

NEUBERGER BERMAN

ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

NB Distressed Debt Investment Fund Limited

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

ANNUAL REPORT

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COMPANY OVERVIEW

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

The Company expects that, during the initial investment/reinvestment period, it will be invested in 40 to 50 holdings diversified across distressed and specialist situations investments, with a focus on senior debt backed by hard assets. After this period, which ends in mid-2013, the portfolio will be runoff and distributions of capital proceeds of realising investments will commence. The portfolio is managed by the Distressed Debt team at Neuberger Berman, which sits within one of the largest and most experienced credit teams in the industry.

Company	<p>NB Distressed Debt Investment Fund Limited (the "Company")</p> <ul style="list-style-type: none"> • Guernsey incorporated, closed-ended investment company • Trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Stock Exchange • 444,270,312 Ordinary Shares outstanding
Investment Manager	Neuberger Berman Europe Limited (the "Investment Manager")
Sub-Investment Manager	<p>Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager")</p> <ul style="list-style-type: none"> • A large team of over 109 fixed income investment professionals • Portfolio Managers have an average of 20 years of industry experience • Total fixed income assets of over \$88 billion • Over \$15 billion in high yield bonds and loans • Non-investment grade research team of over 20 analysts

(US\$ in millions, except per share data)	At 31 December 2011	At 31 December 2010
Net Asset Value	\$429.7	\$429.3
Net Asset Value per share	\$0.9672	\$0.9754
Investments	\$420.3	\$470.7
- Distressed Portfolio	\$364.0	\$131.3
- Temporary Investments	\$56.3	\$339.5
Cash and Cash Equivalents	\$51.3	\$21.8

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CHAIRMAN STATEMENT

Dear Shareholder,

It is with pleasure that I present you with the Annual Report of NB Distressed Debt Investment Fund Limited ("the Company") for the year ending 31 December 2011.

Building on the solid start that your Company made during 2010, the Investment Manager made further significant progress in 2011. The portfolio was fully invested by the end of June with approximately 84% of the company's assets invested in distressed assets. The Investment Manager expects to maintain a small portion of the portfolio in cash and cash equivalents as a reserve for investments in existing portfolio companies as well as for new opportunities.

The Investment Manager has constructed a highly diversified portfolio of distressed investments. At the end of the reporting period, this portfolio included 47 companies, which is in line with the Investment Manager's target of 40 to 50 investments. These companies were spread across 13 different sectors.

Despite the volatile markets we witnessed this past year the Investment Manager was able to maintain a strict pricing discipline. The Company paid an average of approximately 58% of face value for its investments versus the Company's expected level of 60%.

You will have seen from the Company's quarterly fact sheets that the Investment Manager exited the Company's first investments during 2011, with five exits taking place in the third quarter. Each of these exits generated returns for the company of between 6% and 20% on the capital deployed and ultimately resulted in a gain of \$5 million (including interest) for the Company.

For the period 1 January 2011 to 31 December 2011 the net asset value total return per ordinary share decreased by 0.84% while the share price total return increased by 0.10% reflecting a premium in the share price over Net Asset Value ("NAV"). Since the end of the period the NAV price of the Company has risen by 2.61% and the share price is trading at a premium of 1.10% versus NAV.

As you will be aware during the earlier part of 2011 Japan was hit with a Tsunami. The Company did have a small exposure to this region. Upon review of the assets and the impacts of the Tsunami, the Company subsequently adjusted the value of the investments that were directly impacted downwards to reflect the anticipated cost of repair. This adjustment had an impact on the NAV of 0.05%.

Looking to the remainder of 2012, your Board continues to be satisfied with the portfolio's performance to date and the strategy that is being applied by the Investment Manager. It is expected that there will be further Investment exits during 2012 which will result in gains for the Company. The Investment Manager will continue to update you on the Company's progress by way of the Quarterly Factsheets and Investment Manager updates.

I would like to close by thanking you for your commitment and I look forward updating you on the Company's progress later on this year.

Robin Monro-Davies
Chairman
20 April 2012

INVESTMENT MANAGER'S REPORT

We remain pleased with the portfolio's performance to date. Given the volatility of markets in 2011, we were gratified to preserve our investors' capital, whilst at the same time deploying the portfolio in attractive debt backed by hard assets. We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments.

We were further gratified by the successful continuation vote held in January. All votes cast voted in favour of continuing the Investment Period until June 2013, as envisaged at the time of launch. We appreciate the positive demonstration of support from our investors.

Portfolio

As at 31 December 2011, approximately 85% of the Company's NAV was invested in distressed assets. The Company had investments in 47 companies diversified across 13 industries. Sticking to our price discipline has resulted in an average price of approximately 58% of face value. We are actively bidding on additional distressed loans at prices which we believe will generate attractive risk-adjusted returns.

2011 was challenging across many asset classes, and the leveraged loan market was no exception. The average bid price of CCC loans in the S&P/LSTA Leveraged Loan Index fell more than 17% in 2011. The Company's NAV was affected by the market volatility, which started in early August and resulted in a decrease in NAV for the year of 0.9% from \$0.9754 to \$0.9672 per share. For purposes of comparison, the HFRI Distressed/Restructuring Index 2011 return was negative 1.9%. We believe the decrease in NAV primarily reflects mark-downs of the bid prices of various investments by brokers who provide pricing information.

Market Environment

The Investment Manager believes that the fundamentals for distressed investing remain favourable. As has been widely reported, the European sovereign debt crisis and related issues have impacted risk appetites globally. We have seen European and other global commercial banks actively offer individual loans and loan portfolios at discounts. The current amount of non-performing and non-core portfolios in the US is estimated to be between \$300 - \$350 billion. Issuers with CCC credit ratings are finding it increasingly difficult to access the capital markets as spreads widened more than 700 bps in 2011. Federal Reserve and ECB data show a continuing tightening of credit availability globally – particularly in Europe, where 35% of banks report a tighter corporate lending environment. We believe that the supply of distressed assets from banks and a relative lack of capital for lower-rated companies will continue to result in opportunities for investing in distressed loans.

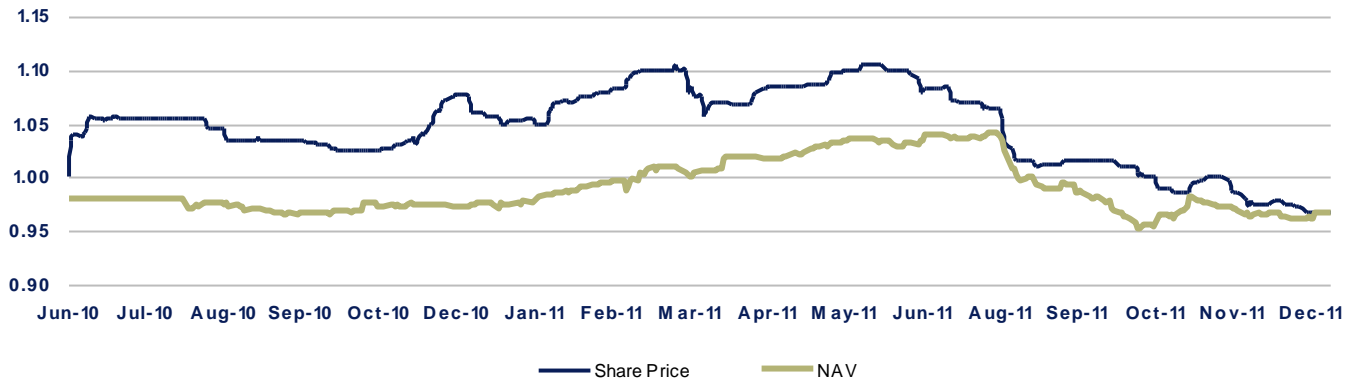
Investment Exits

In the Company's quarterly factsheet, released on the Channel Islands Stock Exchange ("CISX") and the Specialist Fund Market ("SFM") on 20 February 2012, we highlighted five investment exits from late stage restructurings and debt refinancings which resulted in a gain of \$5m (including interest). In the fourth quarter there were no exits. However, we anticipate additional exits in 2012 as we harvest existing positions.

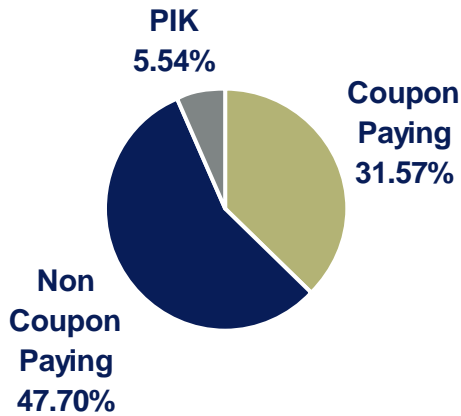
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INVESTMENT MANAGER'S REPORT (CONTINUED)

COMPANY PERFORMANCE²



COUPON PAYMENTS (excluding cash)



Data as at 31 December 2011. Past performance is not indicative of future returns.

1. Source: BNP Paribas.

2. Source: Neuberger Berman Fixed Income LLC.

FORWARD-LOOKING STATEMENTS

This report includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They include statements regarding the intentions, beliefs or current expectations of the Company concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, prospects, and dividend policy of the Company and the markets in which it, and its portfolio of investments, invest and/or operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition of the Company, and the development of its financing strategies, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to:

- changes in economic conditions generally and the Company's ability to achieve its investment objective and returns on equity for investors;
- foreign exchange mismatches with respect to exposed assets;
- changes in interest rates and/or credit spreads, as well as the success of the Company's investment strategy in relation to such changes and the management of the uninvested cash reserve;
- impairments in the value of the Company's investments;
- the availability and cost of capital for future investments;
- the departure of key personnel employed by the Investment Manager and Sub-Investment Manager;
- the failure of the Investment Manager to perform its obligations under the Investment Management Agreement with the Company or the termination of the Investment Manager's appointment;
- the failure of the Sub-Investment Manager to perform its obligations under the Sub-Investment Management Agreement with the Investment Manager or the termination of the Sub-Investment Manager's appointment;
- changes in laws or regulations, including tax laws, or new interpretations or applications of laws and regulations, that are applicable to the Company or Portfolio Companies; and
- general economic trends and other external factors, including those resulting from war, incidents of terrorism or responses to such events.

Forward-looking statements speak only as at the date of this document. Although the Company and the Investment Manager undertake no obligation to revise or update any forward looking statements contained herein (save where required by the Prospectus Rules or Disclosure and Transparency Rules or rules of the CISX), whether as a result of new information, future events, conditions or circumstances, any change in the Company's or the Investment Manager's expectations with regard thereto or otherwise.

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RISK FACTORS

The following has been extracted from the Prospectus of the Company dated September 2010:

The Company's returns and operating cash flows depend on many factors, including the price and performance of its investments, the availability and liquidity of investment opportunities falling within the Company's investment objective and policy, the level and volatility of interest rates, readily accessible short-term and borrowings, conditions in the financial markets, real estate market and economy, the financial performance of Portfolio Companies, the timing of restructurings and exits and the Company's ability to successfully operate its business and execute its investment strategy. There can be no assurance that the Company's investment strategy is to be successful.

The Company's target return of 20 percent per annum gross of management fees and other operating expenses is based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the Target Return

The Company's Target Return is a target only and is based on estimates and assumptions about a variety of factors including, without limitation, asset mix, value, volatility, holding periods, performance of underlying Portfolio Companies, investment liquidity, changes in current market conditions, interest rates, government regulations or other policies, the worldwide economic environment, changes in law and taxation, natural disasters, terrorism, social unrest and civil disturbances or the occurrence of risks described in the prospectus for the Company, which are inherently subject to significant business, economic and market uncertainties and contingencies, all of which are beyond the Company's control and which may adversely affect the Company's ability to achieve its Target Return. Such Target Return is also based on the assumption that the Company will be able to implement its investment policy and strategy successfully as well as market conditions and the economic environment at the time of assessing the proposed target return, and is therefore subject to change. There is no guarantee or assurance that the Target Return or actual returns can be achieved at or near the levels set forth in the prospectus for the Company. Accordingly, the actual rate of return achieved may be materially lower than the Target Return, or may result in a loss, which could have a material adverse effect on the Company's profitability, NAV and the price of the Ordinary Shares.

Potential investors should not place any reliance on the Target Return set forth in the prospectus for the Company and should make their own determination as to whether the Target Return is reasonable or achievable in deciding whether to invest in the Company. The Company does not intend to regularly publish target returns or to update or otherwise revise its Target Return to reflect subsequent events or circumstances. A failure to achieve the Target Return set forth in the prospectus for the Company may adversely affect the Company's business, financial condition and results of operations.

Holders of Ordinary Shares have limited voting rights

The Ordinary Shares do not carry voting rights in relation to the election of the Company's board of directors and generally have no voting rights, except: (i) that certain fundamental changes to the Company and the terms of the Ordinary Shares and certain other matters (such as the voluntary liquidation or winding-up of the Company; any change in the rights conferred upon any shares in the Company, or any amendment to the Articles adverse to the Ordinary Shareholders; merger, consolidation or the sale of substantially all of the assets of the Company; the change in domicile of the Company and the termination by the Company of the Investment Management Agreement) require the consent of the Ordinary Shareholders by ordinary resolution (such that the Ordinary Shareholders may veto, but cannot force the Company to take, any such actions); and (ii) as may be required by Guernsey law. Further, Ordinary Shareholders cannot direct the Directors to redeem or repurchase any shares or return capital or liquidate the Company. The limited voting rights of the holders of the Ordinary Shares limit their ability to have an impact on Board decisions or Company policy and may adversely affect the value of such shares.

RISK FACTORS (CONTINUED)

The Company may be unable to realise value from its investments and investors could lose all or part of their investment

Investments made by the Company may not appreciate in value and, in fact, may decline in value. A substantial component of the Investment Managers' analysis of the desirability of making a given investment relates to the estimated residual or recovery value of such investments in the event of the insolvency of the issuer or the borrower. This residual or recovery value is driven primarily by the value of the underlying assets constituting the collateral for such investment. The value of collateral can, however, be extremely difficult to predict and in certain market circumstances there could be little, if any, market for such assets. Moreover, depending upon the status of these assets at the time of an issuer's default, they may be substantially worthless. The types of collateral owned by the issuers in which the Company invests varies widely, but are expected primarily to be hard assets such as aircraft, office buildings, power stations and commercial property. During times of recession and economic contraction, there may be little or no ability to realise value on any of these assets, or the value which can be realised may be substantially below the assessed value of the collateral. Furthermore, due to the illiquid nature of many of the investments the Company has made and expects to make, the Investment Managers are unable to predict with confidence, what, if any, exit strategy for a given investment will ultimately be available to the Company and the Company may be unable to realise value from these investments. Accordingly, there can be no assurance that the Company's investments will generate gains or income or that any gains or income that may be generated will be sufficient to offset any losses that may be sustained. As a result, investing in the Company is speculative and involves a high degree of risk. The Company's performance may be volatile and investors could lose all or part of their investment. Past performance is no indication of future results and there can be no assurance that the Company will achieve results comparable to any past performance achieved by the Investment Managers or any employee of the Investment Managers described in the prospectus for the Company.

Gains from the Company's investments may require significant time to materialise or may not materialise at all

There is likely to be a significant period between the date that the Company makes an investment and the date that any gain or loss on such investment is realised. Based on the Investment Managers' experience with investments generally comparable to those expected to be made by the Company, it is likely that no significant return, if any, from the disposition of any of the Company's investments will be realised until year four after the IPO. Return on the Company's investments, therefore, is not likely to be realised for a substantial time period, if at all.

Global capital markets have been experiencing volatility, disruption and instability. Material changes affecting global debt and equity capital markets may have a negative effect on the Company's business, financial condition and results of operations

Global capital markets have been experiencing extreme volatility and disruption for more than two years as evidenced by a lack of liquidity in the equity and debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the credit market and the failure of major financial institutions. Despite actions of government authorities, these events have contributed to worsening general economic conditions that have materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital. Continued or recurring market deterioration may materially adversely affect the ability of a Portfolio Company to refinance its outstanding debt. Further, such financial market disruptions may have a negative effect on the valuations of the Company's investments, or the ability to restructure investments, and on the potential for liquidity events involving its investments. In the future, non-performing assets in the Company Portfolio may cause the value of its investment portfolio to decrease if the Company is required to write down the values of its investments. Adverse economic conditions may also decrease the value of collateral securing some of its loans. In the event of sustained market improvement, the Company may have access to only a limited number of potential investment opportunities, which also would result in limited returns to Shareholders. Depending on market conditions, the Company may incur substantial realised losses and may suffer additional unrealised losses in future periods, which may adversely affect its business, financial condition and results of operations.

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RISK FACTORS (CONTINUED)

With respect to investments that do not have a readily ascertainable market quotation in an active market, the Sub-Investment Manager will value such investments at fair value and such valuations will be inherently uncertain

With respect to investments comprised in the Company Portfolio that do not have a readily available market quotation, such as unquoted investments or investments which are listed but deemed to be illiquid, the Sub-Investment Manager values such investments at fair value on each NAV Calculation Date in accordance with the customary valuation methods, policies and procedures of the Sub-Investment Manager. Because of the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily ascertainable market quotation in an active market, the fair value of the Company's investments as determined in good faith by the Sub-Investment Manager may differ significantly from the values that would have been used had a ready market existed for such investments. The reliability of the NAV calculations published by the Company will be impacted accordingly.

The Ordinary Shares may trade at a discount to NAV and Shareholders may be unable to realise their investments through the secondary market at NAV

The Ordinary Shares may trade at a discount to NAV per Ordinary Share for a variety of reasons, including due to market conditions or to the extent investors undervalue the management activities of the Investment Managers or discount their valuation methodology and judgments. While the Directors may seek to mitigate any discount to NAV through discount management mechanisms they consider appropriate, there can be no guarantee that they will do so or that such mechanisms will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount.

The due diligence process that the Investment Managers undertake in evaluating specific investment ideas for the Company may not reveal all facts that may be relevant in connection with an investment and any corporate mismanagement, fraud or accounting irregularities may materially affect the integrity of the Investment Managers' due diligence on investment opportunities

When conducting due diligence and making an assessment regarding an investment, the Investment Managers are required to rely on resources available to them, including internal sources of information as well as information provided by existing and potential Portfolio Companies any equity sponsor(s), lenders and other independent sources. The due diligence process may at times be required to rely on limited or incomplete information particularly with respect to newly established companies for which only limited information may be available. In addition, the Investment Managers continue to select investments for the Company in part on the basis of information and data relating to potential investments filed with various government regulators and publicly available or made directly available to the Investment Managers by such issuers or third parties. Although the Investment managers evaluate all such information and data and seek independent corroboration when they consider it appropriate and reasonably available, the Investment Managers are not in a position to confirm the completeness, genuineness or accuracy of such information and data. The Investment Managers are dependent upon the integrity of the management of the entities filing such information and of such third parties as well as the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Company may incur as a result of corporate mismanagement, fraud and accounting irregularities. In addition, investment analyses and decisions by the Investment Managers may be undertaken on an expedited basis in order to make it possible for the Company to take advantage of short-lived investment opportunities. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Furthermore, the Investment Managers are unlikely to have sufficient time to evaluate fully such information even if it is available. Accordingly, due to a number of factors, the Company cannot guarantee that the due diligence investigation it carries out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity.

Any failure by the Company to identify relevant facts through the due diligence process may cause it to make inappropriate investment decisions, which may have a material adverse effect on the Company's business, financial condition, results of operations or the value of the New Ordinary Shares. Due diligence may also be costly, which will decrease the Company's overall profit from an investment.

DIRECTORS

Robin Monro-Davies (Chairman)

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

Talmay Morgan

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

John Hallam

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

Christopher Sherwell

Christopher Sherwell is a non-executive director of a number of investment-related companies. Mr. Sherwell was managing director of Schroders (C.I.) Limited from April 2000 to January 2004. He remained a non-executive director of Schroders (C.I.) Limited until he stepped down at the end of December 2008. His other directorships include chairmanship of Goldman Sachs Dynamic Opportunities Limited, a fund of hedge funds. Before joining Schroders in 1993, he worked as Far East regional strategist with Smith New Court Securities in London and then in Hong Kong. Mr. Sherwell was previously a journalist, working for the Financial Times. Mr. Sherwell received a B.Sc. (Gen) from the University of London in 1968, an M.A. from the University of Oxford in 1971 and a M.Phil. from the University of Oxford in 1973. Mr Sherwell is a director of NB Private Equity Partners Limited alongside Mr Hallam and Mr Morgan.

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DIRECTORS (CONTINUED)

Michael J. Holmberg

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

Patrick H. Flynn

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

DIRECTORS' REPORT AND RESPONSIBILITIES

The Directors present their annual report and the consolidated financial statements (the "financial statements") of the Company for the year ended 31 December 2011 and the period ended 31 December 2010.

Business Review

The following review is designed to provide information primarily about the Company's business, the principal risks and uncertainties it faces and results for the year. The review should be read in conjunction with the Chairman's Statement on page 2 and with the Investment Manager's Report on pages 3 to 4 which give a detailed review of the investment activities for the year and an outlook on the future.

Principal Activities and Structure

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

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

The Company is a member of the Association of Investment Companies ("AIC").

Investment Objective and Policy

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

Gearing

The Company will not leverage its market exposure. The Company may, from time to time, use borrowings for share buy backs and short-term liquidity purposes. The Directors will restrict borrowing to an amount not exceeding 20 per cent. of the NAV at the time of drawdown. Derivatives may be used for hedging purposes.

Payment of suppliers

It is the payment policy of the Company to obtain the best possible terms for all business for each relevant market in which it operates and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were unsettled trade creditors of \$43,095,401 at 31 December 2011 (2010: \$69,616,129).

Results and Dividends

The results for the year ended 31 December 2011 and the period ended 31 December 2010 are set out on page 30.

The Company would distribute any material cash income received on investments after deduction of reasonable expenses of the Company. The exact amount of any such dividend would be variable depending on the amounts of income received by the Company. There was no distribution made relating to the year ended 31 December 2011 due to a low cash income being available.

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DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Results and Dividends (continued)

As at 31 December 2011, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital (2010: \$NIL).

At 31 December 2011 the net assets of the Ordinary shares amounted to \$429,702,382 (2010: \$429,340,437). The total return for the year was (0.84)% (period 20 April 2010 to 31 December 2010: (0.47)%).

The UK Bribery Act 2010

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

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

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

Future Developments

While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 2) and the Investment Managers' Report (on pages 3 to 4).

Going Concern

The Company's principal activities are set out on page 1. The financial position of the Company is set out on page 25. In addition, Note 8 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk and liquidity risk.

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

Performance Measurement and Key Performance Indicators

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

- Returns and NAV - The Board reviews and compares at each meeting the performance of the portfolio as well as the NAV, income and share price of the Company;
- Discount/premium to NAV - at each Board meeting, the Board monitors the level of the Company's discount or premium to NAV;
- Formal reports from both the investment managers and brokers which assess the performance of the Asset Class and look at trading activity. The Investment Manager will also provide in depth analysis on the holdings within the portfolio; and
- The board will assess the results of AGM's, in addition to this the brokers and Investment Manager will provide the board with feed back that has been received from Investors around the performance of the Company and Investment Manager.

DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Investment Management Agreement

The Board is responsible for setting the Company's investment policy and has overall responsibility for the Company's day-to-day activities. The Company has entered into an Investment Management Agreement with Neuberger Berman Europe Limited (the "Investment Manager"), who have in turn delegated certain of its responsibilities and functions to Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager"), (together the "Investment Managers"). Under the Investment Management Agreement, the Investment Managers are responsible for the discretionary management of, and will conduct day-to-day management of, the assets held in the Company Portfolio (including un-invested cash). The Investment Managers are not required to and generally will not submit individual decisions for approval by the Board. See Note 4 for details of fee entitlement.

Administration and Custody Agreement

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

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

Related party transactions

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

Principal risks and uncertainties

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

The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

Investment activity and performance

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

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DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Principal risks and uncertainties (continued)

Level of discount or premium

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

Market Price Risk

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

Accounting, legal and regulatory

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

Operational

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

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

Corporate Governance Statement

Applicable corporate governance codes

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

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

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

DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

a) Statement of compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code of Corporate Governance, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of NB Distressed Debt Investment Fund Limited, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

b) Directors and their interests

Board independence and composition

The Board, chaired by Robin Monro-Davies who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role, currently consists of four non-executive Directors and two executive Directors. The biographical details of the Directors holding office at the date of this report are listed on pages 9 and 10, and demonstrate a breadth of investment, accounting and professional experience. A senior independent director has not been identified as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

The Chairman, John Hallam, Talmai Morgan and Christopher Sherwell are considered independent from the Manager. Patrick Flynn and Michael Holmberg are deemed not independent as they are employed by a Neuberger Berman group company. The Directors consider that there are no factors which compromise the Directors' independence and that they all satisfactorily contribute to the affairs of the Company. The Directors will review their independence annually.

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

Directors' appointment

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

In accordance with the AIC Code and the Company's Articles of Incorporation all Directors offered themselves for re-election at the first Annual General Meeting of the Company on 6 July 2011, being the first Annual General Meeting following their appointment. The names and biographies of the Directors holding office at the date of this report are listed on pages 9 and 10. All of the independent

Directors will be subject to re-election at intervals of no more than three years. Patrick Flynn and Michael Holmberg will be subject to re-election annually at the Annual General Meeting.

A report on Directors' Remuneration is on page 23.

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DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

b) Directors and their interests (continued)

Conflicts of Interest

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and the Board may impose restrictions or refuse to authorise conflicts if deemed appropriate.

None of the Directors has had a material interest in any contract which is significant to the Company's business or had an interest in the Company's share capital in the year 1 January 2011 to 31 December 2011. There have been no changes in the interests of the Directors since the year end.

Induction and Training

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

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

Directors' Indemnity

To the extent permitted by The Companies (Guernsey) Law, 2008 (as amended), the Company's Articles of Incorporation provide an indemnity for the Directors against any liability except such (if any) as they shall incur or sustain by or through their own breach of trust, breach of duty or negligence.

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

Directors' Interests

The interest of the Directors in the shares of the Company as the date of this report is as follows:

Director	Shares	Number of Shares
Mr Robin Monro-Davies	Ordinary Shares	300,000
Mr Patrick Flynn	Ordinary Shares	123,000
Mr John Hallam	Ordinary Shares	75,000
Mr Michael Holmberg	Ordinary Shares	123,000
Mr Talmay Morgan	Ordinary Shares	NIL
Mr Christopher Sherwell	Ordinary Shares	45,000

DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

c) The Board

Responsibilities

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

Tenure

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

Performance Evaluation

The Board has adopted a formal annual evaluation of its own performance and that of its Committees and individual Directors. The last evaluation took place in December 2011. The evaluation takes place in two stages, first, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees.

Evaluation is conducted utilising an in-depth questionnaire. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director, each Directors independence and the responsibilities, composition and agenda of the Committees and of the Board itself.

Following the annual board evaluation in December 2011, it was concluded that all Directors with the exception of Michael J. Holmberg and Patrick H. Flynn were independent and that the Chairman and all Directors were satisfactorily contributing to the efficient running of the Company, and that the Board had a good range of skills and competency.

Board Committees

The Board has established an Audit Committee with defined terms of reference and duties. The Board feel that due to the size and structure of the Company that establishing a Management Engagement Committee and a Remuneration and Nomination Committee was unnecessary. The terms of reference for the Audit Committee can be found on the Company's website www.nbddif.com.

Audit Committee

The Company's Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and remuneration of the auditors and to review the Company's annual accounts and interim reports. Where non-audit services are to be provided by the auditor, full consideration of the financial and other implications on the independence of the auditors arising from any such engagement will be considered before proceeding. The Audit Committee comprises of John Hallam, Christopher Sherwell and Talmay Morgan. John Hallam acts as Chairman of the Audit Committee.

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DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

Audit Committee (continued)

The other duties of the Audit Committee are to consider the appointment of external auditors, to discuss and agree with the external auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditors, to review the external auditors' letter of engagement and management letter and to analyse the key procedures adopted by the Company's service providers.

The Audit Committee has satisfied itself that KPMG Channel Islands Limited, the Company's auditor is independent.

Meeting attendance

The number of formal meetings during the year of the Board and Audit Committee and the attendance of individual Directors at those meetings, is shown in the following table:

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

* not a member of the Audit Committee

In addition, five ad-hoc Board meetings were held during the year and attended by those Directors available.

d) Internal Control and Financial Reporting

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

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

- Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including Company periodic financial reports, report of the Investment Manager, report of the Administrator and Company Secretary;
- Investment Management Agreement – Appointment of an investment manager regulated by the UK Financial Services Authority whose responsibilities are clearly defined in a written agreement;
- Administration and Custody Agreement - Appointment of an administrator and custodian regulated by the Guernsey Financial Services Commission (GFSC), whose responsibilities are clearly defined in a written agreement;

DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

d) Internal Control and Financial Reporting (continued)

- Management Systems – The Investment Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Investment Manager's compliance department which regularly monitors compliance with fund rules;
- Administrator's system of internal control includes internal procedures, checklists and controls that are subject to a compliance monitoring programme conducted by the Compliance Manager. Quarterly checks are carried out by BNP Paribas Risk and Permanent Controls team to ensure that work is carried out in accordance with documented policies and procedures. Immediate action is taken to resolve any issues raised as a result of both compliance monitoring and permanent control checks. The Administrator is subject to periodic inspection by Inspection Generale, BNP Paribas head office internal audit team, when a comprehensive review is carried out on the business to include detailed sampled audit checks on all aspects of the operations. The Administrator is required to explain all findings and implement recommendations by set deadlines; and
- Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

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

- the Board reviews the terms of the Investment Management and Administration Agreements;
- the Board receives regular compliance reports from the Administrator;
- the Board reviews the report on the internal controls and the operations of the Investment Manager and Administrator; and.
- By the means of the procedures set out above, the Board confirms that it will review the effectiveness of the Company's system of internal control on an annual basis.

Relationship with the Investment Manager and the Administrator

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

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

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DIRECTORS' REPORT AND RESPONSIBILITIES (CONTINUED)

Corporate Governance Statement (continued)

Continued appointment of the Investment Manager

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

The Board has considered the performance of the Investment Manager and considering that the Company has been in operation for less than two years, it is the opinion of the Directors that the continued appointment of the current Investment Manager on the terms agreed is in the interest of the Company's shareholders as a whole. The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Notifications of Shareholdings

Due to the Ordinary Shares having limited voting rights, Ordinary Shareholders are not required to make substantial shareholding notifications.

Communications with Shareholders

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

The Annual and Half-Yearly Reports, the Interim Management Statements and a quarterly fact sheet are available to all shareholders. The Board considers the format of the Annual and Interim Reports so as to ensure they are useful to all shareholders and others taking an interest in the Company. In accordance with best practice, the Annual Report is sent to shareholders at least 21 working days before the meeting. Separate resolutions are proposed for substantive issues.

Shareholders may communicate directly with the Board by contacting the Company Secretary.

General Meeting

The Company's forthcoming annual general meeting (the "AGM") will be held on 12 July 2012 and the notice for the meeting is available on the Company's website.

Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit and loss for the period and are in accordance with applicable laws. Under that law they have elected to prepare the financial statements in conformity with U.S. generally accepted accounting principles ("US GAAP"). In preparing these financial statements the Directors are required to:

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

DIRECTORS' RESPONSIBILITY STATEMENT (CONTINUED)

Directors' Responsibilities (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 (as amended), and The Protection of Investors (Bailiwick of Guernsey) Law, 1987. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report and Responsibilities confirm in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008 (as amended), that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and that 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 Auditors are aware of that information.

Auditors

Our auditors, KPMG Channel Islands Limited, have indicated their willingness to remain in office. The Directors will propose a Resolution at the Annual General Meeting to recommend the re-appointment of KPMG Channel Islands Limited as independent auditors for the ensuing year, and to authorise the Directors to determine their remuneration.

Responsibility Statement

The Directors confirm to the best of their knowledge that:

- The financial statements which have been prepared in conformity with US GAAP and gives a true and fair view of the assets, liabilities, financial position and profit of the Company, and the undertakings included in the consolidation taken as a whole as required by DTR 4.1.12R;
- The Annual Report includes a fair review of the information required by DTR 4.1.12R, which provides an indication of important events and a description of principal risks and uncertainties during the year.

By order of the Board

Talmi Morgan
20 April 2012

Christopher Sherwell
20 April 2012

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DIRECTORSHIP DISCLOSURES IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGE.

Company Name	Exchange(s)
Mr Robin Monro-Davies	
Assured Guaranty Limited	New York
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
The Ukraine Opportunities Trust PLC	London
Mr Talmay Morgan	
BH Global Limited	London, Bermuda and Dubai
BH Macro Limited	London, Bermuda and Dubai
Goldman Sachs Dynamic Opportunities Limited	London
John Laing Infrastructure Fund Limited	London
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam and SFM, London
Real Estate Credit Investments PCC Limited	London and SFM, London
Sherbourne Investors (Guernsey) A Limited	AIM
Signet Global Fixed Income Strategies Limited	Ireland
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
Cazenove Absolute Equity Limited	London
Dexion Absolute Limited	London
HICL Infrastructure Co Limited	London
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam and SFM, London
Partners Group Global Opportunities Limited	Ireland
Vision Opportunity China Fund Limited	AIM
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
Consulta Alternative Strategy Fund PCC Limited	CISX
Consulta Collateral Fund PCC Limited	CISX
Dexion Equity Alternative Limited	London
Goldman Sachs Dynamic Opportunities Limited	London
Hermes Alternative Investment Funds PLC	Ireland
IRP Property Investments Limited	London and CISX
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam and SFM, London
Raven Russia Limited	London
Rufford & Ralston PCC Limited	CISX
Saltus European Debt Strategies Limited	London
Schroder Oriental Income Fund Limited	London
The Prospect Japan Fund Limited	London
Mr Michael J. Holmberg	
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
Mr Patrick H. Flynn	
NB Distressed Debt Investment Fund Limited	CISX and SFM, London

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

DIRECTORS' REMUNERATION REPORT

The determination of the Directors' fees is a matter dealt with by the Board. The Board has not sought the advice or services by any outside person in respect of its consideration of the Directors' remuneration, although the Directors will review the fees paid to the Boards of Directors of similar investment companies.

The Board consists of non-executive and executive Directors who meet regularly to deal with the important aspects of the Company's affairs. Non-executive Directors are appointed with the expectation that they will stand for re-election every three years. Executive Directors will offer themselves for re-election annually. Directors' appointments will be reviewed during the annual board evaluation. Each of the Directors has a letter of appointment and a Director may resign by giving notice in writing to the Board at any time; there are no set notice periods. The terms of appointment are available for inspection at the Company's Registered Office during normal business hours and at the Annual General Meeting.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. No Director has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors. No element of the Directors' remuneration is performance related. As employees of the Sub-Investment Manager, Patrick H. Flynn and Michael J. Holmberg have agreed to waive their Directors' fees.

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

In the year under review the Directors' fees were paid at the following annual rates: the Chairman \$60,000; the Chairman of the Audit Committee \$50,000; the other Directors \$45,000.

Remuneration

The following fees were paid by the Company to the Directors for the year from 1 January 2011 to 31 December 2011.

	\$
Robin Monro-Davies (Chairman)	60,000
John Hallam (Audit Committee Chairman)	50,000
Patrick H. Flynn	-
Michael J. Holmberg	-
Talmai Morgan	45,000
Christopher Sherwell	45,000
Total	200,000

No other remuneration or compensation was paid or payable by the Company during the year to any of the Directors, other than travel expenses of \$9,836.

For and on behalf of the Board

Talmai Morgan
20 April 2012

ANNUAL REPORT

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

To the members of NB Distressed Debt Investment Fund Limited:

We have audited the accompanying consolidated statements of assets and liabilities of NB Distressed Debt Investment Fund Limited, including the condensed consolidated schedules of investments, as of 31 December 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended 31 December 2011 and the period 20 April 2010 (date of incorporation) to 31 December 2010. These consolidated financial statements are the responsibility of the Company's directors. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view, in all material respects, the financial position of NB Distressed Debt Investment Fund Limited as of 31 December 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the year ended 31 December 2011 and period 20 April 2010 (date of incorporation) to 31 December 2010, in conformity with U.S. generally accepted accounting principles.

In our opinion the financial statements are in compliance with the Companies (Guernsey) Law, 2008 (as amended). This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 (as amended). 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.

Robert A Hutchinson
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Guernsey
20 April 2012



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Shareholders and Board of Directors
NB Distressed Debt Investment Fund Limited:

We have audited the accompanying consolidated statements of assets and liabilities of NB Distressed Debt Investment Fund Limited (the Company), including the condensed consolidated schedules of investments, as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2011 and the period April 20, 2010 (date of incorporation) to December 31, 2010. These consolidated financial statements are the responsibility of the Company. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NB Distressed Debt Investment Fund Limited as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets, and its cash flows for the year ended December 31, 2011 and the period April 20, 2010 to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 20, 2012

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

As at 31 December 2011 and 2010

(Expressed in United States dollars)

	2011	2010
Assets		
Investments, at fair value	\$ 420,330,876	\$ 470,739,677
(2011: cost of \$440,234,699. 2010: cost of \$472,557,325)		
Cash and cash equivalents	51,264,893	21,808,522
	\$ 471,595,769	\$ 492,548,199
Other assets:		
Interest receivables	1,521,807	572,543
Receivables for investments sold	668,145	6,614,558
Other receivables and prepayments	32,208	75,640
Total assets	\$ 473,817,929	\$ 499,810,940
Liabilities		
Payables for investments purchased	\$ 43,095,401	\$ 69,616,129
Payables to Investment Manager and affiliates	537,300	536,691
Accrued expenses and other liabilities	482,846	317,683
Total liabilities	\$ 44,115,547	\$ 70,470,503
Class A shares	\$ 2	\$ 2
(2 shares issued)		
Ordinary shares	436,657,543	432,556,527
(2011: 444,270,312 shares issued, 2010: 440,169,296)		
Accumulated Deficit	(6,955,163)	(3,216,092)
Total net assets	\$ 429,702,382	\$ 429,340,437
Total liabilities and net assets	\$ 473,817,929	\$ 499,810,940
Net asset value per ordinary share	\$ 0.9672	\$ 0.9754

The financial statements on pages 25 to 46 were approved and authorised for issue by the Board of Directors on 20 April 2012, and signed on its behalf by:

Talmi Morgan
Director

Christopher Sherwell
Director

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CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS As at 31 December 2011 and 2010

(Expressed in United States dollars)

31 December 2011	Cost	Fair Value	% (1)
Distressed Portfolio			
Bank Debt Investments	\$ 212,793,315	194,361,201	45.23
Private Equity	46,883,966	46,200,674	10.75
Limited Partnership Units	33,328,436	42,270,650	9.84
Fixed Rate Bonds	41,571,577	36,177,458	8.42
Public Equity	22,733,013	19,964,845	4.65
Trade Claim (2)	11,984,428	10,441,238	2.43
Ownership in Senior Living Facility	8,926,540	8,900,000	2.07
Floating rate corporate loan notes	3,009,026	3,039,231	0.71
Credit Default Swaps	922,299	1,310,795	0.31
Asset Backed Securities	1,570,288	1,112,528	0.26
Bankruptcy Claim	265,351	265,351	0.06
	383,988,239	364,043,971	84.73
Temporary Investments			
U.S. Government and agency obligations	32,196,500	32,211,308	7.50
Floating rate corporate loan notes	24,049,960	24,075,597	5.60
	56,246,460	56,286,905	13.10
	\$ 440,234,699	420,330,876	97.83

31 December 2010	Cost	Fair Value	% (1)
Distressed Portfolio			
Bank Debt Investments	\$ 110,409,382	109,071,085	25.40
Limited Partnership Units	16,019,498	16,019,498	3.73
Fixed Rate Bonds	4,101,175	3,736,250	0.87
Asset Backed Securities	2,487,203	2,447,432	0.57
	133,017,258	131,274,265	30.57
Temporary Investments			
Floating rate corporate loan notes	161,521,958	161,468,180	37.61
Fixed rate corporate loan notes	8,871,386	8,870,572	2.07
U.S. Government and agency obligations	169,146,723	169,126,660	39.39
	339,540,067	339,465,412	79.07
	\$ 472,557,325	470,739,677	109.64

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

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

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 31 December 2011 and 2010

(Expressed in United States dollars)

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

31 December 2010	Country	Industry	Nominal	Cost	Fair Value	%
Floating rate corporate loan notes						
Bank of America Corporation FRN (maturity dates ranging from 02/12/2011 through to 30/04/2012)	United States	Financial Services	34,500,000	34,742,095	34,743,899	8.09
JP Morgan Chase & Co FRN (maturity dates ranging from 23/02/2011 through to 26/12/2012)	United States	Financial Services	32,150,000	32,322,648	32,296,684	7.52
Goldman Sachs FRN 05/12/2011 Morgan Stanley FRN (maturity dates ranging from 22/09/2011 through to 13/03/2012)	United States	Financial Services	28,000,000	28,221,827	28,217,924	6.57
			22,000,000	22,075,975	22,067,927	5.14
			116,650,000	117,362,545	117,326,434	27.32
U.S. Government and agency obligations						
U.S. Treasury Bill (maturity dates ranging from 03/03/2011 through to 21/04/2011)	United States	Government and agency	57,000,000	56,972,516	56,978,350	13.27
Federal Farm Credit Bank FRN (maturity dates ranging from 25/01/2012 through to 13/08/2012)	United States	Government and agency	35,000,000	34,986,823	34,973,570	8.15
Federal National Mortgage Association FRN (maturity dates ranging from 24/01/2011 through to 17/09/2012)	United States	Government and agency	27,200,000	27,198,544	27,190,780	6.33
Federal Home Loan Mortgage Corporation FRN (maturity dates ranging from 11/01/2012 through to 29/12/2011)	United States	Government and agency	25,000,000	24,995,379	24,994,910	5.82
Federal Home Loan Bank FRN 08/01/2011	United States	Government and agency	25,000,000	24,993,461	24,989,050	5.82
			169,200,000	169,146,723	169,126,660	39.39

There were no issuers comprising greater than 5% of Net Asset Value as at 31 December 2011.

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CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 31 December 2011 and 2010

(Expressed in United States dollars)

	Cost 31 December 2011	Fair Value 31 December 2011	Cost 31 December 2010	Fair Value 31 December 2010
Geographic diversity of Portfolio				
Distressed Portfolio				
Australia	\$ 29,924,411	28,233,594	9,670,105	9,982,350
Belgium	4,684,942	4,197,023	-	-
Brazil	12,906,727	11,752,033	-	-
Cayman Islands	3,454,873	4,784,001	2,832,198	2,832,198
Germany	37,829,849	43,840,689	16,274,854	16,134,254
Great Britain	8,278,614	8,177,118	7,989,938	8,184,156
India	414,425	626,315	143,824	143,824
Ireland	387,786	495,923	110,466	110,466
Japan	841,489	457,670	443,917	443,917
United States (U.S.A.)	285,265,123	261,479,605	95,551,956	93,443,100
Temporary Investments				
United States (U.S.A.)	56,246,460	56,286,905	339,540,067	339,465,412
	\$ 440,234,699	420,330,876	472,557,325	470,739,677

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**As at 31 December 2011 and 2010**

(Expressed in United States dollars)

	Cost 31 December 2011	Fair Value 31 December 2011	Cost 31 December 2010	Fair Value 31 December 2010
Industry diversity of Portfolio				
Distressed Portfolio				
Air Transport	\$ 1,570,288	1,112,528	2,487,203	2,447,433
Broadcasting	30,962,835	26,744,467	-	-
Building and Development	18,423,129	16,190,077	6,158,470	5,866,886
Commercial Mortgage	41,213,412	40,962,806	33,413,571	32,211,070
Containers and Glass products	11,537,822	10,920,000	4,362,500	4,221,900
Financial Intermediary	56,161,527	66,047,415	20,081,998	19,719,498
Food Products	5,043,920	2,868,169	4,585,344	2,820,810
Healthcare	12,961,297	12,962,050	8,738,675	8,736,250
Lodging and Casinos	36,132,277	34,194,972	7,907,445	7,884,100
Real Estate Trust	12,247,340	12,223,387	9,670,105	9,982,350
Surface Transport	41,454,034	30,518,797	16,225,166	17,792,802
Telecommunications	10,444,113	10,084,491	11,367,894	11,659,156
Utilities	105,836,245	99,214,812	8,018,887	7,932,010
Temporary Investments				
Financial Intermediary	41,249,390	41,287,922	170,393,344	170,338,752
US Government and Agency	14,997,070	14,998,983	169,146,723	169,126,660
	\$ 440,234,699	420,330,876	472,557,325	470,739,677

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

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CONSOLIDATED STATEMENT OF OPERATIONS

(Expressed in United States dollars)

	31 December 2011	20 April 2010 to 31 December 2010
Interest income	\$ 12,936,927	\$ 2,760,523
Expenses		
Investment management and services	\$ 6,621,447	\$ 2,305,838
Professional and other expenses	\$ 2,026,793	\$ 562,562
Administration fees	\$ 483,257	\$ 194,380
Loan administration and custody fees	\$ 398,392	\$ 160,481
Directors' fees and travel expenses	\$ 209,836	\$ 149,118
	\$ 9,739,725	\$ 3,372,379
Net investment income / (loss)	\$ 3,197,202	\$ (611,856)
Realised and unrealised gains and losses		
Net realised gain/(loss) on investments	\$ 11,149,900	\$ (786,587)
Net change in unrealised gain/(loss) on investments	(18,086,173)	(1,817,649)
Net realised and unrealised losses	\$ (6,936,273)	\$ (2,604,236)
Net decrease in net assets resulting from operations	\$ (3,739,071)	\$ (3,216,092)
Loss per ordinary share	\$ (0.0085)	\$ (0.0114)

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the year ended 31 December 2011 and period ended 31 December 2010

(Expressed in United States dollars)

	31 December 2011		20 April 2010 to 31 December 2010	
Net assets at beginning of year / period	\$	429,340,437	\$	-
Proceeds from issuance of ordinary shares		4,101,016		432,556,529
Net decrease in net assets resulting from operations	\$	(3,739,071)	\$	(3,216,092)
Net assets at end of year / period	\$	429,702,382	\$	429,340,437

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011 and period ended 31 December 2010

(Expressed in United States dollars)

	31 December 2011	20 April 2010 to 31 December 2010
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	\$ (3,739,071)	(3,216,092)
Adjustment to reconcile net increase/ (decrease) in net assets resulting from operations:		
Net realised (gain) / loss on investments	(11,149,900)	512,887
Net change in unrealised loss on investments	18,086,173	1,817,649
Accretion of discount on loans and bonds	(1,708,911)	(1,063,086)
Changes in receivables for investments sold	5,946,413	(6,614,558)
Changes in interest receivables	(949,264)	(572,543)
Changes in other receivables and prepayments	43,432	(75,640)
Changes in payables for investments purchased	(26,520,728)	69,616,129
Changes in payables, accrued expenses and other liabilities	165,772	854,374
Credit default swap payments	(922,299)	-
Purchase of investments	(391,743,142)	(738,671,714)
Sale of investments	437,846,880	266,664,587
Net cash provided by/(used in) operating activities	\$ 25,355,355	\$ (410,748,007)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	\$ 4,101,016	\$ 432,556,529
Net cash provided by financing activities	\$ 4,101,016	\$ 432,556,529
Net increase in cash and cash equivalents	\$ 29,456,371	\$ 21,808,522
Cash and cash equivalents at beginning of year / period	21,808,522	-
Cash and cash equivalents at end of year / period	\$ 51,264,893	\$ 21,808,522

Supplemental non-cash flow operating activities

Purchases of, and proceeds from sales of, investments exclude \$62,084,233, related to the value of non-cash investment transactions, including reorganizations and exchanges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The accompanying consolidated financial statements have been presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("US GAAP"). The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008 (as amended). The functional and reporting currency of the Company is the United States Dollar ("USD").

Principles of Consolidation

The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, Lasalle Dearborn LLC, Lasalle Wabash LLC, London Adams LLC, London Dearborn LLC, London Granite LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Monroe LLC, London O Homes LLC, London Quincy LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, together the Group. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2011, London Granite LLC, London Mayslake LLC, London Monroe LLC, London O Homes LLC and London Quincy LLC had commenced operations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Interest earned on debt instruments is accounted for, gross of applicable withholding taxes and it is recognised as income over the terms of the loans. Discounts received or premiums paid in connection with the acquisition of loans are 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 periodically added to the principal balance of the loan and recorded as interest income. The Manager places a receivable on non accrual status when the collection of principal or interest is deemed doubtful. Dividend income is recognised on the ex-dividend date. Realised gains and losses are determined using the specific identification method.

At 31 December 2011 an adjustment of \$1,078,911 (2010: \$1,029,427) was made to reflect an accretion of discount on loans and bonds during the year.

Cash and cash equivalents

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

At 31 December 2011, the Company held cash balances in various currencies to the value of \$51,264,893 (2010: \$21,808,522). These balances consisted of Sterling: \$51,084 (2010: \$39,816), Euro: \$48,062 (2010: \$NIL), U.S. Dollar: \$50,884,904 (2010: \$21,808,522), and Australian Dollar: \$280,843 (2010: \$NIL).

Valuation of Investments

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

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

The overall criterion for fair value is a price at which a round lot of the securities involved would change hands in a transaction between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having the same knowledge of the relevant facts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Realised Gains and Losses on Investments

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

Operating expenses

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

Issuance cost

In line with the Prospectus, all expenses incurred for the initial and secondary placing were borne by the Company up to a maximum of 2 percent of the Gross Issue Proceeds. Any expenses exceeding this amount were paid by the Investment Manager. These expenses includes placing fees and commissions; registration, listing and admission fees; the cost of settlement and escrow arrangements; printing, advertising and distribution costs; legal fees, and any other applicable expenses incurred in connection with the offering of shares.

All such expenses are charged to capital, reducing the issue proceeds received. On 15 December 2011, 4,101,106 ordinary shares were admitted to trading on the Specialist Fund Market of the London Stock Exchange and the Official List of the Channel Islands Stock Exchange. The issue of equity was a result of the conversion of 4,101,016 subscription shares, with proceeds raised of \$4,101,016 (2010: \$432,556,529). There were no issue costs incurred as a result in 2011 (2010: issue costs incurred of \$8,827,683).

Performance fee

Performance fee amounts due on investments (see note 4) are computed and accrued at each period end date based on period-to-date results in accordance with the terms of the agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency translation

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

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

Payables on investments purchased

At 31 December 2011, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the balance sheet date.

Income taxes

The Company is exempt from Guernsey tax on income derived from non-Guernsey sources. However, certain of its underlying investments may generate income that is subject to tax in other jurisdictions, principally in the United States.

In accordance with US GAAP Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty percent likely of being realised upon ultimate settlement. De-recognition of a tax benefit previously recognised could result in the Company recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

Income derived from investments may be subject to withholding or other taxes imposed by the US or other countries. Such taxes are reflected in the Consolidated Statement of Operations.

As of 31 December 2011, the Company has recorded no liability for net unrecognised tax benefits relating to uncertain tax positions they have taken or expect to take in future tax returns.

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS

On 21 January 2010, the FASB issued the ASU 2010 – 06, "Improving Disclosures about Fair Value Measurement," an amendment to Subtopic 820 – 10 which requires the following disclosures upon the fair value of investments:-

- 1) a reporting entity should disclose the amounts of significant transfers in and/or out of Level 1 and Level 2 fair value measurements and the reason for the transfers;
- 2) the reasons for any transfers in and out of Level 3; and
- 3) Information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS (CONTINUED)

ASU 2010 - 06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements and the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements on a gross basis. We have adopted this guidance in these financial statements.

In May 2011, the FASB issued the ASU 2011 – 04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks and the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy, and requires additional disclosures.

For Level 3 fair value measurements, the ASU requires these additional disclosures:

- Quantitative information about significant unobservable inputs used for all Level 3 measurements;
- A qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs (required only for public entities); and
- A description of the entity’s valuation process.

The amendments in ASU 2011-04 are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after 15 December 2011.

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES

Investment Management Fees

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 percent per month of the Company’s Net Asset Value (“NAV”). For the year ended 31 December 2011, the management fee expense was \$6,621,447 (2010: \$2,305,838).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. The performance fee will only become payable once the Company has made aggregate distributions in cash to Ordinary Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Ordinary Shares (the “Contributed Capital”) plus such amounts as will result in Ordinary Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to Preferred Return, following which there will be a 100 percent catch up to the Investment Manager until the Investment Manager has received 20 percent of all amounts in excess of Contributed Capital distributed to Ordinary Shareholders and paid to the Investment Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Investment Manager’s performance fee and the cash distributed to the Ordinary Shareholders respectively. For the purposes of financial reporting the performance fee is recognised on an accrual basis; no such accrual is required in these financial statements as the IRR, as described above, has not been reached.

Administration and Custody Agreement

The Company has appointed BNP Paribas Fund Services (Guernsey) Limited as Administrator, Secretary, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement. In such capacity, the Administrator is responsible for the day-to-day administration of the Company (including but not limited to the calculation and publications of the estimated daily Net Asset Value), general secretarial functions (including but not limited to the maintenance of the Company’s accounting and statutory records) and certain safekeeping and custody services. The Administrator is entitled to a fee based on 0.11 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Administration and Custody Agreement (continued)

The Secretary is entitled to an annual fee of £36,000 plus fees for ad-hoc board meetings and services. The Custodian is entitled to a fee of 0.02 percent of the Market Value of the portfolio or a minimum annual fee of £20,000 and a fee of 0.08 percent per annum of the net asset value, minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the year ended 31 December 2011, the administration fee expense was \$483,257 (2010: \$194,380) the secretarial fee was \$56,919 (2010: \$38,078) and the custodian and loan administration fee expense was \$398,392 (2010: \$160,481).

Directors' remuneration and other interests

The Directors are related parties and are remunerated for their services at a fee of \$45,000 each per annum (\$60,000 for the Chairman). In addition, the chairman of the Audit Committee receives an additional \$5,000 for his services in this role. Each of Michael J. Holmberg and Patrick H. Flynn, the non-independent Directors, have waived their fees for their services as Directors. For the year ended 31 December 2011, the directors' fees and travel expenses amounted to \$209,836 (2010: \$149,118).

The Director's shareholdings as at 31 December 2011 are disclosed on page 16.

NOTE 5 – DERIVATIVES

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

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If a Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. When a credit event occurs, the recovery value is determined by a facilitated auction, administered by ISDA, whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Either as a seller of protection or a buyer of protection of a credit default swap agreement, a Fund's maximum risk of loss from counterparty risk is the fair value of the agreement.

During the year, the Company entered into a single credit default swap agreement only, in order to provide a measure of protection against defaults of a sovereign issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The following table presents the fair values of derivative instruments:

	31 December 2011		31 December 2010	
	Statement of Assets and Liabilities location	Fair Value US\$	Statement of Assets and Liabilities location	Fair Value US\$
Primary underlying risk:				
Credit				
Credit default swap	Investments	1,310,795	-	-
Total derivatives		1,310,795	-	-

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

Primary underlying risk	Location of gain recognised on Statement of Operations	Amount of gain recognised in income on derivative US\$	
		31 December 2011	31 December 2010
Credit			
Credit default swap	Net change in unrealised gain	388,496	-
Total		388,496	-

NOTE 6 – UNFUNDED LOAN COMMITMENTS

As at 31 December 2011, the Company has no unfunded loan commitments.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value was determined using available market information and appropriate valuation methodologies. Estimates of fair value of financial instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgement. Accordingly, fair values are not necessarily indicative of the amounts realised on disposition of financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

The following estimates and assumptions were used at 31 December 2011 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents – The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.
- Receivables for Investments Sold – The carrying value reasonably approximates fair value as they reflect the value at which investments are sold to a willing buyer and settlement period on their balances is short term.
- Interest receivables – The carrying value reasonably approximates fair value.
- Other receivables and prepayments – The carrying value reasonably approximates fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- The valuation of distressed investments is estimated based on bid levels in the secondary market based on independent pricing services, at 31 December 2011, with the exception of \$42,270,650 (2010: \$24,719,498) Level 3 investments valued using good faith valuation and \$107,323,178 (2010: \$32,211,070) priced from single broker source. As at 31 December 2011, the fair value of the distressed investments was \$364,043,971 (2010: \$131,274,265). Temporary investments were valued at their bid prices derived from independent pricing services at the relevant reporting date.
- Payables for Investments Purchased – The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.
- Payables to Investment Manager and affiliates – The carrying value reasonably approximates fair value.
- Accrued expenses and other liabilities – The carrying value reasonably approximates fair value.

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

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

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

Level 3: Significant unobservable inputs

The following table details the Company's investments that were accounted for at fair value as at 31 December 2011.

Investments at Fair Value as at 31 December 2011				
	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	153,398,395	40,962,806	194,361,201
Private Equity	-	7,173,830	39,026,844	46,200,674
Limited Partnership Units	-	-	42,270,650	42,270,650
Fixed Rate Bonds	-	29,563,047	6,614,411	36,177,458
U.S. Government and agency obligations	-	32,211,308	-	32,211,308
Floating rate corporate loan notes	-	27,114,828	-	27,114,828
Public Equity	13,292,812	6,672,033	-	19,964,845
Trade Claim	-	-	10,441,238	10,441,238
Ownership in Senior Living Facility	-	-	8,900,000	8,900,000
Asset Backed Securities	-	-	1,112,528	1,112,528
Bankruptcy Claim	-	-	265,351	265,351
Credit Default Swaps	-	1,310,795	-	1,310,795
Total investments that are accounted for at fair value	\$13,292,812	\$257,444,236	\$149,593,828	\$420,330,876

Investments at Fair Value as at 31 December 2010				
	Level 1	Level 2	Level 3	Total
Bank Debt investments	-	68,160,015	40,911,070	109,071,085
Limited Partnership Units	-	-	16,019,498	16,019,498
Asset Backed Securities	-	2,447,432	-	2,447,432
Fixed Rate Bonds	-	3,736,250	-	3,736,250
Floating rate corporate loan notes	-	161,468,180	-	161,468,180
Fixed rate corporate loan notes	-	8,870,572	-	8,870,572
U.S. Government and agency obligations	-	169,126,660	-	169,126,660
Total investments that are accounted for at fair value	-	\$413,809,109	\$56,930,568	\$470,739,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	For the year ended 31 December 2011					
	Bank Debt Investments	Private Equity	Limited Partnership Units	Trade Claim	Bankruptcy Claim	
Balance, 31 December 2010	\$ 40,911,070	\$ -	\$ 16,019,498	\$ -	\$ -	
Purchases	13,564,448	37,692,424	17,308,937	11,984,428		265,351
Sales and distributions	(13,795,741)	-	-	-		-
Realised gains on sale of investments	540,641	-	-	-		-
Unrealised (loss)/gain on investments	(257,612)	1,334,420	8,942,214	(1,543,190)		-
Transfers in and/or (out) of level 3	-	-	-	-		-
Balance, 31 December 2011	\$ 40,962,806	\$ 39,026,844	\$ 42,270,649	\$ 10,441,238		\$ 265,351

Change in unrealised gain / (loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2011	\$ 944,889	\$ 1,334,420	\$ 8,942,214	\$ (1,543,190)		\$ -
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	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Balance, 31 December 2010	\$ -	\$ -	\$ -	\$ 56,930,568
Purchases	8,926,540	9,000,630	-	98,742,758
Sales and distributions	-	-	(1,804,507)	(15,600,248)
Realised gains on sale of investments	-	-	887,593	1,428,234
Unrealised (loss)/gain on investments	(26,540)	(2,386,219)	(457,760)	5,605,313
Transfers in and/or (out) of level 3	-	-	2,487,203	2,487,203
Balance, 31 December 2011	\$ 8,900,000	\$ 6,614,411	\$ 1,112,529	\$ 149,593,828

Change in unrealised gain / (loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2011	\$ (26,540)	\$ (2,386,219)	\$ (457,760)	\$ 6,807,814
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	For the year ended 31 December 2010				
	Bank Debt Investments	Private Equity	Limited Partnership Units	Trade Claim	Bankruptcy Claim
Opening Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Purchases	42,113,571	-	16,019,498	-	-
Sales and distributions	-	-	-	-	-
Realised gains on sale of investments	-	-	-	-	-
Unrealised loss on investments	(1,202,501)	-	-	-	-
Transfers in and/or (out) of level 3	-	-	-	-	-
Balance, 31 December 2010	\$ 40,911,070	\$ -	\$ 16,019,498	\$ -	\$ -

Unrealised loss on investments included in Statement of Operation for Level 3 investments held as of 31 December 2010	\$ (1,202,501)	\$ -	\$ -	\$ -	\$ -
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	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Opening Balance	\$ -	\$ -	\$ -	\$ -
Purchases	-	-	-	58,133,069
Sales and distributions	-	-	-	-
Realised gains on sale of investments	-	-	-	-
Unrealised loss on investments	-	-	-	(1,202,501)
Transfers in and/or (out) of level 3	-	-	-	-
Balance, 31 December 2010	\$ -	\$ -	\$ -	\$ 56,930,568

Unrealised loss on investments included in Statement of Operation for Level 3 investments held as of 31 December 2010	\$ -	\$ -	\$ -	\$ (1,202,501)
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There were no transfers between level 1 and level 2 during the years ended 31 December 2011 and 2010. The Company accounts for transfers at the end of the reporting period in which such transfers occur.

NOTE 8 – RISKS

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager attempts to monitor and manage these risks on an ongoing basis. While the Investment Manager generally seeks to hedge certain portfolio risks, the Investment Manager is not required and may not attempt to hedge all market or other risks in the portfolio, and it may decide to only partially hedge certain risks. The Company does not have any material exposure to currency risk as at 31 December 2011.

Market Risk

Market risk is the potential for changes in the value of investments. Categories of market risk include, but are not limited to interest rates. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – RISKS (CONTINUED)

Credit Risk

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

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

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due. Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company's ongoing requirements as these are budgeted for.

Other Risks

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

NOTE 9 – SHARE CAPITAL

The Company's share capital consist of (a) 10,000 Class A Shares authorised, of par value \$1 each (which carry extensive voting rights); and (b) an unlimited number of shares of no par value which may upon issue be designated as Ordinary Shares or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – SHARE CAPITAL (CONTINUED)

As at the 31 December 2011, the Company had following shares in issue:

	31 December 2011	31 December 2010
Issued and fully paid up:		
Class A Shares	2	2
Ordinary shares of no par value (a)	444,270,312	440,169,296
Subscriptions shares of no par value (b)	-	39,437,205

(a) On 15 December 2011, 4,101,106 ordinary shares were admitted to trading on the Specialist Fund Market of the London Stock Exchange and the Official List of the Channel Islands Stock Exchange. The issue of equity was a result of the conversion of 4,101,016 subscription shares, with proceeds raised of \$4,101,016 (2010: \$432,556,529). There were no issue costs incurred as a result (2010: issue costs incurred of \$8,827,683).

(b) On 2 November 2011 the Board of the Company announced that it had sent to holders of subscription shares in the Company a subscription share notice reminding them of their entitlement to subscribe in cash for ordinary shares in the company by 9 December 2011 (the "Subscription Share Exercise Date") at a subscription price of US\$1.00 per ordinary share.

Following the Subscription Share Exercise Date, the Subscription Shares that remained unexercised did not carry any rights to any future benefit and as such the Subscription Shares were cancelled from trading on the Specialist Fund Market of the London Stock Exchange. Such cancellation became effective on 12 December 2011. In addition, the admission of the Subscription Shares on the Official List of the Channel Island Stock Exchange and trading of the Subscription Share on the Channel Island Stock Exchange was cancelled, effective on 9 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – FINANCIAL HIGHLIGHTS

	Year ended 31 December 2011 Ordinary Share Class	Period 20 April 2010 to 31 December 2010 Ordinary Share Class
Opening Balance	0.9754	-
Per share operating performance		
Net proceeds per share at the initial offering	-	0.9800
Impact of conversion of subscription shares to ordinary shares	0.0003	-
Impact of second offering	-	0.0068
Income / loss from investment operations (a)		
Net investment income / (loss)	0.0072	(0.0022)
Net realised and unrealised loss from investments	(0.0157)	(0.0092)
Total loss from operations	(0.0085)	(0.0114)
Net asset value per share at the end of the year / period	\$0.9672	\$0.9754
Total return* (b)		
	31 December 2011 Ordinary Share Class	31 December 2010 Ordinary Share Class
Total return before performance fees	(0.84)%	(0.47)%
Performance fees	-	-
Total return after performance fees	(0.84)%	(0.47)%
Ratios to average net assets (b)		
	31 December 2011 Ordinary Share Class	31 December 2010 Ordinary Share Class
Net investment income / (loss) (c)	0.72%	(0.40)%
Expenses (c)	(2.21)%	(2.20)%

- (a) Average shares outstanding were used for calculation
- (b) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.
- (c) Annualized.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the Company through 20 April 2012, the date the consolidated financial statements are available to be issued, and had concluded there are not any material events that require disclosure or adjustment of the financial statements other than those listed below.

The Board of the Company announced that at the Extraordinary General Meeting of the Company held on 26 January 2012, Shareholders passed the following ordinary resolution:

That, pursuant to Article 7 of the Company's articles of incorporation, this meeting approves the continuance of the Company as a closed-ended investment company.

All votes cast were in favour of the ordinary resolution.

On 1 February 2012, the Board of the Company announced that, pursuant to the Company's prospectuses dated 5 May 2010 and 23 September 2010, a board meeting was held to consider whether it would be in the best interests of the Company and the Ordinary Shareholders as a whole to implement a tender offer (the "Tender Offer").

The Board concluded that implementing the Tender Offer would not be in the best interests of the Company and its Shareholders as a whole for the following reasons:

- At the time of the Board meeting on 1 February 2012, the Company's Share Price is trading at a narrow discount to Net Asset Value of -1.92% and, since inception, the Company's Share Price has traded at an average premium to Net Asset Value of 5.32%. The Board does not believe that the current discount between the Share Price of the Company and its Net Asset Value is of sufficient size to warrant the implementation of the Tender Offer.
- Since inception, the Investment Manager has maintained strict price discipline and has been able to assemble a portfolio with the potential to generate strong investment returns. These investment returns have not yet been reflected in the Company's Net Asset Value due to the nature of distressed debt investments. The Investment Manager anticipates that a number of investments within the portfolio will generate material investment returns in the near future and that this should lead to a significant increase in the Company's Net Asset Value. The Board believes that it is in the best interests of the Ordinary Shareholders as a whole to maintain continued exposure to these investments rather than to return capital before these investment opportunities have been realised.

The Board continues to monitor the Company's Share Price and its relationship to Net Asset Value, and will take such action that it believes is necessary to minimise the discount to Net Asset Value.

DIRECTORS, MANAGER AND ADVISERS**Directors**

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

All c/o the Company's registered office.

Administrator, Custodian and Company Secretary

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