



**Third Quarter 2015 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.

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.

# Q3 2015 HIGHLIGHTS

## Components of Distributable Resources

- ◆ Net Investment Income of \$0.18 per basic share for Q3'15 and \$0.16 for Q3'14
- ◆ Taxable Distributable Income of \$0.21 per basic share for Q3'15 and \$0.20 for Q3'14
- ◆ Cash distributed by Asset Manager Affiliates in excess of their taxable earnings was \$0.02 per basic share for Q3'15 and \$0.05 for Q3'14

## Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~54% of total company Investment Revenue vs. ~53% in Q2'15 and ~50% in Q3'14
- ◆ Weighted average yield on debt securities portfolio was 7.4% in Q3, up from 7.3% in Q2'15 and down from 7.8% in Q3'14

## Asset Manager

- ◆ Distributed \$2.3 million in Q3'15, in line with \$2.3 million in Q2'15
- ◆ Continue to warehouse for a new CLO fund

## Credit Performance

- ◆ Portfolio is well diversified across 27 different industries and 92 different entities with an average debt investment of approximately \$3.2 million
- ◆ Only 1 issuer is on non-accrual status representing <1% of loans

## Net Asset Value

- ◆ Net Asset Value of \$6.33, down 9.0% from \$6.96 in Q2'15

## Distributions

- ◆ \$0.21 distribution declared for Q3'15

# ORIGINATIONS AND REPAYMENTS

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- ◆ Invested \$44 million in new originations during the Third quarter
  - ◆ Funded out of repayments and asset sales
  - ◆ Comparable yield to the assets they replaced
- ◆ Weighted average yield on our debt securities portfolio was 7.4% in Q3, up from 7.3% in Q2'15
- ◆ Opportunities exist to rotate out of lower yielding placeholder loans into higher yielding investments

# COMPONENTS OF DISTRIBUTABLE RESOURCES

*Delivering balanced sources of distributable cash flow*

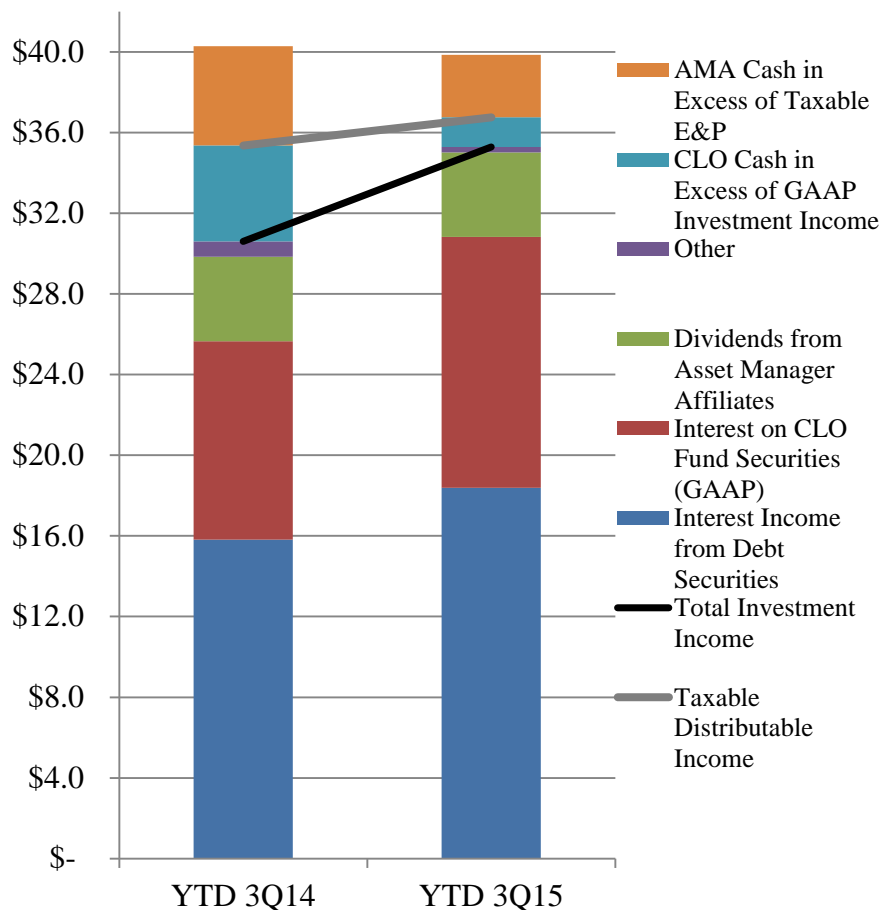
Shareholder Distributions per share	Nine months ended	
	3Q15 <sup>1</sup>	3Q14 <sup>1</sup>
Net investment income	\$ 0.51	0.44
Tax Accounting Difference on CLO Equity Investments	0.04	0.14
Other Tax Accounting Differences	<u>0.02</u>	<u>0.01</u>
<b>Taxable distributable income</b>	<b>0.57</b>	<b>0.59</b>
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings <sup>3</sup>	<u>0.08</u>	<u>0.15</u>
<b>Available for distribution<sup>2</sup></b>	<b>0.66</b>	<b>0.74</b>
<b>Distributed</b>	<b>\$ <u>0.63</u></b>	<b><u>0.75</u></b>
<b>Difference</b>	<b>\$ <u>0.03</u></b>	<b><u>(0.01)</u></b>

<sup>1</sup> Table may not foot due to rounding.

<sup>2</sup> 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 \$0.08 and \$0.15 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 nine months ended September 30, 2015 and 2014, respectively. The Company’s management believes that the presentation of the non-GAAP “Available for distribution” financial measure provides useful information to investors.

<sup>3</sup> Tax attributes of interim distributions are estimated using full year projected results. Final tax attributes are determined on a full calendar-year basis at year end.

\$ in millions



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# Q & A

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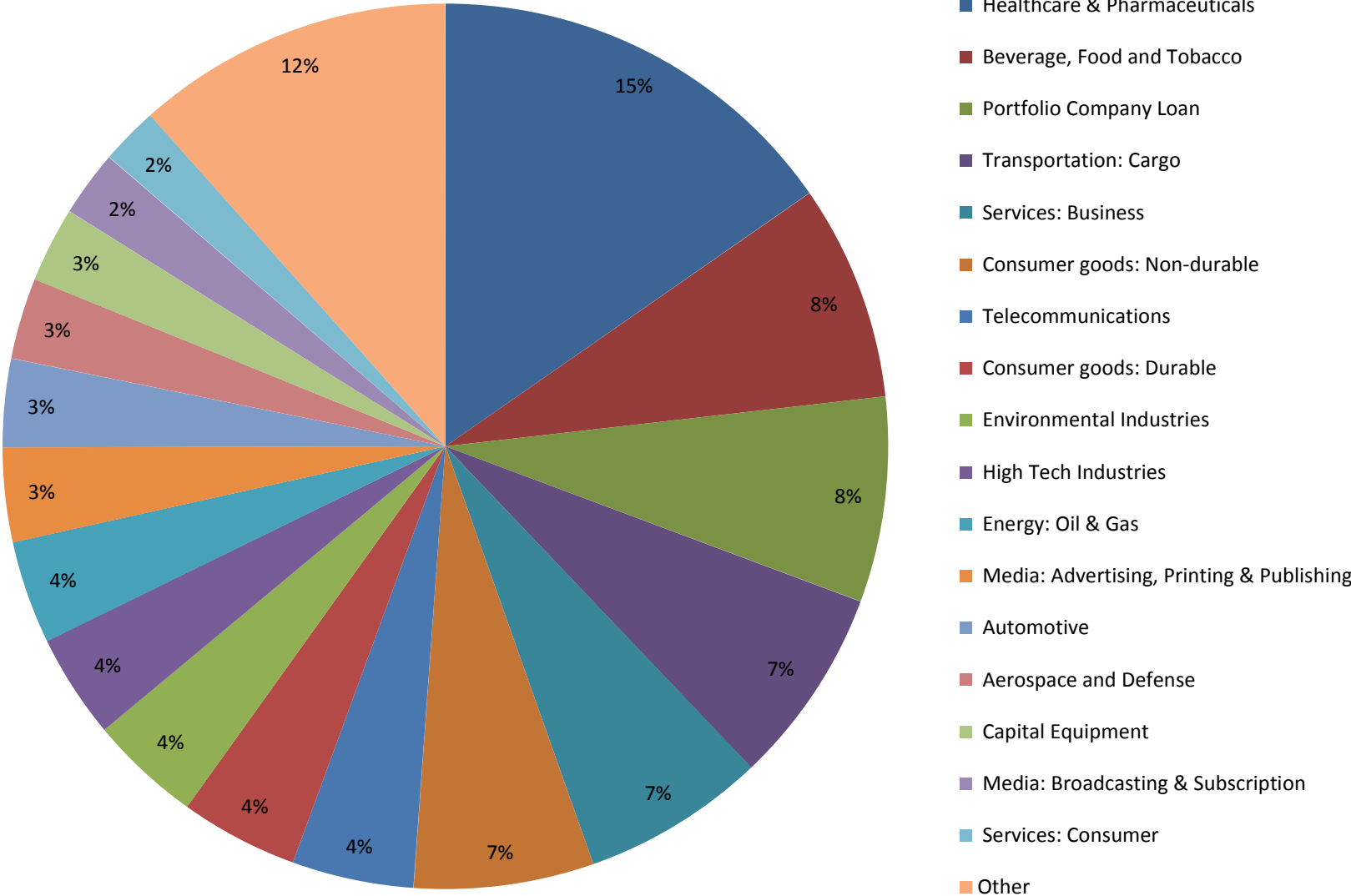
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# Appendix – Supplemental Information

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# PORTFOLIO HIGHLIGHTS

## PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION





# STRONG CREDIT QUALITY

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- ◆ In a portfolio of debt securities, only one was on non-accrual status (representing less than 1% of total investments at fair value)
  - ◆ 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
- ◆ 83% of the debt securities portfolio is secured as of Q3'15

# FINANCIAL HIGHLIGHTS

## NET ASSET VALUE

September 30, 2015	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 3,345,723	\$ 0.09
Investments in debt securities	296,284,441	8.00
Investments in CLO Fund securities	66,720,782	1.80
Investments in equity securities	6,936,653	0.19
Investments in Asset Manager Affiliates	<u>64,121,000</u>	<u>1.73</u>
Total Investments	437,408,599	11.81
Cash	1,566,274	0.04
Other assets	<u>17,933,929</u>	<u>0.48</u>
Total assets	\$ <u>456,908,802</u>	\$ <u>12.33</u>
Borrowings	\$ 219,336,685	\$ 5.92
Other Liabilities	<u>2,972,235</u>	<u>0.08</u>
Total Liabilities	<u>222,308,920</u>	<u>6.00</u>
<b>NET ASSET VALUE</b>	\$ <b><u>234,599,882</u></b>	\$ <b><u>6.33</u></b>

## INVESTMENT PORTFOLIO

September 30, 2015	Cost	Fair Value
Money Market Accounts	\$ 3,345,723	\$ 3,345,723
Senior Secured Loan	211,441,566	204,189,144
Junior Secured Loan	41,204,786	39,795,980
Senior Unsecured Loan	23,000,000	23,000,000
First Lien Bond	2,976,651	2,317,500
Senior Subordinated Bond	4,420,467	4,221,543
Senior Unsecured Bond	11,698,340	10,597,995
Senior Secured Bond	1,511,590	1,481,250
CLO Fund Securities	86,288,448	66,720,782
Equity Securities	8,514,487	6,936,653
Preferred Securities	10,359,873	10,681,029
Asset Manager Affiliates	57,189,159	64,121,000
<b>Total Assets</b>	\$ <b><u>461,951,090</u></b>	\$ <b><u>437,408,599</u></b>