ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS

NB Distressed Debt Investment Fund Limited

YEAR ENDED 31 DECEMBER 2012

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

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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. The investment period, which was due to expire in June 2013, has been extended to 31 March 2015 following a majority shareholder vote in favour of this extension on 8 April 2013.

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

Company (as at 31 December 2012)	**NB Distressed Debt Investment Fund Limited (the "Company")** • Guernsey incorporated, closed-ended investment company • Trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Stock Exchange • 444,270,312 Ordinary Shares outstanding
Investment Manager **Sub-Investment Manager (as at 31 December 2012)**	**Neuberger Berman Europe Limited (the "Investment Manager")** **Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager")** • A large team of 110 fixed income investment professionals • Portfolio Managers have an average of 20 years of industry experience • Total fixed income assets of over $96 billion • Over $11 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 2012	At 31 December 2011
Net Asset Value	$478.3	$429.7
Net Asset Value per share	$1.0765	$0.9672
Investments	$479.7	$420.3
- Distressed Portfolio	$437.7	$364.0
- Temporary Investments	$42.0	$56.3
Cash and Cash Equivalents	$55.1	$51.3

CHAIRMAN'S STATEMENT

Dear Shareholder,

I have pleasure in presenting you with the Annual Report of NB Distressed Debt Fund Limited and its subsidiaries (together the "Company") for the period 1 January 2012 to 31 December 2012.

Portfolio and Company performance

The Company remains nearly fully invested with approximately 92% of the portfolio invested in distressed assets, which represents a peak level of deployment in the life of the portfolio. The Company's investment base is well diversified across sixteen industries, in forty eight companies, with no single investment representing more than 7% of the Company's total assets.

The Company exited six further investments between 1 January 2012 and 31 December 2012, bringing the total number of realisations since inception to eleven. Each of the exits in the period generated returns for the company of between 13% and 38% of the capital deployed. Further details of these realisations are noted in the Investment Manager's report.

As the process of realisation continues, Neuberger Berman Europe Limited (the "Investment Manager") is working to replace these assets and has a number of bids in the market for loans which they believe have the potential to offer positive returns for the Company and will complement the existing portfolio. The Investment Manager achieved a key restructuring milestone in the second quarter with three of the Company's loan investments. These loan investments represented around 9% of the total portfolio and as a result of a restructuring, the Company is now a shareholder rather than a creditor. The restructuring has resulted in uplift in the market values of these assets.

In the twelve month period to 31 December 2012, the Net Asset Value ("NAV") total return per ordinary share increased from $0.9672 to $1.0765. The NAV per ordinary share has continued to increase in 2013 and on 17 April 2013 was $1.1357 an increase of 5% in comparison to 31 December 2012.

The distressed debt market is providing a longer-term opportunity than we originally expected. The Board of the Company (the "Board"), after discussions with the Investment Manager, believes that opportunities in the distressed market remain compelling and that an extension to the investment period should enable the Company to access attractive investment opportunities after the current investment period expires. On 23 January 2013 the Board announced, following consultation with its major shareholders, its intention to propose an extension to the Company's investment period (the "Proposed Extension".)

The existing investment period was due to expire in June 2013 and a proposal was made to ordinary shareholders in the Company ("Shareholders") to extend the investment period by 21 months to 31 March 2015. Those investors who wished to remain invested on the basis of the current investment period were given the opportunity to do so. The share class subject to the extended investment period has a new capital return policy, new discount policy and increased preferred return. For further information on these and other aspects on the Extension, see the Company's release from 23 January 2013. Further details of the proposals were provided in a prospectus and circular to shareholders issued on 6 March 2013 and a class meeting of Shareholders was held on 8 April 2013 at which the proposals were ratified.

I am pleased to report that the majority of our shareholders voted in favour of extending the investment period at this meeting.

Outlook

Looking ahead to 2013, your Board continues to be satisfied with the Company's performance and the strategy that is being applied by the Investment Manager. There remains an ample supply of distressed debt and the Board is confident that the Investment Manager will be able to generate favourable returns to our Shareholders.

I would like to thank you for your commitment and I look forward to updating you on the Company's progress in 2013.

Robin Monro-Davies
Chairman
19 April 2013

INVESTMENT MANAGER'S REPORT

We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments. During 2012 we exited six deals, contributing to an increase in our NAV.

Portfolio

As at 31 December 2012, over 92% of the Company's NAV was invested in distressed assets, with investments in 48 companies diversified across 16 industries. The Company's NAV increased 11.3% in 2012, to $1.0765 from $0.9672 per share. We believe our performance year-to-date compares favourably with other distressed debt managers, as indicated by the HFRI Distressed/Restructuring Index which returned 10.4% in 2012 and the Bloomberg BAIF-Distressed Securities Hedge Funds Index which returned 9.3% in the same period.

In the first quarter, we exited two deals, both of which contributed to an increase in NAV. In the second quarter, we achieved a key restructuring milestone on three loans collateralised by multifamily residential properties, representing over 9% of the portfolio. By taking title to the properties through subsidiary entities the Company became a co-owner (rather than a creditor) and can potentially monetise the investments at levels higher than the acquisition cost. Additionally, a plan of reorganisation we sponsored for a portfolio healthcare company received creditor approval and we anticipate receiving the restructured debt in the second half of 2013. We also executed a debt restructuring proposal for one of our power generation investments, which allowed us to monetise a portion of our holding above the acquisition price.

During the third quarter, we saw our ninth and tenth exits since inception, as we sold the post-reorganisation securities of a shopping mall REIT and a telecommunications company. We also added incrementally to existing names and initiated positions in the senior debt of a power generation plant and the post-reorganisation claims of a container company. In the fourth quarter, NAV increased 3.7%, primarily due to the mark-ups of several positions which reached key restructuring milestones or made progress post-reorganization. We had one exit in the fourth quarter, bringing our total to eleven exits since inception. December was a particularly busy year end in the distressed market. We added four new names to the portfolio and were able to add incrementally to select existing positions.

The distressed debt market is providing a longer-term opportunity than we originally expected. Over $1.9 trillion[i] of non-performing loans remain on banks' balance sheets and banks have announced over $2.0 trillion[ii] of asset reduction targets. Non-performing loan portfolios are expensive from a capital perspective, and Basel III minimum capital standards are increasing going forward[iii]. Whilst country-by-country factors relating to their speed of disposal may vary, problem assets still need to come off bank balance sheets, leading us to opportunities that are of interest in the medium-term.

The Board of the Company, after discussions with the Investment Manager, believes that opportunities in the distressed market remain compelling and that an extension to the investment period should enable the Company to access attractive investment opportunities after the current investment period expires. The existing investment period was due to expire in June 2013 and a proposal was made to Shareholders in the Company who approved the extension of the investment period by 21 months to 31 March 2015.

Investment exits during the year

During 2012 we had six investment exits, bringing our total to eleven exits since inception.

Realisation one in the year: We purchased an approximately US $22 million equity interest of a post-reorganisation power generation company in the process of being liquidated. At the time of our investment this company owned two natural gas-fired power plants in the South Eastern United States. Net of distributable cash our entry price valued the power plants at approximately $150 per kW. Subsequently the company announced that the plants would be sold to a local utility company for a valuation of approximately $400 per kW. Our investment return was comprised of a liquidating dividend of $9.6m, and the sale of our remaining equity interest of $16.2m in the secondary market, for a total income of $3.8m, a return of 17%.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Realisation two in the year: We purchased an investment in a first lien term loan at a cost of US $7.9 million, which represented a 16% discount to par value. The term loan was secured by telecommunications and broadcasting infrastructure in Northwest Europe. Our investment thesis was that the debt would likely be refinanced or in the event of default we would end up with control of the assets at an attractive valuation relative to comparable assets. This company did not subsequently default, and due to market conditions a near-term refinancing looked unlikely. We sold our position in the secondary market at 90% of par for $8.6 million sales proceeds, resulting in total income (including earned interest) of $1.0m, a return of 13%.

Realisation three in the year: We purchased approximately US $13.4 million face value of a first lien term loan at 84.45%, secured by plastic film manufacturing assets primarily located in Western Europe and North America. Our investment thesis was that the debt would either be refinanced or that in the event of default we would end up in control of the assets at an attractive valuation relative to comparable companies. Subsequent to our purchase, the company required a waiver in order to avoid violating debt covenants. In order to avoid a default and debt restructuring, this company's 2nd lien lenders secured sufficient capital to refinance the first lien debt in full. Total income from this investment (including earned interest) was approximately $2.6 million, a return of 23%.

Realisation four in the year: We purchased $5 million face value of a first lien term loan at a price of 66% of par, secured by incumbent network telecommunications assets in the Northeast United States. The company had filed for bankruptcy due to excessive debt incurred to make an acquisition. We believed that our entry point represented a discounted valuation versus comparable companies. The company subsequently emerged from bankruptcy with a restructured balance sheet. We exited the post-reorganisation debt and equity securities in the secondary market. Total income from this investment was $0.5 million, giving a return of 17%.

Realisation five in the year: We purchased $26.6 million face value of first lien debt at a price of 59% of par, secured by shopping mall retail real estate in Australia and the United States. We believed that the loan price undervalued the company's assets and that in a sale or restructuring we would recover significantly more than our purchase price. This company subsequently divested its US assets, which repaid a portion of the first lien debt. The remainder of our debt was converted into equity which we sold in the secondary market. Total income from this investment was $3.3 million, a return of 21%.

Realisation six in the year: We purchased $8.9 million equity interest of a post-reorganization power generation company which owns a combined-cycle gas turbine power plant in the Texas market. This company had previously filed from protection from creditors under Chapter 11 of the United States Bankruptcy Code, and subsequently emerged from bankruptcy protection under control of the prepetition senior lenders. The power plant has been sold to a Fortune 500 energy company and the company is in the process of being wound down. Our investment return was comprised of a liquidating dividend of $12.8 million and the sale of our remaining equity interest of $0.4 million in the secondary market, for a total income, after expenses of $0.4 million, of $3.4 million. This produced a return of 38%.

19 April 2013

i) Source: KPMG Global Debt Sales Survey 2012

ii) Source IMF Stability Report, April 2012

iii) Source: KPMG Global Debt Sales Survey 2012

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 un-invested 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.

RISK FACTORS

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

The Company's returns and operating cash flows will 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 will 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 will be 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 will vary 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.

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 will value 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 will be 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 will 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 and will not be 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.

Talmai Morgan

Talmai Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr. Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr. Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr. Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. His other directorships include Goldman Sachs Dynamic Opportunities Limited (In Voluntary Liquidation) alongside Mr. Sherwell and BH Global Limited alongside Mr. Hallam. Mr. Morgan is also currently the chairman or non-executive director of a number of other 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, a member of the NB Group, 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 Dexion Absolute Ltd and Partners Group Global Opportunities Ltd. He is also a director of BH Global Limited alongside Mr. Morgan and a number of other financial services companies, some of which are listed on the LSE. Mr. Hallam served for many years as a member and latterly chairman of the GFSC, from which he retired in 2006. Mr. Hallam is a director of NB Private Equity Partners Limited, a member of the NB Group, 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 (In Voluntary Liquidation) alongside Mr. Morgan. 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, a member of the NB Group, alongside Mr. Hallam and Mr. Morgan.

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 STATEMENT

The Directors present their annual report and the consolidated financial statements (the "financial statements") of NB Distressed Debt Investment Fund Limited and its subsidiaries (together the ''Company'') for the year ended 31 December 2012.

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 together with the Investment Manager's Report on pages 3 and 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 $60,094,975 at 31 December 2012 (2011: $43,095,401).

Results and Dividends

The results for the year ended 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 2012 due to a low cash income being available.

As at 31 December 2012, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital (2011: $NIL).

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Results and Dividends (continued)

At 31 December 2012 the net assets of the Ordinary shares amounted to $478,265,391 (2011: $429,702,382). The total return for the year was 11.30% (2011: (0.84)%).

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 Manager's Report (on pages 3 and 4).

Going Concern

The Company's principal activities are set out on page 33. The financial position of the Company is set out on page 26. 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

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Performance Measurement and Key Performance Indicators (continued)

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

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

In addition to highlighting the principal risk factors on pages 6 to 8, the Board has taken steps to mitigate these as follows:

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Principal risks and uncertainties (continued)

Investment activity and performance

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

Level of discount or premium

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

Market Price Risk

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

Accounting, legal and regulatory

The Company must comply with the provisions of The Companies (Guernsey) Law, 2008 (as amended), and since its shares are listed on the official list of the 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.

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

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

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.

DIRECTORS’ REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

b) Directors and their interests (continued)

Board independence and composition (continued)

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. At the second Annual General Meeting on 12 July 2012, Mr Holmberg, Mr Flynn and Mr Morgan offered themselves for re-election. 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. Mr Flynn and Mr Holmberg will be subject to re-election annually at the Annual General Meeting.

A report on Directors’ Remuneration is on page 24.

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 had a conflicting interest in the Company during the year ended 31 December 2012 except that it should be noted that Messrs. Flynn and Holmberg are employees of the NB Group of which the Investment Manager is a part. The Directors interests in the Company’s share capital at the year end are disclosed on page 17. Subsequent to the year end, all the Directors that held Ordinary shares in the Company elected to convert those shares to Extended Life shares.

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.

Induction and Training

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' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

b) Directors and their interests (continued)

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 at the date of this report is as follows:

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

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.

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

c) The Board (continued)

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 2012. 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 2012, it was concluded that all Directors with the exception of Mr Holmberg and Mr 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 Mr Hallam, Mr Sherwell and Mr Morgan. Mr Hallam acts as Chairman of the Audit Committee.

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.

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

c) The Board (continued)

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**	**2**
Mr Robin Monro-Davies*	4	-
Mr Patrick Flynn*	3	-
Mr John Hallam	4	2
Mr Michael Holmberg*	4	-
Mr Talmai Morgan	4	2
Mr Christopher Sherwell	4	2

* not a member of the Audit Committee

In addition, one ad-hoc Board meeting was 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;

- 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;

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

d) Internal Control and Financial Reporting (continued)

- 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.

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 three years, it is the opinion of the Directors that the continued appointment of the current Investment Manager on the

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

Continued appointment of the Investment Manager (continued)

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 16 July 2013 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 US 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.

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.

DIRECTORS' REPORT AND RESPONSIBILITIES STATEMENT (CONTINUED)

Corporate Governance Statement (continued)

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.

The Auditors of the Company carry out their work under the Crown Dependencies Audit Rules and Guidance ("the Rules"). In previous years the Auditors have performed their audit in accordance with US Generally Accepted Auditing Standards (US GAAS). To bring the audit into line with similar Guernsey companies and to meet a recent interpretation of the Rules, this year the Auditors have carried out their audit in accordance with International Standards of Auditing (UK & Ireland). This change has been made after consultation with the Audit Committee which is satisfied that this change does not reduce the robustness or quality of the audit.

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

Robin Monro-Davies	John Hallam
19 April 2013	19 April 2013

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 Talmai Morgan	
BH Global Limited	London, Bermuda and Dubai
BH Macro Limited	London, Bermuda and Dubai
DCG IRIS Limited	London
Global Fixed Income Realisation Limited	Listed in Ireland and traded in London
Goldman Sachs Dynamic Opportunities Limited (In Voluntary Liquidation)	London
John Laing Infrastructure Fund Limited	London
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISX and SFM, London
Real Estate Credit Investments PCC Limited	London, CISX and SFM, London
Sherbourne Investors (Guernsey) A Limited	AIM
Sherbourne Investors (Guernsey) B Limited	AIM
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
Dexion Absolute Limited	London
HICL Infrastructure Co Limited	London
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISX and SFM, London
Partners Group Global Opportunities Limited	Ireland
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
Goldman Sachs Dynamic Opportunities Limited (In Voluntary Liquidation)	London
F&C UK Real Estate Investments Limited (formerly IRP Property Investments Limited)	London and CISX
NB Distressed Debt Investment Fund Limited	CISX and SFM, London
NB Private Equity Partners Limited	Amsterdam, CISX and SFM, London
Raven Russia Limited	London
Rufford & Ralston PCC Limited	CISX
Alternative Liquidity Solutions Limited (formerly 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, Mr Flynn and Mr 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 2012 to 31 December 2012 which have remained unchanged since the inception of the Company.

	$
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 $14,709.

For and on behalf of the Board

Robin Monro-Davies
19 April 2013

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

We have audited the consolidated financial statements (the "financial statements") of NB Distressed Debt Investment Fund Limited (the "Company" or "Group") for the year ended 31 December 2012 which comprise the Consolidated Statement of Assets and Liabilities, Condensed Consolidated Schedules of Investments, Consolidated Statement of Operations, Consolidated Statement of Changes in Net Assets, Consolidated Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and U.S. generally accepted accounting principles.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its results for the year then ended;
- are in conformity with U.S. generally accepted accounting principles; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Robert A Hutchinson
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
19 April 2013

The maintenance and integrity of the NB Distressed Debt Investment Fund Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements report since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
As at 31 December 2012 and 2011

(Expressed in United States Dollars)

Assets		**2012**		**2011**
Investments, at fair value	$	479,679,186	$	420,330,876
(2012: cost of $487,566,188, 2011: cost of $440,234,699)				
Cash and cash equivalents		55,096,277		51,264,893
	$	534,775,463	$	471,595,769
Other assets:				
Interest receivables		2,444,396		1,521,807
Receivables for investments sold		2,601,172		668,145
Other receivables and prepayments		54,039		32,208
Total assets	**$**	**539,875,070**	**$**	**473,817,929**
Liabilities				
Payables for investments purchased	$	60,094,975	$	43,095,401
Accrued expenses and other liabilities		896,966		482,846
Payables to Investment Manager and affiliates		617,738		537,300
Total liabilities	**$**	**61,609,679**	**$**	**44,115,547**
Net Assets	**$**	**478,265,391**	**$**	**429,702,382**
Analysis of Net Assets:				
Class A shares	$	2	$	2
(2 shares issued)				
Ordinary shares		436,657,543		436,657,543
(2012: 444,270,312, 2011: 444,270,312)				
Accumulated earnings/(deficit)		41,607,846		(6,955,163)
Net assets	**$**	**478,265,391**	**$**	**429,702,382**
Net asset value per ordinary share	**$**	**1.0765**	**$**	**0.9672**

The financial statements on pages 26 to 47 were approved and authorised for issue by the Board of Directors on 19 April 2013, and signed on its behalf by:

Robin Monro-Davies
Director

John Hallam
Director

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2012 and 2011

(Expressed in United States Dollars)

31 December 2012		Cost	Fair Value	% (i)
Distressed Portfolio				
Bank Debt Investments	$	170,805,379	156,942,644	32.82
Private Equity		73,659,593	72,117,602	15.08
Private Equity: Real Estate Development		65,236,357	67,168,149	14.04
Fixed Rate Bonds		63,971,343	52,804,069	11.04
Limited Partnership Units		31,973,961	50,093,828	10.48
Trade Claim (ii)		13,066,759	11,233,247	2.35
Ownership in Senior Living Facility		9,282,370	10,098,587	2.11
Private Placement Bonds		9,815,969	9,854,912	2.06
Public Equity		5,610,958	5,780,744	1.21
Bankruptcy Claim		171,530	686,341	0.14
Asset Backed Securities		1,303,941	660,791	0.14
Credit Default Swaps		683,299	239,676	0.05
		445,581,459	437,680,590	91.52
Temporary Investments				
U.S. Government and agency obligations		41,984,729	41,998,596	8.78
		41,984,729	41,998,596	8.78
	$	**487,566,188**	**479,679,186**	**100.30**

31 December 2011		Cost	Fair Value	% (i)
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 (ii)		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**

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

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

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2012 and 2011

(Expressed in United States Dollars)

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

31 December 2012	Country	Industry	Nominal	Cost	Fair Value	%
Fixed Rate Bonds						
US Treasury Bill 0% 12-31/01/2013	United States	Government	32,000,000	31,991,440	31,999,356	6.69
US Treasury Bill 0% 12-21/03/2013	United States	Government	10,000,000	9,993,289	9,999,240	2.09
			42,000,000	**41,984,729**	**41,998,596**	**8.78**
Private Equity: Real Estate Development						
Grant Park 2, LLC	United States	Real Estate Development	225,710	32,414,552	32,574,467	6.81
			225,710	**32,414,552**	**32,574,467**	**6.81**
			42,225,710	**74,399,281**	**74,573,063**	**15.59**

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

		Cost 31 December 2012	Fair Value 31 December 2012	% (1)	Cost 31 December 2011	Fair Value 31 December 2011	% (i)
Geographic diversity of Portfolio							
Distressed Portfolio							
Australia	$	21,842,331	19,623,099	4.10	29,924,411	28,233,594	6.57
Belgium		649,716	20,902	0.00	4,684,942	4,197,023	0.98
Brazil		13,750,058	11,472,923	2.40	12,906,727	11,752,033	2.73
Cayman Islands		4,094,512	7,272,124	1.52	3,454,873	4,784,001	1.11
Germany		35,939,450	50,061,838	10.47	37,829,849	43,840,689	10.2
Great Britain		7,039,395	7,055,821	1.48	8,278,614	8,177,118	1.90
India		353,137	522,407	0.11	414,425	626,315	0.15
Ireland		-	-	0.00	387,786	495,923	0.12
Japan		486,440	33,358	0.01	841,489	457,670	0.11
Netherlands		8,951,015	9,223,088	1.93	-	-	0.00
Switzerland		21,187,850	21,011,650	4.39	-	-	0.00
United States (U.S.A.)		331,287,555	311,383,380	65.11	285,265,123	261,479,605	60.85
Temporary Investments							
United States (U.S.A.)		41,984,729	41,998,596	8.78	56,246,460	56,286,905	13.10
	$	**487,566,188**	**479,679,186**	**100.30**	**440,234,699**	**420,330,876**	**97.82**

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

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2012 and 2011

(Expressed in United States Dollars)

		Cost 31 December 2012	Fair Value 31 December 2012	Cost 31 December 2011	Fair Value 31 December 2011
Industry diversity of Portfolio					
Distressed Portfolio					
Air Transport	$	1,303,941	660,791	1,570,288	1,112,528
Broadcasting		25,536,683	24,586,754	30,962,835	26,744,467
Building and Development		20,396,638	19,522,184	18,423,129	16,190,077
Commercial Mortgage		811,132	20,902	41,213,412	40,962,806
Containers and Glass products		16,002,604	16,278,909	11,537,822	10,920,000
Financial Intermediary		36,036,461	58,673,423	56,161,527	66,047,415
Food Products		1,638,626	1,690,981	5,043,920	2,868,169
Forest Products		11,479,219	11,519,360	-	-
Healthcare		15,161,193	16,524,050	12,961,297	12,962,050
Lodging and Casinos		38,344,933	38,335,750	36,132,277	34,194,972
Oil and Gas		21,187,850	21,011,650	-	-
Publishing		5,847,290	5,833,203	-	-
Real Estate Development		65,236,357	67,168,149	-	-
Real Estate Trust		17,798,953	17,893,500	12,247,340	12,223,387
Surface Transport		45,811,549	28,379,649	41,454,034	30,518,797
Telecommunications		-	-	10,444,113	10,084,491
Utilities		122,988,030	109,581,335	105,836,245	99,214,812
Temporary Investments					
Financial Intermediary		-	-	41,249,390	41,287,922
US Government and Agency		41,984,729	41,998,596	14,997,070	14,998,983
	$	**487,566,188**	**479,679,186**	**440,234,699**	**420,330,876**

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

CONSOLIDATED STATEMENT OF OPERATIONS

(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Income				
Interest income	$	13,030,790	$	12,936,927
Dividend income ((net of withholding tax $58,299) (2011: nil))	$	549,318	$	-
Expenses				
Investment management and services	$	6,772,363	$	6,621,447
Professional and other expenses	$	1,634,340	$	2,026,793
Administration fees	$	494,131	$	483,257
Loan administration and custody fees	$	312,763	$	398,392
Directors' fees and travel expenses	$	214,709	$	209,836
	$	9,428,306	$	9,739,725
Net investment income before tax	**$**	**4,151,802**	$	**3,197,202**
Income taxes		(413,904)		-
Net investment income after tax		**3,737,898**		**3,197,202**
Realised and unrealised gains and losses from investments and foreign exchange				
Net realised gain on investments	$	15,852,602	$	11,587,957
Gain/(loss) on non-cash reorganisations		17,237,321		(438,057)
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts		11,735,188		(18,086,173)
Net realised and unrealised gains/(losses)	**$**	**44,825,111**	**$**	**(6,936,273)**
Net increase/(decrease) in net assets resulting from operations	**$**	**48,563,009**	**$**	**(3,739,071)**

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 2012 and 31 December 2011
(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Net assets at beginning of year	**$**	429,702,382	**$**	429,340,437
Proceeds from issuance of ordinary shares		-		4,101,016
Net investment income after tax		3,737,898		3,197,202
Net realised gain on investments		15,852,602		11,587,957
Gain/(loss) on non-cash reorganisations		17,237,321		(438,057)
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts		11,735,188		(18,086,173)
Net assets at end of year	**$**	**478,265,391**	**$**	**429,702,382**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012 and 2011

(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Cash flows from operating activities:				
Net increase/(decrease) in net assets resulting from operations	$	48,563,009		(3,739,071)
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations:				
Net realised gain on investments		(15,852,602)		(11,587,957)
Gain/(loss) on non-cash reorganisations		(17,237,321)		438,057
Net change in unrealised (gain)/loss on investments and forward foreign currency contracts		(11,735,188)		18,086,173
Accretion of discount on loans and bonds		(2,009,090)		(1,708,911)
Changes in receivables for investments sold		(1,933,026)		5,946,413
Changes in interest receivables		(922,589)		(949,264)
Changes in other receivables and prepayments		(21,831)		43,432
Changes in payables for investments purchased		16,999,574		(26,520,728)
Changes in payables, accrued expenses and other liabilities		212,925		165,772
Credit default swap		(356,000)		(922,299)
Purchase of investments		(401,099,811)		(391,743,142)
Sale of investments		389,223,335		437,846,880
Net cash provided by operating activities	$	3,831,384	$	25,355,355
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	$	-	$	4,101,016
Net cash provided by financing activities	$	-	$	4,101,016
Net increase in cash and cash equivalents	**$**	**3,831,384**	**$**	**29,456,371**
Cash and cash equivalents at beginning of year		51,264,893		21,808,522
Cash and cash equivalents at end of year	**$**	**55,096,277**	**$**	**51,264,893**

Supplemental non-cash flow operating activities

Purchases of, and proceeds from sales of, investments exclude $68,277,338 (31 December 2011: $62,084,233), related to the value of non-cash investment transactions, including reorganisations and exchanges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

NB Distressed Debt Investment Fund Limited (the "Company" or the "Fund") is a closed-ended investment company registered and incorporated in Guernsey under The Companies (Guernsey) Law, 2008 (as amended), on 20 April 2010, with registration number 51774. The Company's shares were admitted to the Specialist Fund Market of the London Stock Exchange (the "SFM") and to listing and trading on the Channel Islands 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 US 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, 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, London Tides LLC, together the Group. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2012, London Washington LLC, London Jackson LLC, London Tides LLC, London Wacker LLC and London Randolph LLC had commenced operations including their respective holding companies, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC, and London Randolph Holdco LLC .

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

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

Revenue recognition

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

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

For the year ended 31 December 2012, $2,009,090 (2011: $1,708,911) was recorded to reflect 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 2012, the Company held cash balances in various currencies to the value of $55,096,277 (2011: $51,264,893). These balances consisted of Sterling: $9,595 (2011: $51,084), Euro: $4,011,649 (2011: $48,062), U.S. Dollar: $51,062,665 (2011: $50,884,904), and Australian Dollar: $12,368 (2011: $280,843).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Consistent with the above criterion, the following criteria are considered when applicable:
- Valuation of other securities by the same issuer for which market quotations are available;
- Reasons for absence of market quotations;
- The soundness of the security, its interest yield, the date of maturity, the credit standing of the issue and the current general interest rates;
- Recent sales prices and/or bid and 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.

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

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

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

Realised Gains and Losses on Investments

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

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

Operating expenses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Performance fee

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

Currency translation

Monetary assets and liabilities denominated in a currency other than U.S. Dollars are translated into U.S. Dollar equivalents using spot rates as at the year 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 and net change in unrealised gain/(loss) on investments in the Consolidated Statements of Operations.

Payables on investments purchased

At 31 December 2012, 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

Although the Company is not directly subject to income taxes, certain of the investments are held in U.S. corporations which are subject to U.S. Federal and state income taxes. During the year ended 31 December 2012, the Company recorded current income tax expense of $413,904 related to tax payments made during the year. As of 31 December 2012, the Investment Manager has determined the amounts of assets or liabilities associated with additional current or deferred income taxes are immaterial and no provision for such amounts has been made.

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 pronoucement 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.

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS

In May 2011, the FASB issued the ASU 2011 - 04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS (CONTINUED)

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.

These disclosure requirements have been fully implemented for the year ended 31 December 2012.

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 2012, the management fee expense was $6,772,363 (2011: $6,621,447). The amount outstanding at the year end was $617,738 (2011: $537,300).

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.

Considering the net asset value of the Company as at 31 December 2012, a performance fee would not be payable as the level of return required for such fees would not be reached if the Company was to realise all investments at the balance sheet date.

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. From 1 October 2012, the Administrator is entitled to a fee based on 0.10 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000. The percent per annum basis prior to 1 October 2012 was 0.11, subject to the same annual minimum.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

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

For the year ended 31 December 2012, the administration fee expense was $494,131 (2011: $483,257) the secretarial fee was $57,813 (2011: $56,919) and the custodian and loan administration fee expense was $312,763 (2011: $398,392). The amount outstanding at the year end was $404,957 (2011: $230,117)

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 2012, the directors' fees and travel expenses amounted to $214,709 (2011: $209,836). The amount outstanding at the year end was $50,411 (2011: $50,822).

NOTE 5 – DERIVATIVES

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

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

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

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If the Company is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Company will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. Either as a seller of protection or a buyer of protection of a credit default swap agreement, The Company's maximum risk of loss from counterparty risk is the fair value of the agreement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

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

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

Forward foreign exchange contracts are subject to credit risk. Credit risk is where the financial condition of an issuer of a security or instrument may cause it to default or become unable to pay interest or principal due on the security. Any trading counterparty to a derivative contract might default on their obligations. The effect of such derivative instruments on the Company's financial position and financial performance as reflected in the Consolidated Statement of Assets and Liabilities and Consolidated Statement of Operations are presented in the summary below.

The following table presents the fair values of derivative instruments:

	Asset Derivatives			
	31 December 2012		31 December 2011	
Primary underlying risk:	**Location**	**Fair Value US$**	**Location**	**Fair Value US$**
Credit				
Credit default swap	Investments at fair value	239,676	Investments at fair value	1,310,795
Foreign Currency				
Forward foreign currency contract	Other liabilities	(281,633)	Other liabilities	-
Total derivatives		**(41,957)**		**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/(loss) recognised on Statement of Operations**	**Amount of gain/(loss) recognised in income on derivative (US$)**	
Credit		**31 December 2012**	**31 December 2011**
Credit default swap	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	(832,119)	388,496
Credit default swap	Net realised gains on investments	(595,000)	-
Foreign Currency			
Forward foreign currency contracts	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	(281,633)	-
Total		**(1,708,752)**	**388,496**

NOTE 6 – UNFUNDED LOAN COMMITMENTS

As at 31 December 2012, the Company has no unfunded loan commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

- Cash and cash equivalents - The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.
- Receivables for investments sold - The carrying value reasonably approximates fair value as they reflect the value at which investments are sold to a willing buyer and settlement period on their balances is short term.
- Interest receivables - The carrying value reasonably approximates fair value.
- Other receivables and prepayments - The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.
- In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.
- Payables for investments purchased - The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.
- Payables to Investment Manager and affiliates - The carrying value reasonably approximates fair value.
- Accrued expenses and other liabilities - The carrying value reasonably approximates fair value.
- Forward foreign currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date. The forward foreign currency contracts liability of $281,633 is categorised as level 2 as defined below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3: Significant unobservable inputs

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

The table below details the Company's investments that were accounted for at fair value as at 31 December 2012.

Investments at Fair Value as at 31 December 2012

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	126,707,876	30,234,768	156,942,644
Private Equity	-	24,028,771	48,088,830	72,117,601
Private Equity: Real Estate Development	-	-	67,168,150	67,168,150
Private Placement Bonds	-	-	9,854,912	9,854,912
Limited Partnership Units	-	-	50,093,828	50,093,828
Fixed Rate Bonds	-	51,317,701	1,486,368	52,804,069
U.S. Government and Agency Obligations	-	41,998,596	-	41,998,596
Public Equity	905,548	4,875,196	-	5,780,744
Trade Claim	-	-	11,233,247	11,233,247
Ownership in Senior Living Facility	-	-	10,098,587	10,098,587
Asset Backed Securities	-	-	660,791	660,791
Bankruptcy Claim	-	-	686,341	686,341
Credit Default Swaps	-	239,676	-	239,676
Total investments that are accounted for at fair value	**$905,548**	**$249,167,816**	**$229,605,822**	**$479,679,186**

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2012. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 into 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)**	**$ -**

	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 into 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**

There were no transfers between level 1 and level 2 during the year ended 31 December 2012 and the year ended 31 December 2011.

*transferred from level 2 to level 3 in the period due to revised pricing sources.

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 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – RISKS (CONTINUED)

Market Risk

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

Credit Risk

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

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

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

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

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

Liquidity Risk

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

Other Risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – SHARE CAPITAL

The 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 by 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.

As at the 31 December 2012, the Company had following shares in issue:

	31 December 2012	31 December 2011
Issued and fully paid up:		
Class A Shares	2	2
Ordinary shares of no par value	444,270,312	444,270,312

NOTE 10 – FINANCIAL HIGHLIGHTS

	Year ended 31 December 2012 Ordinary Share Class	Year ended 31 December 2011 Ordinary Share Class
Opening Balance	0.9672	0.9754
Per share operating performance		
Impact of conversion of subscription shares to ordinary shares	-	0.0003
Income/loss from investment operations (i)		
Net investment income after tax	0.0085	0.0072
Net realised and unrealised gain/(loss) from investments	0.1008	(0.0157)
Total gain/(loss) from operations	**0.1093**	**(0.0085)**
Net asset value per share at the end of the year	**$1.0765**	**$0.9672**

Total return* (ii)	31 December 2012 Ordinary Share Class	31 December 2011 Ordinary Share Class
Total return before performance fees	11.30%	(0.84)%
Performance fees	-	-
Total return after performance fees	**11.30%**	**(0.84)%**

Ratios to average net assets (ii)	31 December 2012 Ordinary Share Class	31 December 2011 Ordinary Share Class
Net investment income after tax	0.85%	0.72%
Expenses	(2.18)%	(2.21)%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – FINANCIAL HIGHLIGHTS (CONTINUED)

*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.

As discussed in Note 2, 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.

When publishing the NAV per Ordinary Share on a daily basis, the Company utilises the best available information on such date. However, prior to the issuance of financial statements, U.S. GAAP requires that the Company recognise the effects of all subsequent events that provide additional evidence about conditions that existed as of the date of the consolidated financial statements. Consequently, in preparing the consolidated financial statements, the Investment Manager adjusted the fair valuations assigned to certain investments based on newly available information that provided additional fair value information as of 31 December 2012. The impact of this valuation adjustment on the Company's NAV and NAV per ordinary share is detailed below:

	Total ($)	**Per Ordinary Share (%)**
Initial Net Assets at 31 December 2012	478,290,641	1.0766
Net Valuation Adjustments	(25,250)	(0.0001)
Net Assets as at 31 December 2012 per consolidated financial statements	478,265,391	1.0765

NOTE 11 - SUBSEQUENT EVENTS

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

With the Ordinary Shareholders approval of the extension, a new extended share class was created (the "Extended Life Shares"). Investors who wished to invest in the Extended Life Shares were allowed to convert their Ordinary Shares to Extended Life Shares while investors who wished to remain invested on the basis of the current investment period were given the opportunity to do so.

Approximately 72% of the fund's Ordinary Shares were converted to Extended Life Shares.

The Extended Life Shares are subject to a new capital return policy pursuant to which the Company will seek to return to the holders of Extended Life Shares all capital profits arising from the exit of any assets attributable to the Extended Life Shares (net of any amount that the directors estimate may become payable as performance fee), at least every six months, with the first such distribution expected to be made for the period ending on 31 December 2013. Any capital return will only be made by the Company in accordance with applicable law at the relevant time, including the Companies Law.

DIRECTORS, MANAGERS AND ADVISERS

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

All c/o the Company's registered office.

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