



Second Quarter 2015 Earnings Presentation

This presentation includes forward-looking statements. The matters discussed in this presentation, as well as in future oral and written statements by management of KCAP Financial, Inc., that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. Important assumptions include our ability to acquire or originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this presentation should not be regarded as a representation by us that our plans or objectives will be achieved.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. You should not place undue reliance on these forward-looking statements. The forward-looking statements relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this presentation.

This presentation may also contain non-GAAP financial information. The Company’s management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of the Company’s financial performance, identifying trends in our results and providing meaningful period-to-period comparisons.

Q2 2015 HIGHLIGHTS

Net Investment Income

- ◆ \$0.16 per basic share for Q2'15 compared to \$0.18 for Q1'15 and \$0.14 for Q2'14

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio now ~53% of total company Investment Revenue vs. ~50% in Q1'15 and ~53% in Q2'14
- ◆ Weighted average yield on debt securities portfolio was 7.3% in Q2, flat with Q1'15 and down from 7.7% in Q2'14

Asset Manager

- ◆ Distributed \$2.3 million in Q2'15, a decrease from \$2.7 million in Q1'15
- ◆ Closed a CLO fund in May - Catamaran CLO 2015-1 Ltd.

Credit Performance

- ◆ Portfolio is well diversified across 25 different industries and 103 different entities with an average debt investment of approximately \$3.0 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$6.96, down 2.8% vs. \$7.16 in Q1'15

Dividends

- ◆ \$0.21 dividend declared for Q2

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$30 million in new originations during the second and third quarter to date
 - ◆ Funded out of repayments and asset sales
 - ◆ Incremental yield pick-up of approximately 1.5%
- ◆ Weighted average yield on our debt securities portfolio was 7.3% in Q2, flat with Q1'15
- ◆ Our pipeline remains robust and opportunities exist to rotate out of lower yielding placeholder loans into higher yielding investments

COMPONENTS OF DISTRIBUTABLE RESOURCES

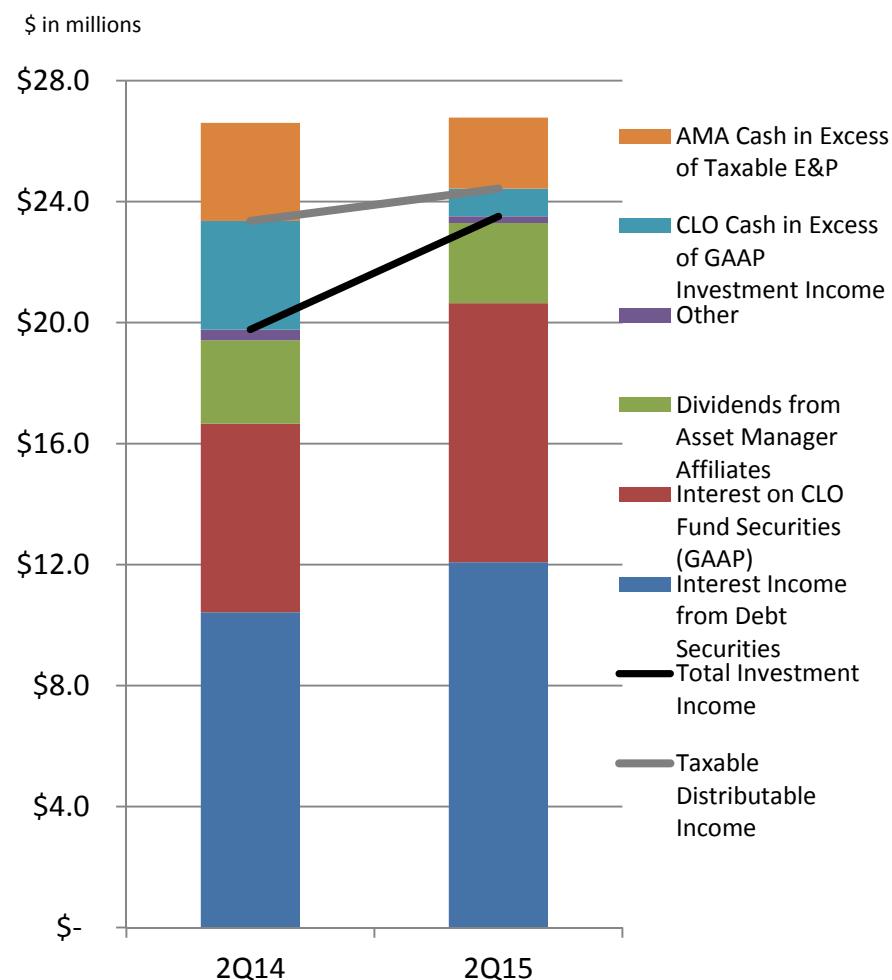
Delivering balanced sources of distributable cash flow

Shareholder Distributions per share	Six months ended	
	2Q15 ¹	2Q14 ¹
Net investment income	\$ 0.33	0.27
Tax Accounting Difference on CLO Equity Investments	<u>0.02</u>	<u>0.11</u>
Taxable distributable income	0.36	0.39
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings ³	<u>0.06</u>	<u>0.10</u>
Available for distribution²	0.43	0.49
Distributed	\$ 0.42	0.50
Difference	\$ 0.01	(0.01)

¹ Table may not foot due to rounding.

²The "Available for distribution" financial measure is a non-GAAP financial measure that is calculated by including the cash distributed to the Company by the Asset Manager Affiliates in excess of their taxable earnings to the Company's taxable distributable income, which is the most directly comparable GAAP financial measure. In order to reconcile the "Available for distribution" financial measure to taxable distributable income per share in accordance with GAAP, the \$0.03 and \$0.06 per share of cash distributed to the Company by the Asset Manager Affiliates in excess of their taxable earnings is subtracted from the "Available for distribution" financial measure for the three and six months ended June 30, 2015, respectively. The Company's management believes that the presentation of the non-GAAP "Available for distribution" financial measure provides useful information to investors.

³Tax attributes of interim distributions are estimated using full year projected results. Final tax attributes are determined on a full calendar-year basis at year end.

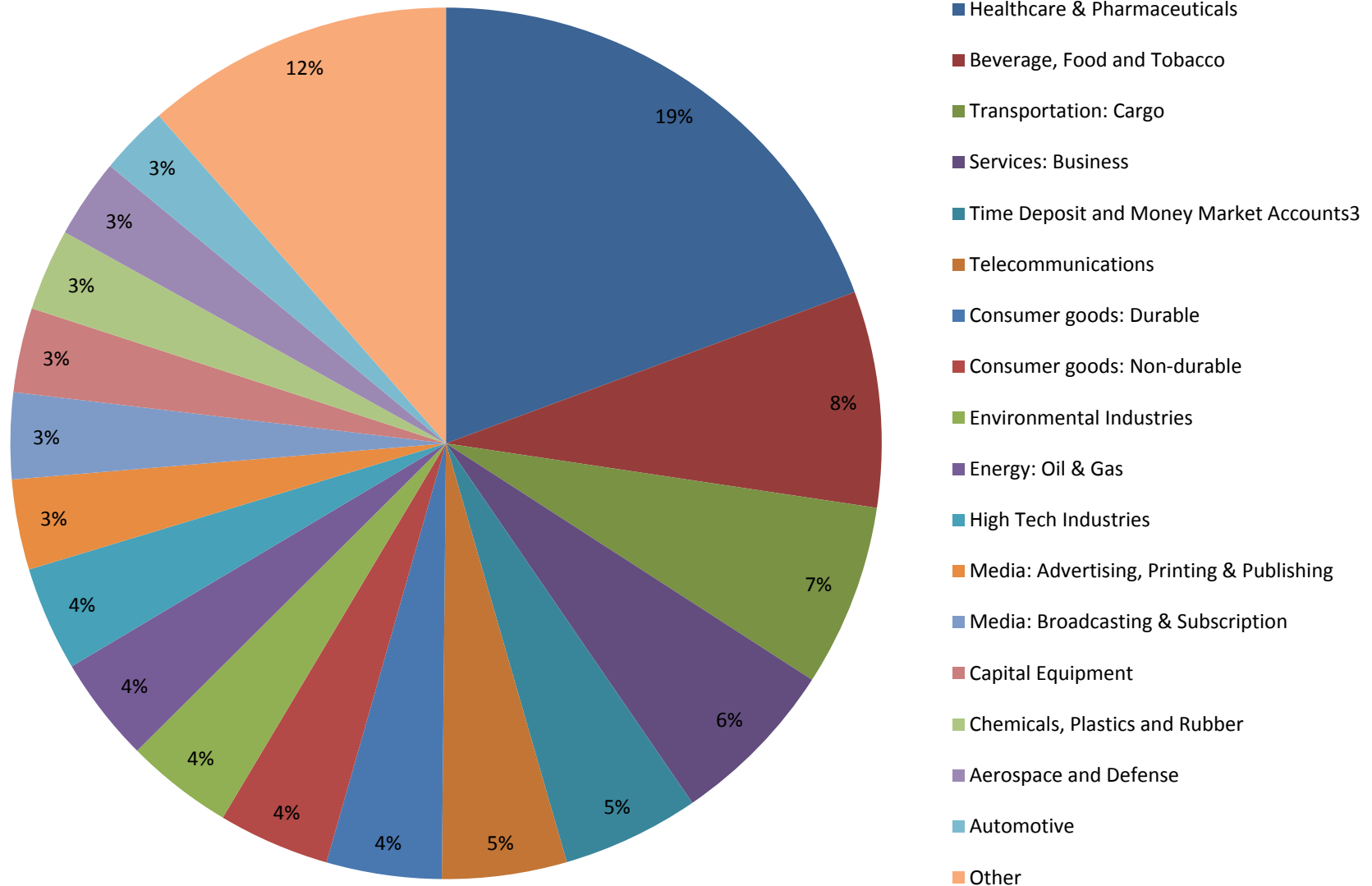


Q & A

Appendix – Supplemental Information

PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

- ◆ In a portfolio of 106 debt securities, only one was on non-accrual status (representing less than 1% of total investments at fair value)
 - ◆ International Architecture was originated in 2007 and remains the only loan on non-accrual status in the portfolio
- ◆ The credit quality of our current portfolio remains strong
- ◆ 74% of the debt securities portfolio is secured as of Q2'15

FINANCIAL HIGHLIGHTS



NET ASSET VALUE

June 30, 2015	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 16,457,816	\$ 0.44
Investments in debt securities	297,915,304	8.04
Investments in CLO Fund securities	78,448,455	2.12
Investments in equity securities	7,542,085	0.20
Investments in Asset Manager Affiliates	73,737,000	1.99
Total Investments	474,100,660	12.80
Cash	2,807,432	0.08
Other assets	18,172,065	0.49
Total assets	\$ 495,080,157	\$ 13.36
Borrowings	\$ 224,184,981	\$ 6.05
Other Liabilities	13,098,818	0.35
Total Liabilities	\$ 237,283,799	\$ 6.40
NET ASSET VALUE	\$ 257,796,358	\$ 6.96

INVESTMENT PORTFOLIO

June 30, 2015	Cost	Fair Value
Money Market Accounts	\$ 16,457,816	\$ 16,457,816
Senior Secured Loan	220,875,385	217,535,523
Junior Secured Loan	40,194,817	39,898,155
Senior Unsecured Loan	10,143,525	10,143,525
First Lien Bond	2,972,088	2,547,600
Senior Subordinated Bond	4,375,084	4,278,531
Senior Unsecured Bond	11,527,830	11,618,855
Senior Secured Bond	1,512,620	1,481,700
CLO Fund Securities	97,601,049	78,448,455
Equity Securities	8,514,487	7,542,085
Preferred	10,308,332	10,411,415
Asset Manager Affiliates	57,942,090	73,737,000
Total Assets	\$ 482,425,123	\$ 474,100,660