
KCAP
FINANCIAL, INC.

Investor Presentation

Second Quarter 2013

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.

INVESTMENT HIGHLIGHTS

Innovative Strategy and Platform

- ◆ Internally managed structure – Low expense ratio
- ◆ 100% ownership of CLO fund Asset Manager Affiliates (Katonah Debt Advisors and Trimaran Advisors)

Highly Experienced Management Team

- ◆ Seasoned management team with average industry tenure of 25+ years
- ◆ Managed loan portfolios through numerous cycles

Dynamic Business Model

- ◆ Compelling middle market opportunities; multi-channel origination capabilities
- ◆ Enhanced portfolio yield through high returns on investments in CLO funds
- ◆ Disciplined investment process with seasoned credit professionals
- ◆ Recent demonstrated access to all capital markets

Diversified Portfolio

- ◆ First lien / second lien / mezzanine and equity
- ◆ CLO Fund investments and management of these securities through Asset Manager Affiliates – Creating synergies and stable cash flows
- ◆ Both businesses primarily invest in floating rate securities - well positioned for rising rates

Low Leverage

- ◆ \$197.6 million in borrowings as of June 30, 2013
- ◆ Asset coverage is 239%, above the minimum 200% (1:1) required for a BDC

Alignment of Interests

- ◆ No external management fees
- ◆ Board members and management own in excess of 14% of shares

OVERVIEW – BUSINESS MODEL

Internally managed BDC with a diversified portfolio of corporate credit investments and an attractive asset management business



Principal Investing

Corporate Loan Investments

- ◆ \$191 million in debt securities
- ◆ Average unlevered yield \approx 6.8%
- ◆ Focus on secured investments (93%)

CLO Fund Investments

- ◆ \$60 million investments in CLO Equity (excluding Catamaran 2013 -1)
- ◆ Average yield of \approx 31% on fair value

Managed Funds

Asset Managers Affiliates (AMA)

- ◆ Asset management business
- ◆ \$3.7 billion in AUM
- ◆ \$87 million fair value
- ◆ Current quarterly cash flow run rate: \$3M
- ◆ Distributions contribute to KCAP's net investment income

QUARTERLY DIVIDENDS

2013	<i>Dividend</i>	<i>Yield</i>
Second quarter	\$ 0.28	10%
First quarter	\$ 0.28	11%
	\$ 0.56	

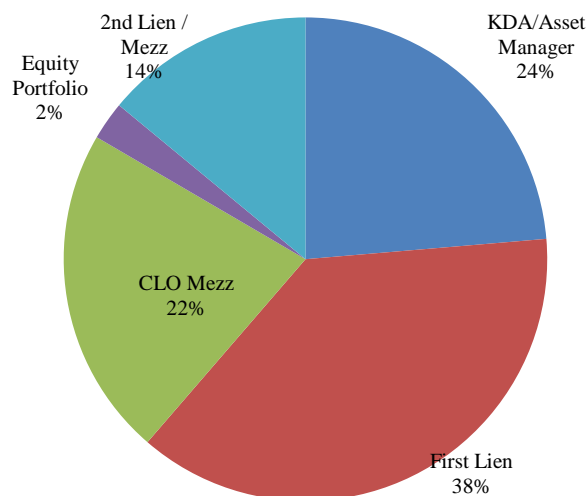
2012	<i>Dividend</i>	<i>Yield</i>
Fourth quarter	\$ 0.28	12%
Third quarter	\$ 0.24	10%
Second quarter	\$ 0.24	13%
First quarter	\$ 0.18	10%
	\$ 0.94	

2011	<i>Dividend</i>	<i>Yield</i>
Fourth quarter	\$ 0.18	11%
Third quarter	\$ 0.18	12%
Second quarter	\$ 0.17	9%
First quarter	\$ 0.17	8%
	\$ 0.70	

INVESTMENT PORTFOLIO

A balanced investment risk / return profile

2Q13



<u>Investment</u>	<u>Yield</u>
First lien ¹	6.0%
Second lien / Mezz ¹	13.4%
CLO Securities ²	31.0%
Asset Manager Affiliates ³	15.4%
Equity Portfolio	--
Approx. Weighted Average Yield	14.1%

¹ Yield based on par

² Yield based on fv

³ Asset Manager Affiliates ("AMA") estimated yield on cost

Portfolio Statistics

Total Portfolio:

Fair value \$369 million

Portfolio (excluding AMA & CLO Securities):

Fair value \$190 million

Number of issuers 67

Average deal/issuer size \$2.8 million

In default <1%

Fixed rate 10%

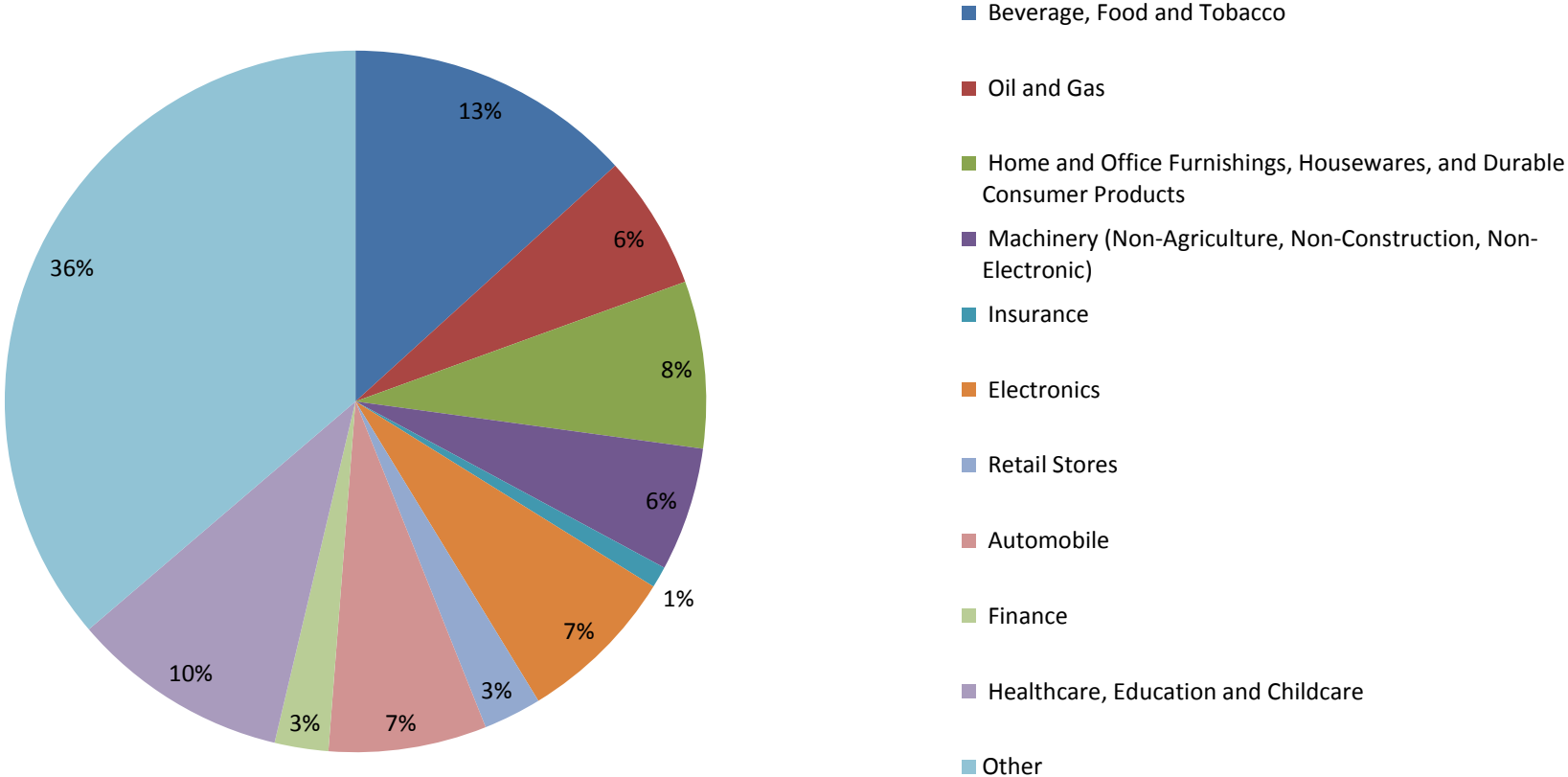
Floating rate 85%

Equity (neither fixed/floating) 5%

Note: Percentages to total fair value excluding AMA & CLO Securities

PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

Experienced management team has led to strong credit performance in a challenging environment

- ◆ In a portfolio of 67 loans, only five were on non-accrual status (representing less than 1% of total investments at fair value)
- ◆ Portfolio assets continue to amortize or pay-off at par, in spite of mark-to-market unrealized losses
- ◆ 93% of the debt securities portfolio is secured

CLO FUND PORTFOLIO

Understanding risks and return

CLO Fund Structure

Remaining financing term	9.4 years
Current portfolio yield	L + 384 bps
W/A cost of debt capital	<u>L + 92 bps</u>
Net interest spread	<u>292 bps</u>
Fees and expenses	<u>55 bps</u>
Net spread to equity	<u>237 bps</u>
Current Actual CLO Portfolio Performance:	
-on current carrying value	31%

AMA Managed CLO Fund Statistics

Fair value	\$79 million
Par	\$115 million
Cost	\$98 million
<i>Diversity:</i>	
Number of CLOs	11
Average number of issuers	114
Average number of industries	24
Average position size	\$2.3 million

CLO EQUITY / ASSET MANAGER SYNERGY

<u>KCAP</u>	
Equity Investment	\$10 million
Rate	14%
Annual	\$1.4 million

<u>Asset Manager Affiliate</u>	
AUM	\$400 million
Net Fee	40 Bps
Annual	\$1.6 million

<u>Combined Return</u>	
Return	30%
Investment	\$10 million
Annual	\$3 million

- ◆ \$51 million in unsecured convertible notes at 8.75% with a 2016 maturity
- ◆ \$41.4 million in unsecured senior notes at 7.375% with a 2019 maturity
- ◆ \$105.3 million in debt secured financing at approximately L+ 225
- ◆ Debt-to-equity of 0.72x based on net asset value of \$274 million for the quarter ended June 30, 2013
- ◆ Asset coverage at 239% at June 30, 2013; BDC structure requires minimum asset coverage of 200%
- ◆ As of June 30, 2013, convertible senior notes conversion price was \$8.08

Well positioned for a rising rate environment

- ◆ A majority of KCAP's investments are in floating rate assets
- ◆ Almost all the assets in the CLOs managed by our Asset Manager Affiliates are floating rate syndicated loans
- ◆ KCAP has a mix of fixed and floating rate securities which will be beneficial in a rising rate environment
- ◆ A 100 basis point increase in interest rates would increase NII by \$540,000 annually

- ◆ As of 6/30/2013, KCAP had more than \$85 million of cash/equivalents in addition to \$33 million in new loans that closed in June. Subsequent to the end of the quarter, \$37 million was invested. This \$70 million in new investments contributed little to second quarter NII.
- ◆ Catamaran 2013-1, our newest CLO investment, closed on June 27, therefore neither the \$9 million investment in the equity tranche made by KCAP nor the management fee paid to our AMA contributed much to second quarter NII.
- ◆ Third quarter NII should be positively impacted by these investments and by further investments in the quarter, although their full effect may not be realized until the fourth quarter.

FINANCIAL HIGHLIGHTS

	2Q13		1Q13		4Q12		3Q12		2Q12		1Q12	
Net investment income per share ¹	\$	0.20	\$	0.24	\$	0.28	\$	0.27	\$	0.23	\$	0.15
Net realized and unrealized gain (loss) per share ¹	\$	0.11	\$	0.01	\$	0.28	\$	0.23	\$	(0.16)	\$	(0.13)
Net asset value per share ²	\$	8.24	\$	8.33	\$	7.85	\$	7.82	\$	7.66	\$	7.78
Dividend distribution per share ²	\$	0.28	\$	0.28	\$	0.28	\$	0.24	\$	0.24	\$	0.18
Share Price												
High	\$	11.26	\$	10.89	\$	9.67	\$	9.36	\$	7.47	\$	7.46
Low	\$	9.72	\$	9.41	\$	7.40	\$	7.27	\$	5.51	\$	6.25
Close	\$	11.26	\$	10.77	\$	9.19	\$	9.26	\$	7.26	\$	6.91

¹ Based on average number of common shares outstanding for the period.

² Based on number of shares issued and outstanding at end of period.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

June 30, 2013	Fair Value	NAV per Share
<i>Investments at fair value:</i>		
Debt securities	\$ 190,732,894	\$ 5.73
Time Deposit & Money Market Accounts	67,494,608	2.03
CLO Fund securities	81,484,885	2.45
Equity	9,485,307	0.28
KDA / asset manager	<u>87,300,000</u>	<u>2.62</u>
Total Investments	436,497,694	13.11
Cash	7,669,782	0.23
Other assets	<u>97,331,012</u>	<u>2.92</u>
Total Assets	\$ <u>541,498,488</u>	\$ <u>16.24</u>
Borrowings	\$ 197,658,000	\$ 5.93
Other Liabilities	<u>69,532,648</u>	<u>2.09</u>
Total Liabilities	\$ <u>267,190,648</u>	\$ <u>8.02</u>
NET ASSET VALUE	\$ <u>274,307,804</u>	\$ <u>8.24</u>

INVESTMENT PORTFOLIO

June 30, 2013	Cost	Fair Value
Time Deposit	\$ -	\$ -
Money Market Account	67,494,607	67,494,607
Senior secured loan	143,450,925	136,475,845
Junior secured loan	51,226,118	38,393,950
Senior subordinated bond	2,838,821	2,017,898
Senior Unsecured Loan	-	-
Senior unsecured bond	10,812,702	11,293,900
First lien bond	2,932,604	2,550,300
Preferred stock	400,000	1,000
CLO Fund securities	97,909,419	81,484,885
Equity securities	18,841,237	9,485,307
KDA / asset manager	<u>83,234,131</u>	<u>87,300,000</u>
Total Assets	\$ <u>479,140,565</u>	\$ <u>436,497,693</u>

SUBSEQUENT EVENTS

- The Company has evaluated events and transactions occurring subsequent to the Balance Sheet date of June 30, 2013 for items that should potentially be recognized or disclosed in these financial statements. The Company did not identify any items which would require disclosure in or adjustment to the financial statements.

SUMMARY OF KCAP ATTRIBUTES

Dynamic business model generates sustainable dividends

- ✓ Sustainable, recurring revenues not dependent on capital gains
 - ◆ Recurring interest income from secured loan and CLO portfolios
 - ◆ Stable asset management fee income from Asset Manager Affiliates
 - ✓ New investments in current market environment provide higher returns and enhance portfolio yield
 - ✓ Not reliant on high leverage to generate returns
 - ✓ Floating rate assets, many with minimum index rate floors, provide NAV protection and increased earnings in a rising rate environment
 - ✓ Experienced credit managers with long track records
 - ✓ Interest aligned with shareholders – significant insider ownership and internally managed
 - ✓ KCAP has demonstrated its recent success accessing a variety of funding markets: equity, debt, loan securitizations and new CLO funds
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Q & A
