



Corporate Governance Policy

Latest Version Ratified by Board of Directors on:
September 20, 2016

KCAP Financial, Inc.

Corporate Governance Policy

A. Board of Directors' Responsibilities

The Company's Board of Directors (the "Board") represents the stockholders' interest in perpetuating a successful business and optimizing long-term financial returns consistent with legal requirements and ethical standards. The Board is responsible for general oversight of the Company, including identifying and taking reasonable actions so that the Company is managed in a way designed to achieve this result. Consistent with the importance of the Board's responsibilities, each director is expected to be familiar with the Company's business and public disclosures, to review in advance of Board meetings related materials distributed to the Board and to attend and participate in meetings of the Board and meetings of committees of which such director is a member.

1. Selection, Evaluation and Retention of Chief Executive Officer and Oversight of Selection and Performance of Other Executive Officer

The Board, with assistance from the Nominating and Corporate Governance Committee and the Compensation Committee has the responsibility to select, to evaluate the performance of the Chief Executive Officer, to oversee the selection and evaluation of the performance of other executive officers, to oversee plans for management succession, and to monitor on a regular basis the effectiveness and execution of management strategies and decisions in optimizing the Company's long-term total return. The Nominating and Corporate Governance Committee periodically conducts a discussion of director and management succession with the Chief Executive Officer, and develops such plans as needed.

2. Understanding, Reviewing and Monitoring Implementation of Strategic Plans and Annual Operating Plans and Budgets

The Board is responsible for overseeing and understanding the Company's strategic plans and execution and should regularly monitor implementation of such plans to determine whether they are being implemented effectively and whether changes are needed. The Board also is responsible for overseeing and understanding the Company's annual operating plans and annual budgets and for regularly monitoring whether these plans are being implemented effectively and within budgetary limits.

3. Selection and Oversight of Independent Auditors; Oversight of Financial Statements

The Audit Committee of the Board has the responsibility to recommend to the Board the appointment of and compensation of the Company's independent accounting firm that audits the Company's financial statements and to pre-approve the engagement terms and the provision of nonaudit services performed by such accounting firm for the Company. The Audit Committee

will have direct responsibility, and the Board will have a corresponding oversight responsibility, for monitoring the performance of such accounting firm and its independence, and overseeing the financial statements prepared by management, with the goal of assuring that they fairly present the Company's financial condition, results of operations, cash flows and related risks.

4. Advising Management on Significant Issues

The Board is responsible for utilizing the experiences and perspective of directors to advise and counsel management, both in meetings and in informal consultations, on significant issues facing the Company.

5. Review and Approval of Significant Company Actions and Certain Other Matters

The Board is required by state corporate law to review and approve significant actions by the Company, including declaration of dividends and major transactions. In addition, the Board is responsible for approving certain actions by the Company as set forth in this policy, and other policies that may be adopted from time to time by the Board, such as those required by applicable national securities exchanges on which the Company's securities are traded.

6. Nominating Directors and Committee Members and Overseeing Effective Corporate Governance

The Board with the assistance of the Nominating and Corporate Governance Committee is responsible for (i) evaluating and nominating directors and members of Board committees, (ii) overseeing the structure and practices of the Board and the committees and (iii) overseeing other corporate governance matters, as more fully set forth in this policy and the charter of the Nominating and Corporate Governance Committee.

B. Composition of the Board

1. Size of the Board

Consistent with the Company's bylaws, the size of the Board generally should be within a range of 5 to 11. A somewhat larger size may be appropriate from time to time in order to accommodate the availability of one or more outstanding candidates.

2. Board Membership Criteria

The Board, with the assistance of the Nominating and Corporate Governance Committee, is responsible for nominating directors for election by the stockholders. The Nominating and Corporate Governance Committee is responsible for developing and reevaluating specific criteria outlining the skills, experiences, particular areas of expertise, specific backgrounds and other characteristics that should be included on the Board to enhance the effectiveness of the Board and its committees.

3. Proportion and Determination of Independent Directors

Independent Directors shall comprise at least a majority of the Board. This will not, however, prevent the Board from taking valid actions if, due to a temporary vacancy or vacancies on the Board, there are fewer than the intended proportion of Independent Directors. Any such vacancies should be filled as soon as reasonably practicable, subject to applicable regulatory requirements.

A Director of the Company shall be considered independent if, in accordance with applicable NASDAQ listing standards, the director is not an “interested person” of the Company, as defined in Section 2(a)(19) of the Investment Company Act of 1940.

In addition to being an Independent Director, each member of the Company’s Audit Committee must not accept, directly or indirectly consulting, advisory or other compensatory fees from the Company, except in his or her capacity as a member of the Audit Committee, the Board or any other Board committee of the Company or any of its consolidated subsidiaries.

4. Selection of Directors

The Board is responsible for selecting candidates for the Board and in recommending them for election by the stockholders. The Board has delegated the initial evaluation and recommendation of potential directors to the Nominating and Corporate Governance Committee.

The Board is responsible for determining the qualification of one or more individuals to serve on the Audit Committee as a designated “audit committee financial expert,” as required by Item 401(h) of Regulation S-K. The Nominating and Corporate Governance Committee shall report to the Board in recommending new candidates or existing directors who may serve in this capacity.

The invitation to join the Board should be extended by the Board itself, through its Chairman of the Board and/or the Chairman of the Nominating and Corporate Governance Committee.

5. Directors Who Change Their Corporate Affiliations

Any director who changes his or her employer or otherwise has a significant change in job responsibilities, or who accepts or intends to accept a directorship with another company that he or she did not hold when such director was most recently elected to the Board, shall give written notice to the Board as soon as feasible. The Board may then consider the appropriateness of such director’s membership on the Board and each applicable Board committee under these circumstances, considering relevant factors. If the Board determines that it is no longer appropriate for the director to remain on the Board and/or any of its committees, the director shall act in accordance with the Board’s determination and immediately tender his or her resignation.

6. Outside Directorships

The members of the Board acknowledge that significant commitment is required to be a participating and effective member of the Board. Accordingly, members of the Board: (A) who are fully employed should not be a member of more than three other public company boards; (B) who are retired from full employment should not be a member of more than five other public company boards, unless otherwise approved by the Board; and (C) should restrict their membership to no more than two public company audit committees.

7. Term Limits

In lieu of pre-determined term limits for directors, the Nominating and Corporate Governance Committee will evaluate each director's continued services on the Board in connection with whether such directors should be re-nominated to the Board and at such other times as may be appropriate in particular circumstances. In connection with each decision regarding re-nominations, each director should be given an opportunity to confirm his or her desire to continue as a member of the Board. The mandatory retirement age for any director is age 78. However, in the interest of facilitating smooth succession planning, the Board may, at its discretion, invite a director to serve one (1) additional year past the age of 78.

C. Board Leadership

1. Selection of Chairman and Chief Executive Officer

The Board is responsible for electing a Chairman and appointing a Chief Executive Officer. The role of Chairman of the Board and Chief Executive Officer may be combined at the Board's discretion.

D. Board Compensation and Performance

1. Board Compensation Review

It is appropriate for management to report to the Board as a whole regarding the status of the Board's compensation in relation to other comparable U.S. companies. Changes in Board compensation should be made based upon the approval of a vote of the Board as a whole.

2. Assessing the Performance of the Board

The Board will conduct an annual assessment of its performance in order to help assure the effectiveness of the Board as a whole. This assessment should review any areas in which the Board and/or management believes a better contribution could be made and may include consideration of individuals' contributions to the Board.

E. Director Resignation Policy

In an uncontested election, any nominee for director who receives a greater number of votes “withheld” from his or her election than votes “for” such election (a “Majority Withheld Vote”) shall promptly tender his or her resignation following certification of the stockholder vote. The Nominating and Corporate Governance Committee shall promptly consider the resignation offer and a range of possible responses based on the circumstances that led to the Majority Withheld Vote, if known, and make a recommendation to the Board. The Board will act on the Nominating and Corporate Governance Committee’s recommendation within 90 days following certification of the stockholder vote.

Thereafter, the Board will promptly disclose its decision-making process and decision regarding whether to accept the director’s resignation offer (or the reason(s) for rejecting the resignation offer, if applicable) in a Form 8-K furnished to the Securities and Exchange Commission (“SEC”).

Any director who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Corporate Governance Committee recommendation or Board’s action regarding whether to accept the resignation offer.

However, if each member of the Nominating and Corporate Governance Committee received a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote shall appoint a committee amongst themselves to consider the resignation offers and recommend to the Board whether to accept them.

If the only directors who did not receive a Majority Withheld Vote in the same election constitute three or fewer directors, all directors may participate in the action regarding whether to accept the resignation offers.

F. Management’s Responsibilities

Management is responsible for operating the Company in an effective, ethical and legal manner designed to produce value for the Company’s stockholders consistent with the Company’s policies and standards. Management is responsible for understanding the Company’s income-producing activities and the material risks. Management is responsible for enforcing and complying with provisions of the Company’s policies and standards, and also is responsible for avoiding conflicts of interest with the Company and its stockholders.

1. Financial Statements and Disclosures

Management is responsible for producing, with the oversight of the Board and the Audit Committee, financial statements that fairly present the Company’s financial condition, results of operations, cash flows and related risks, for making timely and clear disclosures to investors, and for keeping the Board and the appropriate committees of the Board well-informed on a timely basis as to matters of significance to the Company.

2. Strategic Planning

The Chief Executive Officer and senior management is responsible for developing and presenting to the Board the Company's strategic plans and for implementing those plans as approved by the Board.

3. Annual Operating Plans and Budgets

Management is responsible for developing and presenting to the Board the Company's annual operating plans and annual budgets and for implementing those plans and budgets as approved by the Board.

4. Effective Management and Organizational Structure

The Chief Executive Officer and senior management are responsible for selecting qualified members of management and for implementing an effective organizational structure appropriate for the Company's circumstances.

5. Setting a Strong Ethical "Tone at the Top"

The Chief Executive Officer and senior management are responsible for setting a "tone at the top" of integrity, ethics and compliance with applicable legal requirements and with the Company's policies and standards.

6. Internal Controls and Procedures

Management is responsible for developing, implementing and monitoring an effective system of internal controls and procedures to provide reasonable assurance that the Company's transactions are properly authorized; the Company's assets are safeguarded against unauthorized or improper use; and the Company's transactions are properly recorded and reported. Such internal controls and procedures shall be designed to permit preparation of financial statements for the Company in conformity with generally accepted accounting principles or other criteria applicable to such statements.

7. Disclosure Controls and Procedures

Management is responsible for establishing, maintaining and evaluating the Company's "disclosure controls and procedures." The term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and financial officers, to allow timely decisions regarding required disclosure.

G. Board Relationship to Senior Management

1. Board Access to Senior Management and Attendance by Management

The Board (meeting as a whole, as well as the Independent Directors meeting separately) and each Board committee will have complete access to the Company's management. Directors provide direction to members of management only as part of Board or committee responsibility and accountability. Members of management may attend meetings of the Board at the invitation of the Chairman or Board Committee meetings at the invitation of the Committee Chairmen.

2. Board's Interaction with Institutional Investors, Press and Customers

The Board believes that management speaks for the Company. In accordance with this philosophy, Directors should defer to the Chairman or the Company's designated spokespersons when requested to make any comments regarding the Company or its business.

H. Meeting Procedures

1. Selection of Agenda Items for Board Meetings

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting. Each Board member may suggest the inclusion of item(s) on the agenda or raise issues for discussion at any Board meeting.

2. Board Materials Distributed in Advance

Management shall be responsible for assuring that, as a general rule, matters expected to be considered and acted upon by the Board should be distributed in writing to the Board sufficiently in advance of each Board meeting and each action to be taken by written consent to provide the directors time to review and evaluate such information and data. Management will provide information to permit the Board to be appropriately informed of material matters to be considered at each Board meeting or other Board action.

It is recognized that circumstances exist when it is not feasible to provide information relating to certain agenda items in advance of a Board meeting or an action to be taken by written consent. In such event, reasonable steps shall be taken (which may include extending the length of the Board meeting to allow more discussion, adjourning the meeting for a brief period to allow directors time to review such information, deferring a vote until a follow-up telephonic meeting, or other measures as appropriate) to permit the directors to become reasonably informed as to the matter before voting on it. As a general rule, presentations on specific subjects also should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. With respect to matters involving sensitive subjects not appropriate to distribute in written form, there will be an opportunity for full discussion of the presentation at the meeting.

3. Separate “Executive Session” Meetings of Independent Directors

The Independent Directors shall meet separately from the other directors, without the presence of management directors or executive officers of the Company (except to the extent the Independent Directors request the attendance of any executive officers). Such executive sessions shall be held at the close of or during regularly scheduled meetings of the Board and the chairman of the Audit Committee or his designee shall preside over such executive sessions.

I. Committee Matters

1. Number and Structure of Committees

The Board shall have as standing committees an Audit Committee, Valuation Committee, Compensation Committee and a Nominating and Corporate Governance Committee, which shall have the respective responsibilities described in each respective committee’s charter or resolutions of the Board relating thereto, which shall be approved by the Board, and shall consist solely of Independent Directors. Should the Board appoint an additional committee, the Board shall, by resolution or otherwise, define in writing the responsibilities of such committee.

2. Assignment of Committee Members

The Nominating and Corporate Governance Committee is responsible, after consultation with the Chief Executive Officer and with consideration of the desires of individual Board members, to make recommendations for the nomination of Board members to various committees. The Board is solely responsible for appointing committee members and committee chairmen.

3. Frequency of Committee Meetings

Subject to the requirements in the applicable committee charter regarding the frequency of committee meetings, each committee chairman, in consultation with committee members, will determine the frequency and length of the meetings of the committee.

4. Committee Agenda, Background Materials and Reports

The chairman of each Board committee, in consultation with the Chief Executive Officer and appropriate members of management, will develop the committee’s agenda. Management will be responsible for assuring that, as a general rule, information and data that are important to the committee’s understanding of the matters within the committee’s authority and the matters to be considered and acted upon by a committee are distributed to each member of such committee sufficiently in advance of each such meeting or action taken by written consent to provide a reasonable time for review and evaluation of such information and data. The other provisions applicable under Section G.2 of this policy regarding distribution of Board materials in advance shall apply equally to distribution of committee materials in advance.

At each Board meeting, the chairman of each committee or his or her delegate shall report the matters considered and acted upon by such committee at each meeting or by written consent since the preceding Board meeting, and shall be available to answer questions the other directors may have regarding the matters considered and actions taken by such committee.

J. Stock Ownership by Directors and Executive Officers

1. Stock Ownership

Since an ownership stake leads to a stronger alignment of interests between Directors, Executive Officers and stockholders, each Director and Executive Officer is required to beneficially own at least \$10,000 in company stock (excluding stock options) within five years of joining the Board and/or the Company. The Board may make exceptions to this requirement based on particular circumstances. The Board will evaluate whether exceptions should be made in the case of any director or executive officer who, due to his or her unique financial circumstances, would incur a hardship by complying with these stock ownership guidelines.

K. Miscellaneous

1. Resources

The Board (and Board committees to the extent so provided in the applicable committee charters or otherwise authorized by the Board) may use reasonable amounts of time of the Company's internal and independent accountants, internal and outside lawyers and other internal staff and also shall have the authority to hire independent accounting experts, lawyers and other consultants to assist and advise the Board (and any of its committees that are authorized to seek such advice and assistance) in connection with its responsibilities. The Board (and any such committees) shall keep the Company's Chief Financial Officer advised as to the general range of anticipated expenses for outside consultants hired by the Board (or such committees).

2. Director Orientation and Continuing Education

Each new Director will receive orientation with respect to his or her duties as a Director, including (a) background material with respect to the Company, its business and issues of particular significance to the Company and meetings with senior management (except to the extent unnecessary for any Director who is an executive officer of the Company); (b) copies of this policy and other appropriate materials; and (c) meetings with the Nominating and Corporate Governance Committee and the Company's outside counsel, as appropriate. New Directors and new members of Board committees may receive such additional orientation they may request or may be recommended by the Nominating and Corporate Governance Committee. To help assure that Directors have the necessary information to perform their responsibilities, the Nominating and Corporate Governance Committee or any Director may recommend further presentations, meetings or seminars on topics of relevance to the business of the Company and the duties of the Board.

3. Disclosure of this Policy

This policy, the committee charters, code of business conduct and code of ethics will be posted on the Company's website and also will be available in print to stockholders requesting them. Such availability on the Company's website and in print will be noted in the Company's annual report to stockholders.

4. Code of Business Conduct

The Company will maintain, and the Audit Committee will oversee compliance with, a code of business conduct and ethics. Such code may be modified and replaced from time to time by the Board.