

**ITEM 1 – COVER PAGE**

**Castle Creek Advisors IV LLC  
6051 El Tordo, PO Box 1329  
Rancho Santa Fe, CA 92067  
[www.castlecreek.com](http://www.castlecreek.com)**

**March 20, 2013**

**This brochure provides information about the qualifications and business practices of Castle Creek Advisors IV LLC. If you have any questions about the contents of this brochure, please contact us at 858-756-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Castle Creek Advisors IV LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Castle Creek Advisors IV LLC is a registered investment adviser. This registration does not imply any level of skill or training.**

## **ITEM 2 - MATERIAL CHANGES**

This brochure is intended to provide potential and existing clients with an overview of the firm. It also contains important disclosures such as certain practices of the firm, potential material conflicts that may arise and key potential investment risks.

The following is an update to the Castle Creek Advisors IV LLC's brochure previously filed May 23, 2012, and does not contain material changes to the previous brochure.

### **ITEM 3 - TABLE OF CONTENTS**

<b>ITEM 1 – COVER PAGE .....</b>	<b>1</b>
<b>ITEM 2 - MATERIAL CHANGES.....</b>	<b>2</b>
<b>ITEM 3 - TABLE OF CONTENTS.....</b>	<b>3</b>
<b>ITEM 4 - ADVISORY BUSINESS.....</b>	<b>4</b>
<b>ITEM 5 - FEES AND COMPENSATION .....</b>	<b>6</b>
<b>ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>8</b>
<b>ITEM 7 - TYPES OF CLIENTS.....</b>	<b>9</b>
<b>ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>9</b>
<b>ITEM 9 - DISCIPLINARY INFORMATION.....</b>	<b>25</b>
<b>ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFIRMATIONS .....</b>	<b>25</b>
<b>ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>26</b>
<b>ITEM 12 - BROKERAGE PRACTICES .....</b>	<b>27</b>
<b>ITEM 13 - REVIEW OF ACCOUNTS.....</b>	<b>29</b>
<b>ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION.....</b>	<b>29</b>
<b>ITEM 15 - CUSTODY .....</b>	<b>30</b>
<b>ITEM 16 - INVESTMENT DISCRETION .....</b>	<b>30</b>
<b>ITEM 17 - VOTING CLIENT SECURITIES.....</b>	<b>30</b>
<b>ITEM 18 - FINANCIAL INFORMATION.....</b>	<b>31</b>

#### **ITEM 4 - ADVISORY BUSINESS**

**A. Describe your advisory firm, including how long it has been in business. Identify your principal owner(s).**

Castle Creek Advisors IV LLC and Castle Creek TARP Advisors LLC, collectively, (“CCA” or the “Company”) are Delaware Limited Liability Companies formed in November, 2008 and May, 2012. The owner(s) of CCA are JME Advisory Corp, Ruh Advisory Corp, Legions IV Advisory Corp, Mikesell Advisory Corp, and Pietrzak Advisory Corp, each a Delaware Corporation owned respectively by John M. Eggemeyer III, William J. Ruh, Mark G. Merlo, J. Mikesell Thomas, and John T. Pietrzak (each a “Principal”). CCA’s predecessor advisory company, General Partners and four Funds (known aggregately as “Castle Creek”) were founded by Messrs. Eggemeyer and Ruh, and in combination with the other owners of CCA, they serve as Principals and are cumulatively responsible for running the Company. CCA provides investment advisory services to private equity funds sponsored by Castle Creek (a “Castle Creek Fund” or “Fund”) whose respective general partners (“General Partners”) are affiliates of CCA.

Beginning in 1995, Castle Creek’s Principals forged the way for private equity investing in the banking industry, and today, the firm remains one of the most prominent and active investors in the community banking sector. The team’s strategy remains true to its original roots, effectuating change through board participation, hands-on strategic and operational input, and in most cases, acting in the “lead investor” role of equity syndications that have coalesced around Castle Creek. Together the Principals have over 150 years of experience working in the banking industry as well as extensive industry experience in raising capital, managing risk, cutting costs and enhancing profitability. As part of Castle Creek, its Principals have initiated and led over \$3.0 billion of equity investments in over 65 community banks. In the non-hostile environment in which each of Castle Creek’s investments are made, the firm is a sought after partner by both community bank management teams and boards of directors, given the cumulative banking expertise and financial leadership demonstrated by the Principals.

**B. Describe the types of advisory services the firm offers. If the firm holds itself out as specializing in a particular type of advisory service, explain the nature of that service in detail. If the firm provides investment advice only with respect to limited types of investments, explain the type of investment advice firm offers and disclose that the advice is limited to those types of investments.**

Castle Creek Funds are structured as limited partnerships, with a specific general partner formed for each respective Fund, and both the Castle Creek Fund and its General Partner are deemed affiliates of CCA. The investors and other persons who invest in a Castle Creek Fund are generally referred to herein as “investors.” Unless otherwise expressly stated herein, the term “Castle Creek Fund” does not include “investors.”

Castle Creek Funds invest in the banking and financial services industry. On the Castle Creek Fund’s behalf, CCA will (1) originate, recommend, structure, and identify sources of capital for investment, (2) monitor, evaluate, and make investment recommendations regarding the timing

and manner of disposition of Portfolio Investments, and (3) provide such other services as required in support of such Fund.

Investment opportunities in a Castle Creek Fund are privately offered only to qualified investors pursuant to exemptions available under the Securities Act of 1933, as amended (the “Securities Act”), and the regulations promulgated there under. Such Funds, including parallel funds and alternate investment vehicles, are not registered with the SEC as investment companies based on specific exclusions from the Investment Company Act of 1940, as amended (“1940 Act”). Typically, interests in such investment Funds are offered to institutional investors and high net worth individuals. Other qualified individuals who may not be employees of Castle Creek, but who have pre-existing business relationships with Castle Creek or industry expertise in the banking sector in which a particular Castle Creek Fund may be investing, also may invest in or alongside Castle Creek Funds. Some of these outside investors and industry experts are current and/or former executives of portfolio companies in which a Fund may invest.

**C. Explain whether (and, if so, how) the firm tailors advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

CCA must tailor its advisory services to the limitations imposed by the partnership agreement of the respective Castle Creek Fund. In addition, each Castle Creek Fund has a Limited Partner advisory committee composed of its investors who, depending upon the terms of the partnership agreement, may have purview over certain investments or limits on investments.

**D. If the firm participates in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how the firm manages wrap fee accounts and how it manages other accounts, and (2) explain that the firm receives a portion of the wrap fee for its services.**

CCA does not provide portfolio management services to wrap fee programs.

**E. If the firm manages client assets, disclose the amount of client assets it manages on a discretionary basis and the amount of client assets on a non-discretionary basis. Disclose the date “as of” which it calculated the amounts.**

As of December 31, 2012, CCA managed approximately \$474,590,000 in client assets, over which it or an affiliate of CCA has full investment discretion (subject to the Castle Creek Fund’s established investment guidelines), and \$31,516,000 in client assets on a non-discretionary basis.

## **ITEM 5 - FEES AND COMPENSATION**

**A. & B. Describe how the firm is compensated for its advisory services. Provide the fee schedule. Disclose whether the fees are negotiable. Describe whether the firm deducts fees from clients' assets or bills client for fees incurred. Explain how often firm bills clients or deducts its fee.**

CCA and/or an affiliated General Partner of a Fund receives management fees and/or carried interest or similar profit allocations from Castle Creek Funds. Castle Creek Funds may also indirectly incur or generate other fees payable to CCA and its affiliates, depending on the nature of their portfolio activities. CCA or its affiliates may, for example, earn fees and other compensation from prospective and actual portfolio companies, purchasers, sellers and other parties as compensation for services (collectively, "Transaction Fees"). These Transaction Fees can include structuring, break-up, directors', organizational, closing, advisory, and consulting fees in connection with the purchase, monitoring, or disposition of underlying investments or from unconsummated transactions. The specific legal and/or organizational documents of the relevant Castle Creek Fund or the investment advisory agreement between CCA (or an affiliate) and such Castle Creek Fund set forth the fee structure relevant to the investors in such Castle Creek Fund. To the extent provided in such organizational documents or investment advisory agreement, CCA's management fees from Castle Creek Funds in many cases are reduced by a specified portion of the Transaction Fees that are borne by such Castle Creek Fund.

Castle Creek Funds may also bear certain out-of-pocket expenses incurred by CCA and/or its affiliates in connection with the services provided to such Castle Creek Funds. For most Castle Creek Funds that are pooled investment funds, the annual management fee is typically two percent of third-party investors' committed capital during the relevant Castle Creek Fund's investment period, and afterward, the fee percentage is typically applied only to the amount of third-party capital remaining in investments that have not yet been exited. In some situations, a Castle Creek Fund pays management fees based on net asset value of the investments held by such Castle Creek Fund.

Management fees are generally paid by or on behalf of a Castle Creek Fund by (i) requiring investors in such Fund to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the investors of such Castle Creek Fund. In addition, CCA often has the ability to cause a Castle Creek Fund to borrow money for the payment of such fees.

Management fees are negotiable and, depending on the Castle Creek Fund, may be paid in advance or in arrears. If management fees with respect to a Castle Creek Fund are assessed in advance, they are generally required to be returned to the investors in such Castle Creek Fund should Castle Creek's management services to the Fund be terminated prior to the end of the period in respect of which the fees have been paid (including, for example, situations where the final distribution to a Castle Creek Fund occurs prior to the end of a period for which management fees have already been paid). In general, the amount of such fees to be returned is calculated based on the number days remaining in the applicable period.

**C. Describe any other types of fees or expenses clients may pay in connection with firm's advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

#### Brokerage Expenses

Expenses paid to third parties in connection with the acquisition or disposition of investments are borne by the Castle Creek Funds. These expenses include brokerage commissions (direct or in the form of a spread), account fees, custodial expenses, other bank service fees and other investment costs, fees, and expenses incurred in connection with completed investments. These fees and expenses are also discussed in more detail in Item 12 – “Brokerage Practices”.

#### Organizational/Offering Expenses

Typically, legal, accounting, filing and other expenses incurred in connection with organizing and establishing a Castle Creek Fund are borne by the investors in such Castle Creek Fund. Often, these expenses are capped in the governing documents for the Castle Creek Fund.

#### Broken Deal Expenses

Investors in Castle Creek Funds generally are required to bear out-of-pocket fees, costs and expenses incurred in connection with developing, negotiating, and structuring deals that are not ultimately completed. Typically, these expenses include (i) legal, accounting, advisory, market research, consulting or other third-party expenses in connection therewith and any related travel and accommodation expenses, although the Company and its affiliates may be required to bear travel and accommodation expenses, (ii) all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources, and (iii) any deposits or down payments of cash or other property which are forfeited in connection with a proposed portfolio investment.

#### Other Expenses

Investors in a Castle Creek Fund generally are required to pay all costs and expenses related to the operation of the Fund. These costs and expenses can include fees, costs and expenses related to developing, negotiating, structuring, and disposing of portfolio investments, including without limitation any financing, legal, accounting, advisory and consulting expenses in connection therewith; fees and expenses of tax advisors, legal counsel, auditors, consultants and other professionals and service providers; any insurance, indemnity or litigation expense; interest on, and fees and expenses arising out of, borrowings made by the Castle Creek Fund, including but not limited to, the arranging thereof; the out-of-pocket and legal and other advisory expenses of an investor advisory committee; expenses of liquidating the Castle Creek Fund; and certain taxes and any fees or other governmental charges levied against the Castle Creek Fund.

**D. If the firm's clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

Management fees are negotiable and, depending on the Castle Creek Fund, may be paid in advance or in arrears. If management fees with respect to a Castle Creek Fund are assessed in advance, they are generally required to be returned to the investors in such Castle Creek Fund should Castle Creek's management services to the Castle Creek Fund be terminated prior to the end of the period in respect of which the fees have been paid (including, for example, situations where the final distribution to a Castle Creek Fund occurs prior to the end of a period for which management fees have already been paid). In general, the amount of such fees to be returned is calculated based on the number days remaining in the applicable period.

**E. If the firm or any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact.**

Castle Creek Financial LLC ("CCF"), a broker-dealer related to the Advisor, is in its wind down stage and has one remaining merger and acquisition client which is neither a portfolio company nor related to or an affiliate of any of the existing Castle Creek investment Fund portfolio companies. CCF does not act as a broker-dealer or agent for transactions completed on behalf of Castle Creek Funds and does not hold funds or securities for, or owe money or securities to, Castle Creek Funds. Further, neither CCF nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Messrs. Eggemeyer, Ruh, Merlo, and Pietrzak are all registered representatives of CCF. Messrs. Eggemeyer and Ruh are also principals of CCF.

**ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

**If the firm or any of its supervised persons accepts performance-based fees, that is, fees based on a share of capital gains on or capital appreciation of the assets of a client, disclose this fact. If the firm or any of its supervised persons manages both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or asset-based fee, disclose this fact.**

In addition to the management fee paid to CCA, the General Partner of a Fund may receive a performance-based fee or carried interest that is calculated as a share of the profits for such Fund, based as a percentage of such profits, which may vary from Fund to Fund. The terms of the manner of calculation and application of management fees and carried interest profit allocations or other performance-based fees, as applicable, with respect to CCA, the affiliated General Partner or other affiliates and known or reasonably anticipated to result in a conflict of interest involving CCA or its affiliates, are disclosed in the offering documents of the applicable Castle Creek Fund. Investors in the Castle Creek Fund are strongly encouraged to actively review the offering documents prior to undertaking an investment.

While CCA may act as the investment advisor to more than one Castle Creek Fund with similar investment objectives at the same time, typically one Castle Creek Fund is in its realization or



wind down phase when a subsequent Castle Creek Fund completes its initial close. The partnership agreements are typically structured to limit the side-by-side management conflicts that can occur by stipulating that none of the Company, the General Partner of the Castle Creek Fund nor any of their respective Related Parties can close any other limited partnership or pooled investment vehicle (a subsequent fund) in which any of the foregoing acts as the general partner or investment manager until a certain level (usually 75% or greater) of the committed capital is invested or until the end of the commitment period.

If there should ever be an instance in which more than one Castle Creek Fund has the ability to participate in an investment opportunity, there could be incentives in allocating such investment opportunities to favor Castle Creek Funds with higher potential performance fees or carried interest allocations over Castle Creek Funds with lower potential performance fees or carried interest allocations. Each Castle Creek Fund has its own investment guidelines, charter and organizational documents that must be taken into account when making investment allocation determinations. Final allocation decisions are under the purview of the Principals, which is charged with allocating investment opportunities in compliance with the Company's fair allocation policies.

#### **ITEM 7 - TYPES OF CLIENTS**

**Describe the types of clients to who the firm generally provide investment advice, such as individuals, trusts, investment companies or pension plans. If the firm has any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

Castle Creek Funds are pooled investment vehicles or private equity investment funds with affiliated entities acting as the general partners of such Castle Creek Funds. CCA and the General Partner of the respective Fund requires that each third-party investor in a Castle Creek Fund be an "accredited investor" as defined in Regulation D under the Securities Act and a "qualified purchaser" as defined in the 1940 Act. Typically, a minimum investment amount is imposed on third parties investing in the investment vehicles for which CCA acts as investment adviser. This minimum investment often is set at \$10 million, but can be subject to a reduction upon prior agreement by CCA or an affiliate (subject to applicable legal requirements). A minimum investment amount can also be established pursuant to the laws of the jurisdiction in which the investment vehicle was established.

#### **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets.**

Castle Creek's investment strategy has been developed over the past two decades in combination with 65 direct and follow-on bank acquisitions. The process has four steps: screening, investment, operational execution and exit.

## SCREENING

Castle Creek primarily seeks bank investments, be they distressed or healthy, operating in regions of the U.S. that are characterized by favorable demographics (e.g., above average population and economic growth) and/or fragmentation (e.g., top 5 banks in the market have less than 65% combined deposit market share). Castle Creek believes that fragmentation provides significant opportunity for potential acquisitions once a “platform” investment has been completed in an established market. Many of the past acquisitions by Castle Creek were underperforming at the point of investment or simply lacked the critical mass necessary to offer comprehensive banking services. Castle Creek believed these banks were undervalued relative to the ultimate realizable value of their banking franchise.

With regards to distressed bank opportunities, investment value is generated from risk stabilization and execution of an operating strategy focused less on asset growth and acquisitions and more on profitability, risk/capital management and cost reductions. While attractive market characteristics are preferable, Castle Creek has, on occasion, pursued distressed investments with a strong franchise value and quantifiable risk in markets where the demographic and fragmentation characteristics were less attractive.

Castle Creek’s unparalleled, long-term reputation in the banking community and proactive approach to deal sourcing has created exceptional deal flow. Castle Creek uses its own proprietary financial model to help identify attractive targets, which a Principal then contacts directly. CCA’s Principals have also developed extensive contacts with investment banks, lawyers, consultants and other intermediaries, as well as public money managers who specialize in financial services.

## INVESTMENT

Typically, a preliminary plan for a targeted bank is developed and discussed with the bank’s management and board members, followed, as appropriate, by extensive due diligence.

A Principal is assigned to lead the deal team based on past experience, geography and/or chemistry with existing management. Castle Creek has developed a proprietary banking model to analyze the strengths and weaknesses of a potential investment. Castle Creek also utilizes the previously discussed relationships with intermediaries to help assess the financial condition of the bank and the ability of Castle Creek to implement its cost reduction and operational improvements.

Upon completing due diligence, a comprehensive written presentation is compiled, reviewed and discussed among the Principals and other investment professionals. Maintaining pricing and valuation discipline increases the likelihood that Castle Creek is able to generate desired returns while maintaining an appropriate margin of safety. Investment decisions must be approved by a majority of the Principals including Mr. Eggemeyer and Mr. Ruh. Historically, all investment decisions have been unanimously approved.

## OPERATIONAL EXECUTION

Castle Creek’s experience as bankers and private equity investors allows for a rapid assessment of the management team and board of directors to identify areas that need to be supplemented

with proven talent. Castle Creek simultaneously works in concert with the board of directors to provide insight regarding the alignment of management and shareholder interests. Incentive programs are assessed to increase the likelihood that such programs support desired results and corporate governance and controls are reviewed and improved as necessary. Castle Creek works within the bank regulatory framework to support management and help provide input related to realistic performance goals which are regularly benchmarked against peer banks. As part of monitoring portfolio companies, Castle Creek emphasizes teamwork and clear, open communication.

## EXITS AND REALIZATIONS

The ultimate purpose of the Castle Creek strategy is to work in concert with the board of directors and senior management to build banks with solid franchises, stable and growing earnings bases and conservative balance sheets that are highly profitable as independent community banks and that are also attractive to potential strategic acquirers. The Principals then provide input as needed to help effect a timely investment exit through an outright sale or IPO.

**B. For each significant investment strategy or method of analysis the firm uses, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss the risks in detail. If the firm's primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in a Castle Creek Fund involves a significant degree of risk. There can be no assurance that such Fund's investment objectives will be achieved or that there will be any return of or on capital. In addition, potential investors should be aware that there might be occasions when the General Partner and its affiliates could encounter potential conflicts of interest in connection with the Castle Creek Fund. Prospective investors should carefully consider the following risk factors before investing in a Fund. The following risk factors do not purport to be a complete or exhaustive explanation of the risks involved in a Castle Creek Fund.

## PAST PERFORMANCE NOT INDICATIVE OF FUTURE RESULTS

Information relating to the performance of prior CCA advised Funds and/or previous investments structured by the Principals is not necessarily indicative of future results of a Fund. There can be no assurance that the Fund will generate investment returns commensurate with Castle Creek's past performance. Among other factors, the past performance of individual Portfolio Investments does not reflect the management fees, carried interest, taxes, transaction costs and other expenses to be borne by investors in a Fund, which in the aggregate are expected to be significant. Castle Creek Fund investments, by their nature, involve a high degree of financial risk.

## NO ASSURANCE OF INVESTMENT RETURN

There can be no assurance that a Castle Creek Fund will be able to choose, make and realize Portfolio Investments in any particular company or portfolio of companies. In addition, the success of a Fund may be affected by economic and other factors beyond the control of CCA and the General Partner. There is no assurance that a Fund will be able to generate returns for its

investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There can be no assurance that expected returns for a Fund will be achieved, or that a Limited Partner will receive a return of its capital. An investment in a Fund is suitable only for investors able to sustain a complete loss of their investment.

## LEVERAGED NATURE OF INVESTMENTS

A Fund's Portfolio Companies will, as is customary for financial services firms, use leverage, which will increase the exposure to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of a Portfolio Company or its industry (as well as particular risks associated with investing in the industries targeted by a Fund). Moreover, rising interest rates may significantly increase Portfolio Companies' interest expense, causing losses and/or the inability to service debt levels. In the event a Portfolio Company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of a Fund's equity investment in such company could be significantly impaired or even eliminated.

## UNSPECIFIED INVESTMENTS

As of the formation date, a Castle Creek Fund has no operating history and may not have identified any particular investments at closing. A purchaser of an Interest in a Fund must rely upon the ability of the General Partner and CCA to identify, structure and implement Portfolio Investments consistent with a Fund's investment objectives and policies. A Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The General Partner and CCA intend to cause a Fund to acquire interests primarily in depository institutions. The General Partner and CCA may also cause a Fund to invest in other financial services companies that may engage, directly or through affiliates, in certain ancillary businesses that involve substantial risks, including the risk of loss of their investments in such businesses.

## RELIANCE ON THE GENERAL PARTNER AND CCA

Decisions with respect to the management of the Fund will be made by the General Partner and CCA and a Castle Creek Fund will be wholly dependent for the identification, negotiation, acquisition, management and disposition of investments on the diligence and skill of the Principals and other professional employees of the General Partner and CCA. The General Partner will have exclusive responsibility for a Fund's activities, and other than as expressly set forth in the Partnership Agreement, Limited Partners will not participate in making investment or other decisions in the management of a Fund. The Limited Partners will also not have the opportunity to evaluate the relevant economic, financial and other information that will be utilized by the General Partner and CCA in the selection of investments, nor to receive the detailed financial information issued by Portfolio Companies that is available to the General Partner. The success of a Castle Creek Fund will depend on the ability of the General Partner and CCA to identify and consummate suitable investments and to dispose of investments of such Fund for a profit.

There can be no assurance that all of the Principals will continue to be associated with the Fund throughout its term. The loss of the services of John Eggemeyer or William Ruh, in particular, could have a material adverse effect on a Fund's business and prospects.

## OTHER ACTIVITIES OF THE GENERAL PARTNER AND CCA

The General Partner and CCA will not devote its attention exclusively to the affairs of a Castle Creek Fund, but may simultaneously manage certain residual investments from prior Castle Creek Funds. In addition, after the end of the Commitment Period, and prior to the disposition of certain Fund investments, affiliates of the General Partner and CCA may manage a permitted successor Fund or Funds, and the predecessor Fund will have no interest in these other activities.

## ILLIQUID AND LONG-TERM INVESTMENTS

Investment in a Castle Creek Fund requires a long-term commitment with no certainty of return. There most likely will be little or no near-term cash flow available to the Partners. Many of the Portfolio Investments will be highly illiquid and there can be no assurance that such Fund will be able to realize returns on such Portfolio Investments in a timely manner. Consequently, dispositions of such Portfolio Investments may require a lengthy time period or may result in distributions in kind to the Partners. While a Portfolio Investment may be sold at any time, it is not generally expected that this will occur for a number of years after the Portfolio Investment is made. A Castle Creek Fund will generally acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or in a private placement or other transaction exempt from registration under the Securities Act. In some cases, a Castle Creek Fund may be prohibited by contract from selling certain securities for a period of time. Even where a Fund holds freely tradable publicly traded securities, such Fund's position may represent a significant portion of the outstanding public float of a particular company, creating a degree of illiquidity when the Fund wishes to dispose of or reduce its position in such company by selling shares into the market.

## HIGHLY COMPETITIVE MARKET FOR INVESTMENTS

The business of identifying, negotiating, acquiring, monitoring, managing and selling financial services companies is highly competitive, and involves a high degree of uncertainty. It is expected that a Castle Creek Fund will encounter competition from other persons and entities with similar investment objectives. These competitors are likely to include banks, other investment partnerships and corporations, large financial companies investing directly or through affiliates, foreign investors of various types and individuals. Further, over the past several years, an ever-increasing number of private equity funds have been formed (and many existing funds have grown in size). Additional funds with similar investment objectives may be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial resources and more personnel than the General Partner, CCA, a Castle Creek Fund and their affiliates. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to a Fund and adversely affecting the terms upon which Portfolio Investments can be made. There can be no assurance that a Castle Creek Fund will be able to locate or consummate suitable investment opportunities, acquire them at appropriate prices, achieve its objective of capital appreciation, or fully invest its committed capital. To the extent that the Fund encounters competition for investments, returns to Limited Partners may decrease.

## RISK OF LIMITED NUMBER OF INVESTMENTS/INDUSTRY CONCENTRATION

A Castle Creek Fund intends only to participate in a limited number of Portfolio Investments and certain of these Portfolio Investments may require equity investments that are larger than were required in Castle Creek's historical transactions. As a consequence, the aggregate return of a Fund may be substantially adversely affected by the unfavorable performance of even a single Portfolio Investment. Investors have no assurance as to the degree of diversification of a Fund's Portfolio Investments, either by geographic region, asset type or sector. In addition, generally up to 25% of the aggregate amount of Capital Commitments may be invested in any one Portfolio Investment at any one time. To the extent a Castle Creek Fund concentrates investments in a particular issuer, industry, security or geographic region, its investments will become more susceptible to fluctuations in value resulting from adverse economic to business conditions with respect thereto. Furthermore, if a Fund co-invests with other private equity funds, a Limited Partner may have exposure to Portfolio Investments through more than one fund. In circumstances where the General Partner intends to refinance all or a portion of the capital invested in a transaction, there will be a risk that such refinancing may not be completed, which could lead to increased risk as a result of a Fund having an unintended long-term investment as to a portion of the amount invested and/or reduced diversification. Although it is the intention of the General Partner generally to diversify a Fund's portfolio, the inability of the General Partner to satisfactorily achieve this objective could adversely affect the performance of such Fund. In addition, CCA intends to concentrate Fund investments in the banking sector, and as such, a Castle Creek Fund could be adversely affected if the business conditions underlying such sector were to deteriorate or the regulatory regime governing such sector were to change.

## RISKS IN EFFECTING OPERATING IMPROVEMENTS

In some cases, the success of a Castle Creek Fund's investment strategy will depend, in part, on the ability of such Fund to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing operating improvements at Portfolio Companies entails a high degree of uncertainty. There can be no assurance that a Fund will be able to successfully identify and implement such improvements.

## NO MARKET FOR INTERESTS IN THE FUND

Interests in a Castle Creek Fund will not be readily marketable and are generally neither redeemable nor transferable without the prior written consent of the General Partner, which may be given or withheld in the General Partner's sole discretion. An investment in a Castle Creek Fund is a long-term commitment. It is anticipated that there will be a significant period of time (up to five or more years) before a Castle Creek Fund will have completed its investing in Portfolio Companies. Interests in a Fund will not be registered under the Securities Act, the securities laws of any state or the securities laws of any other jurisdiction and therefore cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws, or unless an exemption from registration is available. It is not contemplated that registration of the Interests in the Fund will ever be effected. There will be no public market for Interests in a Fund and none is expected to develop. Each Limited Partner will be required to represent that it is a qualified investor under applicable securities laws and that it is acquiring its Interest for investment purposes and not with a view to resale or distribution. Further, each Limited Partner must represent that it will only sell or transfer its Interest with prior written consent from the General Partner to a qualified investor under applicable securities laws and in a

manner permitted by the Partnership Agreement and consistent with those laws. Except in extremely limited circumstances, voluntary withdrawals from a Fund will not be permitted. Consequently, Limited Partners may not be able to liquidate their investments prior to the end of a Fund's term and must be prepared to bear the risks of an investment in such Fund for an extended period of time.

## RELIANCE ON MANAGEMENT

Although it is the intent of CCA that a Castle Creek Fund to invest in companies with strong and stable management, there can be no assurance that the existing management team of a Portfolio Company, or a new one, will be able to operate such company successfully. Furthermore, although the General Partner and CCA will monitor the performance of each Portfolio Company, company management will have primary responsibility for operating the business on a day-to-day basis.

## BRIDGE FINANCINGS

From time to time, a Castle Creek Fund may lend to Portfolio Companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always within a Fund's control, such long-term securities may not be issued and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by a Fund.

## NON-U.S. INVESTMENTS

Generally, a Castle Creek Fund may invest a portion of its aggregate Capital Commitments outside of the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a Fund's foreign investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) foreign statutory and regulatory requirements; (v) the possible imposition of foreign taxes on income and gains recognized with respect to such securities; and (vi) less developed corporate laws regarding fiduciary duties and the protection of investors.

## MARKET DISLOCATION

Recent events in the sub-prime mortgage market and other areas of the fixed income markets have caused significant dislocations, illiquidity and volatility in the structured credit, leveraged loan and high-yield bond markets, as well as in the wider global financial markets. To the extent a Castle Creek Fund's Portfolio Companies participate in or have exposure to such markets, the

results of their operations may be adversely affected. In addition, to the extent that such marketplace events are not temporary and continue and/or worsen, this may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect the financial resources of a Fund's Portfolio Companies (in particular those Portfolio Companies that provide credit to third parties or that otherwise participate in the credit markets) and their ability to make principal and interest payments on, or refinance, outstanding debt when due. In the event of such defaults, a Castle Creek Fund could lose both invested capital in and anticipated profits from the affected Portfolio Companies. Additionally, the continued deterioration of the global credit markets has made it more difficult than had been in the recent past for financial sponsors like Castle Creek to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets, has reduced investor demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling or less willing to finance new private equity investments (especially those relatively larger investments in which a Fund could participate) or only to offer committed financing for these investments on less favorable terms than had been prevailing in the recent past. A Castle Creek Fund's ability to generate attractive investment returns for the Investor may be adversely affected to the extent a Fund is unable to obtain favorable financing terms for its investments.

## GENERAL ECONOMIC AND MARKET CONDITIONS

The private equity industry generally and the success of a Castle Creek Fund's investment activities will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. A sustained downturn in the U.S. or global economy (or any particular segment thereof) could adversely affect a Fund's profitability, impede the ability of such Fund's Portfolio Companies to perform under or refinance their existing obligations, and impair such Fund's ability to effectively exit its investment on favorable terms. Any of the foregoing events could result in substantial or total losses to a Castle Creek Fund in respect of certain investments, which losses will likely be exacerbated by the presence of leverage in a Portfolio Company's capital structure.

## CONTINGENT LIABILITIES ON DISPOSITION OF PORTFOLIO COMPANIES

In connection with the disposition of a Portfolio Investment, a Castle Creek Fund may be required to make representations about the business and financial affairs of the Portfolio Company typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. It may also be required to indemnify the purchasers of such Portfolio Investment or underwriters to the extent that any such representations or disclosures ultimately prove to be inaccurate. The General Partner expects to establish reserves as appropriate to provide for such contingent liabilities. In the event that the amount of such contingent liabilities exceeds the reserves and other assets of a Fund, the Limited Partners may be required to return to such Fund all or a portion of amounts distributed to them to fund the indemnity obligations of such Fund.



## MINORITY POSITIONS IN PORTFOLIO COMPANIES

As part of its overall investment strategy, a Castle Creek Fund expects to hold a minority position in one or more Portfolio Companies, and as such it may not be able to exercise control over such companies. In such cases, a Castle Creek Fund will be significantly reliant on the existing management and board of directors of such companies, which may include representatives of other investors with whom such Fund is not affiliated and whose interests may conflict with the interests of such Fund.

## PUBLIC COMPANY HOLDINGS

A Castle Creek Fund's investment portfolio may contain securities issued by publicly held companies. Such Investments may subject a Fund to risks that differ in type or degree from those involved with Investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members and increased costs associated with each of the aforementioned risks.

## TROUBLED COMPANIES

A Castle Creek Fund may invest in Portfolio Companies that are in various stages of correcting previous operational or regulatory problems. Some or all of these companies may operate at a loss or with substantial variation in operating profits and losses from period to period, and may have a need for substantial additional capital to support expansion or to achieve or maintain a stable operating position. If turnarounds are not achieved, these Portfolio Companies could experience failures or substantial declines in value, and such Fund may not be able to divest itself of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons.

## TAXATION

Prospective investors are urged to consult their own tax advisors with respect to their own tax situations and the effect of an investment in such Fund.

## DEFAULTING LIMITED PARTNERS

A Limited Partner may forego its right and obligation to participate in its pro rata share of a Portfolio Investment as well as any future investments, and consequently will likely suffer materially adverse economic consequences as described in the Partnership Agreement (including without limitation reductions in its capital account balance), if such Limited Partner fails to contribute any portion of its Capital Commitment. If a Limited Partner defaults, and the contributions made by non-defaulting Limited Partners and borrowings by a Castle Creek Fund are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, a Castle Creek Fund may be subjected to significant penalties that could materially adversely affect the returns to the Limited Partners (including non-defaulting Limited Partners).

## MANDATORY WITHDRAWAL

The General Partner has the authority to require a Limited Partner to withdraw from a Castle Creek Fund if the General Partner determines that the continued participation in a Fund of such Limited Partner could materially adversely affect the Fund (for example, by causing the Fund to be registered as an investment company under the Investment Company Act, or causing the Fund's assets to be treated as "plan assets" under the ERISA).

## FOLLOW-ON INVESTMENTS

A Castle Creek Fund may be presented with the opportunity, or may be required, to make additional, "follow-on" investments in its existing Portfolio Companies, either for regulatory reasons, because the company's performance and/or liquidity have been below expectations or because additional capital is required to fund growth. There can be no assurance that a Castle Creek Fund will desire to make follow-on investments or that it will have sufficient funds to do so. Any decision by a Castle Creek Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on a Portfolio Investment in need of such an investment and may dilute a Fund's existing investment and/or may diminish such Fund's ability to influence the Portfolio Company's future development.

## LIABILITY OF THE FUND AND THE PARTNERS

Generally a Castle Creek Fund is organized as one or more Delaware limited partnerships. The General Partner has unlimited liability for all debts and obligations of such Fund. Except as provided below, the total liability of a Limited Partner is limited to the amount of its Capital Commitment, except in certain circumstances whereby such Limited Partner might be involved in the management or otherwise engaged in the business of the Fund or externally represented the Fund. Any Partner's Capital Commitment is susceptible to risk of loss as a result of any liability of such Fund irrespective of whether such liability is attributable to an Investment to which such Partner contributed any capital. If a Castle Creek Fund is otherwise unable to meet its obligations, the Limited Partners may, under applicable law, be obligated to return to such Fund or to creditors whose interests have been injured distributions previously received by them pursuant to any rules regarding fraudulent conveyances. In addition, a Limited Partner may be liable under applicable bankruptcy law to return a distribution made during such Fund's insolvency.

## INVESTMENTS WITH THIRD PARTIES

A Castle Creek Fund may co-invest with third parties, thereby acquiring non-controlling interests in certain Portfolio Companies. A Fund may not have control over these companies and, therefore, may have a limited ability to protect its position therein. Such Portfolio Investments may involve risks not present in Portfolio Investments where a third party is not involved, including the possibility that a third party partner or co-investor may have financial difficulties resulting in a negative impact on such Portfolio Investment, may have economic or business interests or goals which are inconsistent with those of a Fund, or may be in a position to take action contrary to the Fund's investment objectives. In addition, a Fund may in certain circumstances be liable for the actions of its third party partners or co-investors.

## HEDGING POLICIES/RISKS

In connection with the financing of certain Portfolio Investments, a Castle Creek Fund may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while a Fund may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for such Fund than if it had not entered into such hedging transactions.

## U.S. DOLLAR DENOMINATION OF INTERESTS

Interests are denominated in U.S. dollars. Investors subscribing for Interests in any country in which U.S. dollars are not the local currency should note that changes in the rate of exchange between U.S. dollars and such currency may have an adverse effect on the value, price or income of the investment to such investor. There may be foreign exchange regulations applicable to investments in foreign currencies in certain jurisdictions. Each prospective investor should consult with his or her own counsel and advisors as to all legal, tax, financial and related matters concerning an investment in the Interests.

## INDEMNIFICATION

A Castle Creek Fund will be required to indemnify the General Partner, CCA, their respective managers, members, agents and employees, all of their respective successors, heirs and assigns and the Advisory Board members for liabilities incurred in connection with the affairs of a Fund and otherwise as provided in the Partnership Agreement. Such liabilities may be material and have an adverse effect on the returns to the Limited Partners. For example, in their capacity as directors of Portfolio Companies, the partners or affiliates of the General Partner may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of a Fund would be payable from the assets of such Fund, including the Unfunded Commitments of the Limited Partners. If the assets of a Castle Creek Fund are insufficient, the General Partner may recall distributions previously made to the Limited Partners (subject to certain limitations set forth in the Partnership Agreement).

## REGULATION OF THE PRIVATE EQUITY INDUSTRY

There continues to be significantly enhanced governmental scrutiny and/or increased regulation of the private equity industry. It is difficult to determine what impact, if any, any increased regulatory scrutiny or initiatives will have on the private equity industry generally or on Castle Creek and a Fund specifically. As a result, there can be no assurance that the foregoing will not have an adverse impact on Castle Creek or otherwise impede a Fund's ability to effectively achieve its investment objectives.

## PROPOSED TAX LEGISLATION ADVERSELY AFFECTING CASTLE CREEK EMPLOYEES AND OTHER SERVICE PROVIDERS

Congress is currently considering proposed legislation that would treat carried interests as ordinary income for United States federal income tax purposes. Enactment of any such

legislation could adversely affect employees or other individuals performing services for a Fund who hold direct or indirect interests in the General Partner and benefit from carried interest, which could make it more difficult for Castle Creek to incentivize, attract and retain individuals to perform services for such Fund. Any such developments could thus adversely affect a Fund's investment returns allocable to the Limited Partners. It is unclear whether any such proposed legislation, if enacted, would apply to Castle Creek, the General Partner, CCA, and any other individuals involved with a Fund who may benefit from such carried interest.

## INVESTMENTS LONGER THAN TERM

A Castle Creek Fund may make investments which may not be advantageously disposed of prior to the date that such Fund will be dissolved, either by expiration of its term or otherwise. Although the General Partner expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the General Partner has a limited ability to extend the term of a Fund, such Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of a Castle Creek Fund the General Partner will be required to use its best efforts to reduce to cash and cash equivalents such assets of such Fund as the General Partner shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the Limited Partners will occur.

## RECYCLING; REINVESTMENT

During the Commitment Period, the General Partner has the right to generally recall capital contributions applied to a Portfolio Investment that has been disposed of within twelve months of the date such Portfolio Investment was made (or retain such amounts). Accordingly, during the term of a Fund, an investor may be required to make capital contributions in excess of its Capital Commitment, and to the extent such recalled or retained amounts are reinvested in Portfolio Investments, an investor will remain subject to investment and other risks associated with such Portfolio Investments.

## ABSENCE OF REGULATORY OVERSIGHT

While a Castle Creek Fund may, in some respects, be considered to be similar to an investment company, CCA does not intend to register the Fund, as such under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), or the laws of any other country or jurisdiction and, accordingly, the provisions of the Investment Company Act will not be applicable to such Fund. CCA is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), and consequently it is subject to the record-keeping, disclosure and other fiduciary obligations specified in the Advisers Act and to the requirements under that act that restrict, among other things, the type and amount of compensation that may be payable to the General Partner and CCA. In addition, neither the General Partner nor CCA is registered as a broker-dealer under the Exchange Act, or with FINRA, and consequently they are not subject to the record-keeping and specific business practice provisions of the Exchange Act and the rules of FINRA.

## RISKS FROM THE PROVISION OF MANAGERIAL ASSISTANCE

The General Partner and CCA intends to use reasonable best efforts to avoid having the assets of a Fund constitute “plan assets” of any plan subject to Title I of ERISA or Section 4975 of the Code, and may, in this regard, elect to operate such Fund as a “venture capital operating company” (“VCOC”) within the meaning of regulations promulgated under ERISA. Operating a Fund as a VCOC would require that such Fund obtain rights to substantially participate in or influence the conduct of the management of a number of such Fund’s Portfolio Companies. It is expected that a Fund will typically designate a director to serve on the board of directors of each Portfolio Company as to which it obtains such rights. The designation of directors and other measures contemplated could expose the assets of such Fund to claims by a Portfolio Company, its security holders and its creditors. While the General Partner and CCA intends to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

## ERISA CONSIDERATIONS

In the event a Fund is operated to qualify as a VCOC in order to avoid holding “plan assets” within the meaning of ERISA, such Fund may be restricted or precluded from making certain investments. In addition, it could be necessary for the General Partner to liquidate Fund investments at a disadvantageous time in order to avoid holding ERISA “plan assets,” resulting in lower proceeds to such Fund than might have been the case without the need to qualify as a VCOC.

## LEGAL, TAX AND REGULATORY RISKS

Legal, tax and regulatory changes could occur during the term of a Castle Creek Fund that may adversely affect such Fund, its Portfolio Companies or Partners. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions.

## DISCLOSURE OF INFORMATION

Certain Limited Partners will be subject to state public records or similar freedom of information laws, which may compel public disclosure of confidential information regarding a Castle Creek Fund, its investments and its investors. There can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement agencies or otherwise, including for purposes of complying with regulations or policies to which a Fund, the General Partner, their affiliates, Portfolio Companies or service providers to any of them may be or become subject.

## DILUTION FROM SUBSEQUENT CLOSINGS

Limited Partners subscribing for Interests in a Castle Creek Fund at subsequent closings will participate in existing Portfolio Investments of such Fund, diluting the interest of existing Limited Partners therein. Although such Limited Partners will contribute their pro rata share of previously made fund draws (plus an additional amount thereon), there can be no assurance that

this payment will reflect the fair value of such Fund's existing Portfolio Investments at the time such additional Limited Partners subscribe for Interests in such Fund.

## EFFECT OF CARRIED INTEREST

The existence of the General Partner's carried interest may create an incentive for the General Partner to make more speculative investments on behalf of a Castle Creek Fund than it would otherwise make in the absence of such performance-based arrangement. In addition, if distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property, as determined in accordance with procedures specified in the Partnership Agreement. An independent appraisal generally will not be required and is not expected to be obtained.

## MATERIAL NON-PUBLIC INFORMATION

By reason of their responsibilities in connection with their other activities, Castle Creek (and/or its employees) may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. A Castle Creek Fund will not be free to act upon any such information. Due to these restrictions, such Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a Portfolio Investment that it otherwise might have sold.

## DIVERSE LIMITED PARTNER GROUP

The Limited Partners may have conflicting investment, tax and other interests with respect to their investments in a Castle Creek Fund. The conflicting interests of individual Limited Partners may relate or arise from, among other things, the nature of Investments made by the Fund, the structuring or the acquisition of Investments and the timing of disposition of Investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the General Partner, including with respect to the nature or structuring of Investments that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring Investments appropriate for a Fund, the General Partner and CCA will consider the investment and tax objectives of such Fund and its Partners as a whole, not the investment, tax or other objectives of any Limited Partner individually.

## SIDE LETTERS

The General Partner and/or a Castle Creek Fund may enter into other written agreements ("Side Letters") with one or more Limited Partners. These Side Letters may entitle a Limited Partner to make an investment in a Fund on terms other than those described herein. Any such terms, including with respect to (i) opting out of particular investments, (ii) reporting obligations of a Fund, (iii) transfer to affiliates, (iv) co-investment opportunities, (v) withdrawal rights due to adverse tax or regulatory events, (vi) consent rights to certain Partnership Agreement amendments or (vii) any other matters described herein, may be more favorable than those offered to any other Limited Partners. If the General Partner and/or a Fund enter into a Side Letter entitling a Limited Partner to opt out of a particular investment or withdraw from such Fund, any election to opt out or withdraw by such Limited Partner may increase any other

Limited Partners' pro rata interest in that particular investment (in the case of an opt-out) or all future investments (in the case of a withdrawal).

## FUND COUNSEL

Simpson Thacher & Bartlett LLP currently serves as counsel for the Fund, the General Partner and CCA. Simpson Thacher & Bartlett LLP renders legal services to several Funds, the General Partner and CCA and does not represent the interests of any Limited Partner in a Fund. Prospective investors should seek their own legal, tax and financial advice before making an investment in a Fund.

**C. If the firm recommends primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

## FINANCIAL SERVICES INDUSTRY RISK FACTORS

Financial services institutions have asset and liability structures that are essentially monetary in nature and 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, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties and the level and volatility of trading markets. Such factors can impact customers and counterparties of financial services institutions and may impact the value of financial instruments held by financial services institutions. Fluctuations in interest rates, which affect the value of assets and the cost of funding liabilities, are not predictable or controllable, may vary from country to country and may impact economic activity in various regions.

The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal or other policies that are adopted by various governmental authorities and international bodies. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial services institutions. There can be no assurance that a particular financial services 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, the level and volatility of prices of financial instruments, investor sentiment and the availability and cost of credit may significantly affect the activity levels of customers with respect to size, number and timing of transactions. A change in all or any of these factors would likely lead to a decline in the volume of transactions that financial services institutions execute for their customers and thus lead to a decline in revenues from fees, commissions and spreads. See "Market Dislocation" in Item 8.B. above.

The financial services industry is extremely competitive, and it is expected that competitive conditions in the industry will continue to intensify. 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. Technological advances and the growth of e-commerce have made it possible for non-financial institutions to offer products and services that have been traditionally offered by financial services institutions. It is expected that cross-industry competition will continue to intensify.

The financial services industry is highly dependent on communications and information systems and is exposed to many types of operating risk, including the risk of fraud by employees or other parties, record keeping error, errors resulting from faulty computer or telecommunications systems, computer failures and damage to computer and telecommunications systems caused by internal or external events.

Each prospective investor is strongly urged to consult its own legal advisors with respect to the consequences under applicable regulatory regimes regarding banks and other financial institutions and investors therein of the purchase and ownership of Interests in a Fund.

## CERTAIN BANK AND FINANCIAL SERVICES REGULATORY CONSIDERATIONS

Financial services companies operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities. Various agencies and departments of the U.S. government and state governments regulate the banking and financial services sector in the United States. Outside of the United States, this sector may be regulated by various non-U.S. governmental bodies and institutions. New and existing regulations and burdens of regulatory compliance may have a material adverse effect on Portfolio Companies that operate in these industries. Failure to comply with any of these laws, rules or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties, fines, suspension or expulsion, and termination of deposit insurance, which may have material adverse effects. In order to comply with banking laws, rules and regulations, a Fund may be required to invest in a manner that may not be as advantageous as the manner of making investments that are not subject to such laws, rules and regulations.

## INTEREST RATE RISK

It is anticipated that a Castle Creek Fund will invest principally in the securities of depository banks. The income of such institutions is principally dependent upon net interest income, i.e., the difference between net income earned on loans and investments and the interest expense paid on deposits and other borrowings. The U.S. banking sector is affected by the monetary policies of the Federal Reserve Board, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Some of the techniques of monetary policy available to the Federal Reserve Board are engaging in open market operations in United States government securities, setting the discount rate on member bank borrowings, targeting the overnight federal funds rate and determining reserve requirements. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of depository banks in the past and are expected to continue to do so. The effect, if any, of such policies on the future business and earnings of a Castle Creek Fund's Portfolio Companies cannot be accurately predicted.



## **ITEM 9 - DISCIPLINARY INFORMATION**

**If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of the firm's advisory business or the integrity of the firm's management, disclose all material facts regarding those events.**

During the period from in or about March 2004 and July 2004, Castle Creek Financial ("CCF"), a broker-dealer related to CCA, participated in the private placement offering of stock of Centennial C Corp (Centennial") to raise funds for the acquisition of Centennial Bank Holdings, Inc. ("CBH"). The private placement memorandum provided that the offering was contingent upon receiving subscription agreements for a minimum of \$165 million. Between July 12, 2004 and July 15, 2004, investors provided \$185 million in payments for their interests in Centennial. Investor funds were deposited into Centennial Bank of the West, a subsidiary of CBH, in an account designated as "Centennial Bank Holdings, Inc. Bank Sale Proceeds." In so doing, CCF failed to establish an escrow account. CCF was fined \$10,000 and censured by NASD in May, 2005.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFIRMATIONS**

**A. If the firm or any of its management person are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

See the explanation in Item 5.E. above.

**B. If the firm or any of its management persons are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.**

Neither the Company nor any of its management persons are registered or have an application pending to register as a futures commission merchant, commodity pool operator or a commodity trading advisor.

**C. Describe any relationship or arrangement that is material to the firm's advisory business or to your clients that the firm or any of its management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

The employees of Castle Creek and its affiliates may serve on the boards of directors of portfolio companies of Castle Creek Funds. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of a Castle Creek Fund.

When CCA acts as the investment advisor to more than one pooled investment fund, it may face a number of potential conflicts of interest including, (i) allocation of investment opportunities among its Castle Creek Funds, (ii) Castle Creek Funds making investments in portfolio companies in which other Castle Creek Funds have a different principal investment and (iii) allocation of time of the Company personnel to the business affairs of its Castle Creek Funds.

**D. If firm recommends or selects other investment advisers for its clients and receives compensation directly or indirectly from those advisers that creates a material conflict of interest, or if the firm has other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

Castle Creek does not recommend or select other investment advisers for Castle Creek Funds.

**ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

**A. If the firm is an SEC-registered advisor, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any client or prospective client upon request.**

CCA has adopted as an industry best practice a Code of Ethics that sets forth the basic policies of ethical conduct for all managers, officers, and employees of the Company. In addition, the Code of Ethics governs personal trading by each employee of the Company and is intended to ensure that securities transactions effected by all employees of the Company are conducted in a manner that avoids any conflict of interest between such persons and clients of the Company or its affiliates. The Company collects, monitors, and maintains records of securities holdings and securities transactions effected by its employees. These records are regularly reviewed to insure compliance and to resolve any potential conflicts of interest.

The Company maintains a Code of Ethics and it is available to clients, investors, or prospective clients upon request or by writing to Castle Creek Advisors IV LLC, PO Box 1329, Rancho Santa Fe, CA 92067.

**B. If firm or its related persons recommends to clients, or buys or sells for client accounts, securities in which the firm or a related person has a material financial interest, describe the firm's practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

The Company does not engage in principal transactions. The Company maintains a restricted list that is disseminated to its employees on a weekly basis and monitors the employee brokerage statements to resolve conflicts of interest, which may include reversing a conflicting trade and returning any profits.

**C. If the firm or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that the firm or a related person recommends to clients, describe the firm's practice and discuss the conflicts of interest this presents and generally how the firm addresses the conflicts that arise in connection with personal trading.**

The Company does not engage in principal transactions. The Company maintains a restricted list that is disseminated to its employees on a weekly basis and monitors the employee brokerage statements to resolve conflicts of interest, which may include reversing a conflicting trade and returning any profits.

The Principals who are also members of the General Partners do not invest directly in the same securities as a Fund. Rather, the Principals invest in such securities through the General Partners' investment as a Limited Partner of the respective Fund.

**D. If the firm or related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that the firm or related person buys or sells the same securities for your own account, describe the firm's practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

The Company does not engage in principal transactions. The Company maintains a restricted list that is disseminated to its employees on a weekly basis and monitors the employee brokerage statements to resolve conflicts of interest, which may include reversing a conflicting trade and returning any profits.

## **ITEM 12 - BROKERAGE PRACTICES**

**A. Describe the factors the firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g. commissions).**

CCA has discretion to select broker-dealers for its Castle Creek Funds and must do so in accordance with the investment advisory agreements and the organization documents of the Castle Creek Funds. CCA will seek to obtain best prices and executions for its Advisor Client orders and will choose broker-dealers based on criteria such as their experience, their ability to handle the orders to the best advantage of the Castle Creek Fund, the nature of the investments to be bought or sold and the overall price of the order. CCA is not compensated with respect to making such selections.

### **1.a.-f. Research and Other Soft Dollar Benefits**

**If the firm receives research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits"), disclose the firm's practices and discuss the conflicts of interest they create.**

Historically, CCA has used several major broker-dealers to effectuate securities transactions on behalf of a Fund, and it intends to continue the practice with regards to other Funds. CCA may choose other broker-dealers for the purchase of bank securities when it is more advantageous for the Castle Creek Fund to do so. CCA receives a broad array of research from several broker-dealers, a number which a Fund may or may not receive other services or conduct securities transactions. However, CCA itself is not the subject of such research, and therefore does not derive a direct economic benefit based upon the tenor of such research. Further, investments by a Fund in a portfolio company are not dependent upon securities coverage, and often times, such portfolio company investments are negotiated directly with the issuer, and dependent upon execution by a broker-dealer.

## **2. Brokerage for Client Referrals.**

**If the firm considers, in selecting or recommending broker-dealers, whether the firm or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**

CCA does not receive client referrals from any broker-dealer or third party as a result of the Company selecting that broker-dealer for its Castle Creek Funds.

### **3.a. Directed Brokerage**

**If the firm routinely recommends, requests or requires that a client direct you to execute transactions through a specified broker-dealer, describe the firm's practice or policy.**

CCA has discretion to select broker-dealers for its Castle Creek Funds and must do so in accordance with the investment advisory agreements and the organization documents of the Castle Creek Funds.

### **3.b. If the firm permits a client to direct brokerage, describe your practice.**

CCA does not permit clients to direct brokerage.

**B. Discuss whether and under what conditions the firm aggregates the purchase or sale of securities for various client accounts. If the firm does not aggregate orders when it has the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

CCA does not aggregate the purchase or sale of securities for various client accounts because CCA Clients do not have or make common investments.

### **ITEM 13 - REVIEW OF ACCOUNTS**

**A. Indicate whether your firm periodically reviews client accounts or financial plans. If you do, describe the frequency and nature of the review and the titles of the supervised persons who conduct the review.**

The portfolio investments of the Castle Creek Funds are regularly reviewed by the principals of the Company. They monitor operations, overall performance, financial performance, and strategic direction of each portfolio company owned by the Castle Creek Funds.

**B. If the firm reviews client accounts on other than a periodic basis, describe the factors that trigger a review.**

See Item 13A above.

**C. Describe the content and indicate the frequency of regular reports the firm provides to clients regarding their accounts. State whether these reports are written.**

Investors in Castle Creek Funds receive quarterly financial reports and audited annual reports. The reports contain financial information related to the Funds themselves as well as updates on the financial and regulatory condition of the investments. Investors have the ability to access these reports via a password-protected website.

### **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

**A. If someone who is not a client provides an economic benefit to the firm for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how the firm addresses the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

Employees of CCA may serve as directors of the portfolio companies and receive directors' fees as compensation for such service. Presently 100% of directors' fees so earned are netted against the management fee owed by the Castle Creek Funds, and it is anticipated that similar term will prevail related to various Funds.

**B. If the firm or a related person directly or indirectly compensates any person who is not a supervised person for client referrals, describe the arrangement and the compensation.**

CCA and its affiliates may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to Castle Creek with respect to investing in a Fund. Any sales charge associated therewith will ultimately be payable by CCA or its affiliates, either directly or through an offset of the management fee payable by the relevant Fund.

## **ITEM 15 - CUSTODY**

**If the firm has custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements.**

CCA uses unaffiliated, qualified, third-party custodians to hold the assets of its Castle Creek Funds in a manner that it believes complies with current SEC standards and guidance. For example, these qualified custodians maintain the client assets in a manner that segregates them from assets for other clients of the custodian.

CCA is deemed to have custody of the underlying assets of all of its Castle Creek Funds. CCA relies on an exception available to “pooled investment vehicles” from the reporting and surprise audit obligations imposed by the SEC’s custody rule. In addition to holding client assets with an unaffiliated, qualified, third-party custodian, these client assets are generally also subject to a year-end audit by a major accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board (“PCAOB”). The audited financial statements are then provided to the underlying investors of these Castle Creek Funds within 120 days of the end of the fiscal year.

## **ITEM 16 - INVESTMENT DISCRETION**

**If the firm accepts discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

CCA provides investment advice to its Castle Creek Funds on a discretionary basis. An affiliate of CCA, typically the General Partner of the applicable Castle Creek Fund, accepts discretionary investment authority for each Castle Creek Fund. Generally this discretion is subject only to the investment guidelines set forth in the governing agreements of a Castle Creek Fund. Such governing agreements generally expressly provide that the applicable general partner has the authority to make all decisions concerning the investigation, selection, negotiation, structuring, commitment to, monitoring of and disposition of investments.

## **ITEM 17 - VOTING CLIENT SECURITIES**

**A. If the firm has, or will accept authority to vote client securities, briefly describe the voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6 and the applicable state securities rules.**

Because the Company has, or will accept, authority to vote company securities held by a Castle Creek Fund, it has adopted policies and procedures (the “Proxy Voting Policies and Procedures”) that it believes are reasonably designed to comply with the requirements of the 1940 Act. The Proxy Voting Policies and Procedures reflect the Company’s commitment to vote such

instruments in a manner consistent with the best interests of the Castle Creek Funds and the investors in such Funds, including when there may be material conflicts of interest in voting proxies.

Proxy voting reports identifying how proxies were voted where CCA has been delegated proxy voting authority and CCA's Proxy Voting Policies and Procedures are available upon written request to Castle Creek Advisors IV LLC, PO Box 1329, Rancho Santa Fe, CA 92067.

**B. If the firm does not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

The Company does have authority to vote all Castle Creek Fund proxies.

#### **ITEM 18 - FINANCIAL INFORMATION**

**A. If the firm requires or solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

CCA does not require or solicit prepayment of any client fees, six months or more in advance.

**B. If firm has discretionary authority or custody of client funds or securities, or firm requires or solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

At this time, CCA is not aware of any financial condition that could impair its ability to meet its contractual obligations to its Castle Creek Funds.

**C. If firm has been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought and the current status.**

CCA has not been the subject of any bankruptcy petitions.