



First 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.

Q1 2017 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.09 per basic share for Q1'17 vs. \$0.13 for Q1'16
- ◆ Taxable Distributable Income of \$0.06 per basic share for Q1'17 and \$0.16 for Q1'16
- ◆ Cash distributed by Asset Manager Affiliates in excess of their taxable earnings was \$0.02 per basic share for Q1'17 and \$0.01 for Q1'16

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~59% of total company Investment Revenue vs. ~60% in Q1'16 and ~58% in Q4'16
- ◆ Weighted average yield on debt securities portfolio was 7.0% in Q1'17 vs. 7.0% in Q4'16

Asset Manager

- ◆ Distributed \$650,000 in Q1'17, compared with \$1.1 million in Q1'16

Credit Performance

- ◆ Portfolio is well diversified across 25 different industries and 94 different entities with an average debt investment of approximately \$2.5 million
- ◆ Two of our PIK investments were on partial non-accrual status

Net Asset Value

- ◆ Net Asset Value of \$5.14, down 2% from \$5.24 in Q4'16

Distributions

- ◆ \$0.12 distribution declared for Q1'17

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$18.5 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 7.0% in Q1 2017, flat from 7.0% in Q4'16

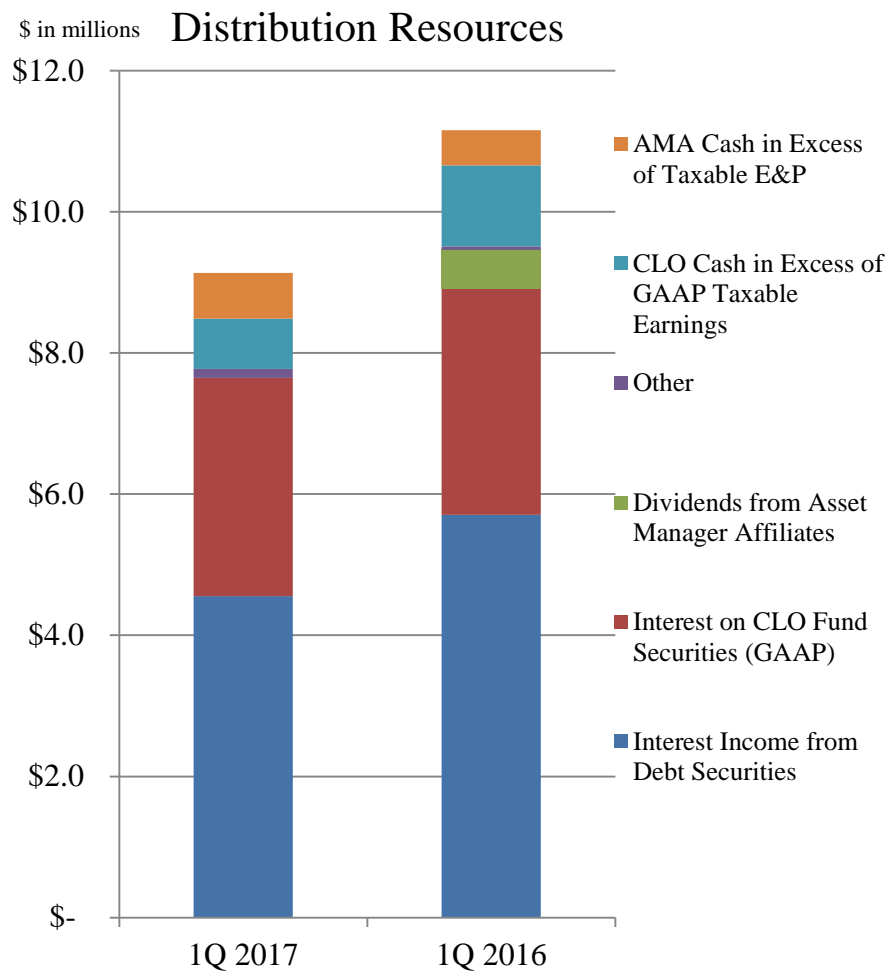
COMPONENTS OF DISTRIBUTABLE RESOURCES

Delivering balanced sources of distributable cash flow

Shareholder Distributions per share	Three months ended	
	1Q17 ¹	1Q16 ¹
Net investment income	\$ 0.09	0.13
Tax Accounting Difference on CLO Equity Investments	(0.02)	0.02
Other Tax Accounting Differences	—	<u>0.01</u>
Taxable distributable income	0.06	0.16
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.02	0.01
Cash received from CLO Equity Investments in excess of taxable earnings	<u>0.02</u>	<u>0.03</u>
Available for distribution²	0.10	0.20
Distributed	\$ <u>0.12</u>	<u>0.15</u>
Difference	\$ <u>(0.02)</u>	<u>0.05</u>

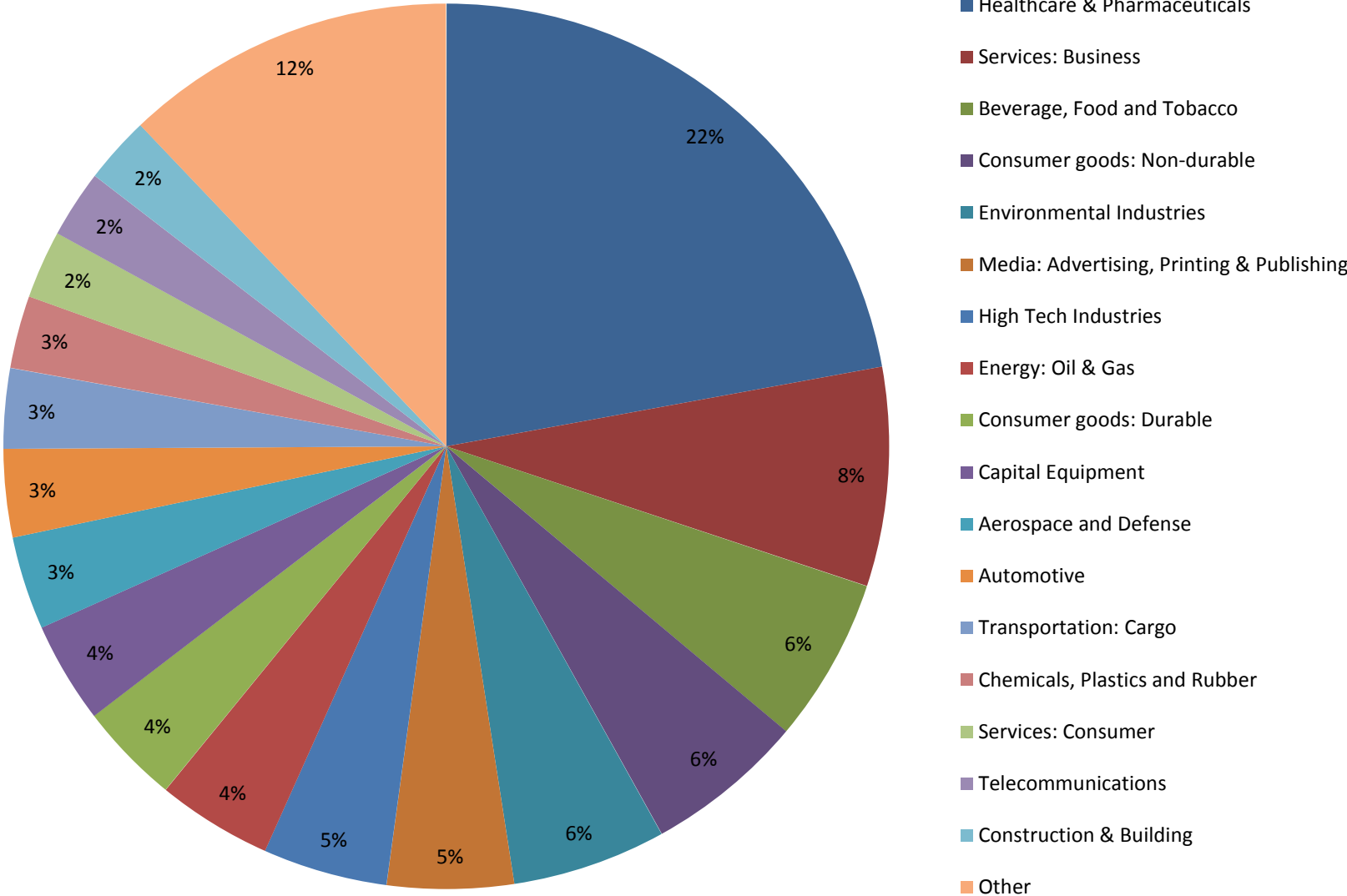
¹ Table may not foot due to rounding.

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 and cash received from CLO Equity Investments in excess of 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 \$0.02 and \$0.01 per share of cash distributed to the Company by the Asset Manager Affiliates in excess of their taxable earnings and the \$0.02 and \$0.03 per share of cash distributed to the Company from CLO Equity Investments in excess of taxable earnings, is subtracted from the "Available for distribution" financial measure for the three months ended March 31, 2017 and 2016, 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

- ◆ The credit quality of our current portfolio remains strong.
- ◆ 83% of the debt securities portfolio is secured as of March 31, 2017.
- ◆ Two of our PIK investments were on partial non-accrual status.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

March 31, 2017	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 22,674,790	\$ 0.61
Investments in debt securities	237,657,701	6.39
Investments in CLO Fund securities	52,999,028	1.42
Investments in equity securities	4,902,794	0.13
Investments in Asset Manager Affiliates	<u>36,942,000</u>	<u>0.99</u>
Total Investments	355,176,313	9.54
Other assets	<u>15,091,116</u>	<u>0.41</u>
Total assets	\$ <u>370,267,429</u>	\$ <u>9.95</u>
Borrowings	\$ 175,957,365	\$ 4.73
Other Liabilities	<u>2,880,174</u>	<u>0.08</u>
Total Liabilities	<u>178,837,539</u>	<u>4.81</u>
NET ASSET VALUE	\$ <u>191,429,890</u>	\$ <u>5.14</u>

INVESTMENT PORTFOLIO

March 31, 2017	Cost/Amortized Cost	Fair Value
Money Market Accounts	\$ 22,674,790	\$ 22,674,790
Senior Secured Loan	202,900,985	196,553,708
Junior Secured Loan	40,171,813	38,545,305
First Lien Bond	3,054,338	1,089,338
Senior Secured Bond	1,505,454	1,489,350
CLO Fund Securities	76,994,975	52,999,028
Equity Securities	10,389,008	4,902,794
Asset Manager Affiliates	<u>54,691,230</u>	<u>36,942,000</u>
Total Assets	\$ <u>412,382,593</u>	\$ <u>355,176,313</u>