



Full Year 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.

FULL YEAR 2015 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.65 per basic share for 2015 and \$0.59 for 2014
- ◆ Taxable Distributable Income of \$0.63 per basic share for 2015 and \$0.78 for 2014
- ◆ Cash distributed by Asset Manager Affiliates in excess of their taxable earnings was \$0.10 per basic share for 2015 and \$0.19 for 2014

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~53% of total company Investment Revenue vs. ~52% in 2014 and ~36% in 2013
- ◆ Weighted average yield on debt securities portfolio was 7.4% in 2015, up from 7.3% in 2014 and 2013

Asset Manager

- ◆ Distributed \$9.1 million in 2015, compared with \$11.9 million in 2014
- ◆ Continue to warehouse for a new CLO fund

Credit Performance

- ◆ Portfolio is well diversified across 27 different industries and 101 different entities with an average debt investment of approximately \$3.3 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$5.82, down 16% from \$6.94 in 2014

Distributions

- ◆ \$0.15 distribution declared for Q4'15

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$75 million in new originations during 2015
 - ◆ Funded out of repayments and asset sales
 - ◆ Comparable yield to the assets they replaced
- ◆ Weighted average yield on our debt securities portfolio was 7.4% in 2015, up from 7.3% in 2014
- ◆ Opportunities still exist to rotate out of lower yielding placeholder loans into higher yielding investments

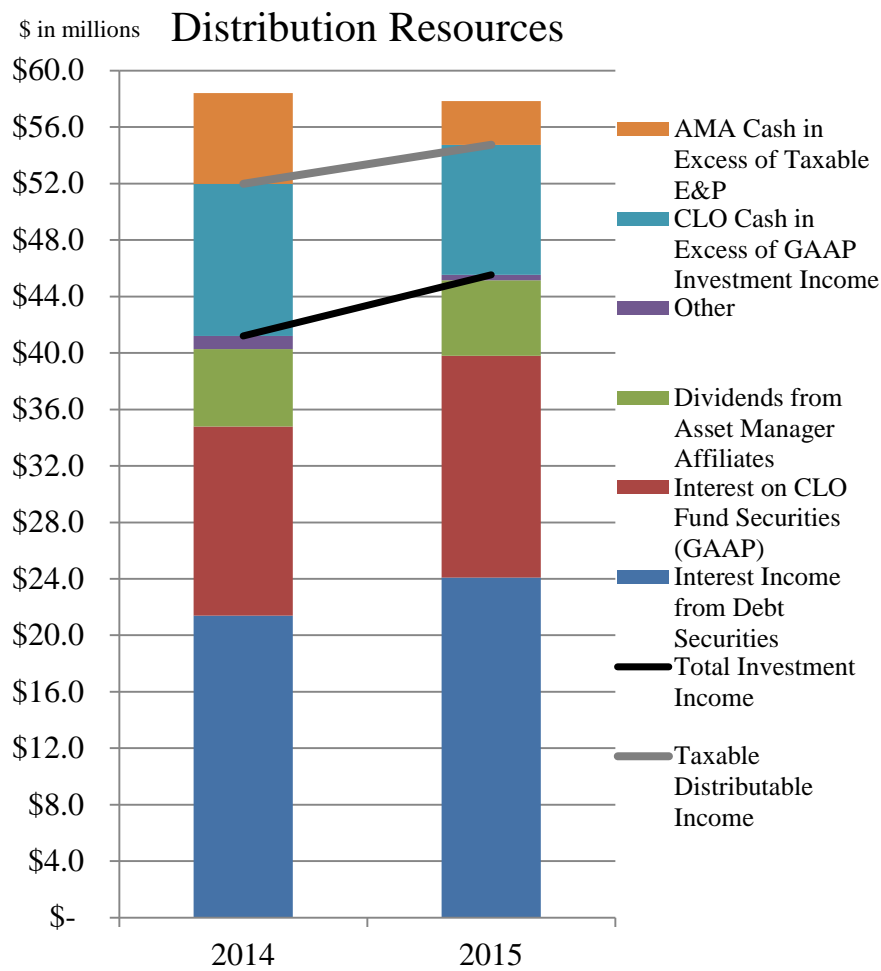
COMPONENTS OF DISTRIBUTABLE RESOURCES

Delivering balanced sources of distributable cash flow

Shareholder Distributions per share	Year-ended	
	2015 ¹	2014 ¹
Net investment income	\$ 0.65	0.59
Tax Accounting Difference on CLO Equity Investments	(0.03)	0.18
Other Tax Accounting Differences	—	<u>0.02</u>
Taxable distributable income	0.63	0.78
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings ³	<u>0.10</u>	<u>0.19</u>
Available for distribution²	0.73	0.97
Distributed	\$ <u>0.63</u>	<u>1.00</u>
Difference	\$ <u>0.10</u>	<u>(0.03)</u>

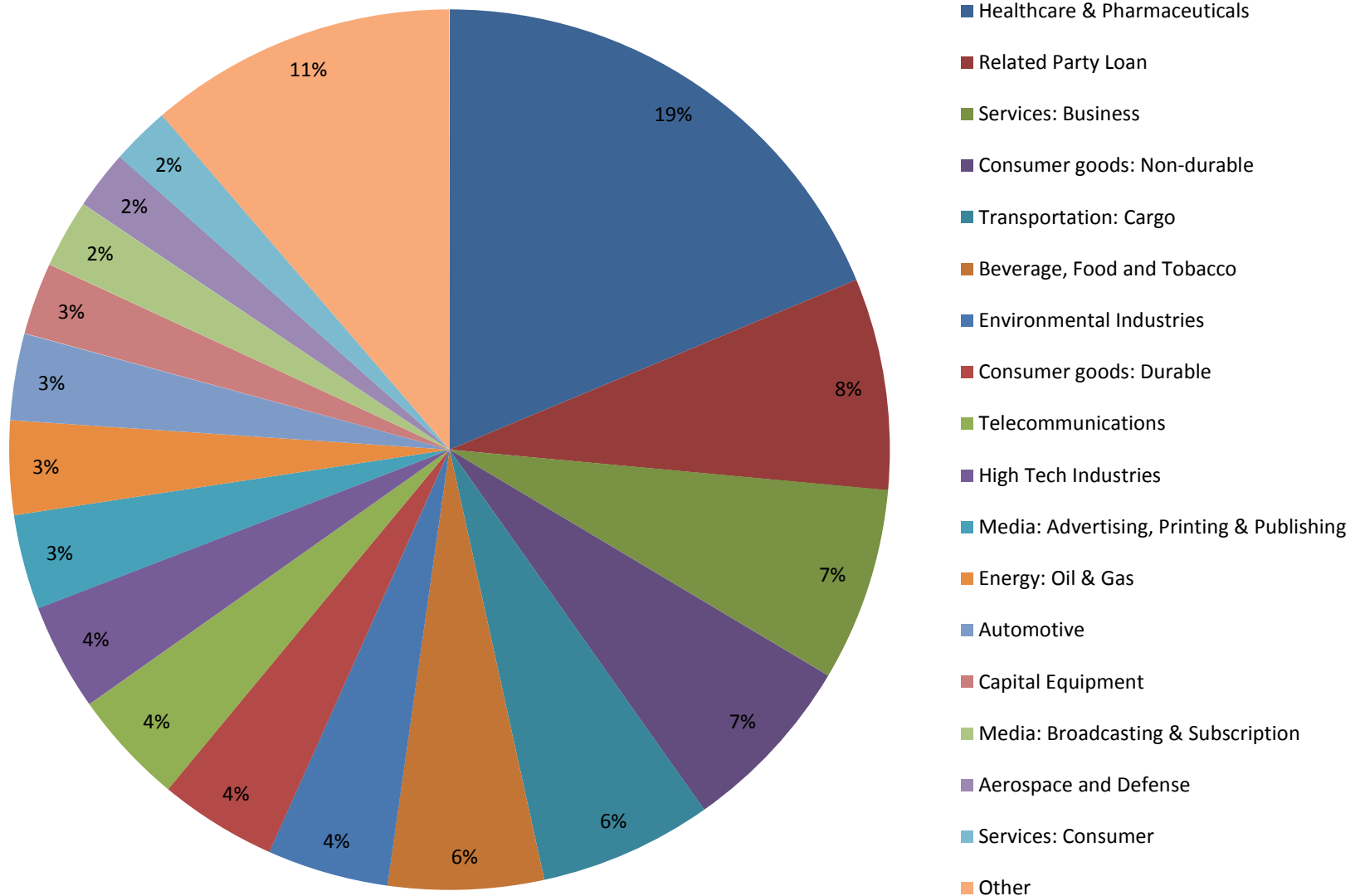
¹ Table may not foot due to rounding.

² The “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 \$0.10 and \$0.19 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 year-ended December 31, 2015 and 2014, respectively. The Company’s management believes that the presentation of the non-GAAP “Available for distribution” financial measure provides useful information to investors.



PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

- ◆ In a portfolio of 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
- ◆ 82% of the debt securities portfolio is secured as of December 31, 2015

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

December 31, 2015	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 2,129,381	\$ 0.06
Investments in debt securities	284,639,244	7.67
Investments in CLO Fund securities	55,872,382	1.51
Investments in equity securities	9,548,488	0.26
Investments in Asset Manager Affiliates	<u>57,381,000</u>	<u>1.55</u>
Total Investments	409,570,495	11.05
Other assets	<u>15,671,846</u>	<u>0.42</u>
Total assets	\$ <u>425,242,341</u>	\$ <u>11.47</u>
Borrowings	\$ 205,141,405	\$ 5.54
Other Liabilities	<u>4,000,466</u>	<u>0.11</u>
Total Liabilities	<u>209,141,871</u>	<u>5.65</u>
NET ASSET VALUE	\$ <u>216,100,470</u>	\$ <u>5.82</u>

INVESTMENT PORTFOLIO

December 31, 2015	Cost	Fair Value
Money Market Accounts	\$ 2,129,381	\$ 2,129,381
Senior Secured Loan	203,819,074	194,123,223
Junior Secured Loan	40,221,557	37,591,900
Senior Unsecured Loan	23,000,000	23,000,000
First Lien Bond	3,000,000	2,216,700
Senior Subordinated Bond	4,466,793	4,615,569
Senior Unsecured Bond	11,879,187	10,551,724
Senior Secured Bond	1,510,560	1,503,755
CLO Fund Securities	83,214,947	55,872,382
Equity Securities	10,467,787	9,548,488
Preferred Securities	10,411,673	11,036,373
Asset Manager Affiliates	<u>56,591,230</u>	<u>57,381,000</u>
Total Assets	\$ <u>450,712,189</u>	\$ <u>409,570,495</u>