



First Quarter 2016 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.

Q1 2016 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.13 per basic share for Q1'16 and \$0.18 for Q1'15
- ◆ Taxable Distributable Income of \$0.16 per basic share for Q1'16 and \$0.19 for Q1'15
- ◆ Cash distributed by Asset Manager Affiliates in excess of their taxable earnings was \$0.01 per basic share for Q1'16 and \$0.03 for Q1'15

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~60% of total company Investment Revenue vs. ~50% in Q1'15 and ~56% in Q4'15
- ◆ Weighted average yield on debt securities portfolio was 7.3% in Q1'16 and Q1'15

Asset Manager

- ◆ Distributed \$1.1 million in Q1'16, compared with \$2.7 million in Q1'15
- ◆ Continue to warehouse for a new CLO fund

Credit Performance

- ◆ Portfolio is well diversified across 27 different industries and 100 different entities with an average debt investment of approximately \$2.7 million
- ◆ Only 2 issuers are on non-accrual status, representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$5.50, down 5.5% from \$5.82 in Q4'15

Distributions

- ◆ \$0.15 distribution declared for Q1'16

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$6 million in new originations during the first quarter
 - ◆ Funded out of repayments and asset sales
 - ◆ Comparable yield to the assets they replaced

- ◆ Weighted average yield on our debt securities portfolio was 7.3% in Q1 2016, flat with Q1'15 and down from 7.4% in Q4'15

COMPONENTS OF DISTRIBUTABLE RESOURCES

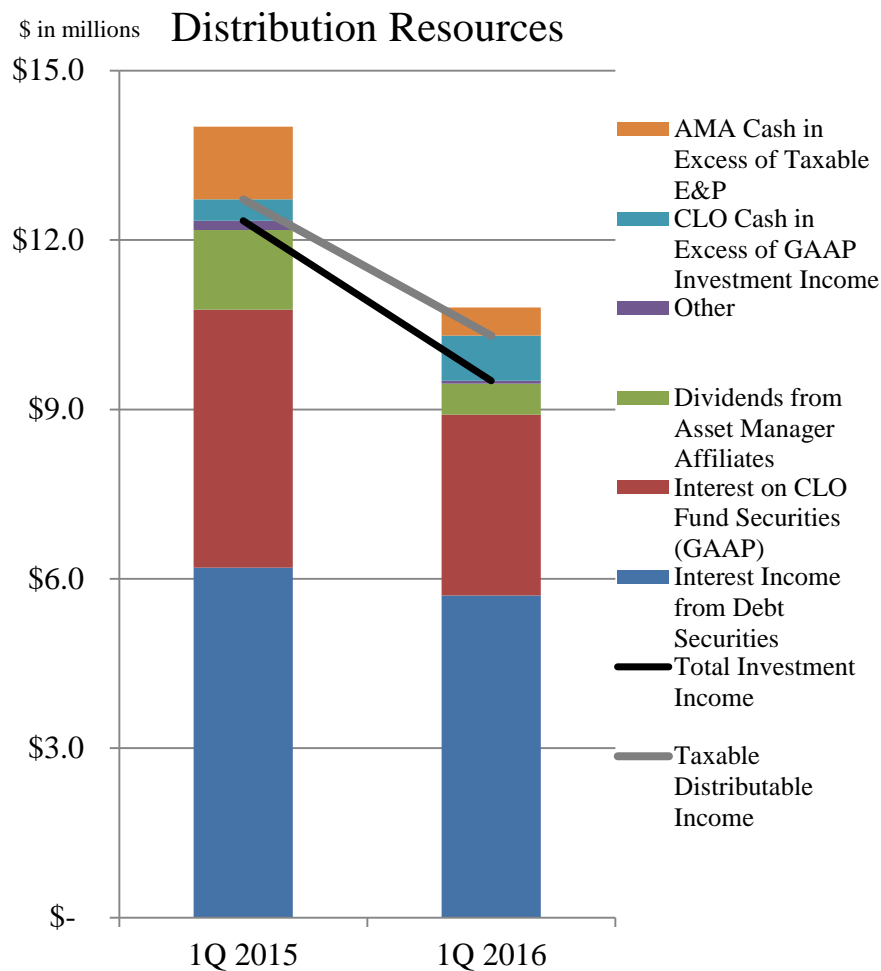
Delivering balanced sources of distributable cash flow

Three months ended

Shareholder Distributions per share		1Q16 ¹	1Q15 ¹
Net investment income	\$	0.13	0.18
Tax Accounting Difference on CLO Equity Investments		0.02	0.01
Other Tax Accounting Differences		<u>0.01</u>	<u>-</u>
Taxable distributable income		0.16	0.19
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings ³		<u>0.01</u>	<u>0.03</u>
Available for distribution²		0.17	0.23
Distributed	\$	<u>0.15</u>	<u>0.21</u>
Difference	\$	<u>(0.02)</u>	<u>(0.02)</u>

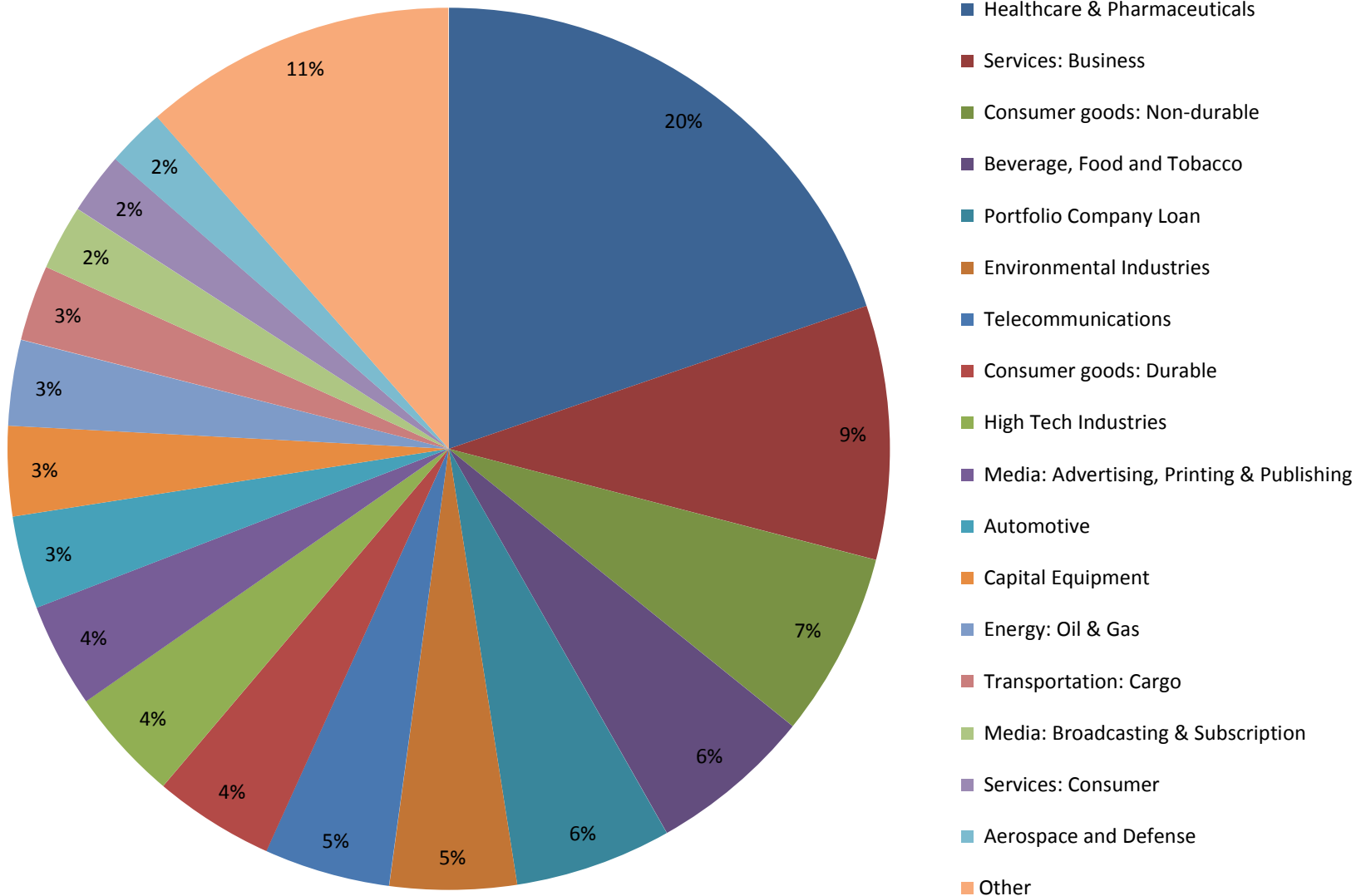
¹ Table may not foot due to rounding.

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 \$0.01 and \$0.03 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 months ended March 31, 2016 and 2015, 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 two were on non-accrual status (representing less than 1% of total investments at fair value).
- ◆ The credit quality of our current portfolio remains strong.
- ◆ 87% of the debt securities portfolio is secured as of March 31, 2016.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

March 31, 2016	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 1,665,993	\$ 0.04
Investments in debt securities	266,003,517	7.16
Investments in CLO Fund securities	49,358,283	1.33
Investments in equity securities	10,927,901	0.29
Investments in Asset Manager Affiliates	<u>50,348,000</u>	<u>1.35</u>
Total Investments	378,303,694	10.18
Other assets	<u>9,973,619</u>	<u>0.27</u>
Total assets	\$ <u>388,277,313</u>	\$ <u>10.45</u>
Borrowings	\$ 182,197,384	\$ 4.90
Other Liabilities	<u>1,692,201</u>	<u>0.05</u>
Total Liabilities	<u>183,889,585</u>	<u>4.95</u>
NET ASSET VALUE	\$ <u>204,387,728</u>	\$ <u>5.50</u>

INVESTMENT PORTFOLIO

March 31, 2016	Cost/Amortized Cost	Fair Value
Money Market Accounts	\$ 1,665,993	\$ 1,665,993
Senior Secured Loan	205,077,628	193,931,052
Junior Secured Loan	39,250,916	36,586,051
Senior Unsecured Loan	16,000,000	16,000,000
First Lien Bond	3,000,000	1,825,800
Senior Subordinated Bond	4,513,571	4,662,751
Senior Unsecured Bond	12,053,460	11,557,863
Senior Secured Bond	1,509,541	1,440,000
CLO Fund Securities	73,610,853	49,358,283
Equity Securities	10,467,787	10,927,901
Asset Manager Affiliates	<u>56,091,230</u>	<u>50,348,000</u>
Total Assets	\$ <u>423,240,979</u>	\$ <u>378,303,694</u>