Kennedy-Wilson Holdings, Inc.
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-33824

Kennedy-Wilson Holdings, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	26-0508760
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

151 S El Camino Drive
Beverly Hills, CA 90212
(Address of principal executive offices)
Registrant’s telephone number, including area code:
(310) 887-6400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
(See definition of “large accelerated filer, accelerated filer and smaller reporting company” in Rule 12b-2 of the Exchange Act). (Check one):
Large Accelerated Filer x Accelerated Filer o

Non-Accelerated Filer o Smaller Reporting Company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
The number of shares of common stock outstanding as of November 3, 2016 was 113,355,652.

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FORWARD-LOOKING STATEMENTS

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” "may," “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, a intended to identify forward-looking statements. These statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. These risks and uncertainties may include the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2015. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filings with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

Non-GAAP Measures and Certain Definitions

“KWH,” “Kennedy Wilson,” the "Company," "we," "our," or "us" refer to Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries. The consolidated financial statements of the Company include the results of the Company's consolidated subsidiaries (including KWE).

“KWE” refers to Kennedy Wilson Europe Real Estate plc, a London Stock Exchange-listed company that we externally manage through a wholly-owned subsidiary. In our capacity as external manager of KWE, we are entitled to receive certain (i) management fees equal to 1% of KWE’s adjusted net asset value (EPRA NAV), half of which are paid in cash and the remainder of which is paid are KWE shares; and (ii) performance fees, all of which are paid in KWE shares. In accordance with U.S. GAAP, the results of KWE are consolidated in our financial statements. We own an approximately 21.8% equity interest in KWE as of September 30, 2016, and throughout this report, we refer to our pro-rata ownership stake (based on our 21.8% equity interest or weighted-average ownership interest during the period, as applicable) in investments made and held directly by KWE and its subsidiaries.

"KW Group" refers to Kennedy Wilson and its consolidated subsidiaries that we consolidate in our financial statements under U.S. GAAP, including KWE.

"Acquisition-related gains" consist of non-cash gains recognized by the Company or its consolidated subsidiaries upon a GAAP required fair value measurement due to a business combination. These gains are typically recognized when a loan is converted into consolidated real estate owned and the fair value of the underlying real estate at the time of conversion exceeds the basis in the previously held loan. These gains also arise when there is a change of control of an investment. The gain amount is based upon the fair value of the Company’s or its consolidated subsidiaries' equity in the investment in excess of the carrying amount of the equity immediately preceding the change of control.

"Adjusted EBITDA" represents Consolidated EBITDA, as defined below, adjusted to exclude share-based compensation expense for the Company and EBITDA attributable to noncontrolling interests. Our management uses Adjusted EBITDA to analyze our business because it adjusts Consolidated EBITDA for items we believe do not accurately reflect the nature of our business going forward or that relate to non-cash compensation expense or noncontrolling interests. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations. However, Consolidated EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use Consolidated EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of Consolidated EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, Consolidated EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management's discretionary use, as they do not remove all non-cash items (such as acquisition-related gains) or consider certain cash requirements such as tax and debt service payments. The amounts shown for Consolidated EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

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“Adjusted fees’’ refers to Kennedy Wilson’s gross investment management, property services and research fees adjusted to include fees eliminated in consolidation and Kennedy Wilson’s share of fees in unconsolidated service businesses. Our management uses Adjusted fees to analyze our investment management and real estate services business because the measure removes required eliminations under GAAP for properties in which the Company provides services but also has an ownership interest. These eliminations understate the economic value of the investment management, property services and research fees and makes the Company comparable to other real estate companies that provide investment management and real estate services but do not have an ownership interest in the properties they manage. Our management believes that adjusting GAAP fees to reflect these amounts eliminated in consolidation presents a more holistic measure of the scope of our investment management and real estate services business.

"Adjusted Net Asset Value" is calculated by KWE as net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to be realized in a long-term investment property business model such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

"Adjusted Net Income” represents Consolidated Adjusted Net Income as defined below, adjusted to exclude net income attributable to noncontrolling interests, before depreciation and amortization.

"Cap rate” represents the net operating income of an investment for the year preceding its acquisition or disposition, as applicable, divided by the purchase or sale price, as applicable. Cap rates set forth in this presentation only include data from income-producing properties. We calculate cap rates based on information that is supplied to us during the acquisition diligence process. This information is often not audited or reviewed by independent accountants and may be presented in a manner that is different from similar information included in our financial statements prepared in accordance with GAAP. In addition, cap rates represent historical performance and are not a guarantee of future NOI. Properties for which a cap rate is provided may not continue to perform at that cap rate.

"Consolidated Adjusted Net Income” represents net income before depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments and share-based compensation expense.

"Consolidated EBITDA" represents net income before interest expense, our share of interest expense included in income from investments in unconsolidated investments, depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments, loss on early extinguishment of corporate debt and income taxes. We do not adjust Consolidated EBITDA for gains or losses on the extinguishment of mortgage debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers, Consolidated EBITDA is not a recognized term under GAAP, an does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, Consolidated EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not remove all non-cash items (such as acquisition-related gains) or consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of Consolidated EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Our management believes Consolidated EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of Consolidated EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Consolidated EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

"Consolidated investment account" refers to the sum of Kennedy Wilson’s equity in: cash held by consolidated investments, consolidated real estate and acquired in-place leases gross of accumulated depreciation and amortization, net hedge asset or liability, unconsolidated investments, consolidated loans, and net other assets.

"Equity multiple" is calculated by dividing the amount of total distributions received by KW from an investment (including any gains, return of equity invested by KW and promoted interests) by the amount of total contributions invested by KW in such investment. This metric does not take into account management fees, organizational fees, or

other similar expenses, all of which in the aggregate may be substantial and lower the overall return to KW. Equity multiples represent historical performance and are not a guarantee of the future performance of investments.
"Equity partners" refers to non-wholly-owned subsidiaries that we consolidate in our financial statements under U.S. GAAP, including KWE, and third-party equity providers.
"Estimated annualized NOI" is a property-level non-GAAP measure representing the estimated annualized net operating income from each property as of the date shown, inclusive of rent abatements (if applicable). The calculation excludes depreciation and amortization expense, and does not capture the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures, tenant improvements, and leasing commissions necessary to maintain the operating performance of our properties. Any of the enumerated items above could have a material effect on the performance of our properties.

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Estimated annualized NOI is not an indicator of the actual annual net operating income that the Company will or expects to realize in any period. Estimated annualized NOI for properties held by KWE are presented as reported by KWE. Please also see the definition of "Net operating income" below.
"Investment account" refers to the consolidated investment account presented after noncontrolling interest on invested assets gross of accumulated depreciation and amortization.
"Investment Management and Real Estate Services Assets under Management" ("IMRES AUM") generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our IMRES AUM is principally intended to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our IMRES AUM consists of the total estimated fair value of the real estate properties and other real estate related assets either owned by third parties, wholly owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our IMRES AUM. The estimated value of development properties is included at estimated completion cost.
"KW Cap Rate" represents the Cap rate (as defined above) weighted by the Company's ownership interest in the underlying investments. Cap rates set forth in this presentation only includes data from income-producing properties. We calculate cap rates based on information that is supplied to us during the acquisition diligence process. This information is often not audited or reviewed by independent accountants and may be presented in a manner that is different from similar information included in our financial statements prepared in accordance with GAAP. In addition, cap rates represent historical performance and are not a guarantee of future NOI. Properties for which a cap rate is provided may not continue to perform at that cap rate.
"Net operating income" or " NOI" is a non-GAAP measure representing the income produced by a property calculated by deducting operating expenses from operating revenues. Our management uses net operating income to assess and compare the performance of our properties and to estimate their fair value. Net operating income does not include the effects of depreciation or amortization or gains or losses from the sale of properties because the effects of those items do not necessarily represent the actual change in the value of our properties resulting from our value-add initiatives or changing market conditions. Our management believes that net operating income reflects the core revenues and costs of operating our properties and is better suited to evaluate trends in occupancy and lease rates.
"Noncontrolling interests" represents the portion of equity ownership in a consolidated subsidiary not attributable to Kennedy Wilson.
"Operating associates" generally refer to individuals that are employed by or affiliated with third-party consultants, contractors, property managers or other service providers that we manage and oversee on a day-to-day basis with respect to our investments and service businesses.
"Property net operating income" is a non-GAAP measure calculated by deducting rental and hotel operating expenses from rental and hotel revenues.
"Same property" refers to properties in which Kennedy Wilson has an ownership interest during the entire span of both periods being compared. The same property information presented throughout this report is shown on a cash basis and excludes non-recurring expenses. This analysis excludes properties that are either under development or undergoing lease up as part of our asset management strategy.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Kennedy-Wilson Holdings, Inc.
Consolidated Balance Sheets
(Unaudited)

(Dollars in millions, except share and per share amounts)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 282.7	$ 182.6
Cash held by consolidated investments	692.5	549.0
Accounts receivable (including $29.7 and $22.9 of related party)	64.1	54.7
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	6,129.1	5,797.5
Loan purchases and originations (including $0 and $40.9 of related party)	109.2	299.7
Unconsolidated investments (including $227.0 and $223.8 at fair value)	432.9	444.9
Other assets	256.3	267.2
Total assets [(1)]	$ 7,966.8	$ 7,595.6
Liabilities and equity		
Liabilities		
Accounts payable	$ 14.6	$ 22.2
Accrued expenses and other liabilities	440.1	392.0
Investment debt	4,047.6	3,627.5
Senior notes payable	936.5	688.8
Total liabilities [(1)]	5,438.8	4,730.5
Equity		
Cumulative preferred stock, $0.0001 par value per share: 1,000,000 shares authorized $1,000 per share liquidation preference; 32,550 shares of Series B preferred stock issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Common stock, 113,318,152 and 114,533,581 shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	1,231.6	1,225.7
Accumulated deficit	(106.7)	(44.2)
Accumulated other comprehensive loss	(61.7)	(47.7)
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	1,063.2	1,133.8
Noncontrolling interests	1,464.8	1,731.3
Total equity	2,528.0	2,865.1
Total liabilities and equity	$ 7,966.8	$ 7,595.6

[(1)] The assets and liabilities as of September 30, 2016 include $4,913.0 million (including cash held by consolidated investments of $647.5 million and real estate and acquired in place lease values, net of accumulated depreciation and amortization of $3,914.1 million) and $2,877.6 million (including investment debt of $2,566.7 million), respectively, from consolidated variable interest entities ("VIEs"). The assets and liabilities as of December 31, 2015 include $4,973.9 million (including cash held by consolidated investments of $507.8 million and real estate and acquired in place lease values, net of accumulated depreciation and amortization of $3,955.8 million) and $2,655.1 million (including investment debt of $2,414.0 million), respectively, from VIEs. These assets can only be used to settle obligations of the consolidated VIEs, and the liabilities do not have recourse to the Company.

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except share and per share amounts)	2016	2015	2016	2015
Revenue				
Rental	$122.9	$ 106.6	$363.1	$ 295.3
Hotel	31.4	31.3	87.3	78.0
Sale of real estate	2.5	1.6	16.7	3.7
Investment management, property services and research fees (includes $5.4, $8.0, $22.9 and $26.7 of related party fees)	14.1	15.1	46.7	47.0
Loan purchases, loan originations and other	3.4	4.6	9.2	13.4
Total revenue	174.3	159.2	523.0	437.4
Operating expenses				
Rental operating	34.6	29.4	98.4	78.5
Hotel operating	23.8	22.7	71.9	66.1
Cost of real estate sold	2.5	1.1	13.1	2.6
Commission and marketing	2.5	1.2	6.0	4.4
Compensation and related	42.2	35.2	128.4	105.4
General and administrative	10.5	10.0	32.5	31.3
Depreciation and amortization	50.0	44.9	147.3	119.5
Total operating expenses	166.1	144.5	497.6	407.8
Income from unconsolidated investments	31.7	15.9	59.3	44.1
Operating income	39.9	30.6	84.7	73.7
Non-operating income (expense)				
Gain on sale of real estate	21.5	4.6	76.0	44.7
Acquisition-related gains	7.6	29.9	16.2	87.2
Acquisition-related expenses	(1.0)	(8.2)	(9.4)	(28.3)
Interest expense-investment	(36.8)	(31.3)	(102.9)	(77.9)
Interest expense-corporate	(14.5)	(11.7)	(38.8)	(35.5)
Other income	1.9	(4.3)	7.6	(0.7)
Income before provision for income taxes	18.6	9.6	33.4	63.2
Provision for income taxes	(5.5)	(4.5)	(2.1)	(32.5)
Net income	13.1	5.1	31.3	30.7
Net (income) loss attributable to the noncontrolling interests	(15.1)	10.3	(41.3)	15.0
Preferred dividends and accretion of preferred stock issuance costs	(0.5)	(0.5)	(1.6)	(3.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2.5)	$ 14.9	$(11.6)	$ 42.6
Basic (loss) income per share				
(Loss) income per basic	$(0.03)	$ 0.13	$(0.12)	$ 0.40
Weighted average shares outstanding for basic	108,634,228	107,433,124	108,966,540	101,361,606
Diluted (loss) income per share				
(Loss) income per diluted	$(0.03)	$ 0.13	$(0.12)	$ 0.40
Weighted average shares outstanding for diluted	108,634,228	107,433,124	108,966,540	105,517,172
Dividends declared per common share	$0.14	$ 0.12	$0.42	$ 0.36

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)

(Dollars in millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net income	$13.1	$5.1	$31.3	$30.7
Other comprehensive (loss) income, net of tax:				
Unrealized foreign currency translation loss	(1.1)	(51.8)	(61.7)	(88.0)
Unrealized gain on marketable securities	0.1	—	0.2	0.1
Amounts reclassified out of AOCI during the period	0.7	(0.3)	3.4	9.7
Unrealized currency derivative contracts (loss) gain	(35.6)	(8.3)	(125.0)	6.7
Total other comprehensive loss for the period	(35.9)	(60.4)	(183.1)	(71.5)
Comprehensive loss	(22.8)	(55.3)	(151.8)	(40.8)
Comprehensive gain (loss) attributable to noncontrolling interests[1]	15.7	67.9	127.8	78.3
Comprehensive (loss) gain attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(7.1)	$12.6	$(24.0)	$37.5

[1] Comprehensive gain (loss) attributable to noncontrolling interest includes allocation of unrealized currency translation losses and currency derivative contracts.
See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statement of Equity
(Unaudited)

(Dollars in millions, except share amounts)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at December 31, 2015	32,550	$ —	114,533,581	$ —	$ 1,225.7	$ (44.2)	$ (47.7)	$ 1,731.3	$ 2,865.1
Shares forfeited	—	—	(31,900)	—	—	—	—	—	—
Restricted stock grants (RSG)	—	—	964,250	—	—	—	—	—	—
Shares retired due to RSG vesting	—	—	(693,942)	—	(14.6)	—	—	—	(14.6)
Shares retired due to common stock repurchase program	—	—	(1,453,837)	—	(25.9)	(2.8)	—	—	(28.7)
Stock based compensation	—	—	—	—	47.8	—	—	—	47.8
Other comprehensive income (loss):									
Unrealized foreign currency translation loss, net of tax	—	—	—	—	—	—	(7.1)	(50.8)	(57.9)
Unrealized foreign currency derivative contract loss, net of tax	—	—	—	—	—	—	(7.1)	(118.3)	(125.4)
Unrealized gains on marketable securities, net of tax	—	—	—	—	—	—	0.2	—	0.2
Preferred stock dividends	—	—	—	—	—	(1.6)	—	—	(1.6)
Common stock dividends	—	—	—	—	—	(48.1)	—	—	(48.1)
Net (loss) income	—	—	—	—	—	(10.0)		41.3	31.3
Acquisition of Kennedy Wilson Europe (KWE) shares from noncontrolling interest holders	—	—	—	—	—	—	—	(70.6)	(70.6)
Acquisition of noncontrolling interests from consolidated entity	—	—	—	—	(1.4)	—	—	1.4	—
Contributions from noncontrolling interests, excluding KWE	—	—	—	—	—	—	—	25.3	25.3
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(94.8)	(94.8)
	32,550	$ —	113,318,152	$ —	$ 1,231.6	$ (106.7)	$ (61.7)	$ 1,464.8	$ 2,528.0

Balance at September 30,
2016

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$31.3	$30.7
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Net gain from sale of real estate	(79.6)	(43.0)
Acquisition-related gain	(16.2)	(87.2)
Depreciation and amortization	147.3	119.5
(Provision for) Benefit from deferred income taxes	(2.3)	2.1
Amortization of deferred loan costs	9.8	5.2
Amortization of discount and accretion of premium on issuance of the senior notes and investment debt	(1.0)	(8.3)
Unrealized net (gain) loss on derivatives	(6.2)	3.8
Income from unconsolidated investments and loan purchases and originations	(67.7)	(50.3)
Operating distributions from unconsolidated investments	53.9	50.8
Operating distributions from loan purchases and originations	13.1	7.0
Share-based compensation	47.8	19.6
Change in assets and liabilities:		
Accounts receivable	(14.5)	0.3
Other assets	(19.9)	(0.2)
Accounts payable, accrued expenses and other liabilities	(17.4)	64.2
Net cash provided by operating activities	78.4	114.2
Cash flows from investing activities:		
Additions to loans	(16.1)	(233.9)
Collections of loans	145.4	15.3
Net proceeds from sale of real estate	266.0	523.4
Purchases of and additions to real estate	(748.4)	(1,534.0)
Proceeds from settlement of foreign derivative contracts	43.3	36.2
Purchases of foreign derivative contracts	(5.8)	(5.2)
Investment in marketable securities	(0.9)	—
Proceeds from sale of marketable securities	—	6.2
Distributions from unconsolidated investments	63.4	92.0
Contributions to unconsolidated investments	(70.3)	(155.2)
Net cash used in investing activities	(323.4)	(1,255.2)
Cash flows from financing activities:		
Borrowings under senior notes payable	250.0	—
Borrowings under line of credit	125.0	75.0
Repayment of line of credit	(125.0)	(200.0)
Borrowings under investment debt	933.4	1,632.2
Repayment of investment debt	(407.1)	(620.2)
Debt issue costs	(9.4)	(15.0)
Issuance of common stock	—	215.0
Repurchase and retirement of common stock	(43.4)	(11.4)
Dividends paid	(47.5)	(37.7)
Acquisition of KWE shares from noncontrolling interest holders	(70.6)	(59.5)

Contributions from noncontrolling interests, excluding KWE	25.3	6.5
Distributions to noncontrolling interests	(94.8)	(205.8)
Net cash provided by financing activities	535.9	779.1
Effect of currency exchange rate changes on cash and cash equivalents	(47.3)	(34.2)
Net change in cash and cash equivalents[1]	243.6	(396.1)
Cash and cash equivalents, beginning of period	731.6	937.7
Cash and cash equivalents, end of period	$975.2	$541.6

[1] See discussion of non-cash effects in notes to statement of cash flows.

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

Supplemental cash flow information:

	Nine Months Ended September 30,	
(Dollars in millions)	2016	2015
Cash paid for:		
Interest[1]	$ 103.4	$ 83.0
Income taxes[2]	10.4	3.0

[1] $35.9 million and $25.6 million attributable to noncontrolling interests
[2] $8.2 million and $2.5 million attributable to noncontrolling interests

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
(Dollars in millions)	2016	2015
Accrued capital expenditures	$ 11.6	$ 6.9
Dividends declared but not paid on common stock	15.9	13.5

On May 19, 2015, all 100,000 outstanding shares of the Series A Preferred Stock were mandatorily converted into an aggregate of 8,554,948 shares of the Company's common stock, $0.0001 par value per share, based on a conversion price of approximately $11.69 per share of Common Stock.

During the nine months ended September 30, 2016, the Company acquired additional equity interests in a residential development project and a retail property in the Western United States that were previously unconsolidated. During the nine months ended September 30, 2015, KWE foreclosed on two notes secured by office buildings located in Dublin, Ireland and the Company acquired additional equity interests in a multifamily and commercial property in the Western United States that were previously unconsolidated. The assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC Topic 805 Business Combinations. As the fair value of the KW Group's interests in these properties were in excess of their carrying value of their ownership interest, KW Group recorded acquisition-related gains of $16.2 million and $57.3 million, during the nine months ended September 30, 2016 and 2015, respectively. See Note 4 for more detail.

See accompanying notes to consolidated financial statements.

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NOTE 1—BASIS OF PRESENTATION

KW Group's unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures are adequate to make their presentation not misleading. In the Company's opinion, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2016 and 2015 have been included. The results of operations for these periods are not necessarily indicative of results that might be expected for the full year ending December 31, 2016. For further information, your attention is directed to the footnote disclosures found in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Throughout this unaudited interim consolidated financial statements "KW Group," is referenced which is defined as the Company and its subsidiaries that are consolidated in its financial statements under U.S. GAAP (including KWE as defined below). All significant intercompany balances and transactions have been eliminated in consolidation. "KW," "KWH," "Kennedy Wilson," the "Company," "we," "our," or "us" are also referred to which are defined as Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

Kennedy Wilson Europe Real Estate Plc ("KWE," LSE: KWE) is a Jersey investment company formed to invest in real estate and real estate-related assets in Europe and is listed on the London Stock Exchange. KWE is externally managed by a wholly-owned subsidiary of Kennedy Wilson incorporated in Jersey pursuant to an investment management agreement. Due to the terms provided in the investment management agreement and Kennedy Wilson's equity ownership interest in KWE, pursuant to the guidance set forth in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810 - Consolidation ("Subtopic 810"), the Company is required to consolidate KWE's results in its consolidated financial statements. As of September 30, 2016, the Company invested $486.7 million and owned approximately 21.8% of KWE's total issued share capital as of September 30, 2016.

In addition to its investment in KWE, prior to KWE's formation, the Company (along with its equity partners) directly invested in 17 properties and a servicing platform in Europe which had total assets of $840.6 million included in the Company's consolidated balance sheet as of September 30, 2016. Kennedy Wilson's total equity in these investments was $417.7 million and the Company's weighted average ownership in these investments was 57% as of September 30, 2016.

In addition, throughout these unaudited interim consolidated financial statements, "equity partners" is referred to which is defined as the non-wholly owned subsidiaries that are consolidated in the Company's financial statements under U.S. GAAP, including KWE, and third-party equity providers.

Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities ("VIEs") as defined in the ASC Subtopic 810-10, as amended by Accounting Standards Update ("ASU") 2015-02, and to assess whether it is the primary beneficiary of such entities. If the determination is made that Kennedy Wilson is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with the ASC Subtopic 810-10.

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. See comment in Note 4 about the preliminary nature of the estimates used in relation to acquisitions.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

REVENUE RECOGNITION—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of the Company's real estate funds and loan pool participations based on the cumulative performance of the funds and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, the Company calculates the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general

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partner or asset manager or (b) negative performance that would cause the amount due to the Company to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. A majority of the performance fees are recognized in investment management revenue in the Company's consolidated statements of operations. Total performance fees recognized from inception through September 30, 2016 that may be reversed in future periods if there is negative fund performance totaled $24.6 million. Performance fees recognized during the nine months ended September 30, 2016 and September 30, 2015 were $10.6 million and $7.1 million, respectively, and the amounts that have not been received are included in accounts receivable - related parties in the accompanying consolidated balance sheet.

REAL ESTATE ACQUISITIONS—The purchase price of acquired properties is recorded to land, buildings and building improvements and intangible lease value (value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values in accordance with ASC Subtopic 805-10, Business Combinations. Acquisition-related costs are expensed as incurred. The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests.

The valuations of real estate are based on management estimates of the real estate assets using income and market approaches. The indebtedness securing the real estate is valued, in part, based on third party valuations and management estimates also using an income approach.

NONCONTROLLING INTERESTS—Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly to the Company. These amounts are reported within equity as a separate component in accordance with ASC Subtopic 810-10, Noncontrolling Interests in Consolidated Financial Statements. Revenues, expenses, gains, losses, net income (loss), and other comprehensive income (loss) are reported in the consolidated statements of operations at the consolidated amounts and net income (loss) and comprehensive income (loss) attributable to noncontrolling interests are separately stated.

The largest component of noncontrolling interest relates to the Company's investment in KWE, which had a corresponding noncontrolling interest balance of $1.3 billion as of September 30, 2016.

FOREIGN CURRENCIES—The financial statements of KW Group's subsidiaries located outside the United States are measured using the local currency as this is their functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The foreign currencies include the euro, the British pound sterling, and the Japanese yen. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in the consolidated statement of equity as a component of accumulated other comprehensive income.

Investment level debt is generally incurred in local currencies. Fluctuations in foreign exchanges rates may have a significant impact on the results of our operations. In order to manage the effect of these fluctuations, the Company enters into hedging transactions, in the form of currency derivative contracts, that are designed to reduce its book equity exposure to foreign currencies. See note 6 for a complete discussion on currency derivative contracts.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES—All derivative instruments are recognized as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value of cash flow hedges or net investment hedges are recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in the item being hedged until the hedged item affects earnings. Changes in fair value for fair value hedges are recognized in earnings.

Fluctuations in foreign exchanges rates may have a significant impact on the Company's results of operations. In order to manage the effect of these fluctuations, the Company generally hedges its book equity exposure to changes in foreign currency rates through currency derivative contracts. The Company typically hedges 50%-100% of book equity exposure against these foreign currencies.

INCOME TAXES—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC Subtopic 740-10, Accounting for

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Uncertainty in Income Taxes, the effect of income tax positions is recognized only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

RECENT ACCOUNTING PRONOUNCEMENTS—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, a five step model to recognize revenue from customer contracts in an effort to increase consistency and comparability throughout global capital markets and across industries. The model will identify the contract, identify any separate performance obligations in the contract, determine the transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. The new standard will replace most existing revenue recognition in GAAP when it becomes effective for the Company on January 1, 2018. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis and was adopted by the KW Group on January 1, 2016. The new standard makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. The adoption of ASU 2015-02 did not result in any changes to the Company's conclusions regarding the consolidation of investments under the new standard. The Company identified several entities, already consolidated under the previous standard but not considered VIEs, which under the new standard, are considered VIEs and will continue to be consolidated. KWE was determined to be a VIE under the new standard as were eight other less significant consolidated investments, all with the same partner and sharing similar legal structures. However because the Company's analysis concludes that the Company is the primary beneficiary of those entities, they continue to be consolidated.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, to reduce the complexity of financial statement presentation pursuant to which debt issuance costs will be presented as a direct deduction from the carrying amount of debt liabilities as opposed to a deferred charge recognized as an asset. ASU 2015-03 is required to be adopted for fiscal years beginning after December 15, 2015. ASU 2015-03 became effective for KW Group beginning January 1, 2016. The adoption of this standard did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is required to be adopted for fiscal years beginning after December 15, 2018. Because the Company's existing operating lease commitments are not material and the accounting for leases by the lessor is substantially unchanged, the Company does not expect the ASU to have a significant impact on its results of operations or financial position.

The FASB did not issue any other ASUs during the first nine months of 2016 that the Company expects to be applicable and have a material impact on the Company's financial position or results of operations.

RECLASSIFICATIONS—Certain balances included in prior year's financial statements have been reclassified to conform to the current year's presentation.

NOTE 3—LOAN PURCHASES AND ORIGINATIONS

KW Group's investment in loan purchases and originations was $109.2 million and $299.7 million at September 30, 2016 and December 31, 2015, respectively.

During the first quarter of 2016, KWE sold a tranche of five loans secured by five assets in the United Kingdom, which had a carrying value of $138.5 million, recognizing a gain of $6.9 million. Additionally, during the first quarter of 2016, KWH originated a loan secured by a beach-front hotel located in Waimea, Hawaii for $4.5 million.

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During the second quarter of 2016, a loan held by KWH and secured by a Class A office building in Burbank, CA of approximately $4.9 million was collected in full.

During the third quarter of 2016, a subsidiary of KWH converted a related party loan in an unconsolidated investment in a development project in Kona, Hawaii that had a carrying value of $46.3 million. The Company also bought out equity partners and consolidated the property during the quarter. See Note 4 for more detail.

KW Group recognized interest income on loans of $3.4 million and $9.2 million during the three and nine months ended September 30, 2016, respectively, and $4.6 million and $13.4 million during the three and nine months ended September 30, 2015, respectively.

NOTE 4—REAL ESTATE AND IN-PLACE LEASE VALUE

The following table summarizes KW Group's investment in consolidated real estate properties at September 30, 2016 and December 31, 2015:

(Dollars in millions)	September 30, 2016	December 31, 2015
Land	$1,548.8	$1,471.5
Buildings	4,190.5	3,905.5
Building improvements	330.2	247.2
In-place lease values	415.9	421.8
	6,485.4	6,046.0
Less accumulated depreciation and amortization	(356.3)	(248.5)
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	$6,129.1	$5,797.5

Real property, including land, buildings, and building improvements, are included in real estate and are generally stated at cost. Buildings and building improvements are depreciated on a straight-line method over their estimated lives not to exceed 40 years. Acquired in-place lease values are recorded at their estimated fair value and depreciated over their respective weighted-average lease term which was 10.3 years at September 30, 2016.

Consolidated Acquisitions

The purchase of property is recorded to land, buildings, building improvements, and intangible lease value (including the value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values. The purchase price generally approximates the fair value of the properties as acquisitions are generally transacted with third-party willing sellers.

During the nine months ended September 30, 2016, KW Group acquired the following consolidated properties:

(Dollars in millions)		Preliminary Purchase Price Allocation at Acquisition[1]					
Location	Description	Land	Building	Acquired in place lease values[2]	Investment debt	NCI[3]	KWH Shareholders' Equity
Western U.S.	Two retail centers, five multifamily and two residential properties[5]	$114.1	$271.3	$ 8.7	$ 231.3	$2.0	$ 160.8
United Kingdom	Portfolio of 10 office properties and one commercial property	39.0	79.2	16.6	—	106.2	28.6
Ireland		25.3	84.9	5.8	—	91.6	24.4

	Three commercial properties and one development property [4]						
Spain	One development project and one supermarket[4]	1.9	17.1	0.3	—	15.3	4.0
		$180.3	$452.5	$ 31.4	$ 231.3	$215.1	$ 217.8

[1] Excludes acquisition expenses and net other assets. The purchase price allocations for properties acquired during the nine months ended September 30, 2016 are based on preliminary measurements of fair value that are subject to change. These allocations represent the Company's current best estimates of fair value.
[2] Includes above and below market leases in this table. Above and below market leases are part of other assets and accrued expenses and other liabilities.

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(3) Noncontrolling interest amounts associated with acquisition.
(4) This portfolio of properties was directly acquired and is held by KWE. Kennedy Wilson owns approximately 21.8% of the total issued share capital of KWE as of September 30, 2016.
(5) During the nine months ended September 30, 2016, a property included within this group was accounted for under the equity method. KW Group purchased the equity partners' interests and consolidated the property resulting in acquisition-related gains of $8.6 million. Additionally, KW Group purchased equity partners' interests and consolidated a development project in Kona, HI that was previously accounted for as an equity method investment resulting in acquisition related gains of $7.6 million.

Gains on real estate

During the nine months ended September 30, 2016, KW Group recognized the following gains on sale of real estate:

(Dollars in millions)		Gain on sale of real estate		
	Description	Consolidated	NCI	Net of NCI
KW	One commercial property in each Japan, United Kingdom and Ireland, one condo unit, a vacant lot and a parcel of land in the Western U.S.	$29.0	$11.9	$17.1
KWE	30 commercial properties in the United Kingdom	50.6	40.4	10.2
KW Group		$79.6	$52.3	$27.3

Guarantees

Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets. As of September 30, 2016, the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately $65.4 million which is approximately 2% of investment level debt of Kennedy Wilson and its equity partners. The guarantees expire through 2026, and Kennedy Wilson’s performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds from the property. Based on the Company's evaluation of guarantees under FASB ASC Subtopic 460-10 Estimated Fair Value of Guarantees, the estimated fair value of guarantees made as of September 30, 2016 and December 31, 2015 were immaterial.

Pro forma results of operations

The results of operations of the assets acquired have been included in our consolidated financial statements since the date of their acquisition. KW Group's unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented.

The pro forma data presented below assumes that the acquisitions during the three and nine months ended September 30, 2016 occurred as of January 1, 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except for per share data)	2016	2015	2016	2015
Pro forma revenues	$176.5	$169.3	$542.1	$467.3
Pro forma income from unconsolidated subsidiaries	31.2	15.9	59.1	44.9
Pro forma net (loss) income (1)	6.8	11.7	28.4	50.4

Pro forma net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders [1]	(8.8)	19.2	(17.3)	55.5
Pro forma net (loss) income per share:				
Basic	$(0.08)	$0.18	$(0.16)	$0.55
Diluted	$(0.08)	$0.18	$(0.16)	$0.53

[1] Excludes nonrecurring gains of $7.6 million and $16.2 million for the three and nine months ended September 30, 2016, respectively.

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NOTE 5—UNCONSOLIDATED INVESTMENTS

Kennedy Wilson has a number of joint venture interests, generally ranging from 5% to 50%, that were formed to acquire, manage, develop, service and/or sell real estate and invest in loan pools and discounted loan portfolios. Kennedy Wilson has significant influence over these entities, but not control, and accordingly, these investments are accounted for under the equity method.

Joint Venture Holdings

The following table details the Company's unconsolidated investments by investment type and geographic location as of September 30, 2016:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$ 147.9	$ 49.9	$ —	$ 180.6	$16.1	$394.5
Japan	7.0	—	—	—	—	7.0
United Kingdom	—	16.1	—	—	—	16.1
Spain	—	—	—	—	15.3	15.3
Total	$ 154.9	$ 66.0	$ —	$ 180.6	$31.4	$432.9

The following table details the Company's unconsolidated investments by investment type and geographic location as of December 31, 2015:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$ 144.8	$ 51.4	$12.2	$ 180.1	$13.2	$401.7
Japan	5.8	—	—	—	—	5.8
United Kingdom	—	23.3	1.3	—	—	24.6
Spain	—	—	—	—	12.8	12.8
Total	$ 150.6	$ 74.7	$13.5	$ 180.1	$26.0	$444.9

Vintage Housing Holdings ("VHH")

During the second quarter of 2015, the Company purchased a noncontrolling interest for $78.7 million in VHH, an existing venture that holds controlling interests in 30 syndicated limited partnerships ("LPs") that own multifamily properties via a traditional low-income tax credit structure in the Western United States. The remaining interest is held by a non-affiliated entity who is appointed as the manager. Neither party controls VHH, and, accordingly, the Company accounts for its investment under the equity method. As of September 30, 2016 and December 31, 2015, the carrying value in VHH was $80.5 million and $84.3 million, respectively.

The LPs generate cash flow through their controlling interests in entities owning multifamily housing that is predominantly structured with low income housing credits to benefit the LPs. The Company has elected the fair value option on its unconsolidated investment in VHH. During the year, the Company recognized a total of $20.5 million in fair value gains through equity income. The fair values gains were primarily driven by sales to new partnerships and unrealized developer fees. Since the investment is accounted for under fair value, operating distributions are recorded as equity income. See Note 6 for additional details. The Company has recognized $4.7 million in equity income related to operating distributions received during the year.

VHH is KW Group's largest joint venture investment; there were no other investments that represented more than 10% of the investment in joint ventures balance as of September 30, 2016 or December 31, 2015.

Contributions to Joint Ventures

During the nine months ended September 30, 2016, Kennedy Wilson contributed $1.0 million to a new joint venture. Kennedy Wilson contributed $69.3 million to existing joint ventures during the nine months ended September 30, 2016 to fund the Company's share of development projects, capital expenditures and working capital needs.

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Distributions from Joint Ventures and Loan Pool Participations

During the nine months ended September 30, 2016, Kennedy Wilson received $117.3 million in operating and investing distributions from its joint ventures and loan pool participations. Operating distributions resulted from operating cash flow generated by the joint venture investments. Investing distributions resulted from the refinancing of property level debt and asset sales.

The following table details cash distributions by investment type and geographic location for the nine months ended September 30, 2016:

	Multifamily		Commercial		Loan Pools		Residential and Other		Total	
(Dollars in millions)	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	$44.5	$ 43.9	$ 8.8	$ 13.5	$ —	$ —	$ 0.5	$ 5.3	$53.8	$ 62.7
United Kingdom	—	—	—	—	—	0.7	—	—	—	0.7
Japan	0.1	—	—	—	—	—	—	—	0.1	—
Total	$44.6	$ 43.9	$ 8.8	$ 13.5	$ —	$ 0.7	$ 0.5	$ 5.3	$53.9	$ 63.4

Investing distributions resulted primarily from recapitalizations and the sale of multifamily and commercial properties in the Western United States. Operating distributions resulted from sales distributions in excess of invested basis and operating cash flow generated by the joint venture investments.

Consolidation Considerations

The Company determines the appropriate accounting method with respect to all investments that are not VIEs based on the control-based framework (controlled entities are consolidated) provided by the consolidations guidance in FASB ASC Topic 810. The Company accounts for joint ventures where it is deemed that the Company does not have control through the equity method of accounting while entities the Company controls are consolidated in KW Group's financial statements.

Capital Commitments

As of September 30, 2016, Kennedy Wilson had unfulfilled capital commitments totaling $35.9 million to four of its joint ventures. The Company may be called upon to contribute additional capital to joint ventures in satisfaction of such capital commitment obligations.

NOTE 6—FAIR VALUE MEASUREMENTS AND THE FAIR VALUE OPTION

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of September 30, 2016:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Unconsolidated investments	$ —	$—	$227.0	$227.0
Marketable securities	5.4	—	—	5.4
Currency derivative contracts	—	(75.3)	—	(75.3)
Total	$ 5.4	$(75.3)	$227.0	$157.1

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2015:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Unconsolidated investments	$ —	$ —	$223.8	$223.8

Marketable securities	5.3	—	—	5.3
Currency derivative contracts	—	11.7	—	11.7
Total	$ 5.3	$ 11.7	$223.8	$240.8

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Marketable Securities

Marketable securities include Kennedy Wilson's investment in publicly traded equity securities and fixed income investments. The fixed income portfolio consists mainly of U.S. government and investment grade corporate bonds. The carrying value of marketable securities is a level 1 valuation as the fair value is based off of unadjusted quoted market prices in active markets for identical securities.

The amount above excludes Kennedy Wilson's 29.6 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results in KW Group's consolidated financial statements. Kennedy Wilson's investment in KWE had a market value of approximately $385.0 million (cost basis of $486.7 million) based on a per share price of $13.02 at September 30, 2016. As of September 30, 2016, the Company had hedged 96% of the foreign currency rate risk of its net investment in KWE through using currency forward contracts and options, with a notional amount of £295.2 million.

Fair Value and Fair Value Option - Unconsolidated Investments
Kennedy Wilson records its investments in certain funds it manages and sponsors ("the Funds") based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. Kennedy Wilson’s investment balance in the Funds was $41.2 million and $30.6 million at September 30, 2016 and December 31, 2015, respectively, which is included in unconsolidated investments in the accompanying consolidated balance sheets. As of September 30, 2016, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of $31.6 million.
Kennedy Wilson elected to use the fair value option ("FV Option") for ten unconsolidated investments to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. Kennedy Wilson's investment balance in the FV Option investments was $185.8 million and $193.2 million at September 30, 2016 and December 31, 2015, respectively, which is included in unconsolidated investments in the accompanying balance sheets. Refer to Note 5 for more detail.
In estimating fair value of real estate held by the Funds and the ten FV Option investments, the Company considers significant unobservable inputs such as capitalization and discount rates.
The following table summarizes the Company's investments in unconsolidated investments held at fair value by type:

(Dollars in millions)	September 30, 2016	December 31, 2015
FV Option	$ 185.8	$ 193.2
Funds	41.2	30.6
Total	$ 227.0	$ 223.8

The following table presents changes in Level 3 investments for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Beginning balance	$236.6	$186.6	$223.8	$85.9
Unrealized and realized gains	10.1	11.1	36.2	29.3
Unrealized and realized losses	(0.6)	—	(0.1)	(0.1)
Contributions	10.2	16.5	30.3	107.7

Distributions	(29.2)	(8.1)	(64.0)	(16.4)
Other	(0.1)	—	0.8	(0.3)
Ending balance	$227.0	$206.1	$227.0	$206.1

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Unobservable inputs for real estate
The table below describes the range of unobservable inputs for real estate assets:

	Estimated Rates Used for	
	Capitalization Rates	Discount Rates
Office	4.75% - 9.00%	7.25% - 11.25%
Retail	6.25% - 9.00%	7.50% - 12.75%
Multifamily	4.75% - 7.75%	8.00% - 9.75%
Land and condominium units	n/a	8.00% - 15.00%

In valuing indebtedness the Company considers significant inputs such as the term of the debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used for these types of investments range from 1.34% to 4.60%.
The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision and cannot be substantiated by comparison to quoted prices in active markets. As such, estimated fair value may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including capitalization rates, discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.
Currency derivative contracts
KW Group uses foreign currency derivative contracts such as forward contracts and options to manage its foreign currency risk exposure against the effects of a portion of its certain non-U.S. dollar denominated currency net investments. Foreign currency options are valued using a variant of the Black-Scholes model tailored for currency derivatives and the foreign currency forward contracts are valued based on the difference between the contract rate and the forward rate at maturity of the underlying currency applied to the notional value in the underlying currency discounted at a market rate for similar risks. Although the Company has determined that the majority of the inputs used to value its currency derivative contracts fall within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the currency derivative contracts utilize Level 3 inputs. However, as of September 30, 2016, KW Group assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its derivative positions and determined that the counterparty valuation adjustments are not significant to the overall valuation of its derivative. As a result, the Company has determined that its derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.
Changes in fair value are recorded in other comprehensive income in the accompanying consolidated statements of comprehensive income (loss) as the portion of the currency derivative contracts used to hedge foreign currency exposure of its certain net investments in foreign operations qualifies as a net investment hedge under FASB ASC Topic 815. Ineffective portions of currency derivative contracts and contracts that do not quality for net investment hedges are recognized in the statement of operations within other income.
The fair value of the currency derivative contracts held as of September 30, 2016 and December 31, 2015 are reported in other assets for hedge assets and included in accrued expenses and other liabilities for hedge liabilities on the balance sheet. See note 11 for a complete discussion on other comprehensive income including currency derivative contracts and foreign currency translations.

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The table below details the currency derivative contracts KW Group held as of September 30, 2016 and the activity during the nine months ended September 30, 2016:

(Dollars in millions)		September 30, 2016			Nine Months Ended September 30, 2016		
Currency Hedged	Underlying Currency	Notional	Hedge Asset	Hedge Liability	Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Cash Received (Paid)
Outstanding							
EUR	USD	€ 130.0	$ 0.3	$ (2.7)	$ (1.9)	$ —	$ —
EUR[1]	GBP	€ 360.0	—	(80.2)	(89.2)	—	—
EUR[1][2]	GBP		—	—	(59.7)	—	—
GBP	USD	£295.2	8.2	—	2.5	—	(5.8)
Yen	USD	¥ 757.0	—	(1.0)	(0.8)	—	—
Total Outstanding			8.5	(83.9)	(149.1)	—	(5.8)
Settled							
EUR[3]	USD		—	—	(0.7)	0.7	—
GBP	USD		—	—	19.7	7.1	43.3
Total Settled			—	—	19.0	7.8	43.3
Total			8.5	(83.9)	(130.1)	7.8	37.5
Noncontrolling interests			—	62.8	118.3	—	—
Total - Kennedy Wilson share			$ 8.5	$ (21.1)	$ (11.8)	$ 7.8	$ 37.5

[1] Hedge is held by KWE on its wholly-owned subsidiaries.
[2] Relates to KWE's Euro Medium Term Note. See discussion in Note 8.
[3] Underlying investment was sold by KW Group. Historical amounts within other comprehensive income were reclassified to the statement of operations at time of sale.

The gains recognized through other comprehensive income will remain in accumulated other comprehensive income until the underlying investments they were hedging are substantially liquidated by KW Group.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable including related party receivables, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, and deferred and accrued income taxes approximate fair value due to their short-term maturities. The carrying value of loans (excluding related party loans as they are presumed not to be an arm’s length transaction) approximates fair value as the terms are similar to loans with similar characteristics available in the market.

Debt liabilities are accounted for at face value plus net unamortized debt premiums and any fair value adjustments as part of business combinations. The fair value as of September 30, 2016 and December 31, 2015 for the senior notes payable and investment debt were estimated to be approximately $5.1 billion and $4.3 billion, respectively, based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and the Company's credit risk to the current yield of a similar security, compared to their carrying value of $5.0 billion and $4.4 billion at September 30, 2016 and December 31, 2015, respectively. The inputs used to value the Company's senior notes payable, borrowings under lines of credit and mortgage loans payable are based on observable inputs for similar assets and quoted prices in markets that are not active and are therefore determined to be level 2 inputs.

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NOTE 7—OTHER ASSETS

Other assets consist of the following:

(Dollars in millions)	September 30, 2016	December 31, 2015
Above-market leases, net of accumulated amortization of $27.5 and $19.6 at September 30, 2016 and December 31, 2015, respectively	$ 86.9	$ 103.3
Other, net of accumulated amortization of $5.1 and $3.1 at September 30, 2016 and December 31, 2015, respectively	56.5	40.4
Deferred tax asset, net	32.8	22.2
Office furniture and equipment net of accumulated depreciation of $22.5 and $14.0 at September 30, 2016 and December 31, 2015, respectively	25.9	27.9
Goodwill	23.9	23.9
Prepaid expenses	14.2	10.1
Hedge assets	8.5	30.9
Marketable securities(1)	5.4	4.3
Deposits	2.2	4.2
Other Assets	$ 256.3	$ 267.2

(1) The amount above excludes Kennedy Wilson's 29.6 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results. Kennedy Wilson's investment in KWE had a market value of approximately $385.0 million (cost basis of $486.7 million) based on a per share price of $13.02 at September 30, 2016.

NOTE 8—INVESTMENT DEBT

Investment debt at September 30, 2016 and December 31, 2015 consists of the following:

(Dollars in millions)		Carrying Amount of Investment Debt as of (1)	
Investment Debt by Product Type	Region	September 30, 2016	December 31, 2015
Mortgage debt			
Multifamily (1)	Western U.S.	$1,075.2	$ 835.2
Commercial	Western U.S.	313.8	286.4
Residential, Hotel and Other	Western U.S	39.0	39.4
Commercial	Japan	—	2.0
Commercial (1)(2)	Ireland	360.1	380.3
Multifamily (1)(2)	Ireland	140.2	187.1
Residential and Other(1)(2)	Ireland	23.8	7.3
Hotel	Ireland	80.9	78.2
Residential and Other(1)(2)	Spain	3.5	3.4
Commercial (2)	Spain	94.0	—
Commercial (1)(2)	United Kingdom	681.7	976.2
Secured investment debt		2,812.2	2,795.5
Unsecured investment debt (1)(2)	United Kingdom	1,262.2	862.7

Investment debt (excluding loan fees)	$4,074.4	$ 3,658.2
Unamortized loan fees	(26.8)	(30.7)
Total Investment debt	$4,047.6	$ 3,627.5

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(1) The investment debt payable balances include unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan premium (discount) as of September 30, 2016 and December 31, 2015 was $1.8 million and $(5.4) million, respectively.
(2) Kennedy Wilson owned approximately 21.8% and 18.2% of the total issued share capital of KWE as of September 30, 2016 and December 31, 2015, respectively. See the table below for a detailed breakout.

(Dollars in millions)		Carrying amount of investment debt as of [1]	
Types of Property Pledged as Collateral (KWE)	Region	September 30, 2016	December 31, 2015
Commercial [1][2]	Ireland	278.1	286.7
Multifamily [1][2]	Ireland	—	51.5
Residential and Other[1][2]	Spain	3.5	3.4
Commercial [1][2]	Spain	94.0	—
Commercial [1][2]	United Kingdom	612.8	897.9
Investment debt		$988.4	$ 1,239.5
Unsecured [1][2]	United Kingdom	1,262.2	862.7
Investment debt (excluding loan fees)		$2,250.6	$ 2,102.2
Unamortized loan fees		(15.3)	(19.4)
Total Investment debt		$2,235.3	$ 2,082.8

(1) The mortgage loan payable balances include unamortized debt premiums (discounts). Debt premiums (discounts) represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan discount as of September 30, 2016 and December 31, 2015 was $4.5 million and $13.6 million, respectively.
(2) Kennedy Wilson owned approximately 21.8% and 18.2% of the total issued share capital of KWE as of September 30, 2016 and December 31, 2015, respectively.

The investment debt had a weighted average interest rate of 3.22% and 3.19% per annum at September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, 72% of KW Group's investment level debt is fixed rate, 15% is floating rate with interest caps and 13% is floating rate without interest caps, compared to 67% fixed rate, 17% floating rate with interest caps and 16% floating rate without interest caps, as of December 31, 2015.

During the second quarter of 2015, KWE completed its inaugural bond offering of approximately $389.2 million (based on September 30, 2016 rates) (£300 million) in 3.95% fixed-rate senior unsecured bonds due 2022. During the third quarter of 2016, KWE completed an additional offering of approximately $259.4 million (based on September 30, 2016 rates) (£200 million) in 3.95% fixed-rate senior unsecured bonds due 2022. KWE effectively reduced the interest rate to 3.35% as a result of it entering into swap arrangements to convert 50% of the proceeds into Euros.

In addition, during the fourth quarter of 2015, KWE established a £2.0 billion (approximately $2.6 billion based on September 30, 2016 rates) Euro Medium Term Note ("EMTN") Programme. Under the EMTN Programme, KWE may issue, from time to time, up to £2.0 billion of various types of debt securities in certain markets and currencies. During the fourth quarter of 2015 and second quarter of 2016, KWE drew down under its EMTN Programme, with the issuances of senior unsecured notes for an aggregate principal amount of approximately $617.9 million (based on September 30, 2016 rates) (€550 million) (the "KWE Notes"). The KWE Notes were issued at a discount and have a carrying value of $613.8 million with an annual fixed coupon of 3.25%, and mature in 2025. As KWE invests proceeds from the KWE Notes to fund equity investments in new euro denominated assets KWE designates the KWE Notes as net investment hedges under FASB ASC Topic 815. Subsequent fluctuations in foreign currency rates that impact the carrying value of the KWE Notes are recorded to accumulated other comprehensive income. During the nine months ended September 30, 2016, KW Group recognized a loss of $59.7 million in accumulated other comprehensive income due to the strengthening of the euro against the GBP during the period. The KWE Notes rank pari passu with the KWE Bonds (as defined below), and are subject to the same restrictive covenants.

The trust deed that governs the bonds contains various restrictive covenants for KWE, including, among others, limitations on KWE’s and its material subsidiaries’ ability to provide certain negative pledges. The trust deed limits the ability of KWE and

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its subsidiaries to incur additional indebtedness if, on the date of such incurrence and after giving effect to the incurrence of the new indebtedness, (1) KWE’s consolidated net indebtedness (as defined in the trust deed) would exceed 60% of KWE’s total assets (as calculated pursuant to the terms of the trust deed); and (2) KWE’s consolidated secured indebtedness (as defined in the trust deed) would exceed 50% of KWE’s total assets (as calculated pursuant to the terms of the trust deed). The trust deed also requires KWE, as of each reporting date, to maintain an interest coverage ratio (as defined in the trust deed) of at least 1.50 to 1.00 and have unencumbered assets of no less than 125% of its unsecured indebtedness (as defined in the trust deed). As of September 30, 2016, KWE was in compliance with these covenants.

In August 2014, KWE entered into a three-year unsecured floating rate revolving debt facility ("KWE Facility") with Bank of America Merrill Lynch, Deutsche Bank, and J.P. Morgan Chase of approximately $291.9 million (£225 million) based on rates as of September 30, 2016. As of September 30, 2016, the unsecured credit facility was undrawn, with $291.9 million (£225 million) still available based on rates as of September 30, 2016.

During the nine months ended September 30, 2016, one mortgage loan was consolidated, six acquisitions were partially financed with mortgages, two existing mortgages were refinanced, four properties acquired supplemental financing, and two existing investments that closed all equity financing were subsequently partially financed with mortgages. Two properties at KWE repaid mortgages with proceeds from KWE bond that was issued during the third quarter. See note 4 for more detail on the acquisitions and the investment debt associated with them.
The aggregate maturities of investment debt subsequent to September 30, 2016 are as follows:

(Dollars in millions)	Aggregate Maturities
2016	$4.3
2017	201.0
2018	202.5
2019	615.4
2020	241.2
Thereafter	2,808.2
	4,072.6
Debt premium	1.8
Unamortized loan fees	(26.8)
	$4,047.6

NOTE 9—SENIOR NOTES

(Dollars in millions)			September 30, 2016			December 31, 2015		
	Interest Rate	Maturity Date	Face Value	Unamortized Net Premium/(Discount)	Carrying Value	Face Value	Unamortized Net Premium/(Discount)	Carrying Value
2042 Notes	7.75%	12/1/2042	$55.0	$ —	$55.0	$55.0	$ —	$55.0
2024 Notes	5.88%	4/1/2024	900.0	(2.2)	897.8	650.0	(2.4)	647.6
Senior Notes			$955.0	$ (2.2)	$952.8	$705.0	$ (2.4)	$702.6
Unamortized loan fees					(16.3)			(13.8)
Total Senior Notes					$936.5			$688.8

In August 2016, Kennedy Wilson, Inc., (the "Issuer") completed an additional public offering of $250.0 million aggregate principal amount of 5.875% Senior Notes due 2024 (the "Notes"). The Notes were issued as additional notes under the indenture pursuant to which the Issuer previously issued $650 million aggregate principal amount of its 5.875% Senior Notes due 2024 (the “Initial Notes"). The Notes have substantially identical terms as the Initial Notes and will be treated as a single series with the

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Initial Notes under the indenture. The Notes were issued and sold at a public offering price of 100.0% of their principal amount, plus accrued interest from, and including, April 1, 2016.

The indentures governing the 2024 Notes and 2042 Notes contain various restrictive covenants, including, among others, limitations on the Company's ability and the ability of certain of the Company's subsidiaries to incur or guarantee additional indebtedness, to make restricted payments, pay dividends or make any other distributions from restricted subsidiaries, redeem or repurchase capital stock, sell assets or subsidiary stock, engage in transactions with affiliates, create or permit liens on assets, enter into sale/leaseback transactions, and enter into consolidations or mergers. The indentures governing the 2024 and 2042 Notes limit the ability of Kennedy Wilson and its restricted subsidiaries to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, the maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of September 30, 2016, the maximum balance sheet leverage ratio was 0.90 to 1.00. See Note 15 for the guarantor and non-guarantor financial statements.

NOTE 10—BORROWINGS UNDER LINES OF CREDIT

KWH Facility

On December 10, 2015, Kennedy-Wilson, Inc. (the “Borrower”), a wholly-owned subsidiary of Kennedy-Wilson Holdings, Inc. ("KWH") entered into a $475 million unsecured revolving credit facility (the “KW Revolving Facility”) with a syndicate of lenders including Bank of America, N.A., JP Morgan Chase Bank, N.A., Deutsche Bank AG New York Branch, U.S. Bank N.A., East West Bank, Fifth Third Bank, The Governor and Company of the Bank of Ireland, Compass Bank and City National Bank with Bank of America, N.A., as administrative agent and letter of credit issuer. Loans under the KW Revolving Facility bear interest at a rate equal to LIBOR plus 2.50% or 3.00%, depending on the consolidated leverage ratio as of the applicable measurement date, and have a maturity date of December 10, 2018. Subject to certain conditions precedent and at the Borrower’s option, the maturity date of the KW Revolving Facility may be extended by one year.

The KW Revolving Facility has certain covenants that, among other things, limit the Borrower and certain of its subsidiaries’ ability to incur additional indebtedness, repurchase capital stock or debt, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The credit agreement that governs the KW Revolving Facility requires the Borrower to maintain (i) a maximum consolidated leverage ratio (as defined in the credit agreement) of not greater than 65%, measured as of the last day of each fiscal quarter, (ii) a minimum fixed charge coverage ratio (as defined in the credit agreement) of not less than 1.60 to 1.00, measured as of the last day of each fiscal quarter for the period of four full fiscal quarters then ended, (iii) a minimum consolidated tangible net worth equal to or greater than the sum of $920,660,504.65 plus an amount equal to fifty percent (50%) of net equity proceeds received by the Borrower after September 30, 2015, measured as of the last day of each fiscal quarter, (iv) a maximum recourse leverage ratio (as defined in the credit agreement) of not greater than an amount equal to consolidated tangible net worth as of the measurement date multiplied by 1.5, measured as of the last day of each fiscal quarter, (v) a maximum secured recourse leverage ratio (as defined in the credit agreement) of not greater than an amount equal to the greater of 3.5% of consolidated total asset value (as defined in the credit agreement) and $138,187,197, (vi) a maximum adjusted secured leverage ratio (as defined in the credit agreement) of not greater than 55%, measured as of the last day of each fiscal quarter, and (vii) liquidity (as defined in the credit agreement) of at least $250 million.

As of September 30, 2016, the Borrower’s consolidated leverage ratio was 59.7%, its fixed charge coverage ratio was 3.0 to 1.00, its consolidated tangible net worth was $1,266.7 million, its adjusted secured leverage ratio was 41.8%, its secured recourse leverage ratio was 1.5%, its recourse leverage ratio was 0.81, and liquidity was $738.3 million. The obligations of the Borrower pursuant to the Credit Agreement are guaranteed by KWH and certain of its wholly-owned subsidiaries.

During the nine months ended September 30, 2016, the Borrower drew $125.0 million and repaid $125.0 million on its unsecured credit facility to fund acquisitions. The maximum amount drawn on the unsecured credit facility at any one point during the nine months ended September 30, 2016 was $125.0 million. As of September 30, 2016, there was $0.0 million outstanding under the unsecured credit facility, and $475.0 million was still available. As of December 31, 2015, there was $0.0 million outstanding under the unsecured facility, and $475.0 million was still available.

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NOTE 11—EQUITY

Common Stock Repurchase Program

On February 25, 2016, Kennedy Wilson announced the authorization of a stock repurchase program for up to $100 million. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, with the amount and timing of repurchases depending on market conditions and subject to the Company's discretion. During the nine months ended September 30, 2016, Kennedy Wilson repurchased and retired 1,453,837 shares for $28.7 million under the stock repurchase program.

Dividend Distributions

During the following periods, Kennedy Wilson declared and paid the following cash distributions on its common and preferred stock:

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
(Dollars in millions)	Declared	Paid	Declared	Paid
Preferred Stock				
Series A [1]	$—	$—	$1.5	$1.5
Series B[2]	1.6	1.6	1.6	1.6
Total Preferred Stock	1.6	1.6	3.1	3.1
Common Stock	48.1	45.9	39.5	34.6
Total [3]	$49.7	$47.5	$42.6	$37.7

[1] The decrease in Series A dividends during the current year is due to the conversion of the Series A preferred stock into common shares during the second quarter of 2015.

[2] $32.6 million of Series B mandatory convertible preferred stock with a mandatory conversion date of November 3, 2018. The conversion price for the Series B mandatory convertible preferred stock was $9.79 and $9.98 per share as of September 30, 2016 and December 31, 2015, respectively, and is subject to further adjustment pursuant to customary anti-dilution provisions.

[3] The difference between declared and paid is the amount accrued on the consolidated balance sheets.

Share-based Compensation

During the three months ended September 30, 2016 and 2015, KW Group recognized $15.6 million and $5.5 million of compensation expense related to the vesting of restricted stock grants. During the nine months ended September 30, 2016 and 2015, KW Group recognized $47.8 million and $19.6 million of compensation expense related to the vesting of restricted stock grants. The increase for the three and nine months ended September 30, 2016 is mainly due to 60% of the expense of the restricted stock that was granted in 2012 under the Company’s Amended and Restated 2009 Equity Participation Plan being incurred during April 2016 to March 2017 due to the cliff vesting that is scheduled to occur in 2017. A portion of the increase was also attributed to the restricted stock that was granted during the fourth quarter of 2015.

Upon vesting, the restricted stock granted to employees discussed directly above is net share-settled to cover the withholding tax. Shares that vested during the three months and nine months ended September 30, 2016 and 2015 were net-share settled such that the Company withheld shares with value equivalent to the employees’ minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld during the three months ended September 30, 2016 and 2015 were 0 shares and 2,026 shares, respectively, and were based on the value of the restricted stock on the respective vesting dates as determined by the Company's closing stock price. The total shares withheld during the nine months ended September 30, 2016 and 2015 were 693,942 shares and 434,287 shares. During the three months ended September 30, 2016 and 2015, total payments for the employees' tax obligations to the taxing authorities were $0 million and $0.2 million, respectively. During the nine months ended September 30, 2016 and 2015, total payments for the employees' tax obligations to the taxing authorities were $14.6 million and $11.5 million, respectively. These figures are reflected as a financing activity within KW Group's Consolidated Statements of Cash Flows.

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Accumulated Other Comprehensive Income

The following table summarizes the changes in each component of accumulated other comprehensive income (loss), net of taxes:

(Dollars in millions)	Foreign Currency Translation	Currency Derivative Contracts	Marketable Securities	Total Accumulated Other Comprehensive Income
Balance at December 31, 2015	$ (69.9)	$ 22.4	$ (0.2)	$ (47.7)
Unrealized (loss) gains, arising during the period	(67.9)	(129.4)	0.3	(197.0)
Noncontrolling interest	50.8	118.3	—	169.1
Amounts reclassified out of AOCI during the period, gross	6.4	(0.7)	—	5.7
Amounts reclassified out of AOCI during the period, tax	(2.6)	0.3	—	(2.3)
Taxes on unrealized gains (losses), arising during the period	6.2	4.4	(0.1)	10.5
Balance at September 30, 2016	$ (77.0)	$ 15.3	$ —	$ (61.7)

As discussed throughout this report, the Company is required under U.S. GAAP to consolidate certain non-wholly owned subsidiaries or investments that it controls. As such, the Company's financial statements reflect currency translation adjustments and related hedging activities on a gross basis. In many instances, these fluctuations are not reflective of the actual foreign currency exposure of the underlying consolidated subsidiary. For example, the Company is required to translate the activities of KWE into U.S. dollars even though KWE does not invest in U.S. dollar denominated assets. Therefore, it is important to look at the provided currency translation and currency derivative adjustment information net of noncontrolling interests to get a more accurate understanding of the actual currency exposure for the Company.

The local currencies for the Company's interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on KW Group's balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on its statements of operations are translated at the average exchange rates during the respective period. The increase in the unrealized losses on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the nine months ended September 30, 2016.

In order to manage currency fluctuations, KW Group entered into currency derivative contracts to manage its exposure to currency fluctuations between its functional currency (U.S. dollar) and the functional currency (Euro, GBP and Yen) of certain of its wholly-owned and consolidated subsidiaries. See note 6 for a more detailed discussion of KW Group's currency derivative contracts.

Noncontrolling Interests

Noncontrolling interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on KW Group's balance sheet. As of September 30, 2016 and December 31, 2015 KW Group had noncontrolling interest of $1.5 billion and $1.7 billion, respectively.

Kennedy Wilson currently owns approximately 21.8% of KWE’s total issued share capital as of September 30, 2016. The noncontrolling interest holders in KWE had an equity balance of $1.3 billion as of September 30, 2016. Due to the terms provided in the investment management agreement between KWE and a wholly-owned subsidiary of Kennedy Wilson, the results of KWE are consolidated in KW Group's financial statements.

NOTE 12—EARNINGS PER SHARE

In accordance with FASB ASC Topic 260-10-45, Earnings Per Share, the Company uses the two-class method to calculate earnings per share. Basic earnings per share is calculated based on dividends declared ("distributed earnings") and the rights of common shares and participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends declared during the period. Participating securities, which include unvested restricted stock, are included in the computation of earnings per share pursuant to the two-class method. The undistributed earnings are allocated to all outstanding common shares and participating securities based on the relative percentage of each security to the total number of outstanding

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securities. Basic earnings per common share and participating securities represent the summation of the distributed and undistributed earnings per common share and participating security divided by the total weighted average number of common shares outstanding and the total weighted average number of participating securities outstanding during the respective periods. The Company only presents the earnings per share attributable to the common shareholders.

Net losses, after deducting the dividends to participating securities, are allocated in full to the common shares since the participating security holders do not have an obligation to share in the losses, based on the contractual rights and obligations of the participating securities. The following is a summary of the elements used in calculating basic and diluted income (loss) per share for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except share and per share amounts)	2016	2015	2016	2015
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2.5)	$ 14.9	$(11.6)	$ 42.6
Dividends allocated to participating securities	(0.4)	(0.6)	(1.3)	(1.9)
Net loss (income) attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	(2.9)	14.3	(12.9)	40.7
Dividends declared on common shares	(15.6)	(13.0)	(46.7)	(37.8)
Undistributed (losses) earnings attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	$(18.5)	$ 1.3	$(59.6)	$ 2.9
Distributed earnings per share	$0.14	$ 0.12	$0.42	$ 0.36
Undistributed (losses) earnings per share	(0.17)	0.01	(0.54)	0.04
(Loss) income per basic	(0.03)	0.13	(0.12)	0.40
(Loss) income per diluted	$(0.03)	$ 0.13	$(0.12)	$ 0.40
Weighted average shares outstanding for basic	108,634,208	107,433,124	108,966,540	100,361,606
Weighted average shares outstanding for diluted[1]	108,634,208	107,433,124	108,966,540	105,517,172
Dividends declared per common share	$0.14	$ 0.12	$0.42	$ 0.36

[1] For the three and nine months ended September 30, 2016, a total of 3,782,564 and 3,493,709 potentially dilutive securities were not included in the diluted weighted average shares as they were anti-dilutive. For the three and nine months ended September 30, 2015, a total of 3,538,420 and 3,163,589 potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive. Potentially anti-dilutive securities include preferred stock and unvested restricted stock grants.

NOTE 13—SEGMENT INFORMATION

Kennedy Wilson is a global real estate investment company. The Company owns, operates, and invests in real estate both on its own and through our investment management platform. To complement its investment business, the Company also provides real estate services primarily to financial services clients.

Kennedy Wilson's segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these two core segments: KW Investments and KW Investment Management and Real Estate Services (IMRES).

KW Investments

KW Investments invests in multifamily, office, retail, and residential properties as well as loans secured by real estate in the Western U.S., United Kingdom, Ireland, Spain, Italy and Japan. The Company has an average ownership interest across all investments of approximately 39% as of September 30, 2016.

When it has partners, those partners include public shareholders, financial institutions, foundations, endowments, high net worth individuals and other institutional investors. In these instances, the Company is typically the general partner in the

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arrangement with a promoted interests in the profits of its investments beyond the Company's ownership percentage. These promoted interest are typically fees earned by IMRES as described below.

KW Investment Management and Real Estate Services (IMRES)

IMRES encompasses the Company fee generating businesses which includes both the Company's investment management platform as well as the Company's third party services business. The Company's clients include shareholders of KWE, financial institutions, institutional investors, insurance companies, developers, builders and government agencies. IMRES has five main lines of business: investment management, property services, research, brokerage, and auction and conventional sales. These five business lines generate revenue for the Company's through fees and commissions.

The Company manages approximately 59 million square feet of properties for the Company and its investment partners (including KWE) in the United States, Europe, and Asia, which includes assets the Company has ownership interests in and third party owned assets. With 25 offices throughout the United States, the United Kingdom, Ireland, Jersey, Spain, Italy and Japan, the Company has the capabilities and resources to provide investment management and property services to real estate owners as well as the experience, as a real estate investor, to understand client concerns. The managers of IMRES have an extensive track record in their respective lines of business and in the real estate community as a whole.

Additionally, IMRES plays a critical role in supporting the Company's investment strategy by providing local market intelligence and real-time data for evaluating investments, generating proprietary transaction flow and creating value through efficient implementation of asset management or repositioning strategies.

The following tables summarize income activity by segment and corporate for the three and nine months ended September 30, 2016 and 2015 and balance sheet data as of September 30, 2016 and December 31, 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Investments				
Rental	$122.9	$106.6	$363.1	$295.3
Hotel	31.4	31.3	87.3	78.0
Sale of real estate	2.5	1.6	16.7	3.7
Loan purchases, loan originations and other	3.4	4.6	9.2	13.4
Total revenue	160.2	144.1	476.3	390.4
Operating expenses	(80.4)	(70.9)	(241.7)	(204.4)
Depreciation and amortization	(50.0)	(44.9)	(147.3)	(119.5)
Income from unconsolidated investments	31.3	15.0	56.6	40.6
Operating income	61.1	43.3	143.9	107.1
Gain on sale of real estate	21.5	4.6	76.0	44.7
Acquisition-related gains	7.6	29.9	16.2	87.2
Acquisition-related expenses	(1.0)	(8.2)	(9.4)	(28.3)
Interest expense - investments	(36.8)	(31.3)	(102.9)	(77.9)
Other	1.9	(4.3)	7.6	(0.7)
Income before provision for income taxes	54.3	34.0	131.4	132.1
Provision for income taxes	1.6	—	(2.6)	—
Net income	55.9	34.0	128.8	132.1
Net (income) loss attributable to the noncontrolling interests	(15.1)	10.4	(41.3)	14.6

Net income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$40.8	$44.4	$87.5	$146.7

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(Dollars in millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Investment Management and Real Estate Services				
Investment management, property services and research fees (includes $5.4, $8.0, $22.9 and $26.7 of related party fees, respectively)	$14.1	$15.1	$46.7	$47.0
Total revenue	14.1	15.1	46.7	47.0
Operating expenses	(14.2)	(16.1)	(43.6)	(44.2)
Income from unconsolidated investments	0.4	0.9	2.7	3.5
Operating income (loss)	0.3	(0.1)	5.8	6.3
Net income attributable to the noncontrolling interests	—	—	—	0.4
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$0.3	$(0.1)	$5.8	$6.7

(Dollars in millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Corporate				
Operating expenses	$(21.5)	$(12.6)	$(65.0)	$(39.7)
Operating loss	(21.5)	(12.6)	(65.0)	(39.7)
Interest expense-corporate	(14.5)	(11.7)	(38.8)	(35.5)
Loss before provision for income taxes	(36.0)	(24.3)	(103.8)	(75.2)
(Provision for) benefit from income taxes	(7.1)	(4.5)	0.5	(32.5)
Net loss	(43.1)	(28.8)	(103.3)	(107.7)
Preferred dividends and accretion of preferred stock issuance costs	(0.5)	(0.5)	(1.6)	(3.1)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(43.6)	$(29.3)	$(104.9)	$(110.8)

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(Dollars in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Consolidated				
Rental	$122.9	$106.6	$363.1	$295.3
Hotel	31.4	31.3	87.3	78.0
Sale of real estate	2.5	1.6	16.7	3.7
Investment management, property services and research fees (includes $5.4, $8.0, $22.9 and $26.7 of related party fees)	14.1	15.1	46.7	47.0
Loans and other	3.4	4.6	9.2	13.4
Total revenue	174.3	159.2	523.0	437.4
Operating expenses	(116.1)	(99.6)	(350.3)	(288.3)
Depreciation and amortization	(50.0)	(44.9)	(147.3)	(119.5)
Total operating expenses	(166.1)	(144.5)	(497.6)	(407.8)
Income from unconsolidated investments	31.7	15.9	59.3	44.1
Operating income	39.9	30.6	84.7	73.7
Gain on sale of real estate	21.5	4.6	76.0	44.7
Acquisition-related gain	7.6	29.9	16.2	87.2
Acquisition-related expenses	(1.0)	(8.2)	(9.4)	(28.3)
Interest expense - investment	(36.8)	(31.3)	(102.9)	(77.9)
Interest expense - corporate	(14.5)	(11.7)	(38.8)	(35.5)
Other	1.9	(4.3)	7.6	(0.7)
Income before benefit from income taxes	18.6	9.6	33.4	63.2
Provision for income taxes	(5.5)	(4.5)	(2.1)	(32.5)
Net income	13.1	5.1	31.3	30.7
Net (income) loss attributable to the noncontrolling interests	(15.1)	10.3	(41.3)	15.0
Preferred dividends and accretion of preferred stock issuance costs	(0.5)	(0.5)	(1.6)	(3.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2.5)	$14.9	$(11.6)	$42.6

(Dollars in millions)	September 30, 2016	December 31, 2015
Total Assets		
Investments	$7,667.4	$7,418.6
Investment management and real estate services	70.3	58.1
Corporate	229.1	118.9
Total assets	$7,966.8	$7,595.6

NOTE 14—INCOME TAXES

In determining quarterly provisions for income taxes, the Company calculates income tax expense based on actual year-to-date income and statutory tax rates. The year-to-date income tax expense also reflects the Company's assessment of potential exposure for uncertain tax positions.

The fluctuations between periods in the Company's income tax expense are mainly due to varying levels of income as well as amounts attributable to foreign sourced income and noncontrolling interests. During the nine months ended September 30, 2016, KW Group generated pretax book income of $33.4 million related to its global operations, and recorded a tax provision of $2.1 million. The difference between the U.S. federal rate of 35% and the Company's effective rate is primarily attributable to income earned by noncontrolling interests which is generally not subject to corporate taxes. In addition, the Company's effective tax rate was favorably impacted by capital gains realized from the sale of real estate in the United Kingdom and Ireland, the

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majority of which was not subject to corporate taxes. During the three months ended June 30, 2016, the Company also reversed valuation allowance as new evidence indicates that it is more likely than not certain net operating losses in the United Kingdom will be realizable.

The Company has subsidiaries in the United Kingdom, Ireland, Luxembourg, Spain and Jersey which manage the Company's European real estate investments. The Company also has subsidiaries that operate a hotel businesses in Ireland and Scotland. As of September 30, 2016, two of the Company's subsidiaries in Ireland had positive, accumulated earnings of $5.7 million. U.S. domestic taxes have not been provided on amounts earned by the Company's Irish subsidiaries as the Company plans to indefinitely reinvest amounts earned by these subsidiaries. If these earnings were repatriated to the United States, additional U.S. domestic taxes of $1.3 million would be incurred.

NOTE 15—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS

The following consolidating financial information and condensed consolidating financial information include:

(1) Condensed consolidating balance sheets as of September 30, 2016 and December 31, 2015; consolidating statements of operations for the three and nine months ended September 30, 2016 and 2015; consolidating statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015; and condensed consolidating statements of cash flows for the nine months ended September 30, 2016 and 2015, of (a) Kennedy-Wilson Holdings, Inc., as the parent, (b) Kennedy-Wilson, Inc., as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the non-guarantor subsidiaries and (e) Kennedy-Wilson Holdings, Inc. on a consolidated basis; and
(2) Elimination entries necessary to consolidate Kennedy-Wilson Holdings, Inc., as the parent, with Kennedy-Wilson, Inc. and its guarantor and non-guarantor subsidiaries.

Kennedy Wilson owns 100% of all of the guarantor subsidiaries, and, as a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for these subsidiaries as of and for the three and nine months ended September 30, 2016 or 2015.

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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$—	$ 124.2	$ 36.2	$ 122.3	$—	$ 282.7
Cash held by consolidated investments	—	—	—	692.5	—	692.5
Accounts receivable	—	—	35.9	28.2	—	64.1
Loan purchases and originations	—	0.3	12.0	96.9	—	109.2
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	—	—	1,483.7	4,645.4	—	6,129.1
Unconsolidated investments	—	17.6	283.8	131.5	—	432.9
Investments in and advances to consolidated subsidiaries	1,079.1	2,010.8	1,256.6	—	(4,346.5)	—
Other assets	—	3.2	37.3	215.8	—	256.3
Total assets	$1,079.1	$ 2,156.1	$ 3,145.5	$ 5,932.6	$(4,346.5)	$ 7,966.8
Liabilities and equity						
Liabilities						
Accounts payable	$—	$ 0.1	$ 2.1	$ 12.4	$—	$ 14.6
Accrued expenses and other liabilities	15.9	140.4	274.6	9.2	—	440.1
Investment debt	—	—	858.0	3,189.6	—	4,047.6
Senior notes payable	—	936.5	—	—	—	936.5
Line of credit	—	—	—	—	—	—
Total liabilities	15.9	1,077.0	1,134.7	3,211.2	—	5,438.8
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	1,063.2	1,079.1	2,010.8	1,256.6	(4,346.5)	1,063.2
Noncontrolling interests	—	—	—	1,464.8	—	1,464.8
Total equity	1,063.2	1,079.1	2,010.8	2,721.4	(4,346.5)	2,528.0
Total liabilities and equity	$1,079.1	$ 2,156.1	$ 3,145.5	$ 5,932.6	$(4,346.5)	$ 7,966.8

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Kennedy-Wilson Holdings, Inc.
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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2015

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$—	$ 80.2	$ 37.0	$ 65.4	$—	$ 182.6
Cash held by consolidated investments	—	—	—	549.0	—	549.0
Accounts receivable	—	—	30.2	24.5	—	54.7
Loan purchases and originations	—	79.4	12.2	245.9	(37.8)	299.7
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	—	—	1,017.5	4,780.0	—	5,797.5
Unconsolidated investments	—	14.6	292.6	137.7	—	444.9
Investments in and advances to consolidated subsidiaries	1,148.0	1,898.9	1,185.4	0.2	(4,232.5)	—
Other assets	—	3.9	30.2	233.1	—	267.2
Total assets	$1,148.0	$ 2,077.0	$ 2,605.1	$ 6,035.8	$(4,270.3)	$ 7,595.6
Liabilities						
Accounts payable	$—	$ 0.5	$ 2.5	$ 19.2	$—	22.2
Accrued expense and other liabilities	14.0	239.7	118.8	19.5	—	392.0
Investment debt	—	—	584.9	3,080.4	(37.8)	3,627.5
Senior notes payable	—	688.8	—	—	—	688.8
Total liabilities	14.0	929.0	706.2	3,119.1	(37.8)	4,730.5
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	1,134.0	1,148.0	1,898.9	1,185.4	(4,232.5)	1,133.8
Noncontrolling interests	—	—	—	1,731.3	—	1,731.3
Total equity	1,134.0	1,148.0	1,898.9	2,916.7	(4,232.5)	2,865.1
Total liabilities and equity	$1,148.0	$ 2,077.0	$ 2,605.1	$ 6,035.8	$(4,270.3)	$ 7,595.6

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Kennedy-Wilson Holdings, Inc.
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CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services and research fees	$—	$ —	$ 12.1	$ 2.0	$—	$ 14.1
Rental	—	—	30.7	92.2	—	122.9
Hotel	—	—	—	31.4	—	31.4
Sale of real estate	—	—	2.5	—	—	2.5
Loan purchases, loan originations and other	—	0.1	0.2	3.1	—	3.4
Total revenue	—	0.1	45.5	128.7	—	174.3
Operating expenses						
Commission and marketing	—	—	2.4	0.1	—	2.5
Rental operating	—	—	11.9	22.7	—	34.6
Hotel operating	—	—	—	23.8	—	23.8
Cost of real estate sold	—	—	2.4	0.1	—	2.5
Compensation and related	15.5	13.9	10.9	1.9	—	42.2
General and administrative	—	3.5	4.4	2.6	—	10.5
Depreciation and amortization	—	0.4	10.5	39.1	—	50.0
Total operating expenses	15.5	17.8	42.5	90.3	—	166.1
Income from unconsolidated subsidiaries	—	0.7	22.8	8.2	—	31.7
Income from consolidated subsidiaries	28.6	64.5	37.1	—	(130.2)	—
Operating income (loss)	13.1	47.5	62.9	46.6	(130.2)	39.9
Non-operating income (expense)						
Acquisition-related gains	—	—	7.6	—	—	7.6
Acquisition-related expenses	—	—	(0.9)	(0.1)	—	(1.0)
Interest expense-investment	—	—	(6.8)	(30.0)	—	(36.8)
Interest expense-corporate	—	(14.5)	—	—	—	(14.5)
Gain on sale of real estate	—	—	0.4	21.1	—	21.5
Other income / (expense)	—	0.3	—	1.6	—	1.9
Income (loss) before benefit from income taxes	13.1	33.3	63.2	39.2	(130.2)	18.6
(Provision for) benefit from income taxes	—	(4.7)	1.3	(2.1)	—	(5.5)
Net income (loss)	13.1	28.6	64.5	37.1	(130.2)	13.1
Net (income) loss attributable to the noncontrolling interests	—	—	—	(15.1)	—	(15.1)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	13.1	28.6	64.5	22.0	(130.2)	(2.0)
Preferred dividends and accretion of preferred stock issuance costs	(0.5)	—	—	—	—	(0.5)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$12.6	$ 28.6	$ 64.5	$ 22.0	$(130.2)	$ (2.5)

Kennedy-Wilson Holdings, Inc.
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CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services and research fees	$—	$ —	$ 43.2	$ 3.5	$—	$ 46.7
Rental	—	—	81.9	281.2	—	363.1
Hotel	—	—	—	87.3	—	87.3
Sale of real estate	—	—	12.2	4.5	—	16.7
Loan purchases, loan originations and other	—	0.1	0.8	8.3	—	9.2
Total revenue	—	0.1	138.1	384.8	—	523.0
Operating expenses						
Commission and marketing	—	—	5.6	0.4	—	6.0
Rental operating	—	—	34.0	64.4	—	98.4
Hotel operating	—	—	—	71.9	—	71.9
Cost of real estate sold	—	—	9.6	3.5	—	13.1
Compensation and related	47.8	39.5	35.4	5.7	—	128.4
General and administrative	—	10.5	12.1	9.9	—	32.5
Depreciation and amortization	—	1.0	28.0	118.3	—	147.3
Total operating expenses	47.8	51.0	124.7	274.1	—	497.6
Income from unconsolidated subsidiaries	—	3.8	31.3	24.2	—	59.3
Income from consolidated subsidiaries	79.1	158.3	125.4	—	(362.8)	—
Operating income (loss)	31.3	111.2	170.1	134.9	(362.8)	84.7
Non-operating income (expense)						
Acquisition-related gains	—	—	7.6	8.6	—	16.2
Acquisition-related expenses	—	—	(2.1)	(7.3)	—	(9.4)
Interest expense-investment	—	—	(17.8)	(85.1)	—	(102.9)
Interest expense-corporate	—	(38.8)	—	—	—	(38.8)
Gain on sale of real estate	—	—	0.8	75.2	—	76.0
Other income / (expense)	—	7.6	(2.6)	2.6	—	7.6
Income (loss) before benefit from income taxes	31.3	80.0	156.0	128.9	(362.8)	33.4
(Provision for) benefit from income taxes	—	(0.9)	2.3	(3.5)	—	(2.1)
Net income (loss)	31.3	79.1	158.3	125.4	(362.8)	31.3
Net (income) loss attributable to the noncontrolling interests	—	—	—	(41.3)	—	(41.3)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	31.3	79.1	158.3	84.1	(362.8)	(10.0)
Preferred dividends and accretion of preferred stock issuance costs	(1.6)	—	—	—	—	(1.6)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$29.7	$ 79.1	$ 158.3	$ 84.1	$ (362.8)	$ (11.6)

Kennedy-Wilson Holdings, Inc.
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CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services, and research fees	$—	$ —	$ 14.7	$ 0.4	$ —	$ 15.1
Rental	—	—	19.2	87.4	—	106.6
Hotel	—	—	—	31.3	—	31.3
Sale of real estate	—	—	0.1	1.5	—	1.6
Loan purchases, loan originations and other	—	—	0.2	4.4	—	4.6
Total revenue	—	—	34.2	125.0	—	159.2
Operating expenses						
Commission and marketing	—	—	1.1	0.1	—	1.2
Rental operating	—	—	8.0	21.4	—	29.4
Hotel operating	—	—	—	22.7	—	22.7
Cost of real estate sold	—	—	—	1.1	—	1.1
Compensation and related	5.5	17.0	11.0	1.7	—	35.2
General and administrative	—	3.6	4.9	1.5	—	10.0
Depreciation and amortization	—	0.1	5.7	39.1	—	44.9
Total operating expenses	5.5	20.7	30.7	87.6	—	144.5
Income from unconsolidated investments, net of depreciation and amortization	—	(1.2)	20.0	(2.9)	—	15.9
Income from consolidated subsidiaries	10.6	44.0	(35.0)	—	(19.6)	—
Operating income (loss)	5.1	22.1	(11.5)	34.5	(19.6)	30.6
Non-operating income (expense)						
Acquisition-related gains	—	—	61.6	(31.7)	—	29.9
Acquisition-related expense	—	(0.1)	(0.4)	(7.7)	—	(8.2)
Interest expense-investment	—	—	(4.6)	(26.7)	—	(31.3)
Interest expense-corporate	—	(11.7)	—	—	—	(11.7)
Gain (loss) on sale of real estate	—	—	—	4.6	—	4.6
Other income / (expense)	—	0.4	0.1	(4.8)	—	(4.3)
Income (loss) before benefit from income taxes	5.1	10.7	45.2	(31.8)	(19.6)	9.6
(Provision for) benefit from income taxes	—	(0.1)	(1.2)	(3.2)	—	(4.5)
Net income (loss)	5.1	10.6	44.0	(35.0)	(19.6)	5.1
Net (income) loss attributable to the noncontrolling interests	—	—	—	10.3	—	10.3
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	5.1	10.6	44.0	(24.7)	(19.6)	15.4
Preferred dividends and accretion of preferred stock issuance costs	(0.5)	—	—	—	—	(0.5)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$4.6	$ 10.6	$ 44.0	$ (24.7)	$ (19.6)	$ 14.9

Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
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CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services, and research fees	$—	$ —	$ 44.9	$ 2.1	$—	$ 47.0
Rental	—	—	44.0	251.3	—	295.3
Hotel	—	—	—	78.0	—	78.0
Sale of real estate	—	—	0.1	3.6	—	3.7
Loan purchases, loan originations and other	—	—	1.0	12.4	—	13.4
Total revenue	—	—	90.0	347.4	—	437.4
Operating expenses						
Commission and marketing	—	1.0	2.7	0.7	—	4.4
Rental operating	—	—	16.2	62.3	—	78.5
Hotel operating	—	—	—	66.1	—	66.1
Cost of real estate sold	—	—	—	2.6	—	2.6
Compensation and related	19.6	46.9	32.4	6.5	—	105.4
General and administrative	—	11.0	12.2	8.1	—	31.3
Depreciation and amortization	—	0.5	14.2	104.8	—	119.5
Total operating expenses	19.6	59.4	77.7	251.1	—	407.8
Income from unconsolidated investments, net of depreciation and amortization	—	—	37.6	6.5	—	44.1
Income from consolidated subsidiaries	50.3	148.7	49.0	—	(248.0)	—
Operating income (loss)	30.7	89.3	98.9	102.8	(248.0)	73.7
Non-operating income (expense)						
Acquisition-related gains	—	—	61.6	25.6	—	87.2
Acquisition-related expense	—	(0.4)	(0.6)	(27.3)	—	(28.3)
Interest expense-investment	—	—	(10.1)	(67.8)	—	(77.9)
Interest expense-corporate	—	(35.5)	—	—	—	(35.5)
Gain (loss) on sale of real estate	—	—	—	44.7	—	44.7
Other income / (expense)	—	0.3	0.1	(1.1)	—	(0.7)
Income (loss) before benefit from income taxes	30.7	53.7	149.9	76.9	(248.0)	63.2
(Provision for) benefit from income taxes	—	(3.4)	(1.2)	(27.9)	—	(32.5)
Net income (loss)	30.7	50.3	148.7	49.0	(248.0)	30.7
Net (income) loss attributable to the noncontrolling interests	—	—	—	15.0	—	15.0
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	30.7	50.3	148.7	64.0	(248.0)	45.7
Preferred dividends and accretion of preferred stock issuance costs	(3.1)	—	—	—	—	(3.1)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common	$27.6	$ 50.3	$ 148.7	$ 64.0	$ (248.0)	$ 42.6

shareholders

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Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$13.1	$ 28.6	$ 64.5	$ 37.1	$ (130.2)	$ 13.1
Other comprehensive (loss) income, net of tax:						
Unrealized foreign currency translation (loss) gain	(1.1)	(1.1)	(2.2)	(0.1)	3.4	(1.1)
Unrealized loss on marketable securities	0.1	0.1	—	—	(0.1)	0.1
Amounts reclassified out of AOCI during the period	0.7	0.7	—	0.7	(1.4)	0.7
Unrealized currency derivative contracts gain (loss)	(35.6)	(35.6)	1.4	(37.0)	71.2	(35.6)
Total other comprehensive (loss) income for the period	$(35.9)	$ (35.9)	$ (0.8)	$ (36.4)	$ 73.1	$ (35.9)
Comprehensive (loss) income	$(22.8)	$ (7.3)	$ 63.7	$ 0.7	$ (57.1)	$ (22.8)
Comprehensive loss attributable to noncontrolling interests	—	—	—	15.7	—	15.7
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(22.8)	$ (7.3)	$ 63.7	$ 16.4	$ (57.1)	$ (7.1)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net income (loss)	$5.1	$ 10.6	$ 44.0	$ (35.0)	$ (19.6)	$ 5.1
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation (loss) gains	(51.8)	(51.8)	(1.0)	(138.3)	191.1	(51.8)
Amounts reclassified out of AOCI during the period	(0.3)	(0.3)	(0.3)	—	0.6	(0.3)
Unrealized currency derivative contracts (loss) gain	(8.3)	(8.3)	5.8	(14.1)	16.6	(8.3)
Total other comprehensive income for the period	$(60.4)	$ (60.4)	$ 4.5	$ (152.4)	$ 208.3	$ (60.4)

Comprehensive (loss) income	$(55.3)	$ (49.8)	$ 48.5	$ (187.4)	$ 188.7	$ (55.3)
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	67.9	—	67.9
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(55.3)	$ (49.8)	$ 48.5	$ (119.5)	$ 188.7	$ 12.6

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Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$31.3	$ 79.1	$ 158.3	$ 125.4	$ (362.8)	$ 31.3
Other comprehensive (loss) income, net of tax:						
Unrealized foreign currency translation (loss) gain	(61.7)	(61.7)	(8.7)	(64.4)	134.8	(61.7)
Unrealized loss on marketable securities	0.2	0.2	—	—	(0.2)	0.2
Amounts reclassified from accumulated other comprehensive income	3.4	3.4	—	3.4	(6.8)	3.4
Unrealized currency derivative contracts gain (loss)	(125.0)	(125.0)	11.8	(136.8)	250.0	(125.0)
Total other comprehensive (loss) income for the period	$(183.1)	$ (183.1)	$ 3.1	$ (197.8)	$ 377.8	$ (183.1)
Comprehensive (loss) income	$(151.8)	$ (104.0)	$ 161.4	$ (72.4)	$ 15.0	$ (151.8)
Comprehensive loss attributable to noncontrolling interests	—	—	—	127.8	—	127.8
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(151.8)	$ (104.0)	$ 161.4	$ 55.4	$ 15.0	$ (24.0)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$30.7	$ 50.3	$ 148.7	$ 49.0	$ (248.0)	$ 30.7
Other comprehensive (loss) income, net of tax:						
Unrealized foreign currency translation (loss) gain	(88.0)	(88.0)	(9.4)	(23.8)	121.2	(88.0)
Unrealized gain on marketable securities	0.1	0.1	—	—	(0.1)	0.1
Amounts reclassified out of AOCI during the period	9.7	9.7	(0.6)	10.3	(19.4)	9.7
Unrealized currency derivative contracts gain (loss)	6.7	6.7	8.3	(1.6)	(13.4)	6.7
Total other comprehensive (loss) income for the period	$(71.5)	$ (71.5)	$ (1.7)	$ (15.1)	$ 88.3	$ (71.5)

Comprehensive (loss) income	$(40.8)	$ (21.2)	$ 147.0	$ 33.9	$ (159.7)	$ (40.8)
Comprehensive loss attributable to noncontrolling interests	—	—	—	78.3	—	78.3
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(40.8)	$ (21.2)	$ 147.0	$ 112.2	$ (159.7)	$ 37.5

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Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash (used in) provided by operating activities	$(0.2)	$ (224.2)	$ 213.2	$ 89.6	$ 78.4
Cash flows from investing activities:					
Additions to loans	—	(11.6)	(4.5)	—	(16.1)
Collections of loans	—	6.6	5.0	133.8	145.4
Net proceeds from sale of real estate	—	—	11.5	254.5	266.0
Purchases of and additions to real estate	—	—	(297.1)	(451.3)	(748.4)
Proceeds from settlement of foreign derivative contracts	—	43.3	—	—	43.3
Purchases of foreign derivative contracts	—	(5.8)	—	—	(5.8)
Investment in marketable securities	—	—	(0.9)	—	(0.9)
Distributions from unconsolidated investments	—	—	28.7	34.7	63.4
Contributions to unconsolidated investments	—	(1.0)	(52.5)	(16.8)	(70.3)
(Investments in) distributions from consolidated subsidiaries, net	91.1	(9.9)	(115.1)	33.9	—
Net cash provided by investing activities	91.1	21.6	(424.9)	(11.2)	(323.4)
Cash flows from financing activities:					
Borrowings under senior notes payable	—	250.0	—	—	250.0
Borrowings under line of credit	—	125.0	—	—	125.0
Repayment of line of credit	—	(125.0)	—	—	(125.0)
Borrowings under investment debt	—	—	236.7	696.7	933.4
Repayment of investment debt			(24.6)	(382.5)	(407.1)
Debt issue costs	—	(3.5)	(1.2)	(4.7)	(9.4)
Repurchase and retirement of common stock	(43.4)	—	—	—	(43.4)
Dividends paid	(47.5)	—	—	—	(47.5)
Acquisition of KWE shares from noncontrolling interest holders	—	—	—	(70.6)	(70.6)
Contributions from noncontrolling interests, excluding KWE	—	—	—	25.3	25.3
Distributions to noncontrolling interests	—	—	—	(94.8)	(94.8)
Net cash (used in) provided by financing activities	(90.9)	246.5	210.9	169.4	535.9
Effect of currency exchange rate changes on cash and cash equivalents	—	—	—	(47.3)	(47.3)
Net change in cash and cash equivalents	—	43.9	(0.8)	200.5	243.6
Cash and cash equivalents, beginning of period	—	80.2	37.0	614.4	731.6
Cash and cash equivalents, end of period	$—	$ 124.1	$ 36.2	$ 814.9	$ 975.2

Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash provided (used in) by operating activities	$4.8	$ 41.2	$ 103.9	$ (35.7)	$ 114.2
Cash flows from investing activities:					
Additions to loans	—	(39.0)	—	(194.9)	(233.9)
Collections of loans	—	—	8.7	6.6	15.3
Net proceeds from sale of real estate	—	—	—	523.4	523.4
Purchases of and additions to real estate	—	—	(186.3)	(1,347.7)	(1,534.0)
Additions to nonrefundable escrow deposits	—	—	—	—	—
Proceeds from settlement of foreign derivative contracts	—	17.9	—	18.3	36.2
Purchases of foreign derivative contracts	—	(3.7)	—	(1.5)	(5.2)
Proceeds from sale of marketable securities	—	—	6.2	—	6.2
Distributions from unconsolidated investments	—	—	44.5	47.5	92.0
Contributions to unconsolidated investments	—	(1.5)	(67.4)	(86.3)	(155.2)
(Investments in) distributions from consolidated subsidiaries, net	(170.7)	113.1	18.9	38.7	—
Net cash (used in) provided by investing activities	(170.7)	86.8	(175.4)	(995.9)	(1,255.2)
Cash flows from financing activities:					
Borrowings under line of credit	—	75.0	—	—	75.0
Repayment of lines of credit	—	(200.0)	—	—	(200.0)
Borrowings under investment debt	—	—	84.0	1,548.2	1,632.2
Repayment of investment debt	—	—	(5.1)	(615.1)	