



First Quarter 2014 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.

Q1 2014 HIGHLIGHTS & RECENT EVENTS

Net Interest Income

- ◆ \$.24 per basic share for Q1'14 compared to \$.24 for Q4'13 and \$.23 for Q3'13

Direct Lending

- ◆ \$20.5 million of loans closed in Q1'14 with a weighted average yield of 11.9%
- ◆ \$7.5 million of loans closed in 1Q'14 into the securitization facility with a weighted average yield of 5.6%
- ◆ Weighted average yield on loan portfolio increased to 7.6% in Q1 from 7.3% in Q4

Asset Manager

- ◆ Direct Lending Business now ~41% of total company Investment Revenue vs. ~37% in Q4 and ~22% in Q1'13

Credit Performance

- ◆ Dividended up \$3 million in Q1'14 compared to \$3.13 million in the Fourth Quarter of 2013

Net Asset Value

- ◆ Closed a \$468 million CLO fund in May - Catamaran CLO 2014-1 Ltd.

Dividends

- ◆ Portfolio is well diversified across 24 different industries and 93 different entities with an average loan of approximately \$3.8 million

- ◆ Only 4 issuers are on non accrual status representing <1% of loans

- ◆ Net Asset Value of \$7.62 up 1.5% vs. \$7.51 in Q4

- ◆ \$.25 dividend declared for Q1, consistent with Q4 and Q3

ORIGINATIONS AND REPAYMENTS

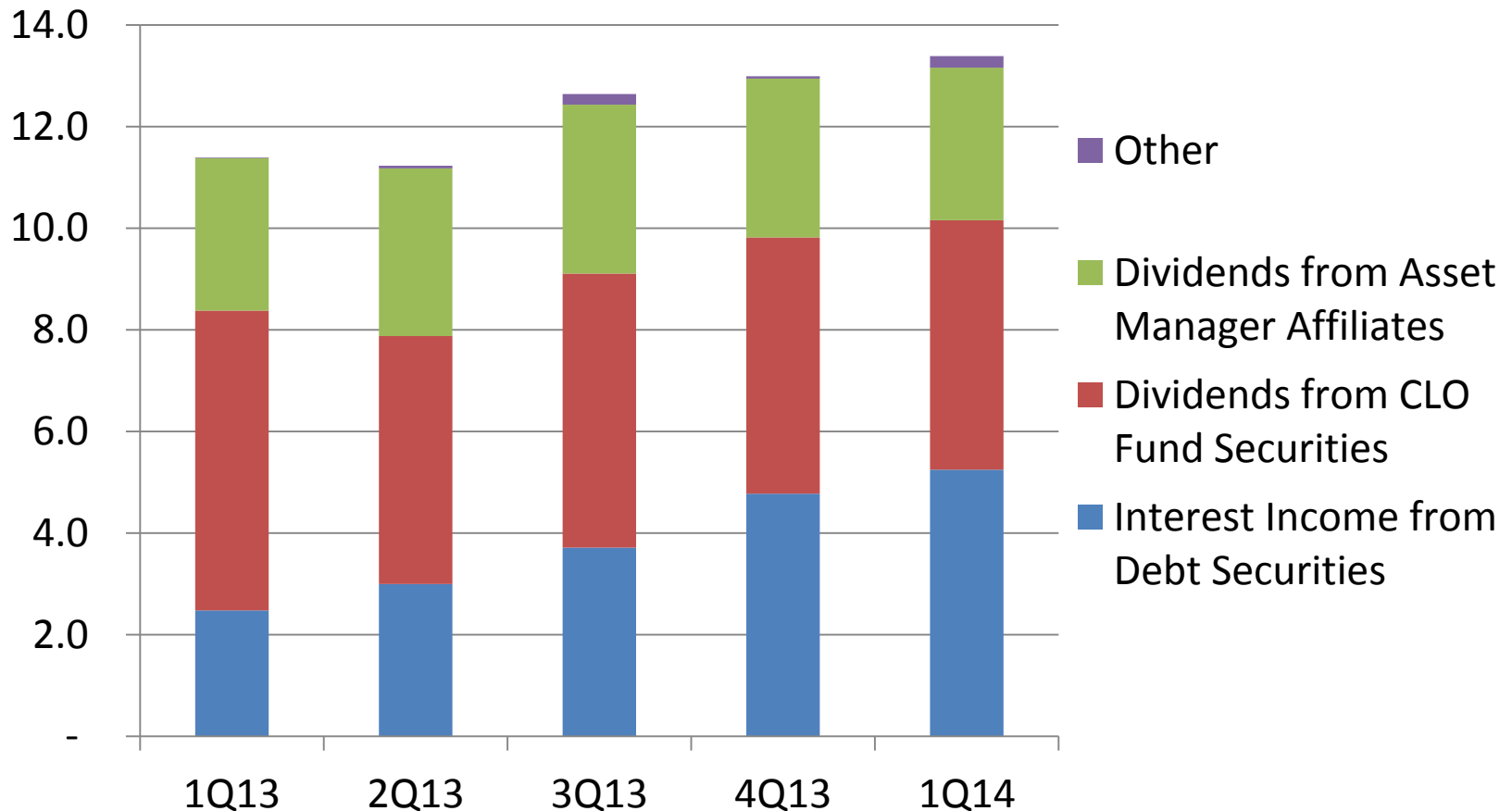
Direct Lending Business Seeing Improved Deal Flow and Yields

- ◆ Closed \$20.5 million of debt security investments with a weighted average yield of ~11.9% in Q1
- ◆ KCAP Senior Funding – continue to rotate out of placeholder loans
 - ◆ Sold \$9.5 million of senior loans with an average yield of ~4.2%
 - ◆ Invested \$7.5 million in new senior loans with an average yield of 5.6%
- ◆ Weighted average yield on our portfolio improved to 7.6% in Q1 from 7.3% in Q4 and 6.8% in Q3

NII CONTRIBUTION

Strong Momentum in Our Direct Lending Business

In millions



ASSET MANAGER AFFILIATES

- ◆ Wholly owned asset management business
- ◆ \$3.0 billion in AUM
- ◆ Closed a \$468 million CLO fund in May - Catamaran CLO 2014-1 Ltd.
- ◆ Opened a warehouse for a second CLO fund in the second quarter of 2014
- ◆ All CLO's managed by KDA and Trimaran are current on equity distributions and management fees. Five of the funds are now paying incentive fees
- ◆ First Quarter distribution \$3 million
- ◆ \$74 million fair value

Quarterly Dividends from the Asset Manager

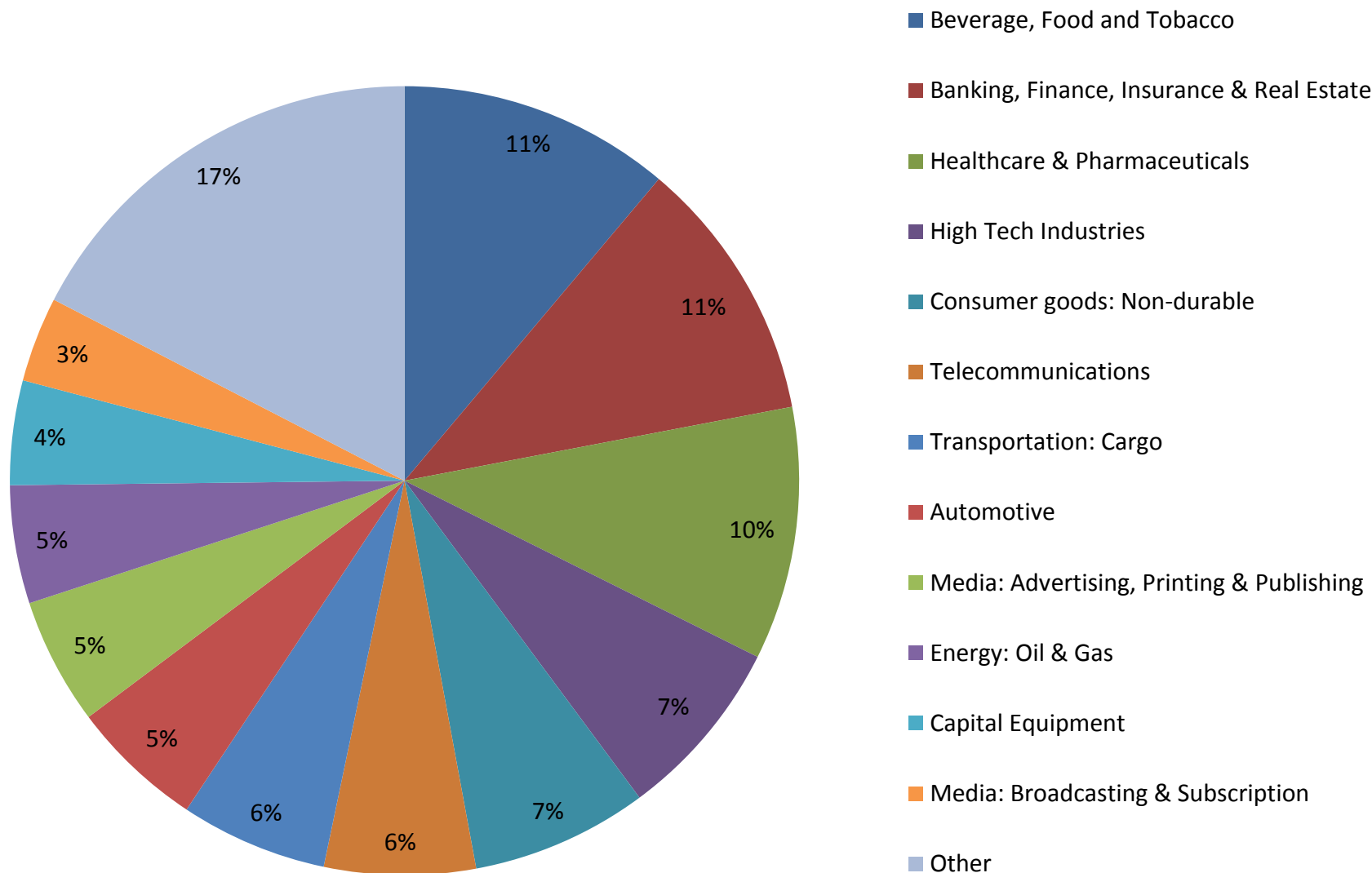
| | <u>Q1</u> | | <u>Q2</u> | | <u>Q3</u> | | <u>Q4</u> |
|-------------|--------------|----|-----------|----|-----------|----|-----------|
| 2012 | \$ 825,000 | \$ | 1,200,000 | \$ | 925,000 | \$ | 1,750,000 |
| 2013 | \$ 3,000,000 | \$ | 3,300,000 | \$ | 3,325,000 | \$ | 3,125,000 |
| 2014 | \$ 3,000,000 | \$ | | | | | |

Q & A

Appendix – Supplemental Information

PORTFOLIO HIGHLIGHTS

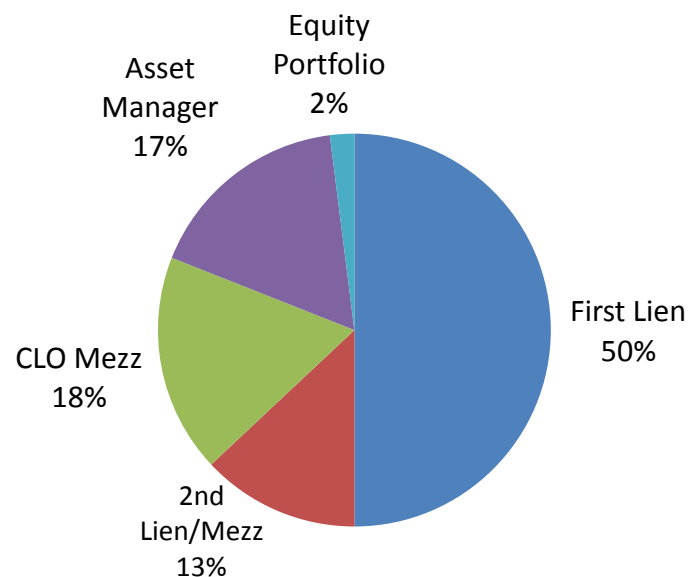
PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



INVESTMENT PORTFOLIO

A balanced investment risk / return profile

1Q14



| Investment | Yield(1) |
|---------------------------------------------|-----------------|
| First lien | 7.0% |
| Second lien / Mezz | 11.4% |
| CLO Securities | 28.7% |
| Asset Manager Affiliates | 16.2% |
| Equity Portfolio | |
| Approx. Weighted Average Yield on FV | 13% |

Portfolio Statistics

Total Portfolio:

Fair value² \$425 million

Loan and Securities Portfolio:

Fair value \$273 million

Number of issuers 78

Average deal/issuer size \$3.8 million

In default <1%

Fixed rate 13%

Floating rate 84%

Equity (neither fixed/floating) 3%

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

¹ Yield based on Fair Value (FV)

² Excluding Money Market Investments

STRONG CREDIT QUALITY

Experienced Management Team Has Led to Strong Credit Performance

- ◆ In a portfolio of 70 loans, only four were on non-accrual status (representing less than 1% of total investments at fair value)
 - ◆ All four were originated in 2007
 - ◆ Ginn, CoActive, International Architecture, Suncal
- ◆ The credit quality of our current portfolio remains strong
- ◆ 80% of the debt securities portfolio is secured

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

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

| Monday, March 31, 2014 | Fair Value | NAV per Share |
|-----------------------------------------|------------------------------|-----------------------|
| <i>Investments at Fair Value</i> | | |
| Investments in time deposits | \$ - | \$ - |
| Investments in money markets | 4,133,429 | 0.12 |
| Investments in debt securities | 264,791,172 | 7.94 |
| Investments in CLO Fund securities | 77,747,524 | 2.33 |
| Investments in equity securities | 8,212,286 | 0.25 |
| Investments in Asset Manager Affiliates | <u>74,075,000</u> | <u>2.22</u> |
| Total Investments | 428,959,411 | 12.86 |
| Cash | 9,139,330 | 0.28 |
| Other assets | <u>18,337,629</u> | <u>0.55</u> |
| Total assets | \$ <u>456,436,370</u> | \$ <u>13.69</u> |
| Borrowings | \$ 192,701,250 | \$ 5.78 |
| Other Liabilities | <u>9,632,509</u> | <u>0.29</u> |
| Total Liabilities | \$ <u>202,333,759</u> | \$ <u>6.07</u> |
| NET ASSET VALUE | \$ <u>254,102,611</u> | \$ <u>7.62</u> |

INVESTMENT PORTFOLIO

| March 31, 2014 | Cost | Fair Value |
|--------------------------|------------------------------|------------------------------|
| Time Deposits | \$ - | \$ - |
| Money Market Accounts | 4,133,429 | 4,133,429 |
| Senior Secured Loan | 159,596,442 | 152,797,023 |
| Junior Secured Loan | 57,494,889 | 54,978,035 |
| Senior Unsecured Loan | 27,000,000 | 27,000,000 |
| First Lien Bond | 2,948,836 | 2,385,000 |
| Senior Subordinated Bond | 4,268,289 | 4,268,550 |
| Senior Unsecured Bond | 10,896,631 | 11,085,303 |
| Senior Secured Bond | 1,518,123 | 1,619,550 |
| CLO Fund Securities | 101,169,147 | 77,747,524 |
| Equity Securities | 16,289,233 | 8,212,286 |
| Preferred | 10,054,444 | 10,657,711 |
| Asset Manager Affiliates | <u>83,924,720</u> | <u>74,075,000</u> |
| Total Assets | \$ <u>479,294,183</u> | \$ <u>428,959,411</u> |