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StoneCastle Financial Corporation

Intra-Quarter Analyst and Investor Call

June 1, 2017

CORPORATE PARTICIPANTS

Rachel Schatten, *General Counsel and Chief Compliance Officer*

Joshua Siegel, *Chairman and Chief Executive Officer*

Patrick Farrell, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Devin Ryan, *JMP Securities*

PRESENTATION

Operator:

Welcome to the StoneCastle Financial Corp Analyst and Investor call. At this time, all participants are in a listen-only mode. An interactive question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

Now I'd like to turn the call over to Rachel Schatten, General Counsel of StoneCastle Financial. Thank you. You may begin.

Rachel Schatten:

Good afternoon. Before we begin this conference call, I'd like to remind everyone that certain statements made during the call may be considered forward-looking statements based on current Management expectations that involve substantial risks and uncertainties. Actual results may differ materially from results stated in or implied by these forward-looking statements. This would depend on numerous factors, such as changes in securities or financial markets or general economic conditions, the volume of sales and purchases of shares of common stock, the continuation of investment advisory, administrative and service contracts and other risks discussed from time-to-time in the Company's filings with the SEC, including annual and semiannual reports of the Company.

StoneCastle Financial has based the forward-looking statements included in the available information as of June 1, 2017. The Company undertakes no duty to update any forward-looking statement made herein.

Now, I will turn the call over to StoneCastle Financial's Chairman and Chief Executive Officer, Josh Siegel.

Joshua Siegel:

Thank you, Rachel. Good afternoon. We arranged this call today to provide Shareholders with updates on several recent positive developments at StoneCastle Financial that occurred just subsequent to the end of the first quarter. Joining me on this call is Pat Farrell, our Chief Financial Officer.

We will discuss last week's press release announcing the amended and improved credit facility with Texas Capital Bank and the newly assigned investment grade corporate issuer rating of A+ from Kroll Bond Rating Agency. Pat will comment on the credit facility, and I will comment on the issuer rating, then we will open up the call for questions on these topics.

Now I'm going to turn the call over to Pat.

Patrick Farrell:

Thank you, Josh. I'd like to share the positive development regarding our credit facility that occurred in mid-May. Due to the fact that we now have a three-and-a-half-year track record, consistent asset quality and consistent income with no portfolio credit events, I'm pleased to report that our advisor, StoneCastle Asset Management, has been able to amend certain terms and reduce the cost of our credit facility despite recent Fed rate increases.

The new credit facility with Texas Capital Bank extends the facility a full five years to mature in May 2022. It will provide significant expense savings, which we expect will flow to the Company's bottom line. First, we were able to lower the credit spread from LIBOR plus 2.85% to LIBOR plus 2.35%, for a reduction of 50 basis points from the prior facility. We also lowered the amount of the facility from $70 million to $62 million, eliminating a 50-basis point fee on unused borrowing amounts. Additionally, the Company will benefit from a reduction in annual administration fees of $42,000 related to the facility.

I also want to report the Company incurred a 70-basis point commitment fee for renegotiating the new credit line, for a total of $434,000 paid up-front which will be amortized against income at approximately $87,000 per year for five years.

Finally, the original facility had a requirement for the Company to maintain $3.5 million in cash in a bank account with the lead lender as a liquidity enhancement to cover interest payments. We believe that due to the stability of the Company's cash flow, the bank has removed this requirement allowing this capital to be invested.

As you can see, we were able to improve the facility in quite a few ways. Therefore, I would like to put these expense savings into perspective with an example of the earnings impact if these changes were in place for a hypothetical full quarter in a stable interest rate environment and assuming the $3.5 million released from escrow would be invested at a yield equivalent to our current portfolio.

So, assuming $62 million is drawn from the facility for the entire quarter, the new interest rate would result in lower interest expense by approximately $87,500 for the quarter. Administrative fees that were eliminated would result in expense savings of approximately $11,000 for the quarter. These savings would be offset by the new commitment fee amortized at approximately $22,000 per quarter. Finally, if the previously restricted $3.5 million of cash were to be invested at the estimated annual yield of the portfolio at March 31, which is a little over 9%, it would have, in theory, generated approximately $80,000 in net income for the quarter.

In summary, based on all of these assumptions, we believe the net savings and additional income could be as high as $156,000 for a quarter. In practice, the savings should be somewhere between half a penny and $0.02 per quarter depending on the above factors.

To reiterate, please keep in mind that the estimated savings are based on the Company being fully drawn on the revolver for an entire quarter, the portfolio being fully invested and interest rates remaining stable. That said, in all cases, this new facility will reduce expenses. We are very pleased with the new terms of the credit facility, as it should provide improved profitability over the next five years. We want to take this opportunity to thank Texas Capital Bank in working out these new terms.

Now, I'd like to turn the call back over to Josh.

Joshua Siegel:

Thank you, Pat. As many of you already know, Moody's Investor Service maintains an investment grade A3 rating on the Company's credit facility. I would like to announce that StoneCastle Financial has now also received an issuer rating of A+ from Kroll Bond Rating Agency and received an assigned rating of BBB+ to the preferred shares that could be issued by the Company. StoneCastle's issuer rating of A+ reflects the credit quality of the underlying portfolio and the investments in the portfolio in terms of asset coverage, liquidity and duration.

Additionally, the ratings report from Kroll made note that their ratings were influenced by the strong qualitative shadow rating of the Company's investment advisor, StoneCastle Asset Management. Key considerations for the rating, as reported by Kroll, were driven by their assessment of the underlying portfolio exposures, the Company's management structure and credit process, the experience of the investment team and investment policies, along with appropriate asset coverage ratios.

The few items of mention reported by Kroll were the nature of the portfolio being sector-specific in community banks and the lower liquidity of the underlying portfolio investments, of which a majority of the companies are private. We believe that both of these constraints are in fact advantages of StoneCastle's strategy and what helped us to generate the rate of return we achieve on the investments and creates a barrier to entry against competitors.

For those unfamiliar with Kroll ratings, it is considered an industry leader in the ratings of financial institutions. Kroll has been around since 2010 when the Company purchased Lakes (phon) Financial, which was, at the time, the premier issuer of bank credit ratings for more than 20 years. Credit ratings are important for companies because they communicate an independent third party assessment of investment risk. An investment grade credit rating indicates a low credit risk of default or credit impairment as compared to below investment grade investments.

We believe this issuer rating will help the Company better communicate its view of the Company's financial strength in terms of future negotiations with banks and the capital markets. While Investors may not immediately react to the issuer rating of A+, we want to point out that within the Russell 2000 Index, which is a proxy of small cap companies, only 101 companies or 5% of the Russell 2000 are assigned investment grade ratings.

Additionally, the relative value of StoneCastle continues to be compelling, with earnings at a level above most investment grade securities. At the end of the first quarter, the estimated annual yield of StoneCastle's portfolio was 9.17%, which was 544 basis point premium over the Bank of America U.S. Corporate BBB Effective Yield Index, which was yielding 3.73% at quarter-end.

In conclusion, we are proud of the investment grade corporate issuer rating of A+, as well as the closing of the amended improved facility. We consider both of these corporate developments as successful milestones for the Company and we are pleased to share this news with you, intra-quarter.

Now, Operator, we'd like to take any questions related to the press release.

Operator:

... a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question is from Devin Ryan from JMP Securities. Please go ahead.

Devin Ryan:

Hey, good afternoon, guys.

Joshua Siegel:

Hey.

Devin Ryan:

Congratulations on the developments.

Joshua Siegel:

Thank you.

Devin Ryan:

Just a couple of quick ones here. You gave good detail, but assuming that things go well and you're in a position to add equity or you do, how do you think about the capability to, I guess, increase the credit facility again under the same or similar terms? Obviously in that scenario you'd have more room for debt under your leverage limitations.

Joshua Siegel:

Great question. So, one of the things that we didn't sort of detail here is our previous facility had a small syndicate of banks led by Texas Capital and other banks as part of it. Texas Capital was, speaking for them, quite interested in taking the whole thing. So, this new facility is 100% Texas Capital, which makes amendments and increases to the size of the facility now a unilateral decision rather than a club. So, we decided in the short term we would bring the facility size down to what we can sort of use as the maximum but we had already discussed a term with the lender that, if we were to do a follow-on raise, that we can amend the facility just with them and grow it and if we needed to bring in additional banks, I'm sure those other banks would be happy to get back in.

Devin Ryan:

Got it. Okay, great color. Then, second question here, just with the Kroll rating on potential preferreds, how are you thinking about preferred equity just as an option or a near-term option to help accelerate growth?

Joshua Siegel:

Good question. So, we didn't ask Kroll to put a rating on preferreds. They were doing the rating on the Company and figured because we had a shelf they would put a rating on the various classes. So, we don't have any current plans to do it. That's not why there was a rating on it. I think a more important sort of offshoot of that question is, Kroll publishes some methodology and the methodology is to have—to infer credit rating on something below preferred—I'm sure there's only one thing below preferred which is common—it typical is one to two notches below. So, if you're at BBB+ for preferred and you were to read the online methodology for Kroll, one could infer that the common stock, right, bank stock is a BBB- or BBB quality investment, even at the common level. So, I think that helps to give people sort of a sense, just looking at published methodology, that there are very few common stocks that are solid investment grade at the stock level and not just the corporate issuer rating.

Devin Ryan:

Mm-hmm. Got it. That's great color. I'll leave it there. Thank you very much.

Joshua Siegel:

Of course, thank you.

Operator:

Once again, as a reminder, if you would like to ask a question, it is star, one.

If there are no further questions, I'd like to turn the floor back over to Management for any closing comments.

Joshua Siegel:

Okay. Well, I'd like to thank everybody for listening in to this impromptu call. We wish we could have combined it with the last earnings call but timing didn't work just right. So, we're glad that you were with us today, and we will see you on our Q2 call on August 9.