



Third Quarter 2014 Earnings Presentation

FORWARD LOOKING INFORMATION



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.

Q3 2014 HIGHLIGHTS

Net Interest Income

- ◆ \$.25 per basic share for Q3'14 compared to \$.24 for Q2'14 and \$.24 for Q1'14

Direct Lending

- ◆ Direct Lending Business now ~40% of total company Investment Revenue vs. ~40% in Q2 and ~30% in Q3'13
- ◆ Weighted average yield on debt securities portfolio increased to 7.8% at September 30, 2014, from 7.7% in Q2 and 7.3% at December 31, 2013

Asset Manager

- ◆ Distributed \$3.1 million in Q3'14, slight increase from \$3.0 million in Q2'14
- ◆ Closed a \$465 million CLO fund in September - Catamaran CLO 2014-2 Ltd.

Credit Performance

- ◆ Portfolio is well diversified across 25 different industries and 85 different entities with an average debt investment of approximately \$3.6 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$7.67 up 2.1% vs. \$7.51 in Q4'13

Dividends

- ◆ \$.25 dividend declared for Q3, consistent with Q1 and Q2 14 and Q4 13

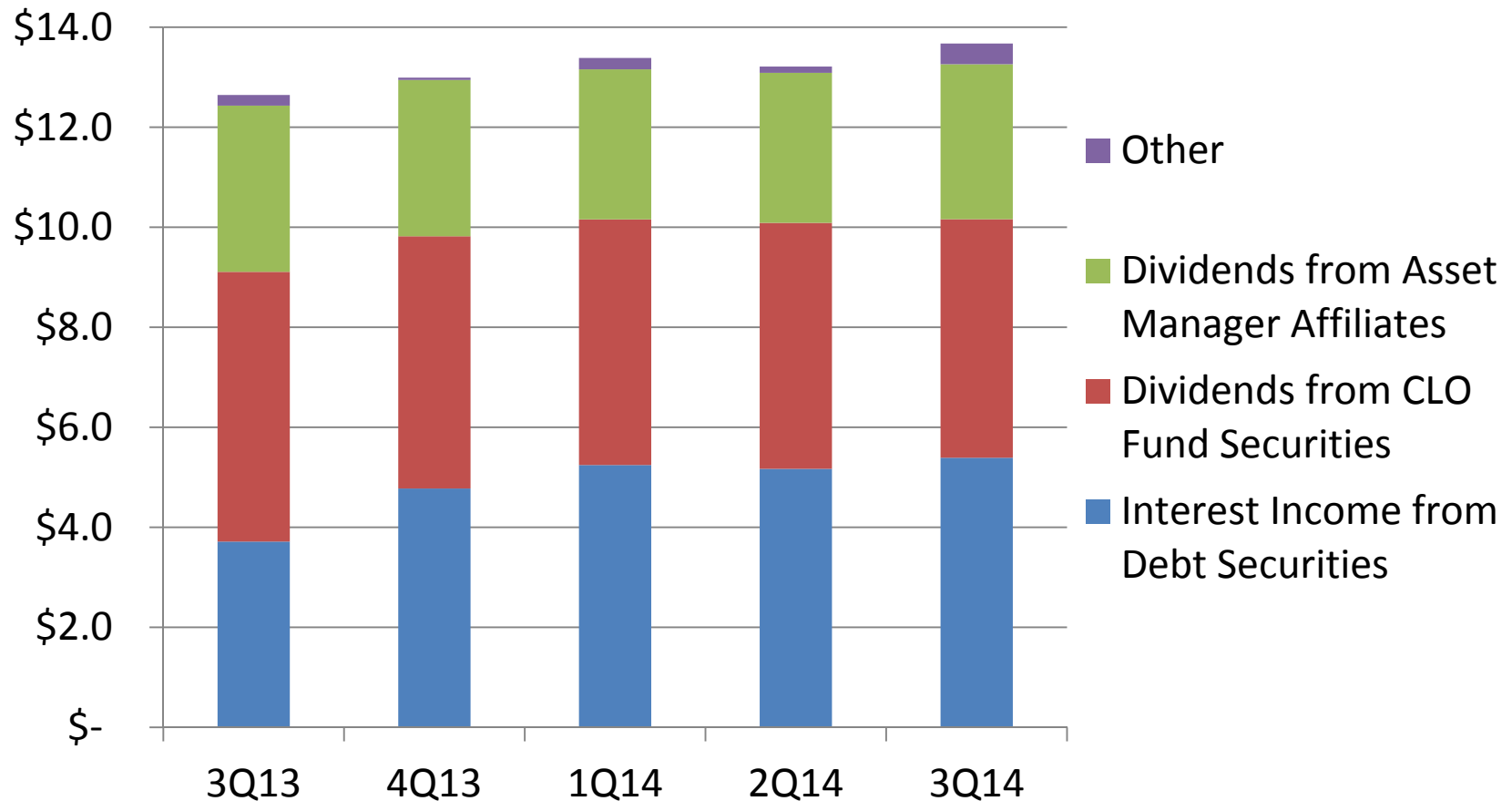
ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$22.3 million in new originations at expected return of ~11.0%
- ◆ KCAP Senior Funding:
 - ◆ Invested \$15.0 million in new senior loans with an average yield of 5.9%
- ◆ Weighted average yield on our debt securities portfolio was 7.8% at September 30, 2014, up from 7.7% at June 30, 2014 and 7.3% at December 30, 2014

NII CONTRIBUTION

Continued Momentum in Our Direct Lending Business

In millions



ASSET MANAGER AFFILIATES

- ◆ Wholly owned asset management business
- ◆ \$3.3 billion in AUM
- ◆ Closed a \$465 million CLO fund in September - Catamaran CLO 2014-2 Ltd.
- ◆ 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
- ◆ Third Quarter distribution: \$3.1 million
- ◆ \$79 million fair value

Quarterly Distributions from the Asset Manager

		Q1		Q2		Q3		Q4
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	\$	3,000,000	\$	3,100,000		

CAPITAL TRANSACTIONS

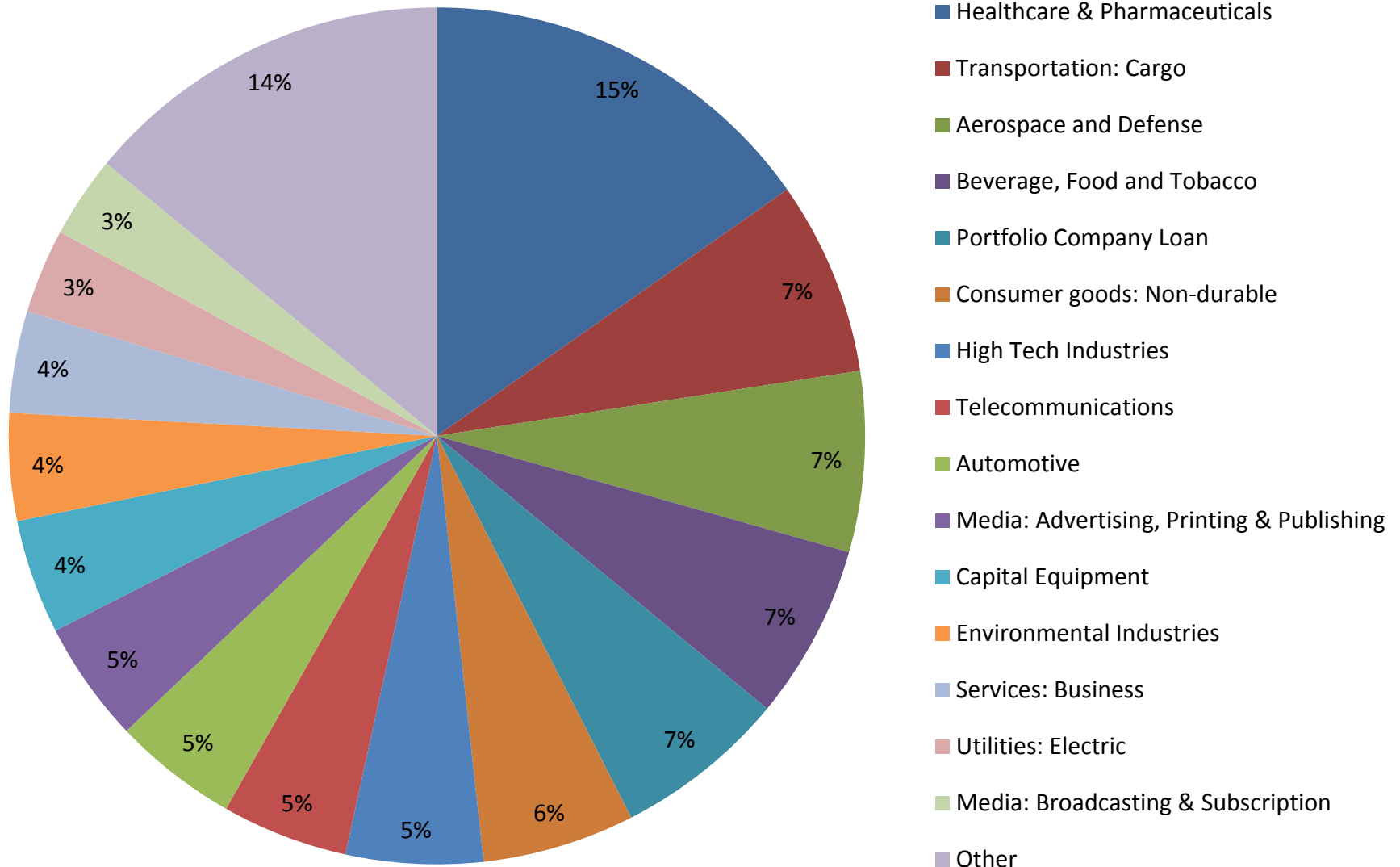
- ◆ Issued 3mm shares of common stock in a public offering in October raising \$23.9 million in net proceeds
- ◆ Repurchased ~ \$10.4 million of KCAP Convertible Notes at a price of \$114.875
 - ◆ \$38.6 million remains outstanding with a five year term, maturing March 2016

Q & A

Appendix – Supplemental Information

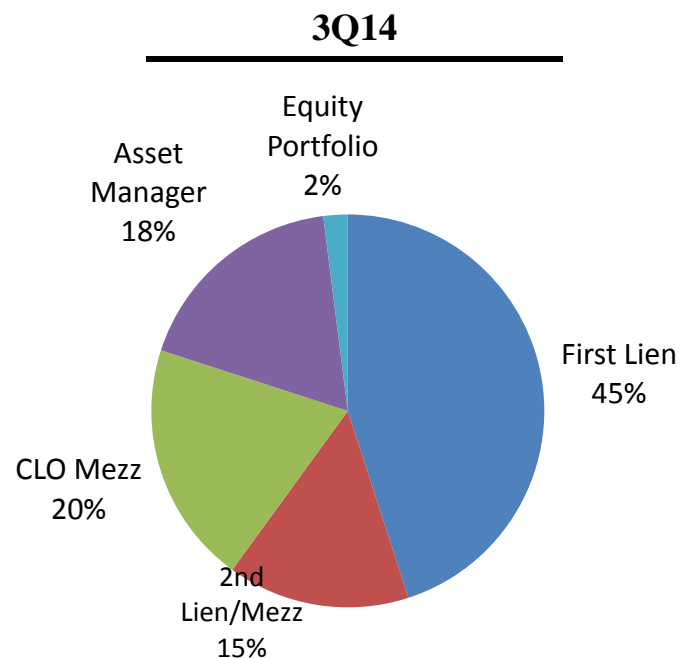
PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES - INDUSTRY DIVERSIFICATION



INVESTMENT PORTFOLIO

A balanced investment risk / return profile



Investment	Yield(1)
First lien	6.4%
Second lien / Mezz	10.5%
CLO Securities	23.6%
Asset Manager Affiliates	15.7%
<u>Equity Portfolio</u>	
Approx. Weighted Average Yield on FV	12.0%

Portfolio Statistics

Total Portfolio:

Fair value \$442 million

Debt and Equity Securities Portfolio:

Fair value \$276 million

Number of issuers 80

Average deal/issuer size \$3.5 million

In default <1%

Fixed rate 11%

Floating rate 85%

Equity (neither fixed/floating) 4%

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

¹ Yield based on Fair Value (FV) of performing assets, excluding money market investments

Data as of, or for the three months ended 9/30/14 unless otherwise noted

STRONG CREDIT QUALITY

- ◆ In a portfolio of 88 debt securities, only one was on non-accrual status (representing less than 1% of total investments at fair value)
- ◆ The credit quality of our current portfolio remains strong
- ◆ 79% of the debt securities portfolio is secured as of Q3'14

FINANCIAL HIGHLIGHTS



NET ASSET VALUE

September 30, 2014	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 341,694	\$ 0.01
Investments in debt securities	264,813,932	7.85
Investments in CLO Fund securities	87,382,253	2.59
Investments in equity securities	11,140,167	0.33
Investments in Asset Manager Affiliates	<u>78,737,000</u>	<u>2.33</u>
Total Investments	442,415,046	13.11
Cash	9,379,060	0.28
Other assets	<u>10,891,492</u>	<u>0.32</u>
Total assets	\$ <u>462,685,598</u>	\$ <u>13.71</u>
Borrowings	\$ 192,921,211	\$ 5.72
Other Liabilities	<u>10,737,312</u>	<u>0.32</u>
Total Liabilities	\$ <u>203,658,523</u>	\$ <u>6.04</u>
NET ASSET VALUE	\$ <u>259,027,075</u>	\$ <u>7.67</u>

INVESTMENT PORTFOLIO

September 30, 2014	Cost	Fair Value
Money Market Accounts	\$ 341,694	\$ 341,694
Senior Secured Loan	170,002,011	168,920,608
Junior Secured Loan	38,253,207	38,662,312
Senior Unsecured Loan	27,034,116	27,034,116
First Lien Bond	2,957,441	2,553,900
Senior Subordinated Bond	4,283,742	4,366,788
Senior Unsecured Bond	11,075,392	11,346,613
Senior Secured Bond	1,516,376	1,571,250
CLO Fund Securities	119,453,082	87,382,253
Equity Securities	17,454,438	11,140,167
Preferred	10,155,240	10,358,345
Asset Manager Affiliates	<u>83,924,720</u>	<u>78,737,000</u>
Total Assets	\$ <u>486,451,459</u>	\$ <u>442,415,046</u>