SAN FRANCISCO, Oct. 23, 2013 /PRNewswire/ -- KKR Financial Holdings LLC (NYSE: KFN) ("KFN" or the "Company") today announced its results for the third quarter ended September 30, 2013.

Third Quarter 2013 Highlights

- Net income available to common shareholders totaled $33.0 million, compared with $112.0 million for the same period of 2012.
- Net income per diluted common share totaled $0.16, compared with $0.61 for the comparable prior-year period.
- A quarterly cash distribution of $0.22 per common share was declared for the third quarter of 2013.
- Book value per common share was $10.42 as of September 30, 2013 as compared to book value per common share of $10.41 as of June 30, 2013

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For the three months ended September 30, 2013, the Company reported net income available to common shareholders of $33.0 million, or $ 0.16 per diluted common share, compared with $112.0 million , or $0.61 per diluted common share, for the comparable prior-year period. For the nine months ended September 30, 2013 , the Company reported net income available to common shareholders of $203.8 million , or $1.01 per diluted common share, compared with $271.2 million , or $1.48 per diluted common share, for the comparable prior-year period.

The Company's third quarter 2013 results included total revenues of $128.7 million, total investment costs and expenses of $77.9 million , total other income of $6.2 million , and total other expenses of $17.1 million . Comparatively, KFN's third quarter 2012 results reflected total revenues of $143.3 million , total investment costs and expenses of $70.9 million , total other income of $73.0 million , and total other expenses of $33.2 million .

Total revenues of $128.7 million for the third quarter of 2013 represented a decline of approximately 10% from the comparable prior-year period. Loan and securities interest income comprised 73% of total revenue and oil and gas revenue comprised 25%, as compared to 84% and 15%, respectively, for the prior-year period. The Company's loan and securities interest income declined from $120.8 million for the quarter ended September 30, 2012 to $93.5 million for the quarter ended September 30, 2013. This resulted primarily from (a) a decline of approximately 64 basis points, or 12%, in the annualized interest rate being earned on the Company's loan portfolio during the third quarter of 2013 versus 2012; (b) a $9.3 million decline in scheduled and prepayment-related discount accretion from the Company's loan portfolio; and (c) a $6.6 million decline in securities interest income excluding discount accretion, largely resulting from a reduction in the Company's high-yield bond holdings across its strategies from a par value of $500.5 million to $458.9 million over the year. These were partially offset largely by oil and gas revenue, which increased by $11.0 million from the prior-year period.

Total investment costs and expenses of $77.9 million for the third quarter of 2013 represented an increase of approximately 10% from the comparable prior-year period. This was primarily due to the recording of a provision for loan losses of $9.3 million for the third quarter of 2013 as compared to no provision being recorded for the prior-year period. In addition, expenses associated with the Company's oil and gas portfolio increased by approximately $4.2 million from the prior-year period, resulting from acquisitions during the twelve months ending September 30, 2013. These factors were partially offset by a $6.8 million decline in interest expense and interest expense to affiliates largely resulting from the amortization of the Company's legacy collateralized loan obligations.

Total other income of $6.2 million for the third quarter of 2013 reflected a decrease from $73.0 million during the comparable prior-year period, stemming primarily from a materially lower level of realized and unrealized gains on investments.

Total other expenses of $17.1 million for the third quarter of 2013 reflected a decrease from $33

.2 million
during the comparable prior-year period, primarily due to a lower level of related party management compensation in light of the Company's third-quarter performance.

"Our results reflect the environment in which KFN is operating, as yields continue to compress and many of our legacy CLOs continue to amortize," said Craig J. Farr, CEO of KFN. "That said, we found a number of attractive opportunities for capital deployment during the quarter, and we're focusing the business on cash-yielding, credit-oriented strategies in order to drive ongoing shareholder value."

Selected Portfolio Activity

Bank Loans and High-Yield Debt Strategy

On September 30, 2013, the Company announced that it had added $300 million to the total facility size of KKR Financial CLO 2011-1, Ltd. ("CLO 2011-1"). The increase results from an amendment to the transaction whereby CLO 2011-1 may now borrow up to an incremental
$225 million
to purchase senior secured corporate loans. In connection with the upsize, the Company increased its residual interest in the transaction through the acquisition of an additional
$75 million
of subordinated notes issued by CLO 2011-1. The cost of the financing remains three-month LIBOR plus 1.35%.

Private Equity Strategy

On August 20, 2013, KKR announced the formation of Maritime Finance Company ("Maritime Finance"), a new specialty finance company created to originate, structure, underwrite, invest in and distribute debt financings secured by high-quality maritime assets, including drilling rigs, development and production assets, subsea construction vessels and other traditional shipping assets. KFN served as anchor investor in the equity raise, committing $150
.0 million
of the
$580.0 million

raised. These proceeds are funding the establishment and operation of Maritime Finance as well as the acquisition of a seed portfolio of outstanding loans. Over time, the portfolio is expected to generate a regular cash yield, providing distributions to equity holders.

To date, KFN has deployed $84.3 million of its total commitment.

Book Value

Book value per common share increased to $10.42 as of September 30, 2013 from $10.41 as of J
une 30
, 2013. The increase was predominantly driven by (a) third-quarter net income available to common shareholders of
$0.16
per diluted common share and (b) a decrease in the Company's accumulated other comprehensive loss, a component of shareholders' equity, of
$0.05
per diluted common share as a result of increases in the value of certain interest rate swaps designated as cash flow hedges, as well as certain securities available for sale. These factors were partially offset by distributions of
$0.21
per share paid to common shareholders during the quarter.

Distribution

On October 23, 2013, the Company's board of directors declared a cash distribution of $0.22 per common share. The distribution is payable on
November 20, 2013
to common shareholders of record as of the close of business on
November 6, 2013
.

Conference Call and Webcast

The Company will host a conference call and audio webcast to review its results for the third quarter ended September 30, 2013 on October 23, 2013, at 2:00 p.m. PT (5:00 p.m. ET). The conference call may be accessed by dialing (877) 303-4382 (domestic) or +1 (253) 237-1193 (international); a pass code is not required. A replay of the live broadcast will be available by dialing (855) 859-2056 (domestic) and +1 (404) 537-3406 (international), pass code 68903529, beginning approximately two hours after completion of the event. Additionally, the conference call will be broadcast live over the Internet and subsequently archived and may be accessed through the KFN Investor Relations section of the KKR website at http://ir.kkr.com/kfn_ir/kfn_events.cfm . Supplemental materials that will be discussed during the call will be available at the same website location.

From time to time the Company may use its website as a channel of distribution of material company information. Financial and other important information regarding the Company is routinely posted on and accessible at the KFN Investor Relations section of www.kkr.com , where you may also enroll your email address to receive automatic email alerts and other information about the Company.

About KKR Financial Holdings LLC

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

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the Company's current expectations, estimates and projections. Statements that are not historical facts, including statements about our beliefs and

expectations, are forward-looking statements. The words "believe," "anticipate," "intend," "aim," "expect," "strive," "plan," "estimate," and "project," and similar words identify forward-looking statements. Such statements are not guarantees of future performance, events or results and involve potential risks and uncertainties. Accordingly, actual results and the timing of certain events could differ materially from those addressed in forward-looking statements due to a number of factors including, but not limited to, changes in interest rates and market values, financing and capital availability, changes in prepayment rates, underperformance of the Company's investments, general economic and political conditions and events, changes in market conditions, particularly in the global fixed income, credit and equity markets, the impact of current, pending and future legislation, regulation and legal actions, and other factors not presently identified. For additional information concerning risks, uncertainties and other factors that may cause actual results to differ from those anticipated in the forward-looking statements, and risks to the Company's business in general, please refer to the Company's SEC filings, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on
February 28, 2013
. Any forward-looking statements speak only as of the date of this press release and the Company expressly disclaims any obligation to update or revise any of them to reflect actual results, any changes in expectations or any change in events, except for as required by federal securities laws. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements.

Schedule I

KKR Financial Holdings LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except per share information)

For the threemonths endedSeptember 30,

2013

For the threemonths endedSeptember 30,

2012

For the ninemonths endedSeptember 30,

2013

For the ninemonths endedSeptember 30,

2012

Revenues

Loan interest income

$

82,541

$

101,988

$

272,919

$

313,684

Securities interest income

10,933

18,791

39,326

62,180

Oil and gas revenue

32,446

21,487

84,118

44,262

Other

2,782

1,068

10,033

1,692

Total revenues

128,702

143,334

406,396

421,818

Investment costs and expenses

Interest expense

39,767

40,418

118,366

123,788

Interest expense to affiliates

6,839

12,954

26,485

38,131

Provision for loan losses

9,339

—

20,407

46,498

Oil and gas production costs

9,163

9,803

26,420

19,041

Oil and gas depreciation, depletion and amortization..

11,806

7,011

29,910

14,867

Other

963

714

2,531

3,482

Total investment costs and expenses

77,877

70,900

224,119

245,807

Other income

Net realized and unrealized gain on investments

5,673

75,774

125,397

160,788

Net realized and unrealized loss on derivatives and foreign exchange

(3,062)

(8,102)

(5,012)

(2,583)

Net loss on restructuring and extinguishment of debt

—

—

(20,269)

(445)

Other income

3,615

5,371

17,565

10,664

Total other income

6,226

73,043

117,681

168,424

Other expenses

Related party management compensation

10,920

26,602

56,744

57,519

General, administrative and directors expenses

4,654

5,464

13,138

14,913

Professional services

1,573

1,130

5,288

4,334

Total other expenses

17,147

33,196

75,170

76,766

Income before income taxes

39,904

112,281

224,788

267,669

Income tax expense (benefit)

18

317

434

(3,548)

Net income

$

39,886

$

111,964

$

224,354

$

271,217

Preferred share distributions

6,891

—

20,520

—

Net income available to common shareholders

$

32,995

$

111,964

$

203,834

$

271,217

Net income per common share:

Basic

$

0.16

$

0.63

$

1.01

$

1.52

Diluted

$

0.16

$

0.61

$

1.01

$

1.48

Weighted-average number of common shares outstanding:

Basic

204,134

177,862

201,824

177,815

Diluted

204,134

183,431

201,824

182,440

Distributions declared per common share

$

0.21

$

0.21

$

0.68

$

0.65

Schedule II

KKR Financial Holdings LLC

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share information)

September 30,2013

December 31,2012

Assets

Cash and cash equivalents

$

221,986

$

237,606

Restricted cash and cash equivalents

509,688

896,396

Securities

519,675

533,520

Corporate loans, net (includes $156,595 and $35,879 measured at estimated fair value and $312,312 a

6,153,072

5,947,857

Equity investments, at estimated fair value ($5,319 and $7,187 pledged as collateral as of September 3

191,153

161,621

Oil and gas properties, net

372,034

289,929

Derivative assets

35,348

23,207

Interest and principal receivable

38,586

46,960

Other assets

430,449

221,783

Total assets

$

8,471,991

$

8,358,879

Liabilities

Collateralized loan obligation secured notes

$

4,903,438

$

5,122,338

Collateralized loan obligation junior secured notes to affiliates

193,921

296,557

Credit facilities

48,489

107,789

Convertible senior notes

—

166,028

Senior notes

362,251

362,178

Junior subordinated notes

283,517

283,517

Accounts payable, accrued expenses and other liabilities

74,737

25,931

Accrued interest payable

16,497

20,519

Accrued interest payable to affiliates

4,134

6,632

Related party payable

3,847

10,998

Derivative liabilities

86,108

117,270

Total liabilities

5,976,939

6,519,757

Shareholders' equity

Preferred shares, no par value, 50,000,000 shares authorized and 14,950,000 and zero issued and outs

—

—

Common shares, no par value, 500,000,000 shares authorized, and 204,824,159 and 178,437,078 shar

—

—

Paid-in-capital

3,313,400

2,762,584

Accumulated other comprehensive loss

(29,693)

(70,226)

Accumulated deficit

(788,655)

(853,236)

Total shareholders' equity

2,495,052

1,839,122

Total liabilities and shareholders' equity

$

8,471,991

$

8,358,879

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