NEUBERGER | BERMAN

ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS

NB Distressed Debt Investment Fund Limited

YEAR ENDED 31 DECEMBER 2016

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

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FEATURES

NB Distressed Debt Investment Fund Limited (the "Company")

The Company is a closed-ended investment company incorporated and registered in Guernsey on 20 April 2010 with registration number 51774. The Company is governed under the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the "Law"), and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission ("GFSC"). It is a non-cellular company limited by shares and has been declared by the GFSC to be a registered closed-ended collective investment scheme. The Company trades on the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE").

The Company was traded on the Official List of The International Stock Exchange ("TISE") (formerly The Channel Islands Securities Exchange ("CISE")) until it delisted on 30 August 2016.

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

Alternative Investment Fund Manager ("AIFM") and Manager

Investment management services are provided to the Company by Neuberger Berman Investment Advisers LLC (the "AIFM") and Neuberger Berman Europe Limited (the "Manager"), collectively the "Investment Manager". The AIFM is responsible for risk management and discretionary management of the Company's portfolio and the Manager provides, amongst other things, certain administrative services to the Company.

Capital Structure

At 31 December 2016 the Company's share capital comprised the following*:

Ordinary Share Class ("NBDD")

35,218,587 Ordinary Shares (of which Nil were held in treasury).

Extended Life Share Class ("NBDX")

215,873,854 Extended Life Shares (of which Nil were held in treasury).

New Global Share Class ("NBDG")

110,785,785 New Global Shares (of which 10,210,000 were held in treasury).

For the purposes of efficient portfolio management, the Company has established a number of wholly-owned subsidiaries domiciled in the U.S., the Cayman Islands and Luxembourg. All references to the Company in this document refer to the Company together with its wholly-owned subsidiaries.

Non-Mainstream Pooled Investments

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment company, which if it were domiciled in the United Kingdom, would qualify as an investment trust.

Company Numbers

Ordinary Shares

LSE ISIN code: GG00BYT2S112
Bloomberg code: NBDD:LN

Extended Life Shares

LSE ISIN code: GG00BZ001B27
Bloomberg code: NBDX:LN

New Global Shares

LSE ISIN code: GG00BH7JH183
Bloomberg code: NBDG:LN

Legal Entity Identifier

YRFO7WKOU3V511VFX790

Website

www.nbddif.com

*In addition the Company has two Class A Shares in issue. Further information is provided in the Capital Structure section of this report on page 2.

CAPITAL STRUCTURE

The Company's share capital consists of three different share classes: the Ordinary Share Class; the Extended Life Share Class; and the New Global Share Class. These share classes each have different capital return profiles and, in some instances, different geographical remits. In addition the Company has two Class A Shares in issue. Each is considered in turn below.

Ordinary Share Class ("NBDD")

NBDD was established at the Company's launch on 10 June 2010 with a remit to invest in the global distressed market with a focus on the North American distressed market. The investment period of NBDD expired on 10 June 2013 and the portfolio is currently in the harvest period.

Voting rights:	Yes
Denomination:	U.S. Dollars
Hedging:	Portfolio hedged to U.S. Dollars.
Authorised share capital:	Unlimited
Par value:	Nil

Extended Life Share Class ("NBDX")

A vote was held at a class meeting of NBDD shareholders on 8 April 2013 where the majority of shareholders voted in favour of a proposed extension.

Following this meeting and with the NBDD shareholders' approval of the extension, on 9 April 2013 a new Class, NBDX, was created and the NBDX Shares were issued to 72% of initial NBDD investors who elected to convert their NBDD Shares to NBDX Shares. NBDX has a remit to invest in the global distressed market with a focus on the North American distressed market.

The NBDX assets were placed into the harvest period following expiry of the investment period on 31 March 2015.

Voting rights:	Yes
Denomination:	U.S. Dollars
Hedging:	Portfolio hedged to U.S. Dollars
Authorised share capital:	Unlimited
Par value:	Nil

CAPITAL STRUCTURE (CONTINUED)

New Global Share Class ("NBDG")

NBDG was created on 4 March 2014 and has the remit to invest in the global distressed market with a focus on Europe and North America.

The investment period of NBDG expired on 31 March 2017 and the portfolio is currently in the harvest period.

Voting rights:	Yes
Denomination:	Pound Sterling
Hedging:	Unhedged portfolio
Authorised share capital:	Unlimited
Par value:	Nil

Class A Shares

The Class A Shares are held by a 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 Company's shareholders as a whole.

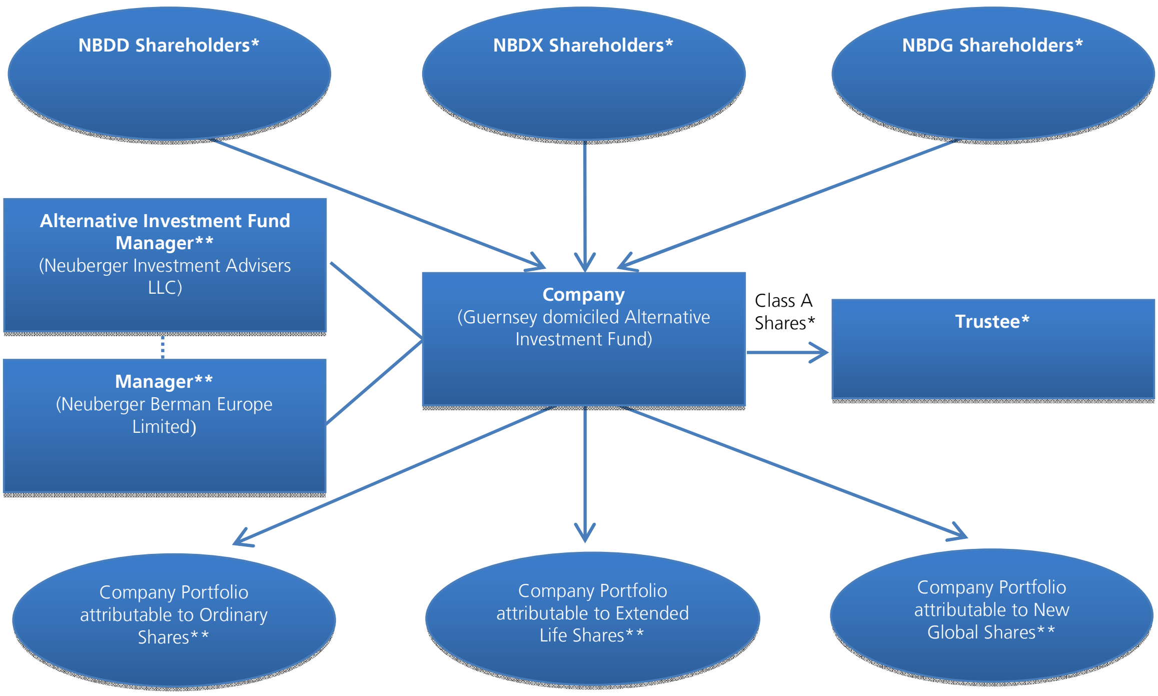
Voting rights:	No
Denomination:	U.S. Dollars
Authorised share capital:	10,000 Class A Shares
Par value:	U.S. Dollar $1

BUSINESS MODEL

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 chart below sets out the ownership, organisational and investment structure of the Company.



* Further information on the Company's capital structure can be found on page 2.

** Further information on the Company's investment management arrangements can be found on page 31.

Investment Objective

The Company's primary objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic exposure to 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 Manager seeks to identify mis-priced 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.

BUSINESS MODEL (CONTINUED)

Investment Policy (continued)

The Ordinary Shares, Extended Life Shares and New Global Shares (collectively the "Portfolios") are biased toward investing in stressed and distressed debt securities secured by hard asset collateral. When investing on behalf of the Company, the Investment Manager focuses on companies with significant tangible assets which they believe are likely to maintain long-term value through a restructuring. The Company avoids "asset-light" companies, as their value tends to be degraded in distressed scenarios. The Investment Manager also aims 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.

What is Distressed Debt?

Distressed debt is generally referred to as the financial obligations of a company that is either already in default, under bankruptcy protection, or in distress and heading toward default. Distressed debt often trades at a significant discount to its par value and may present investors with compelling opportunities to profit if there is a recovery in the business. Typically, when a company experiences financial distress or files for bankruptcy protection, the original debt holders often sell their debt securities or claims to a new set of investors at a discount. These investors often try to influence the process in which the issuer restructures its obligations or implements a plan to turn around its operations. These investors may also inject new capital into a distressed company in the form of debt or equity in order to prevent the company from going into liquidation or to aid the company in carrying out a restructuring plan. Investors in distressed debt typically must not only assess the issuer's ability to improve its operations but also whether the restructuring process is likely to result in a meaningful recovery to the investors' class of claims.

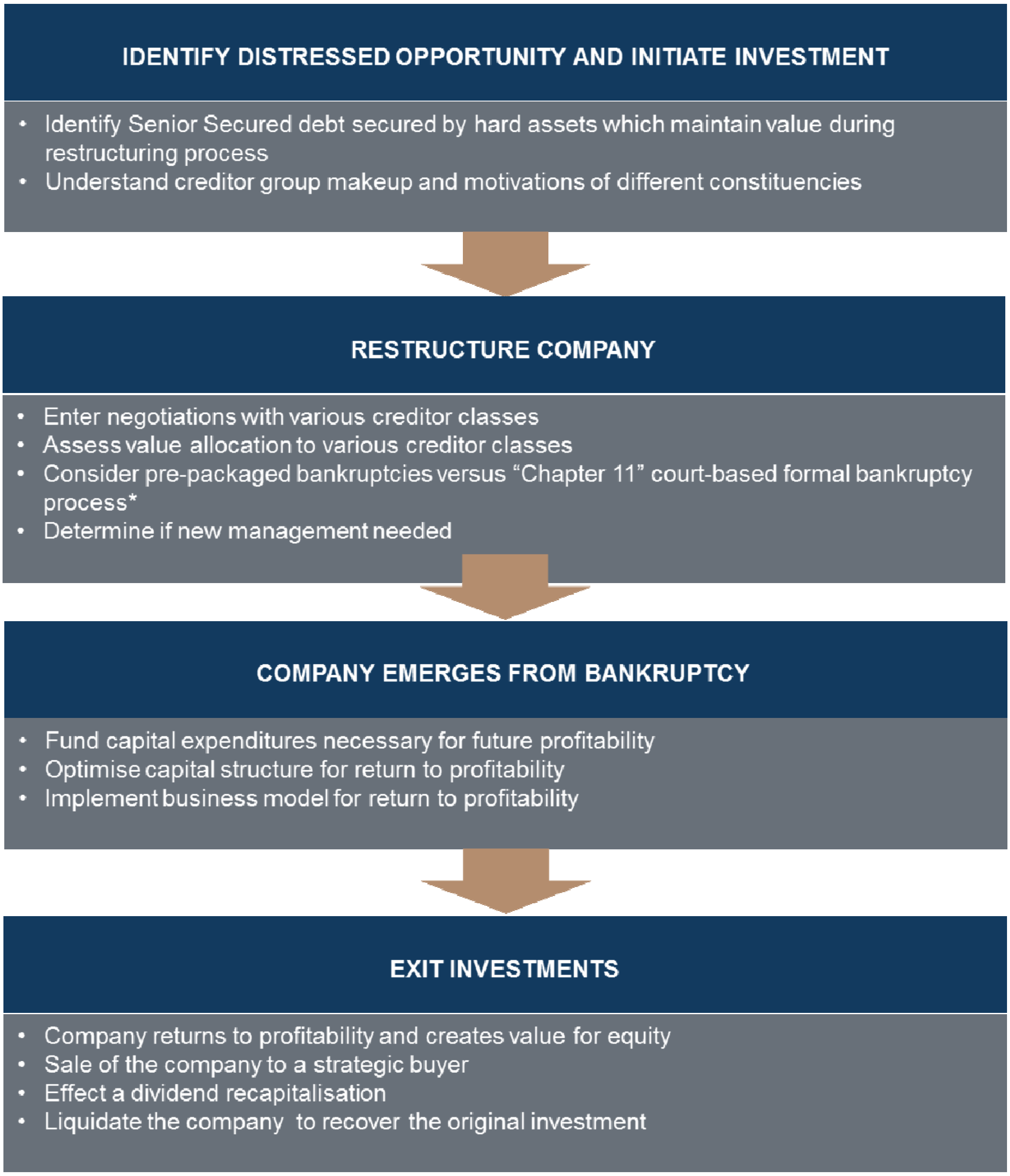
Distressed debt can be performing or non-performing. Performing debt is defined as debt that maintains its contractual obligations relating to interest and/or principal payments. This can be debt that has yet to default or even debt that is under bankruptcy protection. Non-performing debt is defined as debt that does not continue to meet its financial obligations.

There are a number of different strategies related to investing in distressed debt. These strategies differ mainly in the types of securities that investors purchase, the life of a fund and its investment period, and a fund's expected returns. Four strategic categories include: (i) senior/senior secured debt strategies; (ii) control/private equity strategies; (iii) junior debt strategies; and (iv) capital structure arbitrage strategies. During the investment periods of the Portfolios, the Investment Manager has focused on implementing a senior/senior secured debt strategy in which it invested primarily in secured debt with strong collateral value and structural protection. The Investment Manager has invested in control positions and non-control positions with the objective of acquiring a blocking position on behalf of the Portfolios.

Investing in secured debt at the top of the capital structure is, in the opinion of the Investment Manager, towards the more conservative end of the distressed debt strategy risk spectrum due to the support from the value of the underlying collateral. Additionally, secured debt holders often have the ability to foreclose on the assets securing their claim and to drive the restructuring process. The typical holding period for investments in this strategy is six months to three years.

BUSINESS MODEL (CONTINUED)

Typical Life Cycle of a Distressed Debt Investment



* Negotiations can take place within bankruptcy or creditors can negotiate with the company to agree on a pre-packaged bankruptcy whereby the plan of reorganisation is negotiated before the company files for bankruptcy protection (this has become more common).

Further information on the Company's investment process can be found in the Company's most recent prospectuses which are available on the Company's website at www.nbddif.com under the "Investor Information" tab.

BUSINESS MODEL (CONTINUED)

Distributions to Shareholders

Income

In order to benefit from an exception to the United Kingdom offshore fund rules, all income from the Company's Portfolio (after deduction of reasonable expenses) must be paid to investors. To meet this requirement the Company will pay out by way of dividend, in respect of each share class, all net income received on investments of the Company attributable to such share class, as appropriate.

It is not anticipated that income from the Portfolios will be material and therefore any income distributions by way of dividend will be on an ad-hoc basis. The exact amount of such dividend in respect of any class of shares will be variable depending on the amounts of income received by the Company attributable to such share class and will only be paid in accordance with applicable law at the relevant time, including the Companies (Guernsey) Law, 2008 (as amended) (the "Law") and, in particular, will be subject to the Company passing the solvency test contained in the Law at the relevant time. The amount of dividends paid in respect of one class of shares may be different from that of another class.

Capital

Following the expiry of the Portfolios' investment periods, the capital proceeds attributable to the corresponding share class as determined by the Directors in accordance with the articles of incorporation (the "Articles"), will, at such times and in such amounts as the Directors shall in their absolute discretion determine, be distributed to shareholders of that class pro rata to their respective holdings of the relevant shares.

Any capital return will only be made by the Company in accordance with the Articles of the Company and applicable law at the relevant time, including the Law (and, in particular, will be subject to the Company passing the solvency test contained in the Law at the relevant time).

Towards the end of the Portfolios' respective harvest periods, a residual amount will be retained in accordance with regulatory requirements until such time that the relevant share class is liquidated.

Gearing

The Company will not employ leverage or gearing for investment purposes. The Company may, from time to time, use borrowings for share buybacks 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.

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 Portfolios. In addition from time to time the Company may also invest in such derivatives for investment purposes.

FINANCIAL HIGHLIGHTS

At 31 December 2016 (US$ in millions, except per share data)	Ordinary Share Class (NBDD)	Extended Life Share Class (NBDX)	New Global Share Class (NBDG)	Aggregated
Net Asset Value	37.3	216.6	117.0	370.9
Net Asset Value per Share	$1.0583	$1.0035	$1.1637	-
Share Price	$1.0250	$0.9425	$0.9823	-
Net Asset Value per Share	-	-	£0.9417	-
Share Price	-	-	£0.7950	-
Premium /(Discount) to Net Asset Value per Share	(3.15%)	(6.08%)	(15.59%)	
Investments	29.2	194.2	107.3	330.7
- Portfolio of Distressed Investments	29.2	186.32	107.3	322.7
- Temporary Investments	-	8.0	-	8.0
Cash and Cash Equivalents	7.0	17.5	14.1	38.6
Total Expense Ratio ("TER")*	2.10%	2.22%	2.55%	-
Ongoing Charges**	1.99%	2.02%	2.13%	

At 31 December 2015 (US$ in millions, except per share data)	Ordinary Share Class (NBDD)	Extended Life Share lass (NBDX)	New Global Share Class (NBDG)	Aggregated
Net Asset Value	54.6	270.8	115.5	440.9
Net Asset Value per Share	$1.1184	$1.0003	$1.0820	-
Share Price	$1.0900	$0.8525	$0.9396	-
Net Asset Value per Share	-	-	£0.7341	-
Share Price	-	-	£0.63375	-
Premium /(Discount) to Net Asset Value per Share	(2.54%)	(14.78%)	(13.16%)	-
Investments	52.5	267.6	100.4	420.5
- Portfolio of Distressed Investments	42.8	239.4	93.1	375.3
- Temporary Investments	9.7	28.2	7.3	45.2
Cash and Cash Equivalents	2.7	3.9	10.6	17.2
Total Expense Ratio ("TER")*	2.02%	2.05%	2.01%	-
Ongoing Charges**	1.88%	1.90%	1.74%	

*The TER represent the Company's management fees and all other operating expenses, as required by US Generally Accepted Accounting Principles, expressed as a percent of average net assets.

**The Ongoing Charges represent the Company's management fees and all other operating expenses, excluding finance costs payable, expressed as a percentage of average net assets and calculated in accordance with guidance issued by the AIC.

Financial Review

At 31 December 2016 the net assets of the Ordinary Shares amounted to $37,271,106 (2015: $54,610,406), those of the Extended Life Shares amounted to $216,628,260 (2015: $270,818,231) and those of the New Global Shares amounted to $117,035,165 (2015: $115,471,327). The NAV Total Return*** for the year was 1.72% (2015: (10.68%)) for Ordinary Shares, 3.64% (2015: (16.00%)) for Extended Life Shares and 29.67% (2015: (17.14%)) for New Global Shares. Further information on the Portfolios' performance can be found in the Investment Manager's Report on pages 12 to 20.

*** NAV return on a bid value to bid value basis, assuming that all income distributions of the Company, paid by way of dividend, were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

FINANCIAL HIGHLIGHTS (CONTINUED)

Summary of Value in Excess of Original Capital Invested

	Ordinary Share Class (NBDD)($)	Extended Life Share Class (NBDX)($)	New Global Share Class (NBDG)(£)
At 31 December 2015			
Original Capital Invested	(124,500,202)	(359,359,794)	(110,785,785)
Total Capital Distributions	93,433,659	90,478,566	-
Total Buybacks	-	2,574,727	2,898,235
NAV	54,610,406	270,818,231	78,344,071
Total of NAV Plus Capital and Income Returned ("Value")	148,044,065	363,871,524	81,242,306
Value in Excess of Original Capital Invested	23,543,863	4,511,730	(29,543,479)
Value as % of Original Capital Invested	119%	101%	73%

	Ordinary Share Class (NBDD)($)	Extended Life Share Class (NBDX)($)	New Global Share Class (NBDG)(£)
At 31 December 2016			
Total Capital Distributions	108,409,530	140,446,351	-
Total Income Distributions*	2,792,833	7,576,080	1,034,875
Total Buybacks	-	5,346,322	7,035,800
NAV	37,271,106	216,628,260	94,715,465
Total of NAV Plus Capital and Income Returned ("Value")	148,473,469	369,997,013	102,786,140
Value in Excess of Original Capital Invested	23,973,267	10,637,219	(7,999,645)
Value as % of Original Capital Invested	119%	103%	93%

*by way of dividend.

Summary of Distributions

2015

(U.S. Dollars in millions)	Ordinary Share Class (NBDD)	Extended Life Share Class (NBDX)	New Global Share Class (NBDG)	Aggregated
Total Capital Distributions	93.4	90.5	-	183.9
Total Income Distributions*	-	-	-	-
Distributions as % of Original Capital	75%	25%	-	-

2016

(U.S. Dollars in millions)	Ordinary Share Class (NBDD)	Extended Life Share Class (NBDX)	New Global Share Class (NBDG)	Aggregated
Total Capital Distributions	108.4	140.4	-	248.8
Total Income Distributions*	2.8	7.6	1.3	11.7
Distributions as % of Original Capital	89%	41%	1%	-

*by way of dividend

A detailed breakdown of the Company's distributions is provided on the Company's website at www.nbddif.com under "Investor Information", "Capital Activity".

CHAIRMAN'S STATEMENT

2016 was an eventful year as notable key events such as the U.K's decision to leave the E.U. ("Brexit") and President Trump's successful election campaign caught both investors and market commentators by surprise. The distressed debt market proved resilient against this macroeconomic backdrop as a result of improving fundamentals and a recovery in the energy and commodity sectors.

Portfolios and Company Performance

On 31 March 2017 NBDG became the last of the existing share classes to enter into its harvest period. The Investment Manager is now focused on maximising the value of the Portfolios and returning capital to shareholders. Shareholders should note that towards the end of the Portfolios' respective harvest periods, a residual amount will be retained in accordance with regulatory requirements until such time that the relevant share class is liquidated.

An inevitable consequence of the harvest periods is a gradual decline in assets of the Company. That said, I would note that the Company's corporate umbrella has an indefinite life and as such it does have the flexibility to add new share classes in the future subject to identifiable demand, market opportunities and shareholder approval.

The performance of the Portfolios is set out in more detail in the Investment Manager's Report but it is appropriate to acknowledge some high-level points here.

NBDD had returned, through capital distributions and an income distribution by way of dividend, $111.3m, or 89% of investors' original capital of $124.5m, by the end of the period. This, when added to the NAV of $37.3m, brings the ratio of total value to original capital invested to 119%. The NAV Total Return was 1.72% during the year.

NBDX had returned, through capital distributions and an income distribution by way of dividend, $148.0m, or 41% of investors' original capital of $359.4m, by the end of the year. This, when added to the NAV of $216.6m and buybacks of $5.3m brings the ratio of total value to original capital invested to 103%. The NAV Total Return was 3.64% during the year. Since the start of this year and up to the latest practicable date prior to writing the Company has continued to support a buyback programme and has repurchased 412,868 NBDX shares at a total cost of $386,890 and at a weighted average discount of 6.8%.

As at 31 December 2016, 92% of NBDG's assets were invested and 94.91% was invested as at the end of the NBDG investment period on 31 March 2017. Although NBDG is yet to return capital to investors through capital distributions, the NBDG Share Class has returned £1.0m through an income distribution by way of dividend and £7.0m through buybacks, which when added to the NAV of £94.7m, brings to 93% the ratio of total value to original capital invested of £110.8m. During the year NBDG's NAV Total Return (which is based on the underlying Pound Sterling results) was 29.67% as a result of improving market conditions and favourable foreign exchange gains. As with NBDX the Board has continued to support a buyback programme for NBDG. Since the start of this year and up to the latest practicable date prior to writing the Company has repurchased 497,000 NBDG shares at a total cost of £395,325 and at a weighted average discount of 16.0%.

Your Board believes that the Investment Manager is continuing to make good progress in restructuring the assets in the Portfolios.

TISE De-listing

As previously mentioned in my half year statement and as outlined in a Circular dated 20 July 2016, the Company de-listed from the TISE with effect from 30 August 2016. The Board took the view that there was no material commercial or regulatory benefit to the Company or its shareholders in retaining its listing on the TISE and that cost savings and other efficiencies could be achieved for the Company as a result of cancelling the listing. This action has no impact on the Company's admission to the SFS.

CHAIRMAN'S STATEMENT (CONTINUED)

Annual General Meeting ("AGM") Results and Board Composition

A number of shareholders expressed concerns, through voting at last year's AGM, about the composition of the Board and Directors' independence. For the reasons outlined in the "Board Independence and Composition" section on pages 42 and 43 of this report the Board maintains the view that both Christopher Sherwell and I are independent Directors of the Company. The Board also believes that Michael Holmberg brings a significant amount of experience and expertise to the Board; however as a non-independent Director, Mr Holmberg does not sit on the Audit Committee, Management Engagement Committee or Remuneration Committee and is not involved in any matters discussed by the Board concerning the evaluation of the performance of the Investment Manager.

In terms of composition, the Board was refreshed in 2015 and early 2016 with the addition of Sarah Evans and Stephen Vakil respectively. As the Portfolios have just entered into their harvest periods and the long-term outlook for the Company (as an umbrella structure) is unknown, the Board believes it is in the best interests of shareholders at this point in time for the Company to retain its current composition.

At last year's AGM the Board also observed notable proxy votes cast against or withheld in connection with the re-appointment of the Company's auditors, KPMG. For the reasons outlined in the "Appointment and Independence" section of the Audit Committee Report on page 53, the Board, on the advice of the Audit Committee, is satisfied with the auditor's independence. I would further note that the Company has voluntarily amended its policy on non-audit services to comply with certain provisions of the Financial Reporting Council's ("FRCs") Ethical Standards for listed entities which provides, amongst other things, that non-audit fees will be subject to a cap of 70% of the average of the audit fees in the last three consecutive financial years. This policy will be applied prospectively from the Company's year ending 31 December 2017 and therefore the threshold will be calculated on a three year look back from the financial year ending 31 December 2020.

Outlook

The Investment Manager's main task now is to maximise the value of the Portfolios as they seek to restructure positions, realise exits and return capital to shareholders. Despite uncertainties regarding future fiscal and monetary policy, global economic growth, and geopolitical issues across the world, there continues to be a viable market for restructured assets as investors search for yield and cash flow. The Investment Manager intends to take advantage of the current market conditions and will look to exit investments through merger and acquisition activity, debt refinancings, and sales of underlying assets to strategic buyers. The Board notes that at 31 March 2017 £4.9m was uninvested in NBDG and the Board is considering its options for returning this capital in the best interests of NBDG shareholders.

Finally, the Board notes that the U.K. formally served notice of its intention to withdraw from the E.U. on 29 March 2017. For the reasons outlined in the Principal Risks and Risk Management section of the Strategic Report on page 27 the Board does not consider that the outcome of Brexit will have a material direct impact on the NBDD or NBDX Portfolios. NBDG is a Pound Sterling denominated, unhedged share class with a broader geographic remit than the other two share classes. Whilst the full impact of Brexit is unknown your Board does expect continued volatility in the currency markets which in turn will translate into volatility in the value of NBDG's non U.S. Dollar assets.

I would like to thank all our longstanding shareholders, as well as those who have joined us in the past year or so, for your confidence in our Company and I look forward to updating you further in the Interim Report that will be issued at the end of the summer.

John Hallam
Chairman
10 April 2017

INVESTMENT MANAGER'S REPORT

Market Update

2016 was a volatile year for the financial markets. The rebound of energy prices from the lows in the first quarter, the surprise result of Brexit, zero and negative sovereign interest rates, and the results of the U.S. election in November contributed to a roller coaster year with many shocks to the markets. Looking to 2017, we are seeing the after effects of 2016's events as markets digest the new Trump administration policies, results of upcoming elections in key European countries, and the exit process for the U.K. from the E.U. following the triggering of Article 50 on 29 March 2017. We will be monitoring these events as we continue to generate additional value for shareholders in the remaining investments.

Ordinary Share Class (NBDD)

Summary

Markets continued their recovery heading into the year end due to stable economic data, anticipation of a pro-growth change in U.S. economic policy and the positive reaction to the Federal Reserve's decision to increase interest rates. Liquidity in our markets remains strained as investment banks continue to pull back their proprietary investing activities due to regulatory changes. NBDD's remaining investments are predominantly in illiquid securities, which had limited price movement during the year. We believe value on these assets will be realised upon exit after a liquidity event (i.e. sale, refinancing, IPO) and we are committed to returning capital to investors as we exit investments.

In 2016, NBDD received $12.1m cash from activity (e.g. distributions, dividends and principal payments) on existing investments which, along with $4.9m cash received from 2016 exits, generated cash of $17.0m that was used to fund distributions to investors. NBDD had four exits during the year, which contributed positively to NAV and generated a Total Return* of $6.1m over the life of the investments. During 2016, approximately $17.8m ($15.0m in the form of share redemptions and an income dividend of $2.8m) was distributed to investors representing 89% of original capital. NBDD distributed 33% of the 1 January 2016 NAV in 2016 and our goal is to continue to make distributions in the coming quarters. The ratio of total value (distributions and current NAV) to original capital raised is 119%.

Portfolio Update

As at 31 December 2016, 92.6% of NBDD's NAV, including restricted cash, was invested in distressed assets. NBDD ended the year with 7.4% of NAV in unrestricted cash. Including an income distribution by way of dividend of $0.0793, the NAV Total Return for NBDD was 1.72% for the full year 2016 as markets generally recovered from significant volatility at the end of 2015. NBDD ended the year with a NAV of $1.0583, compared with a beginning NAV of $1.1184. Unrealised gains in the private equity of a container/packaging company and reorganisation equity of a Texas utility were offset by losses in post reorganisation equity of two utilities and a homebuilder. At the end of the year the portfolio consisted of 23 issuers across 12 sectors.

Notable Events

- The sale of a power plant located in the northeast U.S. was finalised and NBDD received $6.9m in sales proceeds in 2016 and a final payout in 2017 of $0.4m from escrows held back on the sale. This investment was exited in February 2017.
- The Portfolio's investment in debt secured by a portfolio of aeroplanes increased by 20% after the aeroplane trust announced a sale of the portfolio to a strategic buyer. NBDD received $2.3m proceeds from the sale which was used to repay principal. One aeroplane remains for sale and we expect a sale during 2017.

*Total Return includes realised and unrealised gains and losses, expenses, FX gains and losses, and all income on investments according to US Generally Accepted Accounting Principles accounting.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Ordinary Share Class (NBDD) (continued)

Notable Events (continued)

- A power generation company in the U.S. emerged from bankruptcy and secured debt claims were exchanged for public equity securities. The company paid a dividend of $2.32 per share after emerging from bankruptcy in the fourth quarter. The share price at the year end was above that at which the shares were issued in the recapitalisation (adjusted for dividend).

- A power generation asset filed for Chapter 11 protection during December. We expected this development as part of a needed restructuring and it establishes a process to resolve certain perfected lien issues that could have otherwise limited recoveries.

Significant Price Movement (approximately 1% of NBDD NAV or +/- $400,000)

Industry	Instrument	2016 Total Return	Comment
Containers & Packaging	Private equity	$1.60	Improving operations and dividends
Surface Transport	Trade Claim	$0.80	Market price change
Utilities	Private equity	$0.40	Sale of company
Air Transport	Secured notes	$0.40	Loan repaid from sale proceeds of aeroplane sales
Utilities	Post reorg equity	$(0.50)	New financing diluted equity
Building & Development	Post reorg equity	$(0.50)	Delay in development of land development
Utilities	Post reorg equity	$(0.30)	Company filed for Chapter 11 bankrutpcy

Exits

During the year, we saw four exits, bringing the total number of exits since inception in NBDD to 34, which generated a net gain of $6.1m over the life of the investments. Detailed descriptions of the exits are at the end of the report.

Exit	Cash Invested (in millions)	Cash Received (in millions)	Total Return (in millions)	IRR*	ROR**	Holding Period (in months)
31	$5.90	$6.40	$0.50	3%	8%	39
32	$3.10	$3.60	$0.50	5%	15%	76
33	$9.50	$15.00	$5.50	12%	58%	72
34	$4.80	$4.40	$(0.40)	(4%)	(7%)	76

* The annualised internal rate of return ("IRR") is computed based on the actual dates of the cash flows of the security (purchases, sales, interest, principal paydowns), calculated in the base currency of each Portfolio.

** The Rate of Return ("ROR") represents the change in value of the security (capital appreciation, depreciation and income) as a percentage of the purchase amount. The purchase amount can include multiple purchase.

Distributions

During the year, the Board of the Company resolved to return approximately $15.0m to holders of NBDD shares by way of a compulsory redemption of NBDD shares and the initial income distribution of $2.8m by way of dividend was paid to investors. To date, $111.3m, or 89% of investors' original capital, has been distributed to shareholders since the realisation phase for this share class.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Extended Life Share Class (NBDX)

Summary

Markets continued their recovery during the fourth quarter due to stable economic data, anticipation of a pro-growth change in U.S. economic policy, and the positive reaction to the Federal Reserve's decision to increase interest rates. Liquidity in our markets remains strained as investment banks continue to pull back their proprietary investing activities due to regulatory changes. Improvement in operations at a plastic container company, lodging and casino properties and a general improvement in energy prices were offset by the decline in shipping rates during the year and a chapter 11 filing of a power plant investment. Stabilised energy prices in the second half of the year supported our energy related investments. We believe value on these assets will be realised upon exit after a liquidity event (i.e. sale, refinancing, IPO) and we continue to manage the investments with a commitment to returning capital to investors as we exit investments.

NBDX received $41.8m cash from activities (e.g. distributions, dividends, and principal payments) on existing investments that have not been fully exited and $21.7m from 2016 exits to generate $63.5m cash to fund distributions to investors. NBDX had six exits during the year, which contributed to NAV and generated a Total Return of $19.9m over the life of the investments. During 2016, approximately $57.6m ($50.0m in the form of share redemptions and an income dividend of $7.6m) was distributed to investors representing 41% of original capital. NBDX distributed 22% of the 1 January 2016 NAV in 2016 and our goal is to continue to make distributions in the coming quarters. The ratio of total value (distributions, share buy-backs and current NAV) to original capital raised is 103%.

Post year end, in February 2017, the Board resolved to return $10.5m to shareholders in the form of a compulsory share redemption. This brings the total capital approved for distribution to $158.5m or 44% of original capital.

Portfolio Update

As at 31 December 2016, 92.5% of NBDX's NAV was invested in distressed assets. The Portfolio ended the period with 7.5% of NAV in unrestricted cash. Including an income distribution by way of dividend of $0.0332 paid on 20 December 2016, NBDX's NAV Total Return was 3.64% for the year. NBDX ended the year with a NAV per share of $1.0035 as compared to $1.0003 at the end of 2015. The primary drivers of NBDX's NAV increase were increases in energy related and lodging/casino investments, and principal repayments and distributions offset by declines in shipping rates generally and utility investments.

Notable Events

- The sale of a power plant located in the northeast U.S. was finalised and NBDX received $17.9m sales proceeds in 2016 and a final payout in 2017 of $1.0m from escrows held back on the sale. This investment was exited in February 2017.

- A lodging and casino investment tendered for contingent equity rights cleaning up the capital structure to better enable a liquidity event. The company then tendered for a portion of its private equity and set a value for the shares (roughly 14% above the pre-announced price in an illiquid market). NBDX received cash of $1.2m from these tenders and the remaining equity is bid at the tender price.

- The Portfolio's investment in debt secured by a portfolio of aeroplanes increased by 20% after the aeroplane trust announced a sale of the portfolio to a strategic buyer. NBDX received $4.5m proceeds from the sale which was used to repay principal. One aeroplane remains for sale and we expect a sale during 2017.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Extended Life Share Class (NBDX) (continued)

Notable Events (continued)

- A shipping investment sought to raise debt financing and additional equity from existing equity holders and NBDX participated to protect against dilution of its equity position at what we believed to be an attractive valuation.
- NBDX owns private equity in a non-ferrous metals/minerals company that announced a sale to a strategic buyer during the year. The sale price reflects a 28% premium to the price at the time of the announcement.
- A power generation company in the U.S. emerged from bankruptcy and secured debt claims were exchanged for public equity securities. The company paid a dividend of $2.32 per share after emerging from bankruptcy in the fourth quarter. The share price at year-end was above the issued level at which the shares were issued in recapitalisation (adjusted for dividend).
- A power generations asset filed for Chapter 11 protection during December. We expected this development as part of a needed restructuring and it establishes a process to resolve certain perfected lien issues that could have otherwise had limited recoveries.
- An investment in an aeroplane leasing joint venture distributed proceeds of $1.7m from prepayment of an installment sales contract on three aeroplanes leaving one aeroplane unsold at year end. The remaining aeroplane was sold and proceeds were received in the first quarter of 2017.

Significant Price Movement (approximately 1% NBDX NAV or +/- $2,000,000)

Industry	Instrument	2016 Total Return (in millions)	Comment
Oil & Gas	Private equity	$4.10	Board approved changes to allow divididends and buy-backs
Lodging & Casinos	Bank debt	$3.20	Improvements at property and prepayment
Containers & Packaging	Private equity	$4.10	Improvements at company and dividend
Lodging & Casinos	Private equity	$2.40	Improvements at property and tender
Shipping	Public equity	$(2.70)	Decline in shipping rates
Financial Intermediaries	Private notes	$(2.00)	Lack of liquidity for notes, no significant change
Shipping	Bank debt	$(3.70)	Decline in shipping rates and restructuring of old debt
Utilities	Private equity	$(5.80)	Company filed for bankruptcy

Exits

During the year, we exited six investments, exits 36-41 since inception, which generated $19.9m Total Return over the life of the investments. Detailed descriptions of the investments are at the end of the report.

Exit	Cash Invested (in millions)	Cash Received (in millions)	Total Return (in millions)	IRR	ROR	Months Held (in months)
36	$15.10	$16.30	$1.20	3%	8%	38
37	$1.70	$6.70	$5.00	81%	292%	31
38	$8.00	$9.20	$1.20	5%	15%	74
39	$24.60	$38.90	$14.30	12%	58%	72
40	$4.00	$4.00	$ -	-	-	27
41	$17.10	$15.30	$(1.80)	(6%)	(11%)	76

INVESTMENT MANAGER'S REPORT (CONTINUED)

Extended Life Share Class (NBDX) (continued)

Distributions

During 2016, the Board of the Company resolved to return approximately $50.0m to holders of NBDX shares by way of a compulsory partial redemption of NBDX shares. The Board also resolved to pay an income distribution by way of dividend of $7.6m to NBDX shareholders. Over the period from inception to 31 December 2016 NBDX has returned, through capital distributions and an income distribution by way of dividend, $148.0m or 41% of investors' original capital.

In February 2017, the Board approved a $10.5m capital distribution. This brings the total amount approved for distribution to $158.5m or 44% of original capital. The distribution was paid on 9 March 2017.

New Global Share Class (NBDG)

Summary

Markets continued their recovery during the year due to stable economic data, anticipation of a pro-growth change in U.S. economic policy and the positive reaction to Federal Reserve's decision to increase interest rates. Liquidity in our markets remains strained as investment banks continue to pull back their proprietary investing activities due to regulatory changes. Up until the end of the first quarter of 2017 we continued to evaluate and bid on what we believed to be attractive investment opportunities in the real estate, lodging and casinos, shipping, international infrastructure and energy sectors. 94.91% of the Portfolio was invested as at 31 March 2017 leaving £4.9m of uninvested capital. As outlined in the Chairman's Statement the Board is considering its options for returning this capital in the best interests of NBDG shareholders.

During the year, we were focused on bringing the Portfolio to full deployment. NBDG invested in three new issuers during the year, deploying £10.8m in an Australian wind farm investment, a U.S. lodging and casino property and a U.S. power plant. NBDG also made additional investments in existing names totaling £7.4m in a liquidation investment of a marine services company, a western U.S. land bank, a dry bulk shipping company and a non-ferrous metal/mineral company during the year. This brings total funds invested during the year to £18.2m.

Offsetting the purchases were exits generating £5.6m cash described below, and partial sales, distributions, and principal repayments on existing loans totaling £10.5m. The net cash deployed during 2016 was £2.0m.

Portfolio Update

The Board announced and paid the first income distribution by way of a dividend to shareholders on 20 December 2016 of £1.0m (1.02p per share). Including the aforementioned dividend, NBDG's NAV Total Return was 29.67% for the full year 2016. NBDG ended the year with a NAV per share of 94.17p, compared to 73.41p at the end of 2015 as a result of improving market conditions, specific events within the Portfolio and foreign exchange gains. NBDG continues to benefit from the decline of Pound Sterling against the U.S. Dollar as a result of the U.K's decision to leave the E.U. As described in the prospectus, NBDG generally does not hedge currency exposure and the continued FX market volatility contributed £12.3m positively to the value of certain investments during 2016. FX volatility leading up to and immediately following the Brexit vote was significant and a substantial portion of the increase in NAV was due to changes in FX rates during the year. To some extent, these FX gains offset FX losses previously reflected in the NAV.

As at 31 December 2016, 92% of NBDG's NAV was invested in distressed assets with unrestricted cash and net accruals of 8% of NAV available for new investments. NBDG has investments in 28 issuers across 11 industries. The largest concentrations were in lodging & casinos, shipping, oil & gas, utilities, and building & development.

INVESTMENT MANAGER'S REPORT (CONTINUED)

New Global Share Class (NBDG) (continued)

Notable Events

- A lodging and casino investment tendered for contingent equity rights cleaning up the capital structure to better enable a liquidity event. The company then tendered for a portion of its private equity and set a value for the shares (roughly 14% above the pre-announced price in an illiquid market). NBDG received cash of £2.6m on these tenders and the remaining equity appreciated 70% during the year.

- A shipping investment sought to raise debt financing and additional equity from existing equity holders and NBDG participated to protect against dilution of its equity position at what we believe to be attractive valuations.

- The sale of a power plant located in the northeast U.S. was executed and NBDG received £5.0m sale proceeds and a final payout in 2017 of £0.3m from escrows held back on the sale. This investment was exited in February 2017.

- NBDG owns private equity in a non-ferrous metals/minerals company that announced a sale to a strategic buyer during the year. The sales price reflects a 28% premium to the current price at the time of the announcement. NBDG was able to purchase additional shares during the year at a discount to the expected sales price.

- A power generation company in the U.S. emerged from bankruptcy and secured debt claims were exchanged for public equity securities. The company paid a dividend of $2.32 per share after emerging from bankruptcy in the fourth quarter. The share price at year end was above that at which the shares were issued in the recapitalisation (adjusted for dividend).

- A power generations asset filed for Chapter 11 protection during December. We expected this development as part of a needed restructuring and it establishes a process to resolve certain perfected lien issues that could have otherwise had limited recoveries.

Significant Price Movement (approximately 1% NBDG NAV or +/- £1,000,000)

Industry	Instrument	2016 Total Return (in millions)	Comment
Lodging & Casino	Private equity	£5.80	Gaming operations improving and company tendered for shares at attractive level
Shipping	Private equity	£4.10	Stock price improved with balance sheet improvement and attractive purchase at discount to price
Lodging & Casino	Bank debt	£1.80	Casino operations improving and cash repayments
Oil & Gas	Private equity	£1.70	Energy price improvements and changes to allow dividends
Commercial Real Estate	Bank debt	£1.40	Restructuring complete and improvements with tenants
Oil & Gas	Public notes and equity	£1.40	Company emerged from bankruptcy and improvements in energy prices
Lodging & Casino	Private equity	£1.30	Purchased investment at attractive valuation
Containers & Packaging	Private equity	£1.20	Company announced a sale and purchase at attractive discount
Utilities	Bank debt	£1.10	Improvements in operations due to improved pricing
Utilities	Private equity	£(2.20)	Company filed for bankruptcy

INVESTMENT MANAGER'S REPORT (CONTINUED)

New Global Share Class (NBDG) (continued)

Exits

In 2016 we saw two exits in NBDG, our 7th and 8th since inception. These two exits generated a Total Return of £0.8m over the life of the investment. Detailed descriptions of the investments are provided at the end of this report.

Exit	Cash Invested (in millions)	Cash Received (in millions)	Total Return (in millions)	IRR	ROR	Holding Period (in months)
7	£3.80	£5.00	£1.20	21%	34%	21
8	£5.90	£5.50	£(0.40)	(11)%	(7)%	28

Distributions

During the year, the Board of the Company declared an income distribution by way of dividend of £1.0m to holders of NBDD shares.

SUMMARY OF EXITS ACROSS ALL PORTFOLIOS IN 2016

The total exits during the year can be summarised as follows:

NBDD – Four exits during the year
NBDX – Six exits during the year
NBDG – Two exits during the year

2016 Exits	NBDD exit number	NBDX exit number	NBDG exit number	Industry	Instrument	Cash Invested ($ in millions)	Cash Received ($ in millions)
A	31	36		REITs	Public Equity	21.0	22.7
B		37		Financial Intermediary	Private Equity	1.7	6.7
C			7	Surface Transportation	Secured Loan	3.8	5.0
D	32	38		Building & Development	Secured Loan	11.1	12.8
E	33	39		Financial Intermediary	Private Equity	34.1	53.9
F		40	8	Surface Transportation	Secured Loan	9.9	9.5
G	34	41		Financial Intermediary	Bonds	21.9	19.7
Total number of exits in the year	4	6	2				

Exit A (Exit 31 for NBDD and Exit 36 for NBDX) – REIT

NBDD and NBDX invested $21.0m in a REIT that was formed to buy foreclosed homes and build a portfolio of single family rental homes in areas particularly affected by the U.S. housing downturn. We expected to earn a return through a combination of dividends, home price appreciation from a housing recovery and a consolidation of the industry into a new institutionalised real estate asset class. The company completed an IPO in July 2013. While we believed in the long term viability of the company and inherent value in the assets, we did not see a short or medium term catalyst to demonstrate the underlying values in the assets and we decided to sell the shares. We sold our position for $22.7m. Total Return from this investment was $1.7m, generating an IRR of 3% and ROR of 8%.

INVESTMENT MANAGER'S REPORT (CONTINUED)

SUMMARY OF EXITS ACROSS ALL PORTFOLIOS IN 2016 (CONTINUED)

Exit B (Exit 37 for NBDX) - Financial Intermediary

The company is a monoline insurance company that was in the process of liquidating its assets. NBDX purchased 121,099 shares in October 2013 at $14 per share. We purchased the shares at a substantial discount to shareholders' surplus which we expected to be returned to holders via dividends and share buybacks. As expected we received dividends of $5 per share and $7 per share in December 2014 and November 2015, respectively. In September 2015 the company received an unsolicited offer from a strategic buyer. We subsequently assisted the company in evaluating the offer and in running a competitive sales process that resulted in a final sales price in excess of the original offer. Total Return from this investment was $5.0m, which resulted in an IRR of 81% and a ROR of 292% on the investment.

Exit C (Exit 7 for NBDG) - Surface Transportation

NBDG purchased $3.7m face value of a term loan A at 94.25% of par and $6.1m face value of a term loan B at 36.25% of par secured by a concession agreement to a parking garage in a Midwestern city in the United States. Prior to our purchase, the borrower had defaulted on its payments on the loan and the lenders had taken control of the concession. Our investment thesis was that our cost represented a significant discount relative to the concession value. Ultimately, proceeds from the sale of the concession allowed for a full payment of the term loan A and the term loan B at 50% of par. Total Return from this investment was £1.2m, generating an IRR of 21% and ROR of 34%.

Exit D (Exit 32 for NBDD and Exit 38 for NBDX) - Building & Development

NBDD and NBDX invested $11.10m in multiple tranches of the secured bank debt of a homebuilding company that had filed for Chapter 11 bankruptcy protection. NBDD and NBDX received cash and equity upon execution of the company's plan of reorganisation. The two funds also participated in the exit financing for the homebuilder which was ultimately repaid at par. The homebuilder was ultimately sold to a public homebuilding company and received a distribution from the sale. Total Return on the investment was $1.7m generating an IRR of 5% and ROR of 15%.

Exit E (Exit 33 for NBDD and Exit 39 for NBDX) - Financial Intermediary

In 2010, NBDD and NBDX purchased $34.1m of private shares in 14 side pocket investments of a large private equity fund from a large hedge fund of funds investor that had redemptions and needed liquidity to meet them. The investments included European commercial real estate properties, an Indian real estate company, a European PVC manufacturer, and an aeroplane leasing company. Each of the 14 investments was exited at different dates by the private equity fund through sales and refinancing of the underlying properties and companies with a final wind-down at year-end 2016. The Total Return on this investment was $19.8m, with initial cash invested of $34.1m and total cash received over the life of the investments of $53.9m (1.6x on initial investment). IRR on the investment was 12% over 72 months and ROR was 58%.

INVESTMENT MANAGER’S REPORT (CONTINUED)

SUMMARY OF EXITS ACROSS ALL PORTFOLIOS IN 2016 (CONTINUED)

Exit F (Exit 40 for NBDX and Exit 8 for NBDG) - Surface Transportation

In 2014, NBDX and NBDG purchased senior bank debt secured by a concession to operate a toll road linking Brisbane’s central business district with its airport. In 2013, the operator had been forced into an insolvency process when restructuring negotiations fell apart amidst poor traffic numbers. NBDX and NBDG purchased the bank debt (at different times and prices) when a sale of the concession failed to materialise and caused certain original bank debt holders to exit. NBDX and NBDG sold the majority of the position to reduce exposure after another debt holder amassed a position that would allow them to block a sale of the concession. The concession was ultimately sold in early 2016 to a strategic buyer who owned other Australian toll roads. Sale proceeds were unfortunately less than expected and, combined with a weak Australian dollar for NBDX, the Total Return on the investment was break-even with an IRR of 0%. The investment was held for 28 months. The Total Return for NBDG was (£0.4m), IRR was (11%) and ROR was (7%).

Exit G (Exit 34 for NBDD and Exit 41 for NBDX) - Financial Intermediary

Over a period from 2010 to 2013, NBDD and NBDX invested $21.9m to purchase defaulted bonds issued by a U.S. financial company. The company was the largest thrift failure in U.S. history and was seised by the Federal Deposit Insurance Corporation (“FDIC”) in 2008. Shortly after we acquired our position, the FDIC arranged for a sale of the bank’s assets to another major financial institution. Proceeds from the sale are being administered by the FDIC and will be used to repay in part creditors of the company. Creditors also received recoveries from a settlement of various legal claims stemming from the company’s failure and the subsequent sale. NBDX originally purchased the defaulted bonds because we expected favourable settlement and litigation outcomes relative to the market value of the bonds at the time of purchase. We ultimately sold the defaulted bonds during the fourth quarter because a recent settlement suggested limited upside to the current market price. Due to different investment periods, NBDD and NBDX had different acquisition costs and dates in this security causing different returns. NBDD Total Return was ($0.4m) with IRR of (4%) and ROR of (7%). NBDX Total Return was ($1.8m) with an IRR of (6%) and ROR of (11%).

Neuberger Berman Investment Advisers LLC
10 April 2017

Neuberger Berman Europe Limited
10 April 2017

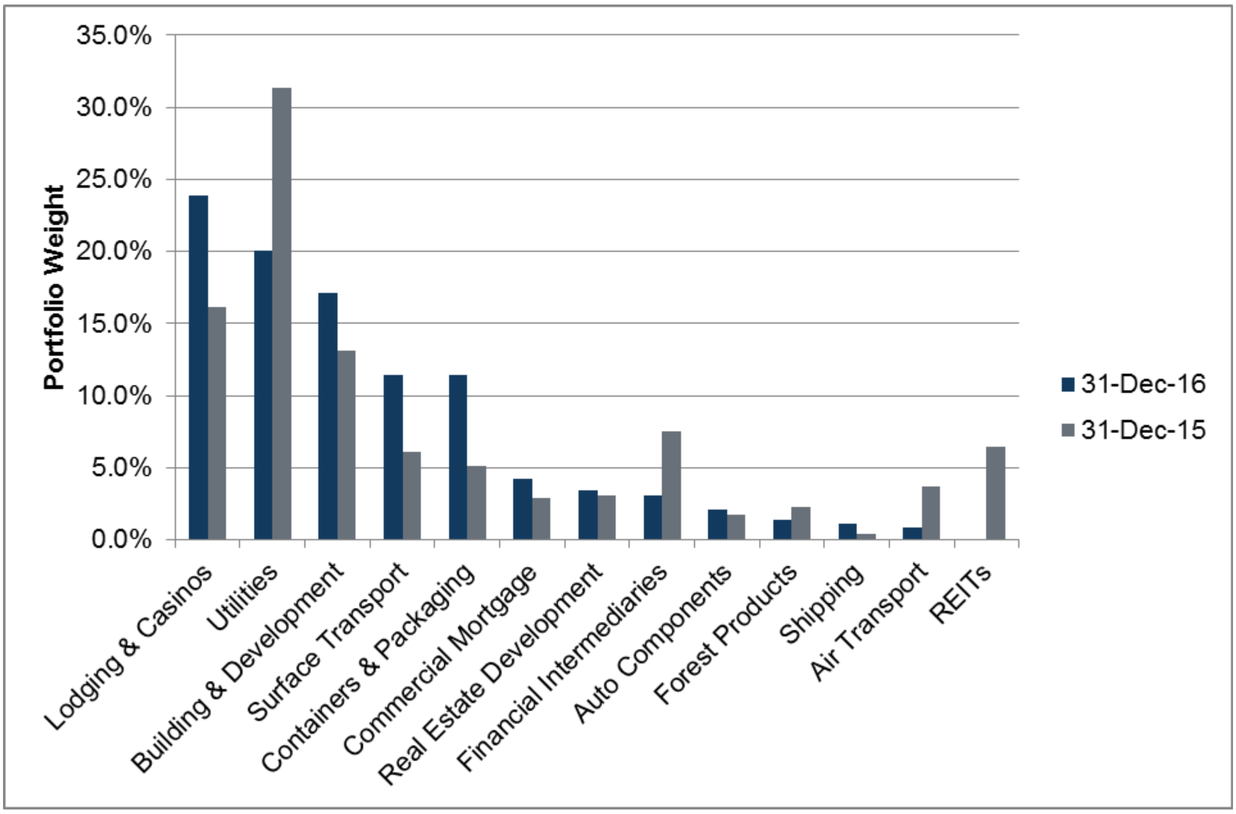
PORTFOLIO INFORMATION

Ordinary Share Class Portfolio (NBDD)

Top 10 Holdings at 31 December 2016

Holding	Sector	Purchased Insturment	Status	Country	% of NAV	Primary Underlying Asset
1	Lodging & Casinos	Secured Loan	Post-Reorg	U.S.	18.67%	Hotel/lodging real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	U.S.	13.18%	Residential real estate
3	Surface Transport	Trade Claim	Defaulted	Brazil	8.98%	Municipal claim
4	Utilities	Secured Loan	Current	Australia	7.69%	Power plants
5	Containers & Packaging	Post-Reorg Equity	Post-Reorg	Luxembourg	7.40%	Manufacturing/distribution/real estate
6	Utilities	Secured Loan	Post-Reorg	U.S.	4.52%	Power plants
7	Commercial Mortgage	Secured Loan	Current	U.S.	3.32%	Commercial real estate
8	Financial Intermediaries	Secured Notes	Defaulted	U.S.	2.41%	Cash & securities
9	Utilities	Secured Loan	Post-Reorg	U.S.	2.41%	Power plants
10	Real Estate Development	Secured Loan	Post-Reorg	U.S.	2.08%	Residential real estate
Total					**70.66%**	

Sector Breakdown[1,2]

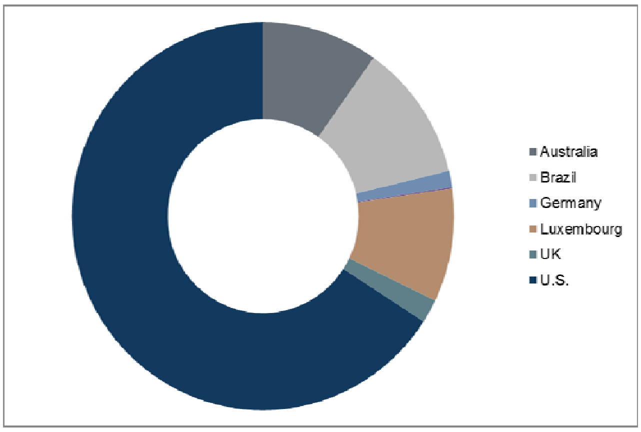


PORTFOLIO INFORMATION (CONTINUED)

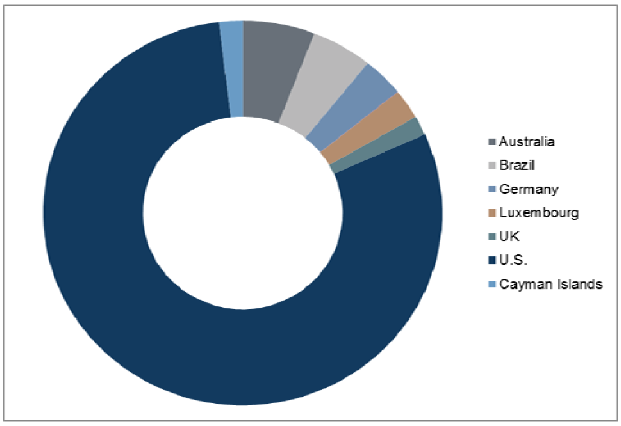
Ordinary Share Class Portfolio (NBDD) (Continued)

Country Breakdown[2]

31 December 2016



31 December 2015



[1] Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDD's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

[2] Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2016 and 31 December 2015.

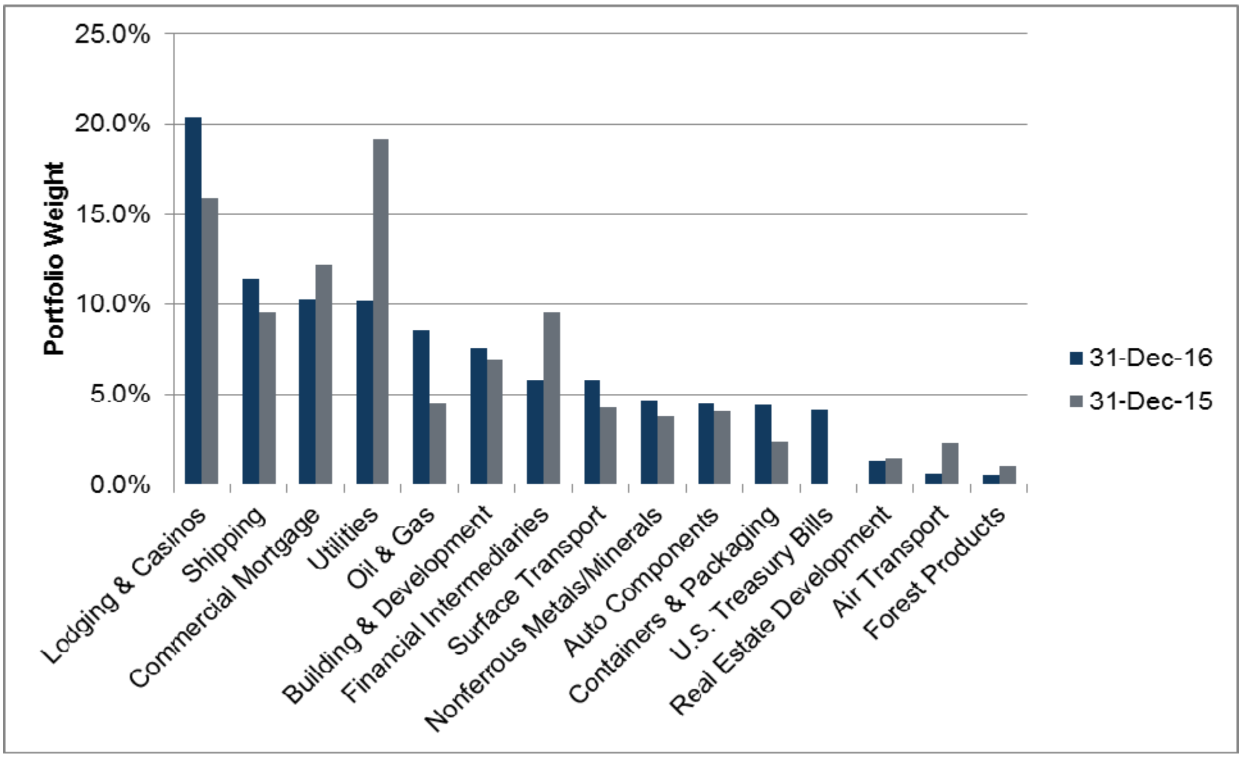
PORTFOLIO INFORMATION (CONTINUED)

Extended Share Class Portfolio (NBDX)

Top 10 Holdings at 31 December 2016

Holding	Sector	Purchased Insturment	Status	Country	% of NAV	Primary Underlying Asset
1	Lodging & Casinos	Secured Loan	Post-Reorg	U.S.	8.28%	Hotel/lodging real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	U.S.	6.69%	Residential real estate
3	Commercial Mortgage	Secured Loan	Defaulted	U.S.	5.22%	Multi-family residential real estate
4	Financial Intermediaries	Secured Notes	Defaulted	U.S.	5.19%	Cash & securities
5	Lodging & Casinos	Secured Loan	Current	U.S.	5.16%	Hotel/casino
6	Oil & Gas	Post-Reorg Equity	Post-Reorg	U.S.	4.96%	Bio-fuel plant
7	Shipping	Secured Loan	Post-Reorg	Marshall Islands	4.53%	Vessels
8	Nonferrous Metals/Minerals	Post-Reorg Equity	Post-Reorg	U.S.	4.19%	Manufacturing plant & equipment
9	Auto Components	Secured Notes	Post-Reorg	U.S.	4.05%	Manufacturing plant & equipment
10	Surface Transport	Trade Claim	Defaulted	Brazil	3.98%	Municipal claim
Total					**52.25%**	

Sector Breakdown[1,2]

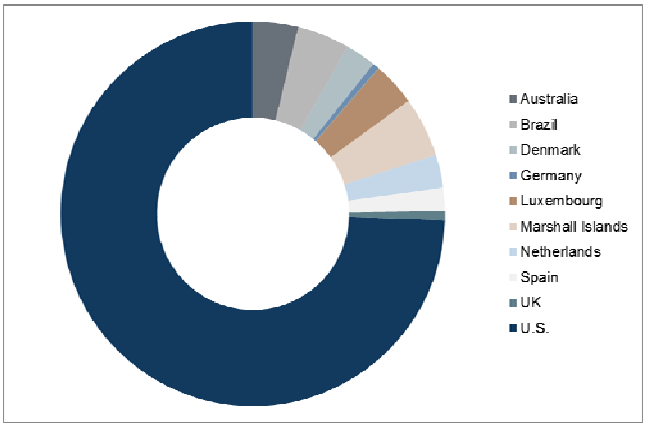


PORTFOLIO INFORMATION (CONTINUED)

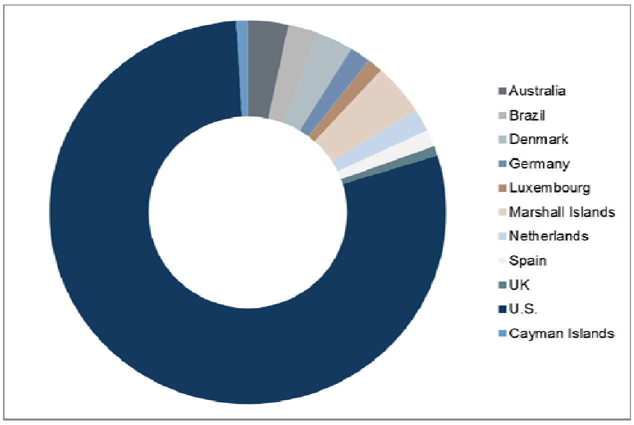
Extended Share Class Portfolio (NBDX) (continued)

Country Breakdown[2]

31 December 2016



31 December 2015



[1] Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDX's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

[2] Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2016 and 31 December 2015.

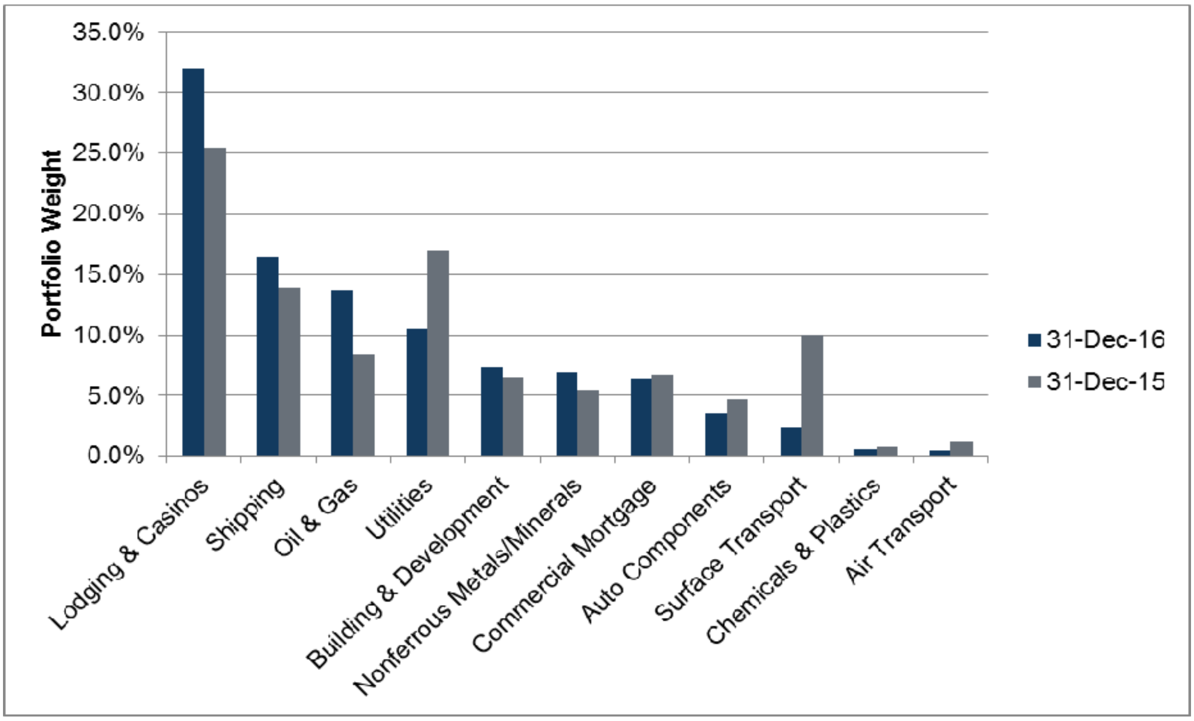
PORTFOLIO INFORMATION (CONTINUED)

New Global Share Class Portfolio (NBDG)

Top 10 Holdings at 31 December 2016

Holding	Sector	Purchased Insturment	Status	Country	% of NAV	Primary Underlying Asset
1	Lodging & Casinos	Post-Reorg Equity	Post-Reorg	U.S.	10.36%	Casino
2	Lodging & Casinos	Post-Reorg Equity	Post-Reorg	U.S.	7.76%	Hotel/lodging real estate
3	Shipping	Secured Loan	Post-Reorg	U.S.	6.95%	Vessels
4	Building & Development	Post-Reorg Equity	Post-Reorg	U.S.	6.69%	Residential real estate
5	Nonferrous Metals/Minerals	Post-Reorg Equity	Post-Reorg	U.S.	6.35%	Manufacturing plant and equipment
6	Commercial Mortgage	Secured Loan	Current	Netherlands	5.79%	Commercial real estate
7	Lodging & Casinos	Secured Loan	Defaulted	Spain	5.06%	Casino/hotel real estate
8	Shipping	Secured Loan	Post-Reorg	Denmark	4.79%	Bio-fuel plant
9	Lodging & Casinos	Secured Loan	Current	U.S.	4.36%	Hotel/casino
10	Utilities	Secured Loan	Current	Australia	4.23%	Power plants
Total					**62.34%**	

Sector Breakdown[1,2]

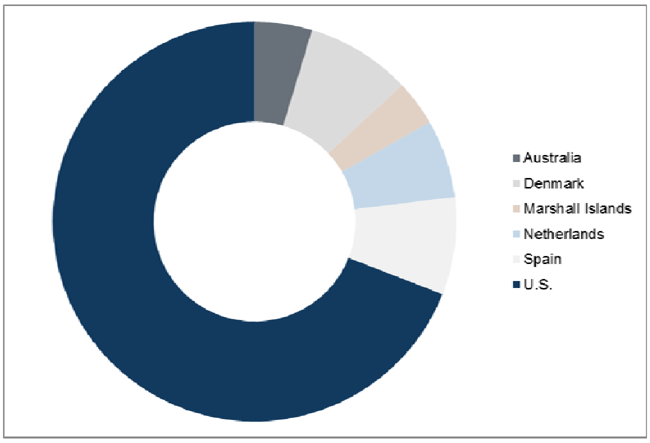


PORTFOLIO INFORMATION (CONTINUED)

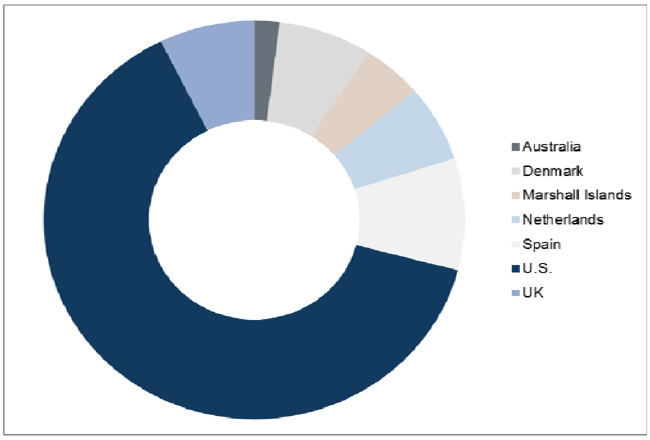
New Global Share Class Portfolio (NBDG) (continued)

Country Breakdown[2]

31 December 2016



31 December 2015



[1] Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDG's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

[2] Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2016 and 31 December 2015.

STRATEGIC REPORT

Principal Risks and Risk Management

The Board has overall accountability for ensuring that risk is effectively managed within the Company and on behalf of the Board, the Audit Committee has undertaken an exercise for identifying, assessing and managing the risks within the Company. The Company's principal risks are outlined below together with the commentary on how they are managed and/or mitigated.

Shareholders are reminded that the NBDD and NBDX portfolios are U.S. Dollar denominated and any non-U.S. exposure is hedged back to the U.S. Dollar. Therefore the Board does not consider that the outcome of Brexit will have a material direct impact on these Portfolios.

NBDG is a Pound Sterling denominated, unhedged share class with a broader geographic remit than the other two share classes. Whilst the full impact of Brexit is unknown your Board does expect continued volatility in the currency markets which in turn will translate into volatility in the value of NBDG's non U.S. Dollar assets.

RISK	***MITIGATION***

Investment Activity and Performance

An unsuccessful investment strategy may result in underperformance against the Company's objectives. This might be due to the skills of the Investment Manager falling short in its selection of sectors or issues in which to invest and its management of the restructurings/reorganisations which can ensure their success.	The Board has managed these risks by ensuring a diversification of investments, although the level of diversification will diminish as the respective Portfolios liquidate their positions during their harvest periods. Please see "Principal Risks Specific to Harvest Periods" below. The Investment Manager operates in accordance with the investment limits and restrictions policy set out in the Company's Investment Policy and Objectives and as further 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 Portfolios. Investment strategy is reviewed at each meeting.

STRATEGIC REPORT (CONTINUED)

RISK	***MITIGATION***

Principal Risks Specific to Harvest Periods

There can be a significant period between the date the Company makes an investment and the date that any gain or loss on such investment is realised. Further, towards the end of the Portfolios' respective harvest periods, a residual amount is required to be retained for each share class in accordance with regulatory requirements until such time that all assets can be liquidated and returned to shareholders. As capital is returned through compulsory partial redemptions, the number of assets and shares in a Portfolio will diminish which in turn may lead to an increased TER and reduced liquidity in a Portfolio's shares.	The Board has ensured that the Investment Manager has operated in accordance with the investment limits and restrictions policy set out in the Company's Investment Policy and Objectives, although it acknowledges that the diversification of Portfolio investments will diminish as the Portfolios liquidate their positions and return capital to shareholders. The Board also receives regular updates on the status of the Portfolios' investments and anticipated realisation dates. The Board monitors the Company's expenses on a regular basis and ensures that contracts with the Investment Manager and other service providers are at competitive rates. The Board also notes that the Company's key expenses, such as the management fee, will diminish in line with a reduction of assets. The Company retains the services of its brokers, Stifel Nicolaus Europe Limited and Winterflood Securities Limited to, amongst other things, enhance liquidity in the underlying shares.

Level of Discount or Premium

A discount or premium to NAV can occur for a variety of reasons, including market conditions and the extent to which investors undervalue the management activities of the Investment Manager or discount its valuation methodology and judgement.	While the Directors may seek to mitigate any discount or premium to NAV per share through discount management mechanisms, such as buybacks or share issuance, 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

Market price risk is the potential for changes in the value of an investment or Portfolio. The market value of investments 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. Further details on market price risk are provided in Note 7 on page 97.	The Board has, over the Investment Periods of the various share classes, ensured that the Investment Manager has operated in accordance with the Company's investment guidelines. The Directors monitor the status of the Portfolio investments with the Investment Manager at each quarterly Board meeting and monitor risk factors in respect of the Portfolios.

STRATEGIC REPORT (CONTINUED)

RISK	*MITIGATION*

Fair Valuation of Illiquid Assets

With respect to investments that do not have a readily ascertainable market quotation in an active market, the Investment Manager will value such investments at fair value and such valuations will be inherently uncertain. Because of the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily ascertainable market quotation in an active market, the fair value of the Company's investments as determined in good faith by the Investment Manager may differ significantly from the values that would have been used had a ready market existed for such investments. The reliability of the NAV calculations published by the Company will be impacted accordingly.	With respect to investments comprised in the Company's Portfolios that do not have a readily available market quotation, such as unquoted investments or investments which are listed but deemed to be illiquid, the Investment Manager values such investments at fair value on each NAV calculation date in accordance with its customary valuation methods, policies and procedures. Further information on the Company's valuation process can be found in Note 2 under "Valuation of Investments", and Note 6, "Fair Value of Financial Instruments", of the Audited Consolidated Financial Statements (the "Financial Statements"). The Board monitors and reviews the Company's fair valued assets on a regular basis.

Accounting, Legal and Regulatory

The Company must comply with the provisions of the Law, and since its shares trade on the SFS, the Company is required to comply with the FCA's Disclosure Guidance 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 SFS.	The Board relies on the Company Secretary and the Company's advisers to ensure adherence to the Guernsey legislation and the DTRs. The Investment Manager, Company Secretary and the Administrator, are contracted to provide investment, company secretarial, administration and accounting services through qualified professionals.

Operational

Disruption to, or the failure of, either the Investment Manager's or the Administrator's accounting, dealings or payment systems, or the records of the custodian could lead to a loss of assets and 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 controls are explained further in the internal controls section of the Corporate Governance Report which is set out on pages 40 to 48.

STRATEGIC REPORT (CONTINUED)

Going Concern

The Company's principal activities are set out on page 4. The financial position of the Company is set out on page 64. In addition, Note 7 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 declare that they have been prepared in accordance with Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks, published by the FRC.

The going concern statement required by the 2016 AIC Code of Corporate Governance (the "AIC Code") is set out in the "Directors' Responsibilities Statement" on page 61.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 (the "Code"), the Directors have assessed the prospects of the Company over the three year period to 31 December 2019. Taking into account the Company's status as an investment entity, its investment objectives, and the time period over which its assets are likely to be realised, the Directors consider that three years is an appropriate period to assess the viability of the Company. In particular the Directors noted that NBDG has recently entered into its harvest period with an approximate duration of three years. The Directors further noted that the mid to long-term prospects for the Company, which has an indefinite life, are subject to change should the Company add new share classes to its structure before the existing Portfolios' assets are fully realised.

The three year review considers the Company's cash flow, cash distributions and other key financial ratios over the period. The three year review also makes certain assumptions about the normal level of expenditure likely to occur as well as making assumptions about the timing of asset realisations during the harvest periods.

In its assessment of the viability of the Company, the Directors have carried out a robust assessment of the Company's principal risks and uncertainties detailed on pages 27 to 29 including the risks specific to the Portfolios' harvest periods. The Directors have also considered the Company's income and expenditure projections and the expected cash flows arising from Portfolio realisations, noting that future capital distributions to shareholders may be restricted if the interest and dividend income generated in the Portfolios is not sufficient to meet operational expenses. As part of this review, the Directors carried out a series of stress test scenarios which assumed a significant fall in income and asset levels and a corresponding increase in expenses, and were satisfied with the results of this analysis.

Based on the Company's processes for monitoring operating costs, the Investment Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2019.

STRATEGIC REPORT (CONTINUED)

Performance Measurement and Key Performance Indicators

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 – At each meeting the Board reviews and compares against peer group companies and various indices the performance of the Portfolios as well as the NAV, income and share price of each share class. To assist in this review the Board considers formal reports from both the Investment Manager and brokers which assess the performance of the asset class and look at trading activity. The Investment Manager also provides an in-depth analysis of the holdings within the Portfolios;

- Discount/premium to NAV - At each Board meeting, the Board monitors the level of the Company's discount or premium to NAV per share class 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. In the year to 31 December 2016 the Company's Ordinary Shares traded between a premium of 2.43% and a discount of 9.79% with an average discount of 6.32%. The Company's Extended Life Shares traded between a discount of 2.72% and 15.52% with an average discount of 5.95%. The Company's New Global Shares traded between a discount of 7.90% and 22.62% with an average discount of 13.79%;

- Ongoing Charges - In the year to 31 December 2016, the Company's Ongoing Charges were 2.05%. This figure is based on an annual expense figure for the year of $8,003,355. This figure, which has been prepared in accordance with AIC guidance, represent the Company's management fees and all other operating expenses, excluding finance costs payable, expressed as a percentage of average net assets. No performance fees were payable as at 31 December 2016. The Ongoing Charges by share class are disclosed on page 8.

- Total Expense Ratio ("TER") - In the year to 31 December 2016, the Company's TER was 2.30%. This figure is based on an annual expense figure for the year of $8,980,776. This figure which has been prepared in accordance with the US Generally Accepted Accounting Principles ("US GAAP") methodology and represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses including any performance fee. No performance fees were payable as at 31 December 2016. The TERs by share class are disclosed on page 8.

Management Arrangements

Investment Management Agreement

On 17 July 2014, the Company, the Manager and the AIFM made certain classificatory amendments to their contractual arrangements for the purposes of the European Commission's Directive on Alternative Investment Fund Managers (the "AIFM Directive"). The Sub-Investment Management Agreement was terminated on 17 July 2014 and Neuberger Berman Investment Advisers LLC, which was the Sub-Investment Manager, was appointed as the AIFM per the amended and restated Investment Management Agreement ("IMA") dated 17 July 2014. Under this agreement, the AIFM is responsible for risk management and day-to-day discretionary management of the Company's Portfolios (including un-invested cash). The risk management and discretionary portfolio management functions are performed independently of each other within the AIFM structure. The AIFM is not required to, and generally will not, submit individual investment decisions for approval by the Board. The Manager, Neuberger Berman Europe Limited, was appointed under the same IMA to provide, amongst other things, certain administrative services to the Company. Please refer to Note 3 on page 82 for details of fee entitlement.

The IMA can be terminated either by the Company on one hand or the Investment Manager on the other, but in certain circumstances, the Company would be required to pay compensation to the Investment Manager of six months' management charges. No compensation is payable if notice of termination of more than six months is given.

STRATEGIC REPORT (CONTINUED)

Administration and Custody Agreement

Effective 1 March 2015, the Company entered into an Administration and Sub-Administration Agreement with U.S. Bancorp Fund Services (Guernsey) Limited (“U.S. Bancorp”) and Quintillion Limited, a wholly-owned subsidiary of U.S. Bancorp. Under the terms of the agreement, Sub-Administration services are delegated to Quintillion Limited (the “Sub-Administrator”). US Bank National Association (the “Custodian”) was appointed custodian to the Company effective 1 March 2015. See Note 3 on page 82 for details of fee entitlement.

Company Secretarial and Registrar Arrangements

During 2016, company secretarial services were provided by C.L. Secretaries Limited (the “Company Secretary”), a wholly-owned subsidiary of Carey Commercial Limited. Registrar services are provided by Capita Registrars (Guernsey) Limited.

Related Party Transactions

The contracts with the Investment Manager and Directors 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.

For information on performance fees and Directors’ fees please refer to note 3 on page 83.

For and on behalf of the Board

John Hallam
Chairman
10 April 2017

Sarah Evans
Director
10 April 2017

DIRECTORS

John Hallam (Chairman)

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. He is a director of BH Global Limited, Real Estate Credit Investment Limited 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.

Sarah Evans (Chairman of the Audit Committee and Remuneration Committee)

Sarah Evans is a graduate of Oxford University and is a Chartered Accountant. In 1982 she joined the Group Finance department of Kleinwort Benson plc where she was responsible for all financial and regulatory reporting for the group. In 1990 Ms Evans created her own consultancy specialising in securitisation, advising banks and building societies wishing to securitise their assets. In 1994 she joined Barclays Bank plc as a director of UK Treasury. During her time at Barclays she became the Finance Director of Barclays Mercantile. In 2005 Ms Evans moved to Guernsey and since 2006 she has sat on the boards of several listed and unlisted investment funds as a non-executive director. She also sits on the board of the Association of Investment Companies.

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 has been a director of NB Private Equity Partners Limited ("NBPE"), which is a publicly listed investment company managed by NB Alternative Advisers, LLC, a Neuberger Berman Group entity based in Dallas, whereas the Company is managed by Neuberger Berman Investment Advisers LLC based in Chicago. It is intended that Mr Sherwell will step down as a director of NBPE as part of proposals being put forward for approval by NBPE's shareholders on 24 April 2017.

Michael J. Holmberg

Michael J. Holmberg, Managing Director of Neuberger Berman, joined the NB Group in 2009. Mr Holmberg is the head of distressed portfolio management. Prior to joining NB Group, Mr Holmberg founded Newberry Capital Management LLC in 2006 and before that he 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. Mr Holmberg received a BA in economics from Kenyon College and an MBA from the University of Chicago.

DIRECTORS (CONTINUED)

Stephen Vakil (Chairman of the Management Engagement Committee)

After graduating with a BSc in economics from Bath University in 1983, Stephen Vakil joined L Messel & Co and moved to Chase Manhattan in 1987 to focus on private client portfolio management. In 1989, he left to join Foster & Braithwaite where he established the research function and subsequently became a director. Following Foster & Braithwaite's merger with Quilter Goodison to form Quilter & Co in 1996, Mr Vakil was given responsibility for the London investment teams, the research department and marketing function. He was made a managing director in 2001. Having played a key role in a number of corporate transactions, Mr Vakil left Quilter Cheviot in 2013. He is an Associate of the Society of Investment Professionals.

DIRECTORS' REPORT

The Directors present their report and Financial Statements of the Company and their report for the year ended 31 December 2016.

Share Capital

Current Share Capital

The number of shares in issue at 31 December 2016 was as follows:

Class A Shares	2
Ordinary Shares	35,218,587
Extended Life Shares	215,873,854
New Global Shares	110,785,785*

*of which 10,632,000 are held in treasury

On 9 February 2017 the Company announced a capital return by way of a compulsory partial redemption of 10,427,294 Extended Life Shares which took place on 22 February 2017. Following the buybacks of the New Global Shares and Extended Life Shares between 3 January 2017 and 7 April 2017 and the redemption on 22 February 2017, the shares in issue as at the latest practicable date prior to publication of this report were as follows:

Class A Shares	2
Ordinary Shares	35,218,587
Extended Life Shares	205,033,692
New Global Shares	110,735,785**

**of which 10,657,000 are held in treasury

Share Buybacks

At the Annual General Meetings ("AGMs") of the Company held on 4 June 2015 and 24 August 2016, the Directors were granted the general authority to purchase in the market up to 14.99% of the Ordinary Shares, 14.99% of the Extended Life Shares and 14.99% of the New Global Shares in issue (as at 4 June 2015 and 24 August 2016 respectively). The latest authority will expire at the AGM to be held on 6 June 2017. Pursuant to this authority, and subject to the Law and the discretion of the Directors, the Company may purchase shares of any of its classes in the market on an ongoing basis with a view to addressing any imbalance between the supply of and demand for such shares, thereby increasing the NAV per share of the shares and assisting in controlling the share price discount to NAV per share.

During the year 2,969,679 Extended Life Shares were repurchased for cancellation for gross consideration of $2,771,595. In addition, 6,145,000 New Global Shares were repurchased by the Company for gross consideration of £4,137,565 and are held in treasury.

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

It is intended that the Company will in due course cancel the NBDG Shares held in treasury.

DIRECTORS' REPORT (CONTINUED)

Distributions

The Company will pay out by way of dividend, in respect of each share class, all net income received on investments of the Company attributable to such share class, as appropriate. In addition, any capital proceeds attributable to a share class (as determined by the Directors in accordance with the Articles), will, at such times and in such amounts as the Directors shall in their absolute discretion determine, be distributed to shareholders of that class pro rata to their respective holdings of the relevant shares. Further information on the Company's income and capital distribution policies can be found on page 7.

Set out below are details of the distributions made during the year.

- *Income distributions by way of dividend*

Date	Ordinary Share Class		Extended Life Share Class		New Global Share Class	
	Distribution Amount	Per Share Amount	Distribution Amount	Per Share Amount	Distribution Amount	Per Share Amount
10 November 2016	$2,792,834	$0.0793	$7,576,079	$0.0332	£1,034,875	£0.0102

- *Capital distributions by way of a compulsory partial redemption*

Date	Ordinary Share Class			Extended Life Share Class			New Global Share Class		
	Distribution Amount	Number of Shares	Per Share Amount	Distribution Amount	Per Share Amount	Distribution Amount	Distribution Amount	Number of Shares	Per Share Amount
29 February 2016	$6,991,959	6,484,844	$1.0782	$19,991,948	21,162,219	$0.9447	-	-	-
28 April 2016	$4,491,953	4,080,255	$1.1009	$10,991,949	11,628,001	$0.9453	-	-	-
16 June 2016	$3,491,959	3,047,085	$1.1460	$7,991,945	8,130,158	$0.9830	-	-	-
6 December 2016	-	-	-	$10,991,943	10,970,002	$1.0020	-	-	-
9 March 2017	-	-	-	$10,491,942	10,427,294	$1.0062	-	-	-

Substantial Share Interests

Based upon information deemed to be reliable as provided by the Company's registrar, as at 31 March 2017, the following shareholders owned 5% or more of the issued shares of the Company.

Substantial Shareholders	No. of Ordinary Shares	No. of Extended Life Shares	No. of New Global Shares	Percentage of Share Class (%)
Prudential Client HSBC GIS Nominee (UK) Limited PAC Acct		24,569,757	27,366,750	24.70% 11.98%
Nortrust Nominees Limited		3,814,368	13,041,313	11.77% 1.86%
State Street Nominees Limited OM04 Acct		14,995,092	12,500,000	11.28% 7.31%
BNY (OCS) Nominees Limited UKREITS Acct		5,526,476	6,197,836	5.59% 2.69%
BNY (OCS) Nominees Limited		23,385,922	1,416,443	1.28% 11.40%
Nutraco Nominees Limited 897800 Acct		15,621,650	3,311,382	2.99% 7.62%
Chase Nominees Limited CMBJ Acct	7,920,270	1,227,426		22.49% 0.60%
Harewood Nominees Limited 4046320 Acct	16,242,823			46.12%
Citibank Nominees (Ireland) Limited CLRLUX Acct	19,856	17,940,847		8.75% 0.06%
Lynchwood Nominees Limited 2006420 Acct	119,763	16,135,695	875,000	0.34% 7.87% 0.79%

Note: shareholdings may be greater than 5% in the share class but may not be 5% in aggregate of the Company's issued share capital.

DIRECTORS' REPORT (CONTINUED)

Notifications of Shareholdings

In the year to 31 December 2016 the Company has been notified in accordance with Chapter 5 of the 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%. Notifications received by the Company below 5% are included here for completeness only. Class A shares do not hold voting rights.

Shareholder	Number of Shares	Percentage of total voting rights (%)
Witan Investment Trust Plc.	18,606,909	4.69%
Prudential Plc Group of Companies	51,887,519	14.74%

Since the year end at the date of this report, four notifications were received by the Company:

Shareholder	Number of Shares	Percentage of total voting rights (%)
Prudential Plc Group of Companies*	55,373,032	16.25%

*most recent TR-1 notification is detailed above

Directorship Disclosures in Public Companies Listed or Traded on E.U. Recognised Stock Exchange (as at 31 December 2016)

Company Names	Exchange(s)
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
NB Distressed Debt Investment Fund Limited	SFS, London
Partners Group Global Opportunities Limited	Ireland
Real Estate Credit Investments Limited	London
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
NB Distressed Debt Investment Fund Limited	SFS, London
NB Private Equity Partners Limited	Amsterdam, SFS, London
Raven Russia Limited	London
Mrs Sarah Evans	
Apax Global Alpha Limited	London
Crystal Amber Fund Limited	AIM, London
NB Distressed Debt Investment Fund Limited	SFS, London
Ruffer Investment Company Limited	London
Real Estate Credit Investments Limited	London
Mr Michael J. Holmberg	
NB Distressed Debt Investment Fund Limited	SFS, London
Mr Stephen Vakil	
NB Distressed Debt Investment Fund Limited	SFS, London

Certain of the Directors maintain additional directorships in companies that are not listed or traded on any E.U. recognised stock exchange. Details may be obtained from the Company Secretary.

DIRECTORS' REPORT (CONTINUED)

Anti-Bribery and Corruption Policy

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 strict observance with these same standards by its service providers in their activities for the Company and continues to refine its process in this regard.

Employees and Socially Responsible Investment

The Company has a management contract with the Investment Manager. It has no employees and all of its Directors are non-executive, with day-to-day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company's main activities are carried out by Neuberger Berman, which is a signatory of the Principles of Responsible Investment and has an ongoing commitment to strengthening and refining its environmental, social and governance approach. An overview of Neuberger Berman's Principal's for Responsible Investment is detailed on its website at www.nb.com/pages/public/en-gb/principles-for-responsible-investment.aspx.

Global Greenhouse Gas Emissions

The Company has no significant greenhouse gas emissions to report from its operations for the year to 31 December 2016 (2015 – none), nor does it have responsibility for any other emissions producing sources.

Gender Metrics

There are five Board members, one of whom is a woman. More information on the Board's consideration of diversity is given in the Corporate Governance Report on pages 44 and 45.

The Modern Slavery Act 2015 ("MSA")

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods or services, the MSA does not directly apply to it. The MSA requirements more appropriately relate to the Investment Manager which is a signatory of the Principles of Responsible Investment (please see "Employees and Socially Responsible Investment" above) which include social factors such as working conditions, including slavery and child labour.

DIRECTORS' REPORT (CONTINUED)

Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this report are listed on pages 33 and 34. 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.

For and on behalf of the Board

John Hallam
Chairman
10 April 2017

Sarah Evans
Director
10 April 2017

CORPORATE GOVERNANCE REPORT

Applicable Corporate Governance Codes

As the Company is listed on the SFS 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 GFSC's "Finance Sector Code of Corporate Governance" came into effect. The GFSC has stated in its Code that companies which report against the UK Corporate Governance Code (the "UK 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, by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code 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 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 2016 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except where explanations have been provided.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that certain provisions of the UK Code 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 the following provisions:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

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 DTRs by virtue of the information included in the Corporate Governance section of the Annual Report together with information contained in the Strategic Review and the Directors' Report.

Our Governance Framework

Chairman

John Hallam

Responsibilities:

The leadership, operation and governance of the Board, ensuring effectiveness, and setting the agenda for the Board.

More details are provided on pages 10 and 11.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Our Governance Framework (continued)

The Board members of NB Distressed Debt Investment Fund Limited

Members:

John Hallam (Chairman) – independent non-executive Director
Sarah Evans, Christopher Sherwell and Stephen Vakil – independent non-executive Directors
Michael Holmberg – non-executive Director

Responsibilities:

Overall conduct of the Company's business and setting the Company's strategy.

More details are provided below.

Audit Committee

Members:

Sarah Evans (Chairman)
Christopher Sherwell
Stephen Vakil
John Hallam

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 are provided on pages 49 to 53.

Management Engagement Committee

Members:

Stephen Vakil (Chairman)
Sarah Evans
John Hallam
Christopher Sherwell

Responsibilities:

To review the performance of all service providers (including the Investment Manager)

More details are provided on pages 54 to 55.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Our Governance Framework (continued)

Remuneration Committee

Members:

Sarah Evans (Chairman)
John Hallam
Christopher Sherwell
Stephen Vakil

Responsibilities:

To review the on-going appropriateness and relevance of the remuneration policy.

Inside Information Committee

Members:

Sarah Evans
John Hallam
Christopher Sherwell
Stephen Vakil
Michael Holmberg

Responsibilities:

To identify inside information and monitor the disclosure and control of inside information.

Board Independence and Composition

The biographical details of the Directors holding office at the date of this report are listed on pages 33 and 34 and demonstrate a breadth of investment, accounting and professional experience.

John Hallam, Sarah Evans, Christopher Sherwell and Stephen Vakil are considered independent from the Investment Manager. Michael Holmberg is deemed not independent as he is employed by a Neuberger Berman group company.

Mr Sherwell sits on the Board of NB Private Equity Partners Limited ("NBPE") managed by NB Alternative Advisers LLC, a Neuberger Berman Group entity based in Dallas, whereas the Company is managed by Neuberger Berman Investment Advisers LLC based in Chicago. Further, on 28 March 2017, NBPE announced a series of proposals for approval by shareholders at a general meeting to be held on 24 April 2017. As part of these proposals it is intended that Mr Sherwell will step down from the NBPE board and an announcement to that effect will be released in due course.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Independence and Composition (continued)

The Board believes that Mr Holmberg brings a significant amount of experience and expertise to the Board; however as a non-independent Director, Mr Holmberg does not sit on the Audit Committee or the Management Engagement Committee and is not involved in any matters discussed by the Board concerning the evaluation of the performance of the Investment Manager.

Sarah Evans and John Hallam are both non-executive Directors of Real Estate Credit Investment Limited.

The Directors review their independence annually.

The Company Secretary 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 2017 AGM. The length of service of each Director is shown in the Directors' Remuneration Report on pages 58 to 60. Any Director may resign in writing to the Board at any time.

Mr Vakil was appointed as a non-executive Director of the Board on 5 February 2016. The Board believe that this appointment strengthens the Board and is part of the Company's succession planning.

The Board led the formal, rigorous and transparent procedure for the appointment of Mr Vakil. Candidates were identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board, including gender. The Board undertook a wide recruitment drive which included interviewing candidates from Guernsey, the U.K. and the U.S. Lists of potential candidates were obtained from a variety of sources, including candidates known to the Board, its advisers and the Investment Manager and the Board agreed shortlists. Interviews were held with potential candidates. The skills, experience and time availability of each candidate was considered by the Board. Shortlisted candidates were invited to meet the Chairman and the Investment Manager and feedback was provided to the Board prior to selection. The decisions to appoint Mr Vakil was based on merit of both skills and experience and was considered fair and non-discriminatory. Neither an external search consultancy nor open advertising was used in relation to this appointment as the Board believed it received sufficient advice and recommendations from its advisers.

In accordance with the AIC Code and the Company's Articles, all Directors offered themselves for re-election at the first AGM of the Company; the Company subsequently adopted a policy of requiring all Directors to stand for annual re-election. John Hallam, Michael Holmberg and Christopher Sherwell were re-elected as Directors and Sarah Evans and Stephen Vakil were elected (being their first AGM since appointment) at the AGM on 24 August 2016. The names and biographies of the Directors holding office at the date of this report is listed on pages 33 and 34.

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 Director's 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. The Board has sought to appoint Directors with past and current experience of various areas relevant to the Company's business.

Directors are expected to devote such time as is necessary to enable them to discharge their duties. Other business relationships, including those that conflict or may potentially conflict with the interests of the Company, are taken into account when appointing Board members and are monitored on a regular basis.

Re-election of Directors

All of the Directors have outlined their intention to submit themselves for re-election at the AGM to be held on 6 June 2017.

As outlined on page 10 of the Chairman's Statement, the Board recognises that the Portfolios are now in their harvest periods and, as such, it believes that it is in the best interests of shareholders and the Company to maintain the current Board composition for the time being in order benefit from the Directors' technical knowledge and experience of managing the Company's affairs as the assets continue to wind down. The Remuneration Committee confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the AGM on 6 June 2017 continue to be effective and that the Company should support their re-election.

The dates of appointment of all Directors are provided in the Directors' Remuneration Report.

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 criterion of representation on the Board. At 31 December 2016 the Board had a 20% female representation. The Board continues to focus on encouraging diversity of business skills and experience, recognising that directors with diverse skills sets, capabilities and experience gained from different backgrounds enhance the Board.

Board Responsibilities

The Board reviews all aspects of the Company's affairs including the setting and monitoring of investment strategy and the review of investment performance. With the Portfolios now in their harvest periods, the Investment Manager takes decisions as to sale of individual investments, in line with the investment policy and strategy set by the Board. The Investment Manager together with the Company Secretary and Administrator 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 the 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)

Conflict of Interests

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise 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 2016, except Michael Holmberg, an employee of the Neuberger Berman Group of which the Investment Manager is a part.

The Directors' Remuneration Report on pages 58 to 60 provides information on the remuneration and interests of the Directors.

Performance Evaluation

The performance of the Board, its Committees and the Directors, including the Chairman, was reviewed by the Board in November 2016, by means of an internal questionnaire completed by Sarah Evans, John Hallam, Christopher Sherwell and Stephen Vakil. The Company Secretary collated the results of the questionnaires and the consolidated results were reviewed and discussed by the Board and by the Remuneration Committee. The Chairman reviewed each individual Director's contribution.

The 2016 evaluations concluded the following:

- the performance of the Board, its committees, the Chairman and each of the Directors continues to be effective;
- that Mr Hallam, Mrs Evans, Mr Sherwell and Mr Vakil are considered independent;
- all Directors should be proposed for re-appointment at the 2017 AGM; and
- the Board is considered to have an appropriate mix of skills, experience and gender.

The Board intends to conduct another internal board evaluation in November 2017, and will continue to review its procedures, its effectiveness and development in the year ahead.

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 by, 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 continually to 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 Mr Vakil was appointed to the Board he was provided with all relevant information regarding the Company and his duties and responsibilities as a Director. In addition, Mr Vakil spent time with representatives of the Company Secretary and the Investment Manager in order to learn more about their processes and procedures.

In June 2016 all Directors visited the AIFM's offices in Chicago to review and discuss the investment process in depth. The Directors also met representatives of the KPMG audit and tax teams based in Chicago.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 the Law, the Company's Articles 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. Each Director has an Instrument of Indemnity with the Company.

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

Relationship with the Investment Manager, Company Secretary, Administrator and Sub-Administrator

All of the Company's management and administration functions are delegated to external parties including the management of the investment Portfolios, 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. With the Portfolios now in their harvest periods, the Investment Manager takes decisions as to the sale of individual investments. The Investment Manager, Company Secretary, Administrator and Sub-Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager, Administrator and Sub-Administrator attend each Board meeting enabling the Directors to probe further into 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, Company Secretary, the Administrator and Sub-Administrator operate in a supportive, co-operative and open environment.

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 Directors believe that the AGM provides an appropriate forum for shareholders to communicate with the Board and encourages participation. There is an opportunity for individual shareholders to question the Chairman of the Board, the Audit Committee, Management Engagement Committee, Remuneration Committee and Inside Information Committee at the AGM.

The Board assesses the results of AGMs and will consider whether there is a significant number of votes not lodged in favour of a resolution. Where the Board considers that a significant number of votes have not been lodged in favour of a resolution, an immediate announcement would be made and further disclosures will be made in the Annual Report. The brokers and the Investment Manager will seek feedback from investors. In addition to this the brokers and the Investment Manager will provide the Board with feedback that has been received from investors about the performance of the Company and the Investment Manager.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Shareholder Engagement (continued)

At the AGM held on 24 August 2016 the Company received notable votes against or withheld on the following resolutions:

Resolution	For	Against	Withheld	Total Vote
To re-elect Mr John Hallam as a Director of the Company	119,725,544	37,628,421	2,889	157,356,854
To re-elect Mr Michael Holmberg as a Director of the Company	119,725,544	37,631,310	-	157,356,854
To re-elect Mr Christopher Sherwell as a Director of the Company	119,725,544	37,631,310	-	157,356,854
To reappoint KPMG Channel Islands Limited as the independent auditors of the Company to hold office until the conclusion of the next AGM of the Company	100,883,419	18,845,014	37,628,421	157,356,854

Shortly after the AGM, the Board, in conjunction with the Company's brokers, sought feedback from shareholders and shareholder voting guideline agencies to understand better the principal reasons for the notable votes against or withheld. Following these discussions the Board had concluded that the notable votes against or withheld were cast primarily on grounds of non-independence.

John Hallam resigned as a director of Neuberger Berman Private Equity Partners Limited in 2015 and no longer has any connections to the company and as such the Board considers that he continues to be independent.

For the reasons outlined in the "Board Independence and Composition" section of this Corporate Governance Report the Board maintains the view that Christopher Sherwell is an independent Director of the Company. The Board also believes that Mr Holmberg brings a significant amount of experience and expertise to the Board; however as a non-independent Director, Mr Holmberg does not sit on the Audit Committee, Management Engagement Committee or Remuneration Committee and is not involved in any matters discussed by the Board concerning the evaluation of the performance of the Investment Manager.

For the reasons outlined in the "Appointment and Independence" section of the Audit Committee Report, the Board, on the advice of the Audit Committee, is satisfied with the auditor's independence.

The Annual and Interim Reports 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 LSE of the net asset value of the Company's Ordinary Shares, Extended Life Shares and New Global Shares. All documents issued by the Company can be viewed on the Company's website at www.nbddif.com.

2017 AGM

The 2017 AGM will be held in Guernsey on 6 June 2017. The notice for the AGM 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 102. At other times the Company Secretary responds to letters from shareholders on a range of issues.

Voting on all resolutions at the 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 the Company's website and announced via a Regulatory Information Service.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings

The Board meets at least four times a year. Certain matters are considered at all Board meetings including Portfolio composition and asset realisation strategy, capital repayments and income distributions by way of dividend, 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 an informal meeting with the Chairman or another non-executive Director.

Attendance at scheduled meetings of the Board and its committees in the 2016 financial year

	Board	Audit Committee	Management Engagement Committee	Remuneration Committee
Number of meetings	**4**	**4**	**3**	**1**
John Hallam	4	4	3	1
Sarah Evans	4	4	3	1
Michael Holmberg	4	n/a	n/a	n/a
Christopher Sherwell	4	4	3	1
Stephen Vakil	3	3	2	1

In addition to these meetings, 10 ad-hoc Board meetings were held during the year for various matters, primarily of an administration nature including, but not limited to, distributions. The meetings were attended by those Directors available at the time.

Board Committees

The Board has established an Audit Committee, Management Engagement Committee, Remuneration Committee and Inside Information Committee with defined terms of reference and duties. Further details of these committees can be found in their reports on pages 49 to 57. The terms of reference for each committee can be found on the Company's website at www.nbddif.com.

An Inside Information Committee was established in light of the introduction of the E.U. Market Abuse Regulations and the requirement to identify and manage the disclosure of inside information.

The Board feels that due to the size and structure of the Company, establishing a Nomination Committee was unnecessary and that the Board as a whole will consider matters relating to appointment of Directors.

For and on behalf of the Board.

John Hallam
Chairman
10 April 2017

Sarah Evans
Director
10 April 2017

AUDIT COMMITTEE REPORT

Membership

Sarah Evans – Chairman	(Independent non-executive Director)
Christopher Sherwell	(Independent non-executive Director)
John Hallam*	(Chairman of the Company and Independent non-executive Director)
Stephen Vakil	(Independent non-executive Director)

* The Board believes it is appropriate for the Company Chairman to be a member of the Audit Committee as he is an 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 Audit Committee believes the Annual Report and Financial Statements, 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 of the independence of the auditors arising from any non-audit services to be provided by the auditor;
- reviewing the effectiveness of the Company's risk management framework, taking into account the reports on the internal controls of the Company's service providers;
- considering the nature and extent of the significant risks the Company faces in achieving its strategic objectives; and
- compiling a report on the Audit Committee's activities to be included in the Company's Annual Report.

Audit Committee Meetings

The Audit Committee meets at least three times a year. Only members and the Secretary 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 Audit Committee determines, in conjunction with KPMG, whether it is necessary for the Audit Committee to meet the auditors without the Investment Manager or other service providers being present.

AUDIT COMMITTEE REPORT (CONTINUED)

Main Activities During the Year

The Audit 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 Audit Committee generally take place prior to a Company Board meeting. The Audit Committee reports to the Board as part of a separate agenda item, on the activities of the Audit Committee and matters of particular relevance to the Board in the conduct of their work.

The Audit Committee met with representatives of the KPMG audit and tax teams based in Chicago during a due diligence visit in 2016.

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

Financial Reporting

The primary role of the Audit Committee in relation to financial reporting is to review with the Investment Manager, Administrator and the external auditor the appropriateness of the Interim 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;
- the viability of the Company, taking into account the principal risks it faces;
- whether the Annual Report and Financial Statements, 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 financial reporting.

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

Significant Issues

In relation to the Annual Report and Financial Statements for the year ended 31 December 2016, the significant issue considered by the Audit Committee was the valuation of the Company's investments.

The Audit Committee received a report from the Investment Manager on the valuation of the Portfolios and on the assumptions used in valuing the Portfolios. The Audit Committee analysed the investment Portfolios of the Company in terms of investment mix, fair value hierarchy and valuation. The Audit Committee has held detailed discussions with the Investment Manager regarding the methodology and procedures used in valuing the Portfolios.

The Audit Committee discussed in depth with KPMG their approach to testing the appropriateness and robustness of the valuation methodology applied by the Investment Manager to the Company's Portfolios. The members of the Audit 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 results of the work performed during their testing process. Based on their above review and analysis the Audit Committee confirmed that it is satisfied with the valuation of the investments.

AUDIT COMMITTEE REPORT (CONTINUED)

Internal Controls and Risk Management

The Audit Committee has established a process for identifying, evaluating and managing any major risks faced by the Company. The process is subject to regular review by the Board and accords with the AIC Code.

The Audit Committee is responsible overall for the Company's system of internal financial and operating controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has undertaken a full review of the Company's business risks, which have been analysed and recorded in a risk matrix, which is reviewed and updated regularly and is formally reviewed at each quarterly Board meeting. The Board receives, each quarter from the Investment Manager, a formal report which details the steps taken to monitor and manage the areas of risk including those that are not directly the responsibility of the Investment Manager and which reports the details of any known internal control failures.

The Company itself does not have an internal audit function, but instead relies on the internal audit functions and departments of the Investment Manager. The Audit Committee was satisfied that this function provided significant control to help mitigate the risks to the Company.

In addition, the Audit Committee receives and reviews Internal Controls reports from independent sources of the Administrator, Sub-Administrator, Registrar, Custodian and Investment Manager on an annual basis.

The Investment Manager has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's compliance and risk department on an ongoing basis.

The Board's assessment of the Company's principal risks is set out on pages 27 to 29.

By means of the procedures set out above, the Audit Committee confirms that it has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2016 and to the date of approval of this Annual Report and that no issues have been noted.

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Audit Committee received a detailed audit plan from KPMG, identifying their assessment of these principal risks. For the 2016 financial year the significant risk identified was in relation to the valuation of investments. This risk is tracked through the year and the Audit Committee has challenged the work done by the auditors to test management's assumptions and estimates around these areas. The Audit Committee has assessed the effectiveness of the audit process in addressing these matters through the reports received from KPMG at both the half-year and year end. In addition, the Audit Committee has sought feedback from the Investment Manager, the Administrator and Sub-administrator on the effectiveness of the audit process. For the 2016 financial year the Audit Committee is 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.

AUDIT COMMITTEE REPORT (CONTINUED)

External Audit (continued)

The Audit Committee considers the re-appointment 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 Company's current audit partner, Dermot A. Dempsey, took over the role as lead audit engagement partner in 2014 following the departure of Robert A. Hutchinson who had been the lead audit engagement partner for 4 years.

KPMG has been the Company's external auditor since its stock exchange listing in 2010 (6 years). The Company has not formally tendered the audit since then. The Audit Committee will put the Company's audit out to tender at least every ten years and the maximum duration of a continuous audit engagement will be twenty years.

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

The Audit Committee intends to comply with the FRC's Ethical Standard for E.U. Public Interest Entities ("PIEs") relating to audit tenders.

The Audit Committee approved the fees for audit services for 2016 after a review of the level and nature of work to be performed. The Board was satisfied that the fees were appropriate for the scope of the work required.

The Audit Committee is satisfied that KPMG is independent.

Non-Audit Services

To safeguard the objectivity and independence of the external auditor from becoming compromised, the Audit Committee has a policy governing the engagement of the external auditor to provide non-audit services. The Committee made amendments to this policy in March 2017 in order to voluntarily adopt the provisions of FRC's Ethical Standard for E.U. PIEs relating to non audit services. The Audit Committee has pre-approved the categories of non-audit services that may be performed by the Company's external auditors. The Audit Committee must be advised by the commissioning entity/person, and by the audit firm, of all assignments undertaken by the external auditors that fall within the pre-approved categories as soon as practicable.

All other non-audit services require prior approval by the Audit Committee. In respect of each calendar year the Audit Committee monitors the provision of non-audit services by receiving at least half yearly a list of the non-audit services provided (and expected to be provided) by the external auditors in that calendar year, and the fees involved, so that the Audit Committee can consider the impact on auditors' objectivity. The Audit Committee's policy on the Independence of External Auditors (including the provision of non-audit services) is available on its website at www.nbddif.com.

Auditor's Remuneration

	31 December 2016	31 December 2015
	£	£
Audit	181,345	185,900
Taxation compliance & consulting services	232,598	104,869
Non audit services (review of interim report)	26,100	26,100
Total	**440,043**	**316,869**

AUDIT COMMITTEE REPORT (CONTINUED)

Appointment and Independence

Having given careful consideration to the matter, the Audit Committee is satisfied with the auditor's independence and the effectiveness of the audit conducted by KPMG. The Audit Committee noted that for the year ended 31 December 2016 non-audit fees exceeded audit fees. In light of the growing focus on non-audit fees the Audit Committee has enhanced its scrutiny to ensure that it is comfortable, on an ongoing basis, that the nature of the non-audit work commissioned does not impinge on audit independence. The Audit Committee does not consider that tax compliance and tax consultancy services present a conflict as the services provided were all assessed as permissible prior to the commencement of the work and do not impact the audit work performed by the audit team. The Audit Committee is cognisant that fees relating to tax compliance and tax consultancy are typically higher for the Company when compared against other investment companies due to the types of investments and various jurisdictions in which the Company operates. For example, a portion of the consulting work relates to responses to federal and state notices and assistance with federal and state audits. Other consulting is also generally routine in nature - researching tax consequences associated with various investments/restructuring for the Investment Manager to take into consideration in making investment decisions. Where there are larger restructurings KPMG has often advised alongside a law firm so advice is being provided by multiple parties. Further, the fees that do relate to consulting are more research orientated rather than tax positions subject to interpretation that could impact an audit.

As noted above, the Committee has voluntarily adopted certain provisions of the FRC's Ethical Standard for E.U. PIEs which requires that fees for non-audit services provided by the statutory audit firm, other than those required by law or regulation, are subject to a cap of 70% of the average of the audit fees in the last three years. This policy is applied prospectively from the Company's year ended 31 December 2017 and therefore the threshold will be calculated on a three year look back from the financial year ended 31 December 2020.

Management retains responsibility for preparing and approving all tax calculations and tax returns, the output from the services is not relied upon by the audit team and the performance of these services is led by a tax partner who is independent of the audit team. Those tax services are subject to separate terms of engagement from the audit engagement.

The Audit Committee has therefore recommended to the Board that KPMG be reappointed as external auditor for the year ending 31 December 2017, 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 2017 AGM.

There are no contractual obligations restricting the Audit Committee's choice of external auditor and the Company does not indemnify the external auditor.

Audit Committee Evaluation

The Audit Committee's activities formed part of the Board evaluation performed in the year. Details of this process can be found under "Performance evaluation" on page 45.

Sarah Evans
On behalf of the Audit Committee
10 April 2017

MANAGEMENT ENGAGEMENT COMMITTEE ("MEC") REPORT

Membership

Stephen Vakil – Chairman	(Independent non-executive Director)
Christopher Sherwell	(Independent non-executive Director)
John Hallam	(Chairman of the Company and Independent non-executive Director)
Sarah Evans	(Independent non-executive Director)

Key Objectives

To review performance of all service providers (including the Investment Manager).

Responsibilities

- To review annually the performance, relationships and contractual terms of all service providers (including the Investment Manager);
- Review and make recommendations on any proposed amendment to the Investment Manager Agreement;
- To review the performance of, and contractual arrangements with the Investment Manager including:
  - Monitor and evaluate the Investment Manager's performance and, if necessary provide appropriate guidance;
  - To consider whether an independent appraisal of the Investment Manager's services should be made;
  - To review the level and method of remuneration and notice period, using peer group comparisons (where available); and
  - To ensure that the Investment Manager has a sound system of risk management and internal controls and that these are maintained to safeguard shareholders' investment and the Company's assets.

Committee Meetings

Only members of the MEC and the Secretary have the right to attend Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Committee to attend meetings as and when appropriate.

Main Activities During the year

The MEC met three times during the year and reviewed performance and value of the Company's service providers and the Investment Manager. The MEC reviewed the contractual terms, disaster recovery and business continuity arrangements, information security arrangements, details of anti-bribery and corruption policies and the level of Professional Indemnity Insurance of all service providers as at 17 November 2016, including the Investment Manager. The MEC reviewed the Terms of Reference for the MEC and considered that they remained appropriate.

MANAGEMENT ENGAGEMENT COMMITTEE ("MEC") REPORT (CONTINUED)

Continued Appointment of the Investment Manager and Other Service Providers

The Board reviews investment performance at each Board meeting and the performance of the Company's service providers is reviewed annually as part of the MEC's annual review.

As a result of the 2016 annual review it is the opinion of the Directors that the continued appointment of the current service providers, including the Investment Manager, on the terms agreed is in the best interests of the Company's shareholders as a whole. The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Stephen Vakil
On behalf of the MEC
10 April 2017

INSIDE INFORMATION COMMITTEE REPORT

Membership

Sarah Evans	(Independent non-executive Director)
John Hallam	(Chairman of the Company and Independent non-executive Director)
Michael Holmberg	(non-executive Director)
Christopher Sherwell	(Independent non-executive Director)
Stephen Vakil	(Independent non-executive Director)

Key Objectives

To identify inside information and monitor the disclosure and control of inside information.

Responsibilities

- Indentify inside information as it arises;
- Review and prepare project insider lists as required; and
- Consider the need to announce or to delay the announcement of inside information.

Committee Meetings

Only members of the Inside Information Committee and the Secretary have the right to attend Inside Information Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Inside Information Committee to attend meetings as and when appropriate.

Main Activities During the year

Under the Terms of Reference the Inside Information Committee is only required to meet when there is a requirement to identify and delay the disclosure of inside information. There were no delays to the disclosure of information during the year.

John Hallam
On behalf of the Inside Information Committee
10 April 2017

REMUNERATION COMMITTEE REPORT

Membership

Sarah Evans – Chairman	(Independent non-executive Director)
Christopher Sherwell	(Independent non-executive Director)
John Hallam	(Chairman of the Company and Independent non-executive Director)
Stephen Vakil	(Independent non-executive Director)

Key Objectives

To review the ongoing appropriateness and relevance of the Company's remuneration policy.

Responsibilities

- Determine the remuneration of the Directors;
- Prepare an annual report on Directors' remuneration;
- Consider the need to appoint external remuneration consultants; and
- Oversee the performance evaluation of the Board; its committees and individual directors.

Committee Meetings

Only members of the Remuneration Committee and the Secretary have the right to attend Remuneration Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Remuneration Committee to attend meetings as and when appropriate.

Main Activities During the year

The Remuneration Committee was established on 17 November 2016 and met once during the year and reviewed the Director's remuneration and results of the 2016 Board evaluation. The terms of reference of the Remuneration Committee were adopted.

A detailed "Directors' Remuneration" report to shareholders from the Remuneration Committee on behalf of the Board is contained on pages 58 to 60.

Sarah Evans
On behalf of the Remuneration Committee
10 April 2017

DIRECTORS' REMUNERATION REPORT

Annual Statement

The following 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 AGM to be held on 6 June 2017.

Directors' Fees

The Company paid the following fees to the Directors for the year ended 31 December 2016:

	Role	Board Fees US$	Board Fees £	Other Fees £	Total US$	Total £
John Hallam	Current Chairman and former Chairman of Audit Committee	60,000	10,000	-	60,000	10,000
Michael Holmberg	non-executive Director	-	-	-	-	-
Talmai Morgan*	non-executive Director and Member of Audit Committee	4,821	1,071	-	4,821	1,071
Christopher Sherwell	non-executive Director and Member of Audit Committee	45,000	10,000	-	45,000	10,000
Sarah Evans	non-executive Director and Chairman of Audit Committee and Remuneration Committee	50,000	10,000	-	50,000	10,000
Stephen Vakil**	non-executive Director and Chairman of Management Engagement Committee	40,179	8,929	-	40,179	8,929
Total		200,000	40,000		200,000	40,000

*Talmai Morgan resigned as a Director on 8 February 2016

**Mr Vakil was appointed as a Director on 5 February 2016

The Company paid the following fees to the Directors for the year ended 31 December 2015:

	Role	Board Fees US$	Board Fees GBP	Other Fees GBP	Total US$	Total GBP
Robin Monro-Davies	Former Chairman	45,000	7,500	-	45,000	7,500
Patrick Flynn	Former non-executive Director	-	-	-	-	-
John Hallam	Current Chairman and former Chairman of Audit Committee	52,500	10,000	-	52,500	10,000
Michael Holmberg	non-executive Director	-	-	-	-	-
Talmai Morgan	non-executive Director and Member of Audit Committee	45,000	10,000	-	45,000	10,000
Christopher Sherwell	non-executive Director and Member of Audit Committee	45,000	10,000	-	45,000	10,000
Sarah Evans	non-executive Director and Chairman of Audit Committee	9,178	1,836	-	9,178	1,836
Total		196,678	39,336	-	196,678	39,336

No other remuneration was paid or payable by the Company during the year to any of the Directors, other than travel expenses of $36,328 (2015: $4,547). As noted on page 45, the travel costs in 2016 include a due diligence visit by all Directors to the Investment Manager's offices in Chicago.

Changes to the Board

Mr Vakil was appointed on 5 February 2016 and Mr Morgan resigned on 8 February 2016.

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.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Remuneration Policy (continued)

No Director has a service contract with the Company and Director's appointments may be terminated at any time with no comparison 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 additional time spent performing their duties. The Board may amend the level of remuneration paid within the limits of the Company's Articles. The Board recognises that its remuneration policy may need to be reviewed in the near future to reflect the changing status of the Company as the existing Portfolios realise their assets and liquidate.

Directors' Fees Policy

Objective	Operation	Maximum Potential Value	Performance Metrics Used
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 February 2016. 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. 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.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Service Contracts and Policy on Payment of Loss of Office (continued)

As detailed on page 44, all of the independent non-executive Directors were re-elected at the first AGM after their appointment and are subject to annual re-election. The names and biographies of the Directors holding offices at the date of this report are listed on pages 33 and 34.

Copies of the Directors' letters of appointment are available for inspection by shareholders at the Company's Registered Office, and will be available at the AGM. The dates of their letter of appointments are shown below.

Dates of Directors' Letters of Appointment

	Date of Letter of Appointment
John Hallam	20 April 2010
Michael Holmberg	21 April 2010
Christopher Sherwell	20 April 2010
Sarah Evans	26 October 2015
Stephen Vakil	5 February 2016

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 at 31 March 2017 are shown in the table below:

Director	No. of Ordinary Shares	No. of Extended Life Shares	No. of New Global Shares	Total No. of Shares
Mr John Hallam	-	46,265	100,000	146,265
Mr Michael Holmberg	-	76,978	115,000	191,978
Mr Christopher Sherwell	-	26,806	65,000	91,806
Mrs Sarah Evans*	-	-	162,703	162,703
Mr Stephen Vakil	-	-	60,000	60,000

*Includes holdings of connected persons.

Advisors to the Remuneration Committee

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

Sarah Evans
On behalf of the Remuneration Committee

10 April 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Directors' Report and financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and US GAAP, of the state of affairs of the Company and of the profit or loss for the year. 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 Law. 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 Financial Statements for the Company for the year ended 31 December 2016 as the parent of the Group in accordance with Section 244(5) of the Law. They are not required to prepare individual accounts for NB Distressed Debt Investment Fund Limited in accordance with Section 243 of the Law for the financial year.

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 Financial Statements which have been prepared in conformity with US GAAP give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole as required by DTR 4.1.12R are in compliance with the requirements set out in the Law; 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from regulation in other jurisdictions.

By order of the Board

John Hallam
Chairman
10 April 2017

Sarah Evans
Director
10 April 2017

INDEPENDENT AUDITOR'S REPORT

We have audited the Group financial statements (the "financial statements") of NB Distressed Debt Investment Fund Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016 which comprise the consolidated statement of assets and liabilities including the consolidated condensed schedule of investments, the consolidated statement of operations, the consolidated statement of changes in net assets, the 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 the directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 61, 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 compliance with the Auditing Practices Board'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 directors; and the overall presentation of the financial statements. 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 2016 and its result for the year then ended;
- are in conformity with U.S. generally accepted accounting principles; and
- comply with the Companies (Guernsey) Law, 2008.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Matters on which we are required to report by exception (continued)

- 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.

Dermot A. Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors, Guernsey

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
At 31 December 2016 and 31 December 2015

(Expressed in U.S. Dollars except where stated otherwise)

Assets	**31 December 2016**	**31 December 2015**
Investments, at fair value	330,728,123	420,511,732
(2016: cost of $389,791,409; 2015: cost of $543,795,215)		-
Forward currency contracts	1,766,317	453,177
Credit default swap (2015: cost of $24,883)	-	58,892
Warrants (2016: cost of $752,955 ; 2015: cost of $371,508)	440,230	210,523
Cash and cash equivalents	38,615,044	17,168,855
	371,549,714	**438,403,179**
Other assets:		
Interest receivables	1,002,567	1,908,701
Receivables for investments sold	4,693,490	4,629,030
Other receivables and prepayments	1,161,989	355,202
Deferred tax asset	2,987,074	-
Total assets	**381,394,834**	**445,296,112**
Liabilities		
Payables for investments purchased	9,507,381	169,673
Credit default swap (2016: cost of $45,648)	28,813	-
Forward currency contracts	6,813	-
Accrued expenses and other liabilities	455,438	451,962
Payables to Investment Manager and affiliates	461,858	553,726
Deferred tax liability	-	3,220,787
Total liabilities	**10,460,303**	**4,396,148**
Net assets	**370,934,531**	**440,899,964**
Net assets attributable to Ordinary Shares (shares 2016: 35,218,587; 2015: 48,830,771)	**37,271,106**	**54,610,406**
Net asset value per Ordinary Share	**1.0583**	**1.1184**
Net assets attributable to Extended Life Shares (shares 2016: 215,873,854; 2015: 270,733,913)	**216,628,260**	**270,818,231**
Net asset value per Extended Life Share	**1.0035**	**1.0003**
Net assets attributable to New Global Shares (shares 2016: 100,575,785; 2015: 106,720,785)	**£94,715,465**	**£78,344,071**
Net asset value per New Global Share	**£0.9417**	**£0.7341**
Net assets attributable to New Global Shares (USD equivalent)	**117,035,165**	**115,471,327**
Net asset value per New Global Share (USD equivalent)	**1.1637**	**1.0820**

The Audited Consolidated Financial Statements (the "Financial Statements") were approved and authorised for issue by the Board of Directors on 10 April 2017, and signed on its behalf by:

John Hallam
Chairman

Sarah Evans
Director

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF OPERATIONS
At 31 December 2016 and 31 December 2015
(Expressed in U.S. Dollars)

	31 December 2016	31 December 2015
Income		
Interest income	13,114,532	15,137,050
Dividend income net of withholding tax (2016: $506,473; 2015: $83,265)	3,394,883	7,365,982
	16,509,415	**22,503,032**
Expenses		
Investment management fee	5,837,063	8,421,436
Professional and other expenses	2,313,235	2,199,282
Administration fee	357,463	582,390
Loan administration and custody fees	183,060	240,499
Directors' fees and expenses	289,955	266,840
	8,980,776	**11,710,447**
Net investment income	**7,528,639**	**10,792,585**
Realised and unrealised gain/(loss) from investments and foreign exchange		
Net realised (loss)/gain on investments, credit default swap, warrants and forward currency transactions	(11,233,015)	23,847,442
Loss on non-cash investment transactions	(45,501,723)	(24,262,850)
Net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions	65,205,964	(105,524,819)
Income taxes from net realised/unrealised loss on investments	(832,659)	(1,280,308)
Realised and unrealised gain/(loss) from investments and foreign exchange	**7,638,567**	**(107,220,535)**
Net increase/(decrease) in net assets resulting from operations	**15,167,206**	**(96,427,950)**

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
31 December 2016
(Expressed in U.S. Dollars)

	31 December 2016 Ordinary Shares	31 December 2016 Extended Life Shares	31 December 2016 New Global Shares	31 December 2016 Aggregated
Net assets at the beginning of the year	54,610,406	270,818,231	115,471,327	440,899,964
Net investment income	586,847	5,175,762	1,766,030	7,528,639
Net realised loss on investments, credit default swap and forward currency transactions	(272,874)	(7,361,874)	(3,598,267)	(11,233,015)
Loss on non-cash investment transactions	(2,502,542)	(29,790,961)	(13,208,220)	(45,501,723)
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	2,774,411	38,401,344	24,030,209	65,205,964
Income taxes from net realised/unrealised gains from investments	(156,437)	(298,783)	(377,439)	(832,659)
Dividends	(2,792,834)	(7,576,079)	(1,302,596)	(11,671,509)
Net cost of share buybacks	-	(2,771,595)	(5,745,879)	(8,517,474)
Shares redeemed during the year	(14,975,871)	(49,967,785)	-	(64,943,656)
Net assets at the end of the year	**37,271,106**	**216,628,260**	**117,035,165**	**370,934,531**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
31 December 2015
(Expressed in U.S. Dollars)

	31 December 2015 Ordinary Shares	31 December 2015 Extended Life Shares	31 December 2015 New Global Shares	31 December 2015 Aggregated
Net assets at the beginning of the year	**93,920,322**	**395,281,487**	**153,044,225**	**642,246,034**
Net investment income	1,271,991	7,540,690	1,979,904	10,792,585
Net realised gain on investments, credit default swap and forward currency transactions	6,801,140	21,472,097	(4,425,795)	23,847,442
Loss on non-cash investment transactions	(3,500,079)	(14,272,194)	(6,490,577)	(24,262,850)
Net change in unrealised loss on investments, credit default swap, warrants and forward currency transactions	(11,087,463)	(70,345,560)	(24,091,796)	(105,524,819)
Income taxes from net realised/unrealised gains from investments	(327,692)	(863,804)	(88,812)	(1,280,308)
Net cost of share buybacks	-	(2,574,727)	(4,455,822)	(7,030,549)
Shares redeemed during the year	(32,467,813)	(65,419,758)	-	(97,887,571)
Net assets at the end of the year	**54,610,406**	**270,818,231**	**115,471,327**	**440,899,964**

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
31 December 2016 and 30 June 2015

(Expressed in U.S. Dollars)

	31 December 2016	31 December 2015
Cash flows from operating activities:		
Net increase/(decrease) in net assets resulting from operations	15,167,206	(96,427,950)
Adjustment to reconcile net decrease in net assets resulting from operations to net cash flow provided by/(used in) operations:		
Net realised loss/(gain) on investments	11,233,015	(23,847,442)
Loss on non-cash investment transactions	45,501,723	24,262,850
Net change in unrealised (gain)/loss on investments and forward currency transactions	(65,205,964)	105,524,819
Accretion of discount on loans and bonds	(2,079,112)	(1,435,084)
Changes in interest receivable	906,134	92,699
Changes in receivables for investments sold	(64,460)	4,426,237
Changes in other receivables and prepayments	(806,787)	451,936
Change in deferred taxes	(6,207,861)	(1,579,637)
Changes in payables for investments purchased	9,337,708	(56,793,885)
Changes in payables, accrued expenses and other liabilities	(88,392)	(429,304)
Cash (paid)/received on settled forward currency contracts	(3,350,032)	6,397,892
Purchase of investments	(41,848,593)	(97,509,141)
Sale of investments	108,320,709	175,407,206
Net sale/(purchase) of short term investments	35,909,126	23,156,008
Net cash provided by operating activities	**106,724,420**	**61,697,204**
Cash flows from financing activities:		
Net cost of share buybacks	(8,517,474)	(4,455,822)
Shares redeemed during the year	(64,943,656)	(100,462,298)
Dividends	(11,671,509)	-
Net cash provided used in financing activities	**(85,132,639)**	**(104,918,120)**
Net increase/(decrease) in cash and cash equivalents	**21,591,781**	**(43,220,916)**
Cash and cash equivalents at the beginning of the year	17,168,855	59,305,660
Effect of exchange rate changes on cash and cash equivalents	(145,592)	1,084,111
Cash and cash equivalents at the end of the year	**38,615,044**	**17,168,855**

Supplemental cash flow information

$27,933,872 (31 December 2015: $43,179,488) related to the value of non-cash investment transactions, including reorganisations and exchanges and is excluded from purchases of and proceeds from sales of investments. Net tax paid during the year was $7,040,520 (31 December 2015: $2,859,945).

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
At 31 December 2016
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Portfolio of Distressed Investments						
Bank Debt Investments	131,743,761	89,462,184	13.09	21.72	32.07	24.12
Private Bond	19,285,351	13,661,412	2.06	4.20	3.24	3.68
Private Equity	138,122,077	142,382,636	44.24	38.19	36.89	38.39
Private Equity: Real Estate Development	2,585,916	3,600,871	2.70	1.20	-	0.97
Private Note	33,484,723	18,451,483	2.41	7.13	1.79	4.97
Public Bond	7,990,556	6,505,825	-	1.30	3.16	1.75
Public Equity	35,553,686	36,692,442	4.86	8.26	14.51	9.89
Trade Claim (ii)	13,032,089	11,979,270	8.98	3.98	-	3.23
	381,798,159	322,736,123	78.34	85.98	91.66	87.00
Temporary Investments						
UK Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	7,993,250	7,992,000	-	3.69	-	2.15
Total Investments	**389,791,409**	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**
Ordinary Shares	32,765,088	29,204,266	78.34	-	-	-
Extended Life Shares	229,387,485	194,247,898	-	89.67	-	-
New Global Shares	127,638,835	107,275,959	-	-	91.66	-
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**
Credit Default Swaps						
Ordinary Shares	(12,722)	(8,030)	(0.02)	-	-	-
Extended Life Shares	(32,926)	(20,783)	-	(0.01)	-	(0.01)
	(45,648)	**(28,813)**	**(0.02)**	**(0.01)**	**-**	**(0.01)**
Forward Currency Contracts						
Ordinary Shares	-	315,578	0.85	-	-	0.09
Extended Life Shares	-	1,443,926	-	0.67	-	0.39
	-	**1,759,504**	**0.85**	**0.67**	**-**	**0.47**
Warrants						
Extended Life Shares	478,733	305,746	-	0.14	-	0.08
New Global Shares	274,222	134,484	-	-	0.11	0.04
	752,955	**440,230**	**-**	**0.14**	**0.11**	**0.12**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

(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 Financial Statements.

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2015
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Portfolio of Distressed Investments						
Bank Debt Investments	182,029,312	114,834,083	16.55	24.99	33.01	26.05
Investment Partnership	11,303,825	6,307,236	3.23	1.68	-	1.43
Private Bond	28,392,971	20,338,524	1.32	3.53	8.70	4.61
Private Equity	165,829,026	161,927,803	42.06	39.01	28.81	36.73
Private Equity: Real Estate Development	2,793,046	4,787,223	2.45	1.27	-	1.09
Private Note	33,286,313	21,302,871	1.95	6.62	2.01	4.83
Public Bond	22,149,082	7,254,764	0.73	2.10	1.02	1.65
Public Equity	39,486,775	29,241,385	5.33	6.72	7.05	6.63
Trade Claim (ii)	13,032,089	9,267,308	4.74	2.47	-	2.10
	498,302,439	375,261,197	78.36	88.39	80.60	85.12
Temporary Investments						
US Treasury Bills	37,881,401	37,881,521	17.72	10.41	-	8.59
UK Treasury Bills	7,611,375	7,369,014	-	-	6.38	1.67
	45,492,776	45,250,535	17.72	10.41	6.38	10.26
Total Investments	**543,795,215**	**420,511,732**	**96.08**	**98.80**	**86.98**	**95.38**
Ordinary Shares	58,628,292	52,473,234	96.08	-	-	-
Extended Life Shares	340,112,220	267,596,946	-	98.80	-	-
New Global Shares	145,054,703	100,441,552	-	-	86.98	-
	543,795,215	**420,511,732**	**96.08**	**98.80**	**86.98**	**95.38**
Credit Default Swaps						
Ordinary Shares	7,147	16,916	0.03	-	-	-
Extended Life Shares	17,736	41,976	-	0.02	-	0.01
	24,883	**58,892**	**0.03**	**0.02**	**-**	**0.01**
Forward Currency Contracts						
Ordinary Shares	-	134,086	0.25	-	-	0.03
Extended Life Shares	-	319,091	-	0.12	-	0.07
	-	**453,177**	**0.25**	**0.12**	**-**	**0.10**
Warrants						
Extended Life Shares	206,269	116,887	-	0.04	-	0.03
New Global Shares	165,239	93,636	-	-	0.08	0.02
	371,508	**210,523**	**-**	**0.04**	**0.08**	**0.05**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2016 and 31 December 2015

(Expressed in U.S. Dollars)

Investments with the following issuers comprised of greater than 5% of Total Company NAV:

31 December 2016	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Securities									
Five Point Holdings LLC (formally known as Newhall Holding Company, LLC)	United States	Building & Development	10,891,404	23,945,425	27,228,510	13.18	6.69	6.69	7.34
Harko LLC	United States	Lodging & Casinos	2,517,756	35,195,155	33,989,706	18.67	8.28	7.76	9.16
				59,140,580	**61,218,216**	**31.85**	**14.97**	**14.45**	**16.50**

31 December 2015	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Securities									
Newhall Holding Company, LLC	United States	Building & Development	9,988,960	21,595,838	27,469,640	9.89	5.89	5.30	6.23
Granite Ridge Holdings, LLC	United States	Utilities	132,017	20,885,571	31,684,080	12.62	6.56	6.09	7.19
Harko LLC	United States	Lodging & Casinos	1,844,671	27,670,065	24,903,059	12.74	6.63	-	5.65
Temporary Investments									
US Treasury Bills	United States	Government	37,890,000	37,881,400	37,881,521	17.72	10.42	-	8.59
				108,032,874	**121,938,300**	**52.97**	**29.50**	**11.39**	**27.66**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share Class NAV.

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2016
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Geographic diversity of Portfolio						
Portfolio of Distressed Investments						
Australia	19,227,424	15,203,066	7.69	3.41	4.23	4.10
Brazil	13,032,089	11,979,270	8.98	3.98	-	3.23
Denmark	17,263,111	13,993,794	-	2.28	7.73	3.77
Germany	-	1,413,480	1.06	0.47	-	0.38
Greece	357,242	122,108	0.09	0.04	-	0.03
Luxembourg	-	9,865,066	7.40	3.28	-	2.66
Marshall Islands	13,729,243	13,764,140	-	4.53	3.37	3.71
Netherlands	14,428,683	12,169,351	-	2.49	5.79	3.28
Spain	28,335,085	12,242,942	-	1.74	7.24	3.30
United Kingdom	852,354	2,060,319	1.54	0.69	-	0.56
United States	274,572,928	229,922,587	51.58	63.07	63.30	61.98
Temporary Investments						
United Kingdom	7,993,250	7,992,000	-	3.69	-	2.15
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share Class NAV.

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2015
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Geographic diversity of Portfolios						
Portfolio of Distressed Investments						
Australia	19,260,795	13,858,775	5.63	3.26	1.68	3.14
Brazil	13,032,089	9,267,308	4.74	2.47	-	2.10
Cayman Islands	3,535,143	3,558,537	1.82	0.95	-	0.81
Denmark	13,433,868	14,926,190	-	2.88	6.18	3.39
Germany	11,121,873	6,289,344	3.22	1.67	-	1.43
Greece	357,242	74,484	0.04	0.02	-	0.02
Japan	486,440	-	-	-	-	-
Luxembourg	2	4,710,617	2.41	1.25	-	1.07
Marshall Islands	24,609,267	16,483,758	-	4.34	4.09	3.74
Netherlands	14,428,683	11,277,900	-	1.85	5.44	2.56
Spain	28,335,086	13,012,381	-	1.43	7.91	2.95
United Kingdom	1,131,455	3,055,344	1.55	0.81	-	0.69
United States	368,570,496	278,746,559	58.95	67.46	55.30	63.22
Temporary Investments						
United Kingdom	7,611,375	7,369,014	-	-	6.38	1.67
United States	37,881,401	37,881,521	17.72	10.41	-	8.59
	543,795,215	**420,511,732**	**96.08**	**98.80**	**86.98**	**95.38**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share Class NAV.

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2016
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
Air Transport	820,337	1,913,688	0.66	0.55	0.41	0.52
Auto Components	20,369,766	13,247,128	1.66	4.05	3.29	3.57
Building & Development	27,555,817	27,499,755	13.38	6.78	6.69	7.41
Chemicals & Plastics	1,525,664	568,746	-	-	0.49	0.15
Commercial Mortgage	23,801,120	27,898,917	3.32	9.18	5.79	7.52
Containers & Packaging	852,354	11,925,384	8.94	3.97	-	3.21
Financial Intermediaries	21,464,320	12,147,487	2.41	5.19	-	3.27
Forest Products	-	1,413,480	1.06	0.47	-	0.38
Lodging & Casinos	81,951,854	80,953,291	18.66	18.31	29.33	21.84
Nonferrous Metals/Minerals	20,099,773	16,509,108	-	4.19	6.35	4.45
Oil & Gas	32,144,372	30,937,890	-	7.57	12.43	8.34
Real Estate Development	2,585,916	3,600,871	2.70	1.20	-	0.97
Shipping	37,104,844	40,060,791	0.86	10.19	15.09	10.80
Surface Transport	32,564,456	17,108,599	8.98	5.17	2.18	4.61
Utilities	78,957,566	36,950,988	15.71	9.16	9.61	9.96
Temporary Investments						
UK Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share Class NAV.

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)
At 31 December 2015
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
Air Transport	7,219,919	8,141,822	2.89	2.00	0.99	1.85
Auto Components (ii)	18,777,343	14,825,074	1.38	3.60	3.74	3.36
Building & Development	25,206,230	28,255,599	10.30	6.10	5.30	6.41
Chemicals & Plastics	1,525,664	713,964	-	-	0.62	0.16
Commercial Mortgage	33,630,470	36,821,722	2.30	10.81	5.44	8.35
Containers & Packaging	1,131,456	7,765,960	3.97	2.07	-	1.76
Financial Intermediaries	40,691,941	26,226,694	5.90	8.49	-	5.95
Forest Products	3,839,631	3,540,645	1.81	0.94	-	0.80
Lodging & Casinos	81,259,283	68,957,816	12.74	14.11	20.58	15.64
Nonferrous Metals/Minerals	18,417,593	14,154,056	-	3.35	4.40	3.21
Oil & Gas	50,068,849	18,148,995	-	3.86	6.66	4.12
Real Estate Development	2,793,046	4,787,223	2.45	1.27	-	1.09
Real Estate Investment Trusts	9,008,143	9,908,536	5.06	2.64	-	2.25
Shipping	55,087,895	35,816,608	0.27	8.43	11.14	8.12
Surface Transport	40,494,663	22,092,009	4.74	3.74	8.11	5.01
Utilities	109,150,313	75,104,474	24.55	16.97	13.62	17.04
Temporary Investments						
UK Treasury Bills	7,611,375	7,369,014	-	-	6.38	1.67
U.S.Treasury Bills	37,881,401	37,881,521	17.72	10.42	-	8.59
	543,795,215	**420,511,732**	**96.08**	**98.80**	**86.98**	**95.38**

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share Class NAV.

(ii) In 2014 this industry was categorised as "Industrials".

The accompanying notes form an integral part of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

NB Distressed Debt Investment Fund Limited (the "Company") is a closed-ended investment company registered and incorporated in Guernsey under the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the "Companies Law") with registration number 51774. The Company's shares were admitted to the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE") and to The International Stock Exchange ("TISE") (formerly The Channel Islands Securities Exchange) on 10 June 2010. The Company was delisted from the TISE on 30 August 2016. The Board took the view that there was no material commercial or regulatory benefit to the Company or its shareholders in retaining its listing on the TISE and that cost savings could be made for the Company as a result of cancelling the listing in addition to other efficiencies. This action has no impact on the Company's admission to the SFS.

The Company's 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.

The Company's share capital is denominated in U.S. Dollars for Ordinary Shares and Extended Life Shares and Pound Sterling for New Global Shares.

Investment management services are provided to the Company by Neuberger Berman Investment Advisers LLC (the "AIFM") and Neuberger Berman Limited (the "Manager"), collectively the "Investment Manager".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Standards and Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-07, Fair value measurement (Topic 820), Disclosures for Investments in Certain entities that Calculate Net Asset Value per share (or its equivalent). ASU 2015-07 removes the requirement to categorise within the fair value hierarchy all investments for which fair value is measured using Net Asset Value per share practical expedient. The Company has adopted ASU 2015-07 for the period beginning 1 January 2016 and applied the guidance retrospectively for all periods presented.

Basis of Preparation

Having assessed the Company's principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. The Financial Statements give a true and fair view of the assets, liabilities, financial position and return and are prepared in conformity with U.S. Generally Accepted Accounting Principles ("US GAAP") and Companies Law. The Company is regarded as an Investment Company and it follows the accounting and reporting requirements of FASB Accounting Standards Codification ("ASC 946"). Management believes that the underlying assumptions are appropriate and that the Company's Financial Statements therefore present a true and fair view of the financial position of the Company. The functional and reporting currency is the U.S. Dollar.

The Financial Statements include the results of the Company and its wholly-owned subsidiaries.

Wholly-owned subsidiaries, London Adams LLC, London Dearborn LLC, London Granite Ridge LLC, London Jackson LLC, London Madison LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, London Tides LLC, London Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC, London Wacker LLC, London Granite Ridge (Global) LLC, London Madison (Global) LLC, London Dearborn (Global) LLC and London Wabash (Global) LLC (incorporated 18 November 2016) are incorporated in Delaware and operate in the United States.

Wholly-owned subsidiaries, London American Homes LP (dissolved 24 January 2017), London Lake Michigan LP, London Lake Michigan (Global) LP, London Lake Erie LP and London Lake Erie (Global) LP are incorporated in the Cayman Islands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Preparation (continued)

Wholly-owned subsidiaries, London Lux Masterco 1 S.a.r.l., London Lux Debtco 1 S.a.r.l., London Lux Propco 1 S.a.r.l. and London (Lux) PropCo 2 S.a.r.l. (incorporated on 2 August 2016) are incorporated in Luxembourg.

Partially owned indirect subsidiaries NB Distressed Debt Aggregating Inc. and Chicago Aircraft Fund LLC are incorporated in Delaware and operate in the United States.

During the year ended 31 December 2016, no subsidiaries were wound up. All inter-company balances have been eliminated fully on consolidation.

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 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 6 “Fair Valuation of Financial Instruments” discloses further detail on the use of estimates in the valuation of investments.

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 and bonds. Discounts received or premiums paid in connection with the acquisition of loans and bonds are amortised into interest income using the effective interest method over the contractual life of the related loan and bond. If a loan is repaid prior to maturity, the recognition of the fees and costs is accelerated as appropriate. The Company raises a provision when the collection of interest is deemed doubtful.

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 the 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 Investment 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 net of withholding tax.

For the year ended 31 December 2016, $2,079,112 (31 December 2015: $1,435,084) was recorded to reflect accretion of discount on loans and bonds during the year.

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 an insignificant risk of changes in value. At 31 December 2016, the Company held cash balances in various currencies to the value of $38,615,044 (31 December 2015: $17,168,855). These balances consisted of Pound Sterling: $9,719,133 (31 December 2015: $6,365,768), Euro: $658,690 (31 December 2015: $601,624), U.S. Dollar: $ 28,029,403 (31 December 2015: $9,478,650), and Australian Dollar: $ 207,818 (31 December 2015: $722,813).

Valuation of Investments

The Company carries investments on its Consolidated Statement of Assets and Liabilities at fair value in accordance with US GAAP, with changes in fair value recognised in the Consolidated Statement of Operations in each reporting period. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Quoted investments are valued according to their bid price 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. The Investment Manager believes that bid price is the best estimate of fair value and is in line with the valuation policy adopted by the Company.

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 Administrator will value such investments with the input of the Investment Manager who will determine the valuation based on its fair valuation policy. As part of the investment fair valuation policy, the Investment Manager prepares a fair valuation memorandum for each such investment presenting the methodology and assumptions used to derive the price. This analysis is presented to the Investment Manager's Valuation Committee for approval.

The following criteria are considered when applicable:

- The valuation of other securities by the same issuer for which market quotations are available;
- The 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;
- Any recent sales prices and/or bid and ask quotations for the security;
- The value of similar securities of issuers in the same or similar industries for which market quotations are available;
- The economic outlook of the industry;
- The issuer's position in the industry;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments (continued)

- Valuation utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

Derivative Financial Instruments

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

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

Forward currency 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.

The credit default swap has been entered into on the OTC market. The fair value of the credit default swap contract is derived using a pricing service provided by Markit Partners. Markit Partners use a pricing model that is widely accepted by marketplace participants. Their 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 mainly 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.

The Company also holds six warrants (2015: one warrant) which it prices based on the bid price provided by a third party broker/dealer quote.

Realised and Unrealised 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 restructuring of current investments are recorded at the date of such restructuring. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a realised gain or loss.

Unrealised gains and losses on an investment are the difference between the cost if purchased during the year or fair value at the previous year end and the fair value at the current year end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Each share class will bear its respective pro-rata share based on its respective NAVs of the ongoing costs and expenses of the Company. Each share class will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to it.

Performance Fee

Performance fee amounts (see note 3) are computed and accrued daily in accordance with the terms of the Investment Management Agreement ("IMA").

Currency Translation

Monetary assets and liabilities denominated in a currency other than U.S. Dollar are translated into U.S. Dollar equivalents using spot rates at the year end date. On initial recognition, foreign currency sales and purchases transactions are recorded and translated at the spot exchange rate at the transaction date and for all other transactions, the average rate is applied. 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. These fluctuations are included in the net realised gain and net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions in the Consolidated Statements of Operations.

Payables/Receivables on Investments Purchased/Sold

At 31 December 2016, the amount payable/receivable on investments purchased/sold represents amounts due for investments purchased/sold that have been contracted for but not settled on the Consolidated Statement of Assets and Liabilities date.

Cost of Buybacks

Any costs incurred by a share buyback are charged to that share class.

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 Consolidated Statement of Operations. 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. US GAAP 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

There were no uncertain tax positions at 31 December 2016 or 31 December 2015. The Company is subject to examination for US Federal and state tax returns for calendar years 2011–2016.

During the year ended 31 December 2016, the Company recorded current income tax from realised gain on investments of $7,040,520 (31 December 2015: $2,859,945). 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 benefit for the year ended 31 December 2016 is equal to $6,207,861 (31 December 2015: ($1,579,637)). The net total income tax from realised/unrealised gains/(losses) on investments for the year ended 31 December 2016 was $832,659 (31 December 2015: $1,280,308).

NOTE 3 – MATERIAL AGREEMENTS AND RELATED PARTIES

Investment Management Agreement

The Board is responsible for managing the business affairs of the Company but delegates certain functions to the Investment Manager under an IMA dated 9 June 2010 (as amended).

On 17 July 2014, the Company, the Manager and the AIFM made certain classificatory amendments to their contractual arrangements for the purposes of the AIFM Directive. The Sub-Investment Management Agreement was terminated on 17 July 2014 and Neuberger Berman Investment Advisers LLC (formerly Neuberger Berman Fixed Income LLC), which was the Sub-Investment Manager, was appointed as the AIFM per the amended and restated IMA dated 17 July 2014. Under this agreement, the AIFM is responsible for risk management and day-to-day discretionary management of the Company's Portfolios (including un-invested cash). The risk management and discretionary portfolio management functions are performed independently of each other within the AIFM structure. The AIFM is not required to, and generally will not, submit individual investment decisions for approval by the Board. The Manager, Neuberger Berman Europe Limited, was appointed under the same IMA to provide, amongst other things, certain administrative services to the Company.

Per the IMA and in relation to the Ordinary Shares and Extended Life Shares, the Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125% per month of the respective NAVs of the Ordinary Share and Extended Life Share classes. Soft commissions are not used.

Per the IMA and in relation to the New Global Shares, the Manager is entitled to a management fee, which accrues daily, and is payable monthly in arrears, at a rate of 0.125% per month of the NAV of the New Global Share Class (excluding, until such time as the New Global Share Class is 85% invested, any cash balances (or cash equivalents)). The 85% threshold was crossed on 16 June 2015 and the Company is now being charged 0.125% per month on the NAV of the New Global Share Class.

For the year ended 31 December 2016, the management fee expense was $5,837,063 (31 December 2015: $8,421,436). At 31 December 2016, the management fee payable was $461,858 (31 December 2015: $553,726).

The Manager pays a fee to the AIFM out of the management fee received from the Company. The Company does not pay any fees to the AIFM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Performance Fee

In addition, the Manager is entitled to a performance fee. The performance fee for Ordinary Shares, Extended Life Shares and New Global Shares (collectively the "Shares") will only become payable once the Company has made aggregate distributions in cash to the shareholders of the Shares (which shall include the aggregate price of all Shares repurchased or redeemed by the Company) equal to the aggregate gross proceeds from issuing Shares (the "Contributed Capital") plus such amounts as will result in the 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% catch up payable to the Manager until the Manager has received 20% of all amounts in excess of Contributed Capital distributed to the shareholders and paid to the Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Manager's performance fee and the cash distributed to shareholders.

The preferred rate of return for Ordinary Shares is an annualised 6%, for Extended Life Shares was an annualised 6% from 2010 to April 2013 and is 8% from April 2013 to date and for New Global Shares is an annualised 8%. For the purposes of financial reporting, the performance fee is recognised on an accruals basis.

For the year ended 31 December 2016, the performance fee expense for the Ordinary Shares, Extended Life Shares and New Global Shares was $Nil (31 December 2015: $Nil), $Nil (31 December 2015: $Nil), and $Nil (31 December 2015: $Nil) respectively. The cumulative performance fee for the Ordinary Shares, Extended Life Shares and New Global Shares of $Nil (31 December 2015: $Nil), $Nil (31 December 2015: $Nil), and $Nil (31 December 2015: $Nil) respectively would be payable if the Company was to realise all investments at the year end.

Soft commissions are not used to pay for services used by the Investment Manager.

Administration, Company Secretarial and Custody Agreements

Effective 1 March 2015, the Company entered into an Administration and Sub-Administration Agreement with U.S. Bancorp Fund Services (Guernsey) Limited and Quintillion Limited, a wholly-owned subsidiary of U.S. Bancorp ("the "Administration Agreement"). Under the terms of the Administration Agreement, Sub-Administration services are delegated to Quintillion Limited (the "Sub-Administrator").

The Sub-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 NAV).

Under the terms of the Administration Agreement, the Sub-Administrator is entitled to a fee of 0.09% for the first US$500m of net asset value, 0.08% for the next US$500m and 0.07% for any remaining balance, accrued daily and paid monthly in arrears and subject to an annual minimum of $100,000.

Effective 1 March 2015, the Company entered into a Custody Agreement with US Bank National Association (the "Custodian") to provide loan administration and custody services to the Company. Under the terms of the Custody Agreement the Custodian is entitled to an annual fee of 0.025% of net asset value with a minimum annual fee of $25,000.

C.L. Secretaries Limited, a wholly-owned subsidiary of Carey Commercial Limited, as Company Secretary is entitled to an annual fee of £65,800, an annual compliance fee of £250 plus fees for ad-hoc board meetings and additional services.

For the year ended 31 December 2016, the administration fee expense was $357,463 (31 December 2015: $582,390), the secretarial fee was $180,252 of which $43,997 was in relation to the administration of the ongoing buyback programme, (31 December 2015: $194,334) and the loan administration and custody fee expense was $183,060 (31 December 2015: $240,499). At 31 December 2016, the administration fee payable is $27,186 (31 December 2015: $33,214), the secretarial fee payable is $2,160 (31 December 2015: $134) and the loan administration and custody fee payable is $111,321 (31 December 2015: $50,593).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Directors' Remuneration and Other Interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 plus £10,000 each per annum ($60,000 plus £10,000 for the Chairman). With the launch of New Global Share Class in March 2014 it was agreed that the Directors' remuneration would increase by £10,000 each per annum. In addition the Chairman of the Audit Committee receives an additional $5,000 for his/her services in this role. Michael J. Holmberg, the non-independent Director, has waived the fees for his services as a Director. For the year ended 31 December 2016, the Directors' fees and travel expenses amounted to $289,955 (31 December 2015: $266,840).

Other Interests

There were no other related party interests for the year ended 31 December 2016.

NOTE 4 – DERIVATIVES

In the normal course of business, the Company uses derivative contracts in connection with its proprietary trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of the derivative investment. The Company's derivative activities and exposure to derivative contracts are classified by the following primary underlying risks: foreign currency exchange rate, credit, and equity price. In addition to its primary underlying risks, the Company is also subject to additional counterparty risk due to inability of its counterparties to meet the terms of their contracts.

Forward Contracts

The Company enters into forwards for the purposes of hedging foreign currency exposure.

Forward currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in exchange rates. As a result a relatively small foreign currency exchange rates movement may result in substantial losses to the Company.

Credit Default Swap

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). The Company has entered into a single credit default swap agreement to provide a measure of protection against defaults of a sovereign issue.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - DERIVATIVES (CONTINUED)

Credit Default Swap (continued)

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. The fair value of open swaps reported in the Consolidated Statement of Assets and Liabilities may differ from that which would be realised in the event the Company terminated its position in the contract. Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap contract. The loss incurred by the failure of a counterparty is generally limited to the aggregate fair value of swap contracts in an unrealised gain position as well as any collateral posted with the counterparty. The risk is mitigated by the posting of collateral by the counterparty to the Company to cover the Company's exposure to the counterparty. The Company considers the creditworthiness of each counterparty to a swap contract in evaluating potential credit risk. Additionally risks may arise from unanticipated movements in the fair value of the underlying investments.

Warrants

The Company received warrants in 2015 and 2016. These warrants provide the Company with exposure and potential gains upon the appreciation of the underlying equity's share price.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As the expiration date of a warrant approaches the time value of a warrant will decline. In addition if the stock underlying the warrant declines in price, the intrinsic value of an "in the money" warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result there is the potential for the Company to lose its entire investment in a warrant.

The Company is exposed to counterparty risk from the potential failure of an issuer of warrants to settle its exercised warrants. The maximum risk of loss from counterparty risk to the Company is the fair value of the contracts. The Company considers the effects of counterparty risk when determining the fair value of its investments in warrants.

Derivative activity

For the year ended 31 December 2016 and 31 December 2015 the volume of the Company's derivative activities based on their notional amounts and number of contracts, categorised by primary underlying risk, are as follows:

31 December 2016

	Long exposure		Short exposure	
Primary underlying risk	**Notional amounts**	**Number of Contracts**	**Notional amounts**	**Number of Contracts**
Foreign currency exchange rate				
Forward currency contracts	$49,356,116	9	$632,447	4
Credit				
Purchased protection				
Credit default swap	12,200,000	1	-	-
Total	**$61,556,116**	**10**	**$632,447**	**4**
Equity price				
Warrants	265,347	6	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - DERIVATIVES (CONTINUED)

Derivative activity (continued)

31 December 2015

	Long exposure		Short exposure	
Primary underlying risk	**Notional amounts**	**Number of Contracts**	**Notional amounts**	**Number of Contracts**
Foreign currency exchange rate				
Forward currency contracts	$48,568,118	7	$(5,102,998)	2
Credit				
Purchased protection				
Credit default swap	9,400,000	1	-	-
Total	**$57,968,118**	**8**	**$(5,102,998)**	**2**
Equity price				
Warrants	96,416	1	-	-

The following tables show, at 31 December 2016 and 31 December 2015, the fair value amounts of derivative contracts included in the Consolidated Statement of Assets and Liabilities, categorised by primary underlying risk. Balances are presented on a gross basis prior to application of the impact of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into account the effects of master netting arrangements and, where applicable, have been adjusted by the application of cash collateral receivables and payables with its counterparties. The tables also identify, at 31 December 2016 and 31 December 2015, the realised and unrealised gain and loss amounts included in the Consolidated Statement of Operations, categorised by primary underlying risk:

31 December 2016

Primary underlying risk	**Derivative Assets ($)**	**Derivative Liabilities ($)**	**Realised gain (loss) ($)**	**Unrealised gain/(loss) ($)**
Foreign currency exchange rate				
Forward currency contracts	$1,776,142	$(16,638)	$(3,133,593)	$1,306,327
Credit				
Purchased protection				
Credit default swap	-	(28,813)	(24,884)	(17,174)
Equity price				
Warrants	440,230	-	-	(151,739)
Total	**$2,216,372**	**$(45,451)**	**$(3,158,477)**	**$1,137,414**

31 December 2015

Primary underlying risk	**Derivative Assets ($)**	**Derivative Liabilities ($)**	**Realised gain (loss) ($)**	**Unrealised loss ($)**
Foreign currency exchange rate				
Forward currency contracts	$472,322	$(19,145)	$8,438,888	$(1,470,121)
Credit				
Purchased protection				
Credit default swap	58,892	-	(144,589)	(47,381)
Equity price				
Warrants	210,523	-	-	(160,985)
Total	**$741,737**	**$(19,145)**	**$8,294,299**	**$(1,678,487)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - DERIVATIVES (CONTINUED)

Offsetting assets and liabilities

Amounts due from and to brokers are presented on a net basis, by counterparty, to the extent the Company has the legal right to offset the recognised amounts and intends to settle on a net basis.

The Company presents on a net basis the fair value amounts recognised for OTC derivatives executed with the same counterparty under the same master netting agreement.

The Company is required to disclose the impact of offsetting assets and liabilities presented in the Consolidated Statement of Assets and Liabilities to enable users of the Financial Statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognised assets and liabilities.

These recognised assets and liabilities include financial instruments and derivative contracts that are either subject to an enforceable master netting arrangement or similar agreement or meet the following right of set-off criteria:

- each of the two parties owes the other determinable amounts;
- the Company has the right to set-off the amounts owed with the amounts owed by the other party;
- the Company intends to set-off; and
- the Company's right of set-off is enforceable at law.

The Company is subject to enforceable master netting agreements with its counterparties of credit default swap with Bank of America Merrill Lynch ($28,813) (31 December 2015: $58,892), and foreign currency exchange contracts with Royal Bank of Canada ($1,746,284) (31 December 2015: ($1,801)), Societe Generale ($6,813), (31 December 2015: ($7,688)) and UBS AG ($20,033) (31 December 2015: $462,666). These agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying offsetting mechanisms and collateral posting arrangements at pre-arranged exposure levels. There were no collateral arrangements during the year.

The following tables show, at 31 December 2016 and 31 December 2015, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible.

31 December 2016

Description	Gross Amounts of Recognised Assets ($)	Gross Amounts Offset in the Statements of Assets and Liabilities ($)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities ($)
Forward Currency Contracts	1,776,142	(9,825)	1,766,317
Warrant	440,230	-	440,230
Total	**2,216,372**	**(9,825)**	**2,206,547**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - DERIVATIVES (CONTINUED)

Offsetting assets and liabilities (continued)

31 December 2016 (continued)

Description	Gross Amounts of Recognised Liabilities ($)	Gross Amounts Offset in the Statements of Assets and Liabilities ($)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities ($)
Forward Currency Contracts	(16,638)	9,825	(6,813)
Credit Default Swap	(28,813)	-	(28,813)
Total	**(45,451)**	**9,825**	**(35,626)**

31 December 2015

Description	Gross Amounts of Recognised Assets ($)	Gross Amounts Offset in the Statements of Assets and Liabilities ($)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities ($)
Forward Currency Contracts	472,322	(19,145)	453,177
Credit Default Swap	58,892	-	58,892
Warrant	210,523	-	210,523
Total	**741,737**	**(19,145)**	**722,592**

Description	Gross Amounts of Recognised Liabilities ($)	Gross Amounts Offset in the Statements of Assets and Liabilities ($)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities ($)
Forward Currency Contracts	(19,145)	19,145	-
Total	**(19,145)**	**19,145**	**-**

NOTE 5 – UNFUNDED LOAN COMMITMENTS

At 31 December 2016 and 31 December 2015, the Company has no unfunded loan commitments.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is defined by the FASB ASC 825, "Disclosures about Fair Value of 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 is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following estimates and assumptions were used at 31 December 2016 and 31 December 2015 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents - The carrying value reasonably approximates fair value due to the short-term nature of these instruments.
- Receivables for investments sold - The carrying value reasonably approximates fair value as it reflects the value at which investments are sold to a willing buyer and the settlement period on their balances is short term.
- Interest receivables and other receivables and prepayments - The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price 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.
- Warrants are priced using third party market quotes.
- 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 Investment Manager determines the valuation based on its fair valuation policy. Further information on valuations is provided in Note 2, "Valuation of Investments", on pages 78 and 79.
- 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 the settlement period on their balances is short term.
- Payables to Investment Manager and affiliates and accrued expenses and other liabilities - The carrying value reasonably approximates fair value.
- Forward currency contracts are revalued using the forward exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.
- Investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its Portfolios unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

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 FASB 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 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments at Fair Value at 31 December 2016

(Expressed in U.S. Dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Bank Debt Investments	-	39,692,993	49,769,191	89,462,184
Private Bond	-	13,060,440	600,972	13,661,412
Private Equity	-	49,286,688	93,095,948	142,382,636
Private Equity: Real Estate Development	-	-	3,600,871	3,600,871
Private Note	-	6,303,996	12,147,487	18,451,483
Public Bond	-	6,505,825	-	6,505,825
Public Equity	12,807,661	23,884,781	-	36,692,442
Trade Claim	-	-	11,979,270	11,979,270
US Treasury Bills	-	7,992,000	-	7,992,000
Warrants	-	157,100	283,130	440,230
Credit Default Swap	-	(28,813)	-	(28,813)
Forward currency contracts	-	1,759,504	-	1,759,504
Total investments that are accounted for at fair value	**12,807,661**	**148,614,514**	**171,476,869**	**332,899,044**

Investments at Fair Value at 31 December 2015

(Expressed in U.S. Dollars)	**Level 1**	**Level 2**	**Level 3**	**Investments measured at net asset value**	**Total**
Bank Debt Investments	-	42,189,405	72,644,678	-	114,834,083
Investment Partnership	-	-	-	6,307,236	6,307,236
Private Bond	-	20,338,524	-	-	20,338,524
Private Equity	-	56,800,455	105,127,348	-	161,927,803
Private Equity: Real Estate Development	-	-	4,787,223	-	4,787,223
Private Note	-	21,302,871	-	-	21,302,871
Public Bond	-	7,254,764	-	-	7,254,764
Public Equity	29,241,385	-	-	-	29,241,385
Trade Claim	-	-	9,267,308	-	9,267,308
UK Treasury Bills	-	7,369,014	-	-	7,369,014
US Treasury Bills	-	37,881,521	-	-	37,881,521
Credit Default Swap	-	58,892	-	-	58,892
Forward currency contracts	-	453,177	-	-	453,177
Warrants	-	-	210,523	-	210,523
Total investments that are accounted for at fair value	**29,241,385**	**193,648,623**	**192,037,080**	**6,307,236**	**421,234,324**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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 at 31 December 2016. The table is not intended to be all-inclusive but instead captures the significant unobservable inputs relevant to our determination of fair values.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Significant unobservable Inputs	Range Input	Weighted Average
Bank Debt Investments	Air Transport	876,185	Market Information	Value of remaining Aeroplanes	$12.4 million	N/A
Bank Debt Investments	Building & Development	271,244	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	4,423,540	Discounted Cash Flow (DCF)	WACC	24% discount rate on loan payments	N/A
Bank Debt Investments	Commercial Mortgage	12,169,352	Discounted Cash Flow (DCF)	WACC	15% discount rate on loan payments	N/A
Bank Debt Investments	Forest Products	1,413,480	Market Comparables	EBITDA Multiple	7.1	N/A
Bank Debt Investments	Lodging & Casinos	7,113,613	Market Comparables	EBITDA Multiple	13.5	N/A
Bank Debt Investments	Shipping	12,765,944	Market Information	Value of Shipping Vessels	$8.5 million per vessel	N/A
Bank Debt Investments	Shipping	3,062,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	5,129,328	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	2,543,713	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Bond	Utilities	600,972	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Air Transport	1,037,503	Discounted Cash Flow (DCF)	WACC Value of remaining Aeroplanes	20% $1.25 million	N/A
Private Equity	Commercial Mortgage	11,306,026	Discounted Cash Flow (DCF)	WACC Price per square foot	10% $452 per sq foot	N/A
Private Equity	Containers & Packaging	9,865,065	Market Comparables	Enterprise Value Multiple	7.75	N/A
Private Equity	Containers & Packaging	2,060,319	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	328,950	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	33,989,705	Market Comparables	Land value per acre	$2.3 million per acre	N/A
Private Equity	Nonferrous Metals/Minerals	16,509,108	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Oil & Gas	15,475,501	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Real Estate Development	3,600,871	Market Comparables	Price per square foot	$355 per sq foot	N/A
Private Equity	Shipping	998,207	Market Information	Value of Shipping Vessels	$7.3 million per vessel	N/A
Private Equity	Utilities	1,525,564	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	12,147,487	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	11,979,270	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Oil & Gas	228,422	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	54,708	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**171,476,869**				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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 at 31 December 2015. The table is not intended to be all-inclusive but instead captures the significant unobservable inputs relevant to our determination of fair values.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Significant unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Lodging & Casinos	7,932,805	Market Comparables	EBITDA Multiple	12.80	N/A
Bank Debt Investments	Shipping	16,483,758	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	9,969,120	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Air Transport	5,651,160	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Building & Development	406,867	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	12,882,199	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	11,277,901	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Healthcare	9	Expected Realisable Value	N/A	N/A	N/A
Bank Debt Investments	Forest Products	3,540,645	Market Comparables	EBITDA Multiple	5.92	N/A
Bank Debt Investments	Commercial Mortgage	4,500,214	Discounted Cash Flow (DCF)	WACC	17% discount rate on loan amortisation payments	N/A
Private Equity	Auto Components[(i)]	303,522	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Auto Components[(i)]	23	N/A - 0 Value	N/A - 0 Value	N/A - 0 Value	N/A
Private Equity	Containers & Packaging	4,710,616	Market Comparables	Enterprise Value Multiple	N/A	N/A
Private Equity	Air Transport	19,328	Scenario Analysis	Value of CAF and cash/accruals	20% discount rate on lease payments and cash held	N/A
Private Equity	Air Transport	2,471,334	Discounted Cash Flow (DCF)	Sale Leaseback Revenue and WACC	20% discount rate on lease payments and cash held	N/A
Private Equity	Nonferrous Metals/Minerals	14,154,056	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Financial Intermediaries	1,816,485	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Utilities	32,270,880	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Commercial Mortgage	21,043,608	Discounted Cash Flow (DCF)	WACC Price per square foot	10% $452 per sq foot	N/A
Private Equity	Lodging & Casinos	24,903,059	Market Comparables	Sales Offer	$2,500,000 per acre	N/A
Private Equity	Containers & glass products	3,055,344	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building & Development	379,093	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity: Real Estate Development	Real Estate Development	4,787,223	Discounted Cash Flow (DCF)	WACC Price per square foot	5% $556 per sq foot	N/A
Trade Claim	Surface Transport	9,267,308	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	210,523	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**192,037,080**				

(i) In 2015 this industry was categorised as "Industrials".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 Investment Manager. For single broker quotes the Investment Manager uses unobservable inputs to assess the reasonableness of the broker quote. For good faith valuations, the Investment Manager directly uses unobservable inputs to produce valuations. The significant unobservable inputs used in Level 3 assets are outlined in the table on the previous page.

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. 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, will result in increases/(decreases) to investment value.

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.

Investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its Portfolios unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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:

For the year ended 31 December 2016

(Expressed in U.S. Dollars)	Bank Debt Investments	Private Bonds	Private Equity	Private Equity: Real Estate Development	Trade Claim	Warrants
Balance, 31 December 2015	**72,644,678**	**-**	**105,127,348**	**4,787,223**	**9,267,308**	**210,523**
Purchases	2,241,773	600,972	9,149,890	-	-	-
Sales and distributions	(15,090,781)	-	(50,749,233)	(207,133)	-	-
Restructuring transactions	(364,656)	-	1,494,794	-	-	318,384
Loss on non-cash investment transactions	(10,694,561)	-	-	-	-	-
Realised gain/(loss) on sale of investments	2,742,065	-	14,812,130	-	-	-
Unrealised (loss)/gain on investments	(1,603,181)	-	(2,707,131)	(979,219)	2,711,962	(245,777)
Transfers into or (out of) Level 3	(106,146)	-	15,968,150	-	-	-
Balance, 31 December 2016	**49,769,191**	**600,972**	**93,095,948**	**3,600,871**	**11,979,270**	**283,130**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2016	**(10,839,234)**	**-**	**(239,033)**	**(979,223)**	**2,711,963**	**(245,777)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

For the year ended 31 December 2016		
(Expressed in U.S. Dollars)	**Private Note**	**Total**
Balance, 31 December 2015	-	**192,037,080**
Purchases	-	**11,992,635**
Sales and distributions	-	**(66,047,147)**
Restructuring transactions	-	**1,448,522**
Loss on non-cash investment transactions	-	**(10,694,561)**
Realised gain/(loss) on sale of investments	-	**17,554,195**
Unrealised (loss)/gain on investments	-	**(2,823,346)**
Transfers into or (out of) Level 3	12,147,487	**28,009,491**
Balance, 31 December 2015	**12,147,487**	**171,476,869**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2016	**-**	**(9,591,304)**

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. During the year the Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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:

For the year ended 31 December 2015

(Expressed in U.S. Dollars)	**Bank Debt Investments**	**Commercial Mortgage**	**Ownership in Senior Living Facility**	**Private Equity**	**Private Placement Bonds**	**Private Equity: Real Estate Development**
Balance, 31 December 2014	**104,896,647**	**4,219,287**	**13,665,456**	**99,711,073**	**3,063,979**	**20,263,099**
Purchases	11,441,645	-	-	7,812,937	-	-
Sales and distributions	(18,874,426)	-	(18,522,439)	(11,416,223)	-	(13,197,987)
Restructuring transactions	(14,860,514)	-	-	747,710	-	-
Loss on non-cash investment transactions	(2,967,399)	-	-	-	-	-
Realised (loss)/gain on sale of investments	1,356,286	-	8,836,140	1,032,595	-	2,879,750
Unrealised gain/(loss) on investments	(18,573,886)	-	(3,979,157)	(6,330,491)	476,666	(5,157,639)
Reclassification within Level 3 categories	7,759,932	(4,219,287)	-	-	(3,540,645)	-
Transfers into or (out of) Level 3	2,466,393	-	-	13,569,747	-	-
Balance, 31 December 2015	**72,644,678**	**-**	**-**	**105,127,348**	**-**	**4,787,223**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2015	**(26,282,761)**	**-**	**-**	**522,069**	**-**	**(5,157,639)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

For the year ended 31 December 2015

(Expressed in U.S. Dollars)	Private Note	Trade Claim	Warrants	Total
Balance, 31 December 2014	**31,950,069**	**10,859,649**	**-**	**288,629,259**
Purchases	-	-	-	**19,254,582**
Sales and distributions	-	-	-	**(62,011,075)**
Restructuring transactions	-	-	371,508	**(13,741,296)**
Loss on non-cash investment transactions	-	-	-	**(2,967,399)**
Realised (loss)/gain on sale of investments	(664,681)	-	-	**13,440,090**
Unrealised gain/(loss) on investments	(4,902,918)	(1,592,341)	(160,985)	**(40,220,751)**
Reclassification within Level 3 categories	-	-	-	**-**
Transfers into or (out of) Level 3	(26,382,470)	-	-	**(10,346,330)**
Balance, 31 December 2015	-	**9,267,308**	**210,523**	**192,037,080**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2015	**-**	**(1,592,341)**	**(160,985)**	**(32,671,657)**

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. During the year the Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISKS

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager monitors and seeks to 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 only to partially hedge certain risks.

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 2016 and 31 December 2015 are disclosed in the Consolidated Condensed 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 Company maintains positions in a variety of securities, derivative financial instruments and cash and cash equivalents in accordance with its investment strategy and guidelines. The Company's trading activities expose the Company to counterparty credit risk from brokers, dealers and other financial institutions (collectively, "counterparties") with which it transacts business. "Counterparty credit risk" is the risk that a counterparty to a trade will fail to meet an obligation that it has entered into with the Company, resulting in a financial loss to the Company. The Company's policy with respect to counterparty credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out by the Investment Manager.

All the Company's cash and investment assets other than derivative financial instruments are held by the Custodian. The Custodian segregates the assets of the Company from the Custodian's assets and other Custodian clients. Management believes the risk is low with respect to any losses as a result of this concentration. The Company conducts its trading activities with respect to non-derivative positions with a number of counterparties. Counterparty credit risk borne by these transactions is mitigated by trading with multiple counterparties.

In addition the Company may trade in OTC derivative instruments and in derivative instruments which trade on exchanges with generally a limited number of counterparties. The Company is subject to counterparty credit risk related to the potential inability of counterparties to these derivative transactions to perform their obligations to the Company. The Company's exposure to counterparty credit risk associated with counterparty non-performance is generally limited to the fair value (derivative assets and liabilities) of OTC derivatives reported as net assets, net of collateral received or paid, pursuant to agreements with each counterparty. The Investment Manager attempts to reduce the counterparty credit risk of the Company by establishing certain credit terms in its ISDA Master Agreements (with netting terms) with counterparties, and through credit policies and monitoring procedures. Under ISDA Master Agreements in certain circumstances (e.g. when a credit event such as a default occurs) all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. The Company receives and gives collateral in the form of cash and marketable securities and it is subject to the ISDA Master Agreement Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction. The terms also give each party the right to terminate the related transactions on the other party's failure to post collateral. Exchange-traded derivatives generally involve less counterparty exposure because of the margin requirements of the individual exchanges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISKS (CONTINUED)

Credit Risk (continued)

Generally, these contracts can be closed out at the discretion of the Investment Manager and are governed by the futures and options clearing agreements signed with the future commission merchants ("FCMs"). FCMs have capital requirements intended to assure that they have sufficient capital to protect their customers in the event of any inadequacy in customer funds arising from the default of one or more customers, adverse market conditions, or for any other reason.

The credit risk relating to derivatives is detailed further in Note 4.

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.

NOTE 8 – SHARE CAPITAL

The Company's authorised share capital consists of:

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

The issued share capital of the Company, which is denominated in U.S. Dollars, consists of Ordinary Shares, Class A Shares and Extended Life Shares and in Pound Sterling consists of New Global Shares. Shareholders of Ordinary Shares, Extended Life Shares and New Global Shares have the right to attend and vote at any general meeting of the Company. Class A shareholders do not have the right to attend and vote at a general meeting of the Company save where there are no other shares of the Company in issue.

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 Company's shareholders as a whole.

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 class, Extended Life Shares, was created and the Extended Life Shares were issued to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - SHARE CAPITAL (CONTINUED)

The Extended Life Shares are subject to a 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).

New Global Share Class was created in March 2014 and its investment period ended on 31 March 2017.

At 31 December 2016, the Company had the following number of shares in issue:

	31 December 2016	31 December 2015
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Share Class of no par value (Nil in treasury)	35,218,587	48,830,771
Extended Life Share Class of no par value (Nil in treasury)	215,873,854	270,733,913
New Global Share Class of no par value (10,210,000 in treasury; 2015: 4,065,000)	110,785,785	110,785,785

Reconciliation of the number of shares in issue in each class at 31 December 2016:

	Ordinary Shares	Extended Life Shares	New Global Shares	New Global Treasury Shares	Total
Balance at 31 December 2015	48,830,771	270,733,913	106,720,785	4,065,000	430,350,469
Shares redeemed during the year	(13,612,184)	(51,890,380)	-	-	(65,502,564)
Buybacks (Shares repurchased)	-	(2,969,679)	(6,145,000)	6,145,000	(2,969,679)
Balance at 31 December 2016	**35,218,587**	**215,873,854**	**100,575,785**	**10,210,000**	**361,878,226**

Reconciliation of the number of shares in issue in each class at 31 December 2015:

	Ordinary Shares	Extended Life Shares	New Global Shares	New Global Treasury Shares	Total
Balance at 31 December 2014	75,011,865	331,917,856	110,785,785	-	517,715,506
Shares redeemed during the year	(26,181,094)	(58,730,177)	-	-	(84,911,271)
Buybacks (Shares repurchased)	-	(2,453,766)	(4,065,000)	4,065,000	(2,453,766)
Balance at 31 December 2015	**48,830,771**	**270,733,913**	**106,720,785**	**4,065,000**	**430,350,469**

Distributions

Set out below are details of the capital returns by way of a compulsory partial redemptions made during the year.

2016	Ordinary Share Class			Extended Life Share Class			New Global Share Class		
	Distribution Amount	Number of Shares	Per Share Amount	Distribution Amount	Number of Shares	Per Share Amount	Distribution Amount	Number of Shares	Per Share Amount
29-Feb-16	$6,991,959	6,484,844	$1.0782	$19,991,948	21,162,219	$0.9447	-	-	-
28-Apr-16	$4,491,953	4,080,255	$1.1009	$10,991,949	11,628,001	$0.9453	-	-	-
16-Jun-16	$3,491,959	3,047,085	$1.1460	$7,991,945	8,130,158	$0.9830	-	-	-
06-Dec-16	-	-	-	$10,991,943	10,970,002	$1.0020	-	-	-
	$14,975,871	**13,612,184**	**-**	**$49,967,785**	**51,890,380**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - SHARE CAPITAL (CONTINUED)

Distributions (continued)

2015	Ordinary Share Class		Extended Life Share Class		New Global Share Class	
	Distribution Amount	Per Share Amount	Distribution Amount	Per Share Amount	Distribution Amount	Per Share Amount
4-Mar-2015	$4,991,952	$0.0666	$8,943,952	$0.0270	-	-
8-May-2015	$12,491,954	$0.1760	$3,991,937	$0.0123	-	-
27-Aug-2015	$6,991,956	$0.1143	$17,491,936	$0.0547	-	-
1-Dec-2015	$7,991,951	$0.1441	$34,991,935	$0.1152	-	-
Total	**$32,467,813**	**-**	**$65,419,760**		-	-

Buybacks

Under the authority granted to the Directors at the 2015 and 2016 AGMs, between 1 January 2016 and 31 December 2016 6,145,000 New Global Shares were repurchased by the Company for gross consideration of $5,745,879 and are currently held in treasury. In addition, 2,969,679 Extended Life Shares were repurchased during the period for gross consideration of $2,771,595 and were cancelled. The Company did not repurchase any Ordinary Shares during this year.

NOTE 9 – FINANCIAL HIGHLIGHTS

	Ordinary Shares	Extended Life Shares	New Global Shares	Ordinary Shares	Extended Life Shares	New Global Shares
	($)	($)	(£)	($)	($)	(£)
Per share operating performance	**Year ended 31 December 2016**	**Year ended 31 December 2016**	**Year ended 31 December 2016**	**Year ended 31 December 2015**	**Year ended 31 December 2015**	**Year ended 31 December 2015**
Opening Balance	**1.1184**	**1.0003**	**0.7341**	**1.2521**	**1.1909**	**0.8860**
Impact of share buybacks	-	0.0008	0.0058	-	0.0005	0.0034
Distributions	(0.0793)	(0.0332)	(0.0102)	-	-	-
Income/(loss) from investment operations (i)						
Net investment income	0.0151	0.0217	0.0232	0.0203	0.0240	0.0128
Net realised and unrealised (loss)/gain from investments and foreign exchange	0.0041	0.0139	0.1888	(0.1540)	(0.2151)	(0.1681)
Total income/(loss) from investment operations	**0.0192**	**0.0356**	**0.2120**	**(0.1337)**	**(0.1911)**	**(0.1553)**
Net asset value per share at end of the year	**1.0583**	**1.0035**	**0.9417**	**1.1184**	**1.0003**	**0.7341**

(i) Weighted average numbers of shares outstanding were used for calculation.

NAV Total Return* (ii)	**Ordinary Shares**	**Extended Life Shares**	**New Global Shares**	**Ordinary Shares**	**Extended Life Shares**	**New Global Shares**
	Year ended 31 December 2016	**Year ended 31 December 2016**	**Year ended 31 December 2016**	**Year ended 31 December 2015**	**Year ended 31 December 2015**	**Year ended 31 December 2015**
NAV Total Return before performance fee	1.72%	3.64%	29.67%	(10.68%)	(16.00%)	(17.14%)
Performance fee	-	-	-	-	-	-
NAV Total Return after performance fee including Dividend	**1.72%**	**3.64%**	**29.67%**	**(10.68%)**	**(16.00%)**	**(17.14%)**

* NAV Total Return is calculated for the Ordinary Shares, Extended Life Shares and New Global Shares only and is calculated based on movement in the NAV, and does not reflect any movement in the market value. A shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. It assumes that all income distributions of the Company, paid by way of dividend, were reinvested, without transaction costs. Class A shares are not presented as they are not profit participating shares.

(ii) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – FINANCIAL HIGHLIGHTS (CONTINUED)

Ratios to average net assets	Ordinary Shares Year ended 31 December 2016	Extended Life Shares Year ended 31 December 2016	New Global Shares Year ended 31 December 2016	Ordinary Shares Year ended 31 December 2015	Extended Life Shares Year ended 31 December 2015	New Global Shares Year ended 31 December 2015
Net investment income after performance fee	1.35%	2.19%	1.59%	(1.64%)	2.10%	1.42%
Expenses before performance fee	(2.10%)	(2.22%)	(2.55%)	(2.02%)	(2.05%)	(2.01%)
Performance fee	-	-	-	-	-	-
Total expenses after performance fee	**(2.10%)**	**(2.22%)**	**(2.55%)**	**(2.02%)**	**(2.05%)**	**(2.01%)**

NOTE 10 - RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV

In preparing the Financial Statements, there were post year end adjustments relating to investment valuations and deferred taxes. The impact of these adjustments on the NAV per Ordinary Share, Extended Life Share and New Global Share is detailed below:

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)	New Global Share Class Net Assets (£)	New Global Share Class NAV per Share (£)
Published Net Assets at 31 December 2016	36,902,214	1.0478	215,306,914	0.9974	94,573,591	0.9403
Valuation Adjustments	368,892	0.0105	1,321,346	0.0061	141,874	0.0014
Net Assets per consolidated Financial Statements	**37,271,106**	**1.0583**	**216,628,260**	**1.0035**	**94,715,465**	**0.9417**

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)	New Global Share Class Net Assets (£)	New Global Share Class NAV per Share (£)
Published Net Assets at 31 December 2015	54,495,517	1.1160	273,190,429	1.0091	79,604,835	0.7459
Deferred Tax Adjustment	249,521	0.0052	643,311	0.0023	105,670	0.0010
Valuation Adjustments	(134,632)	(0.0028)	(3,015,509)	(0.0111)	(1,366,434)	(0.0128)
Net Assets per consolidated Financial Statements	**54,610,406**	**1.1184**	**270,818,231**	**1.0003**	**78,344,071**	**0.7341**

NOTE 11 - SUBSEQUENT EVENTS

On 31 March 2017 the NBDG Portfolio entered into its harvest period having been 94.91% invested on that date.

Wholly-owned subsidiary, London American Homes LP, was dissolved on 24 January 2017.

CONTACT DETAILS OF THE ADVISERS

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John Hallam (*Chairman*)
Sarah Evans
Michael Holmberg
Christopher Sherwell
Stephen Vakil

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