



Third Quarter 2017 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.

Q3 2017 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.07 per basic share for Q3'17 vs. \$0.07 for Q2'17
- ◆ Resources available for distribution were \$0.08 per basic share in Q3'17 vs. \$0.09 in Q2'17

Debt Securities Portfolio

- ◆ Weighted average interest rate on income producing debt investments was 9.2% in at September 30, 2017 vs. 7.0% at December 31, 2016

Asset Manager

- ◆ Distributed \$880,000 in Q3'17, compared with \$650,000 in Q2'17
 - ◆ Q3 '17 \$700,000 of the distribution treated as return of capital
 - ◆ Q2 '17 \$650,000 of the distribution treated as return of capital

Credit Performance

- ◆ Debt Securities Portfolio is well diversified across 19 different industries and 38 different entities with an average debt investment of approximately \$3.0 million
- ◆ Two of our investments were on non-accrual status
- ◆ One of our PIK investments was on partial non-accrual status

Net Asset Value

- ◆ Net Asset Value of \$4.95, down 3% from \$5.10 in Q2'17

Distributions

- ◆ \$0.12 distribution declared for Q3'17

RECENT ACTIVITY

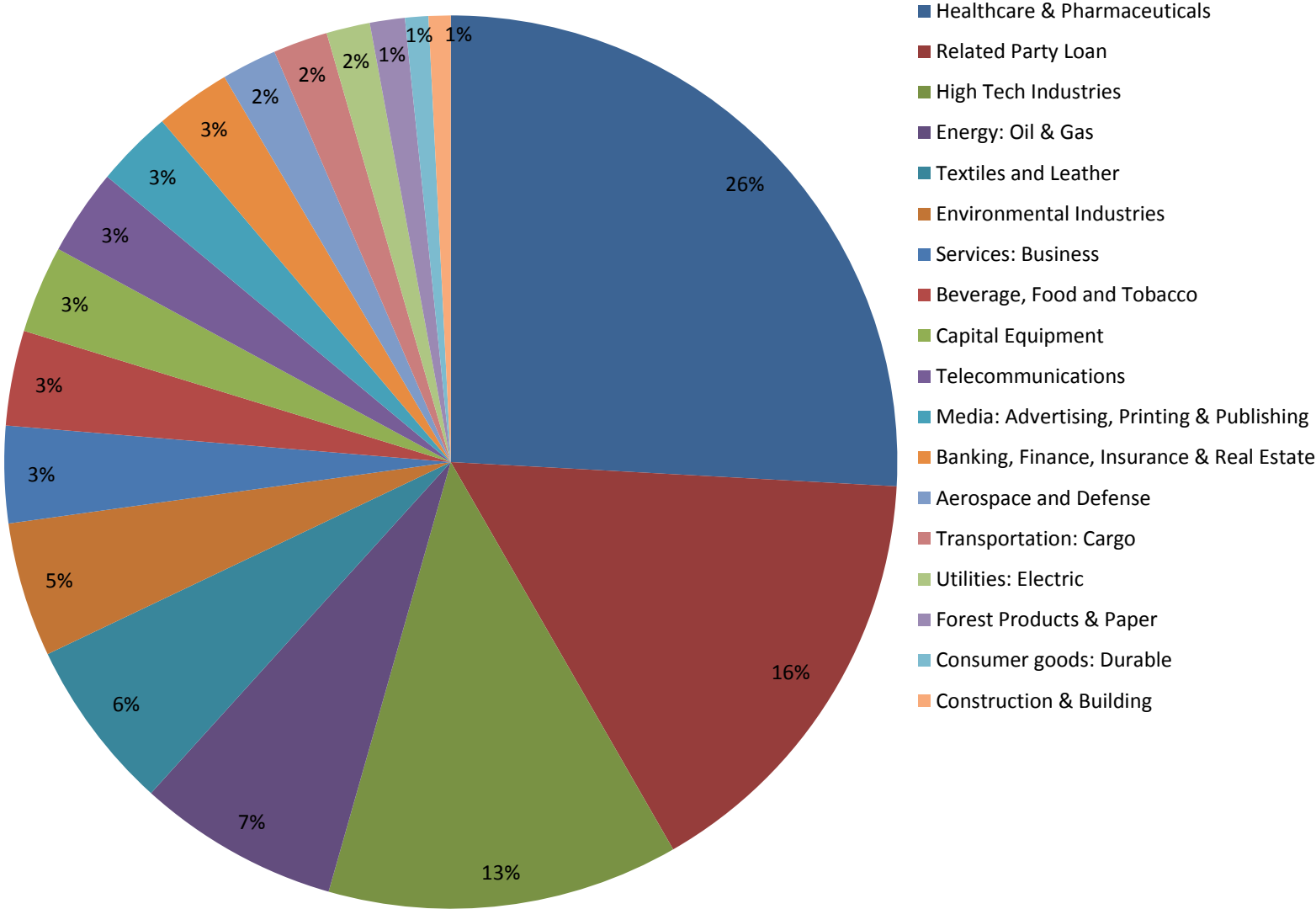
- ◆ Called \$147 mm in Debt
 - ◆ Alleviates Asset Coverage Constraints
- ◆ Formed a Joint Venture with Freedom 3 Capital
 - ◆ Greater access to Middle Market opportunities
 - ◆ Economic Benefits:
 - ◆ Generates asset management fee income – Portfolio size \$300 million
 - ◆ Return on investment in JV
 - ◆ New debt raised gives flexibility for new asset selections
 - ◆ Accretive to Investment Income
- ◆ Issued \$77 mm New Public Debt
 - ◆ Right sizes the balance sheet – fixed rate debt
 - ◆ Additional capacity/flexibility – asset coverage ratio at 274% as of September 30, 2017
- ◆ Resetting and Upsizing existing CLO's managed by AMA's
 - ◆ Extends maturity, adds assets to manage, stabilizes value of Asset Manager Affiliates

ORIGINATIONS AND REPAYMENTS

- ◆ Invested approximately \$70 million in new originations during the Third quarter
 - ◆ Funded primarily out of new debt raised
 - ◆ Increased interest rates on new originations and shifting of debt investment mix
- ◆ Weighted average interest rate on income producing debt investments was 9.2% in Q3 2017 vs. 7.4% in Q2'17 and 7.0% in Q4'16

PORTFOLIO HIGHLIGHTS

DEBT SECURITIES PORTFOLIO – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

- ◆ The credit quality of our current portfolio remains strong.
- ◆ 83% of the debt securities portfolio is secured as of September 30, 2017.
- ◆ Two of our investments were on non-accrual status.
 - ◆ Representing 1.6% of the total investment portfolio at cost.
- ◆ One of our PIK investments was on non-accrual status.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

September 30, 2017	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Short-term investments	\$ 57,024,828	\$ 1.53
Investments in debt securities	127,026,829	3.40
Investments in CLO Fund securities	51,843,344	1.39
Investments in equity securities	4,450,177	0.12
Investments in Asset Manager Affiliates	39,679,000	1.06
Investments in Joint Venture	<u>36,591,122</u>	<u>0.98</u>
Total Investments	316,615,300	8.48
Other assets	<u>6,192,609</u>	<u>0.17</u>
Total assets	\$ <u>322,807,909</u>	\$ <u>8.65</u>
Borrowings	\$ 101,343,770	\$ 2.72
Other Liabilities	<u>36,678,695</u>	<u>0.98</u>
Total Liabilities	<u>138,022,465</u>	<u>3.70</u>
NET ASSET VALUE	\$ <u>184,785,444</u>	\$ <u>4.95</u>

INVESTMENT PORTFOLIO

September 30, 2017	Cost/Amortized Cost	Fair Value
Short-term investments	\$ 57,024,828	\$ 57,024,828
Senior Secured Loan	49,982,415	46,124,914
Junior Secured Loan	59,490,855	58,343,554
Senior Unsecured Loan	20,000,000	20,000,000
First Lien Bond	3,054,337	1,063,762
Senior Secured Bond	1,503,404	1,494,600
CLO Fund Securities	75,544,739	51,843,344
Equity Securities	10,389,007	4,450,177
Asset Manager Affiliates	53,341,230	39,679,000
Asset Manager Affiliates	<u>36,738,873</u>	<u>36,591,122</u>
Total Assets	\$ <u>367,069,689</u>	\$ <u>316,615,300</u>

CONSISTENT CLO VALUATION

KCAP has consistently sold or redeemed its CLO Equity Positions at or around their Fair Value

	Call Date	Mark	Mark Date	Call Proceeds
Katonah III, Ltd.	11/19/2012	20%	9/30/2012	43%
Katonah IV, Ltd.	Sold 05/04/2011	42%	3/31/2011	43%
Katonah VII CLO Ltd.	10/3/2014	35%	6/30/2014	35%
Katonah VIII CLO Ltd.	10/3/2014	41%	6/30/2014	43%
Katonah IX CLO Ltd.	11/23/2015	5%	9/30/2015	6%
Katonah X CLO Ltd.	12/30/2015	21%	9/30/2015	20%
Grant Grove CLO Ltd.	10/11/2016	2%	6/30/2016	0%
Trimaran CLO IV, Ltd.	12/1/2014	54%	9/30/2014	62%
Trimaran CLO V, Ltd.	6/16/2015	36%	3/31/2015	41%
Trimaran CLO VI, Ltd.	2/2/2015	49%	12/31/2014	50%
Trimaran CLO VII, Ltd.	3/15/2017	30%	12/31/2016	32%
	Weighted Average	29%		33%