FORM 8-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 10, 2013**

KKR Financial Holdings LLC

(Exact Name of Registrant as specified in its charter)

Delaware	**001-33437**	**11-3801844**
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

555 California Street, 50th Floor, San Francisco, California	**94104**
(Address of principal executive office)	(Zip Code)

415-315-3620

Registrant' s telephone number, including area code

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13.e-4(c)

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On January 10, 2013, an amendment ("Amendment No. 2") to the Company' s Amended and Restated Operating Agreement became effective. Amendment No. 2 clarifies (a) the ability of the board of directors of the Company (the "Board") to delegate to committees all powers and authorities of the Board, including any matter requiring the affirmative approval of a majority or other percentage of the Board and (b) the means by which members of the Board may waive required notice of Board meetings.

Amendment No. 2 is attached to this Current Report as Exhibit 3.1 and is incorporated herein by reference. The foregoing description of Amendment No. 2 is qualified in its entirety by reference to such exhibit.

Item 7.01 Regulation FD Disclosure.

On January 10, 2013, the Company issued a press release related to its offering of the Series A LLC Preferred Shares (as defined below). A copy of this press release is attached to this Current Report on Form 8-K as Exhibit 99.1. The information contained in this Item 7.01 and the attached press release is "furnished" but not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Item 8.01 Other Events.

Underwriting Agreement

On January 10, 2013, KKR Financial Holdings LLC (the "Company") entered into an underwriting agreement (the "Underwriting Agreement") with Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC, as representatives of the underwriters (collectively, the "Underwriters") to issue and sell (the "Offering") 13,000,000 of the Company' s 7.375% Series A LLC Preferred Shares, no par value and liquidation preference $25 per share (the "Series A LLC Preferred Shares"), and, at the option of the Underwriters, up to an additional 1,950,000 Series A LLC Preferred Shares to cover over-allotments, if any. The Offering is expected to close on January 17, 2013. The Underwriting Agreement contains certain customary representations, warranties and agreements by the Company, conditions to closing, indemnification rights and obligations of the parties and termination provisions.

The Offering is being made pursuant to a registration statement on Form S-3 (Registration No. 333-167479) and a related prospectus, including the related prospectus supplement (the "Prospectus Supplement"), filed with the Securities and Exchange Commission on January 10, 2013. The Underwriting Agreement is attached hereto as Exhibit 1.1 and is incorporated herein by reference. The foregoing description of the terms of the Underwriting Agreement is qualified in its entirety by reference to such exhibit.

Updated Risk Factors

In anticipation of the issuance of the Series A LLC Preferred Shares on January 17, 2013, the Company is filing the risk factors attached hereto as Exhibit 99.2 for the purpose of updating certain portions of the risk disclosure with respect to the Company' s common shares contained under the caption "Risk Factors" in the Company' s Annual Report on Form 10-K which was filed with the SEC on February 28, 2012.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

The following documents are attached as exhibits to this Current Report on Form 8-K:

Exhibit Number	Description

1.1	Underwriting Agreement, dated as of January 10, 2013, among the Company, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC.
3.1	Amendment No. 2 to the Amended and Restated Operating Agreement of the Company, effective as of January 10, 2013.
99.1	Press Release titled "KKR Financial Holdings LLC Prices 7.375% Series A LLC Preferred Shares."
99.2	Updated Risk Factors.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: This current report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on information available to the Company as of the date of this current report and actual results may differ. These forward-looking statements involve known and unknown risks, uncertainties and other factors beyond the Company' s control. Any forward-looking statements speak only as of the date of this current report and the Company expressly disclaims any obligation to update or revise any of them to reflect actual results, any changes in expectations or any change in events. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. For additional information concerning risks, uncertainties and other factors that may cause actual results to differ from those anticipated in the forward-looking statements, and risks to the Company' s business in general, please refer to the Company' s SEC filings, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on February 28, 2012 and the risks described in Exhibit 99.2 hereto.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KKR FINANCIAL HOLDINGS LLC

By: /s/ NICOLE J. MACARCHUK
Name: Nicole J. Macarchuk
Title: Secretary and General Counsel

Date: January 10, 2013

Exhibit 1.1

13,000,000 Shares

KKR FINANCIAL HOLDINGS LLC

7.375% Series A LLC Preferred Shares, no par value

Underwriting Agreement

January 10, 2013

Citigroup Global Markets Inc.
Morgan Stanley & Co. LLC
UBS Securities LLC
Wells Fargo Securities, LLC

As Representatives of the several Underwriters listed in Schedule 1 hereto

c/o Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013

Morgan Stanley & Co. LLC
1585 Broadway
New York, New York 10036

UBS Securities LLC
677 Washington Boulevard
Stamford, CT 06901

Wells Fargo Securities, LLC
550 South Tryon Street
Charlotte, NC 28202

Ladies and Gentlemen:

KKR Financial Holdings LLC, a Delaware limited liability company (the "Company"), proposes to issue and sell to the several Underwriters listed in Schedule 1 hereto (the "Underwriters"), for whom you are acting as representatives (the "Representatives"), an aggregate of 13,000,000 shares of the Company' s 7.375% Series A LLC Preferred Shares, no par value, representing preferred limited liability company interests in the Company (the "Underwritten Securities") and, at the option of the Underwriters, up to an additional 1,950,000 shares

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of the Company' s 7.375% Series A LLC Preferred Shares, no par value, representing preferred limited liability company interests in the Company (the "Option Securities") to cover over-allotments, if any, pursuant to Section 2 hereof. The Underwritten Securities and the Option Securities are herein referred to as the "Securities." The 7.375% Series A LLC Preferred Shares, no par value, representing

preferred limited liability company interests in the Company to be outstanding after giving effect to the sale of the Securities are referred to herein as the "Preferred Shares" and all the shares issued and sold pursuant to this Underwriting Agreement shall be Preferred Shares (as defined in the Operating Agreement (as defined below)).

The Company hereby confirms its agreement with the several Underwriters concerning the purchase and sale of the Securities, as follows:

1. Registration Statement. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Securities Act"), a registration statement (File No. 333-167479) including a prospectus (the "Basic Prospectus"), relating to the registration of certain securities described therein, including the Securities. Such registration statement, as amended at the time it becomes effective, including the information, if any, deemed pursuant to Rule 430A, 430B or 430C under the Securities Act to be part of the registration statement at the time of its effectiveness ("Rule 430 Information"), is referred to herein as the "Registration Statement"; and as used herein, the term "Preliminary Prospectus" means the Basic Prospectus together with the preliminary prospectus supplement dated January 10, 2013 specifically relating to the Securities; and the term "Prospectus" means the Basic Prospectus as supplemented by the prospectus supplement specifically relating to the Securities in the form first used (or made available upon request of purchasers pursuant to Rule 173 under the Securities Act) in connection with confirmation of sales of the Securities. If the Company has filed an abbreviated registration statement pursuant to Rule 462(b) under the Securities Act (the "Rule 462 Registration Statement"), then any reference herein to the term "Registration Statement" shall be deemed to include such Rule 462 Registration Statement. Any reference in this Agreement to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act, as of the effective date of the Registration Statement or the date of such Preliminary Prospectus or the Prospectus, as the case may be, and any reference to "amend", "amendment" or "supplement" with respect to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after such date under the Securities Exchange Act of 1934, as amended, and the rules and regulations of the

Commission thereunder (collectively, the "Exchange Act") that are deemed to be incorporated by reference therein. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Registration Statement and the Prospectus.

At or prior to the time when sales of the Securities were first made (the "Execution Time"), the Company had prepared the following information (collectively, the "Disclosure Package"): a Preliminary Prospectus dated January 10, 2013, and each "free-writing prospectus" (as defined pursuant to Rule 405 under the Securities Act) listed on Annex G hereto.

2. Purchase of the Securities by the Underwriters.

(a) The Company agrees to issue and sell the Underwritten Securities to the several Underwriters as provided in this Agreement, and each Underwriter, on the basis of the representations, warranties and agreements set forth herein and subject to the conditions set forth herein, agrees, severally and not jointly, to purchase from the Company the respective number of Underwritten Securities set forth opposite such Underwriter' s name in Schedule 1 hereto at a price per share of $24.2125 (the "Purchase Price").

In addition, the Company agrees to issue and sell the Option Securities to the several Underwriters as provided in this Agreement to cover over-allotments, if any, and the Underwriters, on the basis of the representations, warranties and agreements set forth herein and subject to the conditions set forth herein, shall have the option to purchase, severally and not jointly, from the Company the Option Securities at the Purchase Price less an amount per share equal to any distributions declared by the Company and payable on the Underwritten Securities but not payable on the Option Securities.

If any Option Securities are to be purchased, the number of Option Securities to be purchased by each Underwriter shall be the number of Option Securities which bears the same ratio to the aggregate number of Option Securities being purchased as the number of Underwritten Securities set forth opposite the name of such Underwriter in Schedule 1 hereto (or such number increased as set forth in Section 10 hereof) bears to the number of Underwritten Securities being purchased from the Company by the several Underwriters, subject, however, to such adjustments to eliminate any fractional shares as the Representatives in their sole discretion shall make.

The Underwriters may exercise the option to purchase the Option Securities at any time in whole, or from time to time in part, on or before the thirtieth day following the date of this Agreement, by written notice from the Representatives to the Company. Such notice shall set forth the aggregate

number of Option Securities as to which the option is being exercised and the date and time when the Option Securities are to be delivered and paid for, which may be the same date and time as the Closing Date (as hereinafter defined) but shall not be earlier than the Closing Date or, with respect to Option Securities to be delivered after the Closing Date, no earlier than two or later than ten full business days (as hereinafter defined) after the date of such notice (unless such time and date are postponed in accordance with the provisions of Section 10 hereof).

(b) The Company understands that the Underwriters intend to make a public offering of the Securities as soon after the effectiveness of this Agreement as in the judgment of the Representatives is advisable, and initially to offer the Securities on the terms set forth in the Prospectus. The Company acknowledges and agrees that the Underwriters may offer and sell Securities to or through any affiliate of an Underwriter and that any such affiliate may offer and sell Securities purchased by it to or through any Underwriter.

(c) Payment for the Securities shall be made by wire transfer in immediately available funds to the account specified by the Company to the Representatives in the case of the Underwritten Securities, at the offices of Davis Polk & Wardwell LLP, 450 Lexington Avenue, New York, New York 10017 at 10:00 A.M. New York City time on January 17, 2013, or at such other time or place on the same or such other date, not later than the fifth business day thereafter, as the Representatives and the Company may agree upon in writing or, in the case of the Option Securities, on the date and at the time and place specified by the Representatives in the written notice of the Underwriters' election to purchase such Option Securities. The time and date of such payment for the Underwritten Securities is referred to herein as the "Closing Date" and the time and date for such payment for the Option Securities, if other than the Closing Date, is herein referred to as the "Additional Closing Date".

Payment for the Securities to be purchased on the Closing Date or the Additional Closing Date, as the case may be, shall be made against delivery to the nominee of The Depository Trust Company ("DTC"), for the respective accounts of the several Underwriters of the Securities to be purchased on such date in one global certificate representing the Securities (the "Global Certificate"), with any transfer taxes payable in connection with the sale of such Securities duly paid by the Company. The Global Certificate for the Securities will be made available for inspection by the Representatives at the office of Davis Polk & Wardwell LLP set forth above not later than 1:00 P.M., New York City time, on the business day prior to the Closing Date or the Additional Closing Date, as the case may be.

(d) The Company acknowledges and agrees that the Underwriters are acting solely in the capacity of an arm' s length contractual counterparty to the

Company with respect to the offering of Securities contemplated hereby (including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, the Company or any other person. Additionally, neither the Representatives nor any other Underwriter is advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. The Company shall consult with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and the Underwriters shall have no responsibility or liability to the Company with respect thereto. Any review by the Underwriters of the Company, the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of the Underwriters and shall not be on behalf of the Company.

3. Representations and Warranties. The Company and KKR Financial Advisors LLC, a Delaware limited liability company (the "Manager"), jointly and severally, represent and warrant to, and agree with, each Underwriter as set forth below in this Section 3 that:

(a) *Preliminary Prospectus.* No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus included in the Disclosure Package, at the time of filing thereof, complied in all material respects with the Securities Act, and no Preliminary Prospectus, at the time of filing thereof, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation and warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of such Underwriter through the Representatives expressly for use in any Preliminary Prospectus, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof.

(b) *Disclosure Package.* The Disclosure Package, at the Execution Time, did not, and at the Closing Date and as of the Additional Closing Date, as the case may be, will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation and warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of such Underwriter through the

Representatives expressly for use in such Disclosure Package, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 7(b) hereof.

(c) *Issuer Free Writing Prospectus.* Other than the Registration Statement, the Preliminary Prospectus and the Prospectus, the Company (including its agents and representatives, other than the Underwriters in their capacity as such) has not made, used, prepared, authorized, approved or referred to and will not prepare, make, use, authorize, approve or refer to any "written communication" (as defined in Rule 405 under the Securities Act) that constitutes an offer to sell or solicitation of an offer to buy the Securities (each such communication by the Company or its agents and representatives (other than a communication referred to in clause (i) below) (an "Issuer Free Writing Prospectus")) other than (i) any document not constituting a prospectus pursuant to Section 2(a)(10)(a) of the Securities Act or Rule 134 under the Securities Act or (ii) the documents listed on Annex G hereto, each electronic road show and any other written communications approved in writing in advance by the Representatives. Each such Issuer Free Writing Prospectus complied in all material respects with the Securities Act, has been or will be (within the time period specified in Rule 433) filed in accordance with the Securities Act (to the extent required thereby) and, when taken together with the Preliminary Prospectus filed prior to the first use of such Issuer Free Writing Prospectus, did not, and as of the Closing Date and as of the Additional Closing Date, as the case may be, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each such Issuer

Free Writing Prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Securities or until any earlier date that the Company notified or notifies the Representatives as described in Section 4(e), did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement or the Prospectus, including any document incorporated by reference therein and any Preliminary Prospectus deemed to be a part thereof that has not been superseded or modified.

(d) *Registration Statement and Prospectus.* The Registration Statement has become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act. No order suspending the effectiveness of the Registration Statement has been issued by the Commission and no proceeding for that purpose or pursuant to Section 8A of the Securities Act against the Company or related to the offering has been initiated or, to the Company' s knowledge, threatened by the Commission; as of the applicable effective date of the Registration Statement and any post-effective amendment thereto, the

Registration Statement complied and will comply in all material respects with the Securities Act, and did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading; and as of the date of the Prospectus and any amendment or supplement thereto and as of the Closing Date and as of the Additional Closing Date, as the case may be, the Prospectus does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation and warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of such Underwriter through the Representatives expressly for use in the Registration Statement and the Prospectus and any amendment or supplement thereto, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof.

(e) *Incorporated Documents.* The documents incorporated by reference in the Registration Statement, the Prospectus or the Disclosure Package, when they were filed with the Commission conformed in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and none of such documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Registration Statement, the Prospectus or the Disclosure Package, when such documents are filed with the Commission, will conform in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) *Organization and Good Standing.* Each of the Company and its subsidiaries has been duly formed or incorporated, as the case may be, and is validly existing as a limited liability company, business or statutory trust, or corporation, as the case may be, in good standing under the laws of the jurisdiction in which it is formed or incorporated, as the case may be, with full limited liability company, trust or corporate power and authority as a limited liability company, business or statutory trust, or corporation, as the case may be, to own, lease and operate its properties and conduct its business as described in the Disclosure Package and the Prospectus; and each of the Company and its

subsidiaries is duly qualified to do business as a foreign limited liability company, business or statutory trust, or corporation, as the case may be, and is in good standing under the applicable laws of each jurisdiction which requires such qualification, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a material

adverse effect on the condition (financial or otherwise), members' or shareholders' equity, results of operations, assets or business of the Company and its subsidiaries, taken as a whole (a "Material Adverse Effect").

(g) *Subsidiary Shares.* All the outstanding shares of capital stock, trust securities or limited liability company interests, as the case may be, of each subsidiary have been duly and validly authorized and issued and are fully paid and non-assessable, and, except as otherwise set forth in the Disclosure Package and the Prospectus, all outstanding shares, trust securities and limited liability company interests of the subsidiaries are owned by the Company either directly or indirectly, free and clear of any perfected security interest or any other security interests, claims, liens or encumbrances.

(h) *Capitalization.* The Company' s authorized capitalization is as set forth in the Disclosure Package and the Prospectus under the caption "Capitalization" in the line items "Common shares" and "Preferred shares"; and except as set forth in the Disclosure Package and the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, Preferred Shares in the Company are outstanding.

(i) *Description of Preferred Shares.* The statements set forth under the heading "Description of Shares" in the Preliminary Prospectus and the Prospectus, insofar as such statements purport to summarize certain provisions of the Securities and the Amended and Restated Operating Agreement of the Company (as amended on the date hereof), provide a fair summary of such provisions. The statements set forth under the heading "Description of the Series A LLC Preferred Shares" in the Preliminary Prospectus and the Prospectus insofar as such statements purport to summarize certain provisions of the Securities and the Amended and Restated Operating Agreement of the Company (as amended, and including the Share Designation of the Series A LLC Preferred Shares (the "Certificate of Designation"), the "Operating Agreement") provide a fair summary of such provisions.

(j) *No Consents Required.* No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Securities Act and the Exchange Act and such as may be required under the Blue Sky laws of any jurisdiction in connection with the

purchase and distribution of the Securities by the Underwriters in the manner contemplated herein and in the Disclosure Package and the Prospectus.

(k) *No Conflicts.* None of the execution and delivery of this Agreement, the Securities, the issuance and sale of the Securities nor the consummation of any other of the transactions herein contemplated, nor the fulfillment of the terms hereof, nor compliance by the Company and the Manager with the terms and provisions of this Agreement, the Securities and the Amended and Restated Management Agreement, dated as of May 4, 2007 (as amended, the "Management Agreement"), as applicable, will conflict with, result in a breach or violation of, or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, (i) the charter or by-laws or other organizational or governing documents, as applicable, of the Company or any of its subsidiaries, including, without limitation, the certificate of formation of the Company and the Operating Agreement, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company or any of its subsidiaries or the Manager is a party or bound or to which any property of the Company or any of its subsidiaries or the Manager is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its subsidiaries or any properties of the Company or any of its subsidiaries or the Manager, except (solely in the case of clauses (ii) and (iii) of this paragraph) for such breaches or violations which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect and which would not reasonably be expected to have a material adverse effect on the transactions contemplated by this Agreement.

(l) *No Registration Rights.* No holders or beneficial owners of securities of the Company have rights to the registration of such securities under the Registration Statement.

(m) *Financial Statements.* The consolidated financial statements of the Company and its consolidated subsidiaries incorporated by reference in the Preliminary Prospectus, the Prospectus and the Registration Statement present fairly in all material respects the financial condition, results of operations and cash flows of the Company and its consolidated subsidiaries as of the dates and for the periods indicated, comply as to form with the applicable accounting requirements of the Securities Act and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis (except as otherwise noted therein). The selected financial data set forth under the caption "Selected Consolidated Financial Data" in the Company' s Annual Report on

Form 10-K for the year ended December 31, 2011 presents fairly in all material respects, on the basis stated therein, the information included therein.

(n) *Legal Proceedings.* No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries or the Manager or any property of the Company or any of its subsidiaries or of the Manager is pending or, to the knowledge of the Company and the Manager, threatened that if determined adversely to the Company or any of its subsidiaries or the Manager, as the case may be, (i) could, individually or in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of any of the transactions contemplated hereby or (ii) could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto filed after the Execution Time).

(o) *Conduct of Operations.* Each of the Company and each of its subsidiaries owns or leases all such properties as are necessary to the conduct of its operations as presently conducted.

(p) *No Violation or Default.* Neither the Company nor any subsidiary is in violation or default of (i) any provision of its charter or bylaws or other organizational documents, as applicable, including, without limitation, the certificate of formation of the Company or the Operating Agreement, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or such subsidiary or any properties of the Company or any of its subsidiaries, as applicable, except (solely in the case of clauses (ii) and (iii) of this paragraph) for such defaults or violations which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Manager is not in violation or default of any provisions of the Management Agreement.

(q) *Underwriting Agreement.* This Agreement has been duly authorized, executed and delivered by the Company and the Manager.

(r) *The Securities.* The Securities have been duly authorized by the Company and, when duly executed, authenticated, issued and delivered and paid for as provided herein, will be fully paid and non-assessable and will conform to the descriptions thereof in the Registration Statement, the Disclosure Package and

the Prospectus; and the issuance of the Securities will not be subject to any preemptive or similar rights and the holders of the Securities shall not be obligated personally for any of the debts, obligations or liabilities of the Company, whether arising in contract, tort or otherwise, solely by reason of being a member of the Company and are not liable under the LLC Act or the Operating Agreement to make any capital contributions or other payments to the Company with respect to the Securities (however, a holder of Securities may be obligated to repay any funds wrongfully distributed to it by the Company and to make other payments under the Operating Agreement, all as described in the Preliminary Prospectus and the Prospectus under the caption "Description of Shares").

(s) *Independent Accountants.* Deloitte & Touche LLP, who have rendered their report of independent registered public accounting firm on certain consolidated financial statements of the Company and its consolidated subsidiaries and delivered their report dated as of February 28, 2012 with respect to the audited consolidated financial statements included in the Disclosure Package and the Prospectus, are an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and the rules and regulations of the Public Company Accounting Oversight Board.

(t) *Tax and Information Returns.* The Company and its subsidiaries have filed all foreign, federal, state and local tax and information returns that are required to be filed or, if applicable, has requested extensions thereof (except in any case in which the failure so to file would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto filed after the Execution Time)) and have paid all taxes required to be paid by any of them and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto filed after the Execution Time).

(u) *Insurance.* The Company and its subsidiaries carry or are covered by insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective assets, except where the failure to maintain such insurance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(v) *No Restrictions on Subsidiaries.* No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the

Company, from making any other distribution on such subsidiary' s capital stock or other equity interests, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary' s property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated by the Disclosure Package, the Prospectus (exclusive of any supplement thereto filed after the Execution Time) and the Stock Purchase Agreement dated March 4, 2008 among KKR Financial Corp., the Company and Rock Capital 2 LLC relating to the sale of KKR Financial Corp., as amended and restated on June 30, 2008, except that the Company' s special purpose subsidiaries (KKR Financial CLO 2005-2, Ltd., KKR Financial CLO 2006-1, Ltd., KKR Financial CLO 2007-1, Ltd., KKR Financial CLO 2007-4, Ltd., KKR Financial CLO 2007-A, Ltd., KKR Financial CLO 2008-1, Ltd., KKR Financial CLO 2009-1, Ltd., KKR Financial CDO 2005-1, Ltd., KKR Financial CLO 2005-1, Ltd., KKR Financial CLO 2011-1, Ltd., KKR Financial CLO 2012-1, Ltd., KFN NR Investors L.P. and Wayzata Funding LLC) are precluded from paying any dividends and/or making any distributions of cash or earnings to the Company except as specifically provided in the respective indentures and/or credit agreements, as the case may be, to which such special purpose subsidiaries are parties.

(w) *Licenses and Permits.* The Company and its subsidiaries possess all licenses, certificates, permits and other authorizations issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and, to the Company' s knowledge, neither the Company nor any such subsidiary has received any notice of proceedings relating to the

revocation or modification of any such certificate, authorization or permit which, if the subject of an unfavorable decision, ruling or finding, would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Prospectus (exclusive of any supplement thereto filed after the Execution Time).

(x) *Accounting Controls.* The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management' s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management' s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(y) *Disclosure Controls.* The Company and its subsidiaries maintain "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) under the Exchange Act); such disclosure controls and procedures are effective.

(z) *Sarbanes-Oxley Act.* The Company is in compliance in all material respects with all applicable requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations thereunder.

(aa) *Compliance with Law.* The Company and its subsidiaries are in compliance with all applicable federal, state, local and foreign laws, rules and regulations, orders, decrees and judgments, including those relating to transactions with affiliates, except where the failure to so comply would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(bb) *Compliance With Environmental Laws and ERISA*. Neither the Company nor its subsidiaries nor the Manager has violated, received notice of or knows of any violation by the Company or its subsidiaries or the Manager with respect to any applicable environmental, safety or similar law, or any federal or state law relating to discrimination in the hiring, promotion or pay of employees performing services for the Company or its subsidiaries, or any applicable federal or state wages and hours law, or any provisions of the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations promulgated thereunder, the violation of any of which could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(cc) *No Unlawful Payments.* Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any officer or director purporting to act on behalf of the Company has at any time (i) made any contributions to any candidate for state or national political office, or failed to disclose fully any such contributions, in either case, in violation of law, (ii) made any payment to any state, federal or foreign governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or allowed by applicable law, or (iii) engaged in any transactions, maintained any bank account or used any corporate funds except for transactions, bank accounts and funds which have been and are reflected in the Company' s consolidated financial statements.

(dd) *No Outstanding Related Party Loans*. There are no outstanding loans or advances or guarantees of indebtedness by the Company to or for the benefit of any of the officers, directors, affiliates that are natural persons or representatives that are natural persons of the Company or any of the members of the families of any of them.

(ee) *Most Current Data.* To the knowledge of the Company, the industry, statistical and market-related data included or incorporated by reference in the Registration Statement and the Prospectus is based on or derived from the most current available sources.

(ff) *Intangible Property Rights.* To the extent applicable, the Company owns or possesses such licenses or other rights to use all material patents, trademarks, service marks, trade names, copyrights, software, trade secrets, other intangible property rights and know-how (collectively "Intangibles") as are necessary to entitle the Company to conduct its business, and the Company has not violated or received written notice of any infringement of or conflict with (and the Company does not know of any such infringement of or conflict with) asserted rights of others with respect to any Intangibles that could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and, without limitation to the foregoing, the Company has a paid-up royalty free and non-exclusive license to use the service mark, corporate name and trade name "KKR."

(gg) *Lending Relationships.* Except as disclosed in the Disclosure Package and the Prospectus (exclusive of any supplement thereto filed after the Execution Time), the Company (i) does not have any material lending or other relationship with any bank or lending affiliate of any of the Underwriters and (ii) does not intend to use any of the proceeds from the sale of the Securities hereunder to repay any outstanding loan or credit facility owed to any affiliate of any of the Underwriters.

(hh) *Management Agreement.* The Management Agreement has been duly authorized, executed and delivered by, and is a valid and binding agreement of, the Company and the Manager, enforceable against the Company and the Manager in accordance with its terms, except as the enforceability thereof may be limited by the Enforceability Exceptions.

(ii) *REIT.* KKR Financial Corp. has satisfied the requirements for qualification and taxation as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), for its taxable years ended December 31, 2004 through December 31, 2007 and for the period from January 1, 2008 through June 30, 2008, and KKR Financial Holdings II, LLC has satisfied the requirements for qualification and taxation as a REIT under the Code for its taxable years ended December 31, 2007 through December 31, 2012, and its current and proposed method of operation will enable it to continue to qualify as a REIT for its taxable year ending December 31, 2013 and thereafter and all statements in the Disclosure Package and the Prospectus regarding KKR Financial Corp.' s and KKR Financial Holdings II, LLC' s qualification as a REIT are true, complete and correct in all material respects.

(jj) *Investment Advisers Act.* The Manager is not prohibited by the Investment Advisers Act of 1940, as amended, or the rules or regulations promulgated thereunder from acting under the Management Agreement as contemplated by the Disclosure Package and the Prospectus; and the Manager is conducting its investment advisory operations as an investment adviser registered under the Investment Advisers Act of 1940, as amended, in reliance on the registration of KKR Asset Management LLC.

4. Further Agreements of the Company. The Company and (for so long as the Manager is the manager under the Management Agreement) the Manager jointly and severally covenants and agrees with each Underwriter that:

(a) *Required Filings.* The Company will file the final Prospectus with the Commission within the time periods specified by Rule 424(b) and Rule 430A, 430B or 430C under the Securities Act, will file any Issuer Free Writing Prospectus (including the term sheet substantially in the form of Annex H hereto) to the extent required by Rule 433 under the Securities Act; will file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Securities; and the Company will furnish copies of the Prospectus and each Issuer Free Writing Prospectus (to the extent not previously delivered) to the Underwriters in New York City prior to 10:00 A.M., New York City time, on the business day next succeeding the date of this Agreement in such quantities as the Representatives may reasonably request.

(b) *Delivery of Copies.* The Company will deliver, without charge, (i) to the Representatives, a conformed copy of the Registration Statement as originally filed and each amendment thereto, in each case including all exhibits and consents filed therewith;

and (ii) to each Underwriter (A) a conformed copy of the Registration Statement as originally filed and each amendment thereto (without exhibits) and (B) during the Prospectus Delivery Period (as defined below), as many copies of the Prospectus (including all amendments and supplements thereto and documents incorporated by reference therein) and each Issuer Free Writing Prospectus as the Representatives may reasonably request. As used herein, the term "Prospectus Delivery Period" means such period of time after the first date of the public offering of the Securities as in the opinion of counsel for the Underwriters a prospectus relating to the Securities is required by law to be delivered (or required to be delivered but for Rule 172 under the Securities Act) in connection with sales of the Securities by any Underwriter or dealer.

(c) *Amendments or Supplements, Issuer Free Writing Prospectuses.* Before making, preparing, using, authorizing, approving, referring to or filing any Issuer Free Writing Prospectus, and before filing any amendment or supplement to the Registration Statement or the Prospectus, the Company will furnish to the Representatives and counsel for the Underwriters a copy of the proposed Issuer Free Writing Prospectus, amendment or supplement for review and will not make, prepare, use, authorize, approve, refer to or file any such Issuer Free Writing Prospectus or file any such proposed amendment or supplement to which the Representatives reasonably object.

(d) *Notice to the Representatives.* The Company will advise the Representatives promptly, and confirm such advice in writing, (i) when any amendment to the Registration Statement has been filed or becomes effective; (ii) when any supplement to the Prospectus or any Issuer Free Writing Prospectus or any amendment to the Prospectus has been filed; (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or the receipt of any comments from the Commission relating to the Registration Statement or any other request by the Commission for any additional information; (iv) of the issuance by the Commission of any order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Preliminary Prospectus, any of the Disclosure Package or the Prospectus or the initiation or threatening of any proceeding for that purpose or pursuant to Section 8A of the Securities Act; (v) of the occurrence of any event within the Prospectus Delivery Period as a result of which the Prospectus, the Disclosure Package or any Issuer Free Writing Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances existing when the Prospectus, the Disclosure Package or any such Issuer Free Writing Prospectus is delivered to a purchaser, not misleading; and (vi) of the receipt by the Company of any notice with respect to any suspension of the qualification of the Securities for offer and sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and the Company will use its best efforts to prevent the issuance of any such order suspending the effectiveness of the Registration Statement, preventing or suspending the use of any Preliminary Prospectus, any of the Disclosure Package or the Prospectus or suspending any such qualification of the Securities and, if any such order is issued, will obtain as soon as possible the withdrawal thereof.

(e) *Ongoing Compliance.* (1) If during the Prospectus Delivery Period (i) any event shall occur or condition shall exist as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the

statements therein, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Prospectus to comply with law, the Company will as soon as reasonably practicable notify the Underwriters thereof and forthwith prepare and, subject to paragraph (c) above, file with the Commission and furnish to the Underwriters and to such dealers as the Representatives may designate, such amendments or supplements to the Prospectus as may be necessary so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus will comply with law and (2) if at any time prior

to the Closing Date, (i) any event shall occur or condition shall exist as a result of which the Disclosure Package as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Disclosure Package is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Disclosure Package to comply with law, the Company will immediately notify the Underwriters thereof and forthwith prepare and, subject to paragraph (c) above, file with the Commission (to the extent required) and furnish to the Underwriters and to such dealers as the Representatives may designate, such amendments or supplements to the Disclosure Package as may be necessary so that the statements in the Disclosure Package as so amended or supplemented will not, in the light of the circumstances, be misleading or so that the Disclosure Package will comply with law.

(f) *Blue Sky Compliance.* The Company will qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives shall reasonably request and will continue such qualifications in effect so long as required for distribution of the Securities; provided that the Company shall not be required to (i) qualify as a foreign corporation or other entity or as a dealer in securities in any such jurisdiction where it would not otherwise be required to so qualify, (ii) file any general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any such jurisdiction if it is not otherwise so subject.

(g) *Clear Market.* For a period of 30 days after the date of the offering of the Securities, the Company will not (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or file with the Commission a registration statement under the Securities Act relating to any Preferred Shares, securities similar to or ranking on parity with or senior to the Preferred Shares or any securities convertible into or exercisable or exchangeable for the Preferred Shares or any such similar, parity

or senior securities, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Preferred Shares or any such similar, parity or senior securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the Preferred Shares or any such similar, parity or senior securities, in cash or otherwise, without the prior written consent of the Representatives; provided that the Company may issue and sell the Securities to the Underwriters pursuant to this Agreement.

(h) *Use of Proceeds.* The Company will apply the net proceeds from the sale of the Securities as described in the Registration Statement, the Disclosure Package and the Prospectus under the heading "Use of Proceeds".

(i) *No Stabilization.* The Company will not take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Securities and will not take any action prohibited by Regulation M under the Exchange Act in connection with the distribution of the Securities contemplated hereby.

(j) *Exchange Listing.* The Company will use its best efforts to list, subject to notice of issuance, the Securities on the New York Stock Exchange (the "Exchange") no later than 30 days after the date of this Agreement.

(k) *Reports.* During the period three years hereafter, the Company will furnish to the Representatives, as soon as they are available, copies of all reports or other communications (financial or other) furnished to holders of the Securities, and copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange or automatic quotation system, provided, however, in no event shall the Company be required to furnish copies of any such documents that are filed and publicly accessible via the EDGAR database.

(l) *Record Retention.* The Company will, pursuant to reasonable procedures developed in good faith, retain copies of each Issuer Free Writing Prospectus that is not filed with the Commission in accordance with Rule 433 under the Securities Act.

5. Certain Agreements of the Underwriters. Each Underwriter hereby represents and agrees that it has not used, authorized use of, referred to or participated in the planning for use of, and will not use, authorize use of, refer to or participate in the planning for use of, any "free writing prospectus", as defined in Rule 405 under the Securities Act (which term includes use of any written information furnished to the Commission by the Company and not incorporated

by reference into the Registration Statement and any press release issued by the Company) other than (i) a free writing prospectus that contains no "issuer information" (as defined in Rule 433(h)(2) under the Securities Act) that was not included (including through incorporation by reference) in the Preliminary Prospectus or a previously filed Issuer Free Writing Prospectus, (ii) any Issuer Free Writing Prospectus listed on Annex G or prepared pursuant to Section 3(c) or Section 4(c) above (including any electronic road show), (iii) any free writing prospectus prepared by such underwriter and approved by the Company in advance in writing or (iv) any free writing prospectus that is not required to be filed with the Commission pursuant to applicable rules.

6. Conditions of Underwriters' Obligations. The obligation of each Underwriter to purchase the Underwritten Securities on the Closing Date or the Option Securities on the Additional Closing Date, as the case may be as provided herein is subject to the performance by the Company of its covenants and other obligations hereunder and to the following additional conditions:

(a) *Registration Compliance; No Stop Order.* No order suspending the effectiveness of the Registration Statement shall be in effect, and no proceeding for such purpose or pursuant to Section 8A under the Securities Act shall be pending before or threatened by the Commission; the Prospectus and each Issuer Free Writing Prospectus shall have been timely filed with the Commission under the Securities Act (in the case of an Issuer Free Writing Prospectus, to the extent required by Rule 433 under the Securities Act) and in accordance with Section 4(a) hereof; and all requests by the Commission for additional information shall have been complied with to the reasonable satisfaction of the Representatives.

(b) *Representations and Warranties.* The representations and warranties of the Company contained herein shall be true and correct on the date hereof as of the Execution Time and on and as of the Closing Date or the Additional Closing Date, as the case may be; and the statements of the Company and its officers made in any certificates delivered pursuant to this Agreement shall be true and correct on and as of the Closing Date or the Additional Closing Date, as the case may be.

(c) *No Downgrade.* Subsequent to the earlier of (A) the Execution Time and (B) the execution and delivery of this Agreement, (i) no downgrading shall have occurred in the rating accorded the Securities or any of the Company' s debt securities by any "nationally recognized statistical rating organization", as such term is defined under the Exchange Act and (ii) no such organization shall have publicly announced that it has under surveillance or review, or has changed its outlook with respect to, its rating of the Securities or any of the Company' s debt securities (other than an announcement with positive implications of a possible upgrading), including any notice given of any intended or potential

decrease in any such rating or of a possible change in any such rating that does not indicate the direction of the possible change.

(d) *No Material Adverse Change.* Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereto), the Disclosure Package (exclusive of any amendment or supplement thereto) and the Prospectus (exclusive of any amendment or supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (f) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or

contemplated in the Disclosure Package and the Prospectus (exclusive of any amendment or supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof), the Disclosure Package and the Prospectus (exclusive of any amendment or supplement thereto).

(e) *Officer's Certificate.* The Representatives shall have received on and as of the Closing Date or the Additional Closing Date, as the case may be, a certificate of the chief financial officer or chief accounting officer of the Company and one additional senior executive officer of the Company who is satisfactory to the Representatives (i) confirming that such officers have carefully reviewed the Registration Statement, the Disclosure Package and the Prospectus and, to the best knowledge of such officers, the representations set forth in Sections 3(b) and 3(d) hereof are true and correct on and as of the Closing Date or the Additional Closing Date, as the case may be, (ii) confirming that the other representations and warranties of the Company in this Agreement are true and correct and that the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date, and (iii) to the effect set forth in paragraphs (a), (c) and (d) above.

(f) *Comfort Letters.* On the date of this Agreement and on the Closing Date or the Additional Closing Date, as the case may be, Deloitte & Touche LLP shall have furnished to the Representatives, at the request of the Company, letters, dated the respective dates of delivery thereof and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, containing statements and information of the type customarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained or incorporated by reference in the Registration Statement, the Disclosure Package and the Prospectus; provided, that

the letter delivered on the Closing Date or the Additional Closing Date, as the case may be shall use a "cut-off" date no more than three business days prior to such Closing Date or such Additional Closing Date, as the case may be.

(g) *Opinion and 10b-5 Statement of Counsel for the Company.* Each of (i) Simpson Thacher & Bartlett LLP, counsel for the Company, and (ii) Nicole J. Macarchuk, Esq., General Counsel for the Company, shall have furnished to the Representatives, at the request of the Company, their written opinion and, in the case of Simpson Thacher & Bartlett LLP, its 10b-5 statement, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in Annexes A and B, respectively, hereto.

(h) *Opinion of Delaware Counsel.* Richards, Layton & Finger, P.A., Delaware counsel for the Company, shall have furnished to the Representatives their opinion, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in Annex C hereto.

(i) *Opinions Related to Tax Matters.* (i) Hunton & Williams LLP, special counsel for the Company, shall have furnished to the Representatives, at the request of the Company, their written opinion as to certain federal income tax matters, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in Annex D hereto. (ii) Shartsis Friese LLP, special California tax counsel for the Company, shall have furnished to the Representatives, at the request of the Company, their written opinion as to certain California tax matters, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in Annex E hereto.

(j) *Opinion Related to Other Matters.* Willkie Farr & Gallagher LLP, special counsel for the Company, shall have furnished to the Representatives, at the request of the Company, their written opinion, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in Annex F hereto.

(k) *Opinion and 10b-5 Statement of Counsel for the Underwriters.* The Representatives shall have received on and as of the Closing Date or the Additional Closing Date, as the case may be, an opinion and 10b-5 statement of Davis Polk & Wardwell LLP, counsel for the Underwriters, with respect to such matters as the Representatives may reasonably request, and such counsel shall

have received such documents and information as they may reasonably request to enable them to pass upon such matters.

(l) *No Legal Impediment to Issuance.* No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority that would, as of the Closing Date or the Additional Closing Date, as the case may be, prevent the issuance or sale of the Securities; and no injunction or order of any federal, state or foreign court shall have been issued that would, as of the Closing Date or the Additional Closing Date, as the case may be, prevent the issuance or sale of the Securities.

(m) *Exchange Listing.* An application for the listing of the Securities shall have been submitted to the Exchange.

(n) *Certificate of Designation*. The Certificate of Designation creating the Securities has been duly filed with any offices where such filing is required to be made on or prior to the Closing Date.

(o) *Additional Documents.* On or prior to the Closing Date or the Additional Closing Date, as the case may be, the Company shall have furnished to the Representatives such further certificates and documents as the Representatives may reasonably request.

(p) All opinions, letters, certificates and evidence mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

7. Indemnification and Contribution.

(a) *Indemnification of the Underwriters.* The Company agrees to indemnify and hold harmless each Underwriter, its affiliates, directors and officers and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, legal fees and other expenses reasonably incurred in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred), joint or several, that arise out of, or are based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, not misleading, (ii) or any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (or any amendment

or supplement thereto), any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) or any Disclosure Package (including any Disclosure Package that has subsequently been amended), or caused by any omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, in each case except insofar as such losses, claims, damages or liabilities arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein, it being understood and agreed that the only such information furnished by any Underwriter

consists of the information described as such in subsection (b) below. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) *Indemnification of the Company.* Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the indemnity set forth in paragraph (a) above, but only with respect to any losses, claims, damages or liabilities (including, without limitation, legal fees and other expenses reasonably incurred in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred) that arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to such Underwriter furnished to the Company in writing by or on behalf of such Underwriter through the Representatives expressly for use in the Registration Statement, the Prospectus (or any amendment or supplement thereto), any Issuer Free Writing Prospectus or any Disclosure Package, it being understood and agreed upon that the only such information furnished by any Underwriter consists of the following information in the Prospectus furnished on behalf of each Underwriter: the third paragraph of text under the caption "Underwriting (Conflicts of Interest)" in the Prospectus Supplement concerning the terms of offering by the Underwriters; and the ninth and tenth paragraphs of text under the caption "Underwriting (Conflicts of Interest)" in the Prospectus Supplement regarding stabilization by the Underwriters. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have.

(c) *Notice and Procedures.* If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any person in respect of which indemnification may be sought pursuant to either paragraph (a) or (b) above, such person (the "Indemnified

Person") shall promptly notify the person against whom such indemnification may be sought (the "Indemnifying Person") in writing; provided that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have under paragraph (a) or (b) above except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided, further, that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have to an Indemnified Person otherwise than under paragraph (a) or (b) above. If any such proceeding shall be brought or asserted against an Indemnified Person and it shall have notified the Indemnifying Person thereof, the Indemnifying Person shall retain counsel reasonably satisfactory to the Indemnified Person (who shall not, without the consent of the Indemnified Person, be counsel to the Indemnifying Person) to represent the Indemnified Person in such proceeding and shall pay the fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the Indemnifying Person and the Indemnified Person shall have mutually agreed to the contrary; (ii) the Indemnifying Person has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Person; (iii) the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Indemnifying Person; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Indemnifying Person and the Indemnified Person and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interest between them. It is understood and agreed that the Indemnifying Person shall not, in connection with any proceeding or related proceeding in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Persons, and that all such fees and expenses shall be paid or reimbursed as they are incurred. Any such separate firm for any Underwriter, its affiliates, directors and officers and any control persons of such Underwriter shall be designated in writing by the Representatives and any such separate firm for the Company, its directors, its officers who signed the Registration Statement and any control persons of the Company shall be designated in writing by the Company. The Indemnifying Person shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Person agrees to indemnify each Indemnified Person from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an Indemnified Person shall have requested that an

Indemnifying Person reimburse the Indemnified Person for fees and expenses of counsel as contemplated by this paragraph, the Indemnifying Person shall be liable for any settlement of any

proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by the Indemnifying Person of such request and (ii) the Indemnifying Person shall not have reimbursed the Indemnified Person in accordance with such request prior to the date of such settlement. No Indemnifying Person shall, without the written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnification could have been sought hereunder by such Indemnified Person, unless such settlement (x) includes an unconditional release of such Indemnified Person, in form and substance reasonably satisfactory to such Indemnified Person, from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

(d) *Contribution.* If the indemnification provided for in paragraphs (a) and (b) above is unavailable to an Indemnified Person or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Securities or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative fault of the Company, on the one hand, and the Underwriters, on the other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other, shall be deemed to be in the same respective proportions as the net proceeds (before deducting expenses) received by the Company from the sale of the Securities and the total underwriting discounts and commissions received by the Underwriters in connection therewith, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate offering price of the Securities. The relative fault of the Company, on the one hand, and the Underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) *Limitation on Liability.* The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7

were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages and liabilities referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Person in connection with any such action or claim. Notwithstanding the provisions of this Section 7, in no event shall an Underwriter be required to contribute any amount in excess of the amount by which the total underwriting discounts and commissions received by such Underwriter with respect to the offering of the Securities exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 7 are several in proportion to their respective purchase obligations hereunder and not joint.

(f) *Non-Exclusive Remedies*. The remedies provided for in this Section 7 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Person at law or in equity.

8. Effectiveness of Agreement. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

9. Termination. This Agreement may be terminated in the absolute discretion of the Representatives, by notice to the Company, if after the execution and delivery of this Agreement and prior to the Closing Date or, in the case of the Option Securities, prior to the Additional Closing Date (i) trading in the Company' s Common Shares shall have been suspended by the Commission or the Exchange; (ii) trading in securities generally on the Exchange shall have been suspended or limited or minimum prices shall have been established on such exchange; (iii) a banking moratorium shall have been declared either by U.S. federal or New York State authorities; or (iv) there shall have occurred any outbreak or escalation of hostilities in which the United States is involved or is reasonably likely to become involved, declaration by the United States of a national emergency or war, or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representatives, impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated in the Disclosure Package and the Prospectus (exclusive of any amendment or supplement thereto filed after the Execution Time).

10. Defaulting Underwriter. If, on the Closing Date or the Additional Closing Date, as the case may be, any Underwriter defaults on its obligation to purchase the Securities that it has agreed to purchase hereunder on such date, the non-defaulting Underwriters may in their discretion arrange for the purchase of such Securities by other persons satisfactory to the Company on the terms contained in this Agreement. If, within 36 hours after any such default by any Underwriter, the non-defaulting Underwriters do not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of 36 hours within which to procure other persons satisfactory to the non-defaulting Underwriters to purchase such Securities on such terms. If other persons become obligated or agree to purchase the Securities of a defaulting Underwriter, either the non-defaulting Underwriters or the Company may postpone the Closing Date or the Additional Closing Date, as the case may be, for up to five full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement and the Prospectus or in any other document or arrangement, and the Company agrees to promptly prepare any amendment or supplement to the Registration Statement and the Prospectus that effects any such changes. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context otherwise requires, any person not listed in Schedule 1 hereto that, pursuant to this Section 10, purchases Securities that a defaulting Underwriter agreed but failed to purchase.

(a) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the non-defaulting Underwriters and the Company as provided in paragraph (a) above, the aggregate number of Securities that remain unpurchased on the Closing Date or the Additional Closing Date, as the case may be, does not exceed one-eleventh of the aggregate number of Securities to be purchased on such date, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Securities that such Underwriter agreed to purchase hereunder on such date plus such Underwriter' s pro rata share (based on the number of Securities that such Underwriter agreed to purchase on such date) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made.

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the non-defaulting Underwriters and the Company as provided in paragraph (a) above, the aggregate number of Securities that remain unpurchased on the Closing Date or the Additional Closing Date, as the case may be, exceeds one-eleventh of the aggregate amount of Securities to be purchased on such date, or if the Company shall not exercise the right described in paragraph (b) above, then this Agreement

or, with respect to any Additional Closing Date, the obligation of the Underwriters to purchase Securities on the Additional Closing Date, as the case may be, shall terminate without liability on the part of the non-defaulting Underwriters. Any termination of this Agreement pursuant to this Section 10 shall be without liability on the part of the Company, except that the Company will continue to be liable for the payment of expenses as set forth in Section 11 hereof and except that the provisions of Section 7 hereof shall not terminate and shall remain in effect.

(c) Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company or any non-defaulting Underwriter for damages caused by its default.

11. Payment of Expenses. Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company will pay or cause to be paid all costs and expenses incident to the performance of its and the Manager' s obligations hereunder, including without limitation, (i) the costs incident to the authorization, issuance, sale, preparation and delivery of the Securities and any taxes payable in that connection; (ii) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement, any Issuer Free Writing Prospectus, any Disclosure Package and the Prospectus (including all exhibits, amendments and supplements thereto) and the distribution thereof; (iii) the fees and expenses of the Company' s counsel and independent accountants; (iv) the fees and expenses incurred in connection with the registration or qualification and determination of eligibility for investment of the Securities under the laws of such jurisdictions as the Representative may reasonably designate and the preparation, printing and distribution of a Blue Sky Memorandum (including the related fees and expenses of counsel for the Underwriters); (v) all expenses and application fees incurred in connection with any filing with, and clearance of the offering by, FINRA and the approval of the Securities for book-entry transfer by DTC; (vi) all expenses incurred by the Company in connection with any "road show" presentation to potential investors (except that the Underwriters shall pay one-half of the expenses of any aircraft chartered by the Company and the Underwriters for such "road show" and all of their own costs and expenses, including all travel, lodging and other expenses of the Underwriters incurred by them in connection with any "road show"); and (ix) all expenses and application fees related to the listing of the Securities on the Exchange.

(a) Notwithstanding the foregoing, if the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 9(i) hereof or because of any refusal, inability or failure on the part of the Company or the Manager to perform any agreement

herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company and the Manager, jointly and severally, will reimburse the Underwriters severally through the Representatives on demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. If the sale of the Securities provided for herein is not consummated because of any termination pursuant to Sections 9(ii), (iii) or (iv) hereof, the Company and the Manager, jointly and severally, will reimburse the Underwriters severally through the Representatives on demand for one-half of all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

12. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and any controlling persons referred to in Section 8 hereof. Nothing in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein. No purchaser of Securities from any Underwriter shall be deemed to be a successor merely by reason of such purchase.

13. Survival. The respective indemnities, rights of contribution, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of the Company or the Underwriters pursuant to this Agreement or any certificate delivered pursuant hereto shall survive the delivery of and payment for the Securities. The provisions of Section 7 shall remain in full force and effect, regardless of any termination of this Agreement or any investigation made by or on behalf of the Company or the Underwriters.

14. Certain Defined Terms. For purposes of this Agreement, (a) except where otherwise expressly provided, the term "affiliate" has the meaning set forth in Rule 405 under the Securities Act; (b) the term "business day" means any day other than a day on which banks are permitted or required to be closed in New York City; and (c) the term "subsidiary" has the meaning set forth in Rule 405 under the Securities Act.

15. Miscellaneous. *Authority of the Representatives.* Any action by the Underwriters hereunder may be taken by Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC on behalf of the Underwriters, and any such action taken by Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC shall be binding upon the Underwriters.

(a) *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted and confirmed by any standard form of telecommunication. Notices to the Underwriters shall be given to Representatives c/o Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York 10013, (fax: (212) 816-7912), Attention: General Counsel; Morgan Stanley & Co. LLC, 1585 Broadway, 29th Floor, New York, New York 10036, Attention: Investment Banking Division (tel: (212) 761-6691, fax: (212) 507-8999); UBS Securities LLC, 677 Washington Boulevard, Stamford, CT 06901, Attention: Fixed Income Syndicate, (tel: (203) 719-1088, fax: (203) 719-0495) and Wells Fargo Securities, LLC, 550 South Tryon Street, 5th Floor, Charlotte, NC 28202, (fax: (704) 410-0326, email: tmgcapitalmarkets@wellsfargo.com), Attention: Transaction Management. Notices to the Company shall be given to it at 555 California Street, 50th Floor, San Francisco, CA 94104, (fax: (415) 391-3330), Attention: General Counsel.

(b) *Governing Law.* This Agreement and any claim, controversy or dispute arising under or related to this Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(c) *Counterparts.* This Agreement may be signed in counterparts (which may include counterparts delivered by any standard form of telecommunication), each of which shall be an original and all of which together shall constitute one and the same instrument.

(d) *Amendments or Waivers.* No amendment or waiver of any provision of this Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(e) *Headings.* The headings herein are included for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

(f) *Entire Agreement.* This Agreement, together with the exhibits, annexes and schedules hereto, contains the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with regard to such matters.

If the foregoing is in accordance with your understanding, please indicate your acceptance of this Agreement by signing in the space provided below.

Very truly yours,

KKR FINANCIAL HOLDINGS LLC

By: /s/ MICHAEL R. McFERRAN
Name: Michael R. McFerran
Title: Chief Financial Officer and Chief Operating Officer

KKR FINANCIAL ADVISORS LLC

By: /s/ MICHAEL R. McFERRAN
Name: Michael R. McFerran
Title: Chief Financial Officer and Chief Operating Officer

Accepted: January 10, 2013

CITIGROUP GLOBAL MARKETS INC.

By /s/ Chandru M. Harjani
Name: Chandru M. Harjani
Title: Director

MORGAN STANLEY & CO. LLC

By /s/ Yurij Slyz
Name: Yurij Slyz
Title: Executive Director

UBS SECURITIES LLC

By /s/ Demetrios Tsapralis
Name: Demetrios Tsapralis

Title: Executive Director

By /s/ Rishi Mathur
Name: Rishi Mathur
Title: Associate Director

WELLS FARGO SECURITIES, LLC

By /s/ Carolyn Hurley
Name: Carolyn Hurley
Title: Director

For themselves and on behalf of the several Underwriters listed in Schedule 1 hereto.

Schedule 1

Underwriter	Number of Underwritten Securities
Citigroup Global Markets Inc.	2,697,500
Morgan Stanley & Co. LLC	2,697,500
UBS Securities LLC	2,697,500
Wells Fargo Securities, LLC	2,697,500
RBC Capital Markets, LLC	975,000
KKR Capital Markets LLC	585,000
BNY Mellon Capital Markets, LLC	65,000
C. L. King & Associates, Inc.	65,000
Girard Securities, Inc.	65,000
HRC Investment Services	65,000
Janney Montgomery Scott LLC	65,000
KeyBanc Capital Markets Inc.	65,000
Oppenheimer & Co. Inc.	65,000
Raymond James & Associates, Inc.	65,000
Southwest Securities, Inc.	65,000
Wedbush Securities Inc.	65,000
Total	13,000,000

Annex A

Form of Opinion of Simpson Thacher & Bartlett LLP

1. The Manager has been duly formed and is validly existing and in good standing as a limited liability company under the law of the State of Delaware and has full limited liability company power and authority to conduct its business as described in Post-Effective Amendment No. 1 and the Prospectus.

2. The Management Agreement has been duly authorized, executed and delivered by the Company and the Manager and constitutes a valid and legally binding obligation of the Company and the Manager, enforceable against the Company and the Manager in accordance with its terms.

3. The statements made in the Pricing Disclosure Package and the Prospectus under the caption "Description of Shares" and "Description of the Series A LLC Preferred Shares," taken together, as amended and supplemented by the documents incorporated by reference therein, insofar as they purport to constitute summaries of the terms of the Securities or the Amended and Restated Operating Agreement of the Company, as amended by the Certificate of Designation on the date hereof (the "Operating Agreement"), constitute accurate summaries of the terms of such Securities in all material respects.

4. The Underwriting Agreement has been duly authorized, executed and delivered by the Manager.

5. The issue and sale of the Securities by the Company and the execution, delivery and performance by the Company of the Underwriting Agreement will not breach or result in a default under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument filed or incorporated by reference as an exhibit to Post-Effective Amendment No. 1, nor will such action violate the Certificate of Formation of the Company or the Operating Agreement or any federal or New York State statute or the Delaware Limited Liability Company Act or any rule or regulation that has been issued pursuant to any federal or New York State statute or the Delaware Limited Liability Company Act or any order known to us issued pursuant to any federal or New York State statute or the Delaware Limited Liability Company Act by any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties, except that it is understood that no opinion is given in this paragraph 5 with respect to any U.S. federal or state securities law or any rule or regulation issued pursuant to any U.S. federal or state securities law.

6. No consent, approval, authorization, order, registration or qualification of or with any federal or New York governmental agency or body or

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any Delaware governmental agency or body acting pursuant to the Delaware Limited Liability Company Act or, to our knowledge, any federal or New York court or any Delaware court acting pursuant to the Delaware Limited Liability Company Act is required for the issue and sale of the Securities by the Company and the compliance by the Company with all of the provisions of the Underwriting Agreement, except for the registration under the Securities Act and the Exchange Act of the Securities, and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Underwriters.

7. Post-Effective Amendment No. 1 has become effective under the Securities Act, the Preliminary Prospectus was filed on January 10, 2013 and the Prospectus was filed on January [ ], 2013, pursuant to Rule 424(b) of the rules and regulations of the Commission under the Securities Act and within the time period required by Rule 424(b) (without reference to Rule 424(b)(8)) of the rules and regulations of the Commission under the Securities Act and, to our knowledge, no stop order suspending the effectiveness of Post-Effective Amendment No. 1 has been issued or proceeding for that purpose has been instituted or threatened by the Commission.

In addition, such counsel shall state as follows:

In connection with, and under the circumstances applicable to, the offering of the Securities, we participated in conferences with certain officers and employees of the Company and the Manager, with representatives of Hunton & Williams LLP, Willkie Farr & Gallagher LLP and Richards, Layton & Finger, P.A., representatives of Deloitte & Touche LLP, and your representatives and your counsel in the course of the preparation by the Company of the Prospectus and the Pricing Disclosure Package (in each case, excluding the Exchange Act Documents) and also reviewed certain records and documents furnished to us, or publicly filed with the Commission, by the Company and the Manager, as well as the documents delivered to you at the closing. Based upon our review of Post-Effective Amendment No. 1, the Prospectus, the Pricing Disclosure Package and the Exchange Act Documents, our participation in the conferences referred to above, our review of the records and documents as described above, as well as our understanding of the U.S. federal securities laws and the experience we have gained in our practice thereunder:

(1) we advise you that each of Post-Effective Amendment No. 1, as of the date it first became effective under the Securities Act, and the Prospectus, as of January 10, 2013, appeared, on its face, to be appropriately responsive, in all material respects, to the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder, and the documents incorporated by reference in

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the Preliminary Prospectus and the Prospectus, as of the date each respective document was filed with the Commission, appeared, on its face, to be appropriately responsive, in all material respects, to the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no view with respect to the financial statements or other financial or accounting data contained in, incorporated or deemed incorporated by reference in, or omitted from Post-Effective Amendment No. 1, the Prospectus or the Exchange Act Documents; and

(2) nothing has come to our attention that causes us to believe that (a) Post-Effective Amendment No. 1 (including the Exchange Act Documents incorporated or deemed incorporated by reference therein), as of January 10, 2013, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, (b) the Pricing Disclosure Package (including the Exchange Act Documents incorporated or deemed incorporated by reference therein), as of 5:30 p.m. (New York time), on January 10, 2013, the time of the pricing of the offering of the Securities, contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (c) the Prospectus (including the Exchange Act Documents incorporated or deemed incorporated by reference therein), as of January 10, 2013, or as of the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that we express no belief in any of clauses (a), (b) or (c) above with respect to the financial statements or other financial or accounting data contained in, incorporated or deemed incorporated by reference in, or omitted from Post-Effective Amendment No. 1, the Preliminary Prospectus, the Prospectus or the Exchange Act Documents.

As used herein, the term "Exchange Act Documents," when used with respect to the Registration Statement, the Preliminary Prospectus or the Prospectus as of any date, means the documents incorporated or deemed to be incorporated by reference in the Registration Statement, the Preliminary Prospectus or the Prospectus, as the case may be, as of such date pursuant to Item 12 of Form S-3.

Annex B

Form of Opinion of Nicole J. Macarchuk

1. To my knowledge, each of the Company and the Manager is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification.

2. To my knowledge, there are no statutes or pending or threatened legal or governmental proceedings required to be described in the Registration Statement, the Preliminary Prospectus or the Prospectus which are not described as required, or any contracts or documents required to be described in the Registration Statement, the Preliminary Prospectus or the Prospectus which are not described as required; and the statements made in the Company' s Annual Report on Form 10-K for the year ended December 31, 2011 under the caption "Item 1. Business − Management Agreement," insofar as they purport to constitute summaries of certain terms of documents and certain legal matters referred to therein, constitute accurate summaries of the terms of such documents and such legal matters in all material respects.

3. To my knowledge, there are no contracts or agreements between the Company, on the one hand, and any other person, on the other hand, granting such person the right to require the Company to include any securities of the Company owned or to be owned by such person in the securities registered pursuant to the Registration Statement.

4. To my knowledge, there are no preemptive or other rights to subscribe for or purchase any of the Securities pursuant to any indenture, loan agreement or other agreement or instrument filed as an exhibit to the Company' s Annual Report on Form 10−K for the year ended December 31, 2011 or any subsequent report filed by the Company with the Commission under the Exchange Act pursuant to Item 601(b)(10) of Regulation S-K or Item 1.01 of Form 8-K.

Annex C

Form of Opinion of Richards, Layton & Finger, P.A.

1. The Company has been duly formed and is validly existing in good standing as a limited liability company under the laws of the State of Delaware.

2 The Company has the necessary limited liability company power and authority to own, lease and operate its properties and to conduct its business, as described in the Disclosure Package and the Prospectus, and to execute and deliver the Underwriting Agreement, and to perform its obligations under the Underwriting Agreement and the Management Agreement.

3. The total number of Common Shares (as defined in the Operating Agreement) and Preferred Shares that the Company is authorized to issue pursuant to the Operating Agreement is as set forth in the Base Prospectus under the heading "Authorized Shares" and in the preliminary prospectus supplement and the prospectus supplement in the line items "Preferred shares" and "Common shares" under the heading "Capitalization."

4. The execution and delivery of the Underwriting Agreement and the Management Agreement by the Company, and the performance by the Company of its obligations thereunder, have been duly authorized by all necessary limited liability company action on the part of the Company. The Underwriting Agreement and the Management Agreement have been duly executed and delivered by the Company.

5. The issuance and sale of the Securities pursuant to the Underwriting Agreement have been duly authorized by the Company and, when issued and delivered to and paid for by the Underwriters in accordance with the provisions of the Underwriting Agreement and the Operating Agreement, the Securities will be validly issued, fully paid and non-assessable, and the holders of the Securities will not be obligated personally for any of the debts, obligations or liabilities of the Company, whether arising in contract, tort or otherwise, solely by reason of being a member of the Company and will not be liable under the LLC Act or the Operating Agreement to make any capital contributions or other payments to the Company with respect to the Securities (such counsel may note, however,

that a holder of the Securities may be obligated to repay any funds wrongfully distributed to it by the Company and to make other payments under the Operating Agreement, all as described in the Preliminary Prospectus and the Prospectus under the heading "Description of Shares").

6. The issuance and sale of the Securities by the Company are not subject to any preemptive rights or other similar rights arising under the Delaware

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Limited Liability Company Act, the Certificate of Formation of the Company (the "LLC Certificate") or the Operating Agreement.

7. The statements in the Preliminary Prospectus and the Prospectus under the heading "Description of the Series A LLC Preferred Shares" and "Description of Shares," insofar as such statements constitute statements of Delaware law, are fairly presented in all material respects.

8. No consent, approval, authorization or order of, or filing with, any court of the State of Delaware or governmental agency or body of the State of Delaware is required to be obtained or made by the Company in connection with the issuance and sale of the Securities or the execution, delivery or performance by the Company of the Underwriting Agreement.

9. The execution, delivery and performance by the Company of the Underwriting Agreement, the issuance and sale of the Securities by the Company pursuant to the Underwriting Agreement, and the consummation of the other transactions contemplated by the Underwriting Agreement, do not violate (i) the LLC Certificate or the Operating Agreement, (ii) any Delaware statute, law, rule or regulation, or (iii) after due inquiry on [•], 2013, limited to, and solely to the extent reflected on, the results of computer searches of court dockets in the File & ServeXPress file system for active cases, naming the Company as a party, of the Court of Chancery of the State of Delaware in and for New Castle, Kent and Sussex Counties, Delaware, and of the Superior Court of the State of Delaware in and for New Castle, Kent and Sussex Counties, Delaware, and in the Webpacer efile system of the United States District Court sitting in the State of Delaware and of the United States Bankruptcy Court sitting in the State of Delaware, any judgment, order or decree of any such court.

In rendering such opinion, such counsel may rely, as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and the Manager and public officials. References to the Prospectus in this Annex shall also include any supplements thereto at the Closing Date. Such opinion shall state that Nicole J. Macarchuk, Esq. and Simpson Thacher & Bartlett LLP may, in rendering their opinions to the Underwriters pursuant to the Underwriting Agreement, rely on such opinion of Delaware counsel, as if such opinion were addressed to them, as to all matters governed by or arising under the laws of the State of Delaware.

When used in such opinions, the terms Disclosure Package, Prospectus and Preliminary Prospectus shall not be deemed to include any documents incorporated therein by reference.

Annex D

Form of Tax Opinion of Hunton & Williams LLP

Ladies and Gentlemen:

We have acted as special tax counsel to KKR Financial Holdings LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of a preliminary prospectus supplement (the "Preliminary Prospectus Supplement") dated January 10, 2013 and a prospectus supplement (the "Final Prospectus Supplement" and together with the Preliminary Prospectus Supplement, the

"Prospectus Supplement") dated January 10, 2013, to a prospectus (the "Prospectus") filed with the Securities and Exchange Commission on November 7, 2011 as part of post-effective amendment no. 1 to a registration statement on Form S-3 (File No. 333-167479) (the "Registration Statement"), with respect to the offer and sale of 13,000,000 Series A LLC Preferred Shares, no par value, of the Company (the "Preferred Shares"). This opinion is furnished at the request of the Company pursuant to Section 6(i) of the Underwriting Agreement, dated January 10, 2013, among the Company and Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC.

In giving this opinion letter, we have examined the following:

1. the Company' s Amended and Restated Operating Agreement;

2. the Registration Statement and the Prospectus and Prospectus Supplement filed as a part of the Registration Statement; and

3. such other documents as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinions rendered below, we have assumed, with your consent, that:

1. each of the documents referred to above has been duly authorized, executed, and delivered; is authentic, if an original, or is accurate, if a copy; and has not been amended;

2. during its taxable year ending December 31, 2013, and future taxable years, the Company will operate in a manner that will make the factual representations contained in a certificate, dated the date hereof and executed by a duly appointed officer of the Company (the "Officer' s Certificate"), true for such years, without regard to any qualification as to knowledge or belief;

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3. the Company will not make any amendments to its organizational documents after the date of this opinion that would affect the opinions expressed below; and

4. no action will be taken by the Company after the date hereof that would have the effect of altering the facts upon which the opinions set forth below are based.

In connection with the opinions rendered below, we also have relied upon the correctness, without regard to any qualification as to knowledge or belief, of the factual representations contained in the Officer' s Certificate. Where the factual representations in the Officer' s Certificate involve terms defined in the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations thereunder (the "Regulations"), published rulings of the Internal Revenue Service (the "Service"), or other relevant authority, we have reviewed with the individual making such representations the relevant provisions of the Code, the applicable Regulations, the published rulings of the Service, and other relevant authority. No facts have come to our attention that would cause us to question the accuracy and completeness of such factual representations.

Based solely on the documents and assumptions set forth above, the representations set forth in the Officer' s Certificate, and the discussions incorporated by reference in the Prospectus Supplement from the Company' s Annual Report on Form 10-K for the year ended December 31, 2011 under the caption Item 1A. "Risk Factors–Tax Risks," in the Prospectus Supplement under the caption "Additional Material U.S. Federal Income Tax Considerations" and in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" (which are incorporated herein by reference), we are of the opinion that:

(a) the Company will be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation, under the Code; and

(b) the descriptions of the law and the legal conclusions incorporated by reference in the Prospectus Supplement from the Company' s Annual Report on Form 10-K for the year ended December 31, 2011 under the captions noted on Schedule 1 attached hereto and the caption Item 1A. "Risk Factors–Tax Risks," and contained in the Prospectus Supplement under the caption "Additional Material U.S. Federal Income Tax Considerations" and in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" are correct in all material respects and the discussions thereunder fairly summarize the U.S. federal income tax considerations that are likely to be material to a holder of the Preferred Shares.

We will not review on a continuing basis the Company' s compliance with the documents or assumptions set forth above, or the representations set forth in the Officer' s Certificate. Accordingly, no assurance can be given that the actual results of the Company' s operations for any given taxable year will allow it to be taxed as partnership, and not as an association or a publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes. Although we have made such inquiries and performed such investigations as we have deemed necessary to fulfill our professional responsibilities as counsel, we have not undertaken an independent investigation of all of the facts referred to in this letter or the Officer' s Certificate.

We do not assume any responsibility for, and make no representation that we have independently verified, the accuracy, completeness, or fairness of the statements contained in the Prospectus Supplement or the Prospectus (other than the descriptions of the law and the legal conclusions incorporated by reference in the Prospectus Supplement from the Company' s Annual Report on Form 10-K for the year ended December 31, 2011 under the caption Item 1A. "Risk Factors–Tax Risks" and contained in the Prospectus Supplement under the captions noted on Schedule 1 attached hereto and the caption "Additional Material U.S. Federal Income Tax Considerations" and in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations," as set forth in (b) above).

The foregoing opinions are based on current provisions of the Code and the Regulations, published administrative interpretations of any of the foregoing, and published court decisions. The Service has not issued Regulations or administrative interpretations with respect to various provisions of the Code relating to partnership classification. No assurance can be given that the law will not change in a way that could cause the Company to be taxable as a corporation for U.S. federal income tax purposes.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other U.S. federal tax matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter. This opinion letter is issued to you, and it speaks only as of the date hereof. This opinion letter may not be distributed, relied upon for any purpose by any other person, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

CIRCULAR 230 DISCLOSURE

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE SERVICE, WE INFORM YOU THAT (A) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN (INCLUDING ANY ATTACHMENTS OR ENCLOSURES) WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES, (B) ANY SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (C) ANY TAXPAYER TO WHOM THE TRANSACTIONS OR MATTERS ARE BEING PROMOTED, MARKETED OR RECOMMENDED SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Schedule 1

"Risk Factors-Risk Factors related to the Series A LLC Preferred Shares-If the amount of distributions on the Series A LLC Preferred Shares is greater than our gross ordinary income, then the amount that a holder of Series A LLC Preferred Shares would receive upon liquidation may be less than the Series A Liquidation Value."

"Risk Factors-Risk Factors related to the Series A LLC Preferred Shares-Purchasers of Series A LLC Preferred Shares in the secondary market could recognize additional taxable income if the IRS disagrees with our position regarding tax basis adjustments, which could affect the price at which you are able to sell the Series A LLC Preferred Shares purchased in this offering."

"Risk Factors-Risk Factors related to the Series A LLC Preferred Shares-The IRS Schedules K-1 we will provide holders of Series A LLC Preferred Shares will be more complicated than the IRS Forms 1099 provided by REITs and corporations to their stockholders, and holders of Series A LLC Preferred Shares may be required to request an extension of time to file their tax returns."

"Risk Factors-Risk Factors related to the Series A LLC Preferred Shares-Tax-exempt holders of our Series A LLC Preferred Shares will likely recognize significant amounts of "unrelated business taxable income," the amount of which may be material."

"Risk Factors-Risk Factors related to the Series A LLC Preferred Shares-We have made and may make investments, such as investments in natural resources and real estate, that generate income that is treated as 'effectively connected' with a U.S. trade or business with respect to holders of our shares that are not 'United States persons.' "

Annex E

Form of Opinion of Shartsis Friese LLP

Ladies and Gentlemen:

We have acted as special tax counsel for KKR Financial Holdings LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of a preliminary prospectus supplement (the "Preliminary Prospectus Supplement") dated January 10, 2013 and a prospectus supplement (the "Final Prospectus Supplement" and together with the Preliminary Prospectus Supplement, the "Prospectus Supplement") dated January 10, 2013, to a prospectus (the "Prospectus") filed with the Securities and Exchange Commission on November 7, 2011, as part of post-effective amendment no. 1 to a registration statement on Form S-3 (File No. 333-167479) (the "Registration Statement"), with respect to the offer and sale of 13,000,000 Series A LLC Preferred Shares, no par value, of the Company (the "Preferred Shares"). This opinion is furnished at the request of the Company pursuant to Section 6(i) of the Underwriting Agreement, dated January 10, 2013, among the Company, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC.

In giving this opinion letter, we have examined the following:

1. the Company' s Amended and Restated Operating Agreement (the ("Agreement");

2. the Registration Statement, the Prospectus and the Prospectus Supplement; and

3. such other documents as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinion rendered below, we have assumed, with your consent, that:

1. each of the documents identified above has been duly authorized, executed, and delivered, is authentic, if an original, or is accurate, if a copy, and has not been amended;

2. during its taxable year ending December 31, 2013, and future taxable years, the activities of the Company will be conducted as provided in the Agreement and the

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Registration Statement, the Prospectus and the Prospectus Supplement;

3. the Company will not amend its organizational documents after the date of this opinion in any respect that would affect the opinion expressed below; and

4. no action will be taken by the Company after the date hereof that would have the effect of altering the facts on which the opinion set forth below is based.

In connection with the opinion rendered below, we also have relied on the correctness, without regard to any qualification as to knowledge or belief, of the statements of fact in the Registration Statement, the Prospectus and the Prospectus Supplement. No facts have come to our attention that would cause us to question the accuracy and completeness of such statements.

Based solely on the documents and assumptions set forth above, we are of the opinion that the descriptions of the law and the legal conclusions in the Prospectus Supplement under the caption "Material California Income Tax Considerations" are correct in all material respects and the discussions thereunder fairly summarize the California income tax considerations that are likely to be material to a holder of the Preferred Shares.

We will not review on a continuing basis the Company' s compliance with the documents or assumptions set forth above, or the representations set forth above. Although we have made such inquiries and performed such investigations as we have deemed necessary to fulfill our professional responsibilities as counsel, we have not undertaken an independent investigation of the facts referred to in this letter.

We do not assume any responsibility for, and make no representation that we have independently verified, the accuracy, completeness or fairness of any of the statements in the Prospectus Supplement or the Prospectus (other than the descriptions of the law and the legal conclusions under the caption "Material California Income Tax Considerations," as set forth above).

The foregoing opinion is based on current provisions of the California Revenue and Taxation Code and the corresponding regulations, published administrative interpretations of any of the foregoing, and published court decisions. No assurance can be given that the law will not change in a way that could change our opinion. The foregoing opinion is limited to the California income tax matters addressed herein, and no other opinions are rendered with respect to other California income tax matters, U.S. federal tax matters or to any issues arising under the tax laws of any other country or state or any locality. We undertake no obligation to update the opinion expressed herein after the date of

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this letter. This opinion letter is issued to you, and it speaks only as of the date hereof. This opinion letter may not be distributed, relied upon for any purpose by any other person, quoted as a whole or in part or otherwise reproduced in any document, or filed with any governmental agency, without in each case our express written consent.

Sincerely yours,

SHARTSIS FRIESE LLP

CIRCULAR 230 DISCLOSURE

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, WE INFORM YOU THAT (A) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN (INCLUDING ANY ATTACHMENTS OR ENCLOSURES) WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES, (B) ANY SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (C) ANY TAXPAYER TO WHOM THE TRANSACTIONS OR MATTERS ARE BEING PROMOTED, MARKETED OR RECOMMENDED SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

Annex F

Form of Opinion of Willkie Farr & Gallagher LLP

1. KFN is not, and after receipt of the proceeds from the offering of the Securities and the application thereof as described in the Prospectus will not be, required to register as an "investment company" as such term is defined in the Investment Company Act; and

2. The descriptions of the law and the legal conclusions contained in KFN' s Annual Report on Form 10-K for the year ended December 31, 2011 under the captions "Item 1- Our Investment Company Act Status"; "Risk Factors - Risks Related to our Organization and Structure - Maintenance of our Investment Company Act exemption imposes limits on our operations, which may adversely affect our results of operations."; "Risk Factors - If the SEC were to disagree with our Investment Company Act determinations, our business could be adversely affected," and "Item 7- Management' s Discussion and Analysis of Financial Condition and Results of Operations - Our Investment Company Act Status"; and in the descriptions in KFN' s Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2012 under "Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations −Our Investment Company Act Status"; insofar as such descriptions relate to the Investment Company Act, are correct in all material respects and fairly summarize the considerations under the Investment Company Act that are likely to be material to holders of the Securities.

In rendering such opinion, such counsel may rely, as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and its subsidiaries and the Manager and public officials. References to the Prospectus in this Annex shall also include any supplements thereto at the Closing Date. Such opinion shall state that Nicole J. Macarchuk, Esq. and Simpson Thacher & Bartlett LLP may, in rendering their opinions to the Underwriters pursuant to the Underwriting Agreement, rely on such opinion of 1940 Act counsel, as if such opinion were addressed to them, as to all matters relating to the 1940 Act.

Annex G

Disclosure Package

Term sheet containing the terms of the Securities, substantially in the form of Annex H.

Annex H

Filed pursuant to Rule 433
Registration No. 333-167479
Supplementing the Preliminary
Prospectus Supplement
dated January 10, 2013
(To Prospectus dated November 7, 2011)

KKR Financial Holdings LLC

Pricing Term Sheet

January 10, 2013

Issuer:	KKR Financial Holdings LLC (the "Company")
Title of Security:	7.375% Series A LLC Preferred Shares (the "Shares")
Size:	$325,000,000 (13,000,000 Shares)
Over-allotment Option:	$48,750,000 (1,950,000 Shares)
Liquidation Preference:	$25 per Share
Maturity:	Perpetual
Distribution Rate:	At a rate per annum equal to 7.375% only when, as and if declared Distributions on the Shares are cumulative from January 17, 2013.
Distribution Payment Dates:	The 15th of each April, July, October and January, commencing on April 15, 2013
Optional Redemption:	The Shares may be redeemed at the Company' s option, in whole or in part, at any time on or after January 15, 2018 at a price of $25 per Share, plus accumulated and unpaid distributions to, but excluding, the redemption date, if any. Holders of the Shares will have no right to require the redemption of the Shares.
Change of Control Redemption:	If a Change of Control Event (as described in the prospectus supplement) occurs prior to January 15, 2018, the Shares may be redeemed at the Company' s option, in whole but not in part, upon at least 30 days notice, within 60 days of the occurrence of such Change of Control Event, at a price of $25.25 per Share, plus

	accumulated and unpaid distributions (whether or not declared) to, but excluding, the redemption date, if any.
Distribution Rate Step-Up Following Change of Control Event:	If (i) a Change of Control Event occurs (whether before, on or after January 15, 2018) and (ii) the Company does not give notice prior to the 31st day following the Change of Control Event to redeem all the outstanding Shares, the distribution rate per annum on the Shares will increase by 5.00% to 12.375% per annum, beginning on the 31st day following such Change of Control Event.
Trade Date:	January 10, 2013
Expected Settlement Date:	January 17, 2013 (T+5)
Public Offering Price:	$25 per Share
Purchase Price by Underwriters:	$24.2125 per Share
Net Proceeds (before expenses) to the Company:	$314,762,500
Listing:	The Company intends to apply to list the Shares on the New York Stock Exchange under the symbol "KFP."
CUSIP/ISIN:	48248A603 / US48248A6038
Anticipated Ratings*:	[Intentionally Withheld]
Joint Book-Running Managers:	Citigroup Global Markets Inc. Morgan Stanley & Co. LLC UBS Securities LLC Wells Fargo Securities, LLC
Lead Manager:	RBC Capital Markets, LLC
Co-Manager:	KKR Capital Markets LLC

* **Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.**

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Citigroup Global Markets Inc. toll-free at 1-800-831-9146, Morgan Stanley & Co. LLC toll-free at 1-866-718-1649, UBS Securities LLC toll-free at 1-877-827-6444, ext. 561 3884 or Wells Fargo Securities, LLC toll-free at 1-800-326-5897.

Exhibit 3.1

AMENDMENT NO. 2
TO THE
AMENDED AND RESTATED
OPERATING AGREEMENT
OF
KKR FINANCIAL HOLDINGS LLC

This Amendment No. 2 (this "Amendment") to the Amended and Restated Operating Agreement of KKR Financial Holdings, LLC, a Delaware limited liability company (the "Company"), is made as of January 10, 2013. Capitalized terms used herein and not otherwise defined are used as defined in the Current Agreement (as defined below).

WHEREAS, the Company was formed pursuant to the Certificate of Formation of the Company, dated January 17, 2007, as filed in the office of the Secretary of State of the State of Delaware on January 17, 2007, and the Operating Agreement of the Company, dated as of January 17, 2007 (the "Original Agreement");

WHEREAS, the Original Agreement was amended and restated pursuant to the Amended and Restated Operating Agreement of the Company, dated as of May 3, 2007, as amended effective March 24, 2009, and as further amended by Amendment No. 1 to the Amended and Restated Operating Agreement, dated as of February 28, 2010 (as so amended, the "Current Agreement");

WHEREAS, the board of directors of the Company (the "Board"), pursuant to Article 18 of the Current Agreement, has the authority to amend Section 6.23 of the Current Agreement upon an affirmative vote of the majority of the Board; and

WHEREAS, the Board has deemed it advisable and in the best interests of the Company to amend the Current Agreement to clarify certain provisions thereof regarding the Board as more fully set forth herein and has unanimously approved this Amendment.

NOW, THEREFORE, in consideration of the premises set forth in this Amendment, the Current Agreement is hereby amended as follows:

I. AMENDMENTS.

A. Sections 6.23(a) and (b) of the Current Agreement are hereby amended and restated in their entirety to read as follows:

"(a) Number, Tenure and Qualifications. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and such other committees as the Board of Directors may deem appropriate, composed of one or more Directors, to serve at the pleasure of the Board of Directors. Any such committee may also include one or more persons that are not Directors.

(b) Power. The Board of Directors may delegate to committees appointed under Section 6.23 all the powers and authority of the Board of Directors,

including any matter requiring the affirmative vote, consent or approval of a majority or other percentage of the Board of Directors or of the Directors, except as prohibited by the Act."

B. Section 6.11 of the Current Agreement is hereby amended by adding the following sentence at the end of such section:

"Whenever notice of a meeting is required to be given to Directors or members of a committee, a written waiver, signed by the person entitled to notice, or a waiver transmitted by electronic transmission by the person entitled to notice, whether before or after the meeting, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors or members of any committee need be specified in any written waiver of notice or any waiver by electronic transmission."

II. MISCELLANEOUS

A. Full Force and Effect. Except to the extent modified hereby, the Current Agreement shall remain in full force and effect.

B. Governing Law. This Amendment shall be interpreted in accordance with the laws of the State of Delaware (without regard to conflict of laws principles), all rights and remedies being governed by such laws.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be duly executed as of the day and year first above written.

MEMBERS:

All of the Members of the Company, by the the Secretary, pursuant to the power of attorney granted in Section 1.4 of the Current Agreement

/s/ NICOLE J. MACARCHUK

Name: Nicole J. Macarchuk
Title: Secretary and General Counsel

Exhibit 99.1

KKR Financial Holdings LLC Prices 7.375% Series A LLC Preferred Shares

SAN FRANCISCO, Jan. 10/PRNewswire-FirstCall/ − KKR Financial Holdings LLC (NYSE: KFN) (the "Company") today announced pricing of a public offering of 13 million 7.375% Series A LLC Preferred Shares (the "Shares") at a public offering price of $25 per Share. Distributions on the Shares will be paid quarterly, when, as and if declared by the Company' s board of directors on January 15, April 15, July 15 and October 15 of each year, beginning April 15, 2013. The Shares are being offered in an underwritten registered public offering. The offering is expected to close on January 17, 2013, subject to customary closing conditions. The Company intends to apply to list the Shares on the New York Stock Exchange under the symbol "KFP." If the application is approved, the Company expects trading in the Shares on the New York Stock Exchange to begin within 30 days after the Shares are first issued.

Total aggregate gross proceeds from the offering are $325 million, exclusive of any proceeds attributable to the underwriters' possible exercise of their over-allotment option. In connection with this offering, the Company has granted the underwriters an over-allotment option to purchase up to an additional 1.95 million Shares for additional aggregate gross proceeds of $48.75 million.

The net proceeds to the Company from the offering of the Shares after deducting the underwriting discount will be approximately $314.76 million, excluding offering expenses payable by the Company, and exclusive of any proceeds attributable to the underwriters' possible exercise of their over-allotment option. The Company intends to use the net proceeds for general corporate purposes, including payments made in connection with the repurchase, redemption or conversion of the Company' s outstanding senior indebtedness.

Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC are acting as joint book-running managers for the offering. RBC Capital Markets, LLC is acting as lead manager for the offering and KKR Capital Markets LLC is acting as co-manager for the offering.

The Company has filed a registration statement (including a prospectus) and a preliminary prospectus supplement with the Securities and Exchange Commission (the "SEC") for the offering of the Shares described in this press release. Before investing, prospective buyers should read the prospectus and preliminary prospectus supplement included in that registration statement and other documents the Company has filed with the SEC for more complete information about the Company and the Shares. These documents may be obtained for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, the preliminary prospectus supplement and final prospectus supplement, when available (including the prospectus), may be obtained by contacting Citigroup Global Markets Inc., c/o Broadridge Financial Solutions, 1155 Long Island Avenue, Edgewood, NY 11717, telephone: 1-800-831-9146; Morgan Stanley & Co. LLC, 180 Varick Street, New York, NY 10014, Attention: Prospectus Department, telephone: 1-866-718-1649 or by emailing prospectus@morganstanley.com; UBS Securities LLC, 299 Park Avenue, New York, NY 10171, Attention: Prospectus Specialist, telephone: 1-877-827-6444, ext. 561 3884; or Wells Fargo Securities, LLC, 1525 West W.T. Harris Blvd., NC0675, Charlotte, North Carolina 28262, Attention: Capital Markets Client Support, telephone: 1-800-326-5897 or by emailing cmclientsupport@wellsfargo.com.

This press release does not constitute an offer to sell or the solicitation of an offer to buy the Shares described herein, nor shall there be any sale of these Shares in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. The offering of these Shares will be made only by means of the prospectus supplement and the related prospectus. The Shares being offered have not been approved or disapproved by any regulatory authority, nor has any such authority passed upon the accuracy or adequacy of the registration statement, the prospectus contained therein or the prospectus supplement.

About KKR Financial Holdings LLC

KKR Financial Holdings LLC is a specialty finance company with expertise in a range of asset classes. KFN' s core business strategy is to leverage the proprietary resources of its manager with the objective of generating both current income and capital appreciation. KFN executes its core business strategy through its majority-owned subsidiaries. KFN is externally managed by KKR Financial Advisors LLC, a wholly-owned subsidiary of KKR Asset Management LLC, which is a wholly-owned subsidiary of Kohlberg Kravis Roberts & Co. L.P.

"**Safe Harbor**" **Statement Under the Private Securities Litigation Reform Act of 1995:** This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to, statements related to the proposed offering of Shares, the anticipated use of proceeds therefrom and the expected trading date of the Shares on the New York Stock Exchange. These forward-looking statements involve known and unknown risks, uncertainties and other factors discussed in the Company' s filings with the SEC. Any forward-looking statements speak only as of the date of this press release and the Company expressly disclaims any obligation to update or revise any of them to reflect actual results, any changes in expectations or any change in events. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. For additional information concerning risks, uncertainties and other factors that may cause actual results to differ from those anticipated in the forward-looking statements, and risks to the Company' s business in general, please refer to the Company' s SEC filings, including (i) its preliminary prospectus supplement, dated the date hereof, (ii) its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on February 28, 2012 and (iii) Item 8.01 of its Current Report on Form 8-K, filed with the SEC on January 10, 2013.

Investor Relations Contact:
Pam Testani
(415) 315-6597
investor-relations@kkr.com

Media Contact:
Kristi Huller
(212) 750-8300
media@kkr.com

Exhibit 99.2

Risks Factors

Our common shareholders should carefully consider the following risk factors, the risks discussed under the caption "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 28, 2012 (our "Form 10-K") and other filings that we make from time to time, including our consolidated financial statements and accompanying notes. Any of the following risks could materially adversely affect our business, financial condition or results of operations. These risk factors restate and supersede (i) the risk factor beginning on page 33 of our Form 10-K entitled "*Certain provisions of our operating agreement will make it difficult for third parties to acquire control of us and could deprive holders of our shares of the opportunity to obtain a takeover premium for their shares*" and (ii) the risk factors beginning on page 41 of our Form 10-K set forth under the subheading "Tax Risks." Except where otherwise expressly stated or the context suggests otherwise, the terms "we," "us" and "our" refer to KKR Financial Holdings LLC and its subsidiaries. The term "operating agreement" refers to our amended and restated operating agreement, as amended on May 7, 2009, February 28, 2010, January 10, 2013 and as may be further amended from time to time. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Form 10-K.

Certain provisions of our operating agreement will make it difficult for third parties to acquire control of us and could deprive holders of our common shares of the opportunity to obtain a takeover premium for their common shares.

Our operating agreement contains a number of provisions that could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, control of us. These provisions include, among others:

- restrictions on our ability to enter into certain transactions with major holders of our shares or their affiliates or associates modeled on certain limitations contained in Section 203 of the General Corporation Law of the State of Delaware;

- generally allowing only our board of directors to fill newly created directorships;

- requiring that directors may be removed only for cause (as defined in the operating agreement) and then only by a vote of at least two-thirds of the votes entitled to be cast in the election of such director;

- requiring advance notice for holders of our common shares to nominate candidates for election to our board of directors or to propose matters to be considered by holders of our common shares at a meeting of holders of our common shares;

- our ability to issue additional securities, including, but not limited to, preferred shares, without approval by holders of our common shares;

- a prohibition, subject to any exemptions granted by our board of directors, on any person beneficially or constructively owning in excess of 9.8% in value or in number of any class or series of our outstanding shares, whichever is more restrictive, excluding shares not treated as outstanding for United States federal income tax purposes;

- the ability of our board of directors to amend the operating agreement without approval of the holders of our shares except under certain specified circumstances; and

- limitations on the ability of holders of our shares to call special meetings of holders of our shares or to act by written consent.

These provisions, as well as other provisions in the operating agreement, may delay, defer or prevent a transaction or a change in control that might otherwise result in holders of our common shares obtaining a takeover premium for their common shares.

Certain provisions of the Management Agreement also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the Management Agreement and a requirement that, under certain circumstances, we make a substantial payment to the Manager in the event of a termination.

Tax Risks

Holders of our shares will be subject to United States federal income tax and generally other taxes, such as state, local and foreign income tax, on their share of our taxable income, regardless of whether or when they receive any cash distributions from us, and may recognize income or have tax liability in excess of our cash distributions.

We intend to continue to operate so as to qualify, for United States federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Holders of our shares are subject to United States federal income taxation and generally other taxes, such as state, local and foreign income taxes, on their allocable share of our items of income, gain, deduction, and credit for each of our taxable years ending with or within the holder' s taxable year, regardless of whether or when they receive cash distributions. In addition, certain of our investments, including investments in certain foreign corporate subsidiaries, collateralized debt obligation issuers (which are treated as partnerships or disregarded entities for United States federal income tax purposes) and debt securities, may produce taxable income without corresponding distributions of cash to us or may produce taxable income prior to or following the receipt of cash relating to such income. Those investments typically produce ordinary income on a current basis, but any losses we would recognize from those investments would typically be treated as capital losses. In addition, we have recognized and may recognize in the future cancellation of indebtedness income upon the retirement of our debt at a discount. Because of our methods of allocating income and gain among holders of our shares, you may be taxed on amounts that accrued economically before you became a shareholder. Consequently, in some taxable years, holders of our shares may recognize taxable income in excess of our cash distributions, and holders may be allocated capital losses either in the same or future years that cannot be used to offset such taxable income. Furthermore, even if we did not pay cash distributions with respect to a taxable year, holders of our shares may still have a tax liability attributable to their allocation of our taxable income. Accordingly, each shareholder should ensure that it has sufficient cash flow from other sources to pay all tax liabilities.

If we were treated as a corporation for United States federal income tax purposes, all of our income will be subject to an entity-level tax, which could result in a material reduction in cash flow and after-tax return for holders of our shares and thus could result in a substantial reduction in the value of our shares and any other securities we may issue.

The value of your investment in us depends in part on our being treated as a partnership for United States federal income tax purposes. We intend to continue to operate so as to qualify, for United States federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In general, if a partnership is "publicly traded" (as defined in the Internal Revenue Code of 1986, as amended (the "Code")), it will be treated as a corporation for United States federal income tax purposes. A publicly traded partnership will, however, be taxed as a partnership, and not as a corporation, for United States federal income tax purposes, so long as it is not required to register under the Investment Company Act and at least 90% of its gross income for each taxable year constitutes "qualifying income" within the meaning of Section 7704(d) of the Code. We refer to this exception as the "qualifying income exception." Qualifying income generally includes rents, dividends, interest (to the extent such interest is neither derived from the "conduct of a financial or insurance business" nor based, directly or indirectly, upon "income or profits" of any person), income and gains derived from certain activities related to minerals and natural resources, and capital gains from the sale or other disposition of stocks, bonds and real property. Qualifying income also includes other income derived from the business of investing in, among other things, stocks and securities.

If we fail to satisfy the "qualifying income exception" described above, items of income, gain, loss, deduction and credit would not pass through to holders of our shares and such holders would be treated for United States federal (and certain state and local) income tax purposes as shareholders in a corporation. In such case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of our income. Distributions to holders of our shares would be taxable as ordinary dividend income to such holders to the extent of our earnings and profits, and these distributions would not be deductible by us. If we were taxable as a corporation, it could result in a material reduction in cash flow and after-tax return for holders of our shares and thus could result in a substantial reduction in the value of our shares and any other securities we may issue.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities.

To be treated as a partnership for United States federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must satisfy the qualifying income exception, which requires that at least 90% of our gross income each taxable year consist of interest, dividends, capital gains and other types of "qualifying income." Interest income will not be qualifying income for the qualifying income exception if it is derived from "the conduct of a financial or insurance business." This requirement limits our ability to originate loans or acquire loans originated by our external advisor and manager, KKR Financial Advisors LLC (the "Manager"), and its affiliates. In order to comply with this requirement, we (or our subsidiaries) may be required to invest through foreign or domestic corporations that are subject to corporate income tax or forego attractive business or investment opportunities. Thus, compliance with this requirement may adversely affect our return on our investments and results of operations.

We cannot predict the tax liability attributable to our shares for any particular holder of our shares.

Each holder of our shares will determine its tax liability attributable to its ownership of our shares based on its own unique circumstances. Holders of our shares may have different tax liabilities attributable to our shares for many reasons unique to the holders, including among other things, limitations on miscellaneous itemized deductions, alternative minimum tax liabilities, differing tax bases in our assets or the holder' s status as a non-United States person or tax-exempt entity. As a result, we cannot predict the tax liability attributable to our shares for any particular holder and such tax liability may exceed the amount of cash actually distributed to such holder for the year.

The ability of holders of our shares to deduct certain expenses incurred by us may be limited.

In general, expenses incurred by us that are considered "miscellaneous itemized deductions" may be deducted by a holder of our shares that is an individual, estate or trust only to the extent that such holder' s allocable share of those expenses, along with the holder' s other miscellaneous itemized deductions, exceed, in the aggregate, 2% of such holder' s adjusted gross income. In addition, these expenses are also not deductible in determining the alternative minimum tax liability of a holder. We treat the management fees that we pay to our Manager and certain other expenses incurred by us as miscellaneous itemized deductions. A holder' s inability to deduct all or a portion of such expenses could result in an amount of taxable income to such holder with respect to us that exceeds the amount of cash actually distributed to such holder for the year.

Common shareholders that are individuals, trusts, or estates may have a higher tax liability if the Internal Revenue Service (the "IRS") successfully challenges our treatment of distributions paid on our 7.375% Series A LLC Preferred Shares, when and if issued (the "Series A LLC Preferred Shares").

The treatment of interests in a partnership, such as our Series A LLC Preferred Shares, and the payments received in respect of such interests is uncertain. Our Series A LLC Preferred Shares will accrue distributions at an annual rate of 7.375%. In general, we will specially allocate to our Series A LLC Preferred Shares items of our gross income (excluding any gross income from the sale or exchange of capital assets) (our "gross ordinary income") in an amount equal to the distributions paid in respect of our Series A LLC Preferred Shares during the taxable year. The amount of gross ordinary income that we allocate to our Series A LLC Preferred Shares will reduce the amount of income that is allocable to our common shares.

We intend to treat our Series A LLC Preferred Shares as partnership interests in us and the amounts paid to our Series A LLC Preferred Shares as distributions related to allocations of our items of income. The IRS, however, may contend that payments on our Series A LLC Preferred Shares represent "guaranteed payments." In that case, no portion of our income would be allocated to our Series A LLC Preferred Shares, but our common shareholders would be entitled to a deduction for their allocable share of the distributions treated as "guaranteed payments." Although not entirely free from doubt, deductions attributable to "guaranteed payments" should generally be treated as "miscellaneous itemized deductions." In general, "miscellaneous itemized deductions" may be deducted by a common shareholder that is an individual, estate or trust only to the extent that such holder' s allocable share of those expenses, along with the holder' s other miscellaneous itemized deductions, exceed, in the aggregate, 2% of such holder' s adjusted gross income. In addition, these expenses are also not deductible in determining the alternative minimum tax liability of a holder. As a result of those restrictions, common shareholders may not be able to deduct all or a portion of their allocable share of deductions attributable to any "guaranteed payments," and, therefore, common shareholders that are individuals, trusts, or estates may have a higher tax liability if the IRS successfully challenges our treatment of distributions paid on our Series A LLC Preferred Shares.

Holders of our shares may recognize gain for United States federal income tax purposes when we sell assets that cause us to recognize a loss for financial reporting purposes.

We have elected under Section 754 of the Code to adjust the tax basis in all or a portion of our assets upon certain events, including the sale of our shares. However, we generally do not intend to adjust the tax basis of our assets with respect to purchasers of our Series A LLC Preferred Shares, except in extraordinary circumstances, but the IRS may successfully challenge that position. Because our holders are treated as having differing tax bases in our assets, a sale of an asset by us may cause holders to recognize different amounts of gain or loss or may cause some holders to recognize a gain and others to recognize a loss. Depending on the purchase price the shareholder paid for our shares, our holders may recognize gain for United States federal income tax purposes from the sale of certain of our assets even though the sale would cause us to recognize a loss for financial accounting purposes.

We have made and may make investments, such as investments in natural resources and real estate, that generate income that is treated as "effectively connected" with a United States trade or business with respect to holders of our shares that are not "United States persons."

We have made and may make investments, such as investments in natural resources and real estate that generate income that is treated as "effectively connected" with a United States trade or business with respect to holders that are not "United States persons" within the meaning of section 7701(a)(30) of the Code. It is likely that income from our natural resources investments will be treated as effectively connected income. Furthermore, any notional principal contracts that we enter into, if any, in connection with investments in natural resources likely would generate income that would be treated as effectively connected income with a United States trade or business. Our investments in real estate may also generate income that would be treated as effectively connected income. To the extent our income is treated as effectively connected income, a holder who is a non-United States person generally would be required to (i) file a United States federal income tax return (and possibly state income tax returns) for such year reporting its allocable share, if any, of our income effectively connected with such trade or business and (ii) pay United States federal income tax (and possibly state income tax) at regular United States tax rates on any such income. Moreover, if such a holder is a corporation, it might be subject to a United States branch profits tax on its allocable share of our effectively connected income. In addition, distributions to such a holder would be subject to withholding at the highest applicable federal income tax rate to the extent of the holder' s allocable share of our effectively connected income. Any amount so withheld would be creditable against such holder' s United States federal income tax liability, and such holder could claim a refund to the extent that the amount withheld exceeded such person' s United States federal income tax liability for the taxable year. Finally, if we are engaged in a United States trade or business, a portion of any gain recognized by an investor who is a non-United States person on the sale or exchange of its shares may be treated for United States federal income tax purposes as effectively connected income, and hence such holder may be subject to United States federal income tax on the gain from the sale or exchange. Moreover, if the fair market value of our investments in "United States real property interests," which include our

investments in natural resources, real estate and certain real estate investment trust ("REIT") subsidiaries that invest primarily in real estate, represent more than 10% of the total fair market value of our assets, our shares could be treated as "United States real property interests." In such case, gain recognized by an investor who is a non-United States person would be treated for U.S. federal income tax purposes as effectively connected income (unless the gain is attributable to a class of our shares that is regularly traded on a securities market and the non-United States person owns 5% or less of the shares of that class). If gain from the sale of our shares is treated as effectively connected income, the holder may be subject to U.S. federal income tax on the sale or exchange.

Holders of our shares may be subject to foreign, state and local taxes and return filing requirements as a result of investing in our shares.

In addition to United States federal income taxes, holders of our shares may be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible property taxes that are imposed by the various jurisdictions in which we conduct business or own property, even if the holders of our shares do not reside in any of those jurisdictions. For example, we will likely be treated as doing business in any foreign, state or local jurisdiction in which our natural resources investments are located and we may be treated as doing business in any foreign, state or local jurisdiction in which our real estate is located. As a result, our holders may be required to file foreign, state and local income tax returns and pay foreign, state and local income taxes in some or all of these various jurisdictions. Further, holders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each holder to file all United States federal, state and local tax returns that may be required of such holder.

Holders of our shares may recognize a greater taxable gain (or a smaller tax loss) on a disposition of our shares than expected because of the treatment of debt under the partnership tax accounting rules.

We will incur debt for a variety of reasons, including for acquisitions as well as other purposes. Under partnership tax accounting principles (which apply to us), our debt is generally allocable to holders of our shares, who will realize the benefit of including their allocable share of the debt in the tax basis of their shares. The tax basis in our shares will be adjusted for, among other things, distributions of cash and allocations of our losses, if any. At the time a holder of our shares later sells its shares, the holder' s amount realized on the sale will include not only the sales price of the shares but also will include such holder' s portion of debt allocable to those shares (which is treated as proceeds from the sale of those shares). Depending on the nature of our activities after having incurred the debt, and the utilization of the borrowed funds, a later sale of our shares could result in a larger taxable gain (or a smaller tax loss) than anticipated.

If we have a termination for United States federal income tax purposes, holders of our shares may be required to include more than 12 months of our taxable income in their taxable income for the year of the termination.

We will be considered to have been terminated for United States federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for all holders. In the case of a holder reporting on a taxable year other than a fiscal year ending on our year end, which is expected to continue to be the calendar year, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in the holder' s taxable income for the year of termination. We would be required to satisfy the 90% "qualifying income" test for each tax period and to make new tax elections after a termination, including a new tax election under Section 754 of the Code. A termination could also result in penalties if we were unable to determine that the termination had occurred. In the event that we become aware of a termination, we will use commercially reasonable efforts to minimize any such penalties. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination. We have experienced terminations in the past, and it is likely that we will experience terminations in the future. The IRS has announced a publicly traded partnership technical termination relief program whereby, if the taxpayer requests relief and such relief

is granted by the IRS, among other things, the partnership would only have to provide one Schedule K-1 to most holders of shares for the year notwithstanding two or more partnership tax years.

We could incur a significant tax liability if the IRS successfully asserts that the "anti-stapling" rules apply to certain of our subsidiaries, which could result in a reduction in cash flow and after-tax return for holders of shares and thus could result in a reduction of the value of those shares.

If we were subject to the "anti-stapling" rules of Section 269B of the Code, we would incur a significant tax liability as a result of owning (i) more than 50% of the value of both a domestic corporate subsidiary and a foreign corporate subsidiary, or (ii) more than 50% of both a REIT and a domestic or foreign corporate subsidiary. If the "anti-stapling" rules applied, our foreign corporate subsidiaries would be treated as domestic corporations, which would cause those entities to be subject to United States federal corporate income taxation, and any REIT subsidiary would be treated as a single entity with our domestic and foreign corporate subsidiaries for purposes of the REIT qualification requirements, which could result in the REIT subsidiary failing to qualify as a REIT and being subject to United States federal corporate income taxation. Currently, we have several subsidiaries that could be affected if we were subject to the "anti-stapling" rules, including one subsidiary taxed as a REIT and several foreign and domestic corporate subsidiaries. Because we own, or are treated as owning, a substantial proportion of our assets directly for United States federal income tax purposes, we do not believe that the "anti-stapling" rules have applied or will apply. However, there can be no assurance that the IRS would not successfully assert a contrary position, which could result in a reduction in cash flow and after-tax return for holders of shares and thus could result in a reduction of the value of those shares.

Tax-exempt holders of our shares will likely recognize significant amounts of "unrelated business taxable income."

An organization that is otherwise exempt from United States federal income tax is nonetheless subject to taxation with respect to its "unrelated business taxable income" ("UBTI"). Generally, a tax-exempt partner of a partnership would be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partner interest itself is debt-financed. Because we have incurred "acquisition indebtedness" with respect to certain equity and debt securities we hold (either directly or indirectly through subsidiaries that are treated as partnerships or disregarded entities for United States federal income tax purposes), a proportionate share of a holder' s income from us with respect to such securities will be treated as UBTI. In addition, we have made and may make investments, such as investments in natural resources and real estate, that likely will generate income treated as effectively connected with a United States trade or business. Accordingly, tax-exempt holders of our shares will likely recognize significant amounts of UBTI. Tax-exempt holders of our shares are strongly urged to consult their tax advisors regarding the tax consequences of owning our shares.

Although we anticipate that our foreign corporate subsidiaries will not be subject to United States federal income tax on a net basis, no assurance can be given that such subsidiaries will not be subject to United States federal income tax on a net basis in any given taxable year.

We anticipate that our foreign corporate subsidiaries will generally continue to conduct their activities in such a way as not to be deemed to be engaged in a United States trade or business and not to be subject to United States federal income tax. There can be no assurance, however, that our foreign corporate subsidiaries will not pursue investments or engage in activities that may cause them to be engaged in a United States trade or business. Moreover, there can be no assurance that as a result of any change in applicable law, treaty, rule or regulation or interpretation thereof, the activities of any of our foreign corporate subsidiaries would not become subject to United States federal income tax. Further, there can be no assurance that unanticipated activities of our foreign subsidiaries would not cause such subsidiaries to become subject to United States federal income tax. If any of our foreign corporate subsidiaries became subject to United States federal income tax (including the United States branch profits tax), it would significantly reduce the amount of cash available for distribution to us, which in turn could have an adverse impact on the value of our shares and any other securities we may issue. Our foreign corporate subsidiaries are generally not expected to be subject to United States federal income tax on a net basis, and

such subsidiaries may receive income that is subject to withholding taxes imposed by the United States or other countries. Any such withholding taxes would further reduce the amount of cash available for distribution to us.

Certain of our investments may subject us to United States federal income tax and could have negative tax consequences for our shareholders.

A portion of our distributions likely will constitute "excess inclusion income." Excess inclusion income is generated by residual interests in real estate mortgage investment conduits ("REMICs") and taxable mortgage pool arrangements owned by REITs. We own through a disregarded entity a small number of REMIC residual interests. In addition, one of our REIT subsidiaries has entered into financing arrangements that are treated as taxable mortgage pools. We will be taxable at the highest corporate income tax rate on any excess inclusion income from a REMIC residual interest that is allocable to the percentage of our shares held in record name by disqualified organizations. Although the law is not clear, we may also be subject to that tax if the excess inclusion income arises from a taxable mortgage pool arrangement owned by a REIT in which we invest. Disqualified organizations are generally certain cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business tax (including certain state pension plans and charitable remainder trusts). They are permitted to own our shares. Because this tax would be imposed on us, all of the holders of our shares, including holders that are not disqualified organizations, would bear a portion of the tax cost associated with our ownership of REMIC residual interests and with the classification of any of our REIT subsidiaries or a portion of the assets of any of our REIT subsidiaries as a taxable mortgage pool. A regulated investment company or other pass-through entity owning our shares may also be subject to tax at the highest corporate rate on any excess inclusion income allocated to their record name owners that are disqualified organizations. Nominees who hold our shares on behalf of disqualified organizations also potentially may be subject to this tax.

Excess inclusion income cannot be offset by losses of our shareholders. If the shareholder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as UBTI under Section 512 of the Code. If the shareholder is a foreign person, it would be subject to United States federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

Dividends paid by, and certain income inclusions derived with respect to our ownership of, our REIT subsidiaries and foreign corporate subsidiaries will not qualify for the reduced tax rates generally applicable to corporate dividends paid to taxpayers taxed at individual rates.

The maximum tax rate applicable to "qualified dividend income" payable to domestic shareholders taxed at individual rates is 20%. Dividends paid by, and certain income inclusions derived with respect to the ownership of, REITs, passive foreign investment companies ("PFICs") and certain controlled foreign corporations ("CFCs"), however, generally are not eligible for the reduced rates on qualified dividend income. We have treated and intend to continue to treat our foreign corporate subsidiaries as the type of CFCs whose income inclusions are not eligible for lower tax rates on dividend income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in companies such as us whose holdings include foreign corporations and REITs to be relatively less attractive than investments in the stocks of domestic non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of our shares and any other securities we may issue.

Under the Foreign Account Tax Compliance Act ("FATCA"), withholding tax may apply to the portion of our distributions that constitute "withholdable payments" other than gross proceeds after December 31, 2013 and to distributions of gross proceeds of certain asset sales by us and proceeds of sales in respect of our shares after December 31, 2016.

Under current law, holders of our shares that are not United States persons are generally subject to United States federal withholding tax at the rate of 30% (or such lower rate provided by an applicable tax treaty) on their share of our gross income from dividends, interest (other than interest that constitutes "portfolio interest" within the meaning of the Code) and certain other income that

is not treated as effectively connected with a United States trade or business. For payments made after December 31, 2013, in addition to this withholding tax that currently applies, FATCA will impose, without duplication, a United States federal withholding tax at a 30% rate on "withholdable payments" made to foreign financial institutions (and their more than 50% affiliates) unless the payee foreign financial institution agrees, among other things, to disclose the identity of certain United States persons and United States owned foreign entities with accounts at the institution (or the institution' s affiliates) and to annually report certain information about such accounts. "Withholdable payments" include payments of interest (including original issue discount), dividends, and other items of fixed or determinable annual or periodical gains, profits, and income, in each case, from sources within the United States, as well as gross proceeds from the sale of any property of a type which can produce interest or dividends from sources within the United States. FATCA will also require withholding on the gross proceeds of such sales for payments made after December 31, 2016. The FATCA withholding tax will also apply to withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial United States owners (or certify that they do not have any substantial United States owners). We expect that some or all of our distributions will constitute "withholdable payments." Thus, if a holder holds our shares through a foreign financial institution or foreign corporation or trust, a portion of payments to such holder made after December 31, 2013 may be subject to 30% withholding under FATCA.

If we are required to withhold any United States federal withholding tax on distributions made to any holder of our shares, we will pay such withheld amount to the IRS. That payment, if made, will be treated as a distribution of cash to the holder of the shares with respect to whom the payment was made and will reduce the amount of cash to which such holder would otherwise be entitled.

Ownership limitations in the operating agreement that apply so long as we own an interest in a REIT may restrict a change of control in which our holders might receive a premium for their shares.

In order for each of our REIT subsidiaries to continue to qualify as REITs, no more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year and its shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. We intend for each of our REIT subsidiaries to be owned, directly or indirectly, by us and by holders of the preferred shares issued by such REIT subsidiary. In order to preserve our current REIT subsidiaries and any future REIT subsidiary, the operating agreement generally prohibits, subject to exceptions, any person from beneficially owning or constructively owning shares in excess of 9.8% in value or in number of any class or series of our outstanding shares, whichever is more restrictive, excluding shares not treated as outstanding for United States federal income tax purposes. This restriction may be terminated by our board of directors if it determines that it is no longer in our best interests for our REIT subsidiaries to continue to qualify as REITs under the Code or that compliance with those restrictions is no longer required to qualify as a REIT, and our board of directors may also, in its sole discretion, exempt a person from this restriction.

The ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of our shares might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

The failure of any REIT subsidiary to qualify as a REIT would generally cause it to be subject to United States federal income tax on its taxable income, which could result in a reduction in cash flow and after-tax return for holders of our shares and thus could result in a reduction of the value of those shares and any other securities we may issue.

We intend that each of our current and any future REIT subsidiaries will operate and continue to operate in a manner so as to qualify to be taxed as a REIT for United States federal income tax purposes. No ruling from the IRS, however, has been or will be sought with regard to the treatment of any REIT subsidiary as a REIT for United States federal income tax purposes, and the ability to qualify as a REIT depends on the satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other

requirements on a continuing basis. Accordingly, no assurance can be given that any REIT subsidiary will satisfy such requirements for any particular taxable year. If any REIT subsidiary were to fail to qualify as a REIT in any taxable year, it would be subject to United States federal income tax, including any applicable alternative minimum tax, on its net taxable income at regular corporate rates, and distributions would not be deductible by it in computing its taxable income. Any such corporate tax liability could be substantial and could reduce the amount of cash available for distribution to us, which in turn would reduce the amount of cash available for distribution to holders of our shares and could have an adverse impact on the value of those shares and any other securities we may issue. Unless entitled to relief under certain Code provisions, such REIT subsidiary also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT.

The IRS Schedules K-1 we will provide will be significantly more complicated than the IRS Forms 1099 provided by REITs and regular corporations, and holders of our shares may be required to request an extension of the time to file their tax returns.

Holders of our shares are required to take into account their allocable share of items of our income, gain, loss, deduction and credit for our taxable year ending within or with their taxable year. We will use reasonable efforts to furnish holders of our shares with tax information (including IRS Schedule K-1), which describes their allocable share of such items for our preceding taxable year, as promptly as possible. However, we may not be able to provide holders of our shares with tax information on a timely basis. Because holders of our shares will be required to report their allocable share of each item of our income, gain, loss, deduction, and credit on their tax returns, tax reporting for holders of our shares will be significantly more complicated than for shareholders in a REIT or a regular corporation. In addition, delivery of this information to holders of our shares will be subject to delay in the event of, among other reasons, the late receipt of any necessary tax information from an investment in which we hold an interest. It is therefore possible that, in any taxable year, holders of our shares will need to apply for extensions of time to file their tax returns.

Our structure involves complex provisions of United States federal income tax law for which no clear precedent or authority may be available, and which is subject to potential change, possibly on a retroactive basis. Any such change could result in adverse consequences to the holders of our shares and any other securities we may issue.

The United States federal income tax treatment of holders of our shares depends in some instances on determinations of fact and interpretations of complex provisions of United States federal income tax law for which no clear precedent or authority may be available. The United States federal income tax rules are constantly under review by the IRS, resulting in revised interpretations of established concepts. The IRS pays close attention to the proper application of tax laws to partnerships and investments in foreign entities. The present United States federal income tax treatment of an investment in our shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. We and holders of our shares could be adversely affected by any such change in, or any new tax law, regulation or interpretation. Our operating agreement permits our board of directors to modify (subject to certain exceptions) the operating agreement from time to time, without the consent of the holders of our shares. These modifications may address, among other things, certain changes in United States federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have an adverse impact on some or all of the holders of our shares and of any other securities we may issue. Moreover, we intend to apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of our shares in a manner that reflects their distributive share of our items, but these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions we use do not satisfy the technical requirements of the Code and/or United States Treasury Regulations and could require that items of income, gain, deduction, loss or credit be adjusted or reallocated in a manner that adversely affects holders of our shares and of any other securities we may issue.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares.

At any time, the federal income tax laws or regulations governing publicly traded partnerships or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted or promulgated or will become effective and any such law, regulation or interpretation may take effect retroactively. We and our holders could be adversely affected by any change in, or any new, federal income tax law, regulation or administrative interpretation. Additionally, revisions in federal tax laws and interpretations thereof could cause us to change our investments and commitments and affect the tax considerations of an investment in us.