be required to purchase or redeem preferred stock, or sell a portion of our investments when it may be disadvantageous to do so, in order to maintain the required asset coverage. Furthermore if we redeem any preferred stock, it would result in a long-term decrease in cash available to be distributed to holders of our common stock in the form of dividends. Common stockholders would bear the costs of issuing preferred stock, which may include offering expenses and the ongoing payment of dividends. Under the Investment Company Act, we may only issue one class of preferred stock.

Under the Investment Company Act, we are not permitted to issue debt securities or incur other indebtedness constituting senior securities unless, immediately thereafter, the value of our total assets (including the proceeds of the indebtedness) less all liabilities and indebtedness not represented by senior securities is at least equal to 300% of the amount of the outstanding indebtedness. Stated another way, we may not issue debt securities in a principal amount of more than one-third of the amount of our total assets, including the amount borrowed, less all liabilities and indebtedness not represented by senior securities. We also must maintain this 300% asset coverage for as long as the indebtedness is outstanding. The Investment Company Act provides that we may not declare any cash dividend or other distribution on common or preferred stock, or purchase any of our shares of stock (through tender offers or otherwise), unless we would satisfy this 300% asset coverage after deducting the amount of the dividend, other distribution or share purchase price, as the case may be. If the asset coverage for indebtedness declines to less than 300% as a result of market fluctuations or otherwise, we may be required to redeem debt securities, or sell a portion of our investments when it may be disadvantageous to do so. Under the Investment Company Act, we may only issue one class of senior securities representing indebtedness.

Effects of Leverage

At December 31, 2014, we had loans outstanding under the Credit Facility of $22.5 million. At December 31, 2014, we had borrowings under the Credit Facility as follows:

Average Daily Loan Balance*	Weighted Average Interest Rate %	Maximum Daily Loan Outstanding*
$ 27,612,745	3.02%	$ 38,000,000

*For the holding period from June 10, 2014 through December 31, 2014.

The borrowings under our Credit Facility at December 31, 2014 were $22.5 million. Our asset coverage ratio as of December 31, 2014 was 732%. See Risks Related to Our Use of Leverage for a brief description of the Credit Facility.

Assuming the utilization of leverage in the amount of 30% of our total assets and an annual interest rate of 3.02% payable on such leverage (based on market rates as of the date of this prospectus), the additional income that we must earn (net of debt-related expenses) in order to cover such leverage is approximately $1,980,000. Our actual costs of leverage may be higher or lower than that assumed in the previous example.

Following the completion of the offering, we may increase the amount of leverage outstanding. We may incur additional borrowings in order to maintain our desired leverage ratio of 30%. Leverage creates a greater risk of loss, as well as a potential for more gain, for the common stock than if leverage was not used. Interest on borrowings may be at a fixed or floating rate, and the interest at a floating rate generally will be based on short-term rates. The costs associated with our use of leverage, including the issuance of such leverage and the payment of dividends or interest on such leverage, will be borne entirely by the holders of common stock. As long as the rate of return, net of our applicable expenses, on our investment portfolio investments purchased with leverage exceeds the costs associated with such leverage, we will generate more return or income than will be needed to pay such costs. In this event, the excess will be available to pay higher dividends to holders of common stock. Conversely, if the return on such assets is less than the cost of leverage and our other expenses, the return to the holders of our common stock will diminish. To the extent that we use leverage, the NAV and market price of our common stock and the yield to holders of common stock will be more volatile. Our leveraging strategy may not be successful. Because our Advisor s fee is based on total assets (including any assets acquired with the proceeds of leverage), our Advisor s fee will be higher if we utilize leverage. See Risks Related to Our Use of Leverage.

The following table is designed to illustrate the effect of leverage on the return to a holder of our common stock in the amount of approximately 12% of our total assets, assuming a cost of leverage of 3.02% and hypothetical annual returns of our portfolio of minus 10% to plus 10% based on our financial condition on December 31, 2014. As the table shows, leverage generally increases the return to holders of common stock when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table. See Risk Factors Risks Related to Our Use of Leverage.

	Assumed Portfolio Return (Net of Expenses)				
	(10%)	**(5)%**	**0%**	**5%**	**10%**
Corresponding Common Stock Return	-15.6%	-8.4%	-1.3%	5.8%	13.0%

Derivative Transactions

Interest Rate Derivative Transactions. We may use interest rate transactions such as swaps, caps, floors, forwards, swaptions and rate-linked notes to attempt to reduce the interest rate risk arising from our investments and use of leverage or to provide exposure to the same types of investments that we make in community banking companies. The use of interest rate transactions is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, we would agree to pay to the other party to the interest rate swap (known as the counterparty) a fixed rate payment in exchange for the counterparty agreeing to pay to us a variable rate payment intended to approximate our variable rate payment obligation on any variable rate borrowings. The payment obligations would be based on the notional amount of the swap. An interest rate swaption is an option to enter into an interest rate swap. In an interest rate cap, we would pay a premium to the counterparty up to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate of interest, would receive from the counterparty payments equal to the difference based on the notional amount of such cap. In an interest rate floor, we would be entitled to receive, to the extent that a specified index falls below a predetermined interest rate, payments of interest on a notional principal amount from the party selling the interest rate floor. In a forward rate agreement, we would be entitled to receive (or be obligated to pay) the difference between the interest rate on the amount specified in the forward rate agreement and the interest rate on such amount on the date the agreement expires. A fixed-rate note is a type of debt instrument with a fixed rate of interest (known as the coupon rate) that is payable at specified times before maturity. A floating-rate note will pay us a variable amount on the principal amount of the note but the note s value rises when interest rates rise (as opposed to bonds, which decrease in value when interest rates rise).

Depending on the state of interest rates in general, our use of interest rate transactions could affect our ability to make required interest payments on any outstanding fixed income securities or preferred stock. To the extent there

is a decline in interest rates, the value of the interest rate transactions could decline. If the counterparty to an interest rate transaction defaults, we would not be able to use the anticipated net receipts under the interest rate transaction to offset our cost of financial leverage. See Risk Factors Risks Related to Our Operations Derivatives transactions may limit our income or result in losses.

We have claimed an exclusion from the definition of the term commodity pool operator under the CEA, pursuant to Regulation 4.5 under the CEA. So long as we maintain this exclusion, we will not be deemed a commodity pool operator under the CEA, and we anticipate that neither we nor our Advisor will be subject to regulation or registration as a commodity pool operator or commodity trading advisor under the CEA. Although we do not currently intend to, if we use commodity futures, commodity option contracts futures or swaps other than for bona fide hedging purposes, as defined under the CEA regulations, our aggregate initial margin and premiums on these positions (after taking into account unrealized profits and unrealized losses on any such positions and excluding the amount by which options that are in-the-money at the time of purchase) will not exceed 5% of our NAV. Furthermore, the aggregate net notional value of commodity futures, commodity option contracts futures and swaps other than for bona fide hedging purposes will not exceed 100% of our NAV (after taking into account unrealized profits and unrealized losses on any such positions). If, however, we exceed either of these thresholds, we will no longer qualify for this exclusion and will need to register as a commodity pool operator (CPO) under the CEA. If we were required to register as a CPO, the disclosure and operations of the Fund would need to comply with all applicable regulations governing commodity pools and CPOs. Additionally, if required to register as a CPO, we would be required to become a member of the National Futures Association (NFA) and be subject to the NFA s rules and bylaws. Compliance with these additional registration and regulatory requirements would increase the Fund s operating expenses.

Credit Derivative Transactions. We may utilize credit derivatives, such as credit default swaps, total return swaps or credit-linked notes to buy credit protection, in which case we would attempt to mitigate the risk of default or credit quality deterioration in all or a portion of our portfolio of bank securities to hedge against changes in the market price of bank securities in which we invest. We may also utilize total return swaps or credit-linked notes to provide exposure to the same types of investments that we make in community banking companies. A credit default swap is an agreement between two parties to exchange the credit risk of a particular issuer or reference entity. In a credit default transaction, we as buyer would pay periodic fees in return for payment by the seller which is contingent upon an adverse credit event occurring with respect to the underlying issuer or reference entity. The seller collects periodic fees from us and profits if the credit of the underlying issuer or reference entity remains stable or improves while the swap is outstanding, but the seller would be required to pay an agreed upon amount to us as buyer (which may be the entire notional amount of the swap) in the event of an adverse credit event in the issuer or reference entity. A credit-linked note is structured as a security with an embedded credit-default swap. Total return swap agreements are contracts in which one party agrees to make periodic payments to another party based on the change in market value of the assets underlying the contract, which may include a specified security, basket of securities or securities indices during the specified period, in return for periodic payments based on a fixed or variable interest rate or the total return from other underlying assets.

Equity Derivative Transactions. We may engage in equity derivatives transactions, including the use of futures, options and warrants to hedge against changes in the market prices of bank securities in which we invest or to provide exposure to and focus on the same types of investments that we make in community banking companies. Options, futures and warrants are contracts involving the right to receive or the obligation to deliver assets or money depending on the performance of one or more underlying assets, instruments or a market or economic index. An option gives its owner the right, but not the obligation, to buy (call) or sell (put) a specified amount of a security at a specified price within a specified time period. We may purchase or sell options on the publicly traded bank securities in which we may invest. When we purchase an over-the-counter option, it increases our credit risk exposure to the counterparty. Futures are standardized, exchange-traded contracts that obligate a purchaser to take delivery, and a seller to make delivery, of a specific amount of an asset at a specified future date at a specified price. No price is paid upon entering into a futures contract. Rather, upon purchasing or selling a futures contract, we would be required to deposit collateral (margin) equal to a percentage (generally less than 10%) of the contract value. Each day thereafter until the futures position is closed, we will pay additional margin representing any loss experienced as a result of the futures position the prior day or be entitled to a payment representing any profit experienced as a result of the futures position the prior day. Warrants are securities that entitle the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiration date of the warrant.

The banks in which we invest may include, as part of the consideration of our investment in such banks equity or debt securities, a grant of warrants, options and other equity conversion features by which we may increase our investment in such banks over time. While we may or may not exercise our rights under such instruments, we may trade in these warrants, options and other equity conversion features or otherwise use them to leverage our capital. In instances where our derivative transactions may be deemed to create leverage under the Investment Company Act, we will separately segregate with our custodian cash or high quality liquid investments having a value, at all times through exercise, at least equal to our potential payment obligations under such derivative transactions or otherwise ensure that the amount of such obligations together with our other leverage obligations, does not exceed 33% of our total assets. See Risk Factors Risks Related to Our Operations.

PORTFOLIO MANAGEMENT

Our board of directors provides the overall supervision and review of our affairs. Management of our portfolio is the responsibility of our Advisor s investment committee. Our Advisor s investment committee is composed of four senior investment professionals. Our Advisor s investment team, led by Messrs. Siegel and Shilowitz will be responsible for negotiating, structuring and managing our investments. Our Advisor s investment professionals have significant experience sourcing, analyzing, investing and managing investments in community banks. For the background of our investment professionals, see Management.

We expect to create a portfolio of securities focused on the bank market, with an emphasis on community banks, through investment in numerous issuers differentiated by asset sizes, business models and geographies to create a more stable, long-term portfolio of assets. Our Advisor monitors our portfolio companies and market concentrations and may adjust its underwriting criteria based on market conditions and portfolio concentrations. Our Advisor s monitoring operations include sensitivity analyses to determine the effects of changes in market conditions on our asset portfolio. These analyses may include simulations of changes in interest rates, changes in economic activity and other events that would affect the forecasted performance of our assets.

MANAGEMENT

Directors and 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.

Director Compensation

Our independent directors receive an annual retainer of $45,000 and a meeting fee of $1,000 per board or committee meeting attended plus reimbursement of expenses. The chairman of our 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 us.

Investment Committee

Management of our portfolio is the responsibility of our Advisor s investment committee. Our Advisor s investment committee is currently comprised of Joshua Siegel, George Shilowitz, Erik Eisenstein, Robert McPherson, and Ricardo Viloria. George Shilowitz is the chairperson of the investment committee. The investment committee s policy is that the consent of four of five members is required to approve the committee s decision to invest in a security and the consent of three members is required to sell a security. Biographical information about each member of our Advisor s investment committee is set forth below. See the accompanying Statement of Additional Information for more information about our portfolio managers compensation, other accounts managed by each manager, and each manager s ownership of our securities.

The names, ages and addresses of the members of our Advisor s investment committee, together with their principal occupations and other affiliations during the past five years, are set forth below.

Members of our Investment Committee

Name	Age	Position(s) Held with Company	Principal Occupation(s) Last 5 Years	Other Directorships Last 5 Years
Joshua Siegel	44	Chairman of the Board of Directors & Chief Executive Officer	Managing Partner and CEO of StoneCastle Partners	Stone Castle Partners, LLC; StoneCastle Cash Management, LLC; Stone Castle LLC
George Shilowitz	50	Director & President	Managing Partner and Senior Portfolio Manager of StoneCastle Partners	Stone Castle Partners, LLC
Erik Eisenstein	45	None	Senior Bank Analyst and a Director at StoneCastle Partners; Adjunct Professor at Kingsborough Community College	None
Robert McPherson	61	None	Managing Director at StoneCastle Partners; Attorney at McPherson Law Firm	None
Ricardo Viloria	35	None	Director of StoneCastle Partners	None

Biographical Information

The following sets forth certain biographical information for our investment committee members:

Joshua S. Siegel. Chief Executive Officer & Chairman of the Board of Directors. Mr. Siegel is the founder and Managing Partner of StoneCastle Partners and serves as its Chief Executive Officer. With over 21 years of experience in financial services, 17 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 of StoneCastle Partners and serves as the Senior Portfolio Manager of StoneCastle Partners. Mr. Shilowitz has over 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.

Erik Eisenstein. Mr. Eisenstein is the Senior Bank Analyst and a Director at StoneCastle Partners. Prior to joining StoneCastle in 2007, Mr. Eisenstein was an Equity Analyst for over six years at Standard & Poor s, Criterion Research Group LLC and Morgan Keegan, with a coverage universe of regional and community banks, thrifts and other diversified financial companies. During that time he appeared on various television and print media, including CNBC and The Wall Street Transcript. Prior, he spent three years as Underwriter and Underwriting Manager of management liability insurance products at American International Group and two years as a practicing attorney. Mr. Eisenstein holds a B.S. in Industrial and Labor Relations from Cornell University, a J.D. from Duke University and an M.B.A. from New York University.

Robert Wayne McPherson, Esq. Mr. McPherson is a business, banking and securities lawyer with thirty-one years of experience: twenty years in private practice; ten years as Corporate Counsel; and one year of government service. He has worked for the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and has successfully completed the BAI Graduate School of Bank Financial Management at Vanderbilt University. In private practice, Mr. McPherson has handled business formation, planning, purchase and sale, business litigation, Chapter 11 bankruptcy, banking and lender liability litigation and regulation, securities and broker dealer litigation and regulation and private placements. He has also completed the sale of mortgages and other loans on secondary markets. Mr. McPherson has worked on bank mergers and acquisitions and many other facets of banking law. From August 2006 through March of 2010, in conjunction with StoneCastle Partners, Mr. McPherson worked with bank holding companies, community banks, broker-dealers, investment advisors and others to provide Tier 1 and Tier 2 capital to bank holding companies and banks. Mr. McPherson received his undergraduate degree from the University of Alabama, and received his law degree and M.B.A. from the University of Memphis.

Ricardo Viloria. Mr. Viloria is a Co-Portfolio Manager and a Director at StoneCastle Partners. Prior to joining StoneCastle in 2006, Mr. Viloria was a Ratings Analyst at Moody s. For three years at Moody s, Mr. Viloria specialized in financial institution-related transactions and rated a broad range of transactions secured by various assets classes that included leveraged loans, bonds and asset-backed securities. Prior to Moody s, Mr. Viloria was at Fox-Pitt, Kelton, a subsidiary of Swiss Reinsurance at the time, in the Corporate Finance Group where he focused on capital raising and mergers and acquisitions for community banks, insurance and finance companies. Mr. Viloria holds a B.S. in Operations Research from Columbia University and an M.B.A. from New York University.

Management Agreement

Management Services

StoneCastle Asset Management LLC serves as our investment advisor, subject to the overall supervision and review of our board of directors. Pursuant to a management agreement, our Advisor provides us with investment research, advice and supervision and furnishes us continuously with an investment program, consistent with our investment objective and policies. Our Advisor also determines from time to time what securities we shall purchase, and what securities shall be held or sold, what portions of our assets shall be held uninvested as cash or in other qualified short-term investments or liquid assets, maintains books and records with respect to all of our transactions and will report to our board of directors on our investments and performance. Our Advisor was formed in November 2012. Our Advisor s affiliate, StoneCastle Advisors, LLC, is a registered investment advisor formed in 2004 which manages the assets of six long-term investment vehicles U.S. Capital Funding I, Ltd., U.S. Capital Funding II, Ltd., U.S. Capital Funding III, Ltd., U.S. Capital Funding IV, Ltd., U.S. Capital Funding V, Ltd. and U.S. Capital Funding VI, Ltd. The U.S. Capital Funding companies are securitization vehicles created to invest primarily in trust preferred securities issued by public and private community banks in the United States. StoneCastle Partners and its subsidiaries managed almost $9 billion of assets focused on community banks, including approximately $1.7 billion of capital invested in more than 250 banking institutions and over $7.2 billion of institutional cash in over 500 banks as of December 31, 2014. Our Advisor has no full time employees and relies on the officers, employees and resources of certain affiliated entities pursuant to the staffing agreement. All of the members of the investment committee of our Advisor are affiliates of, but not employees of, our Advisor, and each has other significant responsibilities with StoneCastle Partners and its subsidiaries.

Our Advisor s services to us under the management agreement will not be exclusive, and while it is not currently contemplated, our Advisor is free to furnish the same or similar services to other entities, including businesses which may directly or indirectly compete with us, so long as our Advisor s services to us are not impaired by the provision of such services to others. Our Advisor intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we will not be disadvantaged in relation to any other client of the Advisor.

Administration Services

Pursuant to the management agreement, our Advisor also furnishes us with office facilities and clerical and administrative services necessary for our operation (other than services provided by our custodian, accounting agent, administrator, dividend and interest paying agent and other service providers). Our Advisor is authorized to cause us to enter into agreements with third parties to provide such services. To the extent we request, our Advisor:

- oversees the performance and payment of the fees of our service providers and makes reports and recommendations to our board of directors such matters as the parties deem desirable;

- responds to inquiries and otherwise assists such service providers in the preparation and filing of regulatory reports, proxy statements and stockholder communications, and the preparation of materials and reports for our board of directors;

- establishes and oversees the implementation of borrowing facilities or other forms of leverage authorized by our board of directors; and

- supervises any other aspect of our administration as may be agreed upon by us and our Advisor.

Management Fee

Pursuant to the management agreement, we have agreed to pay our Advisor a fee for the management and administration services described above. The management fee is 0.4375% (1.75% annualized) of our Managed Assets, calculated and paid quarterly in arrears within fifteen days of the end of each calendar quarter. The term Managed Assets as used in the calculation of the management fee means our total assets (including cash and cash equivalents and any assets purchased with or attributable to any borrowed funds). The management fee for any partial quarter will be appropriately prorated. Our Advisor is not paid an incentive fee and does not participate in our profits in its capacity as Advisor. However, our Advisor and/or its affiliates and certain of their employees participate in our profits through ownership of our common stock, which is less than 1% of our outstanding common stock as of the date of this prospectus.

Management Fee Waiver

Our Advisor has agreed to accept a reduced management fee by waiving a portion of its management fee by an amount equal to the management fee that would be payable in respect of the net proceeds from any offering through August 30, 2015. The management fee waiver reduces the total management fee paid by the Company to the Advisor with respect to all shares. Subject to certain conditions, the Advisor may waive a lesser amount for any quarter in which our Net Increase in Net Assets (defined below) exceeds the amount of our distributions paid to our stockholders in such calendar quarter (the Excess Net Increase in Net Assets). Net Increase in Net Assets shall mean the sum of (i) our net investment income, (ii) taxable net capital gains/losses (whether short-term or long-term), and (iii) other distributions paid to us on account of our investments (to the extent such amounts are not included in clauses (i) and (ii) above). If applicable, the reduction in the waiver amount for any calendar quarter shall equal the lesser of (i) the Excess Net Increase in Net Assets in such calendar quarter and (ii) the amount of all waived fees made by the Advisor to the Company for such quarter (the Waiver Reduction Amount). While the amount waived by our Advisor for a calendar period may be reduced as set forth above, the Advisor is not entitled to reimbursement of fees waived in prior calendar quarters. Our Advisor s agreement to waive fees may be terminated by us and will automatically terminate in the event of (i) the termination by us of the Management Agreement or (ii) our dissolution or liquidation.

Payment of Our Expenses

StoneCastle Asset Management LLC serves as our investment advisor in accordance with the terms of the management agreement. Subject to the overall supervision of our board of directors, our Advisor manages our day-to-day operations and provides us with investment management services. Under the terms of the management agreement, StoneCastle Asset Management LLC does and will:

- determine the composition of our portfolio, the nature and timing of the changes therein and the manner of implementing such changes;

- identify, evaluate and negotiate the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

- close, monitor and administer the investments we make, including the exercise of any voting or consent rights; and

- provide us with such other investment advisory, research and related services as we may, from time to time, reasonably require for the investment of our assets.

We bear all expenses not specifically assumed by our Advisor and incurred in our operations, and we will bear the expenses related to any future offering. We will reimburse our Advisor to the extent our Advisor pays these expenses. The compensation and allocable routine overhead expenses of all investment professionals of our Advisor and its staff, when and to the extent engaged in providing us investment advisory services, will be provided and paid for by our Advisor and not us, although we will reimburse our Advisor an amount equal to our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the management agreement. The fees and expenses borne by us may include, but are not limited to, the following:

- other than as provided under Management Fee above, expenses of maintaining and continuing our existence and related overhead, including, to the extent such services are provided by personnel of our Advisor or its affiliates, office space and facilities and personnel compensation, training and benefits;
- commissions, spreads, fees and other expenses connected with the acquisition, holding, monitoring and disposition of securities and other investments including sales load and similar fees;
- auditing, accounting and legal expenses;
- taxes and interest; governmental fees;
- expenses of listing our shares with a stock exchange, and expenses of issue, sale, repurchase and redemption (if any) of our securities, including expenses of conducting tender offers for the purpose of repurchasing our securities;
- expenses of registering and qualifying us and our securities under federal and state securities laws and of preparing and filing registration statements and amendments for such purposes;
- expenses of communicating with stockholders, including website expenses and the expenses of preparing, printing and mailing press releases, reports and other notices to stockholders and of meetings of stockholders and proxy solicitations therefor;
- expenses of reports to governmental officers and commissions, including, without limitation, our periodic report preparation and filing obligations with the SEC;
- insurance expenses;
- association membership dues;

- fees, expenses and disbursements of custodians and subcustodians for all services to us (including without limitation safekeeping of funds, securities and other investments, keeping of books, accounts and records and determination of NAVs);

- fees, expenses and disbursements of transfer agents, dividend and interest paying agents, stockholder servicing agents and registrars for all services to us;

- fees, expenses and disbursements of CAB Marketing, LLC and CAB, L.L.C. and similar service providers;

- compensation and expenses of our directors who are not members of our Advisor s organization;

- pricing, valuation and other consulting or analytical services employed in considering and valuing our actual or prospective investments;

- all expenses incurred in leveraging of our assets through a line of credit or other indebtedness or issuing and maintaining preferred stock;

- all expenses incurred in connection with our organization and any offering of our common stock, including any future offering; and

- such non-recurring items as may arise, including expenses incurred in litigation, proceedings and claims and our obligation to indemnify our directors, officers and stockholders with respect thereto.

Expenses that are reimbursable to our Advisor are submitted to the independent members of our board of directors for their approval prior to reimbursement thereof.

Allocation Policy

Our Advisor and its affiliates allocate investment opportunities among client accounts on a fair and consistent basis, and do not favor any one client or account over any other. In certain cases, investment opportunities may be made by our Advisor other than on a pro rata basis. In determining to which accounts our Advisor will allocate investment opportunities, and in determining the shares to allocate to a particular account, our Advisor and its affiliates do not consider:

- the levels of fees earned from accounts or the fact that certain accounts may pay performance-based fees;

- different compensation payable to portfolio managers based on the performance of certain accounts;

- the ability of particular clients to send business to or otherwise benefit our Advisor in exchange for allocations;

- the identity of account holders (including the fact that certain accounts may be proprietary or maintained on behalf of investment vehicles that our Advisor sponsors);

- in the case of allocations of initial public offerings, market movement generally or the performance of the shares since the execution of the order in question;

- the prior performance of accounts; or

- whether an account is new to our Advisor.

CAB Marketing, LLC and CAB, L.L.C.

We have entered into exclusive investment referral and endorsement relationships with the CAB Marketing, LLC and CAB, L.L.C., subsidiaries of the ABA. Pursuant to the agreements governing these relationships, CAB Marketing, LLC assists us with the promotion and identification of potential investment opportunities. More specifically, CAB Marketing, LLC:

- performs a broad-based review of the capital needs of the financial services industry;

- in coordination with us, develops a community bank marketing campaign with mailings, webinars, and other modes of outreach;

- facilitates prescreening of potential investment candidates through publicly available data and distribution of due diligence questionnaires and introductions to banks that we may select as potential funding targets; and

- provides opportunities to speak at, exhibit at and attend ABA-sponsored conferences and other ABA events.

In addition, CAB, L.L.C. has granted to us a license to use the name Corporation for American Banking in connection with the foregoing promotion and identification activities, and:

- administers a members-only web page on the ABA s website that references our program of investment in community banks;
- announces the availability of our investment platform to the ABA members;
- provides prompt review of our use of the CAB name; and
- communicates objective information about us and CAB s endorsement to ABA s members.

Most capital raising activities by community banks are conducted through privately-negotiated transactions that occur outside of traditional institutional investment channels, including the capital markets. We believe that StoneCastle Partners and CAB, L.L.C. s large network of relationships will help us to identify attractive investment opportunities and will provide us with a competitive advantage. As consideration for their exclusive services and endorsement, we have contracted to pay the ABA subsidiaries a series of payments aggregating $500,000 annually, through December 31, 2015, plus an additional payment of $100,000 for the first quarter of the year following termination in recognition of the trailing benefit of the CAB name license. The ABA and its subsidiaries have not endorsed any future offering, and you should not construe references to them in this prospectus as such an endorsement.

Duration and Termination

The management agreement with our Advisor will remain in effect for an initial period of two years from November 1, 2013, the date of initial effectiveness, unless earlier terminated, and will continue in effect from year to year thereafter, but only so long as each continuance is specifically approved by (i) our board of directors or the vote of a majority of our voting securities and (ii) the vote of a majority of our independent directors. Our board of directors and sole stockholder approved the management agreement with our Advisor prior to the date of this prospectus. The management agreement with our Advisor was initially approved by our board of directors on September 4, 2013 and by our initial stockholder on November 1, 2013. The management agreement with our Advisor may be terminated at any time, without payment or penalty, by vote of our board of directors, by vote of a majority of our voting securities, or by our Advisor, in each case on not less than 60 days written notice. As required by the Investment Company Act, the management agreement with our Advisor will terminate automatically in the event of its assignment.

Liability of Advisor and Indemnification

The management agreement provides that our Advisor will not be liable to us in any way for any default, failure or defect in any of the securities comprising our portfolio if it has satisfied the duties and the standard of care, diligence and skill set forth in the management agreement. The management agreement further states that we will indemnify the Advisor for any losses, damages, claims, costs, charges, expenses or liabilities except to the extent such amounts result from our Advisor s willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations under the management agreement or as otherwise prohibited by applicable law. As a result, our Advisor may not be liable to us for breaches of its duty of care, diligence or skill.

License Agreement

StoneCastle Partners has licensed the StoneCastle name to us on a non-exclusive, royalty-free basis. We have the right to use the StoneCastle name so long as our Advisor or one of its approved affiliates remains our investment advisor. Other than with respect to this limited right, we will have no legal right to the StoneCastle name. This right will automatically terminate if the management agreement were to terminate or be assigned for any reason.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the following information, together with the other information contained in this prospectus, before investing in our securities. In connection with the forward-looking statements that appear in this prospectus, you should also carefully review the cautionary statement referred to above under Cautionary Statement Concerning Forward-Looking Statements.

Risks Related to Our Operations

We have a limited operating history; our Advisor has limited prior advisory experience, and there can be no assurance that we will achieve our business objectives.

We are a relatively new corporation organized under the laws of the State of Delaware in 2013. As a result, it is difficult to evaluate our business and future prospects. The results of our operations will depend on many factors, including, but not limited to, the availability of opportunities for the acquisition of assets, the level and volatility of interest rates, readily accessible short- and long-term funding alternatives, conditions in the financial markets, general economic conditions and the performance of our Advisor. If we do not implement our investment strategy successfully, our business could be harmed or fail entirely, with the consequence that our net income, and therefore the level of dividends payable on our common stock, could be adversely affected, and our common stock could be worth less than the initial investment.

We depend upon key personnel of our Advisor, StoneCastle Partners and their affiliates

We are an externally managed investment company, and therefore we do not have any internal management capacity or employees. We depend on the diligence, expertise and business relationships of the senior management of our Advisor and its affiliates to achieve our investment objective. We expect that our Advisor will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the management agreement.

Our Advisor is an affiliate of StoneCastle Partners and, in turn, depends upon access to the investment professionals and other resources of StoneCastle Partners and its affiliates to fulfill its obligations to us under the management agreement. Our Advisor also depends upon StoneCastle Partners to obtain access to deal flow generated by the professionals of StoneCastle Partners. Under the staffing agreement, StoneCastle Partners and its affiliates have agreed to provide our Advisor with the resources necessary to fulfill these obligations. The staffing agreement provides that StoneCastle Partners and its affiliates will make available to the Advisor experienced investment professionals and access to the senior investment personnel of StoneCastle Partners for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to the staffing agreement and cannot assure you that our affiliates will fulfill their obligations under this agreement. If an affiliate fails to perform, we cannot assure you that our Advisor will enforce the staffing agreement, that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of StoneCastle Partners and its affiliates or their market knowledge and deal flow.

We depend upon the senior professionals of StoneCastle Partners and its affiliates to maintain relationships with potential sources of investment opportunities, and we intend to rely to a significant extent upon these relationships to provide us with potential investment opportunities. We cannot assure you that these individuals will continue to indirectly provide investment advice to us. If these individuals, including the members of our investment committee, do not maintain their existing relationships with our affiliates, maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the senior professionals of StoneCastle Partners or its affiliates have relationships are not obligated to provide us with investment opportunities. Therefore, we cannot assure you that such relationships will generate investment opportunities for us.

If our Advisor is unable to manage our investments effectively, we may be unable to achieve our investment objective.

Our ability to achieve our investment objective depends on our ability to manage and grow our business. This depends, in turn, on our Advisor s ability to identify, invest in and monitor companies that meet our investment criteria. This, in turn, depends on the ability of its affiliates investment professionals to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon our Advisor s execution of our investment process, its ability to provide competent, attentive and efficient services to us and our access to leverage on acceptable terms. Our Advisor has substantial responsibilities under the management agreement. Our future success will depend on the continued service of the senior management team of our Advisor and the personnel of its affiliates who are made available to our Advisor under the staffing agreement. These persons are engaged in other business activities, which could distract them, divert their time and attention or otherwise cause them not to dedicate a significant portion of their time to our investments, which could slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, to the extent that our assets continue to grow, our Advisor may have to source additional personnel, and to the extent it is unable to source qualified individuals, our growth may be adversely affected.

We may not replicate the historical results achieved by other entities managed or sponsored by members of our investment committee or by StoneCastle Partners or its affiliates.

Our primary focus in making investments generally differs from that of many of the investment funds, accounts or other investment vehicles that are or have been managed by members of our investment committee or sponsored by StoneCastle Partners or its affiliates. In addition, investors in our common stock do not acquire an interest in any such investment funds, accounts or other investment vehicles that are or have been managed by members of our investment committee or sponsored by StoneCastle Partners or its affiliates. We cannot assure you that we will replicate the historical results achieved by members of the investment committee, and we caution you that our investment returns could be substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated. Moreover, current or future market volatility and regulatory uncertainty may have an adverse impact on our future performance.

Most of our assets will be illiquid, and their fair value may not be readily determinable.

Most of our assets will be illiquid, and their fair value may not be readily determinable. Accordingly, there can be no assurance that we would be able to realize the value at which we carry such assets if we need to dispose of them. As a result, we can provide no assurance that any given asset could be sold at a price equal to value at which we carry it.

Our Advisor may rely on assumptions that prove to be incorrect.

We will employ strategies which depend upon the reliability, accuracy and analyses of our Advisor s analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, we may not perform as anticipated, which could result in material losses. All models ultimately depend upon the judgment of the investment professionals and the assumptions embedded in the models. To the extent that, with respect to any investment, the judgment or assumptions are incorrect, we can suffer material losses. The models that our management team uses to assess and control our risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators, and in times of market stress or other unforeseen circumstances previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. These types of market movements may at times limit the effectiveness of any hedging strategies that we may employ and cause us to incur material losses.

Our Advisor and its affiliates may serve as investment advisor to other funds, investment vehicles and investors, which may create conflicts of interest not in the best interest of us or our stockholders.

StoneCastle Partners was formed in 2003 to provide investment management services to institutional and high-net worth investors. StoneCastle Partners and its affiliates have been managing investments in portfolios of community bank related investments since that time, including management of the investments of (i) six securitizations: U.S. Capital Funding I, Ltd., U.S. Capital Funding II, Ltd., U.S. Capital Funding III, Ltd., U.S. Capital Funding IV, Ltd., U.S. Capital Funding V, Ltd. and U.S. Capital Funding VI, Ltd., and (ii) one private fund: SCP Capital I, Ltd. Our Advisor was organized in November 2012 to provide investment advice to us and to continue the investment strategies of StoneCastle Partners and its affiliates. Our Advisor may advise clients in addition to us in the future. Our Advisor and its affiliates intend to allocate investment opportunities and collective expenses among their respective clients fairly and equitably and in accordance with their allocation policies.

Our investment portfolio is recorded at fair value, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is uncertainty as to the value of our investments.

Under the Investment Company Act and US GAAP, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by us in accordance with our written valuation policy, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value. Typically, there will not be a public market for the securities of the privately-held companies in which we invest. As a result, we value these securities quarterly at fair value based on input from our Advisor, third party independent valuation firms and our audit committee, with the oversight, review and approval of our board of directors.

The determination of fair value and, consequently, the amount of unrealized gains and losses in our portfolio are to a certain degree subjective and dependent on a valuation process approved by our board of directors. Certain factors that we may consider in determining the fair value of our investments include estimates of the collectability of the principal and interest on our debt investments and expected realization on our equity investments, as well as external events, such as private mergers, sales and acquisitions involving comparable companies. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our NAV on a given date to materially understate or overstate the value that we may ultimately realize on one or more of our investments. As a result, investors purchasing our common stock based on an overstated NAV would pay a higher price than the value of our investments might warrant. Conversely, investors selling securities during a period in which the NAV understates the value of our investments will receive a lower price for their securities than the value of our investments might warrant.

Our board of directors has engaged 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. Our

board of directors also reviews valuations of such investments provided by the Advisor. Furthermore, we rely heavily on the investment committee of our Advisor in making determinations of the fair value of our investments. Two of the members of our board of directors also serve on our Advisor s investment committee. This makes it more likely that the valuation of our investments, as determined by our Advisor s investment committee, will be the valuation that is approved by our board of directors. Our board of directors regularly reviews and evaluates our valuation methodology and any such valuation service it uses and the historical accuracy of such valuation methodologies. Our board of directors also reviews valuations of such investments provided by the Advisor and assigns the valuation it determines to best represent the fair value of such investments.

Our investments will be subject to dividend and interest rate fluctuations, and we may incur interest rate risk.

Our investments are likely to include preferred stock with variable dividend rates and may include debt or hybrid instruments with floating interest rates. Variable rate and floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index. The amount of income we receive from our investments may fluctuate based upon changes in interest rates and, in a declining and/or low interest rate environment, these investments will produce less income, which will impact our operating performance. Fixed dividend rate and interest rate investments, however, do not have adjusting rates and the relative value of the fixed cash flows from these investments may decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in our NAV. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. No strategy can completely insulate us from the risks associated with interest rate changes, and there is a risk that our strategies may provide no protection at all and will potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the instrument and a change in current period expense. We cannot assure you that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

We may compete with a number of other prospective investors for desirable investment opportunities.

While we believe that there is presently a general lack of investment competition for investment opportunities in the community banking sector from institutional investors including high net worth individuals, publicly traded investment companies, hedge funds and private equity funds, such investors do exist. In addition, competition among institutional investors and investment managers for community bank related investments may increase significantly. In addition to established competitors, new competitors may be established at any time. Increasing competitive conditions may adversely impact our ability to meet our business objectives, which in turn could adversely impact our ability to meet debt service obligations or make dividend payments to our stockholders. Some of our competitors may have a lower cost for borrowing funds than us or greater access to funding sources not available to us.

We may generate low or negative rates of return on capital, and we may not be able to execute our business plans as quickly as expected, if at all.

We anticipate that it may take up to six months to utilize fully the net proceeds received from any future offering; however, we may take longer to utilize such proceeds fully. This six-month period and any additional delay may result from a lack of attractive investment opportunities or from competition with other market participants in the community banking sector. We may initially invest the proceeds from any future offering in cash, cash equivalents, securities issued or guaranteed by the U.S. government or its instrumentalities or agencies, high-quality, short-term money market instruments, short-term debt securities, certificates of deposit, bankers acceptances and other bank obligations, commercial paper or other liquid fixed income securities. Because these temporary investments may

generate lower projected returns than our core business strategy, we may experience lower returns during this period, which may result in low distributions in this initial period, or possibly no distributions at all.

Our business model depends to a significant extent upon strong referral relationships, and our inability to maintain or develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that our Advisor and its affiliates will maintain their relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisors, attorneys, accountants, consultants and other individuals within their networks, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If our Advisor fails to maintain its existing relationships or develop new relationships with sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom our Advisor and its affiliates have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

If we are unable to source investments effectively, we may be unable to achieve our investment objective.

Our ability to achieve our investment objective depends on our Advisor s ability to identify, evaluate and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Advisor s marketing capabilities, management of the investment process, ability to provide efficient services and access to financing sources on acceptable terms. To grow, our Advisor and its affiliates will need to continue to hire, train, supervise and manage new employees and to implement computer and other systems capable of effectively accommodating our growth. However, we cannot provide assurance that any such employees will contribute to the success of our business or that we will implement such systems effectively. Failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Our results may fluctuate from period to period.

We could experience fluctuations in our operating results from one fiscal period to the next due to a number of factors, including the return on our investments expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. Restrictions and provisions in any future credit facilities, debt securities or other leverage instruments may also limit our ability to make distributions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Derivatives transactions may limit our income or result in losses.

In order to limit (or hedge) our exposure to interest rate and other financial market changes, we may engage in derivatives transactions. A derivative is a financial contract whose value depends on changes in the value of one or more underlying assets or reference rates. We may utilize a variety of derivative instruments for hedging purposes, including swaps, caps, floors, forwards, swaptions, options, futures, warrants and rate and credit linked notes and may therefore expose ourselves to risks associated with such transactions. We expect to use derivatives to hedge against interest rate changes affecting our outstanding indebtedness and assets, changes in the market prices of the publicly-traded banks in which we invest and downgrades and defaults affecting our assets generally.

The success of our hedging transactions will depend on our Advisor s ability to correctly predict movements of relevant market rates and the creditworthiness and values of the entities in which we invest. No assurance can be given that the Advisor s judgment in this respect will be correct, or that the Advisor will cause us to enter into hedging or other transactions at times or under circumstances when it may be advisable to do so. Therefore, while we may enter into such transactions to seek to reduce relevant market rate and risks, unanticipated changes in rates may result in reduced overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

Hedging does not eliminate the possibility of fluctuations or prevent losses. Nevertheless, such hedging can establish other positions designed to benefit from those same developments, thereby offsetting the declines. Such hedging transactions may also limit the opportunity for income or gain if rates change favorably. Moreover, it may not be possible to hedge against a rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging transactions and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Although we do not currently intend to do so, we may hedge through option contracts, futures or swaps other than for bona fide hedging purposes, as defined under the CEA regulations of up to 5% of our NAV, and the aggregate net notional value of such contracts other than for bona fide hedging purposes may be up to 100% of our NAV (after taking into account unrealized profits and unrealized losses on any such positions).

Additional risks associated with derivatives include:

Interest Rate Risk. Please see Risk Factors Our investments will be subject to dividend and interest rate fluctuations, and we may incur interest rate risk for a discussion of interest rate risk that also applies to derivatives.

Credit Risk. Credit risk is the risk that an issuer of a security will 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 to make such payments.

Counterparty Risk. We are subject to the risk that a party with whom we enter into a derivative transaction (the counterparty) will not perform its obligations under the related contracts. Although we intend to enter into transactions only with counterparties which our Advisor believes to be creditworthy, there can be no assurance that a counterparty will not default and that we will not sustain a loss on a transaction as a result.

Default Risk. We are subject to the risk that issuers of the instruments in which we invest may default on their obligations under those instruments, and that certain events may occur that have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which we invest will not default, or that an event that has an immediate and significant adverse effect on the value of an instrument will not occur, and that we will not sustain a loss on a transaction as a result.

Liquidity Risk. Derivative instruments may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. Although both over-the-counter (OTC) and exchange-traded derivatives markets may experience the lack of liquidity, OTC non-standardized derivative transactions are generally less liquid than exchange-traded instruments. The illiquidity of the derivatives markets may be due to various factors, including disorderly markets, the participation of speculators, government regulation and intervention, and technical and operational or system failures. The inability to close options and futures positions also could have an adverse impact on our ability to effectively hedge our portfolio.

We may change our business strategy and operational policies without stockholder consent, which may result in a determination to pursue riskier business activities.

With majority consent of our board of directors, we may change our business strategy for how we invest in community banks at any time without the consent of our stockholders (unless stockholder consent is specifically required by the Investment Company Act), which could result in our acquiring subsidiaries or assets that are different from, and possibly riskier than, the strategy described in this prospectus. For example, we could change our strategy to focus to a greater extent on investing in common stock rather than preferred stock, subordinated debt and convertible securities. However, we will endeavor to notify investors of any such material change in business strategy and operational policies no later than our subsequent semi-annual or annual report, as applicable, filed with the SEC. A change in our business strategy may increase our exposure to interest rate, mark to market risks or other risks. Our board of directors will determine our operational policies and may amend or revise our policies, including our policies with respect to our investments, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies, without a vote of, or notice to, our stockholders (unless stockholder consent is specifically required by the Investment Company Act). Our board of directors has changed our policies in the past, and may do so again, without a vote of, or prior notice to, our stockholders. Operational policy changes could adversely affect the market price of our common stock and our ability to make distributions to our stockholders.

Laws and regulations may prohibit the banks in which we invest from paying interest and/or dividends to us.

Dividend payments by banks are subject to legal and regulatory limitations imposed by applicable state and federal bank regulatory agencies. For instance, banks will be prohibited from paying cash dividends to their stockholders or holding company parents to the extent that any such payment would reduce the bank s capital below required capital levels. To the extent these regulatory capital requirements are increased, banks may find it more difficult to declare and pay dividends on the preferred stock they have issued and, to the extent that such preferred stock is non-cumulative, may be more reluctant to declare such dividends. Regulatory approval may also be required for a bank to declare a dividend if the total of all dividends declared by it in any calendar year exceeds the total of the bank s net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. The ability of banks to pay dividends will also depend upon other factors, including their debt and equity structure, earnings and financial condition, need for capital, and other factors, including economic conditions, and tax considerations. To the extent we invest in the holding companies of banks, the only funds available for the payment of dividends on the capital stock of the holding company may be the cash and cash equivalents held by the holding company, dividends paid by the bank to the holding company and borrowings. The banks in which we invest may be constrained in their ability to pay dividends by these factors.

Legal and regulatory changes could occur that may adversely affect us.

The regulatory environment for businesses such as ours is evolving, and changes in the regulation or interpretations thereof may adversely affect our ability to invest in the manner consistent with our current strategy, our ability to obtain the leverage that we might otherwise obtain, to effect a public offering of the common stock or to pursue our business strategy. In addition, the securities markets are subject to comprehensive statutes and regulations. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulatory environment for financial institutions and for many of the industries in which their clients are engaged is always evolving, and changes in these regulations may adversely affect the value of our investments. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by governmental and judicial action. The effect of any future regulatory change on us could be substantial and adverse.

We may be required to register as a commodity pool operator.

We have claimed an exclusion from the definition of the term commodity pool operator pursuant to Regulation 4.5 under the CEA with respect to the Company. While we currently expect that our activities will remain within the scope of the exclusion, if we change our hedging and risk management strategies, we may be required to register under the CEA as a commodity pool operator, and the Advisor may be required to register under the CEA as a commodity trading advisor, each of which would increase our regulatory and compliance costs and expenses.

Market fluctuations caused by force majeure, terrorism or certain other acts may adversely affect our performance.

In addition to historic market risks, our performance may be adversely affected by market fluctuations resulting from certain risks which are unprecedented in nature or magnitude and therefore not amenable to existing risk management techniques which are based on modeling past events and assigning probabilities to the recurrence of those events. Such events include, without limitation, catastrophic acts of terror, imposition or declaration of martial law, mass disruption of telecommunications facilities, pandemics resulting from bio-terror attacks or outbreaks of fatal disease, cyber-terror and terrorist attacks on financial markets, exchanges and payments systems and acts of providence.

Changes in interest rates may affect our net investment income, reinvestment risk and the probability of defaults of our investments.

We expect to create a portfolio of securities focused on the bank market, with an emphasis on community banks. We expect debt issued by community banks to have maturities in excess of ten years to enable our borrowers to obtain favorable regulatory capital treatment under current regulatory capital guidelines. We expect that a portion of our investments in preferred stock and unsecured debt will have fixed dividend or interest rates. In recent years, it has been the policy of the Board of Governors of the Federal Reserve System to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. The Board of Governors of the Federal Reserve System has indicated its intention to maintain low interest rates in the near future. Accordingly, the dividend and interest rates on our initial investments may be at historically low levels. Rising interest rates may devalue the fair market value of securities that we hold.

We will fund our investments from the net proceeds of the offering of our common stock, such as any future offering, and cash flows from operations, including interest earned from the temporary investment of cash. We also fund a portion of our investments through borrowings from banks. When interest rates rise, to the extent that (i) we borrow money at rates higher than the dividend and interest rates on our investments or (ii) our borrowings reprice more quickly than our floating rate investments, our profitability will be negatively affected.

We also are subject to reinvestment risk associated with changes in market rates. Changes in market rates may affect the average life of certain of our investments. Increases in market rates could make it more difficult for the community banks that issue the floating rate securities in which we invest to afford the interest or dividend payments on such securities and therefore could increase the probability of a default or reduce the ability of a bank to continue paying dividends on its preferred stock. There is also a risk that our borrowers will be unable to pay escalating interest amounts if general interest rates rise, resulting in a default under their loan agreements with us. This could also cause borrowers to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults. In addition, increasing payment obligations under floating rate loans may cause borrowers to refinance or otherwise repay our loans earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. Decreases in market rates could result in increased prepayments of the securities in which we invest, as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to

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reinvest the cash received from such prepayments, redemptions and repurchases at rates that are comparable to the interest and dividend rates on our existing investments.

We will invest primarily in unrated and illiquid securities.

In determining whether an unrated security is an appropriate investment for us, our Advisor will consider information from industry sources, as well as its own quantitative and qualitative analysis. However, our Advisor s determination is not the equivalent of a rating by a rating agency. We believe that a majority of the investments we will make will not be rated by a NRSRO. If such investments were rated by a NRSRO, we believe that they may be rated below investment-grade, in part because of the small average size of the issuances we will invest in, the corresponding reduced liquidity and a general lack of analyst and investment bank coverage. Unrated securities may be regarded as having predominately speculative characteristics with respect to the capacity to pay interest and dividends and to repay principal. Issuers of unrated securities may be highly leveraged and may not have more traditional methods of financing available to them.

The prices of these unrated securities are typically more sensitive to negative developments, such as a decline in the issuer s revenues or a general economic downturn, than are the prices of investment grade rated securities. The secondary market for unrated securities may not be as liquid as the secondary market for other rated securities, a factor which may have an adverse effect on the securities we hold compared to investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and ask price is generally much larger than for investment grade rated instruments. Under adverse market or economic conditions, the secondary market for unrated securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, we could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. The prices we realize upon the sale of such unrated securities, under these circumstances, may be less than the prices we use in calculating our NAV.

Risks Related to Our Use of Leverage

We will continue to operate with leverage, which may adversely affect our return on our assets and may reduce cash available distribution.

We will continue to operate with leverage, which we may incur in the form of recourse and non-recourse collateralized financings, private or public offerings of debt, warehouse facilities, secured and unsecured bank credit facilities, repurchase agreements or other borrowings.

We currently have a bank loan to finance investments as a form of leverage. We also have authority to issue preferred stock or engage in reverse repurchase agreements to finance investments. Leverage exaggerates the effects of market downturns or upturns on the NAV and market value of our common stock, as well as on distributions to holders of common stock. Leverage can also increase the volatility of the Company s NAV, and expenses related to leverage can reduce the Company s income. In the case of leverage, if our assets decline in value so that applicable asset coverage requirements for any borrowings or preferred stock would not be met, the Company may be prevented from paying distributions, which could jeopardize its qualification for pass-through tax treatment, make it liable for excise taxes and/ or force it to sell portfolio securities at an inopportune time.

As noted above, the Company has entered into the Credit Facility with the Syndicate to borrow up to $45.0 million of which $22.5 million has been committed and drawn as of December 31, 2014. This facility increased to $70.0 million in January, 2015. Such borrowings constitute financial leverage. The Credit Facility contains customary covenant, negative covenant 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. In addition, the Company agreed not to purchase assets not contemplated by the investment policies and restrictions in effect when the Credit Facility became effective unless changes to these policies and restrictions are consented to by Syndicate. The covenants or guidelines could impede the Advisor from fully managing the Company s portfolio in accordance with the Company s investment objectives and policies. Furthermore, non-compliance with such covenants or the occurrence of other events could lead to the cancellation of the credit facility. The Company may not incur additional debt from any other party, except in limited circumstances. Such restrictions apply only so long as the Credit Facility remains in effect. We must comply with the guidelines established by the Credit Facility.

Although we have no present intention to do so, we may also operate with leverage by issuing preferred stock. Any form of leverage may include contractual terms that are unfavorable to our stockholders, including limitations on our ability to declare and distribute dividends. Such terms will likely also contain restrictive covenants that impose asset coverage requirements, voting right requirements and restrictions on the composition of our assets, and limit the use of our investment techniques and strategies, any or all of which may have an adverse effect on us and our ability to pay dividends. If we are unable to repay or refinance maturing debt on the date it is due, we may be forced to seek other sources of capital to repay the maturing debt that may be expensive or dilutive to existing stockholders. To the extent that we are unable to find additional financing or extend or refinance our debt when it becomes due and we do not have sufficient cash to redeem such debt, we may be required to liquidate assets that are illiquid and difficult to sell for fair value and the sale of assets may occur at a time when it would not otherwise be desirable to do so. Failure to meet any contractual term set forth by our lenders, including maturity, may result in a default, a forced sale of assets or reduced operational flexibility, or a significant loss or complete loss for our stockholders.

Leverage is a speculative technique that may adversely affect our earnings or book value. If the return on assets acquired with borrowed funds or other leveraged proceeds does not exceed the cost of the leverage and our cost of operations, the use of leverage could cause us to lose money.

Successful use of leverage depends on our Advisor s ability to predict or hedge correctly cash flows generated by our assets, which depends upon default rates, interest rates, refinancing and prepayment rates, timing of recoveries and various other factors. Our actual use of leverage may vary depending on our ability to obtain credit facilities and the lender s and rating agencies estimate of the stability of our cash flows. The return on our assets and cash available for distribution to our stockholders may be reduced by changes in market conditions that cause the cost of these financings to increase relative to the income that can be derived from our assets. Defaults and lower than expected recoveries, as well as delays in recoveries on defaults, could rapidly erode our equity. Debt service payments will reduce cash flow available for distributions to stockholders. In addition, lenders from whom we may borrow money or holders of our debt securities will have claims on our assets that are superior to the claims of our common stockholders, and we may grant a security interest in our assets when we undertake leverage. In the case of a liquidation event, those lenders or note holders would receive proceeds before our common stockholders.

Financing arrangements with lenders or preferred stockholders may limit our ability to make dividend payments to our stockholders.

We depend on the ability of our operations to generate positive cash-flow measured as the positive difference between the yield on our assets and the cost of our funds. Because we use leverage to increase our return on equity, we may be subject to contractual operational limitations, including limitations on our ability to make dividends to our stockholders. If, as a consequence of these various limitations and restrictions, we are unable to generate sufficient funds for distributions from our assets or we are not in compliance with the terms of our debt agreements or any new series of preferred stock, we may not be able to make expected dividend payments.

Risks Related to Investing in Community Banking Sector

Our assets will be concentrated in the banking sector, potentially exposing us to greater risks than companies that invest in multiple sectors.

We are registered as a non-diversified, closed-end management investment company under the Investment Company Act. Accordingly, we are not currently restricted under the Investment Company Act as to the number or size of securities that we may hold, and we may invest more assets in fewer issuers compared to a diversified fund. Our assets include securities of public and privately held banks. Because we are focused on the banking sector, our investments may present more risk than if we were broadly diversified among other sectors of the economy. A downturn in the banking sector may have a larger negative impact on our earnings and book value than might otherwise be the case if we were diversified in other sectors of the economy. At times, the performance of securities issued by banks may lag the performance of securities issued by companies in other sectors of the economy.

Financial institutions, including community banks, have assets and liabilities that are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, changes in interest rates, inflation, market conditions, customer confidence in the safety and soundness of the banking system, the availability of short-term or long-term funding and the volatility of trading markets. Such factors may impact the value of financial instruments held by financial institutions or the value of the securities issued by financial institutions. In addition to risks that may impact the banking industry, an individual financial institution, such as a community bank, is directly affected by many factors, including its liquidity, asset quality, capital, earnings, management, and various other factors. Given our expected long-term investment strategy, some or all of these factors may change during the term of our investment, and we cannot predict or control the nature of these changes, some of which may have a materially adverse impact on one or all of our investments.

The following discusses some of the key risks that could affect the business and operations of the financial institutions in which we expect to invest. Other factors besides those discussed below or elsewhere in this prospectus could adversely affect one or all of our investments, and these risk factors should not be considered a complete list of potential risks that may affect our investments in banks and other financial institutions.

- *Liquidity Risk.* The management of a financial institution must ensure that sufficient funds are available at a reasonable cost to meet potential demands from both capital providers and borrowers. The liquidity of financial institutions could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that financial institutions may be unable to control, such as a general market disruption or an operational problem that affects third parties or the financial institution itself. Institutions that have high credit ratings typically have access to cheaper and more diversified sources of funding relative to institutions with lower or no credit ratings, and many of the institutions in which we will invest have low or no credit ratings which could adversely affect their liquidity and competitive position, increase their or our borrowing costs, and limit their or our access to the capital markets. To the extent that sufficient funds are not available to meet expected or unexpected demands, a financial institution may default or fail on their obligations which would have a negative impact on our book value.

- *Asset Quality and Credit Risk.* When financial institutions loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, they incur credit risk, or the risk of losses if their borrowers do not repay their loans or their counterparties fail to perform according to the terms of their contract. The companies in which we will invest offer a number of products which expose them to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-

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for-sale. Financial institutions allow for and create loss reserves against credit risks based on an assessment of credit losses inherent in their credit exposure (including unfunded credit commitments). This process, which is critical to their financial results and condition, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of their borrowers to repay their loans. As is the case with any such assessments, there is always the chance that the financial institutions in which we invest will fail to identify the proper factors or that they will fail to accurately estimate the impacts of factors that they identify. Failure to identify credit risk factors or the impact of credit factors may result in increased non-performing assets, which will result in increased loss reserve provisioning and reduction in earnings. Poor asset quality can also affect earnings through reduced interest income which can impair a bank s ability to service debt obligations or to generate sufficient income for equity holders. Bank failure may result due to inadequate loss reserves, inadequate capital to sustain credit losses or reduced earnings due to non-performing assets. We will not have control over the asset quality of the financial institutions in which we will invest, and these institutions may experience substantial increases in the level of their non-performing assets which may have a material adverse impact on our investments.

• *Capital Risk.* A bank s capital position is extremely important to its overall financial condition and serves as a cushion against losses. U.S. banking regulators have established specific capital requirements for regulated banks. Federal banking regulators recently proposed amended regulatory capital regulations in response to 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 regulatory provisions under which the regulatory authorities act are intended to protect depositors. The deposit insurance fund and the banking system are not intended to protect stockholders or other investors in other securities issued by a bank or its holding company. 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.

• *Earnings Risk.* Earnings are the primary means for financial institutions to generate capital to support asset growth, to provide for loan losses and to support their ability to pay dividends to stockholders. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in losses and require additions to loss reserves, or by high levels of market risk that may unduly expose an institution s earnings to volatility in interest rates. The quality of earnings may also be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, net interest margin compression improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks. Deficient earnings can result in inadequate capital resources to support asset growth or insufficient cash flow to meet the financial institution s near term obligations. Under certain circumstances, this may result in the financial institution being required to suspend operations or the imposition of a cease-and-desist order by regulators which could potentially impair our investments.

• *Management Risk.* The ability of management to identify, measure, monitor and control the risks of an institution s activities and to ensure a financial institution s safe, sound and efficient operation in compliance with applicable laws and regulations are critical. Depending on the nature and scope of an institution s activities, management practices may need to address some or all of the following risks: credit, market, operating, reputation, strategic, compliance, legal, liquidity and other risks. We will not have direct or indirect control over the management of the financial institutions in which we will invest and, given our long-term investment strategy, it is likely that the management teams and their policies may change. The inability of management to operate their financial institution in a safe, sound and efficient manner in compliance with applicable laws and regulations, or changes in management of financial institutions in which we invest, may have an adverse impact on our investment.

- *Litigation Risk.* Financial institutions face significant legal risks in their businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against the companies in which we invest could have material adverse financial effects or cause significant reputational harm to these companies, which in turn could seriously harm their business prospects. Legal liability or regulatory action against the companies in which we invest could have material adverse financial effects on us and adversely affect our earnings and book value.

- *Market Risk.* The financial institutions in which we will invest are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with the operations and activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, and derivatives of the financial institutions in which we will invest. Market risk includes, but is not limited to, fluctuations in interest rates, equity and futures prices, changes in the implied volatility of interest rates, equity and futures prices and price deterioration or changes in value due to changes in market perception or actual credit quality of the issuer. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on the operations and overall financial condition of the financial institutions in which we will invest as well as adverse effects on our results from operations and overall financial condition.

- *Monetary Policy Risk.* Monetary policies have had, and will continue to have, significant effects on the operations and results of financial institutions. There can be no assurance that a particular financial institution will not experience a material adverse effect on its net interest income in a changing interest rate environment. Factors such as the liquidity of the global financial markets, and the availability and cost of credit may significantly affect the activity levels of customers with respect to the size, number and timing of transactions. Fluctuation in interest rates, which affect the value of assets and the cost of funding liabilities, are not predictable or controllable, may vary and may impact economic activity in various regions.

- *Competition.* The financial services industry, including the banking sector, is extremely competitive, and it is expected that the competitive pressures will increase. Merger activity in the financial services industry has resulted in and is expected to continue to result in, larger institutions with greater financial and other resources that are capable of offering a wider array of financial products and services. The financial services industry has become considerably more concentrated as numerous financial institutions have been acquired by or merged into other institutions. The majority of financial institutions in which we will invest will be relatively small with significantly fewer resources and capabilities than larger institutions; this size differential puts them at a competitive disadvantage in terms of product offering and access to capital. Technological advances and the growth of e-commerce have made it possible for non-financial institutions and non-bank financial institutions to offer products and services that have traditionally been offered by banking and other financial institutions. It is expected that the cross-industry competition and inter-industry competition will continue to intensify and may be adverse to the financial institutions in which we invest.

- *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.

We may invest in equity and debt securities issued by community banks, subjecting us to unique risks.

We expect to invest in securities issued by community banks that qualify as Tier 1 or Tier 2 capital for regulatory capital purposes. These investments may consist primarily of preferred equity as well as subordinated debt, convertible securities and, to a lesser extent, common equity.

Equity, unlike debt securities, does not have a stated maturity and it is uncertain when, if ever, we will receive our invested amounts or expected returns on such investments. During our holding period, the only source of investment income on such common equity securities may be dividend income or valuation gains. New financial products continue to be developed, and we may invest in any products that may be developed to the extent that such investment is consistent with our business plan.

Certain of these securities, particularly debt securities and certain hybrid capital instruments, may be long-dated in nature and may contain provisions that enable the issuing institution to defer payment of interest or dividends without resulting in bankruptcy or default. Furthermore, even though an institution has the financial capacity to make such payments, regulatory approval may be withheld to make such payment, and in the absence of such approval, the issuing institution will not be able to make such interest or dividend payment to us. The longer-term nature of these instruments limits the liquidity of these instruments and may increase the risk of holding these investments.

Investments in holding companies generally subject investors to increased risks because holding companies generally hold all their assets in their subsidiaries and are dependent on distributions from their subsidiaries to service their interest obligations and for ultimate principal repayment. In the event of a default or a bankruptcy, holders of securities issued by holding companies may suffer from increased losses or lower recoveries and may be subordinated to securities issued directly by the holding company s subsidiaries.

All of our investments are subject to liquidity risk, but we may face higher liquidity risk if we invest in debt obligations and other securities that are unrated and issued by banks that have no corporate rating.

All of our investments are subject to liquidity risk, however, we are likely to invest in debt obligations that are unrated and that are issued by banks that have no corporate rating by a nationally recognized statistical rating organization. In such cases, there may not be an active market for these securities and our investments will be subject to significant liquidity risk in the event we are required to sell such investments.

We expect to create and manage a portfolio of securities, focused on the bank market, with an emphasis on community banks, which would make us more economically vulnerable in the event of a downturn in the banking industry.

Our portfolio consists of preferred equity, subordinated debt, convertible securities and common equity investments in U.S. domiciled banks, primarily community banks. These investments are subject to the risk factors affecting the banking industry, and that could cause a general market decline in the value of bank stocks. Individual banks, as well as the banking industry in general, may be adversely affected by negative economic and market conditions throughout the United States or in the local economies in which community banks operate, including negative conditions caused by recent disruptions in the financial markets. In addition, changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, may have an adverse impact on banks loan portfolios and allowances for loan losses. As a result, we may experience higher rates of default with respect to our bank investments in the event of a downturn in the banking industry. Also, losses could occur in individual investments held by us because of specific circumstances related to each bank. These factors could have a material adverse effect on our financial condition, results of operations or liquidity.

A large number of community banks may fail during times of significant economic stress.

According to data from the FDIC, since 1934, banks and thrifts have failed at an annual rate of 0.37%, with peak cycle one-year failure rates of 3.22% in 1989 (S&L crisis), 1.96% in 2010 (Great Recession) and 0.54% in each of 1937 and 1938 (Great Depression). However, despite the low percentage of banks that have failed compared to the number of banks in the U.S. during the relevant time period, during periodic times of significant economic stress, bank earnings decline and a significant number of banks may fail. For instance, during the savings and loan crisis during the 1980s through 1992, there were a total of 2,870 failures out of 14,364 FDIC-insured banks in existence on December 31, 1980. From January 1, 2008 through December 31, 2014, which includes the most recent financial crisis, there were 520 failures, most of which were community banks, out of approximately 8,534 FDIC-insured banks in existence on December 31, 2007, with the highest one-year failure rate of 3.22% in 1989 for the savings and loan crisis and 1.96% in 2010 for the most recent financial crisis. The number of failed community banks since 2007 was highest in certain regions in which real estate values declined disproportionately more than the national average, including Florida, Georgia, Illinois and California.

According to the most recently released FDIC Quarterly Banking Profile, 291 of 6,509 FDIC-insured banks were included on the FDIC s list of Problem Institutions. While historically, only a small fraction of banks on the list of Problem Institutions fail and only 18 FDIC-insured banks failed in 2014 (representing an approximate annualized failure rate of only 0.28%, which is similar to the average annual rate of default for Baa3 Corporate Credit since 1934), some level of additional bank failure is likely. We intend to invest the majority of our portfolio in institutions that are currently paying dividends or interest on their securities, that have the ability to pay dividends or interest on the securities they issue, and/or that are not a party to regulatory enforcement actions that would limit or hinder their payment of dividends or interest or otherwise demonstrate that they are in troubled condition. We believe that such institutions are unlikely to be included in the FDIC s list of Problem Institutions and are less likely to fail than many of their peers. Nevertheless, it is possible that some portion of the community banks in which we invest may fail, particularly if the U.S. economy stagnates or another financial crisis occurs. If we invest in banks that fail, we are likely to lose most or all of our investment in such institutions.

We expect to create and manage a portfolio of securities, focused on the bank market, with an emphasis on community banks whose business is subject to greater lending risks than larger banks.

Community banks have different lending risks than larger banks. They provide services to their local communities. Their ability to diversify their economic risks is limited by their own local markets and economies. They lend primarily to small to medium-sized businesses, professionals and individuals which may expose them to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories. They manage their credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through loan approval and review procedures. They have established evaluation processes designed to determine the adequacy of their allowances for loan losses. Although these evaluation processes use historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding their borrowers, the economies in which they and their borrowers operate, as well as the judgment of their regulators. We cannot assure you that their loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on their business, financial condition or results of operations.

Risks Related to Banking Regulations Affecting Our Business

The following summary does not purport to be a comprehensive description of all of the federal and state statutes and regulations which govern U.S. banking institutions that may be relevant to a decision to invest in the Company. The statutes or regulations discussed are only brief summaries of those provisions which are, in their entirety, complex and subject to interpretation. Further, the statutes or regulations governing the U.S. banking system and the interpretation thereof are subject to change. In addition, it does not purport to deal with all of the consequences applicable to investors in regulated financial institutions. Each prospective investor is strongly urged to consult its own legal advisors with respect to the consequences under applicable regulatory regimes governing banking institutions and investors therein of the purchase and ownership of common stock in the Company.

The banking institutions in which we will invest are subject to substantial regulations that could adversely affect their ability to operate and the value of our investments.

We invest substantially all of our assets in community banks and their holding companies and therefore our portfolio investments are subject to existing and potential new regulations that may be adverse to them. Banking institutions, including banks and savings and loan associations, holding companies thereof, and their subsidiaries and affiliates (collectively, banking institutions) are highly regulated entities that are subject to extensive regulatory and legal restrictions and limitations and to supervision, examination and enforcement by state and federal regulatory authorities. In addition, the banking crisis in the United States that began in 2007 has resulted in increased regulations, and we anticipate that further regulations will be implemented in the future. The laws and regulations affecting banks, and the interpretations thereof, are subject to material changes, and any such changes may adversely impact portfolio investments and could result in the Company facing material losses or having to divest some or all of its investments under adverse market conditions. As a result of the extensive federal and state restrictions and limitations, supervision and enforcement, banking institutions have less operational flexibility and are generally subject to greater regulatory risks than companies in other industries that are less regulated.

Numerous and Extensive Regulations. There are various federal statutes that regulate U.S. banking institutions, including, the Bank Holding Company Act of 1956, the Federal Deposit Insurance Act, the Federal Reserve Act, the National Bank Act, the Home Owners Loan Act of 1933 (the HOLA), the Securities Act, the Securities Exchange Act of 1934 (the Exchange Act), the Investment Advisers Act and the Investment Company Act. These federal statutes have been amended, often materially, over the years and may continue to be amended in the future, and the consequences of such future amendments may be materially adverse to the Company s investments or the financial services industry in general. In addition to these various federal statutes, federal regulatory agencies, including among others the Federal Reserve Board, the Office of the Comptroller of the Currency (the OCC), the FDIC and the CFPB, together in certain cases with state banking regulatory agencies (individually, a Regulatory Agency or, collectively, the Regulatory Agencies), have adopted regulations and guidelines which are subject to interpretation, and which continue to be amended and revised and such amendments and revisions or a change in interpretation of existing regulations or guidelines may be materially adverse to the Company s portfolio companies or the financial services industry in general. Much of the regulatory framework that has been developed is intended to protect depositors, the FDIC and the banking system in general and, as such, stockholders in such regulated institutions may be disadvantaged, in some cases materially, by amendments and revisions to such statutes, regulations or guidelines, or interpretations thereof, or by the enforcement of such statutes and regulations by Regulatory Agencies.

Adverse consequences, including without limitation civil penalties, fines, suspension or termination of deposit insurance, may result in the event that any banking institution fails to comply with applicable rules or regulations. These rules and regulations are complex and are subject to interpretation and may be subject to change, which imposes compliance risk on the entities that are subject to these rules and may be adverse to the Company.

In addition, banking institutions are subject to various quantitative judgments by Regulatory Agencies, which may include subjective judgments regarding credit risk, interest rate and liquidity risk, operational risk and other factors, including subjective judgments on the safety or soundness of an institution.

The Dodd-Frank Act. The Dodd-Frank Act significantly changed the U.S. bank regulatory structure and significantly affected the lending, investment, trading and operating activities of community banks and their holding companies. These significant changes include, but are not limited to:

- elimination of the Office of Thrift Supervision and the transfer of supervisory and examination authority over federal savings and loan associations to the OCC, state savings and loan associations to the FDIC, and savings and loan holding companies to the Federal Reserve Board;

- application of consolidated regulatory capital requirements to savings and loan holding companies;

- a requirement that the minimum consolidated capital levels for all depository institution holding companies be no less stringent than those required for the insured depository subsidiaries and that components of Tier 1 capital be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions, which would exclude instruments such as trust preferred securities and cumulative preferred stock, subject to certain grandfathering provisions and a five-year phase-in period that started July 21, 2010;

- extension of the source of strength doctrine, that requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress, to savings and loan holding companies;

- establishment of the CFPB with expansive powers to supervise and enforce consumer protection laws;

- a requirement that originators of certain securitized loans retain a portion of the credit risk;

- implementation of significant reforms related to mortgage originations;

- increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments; and

- a requirement that the Federal Reserve Board promulgate rules prohibiting excessive compensation paid to company executives, regardless of whether the company is publicly traded or not.

Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations cannot yet fully be assessed. However, there is a significant possibility that the Dodd-Frank Act will, in the long run, increase regulatory burden, compliance costs and interest expense for community banks.

Capital Adequacy Requirements. Banking institutions are required to meet certain capital adequacy guidelines or rules that involve assessments of their assets and liabilities, including contingent and off-balance sheet items and other items which may be based on subjective inputs, as determined by the Regulatory Agencies. The Federal Reserve Board has established minimum capital adequacy requirements that are calculated in relation to assets and various off-balance sheet exposures. The Dodd-Frank Act imposes more stringent capital requirements on bank holding companies and savings and loan holding companies by, among other things, applying consolidated capital requirements to savings and loan holding companies, imposing leverage ratios on bank holding companies and savings and loan holding companies and prohibiting new trust preferred issuances from counting as Tier 1 capital. In addition, in response to the Dodd-Frank Act requirements and the Basel III protocols, the Regulatory Agencies have proposed more stringent capital requirements that, if adopted in their current form, would apply to community banks. These restrictions may significantly limit the future capital strategies of community banks.

Non-compliance with capital adequacy requirements may result in limitations on operations or other orders, which may be materially adverse to the financial institutions in which we invest. If a depository institution fails to meet certain capital adequacy standards or requirements (such institution is referred to as an undercapitalized institution if it is not well capitalized or adequately capitalized), the appropriate Regulatory Agency may be required by law to take one or more actions with respect to such undercapitalized institution. These actions may include requiring the institution to issue new shares, merge with another depository institution, restrict the rates of interest such institution pays on deposits, restrict asset growth, terminate certain activities or forcing it to divest of certain or all of its subsidiaries, dismiss certain directors or officers, place the depository institution into an FDIC-administered receivership or conservatorship or take any other action that, in the Regulatory Agency s judgment, will resolve the problems of the institution at the least possible loss to the FDIC.

We may become subject to adverse current or future banking regulations.

We will seek to structure our investments to avoid being regulated by various banking authorities. Therefore, we do not currently expect to be regulated by any state or federal banking regulatory bodies and will have significant flexibility with respect to the manner in which we operate. However, if we are deemed to have acquired control of one or more banking institutions, we would become a bank holding company subject to the Bank Holding Company Act and the regulations thereunder or a savings and loan holding company subject to the HOLA and the regulations thereunder. While the rules for bank holding companies and savings and loan holding companies vary, the Federal Reserve Board will generally find that we control a banking institution if we own 25% or more of any class of voting securities or 33% or more of the total equity (voting or non-voting) of a banking institution; or if we own 10% or more of the voting stock of the banking institution and we have representation on the board of directors of the banking institution or other indicia of control (such as control in any manner of the election of a majority of the institution s directors, or a determination by the regulator that we have the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the banking institution). There is a presumption of non-control if we own or control less than 5% of the outstanding shares of any class of voting securities. If we are deemed to have acquired control of one or more banking institutions:

- we would become subject to supervision and examination by the applicable Regulatory Agencies, including the Federal Reserve Board;

- the Federal Reserve Board would subject us to periodic reporting requirements applicable to bank holding companies or savings and loan holding companies; and

- we would become subject to restrictions on non-banking activities (i.e. any activity other than banking or managing or controlling banks or performing services for its subsidiaries) applicable to bank holding companies and savings and loan holding companies, including restrictions on acquiring direct or indirect ownership or control of more than 5% of any class of voting securities of any company engaged in non-bank activities. We would only be permitted to engage in, or acquire an interest in companies that engage in, activities that the Federal Reserve Board has determined to be incidental to the activity of banking or managing or controlling banks to a limited extent. These restricted activities include, among other activities, owning and operating a savings association, escrow company, trust company or insurance agency; acting as an investment or financial advisor, or providing securities brokerage services; and, in the case of a financial holding company or unitary savings and loan holding company, activities that are financial in nature, incidental to financial activities or complementary to a financial activity, such as lending activities, insurance and underwriting equity securities. In addition to restrictions on permissible activities and investments, bank holding companies, financial holding companies, and their subsidiary banks are prohibited from entering into certain tying arrangements in connection with extension of credit,

lease, sale of property or provision of any services should the Federal Reserve Board find the arrangement resulting in anti-competitive practices.

In addition, if we were deemed to be in control of a bank which is not well capitalized or not well managed as defined by the relevant Regulatory Agency, the Federal Reserve Board and certain other Regulatory Agencies would have the authority to impose various limitations or regulatory actions on us, including:

- limitations on our ability to pay dividends or distributions to our stockholders;

- forced divestiture of certain of our investments deemed by such Regulatory Agency as in danger of becoming insolvent and as posing significant risk to the undercapitalized institution;

- requiring us to provide financial support to the portfolio bank under the Federal Reserve Board s source of strength doctrine when we would otherwise be disinclined to do so or when we would consider itself unable to do so, which could force us to satisfy such obligation through divesture of other assets or through raising additional funds from existing stockholders or third-party investors; and

- the imposition by the FDIC of cross-guarantee liability upon any commonly controlled insured depository institutions for deposit insurance losses incurred by the FDIC. A depository institution s liability under the cross-guarantee provision is generally senior to (i) obligations to stockholders or (ii) any obligation or liability owed to any affiliate of such depository institution. Thus, portfolio companies that are insured depository institutions may be subject to such cross-guarantee liability with respect to other portfolio companies that are also insured depository institutions.

Ownership of our stock by certain types of regulated institutions may subject us to additional regulations.

If a bank holding company or savings and loan holding company stockholder is deemed to control us, we would be subject to the umbrella supervision of the Federal Reserve Board and potentially other regulatory agencies and such supervision may expose us to the regulatory burdens discussed above and to additional expenses or limitations in carrying out its investment objective, which may be materially adverse to the holders of our common stock. In the event that a bank holding company or savings and loan holding company stockholder is deemed to control us, it would have to obtain prior approval or non-objection of the Federal Reserve Board whenever the Company acquires, directly or indirectly, more than 5% of any class of voting securities of a U.S. bank or of a non-bank financial company (unless, in the case of a non-bank financial company, such bank holding company stockholders is a financial holding company). In the event that a bank holding company or savings and loan holding company stockholder controls us, we could not, without prior approval of the Federal Reserve Board, acquire more than 5% of any class of voting securities of any non-financial company, unless the bank holding company stockholder that controls us is a financial holding company; however, if each bank holding company stockholder that controls us is a financial holding company, we could make any investment in any non-financial company (but not in a bank or non-bank financial company) pursuant to the Bank Holding Company Act. If a bank holding company stockholder or savings and loan holding company controls us, then any direct or indirect investment by us in more than 5% of any class of voting securities of a foreign company (including a foreign bank) would have to comply with the provisions promulgated by the Federal Reserve Board.

Investments in banking institutions and transactions related to our portfolio investments may require approval from one or more regulatory authorities.

We would be required to seek prior approval from the Federal Reserve Board in order to acquire control of more than 5% of the outstanding shares of any class of voting securities or 25% or more of the total equity (voting and non-voting) or other controlling interests of a bank, bank holding company or financial holding company. In addition, bank holding companies (but, not financial holding companies) are required to obtain approval prior to purchasing 25% or more of the total equity of a non-bank financial company.

We would be required to seek prior approval from the Federal Reserve Board or the OCC if we proposed to acquire control of a savings and loan association or a savings and loan holding company.

If we were deemed to be a bank holding company or savings and loan holding company, bank holding companies or savings and loan holding companies that invest in us will be subject to certain restrictions and regulations.

If we were deemed to be a bank holding company or savings and loan holding company, a bank holding company or savings and loan holding company stockholder could acquire less than 5% of any class of our stock, and less than 25% of our total equity, without Federal Reserve Board approval, provided that such bank holding company or savings and loan holding company stockholder does not control us. If we made controlling investments, directly or indirectly in a U.S. bank, then any bank holding company or savings and loan holding company stockholder that acquires more than 5% of any class of voting interests or 25% of our total equity would be required to receive prior written approval of the Federal Reserve Board before acquiring such interests. Bank holding company or savings and loan holding company stockholders that are not financial holding companies may be required to obtain prior approval from the Federal Reserve Board prior to acquiring more than 5% of any class of voting interests or 25% of our total equity if we make non-contr