

Corporate Governance Guidelines

The following Corporate Governance Guidelines (the "Guidelines") have been adopted by the Board of Directors (the "Board") of KKR Financial Holdings LLC (the "Company") to assist the Board in the exercise of its responsibilities. These Guidelines reflect the Board's commitment to monitor the effectiveness of policy and decision making both at the Board and management level, with a view to enhancing long-term stockholder value. These Guidelines are not intended to change or interpret any Federal or state law or regulation, including the Delaware Limited Liability Company Act, or the Amended and Restated Operating Agreement of the Company (the "Operating Agreement"), or to affect any rights or obligations under the Amended and Restated Management Agreement (the "Management Agreement") pursuant to which KKR Financial Advisors LLC (the "Manager") manages the Company. These Guidelines are subject to modification from time to time by the Board.

DIRECTOR QUALIFICATIONS

The Company is required to elect a majority of directors who are independent. All references to "independent directors" in these guidelines are to directors who are independent according to the criteria for independence established by Section 303A of the New York Stock Exchange Listed Company Manual. The Nominating and Corporate Governance Committee is responsible for nominating directors for election or reelection. The Board does not have limits on the number of terms a director may serve or the number of other public company boards of directors upon which a director may sit, nor does the Board have any retirement or tenure policies that would limit the ability of a director to be nominated for reelection.

BOARD SIZE AND COMMITTEES

The Board presently has 12 members (1 management director, 4 non-management but not independent directors and 7 independent directors). Under the Operating Agreement, the Board has the authority to change its size, and the Board will periodically review its size as appropriate. The Board currently has five committees: (i) Affiliated Transactions; (ii) Audit; (iii) Compensation; (iv) Nominating and Corporate Governance; and (v) Executive. The Affiliated Transactions, Audit, Compensation and Nominating and Corporate Governance Committees each consist solely of independent directors. The Board may, from time to time, establish and maintain additional or different committees, as it deems necessary or appropriate.

DIRECTOR RESPONSIBILITIES

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders, and to conduct themselves in accordance with their duties of care and loyalty. Directors are expected to attend Board meetings and meetings of the committees on which they serve, and to spend the time needed to carry out their responsibilities as directors, including meeting as frequently as necessary to discharge those responsibilities properly. Directors are also expected to review in advance all materials for the meetings of the Board and the Committees on which they serve.

DIRECTOR ACCESS TO MANAGEMENT AND ADVISORS

Each director has full and free access to the Company's management and, as appropriate, to the Company's outside advisors. Board members shall coordinate such access through the Chairman of the Board, and Board members will use their judgment to assure that this access is not distracting to the business operations of the Company. The Board and each of its Committees has the authority to hire independent legal, financial or other advisors as it may deem to be necessary without consulting or obtaining the advance approval of any officer of the Company.

DIRECTOR COMPENSATION

Other than the Chairman of the Board, only directors who are neither an employee of the Company nor otherwise affiliated with the Company receive compensation for serving on the Board. In determining compensation, the Compensation Committee shall take into consideration the responsibilities of the directors and fees being paid by other comparable companies. The Board critically reviews any amounts that a director might receive directly or indirectly from the Company, as well as any charitable contributions the Company may make to organizations with which a director is affiliated, in determining the form and amount of director compensation whether a director is independent.

ORIENTATION AND CONTINUING EDUCATION

All new directors receive an orientation from the Chief Executive Officer and General Counsel and are expected to maintain the

necessary level of expertise to perform his or her responsibilities as a director. The Company does not maintain any formal orientation or continuing education programs.

MANAGEMENT SUCCESSION

The Company is externally managed and advised by KKR Financial Advisors LLC pursuant to the Management Agreement. The Company's Manager provides the Company with its management team, including its Chief Executive Officer and other senior executive officers. The Chief Executive Officer reports annually to the Board on executive management succession planning and makes available, on a continuing basis, his recommendation on succession in the event he were disabled. The Board and the committees of non-management directors and independent directors regularly review succession planning to ensure that the Company has the appropriate successors to the current Chief Executive Officer and the other senior executive officers. Succession planning will address both succession in the ordinary course of business and contingency planning in case of unexpected events.

ANNUAL BOARD PERFORMANCE EVALUATION

The Board will conduct an annual self-evaluation to determine whether we and our committees are functioning effectively. During the year, the Committee on Nominating and Corporate Governance shall receive input on the Board's performance from directors and, through its Chairman, will discuss the input with the full Board and oversee the full Board's review of its performance. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board or any of its committees could improve.