Kennedy-Wilson Holdings, Inc.
Form 10-K/A
April 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
to
Form 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-33824
Kennedy-Wilson Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-0508760
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
9701 Wilshire Blvd., Suite 700 Beverly Hills, CA	90212
(Address of Principal Executive Offices)	(Zip Code)

(310) 887-6400
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.0001 par value	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	o		Accelerated filer	x
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

Based on the last sale at the close of business on June 29, 2012, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $231,047,904.

The number of shares of common stock outstanding as of March 8, 2013 was 63,772,598.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of the registrant's Annual Report on Form 10-K filed on March 12, 2013 incorporates certain information by reference from the registrant’s proxy statement for the annual meeting of stockholders to be held on or around June 20, 2013, which proxy statement will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2012.

EXPLANATORY NOTE

Kennedy-Wilson Holdings, Inc., a Delaware corporation (the "Company"), is filing this Amendment No. 1 (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was originally filed with the Securities and Exchange Commission (the "SEC") on March 12, 2013 (the "Original Report"), to amend Item 15 of the Original Report and include separate financial statements of the following entities, as required pursuant to Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended:

- Bay Fund Opportunity, LLC and Subsidiary
- KW Property Fund II, L.P. And Subsidiaries
- KW Real Estate Fund IV, L.P.
- Bay Area Smart Growth Fund II, LLC
- KW Stadium Gateway Partners, LLC
- KWF Real Estate Venture VI, L.P.
- KWI America Multifamily, LLC and KW SV Investment West Coast, LLC
- KW Residential, LLC
- KW Property Fund III, L.P. and KW Property Fund III (QP-A), L.P.
- KW/WDC Portfolio Member LLC and One Carlsbad
- SJ Real Estate Investors, LLC

Other than as set forth herein, this Amendment does not affect any other parts of, or exhibits to, the Original Report, and those unaffected parts or exhibits are not included in this Amendment. This Amendment continues to speak as of the date of the Original Report, and the Company has not updated the disclosure contained in this Amendment or the Original Report to reflect events that have occurred since the filing of the Original Report. Accordingly, this Amendment should be read in conjunction with the Company's other filings with the SEC since the filing of the Original Report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this annual report:

(1) Financial Statements. See the Index to Consolidated Financial Statements, which appears on page 41 of the Original Report. The Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements listed in the Index to Consolidated Financial Statements, which appear beginning on page 44 of the Original Report, are incorporated by reference into this Item 15.

(2) Financial Statement Schedules. Schedules III and IV are listed in the Index to Consolidated Financial Statements, which appear beginning on page 95 of the Original Report, are incorporated by reference into this Item 15. All other Financial Statement Schedules have been omitted because the information required to be set forth therein is either not applicable or is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits. See Item 15(b) below.

(b) Exhibits. The exhibits listed on the Exhibit Index set forth below on page 5 are filed as part of, or are incorporated by reference into, this annual report on Form 10-K.

(c) Financial Statements Required by Rule 3-09 of Regulation S-X. The financial statements required by Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended, are filed as schedules to this report and are incorporated by reference into this Item 15.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 12th day of March 2013.

KENNEDY-WILSON HOLDINGS, INC.,
a Delaware corporation

By: /s/ WILLIAM J. MCMORROW
William J. McMorrow
Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
2.1[1]	Agreement and Plan of Merger, by and among Prospect Acquisition Corp., KW Merger Sub Corp. and Kennedy- Wilson, Inc., dated as of September 8, 2009.
2.2[1]	Amendment No. 1 to the Agreement and Plan of Merger dated October 22, 2009 between Prospect Acquisition Corp., KW Merger Sub Corp. and Kennedy-Wilson, Inc.
2.3[1]	Amendment No. 2 to the Agreement and Plan of Merger dated October 26, 2009 between Prospect Acquisition Corp., KW Merger Sub Corp. and Kennedy-Wilson, Inc.
3.1[2]	Second Amended and Restated Certificate of Incorporation.
3.2[6]	Amendment to Second Amended and Restated Certificate of Incorporation.
3.3[3]	Amended and Restated Bylaws.
4.1[14]	Specimen Common Stock Certificate.
4.2[4]	Form of Warrant Certificate.
4.3[5]	Amended and Restated Warrant Agreement between Continental Stock Transfer & Trust Company and Kennedy- Wilson Holdings, Inc.
4.4[21]	Indenture, dated as of April 5, 2011, among Kennedy-Wilson, Inc., as Issuer, Kennedy-Wilson Holdings, Inc., as guarantor, certain subsidiaries of the Issuer signatories thereto, as guarantors, and Wilmington Trust FSB, as trustee, including the form of 8.750% Notes due 2019.
4.5[21]	Registration Rights Agreement, dated April 5, 2011, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., certain subsidiaries of the Issuer signatories thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated.
4.6[22]	Registration Rights Agreement, dated April 12, 2011, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., certain subsidiaries of the Issuer signatories thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated.
4.7[23]	Certificate of Designation of Series A Preferred Stock.
4.8[24]	Certificate of Designation of Series B Preferred Stock.
4.9[26]	First Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Residential Group, Inc. and Wilmington Trust, National Association.
4.10[26]	Second Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Telstar Partners, LLC and Wilmington Trust, National Association.
4.11[26]	Third Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KWF Manager V, LLC and Wilmington Trust, National Association.
4.12[26]	Fourth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Fund IV - Kohanaiki, LLC and Wilmington Trust, National Association.
4.13[26]	Fifth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., Kennedy Wilson Property Equity IV, LLC and Wilmington Trust, National Association.
4.14[26]	Sixth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Ireland, LLC and Wilmington Trust, National Association.
4.15[26]	Seventh Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Manager IV, LLC and Wilmington Trust, National Association.
4.16[26]	Eighth Supplemental Indenture dated September 26, 2011 among Kennedy-Wilson, Inc., KWF Investors IV, LLC, KWF Investors V, LLC and Wilmington Trust, National Association.
4.17[26]	Ninth Supplemental Indenture dated December 28, 2011 among Kennedy-Wilson, Inc., KW Anaheim Land Partners LLC, Pacifica West Coast Partners, LLC, KW Multi-Family Management Group, KW Mill Creek Property Manager, LLC, KW Sunrise Carlsbad, LLC, Sunrise Property Associates, LLC, certain guarantors listed therein and Wilmington Trust, National Association.
4.18[31]	

	Tenth Supplemental Indenture, dated as of June 12, 2012, among Kennedy-Wilson, Inc., Meyers Research, LLC, KW Armacost, LLC, Santa Maria Land Partners Manager, LLC, KW Investment Adviser, LLC, NWLACDFI - Southern Oaks, LLC, Kennedy-Wilson Capital, KW Captowers Partners, LLC, KW Four Points, LLC, KW Loan Partners VII, LLC and Wilmington Trust, National Association, as trustee
4.19[32]	Eleventh Supplemental Indenture, dated as of November 21, 2012, among Kennedy-Wilson, Inc., NWLACDFI-Southern Oaks, LLC, the subsidiary guarantor parties thereto, Kennedy-Wilson Holdings, Inc., and Wilmington Trust, National Association, as trustee

5

4.20[33]	Twelfth Supplemental Indenture, dated as of November 21, 2012, among Kennedy-Wilson, Inc., KWF Investors VII, LLC, KWF Manager VII, LLC, KW Residential Capital, LLC, KW Boise Plaza, LLC, KW Loan Partners VIII, LLC, KW UR Investment 1, LLC, KW UR Investment 2, LLC, Kennedy Wilson Property Services IV, L.P., Kennedy Wilson Property Services IV GP, LLC, KW/CV Third-Pacific Manager, LLC, KW EU Loan Partners II, LLC, KWF Investors VIII, LLC, KWF Manager VIII, LLC, KW HP 11, LLC, KW 1200 Main LLC, KW
4.21**	Thirteenth Supplemental Indenture, dated as of February 13, 2013, among Kennedy-Wilson, Inc., KW Fund IV La Barranca, LLC (formerly KW HP 11, LLC), the subsidiary guarantor parties thereto, Kennedy-Wilson Holdings, Inc., and Wilmington Trust, National Association, as trustee
4.22**	Fourteenth Supplemental Indenture, dated as of February 14, 2013, among Kennedy-Wilson, Inc., KWF Manager X, LLC, KWF Manager XI, LLC, KWF Manager XII, LLC and Wilmington Trust, National Association, as trustee
4.23[29]	Form on Indenture, dated as of November 28, 2012, between Kennedy-Wilson, Inc. and Wilmington Trust, National Association, as trustee
4.24[30]	Supplemental Indenture No. 1, dated as of November 28, 2012, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantor parties thereto and and Wilmington Trust, National Association, as trustee
4.25**	Supplemental Indenture No. 2, dated as of February 14, 2013, among Kennedy-Wilson, Inc., the subsidiary guarantor parties thereto and Wilmington Trust, National Association, as trustee
4.26[34]	Registration Rights Agreement, dated as of December 6, 2012, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantor parties thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC
10.2[37]	Forfeiture Agreement dated September 8, 2009 by and among Prospect Acquisition Corp., De Guardiola Advisors, Inc., De Guardiola Holdings, Inc., Flat Ridge Investments LLC, LLM Structured Equity Fund L.P., LLM Investors L.P., CMS Platinum Fund, L.P., SJC Capital LLC, Michael P. Castine, Daniel Gressel, Michael Downey, James J. Cahill, John Merchant and Kennedy-Wilson, Inc.)
10.3[37]	Letter Agreement dated September 17, 2009 by Prospect Acquisition Corp. and Citigroup Global Markets Inc. Ladenburg Thalmann & Co. Inc. and I-Bankers Securities, Inc.
10.4[37]	Letter Agreement dated September 4, 2009 by Prospect Acquisition Corp. and De Guardiola Advisors, Inc.
10.5[37]	Lock-Up Agreement by Prospect Acquisition Corp. and certain stockholders of Prospect.
10.6[38]	Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan.
10.7[39]	Form of Amended and Restated Consultant Restricted Stock Award Agreement to Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan.
10.8[39]	Form of Amended and Restated Employee Performance Unit Award Agreement to Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan.
10.9[39]	Form of Amended and Restated Employee Restricted Stock Award Agreement to Kennedy-Wilson Holdings, Inc. 20009 Equity Participation Plan.
10.10[36]	Promissory Note issued by Kennedy-Wilson, Inc. to The Guardian Life Insurance Company of America on November 3, 2008.
10.11†[37]	Fifteenth Amendment to Employment Agreement by Kennedy-Wilson, Inc. and William J. McMorrow.
10.12†[37]	Employment Agreement dated August 14, 1992 between Kennedy-Wilson and William J. McMorrow.
10.13†[37]	Amendment to Employment Agreement dated as of January 1, 1993 between Kennedy-Wilson and William J. McMorrow.
10.14†[37]	Second Amendment to Employment Agreement dated as of between January 1, 1994 Kennedy-Wilson and William J. McMorrow.
10.15[40]	Third Amendment to Employment Agreement dated as of March 31, 1995 between Kennedy-Wilson and William J. McMorrow.
10.16†[40]	

	Fourth Amendment to Employment Agreement dated as of January 1, 1996 Kennedy-Wilson and William J. McMorrow.
10.17†[37]	Amendment to Employment Agreement dated as of February 28, 1996 between Kennedy-Wilson and William J. McMorrow.
10.18†[15]	Fifth Amendment to Employment Agreement dated as of May 19, 1997 between Kennedy-Wilson and William J. McMorrow.

6

10.19†[37]	Sixth Amendment to Employment Agreement dated as of August 20, 1998 between Kennedy-Wilson and William J. McMorrow.
10.20†[37]	Seventh Amendment to Employment Agreement dated as of August 9, 1999 between Kennedy-Wilson and William J. McMorrow.
10.21†[37]	Eighth Amendment to Employment Agreement dated as of January 3, 2000 between Kennedy-Wilson and William J. McMorrow.
10.22†[37]	Ninth Amendment to Employment Agreement dated as of October 1, 2000 between Kennedy-Wilson and William J. McMorrow.
10.23†[37]	Tenth Amendment to Employment Agreement dated as of April 22, 2002 between Kennedy-Wilson and William J. McMorrow.
10.24†[37]	Eleventh Amendment to Employment Agreement dated as of October 1, 2003 between Kennedy-Wilson and William J. McMorrow.
10.25†[37]	Twelfth Amendment to Employment Agreement dated as of April 21, 2004 between Kennedy-Wilson and William J. McMorrow.
10.26†[37]	Thirteenth Amendment to Employment Agreement dated as of January 1, 2008 between Kennedy-Wilson and William J. McMorrow.
10.27†[37]	Fourteenth Amendment to Employment Agreement dated as of February 1, 2009 between Kennedy-Wilson and William J. McMorrow.
10.28†[37]	Second Amendment to Employment Agreement by Kennedy-Wilson, Inc. and Mary L. Ricks.
10.29†[37]	Employment Agreement dated February 1, 2009 between Kennedy-Wilson and Mary L. Ricks.
10.30†[37]	First Amendment to Employment Agreement dated June 1, 2009 between Kennedy-Wilson and Mary L. Ricks.
10.31†[37]	First Amendment to Employment Agreement by Kennedy-Wilson, Inc. and Donald J. Herrema.
10.32†[37]	Employment Agreement dated June 15, 2009 between Kennedy-Wilson and Donald J. Herrema.
10.33†[37]	Employment Agreement dated April 1, 1996 between Kennedy-Wilson and Freeman Lyle.
10.34†[37]	Amendment to Employment Agreement dated April 1, 1997 between Kennedy-Wilson and Freeman Lyle.
10.35†[37]	Second Amendment to Employment Agreement dated April 1, 1998 between Kennedy-Wilson and Freeman Lyle.
10.36†[37]	Third Amendment to Employment Agreement dated as of August 15, 1998 between Kennedy-Wilson and Freeman Lyle.
10.37†[37]	Fourth Amendment to Employment Agreement dated as of April 1, 1999 between Kennedy-Wilson and Freeman Lyle.
10.38†[37]	Fifth Amendment to Employment Agreement dated as of April 1, 2000 between Kennedy-Wilson and Freeman Lyle.
10.39†[37]	Sixth Amendment to Employment Agreement dated as of January 1, 2001 between Kennedy-Wilson and Freeman Lyle.
10.40†[37]	Seventh Amendment to Employment Agreement dated as of March 28, 2001 between Kennedy-Wilson and Freeman Lyle.
10.41†[37]	Eighth Amendment to Employment Agreement dated as of September 1, 2002 between Kennedy-Wilson and Freeman Lyle.
10.42†[37]	Ninth Amendment to Employment Agreement dated October 1, 2003 between Kennedy-Wilson and Freeman Lyle.
10.43†[37]	Tenth Amendment to Employment Agreement dated January 1, 2004 between Kennedy-Wilson and Freeman Lyle.
10.44†[37]	Eleventh Amendment to Employment Agreement dated January 1, 2005 between Kennedy-Wilson and Freeman Lyle.
10.45†[37]	Twelfth Amendment to Employment Agreement dated January 1, 2006 between Kennedy-Wilson and Freeman Lyle.

10.46[37]†	Thirteenth Amendment to Employment Agreement dated January 1, 2007 between Kennedy-Wilson and Freeman Lyle.
10.47[37]†	Fourteenth Amendment to Employment Agreement dated March 1, 2007 between Kennedy-Wilson and Freeman Lyle.
10.48[37]†	Fifteenth Amendment to Employment Agreement dated January 1, 2008 between Kennedy-Wilson and Freeman Lyle.

10.49[37]†	Sixteenth Amendment to Employment Agreement dated June 1, 2008 between Kennedy-Wilson and Freeman Lyle.
10.50[37]†	Seventeenth Amendment to Employment Agreement dated January 1, 2009 between Kennedy-Wilson and Freeman Lyle.
10.51[37]†	Amendment to Employment Agreement dated as of August 1, 2006 between KW Multi-Family Management Group and Robert Hart.
10.52[37]†	Second Amendment to Employment Agreement dated as of January 1, 2007 between KW Multi-Family Management Group and Robert Hart.
10.53[37]†	Third Amendment to Employment Agreement dated as of January 1, 2008 between KW Multi-Family Management Group and Robert Hart.
10.54[37]†	Fourth Amendment to Employment Agreement dated as of January 1, 2009 between KW Multi-Family Management Group and Robert Hart.
10.55[37]†	Business Loan Agreement dated July 29, 2009 between Kennedy-Wilson, Inc. and Pacific Western Bank.
10.56[41]†	Amended and Restated Loan Agreement dated June 5, 2008 between Kennedy-Wilson, Inc. and U.S. Bank National Association.
10.57[37]†	Junior Subordinated Indenture dated, January 31, 2007 between Kennedy-Wilson, Inc. and The Bank of New York Trust Company, National Association, as trustee.
10.58[37]†	First Amendment to Office Lease dated March 5, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc.
10.59[37]	Second Amendment to Lease dated June 2, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc.
10.60[37]	First Amendment to Office Lease dated March 5, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc.
10.61[37]	Second Amendment to Lease dated June 2, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc.
10.62[37]	Third Amendment to Office Lease dated December 20, 2002 between Brighton Enterprises, LLC and Kennedy-Wilson, Inc.
10.63[37]	Fourth Amendment to Office Lease dated September 11, 2003 between Wilshire-Camden Associates and Kennedy-Wilson, Inc.
10.64[37]	Fifth Amendment to Office Lease dated January 7, 2006 between Douglas Emmett 2000, LLC and Kennedy-Wilson, Inc.
10.65[37]	Standard Office Lease dated March 3, 2009 by and among 9701-Hempstead Plaza, LLC, 9701-Carolina Gardens LLC, 9701-West Point Realty LLC, 9701-Dakota Leasing LLC and 9701-Iowa Leasing LLC and Kennedy-Wilson Inc.
10.66[37]	Second Amended and Restated Guaranty of Payment dated November 4, 2008 by Arthur S. Levine, as Trustee of the Ray J. Rutter Trust, Arthur S. Levine, as Trustee of the Susan Ray Rutter Trust, and Arthur S. Levine, as Trustee of the Robert Jonathan Rutter Trust, and Kennedy-Wilson Inc., to Bank Midwest N.A.
10.67[37]	Amended and Restated Guaranty dated October 25, 2007 Agreement by Kennedy-Wilson, Inc. in favor of Bank of America, N.A., as agent for lenders.
10.68[37]	Amendment to Irrevocable standby letters of credit dated October 26, 2007 from Bank of America to the beneficiary, City of Walnut Creek on behalf of Fairways 340 LLC.
10.69[37]	Guaranty Agreement made as of August 14, 2007 by Kennedy-Wilson, Inc. in favor of Bank of America, N.A., as agent for lenders.
10.70[37]	Repayment Guaranty made as of September 4, 2007 by Kennedy-Wilson, Inc. in favor of Wachovia Bank, N.A., as agent for lenders.
10.71[37]	Commercial Guaranty made as of September 13, 2007 by Kennedy-Wilson, Inc., to Pacific Western Bank, on behalf of Windscape Village LLC.

10.72[37]	Repayment Guaranty made as of May 9, 2007 by Kennedy-Wilson, Inc. and KW Property Fund I, L.P. for the benefit of Wachovia Bank National Association.
10.73[37]	Commercial Guaranty dated January 16, 2009 to Pacific Western Bank by KWI Property Fund I, L.P.
10.74 [37]	Guaranty made as of May 29, 2008 by Kennedy-Wilson, Inc. and KW Property Fund III, L.P. for the benefit of Deutsche Bank, AG.
10.75[37]	Guaranty made as of September 9, 2005, by Kennedy-Wilson, Inc., a Delaware corporation, in favor of Bank of America, N.A.

10.76[37]	Guaranty made as of May 29, 2008 by Kennedy-Wilson, Inc. and KW Property Fund III, L.P. for the benefit of Deutsche Bank, AG.
10.77[37]	Guaranty made as of September 9, 2005, by Kennedy-Wilson, Inc., a Delaware corporation, in favor of Bank of America, N.A.
10.78[37]	Repayment Guaranty made as of September 4, 2007 by KWI Property Fund I, L.P. and KW Property Fund II, L.P., Delaware limited partnerships in favor of Wachovia Bank, N.A., as agent for lenders.[x]
10.79[40]	Fifteenth Amendment to Employment Agreement dated January 1, 2009 between Kennedy-Wilson Properties and James Rosten.
10.80[40]	Eighteenth Amendment to Employment Agreement dated January 1, 2009 between Kennedy-Wilson and Freeman Lyle.
10.81[40]	Fifth Amendment to Employment Agreement dated January 1, 2009 between KW Multi-Family Group, Ltd. and Robert Hart.
10.82[40]	First Amendment to Forfeiture Agreement dated October 22, 2009 between Prospect Acquisition Corp., De Guardiola Advisors, Inc., De Guardiola Holdings, Inc., Flat Ridge Investments LLC, LLM Structured Equity Fund L.P, LLM Investors L.P., CMS Platinum Fund, L.P., SJC Capital LLC, Michael P. Castine, Daniel Gressel, Michael Downey, James J. Cahill, John Merchant and Kennedy-Wilson, Inc.
10.83†[40]	Waiver and Modification with respect to Employment Agreements dated October 22, 2009 between Kennedy-Wilson, Inc. and William J. McMorrow, Mary L. Ricks and Donald J. Herrema.
10.84[42]	Agreement, dated as of November 11, 2009, by and between Prospect Acquisition Corp. and Victory Park Capital Advisors, LLC.
10.85[42]	Stock Purchase Agreement, by and between Prospect Acquisition Corp. and Victory Park Special Situations Master Fund, LTD.
10.86[42]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Credit Suisse Securities (USA) LLC.
10.87[42]	Stock Purchase Agreement, dated as of November 11, 2009, by and between Prospect Acquisition Corp. and Nisswa Acquisition Master Fund, Ltd.
10.88[42]	Share Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Milton Arbitrage Partners, LLC.
10.89[43]	Stock Purchase Agreement.
10.90[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Arrowgrass Master Fund Ltd.
10.91[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Bulldog Investors.
10.92[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Del Mar Master Fund Ltd.
10.93[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Citigroup Global Markets Inc.
10.94[44]	Share Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and IBS (MF) Ltd. In Respect of Glazer Merger Arbitrage Series.
10.95[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Glazer Offshore Fund Ltd.
10.96[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Glazer Capital Management, LP.
10.97[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and HFR MA Select Opportunity Master Trust.
10.98[44]	Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and GSS Offshore SPC-Glazer Segregated Portfolio.
10.99[45]	Waiver and Modification With Respect to Employment Agreement Amendments.
10.100[46]	

	Securities Purchase Agreement, dated June 28, 2011, by and among Kennedy-Wilson Holdings, Inc., a Delaware corporation and the Purchasers named thereto.
10.101(47)	Transfer Agreement dated December 28, 2011 between KW Executive Loan Partners I LLC and K-W Properties.
10.102(47)	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Summer House Manager, LLC, K-W Properties, KW Summer House Executives, LLC and the members of KW Summer House Executives, LLC as set forth therein.

9

10.103[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Montclair, LLC, K-W Properties, KW Montclair Executives, LLC and the members of KW Montclair Executives, LLC set forth therein.
10.104[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Montclair, LLC, K-W Properties, KW Montclair Executives, LLC and the members of KW Montclair Executives, LLC set forth therein
10.105[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Blossom Hill Manager, LLC, K-W Properties, KW Blossom Hill Executives, LLC and the members of KW Blossom Hill Executives, LLC set forth therein.
10.106[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors I, LLC, K-W Properties, KWF Executives I, LLC and the members of KWF Executives I, LLC set forth therein
10.107[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors II, LLC, K-W Properties, KWF Executives II, LLC, and the members of KWF Executives II, LLC set forth therein.
10.108[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors III, LLC, K-W Properties, KWF Executives III, LLC, and the members of KWF Executives III, LLC set forth therein.
10.109[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors V, LLC, K-W Properties, KWF Executives V, LLC, and the members of KWF Executives V, LLC set forth therein.
10.110[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW - Richmond, LLC, K-W Properties, KW Executives - Richmond, LLC, and the members of KW Executives - Richmond, LLC set forth therein.
10.111[47]	Membership Interest Acquisition Agreement dated December 28, 2011 by and among SG KW Venture I Manager, LLC, K-W Properties, SG KW Venture I Executives, LLC, and the members of SG KW Venture I Executives, LLC set forth therein.
10.112[48]	Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan.
10.113[49]	Modification Agreement, dated June 29, 2012, by and among Kennedy-Wilson, Inc., U.S. Bank National Association, as administrative agent, U.S. Bank National Association, as lender and East-West Bank, as lender
10.114**	Form of First Amendment to Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Restricted Stock Award Agreement
10.115†**	Form of Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Employee Restricted Stock Award Agreement
10.116†**	Form of Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Consultant Restricted Stock Award Agreement
21**	List of Subsidiaries
23.1*	Consent of Independent Accounting Firm
23.2*	Consent of Independent Accounting Firm
23.3*	Consent of Independent Accounting Firm
23.4*	Consent of Independent Accounting Firm
23.5*	Consent of Independent Accounting Firm
23.6*	Consent of Independent Accounting Firm
23.7*	Consent of Independent Accounting Firm
23.8*	Consent of Independent Accounting Firm
23.9*	Consent of Independent Accounting Firm
23.10*	Consent of Independent Accounting Firm
23.11*	Consent of Independent Accounting Firm

23.12*	Consent of Independent Accounting Firm
24**	Power of Attorney.
31.1*	Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of the Principal Executive Officer.
31.2*	Certification Pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934 of the Principal Financial Officer.

32.1*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer
101**	The following materials from Kennedy-Wilson Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets (ii) the Consolidated Statements of Operations and Comprehensive (Loss) Income (iii) the Consolidated Statements of Equity (iv) the Consolidated Statements of Cash Flows (v) related notes to those financial statements and (vi) Schedule III - Real Estate and Accumulated Depreciation.

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† Management contract or compensation plan or arrangement.
* Filed herewith.
** Previously filed.
(1) Filed as Annex A to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(2) Filed as Annex D to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(3) Filed as Exhibit 3.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-145110) filed October 26, 2007 and incorporated by reference herein.
(4) Filed as Exhibit A to Annex C to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(5) Filed as Annex C to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(6) Incorporated by reference to the final two paragraphs under the caption “Amendment to Amended and Restated Certificate of Incorporation” in the Registrant's Definitive Proxy Statement on Schedule 14A (File. No. 001-33824 filed on August 9, 2010.
(7) Reserved.
(8) Reserved.
(9) Reserved.
(10) Reserved.
(11) Reserved
(12) Reserved.
(13) Reserved.
(14) Filed as an Exhibit to the Registrant's Registration Statement on Amendment no. 1 to Form 8-A (File No.: 333-145110) filed on November 16, 2009 and incorporated by reference herein.
(15) Reserved.
(16) Reserved.

(17) Reserved.
(18) Reserved.
(19) Reserved.
(20) Reserved.
(21) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed April 7, 2011.
(22) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed April 13, 2011.
(23) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed May 21, 2010.
(24) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed August 16, 2010.
(25) Reserved.
(26) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed December 30, 2011.
(27) Reserved.
(28) Filed as Exhibit 10.1 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2012.
(29) Filed as Exhibit 4.3 to Kennedy-Wilson Holding, Inc.'s Registration Statement on Form S-3 (File No. 333-184752) filed November 5, 2012.
(30) Filed as Exhibit 4.2 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 28, 2012.
(31) Filed as Exhibit 4.11 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(32) Filed as Exhibit 4.12 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(33) Filed as Exhibit 4.13 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(34) Filed as Exhibit 4.14 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(35) Filed as Exhibit 10.105 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed September 24, 2009.
(36) Filed as Exhibit 10.11 to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 10-K (File No.: 001-33824) filed on March 31, 2008 and incorporated by reference herein.
(37) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on September 24, 2009 and incorporated by reference herein.
(38) Filed as Annex E to Amendment No. 5 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(39) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-8 (File No.: 333-164928) filed on February 16, 2010 and incorporated by reference herein.

(40) Filed as an Exhibit to Amendment No. 2 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 23, 2009 and incorporated by reference herein.

(41) Filed as an Exhibit to Amendment No. 1 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 16, 2009 and incorporated by reference herein.

(42) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 11, 2009.

(43) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 12, 2009.

(44) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 13, 2009.

(45) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 19, 2009.

(46) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2011 and incorporated by reference herein.

(47) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed December 30, 2011.

(48) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed January 30, 2012..

(49) Filed as an Exhibit to Registrant's Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2012 and incorporated by reference herein.

3-09 FINANCIAL STATEMENTS
Kennedy-Wilson Holdings, Inc.
Index to 3-09 Financial Statements

Independent Auditors' Report
The Members
Bay Fund Opportunity, LLC and Subsidiaries:

We have audited the accompanying consolidated financial statements of Bay Fund Opportunity, LLC and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, members' equity, and cash flows for each of the years in the two-year period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bay Fund Opportunity, LLC and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the two-year period then ended, in accordance with U.S. generally accepted accounting principles.

The accompanying consolidated statements of operations, members' equity, and cash flows for the year ended December 31, 2010 were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 21, 2013

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Balance Sheets

	December 31, 2012	2011
Assets		
Real estate		
Land	$21,874,072	$21,874,072
Building and improvements	87,566,335	87,566,335
Fixtures and equipment	838,938	714,011
Total	110,279,345	110,154,418
Less accumulated depreciation	(10,335,695)	(8,043,048)
Total real estate, net	99,943,650	102,111,370
Cash and cash equivalents	1,219,321	1,019,796
Tax escrow	143,449	303,964
Capital and financing escrow deposits	714,749	727,364
Deferred financing costs, net	230,298	380,760
Accounts receivable	47,521	47,157
Prepaid expenses and other assets	37,837	43,703
Total assets	$102,336,825	$104,634,114
Liabilities and members equity		
Liabilities		
Accounts payable and accrued expenses	$1,451,183	$1,483,085
Reserve for future warranty claims	392,000	392,000
Security deposits from tenants	384,303	397,235
Prepaid rent	4,723	3,121
Mortgages payable	57,998,348	58,890,863
Total liabilities:	60,230,557	61,166,304
Commitments and contingencies (note 6)		
Members' Equity		
Bay Fund Opportunity, LLC's Equity	42,106,268	43,467,810
Noncontrolling interest	—	—
Total Equity	42,106,268	43,467,810
Total liabilities and members' equity	$102,336,825	$104,634,114

The accompanying notes are an integral part of these consolidated financial statements.

16

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Operations

	Year ended December 31,		
	2012	2011	2010 (Unaudited)
Revenue			
Rental income	$8,088,922	$7,711,417	$7,293,504
Other income	—	831,948	1,083,479
Total revenue	8,088,922	8,543,365	8,376,983
Expenses			
Real estate and other taxes	1,356,675	1,185,142	1,620,627
Property insurance	57,797	56,981	53,871
Homeowners association fees	1,926,489	1,850,042	1,820,321
Repairs, maintenance and utilities	560,523	530,743	516,429
Depreciation	2,292,647	2,277,048	2,273,816
Marketing and promotion	148,936	141,646	145,945
General, administrative and other	85,963	68,977	210,182
Management fees (note 5)	399,906	510,427	620,616
Letter of credit fees	50,000	67,764	72,165
Mortgage interest	1,746,528	2,676,208	3,012,459
Total expenses	8,625,464	9,364,978	10,346,431
Net loss	(536,542)	(821,613)	(1,969,448)
Net loss attributable to noncontrolling interest	—	553,885	2,004,070
Net income (loss) attributable to Bay Fund Opportunity, LLC	$(536,542)	$(267,728)	$34,622

The accompanying notes are an integral part of these consolidated financial statements.

17

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Members' Equity

	Members' Equity	Noncontrolling Interest	Total
Balance, December 31, 2009 (unaudited)	$37,003,889	$2,557,955	$39,561,844
Contributions (unaudited)	197,027	—	197,027
Net income (loss) (unaudited)	34,622	(2,004,070)	(1,969,448)
Balance, December 31, 2010 (unaudited)	37,235,538	553,885	37,789,423
Contributions	6,500,000	—	6,500,000
Net loss	(267,728)	(553,885)	(821,613)
Balance, December 31, 2011	43,467,810	—	43,467,810
Distributions	(825,000)	—	(825,000)
Net loss	(536,542)	—	(536,542)
Balance, December 31, 2012	$42,106,268	$—	$42,106,268

The accompanying notes are an integral part of these consolidated financial statements.

18

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Cash Flows

	Year ended December 31, 2012	2011	2010 (Unaudited)
Cash flows from operating activities:			
Net loss	$(536,542)	$(821,613)	$(1,969,448)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	2,292,647	2,277,048	2,273,816
Amortization of deferred financing costs	266,817	184,802	95,626
Change in assets and liabilities:			
Tax escrow	160,515	18,330	114,972
Accounts receivable	(364)	24,977	9,487
Prepaid expenses and other assets	5,866	(1,145)	13,177
Accounts payable and accrued expenses	(31,902)	(770,838)	(569,271)
Security deposits from tenants	(12,932)	(11,468)	3,264
Prepaid rent	1,602	(1,945)	(7,179)
Net cash flow provided by (used in) operating activities	2,145,707	898,148	(35,556)
Cash flows from investing activities:			
Additions to real estate	(124,927)	(109,011)	(70,841)
Net cash flow used in by investing activities	(124,927)	(109,011)	(70,841)
Cash flow from financing activities:			
Principal payments on mortgage loans	(892,515)	(6,358,936)	—
Mortgage loan costs	(116,355)	(327,831)	—
Changes in capital and financing escrow deposits	12,615	57,276	(6,930)
Contributions from members	—	6,500,000	197,027
Distributions to members	(825,000)	—	—
Net cash flow provided by (used in) financing activities	(1,821,255)	(129,491)	190,097
Net increase in cash and cash equivalents	199,525	659,646	83,700
Cash and cash equivalents, beginning of year	1,019,796	360,150	276,450
Cash and cash equivalents, end of year	$1,219,321	$1,019,796	$360,150
Supplemental disclosure of noncash financing activities:			
Interest paid	$1,504,773	$2,601,842	$2,919,414

The accompanying notes are an integral part of these consolidated financial statements.

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012, 2011 and 2010 (Unaudited)

NOTE 1—ORGANIZATION
Bay Fund Opportunity, LLC (the Company), a California limited liability company, was formed by and among, KW - Richmond, LLC, a Delaware limited liability company, KW Fund III - Richmond, LLC, a Delaware limited liability company, and BASGF II - Richmond, LLC, a Delaware limited liability company (collectively, the Managers). The Company was formed upon the filing of the Articles of Formation with the California Secretary of State on April 18, 2008. The term of the Company extends until the date that the Company is terminated pursuant to the terms defined in the Company's operating agreement.
The Company was organized to form, invest in, capitalize and own 50% of the equity in Emerald Marina Shores Richmond, LLC, a Delaware limited liability company, and 50% of the equity in Emerald Marina Cove Richmond, LLC, a Delaware limited liability company, which collectively own the real property located in Richmond, California (Marina Cove and Shores). Initial capital contributions to acquire these investments are $6,076,000 from KW - Richmond, LLC, $5,000,000 from KW Fund III - Richmond, LLC, and $14,000,000 from BASGF II - Richmond, LLC, for a total initial investment of $25,076,000.
The Managers may elect from time to time to distribute available cash to the Members in proportion to their percentage interests at the time of distribution.
The limited liability companies (LLCs) within the accompanying consolidated balance sheets will continue in existence until dissolved in accordance with the provisions of their operating agreements and are funded through the equity contributions of their members. As LLCs, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.
Profit and loss for each fiscal period shall be allocated among the members in proportion to their percentage interests. If any membership interest is transferred or otherwise changed during any fiscal year, profit and loss for that fiscal year, shall be assigned pro rata to each day in the particular period of that fiscal year to which such item is attributable and shall be allocated to the members based upon their respective percentage interest at the close of that day. Gain or loss of the Company realized in connection with a sale or other disposition of any of the assets of the Company shall be allocated solely to the parties owning membership interests as of the date that sale or other disposition occurs.
NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
PRINCIPLES OF CONSOLIDATION—The Company consolidates entities in which it holds a greater than 50% voting interest and real estate entities that are deemed variable interest entities (VIEs) in which the Company was determined to be the primary beneficiary. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.
VARIABLE INTEREST ENTITIES—The VIEs (Marina Cove and Shores) lease, manage, operate, improve, finance and sell real estate property. Management determined that the Company is the primary beneficiary of the VIEs by determining the Company has (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE based on the terms of the VIE's operating agreement. Activities that most significantly impact the VIE's performance include selling real estate.
USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the

economic environment will be reflected in the consolidated financial statements in future periods.

CASH AND CASH EQUIVALENTS—Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less. Periodically, the Company maintains cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Company places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

REAL ESTATE ASSETS—Real estate is carried at depreciated cost, less impairment, if any. Depreciation on buildings and improvements has been provided for in the accompanying consolidated financial statements using the straight-line method based on estimated useful lives of 40 years for building and improvements and five to ten years for fixtures and equipment. Maintenance and repairs are charged to expense as incurred, and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012, 2011 and 2010 (Unaudited)

IMPAIRMENT OF LONG-LIVED ASSETS—In accordance with accounting guidance for long lived assets, the asset or asset group is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, the Company will evaluate the property by comparing the carrying amount of the asset or asset group to the estimated future undiscounted cash flows of the property. Estimated future cash flows include estimated costs to develop the property whether these costs would be recognized as an expense or capitalized in future periods. Future interest costs that are necessary to develop the property, and therefore capitalizable, are also included. If impairment exists, an impairment loss will be recognized based on the amount by which the carrying amount exceeds the fair value of the asset or asset group. For the years ended December 31, 2012, 2011, and 2010, there were no impairments recorded.

CONCENTRATION OF RISK—The Company's real estate is concentrated in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Company's investments.

NONCONTROLLING INTERESTS—Noncontrolling interests in the consolidated financial statements reflect the interests of noncontrolling members in Marina Cove and Shores.

ACCOUNTS RECEIVABLE—Accounts receivable primarily consist of amounts due for rental and operating expense payments in accordance with tenants' lease agreements.

REVENUE RECOGNITION—Rental revenue related to multifamily investments is recognized on the straight-line basis over the terms of the lease.

DEFERRED FINANCING COSTS, NET—Financing costs incurred in obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight-line basis.

INCOME TAXES—As a limited liability company, the members elected for the Company to be a pass-through entity for income tax purposes; therefore, the Company's taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements. Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of this guidance. The Company is not subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2009.

NOTE 3—MORTGAGES PAYABLE

Mortgages secured by Marina Cove and Shores totaled $57,998,348 and $58,890,863 as of December 31, 2012 and 2011, respectively. The mortgages are collateralized by the properties and bear interest of LIBOR plus 2.25% (2.464% at December 31, 2012). The mortgages mature on June 26, 2013 and require monthly principal and interest payments through maturity.

The Company intends to pay off the existing mortgages with the proceeds of new mortgages in the aggregate principal amount of $48,400,000 and additional capital contributions from the members. If management is unable to obtain new mortgages, management will use additional capital from Kennedy-Wilson, Inc., an affiliate of the Company, to make the required pay downs.

NOTE 4—MEMBERSHIP INTEREST CHANGES

In May 2011, KW - Richmond, LLC acquired an additional interest of 24.07% in the Company for $7,000,000 from BASGF II - Richmond, LLC, increasing its interest in the Company from 24.23% to 48.30%.

Marina Cove and Marina Shores had mortgage notes payable that had total balances of $65,249,799 (unaudited) at December 31, 2010. On December 2, 2011, their loans were extended to June 26, 2013, with a required principal paydown of $6,358,937, which was funded by the capital contributions from two of the three members of the Company. These capital contributions increased KW - Richmond, LLC's interest from 48.30% to 48.61% and KW Fund III - Richmond, LLC's interest from 19.94% to 25.43%.

On December 28, 2011, KW Executives - Richmond, LLC transferred its interest in KW - Richmond, LLC to the Company, in exchange for a 3.57% interest directly in the Company. As a result of this exchange, KW - Richmond, LLC's interest in the Company was reduced from 48.61% to 45.04%.

Table of Contents

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012, 2011 and 2010 (Unaudited)

Membership interest as of December 31, 2012, 2011, and 2010 (Unaudited)

	KW Richmond, LLC		KW Richmond, LLC		BASGF II Richmond, LLC		KW Executives Richmond, LLC		Total	
12/31/2012	45.04	%	25.43	%	25.96	%	3.57	%	100.00	%
12/31/2011	45.04	%	25.43	%	25.96	%	3.57	%	100.00	%
12/31/2010 (unaudited)	24.23	%	19.94	%	55.83	%	—	%	100.00	%

NOTE 5—FEES PAID TO AFFILIATES

The Company has entered into an agreement with Emerald Fund, Inc., an affiliate of the Company to provide various asset and property management services in return for a management fee. During the years ended December 31, 2012, 2011, and 2010, management fees incurred for such services totaled $399,906, $510,427, and $620,616 (unaudited), respectively.

NOTE 6—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Company does not have any material commitments or contingencies.

NOTE 7—SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition and disclosure through March 21, 2013, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

Independent Auditors' Report
The General and Limited Partners
KW Property Fund II, L.P. and Subsidiaries:

We have audited the accompanying consolidated financial statements of KW Property Fund II, L.P. and subsidiaries (the Partnership) which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, partner's capital, and cash flows for the year then ended , and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of KW Property Fund II, L.P. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended December 31, 2012 in accordance with U.S. generally accepted accounting principles.

The accompanying consolidated statements of operations, partners' capital, and cash flows for each of the years in the two-year period ended December 31, 2011 and 2010 were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 21, 2013

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Consolidated Balance Sheets

	December 31, 2012	2011 (Unaudited)
Assets:		
Real estate at fair value (cost $29,668,316 in 2012 and $48,488,557 (unaudited) in 2011) (note 4)	$12,570,000	$23,120,000
Investments in real estate joint ventures (note 5)	75,330,305	70,278,132
Total fair value of real estate and investments in real estate joint ventures	87,900,305	93,398,132
Cash and cash equivalents	386,841	976,585
Deposits in escrow	1,003,245	1,036,987
Accounts receivable, net	31,370	139,313
Other assets, net	99,228	83,476
Total assets	$89,420,989	$95,634,493
Liabilities and Partners' Capital		
Liabilities:		
Loans secured by real estate at fair value (note 6)	$8,829,014	$20,337,382
Partner loans (note 1)	20,154,158	20,154,158
Loans from affiliate (note 1)	25,320,474	21,317,104
Accounts payable and accrued liabilities	4,878,309	6,185,463
Security deposits from tenants	152,793	154,092
Prepaid rent	48,230	22,190
Total liabilities	59,382,978	68,170,389
Commitments and contingencies (note 10)		
Partners' capital	30,038,011	27,464,104
Total liabilities and partners' capital	$89,420,989	$95,634,493

The accompanying notes are an integral part of these consolidated financial statements.

24

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Consolidated Statements of Operations

	Year ended December 31, 2012	2011 (Unaudited)	2010 (Unaudited)
Revenues:			
Rental	$1,751,039	$2,549,003	$3,316,377
Equity in income from investments in real estate joint ventures (note 5)	2,005,354	3,406,126	2,906,266
Other	133,276	61,370	56,784
Total revenues	3,889,669	6,016,499	6,279,427
Expenses:			
Property operating expenses	1,354,830	1,748,423	1,858,434
Real estate taxes	279,121	352,266	449,937
General, administrative and other	481,478	307,657	331,544
Provision for (recovery of) doubtful accounts	(12,090)	7,090	(2,144)
Interest expense	7,740,195	5,482,936	1,994,585
Asset management fees (note 9)	744,465	1,171,768	1,222,442
Total expenses	10,587,999	9,070,140	5,854,798
Net investment income (loss)	(6,698,330)	(3,053,641)	424,629
Realized and unrealized gain on investments:			
Net change in unrealized depreciation on investments in real estate	(501,563)	(4,344,996)	(10,072,985)
Net change in unrealized appreciation (depreciation) on investments in real estate joint ventures	8,946,237	(18,372,458)	(5,624,276)
Net change in unrealized depreciation (appreciation) on loans secured by real estate	925,452	1,451,046	(230,080)
Realized gain on investments in real estate	2,596,575	—	—
Realized loss on investments in real estate joint ventures	(597,873)	—	—
Realized gain (loss) on loans secured by real estate	(2,096,591)	1,537,345	—
Net income (loss)	$2,573,907	$(22,782,704)	$(15,502,712)

See accompanying notes to consolidated financial statements.

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Consolidated Statements of Partners' Capital

	Limited Partners	General Partner and Special Limited Partner	Total
Balance, January1, 2010 (unaudited)	$73,764,971	$(999,469)	$72,765,502
Contributions (unaudited)	7,557,495	—	7,557,495
Net loss (unaudited)	(15,502,712)	—	(15,502,712)
Balance, December 31, 2010 (unaudited)	65,819,754	(999,469)	64,820,285
Recharacterization of equity to partner loans (note 1) (unaudited)	(14,573,477)	—	(14,573,477)
Net loss (unaudited)	(22,782,704)	—	(22,782,704)
Balance, December 31, 2011 (unaudited)	28,463,573	(999,469)	27,464,104
Net income	2,573,907	—	2,573,907
Balance, December 31, 2012	$31,037,480	$(999,469)	$30,038,011

See accompanying notes to consolidated financial statements.

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Consolidated Statements of Cash Flows

	Year ended December 31, 2012	2011 (Unaudited)	2010 (Unaudited)
Cash flows from operating activities:			
Net income (loss)	$2,573,907	$(22,782,704)	$(15,502,712)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Amortization of deferred financing costs	55,493	77,200	96,983
Provision for doubtful accounts	(12,090)	7,090	(2,144)
Net change in unrealized depreciation on investments in real estate	501,563	4,344,996	10,072,985
Net change in unrealized depreciation (appreciation) on investments in real estate joint ventures	(8,946,237)	18,372,458	5,624,276
Net change in unrealized depreciation (appreciation) on loans secured by real estate	(925,452)	(1,451,046)	230,080
Realized gain on investments in real estate	(2,596,575)	—	—
Realized loss (gain) on loans secured by real estate	2,096,591	(1,537,345)	—
Realized loss on investments in real estate joint ventures	597,873	—	—
Equity in income from investments in real estate joint ventures	(2,005,354)	(3,406,126)	(2,906,266)
Changes in assets –(increase) decrease:			
Deposits held in escrow for property taxes and insurance	34,466	140,498	(43,007)
Accounts receivable	(35,645)	(33,420)	(8,767)
Other assets	(18,421)	318,057	(3,552)
Changes in liabilities – increase (decrease):			
Accounts payable and accrued liabilities	(666,232)	5,756,005	(508,486)
Security deposits from tenants	12,292	(17,666)	11,475
Prepaid rent	29,858	(58,306)	(2,566)
Net cash flow used in operating activities	(9,303,963)	(270,309)	(2,941,701)
Cash flows from investing activities:			
Additions to real estate	(181,563)	(814,996)	(997,762)
Proceeds from capital expenditure escrows and reserves	90,867	118,794	1,470,934
Decrease in capital contributions due to investments in real estate joint ventures	—	—	(4,486,934)
Investment in real estate joint ventures	(2,792,928)	(25,008,686)	(1,765,758)
Proceeds from disposition of investments in real estate joint ventures	5,750,000	—	—
Distributions from unconsolidated real estate entities	2,344,473	2,354,609	576,028
Net cash flow provided by (used in) investing activities	5,210,849	(23,350,279)	(5,203,492)
Cash flows from financing activities:			
Repayments of loans secured by real estate	—	(9,500,000)	—
Costs related to repayments of loans secured by real estate	—	(8,890)	—
Proceeds from loans secured by real estate	—	7,000,000	—
Establishment of interest reserve	(500,000)	—	—
Deferred financing fees	—	(233,224)	—

Decrease in capital contributions receivable	—	—	392,364
Contributions	—	—	7,557,495
Proceeds from partner loans	—	5,580,681	—
Proceeds from loans from affiliate	4,003,370	21,317,104	—
Net cash flow provided by financing activities	3,503,370	24,155,671	7,949,859
Net increase (decrease) in cash and cash equivalents	(589,744)	535,083	(195,334)
Cash and cash equivalents, beginning of year	976,585	441,502	636,836
Cash and cash equivalents, end of year	$386,841	$976,585	$441,502

See accompanying notes to consolidated financial statements.

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	2012	2011 (Unaudited)	2010 (Unaudited)
Supplemental disclosure of cash flow information:			
Cash paid for interest	$6,560,045	$1,489,709	$1,897,662

Supplemental disclosure of noncash investing activities:
During the year ended December 31, 2012, one investment in real estate with a fair value of $10,230,000 was exchanged in foreclosure for the loan which secured the investment. The foreclosure included net other liabilities of $91,575.

Supplemental disclosure of noncash financing activities:
During the year ended December 31, 2011, equity contributions in the amount of $14,573,477 were converted to partner loans (unaudited).

See accompanying notes to consolidated financial statements.

Table of Contents

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

NOTE 1—ORGANIZATION

ORGANIZATION—KW Property Fund II, L.P. (the Partnership) was formed on October 31, 2005 by and among: Kennedy Wilson Property Services II, Inc., a Delaware corporation (the General Partner); Kennedy Wilson Property Special Equity II, Inc., a Delaware corporation (the Special Limited Partner); Kennedy Wilson Property Equity II, Inc. (KWPE II), a Delaware corporation and California Public Employees' Retirement System (collectively, the Limited Partners). The Partnership was formed as a limited partnership under the Delaware Revised Uniform Limited Partnership Act, as amended (the Revised Uniform Act), by the filing of the Certificate with the Office of the Secretary of State of Delaware on June 25, 2003. The parties mentioned above agree to continue the Partnership.

The General Partner of the Partnership and KWPE II are affiliates of Kennedy Wilson, Inc. (KWI). KWPE II owns and contributes up to 5% of the limited partner interests of the Partnership. The Partnership forms separate limited partnerships to purchase properties such that KW Property Fund II, L.P. is the sole limited partner of each limited partnership and owns 100% of the general partner interest of each limited partnership. The Partnership also invests in joint ventures.

In accordance with the Agreement of Limited Partnership the General Partner and the Special Limited Partner shall contribute $1,000 each to the capital of the Partnership and have no further obligation to contribute capital. The Partnership offered an aggregate of up to $200,000,000 in limited partnership interests of which Kennedy Wilson Property Equity II, Inc. is obligated to purchase 5% of all limited partnership interests and make a capital commitment equal to the lesser of $10,000,000 or 5% of the total limited partner capital commitments. Effective October 26, 2007, the Agreement of Limited Partnership was amended to extend the original two-year subscription period, which was to expire on October 31, 2007, to March 31, 2008.

Effective November 15, 2011, the Agreement of Limited Partnership was amended to continue the Partnership through October 31, 2013. The General Partner, with the consent of nondefaulting limited partners with aggregate participation percentages in excess of 80%, may elect to extend the term of the Partnership for an additional one-year period to October 31, 2014 and again for an additional six-month period to April 30, 2015. This amendment also provided for the re-characterization of certain equity contributions as partner loans bearing interest at 15% per annum. Further, if the General Partner determines that additional capital is required, the Limited Partners have the right, but not the obligation to fund additional partner loans, and the General Partner or its affiliate may provide additional loans bearing interest at 15% per annum to fund any remaining requirements. This partnership amendment changed the calculation of the investment management fee and provides for an additional performance fee as further discussed in note 9. It also included a buy-sell agreement whereby the General Partner shall within 150 days of November 15, 2011 present each nondefaulting Limited Partner with an offer to acquire its interest for not less than 90% of the offeree's total share of the fair value of its investment, including capital contributions, partner loans and accrued interest thereon.

On April 13, 2012, the General Partner offered to acquire the partnership interests of each nondefaulting Limited Partner. All offers were calculated using 90% of the appraised value of the Partnership's underlying properties. Four Limited Partners accepted this offer and their interests were subsequently acquired by the General Partner.

Effective December 6, 2012, the Agreement of Limited Partnership was amended to allow the Special Limited Partner to act as a member of the Oversight Board in exchange for the General Partner foregoing the payment of any additional Investment Management Fees. More information on this amendment is provided in note 9.

As of December 31, 2012, the following Limited Partners have made commitments and capital contributions as indicated below and have the resulting participation percentages shown after the re-characterization of equity to loans.

Investor	Capital commitments	Partnership interest	Capital contributions	Participation percentage

Kennedy Wilson Property Equity II, Inc.	$5,294,055	5.00	%	$5,294,055	5.27	%
Kennedy Wilson Property Services II, Inc.	70,587,052	66.67		70,587,052	70.28	
Los Angeles Board of Fire and Police Pension Commissioners	30,000,000	28.33		24,556,185	24.45	
	$105,881,107	100.00	%	$100,437,292	100.00	%

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

As of December 31, 2011 (unaudited), the following Limited Partners had made commitments and capital contributions as indicated below and had the resulting participation percentages shown after the re-characterization of equity to loans.

Investor	Capital commitments	Partnership interest		Capital contributions	Participation percentage	
Kennedy Wilson Property Equity II, Inc.	$5,294,055	5.00	%	$5,294,055	5.27	%
California Public Employees' Retirement System	50,000,000	47.22		50,000,000	49.78	
CSFB Strategic Partners III RE, LP. (Credit Suisse)	1,593,000	1.51		1,593,000	1.59	
CS Strategic Partners IV RE Holdings, LP. (Credit Suisse)	8,407,000	7.94		8,407,000	8.37	
Firstar Capital Corporation (U.S. Bank)	5,292,997	5.00		5,292,997	5.27	
General Electric Real Estate Equities, Inc.	5,294,055	5.00		5,294,055	5.27	
Los Angeles Board of Fire and Police Pension Commissioners	30,000,000	28.33		24,556,185	24.45	
	$105,881,107	100.00	%	$100,437,292	100.00	%

As of December 31, 2012, the following partner loans had been made to the Partnership including equity re-characterized as loans. Also, Kennedy-Wilson, Inc., an affiliate of the General Partner, had made loans to the Partnership in the total amount of $25,320,474, bearing interest at 15% per annum in accordance with the provisions of the amended Agreement of Limited Partnership.

Partners	Funded loans	Recharacterized equity	Total loans
Kennedy Wilson Property Equity II, Inc.	$900,516	$456,483	$1,356,999
Kennedy Wilson Property Services II, Inc.	1,168,811	11,740,260	12,909,071
Los Angeles Board of Fire and Police Pension Commissioners	3,511,354	2,376,734	5,888,088
Total partner loans	5,580,681	14,573,477	20,154,158
Loans from affiliate	25,320,474	—	25,320,474
Total partner loans and loan from affiliate	$30,901,155	$14,573,477	$45,474,632

As of December 31, 2011 (unaudited), the following partner loans had been made to the Partnership including equity re-characterized as loans. Also, Kennedy-Wilson, Inc. an affiliate of the General Partner, has made loans to the Partnership in the total amount of $21,317,104, bearing interest at 15% per annum in accordance with the provisions of the amended Agreement of Limited Partnership.

Table of Contents
KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

Partners	Funded loans	Recharacterized equity	Total loans
Kennedy Wilson Property Equity II, Inc.	$900,516	$456,483	$1,356,999
California Public Employees' Retirement System	—	9,854,293	9,854,293
CSFB Strategic Partners III RE, LP. (Credit Suisse)	—	155,014	155,014
CS Strategic Partners IV RE Holdings, LP. (Credit Suisse)	—	818,079	818,079
Firstar Capital Corporation (U.S. Bank)	549,167	456,392	1,005,559
General Electric Real Estate Equities, Inc.	619,644	456,482	1,076,126
Los Angeles Board of Fire and Police Pension Commissioners	3,511,354	2,376,734	5,888,088
Total partner loans	5,580,681	14,573,477	20,154,158
Loans from affiliate	21,317,104	—	21,317,104
Total partner loans and loan from affiliate	$26,897,785	$14,573,477	$41,471,262

Distributions of net cash flow to the partners are generally as follows:

(a) First, to the Limited Partners in accordance with their participation percentages until the Limited Partners have received distributions equal to their total capital contributions;

(b) Then, to the Limited Partners in accordance with their participation percentages until the Limited Partners have received their cumulative preferred returns;

(c) Then, to the General Partner until the General Partner has received distributions equal to its capital contributions;

(d) Then, to the General Partner until the General Partner has received its cumulative preferred return;

(e) Thereafter, 80% to the Limited Partners in accordance with their participation percentages and 20% to the General Partner and the Special Limited Partner.

Preferred return accrues at the rate of 12% per annum, compounded quarterly, with respect to the capital contributions made by the partners.

The partnership follows the Hypothetical Liquidation at Book Value (HLBV) method for purposes of determining the allocation of net income or loss to the partners. Under the HLBV method, net income or loss is allocated between the partners to achieve each partner's claim on the net assets of the Partnership. Each partner's claim on the net assets of the Partnership is calculated as the amount that the partner would receive (or be obligated to pay) if the Partnership were to liquidate all of its assets at year end at the net book value and distribute the resulting cash to creditors and partners in accordance with their respective priorities.

PURPOSE OF THE PARTNERSHIP—The Limited Partnership Agreement states that the purpose of the Partnership is to (i) achieve total long-term risk-adjusted returns on equity that exceed market averages for its Partners by investing its funds in high-quality office and industrial properties located in selected markets in the Western, Mid-Western and Southern United States; (ii) purchase existing real estate income properties consisting solely of high quality office and industrial properties, including those that need additional renovation and capital improvements, in major growth markets that are expected to maintain above-average employment and growth rates over the next 10 to 20 years; (iii) acquire either on its own or in ventures with others, controlling equity interests in other entities, the business of which is to acquire, finance, manage, operate or dispose of, or is otherwise related to, any of the foregoing properties; and (iv) engage in all other activities related or incidental thereto.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Table of Contents
KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts of the Partnerships and its subsidiaries for which the Partnership has a majority voting or controlling financial interest. All significant intercompany items have been eliminated in the accompanying consolidated financial statements. The Partnership has no involvement with variable interest entities.

USE OF ESTIMATES—The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of revenues and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

LIQUIDITY—During 2012, the Partnership had negative cash flows from operations and has funded the liquidity requirements through affiliate loans. Management has taken steps to reduce operating costs and improve cash flows; however, there can be no guarantee the Partnership will generate positive cash flows.

CASH AND CASH EQUIVALENTS—Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less. The Partnerships consider their investment in a money market account to be a cash equivalent for purposes of the statement of cash flows.

The Partnerships maintain their cash in federally insured banking institutions. The account balances at these institutions periodically exceed the Federal Deposit Insurance Corporation's (FDIC) insurance coverage, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC's insurance coverage. To mitigate this risk, the Partnerships place their cash with quality financial institutions.

DEPOSITS IN ESCROW—Deposits in escrow are typically funds held by a mortgage lender that are restricted in use to payment of real estate taxes, property insurance, loan interest, leasing commissions and certain capital expenditures. Funds held in tax, insurance, and interest escrows are used to pay real estate taxes, insurance premiums, and period interest costs directly to the taxing authorities, insurance agencies, and lenders, respectively. Funds held in leasing commissions and capital expenditure escrows are generally disbursed as reimbursement to the borrower upon submission of satisfactory evidence that the related expenditures are incurred as anticipated. These escrow deposits are returned to the borrower upon disposition of the property serving as collateral for the mortgage loan.

FAIR VALUE MEASUREMENTS—Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each investment in the Partnerships is based on the assessment of the transparency and reliability of the inputs used in the valuation of such investment at the measurement date. The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical instruments.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar instruments and quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

The availability of valuation techniques and observable inputs can vary from investment to investment. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the General Partner in determining fair value is greatest for investments classified as Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the General Partner's own assumptions are set to reflect those that market participants would use in valuing the asset or liability at the measurement date. The General Partner uses prices and inputs that it believes are current as of the measurement date.

Valuation of Investments—The Partnerships' investments in real estate and real estate related entities are stated at fair value determined by the General Partner by considering the projected operating cash flows or sales of comparable assets, if any. The operating cash flows are estimated on an asset-by-asset basis with a capitalization rate applied to the reversion year cash flows for the respective holding period and discounted back to present value.

The accuracy of estimating fair value for Level 3 investments cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

The Partnerships' investments in real estate and real estate related assets and real estate related notes payable are accounted for on a closing-date basis.

Investment in Real Estate Joint Ventures—Investments in real estate joint ventures are carried at fair value and are presented in the accompanying consolidated financial statements using the equity method of accounting since control of the investment is shared with the respective venture member. Under the equity method, the investment is initially recorded at the original investment amount, increased by additional amounts invested, reduced by distributions received and subsequently adjusted for the Partnership's share of undistributed earnings or losses (including unrealized appreciation and depreciation) from the underlying entity.

Loans Secured by Real Estate—The Partnership has made the election to record its loan secured by real estate at fair value. Election of the fair value option is made on an instrument-by-instrument basis at inception and is irrevocable. The Partnership reports unrealized gains and losses due to the changes in fair value in earnings at each subsequent reporting date. The fair value of the loans are determined by discounting future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity and (ii) the value of the underlying collateral.

REVENUE RECOGNITION—Rental revenue is recognized using the accrual method based on contractual amounts provided for in the lease agreements. No revenue is recognized during periods of rental abatement. In the normal course of business, the Partnership extends credit to its tenants, which consist of local, regional and national based tenants. The General Partner does not believe this represents a material risk of loss with respect to its financial position.

INCOME TAX MATTERS—The Partnership is not subject to federal or state income taxes, and accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The partners are required to report their proportional share of income, gains, loss, credit, or deduction on their respective tax returns. The Partnership is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Partnership recording a tax liability that would reduce net assets. Based on its analysis, the Partnership has determined that there are no tax benefits that would have a material impact on the Partnership's financial position or results of operations. The Partnership is no longer subject to income tax examinations for years before 2009.

NOTE 3—FAIR VALUE OF INVESTMENTS

Table of Contents
KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

The following tables present the classification of the Partnerships' fair value measurements as of December 31, 2012 and 2011 (unaudited):

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total December 31, 2012
Real estate	$—	$—	$12,570,000	$12,570,000
Real estate joint ventures	—	—	75,330,305	75,330,305
	$—	$—	$87,900,305	$87,900,305
Loans secured by real estate	$—	$—	$8,829,014	$8,829,014

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total December 31, 2011
Real estate	$—	$—	$23,120,000	$23,120,000
Real estate joint ventures	—	—	70,278,132	70,278,132
	$—	$—	$93,398,132	$93,398,132
Loans secured by real estate	$—	$—	$20,337,382	$20,337,382

The following is quantitative information about significant unobservable inputs used in Level 3 fair value measurements on a recurring basis as of December 31, 2012:

Type	Fair Value	Valuation technique	Unobservable inputs	Ranges
Real estate	$12,570,000	Discounted cash flow	Terminal cap rate Discount cap rate	7.50% 9.00%
Investment in real estate joint ventures of which components include:	$75,330,305			
Real estate		Discounted cash flow	Terminal cap rate Discount cap rate	6.25%-7.00% 7.50%-8.00%
Debt		Discounted cash flow	Credit spread	2.00%-9.30%
Loans secured by real estate	$8,829,014	Discounted cash flow	Credit spread	3.90%

The following table presents the reconciliation of the beginning and ending balances for real estate measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012 and 2011 (unaudited):

34

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

	2012	2011
Beginning balance	$23,120,000	$26,650,000
Purchases	181,563	814,996
Foreclosure	(10,230,000)	—
Unrealized depreciation included in consolidated statements of operations	(501,563)	(4,344,996)
Ending balance	$12,570,000	$23,120,000
The amount of total losses for the year included in earnings attributable to the change in unrealized losses relating into investments still held at December 31	$(501,563)	$(4,344,996)

The following table presents the reconciliation of the beginning and ending balances for investments in real estate joint ventures measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012 and 2011 (unaudited):

	2012	2011
Beginning balance	$70,278,132	$62,590,387
Equity in income of unconsolidated investments	2,005,354	3,406,126
Total realized and unrealized gains included in consolidated statements of operations	8,348,364	(18,372,458)
Contributions to real estate joint ventures	2,792,928	25,008,686
Distributions from real estate joint ventures	(2,344,473)	(2,354,609)
Sales	(5,750,000)	—
Ending balance	$75,330,305	$70,278,132
The amount of total gains (losses) for the year included in earnings attributable to the change in unrealized gains (losses) relating to investments still held at December 31	$8,946,237	$(18,372,458)

Table of Contents

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

The following table presents the reconciliation of the beginning and ending balances for loans secured by real estate measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012 and 2011 (unaudited):

	2012	2011
Beginning balance	$20,337,382	$25,990,687
Purchases	—	7,000,000
Paydowns and foreclosure	(12,735,000)	(9,508,890)
Total realized and unrealized losses (gains) included in consolidated statements of operations	1,226,632	(2,911,191)
Debt issuance costs	—	(233,224)
Ending balance	$8,829,014	$20,337,382
The amount of total losses for the year included in earnings attributable to the change in unrealized gains relating to loans secured by real estate still held at December 31	$(925,452)	$(1,451,046)

Since inception, all investments have been classified as Level 3 investments, and there have been no transfers between other levels of the hierarchy.

NOTE 4—INVESTMENTS IN REAL ESTATE

The following tables detail the real estate owned and investments in real estate joint ventures as of December 31, 2012 and 2011:

	2012		2011	
	Fair value	Cost	Fair value (Unaudited)	Cost (Unaudited)
Real estate and improvements:				
1860 Howe, Sacramento, California	$10,590,000	$18,978,554	$10,910,000	$18,871,839
Howe Corporate Center, Sacramento, California	—	—	10,230,000	19,001,804
Metro Executive Park, Phoenix, Arizona	1,980,000	10,689,762	1,980,000	10,614,914
Total real estate	$12,570,000	$29,668,316	$23,120,000	$48,488,557

See notes regarding investments for Howe Corporate Center and Metro Executive Park under note 6.

NOTE 5—INVESTMENTS IN REAL ESTATE JOINT VENTURES

The following table details the investments in real estate joint ventures as of December 31, 2012 and 2011:

	2012		2011	
	Fair value	Cost	Fair value (Unaudited)	Cost (Unaudited)
Investments in real estate joint ventures:				
300 California, San Francisco, California	$12,778,457	$17,737,068	$10,026,493	$15,628,071
The Oaks at Westlake, Westlake Village, California	22,846,299	35,276,700	22,366,986	35,347,942
One Technology, San Antonio, Texas	3,024,309	4,898,610	3,518,372	4,354,126
303 North Glenoaks, Burbank, California	9,924,859	10,130,113	9,024,869	10,084,778
333 North Glenoaks, Burbank, California	5,601,353	5,683,437	4,945,941	5,700,539
Burbank Executive, Burbank, California	1,726,204	1,455,351	2,114,501	1,473,306
7060 Hollywood, Los Angeles, California	—	—	6,143,663	5,675,003
6100 Wilshire, Beverly Hills, California	19,428,824	26,529,013	12,137,307	26,871,932
Total real estate joint ventures	$75,330,305	$101,710,292	$70,278,132	$105,135,697

36

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

The following is a summary of the assets and liabilities, at fair value, underlying the Partnership's investments in real estate
joint ventures as of and for the years ended December 31, 2012 and 2011:

	2012	2011 (Unaudited)
Land	$375,780,000	$440,930,000
Other assets	7,139,081	9,634,300
Mortgage loans	(240,926,101)	(284,646,296)
Other liabilities	(6,720,169)	(15,424,786)
Net assets	$135,272,811	$150,493,218
Partnership's share of real estate joint venture net assets	$75,330,305	$70,278,132

The following is a summary of the operating results underlying the Partnership's investments in real estate joint ventures as of and for the years ended December 31, 2012, 2011, and 2010:

	2012	2011 (Unaudited)	2010 (Unaudited)
Operating revenues	$35,442,802	$40,690,749	$34,435,192
Operating expenses	(16,320,484)	(17,192,720)	(16,703,853)
Interest expense	(13,422,624)	(17,127,240)	(11,314,523)
Net change in unrealized appreciation (depreciation)	11,330,976	(29,851,391)	(11,553,338)
Net income (loss)	$17,030,670	$(23,480,602)	$(5,136,522)
Partnership's share or net investment income	$2,005,354	$3,406,126	$2,906,226
Partnership's share of net change in unrealized appreciation (depreciation) on investments	8,946,237	(18,372,458)	(5,624,276)

During 2007, the Partnership made its initial investment in 300 California, The Oaks at Westlake and One Technology, all of which hold commercial real estate properties. The Partnership is listed as a guarantor on mortgage loans for these investments (see further discussion below and at note 10).
During 2008, the Partnership made its initial investment in 303 North Glenoaks, 333 North Glenoaks, Burbank Executive, 7060 Hollywood and 6100 Wilshire, all of which hold commercial real estate properties. During October 2011, 303 North Glenoaks, 333 North Glenoaks, Burbank Executive and 6100 Wilshire were refinanced in a mortgage package consisting of a first lien mortgage and a mezzanine loan. Although both loans are nonrecourse, the Partnership guarantees certain nonrecourse obligations.
During 2013, certain loans of the Partnership's real estate joint ventures mature based on the contractual maturity dates. Loans maturing in 2013 relate to the Partnership's joint venture investments in One Technology and 300 California and totaled approximately $20,815,000 and $35,538,000, respectively, at December 31, 2012. The fair value of the Partnership's investment in these joint ventures totaled $15,802,766 as of December 31, 2012.
The Partnership's maximum guaranty related to the One Technology loan is approximately $5,330,000. This guaranty requires the Partnership to maintain compliance with certain financial covenants. These covenants require, among other things, the Partnership to maintain a minimum tangible net worth of $40,000,000. In conjunction with the second amendment to the Agreement of Limited Partnership (see note 1), the conversion of certain partners' capital to partner loans reduced the tangible net worth of the Partnership. The conversion resulted in a reclassification of approximately $14,573,000 (unaudited) of previously existing partners' capital to partner loans as of December 31,

2011. These covenants also require the Partnership to maintain a minimum of $1,000,000 in liquid assets (as defined in the guarantor agreement). As of December 31, 2012, the Partnership is not in compliance with the minimum tangible net worth or the minimum liquid asset requirement. Management's plan is to request the lender to waive these requirements.

Table of Contents

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

As of the issuance of this report the lender has not exercised any rights or remedies, including their right to foreclose on the related property or accelerate the maturity of all amounts owed, including the guaranteed amount. The Partnership would need to replace the loans if such a demand was made or management would need to obtain additional capital from investors, including KWI. Management believes they will be successful in selling the property prior to maturity or executing a new loan on acceptable terms. If pay downs are required to satisfy the lender, management will use additional capital and affiliate loans from investors, including KWI, and the Partnership's existing cash balances to make the necessary pay down at the time of the maturity.

Under the terms of the existing loan agreement related to 300 California, the maturity date can be extended for a period of one year to November 15, 2014. This extension option requires certain conditions to be satisfied including a loan-to-value ratio of no more than 85%, a debt service coverage ratio equal to or greater than 1.05, and an extension fee equal to 0.25% of the then outstanding unpaid principal balance. Management believes they will be successful in exercising the existing extension. If pay downs are required to satisfy the lender, management will use additional capital and affiliate loans from investors, including KWI, and the Partnership's existing cash balances to make the necessary pay down at the time of the maturity.

NOTE 6—LOANS SECURED BY REAL ESTATE

The following table presents the Partnership's loans secured by real estate as of December 31, 2012 and 2011:

	2012	2011 (Unaudited)
Loan payable secured by 1860 Howe bearing interest at 3.5% over 3-month LIBOR with a 4.5% floor (4.5% at December 31, 2012). Interest only until first draw from $2,000,000 holdback; 25-year amortization thereafter to maturity in July 2014. $2,000,000 paydown required October 1, 2013 if term of the Partnership not extended to October 31, 2015.	$7,000,000	$7,000,000
Loan payable secured by Howe Corporate Center bearing interest at 6.37% to maturity in August 2011. Property was in receivership October 27, 2011 (see below).	—	12,750,000
Loan payable secured by Metro Executive Park bearing interest at 5.72% interest-only payments until maturity (see below).	7,700,000	7,700,000
Total outstanding principal	14,700,000	27,450,000
Unrealized depreciation	(5,870,986)	(7,112,618)
Total fair value	$8,829,014	$20,337,382

Aggregate principal payments due under the loans secured by real estate are as follows:

2013	$7,700,000	(1)
2014	7,000,000	
2015	—	
2016	—	
2017	—	
Thereafter	—	
Total	$14,700,000	

(1) The loan on Metro Executive Park matured in January 2012. After several months of negotiation with the lender, a notice of default was recorded on the property. A mutually acceptable resolution could not be negotiated, and on

February 27, 2012, the property was placed into receivership and is still held in receivership as of December 31, 2012. On February 15, 2012, Howe Corporate Center was foreclosed by the lender after having been in receivership since October 27, 2011.

In accordance with the loan agreement of 1860 Howe, if by October 1, 2013, the term of the Partnership agreement is not extended to October 31, 2015, the Partnership shall make a payment to the lender by October 1, 2013 of $2,000,000. Management expects to extend the Partnership agreement's term to satisfy the above covenant and avoid the $2,000,000 payment. If the

Table of Contents
KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

Partnership's term is not extended, management will use additional capital and affiliate loans from investors, including KWI, and the Partnership's existing cash balances to make the necessary pay down.

NOTE 7—LEASE ARRANGEMENTS

The following is a schedule of future minimum rentals to be received under noncancelable operating leases as of December 31,2012:

2013	$751,164
2014	615,989
2015	554,305
2016	330,878
2017	284,974
Thereafter	864,942
Total	$3,402,252

Base rentals are normally increased over the term of the lease. Depending on local market factors, increases may be structured as a fixed percentage increase for each year of the lease or as an increase based on the Consumer Price Index. Also, concessions in the form of free rent may sometimes be provided.

In addition to base rent, most tenants are assessed monthly for their proportionate share of estimated net increases in property operating costs and real property taxes. Such expense reimbursements are typically amounts in excess of the tenants' share of expenses attributable to a base year stipulated in the lease.

The above schedule does not include minimum rents for Metro Executive Park which was placed in receivership on February 27, 2012 as indicated in note 6 above.

NOTE 8—CONCENTRATION OF RISK

This Partnership invests solely in commercial real estate and derives revenue and investment returns based completely on the strength of this market sector. The lack of diversity into other areas of the real estate market has resulted in a concentration of risk in this sector. The downturn in the economy could impact the Partnership's ability to maintain its current rates of return and adversely affect its cash flows. This concentration of risk related to the market sector is somewhat mitigated by the Partnership's local geographical diversity within a state. At December 31, 2012, the only real estate investment, exclusive of Metro Executive Park, is located in California. Also, 96% of the investments in real estate joint ventures were located in California and 4% were located in Texas.

NOTE 9—TRANSACTIONS WITH THE GENERAL PARTNER AND AFFILIATES

The Limited Partnership Agreement provides for the General Partner to be paid an annual investment management fee equal to 1.25% of the total capital commitment of all partners through the original commitment period, which ended on October 31, 2009. After the end of the commitment period until October 31, 2011, the annual asset management fee will be equal to 1.25% of the unrecovered capital contributions made by all partners. After November 1, 2011, the investment management fee is 0.75% of the aggregate capital contributions attributable to existing investments, but it shall not be less than $300,000 per year unless certain milestones related to proceeds from capital transactions are not met. This asset management fee is estimated and paid quarterly in advance.

Pursuant to the partnership agreement amendment effective in December 6, 2012, the Partnership shall no longer pay the General Partner an annual investment management fee.

Pursuant to the partnership agreement amendment effective in December 6, 2012, the Partnership shall pay the General Partner a performance fee equal to 6% of amounts distributed or paid in excess of the December 31, 2011 appraised value of investments from November 1, 2011 through October, 31, 2012; 3.50% of such amounts distributed or paid from November 1, 2012 through October 31, 2013; and 1% of such amounts distributed or paid from November 1, 2013 through April 30, 2015.

Affiliates of the General Partner receive leasing commissions ranging from 2% to 4% of the gross lease revenue, a construction management fee equal to 4% of construction cost, reimbursements for certain billed management and administrative related costs and disposition brokerage fees equal to 1% of the sales price of a Partnership property.

Table of Contents

KW PROPERTY FUND II, L.P. AND SUBSIDIARIES
(A Delaware Limited Partnership)
Notes to Consolidated Financial Statements
December 31, 2012, and December 31, 2011, (Unaudited) and 2010 (Unaudited)

Fees earned by KWI and its affiliates were the following for the years ended December 31, 2012, 2011 and 2010:

	2012	2011 (Unaudited)	2010 (Unaudited)
Asset management	$744,465	$1,171,768	$1,222,442
Management and administrative related cost reimbursement	123,200	274,200	274,800
Leasing commissions	2,330	47,098	2,674
Construction management	21,446	4,722	48,591
	$891,441	$1,497,788	$1,548,507

NOTE 10—COMMITMENTS AND CONTINGENCIES

The Partnership has certain guarantees associated with loans secured by Partnership assets as well as assets held in various joint venture investments. The maximum potential amount of future payments (undiscounted) the Partnership could be required to make under the guarantees was approximately $30.5 million and $44.7 million (unaudited) as of December 31, 2012 and 2011, respectively. The guarantees expire through 2017 and the Partnership's performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales proceeds of the asset. Based upon the Partnership's evaluation of all guarantees, the estimates fair value of guarantees made as of December 31, 2012 and 2011 (unaudited) are immaterial.

NOTE 11—SUBSEQUENT EVENTS

Management has evaluated all subsequent events through March 21, 2013, the date that the financial statements are available for issuance, and determined that there are no additional events that require disclosure.

Independent Auditors' Report

The Partners
Kennedy Wilson Real Estate Fund IV, L.P.:

Report on the Financial Statements
We have audited the accompanying statements of financial condition of Kennedy Wilson Real Estate Fund IV, L.P. (the Partnership), including the schedules of investments, as of December 31, 2012, and the related statements of operations, partners' capital, and cash flows for the year then ended.
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion
In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Kennedy Wilson Real Estate Fund IV, L.P. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.
The accompanying statements of financial condition of Kennedy Wilson Real Estate Fund IV, L.P. (the Partnership), including the schedules of investments, as of December 31, 2011, and the related statements of operations, partners' capital, and cash flows for the period from January 28, 2011 (inception) through December, 31, 2011, were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Los Angeles, California
March 27, 2013

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Financial Condition

	December 31, 2012	2011 (Unaudited)
Assets		
Investments at fair value (cost $128,447,755 in 2012 and $59,385,870 (unaudited) in 2011)	$143,763,155	$61,407,239
Cash and cash equivalents	1,607,141	2,885,066
Accounts receivable	67,127	—
Prepaid expenses	534,424	383,353
Total assets	$145,971,847	$64,675,658
Liabilities and partners' capital		
Liabilities		
Accounts payable and accrued expenses	$17,245	$1,821
Notes payable	3,012,905	—
Total liabilities	3,030,150	1,821
Partners' capital		
General partner and special limited partner	1,508,996	125,145
Limited partners	141,432,701	64,548,692
Total partners’ capital	142,941,697	64,673,837
Total liabilities and partners’ capital	$145,971,847	$64,675,658

See accompanying notes to financial statements.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Investments
December 31, 2012

Ownership interest	Security description	Percentage of total investments	Cost	Fair value
	Interests in real estate assets:			
100.00 %	KW Fund IV-Westview Heights, LLC, a single-purpose entity holding a fee simple interest in a 132-unit multifamily project located in Portland, Oregon	6.17 %	$6,266,117	$8,874,960
100.00	KW Fund IV-Westview Heights 66, LLC, a single-purpose entity holding a fee simple interest in a 66-unit multifamily project located in Portland, Oregon	3.36	3,281,351	4,825,682
100.00	KW Royal Beverly Glen, LLC, a single-purpose entity holding a fee simple interest in a four-story, 77,749 square foot office building and a four-level subterranean parking garage located in Los Angeles,California	7.65	10,800,000	10,993,087
100.00	KW Tricenter, LLC, a single-purpose entity holding a fee simple interest in a four-story 143,256 square foot office building and a four-level parking structure located in Van Nuys, California	7.67	11,200,000	11,022,602
50.00	KW Stadium Gateway, LLC, a single-purpose entity holding a fee simple interest in a six-story, 272,826 square foot office building with surface parking located in Anaheim, California	5.20	3,700,000	7,475,003
50.00	KW CapTowers, LLC, a single-purpose entity holding a fee simple interest in a 409-unit apartment building comprised of a fifteen-story tower and 206 garden-style villas located in Sacramento, California	5.62	8,100,000	8,074,933
50.00	KW Huntington, LLC, a single-purpose entity holding a fee simple interest in a 277-unit multifamily project located in Huntington Beach, California	7.63	9,833,348	10,975,839
50.00	KW Residential Capital, an entity holding a participating loan interest in a single-purpose entity owning a project under development consisting of 79 single-family residences located in Santa Clarita, California	1.27	1,818,801	1,818,801
50.00	KW Marina View, LLC, an entity holding a fee simple interest in a six-story, 60,918 square foot office building with 14,774 square feet of ground floor retail space and a two-level parking deck located in Marina del Rey, California	3.72	5,250,000	5,341,561
48.81	KW University Partners, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 209,329 square foot retail center located in Orem, Utah	3.43	4,600,000	4,927,848

33.33	Kennedy Wilson 16501 Ventura, LLC, a single-purpose entity holding a fee simple interest in a six-story, 185,393-square foot office building and a five-level subterranean parking garage located in Encino, California	5.06		5,977,352	7,276,266
33.33	KW Telstar, LLC, a single-purpose entity holding a fee simple interest in a two-story, 246,912-square-foot flex building and a four-level parking structure located in El Monte, California	4.94		5,481,119	7,095,687
33.33	Kennedy Wilson 145 Fairfax, LLC, a single-purpose entity holding a fee simple interest in a four-story, 55,574-square foot office building and a two-level subterranean parking garage located in Los Angeles, California	2.13		2,206,301	3,060,758
33.33	KW Warner Atrium, LLC, a single-purpose entity holding a fee simple interest in a three-story, 126,436-square foot office building and a three-level parking structure located in Woodland Hills, California	1.47		1,826,817	2,116,849
25.00	KW 9301 Partners, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a six-story, 86,529 square foot office building and a three-level subterranean parking garage located in Beverly Hills, California	4.00		4,308,563	5,762,247
20.00	KW Hilltop Manager, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a 1,008-unit multifamily project located in Richmond, California	6.20		9,748,884	8,915,710
15.57	KW/CV Sunset, LLC, a single-purpose entity holding a fee simple interest in a 251-unit multifamily projected located in West Covina, California	1.58		2,052,225	2,278,277
15.00	KW Kohanaiki Shores Member, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 450-acre planned community under development for up to 474 residences and a golf course on the Kona Coast of Hawaii	18.78		27,020,000	27,010,690
10.00	Guardian/KW Hayward, LLC, a single-purpose entity holding a fee simple interest in a 544-unit multifamily project located in Hayward, California	2.12		2,286,825	3,042,021
	Interests in notes:				
25.00	KW Loan Investors VII, LLC, an entity holding a portfolio initially consisting of nine construction and term loans with an outstanding principal balance of approximately $51,000,000, collateralized by seven retail properties located in Arizona, California and Utah.	2.00		2,690,052	2,874,334
	Total investments	100.00	%	$128,447,755	$143,763,155

See accompanying notes to combined financial statements

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Investments
(Unaudited)
December 31, 2011

Ownership interest	Security description	Percentage of total investments	Cost	Fair value
	Interests in real estate assets:			
100.00 %	KW Fund IV-Westview Heights, LLC, a single-purpose entity holding a fee simple interest in a 132-unit multifamily project located in Portland, Oregon	12.15 %	$7,766,117	$7,463,772
100.00	KW Fund IV-Westview Heights 66, LLC, a single-purpose entity holding a fee simple interest in a 66-unit multifamily project located in Portland, Oregon	5.08	3,281,351	3,121,592
33.33	Kennedy Wilson 16501 Ventura, LLC, a single-purpose entity holding a fee simple interest in a six-story, 185,393-square foot office building and a five-level subterranean parking garage located in Encino, California	10.32	5,589,724	6,339,290
33.33	KW Telstar, LLC, a single-purpose entity holding a fee simple interest in a two-story, 246,912-square-foot flex building and a four-level parking structure located in El Monte, California	9.77	5,481,119	5,999,302
33.33	Kennedy Wilson 145 Fairfax, LLC, a single-purpose entity holding a fee simple interest in a four-story, 55,574-square foot office building and a two-level subterranean parking garage located in Los Angeles, California	3.27	1,784,655	2,006,110
33.33	KW Warner Atrium, LLC, a single-purpose entity holding a fee simple interest in a three-story, 126,436-square foot office building and a three-level parking structure located in Woodland Hills, California	3.84	1,426,857	2,360,993
25.00	KW 9301 Partners, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a six-story, 86,529 square foot office building and a three-level subterranean parking garage located in Beverly Hills, California	6.97	3,633,563	4,278,586
20.00	KW Hilltop Manager, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a 1,008-unit multifamily project located in Richmond, California	14.41	9,417,484	8,840,021
15.00	KW Kohanaiki Shores Member, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 450-acre planned community under development for up to 474 residences and a golf course on the Kona Coast of Hawaii	34.19	21,005,000	20,997,573

Total investments	100.00 %	$59,385,870	$61,407,239

See accompanying notes to financial statements

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Operations

	Year ended December 31, 2012	From January 28 (inception) through December 31, 2011 (Unaudited)
Investment income:		
Dividends	$1,842,575	$555,302
Interest	1,854,804	4,110
Total investment income	3,697,379	559,412
Expenses:		
Management fees	1,720,041	691,195
Organization costs	409,387	590,613
Interest expense	585,404	—
Other professional and administrative costs	566,602	193,991
Total expenses	3,281,434	1,475,799
Net investment income (loss)	415,945	(916,387)
Realized and unrealized gain on investments:		
Net change in unrealized appreciation on investments	13,294,030	2,021,369
Net income	$13,709,975	$1,104,982

See accompanying notes to financial statements.

45

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Partners' Capital

	General and special limited partner	Limited partners	Total
Partners' capital, January 28, (inception) (unaudited)	$—	$—	$—
Capital contributions (unaudited)	136,761	69,239,847	69,376,608
Capital distributions (unaudited)	(11,616)	(5,796,137)	(5,807,753)
Net income (unaudited)	4,203	1,100,779	1,104,982
Partners' capital, December 31, 2011 (unaudited)	129,348	64,544,489	64,673,837
Capital contributions	173,646	88,529,511	88,703,157
Capital distributions	(48,291)	(24,096,981)	(24,145,272)
Net income	1,254,293	12,455,682	13,709,975
Partners' capital, December 31, 2012	$1,508,996	$141,432,701	$142,941,697

See accompanying notes to financial statements.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Combined Statements of Cash Flows

	Year ended December 31, 2012	From January 28 (inception) through December 31, 2011 (Unaudited)
Cash flows from operating activities:		
Net income	$13,709,975	$1,104,982
Adjustments to reconcile net income to net cash used in operating activities:		
Change in accreted interest	(1,852,806)	—
Net change in unrealized appreciation on investments	(13,294,030)	(2,021,369)
Change in operating assets and liabilities:		
Purchases of investments	(97,157,671)	(59,385,870)
Proceeds on sale of investments	29,948,591	—
Accounts receivable	(67,127)	—
Prepaid expenses	(151,071)	(383,353)
Accounts payable and accrued expenses	15,424	1,821
Net cash flow used in operating activities	(68,848,715)	(60,683,789)
Cash flow from financing activities:		
Borrowings under line of credit	26,461,756	—
Payments under line of credit	(23,448,851)	—
Capital contributions	88,703,157	69,376,608
Capital distributions	(24,145,272)	(5,807,753)
Net cash flow provided by financing activities	67,570,790	63,568,855
Net (decrease) increase in cash and cash equivalents	(1,277,925)	2,885,066
Cash and cash equivalents, beginning of year	2,885,066	—
Cash and cash equivalents, end of year	$1,607,141	$2,885,066
Supplemental disclosure of cash paid for during the year:		
Cash paid for interest	$568,259	$—

See accompanying notes to financial statements.

Table of Contents

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Combined Financial Statements
December 31, 2012 and 2011 (Unaudited)

NOTE 1—ORGANIZATION

Kennedy Wilson Real Estate Fund IV, L.P. (the Partnership), a Delaware limited partnership, was formed on January 28, 2011. The Agreement of Limited Partnership of the Partnership (Partnership Agreement) was executed on May 13, 2011. The general partner of the Partnership is Kennedy Wilson Property Services IV, L.P., a Delaware limited partnership (the General Partner), and the special limited partner is Kennedy Wilson Property Special Equity IV, LLC, a Delaware limited liability company (the Special Limited Partner). The Partnership's investment objective is to acquire office, multifamily and other real estate investments, including real estate loans and condominiums. In accordance with this objective, the Partnership may form joint ventures with appropriate strategic co-investors or invest in real estate related financings, such as first trust deeds. Partnership investments will generally involve real estate located in the western United States and Hawaii. Under the terms of the Partnership Agreement, the Partnership shall continue until the eighth anniversary of the effective date of May 13, 2011 and may be extended for an additional one-year period by the General Partner in its discretion, and for an additional one-year period by the General Partner with the prior consent of the limited partners with a majority of aggregate commitments.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of revenues and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

CASH AND CASH EQUIVALENTS—The Partnership considers its investment in a money market account to be a cash equivalent for purposes of the statement of cash flows.

The Partnership maintains its cash in federally insured banking institutions. The account balances at these institutions periodically exceed the Federal Deposit Insurance Corporation's (FDIC) insurance coverage, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC's insurance coverage. To mitigate this risk, the Partnership places its cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

FAIR VALUE MEASUREMENT—Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each investment in the partnerships is based on the assessment of the transparency and reliability of the inputs used in the valuation of such investment at the measurement date. The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

The availability of valuation techniques and observable inputs can vary from investment to investment. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the General Partner in determining fair value is greatest for investments classified as Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Combined Financial Statements
December 31, 2012 and 2011 (Unaudited)

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the General Partner's own assumptions are set to reflect those that market participants would use in valuing the asset or liability at the measurement date. The General Partner uses prices and inputs that it believes are current as of the measurement date.

VALUATION OF INVESTMENTS—The Partnership's investments in real estate assets are stated at fair value using the income and market approaches. For the Limited Liability Companies (LLC) in which the Partnership has a partial ownership interest, the LLC's investments in real estate are also stated at fair value using the income and market approaches. The income approach requires the General Partner to estimate the projected operating cash flows of the real estate on an asset-by-asset basis, apply a capitalization rate to the reversion year's cash flows and discount the cash flows with a risk-adjusted rate for the respective holding periods. The market approach requires the General Partner to identify transactions for similar assets, if any, and apply asset specific adjustments for items such as location, physical condition and other pertinent factors which would impact fair value. The Partnership's investments in real notes are stated at fair value based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and the credit risk of the borrower to the current yield of similar fixed income securities.

The accuracy of estimating fair value for Level 3 investments cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

The Partnerships' investments in real estate and real estate related assets and real estate related fixed income securities are accounted for on a closing-date basis.

CONCENTRATION OF RISK—Substantially all of the Partnerships' investments are concentrated in real estate related investments in California, Oregon, and Hawaii. Adverse conditions in the sector or geographic locations would likely result in material declines in the value of the Partnerships' investments.

REVENUE RECOGNITION—Dividend income from investments in real estate and real estate related entities is recorded when a disbursement has been approved and declared from the underlying investments of the Partnership. Undistributed earnings from real estate and real estate related entities are considered by the General Partner in estimating the fair value of these investments.

INCOME TAXES—The Partnership is not subject to federal or state income taxes, and accordingly, no provision for income taxes has been made in the accompanying combined financial statements. The partners are required to report their proportional share of income, gains, loss, credit, or deduction on their respective tax returns.

The Partnership is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Partnership recording a tax liability that would reduce net assets. Based on its analysis, the Partnership has determined that there are no tax benefits that would have a material impact on the Partnership's financial position or results of operations. The tax year 2011 (year of inception) is the earliest year that remains open to examination by the taxing jurisdictions to which the Partnership is subject.

NOTE 3—FAIR VALUE OF INVESTMENTS

The following table presents the classification of the Partnerships' fair value measurements as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Investments in real estate assets	$—	$—	$140,888,821	$140,888,821

Investments in notes	—	—	2,874,334	2,874,334
	$—	$—	$143,763,155	$143,763,155

The following table presents changes in Level 3 investments for the year ended December 31, 2012:

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Combined Financial Statements
December 31, 2012 and 2011 (Unaudited)

	January 1, 2012	Purchases	Sales	Realized gains or (losses)	Unrealized appreciation (depreciation)	Total
Investments in real estate assets	$61,407,239	$67,871,834	$(1,500,000)	$—	$13,109,748	$140,888,821
Investments in notes	—	31,138,643	(28,448,591)	—	184,282	2,874,334
	$61,407,239	$99,010,477	$(29,948,591)	$—	$13,294,030	$143,763,155

The net change in unrealized appreciation on investments that use Level 3 inputs still held as of December 31, 2012 was $13,294,030.

The following table (unaudited) presents the classification of the Partnerships' fair value measurements as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Investments in real estate assets	$—	$—	$61,407,239	$61,407,239
	$—	$—	$61,407,239	$61,407,239

The following table (unaudited) presents changes in Level 3 investments for the year ended December 31, 2011:

	January 1, 2011	Purchases	Sales	Realized gains or (losses)	Unrealized appreciation (depreciation)	Total
Investments in real estate assets	$—	$59,385,870	$—	$—	$2,021,369	$61,407,239
	$—	$59,385,870	$—	$—	$2,021,369	$61,407,239

The net change in unrealized appreciation on investments that use Level 3 inputs still held as of December 31, 2011 was $2,021,369 (unaudited).

Since inception, all investments have been classified as Level 3 investments and there have been no transfers between other levels of the hierarchy.

In estimating fair value of investments in real estate assets the Fund considers significant inputs such as capitalization and discount rates. The table below describes the range of inputs used as of December 31, 2012 and 2011 (unaudited):

	Cap rate		Discount rate	
	Min	Max	Min	Max
Multifamily	5.75 %	7.00 %	8.50 %	9.00 %
Office	6.25	7.50	8.00	9.75
Retail	8.00	8.00	12.00	12.00

Valuing real estate related assets and indebtedness, the Fund considers significant inputs such as the term of the debt, value of collateral, current loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used by the Fund for these types of investments range from 2.00% to 7.90% (unaudited).

The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision, cannot be substantiated by comparison to quotes prices in active markets, and may not be realized in a current sale of immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including cap rates, discounts rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

Table of Contents

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Combined Financial Statements
December 31, 2012 and 2011 (Unaudited)

NOTE 4—RELATED PARTY TRANSACTIONS

MANAGEMENT FEE—During the Investment Period which commenced on May 13, 2011 and expires on the earlier of the third anniversary of such date or when all of the commitments of the nonaffiliated limited partners have been invested, the Partnership shall pay the General Partner a management fee equal to 1.500% per annum of the invested capital contributed by the nonaffiliated limited partners and 1.00% per annum of the difference between the aggregate capital commitments of the nonaffiliated limited partners and the invested capital contributed by the nonaffiliated limited partners. After the Investment Period expires, the Partnership shall pay the General Partner a management fee equal to 1.500% per annum of the invested capital contributed by the nonaffiliated limited partners. The Partnership incurred $1,720,041 for the year ended December 31, 2012 and $691,195 (unaudited) in management fees for the period from January 28, 2011 (inception) through December 31, 2011.

The management fee shall be reduced, in any calendar quarter, by the nonaffiliated limited partners' percentage of any organizational expenses that the Partnership pays in excess of $1,000,000. In the event that the amount of fee reduction exceeds the management fee for such quarterly period, such excess shall be carried forward to reduce the management fee payable in following quarterly periods. There have been no reductions for the years ended December 31, 2012 and 2011 (unaudited).

ORGANIZATION EXPENSE—The Partnerships shall pay or reimburse the General Partner for up to $1 million of organizational expenses incurred on behalf of the Partnerships. Organization expenses in excess of $1 million will reduce the management fee paid to the General Partner. The Partnership incurred organization costs of $409,387 in the year ended December 31, 2012 and $509,613 (unaudited) for the period from January 28, 2011 (inception) through December 31, 2011.

NOTE 5—PARTNERS' CAPITAL

CONTRIBUTION—The total committed capital of the Partnership is $156,578,947 as of December 31, 2012 of which $131,347,622 or 83.89% has been called, and $118,421,053 (unaudited) as of December 31, 2011 of which $63,877,158 (unaudited) or 53.94% (unaudited) has been called.

The General Partner is authorized to call additional capital in its sole discretion when additional capital is required to acquire investments, provide working capital, establish reserves, or pay expenses, costs, losses, or liabilities of the Partnership. However, only nonaffiliated limited partners are required to fund management fees or excess organization costs as described above. No limited partner shall be required to make any additional capital contributions in excess of its capital commitment. Any portion of a limited partner's capital commitment that has not been called by the General Partner within the period ending three years from the effective date of May 13, 2011(the Investment Period) may not be drawn to fund new commitments for investments. However, the partners shall remain obligated to make capital contributions throughout the duration of the Partnership in order to fund commitments for new investments in existence at the end of the Investment Period, to pay for management fees and other partnership expenses, to fund requirements of existing investments in an aggregate amount not to exceed 15% of the aggregate commitments, or to pay continuing obligations of the Partnership under any line of credit or permitted indebtedness.

The General Partner may cause the Partnership to return to the partners any portion of a capital contribution that is not invested in an investment or used to pay partnership expenses, that is a contribution for bridge financing that is recouped by the Partnership within twelve months, or is invested in a portion of an investment sold to either an executive fund or related parallel fund. All such returned capital contributions shall be returned to the partners in proportion to the cash contribution made by each partner and shall be treated as not having been called or funded.

DISTRIBUTIONS—Distributions of net cash flow shall initially be made to the partners based on the percentage of their aggregate investment contributions to the aggregate investment contributions made by all partners. The initial amount apportioned to the limited partners shall be distributed to the limited partners and the Special Limited Partner as follows:

(i) First, 100% to limited partners until the limited partners have received cumulative distributions equal to the sum of their aggregate contributions for investments and partnership costs;
(ii) Second, 100% to limited partners until the unpaid preferred return of ten percent (10%), compounded annually, due to the limited partners is reduced to zero,
(iii) Third, 50% to the Special Limited Partner and 50% to the limited partners to the extent necessary so that the aggregate distributions to the Special Limited Partner equal 20% of the cumulative amount of distributions made to limited partners pursuant to (ii) and (iv), and
(iv) Thereafter, 20% to the Special Limited partner and 80% to the limited partners.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Combined Financial Statements
December 31, 2012 and 2011 (Unaudited)

Notwithstanding the above, the General Partner shall have authority to make distributions to the Special Limited Partner in an amount equal to the tax liability on its carried interest. Such distributions shall be treated as advances of distributions to the Special Limited Partner and shall reduce future distributions due to the Special Limited Partner.
ALLOCATION OF PARTNERSHIP INCOME AND LOSSES—The allocation of Partnership income and loss will generally follow the allocation of distributions.

NOTE 6—FINANCIAL HIGHLIGHTS

The Internal Rate of Return (IRR) of the limited partners of the Partnership, net of all fees and profit allocations to the Special Limited Partner, is 11.16% at December 31, 2012 and 3.47% (unaudited) from inception through December 31, 2011.
The IRR was computed based on the actual dates of the cash inflows (capital contributions), outflows (cash distributions), and the ending net assets at the end of the period (residual value) of the limited partners' capital accounts as of December 31, 2012.

	2012		2011 (Unaudited)	
Ratio to average limited partners’ capital:				
Net investment income (loss)	0.47	%	2.98	%
Total expenses	3.68	%	4.81	%
Incentive allocation	1.37	%	—	%
Total expenses and incentive allocation	5.05	%	4.81	%

The net investment income and total expense ratios (including incentive allocation) are calculated for the limited partners taken as a whole. The computation of such ratios, based on the amount of net investment income, expenses, and incentive allocation assessed to an individual investor, may vary from these ratios based on the timing of capital transactions. The above ratios are computed based upon the weighted average limited partners' capital of the Partnerships as measured at the end of each monthly accounting period for the year ended December 31, 2012.

NOTE 7—SUBSEQUENT EVENTS

On January 1, 2013, the Partnership Agreement was amended and restated to extend the subscription period from eighteen months after the original effective date of May 13, 2011 to March 31, 2013.
Management has evaluated all other subsequent events through March 28, 2013 the date that the financial statements are available for issuance.

Independent Auditors' Report
The Members
Bay Area Smart Growth Fund II, LLC:

We have audited the accompanying financial statements of Bay Area Smart Growth Fund II, LLC which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, members' equity, and cash flows for each of the years in the two-year period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Bay Area Smart Growth Fund II, LLC as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period then ended, in accordance with U.S. generally accepted accounting principles.

The accompanying statements of operations, members' equity, and cash flows for the year ended December 31, 2010 were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 21, 2013

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Balance Sheets

	December 31,	
	2012	2011
Assets		
Investments in unconsolidated real estate entities (note 3)	$21,445,083	$20,814,601
Cash and cash equivalents	133,144	18,803
Accounts receivable	5,148	—
Note receivable from affiliate (note 4)	—	1,209,428
Prepaid expenses and other assets	5,740	172,996
Total assets	$21,589,115	$22,215,828
Liabilities and members' equity		
Liabilities		
Accrued expenses (note 4)	$419,296	$—
Total liabilities	419,296	—
Commitments and contingencies (note 5)		
Members' equity	21,169,819	22,215,828
Total liabilities and members' equity	$21,589,115	$22,215,828

The accompanying notes are an integral part of these consolidated financial statements.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Operations

	Year ended December 31,		
	2012	2011	2010 (Unaudited)
Revenues:			
Interest income	$57,940	$—	$—
Total revenues	57,940	—	—
Expenses:			
General,administrative and other	121,577	106,667	119,170
Management fees (note 4)	667,179	674,470	656,242
Interest expense (note 4)	—	57,386	52,276
Total expenses	788,756	838,523	827,688
Equity in loss from investments in unconsolidated real estate entities (note 3)	(315,193)	(604,819)	(404,058)
Net realized loss on disposition of investment in unconsolidated real estate entity (note 3)	—	(2,359,686)	—
Net loss	$(1,046,009)	$(3,803,028)	$(1,231,746)

The accompanying notes are an integral part of these consolidated financial statements.

55

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Members' Equity

	Managing Member	Nonmanaging Members	Special Member	Total
Balance, January 1, 2010 (unaudited)	$1,362,530	$25,888,072	$—	$27,250,602
Net loss (unaudited)	(61,587)	(1,170,159)	—	(1,231,746)
Balance, December 31, 2010 (unaudited)	1,300,943	24,717,913	—	26,018,856
Net loss	(190,152)	(3,612,876)	—	(3,803,028)
Balance, December 31, 2011	1,110,791	21,105,037	—	22,215,828
Transfer of nonmanaging member interests to managing member (note 1)	10,508,731	(10,508,731)	—	—
Net loss	(76,797)	(969,212)	—	(1,046,009)
Balance, December 31, 2012	$11,542,725	$9,627,094	$—	$21,169,819

The accompanying notes are an integral part of these consolidated financial statements.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Cash Flows

	Year ended December 31, 2012	2011	2010 (Unaudited)
Cash flows from operating activities:			
Net loss	$(1,046,009)	$(3,803,028)	$(1,231,746)
Adjustments to reconcile net loss to net cash used in operating activities:			
Realized loss on disposition of investment in unconsolidated real estate entity	—	2,359,686	—
Equity in loss from investments in unconsolidated real estate entities	315,193	604,819	404,058
Change in assets and liabilities:			
Accounts receivable	(5,148)	—	—
Prepaid expenses and other assets	167,256	(157,871)	3,167
Accrued expenses	419,296	(1,043,930)	657,267
Net cash flow used in operating activities	(149,412)	(2,040,324)	(167,254)
Cash flows from investing activities:			
Advances under note receivable from affiliate	—	(1,209,428)	—
Repayment of note receivable from affiliate	1,209,428	—	—
Contributions to unconsolidated real estate entities	(1,203,294)	(2,783,867)	(780,524)
Distributions from unconsolidated real estate entities	257,619	—	—
Proceeds from disposition of investment in unconsolidated real estate entity	—	7,000,000	—
Net cash flow provided by (used in) investing activities	263,753	3,006,705	(780,524)
Cash flow from financing activities:			
Proceeds from note payable	—	—	947,678
Repayments of note payable	—	(947,678)	—
Net cash flow provided by (used in) financing activities	—	(947,678)	947,678
Net increase (decrease) in cash and cash equivalents	114,341	18,703	(100)
Cash and cash equivalents, beginning of year	18,803	100	200
Cash and cash equivalents, end of year	$133,144	$18,803	$100
Supplemental disclosure of noncash financing activities:			
Cash paid for interest	$—	$109,662	$—

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents
BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

NOTE 1—ORGANIZATION

Bay Area Smart Growth Fund II, LLC (the Company) was formed by and among KW BASGF II Manager, LLC, a Delaware limited liability company (Managing Member); Pacific National Bank, Far East National Bank, First Bank, Union Bank, United Commercial Bank, US Bank National Association, Washington Mutual Community Development, Inc. and Mechanics Bank (collectively, the Nonmanaging Members); and Bay Area Council, a California nonprofit corporation (Special Member); collectively, the Members. The Company was formed upon the filing of the Company's Certificate of Formation in the office of the Secretary of State of the State of Delaware on February 5, 2007. The term of the Company initially extends to August 31, 2016 and can be extended to facilitate the realization of investments.

The Company was formed to invest in retail, office, commercial and industrial projects, and in multi-family housing projects. The purposes of the Company are to achieve double bottom line fund returns (i.e., produce a risk-adjusted market rate of return for members while generating positive economic, social and environmental benefits for the neighborhoods that are within the San Francisco Bay Area region, the Double Bottom Line).

The Managing Member of the Company is an affiliate of Kennedy-Wilson, Inc. (KWI). It is anticipated that the Company will form and be the sole member of separate limited liability companies to purchase real estate interests.

Cumulative capital contributions and commitments were as follows as of December 31, 2012 and 2011:

	2012	2011
KW BASGF II Manager, LLC	$14,312,483	$1,312,483
FDIC as Receiver for Pacific National Bank	—	3,000,000
Far East National Bank	3,000,000	3,000,000
First Bank	1,000,000	1,000,000
Union Bank	2,624,967	2,624,967
East West Bank (formerly United Commercial Bank)	3,000,000	3,000,000
US Bank National Association	1,312,221	1,312,221
JP Morgan Chase (formerly Washington Mutual Community Development, Inc.)	—	10,000,000
Mechanics Bank	1,000,000	1,000,000
	$26,249,671	$26,249,671

During 2010, the original members, United Commercial Bank and Pacific National Bank, were taken over by East West Bank and US Bank, respectively. Due to an agreement between US Bank and FDIC, Pacific National Bank's investment in the Company was transferred to FDIC. During 2012, the interests of FDIC as Receiver for Pacific National Bank and JP Morgan Chase (formerly Washington Mutual Community Development, Inc.) were transferred to KW BASG II Manager, LLC.

Distributions of investment proceeds to the Members are calculated and made with respect to each investment made by the Company generally as follows:

a) First to the Members pro rata in proportion to, and to the extent of, the amount necessary so that each Member has received on a cumulative basis an amount equal to 100% of such Members invested capital with respect to such investment.

b) Then, to the Members pro rata in proportion to and to the extent of the amount necessary so that each such Member has received on a cumulative basis an amount equal to a preferred rate of return on the Member's Capital with respect to such investment at the rate of ten percent (10%) per annum compounded annually.

c) Then, pari passu 79% to the Managing Member, 8.316% to the Special Member, and 12.684% to Members in proportion to capital contributions until such time as the Managing Member has received 19% of the amounts

distributed to the Members pursuant to paragraph (b) above and this paragraph (c), and the Special Member has received 2% of the amounts distributed to the Members pursuant to paragraph (b) above and this paragraph (c).
d) Thereafter, pari passu 79% to all Members in proportion to capital contributions, 19% to the Managing Member, and 2% to the Special Member.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

Any other cash or other property received by the Company shall be allocated among, and distributed to, the Members in a manner determined by the Managing Member to be fair and equitable to the Members and as nearly as practicable to the provisions above.

The Members have agreed to allocate income and loss for financial reporting purposes in a manner which they believe reflects the Members' respective economic interests in the total reported Members' capital of the Company as of and for each year ended December 31.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

MANAGEMENT ESTIMATES—Preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION—The Company consolidates entities in which it holds a greater than 50% voting interest, or when certain conditions are met for variable interest entities. The Company has no involvement with variable interest entities. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

ORGANIZATION OF LIMITED LIABILITY COMPANIES—The limited liability companies (LLCs) within the accompanying financial statements will continue in existence until dissolved in accordance with the provisions of their operating agreements and are funded through the equity contributions of the members. As LLCs, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.

INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES—In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 323, Investment —Equity Method and Joint Ventures, unconsolidated equity method investments are initially recorded at cost and subsequently are adjusted for the Company's share of the venture's earnings or losses and cash distributions.

In accordance with the guidance, the allocation of profit and losses should be analyzed to determine how an increase or decrease in net assets (determined in conformity with GAAP) will affect cash payments to the investor over the life of the entity and on its liquidation. Because certain agreements contain preferences with regard to cash flows from operations, capital events and/or liquidation, the Company reflects its share of profits and losses by determining the difference between its “claim on the investee's book value” at the end and the beginning of the period. This claim is calculated as the amount that the Company would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method.

Costs incurred in connection with the acquisition of investments in unconsolidated real estate entities are capitalized as part of the Company's basis in the investments in the entities. The Company amortizes any excess of the carrying value of its investments over the book value of the underlying equity over the estimated useful lives of the underlying operating property, which represents the assets to which the excess is most clearly related.

On a periodic basis, the Company assesses whether there are any indicators that the value of its investments may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investments, and such decline in value is deemed to be other-than-temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated fair value of the investment. The Company's estimates of estimated fair value for each investment are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates and operating costs of the property. As these factors are difficult to predict and are subject to future events that may alter these assumptions, the values estimated by the Company in its impairment analysis may not be realized. During the year ended December 31, 2011, the Company recognized a loss on the transfer of a portion of its interest in the Marina Shores and Marina Cove investment of $2,359,686 (see note 3). As of December 31, 2012 and 2011, the Company determined there was no impairment related to the investments in unconsolidated real estate entities.

CASH AND CASH EQUIVALENTS—Cash and cash equivalents include highly liquid investments purchased with a maturity of three months or less. Periodically, the Company maintains cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Company places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

INCOME TAX MATTERS—As a limited liability company, the members elected for the Company to be a pass through entity for income tax purposes; therefore, the Company's taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements.
Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of this guidance. The Company is not subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2009.
SUBSEQUENT EVENTS—In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 21, 2013, and determined there are no other items to disclose.
NOTE 3—INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES
During 2008, the Company acquired a member's interest in the following unconsolidated real estate entities: 300 California Partners, LLC (300 California) and Bay Fund Opportunity, LLC (Marina Shores and Marina Cove). The Company acquired its interests in these entities in May 2008 and June 2008, respectively.
300 California is a venture between the Company and two other members affiliated through common management and a common investor. 300 California owns and leases an office building located in San Francisco, California.
300 California had a mortgage note payable that had a balance of $37,537,646 (unaudited) at its original maturity date in August 2010 and at December 31, 2010. This loan has been extended to November 14, 2013 with a required $2,000,000 paydown made January 14, 2011 and a required $3,000,000 letter of credit also provided January 14, 2011. The $2,000,000 paydown was funded by a short-term loan from Kennedy-Wilson Holdings, Inc., an affiliate of the Managing Member to the property. This short-term loan was paid off from capital contributions from the investors in 2011. The maturity date of the mortgage note can be extended to November 15, 2014. This extension option requires certain conditions to be satisfied including a loan-to-value ratio of no more than 85%, a debt service coverage ratio equal to or greater than 1.05, and an extension fee equal to 0.25% of the then outstanding unpaid principal balance. Management plans to exercise the option available to extend the maturity date.
Marina Shores and Marina Cove each separately own a multifamily housing complex, both of which are located in Richmond, California, and are in close proximity to one another. Marina Shores and Marina Cove are under common management and ownership. On May 4, 2011, the Company sold 24.07% of its interest in Bay Fund Opportunity, LLC for $7,000,000 to an affiliate of the Managing Member, reducing the Company's interest from 55.83% to 31.76%. The transfer of interest resulted in a realized loss on disposition of $2,359,686, which is shown on the 2011 statement of operations as a realized loss on disposition of investment in unconsolidated real estate entity. Marina Cove and Marina Shores had mortgage notes payable that had total balances of $65,249,799 (unaudited) at December 31, 2010. In December 2, 2011, these loans were extended to June 26, 2013 with a required principal paydown of $6,358,937, which was funded by capital contributions from other investors in Bay Fund Opportunity, LLC. These capital contributions reduced the Company's interest from 31.76% to 25.96%. Management of the Company intends to pay off the existing mortgages with the proceeds of new mortgages in the aggregate principal amount of $48,400,000 and additional capital contributions from the members of the joint venture. If management is unable to obtain new mortgages, management will use additional capital from Kennedy-Wilson, Inc., an affiliate of the Managing Member, to make the required pay downs.
The following presents summarized financial information of the unconsolidated real estate entities as of and for the year ended December 31, 2012:

Table of Contents
BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

	300 California	Marina Cove and Marina Shores	Total
Land and buildings	$61,789,366	$99,943,650	$161,733,016
Other assets	1,656,197	2,393,175	4,049,372
Mortgage loans	(35,537,646)	(57,998,348)	(93,535,994)
Other liabilities	(758,207)	(2,232,209)	(2,990,416)
Net assets	$27,149,710	$42,106,268	$69,255,978
Company's share of net assets	$10,514,317	$10,930,766	$21,445,083
Operating revenues	$3,506,476	$8,088,922	$11,595,398
Property operating expenses	(2,696,149)	(6,590,804)	(9,286,953)
Rental operations, net	810,327	1,498,118	2,308,445
Nonoperating expense, net	(25,335)	(288,133)	(313,468)
Interest expense	(1,311,550)	(1,746,528)	(3,058,078)
Net loss	$(526,558)	$(536,543)	$(1,063,101)
Company's share of net loss	$(175,906)	$(139,287)	$(315,193)

The following presents summarized financial information of the unconsolidated real estate entities as of and for the year ended December 31, 2011:

	300 California	Marina Cove and Marina Shores	Total
Land and buildings	$61,267,565	$102,111,370	$163,378,935
Other assets	865,877	2,522,744	3,388,621
Mortgage loans	(35,537,646)	(58,890,863)	(94,428,509)
Other liabilities	(2,391,450)	(2,275,441)	(4,666,891)
Net assets	$24,204,346	$43,467,810	$67,672,156
Company's share of net assets	$9,530,359	$11,284,242	$20,814,601
Operating revenues	$2,056,010	$7,711,417	$9,767,427
Property operating expenses	(2,103,605)	(6,198,017)	(8,301,622)
Rental operations, net	(47,595)	1,513,400	1,465,805
Nonoperating (loss) income, net	(15,400)	341,195	325,795
Interest expense	(1,314,783)	(2,676,208)	(3,990,991)
Net loss	$(1,377,778)	$(821,613)	$(2,199,391)
Company's share of net loss	$(460,272)	$(144,547)	$(604,819)

The following presents summarized income statement of the unconsolidated real estate entities as of and for the year ended December 31, 2010 (unaudited):

Table of Contents
BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

	300 California	Marina Cove and Marina Shores	Total
Operating revenue	$1,908,236	$7,293,504	$9,201,740
Property operating expenses	(2,275,405)	(6,557,192)	(8,832,597)
Rental operations, net	(367,169)	736,312	369,143
Nonoperating income, net	858,944	306,699	1,165,643
Interest expense	(1,759,145)	(3,012,459)	(4,771,604)
Net loss	$(1,267,370)	$(1,969,448)	$(3,236,818)
Company's equity in income (loss) of real estate	$(423,387)	$19,329	$(404,058)

NOTE 4—TRANSACTIONS WITH THE MANAGING MEMBER AND AFFILIATES

The limited liability agreement provides for the Managing Member to be paid a fund management fee in advance on the first day of each calendar quarter in the amount of 2% per annum of the aggregate capital commitments for all Members as of such date less aggregate repaid capital of all Members, and for the Special Member to be paid an advisory fee of 0.5% on the same terms. However, the management fee paid to the Managing Member shall not be less than $320,000 per year, and the Special Member fee shall not be less than $80,000 per year if the total fair value of all real property interests held directly or indirectly by the Company is at least $50,000,000; and the management fee paid to the Managing Member shall not be less than $600,000 per year and the Special Member fee shall not be less than $150,000 if the total fair value of all real property interests held directly or indirectly by the Company is at least $100,000,000.

It is contemplated that an affiliate of the Managing Member may perform property management services and/or construction management services for the Company. The compensation and other terms for such services provided shall be at rates and on terms which are no less favorable to the Company than the prevailing market rates and terms for such services obtained on an arm's-length basis in the applicable market area. Affiliates of the Managing Member may also perform development management services for the Company.

During 2012, 2011, and 2010, the Managing Member earned $533,743, $539,576, and $524,994 (unaudited) in fund management fees and the Special Member earned $133,436, $134,894, and $131,248 (unaudited) in advisory fees, respectively. As of December 31, 2012, $319,037, and $100,259 in fund management and advisory fees were due to the Managing Member and the Special Member, respectively, and are reflected in accrued expenses. As of December 31, 2011, $0 and $0 in fund management and advisory fees were due to the Managing Member and the Special Member, respectively.

During 2011, the Company advanced $1,209,428 to KW Property Fund II, L.P. (an affiliate of the Managing Member) in order to fund follow-on investments in 300 California. The amount was subject to a promissory note with a maximum amount of the $1,500,000 bearing interest at a rate of 15% per annum on the principal balance and a maturity date of June 30, 2012. At December 31, 2011, the balance of this note receivable was $1,209,428 and is included in the accompanying balance sheet as note receivable from affiliate. This note was paid off in its entirety during 2012 along with interest in the amount of $57,940, which is included in interest income on the statement of operations.

During 2010, the Company borrowed funds from Kennedy-Wilson Holdings, Inc, an affiliate of the Managing Member in order to fund investment requirements and general and administrative expenses. On November 2, 2010, a promissory note was executed to document these borrowings with a $1,000,000 maximum bearing 10% interest per annum on the funded amount and a maturity date of December 31, 2011. At December 31, 2010, the balance of this note payable was $947,678 (unaudited). This note was paid off in full on May 5, 2011. Interest expense on this note in the amount of $57,386 and $52,276 (unaudited), respectively, is included in the 2011 and 2010 statements of operations as interest expense.

In addition, the Company paid an affiliate of the Managing Member reimbursements for administrative and accounting services in connection with the annual audits. These reimbursements were $7,500 per year for each of the years ended December 31, 2012, 2011, and 2010 (unaudited).

Table of Contents
BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to Financial Statements
December 31, 2012, 2011, and 2010 (Unaudited)

NOTE 5—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Company does not have any material commitments or contingencies.

Independent Auditors' Report
The Members
KW Stadium Gateway Partners, LLC:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KW Stadium Gateway Partners, LLC and subsidiary, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, members' capital, and cash flows for the period from April 9, 2012 (inception) through December 31, 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KW Stadium Gateway Partners, LLC and subsidiary as of December 31, 2012, and the results of their operation and their cash flows for the period from April 9, 2012 (inception) through December 31, 2012 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California
March 29, 2013

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Consolidated Balance Sheet
December 31, 2012

Assets	
Real estate:	
Land	$13,021,688
Buildings and improvements	33,288,998
Total	46,310,686
Accumulated depreciation	(382,791)
Real estate, net	45,927,895
Cash	597,510
Debt service escrows and deposits	2,837,075
Deferred leasing costs, net of accumulated amortization of $1,975	69,914
Deferred financing fees, net of accumulated amortization of $41,501	279,188
Acquired in place lease value, net of accumulated amortization of $1,629,483	8,443,517
Acquired intangible for above market leases, net of accumulated amortization of $295,970	1,534,030
Deferred rent	134,639
Utility deposits	107,470
Tenant receivables	4,913
Prepaid expenses	91,884
Total assets	$60,028,035
Liabilities and members' capital	
Liabilities	
Mortgage loan payable	$53,002,036
Prepaid rent	430,565
Tenant deposits	99,157
Accounts payable and accrued expenses	416,435
Acquired intangible for below market leases, net of accumulated amortization of $96,218	498,782
Total liabilities	54,446,975
Members' capital	5,581,060
Total liabilities and members' capital	$60,028,035

See accompanying notes to consolidated financial statements.

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Consolidated Statement of Operations
Period from April 9, 2012 (inception) through December 31, 2012

Revenue	
Rental income	$2,799,028
Operating expense recoveries	175,471
Other	3,620
Total revenue	2,978,119
Operating Expenses	
Property taxes	310,675
Utilities	324,553
Repairs and maintenance	353,887
Salaries and wages	110,982
Management fees	104,101
General and administrative	51,938
Insurance	68,567
Depreciation	382,791
Amortization	1,631,458
Interest expense	1,334,417
Acquisition-related costs	123,690
Total operating expenses	4,797,059
Net loss	$(1,818,940)

See accompanying notes to consolidated financial statements.

66

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Consolidated Statement of Members' Capital
Period from April 9, 2012 (inception) through December 31, 2012

Capital contributions	$7,400,000	
Net loss	(1,818,940	)
Members' capital at December 31, 2012	$5,581,060	

See accompanying notes to consolidated financial statements.

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Consolidated Statement of Cash Flows
Period from April 9, 2012 (inception) through December 31, 2012

Cash flows from operating activities:	
Net (loss)	$(1,818,940)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	382,791
Amortization	1,631,458
Amortization of deferred financing costs	41,501
Amortization of fair value adjustment to mortgage	(120,456)
Adjustment to revenue for above and below market leases	199,752
Change in assets and liabilities:	
Deferred rent	(134,639)
Utility deposits	(107,470)
Tenant receivables	(4,913)
Prepaid expenses	(91,884)
Prepaid rent	430,565
Tenant deposits	99,157
Accounts payable and accrued expenses	416,435
Net cash provided by operating activities	923,357
Cash flows from investing activities:	
Acquisition of real estate	(4,000,000)
Additions to real estate	(496,194)
Deferred leasing costs	(71,889)
Establishment of debt service escrows and deposits	(2,837,075)
Net cash flow used in investing activities	(7,405,158)
Cash flow from financing activities:	
Contributions from members	7,400,000
Payments made for financing costs	(320,689)
Net cash flow provided by financing activities	7,079,311
Net increase in cash and cash at the end of the period	$597,510
Supplemental disclosure of cash flow information:	
Cash paid for interest	$1,160,109

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Consolidated Statement of Cash Flows (continued)
Period from April 9, 2012 (inception) through December 31, 2012

Supplemental disclosure of noncash investing activities:	
Acquisition of real estate	
Land	$13,019,788
Building and improvements	32,794,704
In-place lease value	10,073,000
Above market leases	1,830,000
Below market leases	(595,000)
Mortgage loan payable assumed	(53,122,492)
	$4,000,000

See accompanying notes to consolidated financial statements.

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012

NOTE 1—ORGANIZATION

KW Stadium Gateway Partners, LLC (the Company), a Delaware limited liability company, is 50% owned by KW Fund IV - Stadium Gateway, LLC (wholly owned by Kennedy Wilson Real Estate Fund IV, LP) and 50% owned by K-W Properties (Manager and wholly owned by Kennedy-Wilson, Inc.). The Company was formed upon the filing of the Articles of Formation with the Delaware Secretary of State on April 9, 2012. The term of the Company extends until the date that the Company is terminated pursuant to the terms defined in the Company's operating agreement.

The Company owns a 100% interest in KW Stadium Gateway, LLC, which was organized to invest in and fully own the property known as Stadium Gateway (the Property). The Property is an office building totaling approximately 273,000 rentable square feet, located in Anaheim, California.

Initial capital contributions to acquire the Property were $3,450,000 from KW Fund IV - Stadium Gateway, LLC and $3,450,000 from K-W Properties, for a total initial investment of $6,900,000. KW Fund IV-Stadium Gateway, LLC and K-W Properties have made additional capital contributions totaling $500,000.

The Manager may elect from time to time to distribute available cash to the Members in proportion to their percentage interests at the time of distribution. Profit and loss for each fiscal period shall be allocated among the members in proportion to their percentage interests.

The limited liability companies (LLC) will continue in existence until dissolved in accordance with the provisions of their operating agreement and are funded through the equity contributions of their members. As an LLC, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION—Rental revenue from tenants is recognized on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.

Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, since the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the associated credit risk.

USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

CASH—Cash includes highly liquid investments purchased with original maturities of three months or less. Periodically, the Company maintains cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Company places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

REAL ESTATE ASSETS—The fair value of real estate acquired was allocated to the acquired tangible assets, consisting primarily of land and buildings and improvements, and to the identified acquired intangible assets, which comprise in-place leases, above-market leases and below-market leases.

The fair value of real estate was determined by valuing the property as if it were vacant, which was then allocated to land and buildings and improvements, based on management's determination of the relative fair values of these assets. The value of the acquired in-place leases was determined by calculating the present value of the cash flows provided by the leases, net of related incremental expenses over the estimated lease-up period.

Real estate assets are carried at depreciated cost. Depreciation on buildings and improvements has been provided for in the accompanying financial statements using the straight-line method based on estimated useful lives of 40 years for buildings and improvements. Maintenance and repairs are charged to expense as incurred, and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012

IMPAIRMENT OF LONG-LIVED ASSETS—In accordance with accounting guidance for long-lived assets, the asset or asset group is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, the Company will evaluate the project by comparing the carrying amount of the asset or asset group to the estimated future undiscounted cash flows of the project. If impairment exists, an impairment loss will be recognized based on the amount by which the carrying amount exceeds the fair value of the asset or asset group. For the period ended December 31, 2012 there were no impairments recorded.

CONCENTRATION OF RISK—The Company's real estate is located in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Company's investment.

DEFERRED FINANCING COSTS, NET—Financing costs incurred in obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight-line basis.

INCOME TAXES—As a limited liability company, the members elected for the Company to be a pass-through entity for income tax purposes; therefore, the Company's taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements. Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of this guidance.

FAIR VALUE MEASUREMENTS—The Company follows the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and
quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

For certain financial instruments, including cash, tenant receivables, escrows and deposits, prepaid expenses, accounts payable and accrued expenses, prepaid rent, and tenant deposits, recorded amounts approximate fair value due to the relatively short-term nature of these instruments.

Other than the accounting treatment for the assets and liabilities acquired upon acquisition of the Property, as described in notes 2 and 3, the Company has no assets or liabilities measured at fair value on a recurring or nonrecurring basis in the financial statements as of December 31, 2012.

NOTE 3—MORTGAGES PAYABLE

Upon acquisition of the Property, the Company assumed a mortgage loan payable to a third-party financial institution, which is secured by the Property. The outstanding principal due for the mortgage totaled $52,000,000 as of December 31, 2012. The mortgage bears a fixed interest rate of 5.66%, matures on February 1, 2016 and requires monthly interest payments through maturity. Aggregate principal payments of $52,000,000 under the mortgage payable are due in 2016.

The Company recorded the mortgage at $53,122,492 upon assumption, representing the fair value of the obligation at that time. The fair value was estimated based on the quoted market prices for the same or similar issues for debt of the same remaining maturities. Based on its nature, the fair value of long-term debts was determined using Level 2 inputs, as defined in note 2(i). The fair value amount does not necessarily represent the amount that would be required to satisfy the debt obligation.

The difference between the carrying value of the debt and the fair value upon assumption is being amortized through maturity. The carrying value of the liability as of December 31, 2012 is $53,002,036.

NOTE 4—MINIMUM FUTURE LEASE RENTALS

There are eight lease agreements in place with tenants to lease space at the Property. As of December 31, 2012, the minimum future cash rents receivable under non-cancellable operating leases in each of the next five years and thereafter are as follows:

Table of Contents

KW STADIUM GATEWAY PARTNERS, LLC
(A Delaware Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2012

2013	$4,502,154
2014	3,595,143
2015	2,927,770
2016	2,865,719
2017	2,030,924
Thereafter	1,331,972
	$17,253,682

NOTE 5—IN-PLACE LEASE VALUATION

The value of the acquired in-place leases, above-market lease asset, and below-market lease liability was $10,073,000, $1,830,000, and $595,000, respectively, at the date of acquisition.

The value of the net acquired in-place leases is amortized over 34 months, consistent with the remaining term of the in-place leases. For the year ended December 31, 2012, the amortization expense related to in-place leases was $1,629,483. Additionally, the net amortization expense in the amount of $199,752 associated with the above-market lease asset and the below-market lease liability is recorded as a component of rental revenues in the consolidated statement of operations.

As of December 31, 2012, the annual amortization expense of in place-leases, above-market leases and below-market leases for each of the next five years and thereafter are as follows:

	IPLV	Above Market Leases	Below Market Leases
2013	$3,555,176	$645,882	$(210,000)
2014	3,555,176	645,882	(210,000)
2015	1,333,165	242,266	(78,782)
2016	—	—	—
2017	—	—	—
Thereafter	—	—	—
	$8,443,517	$1,534,030	$(498,782)

NOTE 6—TRANSACTIONS WITH THE AFFILIATES

Affiliates receive leasing commissions, a management fee, a construction management fee, reimbursements for certain billed management and administrative related costs.

Fees earned and reimbursements received by Kennedy-Wilson Holdings, Inc. and its affiliates were the following for the year ended December 31, 2012:

Management fees	$104,101
Accounting fees	5,646
Salary reimbursement	5,733
Construction management	16,946
	$132,426

As of December 31, 2012, the outstanding balance due to affiliates was $14,245 and presented as accounts payable and accrued expenses in the consolidated balance sheet.

NOTE 7—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred

in connection with loss contingencies are expensed as incurred. Currently, the Company does not have any material commitments or contingencies.

NOTE 8—SUBSEQUENT EVENTS

In preparing these financials, the Company has evaluated events and transactions for potential recognition and disclosure through March 29, 2013, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Report of Independent Registered Public Accountant
The Partners
KWF Real Estate Venture VI, L.P.:

Report on the Financial Statements
We have audited the accompanying consolidated balance sheets of KWF Real Estate Venture VI, L.P. and subsidiary (the Partnership) as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), partners' capital, and cash flows for the year ended December 31, 2012 and the period from October 5, 2011 (inception) through December 31, 2011. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KWF Real Estate Venture VI, L.P. and subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the year ended December 31, 2012 and the period from October 5, 2011 (inception) through December 31, 2011 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California
March 27, 2013

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Consolidated Balance Sheets

	December 31, 2012	2011
Assets:		
Investment in loan pool participation (note 3)	$137,119,342	$344,831,165
Cash	83,442	343,538
Escrow Deposits	391,032	98,229
Total assets	$137,593,816	$345,272,932
Liabilities and Partners' Capital		
Liabilities:		
Accounts payable	$7,920	$1,086
Accrued interest payable	34,377	376,093
Note payable (note 4)	25,782,348	225,656,250
Total liabilities	25,824,645	226,033,429
Commitments and contingencies (note 5)		
Partners' capital:		
General Partner's capital	50,999,674	61,199,710
Limited Partners' capital	50,999,674	61,199,710
Accumulated surplus	8,621,978	511,098
Accumulated other comprehensive income (loss)	1,147,845	(3,671,015)
Total partners' capital	111,769,171	119,239,503
Total liabilities and partners' capital	$137,593,816	$345,272,932

See accompanying notes to consolidated financial statements

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Consolidated Statements of Operations and Comprehensive Income (Loss)

	Year ended December 31, 2012	Period from October 5 (inception) through December 31, 2011
Revenues:		
Participation interest income	$19,782,000	$3,660,000
Expenses:		
Interest expense	11,444,083	3,147,666
Administrative costs	227,037	1,236
Total expenses	11,671,120	3,148,902
Net Income	8,110,880	511,098
Other comprehensive income - foreign currency translation gain (loss)	4,818,860	(3,671,015)
Total comprehensive income (loss)	$12,929,740	$(3,159,917)

See accompanying notes to consolidated financial statements

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Consolidated Statement of Partners' Capital

	General Partner	Limited Partners	Total
Balance at October 5, 2011 (inception)	$—	$—	$—
Contributions	82,851,073	84,975,731	167,826,804
Distributions	(21,651,363)	(23,776,021)	(45,427,384)
Net income	255,549	255,549	511,098
Foreign currency translation loss	(1,835,507)	(1,835,508)	(3,671,015)
Balance at December 31, 2011	59,619,752	59,619,751	119,239,503
Distributions	(10,200,036)	(10,200,036)	(20,400,072)
Net income	4,055,440	4,055,440	8,110,880
Foreign currency translation gain	2,409,430	2,409,430	4,818,860
Balance at December 31, 2012	$55,884,586	$55,884,585	$111,769,171

See accompanying notes to consolidated financial statements

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Consolidated Statements of Cash Flows

	Year ended December 31, 2012	Period from October 5 (inception) through December 31, 2011
Cash flows from operating activities:		
Net income	$8,110,880	$511,098
Adjustments to reconcile net income to net cash used in operating activities:		
Change in accretion on participation interest	(19,782,000)	(3,660,000)
Changes in operating assets and liabilities:		
Escrow deposits	(289,040)	(99,780)
Accrued interest payable	(341,716)	376,093
Accounts payable	6,834	1,086
Net cash used in operating activities	(12,295,042)	(2,871,503)
Cash flows from investing activities:		
Investment in participation interest	—	(445,692,311)
Distributions from investment in participation interest	241,300,680	93,370,531
Net cash provided by (used in) investing activities	241,300,680	(352,321,780)
Cash flows from financing activities:		
Proceeds from note payable	—	323,713,708
Repayment of note payable	(209,241,405)	(90,558,536)
Contributions	—	167,826,804
Distributions	(20,400,072)	(45,427,384)
Net cash provided by (used in) financing activities	(229,641,477)	355,554,592
Effect of currency exchange rates on cash	375,743	(17,771)
Net increase (decrease) in cash	(260,096)	343,538
Cash, beginning of period	343,538	—
Cash, end of period	$83,442	$343,538
Supplemental disclosure of noncash financing activity:		
Cash paid for interest	$11,841,850	$2,771,835

See accompanying notes to consolidated financial statements

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

NOTE 1—ORGANIZATION

KWF Real Estate Venture VI, L.P., a Delaware limited partnership (the Partnership) was formed by and between KWF Manager VI, LLC, a Delaware limited liability company as general partner (the General Partner); and TIG Insurance Company, a California corporation, and Odyssey Reinsurance Corporation, a Connecticut corporation, as limited partners (the Limited Partners). The Partnership was formed upon the filing of the Certificate of Limited Partnership in the office of the Secretary of State of the State of Delaware on October 5, 2011. The term of the Partnership extends until the date all Partnership investments have been liquidated, the Partnership is dissolved, or at any time there are no Limited Partners.

The business of the Partnership shall be to acquire, hold, manage, and dispose of investments, with a focus on acquiring participation interests in the pool of loans, swaps, and other transactions held by or in favor of KW UK Loan Partners Limited, an Irish Section 110 Company (the 110 Company). Such investments shall be made through a wholly owned subsidiary of the Partnership, KW EU Loan Partners I, LLC, a Delaware limited liability company (the Partnership Subsidiary). Investments shall be made pursuant to the Amended and Restated Participation Agreement dated December 5, 2011 (Participation Agreement) by and among the 110 Company; Deutsche Bank AG, London Branch; JP Morgan Chase Bank, N.A.; the Partnership Subsidiary; Odyssey Reinsurance Company, a Connecticut corporation; KW Loan Partners V, LLC, a Delaware limited liability company; and Burlington Loan Management Limited, a limited liability company incorporated in the Republic of Ireland. This Participation Agreement replaced an earlier agreement dated as of October 21, 2011.

In the event that (i) the Partnership Subsidiary receives a future advance notice pursuant to the Participation Agreement, (ii) a buy/sell procedure is initiated pursuant to the Participation Agreement, or (iii) the General Partner makes a request for capital contributions to pay partnership expenses, then the General Partner shall notify the Limited Partners of such event, and the General and Limited Partners shall make payments of additional capital in immediately available funds within five (5) business days. However, the General Partner may not make a request for capital contributions from the Limited Partners to the extent that capital contributions made by the Limited Partners exceed $75,000,000 in the aggregate, unless the General Partner has obtained the prior written consent of the Limited Partners. Initial capital contributions made on October 14, 2011, the date of the Limited Partnership Agreement of KWF Real Estate Venture VI, LP, were $67,500,000 by KWF Manager VI, LLC, $36,500,000 by TIG Insurance Company, and $31,000,000 by Odyssey Reinsurance Corporation. The combined capital contributions net of distributions of the Limited Partners as of December 31, 2012 and 2011 were $50,999,674 and $61,199,710, respectively.

The Partnership invested in a 25% participation interest in loans held by the 110 Company.

Profit and loss for each fiscal period shall generally be allocated among the partners in a manner to cause their capital account balances to equal the amounts of distributions that would be made if the Partnership were dissolved, its assets sold for their respective carrying values, and its liabilities satisfied in accordance with their terms, and all remaining amounts distributed. Distributions shall be made on a pari passu basis to the General Partner and the Limited Partners in accordance with their respective percentage interests.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

BASIS OF CONSOLIDATION—The consolidated financial statements include the accounts of the Partnership and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in the consolidation.

INVESTMENT IN LOAN POOL PARTICIPATION—Participation interest income from the investment in the loan pool participation is recognized on a level yield basis under the provisions of Loans and Debt Securities Acquired with Deteriorated Credit Quality Accounting Standards Codification (ASC) Subtopic 310-30, where a level yield model is utilized to determine a yield rate which, based upon projected future cash flows, accretes interest income over the estimated holding period. When the future cash flows of a note cannot reasonably be estimated, cash payments are applied to the cost basis of the note until it is fully recovered before any interest income is recognized. In accordance with this guidance, projected future cash flows to be received by the Partnership through the Partnership Subsidiary are accreted on a level yield basis using the investment made to capitalize KW EU Loan Partners I, LLC as the initial net investment amount. On a periodic basis, the Partnership will reevaluate the projected future cash flows to be received by the Partnership and make adjustments to the level yield accretion as necessary.

Table of Contents

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

OPERATING CURRENCY—The functional currency of the Partnership is the U.S. dollar. The functional currency of the 110 Company is the British pound sterling. The financial transactions related to the participation interests held by the 110 Company are translated into U.S. dollars by translating assets and liabilities at the closing exchange rate on the balance sheet date with translation adjustments reported directly in partners' capital and income statement items at average exchange rates during the year. Individually material income and expense transactions are translated using the closing exchange rate in effect on the date the transaction is recognized.

INCOME TAXES—As a limited partnership, the Partnership is a pass-through entity for income tax purposes; therefore, the Partnership's taxable income or loss is allocated to partners in accordance with their respective ownership, and no provision or liability for income taxes has been included in the consolidated financial statements.

Management has evaluated the Partnership's tax positions and concluded that the Partnership has taken no uncertain tax positions that require adjustment to the consolidated financial statements in order to comply with the provisions of ASC 740-10 Accounting for Income Taxes.

CASH—Periodically throughout the period from October 5, 2011 (inception) through December 31, 2012, balances in various bank accounts exceeded federally insured limits. To date, no losses have been experienced related to such amounts. The Partnership places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

ESCROW DEPOSITS—An escrow deposit account is maintained pursuant to the Second Amended and Restated Loan Agreement dated December 22, 2011 with CBRE Loan Servicing Limited as administrative agent (Loan Agreement) for the loan payable that is funded from remittances from the loan participation in excess of current debt service requirements until such time that this reserve reaches a balance equal to one quarterly period's debt service.

NOTE 3—INVESTMENT IN LOAN POOL PARTICIPATION

During October 2011 (Tranche #1) and December 2011 (Tranche #2), the Partnership acquired a 25% participation interest in a pool of 24 loans from a European bank (the Pool). The loans were acquired for approximately £1.11 billion or $1.75 billion and had an unpaid principal balance of approximately £1.31 billion or $2.07 billion. The collateral upon inception was geographically located as follows: London, England (62%), the Midlands region of England (9%), Manchester, England (6%), the South East region of England (5%), and the North region (4%). The remaining 14% of the loans were located in other areas of England, Scotland, Wales, and Northern Ireland. The collateral was comprised of 39% office buildings, 26% retail properties, 25% multifamily properties, 9% industrial properties, and 1% land. On December 22, 2011, six of the loans were sold for £236,870,666 or $371,515,059 and the proceeds distributed to the participants. The Partnership's share of the proceeds from the sale was £59,217,667 or $92,878,765. During the year ended December 31, 2012, nine loans were fully resolved, resulting in total cash collections of £379,588,346 or $601,533,652. As of December 31, 2012, the Pool, which has a projected final resolution date of December 2014, has nine loans remaining with total projected recoveries of £454,832,027 or $734,690,173.

In accordance with the Participation Agreement, on each quarterly distribution date, available remittances from the loans in the loan pool are distributed as follows:

(a)Pro rata to the participants, an amount equal to the Loan Cash Flow Allocation described below until the Partnership Subsidiary has been distributed sufficient funds to meet its current obligations with respect to the interest, principal, and reserve requirements pursuant to the Loan Agreement described below;

(b)To pay base management fees and acquisition fees pursuant to the Asset Management Agreement described below

(c)To the reserve account to bring it to a targeted quarterly balance

(d)Pro rata to the participants until each participant has received aggregate payments to achieve the greater of a ten percent (10%) internal rate of return or one hundred fifteen percent (115%) of its Imputed Participation Amount, as defined in the participation agreement and was 26.6538% of its initial participation principal balance.

(e)Until such time as each participant has received a twenty percent (20%) internal rate of return, eighty percent (80%) pro rata to the participants, and twenty percent (20%) to the Asset Manager, Kennedy Wilson Ireland Limited, an affiliate of the General Partner, and

(f)Thereafter, seventy percent (70%) pro rata to the participants and thirty (30%) percent to the Asset Manager, Kennedy Wilson Ireland Limited, an affiliate of the General Partner

Pursuant to the Amended and Restated Asset Management Agreement dated December 5, 2011 by and among the 110 Company, the loan participants and Kennedy Wilson Ireland Limited (Asset Manager), an affiliate of the General Partner, the loan pool shall pay the Asset Manager a base management fee in an amount equal to 0.614% per annum of the Imputed Participation

Amount, as defined in the participation agreement. This base management fee is paid quarterly from remittances from the loan portfolio to the extent that such remittances are sufficient, with any unpaid fees deferred until the next remittance date.

The loan pool shall was also required to pay the Asset Manager an acquisition fee of 1% of the cost of the participation interests acquired of which 50% is payable at the time of the acquisition, 25% is payable on the first remittance date following the first anniversary of the closing, and the remaining 25% is payable on the first remittance date following the full repayment of the Partnership Subsidiary's loan payable. These fees are paid by the loan pool and are not the responsibility of the Partnership or its subsidiary.

NOTE 4—NOTE PAYABLE

In order to finance the loan pool participation investment, the Partnership Subsidiary entered into the Loan Agreement, which replaced an initial agreement dated October 21, 2011 with Deutsche Bank AG London Branch and a first amendment dated December 5, 2011 also with Deutsche Bank AG London Branch. The Partnership Subsidiary borrowed £159,993,968 or $255,078,384 to acquire Tranche #1 and £43,725,122 or $68,635,324 to acquire Tranche #2. On December 22, 2011, upon sale of the six loans in the portfolio, £57,691,620 or $90,483,538 was paid down on the loan, leaving a balance of £146,027,470 or $225,656,250 at December 31, 2011. During 2012, in accordance with quarterly distributions of remittances described below, the loan was paid down by £130,066,133 or $199,873,902, leaving a balance of £15,961,337 or $25,782,348 at December 31, 2012. The loan is collateralized by the Partnership Subsidiary's participation interest in the loan pool.

This loan bears interest at 6% to December 21, 2011 and thereafter to maturity at the sum of (a) the greater of (i) the three-month LIBOR for the British Pound Sterling or (ii) 1% plus a 5% spread. The initial maturity date is October 21, 2014, with two extension options available to October 21, 2015 and October 21, 2016 provided that the extended loan balance may not exceed the targeted amortization balance as described below.

On each quarter remittance distribution date, payments of the Loan Cash Flow Allocation are made as follows:

(a)To the administrative agent to cover its fees and any accrued and unpaid interest on the loan

(b)To pay outstanding principal on the loan equal to the greater of (i) the amount necessary to reduce the outstanding principal balance to the targeted amortization balance scheduled in the Loan Agreement, which schedules quarterly principal reductions beginning December 24, 2012 to reduce the outstanding loan balance to £43,808,241 or $67,696,875 as of December 22, 2015; (ii) ninety (90%) of the funds remaining after payment of amounts under clause (i) above; and (iii) one hundred thirty-five percent (135%) of the Allocated Loan Amount as defined in Schedule II of the Amended and Restated Loan Agreement for any Resolved Asset in the loan pool

(c)To the interest reserve until such time as the reserve account holds an amount equal to interest due for one quarterly period

Future principal payments on this loan are as follows as of December 31, 2012:

	Total
2016	$25,782,348
Thereafter	—
Total	$25,782,348

NOTE 5—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Partnership does not have any material commitments or contingencies.

81

Table of Contents

KWF REAL ESTATE VENTURE VI, L.P.
(A Delaware Limited Partnership) AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

NOTE 6—SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Partnership Subsidiary received distributions from the Pool of £17,410,775 or $26,317,455. On March 21, 2013, the Partnership Subsidiary paid off the loan, which had a balance of £15,961,337 or $25,782,348 at December 31, 2012.

In preparing these financial statements, the Partnership has evaluated events and transactions for potential recognition or disclosure through March 27, 2013.

Independent Auditors' Report

The Managing Members
KWI America Multifamily, LLC and KW SV Investment West Coast, LLC:
We have audited the accompanying combined balance sheet of KWI America Multifamily, LLC (a Delaware limited liability company) and subsidiaries and KW SV Investment West Coast, LLC (a Delaware limited liability company) as of December 31, 2011, and the related combined statements of operations, members' equity and cash flows for the year then ended. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these combined financial statements based on our audit.
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of KWI America Multifamily, LLC and subsidiaries and KW SV Investment West Coast, LLC as of December 31, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.
The accompanying combined balance sheet of KWI America Multifamily, LLC and subsidiaries and KW SV Investment West Coast, LLC as of December 31, 2012 and the related statements of operations, members' equity and cash flows for the years ended December 31, 2012 and 2010, were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Los Angeles, California
March 13, 2012

KWI AMERICA MULTIFAMILY LLC AND SUBSIDIARIES
(A Delaware Limited Liability Company) AND KW SV INVESTMENT WEST COAST, LLC
Combined Balance Sheets

	December 31, 2012 (Unaudited)	2011
Assets		
Real estate		
Land	$36,626,959	$36,626,959
Buildings	109,880,877	109,880,877
Building improvements	1,624,142	886,104
Furniture and equipment	7,090	7,090
Total	148,139,068	$147,401,030
Accumulated depreciation	(7,438,020)	(4,383,630)
Real estate, net	140,701,048	143,017,400
Cash	663,994	524,197
Investment in unconsolidated real estate joint ventures	215,458	1,455,948
Repair and replacement deposits held in escrow	66,648	5,876
Real estate taxes and insurance deposits held in escrow	1,190,593	1,153,386
Accounts receivable	37,442	54,298
Prepaid expenses and other assets	145,995	117,160
Total assets	$143,021,178	$146,328,265
Liabilities and members' equity		
Liabilities		
Mortgage loans payable	$135,750,000	$135,750,000
Accounts payable and accrued expenses	639,665	744,735
Security deposits and other liabilities	741,060	712,901
Total liabilities	137,130,725	137,207,636
Equity		
Members' equity	5,890,453	9,120,629
Total liabilities and members' equity	$143,021,178	$146,328,265

See accompanying notes to the combined financial statements.

KWI AMERICA MULTIFAMILY LLC AND SUBSIDIARIES
(A Delaware Limited Liability Company) AND KW SV INVESTMENT WEST COAST, LLC
Combined Statements of Operations

Combined	Combined	Combined	KW SV Investment West Coast, LLC	Successor	Predecessor
Year ended December 31,	Year ended December 31,	Year ended December 31,	Year ended December 31,		