



Second 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.

Q2 2016 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.14 per basic share for Q2'16 and \$0.16 for Q2'15
- ◆ Taxable Distributable Income of \$0.12 per basic share for Q2'16 and \$0.17 for Q2'15
- ◆ Cash distributed by Asset Manager Affiliates in excess of their taxable earnings was \$0.00 per basic share for Q2'16 and \$0.03 for Q2'15

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~54% of total company Investment Revenue vs. ~53% in Q2'15 and ~60% in Q1'16
- ◆ Weighted average yield on debt securities portfolio was 7.2% in Q2'16 and 7.3% in Q2'15

Asset Manager

- ◆ Distributed \$850,000 in Q2'16, compared with \$2.3 million in Q2'15
- ◆ Continue to warehouse for a new CLO fund

Credit Performance

- ◆ Portfolio is well diversified across 30 different industries and 99 different entities with an average debt investment of approximately \$3.1 million
- ◆ Only 1 issuer is on non-accrual status, representing <1% of loans

Net Asset Value

- ◆ Net Asset Value of \$5.45, down 1% from \$5.50 in Q1'16

Distributions

- ◆ \$0.15 distribution declared for Q2'16

ORIGINATIONS AND REPAYMENTS

- ◆ Invested \$10 million in new originations during the second quarter
 - ◆ Funded out of repayments and asset sales
 - ◆ Comparable yield to the assets they replaced

- ◆ Weighted average yield on our debt securities portfolio was 7.2% in Q2 2016, down from 7.3% in Q1'16 and Q2'15

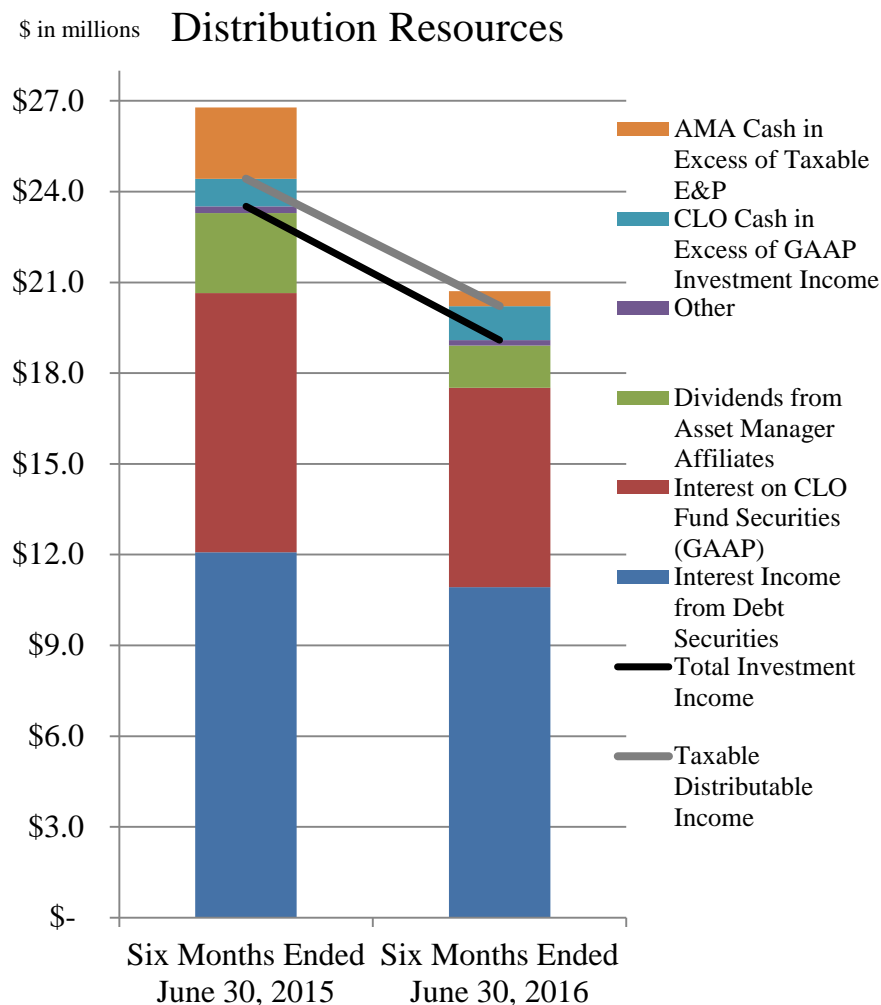
COMPONENTS OF DISTRIBUTABLE RESOURCES

Delivering balanced sources of distributable cash flow

Shareholder Distributions per share	Six Months Ended	
	2Q16 ¹	2Q15 ¹
Net investment income	\$ 0.27	0.33
Tax Accounting Difference on CLO Equity Investments	0.03	0.02
Other Tax Accounting Differences	(0.02)	-
Taxable distributable income	0.28	0.36
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.01	0.06
Available for distribution²	0.29	0.43
Distributed	0.30	0.42
Difference	\$ (0.01)	0.01

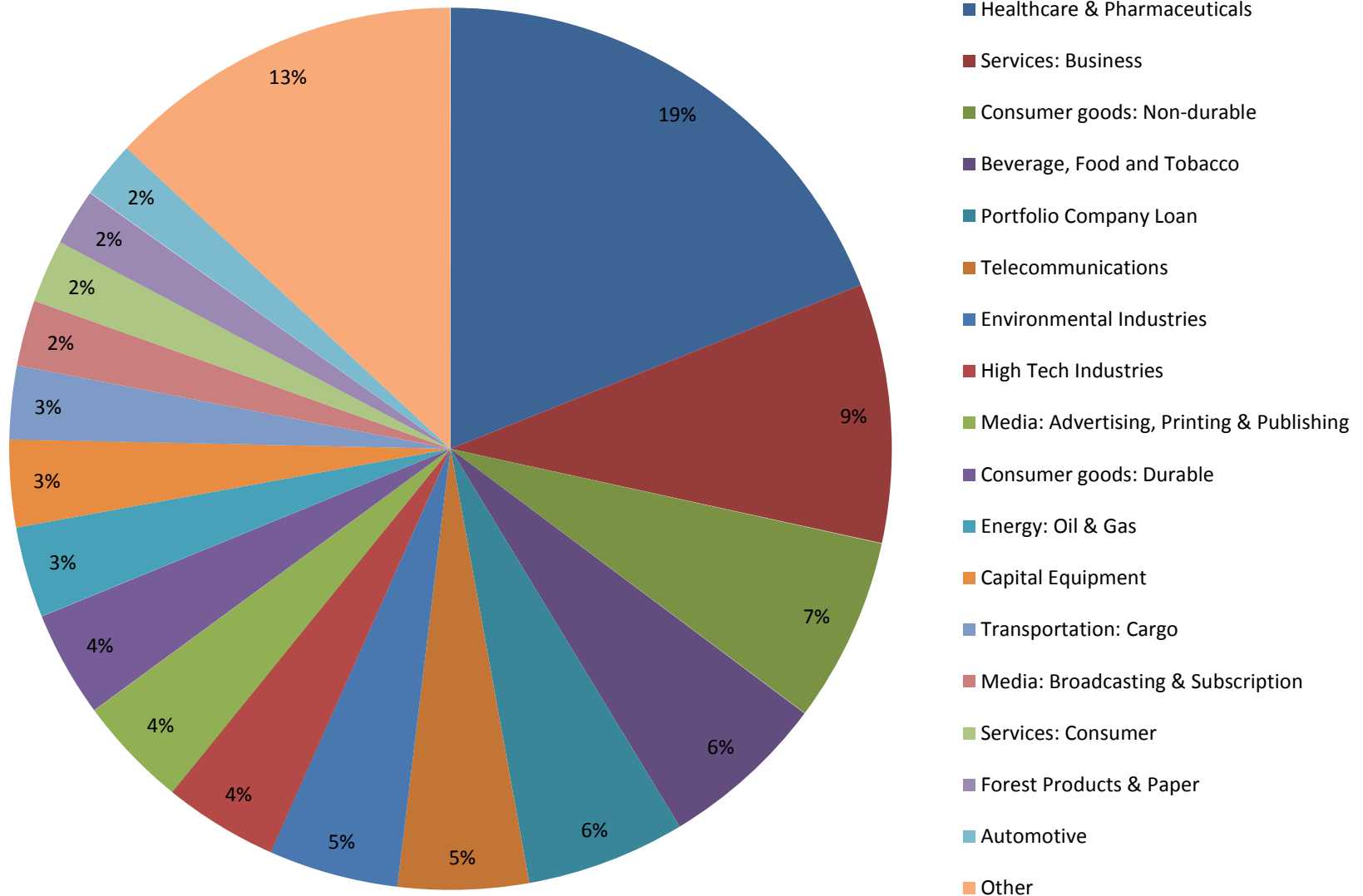
¹ Table may not foot due to rounding.

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 \$0.06 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 six months ended June 30, 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 our portfolio of 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.
- ◆ 86% of the debt securities portfolio is secured as of June 30, 2016.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

June 30, 2016	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 7,191,009	\$ 0.19
Investments in debt securities	264,939,841	7.13
Investments in CLO Fund securities	46,180,067	1.24
Investments in equity securities	9,231,202	0.25
Investments in Asset Manager Affiliates	<u>45,288,000</u>	<u>1.22</u>
Total Investments	372,830,119	10.04
Other assets	<u>15,090,731</u>	<u>0.41</u>
Total assets	\$ <u>387,920,850</u>	\$ <u>10.45</u>
Borrowings	\$ 180,217,531	\$ 4.85
Other Liabilities	5,478,584	0.15
Total Liabilities	<u>185,696,115</u>	<u>5.00</u>
NET ASSET VALUE	\$ <u>202,224,735</u>	\$ <u>5.45</u>

INVESTMENT PORTFOLIO

June 30, 2016	Cost/Amortized Cost	Fair Value
Money Market Accounts	\$ 7,191,009	\$ 7,191,009
Senior Secured Loan	202,023,215	194,066,823
Junior Secured Loan	37,201,963	34,755,026
Senior Unsecured Loan	16,000,000	16,000,000
First Lien Bond	3,000,000	1,564,800
Senior Subordinated Bond	4,560,314	4,709,896
Senior Unsecured Bond	12,232,623	12,379,296
Senior Secured Bond	1,508,522	1,464,000
CLO Fund Securities	66,637,934	46,180,067
Equity Securities	10,467,787	9,231,202
Asset Manager Affiliates	<u>56,091,230</u>	<u>45,288,000</u>
Total Assets	\$ <u>416,914,597</u>	\$ <u>372,830,119</u>