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Kennedy-Wilson Holdings, Inc.

Form 424B3

November 12, 2014

Filed by Kennedy-Wilson Holdings, Inc.

pursuant to Rule 424(b)(3) under the Securities Act of 1933

Commission File No.: 333-164926

QUARTERLY REPORT ON FORM 10-Q

On November 11, 2014, Kennedy-Wilson Holdings, Inc. filed with the Securities and Exchange Commission its Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, which is reproduced below as Appendix A to this filing.

The exhibits filed with the Quarterly Report are attached to Appendix A to this filing.

In connection with the offering (the "Offering") of up to 20,278,690 shares of common stock and 4,993,471 warrants to purchase common stock of Kennedy-Wilson Holdings, Inc. (the "Company") by certain selling security holders, the Company has filed with the Securities and Exchange Commission ("SEC") a registration statement (the "Registration Statement") on Form S-1 (No. 333-164926), as amended, which was declared effective on June 11, 2010. A prospectus, dated June 11, 2010, covering the Offering was filed with the SEC on June 11, 2010 (as supplemented from time to time, the "Prospectus").

ANY POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE URGED TO READ THE PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE OFFERING.

This Prospectus Supplement and the Prospectus are required to be delivered by the selling security holders of the above-referenced securities or by certain of their transferees, pledges, donees or their successors in connection with the offer and sale of the above-referenced securities.

The information contained herein, including the information attached hereto, supplements and supersedes, in part, the information contained in the Prospectus. This Prospectus Supplement should be read in conjunction with the Prospectus and all prior prospectus supplements, and is qualified by reference to the Prospectus and all prior prospectus supplements except to the extent that the information in this Prospectus Supplement supersedes the information contained in the Prospectus or any prior prospectus supplement.

You may obtain a copy of the Registration Statement, the Prospectus, this Prospectus Supplement and all prior prospectus supplements, as well as other filings containing information about the Company, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the Registration Statement, the Prospectus and this Prospectus Supplement can also be obtained, without charge, from the Company's corporate website at www.kennedywilson.com, or by directing a request to the Company, Attention: Investor Relations, 9701 Wilshire Blvd., Suite 700, Beverly Hills, California 90212.

In addition to the documents described above, the Company files annual, quarterly and current reports, proxy statements and other information with the SEC, which are available at the SEC's website at www.sec.gov or at the Company's website at www.kennedywilson.com.

The information contained in, or that can be accessed through, the Company's website is deemed not to be a part of this filing.

THIS FILING IS FOR INFORMATION PURPOSES ONLY AND SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES, NOR SHALL THERE BE ANY SALE OF SECURITIES IN ANY JURISDICTION IN WHICH SUCH SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH

JURISDICTION.

Table of Contents

APPENDIX A

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

Or

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
(State or other jurisdiction of
incorporation or organization)
9701 Wilshire Blvd., Suite 700
Beverly Hills, CA 90212
(Address of principal executive offices)
Registrant's telephone number, including area code:
(310) 887-6400

26-0508760
(I.R.S. Employer
Identification No.)

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 No
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 No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

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

Table of Contents

The number of shares of common stock outstanding as of November 7, 2014 was 94,807,377.

Table of Contents

Index

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	<u>1</u>
	<u>Consolidated Balance Sheets</u>	<u>1</u>
	<u>Consolidated Statements of Operations</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive (Loss) Income</u>	<u>3</u>
	<u>Consolidated Statement of Equity</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>58</u>
Item 4.	<u>Controls and Procedures</u>	<u>59</u>

PART II OTHER INFORMATION 60

Item 1.	<u>Legal Proceedings</u>	<u>60</u>
Item 1A.	<u>Risk Factors</u>	<u>60</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>60</u>
Item 4.	<u>Mine Safety Disclosure</u>	<u>60</u>
Item 5.	<u>Other Information</u>	<u>60</u>
Item 6.	<u>Exhibits</u>	<u>60</u>

SIGNATURE 61

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. These risks and uncertainties may include the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2013. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filings with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

COMMON DEFINITIONS

Kennedy-Wilson Holdings, Inc.

“KWH,” “Kennedy Wilson,” the “Company,” “we,” “our,” or “us” refer to Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

“KWE” refers to Kennedy Wilson Europe Real Estate plc, a London Stock Exchange listed company that we externally manage through a wholly-owned subsidiary. The results of KWE are consolidated in our financial statements due to our control of KWE. We own an approximately 13.3% equity interest in KWE and throughout this report, we refer to our pro-rata ownership stake in investments made and held directly by KWE.

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

“Equity partners” refers to subsidiaries that we consolidate in our financial statements under U.S. GAAP (other than wholly-owned subsidiaries), including KWE, and third-party equity providers.

Assets Under Management or “AUM”

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is principally intended to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our AUM consist of the total estimated fair value of the real estate properties and other real estate related assets either owned by third parties, controlled by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our AUM. The estimated value of development properties is included at estimated completion cost.

Operating Associates

Operating associates generally refer to individuals that are employed by or affiliated with third-party consultants, contractors, property managers or other service providers that we manage and oversee on a day-to-day basis with respect to our investments and services businesses.

Table of ContentsPART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2014	December 31, 2013
(Dollars in millions, except share and per share amounts)		
Assets		
Cash and cash equivalents	\$236.3	\$170.2
Cash held by consolidated investments (including \$40.6 and \$0 of restricted cash)	591.3	8.0
Accounts receivable (including \$8.5 and \$11.4 of related party)	42.2	16.6
Loans (including \$0 and \$4.1 of related party)	266.7	56.8
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	3,839.6	688.1
Unconsolidated investments	504.9	786.1
Other assets	232.3	73.0
Total assets	\$5,713.3	\$1,798.8
Liabilities and equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	253.8	129.1
Investment debt	2,049.8	401.8
Senior notes payable	705.9	409.0
Junior subordinated debentures	—	40.0
Total liabilities	3,009.5	979.9
Equity		
Cumulative preferred stock, \$0.0001 par value per share: 1,000,000 shares authorized \$1,000 per share liquidation preference	—	—
Common stock, 94,807,377 and 82,592,607 shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Additional paid-in capital	991.2	801.3
Accumulated deficit	(22.6	) (42.2
Accumulated other comprehensive income	(13.2	) 9.2
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	955.4	768.3
Noncontrolling interests	1,748.4	50.6
Total equity	2,703.8	818.9
Total liabilities and equity	\$5,713.3	\$1,798.8
See accompanying notes to consolidated financial statements.		

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

(Dollars in millions, except share and per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue				
Investment management, property services and research fees (includes \$6.2, \$15.7, \$47.0, and \$37.8 of related party fees)	\$ 12.9	\$ 20.9	\$ 65.0	\$ 54.0
Rental and hotel	93.5	10.5	161.3	27.3
Sales of real estate	1.6	1.6	19.0	10.1
Loans and other	5.7	0.5	11.7	1.4
Total revenue	113.7	33.5	257.0	92.8
Operating expenses				
Commission and marketing	2.0	1.0	3.8	2.8
Rental and hotel operating	37.8	4.2	69.9	11.9
Cost of real estate sold	1.1	0.9	14.6	7.9
Compensation and related	26.8	20.9	79.6	52.8
General and administrative	11.8	5.8	28.3	17.6
Depreciation and amortization	34.7	4.5	67.3	12.0
Total operating expenses	114.2	37.3	263.5	105.0
Income from unconsolidated investments	12.1	13.2	45.9	30.1
Operating income	11.6	9.4	39.4	17.9
Non-operating income (expense)				
Acquisition-related gains	28.9	1.6	199.2	11.1
Acquisition-related expenses	(5.3)	—	(16.9)	(0.5)
Interest expense-investment	(13.8)	(2.8)	(30.2)	(7.4)
Interest expense-corporate ⁽¹⁾	(15.9)	(10.3)	(41.1)	(29.7)
Other (expense) income	(1.9)	0.1	1.0	0.5
Income (loss) before (provision for) benefit from income taxes	3.6	(2.0)	151.4	(8.1)
(Provision for) benefit from income taxes	(6.6)	(0.8)	(40.8)	1.4
Net income (loss)	(3.0)	(2.8)	110.6	(6.7)
Net loss (income) attributable to the noncontrolling interests	2.8	0.7	(59.9)	2.6
Preferred dividends and accretion of preferred stock issuance costs	(2.0)	(2.0)	(6.1)	(6.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$(2.2)	\$(4.1)	\$44.6	\$(10.2)
Basic earnings per share				
(Loss) income per basic	\$(0.03)	\$(0.06)	\$0.47	\$(0.15)
Weighted average shares outstanding for basic	89,267,838	72,643,000	88,854,215	68,486,876
Diluted earnings per share				
(Loss) income per diluted	\$(0.03)	\$(0.06)	\$0.47	(0.15)
Weighted average shares outstanding for diluted	89,267,838	72,643,000	90,169,008	68,486,876
Dividends declared per common share	\$0.09	\$0.07	\$0.27	\$0.21

⁽¹⁾ Includes early extinguishment of corporate debt
See accompanying notes to consolidated financial statements.

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

(Dollars in millions)	Three Months Ended		Nine Months Ended		
	September 30, 2014	2013	September 30, 2014	2013	
Net (loss) income	\$ (3.0	) \$ (2.8	) \$ 110.6	\$ (6.7)
Other comprehensive (loss) income, net of tax:					
Unrealized foreign currency translation (loss) gain	(89.0	) 8.8	(67.1	) (9.2)
Amounts reclassified out of AOCI during the period	—	—	(7.1) —	
Unrealized loss on marketable securities	(1.1	) —	(1.1) —	
Unrealized forward contract, foreign currency gain (loss)	20.1	(3.6	) 16.5	2.2	
Total other comprehensive (loss) gain for the period	(70.0	) 5.2	(58.8	) (7.0)
Comprehensive (loss) income	(73.0	) 2.4	51.8	(13.7)
Comprehensive loss (income) attributable to noncontrolling interests	58.0	0.7	(23.5	) 2.6	
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$ (15.0	) \$ 3.1	\$ 28.3	\$ (11.1)
See accompanying notes to consolidated financial statements.					

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

(Dollars in millions, except share amounts)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2013	132,550		82,592,607	\$—	\$ 801.3	\$ (42.2)	\$ 9.2	\$ 50.6	\$818.9
Issuance of shares, net	—	—	9,201,250	—	190.6	—	—	—	190.6
Common stock issued under Amended and Restated 2009 Equity Participation Plan	—	—	3,140,000	—	—	—	—	—	—
Shares forfeited	—	—	(2,475)	—	—	—	—	—	—
Repurchase and retirement of common stock	—	—	(124,005)	—	(2.9)	—	—	—	(2.9)
Stock compensation expense	—	—	—	—	8.7	—	—	—	8.7
Other comprehensive income:									
Unrealized foreign currency translation gain, net of tax	—	—	—	—	—	—	(31.0)	(36.4)	(67.4)
Unrealized forward contract foreign currency loss, net of tax	—	—	—	—	—	—	9.7	—	9.7
Unrealized loss on marketable securities	—	—	—	—	—	—	(1.1)	—	(1.1)
Preferred stock dividends	—	—	—	—	—	(6.1)	—	—	(6.1)
Common stock dividends	—	—	—	—	—	(25.0)	—	—	(25.0)
Net income	—	—	—	—	—	50.7	—	59.9	110.6
Consolidation of noncontrolling interests (Note 4)	—	—	—	—	—	—	—	291.8	291.8
Acquisition of Kennedy Wilson Europe (KWE) shares from noncontrolling interest holders	—	—	—	—	—	—	—	(16.8)	(16.8)
	—	—	—	—	(6.5)	—	—	1,410.7	1,404.2

Issuance of KWE shares, net (Note 12)									
Contributions from noncontrolling interests, excluding KWE	—	—	—	—	—	—	—	12.9	12.9
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(24.3)	(24.3)
Balance at September 30, 2014	132,550	\$—	94,807,377	\$—	\$ 991.2	\$ (22.6)	\$ (13.2)	\$ 1,748.4	\$2,703.8

See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September	
	30,	2013
(Dollars in millions)	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$110.6	\$(6.7)
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Net gain from sale of real estate	(4.4)	) (2.7)
Acquisition-related gain	(199.2)	) (11.1)
Depreciation and amortization	67.3	12.0
Provision for (benefit from) deferred income taxes	40.8	(1.0)
Amortization of deferred loan costs	3.8	1.6
Amortization of discount and accretion of premium on issuance of the senior notes and investment debt	(2.7)	) (0.9)
Income from unconsolidated investments	(46.6)	) (30.3)
Operating distributions from unconsolidated investments	78.9	42.7
Stock-based compensation	8.7	5.5
Change in assets and liabilities:		
Accounts receivable	(18.0)	) (11.2)
Other assets	0.4	(10.4)
Accrued expenses and other liabilities	46.1	(4.6)
Net cash from (used in) operating activities	85.7	(17.1)
Cash flows from investing activities:		
Additions to loans	(476.4)	) (30.3)
Collections of loans	95.9	43.0
Net proceeds from sale of real estate	16.3	10.5
Purchases of and additions to real estate	(1,538.2)	) (115.9)
Proceeds from settlement of foreign forward contracts	7.5	—
Purchases of foreign currency options	(2.2)) —
Investment in marketable securities	(11.5)) —
Proceeds from maturities of short term investments	—	10.0
Capitalized development costs	—	(1.3)
Distributions from unconsolidated investments	99.3	143.3
Contributions to unconsolidated investments	(139.6)	) (314.3)
Net cash used in investing activities	(1,948.9)	) (255.0)
Cash flows from financing activities:		
Borrowings under senior notes payable	297.2	—
Repayment of junior unsubordinated debt	(40.0)) —
Borrowings under line of credit	90.0	125.0
Repayment of line of credit	(90.0)	) (125.0)
Borrowings under investment debt	825.1	72.3
Repayment of investment debt	(32.2)	) (1.1)
Debt issue costs	(28.5)	) (1.8)
Issuance of common stock	190.6	276.0
Repurchase and retirement of common stock	(2.9)) —
Repurchase of warrants	—	(1.4)
Exercise of warrants	—	4.7

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Proceeds from the issuance of KWE shares, net	1,351.1	—	
Dividends paid	(28.4)) (16.3)
Change in restricted cash	(42.6)) —	
Acquisition of KWE shares from noncontrolling interest holders	(16.8)) —	
Contributions from noncontrolling interests, excluding KWE	12.9	0.9	
Distributions to noncontrolling interests	(24.3)	) (0.4)
Net cash provided by financing activities	2,461.2	332.9	
Effect of currency exchange rate changes on cash and cash equivalents	10.8	(0.3)
Net change in cash and cash equivalents ⁽¹⁾	608.8	60.5	
Cash and cash equivalents, beginning of period	178.2	120.9	
Cash and cash equivalents, end of period	\$787.0	\$181.4	

⁽¹⁾ See discussion of non-cash effects in notes to cashflow statement.

See accompanying notes to consolidated financial statements.

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

Supplemental cash flow information:

(Dollars in millions)	Nine Months Ended September 30,	
	2014	2013
Cash paid for:		
Interest	\$74.2	\$44.1
Income taxes	0.1	2.3

Supplemental disclosure of non-cash investing and financing activities:

(Dollars in millions)	September 30,	
	2014	2013
Dividends declared but not paid on common stock	\$8.5	\$5.7

On February 28, 2014, the Kennedy Wilson contributed its 50% interest in an unconsolidated investment which held 14 commercial, retail, and industrial properties portfolio to KWE as part of Kennedy Wilson's subscription in KWE's initial public offering as described in note 1.

On March 31, 2014 and June 30, 2014, Kennedy Wilson amended the existing operating agreements governing certain of its investments with certain of its equity partners thereby allowing Kennedy Wilson to gain control of these operating properties. As a result of obtaining control, the assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC Topic 805 Business Combinations as described in note 4.

During the nine months ended September 30, 2014, Kennedy Wilson foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA and on the notes secured by the Shelbourne Hotel in Dublin, Ireland. As a result of such foreclosures, the assets and liabilities of the retail center were consolidated in KW Group's financial statements at fair value under ASC Topic 805 Business Combinations and the vacant lot was consolidated on KW Group's financial statements at fair market value, both as described in note 4.

On March 28, 2013, Kennedy Wilson acquired the interest of some of its existing equity partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. As a result of obtaining control, the assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC 805 Business Combinations as described in note 4.

During the nine months ended September 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a loan secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, \$96.0 million in loans and \$78.7 million in investment debt were deconsolidated. See accompanying notes to consolidated financial statements.

Table of Contents

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

NOTE 1—BASIS OF PRESENTATION

KW Group's unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. In our opinion, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2014 and 2013 have been included. The results of operations for these periods are not necessarily indicative of results that might be expected for the full year ending December 31, 2014. For further information, your attention is directed to the footnote disclosures found in our Annual Report on Form 10-K for the year ended December 31, 2013. Throughout this unaudited interim consolidated financial statements we refer to "KW Group," which we define as the Company and its subsidiaries that are consolidated in its financial statements under U.S. GAAP (including KWE). All significant intercompany balances and transactions have been eliminated in consolidation. We also refer to "KWH," "Kennedy Wilson," the "Company," "we," "our," or "us" which we define as Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

Kennedy Wilson Europe Real Estate Plc ("KWE," LSE: KWE), a Jersey investment company formed to invest in real estate and real estate-related assets in Europe, closed its initial public offering ("IPO") on the London Stock Exchange during the quarter ended March 31, 2014, raising approximately \$1.7 billion in gross proceeds. KWE is externally managed by a wholly-owned subsidiary of Kennedy Wilson incorporated in Jersey pursuant to an investment management agreement. Due to the terms provided in the investment management agreement and Kennedy Wilson's equity ownership interest in KWE, pursuant to the guidance set forth in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810 - Consolidation ("Subtopic 810"), the Company is required to consolidate KWE's results in its consolidated financial statements. Additionally, the Company invested \$145.2 million of cash and contributed \$58.3 million of assets acquired by the Company as part of the IPO.

Subsequent to the IPO, the Company acquired an additional one million ordinary shares for \$16.8 million and owned approximately 13.3% of KWE's total issued share capital as of September 30, 2014.

In addition, throughout these unaudited interim consolidated financial statements, we refer to our "equity partners," which we define as the subsidiaries that we consolidate in our financial statements under U.S. GAAP (other than wholly-owned subsidiaries), including KWE, and affiliated third-party equity providers.

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

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

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

REVENUE RECOGNITION—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of our real estate funds and loan pool participations based on the cumulative performance of the funds and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, we calculate the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether

such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset manager or (b) negative performance that would cause the amount due to us to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. A majority of the performance fees are recognized in investment management revenue, and substantially all of the carried interest is recognized in income from unconsolidated investments in our consolidated statements of operations. Total performance fees recognized from

7

Table of Contents

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

inception through September 30, 2014 that may be reversed in future periods if there is negative fund or loan pool performance totaled \$7.3 million. Performance fees accrued as of September 30, 2014 and December 31, 2013 were \$7.3 million and \$6.1 million, respectively, and are included in accounts receivable in the accompanying consolidated balance sheet.

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

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

NONCONTROLLING INTERESTS—Noncontrolling interests are reported within equity as a separate component of Kennedy Wilson's equity in accordance with ASC Subtopic 810-10, Noncontrolling Interests in Consolidated Financial Statements. Revenues, expenses, gains, losses, net income (loss), and other comprehensive income are reported in the consolidated statements of operations at the consolidated amounts and net income (loss) and comprehensive income attributable to noncontrolling interests are separately stated.

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

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

INCOME TAXES—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC Subtopic 740-10 Accounting for Uncertainty in Income Taxes, the effect of income tax positions is recognized only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

RECENT ACCOUNTING PRONOUNCEMENTS—On April 10, 2014, the FASB issued ASU 2014-08, which amends the definition of discontinued operations and requires additional disclosures for disposal transactions that do not meet the revised discontinued operations criteria. ASU 2014-08 is required to be adopted for fiscal years beginning after December 15, 2014, with early adoption permitted. Our early adoption of this pronouncement on January 1, 2014 did not have a material impact on KW Group's consolidated financial statements.

In May 2014, the FASB issued an accounting standard update that will use a five step model to recognize revenue from customer contracts in an effort to increase consistency and comparability throughout global capital markets and across industries. The model will identify the contract, identify any separate performance obligations in the contract, determine the transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. The new standard will replace most existing revenue recognition in GAAP when it becomes effective for the Company on January 1, 2017. We have not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Table of Contents

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

The FASB did not issue any other ASCs during the first nine months of 2014 that we expect to be applicable and have a material impact on our financial position or results of operations.

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

NOTE 3—LOANS

The following table summarizes KW Group's investment in loans at September 30, 2014 and December 31, 2013:

(Dollars in millions)	September 30, 2014	December 31, 2013
Loans	\$266.7	\$52.7
Loans — related parties	—	4.1
Total loans	\$266.7	\$56.8

During the first quarter of 2014, Kennedy Wilson acquired the loans secured by a five-star hotel located in Dublin, Ireland for \$152.4 million. During the third quarter of 2014, Kennedy Wilson converted the loans into a 100% direct ownership interest in the hotel. See note 4 for further discussion. During the quarter ended March 31, 2014, Kennedy Wilson foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA that had a loan balance of \$30.4 million, and converted it into real estate.

During the second quarter of 2014, KWE acquired five real estate loans under receivership which are secured against five properties located across England for \$156.3 million. As of September 30, 2014, due to foreign currency fluctuations, the loans had a balance of \$152.8 million. Also during the second quarter of 2014, KWE acquired subordinated notes secured by 20 commercial properties located throughout England and Scotland for \$62.2 million. The subordinated notes were paid off in the third quarter. See note 4 for further discussion.

During the third quarter of 2014, KWE acquired the loans secured by 13 properties throughout Ireland for \$97.0 million. Also during the third quarter of 2014, loans that Kennedy Wilson held on a building in Maui, HI and two related-party funds were paid off.

Loan income

KW Group recognized interest income on loans of \$5.7 million and \$11.2 million during the three and nine months ended September 30, 2014, respectively, and \$0.5 million and \$1.3 million during the