# NB PRIVATE EQUITY PARTNERS LIMITED

2009 ANNUAL FINANCIAL REPORT

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# COMPANY OVERVIEW

*Our investment objective is to produce attractive returns on our capital from our private equity investments while managing investment risk through portfolio diversification. We pursue diversification for our private equity investments across asset class, vintage year, geography, industry and sponsor.*

| | |
|---|---|
| **Our Company** | **NB Private Equity Partners Limited ("NBPE")**<br>▪ Guernsey closed-end investment company<br>▪ 51,059,592 Class A ordinary shares outstanding<br>▪ 10,000 Class B ordinary shares outstanding<br>▪ 30,000,000 zero dividend preference shares outstanding |
| **Investment Manager** | **NB Alternatives Advisers**<br>▪ Over 20 years of private equity investing experience<br>▪ Investment Committee with an aggregate of more than 190 years of experience in private equity investing<br>▪ Approximately 50 investment professionals<br>▪ Approximately 125 administrative and finance professionals<br>▪ Offices in New York, Dallas, London and Hong Kong |

| *($ in millions, except per share data)* | **At 31 December 2009** | **At 31 December 2008** |
|---|---|---|
| Net Asset Value | $483.2 | $430.5 |
| Net Asset Value per Share | $9.46 | $8.20 |
| Fund Investments | $457.2 | $359.0 |
| Direct Co-investments | $77.6 | $89.3 |
| Total Private Equity Fair Value | $534.8 | $448.3 |
| Private Equity Investment Level [1] | 111% | 104% |
| Cash and Cash Equivalents | $63.9 | $139.2 |

1. *Defined as total private equity fair value divided by net asset value.*

# OVERVIEW OF THE INVESTMENT MANAGER

The NB Alternatives group of Neuberger Berman (the "Investment Manager") has over twenty years of investing experience specializing in private equity funds, co-investments and secondary investments and has built relationships with leading private equity fund managers over that time.

The Investment Manager makes all of our investment decisions, and we have delegated to the Investment Manager the day-to-day management and operations of our business. The Investment Manager's investment decisions are made by its Fund of Funds Investment Committee (the "Investment Committee"), which currently consists of members with an aggregate of more than 190 years of experience in private equity investing. The sourcing and evaluation of our investments is conducted by the Investment Manager's team of approximately 50 investment professionals who specialize in private equity fund investments and co-investments. In addition, the Investment Manager's staff of approximately 125 administrative and finance professionals are responsible for our administrative, financial management and reporting needs. The Investment Manager currently maintains offices in New York, Dallas, London and Hong Kong.

## About Neuberger Berman

Established in 1939, Neuberger Berman is one of the world's largest private, independent employee-controlled asset management companies, managing approximately $173 billion in assets as of 31 December 2009. Neuberger Berman is a leader in providing a broad range of global investment solutions to institutions and individuals through customized separately managed accounts, mutual funds and alternative investment products. For more information please visit Neuberger Berman's website at www.nb.com.

# MARKET COMMENTARY

One year ago, the world feared a financial system meltdown and an ensuing depression. By the end of the first quarter of 2009, however, markets began to stabilize as investors realized a major economic catastrophe had largely been averted. The remainder of 2009 was characterized by a public market rally that proved the resilience of the world's financial system – major banks survived and posted profits, and market volatility diminished and approached historical averages. Despite the economic progress of 2009, we believe the investment environment will remain challenging in the near term amidst continued high unemployment rates, overall credit tightness, and slow corporate revenue growth.

Although leveraged buyout activity showed an improvement in the second half of 2009, it was far removed from the activity levels of the years leading up to the credit crisis. Leveraged buyout activity showed a 150% year over year improvement during the fourth quarter of 2009, totaling nearly $8 billion in value across 11 transactions compared to $3.2 billion across 6 transactions during the fourth quarter of 2008[1]. The fourth quarter of 2009 also marked the third consecutive quarter of growth in both investment pace[2] and leveraged buyout loan volume, signaling what we believe to be signs that the buyout market is slowly recovering. Leveraged buyout loan volume increased to nearly $3.8 billion during the fourth quarter, more than double the aggregate loan volume during the first three quarters of 2009[3].

Over the next several years, we believe there will be a number of post-recessionary investment opportunities for experienced small- and mid-cap buyout and distressed investors. The operating performance of target companies has begun to stabilize and we believe small- and mid-cap buyout managers will seek opportunities to acquire strong businesses at attractive valuations. This started to result in an increased pace of capital calls from buyout funds, which we expect to increase further throughout 2010 and 2011. The market prices of leveraged loans and high yield debt increased significantly over the last three quarters of 2009; however, with the large amount of debt currently outstanding and in need of future refinancing, we believe that special situations / distressed investors will continue to see strong deal flow for the next several years. In addition, we believe secondary purchases will continue to be attractive for the near to medium term as buyers are able to purchase quality private equity portfolios at meaningful discounts to reported net asset values.

We continue to believe that our existing portfolio is well-positioned to generate attractive returns over the long term. Additionally, with $159.0 million of unfunded commitments at year end and a significant amount of excess capital resources to deploy into new private equity investments, we believe that we are in a strong position to capitalize on high quality investment opportunities during the next several years.

1. *Standard & Poor's 4Q09 Leveraged Buyout Review*
2. *Fund Evaluation Group Fourth Quarter 2009 Research Review, Angelica, James W*
3. *Standard & Poor's 4Q09 Leveraged Buyout Review*
4. *Fund Evaluation Group Fourth Quarter 2009 Research Review, Angelica, James W*

# INVESTMENT RESULTS

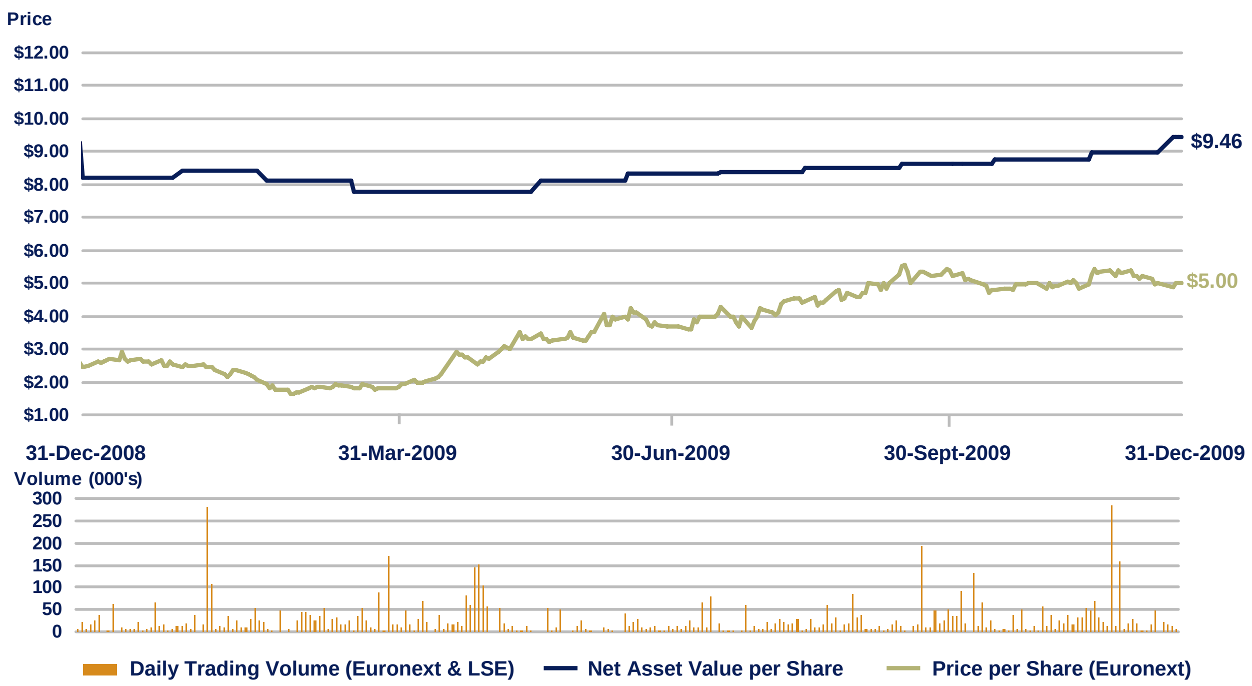
As of 31 December 2009, NBPE's audited net asset value per share was $9.46, representing a 15.4% increase compared to the audited net asset value per share of $8.20 at 31 December 2008. During 2009, NBPE's portfolio value increased due to net unrealized gains on distressed funds and public equity securities. In addition, improvements in portfolio company operating performance and higher public market comparables resulted in a net increase in the value of certain private fund investments and co-investments.

For the year ended 31 December 2009, the private equity portfolio had net realized losses of $9.5 million. Net unrealized gains for credit-related fund investments and public equity securities were $47.7 million, and net unrealized gains for privately held investments were $26.9 million. Net operating expenses (including interest expense), treasury stock adjustments, foreign exchange translation and taxes led to a $12.4 million decrease in net asset value during the year. However, share repurchases through the Liquidity Enhancement Agreement were accretive to net asset value by $0.20 on a per share basis.

During 2009, we invested approximately $56.5 million into private equity assets through capital calls and follow-on investments. Approximately 65% of the capital was invested in buyout funds and co-investments, 23% in special situations / distressed funds and 12% in growth equity and venture capital funds.

We received approximately $35.6 million of distributions during 2009. A majority of the distributions were attributable to the realization of a co-investment in a public company and our fund investments in Corsair III Financial Services Capital Partners, Wayzata Opportunities Fund II and ArcLight Energy Partners Fund IV.

## 2009 SHARE PRICE PERFORMANCE AND NET ASSET VALUE PER SHARE



# INVESTMENT PORTFOLIO ACTIVITY

During 2009, we invested approximately $56.5 million into private equity assets through capital calls and follow-on investments and received approximately $35.6 million of distributions.

Our new investment activity included two follow-on co-investments in Avaya, Inc. and Firth Rixson, plc. In addition, NBPE purchased a portfolio of private equity fund investments and co-investments in a secondary transaction alongside NB Alternatives' secondary fund at a discount to net asset value. The transaction included approximately $7.4 million of total private equity exposure (purchase price plus unfunded) and was well diversified by asset class, vintage year and sponsor. A majority of the investments in this secondary transaction closed in 2009 (listed on the Private Equity Investment Portfolio on page 13 as NB Fund of Funds Secondary 2009), and the remaining investments closed in early 2010.

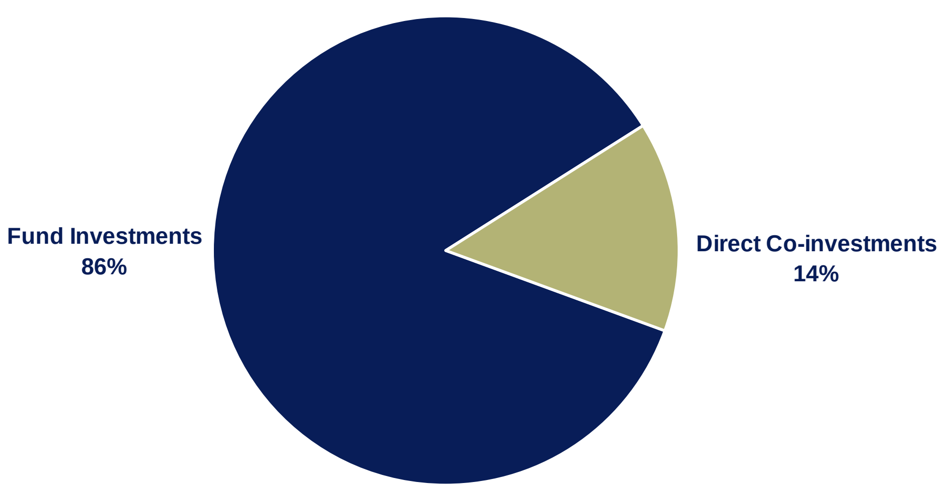
Our distribution activity included the realization of a co-investment in a publicly-traded company in September 2009. In addition, subsequent to 31 December 2009, we agreed to sell our position in a large-cap buyout fund in two separate transactions. The sales of this fund interest will result in a small increase in liquidity and will reduce our unfunded commitments by approximately $14.6 million if and when these transactions close. We believe NBPE can generate more attractive risk-adjusted returns by re-deploying this capital into other private equity investments.

As of 31 December 2009, our private equity investment portfolio consisted of 40 fund investments and 17 direct co-investments. The fair value of our private equity portfolio was $534.8 million, and the total exposure, including unfunded commitments, was $693.8 million.

## PRIVATE EQUITY INVESTMENT PORTFOLIO – 31 DECEMBER 2009

| ($ in millions) | Number of Investments | Fair Value | Unfunded Commitments | Total Exposure |
|---|---|---|---|---|
| Fund Investments | 40 | $457.2 | $152.7 | $609.9 |
| Direct Co-investments | 17 | 77.6 | 6.4 | 83.9 |
| **Total Private Equity Investments** | **57** | **$534.8** | **$159.0** | **$693.8** |

## PORTFOLIO ALLOCATION BASED ON FAIR VALUE



# INVESTMENT PORTFOLIO ACTIVITY

Portfolio and investment activity during 2009 was as follows:

($ in millions)

| | Fund Investments | Direct Co-investments | Total |
|---|---|---|---|
| Investments Funded | $53.6 | $2.9 | $56.5 |
| Distributions Received | $25.7 | $9.9 | $35.6 |
| | | | |
| Net Realized Gains (Losses) | ($8.3) | ($1.2) | ($9.5) |
| Net Unrealized Appreciation (Depreciation) | $79.2 | ($3.9) | $75.3 |
| | | | |
| New Primary Commitments / Follow-on Co-investments | 0 | 2 | 2 |
| Amount Committed | $0.0 | $2.9 | $2.9 |
| | | | |
| New Secondary Purchases | 1 | 0 | 1 |
| Amount Committed | $7.4 | $0.0 | $7.4 |

# INVESTMENT STRATEGY AND CAPITAL DEPLOYMENT

We seek to generate attractive risk-adjusted returns by increasing our net asset value over the long term. We strive to implement our strategy by making investments into high quality private equity funds and direct co-investments, while also maintaining a well-diversified portfolio.

Since inception, we have tactically allocated a meaningful portion of our portfolio to the special situations asset class, including distressed funds. As a result, we have deployed over $143 million into special situations funds and co-investments since our initial global offering in July 2007. These investments provide exposure to undervalued credit securities, mezzanine debt, financial restructurings and operational turnarounds of underperforming businesses.

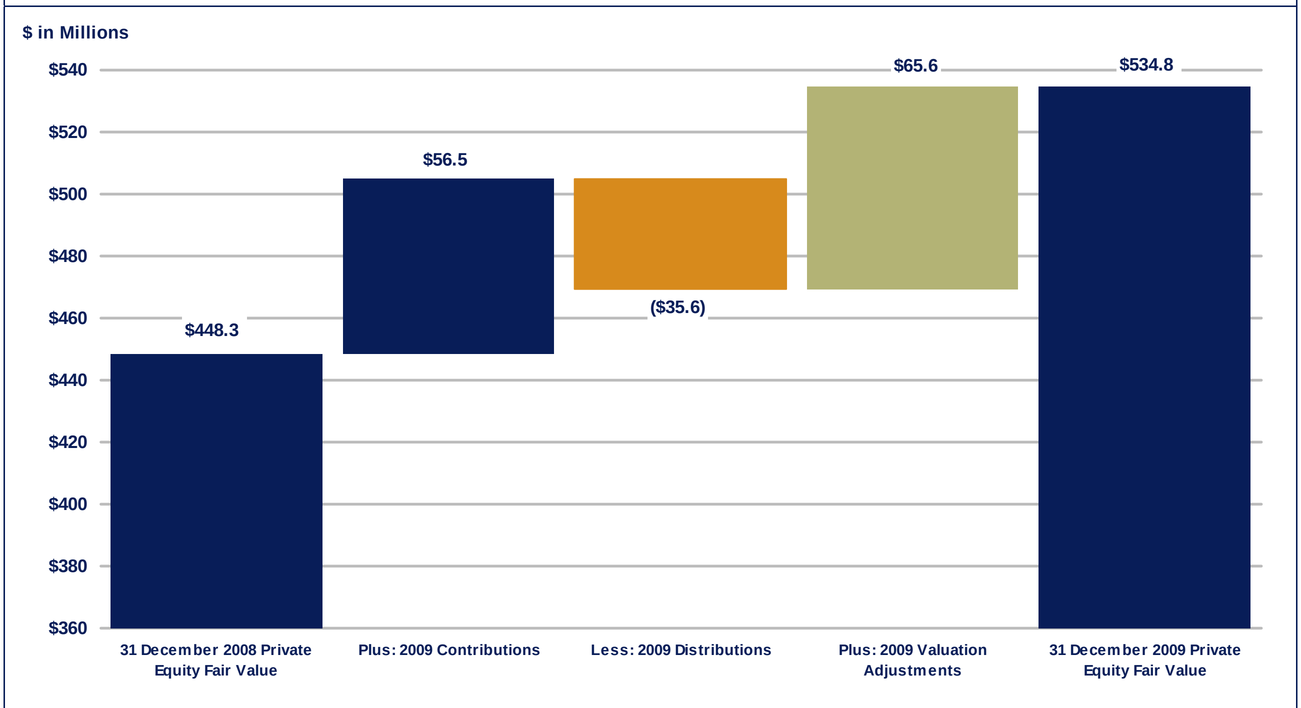
As of 31 December 2009, special situations funds and co-investments represented 29% of our investment portfolio based on private equity fair value. We believe that an attractive environment for making special situations investments will continue over the next several years.

As a result, we continue to believe our special situations managers will be well-positioned to generate positive returns over the long term.

As of 31 December 2009, our cash and available credit facility exceeded unfunded private equity commitments by $89.0 million. Therefore, we believe we are in a strong financial position with significant capital resources to take advantage of current market opportunities.

In the near to medium-term, we intend to capitalize on attractive new investment opportunities in sectors that we believe are well-suited for the private equity portfolio, including distressed funds, secondary purchases and small- to mid-cap buyout funds and co-investments. Nevertheless, as we actively pursue new investment opportunities, we intend to maintain a conservative capital structure with a prudent commitment coverage ratio.

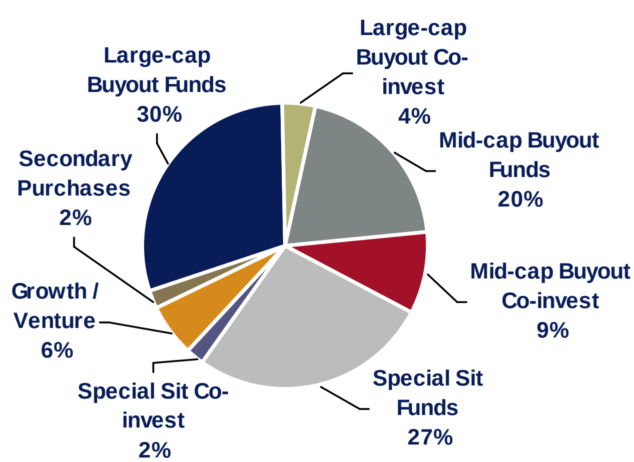
## 2009 CAPITAL DEPLOYMENT



# DIVERSIFICATION BY ASSET CLASS AND INVESTMENT TYPE

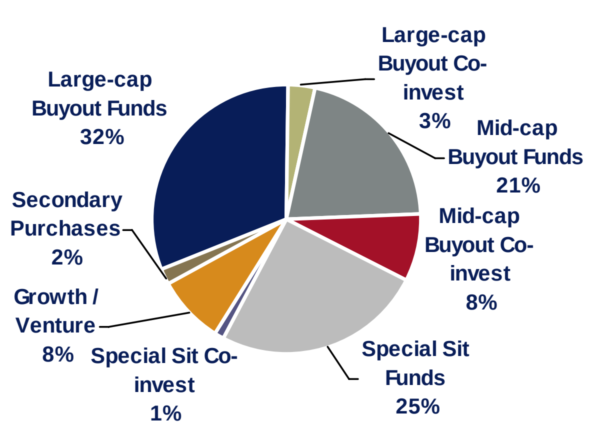
Consistent with our investment objective, we strive to manage investment risk through appropriate diversification within our private equity portfolio. The graphs below illustrate the breakdown of our private equity investment portfolio by asset class and investment type based on fair value, total exposure and unfunded commitments as of 31 December 2009.

**DIVERSIFICATION BY ASSET CLASS AND INVESTMENT TYPE BASED ON FAIR VALUE [1]**

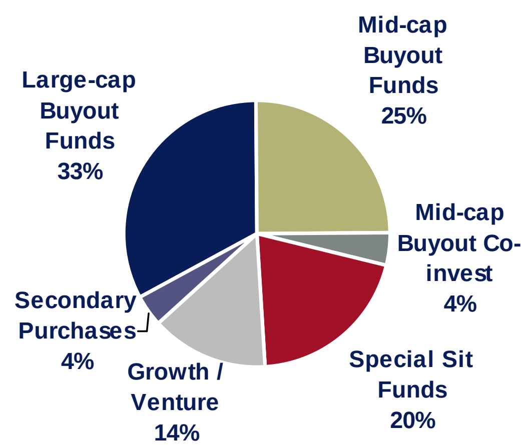



**DIVERSIFICATION BY ASSET CLASS AND INVESTMENT TYPE [1]**

**By Total Exposure**



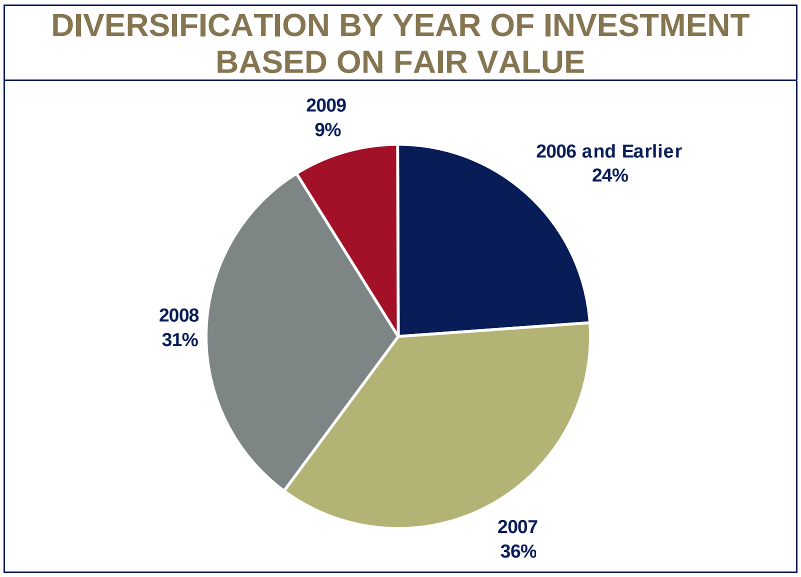

**By Unfunded Commitments**

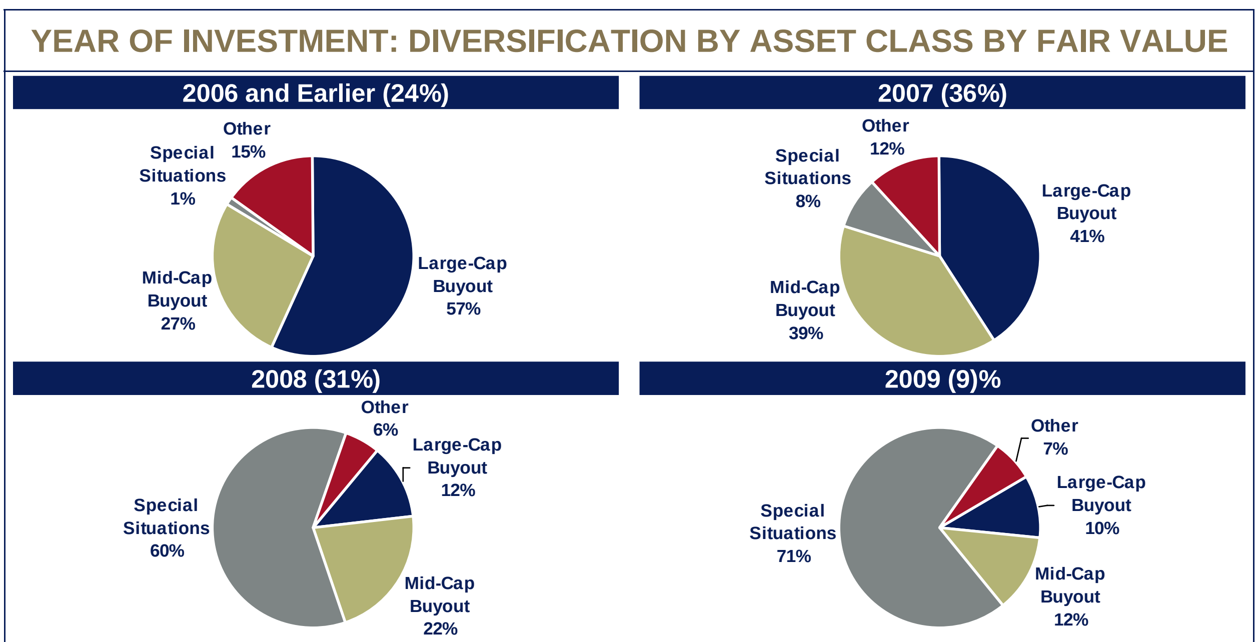



1. *The diversification analysis by asset class and investment type is based on the fair value of underlying fund investments and co-investments. Determinations regarding asset class and investment type represent the Investment Manager's estimates. Accordingly, the actual diversification of our investment portfolio and the diversification of our investment portfolio on an ongoing basis may vary from the foregoing information.*

# DIVERSIFICATION BY YEAR OF INVESTMENT [1]

The graphs below illustrate the diversification of our private equity portfolio by year of investment based on fair value as of 31 December 2009. Year of investment is calculated at the portfolio company level and is defined as the date of capital deployment into a particular underlying investment. This differs from the diversification by vintage year on page 11 as vintage year shows when a fund was formed rather than when the capital was deployed. As illustrated below, approximately 40% of total private equity fair value at 31 December 2009 was attributable to investments made during 2008 and 2009. Since 2006, the allocation to large-cap buyout investments has decreased, while the allocation to special situations investments has increased as a result of our tactical allocation to the most attractive opportunities.




*Note:"Other" includes NB Crossroads Fund XVII, Growth / Venture and Secondaries.*

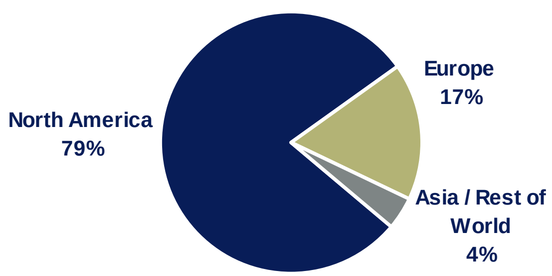
1. *Based on the largest 200 underlying investments in NBPE as well as the deployment of NBPE's special situations portfolio, NB Crossroads Fund XVII and NB Crossroads Fund XVIII. This comprises approximately 92% of the 31 December 2009 private equity fair value.*

# DIVERSIFICATION BY GEOGRAPHY AND INDUSTRY

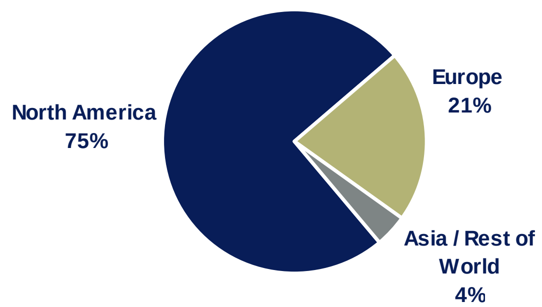
The graphs below illustrate the diversification of our private equity investment portfolio by geography and industry based on fair value and total exposure as of 31 December 2009.

## GEOGRAPHIC DIVERSIFICATION [1]

### By Fair Value

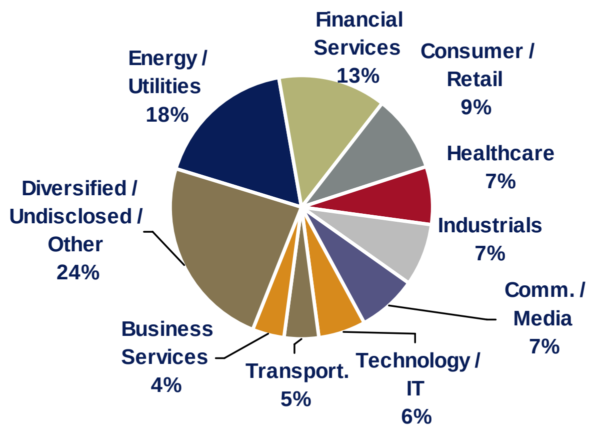



### By Total Exposure

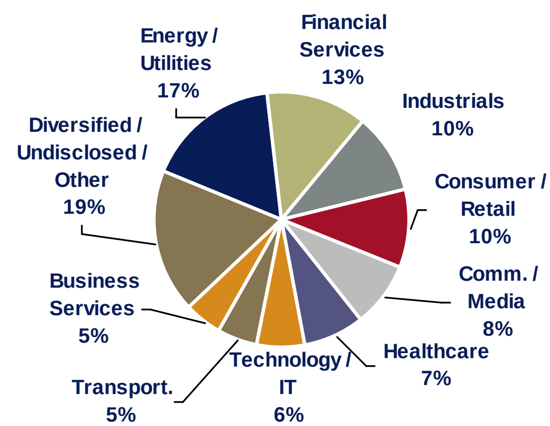



## INDUSTRY DIVERSIFICATION [1]

### By Fair Value




### By Total Exposure




1. *The diversification analysis by geography and industry is based on the diversification of underlying portfolio company investments at fair value as estimated by the Investment Manager. Determinations regarding geography and industry also represent the Investment Manager's estimates. Accordingly, the actual diversification of our investment portfolio and the diversification of our investment portfolio on an ongoing basis may vary from the foregoing information.*

# DIVERSIFICATION BY VINTAGE YEAR

The table below outlines the diversification of our private equity portfolio by vintage year and investment type based on fair value as of 31 December 2009. For the purposes of this analysis, and throughout this Annual Financial Report, vintage year is defined as the date of the first portfolio investment made by a private equity fund or the date of a co-investment. This diversification by vintage year is to be distinguished from the diversification by year of investment, which is shown on page 9.

## DIVERSIFICATION BY VINTAGE YEAR AND INVESTMENT TYPE BASED ON FAIR VALUE [1]

| *($ in millions)* | Vintage Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **<=2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **Total** |
| Large-cap Buyout Funds | $45.5 | $41.5 | $71.1 | $3.9 | - | - | $162.0 |
| Large-cap Buyout Co-investments | - | - | 2.6 | 18.9 | - | 0.1 | 21.6 |
| Mid-cap Buyout Funds | 9.0 | 9.2 | 50.5 | 35.0 | 0.7 | - | 104.4 |
| Mid-cap Buyout Co-investments | - | 0.8 | 13.7 | 35.1 | 2.6 | - | 52.2 |
| Special Situations Funds | 0.2 | 2.1 | 18.4 | 62.4 | 61.2 | - | 144.3 |
| Special Situations Co-investments | - | - | - | - | 8.4 | - | 8.4 |
| Growth / Venture | 3.0 | 4.7 | 7.5 | 13.9 | 1.3 | - | 30.5 |
| Secondary Purchases | 0.1 | 0.2 | 1.7 | 4.2 | 0.4 | 4.9 | 11.4 |
| **Total** | $57.8 | $58.6 | $165.4 | $173.5 | $74.6 | $5.0 | $534.8 |

| | Vintage Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **<=2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **Total** |
| Large-cap Buyout Funds | 79% | 71% | 43% | 2% | 0% | 0% | 30% |
| Large-cap Buyout Co-investments | 0% | 0% | 2% | 11% | 0% | 2% | 4% |
| Mid-cap Buyout Funds | 16% | 16% | 31% | 20% | 1% | 0% | 20% |
| Mid-cap Buyout Co-investments | 0% | 1% | 8% | 20% | 3% | 0% | 10% |
| Special Situations Funds | 0% | 4% | 11% | 36% | 82% | 0% | 27% |
| Special Situations Co-investments | 0% | 0% | 0% | 0% | 11% | 0% | 2% |
| Growth / Venture | 5% | 8% | 5% | 8% | 2% | 0% | 6% |
| Secondary Purchases | 0% | 0% | 1% | 2% | 1% | 98% | 2% |
| **Total** | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

1. *Totals may not sum due to rounding.*

# PRIVATE EQUITY INVESTMENT PORTFOLIO

The following is a list of our private equity investments as of 31 December 2009: [1]

| ($ in millions) | Asset Class | Principal Geography | Vintage Year | Estimated Fair Value | Unfunded Commitments | Total Exposure |
|---|---|---|---|---|---|---|
| **Fund Investments** | | | | | | |
| AIG Highstar Capital II | Mid-cap Buyout | U.S. | 2004 | $3.6 | $0.0 | $3.6 |
| American Capital Equity II | Mid-cap Buyout | U.S. | 2005 | 3.9 | 1.4 | 5.4 |
| Apollo Investment Fund V | Large-cap Buyout | U.S. | 2001 | 13.2 | 1.5 | 14.7 |
| Aquiline Financial Services Fund | Mid-cap Buyout | U.S. | 2005 | 3.1 | 1.5 | 4.6 |
| ArcLight Energy Partners Fund IV | Mid-cap Buyout | U.S. | 2007 | 12.6 | 7.8 | 20.4 |
| Avista Capital Partners | Mid-cap Buyout | U.S. | 2006 | 15.9 | 1.9 | 17.8 |
| Bertram Growth Capital I | Growth Equity | U.S. | 2007 | 11.5 | 6.4 | 17.8 |
| Carlyle Europe Partners II | Large-cap Buyout | Europe | 2003 | 5.3 | 0.5 | 5.8 |
| Centerbridge Credit Partners | Special Situations | U.S. | 2008 | 26.6 | - | 26.6 |
| Clayton, Dubilier & Rice Fund VII | Large-cap Buyout | U.S. | 2005 | 22.0 | 2.0 | 24.0 |
| Clessidra Capital Partners | Mid-cap Buyout | Europe | 2004 | 3.7 | 0.7 | 4.4 |
| Corsair III Financial Services Capital Partners | Mid-cap Buyout | Global | 2007 | 7.5 | 1.7 | 9.2 |
| CVI Global Value Fund | Special Situations | Global | 2006 | 13.7 | 0.8 | 14.4 |
| Doughty Hanson & Co IV | Large-cap Buyout | Europe | 2003 | 4.1 | 0.3 | 4.4 |
| First Reserve Fund XI | Large-cap Buyout | U.S. | 2006 | 20.6 | 5.6 | 26.2 |
| Investitori Associati III | Mid-cap Buyout | Europe | 2000 | 1.2 | 0.5 | 1.8 |
| J.C. Flowers II | Large-cap Buyout | Global | 2006 | 3.0 | 0.4 | 3.4 |
| KKR 2006 Fund | Large-cap Buyout | Global | 2006 | 21.6 | 7.2 | 28.8 |
| KKR Millennium Fund | Large-cap Buyout | Global | 2002 | 12.8 | 0.0 | 12.8 |
| Lightyear Fund II | Mid-cap Buyout | U.S. | 2006 | 6.4 | 3.6 | 10.0 |
| Madison Dearborn Capital Partners V | Large-cap Buyout | U.S. | 2006 | 6.3 | 1.8 | 8.1 |
| NB Crossroads Fund XVII | Diversified | U.S. | 2002 - 2006 | 31.8 | 8.1 | 40.0 |
| NB Crossroads Fund XVIII Large-cap Buyout | Large-cap Buyout | Global | 2005 - 2009 | 7.8 | 4.2 | 12.0 |
| NB Crossroads Fund XVIII Mid-cap Buyout | Mid-cap Buyout | Global | 2005 - 2009 | 22.3 | 15.4 | 37.7 |
| NB Crossroads Fund XVIII Special Situations | Special Situations | Global | 2005 - 2009 | 8.3 | 1.9 | 10.1 |
| NB Crossroads Fund XVIII Venture Capital | Venture / Growth | U.S. | 2006 - 2009 | 6.6 | 3.7 | 10.3 |
| NB Fund of Funds Secondary 2009 | Diversified | Global | 2009 | 4.7 | 4.9 | 9.6 |
| OCM Opportunities Fund VIIb | Special Situations | U.S. | 2008 | 34.5 | 4.5 | 39.0 |
| OCM Principal Opportunities Fund IV | Mid-cap Buyout | U.S. | 2007 | 19.2 | 2.0 | 21.2 |
| Platinum Equity Capital Partners II | Special Situations | U.S. | 2007 | 7.0 | 11.5 | 18.5 |
| Prospect Harbor Credit Partners | Special Situations | U.S. | 2007 | 10.6 | - | 10.6 |
| Sankaty Credit Opportunities III | Special Situations | U.S. | 2007 | 21.1 | - | 21.1 |
| Summit Partners Europe Private Equity Fund | Growth Equity | Europe | 2010 | - | 6.4 | 6.4 |
| Sun Capital Partners V | Special Situations | U.S. | 2007 | 1.8 | 8.5 | 10.3 |
| Terra Firma Capital Partners III | Large-cap Buyout | Europe | 2007 | 2.7 | 14.6 | 17.3 |
| Thomas H. Lee Equity Fund VI | Large-cap Buyout | U.S. | 2006 | 11.9 | 12.2 | 24.1 |
| Trident IV | Mid-cap Buyout | U.S. | 2007 | 3.8 | 1.8 | 5.5 |
| Warburg Pincus Private Equity VIII | Large-cap Buyout | Global | 2001 | 8.3 | - | 8.3 |
| Wayzata Opportunities Fund II | Special Situations | U.S. | 2007 | 19.7 | 4.5 | 24.2 |
| Welsh, Carson, Anderson & Stowe X | Large-cap Buyout | U.S. | 2005 | 16.5 | 3.0 | 19.5 |
| **Total Fund Investments** | | | | **$457.2** | **$152.7** | **$609.9** |
| **Direct Co-investments [(2)]** | | | | | | |
| Avaya, Inc. | Large-cap Buyout | U.S. | 2007 | | | |
| Dresser Holdings, Inc. | Mid-cap Buyout | U.S. | 2007 | | | |
| Edgen Murray Corporation | Mid-cap Buyout | U.S. | 2007 | | | |
| Energy Future Holdings Corp. (TXU Corp.) | Large-cap Buyout | U.S. | 2007 | | | |
| First Data Corporation | Large-cap Buyout | U.S. | 2007 | | | |
| Firth Rixson, plc (Equity) | Mid-cap Buyout | Europe | 2007 / 2008 | | | |
| Firth Rixson, plc (Mezzanine) | Special Situations | Europe | 2008 | | | |
| Freescale Semiconductor, Inc. | Large-cap Buyout | U.S. | 2006 | | | |
| GazTransport & Technigaz S.A.S. | Mid-cap Buyout | Europe | 2008 | | | |
| Group Ark Insurance Holdings Limited | Mid-cap Buyout | Global | 2007 | | | |
| Kyobo Life Insurance Co., Ltd. | Mid-cap Buyout | Asia | 2007 | | | |
| Press Ganey Associates, Inc. | Mid-cap Buyout | U.S. | 2008 | | | |
| Sabre Holdings Corporation | Large-cap Buyout | U.S. | 2007 | | | |
| Seventh Generation, Inc. | Growth Equity | U.S. | 2008 | | | |
| TPF Genco Holdings, LLC | Mid-cap Buyout | U.S. | 2006 | | | |
| Unión Radio | Mid-cap Buyout | Global | 2008 | | | |
| **Total Direct Co-investments** | | | | **$77.6** | **$6.4** | **$83.9** |
| **Total Private Equity Investment Portfolio** | | | | **$534.8** | **$159.0** | **$693.8** |

1. *Totals may not sum due to rounding.*
2. *Co-investment values are given on an aggregate-only basis. No single co-investment comprises more than 3.0% of total net asset value.*

# VALUATION METHODOLOGY

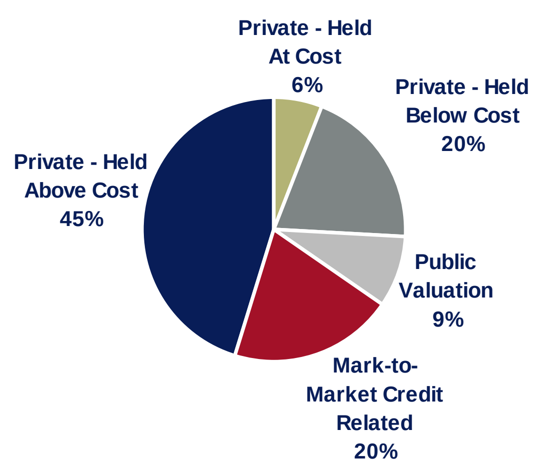
We carry our private equity investments on our books at fair value using the best information we have reasonably available to determine or estimate fair value. Publicly traded securities are valued based on quoted prices as of the last day of the relevant period less discounts to reflect legal restrictions associated with the securities, if any, that affect marketability. We determine such values for publicly traded securities held directly as well as known public positions held in the underlying private equity investments on a look-through basis. We estimate fair value for private interests based on a methodology that begins with the most recent information available from the general partner of the underlying fund or the lead investor of a direct co-investment, and considers subsequent transactions, such as drawdowns or distributions, as well as other information judged to be reliable that reports or indicates valuation changes, including realizations and other portfolio company events. We proactively re-value our investments before we have received updated information from the fund manager or lead sponsor if we become aware of material events that justify a change in valuation. If we conclude that it is probable that we will sell an investment, we adjust our carrying value to the amount we expect to realize from the sale, exclusive of transaction costs.

Our net asset value of $9.46 per share as of 31 December 2009 was $0.42 higher than previously reported in our December 2009 Monthly Report principally due to the receipt of additional portfolio valuation information. Between the release date of our December 2009 Monthly Report and the release date of this Annual Financial Report, our Investment Manager received fourth quarter 2009 financial statements and other valuation estimates that resulted in net unrealized gains within our private equity portfolio. Furthermore, our Investment Manager utilized this valuation information to proactively re-value certain portfolio companies that are in multiple private equity funds using a conservative valuation multiple across the portfolio.

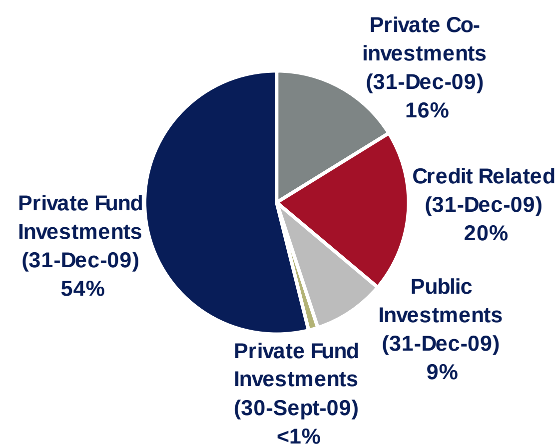
The graphs below illustrate the diversification of our private equity investments by valuation type and the date of most recent available information as of 31 December 2009.

## VALUATION METHODOLOGY

### Private Equity Fair Value by Valuation Type




### Private Equity Fair Value by Date of Most Recent Available Information



# PERFORMANCE BY ASSET CLASS

Based on the multiple of total value to paid-in capital ("TVPI"), our private equity portfolio increased in fair value from 0.84x at the end of 2008 to 0.95x at 31 December 2009.

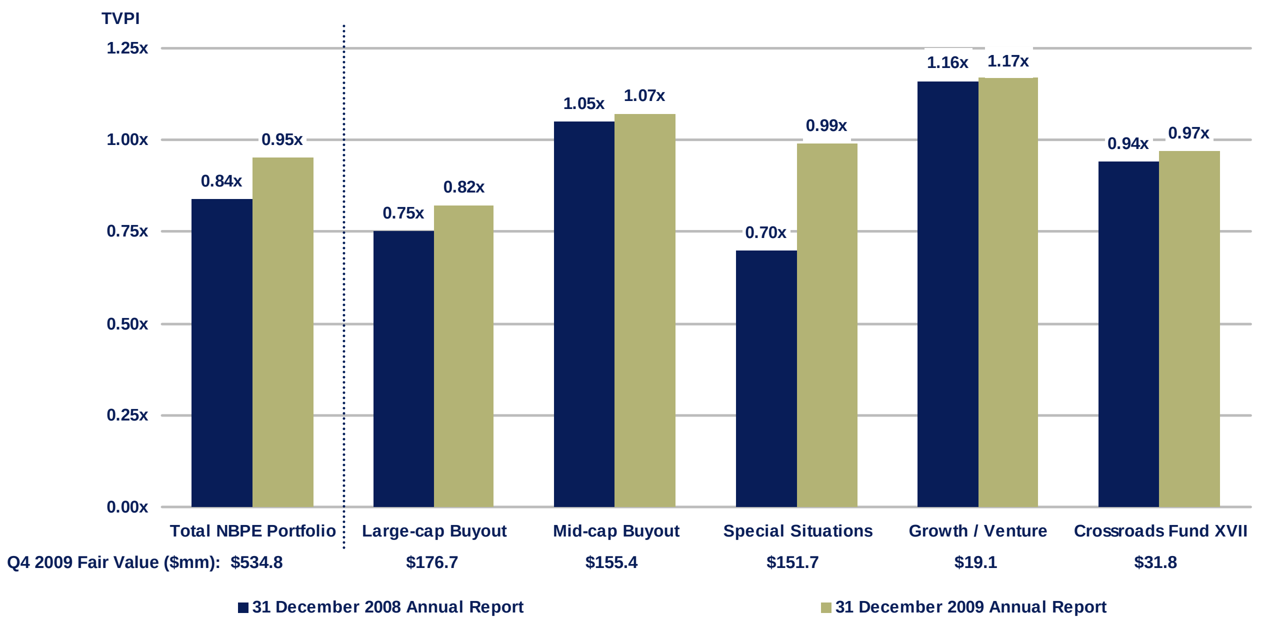
The increase in value during the year was primarily driven by unrealized gains in our special situations portfolio, which increased in value from 0.70x at 31 December 2008 to 0.99x at the end of the fourth quarter. This positive performance was largely attributable to a recovery in the credit markets, which led to higher mark-to-market valuations for the trading and restructuring funds in our special situations portfolio.

The large-cap buyout and mid-cap buyout portfolios experienced unrealized gains during 2009, principally due to improved operating performance and higher public market comparables. The TVPI multiple of our large-cap buyout portfolio increased from 0.75x to 0.82x during the year, while our mid-cap buyout portfolio increased from 1.05x to 1.07x.

Our growth equity and venture capital portfolio and our diversified investment in NB Crossroads Fund XVII also experienced unrealized gains in 2009.

The graph below illustrates a summary of our portfolio performance by asset class during the year.

## 2009 PORTFOLIO PERFORMANCE BY ASSET CLASS



# PORTFOLIO INVESTMENT PERFORMANCE

The table below outlines the performance of our unrealized underlying investments by asset class and valuation range as of 31 December 2009. The following analysis totals approximately $483 million in fair value, or 90% of total private equity fair value, and is based on the most recent information available at the underlying company level. Across the portfolio, 66% of unrealized fair value and 46% of unrealized cost basis is held at or above cost on a company by company basis.

## AGGREGATE PORTFOLIO COMPANY ANALYSIS BY ASSET CLASS AND VALUATION RANGE [1]

| Total Unrealized Portfolio Multiple Range | 31-Dec-09 % of Cost | 31-Dec-09 % of Value |
|---|---|---|
| 2.0x + | 6% | 16% |
| 1.0x - 2.0x | 36% | 46% |
| Held at Cost | 5% | 5% |
| 0.5x - 1.0x | 37% | 30% |
| 0.25x - 0.5x | 6% | 2% |
| < 0.25x | 10% | 1% |
| **Total Unrealized ($m)** | **$491.7** | **$483.5** |

| Mid-cap Buyout Multiple Range | 31-Dec-09 % of Cost | 31-Dec-09 % of Value |
|---|---|---|
| 2.0x + | 8% | 20% |
| 1.0x - 2.0x | 48% | 57% |
| Held at Cost | 7% | 7% |
| 0.5x - 1.0x | 16% | 12% |
| 0.25x - 0.5x | 8% | 3% |
| < 0.25x | 13% | 2% |
| **Total Unrealized ($m)** | **$134.4** | **$143.6** |

| Large-cap Buyout Multiple Range | 31-Dec-09 % of Cost | 31-Dec-09 % of Value |
|---|---|---|
| 2.0x + | 6% | 21% |
| 1.0x - 2.0x | 25% | 35% |
| Held at Cost | 5% | 5% |
| 0.5x - 1.0x | 41% | 35% |
| 0.25x - 0.5x | 7% | 3% |
| < 0.25x | 16% | 2% |
| **Total Unrealized ($m)** | **$204.2** | **$183.6** |

| Special Situations Multiple Range | 31-Dec-09 % of Cost | 31-Dec-09 % of Value |
|---|---|---|
| 2.0x + | 1% | 2% |
| 1.0x - 2.0x | 40% | 49% |
| Held at Cost | 0% | 0% |
| 0.5x - 1.0x | 55% | 47% |
| 0.25x - 0.5x | 3% | 1% |
| < 0.25x | 1% | 0% |
| **Total Unrealized ($m)** | **$129.9** | **$127.0** |

| Growth / Venture Multiple Range | 31-Dec-09 % of Cost | 31-Dec-09 % of Value |
|---|---|---|
| 2.0x + | 14% | 30% |
| 1.0x - 2.0x | 35% | 40% |
| Held at Cost | 14% | 11% |
| 0.5x - 1.0x | 25% | 16% |
| 0.25x - 0.5x | 4% | 1% |
| < 0.25x | 7% | 0% |
| **Total Unrealized ($m)** | **$23.2** | **$29.2** |

1. *Assets not included consist primarily of cash held by underlying private equity funds and investments not yet identified.*

# CO-INVESTMENT PERFORMANCE

As of 31 December 2009, the TVPI multiple of our co-investment portfolio was 0.93x. On an overall basis, the valuation of our co-investment portfolio experienced unrealized gains during the fourth quarter primarily due to improved operating performance and higher comparable valuations.

The table below outlines the performance of our co-investment portfolio from inception through 31 December 2009 by asset class and valuation range.

## CO-INVESTMENT PERFORMANCE BY ASSET CLASS AND VALUATION RANGE

| Asset Class | # Co-investments | 31-Dec-2009 Fair Value ($mm) | Total Value to Paid-in Capital | % of Fair Value |
|---|---|---|---|---|
| Large-cap Buyout | 5 | $20.7 | 0.56x | 26.7% |
| Mid-cap Buyout | 13 | 47.5 | 1.15x | 61.3% |
| Other Co-investments | 2 | 9.4 | 0.91x | 12.1% |
| **Total Co-investments** | **20** | **$77.6** | **0.93x** | **100.0%** |

| Multiple Range | # Co-investments | 31-Dec-2009 Fair Value ($mm) | Total Value to Paid-in Capital | % of Fair Value |
|---|---|---|---|---|
| 2x+ | 1 | $9.4 | 2.07x | 12.1% |
| 1.0x - 2.0x | 8 | 36.3 | 1.28x | 46.8% |
| 0.5x - 1.0x | 8 | 25.5 | 0.82x | 32.9% |
| < 0.5x | 3 | 6.3 | 0.28x | 8.2% |
| **Total Co-investments** | **20** | **$77.6** | **0.93x** | **100.0%** |

# LARGEST UNDERLYING INVESTMENTS

At 31 December 2009, our private equity investment portfolio included exposure to over 2,300 separate companies, with our allocable portion of approximately 900 companies valued at greater than $20,000. Our 10 largest portfolio company investments totaled approximately $85 million in fair value, or 16% of our private equity fair value. Our 20 largest portfolio company investments totaled approximately $128 million in fair value, or 24% of our private equity fair value. No individual company accounted for more than 3.0% of total net asset value at year end. Listed below are the 20 largest portfolio company investments in alphabetical order.

| Company Name | Status | Business Description | Partnership |
|---|---|---|---|
| Affinion Group Holdings Inc. | Privately Held | Marketing solutions | Apollo V |
| Author Solutions, Inc. | Privately Held | Independent self-publishing services | Bertram Growth Capital, Fund XVIII |
| Avaya, Inc. | Privately Held | Communication systems, applications and services for enterprises | Direct, Fund XVIII |
| Dollar General Corporation | Publicly-Traded | Leading value discount retailer of quality general merchandise | KKR 2006, Fund XVIII |
| Dresser Holdings, Inc. | Privately Held | Energy infrastructure and oilfield equipment and services | Direct, First Reserve XI, Fund XVII, Fund XVIII |
| Edgen Murray Corporation | Privately Held | Distributor and marketer of steel and alloy products | Direct, Fund XVII, Fund XVIII |
| Energy Future Holdings Corp. (f/k/a TXU Corp.) | Privately Held | Power generation, transmission and distribution, and retail electricity services | Direct, KKR 2006, Fund XVIII |
| First Data Corporation | Privately Held | Global payment processing services | Direct, KKR 2006, Fund XVIII |
| Firth Rixson, plc (Mezzanine Debt) | Privately Held | Supplier of specialist metal products primarily for the aerospace industry | Direct |
| Group Ark Insurance Holdings Limited | Privately Held | Lloyd's based specialty P&C insurer | Direct, Aquiline, Fund XVIII |
| Hertz Global Holdings, Inc. | Publicly-Traded | Car rental service | Carlyle Europe II, Clayton, Dubilier & Rice VII, Fund XVII |
| Kyobo Life Insurance Co., Ltd. | Privately Held | South Korean life insurance provider | Corsair III, Direct, Fund XVIII |
| Nielsen Company | Privately Held | Global information and media products and services | Carlyle Europe II, KKR Millennium, THL Fund VI, Fund XVII, Fund XVIII |
| Power Holdings Inc. | Privately Held | Manufacturer of full spectrum power distribution and monitoring equipment | Bertram Growth Capital, Fund XVIII |
| Sabre Holdings Corporation | Privately Held | Travel services | Direct, Fund XVII, Fund XVIII |
| Sally Beauty Holdings, Inc. | Publicly-Traded | International specialty retailer of professional beauty supplies | Clayton, Dubilier & Rice VII |
| ServiceMaster Company | Privately Held | Maintenance services, including lawn care, house cleaning and pest control | Clayton, Dubilier & Rice VII |
| TPF Genco Holdings, LLC | Privately Held | Natural gas fired power plants | Direct, Fund XVII, Fund XVIII |
| U.S. Foodservice Inc | Privately Held | Foodservice distributor | Clayton, Dubilier & Rice VII, KKR 2006, Fund XVIII |
| Unitymedia | Privately Held | German cable television operator | Apollo V, Fund XVIII |

At 31 December 2009, approximately $48 million of our private equity investment portfolio was comprised of investments directly or indirectly in publicly-traded securities. This amount represented approximately 9% of private equity fair value. We experienced strong year-over-year performance within the group of publicly-traded securities in the portfolio. The 46 companies with publicly-traded securities held directly by NBPE or by NBPE fund investments generated a year-over-year increase in market capitalization of 39.8% in aggregate. As of 31 December 2009, this subset of publicly-traded securities represented approximately 7% of private equity fair value.

# INVESTMENT PORTFOLIO PERFORMANCE METRICS

The table below outlines the estimated percentage of our private equity fair value that is based on different investment types and primary valuation methodologies. Please refer to page 13 for a detailed description of our valuation methodology. Notably, as of 31 December 2009, approximately 29% of the private equity fair value was based on mark-to-market credit related funds and public securities.

**PRIMARY VALUATION METHODOLOGY – 31 DECEMBER 2009**

| Investment Type | Primary Valuation Methodology | % of 31-Dec-2009 Fair Value |
|---|---|---|
| Private Fund Investments and Co-investments | Private company valuations | 71% |
| Credit Related Special Situations Funds | Generally mark-to-market (monthly) | 20% |
| Public Securities | Mark-to-market | 9% |
| **Total Private Equity Portfolio** | | **100%** |

In connection with our portfolio monitoring process, our Investment Manager analyzed the operational performance and valuation metrics of our 50 largest portfolio company investments, which also includes 13 private co-investments. The 50 largest portfolio company investments include the 20 companies listed on the previous page plus the next 30 largest portfolio company investments, as listed in Figure 1 below by industry sector and investment type.

**FIGURE 1:COMPANIES INCLUDED IN PERFORMANCE ANALYSIS**
**OPERATING PERFORMANCE AS OF 30 SEPTEMBER 2009**

| | Industry Sector | # Companies | % Total Fair Value (31 Dec 2009) |
|---|---|---|---|
| Traditional Buyouts Included in Figure 2 | Healthcare | 9 | 4% |
| | Energy Services | 2 | 4% |
| | Technology / IT | 4 | 4% |
| | Business Services | 5 | 3% |
| | Consumer / Retail | 2 | 2% |
| | Communications / Media | 4 | 2% |
| | Industrials | 3 | 1% |
| | Transportation | 1 | 0% |
| | Total Included in *Figure 2* | 30 | 21% |
| Other Investments Not Included In Figure 2 | Power Generation & Distribution | 3 | 4% |
| | Financial Institutions | 4 | 4% |
| | Public Companies | 4 | 2% |
| | Data Not Available | 5 | 2% |
| | Debt Investments | 2 | 2% |
| | Growth Equity | 2 | 2% |
| | Total Not Included in *Figure 2* | 20 | 16% |
| | **Largest 50 Companies** | **50** | **37%** |

As of 31 December 2009, these 50 companies represented an aggregate fair value of $200 million, or 37% of our private equity portfolio. Figure 2 illustrates the valuation metrics and LTM revenue and EBITDA growth for 30 of the 50 largest investments by industry sector. These 30 traditional buyout equity positions represented $112 million of fair value, or 21% of our total private equity portfolio, at the end of the 2009. All of the performance metrics represent weighted averages based on each company's fair value at 31 December 2009. These companies were privately held at the beginning of 2009, and one of them went public during the year.

Although the fair value of our private equity portfolio as a whole is only 35% large-cap buyout, nearly 57% of the 50 largest companies included in this analysis are large-cap buyout investments. This is due to our large-cap buyout exposure being concentrated in a smaller number of portfolio companies than our mid-cap buyout and special situations portfolios. We believe that the valuation and leverage multiples for large-cap buyout companies are generally higher than the more diversified small- and mid-cap buyout investments.

A total of 20 companies in the 50 largest holdings were not included in the graph on the next page because their performance is typically benchmarked against other metrics or because sufficient data was not available.

By industry sector, the power generation companies represent the largest aggregate fair value in the top 50 investments and include a range of development, generation and transmission assets. These power investments are excluded from the graph on the next page because they are typically valued using a variety of factors, including plant capacity, energy source (e.g. gas, coal, wind, etc.), technology, location in relation to the power grid, regional demand, and the method of power sale. Furthermore, the debt capacity of these investments is typically based on operational leverage and the quality and type of power assets that serve as collateral.

During the 12 months since 31 December 2008, the four investments that were publicly-traded for the entire year experienced a weighted average total return of 106%.

Based on weighted averages, the four insurance and commercial banking companies were valued at 1.3x book value and 7.8x LTM earnings.

For the two companies in which we hold debt securities, the weighted average leverage multiple for the securities that are senior in priority to our investment was 4.8x LTM EBITDA.

The growth equity investments in our portfolio grew LTM revenue by 7% on a weighted average basis.

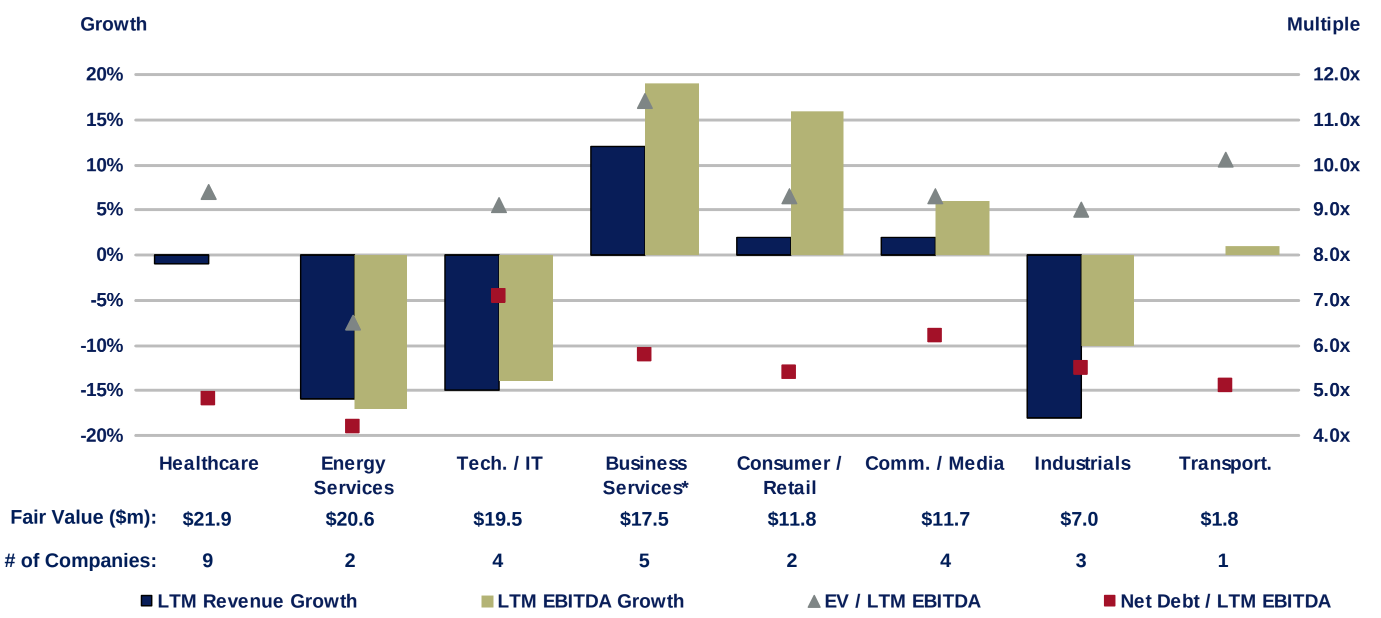
Figure 2 below illustrates the valuation metrics and the LTM 30 September 2009 revenue and EBITDA growth for 30 of our 50 largest investments by industry sector.

Based on weighted averages, the traditional buyout investments included in Figure 2 experienced an LTM revenue decline of 5% and an LTM EBITDA decline of 1%. These companies were valued at a weighted average of 9.1x LTM EBITDA and had a weighted average net leverage multiple of 5.5x LTM EBITDA.

Out of the largest investments included below, 13 companies representing $36 million of fair value grew LTM revenue, while 17 companies representing $76 million of fair value had negative or flat LTM revenue growth. In addition, 20 companies representing $59 million of fair value grew LTM EBITDA, while 10 companies representing $53 million of fair value experienced negative or flat LTM EBITDA growth.

By industry sector, business services generated relatively strong performance with weighted average LTM and EBITDA growth of 12% and 19%, respectively. Consumer / retail and communications / media also had positive performance with weighted average LTM EBITDA growth of 16% and 6%, respectively. On the other hand, industrials and energy services had negative growth during the most recent LTM period as the economic recession had a greater impact on cyclical businesses. Based on weighted averages, industrials had LTM revenue and EBITDA declines of 18% and 10%, respectively, while energy services had LTM revenue and EBITDA declines of 16% and 17%, respectively.

## FIGURE 2: WEIGHTED AVERAGE LTM 30 SEPTEMBER 2009 PERFORMANCE AND VALUATION METRICS BY INDUSTRY SECTOR



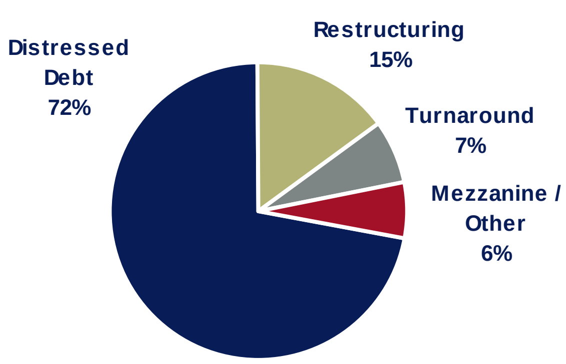

*Now includes a company that was previously held in "Financial Technology".*

The fair value of our special situations portfolio was approximately $152.7 million as of 31 December 2009, or 29% of total private equity fair value. Within this 29% of the portfolio, 20% of our total private equity fair value was from credit related funds that provide a monthly estimate of the mark-to-market fair value of their debt investments.

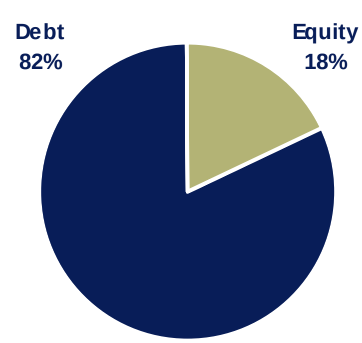
Our special situations portfolio consists of a combination of distressed debt, restructuring, turnaround and mezzanine strategies. As of year end, the special situations portfolio was primarily comprised of debt securities, but over time we expect the equity component to increase as restructuring activity progresses.

## SPECIAL SITUATIONS PORTFOLIO OVERVIEW [1]

**Strategy Diversification by Fair Value**




**Estimated Security Type by Fair Value**




1. *Special situations diversification statistics are based on most recently available quarterly information and the Investment Manager's estimates as of 31 December 2009.*

# NB CROSSROADS FUND OF FUNDS INVESTMENTS

NB Crossroads Fund XVII ("Fund XVII") and NB Crossroads Fund XVIII ("Fund XVIII") are diversified private equity funds of funds comprised of private equity fund investments, secondary investments and co-investments. Our exposure to Fund XVII is through a single commitment to Fund XVII's asset allocation fund while our exposure to Fund XVIII is through separate commitments to each of the asset class funds within Fund XVIII: Large-cap Buyout; Mid-cap Buyout; Special Situations / Distressed; and Growth Equity / Venture Capital.

As of 31 December 2009, the fair value of our investment in Fund XVII was $31.8 million, representing 6% of total private equity fair value. The asset class diversification of our investment in Fund XVII based on private equity fair value at year end was as follows[1]: Large-cap Buyout – 26%; Mid-cap Buyout – 27%; Growth / Venture – 41%; and Special Situations – 6%. As of 31 December 2009, Fund XVII consisted of 62 primary fund investments, nine co-investments and five secondary purchases and included exposure to over 1,400 separate companies, with the ten largest companies totaling approximately $2.9 million in fair value to NBPE, or less than 1% of total private equity fair value. At the end of 2009, we had unfunded commitments of $8.1 million to Fund XVII.

As of 31 December 2009, the aggregate fair value of our investments in Fund XVIII was $44.9 million, representing 8% of total private equity fair value. The asset class diversification of our investments in Fund XVIII based on private equity fair value at year end was as follows[1]: Large-cap Buyout – 15%; Mid-cap Buyout – 55%; Special Situations – 17%; and Growth / Venture – 13%. As of 31 December 2009, Fund XVIII consisted of 71 primary fund investments, 28 co-investments and seven secondary purchases and included exposure to over 1,200 separate companies, with the ten largest companies totaling approximately $9.4 million in fair value to NBPE, or 2% of our total private equity fair value. At the end of 2009, we had unfunded commitments of $25.2 million to Fund XVIII.

The table below lists our ten largest investments in Fund XVII and Fund XVIII in alphabetical order as of 31 December 2009. The ten largest investments in Fund XVII had a fair value of approximately $9.0 million, or 2% of our total private equity fair value. The ten largest investments in Fund XVIII had a fair value of approximately $11.9 million, or 2% of our total private equity fair value.

| Ten Largest Investments in Fund XVII | | Ten Largest Investments in Fund XVIII | |
|---|---|---|---|
| **Partnership** | **Asset Class** | **Partnership** | **Asset Class** |
| Apollo Investment Fund VI | Large-cap Buyout | Aquiline Financial Services Fund | Mid-cap Buyout |
| Battery Ventures VII | Growth / Venture | Court Square Capital Partners II | Mid-cap Buyout |
| Carlyle/Riverstone Global E&P Fund III | Large-cap Buyout | Doughty Hanson & Co V | Mid-cap Buyout |
| CVC European Equity Partners IV | Large-cap Buyout | KKR 2006 Fund | Large-cap Buyout |
| Meritech Capital Partners III | Growth / Venture | LS Power Equity Partners II | Mid-cap Buyout |
| New Enterprise Associates 11 | Growth / Venture | Madison Dearborn Capital Partners V | Large-cap Buyout |
| Oak Investment Partners XI | Growth / Venture | Newbridge Asia IV | Large-cap Buyout |
| Thoma Cressey Fund VIII | Mid-cap Buyout | TowerBrook Investors II | Mid-cap Buyout |
| Trinity Ventures IX | Growth / Venture | Veritas Capital Fund III | Mid-cap Buyout |
| Warburg Pincus Private Equity IX | Special Situations | Wayzata Opportunities Fund | Special Situations |

1. *The asset class diversification analysis is based on our allocable portion of the net asset value of the underlying fund investments and direct co-investments held by Fund XVII and Fund XVIII, respectively.*

# LIQUIDITY AND CAPITAL RESOURCES

The principal sources of our liquidity consist of the net cash proceeds of cash distributions from investments, sales of investments, interest and dividends earned on invested cash and investments, and borrowings under the credit facility (further detail provided below).

On 26 November 2009, we raised £30 million (approximately $50 million) through the issue of zero dividend preference shares ("ZDP Shares"). The ZDP Shares have a Gross Redemption Yield of 7.30% and a life of 7.5 years (to 31 May 2017), implying a final capital entitlement of 169.73 pence per ZDP Share. The issue of ZDP Shares further enhanced our capital position and provided additional resources to take advantage of current market opportunities without affecting our conservative capital structure and commitment coverage ratio. The ZDP Shares are admitted to trading on the Specialist Fund Market of the London Stock Exchange and listed and admitted to trading on the Daily Official List of the Channel Islands Stock Exchange. Dealings on both markets commenced on 1 December 2009.

As of 31 December 2009, we had outstanding borrowings of $65.8 million from our $250.0 million credit facility in order to fund ongoing investment activities. We had cash and cash equivalents of $63.9 million and $184.2 million of undrawn capacity on the credit facility, resulting in total capital resources of $248.1 million. Given that our unfunded private equity commitments were $159.0 million at year end, we continued to maintain a conservative capital structure with over 100% of our unfunded commitments backstopped by cash and the undrawn credit facility.

The table below outlines our liquidity and capital position as of 31 December 2009.

## CAPITAL POSITION AT 31 DECEMBER 2009

| ($ in millions) | 31 December 2009 |
|---|---|
| Net Asset Value | $483.2 |
| Total Private Equity Investments | $534.8 |
| Private Equity Investment Level | 111% |
| Unfunded Private Equity Commitments | $159.0 |
| Total Private Equity Exposure | $693.8 |
| Over-commitment Level | 44% |
| Cash and Cash Equivalents | $63.9 |
| Undrawn Credit Facility | $184.2 |
| Total Capital Resources | $248.1 |
| **Excess of Capital Resources Over Unfunded Commitments** | **$89.0** |

In August 2007, we entered into an agreement with Bank of Scotland regarding a senior secured revolving credit facility of up to $250.0 million. Under the terms of the agreement, we may borrow, repay and re-borrow to fund private equity contributions and working capital requirements throughout the seven year term expiring in August 2014. All borrowings under the credit facility bear interest at a floating rate, calculated as LIBOR or Euribor, as appropriate, plus 1.35% per annum. As of 31 December 2009, the interest rate on outstanding borrowings ranged from approximately 1.60% to 1.63%. We are also required to pay a non-utilization fee calculated as 40 basis points per annum on the daily balance of the unused amount of the credit facility. Although we do not presently pay dividends, we have the ability to pay dividends subject to compliance with the terms of the credit facility agreement.

The key financial covenant for our credit facility is a maximum debt to value ratio of 50.0%. The debt to value ratio is calculated as total debt and current liabilities divided by Restricted NAV, with Restricted NAV defined as the fair value of all private equity investments (less any restricted value) plus cash and cash equivalents. At 31 December 2009, the debt to value ratio was 12.0%.

The two other covenants are a secured asset ratio and a commitment ratio. The secured asset ratio is not to exceed 80.0% and is defined as total debt and current liabilities divided by Secured Assets, with Secured Assets defined as the value of secured private equity investments plus cash and cash equivalents. At 31 December 2009, the secured asset ratio was 16.8%.

The commitment ratio is defined as Restricted Total Exposure divided by the aggregate of shareholder's equity and the total amount of the credit facility, with Restricted Total Exposure defined as the value of private equity investments (less any restricted value) plus unfunded private equity commitments. If the debt to value ratio is greater than 25.0% and the commitment ratio is greater than 130.0%, then we become restricted from making new private equity investments. At 31 December 2009, the commitment ratio was 93.2%.

# FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. Forward-looking statements speak only as of the date of the document in which they are made and relate to expectations, beliefs, projections (including anticipated economic performance and financial condition), future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts and are subject to risks and uncertainties including, but not limited to, statements as to:

- Our future operating results;
- Our business prospects and the prospects of our investments;
- The impact of investments that we expect to make;
- The dependence of our future success on the general economy and its impact on the industries in which we invest;
- The ability of our investments to achieve their objectives;
- Differences between our investment objective and the investment objectives of the private equity funds in which we invest;
- The rate at which we deploy our capital in private equity investments, co-investments and opportunistic investments;
- Our expected financings and investments;
- The continuation of the Investment Manager as our service provider and the continued affiliation with the Investment Manager of its key investment professionals;
- The adequacy of our cash resources and working capital; and
- The timing of cash flows, if any, from the operations of our underlying private equity funds and our underlying portfolio companies.

In some cases, forward-looking statements may be identified by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," and "would," or the negative of those terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Factors and events that could cause our business, financial condition, liquidity and results of operations to vary materially include, among other things, general economic conditions, securities market conditions, private equity market conditions, the level and volatility of interest rates and equity prices, competitive conditions, liquidity of global markets, international and regional political conditions, regulatory and legislative developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events, outcome of legal proceedings, changes in currency values, inflation, credit ratings and the size, volume and timing of transactions, as well as other risks described elsewhere in this report and our prospectus relating to our IPO.

The foregoing is not a comprehensive list of the risks and uncertainties to which we are subject. Except as required by applicable law, we undertake no obligation to update or revise any forward-looking statements to reflect any change in our expectations, or any changes in events, conditions or circumstances on which the forward-looking statement is based. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors.

# RISK FACTORS

*An investment in our company involves substantial risk and investors in our company's Class A shares ("Class A Shares") should carefully consider such risks, including the following. Additional risks and uncertainties that we do not presently know about or that we currently believe are immaterial may also adversely impact our business, financial condition, results of operations or the value of your investment. If any of the following risks actually occur, our business, financial condition, results of operations and the value of your investment would likely suffer.*

**Our company may experience fluctuations in its monthly net asset value.**

Our company may experience fluctuations in our net asset value from month to month due to a number of factors, including changes in the values of investments, which in turn could be due to changes in values of portfolio companies, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in operating expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of the Class A Shares and cause our company's results for a particular period not to be indicative of our company's performance in a future period.

**On liquidation of our assets on any given day, the reported NAV may not match the liquidated cash value of such assets.**

Where we are required or deem it necessary to liquidate some or all of our assets on any given day, the liquidated cash value of such assets may not match the reported NAV or portion of the reported NAV (in the case that not all of our assets are liquidated) attributable to such assets. Liquidation of our assets will be subject to a number of factors, including the availability of purchasers of our assets, liquidity and market conditions and, as such, the actual cash value of some or all of our assets may differ from the latest reported NAV (or portion of the reported NAV (in the case that not all of our assets are liquidated)).

**The Class A Shares could continue to trade at a discount to net asset value.**

The Class A Shares could continue to trade at a discount to net asset value for a variety of reasons, including due to market conditions or to the extent investors undervalue the Investment Manager's investment management activities. Also, since there is generally a period of years before a new private equity fund has completed making its investments, return on our investments in such funds is not likely to be realized for a substantial time period, if at all, which could negatively impact the value of the Class A Shares. Additionally, unlike traditional private equity funds, we intend to continuously reinvest the cash we receive, except in limited circumstances. Therefore, the only way for investors to realize upon their investment is to sell their Class A Shares for cash. Accordingly, in the event that a holder of Class A Shares requires immediate liquidity, or otherwise seeks to realize the value of its investment in our company, through a sale of Class A Shares, the amount received by the holder upon such sale may be less than the underlying net asset value of the Class A Shares sold.

**The trading markets of Euronext Amsterdam and the Specialist Fund Market ("SFM") of the London Stock Exchange ("LSE") are less liquid than certain other major exchanges, which could affect the price of our Class A Shares.**

The principal trading markets for the Class A Shares are the Euronext Amsterdam and the SFM, which are less liquid than certain other major exchanges in the United States and certain other parts of Europe. Because Euronext Amsterdam and the SFM are less liquid than major exchanges in the United States and certain other parts of Europe, our shareholders may face difficulty when disposing of their Class A Shares, especially in large blocks. To date the company's Class A Shares have actively traded, but with generally low daily volumes. Our company cannot predict the effects on the price of the Class A Shares if a more liquid trading market for them does not develop. In addition, if such a market does not develop, relatively small sales may have a significant negative impact on the price of the Class A Shares. For example, sales of a significant number of Class A Shares may be difficult to execute at a stable price.

**The availability of our credit facility and failure to continue to meet the financial covenants in our credit facility could have an adverse impact on our liquidity.**

The availability of our credit facility is dependent on our continuing compliance with the covenants of our credit facility. We are currently in compliance with all of the covenants of our credit facility. However, certain events, including reductions in the net asset value of our investment portfolio, could result in an event of default under the credit facility agreement. Where an event of default occurs, the lender may cancel the undrawn portion of our credit facility and declare the entire outstanding principal and interest immediately due. As a result, we may not have access to sufficient capital to meet our obligations (including unfunded commitments) and could be forced to sell assets in order to cure the event of default or to repay our credit facility. Where we are obliged to sell assets from our investment portfolio to meet our obligations under our credit facility, such sale may be at an undervalue and not reflect the estimated unaudited fair value that we have assigned to such asset(s). Further, where our credit facility is unavailable, our ability to make new investments or to honor funding obligations to which we are already committed may be severely restricted. We may be unable, or it may not be prudent or in our best interests, to enter into further agreements to borrow money or to refinance our credit facility.

**The price attributed to the Class A Shares on Euronext Amsterdam and the LSE may vary significantly.**

The Class A Shares are admitted to trading on Euronext Amsterdam and the LSE. The price attributed to the Class A Shares may vary significantly on one exchange versus the other. As such, no guarantee is given that investors will receive best pricing and execution on Euronext Amsterdam over the LSE and vice versa. We and our company accept no responsibility whatsoever with regards to the pricing of the Class A Shares and execution of trades therein on Euronext Amsterdam and the LSE, and any pricing and/or execution variation between these exchanges. Investors are responsible for informing themselves as to the best pricing and execution available in relation to the Class A Shares on both Euronext Amsterdam and the LSE.

**The holders of ZDP Shares may not receive the final capital entitlement.**

The holders of ZDP Shares may not receive the final capital entitlement and no guarantee is made by us or our company in relation to the payment thereof. The ZDP Shares, whilst ranking prior to the Class A Shares and the Class B Shares in respect of the repayment of up to 169.73 pence per ZDP Share from the assets of the investment portfolio, rank behind any borrowings of our company that remain outstanding. In addition, upon the occurrence of significant loss in value of the assets held in the investment portfolio, our company may be unable to pay the final capital entitlement or any part thereof to the holders of ZDP Shares.

**Payment of the final capital entitlement to the holders of ZDP Shares may be dilutive to the NAV per Class A Share.**

Payment of the final capital entitlement to the holders of the ZDP Shares may be dilutive to the NAV per Class A Share. Where our company does not generate investment returns in excess of the forecast gross redemption yield of 7.30% (in relation to which, no guarantee has been given) per annum (based on the issue price of the ZDP Shares), the NAV per Class A Share may be significantly diluted.

# STATEMENT OF RESPONSIBILITY AND CERTAIN INFORMATION

## Statement of Responsibility

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. These consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss and are in accordance with and are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as allowed by rules published in the Netherlands to effect implementation of the EU Transparency Directive, and are presented in United States dollars. The Company prepares its financial statements in compliance with The Companies (Guernsey) Law, 2008.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## Major Shareholders

As at 31 December 2009, insofar as is known to NBPE, the following persons were interested, directly or indirectly, in 5% or more of the Class A Shares in issue (excluding Class A Shares held in treasury):

Class A Shareholder: Lehman Brothers Offshore Partners Ltd.
Number of Class A Shares: 15,302,319

## Shareholdings of the Directors

| | |
|---|---|
| Talmai Morgan (Chairman) | 10,000 Class A Shares |
| John Buser | 10,000 Class A Shares |
| John Hallam | 10,000 Class A Shares |
| Christopher Sherwell | 9,150 Class A Shares |
| Peter Von Lehe | 7,500 Class A Shares |

## Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

## Material Contracts

NBPE, NB PEP Investments LP (Incorporated) and the Investment Manager entered into that certain Investment Management and Services Agreement on 25 July 2007 (as amended and restated on 25 January 2008), whereby the Investment Manager, subject to the overall supervision of the Directors, was appointed as NBPE's investment manager. NBPE and Heritage International Fund Managers Limited entered into that certain Administration Agreement on 3 July 2007 (as amended by side letter on 22 June 2009), whereby NBPE appointed Heritage International Fund Managers Limited to act as administrator and company secretary to NBPE. NBPE, as general partner, and NB PEP Associates LP (Incorporated), as special limited partner, entered into that certain limited partnership agreement of NB PEP Investments LP (Incorporated) on 25 July 2007, as amended and restated on 16 July 2008.

## List of NBPE Subsidiaries

| Name | Place of Incorporation (or registration) and operation | Proportion of ownership interest % |
|---|---|---|
| **Directly owned** | | |
| NB PEP Investments, LP (Incorporated) | Guernsey | 99.9 |
| **Indirectly owned** | | |
| NB PEP Investments Limited | Guernsey | 100 |
| NB PEP Investments DE, LP | US | 100 |
| NB PEP Investments LP Limited | Guernsey | 100 |
| NB PEP Investments I, LP (Incorporated) | Guernsey | 100 |
| NB PEP Holdings Limited | Guernsey | 100 |
| Various holding entities for specific investments | US | 100 |

# STATEMENT OF RESPONSIBILITY (CONTINUED)

We also confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole as required by Disclosure and Transparency Rules (“DTR”) 4.1.12R and by the Wft Decree; and

- The annual report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face as required by DTR 4.1.12R and by the Wft Decree.

By order of the Board

Talmai Morgan
Director

John Hallam
Director

Date: 10 March 2010

**Certain Information**

We are subject to the Netherlands Financial Supervision Act (*Wet op het financieel toezicht,* “Wft”), and we are registered with the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, “AFM”) as a collective investment scheme as meant in section 1:107 of the Wft. We are subject to certain ongoing requirements under the Netherlands Financial Supervision Act, the Decree on Supervision of Conduct by Financial Enterprises (*Besluit Gedragstoezicht financiële ondernemingen* Wft) and the Decree on the Implementation Directive Transparency Issuing Entities (*Besluit uitvoeringsrichtlijn transparantie uitgevende instellingen Wft*, the "Wft Decree") relating to the disclosure of certain information to investors, including the publication of our financial statements

# DIRECTORS, ADVISORS AND CONTACT INFORMATION

**Ordinary Share Information**
Trading Symbol: NBPE
Exchanges: Euronext Amsterdam by NYSE Euronext and the Specialist Fund Market of the London Stock Exchange
Euronext Amsterdam Listing Date: 25 July 2007
Specialist Fund Market Admission: 30 June 2009
Base Currency: USD
Bloomberg: NBPE NA, NBPE LN
Reuters: NBPE.AS, NBPE.L
ISIN: GG00B1ZBD492
COMMON: 030991001
Amsterdam Security Code: 600737

**ZDP Share Information**
Trading Symbol: NBPZ
Exchanges: Specialist Fund Market of the London Stock Exchange and the Daily Official List of the Channel Islands Stock Exchange
Admission Date: 1 December 2009
Base Currency: GBP
Bloomberg: NBPEGBP LN
Reuters: NBPEO.L
ISIN: GG00B4ZXGJ22
SEDOL: B4ZXGJ2

**Board of Directors**
Talmai Morgan (Chairman)
John Buser
John Hallam
Christopher Sherwell
Peter Von Lehe

**Registered Office**
NB Private Equity Partners Limited
P.O. Box 225
Heritage Hall, Le Marchant Street
St. Peter Port, Guernsey GY1 4HY
Channel Islands
Tel: +44-(0)1481-716000
Fax: +44 (0) 1481 730617

**Investment Manager**
NB Alternatives Advisers LLC
325 North St. Paul Street, Suite 4900
Dallas, TX 75201
United States of America
Tel: +1-214-647-9593
Fax: +1-214-647-9501
Email: pe_fundoffunds@nb.com

**Guernsey Administrator**
Heritage International Fund Managers Limited
Heritage Hall, Le Marchant Street
St. Peter Port, Guernsey GY1 4HY
Channel Islands
Tel: +44-(0)1481-716000
Fax: +44 (0) 1481 730617

**Fund Service and Recordkeeping Agent**
Capital Analytics II LLC
325 North St. Paul Street, Suite 4700
Dallas, TX 75201
United States of America

**Independent Auditors and Accountants**
KPMG Channel Islands Limited
P.O. Box 20
20 New Street
St. Peter Port, Guernsey GY1 4AN
Tel: +44 (0) 1481 721000
Fax: +44 (0) 1481 722373

**Depositary Bank**
The Bank of New York
101 Barclay Street, 22nd Floor
New York, NY 10286
United States of America
Tel: +1-212-815-2715
Fax: +1-212-571-3050

**Paying Agent**
ABN AMRO Bank N.V
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands
Tel: +31-20-383-6778
Fax: +31-20-628-000

**Joint Corporate Brokers**
Oriel Securities Limited
125 Wood Street
London, EC2V 7AN
Tel: +44 (0) 20 7710 7600

RBS Hoare Govett Limited
250 Bishopsgate
London, EC2M 4AA
Tel: +44 (0) 20 7678 1670

For general questions about NB Private Equity Partners Limited, please contact us at IR_NBPE@nb.com or at +1-214-647-9593.

The website address for NB Private Equity Partners Limited is www.nbprivateequitypartners.com.

# NB PRIVATE EQUITY PARTNERS LIMITED
## (f/k/a Lehman Brothers Private Equity Partners Limited)

## CONSOLIDATED FINANCIAL STATEMENTS

**For the Years Ended 31 December 2009 and 2008**

KPMG

**KPMG Channel Islands Limited**
P.O. Box 20
20 New Street
St Peter Port
Guernsey
Channel Islands
GY1 4AN

## Independent Auditor's Report

The Members of NB Private Equity Partners Limited

We have audited the accompanying consolidated balance sheets, including the consolidated condensed schedule of private equity investments of NB Private Equity Partners Limited ('the Company') and subsidiaries as of 31 December 2009, and the related consolidated statements of operations and changes in net assets and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of NB Private Equity Partners Limited and subsidiaries as of 31 December 2008, were audited by other auditors whose report thereon dated 23 April 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 consolidated financial statements referred to above give a true and fair view, in all material respects, of the financial position of NB Private Equity Partners Limited and subsidiaries as of 31 December 2009, and of the results of their operations and changes in net assets and their cash flows for the year then ended and are in accordance with accounting principles generally accepted in the United States of America.

In our opinion the financial statements comply with The Companies (Guernsey) Law, 2008.

This report is made solely to the company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law. 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.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
*Chartered Accountants*
Guernsey, Channel Islands

Date: 10 March 2010

# NB Private Equity Partners Limited

**(f/k/a Lehman Brothers Private Equity Partners Limited)**
**Consolidated Balance Sheets**
*31 December 2009 and 2008*

| **Assets** | | **2009** | | **2008** |
|---|---|---|---|---|
| Private equity investments | | | | |
| (cost of $544,064,097 for 2009 and $532,808,845 for 2008) | $ | 534,812,439 | $ | 448,281,203 |
| Cash and cash equivalents | | | | |
| Denominated in U.S. dollars | | 63,911,521 | | 138,776,304 |
| Denominated in Euros (cost of $424,421 in 2008) | | - | | 427,715 |
| | | 63,911,521 | | 139,204,019 |
| Other assets | | 4,428,391 | | 2,598,495 |
| **Total assets** | **$** | **603,152,351** | **$** | **590,083,717** |

| **Liabilities** | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Credit facility loans | $ | 65,847,760 | $ | 151,402,038 |
| Zero dividend preference share liability | | 48,871,677 | | - |
| Payables to Investment Manager and affiliates | | 1,851,432 | | 1,541,291 |
| Accrued expenses and other liabilities | | 2,139,053 | | 2,658,150 |
| Net deferred tax liability | | 800,385 | | 3,581,532 |
| **Total liabilities** | **$** | **119,510,307** | **$** | **159,183,011** |
| Net assets | | | | |
| Class A shares, $0.01 par value, 500,000,000 shares authorized, | | | | |
| 54,210,000 shares issued, and 51,059,592 shares outstanding for 2009 (52,497,863 for 2008) | $ | 542,100 | $ | 542,100 |
| Class B shares, $0.01 par value, 100,000 shares authorized and | | | | |
| 10,000 shares issued and outstanding | | 100 | | 100 |
| Additional paid-in capital | | 541,657,800 | | 541,657,800 |
| Retained earnings (deficit) | | (49,782,128) | | (105,918,332) |
| Less cost of treasury stock (3,150,408 shares for 2009 and 1,712,137 shares for 2008) | | (9,248,460) | | (5,797,402) |
| Total net assets of the controlling interest | | 483,169,412 | | 430,484,266 |
| Net assets of the non-controlling interest | | 472,632 | | 416,440 |
| **Total net assets** | **$** | **483,642,044** | **$** | **430,900,706** |
| **Total liabilities and net assets** | **$** | **603,152,351** | **$** | **590,083,717** |
| **Net asset value per share for Class A and Class B shares** | **$** | **9.46** | **$** | **8.20** |
| **Net asset value per zero dividend preference share (Pence)** | | **100.79** | | **-** |

**The accounts were approved by the board of directors on 10 March 2010 and signed on its behalf by**

**Talmai Morgan** **John Hallam**

*The accompanying notes are an integral part of the consolidated financial statements*

## NB Private Equity Partners Limited

**(f/k/a Lehman Brothers Private Equity Partners Limited)**

**Consolidated Condensed Schedules of Private Equity Investments**

*31 December 2009 and 2008*

| Private equity investments | | Cost | | Fair Value | | Unfunded Commitment | | Private Equity Exposure |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | |
| Fund investments | $ | 457,065,010 | $ | 457,239,481 | $ | 152,654,027 | $ | 609,893,508 |
| Direct co-investments-equity | | 75,962,038 | | 69,209,357 | | 6,361,771 | | 75,571,128 |
| Direct co-investments-mezzanine debt | | 11,037,049 | | 8,363,601 | | N/A | | 8,363,601 |
| | **$** | **544,064,097** | **$** | **534,812,439** | **$** | **159,015,798** | **$** | **693,828,237** |
| **2008** | | | | | | | | |
| Fund investments | $ | 438,081,022 | $ | 359,026,989 | $ | 175,186,196 | $ | 534,213,185 |
| Direct co-investments-equity | | 83,910,918 | | 81,080,456 | | 6,361,771 | | 87,442,227 |
| Direct co-investments-mezzanine debt | | 10,816,905 | | 8,173,758 | | N/A | | 8,173,758 |
| | **$** | **532,808,845** | **$** | **448,281,203** | **$** | **181,547,967** | **$** | **629,829,170** |

| Private equity investments in excess of 5% of net asset value | | Cost | | Fair Value |
|---|---|---|---|---|
| **2009** | | | | |
| NB Crossroads Fund XVII | $ | 31,958,815 | $ | 31,833,592 |
| NB Crossroads Fund XVIII | | | | |
| Large-cap Buyout | | 9,594,780 | | 7,752,211 |
| Mid-cap Buyout | | 22,736,689 | | 22,263,134 |
| Special Situations | | 8,337,746 | | 8,257,608 |
| Venture | | 6,165,123 | | 6,644,819 |
| | | 46,834,338 | | 44,917,772 |
| Centerbridge Credit Partners Fund, L.P. | | 20,260,238 | | 26,624,770 |
| OCM Opportunities Fund VIIb, L.P. | | 28,014,709 | | 34,542,536 |
| **2008** | | | | |
| NB Crossroads Fund XVII | $ | 32,790,091 | $ | 28,708,065 |
| NB Crossroads Fund XVIII | | | | |
| Large-cap Buyout | | 9,515,384 | | 6,898,647 |
| Mid-cap Buyout | | 20,691,438 | | 20,322,741 |
| Special Situations | | 7,916,738 | | 6,087,534 |
| Venture | | 5,204,646 | | 5,138,533 |
| | | 43,328,206 | | 38,447,455 |

*The accompanying notes are an integral part of the consolidated financial statements*

## NB Private Equity Partners Limited

**(f/k/a Lehman Brothers Private Equity Partners Limited)**

**Consolidated Condensed Schedules of Private Equity Investments**

*31 December 2009 and 2008*

| Geographic diversity of private equity investments [1] | | Fair Value 2009 | | Fair Value 2008 |
|---|---|---|---|---|
| North America | $ | 406,766,427 | $ | 315,261,853 |
| Europe | | 79,435,478 | | 77,983,849 |
| Asia / Rest of World | | 12,900,478 | | 10,580,352 |
| Not classified | | 35,710,056 | | 44,455,149 |
| | **$** | **534,812,439** | **$** | **448,281,203** |

| Industry diversity of private equity investments [2] | Fair Value 2009 | Fair Value 2008 |
|---|---|---|
| Energy / Utilities | 17.6% | 24.6% |
| Diversified / Undisclosed / Other | 23.6% | 15.7% |
| Financial Services | 13.3% | 11.2% |
| Consumer / Retail | 9.4% | 9.0% |
| Healthcare | 7.4% | 7.6% |
| Industrials | 7.3% | 9.8% |
| Technology / IT | 5.8% | 7.7% |
| Business Services | 3.9% | 6.2% |
| Communications / Media | 7.2% | 5.6% |
| Transportation | 4.5% | 2.6% |
| | **100.0%** | **100.0%** |

| Asset class diversification of private equity investments [3] | Fair Value 2009 | Fair Value 2008 |
|---|---|---|
| Large-Cap Buyout | 30.3% | 30.5% |
| Large-Cap Buyout Co-Invest | 4.1% | 4.2% |
| Mid-cap Buyout | 19.6% | 20.3% |
| Mid-cap Buyout Co-Invest | 9.6% | 14.8% |
| Special Situation | 27.0% | 21.5% |
| Special Situation Co-Invest | 1.6% | 1.9% |
| Growth/Venture | 5.7% | 5.1% |
| Secondary Ventures | 2.1% | 1.7% |
| | **100.0%** | **100.0%** |

*(1): Geography is determined by location of the headquarters of the underlying portfolio companies in funds and direct co-investments. A portion of our fund investments may relate to cash, or other assets or liabilities that they hold and for which we do not have adequate information to assign a geographic location.*

*(2): Industry diversity is based on underlying portfolio companies and direct co-investments.*

*(3): Asset class diversification is based on the net asset value of underlying fund investments and co-investments.*

*The accompanying notes are an integral part of the consolidated financial statements*

# NB Private Equity Partners Limited

**(f/k/a Lehman Brothers Private Equity Partners Limited)**

## Consolidated Statements of Operations and Changes in Net Assets

*For the years ended 31 December 2009 and 2008*

| | | 2009 | | 2008 |
|---|---|---|---|---|
| **Interest and dividend income** | $ | 2,594,264 | $ | 4,649,063 |
| **Expenses** | | | | |
| Investment management and services | | 6,660,363 | | 6,657,458 |
| Administration and professional | | 3,810,273 | | 3,555,171 |
| Finance costs | | | | |
| Zero dividend preference shares | | 409,325 | | - |
| Credit facility | | 3,605,488 | | 3,094,583 |
| | | 14,485,449 | | 13,307,212 |
| Net investment income (loss) | **$** | **(11,891,185)** | **$** | **(8,658,149)** |
| **Realized and unrealized gains (losses)** | | | | |
| Net realized gain (loss) on investments, net of tax expense of $132,035 for 2009 and $132,826 for 2008 | $ | (9,807,008) | $ | (13,227,934) |
| Net change in unrealized gain (loss) on investments, net of tax expense (benefit) of ($2,781,148) for 2009 and $1,595,455 for 2008 | | 77,363,421 | | (104,516,286) |
| Realized gain (loss) on foreign currency | | (1,830,072) | | 2,711,087 |
| Unrealized gain (loss) on foreign currency | | 2,357,240 | | (2,611,437) |
| Net realized and unrealized gain (loss) | | 68,083,581 | | (117,644,570) |
| Net increase (decrease) in net assets resulting from operations | $ | 56,192,396 | $ | (126,302,719) |
| Less net increase (decrease) in net assets resulting from operations attributable to the non-controlling interest | | 56,192 | | (126,303) |
| **Net increase (decrease) in net assets resulting from operations attributable to the controlling interest** | **$** | **56,136,204** | **$** | **(126,176,416)** |
| Net assets at beginning of year attributable to the controlling interest | | 430,484,266 | | 562,458,084 |
| Less cost of treasury stock 1,438,271 shares for 2009 and 1,712,137 shares for 2008 | | 3,451,058 | | 5,797,402 |
| **Net assets at end of year attributable to the controlling interest** | **$** | **483,169,412** | **$** | **430,484,266** |
| ***Earnings (loss) per share for Class A and Class B shares of the controlling interest*** | ***$*** | ***1.10*** | ***$*** | ***(2.34)*** |

*The accompanying notes are an integral part of the consolidated financial statements*

# NB Private Equity Partners Limited

**(f/k/a Lehman Brothers Private Equity Partners Limited)**

## Consolidated Statements of Cash Flows

*For the years ended 31 December 2009 and 2008*

| | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net increase (decrease) in net assets resulting from operations attributable to the controlling interest | $ 56,136,204 | $ (126,176,416) |
| Net increase (decrease) in net assets resulting from operations attributable to the non-controlling interest | 56,192 | (126,303) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: | | |
| Net realized (gain) loss on investments | 9,807,008 | 13,227,934 |
| Net change in unrealized (gain) loss on investments | (77,363,421) | 104,516,286 |
| Realized (gain) loss on foreign currency | 1,830,072 | (2,711,087) |
| Unrealized (gain) loss on foreign currency | (2,357,240) | 2,611,437 |
| Amortization of finance costs | 403,311 | 389,474 |
| Change in other assets | (2,104,545) | (738,318) |
| Change in payables to Investment Manager and affiliates | 310,141 | 93,530 |
| Change in accrued expenses and other liabilities | 304,092 | (3,300,820) |
| Net cash provided by (used in) operating activities | (12,978,187) | (12,214,283) |
| Cash flows from investing activities: | | |
| Distributions from private equity investments | 27,479,462 | 48,859,339 |
| Proceeds from sale of private equity investments | 8,105,442 | 1,330,854 |
| Contributions to private equity investments | (50,837,350) | (175,680,775) |
| Purchases of private equity investments | (5,698,083) | (14,852,110) |
| Net cash provided by (used in) investing activities | (20,950,529) | (140,342,692) |
| Cash flows from financing activities: | | |
| Credit facility loan payments | (85,554,278) | 151,402,038 |
| Proceeds from zero dividend preference shares | 49,858,156 | - |
| Treasury stock purchased | (3,487,112) | (5,761,348) |
| Net cash provided by (used in) financing activities | (39,183,234) | 145,640,690 |
| Effect of exchange rates on cash balances | (2,180,548) | 771,527 |
| **Net increase (decrease) in cash and cash equivalents** | **(75,292,498)** | **(6,144,758)** |
| Cash and cash equivalents at beginning of year | 139,204,019 | 145,348,777 |
| **Cash and cash equivalents at end of year** | **$ 63,911,521** | **$ 139,204,019** |
| **Supplemental cash flow information** | | |
| Interest paid | **$ 2,389,527** | **$ -** |
| Taxes paid | **$ 966,242** | **$ 104,343** |

*The accompanying notes are an integral part of the consolidated financial statements*

# NB Private Equity Partners Limited

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## Note 1 – Organization

NB Private Equity Partners Limited and its subsidiaries (the "Company", "We", or "Our") is a closed-end investment company incorporated and registered with Her Majesty's Greffier in Guernsey under the Companies (Guernsey) Law, 1994, as amended (now superseded by the Companies (Guernsey) Law, 2008 as amended). We changed our name effective 27 March 2009 from Lehman Brothers Private Equity Partners Limited. Our registered office is Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey GY1 4HY. We invest in private equity through private equity funds and co-investments. We may also make opportunistic investments. Our Class A shares are listed and admitted to trading on Euronext Amsterdam by NYSE Euronext and, effective 30 June 2009, admitted to trading on the Specialist Fund Market of the London Stock Exchange plc under the symbol "NBPE". Effective 1 December 2009, our zero dividend preference shares (see note 6) are listed and admitted to trading on the Daily Official List of the Channel Islands Stock Exchange and admitted to trading the Specialist Fund Market of the London Stock Exchange under the symbol "NBPZ".

Our Class B shares were contributed by an affiliate of Lehman Brothers Holdings, Inc. (collectively with its affiliates, "Lehman Brothers") to a Guernsey charitable trust whose trustee is Heritage Corporate Services Limited ("Trustee"). Class B shares have the right to elect all of our directors and make most other decisions usually made by shareholders. The voting rights of Class A shares are limited to special consent rights involving specified events including merger, change in investment manager or investment policy, certain additional share issuances and certain material related party transactions as well as other events as described in our memorandum and articles of incorporation. Each Class A and B share participates equally in profits and losses.

The Company is managed by NB Alternatives Advisers LLC ("NB Alternatives") which, effective 4 May 2009, became the successor entity to Lehman Brothers Private Fund Advisers, LP, a unit of Lehman Brothers Private Fund Investments Group ("PFIG") and its affiliates (collectively, the "Investment Manager") pursuant to an investment management and services agreement. NB Alternatives is a subsidiary of Neuberger Berman Group LLC ("NBG"). The same key individuals of the Investment Manager were providing services to the Company before and after the NBG acquisition.

Prior to 4 May 2009, Lehman Brothers Holdings Inc. ("LBHI") was the ultimate parent of the Investment Manager. LBHI filed for bankruptcy protection in September 2008. The Company and the Investment Manager were not subject to the bankruptcy filing. NBG was formed by certain members of the senior management team of Lehman Brothers Investment Management Division ("IMD") to acquire from LBHI a majority interest in certain businesses that have historically operated under the Neuberger Berman name and the fixed income and alternative asset management businesses of IMD, which includes certain assets of PFIG and other business units of IMD. Effective with the closing of the acquisition on 4 May 2009, 51% of NBG's common equity was issued, or reserved for issuance, to a group consisting of portfolio managers, members of the senior management team and other senior professionals of NBG and 49% of NBG's common equity was issued to LBHI and/or its affiliates. Certain of the assets of the Investment Manager, including the investment advisory agreement between the Investment Manager and the Company, were sold to NB Alternatives, In addition, a portion of LBHI's Special Limited Partner interest in a consolidated partnership subsidiary was transferred to NBG. The board of directors of the Company consented to the transaction on behalf of the Company.

## Note 2 – Summary of Significant Accounting Policies

### Basis of Presentation

These consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss and are in accordance with and are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as allowed by rules published in the Netherlands to effect implementation of the EU Transparency Directive, and are presented in United States dollars. The Company prepares its financial statements in compliance with the Companies (Guernsey) Law, 2008.

### Principles of Consolidation

The consolidated financial statements include accounts of the Company consolidated with the accounts of all its subsidiaries in which we hold a controlling financial interest as of the financial statement date. All material inter-company balances have been eliminated.

**Cash and Cash Equivalents**

Cash and cash equivalents are valued at cost plus accrued interest, which approximates fair value. These investments represent amounts held with financial institutions that are readily accessible to pay expenses or fund investments as well as money market mutual funds. As of 31 December 2009 and 2008, $63,911,521 and $138,776,304 are held with JPMorgan Chase, respectively.

**Valuation of Investments**

The Company carries private equity investments on its books at fair value in accordance with U.S. GAAP. We use the best information we have reasonably available to determine or estimate fair value. Publicly traded securities are valued based on quoted prices as of the last day of the relevant period less discounts to reflect legal restrictions associated with the securities, if any, that affect marketability. We determine such values for publicly traded securities held directly as well as known public positions held in the underlying private equity investments on a look-through basis. We estimate fair value for private interests based on a methodology that begins with the most recent information available from the general partner of the underlying fund or the lead investor of a direct co-investment, and considers subsequent transactions, such as drawdowns or distributions, as well as other information judged to be reliable that reports or indicates valuation changes, including realizations and other portfolio company events. If we conclude that it is probable that we will sell an investment, we adjust our carrying value to the amount we expect to realize from the sale, exclusive of transaction costs.

In September 2009, the FASB issued ASU No. 2009-12, Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2009-12") which amended Accounting Standards Codification Subtopic 820-10, Fair Value Measurements and Disclosures – Overall. The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. This guidance is now effective and has been adopted in these financial statements. Adopting this guidance did not materially affect our valuation policy. We have updated our disclosures as necessary.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improvements to Disclosures about Fair Value Measurements, which requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. We have adopted this guidance in these financial statements.

Because of their inherent uncertainty, the fair values we use may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material to the consolidated financial statements.

**Market Risk**

The Company's exposure to financial risks is both direct (through its holdings of assets and liabilities directly subject to these risks) and indirect (through the impact of these risks on the overall valuation of its investments). The Company's investments are generally not traded in an active market but are indirectly exposed to market price risk arising from uncertainties about future values of the investments held. The partnership investments of the Company each hold a portfolio of investments in underlying companies. These portfolio company investments vary as to type of security held by the underlying partnership (debt or equity, publicly traded or privately held), stage of operations, industry, geographic location, and geographic distribution of operations and size, all of which may impact the susceptibility of their valuation to market price risk.

Market conditions for publicly traded and privately held investments in portfolio companies held by the partnerships may affect their value in a manner similar to the potential impact on direct co-investments made by the Company in publicly traded and privately held securities. The partnership investments of the Company may also hold financial instruments (including debt and derivative

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instruments) in addition to their investments in portfolio companies that are susceptible to market price risk and therefore may also affect the value of the Company's investment in the partnerships. As with any individual investment, market prices may vary from composite index movements.

**Investment Income**

We earn interest and dividends from our direct investments in private equity, from the underlying portfolio companies of investments in private equity funds, and from our cash and cash equivalents. We record dividends when they are declared and interest when earned, provided we know the information or are able to reliably estimate it. Otherwise, we record the investment income when it is reported to us by the private equity investments.

**Operating Expenses**

Operating expenses are recognized when incurred. Operating expenses include amounts directly incurred by the Company as part of its operations, and do not include amounts incurred from the operations of our investments.

**Realized Gains and Losses on Investments**

For investments in private equity funds, we record our share of realized gains and losses incurred when we know that the private equity fund has realized its interest in a portfolio company and we have sufficient information to quantify the amount. For all other investments, we record realized gains and losses when the asset is realized and on the trade date. For all investments, realized gains and losses are recorded on a specific identification cost basis.

**Net Change in Unrealized Appreciation and Depreciation of Investments**

Gains and losses arising from changes in value are recorded as an increase or decrease in the unrealized appreciation or depreciation of investments based on the methodology described above.

**Carried Interest**

Carried interest amounts due the Investment Manager (see note 3) are computed and accrued at each period end based on period-to-date results in accordance with the terms of the agreements.

**Currency Translation**

Assets and liabilities denominated in a currency other than U.S. dollars are translated into U.S. dollar equivalents using spot rates as of the valuation date.

The Company has unfunded commitments denominated in a currency other than U.S. dollars. These unfunded commitments are in Euros and amounted to €16,103,530 at 31 December 2009 and €15,457,856 at 31 December 2008; they have been included in the Consolidated Condensed Schedules of Private Equity Investments at the U.S. dollar exchange rate in effect at 31 December 2009 and 2008. The effect on the unfunded commitment of the change in the exchange rate between Euros and U.S. dollars was a decrease in the U.S. dollar obligation of $225,403 and $841,272, for 2009 and 2008 respectively.

**Income Taxes**

The Company is registered in Guernsey as an exempt company. The States of Guernsey Income Tax Authority has granted the Company an exemption from Guernsey income tax under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and the Company has been charged an annual exemption fee of £600.

Generally, income that we derive from our investments may be subject to, taxes imposed by the U.S. or other countries and will impact our effective tax rate.

Investments made in entities that generate U.S. source investment income may subject the Company to certain U.S. federal and state income tax consequences. A U.S. withholding tax at the rate of 30 percent may be applied on the Company's distributive

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share of any U.S. source dividends and interest (subject to certain exemptions) and certain other income that we receive directly or through one or more entities treated as either partnerships or disregarded entities for U.S. federal income tax purposes.

Investments made in entities that generate business income that is effectively connected with a U.S. trade or business may subject the Company to certain U.S. federal and state income tax consequences. Generally the U.S. imposes withholding tax on effectively connected income at the highest U.S. rate (generally 35 percent). In addition, we may also be subject to a branch profits tax which can be imposed at a rate of up to 30 percent of the after-tax profits treated as effectively connected income associated with a U.S. trade or business. As such, the aggregate U.S. tax liability on effectively connected income may approximate 54.5 percent given the two levels of tax.

In July 2007, we adopted guidance under ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For this purpose, we recognize a tax benefit in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. To date, we have not provided any reserves for taxes as all related tax benefits have been fully recognized. Although we believe we have adequately assessed for our uncertain tax positions, the Company acknowledges that these matters require significant judgment and no assurance can be given that the final tax outcome of these matters will not be different.

Deferred taxes are recorded to reflect the tax benefit and consequences of future years' differences between the tax basis of assets and liabilities and their financial reporting basis. We record a valuation allowance to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. We record the tax associated with any transactions with U.S. or other tax consequences when we recognize the related income.

Shareholders in certain jurisdictions may have individual income tax consequences from ownership of our shares. We have not accounted for any such tax consequences in these financial statements. For example, we expect the Company and certain of its non-U.S. corporate subsidiaries to be treated as passive foreign investment corporations ("PFICs)" under U.S. tax rules. For this purpose, the PFIC regime should not give rise to additional tax at the level of the Company or its subsidiaries. Instead, certain U.S. investors in the Company may need to make tax elections and comply with certain U.S. reporting requirements related to their investments in the PFICs in order to potentially manage the adverse tax consequences associated with the regime.

**Forward Foreign Exchange Contracts**

Forward foreign exchange contracts are reported at fair value. See note 7.

Forward foreign exchange contracts involve elements of market risk in excess of the amounts reflected on the financial statements. We bear the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign exchange contract as well as risks from the potential inability of the counterparties to meet the terms of their contracts.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the inherent uncertainty of such estimates, including estimates of values of investments as described above, amounts ultimately determined may differ from our current estimates and such differences may be significant.

**Reclassifications**

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

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## Note 3 – Agreements, including related party transactions

**Management and Administration**

We pay the Investment Manager a management fee calculated at the end of each calendar quarter equal to 37.5 basis points (150 basis points per annum) of the net asset value of our private equity and opportunistic investments. For purposes of this computation, the net asset value is reduced by the net asset value of any investment for which the Investment Manager is separately compensated as investment manager. For the years ended 31 December 2009 and 2008, the management fee expenses were $6,178,648 and $6,175,941, respectively.

We also pay the Investment Manager for certain accounting and administrative services at the rate of 2.5 basis points per quarter (10 basis points per annum) applied to the net asset value of our private equity and opportunistic investments at the end of each calendar quarter, computed as described above. The amount incurred by the Company for the years ended 31 December 2009 and 2008 for these services were $481,715 and $481,517, respectively.

We pay to Heritage International Fund Managers Limited (“Heritage”), an affiliate of the Trustee, a fee for providing certain administrative functions relating to certain corporate services and Guernsey regulatory matters affecting the Company. Fees for these services are paid as invoiced by Heritage. We paid Heritage $165,403 and $203,726 in 2009 and 2008, respectively, for such services.

We paid our independent directors a total of $195,000 for 2009 and 2008 respectively. Of these amounts, our Chairman receives $75,000 and the other directors receive $60,000 each on an annual basis. Directors associated with the Investment Manager receive no additional compensation.

**Special Limited Partner’s Noncontrolling Interest in Subsidiary**

An affiliate of the Investment Manager is a Special Limited Partner in a consolidated partnership subsidiary. At 31 December 2009 and 2008, the noncontrolling interest of $472,632 and $416,440 represented the Special Limited Partner’s capital contribution to the partnership subsidiary and income allocation, respectively. The amount of the noncontrolling ownership interest in the subsidiary was agreed between the General Partner and Special Limited Partner of the subsidiary.

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 810-10 (“ASC 810-10”), Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (“FAS 160”) on 1 January 2009. The Statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (also called a minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In conjunction with the adoption of ASC 810-10, all prior period balances have been presented to conform to current period presentation.

The following table reconciles the carrying amount of net assets, net assets attributable to the controlling interest and net assets attributable to the noncontrolling interest for the years ended 31 December 2009 and 2008.

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| | Controlling Interest | Noncontrolling Interest | Total |
|---|---|---|---|
| **Net assets balance, 31 December 2007** | $ 562,458,084 | $ 542,743 | $ 563,000,827 |
| Net increase (decrease) in net assets resulting from operations | (126,176,416) | (126,303) | (126,302,719) |
| Purchase of treasury stock | (5,797,402) | - | (5,797,402) |
| **Net assets balance, 31 December 2008** | **$ 430,484,266** | **$ 416,440** | **$ 430,900,706** |
| Net increase (decrease) in net assets resulting from operations | 56,136,204 | 56,192 | 56,192,396 |
| Purchase of treasury stock | (3,451,058) | - | (3,451,058) |
| **Net assets balance, 31 December 2009** | **$ 483,169,412** | **$ 472,632** | **$ 483,642,045** |

### Carried Interest

The Special Limited Partner is entitled to a carried interest in an amount that is, in general, equal to 7.5 percent of our consolidated net increase in net assets resulting from operations for a fiscal year in the event that our internal rate of return for such period, based on our net asset value, exceeds 7.5 percent. If losses are incurred for a period, no carried interest is earned and such loss amounts are carried forward to be included in the internal rate of return calculations for future periods. Carried interest is reduced by the amount of carried interest that we paid during the period to any investment for which the Investment Manager serves as investment manager. Carried interest is also accrued and paid on any economic gain that we realize on treasury stock transactions. (See note 10). Carried interest is accrued periodically and paid at the conclusion of the fiscal year. As of 31 December 2009 and 2008, no carried interest was accrued.

### Shares Owned by Lehman Brothers

Simultaneously with the closing of the initial offering of the Company and related transactions, affiliates of Lehman Brothers, which are not party to the bankruptcy filing of LBHI, purchased $145 million of Class A shares, in the form of restricted depositary shares applicable to investors in the United States, at the offering price. These shares are subject to a restriction on re-sale through 18 July 2010. The restriction can be removed only with the agreement of a majority of the Company's independent directors.

Pursuant to a trading plan commenced in November 2007 and terminated in November 2008, affiliates of Lehman Brothers acquired an additional 802,319 shares. Such shares were acquired on the open market and are not subject to any restrictions on re-sale.

### Investments Acquired from Lehman Brothers

During 2008 the Company bought mezzanine debt with a par value of $10,009,711 for $9,909,614 from an affiliate of LBHI. The Company believes that the purchase price was at fair value at the date of the transaction.

### Investments in NB Crossroads Funds

The Company holds limited partner interests in private equity funds of funds managed and sponsored by the Investment Manager. These investments are excluded from the calculation of management fees and carried interests. As of 31 December 2009 and 2008, the aggregate net asset value of these funds was approximately $76.8 million and $67.2 million, respectively, and associated unfunded commitments were $33.3 million and $39.6 million, respectively.

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In 2009, we invested in a secondary transaction alongside other funds managed by the Investment Manager. Together with certain of the other funds, we formed NB Fund of Funds Secondary 2009 LLC ("NBFOFS") to hold our interests in the acquired portfolio. NBFOFS pays no fees or carry to the Investment Manager or affiliates. We bear our share of any direct expenses of NBFOFS.

**Other**

We had a receivable of $260,000 from an affiliate of LBHI at 31 December, 2009 that was received in January 2010.

## Note 4 – Fair Value of Financial Instruments

We categorize our investments and other financial instruments as follows based on inputs to valuation techniques.

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following tables detail the Company's financial assets and liabilities that were accounted for at fair value as of 31 December 2009 and 2008 by level. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Assets at Fair Value as of 31 December 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 63,911,521 | $ - | $ - | $ 63,911,521 |
| Private equity investments | - | - | 534,812,439 | 534,812,439 |
| Forward foreign exchange contract | - | - | 310,010 | 310,010 |
| **Total assets that are accounted for at fair value** | **$ 63,911,521** | **$ -** | **$ 535,122,449** | **$ 599,033,970** |

| | Assets at Fair Value as of 31 December 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 139,204,019 | $ - | $ - | $ 139,204,019 |
| Private equity investments | 4,790,101 | - | 443,491,102 | 448,281,203 |
| **Total assets that are accounted for at fair value** | **$ 143,994,120** | **$ -** | **$ 443,491,102** | **$ 587,485,222** |

As of 31 December 2009, the Company has assessed its positions and concluded that all of its private equity investments are classified as level 3. As of 31 December 2008, one co-investment that is publicly traded is classified as level 1.

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The following table summarizes the changes in the fair value of the Company's level 3 private equity investments for 2009.

**(dollars in thousands)**

| For the Year Ended 31 December 2009 | Large-cap Buyout | Mid-cap Buyout | Special Situation | Growth/ Venture | Diversified | Secondary Purchases | Private Equity Investments |
|---|---|---|---|---|---|---|---|
| Balance, 31 December 2008 | $ 150,592 | $ 161,972 | $ 95,675 | $ 6,543 | $ 28,708 | $ - | $ 443,490 |
| Purchases of investments and/or contributions to investments | 13,020 | 19,020 | 6,538 | 1,044 | 3,399 | 2,463 | 45,484 |
| Realized gain (loss) on investments | (4,328) | (716) | (558) | (83) | (2,822) | (492) | (8,999) |
| Changes in unrealized appreciation (depreciation) of investments (including charges related to investments still held at the reporting date) | 19,511 | 2,671 | 42,701 | 140 | 3,956 | 2,863 | 71,842 |
| Distributions from investments | (2,056) | (12,390) | (1,029) | - | (1,408) | (121) | (17,004) |
| Transfers in and/or (out) of level 3 | - | - | - | - | - | - | - |
| **Balance, 31 December 2009** | **$ 176,739** | **$ 170,557** | **$ 143,327** | **$ 7,644** | **$ 31,833** | **$ 4,713** | **$ 534,813** |

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The following table summarizes the changes in the fair value of the Company's level 3 private equity investments for 2008.

(dollars in thousands)

| For the Year Ended 31 December 2008 | Large-cap Buyout | Mid-cap Buyout | Special Situation | Growth/ Venture | Diversified | Private Equity Investments |
|---|---|---|---|---|---|---|
| Balance, 31 December 2007 | $ 192,097 | $ 120,182 | $ 65,995 | $ 3,052 | $ 30,905 | $ 412,231 |
| Purchases of investments and/or contributions to investments | 42,578 | 55,258 | 73,155 | 3,549 | 7,214 | 181,754 |
| Realized gain (loss) on investments | (3,041) | 2,293 | (12,359) | (282) | (376) | (13,765) |
| Changes in unrealized appreciation (depreciation) of investments (including charges related to investments still held at the reporting date) | (66,540) | 1,976 | (30,769) | 442 | (5,952) | (100,843) |
| Distributions from investments | (14,501) | (17,025) | (281) | (218) | (3,083) | (35,108) |
| Transfers in and/or (out) of level 3 | - | (712) | (66) | - | - | (778) |
| **Balance, 31 December 2008** | **$ 150,593** | **$ 161,972** | **$ 95,675** | **$ 6,543** | **$ 28,708** | **$ 443,491** |

Generally, our private equity investments have a defined term and no right to withdraw. We receive distributions as the underlying investments are liquidated. The pace of liquidation depends on a number of factors. We estimate that the liquidation of our current portfolio will continue for another 10-15 years.

Our special situations investments include hedge funds valued at approximately $37.2 million at 31 December 2009. One hedge fund amounting to $10.6 million is redeemable quarterly with a 60 day advance notice. Another hedge fund amounting to $26.6 million is not redeemable for the first two to three years following investment, and has rolling two year lock-up periods thereafter. Hedge funds generally have a right to restrict redemptions in order to avoid a forced sale of underlying assets.

The 2009 fair value for large-cap buyout investments includes a fund that we expect to sell, valued at approximately $2.7 million. We believe that a sale of this investment is probable and, accordingly, have determined its carrying value based on the amount we expect to realize from the sale, exclusive of transaction costs. Our unfunded commitments at 31 December 2009 included approximately $15 million associated with this investment.

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## Note 5 – Credit Facility

A subsidiary of the Company has entered into an agreement with Lloyds Banking Group (Bank of Scotland) regarding a senior secured revolving credit facility (“Facility”) of up to $250 million. The term of the Facility is seven years and expires in August 2014. At 31 December 2009 and 2008, $65.8 million and $151.4 million was outstanding and substantially all assets are pledged pursuant to the following:

- a security interest in the Company’s interest in substantially all eligible funds or co-investments
- an undertaking to dispose of the Company’s assets in the event of continued default
- a security interest in the Company’s bank accounts
- a pledge over the share capital of any current or future subsidiary of the Company, provided such an arrangement would not violate the terms of the investment
- an assignment by the Company over future cash flows of its private equity investments
- a negative pledge by the Company in respect of the general partnership interests held
- an assignment of the Company’s rights under any key transactional documents entered into by the Company

The Company is required to meet certain portfolio diversification tests, a minimum fund/co-investment threshold, maximum exposure limitations, a maximum debt to value ratio, a maximum debt to secured assets ratio and a maximum over-commitment test. In addition, the Facility limits the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, acquisitions, mergers, repurchase of shares, liens or other matters customarily restricted in such agreements. The zero dividend preference shares (note 6) and the forward foreign exchange contract (note 7) are compliant with the credit facility agreement. At 31 December 2009 and 2008, the Company met all requirements under the Facility.

All borrowings under the Facility bear interest at a floating rate, calculated as LIBOR or Euribor, as appropriate, plus 1.35% per annum. At 31 December 2009, interest rates on the outstanding balance range from 1.60338% to 1.63406% per annum. At 31 December 2008, interest rates on the outstanding balance ranged from 3.1175% and 3.39125%

In addition, we are required to pay a non-utilization fee calculated as 40 basis points per annum on the daily balance of the unused Facility amount. For the year ended 31 December 2009, we incurred and expensed $2,608,381 for interest and $520,370 for non-utilization fees related to the Facility. For the year ended 31 December 2008, we incurred and expensed $1,749,059 for interest and $872,417 for non-utilization fees related to the Facility. As of 31 December 2009 and 31 December 2008, unamortized capitalized debt issuance costs (included in other assets) were $1,794,745 and $2,191,764, respectively. Capitalized amounts are being amortized on a straight-line basis over the term of the Facility. Such amortization amounted to $397,019 and $398,107 for the years ended 31 December 2009 and 2008, respectively.

An active market for debt that is similar to that of the Facility does not exist. Management estimates the fair value of the Facility based on comparison to debt instruments with comparable characteristics. Management has estimated that the fair values of the Facility, based on the balance outstanding, are approximately $62.2 million and $103.8 million at 31 December 2009 and 2008, respectively. However, these estimates are affected by and are subject to significant variability due to the disruptions in the current market for such debt.

In the first quarter of 2009, the Company amended the terms of the Facility to ensure that the change in ownership of the Investment Manager (see note 1) did not cause an event of default. Likewise, we amended the terms of the Facility in the fourth quarter of 2009 to facilitate the offering of the zero dividend preference shares (see note 6) and the forward foreign exchange contract (see note 7).

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## Note 6 – Zero Dividend Preference Shares

On 30 November 2009 the Company issued 30,000,000 zero dividend preference shares ("ZDP Shares"). The holders of the ZDP Shares are entitled to a redemption amount of 100.0 pence per ZDP Share as increased daily at such a daily compound rate as would give a final entitlement of 169.73 pence on 31 May 2017, resulting in an effective interest rate of 7.3% annually. The ZDP shares rank prior to the class A and B shares in respect of repayment of the final entitlement. However, they rank behind any borrowings that remain outstanding. They carry no entitlement to income and their entire return takes the form of capital. The following table summarizes the liability for ZDP shares.

| **Zero dividend preference shares** | **Pounds Sterling** | | **U.S. Dollars** | |
|---|---|---|---|---|
| Offering proceeds | £ | 30,000,000 | $ | 48,489,000 |
| Accrued interest | £ | 236,761 | $ | 388,075 |
| Currency conversion | £ | - | $ | (5,398) |
| **Liability** | £ | 30,236,761 | $ | 48,871,677 |

Capitalized offering costs amounted to $1,876,452 (included in other assets) and are being amortized using the effective interest rate method. The unamortized balance at 31 December 2009 is $1,855,202.

## Note 7 – Forward Foreign Exchange Contract

The Company entered into a forward foreign exchange contract to hedge, in part, the currency risk associated with the pounds sterling contractual liability for the ZDP shares.

The contract provides that we will purchase £40,000,000 on 17 May 2017 for $64,820,000 from the Lloyds Banking Group (Bank of Scotland). The contract further provides that the security interests granted to the bank under the credit facility as described in note 5 also apply to any amounts we may owe the bank pursuant to this contract. At 31 December 2009, the fair value of the forward foreign exchange contract was $310,010 and was included in other assets in the consolidated balance sheet.

## Note 8 – Income Taxes

The Company is exempt from Guernsey tax on income derived from non-Guernsey sources. However, certain of its underlying investments generate income that is subject to tax in other jurisdictions, principally the United States. The Company has recorded the following amounts related to such taxes:

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| | | 31 December 2009 | | 31 December 2008 |
|---|---|---|---|---|
| Current tax expense | $ | 132,035 | $ | 132,826 |
| Deferred tax expense (benefit) | | (2,781,148) | | 1,595,455 |
| **Total tax expense (benefit)** | $ | (2,649,113) | $ | 1,728,281 |

| | | 31 December 2009 | | 31 December 2008 |
|---|---|---|---|---|
| Gross deferred tax assets | $ | 4,566,984 | $ | 2,626,069 |
| Less valuation allowance | | 3,114,218 | | 2,382,032 |
| Net deferred tax assets | | 1,452,766 | | 244,037 |
| Gross deferred tax liabilities | | 2,253,151 | | 3,825,569 |
| **Net deferred tax liabilities** | **$** | **800,385** | **$** | **3,581,532** |

Current tax expense is reflected in net realized gains and deferred tax expense (benefit) is reflected in net changes in unrealized gains on the consolidated statements of operations. Net deferred tax liabilities are related to net unrealized gains and gross deferred tax assets, offset by a valuation allowance, are related to unrealized losses on investments held in entities that file separate tax returns.

The Company has no gross unrecognized tax benefits. The Company has been audited by the IRS for the tax year ended 30 November 2007; the audit resulted in no change to the tax the Company reported. The years subsequent to 2007 remain subject to examination.

## Note 9 – Earnings (Loss) per Share

The computations for earnings (loss) per share for the years ended 31 December 2009 and 2008 are as follows:

| | For the Year Ended 31 December | | | |
|---|---|---|---|---|
| | | 2009 | | 2008 |
| Net increase (decrease) in net assets resulting from operations attributable to the controlling interest | $ | 56,136,204 | $ | (126,176,416) |
| Divided by weighted average shares outstanding for Class A and Class B shares of the controlling interest | | 51,219,046 | | 53,953,427 |
| **Earnings (loss) per share for Class A and Class B shares of the controlling interest** | **$** | **1.10** | **$** | **(2.34)** |

## Note 10 – Treasury Stock

The Company has adopted a liquidity enhancement policy that is intended to enhance and strengthen the liquidity in the trading of the Company's class A shares. The Company entered into a liquidity enhancement agreement on 21 July 2008 with ABN AMRO Bank N.V. London Branch ("ABN") which was amended on 9 January 2009, 14 April 2009 and 29 June 2009. Such agreement provides the parameters and requirements for the Company's liquidity enhancement policy.

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Under the agreement, ABN has sole discretion, in the name and for the account of the Company and subject to all applicable legal and regulatory requirements, to effect class A share repurchases and sales of class A shares held in treasury on Euronext Amsterdam within the parameters set out in the agreement. Shares repurchased by the Company will either be cancelled or held in treasury (provided that the Company shall not at any time hold class A shares in treasury representing more than 10 percent of its issued class A shares). Shares will not be sold out of treasury at a price which is lower than the last published net asset value per share.

The aggregate number of class A shares which may be purchased in accordance with the agreement is subject to a maximum of 12.5 percent of the total number of class A shares outstanding as of 21 July 2008, or 6,776,250 shares, unless the Company elects to increase such maximum, subject to any limits to the authority granted to the Company by its shareholders to effect share repurchases. The Company currently has shareholder authority to repurchase in the market up to 14.99 percent of its issued shares. The Company intends to seek annual renewal of this authority from shareholders.

The maximum price which may be paid for a share is an amount equal to the higher of (i) the price of the last independent trade and (ii) the highest current independent bid price for shares on Euronext Amsterdam.

The agreement shall remain in force until 25 June 2010 subject to extension at the election of the Company. The agreement may, however, be terminated at any time by either the Company or ABN.

As of 31 December 2009, there were 51,059,592 Class A ordinary shares and 10,000 Class B ordinary shares outstanding, with 3,150,408 Class A ordinary shares held in treasury at a cost of $9,248,460. As of 31 December 2008, there were 52,497,863 Class A ordinary shares and 10,000 Class B ordinary shares outstanding, with 1,712,137 Class A ordinary shares held in treasury at a cost of $5,797,402.

## Note 11 – Financial Highlights

| **Per share operating performance (based on average shares outstanding during the period)** | | **2009** | | **2008** |
|---|---|---|---|---|
| Net asset value 1 Jan | $ | 8.20 | $ | 10.37 |
| Purchase of treasury stock | | 0.18 | | 0.19 |
| Net increase in net assets resulting from operations: | | | | |
| Net investment income (loss) | | (0.23) | | (0.16) |
| Net realized and unrealized gain (loss) | | 1.31 | | (2.20) |
| **Net asset value 31 Dec** | **$** | **9.46** | **$** | **8.20** |

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| **Total return (based on change in net asset value per share)** | **2009** | **2008** |
|---|---|---|
| Total return before carried interest | 15.38% | (20.94%) |
| Carried interest | - | - |
| **Total return after carried interest** | **15.38%** | **(20.94%)** |

| **Net investment income (loss) and expense ratios (based on weighted average net assets)** | **2009** | **2008** |
|---|---|---|
| Net investment income (loss) | (2.77%) | (1.54%) |
| Expense ratios: | | |
| Expenses before interest and carried interest | 2.77% | 2.06% |
| Interest expense | 0.61% | 0.31% |
| Carried interest | - | - |
| **Total** | **3.38%** | **2.37%** |

Individual shareholder returns may differ from the ratios presented based on differing entry dates into the Company.

## Note 12 – Commitments and Contingencies

In the normal course of business, the Company enters into a variety of undertakings containing a variety of warranties and indemnifications that may expose the Company to some risk of loss. The amount of future loss, arising from such undertakings, while not quantifiable, is not expected to be significant.

## Note 13 – Subsequent Events

There have been no subsequent events through March 10, 2010, the date of the independent auditor's report, that require recognition or disclosure in the financial statements.