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NB Private Equity Partners Limited

Consolidated Financial Statements

For the Years Ended 31 December 2016 and 2015

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Members
NB Private Equity Partners Limited:

We have audited the accompanying consolidated financial statements of NB Private Equity Partners Limited (the Company) and its subsidiaries, which comprise the consolidated balance sheets, including the consolidated condensed schedules of private equity investments, as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of NB Private Equity Partners Limited as of December 31, 2016 and 2015, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
March 27, 2017

NB PRIVATE EQUITY PARTNERS LIMITED

CONSOLIDATED BALANCE SHEETS 31 DECEMBER 2016 AND 2015

Assets	2016	2015
Private equity investments		
Cost of $617,340,299 at 31 December 2016 and $716,882,829 at 31 December 2015	$ 767,312,829	$ 813,597,495
Cash and cash equivalents	93,662,028	26,118,461
Distributions and sales proceeds receivable from investments	7,590,641	2,085,717
Other assets	3,851,617	1,270,275
Total assets	$ 872,417,115	$ 843,071,948

Liabilities	2016	2015
Liabilities:		
ZDP Share liability	$ 76,894,552	$ 74,739,963
Carried interest payable	7,866,561	-
Accrued expenses and other liabilities	6,094,211	7,155,182
Payables to Investment Manager and affiliates	2,998,767	2,949,475
Net deferred tax liability	1,026,106	4,612,591
Credit facility loans	-	52,500,000
Total liabilities	$ 94,880,197	$ 141,957,211
Net assets		
Class A Shares, $0.01 par value, 500,000,000 shares authorized, 51,940,972 shares issued, and 48,790,564 shares outstanding	$ 519,410	$ 519,410
Class B Shares, $0.01 par value, 100,000 shares authorized, 10,000 shares issued and outstanding	100	100
Additional paid-in capital	525,157,490	525,157,490
Retained earnings	260,212,429	183,898,937
Less cost of treasury stock purchased (3,150,408 shares)	(9,248,460)	(9,248,460)
Total net assets of the controlling interest	776,640,969	700,327,477
Net assets of the non-controlling interest	895,949	787,260
Total net assets	$ 777,536,918	$ 701,114,737
Total liabilities and net assets	$ 872,417,115	$ 843,071,948
Net asset value per share for Class A Shares and Class B Shares	$ 15.91	$ 14.35
Net asset value per 2017 ZDP Share (Pence)	164.85	153.60
Net asset value per 2022 ZDP Share (Pence)	101.17	N/A

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

CONSOLIDATED CONDENSED SCHEDULES OF PRIVATE EQUITY INVESTMENTS
31 DECEMBER 2016 AND 2015

Private equity investments		Cost		Fair Value		Unfunded Commitment		Private Equity [3] Exposure
2016								
Fund investments	$	134,043,729	$	153,398,249	$	39,133,787	$	192,532,036
Direct equity investments [1]		334,882,546		474,945,666		177,744,014		652,689,680
Income investments[2]		148,414,024		138,968,914		44,020,612		182,989,526
	$	617,340,299	$	767,312,829	$	260,898,413	$	1,028,211,242
2015								
Fund investments	$	161,055,398	$	180,105,490	$	39,525,428	$	219,630,918
Direct equity investments [1]		261,534,958		350,523,559		218,276,857		568,800,416
Income investments[2]		294,292,473		282,968,446		5,648,982		288,617,428
	$	716,882,829	$	813,597,495	$	263,451,267	$	1,077,048,762

Private equity investments in excess of 5% of net asset value		Fair Value
2016		
NB Crossroads Fund XVIII		
Large-cap buyout	$	4,148,897
Mid-cap buyout		13,090,621
Special situations		3,798,134
Venture		6,550,536
	$	27,588,188
2015		
NB Crossroads Fund XVIII		
Large-cap buyout	$	6,956,365
Mid-cap buyout		17,026,613
Special situations		3,879,347
Venture		8,426,302
	$	36,288,627

(1) Including investments made through NB Alternatives Direct Co-investment Programs and Marquee Brands.

(2) Including investments made through NB Healthcare Credit Investment Program and NB Credit Opportunities Program.

(3) Private equity exposure is the sum of fair value and unfunded commitment.

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

CONSOLIDATED CONDENSED SCHEDULES OF PRIVATE EQUITY INVESTMENTS (CONTINUED)
31 DECEMBER 2016 AND 2015

Geographic diversity of private equity investments [1]	Fair Value 2016	Fair Value 2015
North America	$ 654,741,427	$ 724,922,947
Europe	59,618,675	46,414,178
Asia / rest of world	47,606,257	36,765,403
Not classified	5,346,470	5,494,967
	$ 767,312,829	$ 813,597,495

Industry diversity of private equity investments [2]	Fair Value 2016	Fair Value 2015
Technology / IT	17.5%	21.9%
Healthcare	14.5%	16.0%
Industrials	12.1%	11.5%
Consumer discretionary	14.0%	15.1%
Financial services	12.3%	11.1%
Business services	10.5%	9.8%
Energy	8.7%	6.3%
Communications / media	3.4%	3.6%
Diversified / undisclosed / other	4.2%	3.4%
Transportation	2.8%	1.3%
	100.0%	100.0%

Asset class diversification of private equity investments [3]	Fair Value 2016	Fair Value 2015
Large-cap buyout	1.6%	1.9%
Large-cap buyout co-Invest	14.7%	14.2%
Mid-cap buyout	5.9%	7.0%
Mid-cap buyout co-Invest	35.9%	21.3%
Special situation	6.8%	6.5%
Special situation co-Invest	7.0%	4.4%
Income investments	17.3%	34.8%
Growth/venture	10.2%	9.1%
Secondary purchases	0.6%	0.8%
	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.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	2016	2015
Interest and dividend income	$ 31,016,956	$ 35,386,069
Expenses		
Investment management and services	11,446,805	11,847,536
Carried interest	7,866,561	-
Finance costs		
Credit facility	3,874,978	4,202,654
ZDP Shares	1,776,197	5,543,361
Administration and professional	2,663,661	3,032,661
	27,628,202	24,626,212
Net investment income (loss)	$ 3,388,754	$ 10,759,857
Realized and unrealized gains (losses)		
Net realized gain (loss) on investments and forward foreign exchange contracts, net of tax expense of $1,749,401 for 2016 and $2,710,748 for 2015	$ 28,629,876	$ 73,457,472
Net change in unrealized gain (loss) on investments and forward foreign exchange contracts, net of tax (benefit) expense of $(3,586,485) for 2016 and $288,408 for 2015	68,803,833	(55,244,659)
Net realized and unrealized gain (loss)	97,433,709	18,212,813
Net increase (decrease) in net assets resulting from operations	$ 100,822,463	$ 28,972,670
Less net increase (decrease) in net assets resulting from operations attributable to the non-controlling interest	108,689	28,973
Net increase (decrease) in net assets resulting from operations attributable to the controlling interest	$ 100,713,774	$ 28,943,697
Net assets at beginning of period attributable to the controlling interest	700,327,477	694,808,051
Less dividend payment	(24,400,282)	(23,424,271)
Net assets at end of period attributable to the controlling interest	$ 776,640,969	$ 700,327,477
Earnings (loss) per share for Class A Shares and Class B Shares of the controlling interest	*$ 2.06*	*$ 0.59*

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations attributable to the controlling interest	$ 100,713,774	$ 28,943,697
Net increase (decrease) in net assets resulting from operations attributable to the non-controlling interest	108,689	28,973
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	(28,629,876)	(73,457,472)
Net change in unrealized (gain) loss on investments	(68,803,833)	55,244,659
In-kind payment of interest income	(68,397)	(314,775)
Amortization of finance costs	(2,581,341)	769,078
Amortization of purchase premium (OID), net	5,512,448	(2,126,934)
Change in other assets	(4,349,099)	99,529
Change in payables to Investment Manager and affiliates	7,915,853	(6,779,584)
Change in accrued expenses and other liabilities	2,370,151	5,273,306
Net cash provided by (used in) operating activities	12,188,369	7,680,477
Cash flows from investing activities:		
Distributions from private equity investments	118,557,656	130,379,294
Proceeds from sale of private equity investments	174,061,119	149,132,997
Contributions to private equity investments	(2,517,315)	(10,906,987)
Purchases of private equity investments	(157,487,245)	(214,826,979)
Net cash provided by (used in) investing activities	132,614,215	53,778,325
Cash flows from financing activities:		
Dividend payment	(24,400,282)	(23,424,271)
Proceeds from Issuance of Zero Dividend Preference Shares	9,411,265	-
Borrowings from credit facilities	100,000,000	90,000,020
Payments to credit facility	(152,500,000)	(127,500,000)
Settlement of the forward foreign exchange contract and ongoing hedging activity	(9,770,000)	-
Net cash provided by (used in) financing activities	(77,259,017)	(60,924,251)
Net increase (decrease) in cash and cash equivalents	**67,543,567**	**534,551**
Cash and cash equivalents at beginning of period	26,118,461	25,583,910
Cash and cash equivalents at end of period	**$ 93,662,028**	**$ 26,118,461**
Supplemental cash flow information		
Interest paid	**$ 1,700,185**	**$ 2,663,141**
Net taxes paid	**$ 2,553,126**	**$ 2,611,639**

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

Note 1 – Organization

NB Private Equity Partners Limited (the “Company”) and its subsidiaries, collectively (the “Group”) is a closed-ended investment company registered in Guernsey. The registered office is Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey GY1 4HY. The Group invests in private equity assets, which consist of direct equity investments, income investments, and private equity fund investments. Income investments include corporate private debt investments and healthcare credit investments, which consist of loans to companies in the healthcare sector and royalty backed notes. From time to time, the Group may also make other opportunistic investments, as appropriate. The Company’s Class A Shares are listed and admitted to trading on the regulated market of Euronext Amsterdam N.V. and on the Specialist Fund Segment (formerly the Specialist Fund Market) of the London Stock Exchange plc under the symbol “NBPE”. NBPE’s Zero Dividend Preference (“ZDP”) Shares (see note 6) are listed and admitted to trading on the Daily Official List of The International Securities Exchange and the Specialist Fund Segment of the Main Market of the London Stock Exchange under the symbol “NBPZ”.

The Company’s Class B Shares were contributed at the time of the initial public offering to a Guernsey charitable trust whose trustee is Heritage Corporate Services Limited (“Trustee”). Class B Shares have the right to elect all of the Group's directors and make certain other reserved decisions. 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 the memorandum and articles of incorporation. Each Class A Share and B Share participates equally in profits and losses.

The Group is managed by NB Alternatives Advisers LLC (“Investment Manager”) pursuant to an Investment Management and Services Agreement. The Investment Manager is a subsidiary of Neuberger Berman Group LLC (“NBG”).

Note 2 – Summary of Significant Accounting Policies and Risks

Basis of Presentation

These consolidated financial statements (the “consolidated financial statements”) give a true and fair view of the financial position, profit or loss and cash flows and are prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”), as allowed by rules published in the United Kingdom and Netherlands to effect implementation of the EU Transparency Directive (Directive 2004/109/EC), as amended by Directive 2013/50/EU, and are in compliance with the Companies (Guernsey) Law, 2008. These consolidated financial statements are presented in United States dollars. Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The Group qualifies, for U.S. GAAP purposes, as an investment company. Accordingly, the Group reflects its investments on the Consolidated Balance Sheets at their estimated fair values, with unrealized gains and losses resulting from changes in fair value reflected in net change in unrealized gain (loss) on investments in the Consolidated Statements of Operations and Changes in Net Assets. The Group does not consolidate majority-owned or controlled portfolio companies. The Group does not provide any financial support to any of its investments beyond the investment amount to which it committed.

Principles of Consolidation

The consolidated financial statements include accounts of the Group consolidated with the accounts of all its subsidiaries in which it holds a controlling financial interest as of the financial statement date. All material inter-group balances have been eliminated.

Market Risk

The Group'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 Group'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 private equity fund investments (or "partnership investments") of the Group each holds 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 Group in publicly traded and privately held securities. The partnership investments of the Group may also hold financial instruments (including debt and derivative 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 Group's investment in the partnerships. As with any individual investment, market prices may vary from composite index movements.

Credit Risk

Credit risk is the risk of losses due to the failure of a counterparty to perform according to the terms of a contract. The Group may invest in a range of debt securities directly or in funds which do so. Until such investments are sold or are paid in full at maturity, the Group is exposed to credit risk relating to whether the issuer will meet its obligations when the securities come due. Distressed debt securities by nature are securities in companies which are in default or are heading into default and will expose the Group to a higher than normal amount of credit risk.

The cash and other liquid securities held can subject the Group to a concentration of credit risk. The Investment Manager attempts to mitigate the credit risk that exists with cash deposits and other liquid securities by regularly monitoring the credit ratings of such financial institutions and evaluating from time to time whether to hold some of the Group's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. The Investment Manager mitigates this risk by monitoring the sufficiency of cash balances and availability under the Credit Facility to meet expected liquidity requirements for investment funding and operating expenses.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Directors 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 consolidated 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 the Directors' current estimates and such differences may be significant.

Cash and Cash Equivalents

Cash and cash equivalents are valued at cost, which approximates fair value. These balances represent amounts held with financial institutions that are readily accessible to pay expenses or fund investments. These balances may include investments in money market mutual funds. As of 31 December 2016 and 2015, $93,662,028 and $26,118,461 respectively, are primarily held with JPMorgan Chase.

Valuation of Investments

The Group carries private equity investments on its books at fair value in accordance with U.S. GAAP. The Directors, in consultation with the Investment Manager use the best information reasonably available to determine or estimate fair value. Valuations of the investments are reviewed and approved quarterly by the Investment Manager. Fair value is estimated 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 the Investment Manager concludes that it is probable an investment will be sold, the Investment Manager adjusts the carrying value to the amount expected from the sale, exclusive of transaction costs. The Group values private equity fund investments at the net asset value of the private equity fund investment (see note 4).

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. The Investment Manager determines 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.

For income investments, the Investment Manager estimates the enterprise value of each portfolio company and compares such amount to the total amount of the group's debt as well as the level of debt senior to the Group's interest. Estimates of enterprise value are based on the specific measure (such as EBITDA, free cash flow, net income, book value or NAV) believed to be most relevant for the given company and the Investment Manager compares this metric in relation to comparable company valuations (market trading and transactions) based on the same metric. In determining the enterprise value, the Investment Manager further considers the companies' acquisition price, credit metrics, historical and projected operational and financial performance, liquidity as well as industry trends, general economic conditions, scale and competitive advantages along with other factors deemed relevant. Valuation adjustments are made if estimated enterprise value does not support the value of the debt security the Group is invested in and securities senior to the Group's position.

If the principal repayment of debt and any accrued interest is supported by the enterprise value analysis described above, the Investment Manager next considers current market conditions including pricing quotations for the same security and yields for similar investments. To the extent market quotations for the security are available, the Investment Manager takes into account current pricing and liquidity. Liquidity may be estimated by the spread between bid and offer prices and other available measures of market liquidity, including number and size of recent trades and liquidity scores. If the Investment Manager believes market yields for similar investments have changed substantially since the pricing of the security held by the Group, the Investment Manager performs a discounted cash flow analysis, based on the expected future cash flows of the debt securities and current market rates. The Investment Manager also considers the maturity of the investment, compliance with covenants and ability to pay cash interest when estimating the fair value of the Group's debt investment.

Because of their inherent uncertainty, the fair values 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.

Financial Instruments

The Group determines the fair value of its financial instruments and includes this additional information in the notes to the consolidated financial statements when the fair value is different than the carrying value of those financial instruments. At 31 December 2016 and 31 December 2015, the fair values of the Group's financial instruments reasonably approximate the carrying values and no additional disclosure is necessary.

Investment Income

The Group earns interest and dividends from direct investments and from cash and cash equivalents. The Group records dividends on the ex-dividend date and interest when earned, provided the Investment Manager knows the information or is able to reliably estimate it. Otherwise, the Group records the investment income when it is reported by the private equity investments. Discounts received or premiums paid in connection with the acquisition of loans are amortized into interest income using the effective interest method over the contractual life of the related loan. Payment-in-kind (“PIK”) interest is computed at the contractual rate specified in the loan agreement for any portion of the interest which may be added to the principal balance of a loan rather than paid in cash by obligator on the scheduled interest payment date. PIK interest is added to the principal balance of the loan and recorded as interest income. Prepayment premiums include fee income from securities settled prior to maturity date, and are recorded as interest income in the Consolidated Statements of Operations and Changes in Net Assets.

Operating Expenses

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

Realized Gains and Losses on Investments

For investments in private equity funds, the Group records its share of realized gains and losses incurred when the Investment Manager knows that the private equity fund has realized its interest in a portfolio company and the Investment Manager has sufficient information to quantify the amount. For all other investments, the Group records 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 Gains and Losses of Investments

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

Carried Interest

Carried interest amounts due to the Special Limited Partner (see note 3) are computed and accrued at each period end based on period-to-date results in accordance with the terms of "The Investment Manager and the Investment Management and Services Agreement—Carried Interest" agreement.

Currency Translation

Investments 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 Group does not separate the changes relating to currency exchange rates from those relating to changes in the fair value of the investments held. These fluctuations are combined and included in the net change in unrealized gain (loss) on investments in the Consolidated Statements of Operations and Changes in Net Assets. For the years ended 31 December 2016 and 2015, the effect of translation to U.S. dollars decreased valuations of foreign investments by approximately $123,190 and $708,303 respectively.

The Group has unfunded commitments denominated in currencies other than U.S. dollars. At 31 December 2016, the unfunded commitments that are in Euro and Canadian dollars amounted to €2,088,641 and CAD 297,113. At 31 December 2015, the unfunded commitments that are in Euro and Canadian dollars amounted to €2,731,950 and CAD 1,250,000. 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 2016 and 2015. The effect on the unfunded commitment of the change in the exchange rate between Euro and U.S. dollars and CAD and U.S. dollars was a decrease in the U.S. dollar obligation of $4,134 and $579,051 for 31 December 2016 and 2015 respectively.

Income Taxes

The Company is registered in Guernsey as an exempt company. The States of Guernsey Income Tax Authority has granted the Group an exemption from Guernsey income tax under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and the Group has been charged an annual exemption fee of £1,200 (2015: £1,200).

Generally, income that the Group derives from the investments may be subject to taxes imposed by the U.S. or other countries and will impact the Group's effective tax rate.

Investments made in entities that generate U.S. source investment income may subject the Group 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 Group's distributive share of any U.S. sourced dividends and interest (subject to certain exemptions) and certain other income that the Group receives 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 Group 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, the Group 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.

The Group recognizes a tax benefit in the consolidated 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, the Group has not provided any reserves for taxes as all related tax benefits have been fully recognized. Although the Investment Manager believes uncertain tax positions have been adequately assessed, the Investment Manager 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. The Group records 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. Management subsequently adjusts the valuation allowance as the expected realizability of the deferred tax assets change such that the valuation allowance is sufficient to cover the portion of the asset that will not be realized. The Group records the tax associated with any transactions with U.S. or other tax consequences when the Group recognizes the related income.

Shareholders in certain jurisdictions may have individual income tax consequences from ownership of the Group's shares. The Group has not accounted for any such tax consequences in these consolidated financial statements. For example, the Investment Manager expects the Group 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 Group or its subsidiaries. Instead, certain U.S. investors in the Group 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 U.S. adverse U.S. 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 consolidated financial statements. The Group bears 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.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07 ("ASU 2015-07"), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), modifying Accounting Standards Codification 946 Financial Services – Investment Companies. Under the modifications, investments in affiliated and private investment funds valued at net asset value ("NAV") are no longer included in the fair value hierarchy. The Group has adopted ASU No. 2015-07 in the consolidated financial statements.

Note 3 – Agreements, including related party transactions

Management and Administration

The Group pays 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 the 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 2016 and 2015, the management fee expenses were $10,665,808 and $11,016,003 respectively.

The Group also pays 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 the private equity and opportunistic investments at the end of each calendar quarter, computed as described above. During the period of January 1, 2016 through April 30, 2016, Group incurred $200,182 for these services. After April 30, 2016 accounting and administrative service were provided and the fees were paid, to an independent third party. The amounts incurred by the Group for the years ended 31 December 2016 and 2015 for these services were $780,613 and $831,533 respectively.

The Group pays 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 Group. Fees for these services are paid as invoiced by Heritage. The Group paid Heritage $269,045 and $183,822 for the years ended 31 December 2016 and 2015 respectively, for such services.

For the years ended 31 December 2016 and 2015, the Group paid the independent directors a total of $217,500 and $180,489 respectively.

Expenses related to the Investment Manager are included in Investment management and services in the Consolidated Statements of Operations and Changes in Net Assets. Administration and professional expenses include fees for directors, audit and tax, trustee, legal, listing, and other items.

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 2016 and 2015, the noncontrolling interest of $895,949 and $787,260 represented the Special Limited Partner's capital contribution to the partnership subsidiary and income allocation respectively.

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 at 31 December 2016 and 2015.

	Controlling Interest	Noncontrolling Interest	Total
Net assets balance, 31 December 2014	$ 694,808,051	$ 758,287	$ 695,566,338
Net increase (decrease) in net assets resulting from operations	28,943,697	28,973	28,972,670
Dividend payment	(23,424,271)	-	(23,424,271)
Net assets balance, 31 December 2015	$ 700,327,477	$ 787,260	$ 701,114,737
Net increase (decrease) in net assets resulting from operations	100,713,774	108,689	100,822,463
Dividend payment	(24,400,282)	-	(24,400,282)
Net assets balance, 31 December 2016	$ 776,640,969	$ 895,949	$ 777,536,918

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 the Group's consolidated net increase in net assets resulting from operations, adjusted by withdrawals, distributions, and capital contributions, for a fiscal year in the event that the Group's internal rate of return for such period, based on the 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 calculations for future periods. Such loss amounts are reduced proportionately to give effect to the distributions to the general partner of the partnership subsidiary during the performance period. Carried interest is reduced by the amount of carried interest that the Group paid during the period on any investment for which the Investment Manager serves as investment manager. Carried interest is also accrued and paid on any economic gain that the Group realizes 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 2016 and 31 December 2015, carried interest of $7,866,561 and $0 respectively was accrued.

Investments with the Investment Manager's Platform

The Group holds limited partner interests in private equity funds and funds of funds managed and sponsored by the Investment Manager. These investments will not result in any duplicative NBG investment management fees and carry charged to the Group. As of 31 December 2016 and 2015, the aggregate net asset value of these funds was approximately $232.4 million and $190.9 million, respectively and associated unfunded commitments were $232.1 million and $226.9 million, respectively.

The Group owns a 50% interest in NB Fund of Funds Secondary 2009 LLC ("NBFOFS"). Other funds managed by the Investment Manager own the remaining interest. NBFOFS holds a portfolio of private equity funds acquired in a secondary transaction. NBFOFS pays no fees or carry and the Group bears its share of any direct expenses of NBFOFS.

As of 31 December 2016, the Group has committed $275.0 million and funded $127.8 million to the NB Alternatives Direct Co-investment Programs, committed $50 million and funded $45.4 million to the NB Healthcare Credit Investment Program, committed $30.0 million and funded $10.3 million to Marquee Brands and committed $50 million and funded $6 million to NB Private Equity Credit Opportunity Fund.

Note 4 – Fair Value of Financial Instruments

The Group categorizes its 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 Group's financial assets and liabilities that were accounted for at fair value as of 31 December 2016 and 2015 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. Due to the adoption of ASU 2015-07 (see note 2), investments for which fair value is measured using the net asset value per share practical expedient are removed from the fair value hierarchy and reclassified from Level 3 to "Investments measured at net asset value".

	Assets (Liabilities) Accounted for at Fair Value				
As of 31 December 2016	Level 1	Level 2	Level 3	Investments measured at net asset value[1]	Total
Private equity investments	$ -	$ 23,159,340	$ 590,755,240	$ 153,398,249	$ 767,312,829
Forward foreign exchange contract	-	(3,308,112)	-	-	(3,308,112)
Totals	$ -	$ 19,851,228	$ 590,755,240	$ 153,398,249	$ 764,004,717

As of 31 December 2015	Level 1	Level 2	Level 3	Investments measured at net asset value[1]	Total
Private equity investments	$ 21,235,887	$ 16,711,956	$ 595,544,162	$ 180,105,490	$ 813,597,495
Forward foreign exchange contract	-	(5,319,583)	-	-	(5,319,583)
Totals	$ 21,235,887	$ 11,392,373	$ 595,544,162	$ 180,105,490	$ 808,277,912

1. *Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Condensed Schedules of Private Equity Investments.*

The Group has assessed its positions and concluded that none of its private equity investments are classified as level 1 as of 31 December 2016 and one publicly traded co-investments classified as level 1 as of 31 December 2015.

The Group accounts for transfers at the end of the reporting period in which such transfers occur.

The following table summarizes the changes in the fair value of the Group's level 3 private equity investments for the year ended 31 December 2016.

(dollars in thousands)

For the Year Ended 31 December 2016

	Large-cap Buyout	Mid-cap Buyout	Special Situations	Growth/ Venture	Income Investments	Total Private Equity Investments
Balance, 31 December 2015	$ 93,683	$ 172,544	$ 35,300	$ 27,761	$ 266,256	$ 595,544
Purchases of investments and/or contributions to investments	22,739	70,212	12,084	9,068	40,858	154,961
Realized gain (loss) on investments	6,482	2,676	3,438	1,257	26,669	40,522
Changes in unrealized gain (loss) of investments still held at the reporting date	17,488	66,563	1,864	2,667	(2,444)	86,138
Changes in unrealized gain (loss) of investments sold during the period	(7,353)	(7,566)	(6,779)	-	213	(21,485)
Distributions from investments	(19,894)	(19,093)	(2,114)	(2,257)	(222,457)	(265,815)
Transfers in and/or (out) of level 3	890	-	-	-	-	890
Balance, 31 December 2016	$ 114,035	$ 285,336	$ 43,793	$ 38,496	$ 109,095	$ 590,755

The following table summarizes the changes in the fair value of the Group's level 3 private equity investments for the year ended 31 December 2015.

(dollars in thousands)

For the Year Ended 31 December 2015

	Large-cap Buyout	Mid-cap Buyout	Special Situations	Growth/ Venture	Income Investments	Total Private Equity Investments
Balance, 31 December 2014	$ 62,652	$ 164,610	$ 23,626	$ 9,055	$ 301,332	$ 561,275
Purchases of investments and/or contributions to investments	17,798	36,157	4,400	18,576	135,552	212,483
Realized gain (loss) on investments	6,261	25,733	5,941	-	32,681	70,616
Changes in unrealized gain (loss) of investments still held at the reporting date	1,914	3,887	(1,656)	130	(14,186)	(9,911)
Changes in unrealized gain (loss) of investments sold during the year	-	(14,524)	587	-	422	(13,515)
Distributions from investments	(6,333)	(42,000)	(6,747)	-	(172,833)	(227,913)
Transfers in and/or (out) of level 3	11,391	(1,319)	9,149	-	(16,712)	2,509
Balance, 31 December 2015	$ 93,683	$ 172,544	$ 35,300	$ 27,761	$ 266,256	$ 595,544

The following table summarizes the valuation methodologies and inputs used for private equity investments categorized in level 3 as of 31 December 2016.

(dollars in thousands)

Private Equity Investments	Fair Value 31 December 2016	Valuation Methodologies	Unobservable Inputs[1]	Ranges (Weighted Average)[2]	Impact to Valuation from an Increase in Input[3]
Direct equity investments					
Large-cap buyout	$ 114,035	Market comparable companies	LTM EBITDA	8.7x-16.2x (13.1x)	Increase
		Market comparable companies	Price to Earnings Ratio	10.5x	Increase
		Other	2016 Fwd Cash Net Income	13.8x	Increase
		See note 2	Net Asset Value[4]	1.0x	Increase
		Other	Most recent financing	Series A	Increase
		Other	Price per Share	37.8x	Increase
Mid-cap buyout	285,336	Market comparable companies	LTM EBITDA	4.8x-28.6x (10.4x)	Increase
		Other	$ per acre	$2,490.0-$9,929.0 ($4,195.8)	Increase
		Other	$ per Barrel of Oil Equivalent	$14.6	Increase
		See note 2	Net Asset Value[4]	1.0x	Increase
		Other	Broker Quote	0.7x-0.8x (0.8x)	Increase
		Other	Escrow Value	1.0x	Increase
		Other	Expected sales proceeds	1.0x	Increase
		Other	Price per Share	20.0x-28.7x (23.2x)	Increase
Special situations	43,793	Discounted Cash Flow	Discount rate	8.3%-12.5% (10.3%)	Decrease
		Market comparable companies	Liquidity discount	15.0%	Decrease
		Market comparable companies	LTM EBITDA	7.0x-8.9x (7.9x)	Increase
		Market comparable companies	Sales multiple	2.7x	Increase
		Black Scholes valuation model	Average volatility	67.5%	Increase
		Black Scholes valuation model	Risk free rate	2.1%	Increase
		See note 2	Net Asset Value[4]	1.0x	Increase
Growth/venture	38,496	Market comparable companies	FWD Revenue Multiple	1.5x	Increase
		Market comparable companies	LTM EBITDA	15.9x	Increase
		Market comparable companies	Revenue Multiple	5.3x	Increase
		Other	Escrow Value	1.0x	Increase
		Other	Most recent financing	Series A, Series B, Series C, Series C-2, Series D	Increase
Income investments	109,095	Discounted Cash Flow	Discount rate	8.3%-12.5% (10.3%)	Decrease
		Market comparable companies	Liquidity discount	15.0%	Decrease
		Market comparable companies	LTM EBITDA	7.3x-13.8x (9.6x)	Increase
		Market comparable companies	Sales multiple	2.7x	Increase
		Expected recovery	Expected recovery	50.3%-79.2% (68.2%)	Increase
		Black Scholes valuation model	Average volatility	67.5%	Increase
		Black Scholes valuation model	Risk free rate	2.1%	Increase
		Bloomberg jump-diffusion model	Average volatility	40.0%	Increase
		Bloomberg jump-diffusion model	Borrow cost	2%	Decrease
		Bloomberg jump-diffusion model	Credit spread	1,300.0 bps	Decrease
		See note 2	Net Asset Value[4]	1.0x	Increase
Total	$ 590,755				

1. LTM means Last Twelve Months, FWD means Forward, EBITDA means Earnings Before Interest Taxes Depreciation and Amortization.
2. Inputs weighted based on fair value of investments in range.
3. Unless otherwise noted, this column represents the directional change in the fair value of level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.
4. The Group utilizes the same valuation methodology as it does for fund investments as these investments are held by investment companies.

The following table summarizes the valuation methodologies and inputs used for private equity investments categorized in level 3 as of 31 December 2015.

(dollars in thousands) Private Equity Investments		Fair Value 31 December 2015	Valuation Methodologies	Unobservable Inputs[1]	Ranges (Weighted Average)[2]	Impact to Valuation from an Increase in Input[3]
Direct equity investments						
Large-cap buyout	$	93,683	Market comparable companies	LTM EBITDA	8.4x-15.8x (11.9x)	Increase
			See note 2	Net Asset Value[4]	1.0x	Increase
Mid-cap buyout		172,544	Discounted cash flow	Discount rate	10.0%-18.0% (17.1%)	Decrease
			Market comparable companies	FWD EBITDA	6.7x	Increase
			Market comparable companies	LTM EBITDA	5.2x-15.1x (9.7x)	Increase
			Other	$ per acre	$2,266.0-$5,535.0 ($3,131.1)	Increase
			Other	$ per Barrel of Oil Equivalent	$9.6	Increase
			See note 2	Net Asset Value[4]	0.9x-1.0x (1.0x)	Increase
			Other	Escrow value	0.2x-1.0x (0.3x)	Increase
			Other	Expected sales proceeds	1.0x	Increase
Special situations		35,300	Market comparable companies	LTM EBITDA	5.9x-8.3x (7.1x)	Increase
			Market comparable companies	Liquidity discount	15.0%	Decrease
			Market comparable companies	Sales multiple	1.1x	Increase
			Other	Escrow value	1.0x	Increase
Growth/venture		27,761	Market comparable companies	LTM revenue	1.4x-1.7x (1.5x)	Increase
			Market comparable companies	LTM EBITDA	11.0x	Increase
			Other	Most recent financing	Series B, Series C, Series C-2, Series D	Increase
Income investments		266,256	Discounted cash flow	Discount rate	9.0%-13.0% (9.8%)	Decrease
			Market comparable companies	Broker quote	58.5%-89.0% (68.8%)	Increase
			Market comparable companies	LTM adj. EBITDA	6.4x-11.0x (8.8x)	Increase
			Market comparable companies	LTM EBITDA	7.0x-13.8x (9.3x)	Increase
			See note 2	Net Asset Value[4]	1.0x	Increase
			Other	Most recent financing	Series E	Increase
Total	$	595,544				

1. LTM means Last Twelve Months, EBITDA means Earnings Before Interest Taxes Depreciation and Amortization.
2. Inputs weighted based on fair value of investments in range.
3. Unless otherwise noted, this column represents the directional change in the fair value of level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.
4. The Group utilizes the same valuation methodology as it does for fund investments as these investments are held by investment companies.

Since 31 December 2015, there have been no changes in valuation methodologies within level 2 and level 3 that have had a material impact on the valuation of financial instruments.

Generally, private equity investments have a defined term and no right to withdraw. In the case of fund investments, fund lives are typically ten years; however, a series of extensions often mean the lives can extend significantly beyond this. It should be noted that the life of a fund is based on the time it takes the General Partner to exit the final position in that fund, but the bulk of realizations typically occur considerably before the final exit, with only a small tail existing beyond the standard life of ten years. In the case of direct equity investments and income investments, the Investment Manager does not control the timing of exits but at the time of investment, typically expects investment durations to be meaningfully shorter than fund investments. Therefore although some fund and direct investments may take 10-15 years to reach final realization, the Investment Manager expects the majority of the Group's invested capital in the current portfolio to be returned in much shorter timeframes.

Note 5 – Credit Facility

On 12 December 2012, a subsidiary of the Group amended an agreement with Lloyds Banking Group (formerly Bank of Scotland) to provide for a revised senior secured revolving credit facility (the "2012 Credit Facility") of up to $200.0 million that was scheduled to expire on 30 April 2017. On 7 June 2016, the same subsidiary of the Group entered into an agreement with JP Morgan Chase Bank, N.A. (the "2016 Credit Facility") to refinance the 2012 Credit Facility. The 2016 Credit Facility's availability is up to $150.0 million (including a $25.0 million accordion) that expires on 7 June 2021. At 31 December 2016 and 31 December 2015, $0.0 million and $52.5 million were borrowed, respectively.

The 2016 Credit Facility is guaranteed by the Group as well as all of the Group's subsidiaries and secured by substantially all of the assets of the Group and its subsidiaries.

Under the 2016 Credit Facility, the Group is required to meet certain portfolio concentration tests, a maximum over-commitment test, and certain loan-to-value ratios. In addition, the 2016 Credit 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 ZDP Shares (see note 6) are compliant with the 2016 Credit Facility agreements. At 31 December 2016, the Group met all requirements under the 2016 Credit Facility.

Under the 2012 Credit Facility, the Group was 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. Throughout 2016 up to the date of repayment, the Group met all requirements under the 2012 Credit Facility. As of 31 December 2016 the 2012 Credit Facility was no longer in use.

Under the 2016 Credit Facility, the interest rate is calculated as LIBOR plus 3.75% per annum and the Group is required to pay a commitment fee calculated as 1.25% per annum on the daily balance of the unused facility amount.

Under the 2012 Credit Facility, all borrowings bear interest tiered based on loan value. For a loan value less than or equal to $65 million, the interest rate is calculated as LIBOR or Euribor, as appropriate, plus 2.80% per annum. For a loan value in excess of $65 million and less than or equal to $150 million, the interest rate is calculated as LIBOR or Euribor, as appropriate, plus 3.30% per annum. For a loan value greater than $150 million, the interest rate is calculated as LIBOR or Euribor, as appropriate, plus 3.65% per annum.

For the year ended 31 December 2016, the Group incurred and expensed $1,700,185 interest and $1,195,533 for commitment fees. For the year ended 31 December 2015, the Group incurred and expensed $2,663,141 interest and $934,167 for commitment fees. As of 31 December 2016 and 2015, unamortized capitalized debt issuance costs (included in other assets) were $2,008,469 and $719,475 respectively. For the years ended 31 December 2016 and 2015, capitalized amounts are being amortized on a straight-line basis over the term of the Credit Facility. Such amortization amounted to $977,512 and $540,346 for the years ended 31 December 2016 and 2015, respectively.

An active market for debt that is similar to that of the Credit Facility does not exist. The Investment Manager estimates the fair value of the Credit Facility based on comparison to debt instruments with comparable characteristics and considers that, based on the balance borrowed, the fair value of the Credit Facility was $0.0 million at 31 December 2016 and $52.5 million at 31 December 2015.

Note 6 – Zero Dividend Preference Shares

On 30 November 2009 the Company issued 30,000,000 ZDP Shares. On 16 April 2010 the Company issued an additional 2,999,999 ZDP Shares. The additional ZDP Shares rank pari passu with the first ZDP Shares, collectively the “2017 ZDP Shares”. The holders of the 2017 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. As a result of the Rollover Offer (described below), there were 7,109,599 2017 ZDP Shares outstanding as of 31 December 2016.

On 14 September 2016, the Company completed the successful issuance of 50,000,000 new ZDP shares (the “2022 ZDP Shares”) at a Gross Redemption Yield of 4.00%, the lowest point of the possible range. Holders of the 2017 ZDP Shares were given the offer to rollover their shares to the 2022 ZDP Share series (the “Rollover Offer”). Under the Rollover Offer, eligible holders of the 2017 ZDP Shares converted (by way of re-designation) some or all of their holding of 2017 ZDP Shares into new 2022 ZDP Shares. The rollover was completed at a rollover value of 165.14 pence and 2017 ZDP Shares were converted (by way of re-designation) into 1.6514 2022 ZDP Shares. Approximately 85% of the 2022 ZDP Shares were issued through the Rollover Offer. Approximately 15% of the 2022 ZDP Shares were issued pursuant to the Initial Placing and Offer for Subscription at a price per 2022 ZDP Share of 100 pence. The holders of the 2022 ZDP shares will have a final capital entitlement of 126.74 pence on the repayment date of 30 September 2022. As of 31 December 2016, there were 50,000,000 2022 ZDP Shares outstanding.

The 2017 ZDP Shares and 2022 ZDP Shares rank prior to the Class A Shares 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 reconciles the liability for ZDP Shares, which approximates fair value, for the years ended 31 December 2016 and 2015.

ZDP Shares	Pounds Sterling	U.S. Dollars
Liability, 31 December 2014	£ 47,287,500	$ 73,659,739
Accrued interest	3,450,436	5,291,830
Premium amortization	(18,633)	(23,048)
Currency conversion	-	(4,188,558)
Liability, 31 December 2015	£ 50,719,303	$ 74,739,963
Net change from 2022 ZDP Share issuance and rollover of 2017 ZDP Shares	24,109,600	27,666,324
Net change in accrued interest	(12,494,081)	(15,545,798)
Premium amortization	(21,571)	(17,925)
Currency conversion	-	(9,948,012)
Liability, 31 December 2016	£ 62,313,251	$ 76,894,552

Capitalized offering costs are being amortized using the effective interest rate method. The unamortized balance at 31 December 2016 and 2015 is $1,823,230 and $390,691 respectively.

Note 7 – Forward Foreign Exchange Contracts

The Group entered into a forward foreign exchange contract in 2009 with the Lloyds Banking Group (formerly Bank of Scotland) to economically hedge, in part, the risk associated with the pounds sterling contractual liability for the ZDP Shares. The Group settled the forward foreign exchange contract on 7 June 2016 with the Lloyds Banking Group. As a result of this settlement, the Group recognized a realized loss of $6,500,000 which is included in net realized gain (loss) on investments and forward foreign exchange contracts on the Consolidated Statements of Operations and Changes in Net Assets.

On 21 September 2016, the Group entered into a forward foreign currency contract with JP Morgan Chase. The contract states that the Group will purchase £50,000,000 on 31 May 2017 for $65,250,000. The Group incurred a $3,270,000 margin call related to this contract which is included in Net realized gain (loss) on investments and forward foreign exchange contracts on the Consolidated Statements of Operations and Changes in Net Assets. The change in unrealized loss of this contract for the year ended 31 December 2016 was $3,308,112 which is included in Net change in unrealized gain (loss) on investments and forward foreign exchange contract on the Consolidated Statements of Operations and Changes in Net Assets. As of 31 December 2016, the fair value of this contract was a liability of $3,308,112 which is included in Accrued expenses and other liabilities in the Consolidated Balance Sheets.

Note 8 – Income Taxes

The Group 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 Group has recorded the following amounts related to such taxes:

	31 December 2016		31 December 2015	
Current tax expense	$	1,749,401	$	2,710,748
Deferred tax expense (benefit)		(3,586,485)		288,408
Total tax expense (benefit)	$	(1,837,084)	$	2,999,156

	31 December 2016		31 December 2015	
Gross deferred tax assets	$	10,301,417	$	4,457,393
Valuation allowance		(5,240,034)		(2,071,267)
Net deferred tax assets		5,061,383		2,386,126
Gross deferred tax liabilities		(6,087,489)		(6,998,717)
Net deferred tax liabilities	$	(1,026,106)	$	(4,612,591)

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 and Changes in Net Assets. 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 Group has no gross unrecognized tax benefits. The Group is subject to examination by tax regulators for the years subsequent to 2012.

Note 9 – Earnings (Loss) per Share

The computations for earnings (loss) per share for the years ended 31 December 2016 and 2015 are as follows:

	For the Years Ended 31 December 2016	
	2016	2015
Net increase (decrease) in net assets resulting from operations attributable to the controlling interest	$ 100,713,774	$ 28,943,697
Divided by weighted average shares outstanding for Class A Shares and Class B Shares of the controlling interest	48,800,564	48,800,564
Earnings (loss) per share for Class A Shares and Class B Shares of the controlling interest	$ 2.06	$ 0.59

Note 10 – Treasury Stock

The Company continues to maintain 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's Liquidity Enhancement Agreement with ABN AMRO Bank N.V. London Branch, which had been in force since 21 July 2008 (and which was subsequently renewed with The Royal Bank of Scotland N.V. on 29 June 2010), expired on 28 June 2011. Under the terms of Share Buy-Back Programme (described below), the Liquidity Enhancement Agreement was suspended from 21 October 2010 to 28 June 2011.

The Company was party to a Share Buy-Back Agreement with Jefferies International Limited in relation to the market repurchases of Class A Shares on behalf of Company. The Share Buy-Back Programme expired on 31 May 2016; however, the program remains an option to the Company in future periods, if deemed suitable by the Directors at a later time.

The aggregate number of Class A Shares that could be repurchased pursuant to the Share Buy-back Agreement was limited to 6,776,250 shares (being 12.5 per cent of the total number of Class A Shares outstanding as of 21 October 2010, the day before the Share Buy-back Programme commenced). The Company may 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 shares in the market, the aggregate value of which may be up to 14.99 percent of its net asset value on 1 January in the relevant year in which the buyback is made. The maximum price which may be paid for a Class 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, in each case, with respect to the Class A Shares on the relevant exchange (being the Specialist Fund Segment of the Main Market of the London Stock Exchange or the regulated market of Euronext Amsterdam N.V.).

The following table summarizes the Group's shares at 31 December 2016 and 2015.

	31 December 2016	31 December 2015
Class A Shares outstanding	48,790,564	48,790,564
Class B Shares outstanding	10,000	10,000
	48,800,564	48,800,564
Class A Shares held in treasury - number of shares	3,150,408	3,150,408
Class A Shares held in treasury - cost	$ 9,248,460	$ 9,248,460
Class A Shares repurchased and cancelled - number of shares	2,269,028	2,269,028
Class A Shares repurchased and cancelled - cost	$ 16,523,000	$ 16,523,000

Note 11 – Financial Highlights

The following ratios with respect to the Class A Shares and B Shares have been computed for the years ended 31 December 2016 and 2015:

Per share operating performance (based on average shares outstanding during the year)		2016		2015
Beginning net asset value	$	14.35	$	14.24
Net increase in net assets resulting from operations:				
Net investment income (loss)		0.07		0.22
Net realized and unrealized gain (loss)		1.99		0.37
Dividend payment		(0.50)		(0.48)
Ending net asset value	$	15.91	$	14.35

Total return (based on change in net asset value per share)	2016	2015
Total return before carried interest	15.47%	4.14%
Carried interest	(1.11%)	-
Total return after carried interest	14.36%	4.14%

Net investment income (loss) and expense ratios (based on weighted average net assets)	2016	2015
Net investment income (loss)	0.48%	1.53%
Expense ratios:		
Expenses before interest and carried interest	2.34%	2.37%
Interest expense	0.44%	1.13%
Carried interest	1.11%	-
Expense ratios total	3.89%	3.50%

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

Note 12 – Commitments and Contingencies

In the normal course of business, the Group enters into a variety of undertakings containing a variety of warranties and indemnifications that may expose the Group 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

On 23 January 2017, the board of directors of the Company declared a dividend payment of $0.25 on each ordinary share which was payable on 28 February 2017 with a dividend record date of 3 February 2017.

On 28 March 2017, the Company plans to issue a circular and press release announcing the intention to enfranchise the Class A Shares and to apply for admission of the Class A Shares to listing on the premium segment of the London Stock Exchange.

There have been no other subsequent events through 27 March 2017, the date the consolidated financial statements were available to be issued, that requires recognition or disclosure in the consolidated financial statements.