



First Quarter 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.

Q1 2015 HIGHLIGHTS

Net Investment Income

- ◆ \$0.18 per basic share for Q1'15 compared to \$0.15 for Q4'14 and \$0.13 for Q1'14

Direct Lending

- ◆ Direct Lending Business now ~50% of total company Investment Revenue vs. ~53% in Q4'14 and ~52% in Q1'14
- ◆ Weighted average yield on debt securities portfolio was 7.3% in Q1, flat with Q4'14 and down from 7.8% in Q1'14

Asset Manager

- ◆ Distributed \$2.7 million in Q1'15, slight decrease from \$2.8 million in Q4'14
- ◆ Priced a \$464 million CLO fund in March - Catamaran CLO 2015-1 Ltd.

Credit Performance

- ◆ Portfolio is well diversified across 25 different industries and 105 different entities with an average debt investment of approximately \$3.5 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$7.16 up 3.2% vs. \$6.94 in Q1'14

Dividends

- ◆ \$0.21 dividend declared for Q1

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$20.1 million in new originations at expected return of ~9.4%
- ◆ Closed 31 new deals in Q4 2014 comprising approximately \$78 million of new assets¹
- ◆ KCAP Senior Funding:
 - ◆ Invested \$6.7 million in new senior loans with an average yield of 6.2%
- ◆ Weighted average yield on our debt securities portfolio was 7.3% in Q1, flat with Q4' 14 and down from 7.8% in Q1' 14
- ◆ Our pipeline remains robust and opportunities exist to rotate out of lower yielding placeholder loans into higher yielding investments

¹ Including KCAP Senior Funding

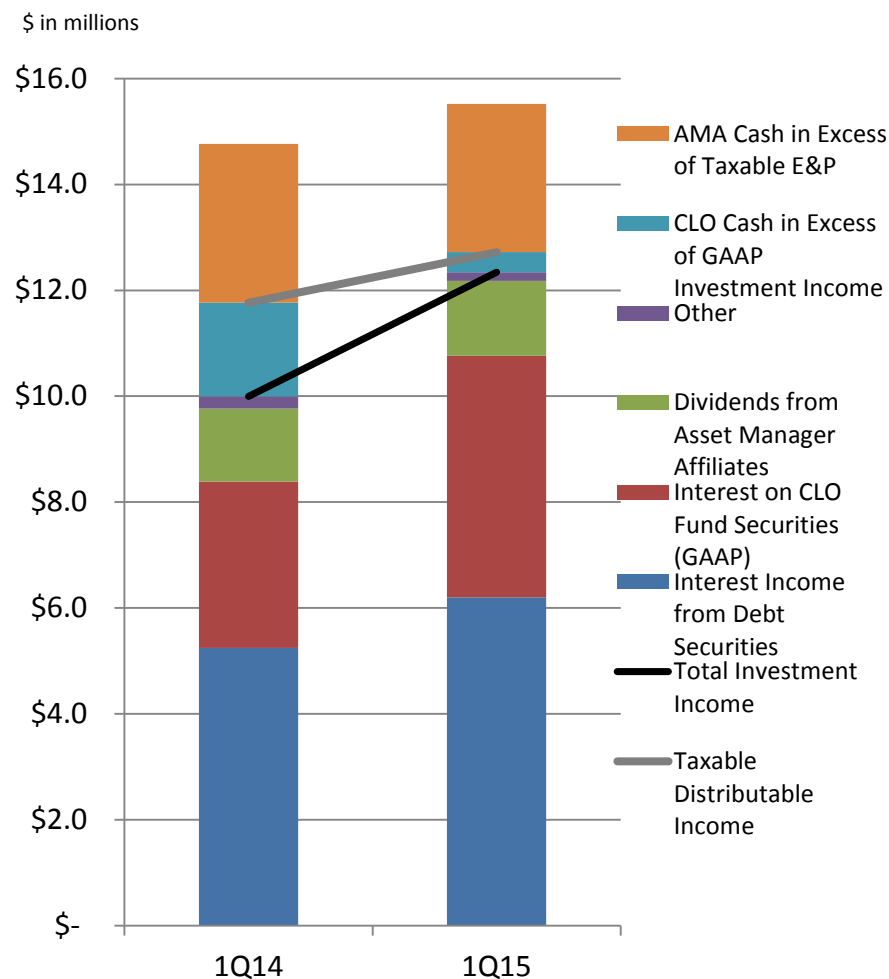
COMPONENTS OF DISTRIBUTABLE RESOURCES

Delivering balanced sources of distributable cash flow

Shareholder Distributions per share		1Q15 ¹	1Q14 ¹
Net investment income	\$	0.18	0.13
Tax Accounting Difference on CLO Equity Investments		<u>0.01</u>	<u>0.05</u>
Taxable distributable income		0.19	0.18
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings		<u>0.03</u>	<u>0.05</u>
Available for distribution²		0.23	0.23
Distributed	\$	<u>0.21</u>	<u>0.25</u>
Difference	\$	<u>0.02</u>	<u>(0.02)</u>

¹ Table may not foot due to rounding.

²The "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 \$0.03 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.

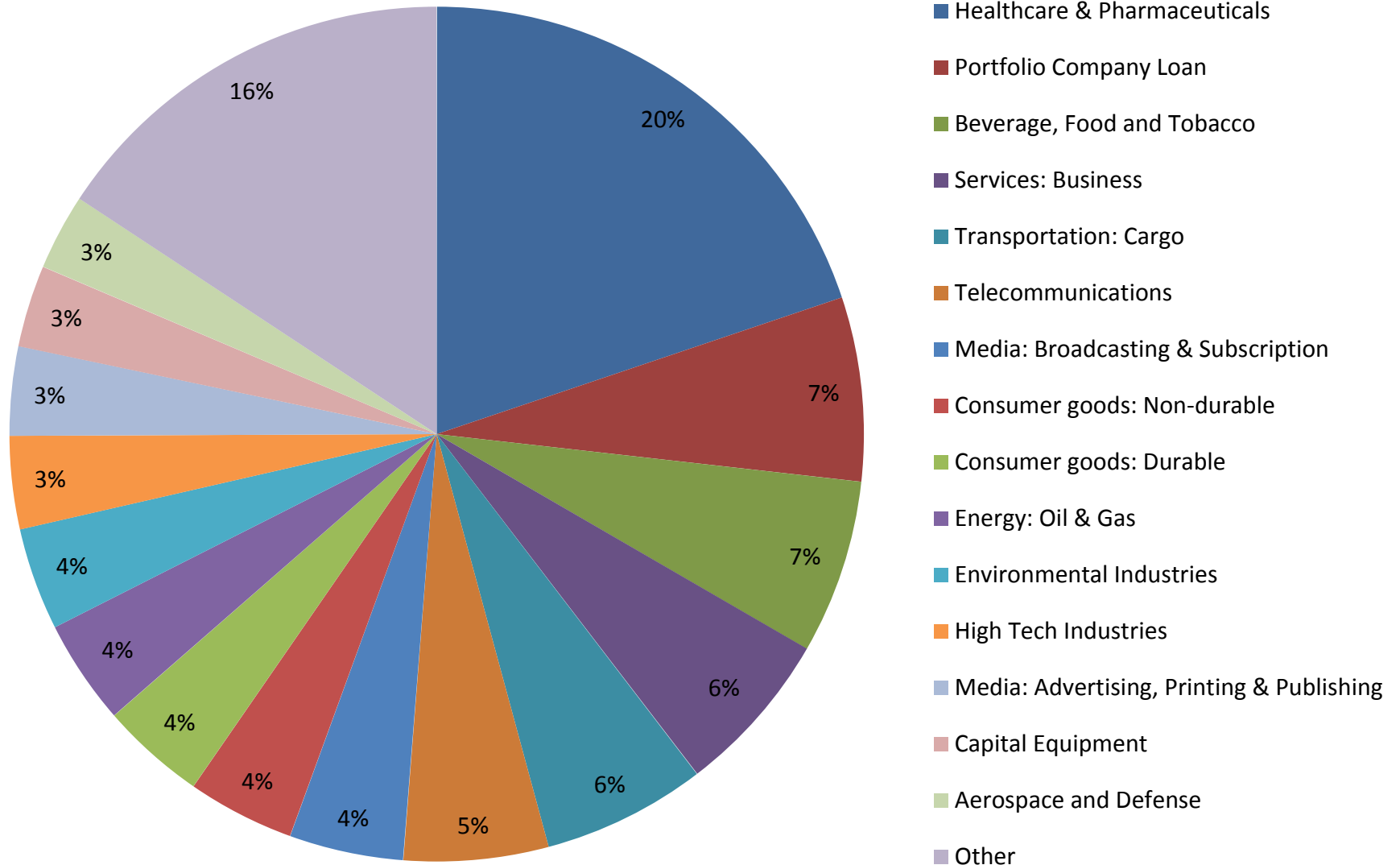


Q & A

Appendix – Supplemental Information

PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

- ◆ In a portfolio of 108 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
- ◆ 68% of the debt securities portfolio is secured as of Q1'15

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

March 31, 2015	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 1,729,575	\$ 0.05
Investments in debt securities	320,470,495	8.69
Investments in CLO Fund securities	85,853,478	2.33
Investments in equity securities	8,063,558	0.22
Investments in Asset Manager Affiliates	<u>71,524,000</u>	<u>1.94</u>
Total Investments	487,641,106	13.23
Cash	1,521,555	0.04
Other assets	<u>15,590,872</u>	<u>0.42</u>
Total assets	\$ <u>504,753,533</u>	\$ <u>13.69</u>
Borrowings	\$ 224,034,286	\$ 6.08
Other Liabilities	<u>16,795,812</u>	<u>0.45</u>
Total Liabilities	\$ <u>240,830,098</u>	\$ <u>6.53</u>
NET ASSET VALUE	\$ <u>263,923,435</u>	\$ <u>7.16</u>

INVESTMENT PORTFOLIO

March 31, 2015	Cost	Fair Value
Money Market Accounts	\$ 1,729,575	\$ 1,729,575
Senior Secured Loan	218,339,421	217,219,634
Junior Secured Loan	40,085,271	39,832,410
Senior Unsecured Loan	33,104,782	33,104,782
First Lien Bond	2,967,369	2,580,000
Senior Subordinated Bond	4,330,633	4,295,736
Senior Unsecured Bond	11,363,885	11,482,540
Senior Secured Bond	1,513,639	1,485,000
CLO Fund Securities	99,812,887	85,853,478
Equity Securities	8,828,812	8,063,558
Preferred	10,257,047	10,470,393
Asset Manager Affiliates	<u>59,006,651</u>	<u>71,524,000</u>
Total Assets	\$ <u>491,339,972</u>	\$ <u>487,641,106</u>