



**Second Quarter 2014 Earnings Presentation**

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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.

# Q2 2014 HIGHLIGHTS

## Net Interest Income

- ◆ \$.24 per basic share for Q2'14 compared to \$.24 for Q1'14 and \$.24 for Q4'13

## Direct Lending

- ◆ Direct Lending Business now ~40% of total company Investment Revenue vs. ~39% in Q1 and ~27% in Q2'13
- ◆ Weighted average yield on debt securities portfolio increased to 7.7% in Q2 from 7.6% in Q1 and 7.3% in Q4'13

## Asset Manager

- ◆ Distributed \$3 million in Q2'14, equal to Q1'14 distribution
- ◆ Closed a \$468 million CLO fund in May - Catamaran CLO 2014-1 Ltd.

## Credit Performance

- ◆ Portfolio is well diversified across 24 different industries and 86 different entities with an average debt investment of approximately \$3.6 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans<sup>1</sup>

## Net Asset Value

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

## Dividends

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

# ORIGINATIONS AND REPAYMENTS

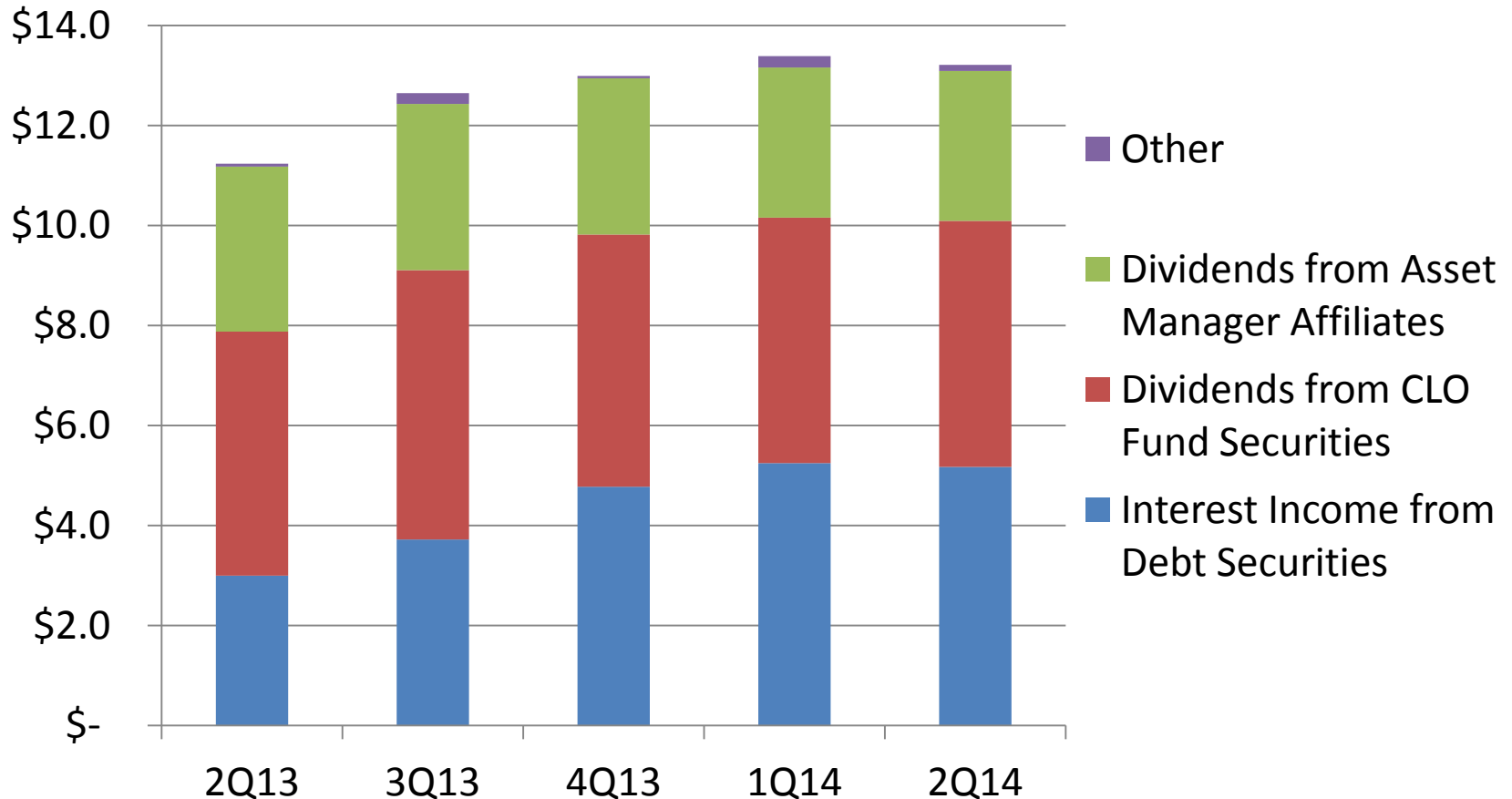
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- ◆ Invested \$16.7 million in new originations at expected return of ~11.3%
- ◆ KCAP Senior Funding – continue to rotate out of placeholder loans
  - ◆ Sold/repaid \$17.0 million of senior loans with an average yield of ~4.9%
  - ◆ Invested \$21.8 million in new senior loans with an average yield of 5.8%
- ◆ Weighted average yield on our debt securities portfolio improved slightly to 7.7% in Q2 from 7.6% in Q1 and 7.3% in Q4

# NII CONTRIBUTION

*Continued Momentum in Our Direct Lending Business*

In millions



# ASSET MANAGER AFFILIATES

- ◆ Wholly owned asset management business
- ◆ \$3.25 billion in AUM
- ◆ Closed a \$468 million CLO fund in May - Catamaran CLO 2014-1 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
- ◆ Second Quarter distribution: \$3 million
- ◆ \$75 million fair value

### Quarterly Distributions from the Asset Manager

		<b>Q1</b>		<b>Q2</b>		<b>Q3</b>		<b>Q4</b>
<b>2012</b>	\$	825,000	\$	1,200,000	\$	925,000	\$	1,750,000
<b>2013</b>	\$	3,000,000	\$	3,300,000	\$	3,325,000	\$	3,125,000
<b>2014</b>	\$	3,000,000	\$	3,000,000				

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# Q & A

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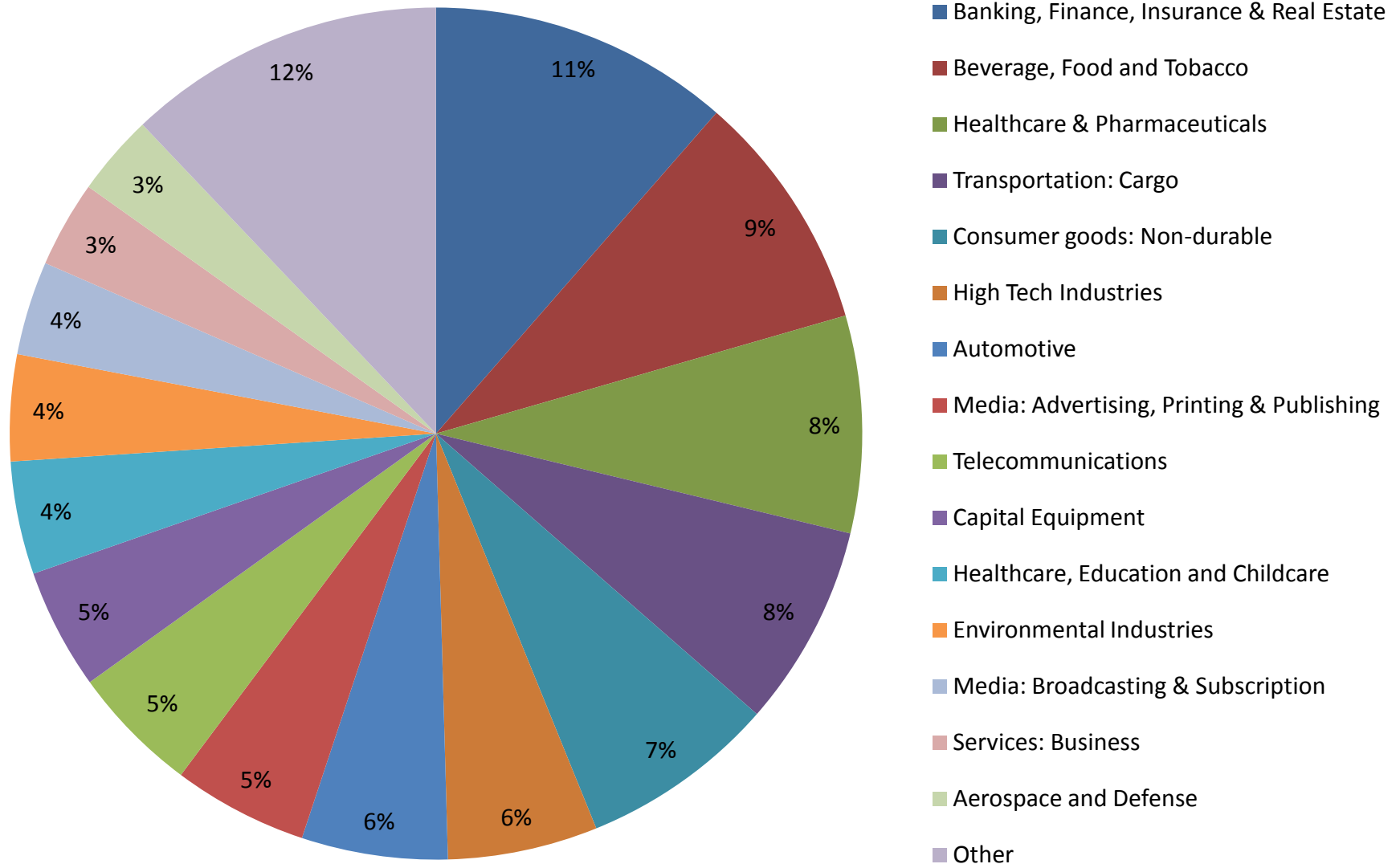
# Appendix – Supplemental Information

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# PORTFOLIO HIGHLIGHTS

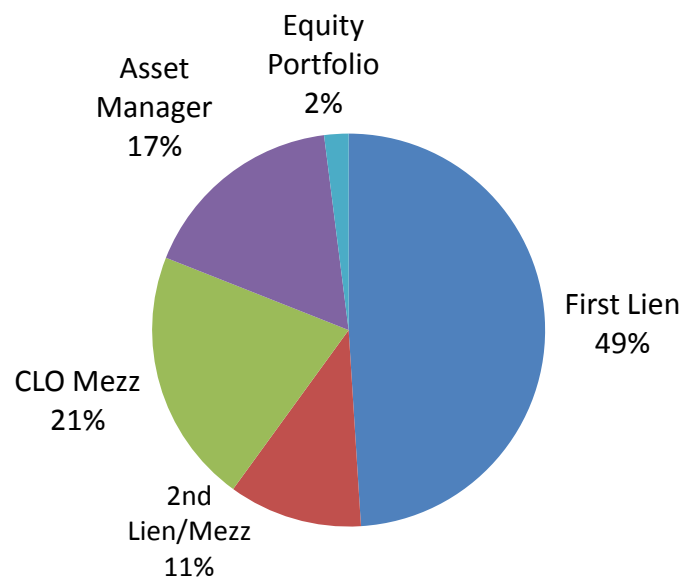
## PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



# INVESTMENT PORTFOLIO

*A balanced investment risk / return profile*

2Q14



<b>Investment</b>	<b>Yield(1)</b>
First lien	7.1%
Second lien / Mezz	10.5%
CLO Securities	21.0%
Asset Manager Affiliates	15.9%
Equity Portfolio	
<b>Approx. Weighted Average Yield on FV</b>	<b>12%</b>

## Portfolio Statistics

### Total Portfolio:

Fair value \$437 million

### Debt and Equity Securities Portfolio:

Fair value \$265 million

Number of issuers 80

Average deal/issuer size \$3.3 million

In default <1%

Fixed rate 12%

Floating rate 85%

Equity (neither fixed/floating) 3%

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

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

# STRONG CREDIT QUALITY

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- ◆ In a portfolio of 87 debt securities, only one was on non-accrual status (representing less than 1% of total investments at fair value)
  - ◆ Suncal and Ginn have been sold
  - ◆ CoActive is no longer on non-accrual status
  - ◆ 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
- ◆ 78% of the debt securities portfolio is secured as of Q2'14

# FINANCIAL HIGHLIGHTS

## NET ASSET VALUE

June 30, 2014	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 5,610,941	\$ 0.17
Investments in debt securities	256,023,078	7.59
Investments in CLO Fund securities	91,730,898	2.72
Investments in equity securities	8,758,971	0.26
Investments in Asset Manager Affiliates	<u>75,302,000</u>	<u>2.23</u>
Total Investments	<u>437,425,888</u>	<u>12.79</u>
Cash	7,088,549	0.21
Other assets	<u>14,056,811</u>	<u>0.42</u>
Total assets	\$ <u>458,571,248</u>	\$ <u>13.6</u>
Borrowings	\$ 192,810,861	\$ 5.72
Other Liabilities	<u>7,246,332</u>	<u>0.21</u>
Total Liabilities	<u>200,057,193</u>	<u>5.93</u>
<b>NET ASSET VALUE</b>	<b>\$ <u>258,514,055</u></b>	<b>\$ <u>7.67</u></b>

## INVESTMENT PORTFOLIO

June 30, 2014	Cost	Fair Value
Money Market Accounts	\$ 5,610,941	\$ 5,610,941
Senior Secured Loan	159,600,198	153,304,076
Junior Secured Loan	47,500,076	45,264,099
Senior Unsecured Loan	27,013,567	27,013,567
First Lien Bond	2,952,225	2,398,500
Senior Subordinated Bond	4,272,110	4,293,098
Senior Unsecured Bond	10,946,659	11,433,738
Senior Secured Bond	1,517,375	1,605,000
CLO Fund Securities	113,748,903	91,730,898
Equity Securities	16,289,233	8,758,971
Preferred	10,104,717	10,711,000
Asset Manager Affiliates	<u>83,924,720</u>	<u>75,302,000</u>
<b>Total Assets</b>	<b>\$ <u>483,480,724</u></b>	<b>\$ <u>437,425,888</u></b>