NEUBERGER BERMAN

ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS

NB Distressed Debt Investment Fund Limited

YEAR ENDED 31 DECEMBER 2013

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

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COMPANY OVERVIEW

The investment objective of NB Distressed Debt Investment Fund Limited (the ‘‘Company’’) is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk by, amongst other things, focusing on senior and senior secured debt with both collateral and structural protection.

During the year, the Board of the Company after consulting the Investment Manager announced their intention to create a new share class (NBDX), with an extended investment period ending on 31 March 2015. On 6 March 2013, the Company published the prospectus in connection with the creation of this share class (the “Extended Life Share Class”).

Following the approval by the shareholders of the resolution proposed on 8 April 2013, 320,109,841 Ordinary Shares were converted to an equivalent number of Extended Life Shares. The end of the investment period of the Ordinary Shares remained 10 June 2013 and this share class is currently in realisation phase.

Following the admission of the Extended Life Shares, the Company issued a further 31,978,973 Extended Life Shares on 4 July 2013, raising additional gross proceeds of $38.4 million (the “tap program”).

A capital return by way of a compulsory partial redemption was declared post year-end and was paid on 12 February 2014.

On 27 February 2014, the Company raised gross proceeds of approximately £110 million through the creation of a New Global Share Class. 110,785,785 New Global Shares were admitted to trading on the Specialist Fund Market and the official list of the Channel Islands Securities Exchange on 4 March 2014 under ISIN GG00BH7JH183. Following the admission, the Company has 101,252,892 Ordinary Shares; 335,188,578 Extended Life Shares; and 110,785,785 New Global Shares in issue.

The creation of a New Global Share Class is not expected to impact the structure or strategy of the existing Ordinary Share Class and Extended Life Share Class.

The portfolio is managed by the Distressed Debt team at Neuberger Berman, which sits within one of the largest and most experienced credit teams in the industry.

Company (as at 31 December 2013)	**NB Distressed Debt Investment Fund Limited (the “Company”)** • Guernsey incorporated, closed-ended investment company • Trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Stock Exchange • 352,088,814 Extended Life Shares outstanding • 124,160,471 Ordinary Shares outstanding
Investment Manager **Sub-Investment Manager (as at 31 December 2013)**	**Neuberger Berman Europe Limited (the “Investment Manager”)** **Neuberger Berman Fixed Income LLC (the “Sub-Investment Manager”)** • A large team of 139 fixed income investment professionals • Portfolio Managers have an average of 23 years of industry experience • Total fixed income assets of over $100 billion • Over $38.7 billion in high yield bonds and loans • Non-investment grade research team of over 20 analysts

COMPANY OVERVIEW (CONTINUED)

(US$ in millions, except per share data)	At 31 December 2013 Extended Life Share Class	At 31 December 2013 Ordinary Share Class	At 31 December 2013 Consolidated	At 31 December 2012 Consolidated
Net Asset Value	$430.2	$151.3	$581.5	$478.3
Net Asset Value per share	$1.2218	$1.2189	-	$1.0765
Investments	$410.3	$143.2	$553.5	$479.4
- Distressed Portfolio	$380.3	$116.2	$496.5	$437.4
- Temporary Investments	$30.0	$27.0	$57.0	$42.0
Cash and Cash Equivalents	$24.1	$7.2	$31.3	$55.1

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am delighted to present the Annual Report of NB Distressed Debt Investment Fund Limited and its subsidiaries (together the "Company") for the period 1 January 2013 to 31 December 2013 which was another successful year for our portfolios.

In January 2013, the Board of the Company concluded that opportunities in the distressed market remained compelling and that the creation of a new share class with an extended investment period would enable the Company to access attractive investment opportunities after the current investment period expired on 10 June 2013. The resolution was approved by a majority of Ordinary Class shareholders on 8 April 2013. This approval resulted in a new class of shares, the Extended Life Share Class, being formed, which will continue to invest in distressed opportunities until 31 March 2015.

In line with its strategy for the Ordinary Share Class and the Extended Life Share Class, on 17 January 2014, the Board announced a capital distribution payment of $28.0 million and $20.9 million (equivalent to approximately US$0.2255 and $0.0593 per share) to all Ordinary Share Class and Extended Life Share Class holders respectively. This distribution was paid by way of a compulsory partial redemption of shares.

On 28 January 2014 a further offering of a Global Share Class was made which closed on 27 February 2014 raising additional proceeds of £110m (approximately $180 million), which was in excess of the original £100 million target. The Investment Manager is now working to deploy the capital into distressed investment opportunities.

Portfolio and Company performance

The Company's investment base remains well diversified across eighteen and nineteen industries in the Ordinary Share Class ("NBDD") and the Extended Life Share Class ("NBDX") respectively, with no single investment representing more than 4% for NBDD and 5% for NBDX of the relevant classes total assets. As at 31 December 2013, 76.8% of the NBDD NAV ("NBDD's NAV") was invested in distressed assets and 23.2% of NAV was held in cash and equivalents. 94.1% of NBDX NAV ("NBDX's NAV") was either invested in distressed assets (88.4% of NAV) or allocated to fund the scheduled capital profits return to shareholders (5.7% of NAV).

The Company exited nine investments in the period 1 January 2013 to 31 December 2013, bringing the total number of realisations since inception to twenty. These exits have generated $7.3 million income and capital gains for NBDD, and $18.7 million for NBDX, inclusive of our most profitable exit to date in the life of the Company (Exit 8 in the year). Further details of these realisations are noted in the Investment Manager's report. It is notable that all of our exits, with one minor exception, have generated a profit which is a considerable achievement on the part of our fund manager.

In the twelve month period to 31 December 2013, the Net Asset Value ("NAV") total return for NBDD increased from $1.0765 to $1.2189, an increase of 13.2% in 2013. NBDX's NAV per share increased 7.6% in 2013, to $1.2218 from $1.1353 per share (being the NAV at the date of the creation of the share class on 12 April 2013).

Outlook

Looking ahead to 2014, your Board continues to be satisfied with the Company's performance and the strategy that is being applied by the Investment Manager. There remains an ample supply of distressed debt opportunities and the Board is confident that the Investment Manager will continue to generate favorable returns to our Shareholders.

The opportunity to exploit suitable investments in Europe which already existed, has been helped by further Basel regulations. The Board expects to be investing around half of the new Global Share Class in this area and looks forward to reporting on this additional share class in future reports.

I would like to thank you for your commitment and I look forward to updating you on the Company's progress in 2014.

Robin Monro-Davies
Chairman
24 April 2014

INVESTMENT MANAGER'S REPORT

Summary

We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments. During 2013 we exited nine deals, contributing to an increase in our NAV.

We continue to experience an improving environment for distressed debt in our sectors of interest. We believe the pipeline of opportunities in real estate, transportation and energy debt is particularly compelling, both in the U.S. and Europe. EU banks in particular have increased their disposal of European and U.S. loans and assets to a run-rate of over €60 billion in 2013, versus €46 billion in 2012, €36 billion in 2011 and €11 billion in 2010. However, over €1 trillion of non-performing loans remain on EU bank's balance sheets. The European Central Bank (the "ECB") is scheduled to assume supervisory authority for all euro-area lenders later in 2014. We believe that an ECB sponsored harmonization of NPL definition across countries may facilitate further recognition and disposal of distressed loans. In the U.S. we continue to see a healthy pipeline of distressed assets in real estate, energy and other asset-intensive sectors.

Investment Period Extension

Early in the year, the Board of the Company concluded that opportunities in the distressed market remain compelling and that an extension to the investment period through the creation of a new share class, would enable the Company to access attractive investment opportunities after the current investment period expired on 10 June 2013. To that end, on 6 March 2013 the Company published a prospectus in connection with the proposed creation of an Extended Life Share Class which is subject to a new investment period ending 31 March 2015. The Extended Life Share Class is also subject to a new capital return policy, new discount policy and increased preferred return. In order to implement these proposals, it was necessary to obtain approval of ordinary shareholders by a resolution passed at a general meeting.

On 8 April 2013 the resolution proposed at the Class Meeting was approved by ordinary shareholders by a majority of 284,746,804 shares (99.8%) to 553,508 (0.2%). In addition, the Company received a total of 320,109,841 conversion elections from ordinary shareholders to convert to Extended Life Shares, representing 72.1% of issued share capital. Following Admission, the Company had 124,160,471 Ordinary Shares and 320,109,841 Extended Life Shares in issue. The Extended Life Shares trade under the code "NBDX" and the ordinary shares continue to trade under the code "NBDD".

Portfolio

Ordinary Share Class Portfolio

As at 31 December 2013, 76.8% of the Ordinary Share NAV ("NBDD's NAV") was invested in distressed assets and 23.2% of NAV was held in cash and equivalents. The majority of cash (equivalent to 18.5% of NAV) has been allocated to fund the scheduled capital return to shareholders. NBDD's NAV per share increased 13.2% in 2013, to $1.2189 from $1.0765 per share. NAV at 31 December 2013 was reduced by an accrual for performance fees of $0.0116 per share. We believe this performance is in line with other distressed debt managers, as indicated by the HFRI Distressed/Restructuring Index, which returned 13.6% in 2013 and Bloomberg's BAIF-Distressed Securities benchmark, which returned 11.2% over the same period.

As per the Investment Strategy of the Ordinary Share Class, in January 2014, the Board of the Company resolved to return $28.0 million (equivalent to approximately $0.2255 per share) to holders of NBDD shares by way of a compulsory partial redemption of NBDD shares. The current return comprises:

(i) the total capital from investment exits from the NBDD portfolio in the period from 10 June 2013 (being the end of the investment period) through 31 December 2013; and
(ii) all other cash available to the NBDD share class, save for amounts deemed to be required to meet follow-on investments that may be required for existing positions and cash for working capital requirements.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Extended Life Share Class Portfolio

As at 31 December 2013, 94.1% of the Extended Life Share NAV ("NBDX's NAV") was either invested in distressed assets (88.4% of NAV) or allocated to fund the scheduled capital profits return to shareholders (5.7% of NAV). Cash available for new investments and working capital ended the year at 5.9% of NAV. NBDX's NAV per share increased 7.6% in 2013, to $1.2218 from $1.1353 per share (being the NAV at the date of the creation of the share class on 12 April 2013).

In line with the Investment Strategy of the Extended Life Share Class to return capital profits, in January 2014, the Board of the Company resolved to return $20.9 million (equivalent to approximately $0.0593 per share) to holders of NBDX shares by way of a compulsory partial redemption of NBDX shares. The current return comprises the total capital profit from investment exits from the NBDX portfolio in the period from 9 April 2013 (the admission date of NBDX shares) through 31 December 2013.

Exits

During 2013 we had nine investment exits, bringing our total to twenty exits since inception.

Realisation one in the year: We purchased $5.4 million face value of a defaulted 1st lien term loan at 65% of par, secured primarily by television broadcasting assets, including licenses and programming. The company had filed for bankruptcy due to excessive debt incurred as part of a leveraged buyout. We believed that our entry point represented a discounted valuation versus comparable companies and that obstacles to the restructuring process would be favorably resolved. The company subsequently emerged from bankruptcy and we received cash and post-reorganization equity securities, which we sold. Total income from this investment was $1.4 million and an IRR of 24%.

Realisation two in the year: We purchased $2.8 million face value of a 1st lien term loan at 88.5% of par, secured by the production and transportation assets of a food products company. We had originally believed we would realize an attractive return on this position based on the strength of the collateral package. Due to high labour costs and declining demand for its products, the company filed for bankruptcy protection in early 2012. As the bankruptcy case developed and we became increasingly concerned about the dynamics of the restructuring process, we exited in the secondary market resulting in a total loss from this investment of ($0.5) million and an IRR of (16)%.

Realisation three in the year: We purchased $5.7 million face value of a 1st lien term loan at an average price of 36.6% of par, secured by the assets of a newspaper company focused on local markets in over 20 states in the U.S. We believed that the loan price undervalued the company's assets and that in a sale of its newspapers and other media properties we would recover significantly more than our purchase price. A proposed reorganization of the company's capital structure was not consistent with our original investment thesis and as a result we sold the position in the secondary market for 39% of par. Total income from this investment was $0.2 million and an IRR of 26%.

Realisation four in the year: We purchased $20.8 million face value of defaulted bonds at 57.0% of par. The bonds had a senior claim in the liquidation of a real estate finance company. We believed that our entry point represented a significant discount relative to the ultimate recoveries on the company's loans and other real estate-related assets. The company emerged from bankruptcy and we received cash, new debt and equity in the reorganized entity. The wind-down of the company resulted in the repayment of post-petition debt and substantial distributions to shareholders and we subsequently sold our remaining equity position in the secondary market. Total income from this investment was $2.8 million and an IRR of 22%.

Realisation five in the year: We purchased $7.2 million face value of notes at 30.6% of par, secured by commercial jet aircraft. The notes were issued by an aircraft trust formed to purchase, own, lease and sell aircraft. We believed that the acquisition price significantly undervalued the ultimate market value of collateral aircraft. The trust subsequently sold its aircraft fleet and used the proceeds to pay down the principal in the trust. We sold the remaining notes in the secondary market and generated a total income from this investment of $0.7 million and an IRR of 31%.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Exits (continued)

Realisation six in the year: We purchased $6.0 million face value of bonds at 87.4% of par, backed by a diverse shipping fleet of dry bulk carriers, crude oil tankers and ultra deep-water rigs and drill ships. We believed that the debt would likely be refinanced or that in the event of default, we would ultimately own the assets at an attractive valuation. As industry conditions for the company improved this year, the bond price moved up and we sold into the secondary market at 97% of par. Total income from this investment was $0.7 million and an IRR of 31%.

Realisation seven in the year: We purchased $14.4 million face value of secured loans at 79.3% of par. The notes were secured by six hotel/casinos, including four in Las Vegas, Nevada. We believed that the debt would likely be refinanced or that in the event of default, we would ultimately own the assets at an attractive valuation. As gaming conditions improved and a refinancing looked increasingly likely, we sold a portion of the position in the secondary market at levels higher than our purchase price. The remaining position was repaid in a refinancing of the notes in the fourth quarter 2013. Total income from this investment was $4.1 million and an IRR of 36%.

Realisation eight in the year: We purchased $18.3 million of a secured term loan facility at 62.5% of par. The term loan was secured by trucks and real estate of a transportation and logistics company. At the time of purchase, the company was over-levered and needed to restructure its debt. We believed that our position was covered by the value of the collateral in a liquidation scenario, yet provided significant upside potential in the event of a successful reorganization. Following an out-of-court restructuring, we received a mix of new debt and equity instruments. We added to our position after these instruments traded lower post-reorganization. During 2012 and 2013 the company experienced improved operational results which resulted in a substantial increase in market value across the capital structure. We exited our position in the secondary market resulting in total income from the investment of $11.5 million and an IRR of 26%.

Realisation nine in the year: We purchased $65.8 million face value of defaulted secured notes at an average price of 23.2% of par. The bonds were issued by a company which owned and operated petroleum refineries across Europe. At the time of initial purchase the company was bankrupt and we believed that in liquidation the proceeds from asset sales would result in strong recoveries for bondholders. The results of the sale of a key asset of the company were below expectations, and the secondary price of the bonds decreased significantly. We purchased additional bonds at these lower levels which reduced our overall cost basis. The liquidation of the company continued and the secondary price of the bonds subsequently moved up to levels closer to our estimate of ultimate recoverable value. We sold the position in the secondary market resulting in total income from this investment of $3.1 million and an IRR of 15%.

STRATEGIC REPORT

The Directors present their annual report and the consolidated financial statements (the "financial statements") of NB Distressed Debt Investment Fund Limited and its subsidiaries which are detailed in note 2 (together the "Company") for the year ended 31 December 2013.

Business Review

The following review is designed to provide information primarily about the Company's business, the principal risks and uncertainties it faces and results for the year. The review should be read in conjunction with the Chairman's Statement on page 3 together with the Investment Manager's Report on pages 4, 5 and 6 which give a detailed review of the investment activities for the year and an outlook on the future.

Principal Activities and Structure

The principal activity of the Company is to carry out business as an investment company. The Directors do not envisage any changes in this activity for the foreseeable future.

The Company is a registered closed-ended investment company incorporated in Guernsey on 20 April 2010, registration number 51774. The Company is governed under the provisions of The Companies (Guernsey) Law, 2008 (as amended), and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission. The Company's shares commenced trading on the Channel Islands Securities Exchange ("CISE") and the Specialist Fund Market ("SFM") on 10 June 2010.

The Company is a member of the Association of Investment Companies (the "AIC") and is classified within the Debt Category.

Investment Objective

The Company's primary objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk by, amongst other things, focusing on senior and senior secured debt with both collateral and structural protection.

Investment Policy

The Investment Managers will seek to identify mispriced or otherwise overlooked securities or assets that they believe have the potential to produce attractive absolute returns while seeking to limit downside risk through collateral and structured protection where possible.

The Company intends that the Company portfolio will be biased toward investing in stressed and distressed debt securities secured by asset collateral. In investing on behalf of the Company, the Investment Managers intend to focus on companies with significant tangible assets they believe are likely to maintain long-term value through a restructuring. The Company will seek to avoid "asset-light" companies, as their value tends to be degraded in distressed scenarios. The Investment Managers will also aim to concentrate on companies with stressed balance sheets whose low implied enterprise value multiples - often calculated off currently depressed cash flows — offer a discount to current comparable market valuations.

The Investment Managers will attempt to limit the Company's downside risk by focusing on senior and senior secured debt with both collateral and structural protection. The Investment Managers will attempt further to limit the Company's downside risk by investing in situations in which the debt acquired by the Company can be converted to equity at a valuation multiple below comparable valuation multiples in its sector. Such investments may include companies that are currently involved in a court-supervised or out-of-court restructuring or reorganisation, a liquidity crisis, a merger, a divestiture or another corporate event conducive to a mispricing of intrinsic value.

STRATEGIC REPORT (CONTINUED)

Investment Policy (continued)

The Investment Managers will seek to achieve the Company's investment objective primarily by investing in: bankruptcy situations; out-of-court restructurings and workouts; as well as in special situations. The Investment Managers from time to time may, however, also make opportunistic investments that are neither distressed nor related to a special situation.

Principal Risks and Uncertainties

The Board is responsible for the Company's system of internal financial operating controls and for reviewing its effectiveness. The Board also monitors the investment limits and restrictions set out in the Company's investment objective and policy.

Investment Activity and Performance

An inappropriate investment strategy may result in under performance against the Company's objectives. The Board manages these risks by ensuring a diversification of investments. The Investment Manager operates in accordance with the investment limits and restrictions policy determined by the Board. The Directors review the limits and restrictions on a regular basis and the Administrator monitors adherence to the limits and restrictions every month and will notify any breaches to the Board. The Investment Manager provides the board with management information including performance data and reports, and the Corporate Broker provides shareholder analyses. The Directors monitor the implementation and results of the investment process with the Investment Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

Level of Discount or Premium

A discount or premium to NAV can occur for a variety of reasons, including market conditions or to the extent investors undervalue the management activities of the Investment Manager or discount their valuation methodology and judgement. While the Directors may seek to mitigate any discount to NAV per Share through the discount management mechanisms set out in the Prospectus, there can be no guarantee that they will do so or that such mechanisms will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount or premium.

Market Price Risk

The market value of senior loans may vary because of a number of factors, including, but not limited to, the financial condition of the underlying borrowers, the industry in which a borrower operates, general economic or political conditions, interest rates, the condition of the debt trading markets and certain other financial markets, developments or trends in any particular industry and changes in prevailing interest rates.

Accounting, Legal and Regulatory

The Company must comply with the provisions of The Companies (Guernsey) Law, 2008 (as amended), and since its shares are listed on the official list of the CISE, the CISE Listing Rules. In addition, the Company is required to comply with the FCA's Listing Rules and the Disclosure and Transparency Rules ("DTRs"). A breach of the legislation could result in the Company and/or the Directors being fined or subject to criminal proceedings and the suspension of the Company's shares to trading on the SFM and listing and trading on the CISE. The Board relies on its Company Secretary and advisers to ensure adherence to the Guernsey legislation, the CISE rules and the DTRs. The Investment Manager and the Administrator, are contracted to provide investment, company secretarial, administration and accounting services through qualified professionals. The Board receives regular internal control reports.

STRATEGIC REPORT (CONTINUED)

Principal Risks and Uncertainties (continued)

Operational

Disruption to, or the failure of either the Investment Manager's or the Administrator's accounting, dealings or payment systems, or the custodians' records could prevent the accurate reporting or monitoring of the Company's financial position.

Details of how the Board monitors the services provided by the Investment Manager and the Administrator, and the key elements designed to provide effective internal control are explained further in the internal controls section of the Corporate Governance Statement which is set out on pages 22 and 23.

Investment Management Agreement

The Board is responsible for setting the Company's investment policy and has overall responsibility for the Company's day-to-day activities. The Company has entered into an Investment Management Agreement with Neuberger Berman Europe Limited (the "Investment Manager"), who have in turn delegated certain of its responsibilities and functions to Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager"), (together the "Investment Managers"). Under the Investment Management Agreement, the Investment Managers are responsible for the discretionary management of, and will conduct day-to-day management of, the assets held in the Company Portfolio (including un-invested cash).

The Investment Managers are not required to and generally will not submit individual decisions for approval by the Board. See Note 4 for details of fee entitlement.

Administration and Custody Agreement

BNP Paribas Securities Services S.C.A., Guernsey Branch (formerly BNP Paribas Fund Services (Guernsey) Limited) has been appointed as Administrator, Secretary, Custodian and Designated Manager of the Company. In such capacity, the Administrator will be responsible for the day-to-day administration of the Company, including but not limited to the calculation and publication of the estimated daily NAV, general secretarial functions required by The Companies (Guernsey) Law, 2008 (as amended), (including but not limited to the maintenance of the Company's accounting and statutory records) and ensuring that the Company complies with its continuing obligations as a company admitted to trading on the SFM and trading and listing on the CISE.

In acting as custodian of the Company's investments, the Administrator shall provide for the safe keeping of contracts or other documents of title to the loans and may take custody of cash and other assets. The Company has consented to and the Administrator is permitted and may delegate the safekeeping function to BNP Paribas Securities Services London Branch or such other associate companies of the Administrator. See Note 4 for details of fee entitlement.

Related Party Transactions

The contracts with Neuberger Berman Europe Limited and Neuberger Berman Fixed Income LLC are the only related party transactions currently in place. Other than fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Company in the financial year.

Financial Review

At 31 December 2013 the net assets of the Ordinary Shares amounted to $151,344,261 (2012: $478,265,391) and those of the Extended Life Shares amounted to $430,177,579 (2012: Nil). The total return for the year was 13.23% (2012: 11.30%) for Ordinary Shares and 7.62% for Extended Life Shares (2012: Nil).

STRATEGIC REPORT (CONTINUED)

Gearing

The Company will not employ leverage or gearing for investment purposes through the use of borrowings. The Company may, from time to time, use borrowings for share buy backs and short-term liquidity purposes, including bridging purposes, prior to the sale of investments. Save for such bridging borrowings, the Directors will restrict borrowing, with respect to each share class, to an amount not exceeding 10 percent of the NAV of the share class at the time of drawdown, and in any event, to an amount not exceeding 10 percent of the NAV of the Company at the time of drawdown at any time.

The Company does not currently have any borrowings.

Derivatives may be used for the purposes of efficient portfolio management and to hedge risk within the portfolio. In addition from time to time the Company may also invest in such derivatives for investment purposes.

Dividends and Distributions

The Company distributes all net income received on investments of the Company attributable to such class of shares, as appropriate, after deduction of reasonable expenses. The exact amount of any such dividend would be variable depending on the amounts of income received by the Company.

As at 31 December 2013, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital (2012: $NIL) due to a low net income being available.

A capital return by way of a compulsory partial redemption was declared post year-end and was paid on 12 February 2014:

- $28,000,000 in relation to the Ordinary share class (equivalent to approximately $0.2255 per Ordinary share); and
- $20,885,179 in relation to the Extended Life share class (equivalent to approximately $0.0593 per Extended Life share).

Performance Measurement and Key Performance Indicators

The on-going charges % compared to NAV is 2.16, this is based on annual on-going charges figure for the year of $12,583,276. This figure which has been prepared in accordance with the recommended methodology of the AIC represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses excluding the performance fee. A performance fee of $1,444,064 was payable as at 31 December 2013 (this performance fee relates to the Ordinary Share Class).

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Investment Manager, the Directors take into account the following performance indicators:

- Returns and NAV - The Board reviews and compares at each meeting the performance of the portfolio as well as the NAV, income and share price of the Company;
- Discount/premium to NAV - at each Board meeting, the Board monitors the level of the Company's discount or premium to NAV and reviews the average discount/premium for the Company's peer group. The Company publishes a NAV per share on a daily basis through the official newswire of the London Stock Exchange;

STRATEGIC REPORT (CONTINUED)

Performance Measurement and Key Performance Indicators (continued)

- Formal reports from both the Investment Managers and brokers which assess the performance of the Asset Class and look at trading activity. The Investment Manager will also provide in depth analysis on the holdings within the portfolio; and

- The Board will assess the results of annual general meetings. In addition to this the brokers and Investment Manager will provide the Board with feedback that has been received from investors around the performance of the Company and Investment Manager.

For and on behalf of the Board

Robin Monro-Davies	John Hallan
Chairman	Director
24 April 2014	24 April 2014

DIRECTORS' REPORT

The Directors present the audited consolidated financial statements of the Company and their report for the year ended 31 December 2013.

Share Capital

The number of shares in issue at 31 December 2013 was as follows:

Class A Shares	2
Ordinary Shares	124,160,471
Extended Life Shares	352,088,814

On 17 January 2014, the Company announced a capital return by way of a compulsory partial redemption of 22,907,579 Ordinary Shares and 16,900,236 Extended Life Shares. Following the redemption on 29 January 2014, the shares in issue were:

Class A Shares	2
Ordinary Shares	101,252,892
Extended Life Shares	335,188,578

On 27 February 2014, the Company raised gross proceeds of approximately £110 million through the issue of 110,785,785 New Global Shares. On 4 March 2014, 110,785,785 New Global Shares were admitted to trading on the Specialist Fund Market and the official list of the Channel Islands Securities Exchange. Following the admission, the Company has 101,252,892 Ordinary Shares; 335,188,578 Extended Life Shares; and 110,785,785 New Global Shares in issue.

Substantial Share Interests

Based upon information deemed to be reliable as provided by the Company's registrar, as at 23 April 2014, the following shareholders owned 10% or more of the issued shares of the Company.

Shareholder	No. of Ordinary Shares	No. of Extended Life Shares	No of New Global Shares	Percentage of Share Class (%)
Nortrust Nominees Limited	30,328,507	-	-	29.95
Harewood Nominees Limited 4046320 Acct	18,483,560	-	-	18.25
BBHISL Nominees Limited 130083 Acct	14,388,227	-	-	14.21
BNY (OCS) Nominees Limited	-	38,967,275	-	11.63
Prudential Client HSBC GIS Nominee (UK)	-	34,047,080	-	10.16
Limited PAC Account	-	-	27,379,750	24.71
State Street Nominees Limited OM04 Acct	-	-	15,870,000	14.32

Notifications of Shareholdings

In the year to 31 December 2013, due to the Ordinary Shares and Extended Life Shares having limited voting rights, Ordinary shareholder and Extended Life shareholders were not required to make substantial shareholder notifications.

Following Class Meetings on 25 February 2014, full voting rights were conferred to all shareholders, with the exception of A Shareholders. Since this date the Company has been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules ("DTR") (which covers the acquisition and disposal of major shareholdings and voting rights), of the following voting rights as a shareholder of the Company. When more than one notification has been received from any shareholder, only the latest notification is shown. For non-UK issuers, the thresholds prescribed under DTR 5.1.2 for notification of holdings commence at 5%.

	Number of Shares	Percentage of total voting rights (%)
Prudential Plc Group of Companies	64,656,015	above 11%
Investec Wealth & Investment Limited	25,315,582	above 4%

There have been no changes notified since the year end except as a consequence of the issue of the new share class.

DIRECTORS' REPORT (CONTINUED)

Going Concern

The Company's principal activities are set out on page 7. The financial position of the Company is set out on page 38. In addition, Note 8 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements and that they have been prepared in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council.

The going concern statement required by the AIC Code is set out in the "Directors' statement of responsibility" on page 34.

Life of the Company

The Company does not have a fixed life. However, each of the share classes has a specific investment period:

Share Class	Investment Period
Ordinary Shares	ended on 10 June 2013
Extended Life Shares	ends on 31 March 2015
New Global Shares	ends on 31 March 2017

Discount Controls

Buybacks

At the annual general meeting of the Company held in July 2013, the Class A Shareholder granted the Directors general authority to purchase in the market up to 14.99 per cent of each of its Ordinary Shares and Extended Life Shares in issue (as at 16 July 2013). This authority, which has not been used, will expire at the forthcoming AGM.

On 28 January 2014 the Class A shareholders passed a Written Resolution granting the Directors general authority to purchase in the market up to 14.99 percent of the New Global Shares. This authority, which has not been used, will expire at the forthcoming AGM.

The Directors intend to seek annual renewal of this authority from the Shareholders.

Pursuant to these authorities, and subject to the Listing Rules, the Companies Law and the discretion of the Directors, the Company may purchase shares of any of its classes in the market on an on-going basis with a view to addressing any imbalance between the supply of and demand for such shares, thereby increasing the Net Asset Value per share and assisting in controlling the discount to the relevant Net Asset Value per share of the shares in relation to the price at which the shares of such class may be trading.

The UK Bribery Act 2010

The Board of the Company has a zero tolerance approach to instances of bribery and corruption. Accordingly it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private, in the United Kingdom or abroad to secure any improper benefit for themselves or for the Company. The Investment Manager has also adopted a zero tolerance approach to instances of bribery and corruption.

The Board insists on the same standards of its service providers in their activities for the Company.

DIRECTORS' REPORT (CONTINUED)

The UK Bribery Act 2010 (continued)

A copy of the Company's Anti-Bribery and Corruption Policy can be found on its website at www.nbddif.com.

Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 16. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the Auditors are unaware; and

- he or she has taken all steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations for the year to 31 December 2013 (2012 – none), nor does it have responsibility for any other emissions producing sources.

For and on behalf of the Board

Robin Monro-Davies	John Hallam
Chairman	Director
24 April 2014	24 April 2014

CORPORATE GOVERNANCE REPORT

Applicable Corporate Governance Codes

As the Company is listed on the CISE and the SFM it is only required to follow the GFSC code of corporate governance, applicable to Guernsey companies. However, the Board has chosen to comply with the AIC Code.

On 1 January 2012, the Guernsey Financial Services Commission's ("GFSC") "Finance Sector Code of Corporate Governance" came into effect. The GFSC have stated in their Code that companies which report against the UK Corporate Governance Code or the AIC Code are deemed to meet their Code, and need take no further action.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code"), by reference to the AIC Corporate Governance Guide for investment companies (the "AIC Guide"), both published in February 2013. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, published in September 2012, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk

Corporate Governance Statement

Throughout the year ended 31 December 2013 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code of Corporate Governance, except as set out below.

The UK Corporate Governance Code and the AIC Code includes provisions relating to:

- The role of the chief executive
- Executive directors' remuneration
- Internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, direct employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Directors believe that this Annual Report and Financial Statements presents a fair, balanced and understandable assessment of the Company's position and prospects, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company complies with the corporate governance statement requirements pursuant to the FCA's Disclosure and Transparency Rules by virtue of the information included in the Corporate Governance section of the annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Our Governance Framework

Chairman Robin Monro-Davies **Responsibilities:** The leadership, operation and governance of the Board, ensuring effectiveness, and setting the agenda for the Board. **More details below**
The Board members of NB Distressed Debt Investment Fund Limited **Members:** Robin Monro-Davies (Chairman) – independent Non-executive Director John Hallam, Talmai Morgan, Christopher Sherwell – independent Non-executive Directors Patrick Flynn and Michael Holmberg – Non-executive Directors **Responsibilities:** Overall conduct of the Company's business and setting the Company's strategy **More details on page 17**
Audit Committee **Members:** John Hallam (Chairman) Talmai Morgan Christopher Sherwell **Responsibilities:** The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor, and the management of the Company's systems of internal controls and business risks **More details on pages 19 to 24**

Board independence and composition

The Board is chaired by Robin Monro-Davies who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role. The Board currently consists of six Directors. The biographical details of the Directors holding office at the date of this report are listed on pages 31 and 32, and demonstrate a breadth of investment, accounting and professional experience. A senior independent director has not been identified as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board independence and composition (continued)

The Chairman, John Hallam, Talmai Morgan and Christopher Sherwell are considered independent from the Manager. Patrick Flynn and Michael Holmberg are deemed not independent as they are employed by a Neuberger Berman group company.

Mr Hallam, Mr Morgan and Mr Sherwell sit on the Board of NB Private Equity Partners Limited managed by NB Alternative Advisers LLC, a Neuberger Berman Group entity. The Board maintains the view, as the core business of NB Private Equity Partners Limited differs greatly from that of the Company and it has a different Investment Manager, that Mr Hallam, Mr Morgan and Mr Sherwell remain independent directors and that they all satisfactorily contribute to the affairs of the Company.

The Directors review their independence annually.

The Company Secretary, BNP Paribas Securities Services S.C.A., Guernsey Branch through its representative acts as Secretary to the Board and Committees and in doing so it assists the Chairman in ensuring that all Directors have full and timely access to all relevant documentation; organises induction of new directors; and is responsible for ensuring that the correct Board procedures are followed and advises the Board on corporate governance matters.

Directors' Appointment

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company, copies of which are available for review by shareholders at the Registered Office and will be available at the Annual General Meeting. All Directors have served since incorporation of the Company. Any Director may resign in writing to the Board at any time.

In accordance with the AIC Code and the Company's Articles of Incorporation all Directors offered themselves for re-election at the first Annual General Meeting of the Company. All of the independent directors are subject to re-election at intervals of no more than three years. All of the non-independent Non-executive Directors are subject to annual re-election. Messrs Holmberg, Flynn and Hallam were re-elected as Directors at the second Annual General Meeting on 16 July 2013. The names and biographies of the Directors holding office at the date of this report are listed on pages 31 and 32. As employees of the Investment Manager Messrs Flynn and Holmberg will be subject to re-election annually at the Annual General Meeting.

The Board reviewed the independence, contributions and performance of all Directors during the 2013 Board Evaluation. The Board have determined that it is in the best interests of the Company to propose that all Directors are proposed for re-election at the 2014 AGM.

Board Diversity

The Board considers that its members have a balance of skills and experience which are relevant to the Company. The Board notes the Davies Report and believes in the value and importance of diversity in the boardroom but it does not consider it is appropriate or in the interests of the Company and its shareholders to set prescriptive targets for gender, nationality or any other representation on the Board.

Board Responsibilities

The Board meets at least four times each year and deals with the important aspects of the Company's affairs including the setting and monitoring of investment strategy, and the review of investment performance. The Investment Manager and Sub-Investment Manager take decisions as to the purchase and sale of individual investments, in line with the investment policy and strategy set by the Board. The Investment Manager together with the Company Secretary also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information relating to the Company and its portfolio of investments. Representatives of the Investment Manager attend each Board meeting, enabling Directors to question any matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors in the furtherance of their duties to take independent professional advice at the expense of the Company, this is available on the Company's website www.nbddif.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Tenure of Non-Executive Directors

The Board has adopted a policy on tenure that is considered appropriate for an investment company. The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Manager or necessarily affects a Directors' independence. The Board's tenure and succession policy seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

	Date first elected by shareholders	Years from first election to 2014 AGM	Considered to be independent by the Board
Robin Monro-Davies	6 July 2011	3	Yes
John Hallam	6 July 2011	3	Yes
Talmai Morgan	6 July 2011	3	Yes
Christopher Sherwell	6 July 2011	3	Yes
Patrick Flynn	6 July 2011	3	No
Michael Holmberg	6 July 2011	3	No

Conflict of Interests

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and the Board may impose restrictions or refuse to authorise conflicts if deemed appropriate. The Directors have undertaken to notify the Company Secretary as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process.

It has also been agreed that the Directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment.

None of the Directors had a material interest in any contract, which is significant to the Company's business during the year ended 31 December 2013, except that it should be noted that Messrs Flynn and Holmberg are employees of the Neuberger Berman Group of which the Investment Manager is a part.

The Directors Remuneration Report on pages 27 to 30 provides information on the remuneration and interests of the Directors.

Performance Evaluation

The performance of the Board, its Committees and the Directors was reviewed by the Board in April 2013, by means of an internal questionnaire. The Company Secretary collated the results of the questionnaires and the consolidated results were reviewed and discussed by the Board. In addition, the Board reviewed the performance of the Chairman in his role. The independence of all Directors was considered. The Chairman reviews each individual Directors' contribution.

As a result of the recommendations made in this year's Board performance evaluation, the Board has agreed that Messrs Monro-Davies, Hallam, Morgan and Sherwell are still considered independent.

The Board intends to conduct another interval board evaluation in 2014, and will continue to review its procedures, its effectiveness and development in the year ahead.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Induction/Information and Professional Development

Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice from, amongst others, the Company Secretary and the Auditors. Advisers to the Company also prepare reports for the Board from time to time on relevant topics and issues. In addition, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment company industry. The Chairman reviewed the training and development needs of each Director during the annual Board evaluation process. He confirmed that all directors actively kept up to date with industry developments and issues.

When a new Director is appointed to the Board, he/she will be provided with all relevant information regarding the Company and his/her duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Investment Manager in order to learn more about their processes and procedures.

Independent advice

The Board recognises that there may be occasions when one or more of the Directors feels it is necessary to take independent legal advice at the Company's expense. A procedure is set out in the Directors letters of appointment to enable them to do so.

Indemnities

To the extent permitted by Guernsey Law, the Company's Articles of Incorporation provide an indemnity for the Directors against any liability except such (if any) as they shall incur by or through their own breach of trust, breach of duty or negligence.

During the year, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' liability insurance policy.

Board Meetings

The Board meets at least four times a year. Certain matters are considered at all Board meetings including investments, NAV and share price performance and associated matters such as asset allocation, risks, strategy, marketing and investor relations, peer group information and industry issues. Consideration is also given to administration and corporate governance matters, where applicable reports are received from Board committees.

Directors unable to attend a board meeting are provided with the board papers and can discuss issues arising in the meeting with the Chairman or another Non-executive Director.

Attendance at scheduled meetings of the Board and its committees in the 2013 financial year

	Board	Audit Committee
Number of meetings during the year	**4**	**3**
Robin Monro-Davies	4	-
Patrick Flynn	3	-
John Hallam*	4	3
Michael Holmberg	4	-
Talmai Morgan*	4	3
Christopher Sherwell*	4	3

* Member of the Audit Committee

In addition to these meetings, 5 ad-hoc meetings and 2 Committee meetings were held during the year for various matters primarily of an administration nature. These included but were not limited to launch of the Extended Share class, and issue of shares under the tap programme which were attended by those directors available at the time.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Committees

The Board has established an Audit Committee, with defined terms of reference and duties. Further details of this committee can be found in the Audit Committee report below. The terms of reference for the Audit Committee can be found on the Company's website www.nbddif.com.

The Board feel that due to the size and structure of the Company that establishing a Management Engagement Committee and a Remuneration and Nomination Committee was unnecessary and that the Board as a whole will consider matters relating to remuneration and appointment of directors and review of service providers including the Investment Manager.

Audit Committee ("the Committee")

Membership:

John Hallam - Chairman	(Independent Non-executive director)
Talmai Morgan	(Independent Non-executive director)
Christopher Sherwell	(Independent Non-executive director)

Key Objectives

The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor, and the management of the Company's systems of internal controls and business risks.

Responsibilities

- reviewing the Company's financial results announcements and financial statements and monitoring compliance with relevant statutory and listing requirements;
- reporting to the Board on the appropriateness of the Company's accounting policies and practices including critical accounting policies and practices;
- advising the Board on whether the Committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- overseeing the relationship with the external auditor;
- considering the financial and other implications on the independence of the auditors arising from any non-audit services to be provided by the auditor;
- to analyse the key procedures adopted by the Company's service providers;
- considering the nature and extent of the significant risks the Company faces in achieving its strategic objectives; and
- compile a report on its activities to be included in the Company's annual report.

The Committee members have a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Chairman of the Committee is a Fellow of the Institute of Chartered Accountants in England and Wales, he was a Partner of PricewaterhouseCoopers for 17 years, and has recent and relevant financial experience, as required by the AIC Code therefore the Board has designated him as its financial expert on the Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Committee meetings

The Committee meets at least three times a year. Only members of the Audit Committee have the right to attend Audit Committee meetings. However, other Directors, and representatives of the Investment Manager and Administrator will be invited to attend Audit Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary. The Company's external auditor, KPMG Channel Islands Limited ("KPMG") is also invited on a regular basis. The Committee determine in conjunction with KPMG, whether it is necessary for the Committee to meet the Auditors without the Investment Manager being present.

Main Activities during the year

The Committee assists the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls. It also manages the Company's relationship with the external auditor. Meetings of the Committee generally take place prior to a Company Board meeting. The Committee reports to the Board as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work.

Following the publication of the revised version of the UK Corporate Governance Code and AIC Code, which apply to financial years commencing on or after 1 October 2012, the Board requested that the Committee advise them on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee's terms of reference have been amended to reflect this and can be found on the Company's website www.nbddif.com.

At its three meetings during the year, the Committee focused on:

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with the Investment Manager, Administrator and the External Auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor;
- whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to our financial reporting.

To aid its review, the Committee considers reports from the Investment Manager, Administrator and also reports from the external auditor on the outcomes of their half-year review and annual audit.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Significant Issues

In relation to the annual report and financial statements for the year ended 31 December 2013, the following significant issues were considered by the Committee:

Significant Issue	How the issue was addressed
The valuation and existence of the Company's investments	The Audit Committee received a report from the Investment Manager on the valuation of the portfolio and on the assumptions used in valuing the portfolio. The Committee analysed the Investment portfolio of the Company in terms of investment mix, fair value hierarchy and valuation. The Committee has also considered the auditor's approach to the valuation and existence of the Company's investments. The Committee has held detailed discussions with the Investment Manager with regards to the methodology used in valuing the portfolio. The Committee discussed in depth with KPMG, with regards to their approach to testing the appropriateness and robustness of the valuation methodology applied by the Investment Manager to the Company's portfolio. The members of the Committee had meetings with KPMG, where the audit findings were reported. KPMG did not report any significant differences between the valuations used by the Company and the work performed during their testing process. Based on their above review and analysis the Committee confirmed that they are satisfied with the valuation of the investments.

Internal Controls and Risk Management

The Committee is responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management services are provided to the Company by the Investment Manager and custody of assets and all administrative services are provided to the Company by the Administrator, the Company's system of internal control mainly comprises monitoring the services provided by the Investment Manager and Administrator and their associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Committee review a risk matrix at each quarterly Board meeting. The Company does not have an internal audit function of its own, but relies on the internal audit departments of the Investment Manager. The key elements designed to provide effective internal control are as follows:

CORPORATE GOVERNANCE REPORT (CONTINUED)

Internal Controls and Risk Management (continued)

- Financial Reporting - Regular and comprehensive review by the Board of key investment and financial data, including Company periodic financial reports, report of the Investment Manager, report of the Administrator and Company Secretary;

- Investment Management Agreement - Appointment of an investment manager regulated by the UK Financial Conduct Authority (FCA) whose responsibilities are clearly defined in a written agreement;

- Administration and Custody Agreement - Appointment of an administrator and custodian regulated by the Guernsey Financial Services Commission (GFSC), whose responsibilities are clearly defined in a written agreement;

- Management Systems - The Investment Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Investment Manager's compliance department which regularly monitors compliance with fund rules. The Investment Manager issues a yearly Service Organisation Control Report covering Processing of Institutional Fixed Income and GTAA Client Accounts;

- Administrator's system of internal control includes internal procedures, checklists and controls that are subject to a compliance monitoring programme. On a yearly basis the Administrator issues an ISAE 3402 report covering Fund Administration and Middle Office Outsourcing which details the controls in operation, their design and operating effectiveness; and

- Investment Strategy - Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Investment Manager and Administrator and their associates as follows:

- the Board reviews the terms of the Investment Management and Administration Agreements;

- the Board receives regular compliance reports from the Investment Manager and Administrator;

- the Board reviews the report on the internal controls and the operations of the Investment Manager and Administrator; and

- By the means of the procedures set out above, the Board confirms that it will review the effectiveness of the Company's system of internal control on an annual basis.

The Board's assessment of the Company's principal risks and uncertainties is set out on pages 8 and 9.

By means of the procedures set out above, the Committee confirms that it has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2013 and to the date of approval of this Annual Report and that no issues have been noted.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Appointment and Independence

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from KPMG, identifying their assessment of these key risks. For the 2013 financial year the significant risk identified was in relation to valuation of investments. This risk is tracked through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates around these areas. The Committee assess the effectiveness of the audit process in addressing these matters through the reporting received from KPMG at both the half-year and year end. In addition the Committee seeks feedback from the Investment Manager and the Administrator on the effectiveness of the audit process. For the 2013 financial year, the Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good.

The Committee considers the reappointment of the external auditor, including the rotation of the audit partner, and assesses their independence on an annual basis. The external auditor is required to rotate the audit partner responsible for the Company audit every five years. The current lead audit engagement partner has been in place for 4 years. The Audit Committee was advised by the external auditors that the lead audit engagement partner to the Company, Robert A. Hutchinson would step down in 2014. The Company's new audit partner, Dermot Dempsey, will be appointed in 2014 following Robert A. Hutchinson's departure. The Audit Committee was satisfied that KPMG Channel Islands Limited was independent in conducting the audit. KPMG has been the Company's external auditor since its stock exchange listing in 2010 (4 years). The Company has not formally tendered the audit since then, and will consider putting the audit out to tender at the appropriate time.

In its assessment of the independence of the auditor, the Committee receives details of any relationships between the Company and KPMG that may have a bearing on their independence and receives confirmation that they are independent of the Company.

The Committee approved the fees for audit services for 2013 after a review of the level and nature of work to be performed, and after being satisfied by KPMG that the fees were appropriate for the scope of the work required.

Non Audit Services

To safeguard the objectivity and independence of the external auditor from becoming compromised, the Committee has a policy governing the engagement of the external auditor to provide non-audit services. No material changes have been made to this policy during the year. The Auditors and the Directors have agreed that all non-audit services require the pre-approval of the Committee prior to commencing any work. Fees for non-audit services are tabled annually so that the Committee can consider the impact on auditors' objectivity.

The auditors were remunerated £228,525 for their services rendered in 2013. Of this amount £58,225 was in relation to the non-audit services performed in relation to tax compliance and other corporate finance services. A further £25,300 was in relation to the procedures performed in respect to the half-year review.

The Committee is satisfied with the effectiveness of the audit provided by KPMG, and is satisfied with the auditor's independence. The Committee has therefore recommended to the Board that KPMG be reappointed as external auditor for the year ending 31 December 2014, and to authorise the Directors to determine their remuneration. Accordingly a resolution proposing the reappointment of KPMG as the Company's auditor will be put to the shareholders at the 2014 AGM. There are no contractual obligations restricting the Committee's choice of external auditor and we do not indemnify our external auditor.

Committee Evaluation

The Committee's activities formed part of the Board evaluation performed in the year. Details of this process can be found under "Board evaluation" on page 18.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Relationship with the Investment Manager and the Administrator

All of the Company's management and administration functions are delegated to external parties including the management of the investment portfolio, the custodial services (including the safeguarding of assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Investment Manager and ad hoc reports and information are supplied to the Board as required. The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager and Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager and Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and service of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Investment Manager and the Administrator operate in a supportive, co-operative and open environment.

Continued appointment of the Investment Manager

The Board reviews investment performance at each Board meeting and a formal review of all service providers is conducted annually by the Board.

As a result of the 2013 annual review it is the opinion of the Directors that the continued appointment of the current Investment Manager on the terms agreed is in the interest of the Company's shareholders as a whole. The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Shareholder Engagement

The Board believes that the maintenance of good relations with shareholders is important for the long-term prospects of the Company. It has, since admission, sought engagement with investors. Where appropriate the Chairman, and other Directors are available for discussion about governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its Corporate Broker and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual General Meeting will be attended by the Directors. There is an opportunity for individual shareholders to question the Chairman of the Board, and of the Audit Committee at the Annual General Meeting. Details of proxy votes received in respect of each resolution will be made available to shareholders at the meeting and will be posted on the Company's website following the meeting.

The Annual and Half-year Reports, the Interim Management Statements and a quarterly fact sheet are available to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the London Stock Exchange of the net asset value of the Company's ordinary shares. All documents issued by the Company can be viewed on the website, www.nbddif.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

2014 Annual General Meeting ("AGM")

The AGM will be held in Guernsey on 24 July 2014 at 10:15 BST. The notice for the Annual General Meeting sets out the ordinary and special resolutions to be proposed at the meeting. Separate resolutions are proposed for each substantive issue.

It is the intention of the Board that the Notice of AGM is issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 68. At other times the Company Secretary responds to letters from shareholders on a range of issues.

Voting on all resolutions at the 2014 AGM will be on a poll. The proxy votes cast, including details of votes withheld are disclosed to those in attendance at the meeting and the results are published on our website and announced via the Regulatory News Service.

Robin Monro-Davies
Chairman
24 April 2014

John Hallam
Director
24 April 2014

DIRECTORS' REMUNERATION REPORT

Annual Statement

Dear Shareholder

This report describes how the Board has applied the principles relating to Directors' remuneration. An ordinary resolution to ratify this report will be proposed at the Annual General Meeting on 24 July 2014.

The rest of this report is split into two parts:

- The director's remuneration policy sets out the company's proposed policy on director's remuneration for the year. The director's remuneration policy is subject to annual review.

- The annual report on remuneration sets out payments made to the directors.

Changes to the Board

There were no changes to the Board during the year. The Directors were appointed with the expectation that they will initially serve for three years. Messrs Hallam, Morgan and Sherwell were appointed on 20 April 2010. Messrs Monro-Davies, Flynn and Holmberg were appointed on 21 April 2010. All Directors will stand for re-election at the AGM on 24 July 2014.

In Conclusion

We have provided a summary of 2013 remuneration immediately after this letter. The Annual Report on Remuneration provides further details and the Director's Remuneration Policy sets out how we are building for the future.

Robin Monro-Davies
Chairman
24 April 2014

DIRECTORS' REMUNERATION REPORT (CONTINUED)

At a Glance

Single total figure for Directors for 2013

	Board Fees 2013 US$	Board Fees 2012 US$
Robin Monro-Davies	60,000	60,000
Patrick Flynn	-	
John Hallam	50,000	50,000
Michael Holmberg	-	-
Talmai Morgan	45,000	45,000
Christopher Sherwell	45,000	45,000

No other remuneration was paid or payable by the Company during the year to any of the Directors, other than travel expenses of $9,719 for 2013 (2012 $14,709).

Remuneration Policy

The determination of the Directors' fees is a matter dealt with by the Board. The Board considers the remuneration policy annually to ensure that it remains appropriately positioned. The Board will review the fees paid to the boards of similar investment companies. No Director is to be involved in decisions relating to his or her own remuneration.

No Director has a service contract with the Company and Director's appointments may be terminated at any time with no compensation payable at termination.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. No Director has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors. No element of the Directors' remuneration is performance related.

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable high calibre candidates to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Board may amend the level of remuneration paid within the limits of the Company's Articles of Incorporation.

For the period under review there were no changes to the Directors' fees from 2012. With effect from 28 January 2014 the Director's fees were increased by £10,000 per annum to reflect additional work required subsequent to the launch of the New Global Shares. An additional one-off payment of £10,000 was made to each Director on the launch of the New Global Shares to reflect the work undertaken prior to launch.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Policy Table

Directors' Fees Policy

Element	Operation of the Element	Maximum Potential Value	Performance Metrics Used
Fees			
To recognise time spent and the responsibilities borne and to attract high calibre candidates who have the necessary experience and skills	Directors fees are set by the Board Annual fees are paid quarterly in arrears Fees are reviewed annually and against those for Directors in companies of similar scale and complexity Fees were last reviewed in January 2014 Directors do not receive benefits and do not participate in any incentive or pension plans	Current fee levels are shown in the remuneration report	Directors are not remunerated based on performance and are not eligible to participate in any performance related arrangements

Service Contracts and Policy on Payment of Loss of Office

The Directors appointments are not subject to any duration or limitation. All Directors have served since April 2010. Any Director may resign in writing at any time. Directors' appointments are reviewed during the annual board evaluation. No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company.

In accordance with the AIC Code of Corporate Governance all of the independent Non-executive Directors were re-elected at the first AGM after their appointment and are subject to re-election at intervals of no more than three years. All of the non-independent Non-executive Directors are subject to annual re-election. The names and biographies of the Directors holding office at the date of this report are listed on pages 31 and 32.

Copies of the Director's letters of appointment are available for inspection by shareholders at the Company's Registered Office, and are available at the Annual General Meeting. The dates of their letter of appointments are shown below.

Dates of Directors' Letters of Appointment

Standard provision	**Date of Letter of Appointment**
Robin Monro-Davies	21 April 2010
Patrick Flynn	21 April 2010
John Hallam	20 April 2010
Michael Holmberg	21 April 2010
Talmai Morgan	20 April 2010
Christopher Sherwell	20 April 2010

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Directors Interests

The Company has not set any requirements or guidelines for Directors to own shares in the Company. The beneficial interests of the Directors and their connected persons in the Company's shares as at 31 December 2013 are shown in the table below:

Director	Shares	No. of Shares	Shares	No. of Shares
Robin Monro-Davies	Ordinary Shares	-	Extended Life Shares	300,000
Patrick Flynn	Ordinary Shares	-	Extended Life Shares	123,000
John Hallam	Ordinary Shares	-	Extended Life Shares	75,000
Michael Holmberg	Ordinary Shares	-	Extended Life Shares	123,000
Talmai Morgan	Ordinary Shares	-	Extended Life Shares	-
Christopher Sherwell	Ordinary Shares	-	Extended Life Shares	45,000

The Directors applied for and were allocated shares of the New Global Shares launched on 4 March 2014, as shown in the table below:

Director	Shares	No. of Shares
Robin Monro-Davies	New Global Shares	100,000
Patrick Flynn	New Global Shares	65,000
John Hallam	New Global Shares	25,000
Michael Holmberg	New Global Shares	65,000
Talmai Morgan	New Global Shares	30,000
Christopher Sherwell	New Global Shares	25,000

The Company paid the following fees to the Directors for the year ended 31 December 2013.

	Board Fee US$
Robin Monro-Davies (Chairman)	60,000
Patrick Flynn	-
John Hallam (Chairman of the Audit Committee)	50,000
Michael Holmberg	-
Talmai Morgan (Member of the Audit Committee)	45,000
Christopher Sherwell (Member of the Audit Committee)	45,000
Total	200,000

Advisors to the Remuneration Committee

The Board has not sought the advice or services by any outside person in respect of its consideration of the Directors' remuneration.

Robin Monro-Davies
Chairman
24 April 2014

John Hallam
Director
24 April 2014

DIRECTORS BIOGRAPHIES

Robin Monro-Davies (Chairman)

Robin Monro-Davies served as a regular officer in the Royal Navy from 1958-1968, operating as a carrier pilot mainly in the Far East. He subsequently obtained a Master of Science degree from the Sloan School of Management, Massachusetts Institute of Technology in Boston ("MIT"). On leaving MIT, Mr Monro-Davies spent a year as an investment analyst on Wall Street and then joined Fox-Pitt Kelton ("FPK"). FPK became one of the U.K.'s leading independent brokerage and research houses and Mr Monro-Davies was appointed joint Chief Executive Officer (CEO) in 1976. In 1978, Mr Monro-Davies was appointed CEO of IBCA, FPK's newly established independent bank credit rating business, in addition to his role as FPK's CEO. He continued as CEO of IBCA following his retirement from FPK in 1992, developing the business to become Fitch, the world's third largest rating agency. Mr Monro-Davies retired as CEO of Fitch at the end of 2001. Since then he has acted in various Non-executive roles and currently is Chairman of Assured Guaranty Limited in Bermuda and HSBC Bank Middle East. He is also on the board of two listed investment trusts. Mr Monro-Davies was educated at St. Paul's School, London, and the Britannia Royal Naval College, Dartmouth.

John Hallam (Chairman of the Audit Committee)

John Hallam is a fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. Previously, Mr Hallam was a partner at PricewaterhouseCoopers and retired in 1999 after 27 years with the firm in Guernsey and in other countries. Mr Hallam is currently chairman of Dexion Absolute Ltd and Partners Group Global Opportunities Ltd. He is also a director of BH Global Limited alongside Mr Morgan and a number of other financial services companies, some of which are listed on the LSE. Mr Hallam served for many years as a member and latterly chairman of the GFSC, from which he retired in 2006. Mr Hallam is a director of NB Private Equity Partners Limited, which is a publicly listed investment company to which a member of the NB Group provides investment and accounting services, alongside Mr Morgan and Mr Sherwell.

Talmai Morgan

Talmai Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. His other directorships include BH Global Limited alongside Mr Hallam. Mr Morgan is also currently the chairman or Non-executive director of a number of investment companies including companies listed on the LSE. He holds an M.A. in economics and law from the University of Cambridge. Mr Morgan is a director of NB Private Equity Partners Limited, which is a publicly listed investment company to which a member of the NB Group provides investment and accounting services, alongside Mr Hallam and Mr Sherwell.

Christopher Sherwell

Christopher Sherwell is a Non-executive director of a number of investment-related companies. Mr Sherwell was managing director of Schroders (C.I.) Limited from April 2000 to January 2004. He remained a Non-executive director of Schroders (C.I.) Limited until he stepped down at the end of December 2008. Before joining Schroders in 1993, he worked as Far East regional strategist with Smith New Court Securities in London and then in Hong Kong. Mr Sherwell was previously a journalist, working for the Financial Times. Mr Sherwell received a B.Sc. (Gen) from the University of London in 1968, an M.A. from the University of Oxford in 1971 and a M.Phil. from the University of Oxford in 1973. Mr Sherwell is a director of NB Private Equity Partners Limited, which is a publicly listed investment company to which a member of the NB Group provides investment and accounting services, alongside Mr Hallam and Mr Morgan.

DIRECTORS BIOGRAPHIES (CONTINUED)

Michael J. Holmberg

Michael J. Holmberg, Managing Director, joined NB Group in 2009. Michael is the co-head of distressed portfolio management. Prior to joining NB Group, Michael founded Newberry Capital Management LLC in 2006 and prior to that Michael founded and managed Ritchie Capital Management's Special Credit Opportunities Group. He was also a managing director at Strategic Value Partners and Moore Strategic Value Partners. He began investing in distressed and credit oriented strategies as a portfolio manager at Continental Bank/Bank of America, where he established the bank's global proprietary capital account. Michael received an AB in economics from Kenyon College and an MBA from the University of Chicago.

Patrick H. Flynn

Patrick H. Flynn, Managing Director, joined NB Group in 2006. Patrick is the co-head of distressed portfolio management. He came to NB Group with more than 15 years of experience, including positions with Putnam Investments, UBS and JP Morgan Chase. Most recently, Patrick served as director of research at DDJ Capital Management, LLC. He holds an AB from Columbia University and a MBA in Finance and Economics from the University of Chicago. Patrick has been awarded the Chartered Financial Analyst designation.

DIRECTORSHIP DISCLOSURES IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGE

Company Names	Exchange(s)
Mr Robin Monro-Davies	
Assured Guaranty Limited	New York
NB Distressed Debt Investment Fund Limited	CISE and SFM, London
The Ukraine Opportunities Trust PLC	London
Mr Talmai Morgan	
BH Global Limited	London, Bermuda and Dubai
BH Macro Limited	London, Bermuda and Dubai
DCG IRIS Limited	London
Global Fixed Income Realisation Limited	Listed in Ireland and traded in London
John Laing Infrastructure Fund Limited	London
NB Distressed Debt Investment Fund Limited	CISE and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISE and SFM, London
Real Estate Credit Investments PCC Limited	London, CISE and SFM, London
Sherborne Investors (Guernsey) B Limited	SFM, London
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
Dexion Absolute Limited	London
HICL Infrastructure Co Limited	London
NB Distressed Debt Investment Fund Limited	CISE and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISE and SFM, London
Partners Group Global Opportunities Limited	Ireland
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
F&C UK Real Estate Investments Limited (formerly IRP Property Investments Limited)	London and CISE
NB Distressed Debt Investment Fund Limited	CISE and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISE and SFM, London
Raven Russia Limited	London
Heritage Diversified Investment PCC Limited (formerly Rufford & Ralston PCC Limited)	CISE
Schroder Oriental Income Fund Limited	London
The Prospect Japan Fund Limited	London
Mr Michael J. Holmberg	
NB Distressed Debt Investment Fund Limited	CISE and SFM, London
Mr Patrick H. Flynn	
NB Distressed Debt Investment Fund Limited	CISE and SFM, London

Certain of the Directors maintain additional directorships that are also listed but not actively traded on various exchanges. Details may be obtained from the Corporate Secretary.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Directors' Report and the financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and US Generally Accepted Accounting Principles ('US GAAP'), of the state of affairs of the Company and of the profit or loss for the period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008, as amended. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of the Company have elected to prepare consolidated financial statements for NB Distressed Debt Investment Fund Limited for the year ended 31 December 2013 as the parent of the Group in accordance with Section 244(5) of the Companies (Guernsey) Law, 2008. They are not required to prepare individual accounts for NB Distressed Debt Investment Fund Limited in accordance with Section 243 of the Companies (Guernsey) Law 2008 for the financial period.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors confirm to the best of their knowledge that:

- The consolidated financial statements which have been prepared in conformity with US GAAP and give a true and fair view of the assets, liabilities, financial position and profit of the Company, and the undertakings included in the consolidation taken as a whole as required by DTR 4.1.12R and are in compliance with the requirements set out in The Companies (Guernsey) Law, 2008 as amended; and
- The Annual Report includes a fair review of the information required by DTR 4.1.8R and DTR 4.1.11R, which provides an indication of important events that have occurred since the end of the financial year and the likely future development of the Company and a description of principal risks and uncertainties during the year.

DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)

The maintenance and integrity of the NB Distressed Debt Investment Fund Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

By order of the Board

Robin Monro-Davies	John Hallam
Chairman	Director
24 April 2014	24 April 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NB DISTRESSED DEBT INVESTMENT FUND LIMITED

We have audited the consolidated financial statements (the "financial statements") of NB Distressed Debt Investment Fund Limited (the "Company" or "Group") for the year ended 31 December 2013 which comprise the consolidated statement of assets and liabilities, condensed consolidated schedule of investments, consolidated statement of operations, consolidated statement of changes in net assets, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and U.S. generally accepted accounting principles.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities set out on page 34 and 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the Annual Report. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its results for the year then ended;
- are in conformity with U.S. generally accepted accounting principles; and
- comply with the Companies (Guernsey) Law, 2008.

INDEPENDENT REVIEW REPORT TO NB DISTRESSED DEBT INVESTMENT FUND LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Robert A Hutchinson

For and on behalf of
KPMG Channel Islands Limited
20 New Street
St Peter Port
Guernsey
GY1 4AN
Chartered Accountants and Recognised Auditors

Date: 25 April 2014

The maintenance and integrity of the NB Distressed Investment Fund Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

Assets		**2013**		**2012**
Investments, at fair value	$	553,543,404	$	479,439,510
(2013: cost of $507,887,695; 2012: cost of $486,882,889)				
Credit Default Swap		-		239,676
Forward Currency Contracts		224,257		-
Cash and cash equivalents		31,307,207		55,096,277
	$	585,074,868	$	534,775,463
Other Assets:				
Interest receivables		1,221,658		2,444,396
Receivables for investments sold		15,781,861		2,601,172
Other receivables and prepayments		1,615,551		54,039
Total Assets	**$**	**603,693,938**	**$**	**539,875,070**
Liabilities				
Payables for investments purchased	$	17,456,481	$	60,094,975
Credit Default Swap		33,864		-
Forward Currency Contracts		-		281,633
Accrued expenses and other liabilities		506,147		615,333
Payables to Investment Manager and affiliates		2,176,922		617,738
Deferred tax liability		1,998,684		-
Total Liabilities	**$**	**22,172,098**	**$**	**61,609,679**
Net Assets	**$**	**581,521,840**	**$**	**478,265,391**
Analysis of Net Assets:				
Class A shares	$	2	$	2
(2 shares issued)				
Ordinary shares		122,032,926		436,657,543
(2013: 124,160,471; 2012: 444,270,312)				
Extended Life Shares		352,615,637		-
(2013: 352,088,814: 2012: Nil)				
Accumulated earnings/(deficit)		106,873,275		41,607,846
Net Assets	**$**	**581,521,840**	**$**	**478,265,391**
Net asset value per Extended Life Share	**$**	**1.2218**	**$**	**-**
Net asset attributable to Extended Life Shares	**$**	**430,177,579**	**$**	**-**
Net asset value per Ordinary Share	**$**	**1.2189**	**$**	**1.0765**
Net asset attributable to Ordinary Shares	**$**	**151,344,261**	**$**	**478,265,391**

The financial statements on pages 38 to 67 were approved and authorised for issue by the Board of Directors on 24 April 2014, and signed on its behalf by:

Robin Monro Davies
Director

John Hallam
Director

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2013 and 2012
(Expressed in United States Dollars)

31 December 2013		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Distressed Portfolio						
Bank Debt Investments	$	177,299,881	170,260,017	26.54	30.23	29.28
Private Equity		78,649,532	102,245,157	13.44	19.03	17.58
Limited Partnership Units		31,701,905	51,996,494	9.60	8.71	8.94
Private Equity: Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75
Fixed Rate Bonds		19,461,567	23,428,780	3.57	4.19	4.03
Public Equity		21,029,175	22,481,550	4.15	3.77	3.87
Private Note		21,464,317	21,089,387	1.03	4.54	3.63
Public Note		16,455,344	16,132,324	2.00	3.05	2.77
Ownership in Senior Living Facility		9,693,512	12,203,418	2.26	2.04	2.10
Commercial Mortgage		13,183,956	13,183,956	2.44	2.21	2.27
Trade Claim (ii)		13,066,759	10,601,910	1.96	1.78	1.82
Private Placement Bonds		9,815,969	7,855,963	1.45	1.32	1.35
		450,895,014	496,546,258	76.76	88.42	85.39
Temporary Investments						
U.S. Government and agency obligations		56,992,681	56,997,146	17.84	6.97	9.80
	$	507,887,695	553,543,404	94.60	95.39	95.19
Extended Life Shares		377,486,203	410,378,281	-	95.39	-
Ordinary Shares		130,401,492	143,165,123	94.59	-	-
	$	507,887,695	553,543,404	94.60	95.39	95.19
Credit Default Swap		(93,354)	(33,864)	-	-	-
Extended Life Shares		(67,264)	(24,400)	-	-	-
Ordinary Shares		(26,090)	(9,464)	-	-	-
	$	(93,354)	(33,864)	-	-	-
Forward Currency Contracts			224,257	0.01	0.03	0.04
Extended Life Shares		-	161,029	-	0.03	-
Ordinary Shares		-	63,228	0.01	-	-
	$	-	224,257	0.01	0.03	0.04

(i) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

(ii) The trade claim was structured through a fully funded total return swap with a major US financial institution.

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

31 December 2012		Cost	Fair Value	% (i)
Distressed Portfolio				
Bank Debt Investments	$	170,805,379	156,942,644	32.82
Private Equity		73,659,593	72,117,602	15.08
Private Equity: Real Estate Development		65,236,357	67,168,149	14.04
Fixed Rate Bonds		63,971,343	52,804,069	11.04
Limited Partnership Units		31,973,961	50,093,828	10.48
Trade Claim (ii)		13,066,759	11,233,247	2.35
Ownership in Senior Living Facility		9,282,370	10,098,587	2.11
Private Placement Bonds		9,815,969	9,854,912	2.06
Public Equity		5,610,958	5,780,744	1.21
Bankruptcy Claim		171,530	686,341	0.14
Asset Backed Securities		1,303,941	660,791	0.14
		444,898,160	437,440,914	91.47
Temporary Investments				
U.S. Government and agency obligations		41,984,729	41,998,596	8.78
		41,984,729	41,998,596	8.78
	$	**486,882,889**	**479,439,510**	**100.25**
Credit Default Swaps		683,299	239,676	0.05
Forward Currency Contracts		-	(281,633)	(0.06)

(i) This represents the percentage of Fair Value to total Net Asset Value.

(ii) The trade claim was structured through a fully funded total return swap with a major US financial institution.

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

Investments with the following issuers comprised of greater than 5% of Net Asset Value:

31 December 2013	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Temporary Investments				**$**	**$**			
US Treasury Bill 0% 13-13/03/2014	United States	Government	35,000,000	34,996,185	34,997,277	9.91	4.65	6.02
US Treasury Bill 0% 13-23/01/2014	United States	Government	15,000,000	14,998,692	14,999,913	6.61	1.16	2.58
US Treasury Bill 0% 13-09/01/2014	United States	Government	5,000,000	4,998,240	4,999,985	-	1.16	0.86
US Treasury Bill 0% 13-06/02/2014	United States	Government	2,000,000	1,999,564	1,999,971	1.32	-	0.34
				56,992,681	**56,997,146**	**17.84**	**6.97**	**9.80**

31 December 2012	Country	Industry	Nominal	Cost	Fair Value	% (ii)
Temporary Investments						
US Treasury Bill 0% 12-31/01/2013	United States	Government	32,000,000	31,991,440	31,999,356	6.69
US Treasury Bill 0% 12-21/03/2013	United States	Government	10,000,000	9,993,289	9,999,240	2.09
				41,984,729	41,998,596	8.78
Private Equity: Real Estate Development						
Grant Park 2, LLC	United States	Real Estate Development	225,710	32,414,552	32,574,467	6.81
				32,414,552	32,574,467	6.81
				74,399,281	**74,573,063**	**15.59**

(i) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

(ii) This represents the percentage of Fair Value to total Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

		Cost 31 December 2013	Fair Value 31 December 2013	Ordinary Shares % (ii)	Extended Life Shares % (ii)	Total Fund % (ii)	Cost 31 December 2012	Fair Value 31 December 2012	% (i)
Geographic diversity of Portfolio									
Distressed Portfolio									
Australia	$	21,191,867	19,580,235	3.62	3.29	3.37	21,842,331	19,623,099	4.10
Belgium		628,357	21,124	-	-	-	649,716	20,902	-
Brazil		13,066,759	10,601,910	1.96	1.78	1.82	13,066,759	11,233,247	2.33
Cayman Islands		3,744,639	6,888,420	1.27	1.15	1.18	4,094,512	7,272,124	1.52
Germany		35,757,322	48,492,957	8.95	8.12	8.34	35,939,450	50,061,838	10.47
Great Britain		1,143,270	1,683,601	0.31	0.28	0.29	7,039,395	7,055,821	1.48
Greece		3,195,850	3,513,450	0.65	0.59	0.60	-	-	-
India		362,110	369,355	0.07	0.06	0.06	353,137	522,407	0.11
Japan		486,440	-	-	-	-	486,440	33,358	0.01
Luxembourg		2,553,851	10,280,562	1.90	1.72	1.77	-	-	-
Marshall Islands		8,321,150	8,321,150	-	1.93	1.43	-	-	-
Netherlands		-	-	-	-	-	8,951,015	9,223,088	1.93
Switzerland		-	-	-	-	-	21,187,850	21,011,650	4.39
United States (U.S.A.)		360,443,399	386,793,494	58.03	69.50	66.53	331,287,555	311,383,380	65.12
Temporary Investments									
United States (U.S.A.)		56,992,681	56,997,146	17.84	6.97	9.80	41,984,729	41,998,596	8.78
	$	507,887,695	553,543,404	94.60	95.39	95.19	486,882,889	479,439,510	100.25

(i) This represents the percentage of Fair Value to total Net Asset Value.

(ii) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

		Cost 31 December 2013	Fair Value 31 December 2013	Ordinary Shares % (ii)	Extended Life Shares % (ii)	Total Fund % (ii)	Cost 31 December 2012	Fair Value 31 December 2012	% (i)
Industry diversity of Portfolio									
Distressed Portfolio									
Air Transport	$	4,994,413	5,359,500	0.99	0.90	0.92	1,303,941	660,791	0.14
Broadcasting		6,834,331	7,405,133	1.37	1.24	1.27	25,536,683	24,586,754	5.14
Building and Development		23,223,511	35,224,733	6.08	6.05	6.06	20,396,638	19,522,184	4.08
Commercial Mortgage		36,919,814	36,280,081	2.44	7.58	6.24	811,132	20,902	-
Containers and Glass products		-	-	-	-	-	16,002,604	16,278,909	3.40
Containers and Packaging		3,697,121	11,964,162	2.21	2.00	2.06	-	-	-
Financial Intermediary		61,090,020	80,179,697	11.02	14.76	13.79	36,036,461	58,673,423	12.27
Food Products		-	-	-	-	-	1,638,626	1,690,981	0.35
Forest Products		10,140,441	8,159,689	1.51	1.37	1.40	11,479,219	11,519,360	2.41
Healthcare		14,147,401	19,067,682	3.52	3.19	3.28	15,161,193	16,524,050	3.45
Industrial		11,805,524	11,708,840	1.99	2.02	2.01	-	-	-
Leisure		18,932,072	20,570,313	3.80	3.44	3.54	-	-	-
Lodging and Casinos		31,869,045	34,277,028	3.80	6.63	5.89	38,344,933	38,335,750	8.02
Non Ferrous Metals/Minerals		2,701,650	2,506,350	-	0.58	0.43	-	-	-
Oil and Gas		-	-	-	-	-	21,187,850	21,011,650	4.39
Publishing		-	-	-	-	-	5,847,290	5,833,203	1.22
Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75	65,236,357	67,168,150	14.04
Real Estate Trust		21,029,175	22,481,550	4.15	3.77	3.87	17,798,953	17,893,500	3.74
Shipping		24,819,139	25,461,189	1.98	5.22	4.38	-	-	-
Surface Transport		13,066,759	10,601,910	1.96	1.78	1.82	45,128,250	28,139,973	5.88
Utilities		126,551,501	120,231,099	21.62	20.34	20.68	122,988,030	109,581,334	22.94
Temporary Investments									
US Government and Agency		56,992,681	56,997,146	17.84	6.97	9.80	41,984,729	41,998.596	8.78
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**	**486,882,889**	**479,439,510**	**100.25**

(i) This represents the percentage of Fair Value to total Net Asset Value.

(ii) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS
As at 31 December 2013 and 2012

(Expressed in United States Dollars)

		31 December 2013		31 December 2012
Income				
Interest income	$	14,360,675	$	13,030,790
Dividend income (net of withholding tax: 2013; $15,140 :2012; $58,299)	$	27,652	$	549,318
Expenses				
Investment management fee	$	8,097,558	$	6,772,363
Performance fee	$	1,444,064	$	-
Professional and other expenses	$	3,415,932	$	1,634,340
Administration fees	$	545,623	$	494,131
Loan administration and custody fees	$	314,444	$	312,763
Directors' fees and travel expenses	$	209,719	$	214,709
	$	14,027,340	$	$
Net investment income	**$**	**360,987**	**$**	**4,151,802**
Realised and unrealised gains and losses from investments and foreign exchange				
Net realised gain on investments, derivatives				
and forward foreign currency contracts	$	14,901,126	$	15,852,602
Gain on non-cash reorganisations	$	-	$	17,237,321
Net change in unrealised gain on investments, derivatives				
and forward foreign currency contracts	$	54,108,085	$	11,735,188
Income taxes from net realised/unrealised gains on investments	$	(4,104,769)	$	(413,904)
Net realised and unrealised gains	**$**	**64,904,442**	**$**	**44,825,111**
Net increase in net assets resulting from operations	**$**	**65,265,429**	**$**	**48,563,009**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the year ended 31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

		31 December 2013 Ordinary Shares	31 December 2013 Extended Life Shares	31 December 2013 Aggregated		31 December 2012
Net assets at beginning of year	$	478,265,391	-	478,265,391	$	429,702,382
Net increase in asset before Share Class split on 12 April 2013						
Net investment income		1,311,662	-	1,311,662		3,737,898
Net realised gain on investments, derivatives and forward foreign currency contracts		2,934,434	-	2,934,434		15,852,602
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		21,827,953	-	21,827,953		11,735,188
Gain on non-cash reorganisations		-	-	-		17,237,321
Transfer of Net Assets from Ordinary to Extended Life Share Class		(363,391,416)	363,391,416	-		-
Net increase in asset after Share Class split on 12 April 2013						
Net investment (loss)		(751,615)	(199,062)	(950,677)		-
Net realised gain on investments, derivatives and forward foreign currency contracts		3,447,782	8,518,913	11,966,695		-
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		8,847,234	23,432,897	32,280,131		-
Income taxes from net realised/unrealised gains from investments		(1,147,164)	(2,957,605)	(4,104,769)		-
Net proceeds from issue of Extended Life Shares		-	37,991,020	37,991,020		-
Net assets at the end of the year	**$**	**151,344,261**	**430,177,579**	**581,521,840**	**$**	**478,265,391**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013 and 2012

(Expressed in United States Dollars)

		31 December 2013		31 December 2012
Cash flows from operating activities:				
Net increase in net assets resulting from operations	$	65,265,429		48,563,009
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations to net cash flow (used in)/provided by operations:				
Net realised gain on investments		(14,901,126)		(15,852,602)
Gain on non-cash reorganisations		-		(17,237,321)
Net change in unrealised (gain) on investments and forward foreign currency contracts		(54,108,085)		(11,735,188)
Accretion of discount on loans and bonds		(1,937,392)		(2,009,090)
Changes in interest receivables		1,222,738		(922,589)
Changes in receivables for investments sold		(13,180,689)		(1,933,027)
Changes in other receivables and prepayments		(1,561,512)		(21,831)
Changes in payables for investments purchased		(42,638,493)		16,999,574
Changes in payables, accrued expenses and other liabilities		1,449,998		212,925
Change in deferred tax liability		1,998,684		-
Credit default swap		305,320		(356,000)
Cash paid on settled forward foreign currency contracts		(269,494)		-
Purchase of investments		(277,770,961)		(401,099,811)
Sale of investments		274,345,493		389,223,335
Net cash (used in)/provided by operating activities	$	(61,780,090)	$	3,831,384
Cash flows from financing activities:				
Net proceeds from issuance of Extended Life shares	$	37,991,020	$	-
Net cash provided by financing activities	$	37,991,020	$	-
Net (decrease)/increase in cash and cash equivalents	**$**	**(23,789,070)**	**$**	**3,831,384**
Cash and cash equivalents at beginning of year		55,096,277		51,264,893
Cash and cash equivalents at end of year	**$**	**31,307,207**	**$**	**55,096,277**

Supplemental non-cash flow operating activities

During the year $Nil (31 December 2012: $68,277,338) is excluded from purchases of and proceeds from sales of investments related to the value of non-cash investment transactions, including reorganisations and exchanges.

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

NB Distressed Debt Investment Fund Limited (the "Company" or the "Fund") is a closed-ended investment company registered and incorporated in Guernsey under the Companies (Guernsey) Law, 2008 (as amended), on 20 April 2010, with registration number 51774. The Company's shares were admitted to the Specialist Fund Market of the London Stock Exchange (the "SFM") and to listing and trading on the Channel Islands Securities Exchange ("CISE") on 10 June 2010.

The Initial Public Offering of the Company took place in June 2010, raising gross proceeds of approximately $197.2 million. Subsequently, the Company raised further gross proceeds of approximately $244.2 million at a price of $1.005 per Ordinary Share by means of a Secondary Placing in October 2010.

The Board is responsible for managing the business affairs of the Company but has delegated certain functions to the Investment Manager under the Investment Management Agreement dated 5 May 2010, subsequently amended and restated on 17 June 2010 and further amended and restated on 6 March 2013.

The Investment Manager of the Company is Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of Neuberger Berman Group ("NB Group"). Under the Sub-Investment Management Agreement dated 9 June 2010, the Investment Manager has delegated certain of its responsibilities and functions to the Sub-Investment Manager, Neuberger Berman Fixed Income LLC, also an indirect wholly-owned subsidiary of NB Group (together the "Investment Managers").

The Investment Managers are responsible for the discretionary management of the assets held in the Company Portfolio and will conduct the day-to-day management of the Company's assets (including un-invested cash). The Investment Managers are not required to and generally will not submit individual investment decisions for approval by the Board.

The Company's investment objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk.

The Company's share capital is denominated in U.S Dollars.

Restructuring of the Fund

During the period, the Board of the Company after consulting the Investment Manager announced their intention to extend the investment period for 21 months to 31 March 2015. On 6 March 2013, the Company published the prospectus in connection with the creation of the Extended Life Share class ("the new share").

Following the resolution proposed on 8 April 2013, 320,109,841 Ordinary Shares were converted to 320,109,841 Extended Life Shares with an extended investment period to 31 March 2015. The end of the investment period of the Ordinary Shares remained 10 June 2013. The Extended Life Shares are subject to new capital return policy, new discount policy and increased preferred return. Following this admission, the Company had 124,160,471 Ordinary Shares and 320,109,841 Extended Life Share in issue. The Extended Life Shares trade under the code "NBDX" and the Ordinary Shares continue to trade under the code "NBDD".

Following the admission of the Extended Life Shares, the Company issued 31,978,973 Extended Life Shares under the tap program on 4 July 2013, raising additional gross proceeds of $38.4 million and net proceeds of $38.0 million.

Allocation of assets between the Ordinary Shares and the Extended Life Shares

Assets and liabilities of the Company on the Effective Date (12 April 2013) worth in aggregate (as at the NAV Calculation Date immediately preceding the Effective Date) an amount equal to the Net Asset Value (at the same date) attributable to the Ordinary Shares were converted into Extended Life Shares pursuant to the Proposals and were allocated to the Extended Life Share Class Fund. The remaining assets and liabilities of the Company were allocated to the Ordinary Share Class Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – DESCRIPTION OF BUSINESS (CONTINUED)

Restructuring of the Fund (continued)

Allocation of assets between the Ordinary Shares and the Extended Life Shares (continued)

The allocation of assets and liabilities of the Company to the Extended Life Share Class Fund and the Ordinary Share Class Fund was determined as follows:

(1) cash assets were allocated pro rata to the cash held in the Company Portfolio, provided that the Directors, in their absolute discretion, adjusted the proportion of cash to be allocated so that it would be equitable to both those shareholders retaining Ordinary Shares and those shareholders whose Ordinary Shares were converted into Extended Life Shares; and

(2) the Directors selected non-cash assets in the Company Portfolio to be allocated with a view to ensuring that, in so far as practicable, there was a pro rata allocation of such assets between the Extended Life Share Class Fund and the Ordinary Share Class Fund, provided that the Directors, in their absolute discretion, adjusted such allocation so that it would be equitable to both those shareholders retaining Ordinary Shares and those shareholders whose Ordinary Shares were converted into Extended Life Shares. Any liabilities comprised in the Company Portfolio as at the Effective Date were allocated between the Share Class Funds on a pro-rata basis save for the costs of the Proposals to be allocated as set below.

Consequently, from the Effective Date, the NAV per Ordinary Share as at any NAV Calculation Date were equal to the NAV of the Ordinary Share Class Fund divided by the number of Ordinary Shares in issue at such date. Similarly, the NAV per Extended Life Share as at any NAV Calculation Date will be equal to the NAV of the Extended Life Share Class Fund divided by the number of Extended Life Shares in issue as at such date.

Following the expiry of the Current Investment Period on 10 June 2013, whenever the Company exits an asset held at the end of this period, the proportion of the net realisation proceeds of such exit attributable to the Ordinary Share Class Fund will be returned to Ordinary Shareholders, whereas the proportion of the net realisation proceeds attributable to the Extended Life Share Class Fund (less any capital profits which will be available for distribution in accordance with the Company's capital return policy in respect of the Extended Life Shares) will be reinvested in accordance with the Company's investment policy.

In the period from Admission to the end of the Current Investment Period 10 June 2013, any investments made by the Company were allotted pro rata between the Ordinary Share Class and the Extended Life Shares Class. Any asset acquired after the expiry of the Current Investment Period were attributable solely to the Extended Life Shares and were therefore allocated solely to the Extended Life Share Class Fund.

The net realisation proceeds of an exit attributable to the Extended Life Share Class Fund will be distributed only to the holders of Extended Life Shares. Any distributions will only be made by the Company in accordance with applicable law at the relevant time, including the Companies Law (and, in particular, will be subject to the Company passing the solvency test contained in the Companies Law at the relevant time).

Operating expenses

The Share Class Funds will bear their respective pro rata share of the ongoing costs and expenses of the Company. The Extended Life Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Extended Life Shares and the Ordinary Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable to the Ordinary Shares.

The total expenses relating to restructuring (i.e. creation of Extended Life Share Class Fund) attributable solely to the Extended Life Shares were $1.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and return and are in conformity with US generally accepted accounting principles ("US GAAP"). The functional and reporting currency of the Company is the United States Dollar ("USD").

Principles of Consolidation

The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, London Adams LLC, London Dearborn LLC, London Granite Ridge LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, London Tides LLC, London Wacker LLC and London Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2013, the following subsidiaries were cancelled; London Monroe LLC, London O Homes LLC and London Quincy LLC.

All inter-company balances have been eliminated fully on consolidation.

Reclassifications

Certain amounts in these annual financial statements have been reclassified to conform to the 2013 presentation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires that the Directors make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Such estimates and associated assumptions are generally based on historical experience and various other factors that are believed to be reasonable under the circumstances, and form the basis of making the judgements about attributing values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from such accounting estimates in amounts that may have a material impact on the financial statements of the Company.

Valuation of Investments accounting policy and Note 7 'Fair Valuation of Financial Instruments' discloses further detail on the use of estimates.

Revenue Recognition

Interest earned on debt instruments is accounted for, net of applicable withholding taxes and it is recognised as income over the terms of the loans. Discounts received or premiums paid in connection with the acquisition of loans are amortised into interest income using the effective interest method over the contractual life of the related loan.

Payment-in-kind (PIK) interest is computed at the contractual rate specified in the loan agreement for any portion of the interest which may be added to the principal balance of a loan rather than paid in cash by obligator on the scheduled interest payment date. PIK interest is periodically added to the principal balance of the loan and recorded as interest income. The Manager places a receivable on non accrual status when the collection of principal or interest is deemed doubtful. Dividend income is recognised on the ex-dividend date. Realised gains and losses are determined using the average cost method.

For the year ended 31 December 2013, $1,937,392 (31 December 2012: $2,009,090) was recorded to reflect accretion of discount on loans and bonds during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company's cash and cash equivalents comprise cash on hand and demand deposits and highly liquid investments with original maturities of less than 90 days that are both readily convertible to known amounts of cash and so near maturity that they represent insignificant risk of changes in value.

At 31 December 2013, the Company held cash balances in various currencies to the value of $31,307,207 (31 December 2012: $55,096,277). These balances consisted of Sterling: $15,201 (31 December 2012: $9,595), Euro: $2,978,790 (31 December 2012: $4,011,649), U.S. Dollar: $28,148,055 (31 December 2012: $51,062,665), and Australian Dollar: $165,161 (31 December 2012: $12,368).

Valuation of Investments

The Company carries investments on its books at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period. Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.

In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.

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

Consistent with the above criterion, the following criteria are considered when applicable:

- Valuation of other securities by the same issuer for which market quotations are available;
- Reasons for absence of market quotations;
- The soundness of the security, its interest yield, the date of maturity, the credit standing of the issue and the current general interest rates;
- Recent sales prices and/or bid and ask quotations for the security;
- Value of similar securities of issuers in the same or similar industries for which market quotations are available;
- Economic outlook of the industry;
- Issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

As part of the Company's investment strategy, the Company enters into over-the-counter ("OTC") derivative contracts which include forward foreign currency exchange contracts and credit default swaps.

Forward foreign currency exchange contracts ("forward contracts") are valued at the prevailing forward exchange rate of the underlying currencies on the reporting date and unrealised gains or losses are recorded daily. Forward contracts are generally categorised in Level 2 of the fair value hierarchy.

Credit default swaps are entered into on the OTC market. The fair value for a credit default swap contract is derived using a pricing model that is widely accepted by marketplace participants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments (continued)

The pricing model takes into account multiple inputs including specific contract terms, interest rate yield curves, interest rates, credit curves, recovery rates, and current credit spreads obtained from swap counterparties and other market participants. Many inputs into the model do not require material subjectivity as they are observable in the marketplace or set per the contract. Other than the contract terms, valuation is heavily determined by the difference between the contract spread and the current market spread. The contract spread (or rate) is generally fixed and the market spread is determined by the credit risk of the underlying debt or reference entity. If the underlying debt is liquid and the OTC market for the current spread is active, credit default swaps are categorised in Level 2 of the fair value hierarchy. If the underlying debt is illiquid and the OTC market for the current spread is not active, credit default swaps are categorised in Level 3 of the fair value hierarchy.

Realised Gains and Losses on Investments

All investment transactions are recorded on a trade date basis. Upon sale or maturity, the difference between the consideration received and the cost of the investment is recognised as a realised gain or loss. The cost is determined based on the average cost method.

All transactions relating to the reorganisation of current investments are recorded at the date of such reorganisation. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a gain or loss and presented separately on the Consolidated Statement of Operations in the line "Gain on non-cash reorganisations".

Operating Expenses

Operating expenses are recognised on an accruals basis. Operating expenses include amounts directly or indirectly incurred by the Company as part of its operations.

Following the creation of Extended Life Share Class, both Share Classes will bear their respective pro rata share of the ongoing costs and expenses of the Company. The Extended Life Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Extended Life Shares and the Ordinary Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Ordinary Shares.

Performance Fee

Performance fee amounts (see note 4) are computed and accrued daily in accordance with the terms of the agreements.

Currency Translation

Monetary assets and liabilities denominated in a currency other than U.S. Dollars are translated into U.S. Dollar equivalents using spot rates as at the period end date. On initial recognition, a foreign currency transaction is recorded and translated at the spot exchange rate at the transaction date. Non monetary assets and liabilities are translated at the historic exchange rate.

The Company does not separate the changes relating to currency exchange rates from those relating to changes in fair value of the investments held. These fluctuations are included in the net realised gain and net change in unrealised gain/(loss) on investments in the Consolidated Statements of Operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payables on Investments Purchased

At 31 December 2013, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the Statement of Assets and Liabilities date.

Income Taxes

The Company is not subject to income taxes in Guernsey; however it may be subject to taxes imposed by other countries on income it derives from investments. Such taxes are reflected in the Statement of Operations. During the year ended 31 December 2013, the Company recorded current income tax expense of $2,106,085 (2012: $413,904). Deferred taxes are recorded to reflect the tax consequences of future years' differences between the tax basis of assets and their financial reporting basis. The amount of deferred tax expense for the year ended 31 December 2013 is equal to $1,998,684. Total income tax expense for the year ended 31 December 2013 was $4,104,769 (2012: $413,904).

In accordance with US GAAP, Management is required to determine whether a tax position of the Company 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 recognised is measured as the largest amount of benefit that is greater than fifty percent likely of being realised upon ultimate settlement. De-recognition of a tax benefit previously recognised could result in the Company recording a tax liability that would reduce net assets. This pronouncement also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. There were no uncertain tax positions as at 31 December 2013 or 31 December 2012. The Company is subject to examination for US Federal and state tax returns for calendar years 2011 – 2013.

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 2011-11, Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The disclosure requirements are intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a company's financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of US GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions subject to an agreement similar to a master netting agreement.

In January 2013, FASB issued Accounting Standard Update 2013-01, Balance Sheet (Topic 210),Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

The provisions of ASU 2011-11 and ASU 2013-01 are effective for interim and annual reporting periods beginning on or after January 1, 2013. The impact of this pronouncement is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS (CONTINUED)

In June 2013, the FASB issued ASU 2013-08, Financial Services — Investment Companies Topic 946 ("ASU 2013-08") which amends the scope, measurement, and disclosure requirements for investment companies. ASU 2013-08:

(i) amends the criteria for an entity to qualify as an investment company,

(ii) requires an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and

(iii) introduces new disclosures. This guidance is effective for the Company's fiscal year beginning January 1, 2014. Earlier application is prohibited.

The adoption of this guidance is not expected to have a material impact on the Company's financial results and consolidated annual financial statements.

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES

Investment Management Fees

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 percent per month of the Company's Net Asset Value ("NAV"). For the year ended 31 December 2013, the management fee expense was $8,097,558 (31 December 2012: $6,772,363). As at 31 December 2013, the investment manager fee payable was $732,858 (31 December 2012 $617,738).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. The performance fee will only become payable once the Company has made aggregate distributions in cash to Ordinary and Extended Life Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Ordinary and Extended Life Shares (the "Contributed Capital") plus such amounts as will result in Ordinary and Extended Life Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to Preferred Return, following which there will be a 100 percent catch up to the Investment Manager until the Investment Manager has received 20 percent of all amounts in excess of Contributed Capital distributed to Ordinary and Extended Life Shareholders and paid to the Investment Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Investment Manager's performance fee and the cash distributed to the Ordinary Shareholders respectively. The preferred rate of return for Ordinary Shares is an annualised 6% and for Extended Life Share was initially 6% which has subsequently been increased to 8% with effect from 12 April 2013 when the Ordinary Share class was split into Extended and Ordinary. For the purposes of financial reporting the performance fee is recognised on an accrual basis.

Considering the net asset value of the Company as at 31 December 2013, the performance fee for the Extended Life and Ordinary Share of $Nil (31 December 2012: $Nil) and $1,444,064 (31 December 2012: $Nil) respectively would be payable if the Company was to realise all investments at the Statement of Assets and Liabilities ("SAL") date.

The performance fee is included in the Statement of Operations. The performance fee outstanding is included in payables to investment manager and affiliates in the Statement of Assets and Liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Administration and Custody Agreement

The Company has appointed BNP Paribas Securities Services S.C.A., Guernsey Branch (formerly BNP Paribas Fund Services (Guernsey) Limited) as an Administrator, Secretary, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement.

In such capacity, the Administrator is responsible for the day-to-day administration of the Company (including but not limited to the calculation and publication of the estimated daily Net Asset Value), general secretarial functions (including but not limited to the maintenance of the Company's accounting and statutory records) and certain safekeeping and custody services. From 1 October 2012, the Administrator is entitled to a fee based on 0.10 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000. The percent per annum basis prior to 1 October 2012 was 0.11, subject to the same annual minimum.

The Secretary is entitled to an annual fee of £36,000 plus fees for ad-hoc board meetings and services.

The Custodian is entitled to a fee of 0.02 percent of the Market Value of the portfolio or a minimum annual fee of £20,000. The loan administration fee is 0.08 percent per annum of the average market value of the loan assets with a minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the year ended 31 December 2013, the administration fee expense was $545,623 (31 December 2012: $494,131), the secretarial fee was $56,614 (31 December 2012: $57,813) and the custodian and loan administration fee expense was $314,444 (31 December 2012: $312,763). As at 31 December 2013, the administration fee payable is $150,478 (31 December 2012 $252,453), the secretarial fee payable is $15,028 (31 December 2012 $29,499) and the custodian and loan administration fee payable is $69,665 (31 December 2012 $123,005).

Directors' Remuneration and Other Interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 each per annum ($60,000 for the Chairman). In addition, the Chairman of the Audit Committee receives an additional $5,000 for his services in this role. Each of Michael J. Holmberg and Patrick H. Flynn, the non-independent Directors, have waived their fees for their services as Directors. For the period ended 31 December 2013, the directors' fees and travel expenses amounted to $209,719 (31 December 2012: $214,709). As at 31 December 2013, the director's fee payable is $50,411 (31 December 2012 $50,411).

Other Interests

In 2013, the Company transferred 10.35% of its interest in a loan to Meridian Sunrise Village LLC to the NB Distressed Debt Master Fund LP (the "Private Fund"), a fund managed by the Sub-Investment Manager, for $1,121,857. Also in 2013, the Company assigned 35% of its interest in units of GV Holdings, LLC to the Private Fund for $1,225,000.

NOTE 5 – DERIVATIVES

The Company may enter into credit default swap agreements and forward foreign currency contracts in the normal course of pursuing its investment objective. As a result of these the Company may be subject to credit and foreign currency risk.

Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return if a credit event occurs for the referenced entity, obligation or index. A credit event is defined under the terms of each swap agreement and may include, but is not limited to, underlying entity default, bankruptcy, write-down, principal shortfall, or interest shortfall.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The Company may use credit default swap agreements on corporate or sovereign issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Company owns or has exposure to the referenced obligation). During the period, the Company entered into a single credit default swap agreement to provide a measure of protection against defaults of a sovereign issue.

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If the Company is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Company will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. Either as a seller of protection or a buyer of protection of a credit default swap agreement, the Company's maximum risk of loss from counterparty risk is the fair value of the agreement.

In a forward foreign currency contract, the Company agrees to receive or deliver a fixed quantity of one currency for another, at a pre-determined price at a future date.

Purchases and sales of forward foreign currency contracts having the same notional value, settlement date and counterparty are generally offset (which result in a net foreign currency position of zero with the counterparty) and any realised gains or losses are recognised on settlement date. The fair value of forward foreign currency contracts is based on the price at which a new forward foreign currency contract of the same notional value, currency and maturity could be affected at the close of business in the principal currency markets in which these currencies are traded.

The Company may, from time to time, hold derivative financial instruments for the purposes of hedging foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period.

Forward foreign exchange contracts are subject to credit and market risk. Forward foreign exchange contracts result in exposure to market risk based on the changes in foreign currency exchange rates relative to contracted amounts. As a result, a relatively small foreign currency exchange rates movement may result in substantial losses to the Company. Credit risk is where the financial condition of an issuer of a security or instrument may cause it to default or become unable to pay interest or principal due on the security. Any trading counterparty to a derivative contract might default on their obligations. The effect of such derivative instruments on the Company’s financial position and financial performance as reflected in the Consolidated Statement of Assets and Liabilities and Consolidated Statement of Operations are presented in the summary below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The following table presents the fair values of derivative instruments:

The notional outstanding as at 31 December 2013 is representative of the exposure over the year (or similar)

31 December 2013		Notional			
	Buy/Sell Currency	Foreign Currency	USD	Fair Value / USD Equivalent	Settlement Date Month/Year
Forward foreign currency contracts	USD/BRL	24,406,306	10,827,997	508,725	January 2014
	USD/EUR	16,942,660	23,093,393	(252,596)	January 2014
	USD/GBP	1,303,693	2,109,326	(49,685)	January 2014
	USD/BRL	874,200	389,307	19,689	January 2014
	USD/EUR	720,918	991,520	(1,876)	January 2014
				224,257	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030	n/a	n/a	(12,100,000)	**(33,864)**	June 2014

31 December 2012		Notional			
	Buy/Sell Currency	Foreign Currency	USD	Fair Value / USD Equivalent	Settlement Date Month/Year
Forward foreign currency contracts	USD/BRL	5,700,573	2,688,315	(81,977)	February 2013
	USD/EUR	10,000,954	12,986,489	(199,656)	February 2013
				(281,633)	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030	n/a	n/a	(36,000,000)	**239,676**	May 2013

The following table presents the impact of derivative instruments on the consolidated statement of Operations in conformity with US GAAP:

Primary underlying risk	Location of gain/(loss) recognised on Statement of Operations	Amount of gain/(loss) recognised in income on derivative (US$)	
Credit		**31 December 2013**	**31 December 2012**
Credit default swap	Net change in unrealised gain/(loss) on investments, derivatives and forward foreign currency contracts	503,113	(832,119)
Credit default swap	Net realised (loss) on investments, derivatives and forward foreign currency contracts	(471,333)	(595,000)
Foreign Currency			
Forward foreign currency contracts	Net change in unrealised gain/(loss) on investments, derivatives and forward foreign currency contracts	505,890	(281,633)
Forward foreign currency contracts	Net realised (loss) on investments, derivatives and forward foreign currency contracts	(269,494)	
Total		**268,176**	**(1,708,752)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The following table presents, as of 31 December 2013 and 31 December 2012, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible under U.S. GAAP. Derivatives assets and liabilities have been netted with respect to those assets as to which the netting requirements have been met.

Offsetting of derivative assets	Gross amounts of recognised assets	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
31 December 2013			
Forward Foreign Currency Contracts	528,414	(304,157)	224,257
31 December 2012			
Credit Default Swap	239,676	-	239,676

Offsetting of derivative assets	Gross amounts of recognised liabilities	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
31 December 2013			
Forward Foreign Currency Contracts	304,157	(304,157)	-
Credit Default Swap	33,864	-	33,864
	338,021	**(304,157)**	**33,864**
31 December 2012			
Forward Foreign Currency Contracts	281,633	-	281,633

NOTE 6 – UNFUNDED LOAN COMMITMENTS

As at 31 December 2013, the Company has no unfunded loan commitments.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is defined by ASC 825, Financial Instruments, as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable terms. Fair value estimates are made at a discrete point in time, based on relevant market data, information about the financial instruments, and other factors.

Fair value was determined using available market information and appropriate valuation methodologies. Estimates of fair value of financial instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgement.

Accordingly, fair values are not necessarily indicative of the amounts realised on disposition of financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

The following estimates and assumptions were used at 31 December 2013 and 31 December 2012 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents - The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- Receivables for investments sold - The carrying value reasonably approximates fair value as they reflect the value at which investments are sold to a willing buyer and settlement period on their balances is short term.
- Interest receivables - The carrying value reasonably approximates fair value.
- Other receivables and prepayments - The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.
- In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.
- Payables for investments purchased - The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.
- Payables to Investment Manager and affiliates - The carrying value reasonably approximates fair value.
- Accrued expenses and other liabilities - The carrying value reasonably approximates fair value.
- Forward foreign currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.

The Company categorises its investments as follows based on the inputs used in valuation techniques:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly; and

Level 3: Significant unobservable inputs

Further to using the above inputs in investment valuations, the Company employs the net asset valuation policy approved by the board of directors that is consistent with ASC 820-10. The sources of inputs are evaluated in line with the Company's valuation policy. This includes any markets in which the Company's investments are trading, or any markets in which securities with similar attributes are trading, in determining fair value. The Company's valuation policy considers the fact that unobservable inputs must be used to determine the fair value of investments where there is not a readily available market valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below details the Company's investments that were accounted for at fair value as at 31 December 2013.

Investments at Fair Value as at 31 December 2013

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	105,755,221	65,636,251	171,391,472
Commercial Mortgage	-	-	13,183,956	13,183,956
Limited Partnership Units	-	-	51,996,494	51,996,494
Private Equity	-	43,085,075	58,028,628	101,113,703
Private Equity: Real Estate Development	-	-	45,067,301	45,067,301
Private Placement Bonds	-	-	7,855,963	7,855,963
Fixed Rate Bonds	-	23,428,780	-	23,428,780
U.S. Government and Agency Obligations	-	56,997,146	-	56,997,146
Public Equity	22,481,550	-	-	22,481,550
Public Note	-	16,132,324	-	16,132,324
Trade Claim	-	-	10,601,910	10,601,910
Ownership in Senior Living Facility	-	-	12,203,418	12,203,418
Private Note	-	-	21,089,387	21,089,387
Total investments that are accounted for at fair value	**$22,481,550**	**$245,398,546**	**$285,663,308**	**$553,543,404**
Forward contracts	-	224,257	-	224,257
Credit Default Swap	-	(33,864)	-	(33,864)

Investments at Fair Value as at 31 December 2012

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	126,707,876	30,234,768	156,942,644
Private Equity	-	24,028,771	48,088,830	72,117,601
Private Equity: Real Estate Development	-	-	67,168,150	67,168,150
Private Placement Bonds	-	-	9,854,912	9,854,912
Limited Partnership Units	-	-	50,093,828	50,093,828
Fixed Rate Bonds	-	51,317,701	1,486,368	52,804,069
U.S. Government and Agency Obligations	-	41,998,596	-	41,998,596
Public Equity	905,548	4,875,196	-	5,780,744
Trade Claim	-	-	11,233,247	11,233,247
Ownership in Senior Living Facility	-	-	10,098,587	10,098,587
Asset Backed Securities	-	-	660,791	660,791
Bankruptcy Claim	-	-	686,341	686,341
Total investments that are accounted for at fair value	**$905,548**	**$248,928,140**	**$229,605,822**	**$479,439,510**
Forward contracts	-	(281,633)	-	(281,633)
Credit Default Swap	-	239,676	-	239,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2013. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

Category	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range	Weighted Average
Bank Debt Investments: Aircraft	5,359,500	Broker Pricing	Aircraft Liquidation Value	$4MM - $35MM Per Aircraft	$20MM Per Aircraft
Bank Debt Investments: Commercial Mortgage	13,183,956	Third Party Appraisal Market Comp Analysis	Third Party Appraisal Market Comp Analysis	8% - 14% and $53 - $264 per square foot	12% and approx. $74 per square foot
Bank Debt Investments: Land	20,616,936	Broker Pricing	Comparable sales	1.5MM - 2.00MM per acre	1.75MM per acre
Bank Debt Investments: Leisure	20,570,313	Broker Pricing	Sale of Company	Implied Enterprise Value of $342MM	N/A
Bank Debt Investments: Other	303,726	Broker Pricing	EBITDA Multiple	5.0x	N/A
Bank Debt Investments: Shipping	11,894,150	Broker Pricing	EBITDA Multiple or Fleet Appraisal	9X for EBITDA Multiple, Fleet Valued at 125% of loan	N/A
Bank Debt Investments: Utilities	5,760,170	Broker Pricing	EBITDA Multiple or $/kW	7.0Xx for EBITDA Multiple, 575 $/kW	N/A
Limited Partnership Units	51,996,494	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	0%-30% Discount of Third Party Valuation	15% discount to Third Party Valuations
Ownership in Senior Living Facility	12,203,418	Discounted Cash Flow (DCF)	Third Party Appraisal	9.75%	N/A
Private Equity: Commercial Mortgage	23,075,000	Broker Pricing	Price to Book Value	$350-450 per square foot	$400
Private Equity: Building and Development	3,350,568	Broker Pricing	Price to Book Value	1.50x - 2.50x	1.69x
Private Equity: Containers and Packaging	11,964,162	Broker Pricing	EBITDA Multiple	4.75 - 6x	5.82x
Private Equity: Financial Intermediaries	1,574,287	Broker Pricing	Purchase Offer	$26 per share	N/A
Private Equity: Real Estate Development	45,067,302	Discounted Cash Flow	Third Party Appraisal Market Comp Analysis	9%-11% and $200 - $500 per square foot	10% and approx. $345 per square foot
Private Equity: Utilities	19,196,066	Broker Pricing	$/kW multiple	400-465 $/kW	443 $/kW
Private Note: Financial Intermediaries	21,089,387	Broker Pricing	Expected Recovery	16-33 Cents on the Dollar	23 Cents on the Dollar
Private Placement Bond	7,855,963	Broker Pricing	EBITDA Multiple	5X	N/A
Trade Claim: Surface Transport	10,601,910	Broker Pricing	Discount Rate & Weighted Average Life	20% discount rate and 5.83 WAL	N/A
Total	**285,663,308**				

Changes in any of the above inputs may positively or adversely impact the fair value of the relevant investments.

Level 3 assets are valued using single bid-side broker quotes or by good faith methods of the manager. For single broker quotes, the manager uses unobservable inputs to assess the reasonableness of the broker quote. For good faith valuations, the manager directly uses unobservable inputs to produce valuations. The significant unobservable inputs used in Level 3 assets are outlined in the table above. These inputs vary by asset class. For example, real estate asset valuations may utilise discounted cash flow models using an average value per square foot and appropriate discount rate. Energy assets may be based primarily on average value per kilowatt. Other assets may be based on analysis of the liquidation of the underlying assets. In general, increases/(decreases) to per unit valuation inputs such as value per square foot, kilowatt, etc. will result in increases/(decreases) to investment value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Similarly, increases/ (decreases) of asset realisation inputs (liquidation estimate, letter of intent, etc.) will also result in increases/ (decreases) in value. In situations where discounted cash flow models are used, increasing/ (decreasing) discount rates or increasing/ (decreasing) weighted average life, in isolation, will generally result in decreased/ (increased) valuations.

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2012.

Category	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range	Weighted Average
Asset Backed securities	660,791	Broker Pricing	Aircraft Liquidation Value	$1.50MM - $6.00MM Per Aircraft	$3.5MM Per Aircraft
Bank Debt Investments: Commercial Mortgage	20,902	Broker Pricing	Letter of Intent	Sale at 89% of outstanding principal	N/A
Bank Debt Investments: Land	20,595,749	Broker Pricing	Comparable sales	1.5MM - 2.00MM per acre	1.75MM per acre
Bank Debt Investments: Utilities	897,847	Broker Pricing	$/kW multiple	573 $/k W	N/A
Bank Debt Investments: Other	8,720,270	Broker Pricing	EBITDA Multiple	4-6X	5.4X
Bankruptcy claim: Broadcasting	131,941	Discounted Cash Flow	Reorganization Recovery Estimate	0.092 cents of recovery on bank debt claim	N/A
Bankruptcy claim: Financial Intermediaries	554,400	Broker Pricing	Claim Liquidation Value	1.75% of Claim Value	N/A
Fixed Rate bonds	1,486,368	Broker Pricing	EBITDA Multiple	7x	N/A
Limited Partnership Units	50,093,828	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	0-98% of Third Party Valuation	26% discount to Third Party Valuations
Ownership in Senior Living Facility	10,098,587	Discounted Cash Flow (DCF)	Third Party Appraisal	12.0%	N/A
Private Equity: Building and Development	2,230,714	Broker Pricing	Price to Book	1.69X	N/A
Private Equity: Containers and Packaging	9,223,086	Broker Pricing	EBITDA Multiple	7x	N/A
Private Equity: Real Estate Development	67,168,150	Discounted Cash Flow	Third Party Appraisal Market Comp Analysis	9%-11% $200 - $500 per square foot	10% approx. $375 per square foot
Private Equity: REITs/REOCs	17,893,500	Broker Pricing	Portfolio yield on underlying properties	6.5% - 8.5%	7.5%
Private Equity: Utilities	18,741,530	Broker Pricing	$/kW multiple	400-650 $/k W	443.20 $/k W
Private Placement Bond	9,854,912	Broker Pricing	EBITDA Multiple	5X	N/A
Trade Claim: Surface Transport	11,233,247	Broker Pricing	Discount Rate & Weighted Average Life	20% discount rate and 6.33 WAL	N/A
Total	**229,605,822**				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following is a reconciliation of opening and closing balances of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim	Private Note
Balance, 31 December 2012	$ 30,234,768	$ 48,088,830	$ 67,168,150	$ 9,854,912	$ 50,093,828	$ 11,233,247	$ -
Purchases	42,380,337	30,710,009	-	-	-	-	21,464,317
Sales and distributions	(13,005,908)	(8,593,673)	(26,189,673)	-	(1,714,286)	-	-
Realised gain/(loss) on sale of investments	824,789	(79,464)	-	-	1,496,561	-	-
Unrealised gain/(loss) on investments	5,202,265	10,384,476	4,088,824	(1,998,949)	2,120,391	(631,337)	(374,930)
Transfers into or (out of) level 3	-	(22,481,550)[i]	-	-		-	-
Balance, 31 December 2013	**$ 65,636,251**	**$ 58,028,628**	**$ 45,067,301**	**$ 7,855,963**	**$ 51,996,494**	**$ 10,601,910**	**$ 21,089,387**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2013	**$ 5,219,731**	**$ 9,040,425**	**$ 4,088,825**	**$ (1,998,949)**	**$ 2,120,390**	**$ (631,337)**	**$ (374,930)**

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Commercial Mortgage	Total
Balance, 31 December 2012	$ 686,341	$ 10,098,587	$ 1,486,368	$ 660,791	$ -	229,605,822
Purchases	239,586	410,053	166,069	17	25,710,269	121,080,657
Sales and distributions	(371,518)	-	(3,413,567)	(520,499)	(13,124,929)	(66,934,053)
Realised gain/(loss) on sale of investments	-	-	-	(783,362)	598,616	2,057,140
Unrealised gain/(loss) on investments	(554,409)	1,694,778	1,761,130	643,053	-	22,335,292
Transfers into or (out of) level 3	-	-	-	-	-	(22,481,550)
Balance, 31 December 2013	**$ -**	**$ 12,203,418**	**$ -**	**$ -**	**$ 13,183,956**	**285,663,308**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2013	**$ -**	**$ 1,694,779**	**$ -**	**$ -**	**$ -**	**19,158,934**

The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

i) Transferred to level 1 from level 3 in the year due to public offering of equity security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

			For the year ended 31 December 2012			
	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim
Balance, 31 December 2011	$ 40,962,806	$ 39,026,844	$ -	$ -	$ 42,270,649	$ 10,441,238
Purchases	9,505,480	41,856,820	11,552,447	9,815,969	-	1,082,331
Sales and distributions	(4,035,226)	(37,241,519)	-	-	(2,965,676)	-
Restructured assets	(53,289,641)	-	53,289,641	-	-	-
Non-cash gain on restructuring	15,299,517	-	-	-	-	-
Realised gains on sale of investments	162,355	6,305,443	-	-	1,611,203	-
Unrealised (loss)/gain on investments	1,033,727	(1,858,758)	2,326,062	38,943	9,177,652	(290,322)
Transfers into or (out of) level 3	20,595,750[i]	-	-	-	-	-
Balance, 31 December 2012	**$ 30,234,768**	**$ 48,088,830**	**$ 67,168,150**	**$ 9,854,912**	**$ 50,093,828**	**$ 11,233,247**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	**$ 1,943,529**	**$ (764,099)**	**$ 2,326,062**	**$ 38,943**	**$ 9,285,790**	**$ (290,322)**

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Balance, 31 December 2011	$ 265,351	$ 8,900,000	$ 6,614,411	$ 1,112,529	$ 149,593,828
Purchases	171,530	355,831	1,037,265	-	75,377,673
Sales and distributions	(271,571)	-	-	(524,176)	(45,038,168)
Restructured assets	-	-	-	-	-
Non-cash gain on restructuring	-	-	-	-	15,299,517
Realised gains on sale of investments	6,220	-	-	257,829	8,343,050
Unrealised (loss)/gain on investments	514,811	842,756	(3,809,135)	(185,391)	7,790,345
Transfers into or (out of) level 3	-	-	(2,356,173) i	-	18,239,577
Balance, 31 December 2012	**$ 686,341**	**$ 10,098,587**	**$ 1,486,368**	**$ 660,791**	**$ 229,065,822**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	**$ 538,764**	**$ 842,756**	**$ (1,534,565)**	**$ (185,391)**	**$ 12,201,467**

The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

i) Transferred to level 2 from level 3 in the year due to level 2 pricing sources becoming available.

There were no transfers between level 1 and level 2 during the year ended 31 December 2013 and the year ended 31 December 2012.

NOTE 8 – RISKS

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager attempts to monitor and manage these risks on an ongoing basis. While the Investment Manager generally seeks to hedge certain portfolio risks, the Investment Manager is not required and may not attempt to hedge all market or other risks in the portfolio, and it may decide to only partially hedge certain risks. The Company does not have any material exposure to currency risk as at 31 December 2013.

Market Risk

Market risk is the potential for changes in the value of investments. Categories of market risk include, but are not limited to interest rates. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads. Details of the Company's investment portfolio at 31 December 2013 are disclosed in the condensed consolidated schedule of investments. Each separate investment exceeding 5% of net assets is disclosed separately.

Credit Risk

The Company may invest in a range of corporate and other bonds and other credit sensitive securities. Until such investments are sold or are paid in full at maturity, the Company is exposed to credit risk relating to whether the issuer will meet its obligations when the securities come due. Distressed debt securities by nature are securities in companies which are in default or are heading into default and will expose the Company to a higher than normal amount of credit risk.

The cash and other liquid securities held can subject the Company to a concentration of credit risk. The Investment Manager attempts to mitigate the credit risk that exists with cash deposits and other liquid securities by regularly monitoring the credit ratings of such financial institutions and at times attempting to hold a significant amount of the Company's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

Credit risk is the risk of losses due to the failure of counterparty to perform according to the terms of a contract. Since the Company does not clear all of its own securities transactions, it has established accounts with other financial institutions for this purpose. This can, and often does, result in a concentration of credit risk with one or more of these institutions. Such risk, however, is partially mitigated by the obligation of certain of these financial institutions to comply with rules and regulations governing financial institutions in countries where they conduct their business activities.

These rules and regulations generally require maintenance of minimum net capital and may also require segregation of customers' funds and financial instruments from the holdings of the financial institutions themselves. The Company actively reviews and attempts to manage exposures to various financial institutions in an attempt to mitigate these risks.

The credit risk relating to derivatives is detailed in note 5.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due.

Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company's ongoing requirements as these are budgeted for.

Other Risks

Legal, tax and regulatory changes could occur during the term of the Company that may adversely affect the Company. The regulatory environment for alternative investment vehicles is evolving, and changes in the regulation of alternative investment vehicles may adversely affect the value of investments held by the Company or the ability of the Company to pursue its trading strategies. The effect of any future regulatory change on the Company could be substantial and adverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – SHARE CAPITAL

The original investment period expired on 10 June 2013 and a proposal was made to Ordinary Shareholders to extend the investment period by 21 months to 31 March 2015. A vote was held at a class meeting of Shareholders on 8 April 2013 where the majority of shareholders voted in favour of the proposed extension.

Following this meeting and with the Ordinary Shareholders approval of the extension, a new Extended Life Share class was created (the "Extended Life Shares") which consists of 72% of initial Investors who elected to convert their Ordinary Shares to Extended Life Shares. The rest of investors remain invested on the basis of the current investment period.

The Extended Life Share class are subject to a new capital return policy pursuant to which the Company will seek to return to the holders of Extended Life Shares all capital profits arising from the exit of any assets attributable to the Extended Life Shares (net of any amount that the directors estimate may become payable as performance fee).

The Company's share capital consists of:

10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and,
an unlimited number of shares of no par value which may upon issue be designated as Ordinary Shares (Ordinary Share and Extended Life Share Classes) and or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

The Ordinary and Extended Life Share Classes (and not the Class A Shares) carry rights to receive all income and capital returns distributed by the Company.

The issued share capital of the Company is denominated in U.S. Dollars and consists of Ordinary Shares (which carry limited voting rights) and Class A Shares (which carry extensive voting rights). The Class A Shares are held by the Trustee pursuant to a purpose trust established under Guernsey law. Under the terms of the Trust Deed, the Trustee holds the Class A Shares for the purpose of exercising the rights conferred by such shares in the manner it considers, in its absolute discretion, to be in the best interests of the Ordinary Shareholders as a whole.

As at the 31 December 2013, the Company had the following shares in issue:

	31 December 2013	31 December 2012
Issued and fully paid up:		
Class A Shares	2	2
Extended Life Share Class of no par value	352,088,814	-
Ordinary shares of no par value	124,160,471	444,270,312

Reconciliation of shares in issue in each class:

	Extended Life Shares	Ordinary Shares	Total
Balance as at 31 December 2012	-	444,270,312	444,270,312
Shares issued during the period	31,978,973	-	31,978,973
Transfer of shares between classes	320,109,841	(320,109,841)	-
Balance as at 31 December 2013	352,088,814	124,160,471	476,249,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – FINANCIAL HIGHLIGHTS

	Extended Life Shares	Ordinary Share Class	Ordinary Share Class
	12 April 2013 to 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2012
Opening Balance	1.1353	1.0765	0.9672
Per share operating performance			
Proceeds from Extended Life Share Class tap programme	0.0021	-	-
Income/(loss) from investment operations (i)			
Net investment (loss)/income	(0.0006)	(0.0031)	0.0085
Net realised and unrealised gain from investments	0.0850	0.1455	0.1008
Total increase from operations	**0.0844**	**0.1424**	**0.1093**
Net asset value per share at the end of the year	**$1.2218**	**$1.2189**	**$1.0765**

	Extended Life Shares	Ordinary Share Class	Ordinary Share Class
Total return* (ii)	12 April 2013 to 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2012
Total return before performance fees	7.62%	14.31%	11.30%
Performance fees	-	(1.08)%	-
Total return after performance fees	**7.62%**	**13.23%**	**11.30%**
Ratios to average net assets (ii)			
Net investment income after performance fee	0.19%	(0.26)%	0.33%
Expenses before performance fee	(2.42)%	(2.08)%	(2.18)%
Performance fee	-	(0.99)%	-
Expenses	(2.42)%	(3.07)%	(2.18)%

(i) Average shares outstanding were used for calculation.
(ii) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.

*Total return is calculated for the Ordinary and Extended Life Share Class only, which is calculated, based on movement in the net asset value, and does not reflect any movement in the market value. An Ordinary shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. Subscription shares are not presented as they are not profit participating shares.

In preparing the consolidated financial statements, the Investment Manager carried out an assessment of deferred tax expense and made an accrual as of 31 December 2013. This accrual also had an impact on the performance fee calculation for the Ordinary Share Class. The impact of this valuation adjustment on the NAV per Ordinary Share and Extended Life Share is detailed below:

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)
Initial Net Assets at 31 December 2013	151,344,261	1.2189	431,617,689	1.2259
Deferred Tax Adjustment	(558,574)	(0.0045)	(1,440,110)	(0.0041)
Performance Fee Adjustment	558,574	0.0045	-	
Net Assets as at 31 December 2013 per consolidated financial statements	151,344,261	1.2189	430,177,579	1.2218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - SUBSEQUENT EVENTS

On 29 January 2014 (the "Redemption Date"), the Company made its maiden capital distributions for the Ordinary Share Class ("NBDD") and the Extended Life Share Class ("NBDX"). The Company returned a total (before expenses) of $48,885,179 to shareholders:

- $28,000,000 in relation to the NBDD share class (equivalent to approximately $0.2255 per NBDD share); and
- $20,885,179 in relation to the NBDX share class (equivalent to approximately $0.0593 per NBDX share).

On the Redemption Date the existing ISIN number GG00B64GWK95 for the NBDD shares and the existing ISIN number GG00B9CBV553 for the NBDX shares were disabled in CREST and expired. The new ISIN number for the NBDD shares is GG00BJ05NQ40 and the new ISIN number for the NBDX shares is GG00BJ05NR56 in respect of the remaining shares which have not been redeemed. The new ISIN numbers were enabled and available for transactions from and including 30 January 2014.

New Global Shares Class

On 27 February 2014, the Company raised gross proceeds of approximately £110 million through the issue of 110,785,785 New Global Shares. On 4 March 2014, 109,519,377 New Global Shares were admitted to trading on the SFM and the official list of the Channel Islands Securities Exchange. Following the admission, the Company has 101,252,892 Ordinary Shares; 335,188,578 Extended Life Shares; and 110,785,785 New Global Shares in issue.

The New Global Share Class will be similar to the existing share classes save for a broader geographic focus. Key features of the New Global Shares are set out below:

- The New Global Shares will be subject to an investment period commencing on the date of Admission and ending on 31 March 2017 following which the New Global Share Portfolio will be placed into runoff.
- Following the end of the Investment Period all capital and profits from realisations will be returned to shareholders.
- The New Global Share Class will have a greater focus on Europe where the Investment Manager is seeing a number of attractive opportunities. The New Global Share Class will have a minimum exposure of 80 per cent. to Europe, North America and Australia.
- Cash fully deployed in 6 to 9 months with no fees charged on cash until the proceeds of the Issue are 85 per cent. invested.
- The New Global Share Class will be the subject of a share buyback programme in order to seek to restrict any discount to less than 5 per cent. in normal market conditions, subject to available cash resources.
- The New Global Share Class will be denominated in Sterling.

The creation of a New Global Share Class is not expected to impact the structure or strategy of the existing Ordinary Share Class and Extended Life Share Class.

The Company has resolved to return a total (before expenses) of $15,000,000 to shareholders by way of a capital distribution for NBDD. The redemption date is 2 May 2014 and the payment of redemption monies is 16 May 2014.

There have been no other subsequent events since 31 December 2013 to the date these financial statements were approved by the directors that requires recognition or disclosure in the consolidated financial statements.

DIRECTORS, MANAGERS AND ADVISERS

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Robin Monro-Davies (*Chairman*)
Talmai Morgan
John Hallam
Christopher Sherwell
Michael Holmberg
Patrick Flynn

All c/o the Company's registered office.

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