

# NB PRIVATE EQUITY PARTNERS LIMITED

2011 ANNUAL FINANCIAL REPORT

## TABLE OF CONTENTS

### MANAGEMENT COMMENTARY:

|  |    |
|--|----|
| COMPANY OVERVIEW.....                                    | 1  |
| OVERVIEW OF THE INVESTMENT MANAGER.....                  | 2  |
| RECENT STRATEGIC ACTIONS.....                            | 3  |
| MARKET COMMENTARY .....                                  | 4  |
| INVESTMENT RESULTS .....                                 | 5  |
| INVESTMENT PORTFOLIO ACTIVITY .....                      | 6  |
| INVESTMENT STRATEGY AND CAPITAL DEPLOYMENT.....          | 9  |
| DIVERSIFICATION BY ASSET CLASS AND INVESTMENT TYPE ..... | 10 |
| DIVERSIFICATION BY YEAR OF INVESTMENT .....              | 11 |
| DIVERSIFICATION BY GEOGRAPHY AND INDUSTRY .....          | 12 |
| DIVERSIFICATION BY VINTAGE YEAR .....                    | 13 |
| PRIVATE EQUITY INVESTMENT PORTFOLIO .....                | 14 |
| NEW INVESTMENTS .....                                    | 16 |
| VALUATION METHODOLOGY .....                              | 18 |
| PERFORMANCE BY ASSET CLASS.....                          | 19 |
| PORTFOLIO INVESTMENT PERFORMANCE.....                    | 20 |
| DIRECT / CO-INVESTMENT PORTFOLIO SUMMARY .....           | 21 |
| LARGEST UNDERLYING INVESTMENTS.....                      | 25 |
| BUYOUT PORTFOLIO ANALYSIS.....                           | 26 |
| SPECIAL SITUATIONS PORTFOLIO ANALYSIS.....               | 30 |
| NB CROSSROADS FUND OF FUNDS INVESTMENTS .....            | 32 |
| LIQUIDITY AND CAPITAL RESOURCES.....                     | 33 |
| SHARE REPURCHASES .....                                  | 34 |
| FORWARD-LOOKING STATEMENTS.....                          | 35 |
| RISK FACTORS.....  | 36 |
| DIRECTORS' REPORT.....                                   | 38 |
| SUBSEQUENT EVENTS.....                                   | 41 |
| DIRECTORS, ADVISORS AND CONTACT INFORMATION.....         | 43 |
| CONSOLIDATED FINANCIAL STATEMENTS.....                   | 44 |

## COMPANY OVERVIEW

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

|                           |   |
|---------------------------|---|
| <b>Our Company</b>        | <b>NB Private Equity Partners Limited (“NBPE”)</b> <ul style="list-style-type: none"> <li>■ Guernsey closed-end investment company</li> <li>■ 49,345,169 Class A ordinary shares outstanding</li> <li>■ 10,000 Class B ordinary shares outstanding</li> <li>■ 32,999,999 Zero Dividend Preference (“ZDP”) shares outstanding</li> </ul>   |
| <b>Investment Manager</b> | <b>NB Alternatives Advisers</b> <ul style="list-style-type: none"> <li>■ Over 24 years of private equity investing experience</li> <li>■ Investment Committee with an aggregate of approximately 168 years of experience in private equity investing</li> <li>■ Approximately 55 investment professionals</li> <li>■ Approximately 115 administrative and finance professionals</li> <li>■ Offices in New York, London, Dallas and Hong Kong</li> </ul> |

| <i>(USD in millions, except per share data)</i> | <b>At 31 December 2011</b> | <b>At 31 December 2010 Pro Forma <sup>1</sup></b> |
|---|----------------------------|---|
| Net Asset Value                                 | \$544.4                    | \$526.9   |
| Net Asset Value per Ordinary Share              | \$11.03                    | \$10.38   |
| Fund Investments                                | \$401.5                    | \$408.6   |
| Direct / Co-investments                         | \$136.9                    | \$99.6  |
| Total Private Equity Fair Value                 | \$538.4                    | \$508.2   |
| Private Equity Investment Level <sup>2</sup>    | 99%                        | 96%   |
| Cash and Cash Equivalents                       | \$77.9                     | \$82.0  |

| <i>(GBP in millions, except per share data)</i> | <b>At 31 December 2011</b> | <b>At 31 December 2010</b> |
|---|----------------------------|----------------------------|
| ZDP Shares                                      | £38.2                      | £35.6                      |
| Net Asset Value per ZDP Share <sup>3</sup>      | 115.83p                    | 107.95p                    |

1. Pro forma for the closing of the Strategic Asset Sale, the up-front proceeds from the sale of Dresser and credit facility pay down.

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

3. Defined as the accreted value of the ZDP Shares.

## OVERVIEW OF THE INVESTMENT MANAGER

The NB Alternatives group of Neuberger Berman (the “Investment Manager”) has over 24 years of investing experience specializing in private equity funds, co-investments and secondary investments and has built relationships with leading private equity fund managers over that time.

The Investment Manager makes all of our investment decisions, and we have delegated to the Investment Manager the day-to-day management and operations of our business. The Investment Manager’s investment decisions are made by its Fund of Funds Investment Committee (the “Investment Committee”), which currently consists of members with an aggregate of approximately 168 years of experience in private equity investing. The sourcing and evaluation of our investments is conducted by the Investment Manager’s team of approximately 55 investment professionals who specialize in private equity fund investments and co-investments. In addition, the Investment Manager’s staff of approximately 115 administrative and finance professionals are responsible for our administrative, financial management and reporting needs. The Investment Manager currently maintains offices in New York, London, Dallas and Hong Kong.

### About Neuberger Berman

Neuberger Berman Group LLC is one of the world’s leading independent, employee-controlled asset management companies. As of 31 December 2011, assets under management were approximately \$193 billion. Established in 1939, Neuberger Berman provides a broad range of global investment solutions – equity, fixed income, and alternatives – to institutions and individuals through customized separately managed accounts, mutual funds and alternative investment products. For more information please visit Neuberger Berman’s website at [www.nb.com](http://www.nb.com).

## STRATEGIC ACTIONS IMPLEMENTATION

### Capital Return Policy

In October 2010, we implemented a long-term capital management policy (the "Capital Return Policy") of ongoing returns of capital to shareholders. The Capital Return Policy is intended to provide ongoing returns of capital (in an amount equal to at least 50% of the realized net increase in NAV attributable to shares from the preceding six-month period (the "Capital Return Policy Amount")) to holders of our ordinary Shares through share repurchases, dividends or such other means as the Directors consider most efficient. The Capital Return Policy Amount is measured from a starting point of 1 January 2011. These ongoing returns of capital will be at the discretion of the Board of Directors. On 22 October 2010, as part of the Capital Return Policy, we launched share buy-back programme (the Share Buy-Back Programme") using available cash and a portion of proceeds from our sale of limited partnership interests in eight Large-cap Buyout partnerships. That sale (the "Strategic Asset Sale") generated net cash of \$100.5 million.

Beginning on 1 January 2011, for the period from 1 January 2011 and ending 30 June 2011 the Capital Return Policy Amount was approximately \$1.7 million. For the period from 1 July 2011 and ending 31 December 2011 the Capital Return Policy Amount was approximately \$266 thousand. This capital was allocated for share repurchases in addition to the amounts allocated under the current Share Buy-Back Programme. Between 30 June 2011 and 31 December 2011, we repurchased a total of 882,846 Shares at a weighted average price of \$7.39 for a total consideration of \$6,533,684. In total from 1 January 2011 to 31 December 2011 we have repurchased 1,387,656 Shares at a weighted average price of \$7.41 per share for a total consideration of \$10,293,650.

The Share Buy-Back Programme was extended on 30 August 2011, 29 November 2011, and 9 March 2012, and unless further extended, will end on 31 May 2012.

Returns of capital may be achieved by way of Share repurchases, dividends or such other means as the Directors consider most efficient. Future returns of capital under the Capital Return Policy will be announced at the time of reporting our financial results for each respective six-month period.

### Increased Allocation to Direct Private Equity and Yield-Oriented Investments

We continue to target a higher allocation to direct private equity and yield-oriented investments while also maintaining a well diversified private equity portfolio.

Our Investment Manager is experienced in sourcing and completing such investments and has a global senior co-investment team with 75 years of combined experience which includes former lead investors at small and middle market private equity firms. This experience makes NB Alternatives a preferred partner and allows us to apply our unique strengths on each strategic investment. Our Investment Manager manages over \$1.6 billion of capital dedicated to direct co-investments and has closed more than 50 co-investments over the last five years.

Over time, we expect this strategy to reduce the duration of our private equity portfolio, increase transparency for Shareholders, reduce our overall expense ratio and continue our policy of maintaining a conservative over-commitment level.

NBPE has committed \$200 million to NB Alternatives direct co-investment program. This is intended to grant NBPE greater access to co-investment transactions consistent with the Company's strategy of increasing its exposure to direct transactions. We expect this capital to be invested over a 3-5 year period and we may also make other investments from time to time in addition to participating in this program. The program will not result in any additional NB fees charged to NBPE.

## MARKET COMMENTARY

During 2011, there were a number of macro challenges such as uncertainty over European sovereign debt, a Tsunami in Japan, and a downgrade of the U.S. credit rating. Despite these headwinds, equity markets proved somewhat resilient during the year. The S&P 500 finished the year flat on a price-return basis and up 2.1% on a total return basis.<sup>1</sup> The Dow Jones Index finished the year even stronger, with total return gains of 8.4%, indicating many investors pursued yield-oriented investments overall in 2011.<sup>1</sup> U.S. aggregate bond indexes, high yield bond indexes and MLP indexes all posted gains for the year as well.

However, in 2011 there was little progress toward solutions for many of the challenges in the U.S. and global economies. In the U.S., unemployment remained high and housing prices once again saw another decline, according to the Case-Shiller home price index. Because of these ongoing challenges in the economy, the U.S. Federal Reserve has indicated an accommodative low interest rate policy for the near term. In Europe, there was little resolution to the sovereign debt problems in several of the member countries and the pathway to resolution is far from clear. In Asia, the slowdown in China has prompted concerns over whether the country is facing a hard landing and the possibility of recession.

Even as these challenges remain ongoing, underlying business fundamentals appear positive with strong corporate earnings and healthy balance sheets. With accommodative Federal Reserve policy and slow but positive growth expected in the future, the outlook for business activity in the coming months is optimistic, in our opinion. Given these conditions, if the economy were to slow and move into a recession, we believe it would likely be shallow.

In the fourth quarter of 2011, U.S. leveraged buyout volume increased from \$22.5 billion to \$34.8 billion. In addition, leveraged loan volume increased from \$9.5 billion in the third quarter of 2011 to \$11.5 billion in the fourth quarter. The average LBO transaction size in the fourth quarter increased to \$1.5 billion versus \$1.1 billion in the third quarter.<sup>2</sup>

Over the next several years, we believe there will be a number of investment opportunities for experienced small- and mid-cap buyout sponsors. Broadly speaking, the operating performance of target companies has improved, and we believe this will continue to drive an increase in new transaction volume. We intend to capitalize on this opportunity by utilizing our proven co-investment platform and our capital resources to pursue attractive direct investments for NBPE's portfolio, while continuing to maintain a well-diversified portfolio.

Although economic conditions have generally improved, a large amount of credit remains outstanding and is in need of future refinancing. We believe this will lead to strong deal flow in direct yield-oriented investments over the next several years in traditional corporate sectors. In addition, compelling new opportunities are emerging in the healthcare sector in yielding securities backed by the sales of medical devices and treatments. Many companies in this sector lack the ability to obtain traditional sources of financing, yet have strong products or treatments. Income streams from these yielding investments have the added characteristic of generally being less correlated to the overall economy. Dislocation continues to persist in both of these sectors as well as other areas of the market and during shifts in market sentiment.

We continue to believe that our private equity portfolio is well positioned to generate attractive returns over the long term and we believe that we are in a strong position to take advantage of high-quality investment opportunities.

1. *Capital IQ.*

2. *Standard & Poor's 4Q11 Leveraged Buyout Review.*

## INVESTMENT RESULTS

As of 31 December 2011, NBPE's audited NAV per Share was \$11.03, representing a 6.3% increase compared to the audited NAV per Share of \$10.38 at 31 December 2010. The increase in NAV was primarily driven by net gains across the private equity portfolio, with the largest appreciation related to certain buyout funds and co-investments, including Dresser. These gains in value were offset by unrealized losses on certain other investments.

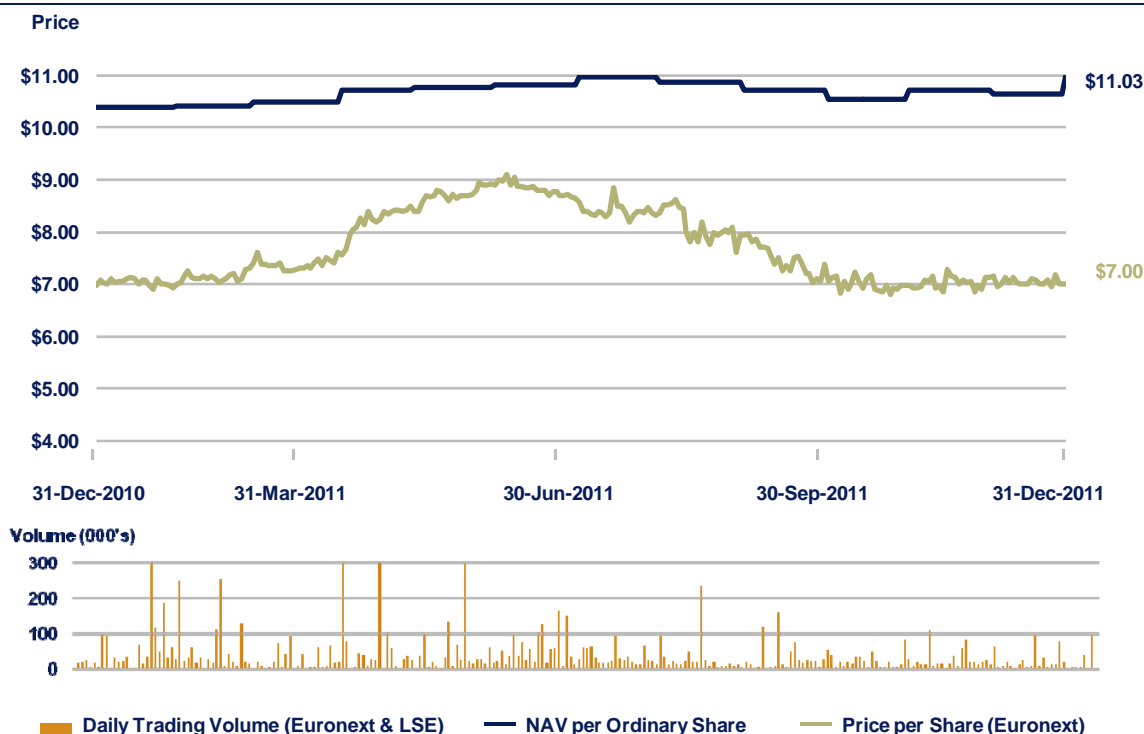
During 2011, our private equity portfolio generated realized gains of \$48.5 million. The portfolio also had net unrealized losses of \$9.3 million from privately held investments, credit-related fund investments and public equity securities. Investment performance during the year was offset by \$11.5 million of net operating expenses. Share repurchases were accretive to NAV per Share by approximately \$0.10. In total from 1 January 2011 to 31 December 2011 we have repurchased 1,387,656 Shares at a weighted average price of \$7.41 per share for a total consideration of \$10,293,650. Share repurchases during the year were purchased at a weighted average discount to NAV of 30.3%.

During the year ending 31 December 2011, we invested approximately \$80.0 million into private equity assets through capital calls and direct / co-investments. Approximately 42% of this capital was invested in buyout funds and co-investments, 44% in special situations funds and direct investments, 10% in venture and growth capital funds, and 4% in a secondary transaction.

For the year, we received approximately \$175.1 million of distributions and sale proceeds, including \$64.2 million related to the Strategic Asset Sale. Excluding the Strategic Asset Sale, approximately 51% of the distributions were from buyout funds and co-investments, 39% from special situations funds and direct investments, and 10% from venture and growth capital funds.

The largest distributions in 2011 were attributable to the sale of Dresser and investment proceeds from OCM Opportunities Fund VIIb, Arclight Energy Partners Fund IV, Bertram Growth Capital I, Wayzata Opportunities Fund II, and NB Crossroads Fund XVII and Fund XVIII.

### LTM SHARE PRICE PERFORMANCE AND NAV PER ORDINARY SHARE



Source: NYSE Euronext and Bloomberg. Past performance is not indicative of future results.

Note: Daily Trading Volume includes combined volume of ordinary shares traded on NYSE Euronext and London Stock Exchange as well as over-the-counter trades reported via Markit BOAT.

## INVESTMENT PORTFOLIO ACTIVITY

As of 31 December 2011, our private equity investment portfolio consisted of 39 fund investments and 33 direct / co-investments. The fair value of our private equity portfolio was \$538.4 million, and the total exposure, including unfunded commitments, was \$844.7 million.

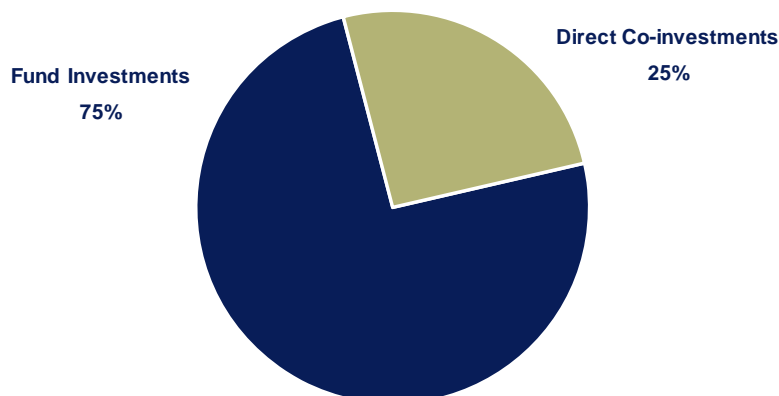
### PRIVATE EQUITY INVESTMENT PORTFOLIO – 31 DECEMBER 2011

#### Private Equity Investment Portfolio - 31 December 2011

(\$ in millions)

|   | Number of<br>Investments | Fair Value     | Unfunded<br>Commitments | Total<br>Exposure |
|---|--------------------------|----------------|-------------------------|-------------------|
| Fund Investments                        | 39                       | \$401.5        | \$105.0                 | \$506.5           |
| Direct / Co-investments                 | 33                       | 136.9          | 201.3                   | 338.2             |
| <b>Total Private Equity Investments</b> | <b>72</b>                | <b>\$538.4</b> | <b>\$306.3</b>          | <b>\$844.7</b>    |

### PORTFOLIO ALLOCATION BASED ON FAIR VALUE





## INVESTMENT PORTFOLIO ACTIVITY

The investments in our private equity portfolio generated a significant amount of liquidity in 2011. Distributions were driven by sales of underlying portfolio companies to strategic and financial buyers, sales of public securities held by underlying sponsors and investment proceeds from distressed funds.

During the year, we received approximately \$175.1 million of distributions and sale proceeds, including \$64.2 million from the Strategic Asset Sale. Within our direct fund and co-investment portfolio, approximately 130 companies completed liquidity events (sales and recapitalizations) that led to a distribution.

The five largest distributions (excluding the Strategic Asset Sale) totaled approximately \$53.5 million and were attributable to investments in Dresser (Co-investment, First Reserve Fund XI), a HIV medication royalty notes (direct investment), portfolio proceeds from OCM Opportunities Fund VIIb, Power Holdings (Bertram Growth Capital I), and AL Gulf Coast Terminals (ArcLight Energy Partners Fund IV).

Within NB Crossroads Fund XVII and Fund XVIII, over 540 underlying companies completed liquidity events during the year, leading to \$15.5 million of distributions to NBPE.

In addition, 44 portfolio companies completed initial public offerings ("IPOs") in 2011. These companies had an aggregate fair value of approximately \$11.5 million as of 31 December 2011, with the largest and most significant IPOs attributable to Freescale Semiconductor, a direct co-investment as well as a portfolio company of Carlyle Europe Partners II, Blackstone Capital Partners V, NB Crossroads Fund XVII, and NB Crossroads Fund XVIII, Nielsen, a portfolio company of Carlyle Europe Partners II, NB Crossroads Fund XVII, and NB Crossroads Fund XVIII, and Groupon, Inc., a portfolio company of NB Crossroads Fund XVII and NB Crossroads Fund XVIII.

During the year, we committed an aggregate \$269.0 million to the following new investments as well as the NB Alternatives direct co-investment program which we believe are well-suited for NBPE's private equity portfolio (see pages 17 and 18 for a detailed description of each new investment):

- Special situations primary commitment to Catalyst Fund III
- Special situations direct investment in royalty notes backed by a leading neuropathic pain medication
- Special situations direct investment in royalty notes backed by a leading testosterone gel used for hormone replacement therapy
- Special situations direct investment in 18% Senior Unsecured PIK Notes in Firth Rixson, plc.
- Special situations secondary commitment to Wayzata Opportunities Fund II
- Mid-cap buyout co-investment in Pepcom
- Mid-cap buyout co-investment in Swissport International
- Large-cap buyout co-investment in CommScope
- Large-cap buyout co-investment in J.Crew Group
- Large-cap buyout co-investment in Syniverse Technologies
- Large-cap buyout co-investment in Capsugel
- Large-cap buyout co-investment in RAC
- Growth equity primary commitment to NG Capital Partners I
- Growth equity primary commitment to DGAG Expansion Capital Fund
- NB Alternatives direct co-investment program

## INVESTMENT PORTFOLIO ACTIVITY

The aggregate portfolio and investment activity for the year ended 31 December 2011 was as follows:

| (\$ in millions)                                     | Fund Investments | Direct/Co-investments | Total   |
|--|------------------|-----------------------|---------|
| Investments Funded                                   | \$53.7           | \$26.3                | \$80.0  |
| Distributions Received and Sales Proceeds            | \$147.2          | \$27.9                | \$175.1 |
|  |                  |                       |         |
| Net Realized Gains (Losses)                          | \$36.1           | \$12.4                | \$48.5  |
| Change in Net Unrealized Appreciation (Depreciation) | \$(8.2)          | (\$1.1)               | (\$9.3) |
|  |                  |                       |         |
| New Primary Commitments                              | 3                | -                     | 3       |
| New Direct / Co-investments                          | -                | 10                    | 10      |
| New Secondary Purchases                              | 1                | -                     | 1       |
| Amount Committed <sup>1</sup>                        |                  |                       | \$269.0 |

1. The \$200 million commitment to NB Alternatives direct co-investment program was excluded from the investment commitment counts as capital deployment is opportunistic and cannot be accurately forecast at this time.

## INVESTMENT STRATEGY AND CAPITAL DEPLOYMENT

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

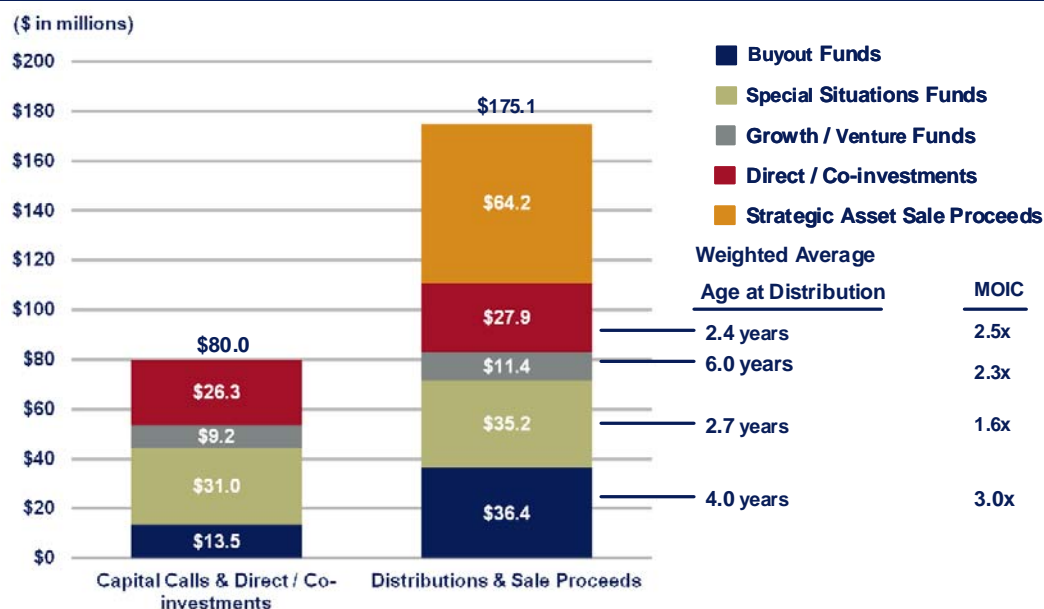
Since inception, we have tactically allocated a meaningful portion of our portfolio to the special situations asset class, including distressed funds. As a result, we have deployed over \$220 million into special situations funds and direct investments since our initial global offering in July 2007. These investments provide exposure to undervalued credit securities, mezzanine debt, royalty-backed notes, financial restructurings and operational turnarounds of underperforming businesses.

As of 31 December 2011, special situations investments represented 37% of our private equity portfolio based on fair value. We continue to believe our special situations funds and direct investments are well-positioned to generate attractive risk-adjusted returns over the long term, and we believe that an attractive environment for making special situations investments will continue over the next several years.

We have committed \$200 million to NB Alternatives direct co-investment program in order to target a higher allocation to direct private equity investments. We also expect to target a higher allocation of yield-oriented investments in sectors that we believe are well-suited for NBPE's private equity portfolio. This investment strategy will act as an extension of our existing direct / co-investment program, and we expect new transactions to consist of equity co-investments as well as yield-oriented investments that have an appropriate risk-reward profile. In addition, we intend to make primary commitments to seasoned fund managers on an opportunistic basis, with a particular focus on capital efficient investment strategies.

Illustrated below is a summary of our capital deployment and distributions during the year 2011. During this time, our private equity portfolio generated positive net cash flow of \$30.9 million (excluding the Strategic Asset Sale proceeds). In addition, we received an aggregate \$64.2 million from the closing of the Strategic Asset Sale. Over the next several years, we expect the level of distributions to continue to increase as our portfolio matures.

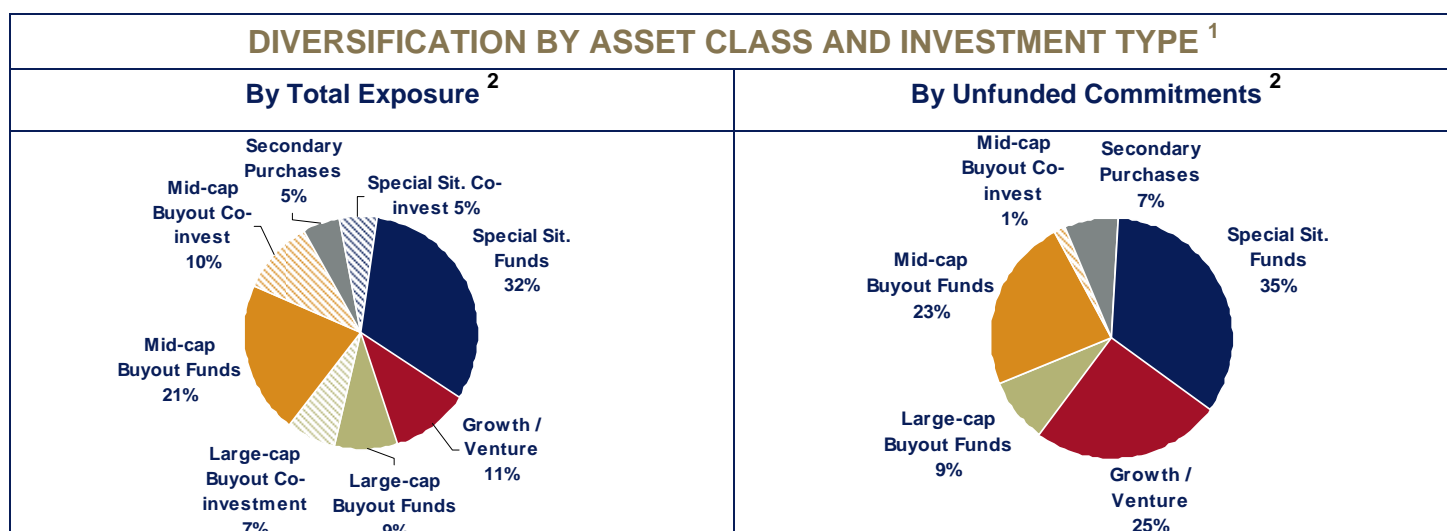
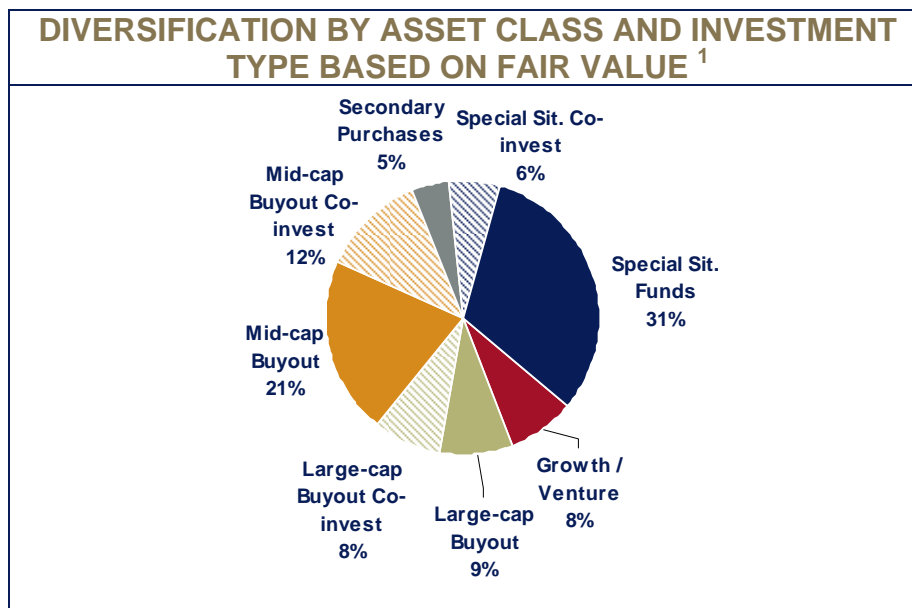
### YTD 2011 CAPITAL DEPLOYMENT & DISTRIBUTIONS



*Note: As of 31 December 2011. Past performance is not indicative of future results. MOIC represents multiple of invested capital.*

## DIVERSIFICATION BY ASSET CLASS AND INVESTMENT TYPE

Consistent with our investment objective, we strive to manage investment risk through appropriate diversification within our private equity portfolio. The graphs below illustrate the breakdown of our private equity portfolio by asset class and investment type based on fair value, total exposure and unfunded commitments as of 31 December 2011.

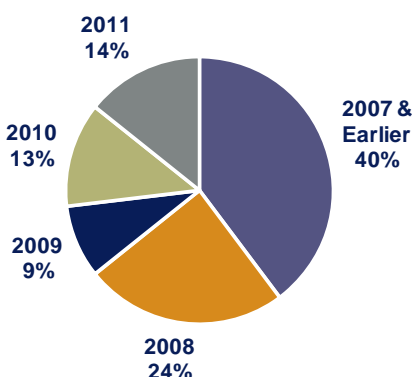


1. The diversification analysis by asset class and investment type is based on the fair value of underlying fund investments and direct / co-investments. Determinations regarding asset class and investment type represent the Investment Manager's estimates. Accordingly, the actual diversification of our investment portfolio and the diversification of our investment portfolio on an ongoing basis may vary from the foregoing information.
2. The \$200 million commitment to NB Alternatives direct co-investment program was excluded, as capital deployment is opportunistic and cannot be accurately forecast at this time.

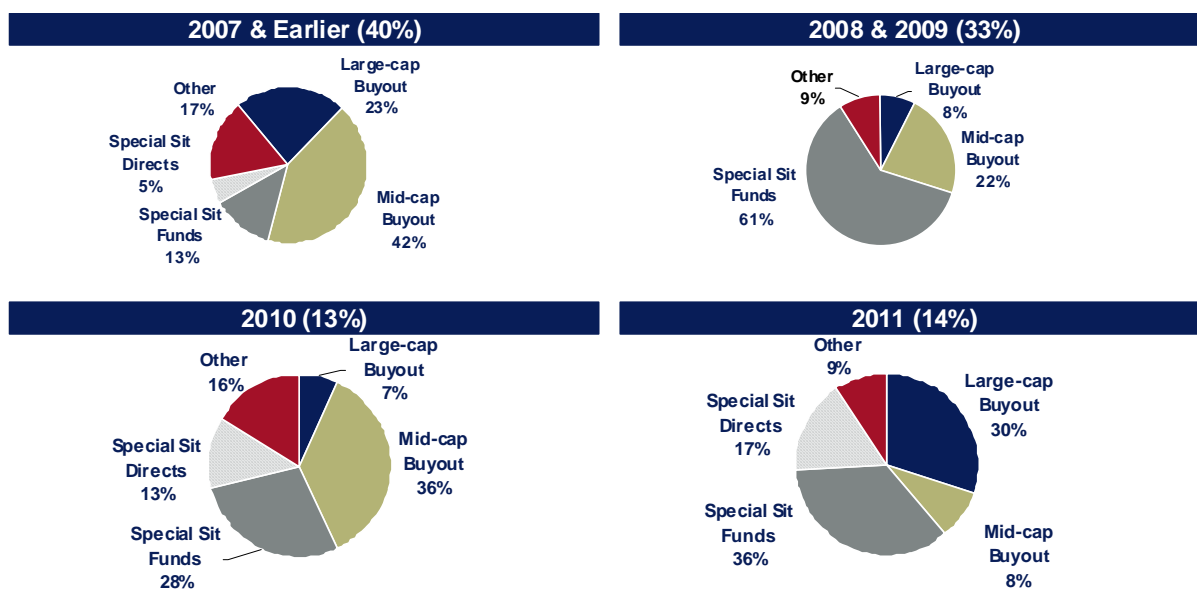
## DIVERSIFICATION BY YEAR OF INVESTMENT <sup>1</sup>

The graphs below illustrate the diversification of our private equity portfolio by year of investment based on fair value as of 31 December 2011. Year of investment is calculated at the portfolio company level and is defined as the date of capital deployment into a particular underlying investment. This differs from the diversification by vintage year on page 13 as vintage year shows when a fund was formed rather than when the capital was deployed. As illustrated below, approximately 60% of fair value at 31 December 2011 was attributable to investments made during 2008 through 2011. The allocation to special situations and mid-cap buyout investments has increased as a result of our tactical allocation to the most attractive opportunities.

### DIVERSIFICATION BY YEAR OF INVESTMENT BASED ON FAIR VALUE



### YEAR OF INVESTMENT: DIVERSIFICATION BY ASSET CLASS BASED ON FAIR VALUE

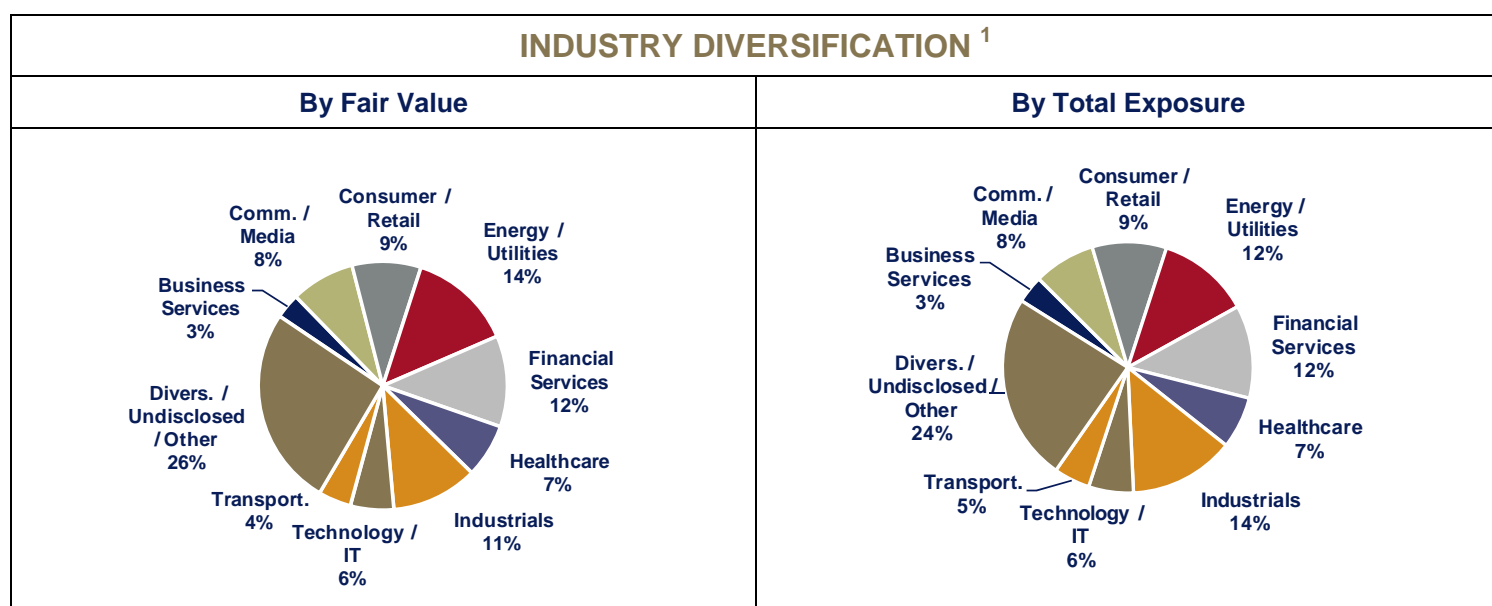
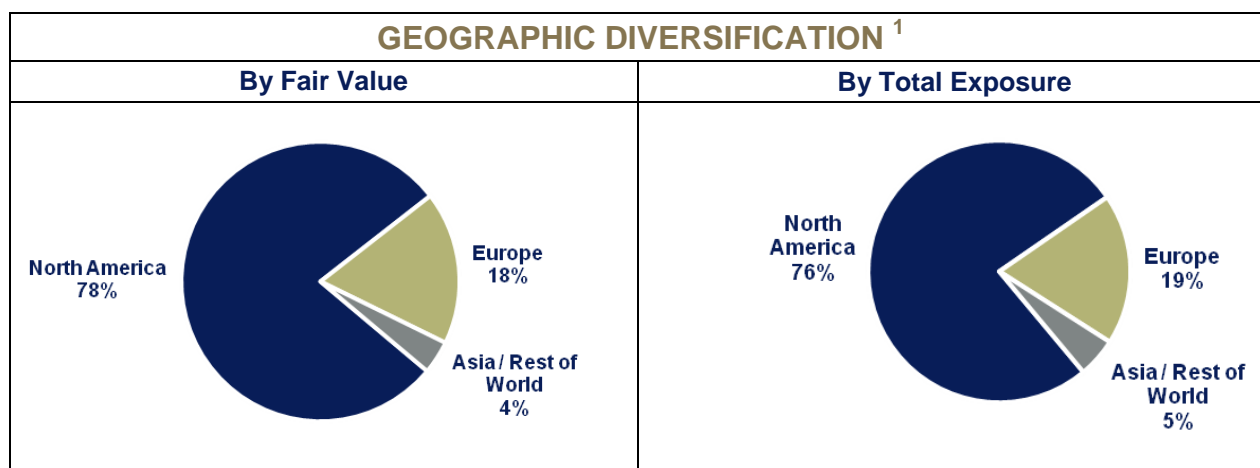


Note: "Other" includes NB Crossroads Fund XVII, Growth / Venture and Secondaries.

1. Based on private equity fair value as of 31 December 2011.

## DIVERSIFICATION BY GEOGRAPHY AND INDUSTRY

The graphs below illustrate the diversification of our private equity portfolio by geography and industry based on fair value and total exposure as of 31 December 2011.



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

## DIVERSIFICATION BY VINTAGE YEAR

The table below outlines the diversification of our private equity portfolio by vintage year and investment type based on fair value as of 31 December 2011. For the purposes of this analysis, and throughout this Annual Financial Report, vintage year is defined as the date of the first portfolio investment made by a private equity fund or the date of a direct / co-investment. This diversification by vintage year should be distinguished from the diversification by year of investment, which is shown on page 11.

| DIVERSIFICATION BY VINTAGE YEAR AND INVESTMENT TYPE<br>BASED ON FAIR VALUE <sup>1</sup> |               |               |                |                |               |               |               |               |                |
|---|---------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|----------------|
| (\$ in millions)  | Vintage Year  |               |                |                |               |               |               |               | Total          |
|   | <=2004        | 2005          | 2006           | 2007           | 2008          | 2009          | 2010          | 2011          |                |
| Special Sit. Funds  | 0.2           | 1.9           | 17.7           | 76.7           | 55.4          | 17.3          | 0.7           | -             | \$ 170.0       |
| Special Sit. Co-invest  | -             | -             | -              | -              | 11.0          | -             | 8.9           | 13.1          | 33.0           |
| Mid-cap Buyout Funds  | 7.8           | 12.1          | 54.9           | 32.6           | 4.1           | -             | -             | -             | 111.5          |
| Mid-cap Buyout Co-invest  | -             | 0.6           | 11.0           | 28.6           | 4.4           | -             | 17.7          | 3.6           | 66.0           |
| Large-cap Buyout  | 11.9          | 3.0           | 28.7           | 2.9            | -             | -             | -             | -             | 46.5           |
| Large-cap Buyout Co-invest  | -             | -             | 4.1            | 18.9           | -             | 0.1           | 1.3           | 19.0          | 43.4           |
| Growth / Venture  | 2.3           | 5.3           | 12.3           | 14.4           | 2.1           | -             | 7.0           | -             | 43.4           |
| Secondary Purchases   | 0.1           | 0.8           | 1.1            | 4.2            | 0.3           | 7.7           | 2.4           | 8.0           | 24.6           |
| <b>Total</b>  | <b>\$22.3</b> | <b>\$23.6</b> | <b>\$130.0</b> | <b>\$178.3</b> | <b>\$77.2</b> | <b>\$25.2</b> | <b>\$38.0</b> | <b>\$43.8</b> | <b>\$538.4</b> |

| (% of Fair Value)          | Vintage Year |             |              |              |              |             |             |             | Total         |
|----------------------------|--------------|-------------|--------------|--------------|--------------|-------------|-------------|-------------|---------------|
|                            | <=2004       | 2005        | 2006         | 2007         | 2008         | 2009        | 2010        | 2011        |               |
| Special Sit. Funds         | 0.0%         | 0.3%        | 3.3%         | 14.2%        | 10.3%        | 3.2%        | 0.1%        | -           | 31.6%         |
| Special Sit. Co-invest     | -            | -           | -            | -            | 2.0%         | -           | 1.7%        | 2.4%        | 6.1%          |
| Mid-cap Buyout Funds       | 1.4%         | 2.2%        | 10.2%        | 6.1%         | 0.8%         | -           | -           | -           | 20.7%         |
| Mid-cap Buyout Co-invest   | -            | 0.1%        | 2.1%         | 5.3%         | 0.8%         | -           | 3.3%        | 0.7%        | 12.3%         |
| Large-cap Buyout           | 2.2%         | 0.6%        | 5.3%         | 0.5%         | -            | -           | -           | -           | 8.6%          |
| Large-cap Buyout Co-invest | -            | -           | 0.8%         | 3.5%         | -            | 0.0%        | 0.2%        | 3.5%        | 8.1%          |
| Growth / Venture           | 0.4%         | 1.0%        | 2.3%         | 2.7%         | 0.4%         | -           | 1.3%        | -           | 8.1%          |
| Secondary Purchases        | 0.0%         | 0.1%        | 0.2%         | 0.8%         | 0.1%         | 1.4%        | 0.4%        | 1.5%        | 4.6%          |
| <b>Total</b>               | <b>4.1%</b>  | <b>4.4%</b> | <b>24.1%</b> | <b>33.1%</b> | <b>14.3%</b> | <b>4.7%</b> | <b>7.1%</b> | <b>8.1%</b> | <b>100.0%</b> |

1. Totals may not sum due to rounding.

# PRIVATE EQUITY INVESTMENT PORTFOLIO <sup>1</sup>

The following is a list of our private equity fund investments as of 31 December 2011.

| (\$ in millions)<br><b>Fund Investments</b>     | <b>Principal<br/>Geography</b> | <b>Vintage<br/>Year</b> | <b>Fair<br/>Value</b> | <b>Unfunded<br/>Commit.</b> | <b>Total<br/>Exposure</b> |
|---|--------------------------------|-------------------------|-----------------------|-----------------------------|---------------------------|
| <i>Special Situations</i>                       |                                |                         |                       |                             |                           |
| Catalyst Fund III                               | Canada                         | 2009                    | \$ 6.7                | \$ 8.1                      | \$ 14.8                   |
| Centerbridge Credit Partners                    | U.S.                           | 2008                    | 32.1                  | -                           | 32.1                      |
| CVI Global Value Fund                           | Global                         | 2006                    | 13.0                  | 0.8                         | 13.8                      |
| OCM Opportunities Fund VIIb                     | U.S.                           | 2008                    | 23.3                  | 3.0                         | 26.3                      |
| Oaktree Opportunities Fund VIII                 | U.S.                           | 2009                    | 10.4                  | -                           | 10.4                      |
| Platinum Equity Capital Partners II             | U.S.                           | 2007                    | 15.1                  | 3.3                         | 18.5                      |
| Prospect Harbor Credit Partners                 | U.S.                           | 2007                    | 13.4                  | -                           | 13.4                      |
| Sankaty Credit Opportunities III                | U.S.                           | 2007                    | 26.3                  | -                           | 26.3                      |
| Strategic Value Special Situations Fund         | Global                         | 2010                    | 0.7                   | -                           | 0.7                       |
| Strategic Value Global Opportunities Fund I-A   | Global                         | 2010                    | 1.5                   | 0.2                         | 1.8                       |
| Sun Capital Partners V                          | U.S.                           | 2007                    | 5.8                   | 4.3                         | 10.1                      |
| Wayzata Opportunities Fund II                   | U.S.                           | 2007                    | 13.1                  | 15.3                        | 28.4                      |
| Wayzata Opportunities Fund II (Secondary)       | U.S.                           | 2011                    | 8.0                   | 3.3                         | 11.3                      |
| <i>Mid-cap Buyout</i>                           |                                |                         |                       |                             |                           |
| American Capital Equity II                      | U.S.                           | 2007                    | 3.9                   | 1.4                         | 5.3                       |
| Aquiline Financial Services Fund                | U.S.                           | 2005                    | 5.2                   | 0.2                         | 5.4                       |
| ArcLight Energy Partners Fund IV                | U.S.                           | 2007                    | 9.0                   | 5.4                         | 14.4                      |
| Avista Capital Partners                         | U.S.                           | 2006                    | 13.3                  | 1.3                         | 14.6                      |
| Clessidra Capital Partners                      | Europe                         | 2004                    | 2.6                   | 0.5                         | 3.1                       |
| Corsair III Financial Services Capital Partners | Global                         | 2007                    | 6.5                   | 1.6                         | 8.1                       |
| Highstar Capital II                             | U.S.                           | 2004                    | 3.4                   | 0.2                         | 3.6                       |
| Investitori Associati III                       | Europe                         | 2000                    | 1.2                   | 0.3                         | 1.6                       |
| Lightyear Fund II                               | U.S.                           | 2006                    | 10.5                  | 0.8                         | 11.3                      |
| OCM Principal Opportunities Fund IV             | U.S.                           | 2006                    | 19.6                  | 2.0                         | 21.6                      |
| Trident IV                                      | U.S.                           | 2007                    | 4.9                   | 1.0                         | 5.9                       |
| <i>Large-cap Buyout</i>                         |                                |                         |                       |                             |                           |
| Carlyle Europe Partners II                      | Europe                         | 2003                    | 4.5                   | 0.7                         | 5.2                       |
| Doughty Hanson & Co IV                          | Europe                         | 2003                    | 5.7                   | 0.2                         | 5.9                       |
| First Reserve Fund XI                           | U.S.                           | 2006                    | 17.0                  | 5.2                         | 22.2                      |
| J.C. Flowers II                                 | Global                         | 2006                    | 2.2                   | 0.3                         | 2.5                       |
| <i>Growth Equity</i>                            |                                |                         |                       |                             |                           |
| Bertram Growth Capital I                        | U.S.                           | 2007                    | 11.0                  | 2.9                         | 13.8                      |
| Bertram Growth Capital II                       | U.S.                           | 2010                    | 2.5                   | 7.7                         | 10.2                      |
| DBAG Expansion Capital Fund                     | Europe                         | 2011                    | -                     | 6.0                         | 6.0                       |
| NG Capital Partners                             | Peru                           | 2010                    | 2.8                   | 2.9                         | 5.7                       |
| Summit Partners Europe Private Equity Fund      | Europe                         | 2010                    | 1.6                   | 4.2                         | 5.8                       |
| <i>Fund of Funds Investments</i>                |                                |                         |                       |                             |                           |
| NB Crossroads Fund XVII                         | U.S.                           | 2002-06                 | 36.0                  | 3.7                         | 39.7                      |
| NB Crossroads Fund XVIII Large-cap Buyout       | Global                         | 2005-10                 | 11.1                  | 2.6                         | 13.7                      |
| NB Crossroads Fund XVIII Mid-cap Buyout         | Global                         | 2005-10                 | 31.4                  | 9.5                         | 40.8                      |
| NB Crossroads Fund XVIII Special Situations     | Global                         | 2005-10                 | 9.1                   | 1.2                         | 10.2                      |
| NB Crossroads Fund XVIII Venture Capital        | U.S.                           | 2005-10                 | 9.5                   | 2.7                         | 12.2                      |
| NB Fund of Funds Secondary 2009                 | Global                         | 2009-10                 | 7.6                   | 2.3                         | 9.9                       |
| <b>Total Fund Investments</b>                   |                                |                         | <b>\$401.5</b>        | <b>\$105.0</b>              | <b>\$506.5</b>            |

1. Totals may not sum due to rounding.



# PRIVATE EQUITY INVESTMENT PORTFOLIO <sup>1</sup>

The following is a list of our direct / co-investments as of 31 December 2011.

| (\$ in millions)                                    | Principal        | Vintage     | Fair           | Unfunded       | Total           |
|---|------------------|-------------|----------------|----------------|-----------------|
| <b>Direct / Co-investments <sup>2</sup></b>         | <b>Geography</b> | <b>Year</b> | <b>Value</b>   | <b>Commit.</b> | <b>Exposure</b> |
| <i>Mid-cap Buyout and Growth Equity</i>             |                  |             |                |                |                 |
| Bourland & Leverich Supply Co. LLC                  | U.S.             | 2010        |                |                |                 |
| Dresser Holdings, Inc.                              | U.S.             | 2007        |                |                |                 |
| Edgen Murray Corporation                            | U.S.             | 2007        |                |                |                 |
| Fairmount Minerals, Ltd.                            | U.S.             | 2010        |                |                |                 |
| Firth Rixson, plc                                   | Europe           | 2007-09     |                |                |                 |
| GazTransport & Technigaz S.A.S.                     | Europe           | 2008        |                |                |                 |
| Group Ark Insurance Holdings Limited                | Global           | 2007        |                |                |                 |
| Kyobo Life Insurance Co., Ltd.                      | Asia             | 2007        |                |                |                 |
| Pepcom GmbH   | Europe           | 2011        |                |                |                 |
| Press Ganey Associates, Inc.                        | U.S.             | 2008        |                |                |                 |
| Salient Federal Solutions, LLC                      | U.S.             | 2010        |                |                |                 |
| Seventh Generation, Inc. <sup>3</sup>               | U.S.             | 2008        |                |                |                 |
| SonicWall, Inc.                                     | U.S.             | 2010        |                |                |                 |
| Swissport International AG                          | Europe           | 2011        |                |                |                 |
| The SI Organization, Inc.                           | U.S.             | 2010        |                |                |                 |
| TPF Genco Holdings, LLC                             | U.S.             | 2006        |                |                |                 |
|   |                  |             | <b>61.8</b>    | <b>1.2</b>     | <b>63.0</b>     |
| <i>Large-cap Buyout</i>                             |                  |             |                |                |                 |
| Avaya, Inc.   | U.S.             | 2007        |                |                |                 |
| CommScope   | U.S.             | 2011        |                |                |                 |
| Capsugel  | U.S.             | 2011        |                |                |                 |
| RAC   | Europe           | 2011        |                |                |                 |
| Energy Future Holdings Corp.                        | U.S.             | 2007        |                |                |                 |
| First Data Corporation                              | U.S.             | 2007        |                |                |                 |
| Freescale Semiconductor, Inc.                       | U.S.             | 2006        |                |                |                 |
| J.Crew Group  | U.S.             | 2011        |                |                |                 |
| Sabre Holdings Corporation                          | U.S.             | 2007        |                |                |                 |
| Syniverse Technologies                              | U.S.             | 2011        |                |                |                 |
| Univar Inc.   | Global           | 2010        |                |                |                 |
|   |                  |             | <b>42.1</b>    | <b>0.1</b>     | <b>42.2</b>     |
| <i>Special Situations</i>                           |                  |             |                |                |                 |
| Firth Rixson, plc (Mezzanine Debt)                  | Europe           | 2008        |                |                |                 |
| Firth Rixson, plc (PIK Notes)                       | Europe           | 2011        |                |                |                 |
| Royalty Notes (Neuropathic Pain)                    | Global           | 2011        |                |                |                 |
| Royalty Notes (Hormone Therapy)                     | Global           | 2011        |                |                |                 |
| SonicWall, Inc. (Second Lien Debt)                  | U.S.             | 2010        |                |                |                 |
| Suddenlink Communications (PIK Preferred)           | U.S.             | 2010        |                |                |                 |
|   |                  |             | <b>33.0</b>    | <b>-</b>       | <b>33.0</b>     |
| <b>Total Direct / Co-investments</b>                |                  |             | <b>\$136.9</b> | <b>\$1.3</b>   | <b>\$138.2</b>  |
| <b>NB Alternatives direct co-investment program</b> |                  |             | <b>-</b>       | <b>\$200.0</b> | <b>\$200.0</b>  |
| <b>Total Private Equity Investment Portfolio</b>    |                  |             | <b>\$538.4</b> | <b>\$306.3</b> | <b>\$844.7</b>  |

1. Totals may not sum due to rounding.
2. Direct / co-investment values are disclosed on an aggregate-only basis. No single direct / co-investment comprise more than 3.5% of total net asset value.
3. Seventh Generation is the only Growth Equity investment.

## NEW INVESTMENTS

During 2011, we committed an aggregate \$269.0 million to the following private equity investments:

### **Royalty Notes**

#### **Special Situations Direct Investment**

In January 2011, we completed a direct investment in royalty notes backed by the global sales of a leading neuropathic pain medication that is marketed globally by a premier pharmaceutical company. The notes in which NBPE invested pay interest at a rate of 11%.

### **Royalty Notes**

#### **Special Situations Direct Investment**

In January 2011, we committed to a direct investment in royalty backed notes that are collateralized by the sale of a testosterone gel used for hormone replacement therapy. The notes in which NBPE invested pay interest at a rate of LIBOR plus 16% (with a 1% LIBOR floor) and were issued at an original issue discount of 2.3%. The investment was funded in April 2011.

### **CommScope**

#### **Large-cap Buyout Co-investment**

In February 2011, we invested in a buyout co-investment alongside The Carlyle Group in CommScope, Inc., a global leader in infrastructure solutions for communications networks.

### **Swissport International**

#### **Mid-cap Buyout Co-investment**

In February 2011, we invested in a buyout co-investment alongside PAI Partners and Neuberger Berman's Co-investment Fund in Swissport International AG, a world-wide leader in ground handling services, providing ramp services, passenger services, and cargo services to more than 650 airlines.

### **Syniverse Technologies**

#### **Large-cap Buyout Co-investment**

In February 2011, we invested in a buyout co-investment alongside The Carlyle Group in Syniverse Technologies, Inc., a leading provider of technology and business solutions for the global telecommunications industry.

### **Pepcom**

#### **Mid-cap Buyout Co-investment**

In March 2011, we invested in a buyout co-investment alongside STAR Capital Partners and Neuberger Berman's Co-investment Fund in Pepcom GmbH. Pepcom is Germany's 5th largest cable operator with more than 630,000 subscribers of video, broadband and voice services.

### **J.Crew Group**

#### **Large-cap Buyout Co-investment**

In March 2011, we invested in a buyout co-investment alongside TPG Capital, Leonard Green & Partners and Neuberger Berman's Co-investment Fund in J.Crew Group, Inc. J.Crew is a leading specialty retailer of women's, men's and children's apparel, shoes and accessories. The company sells its products in retail and outlet stores nationwide as well as online and through a catalog business.

## NEW INVESTMENTS

### **Catalyst Fund III**

#### **Special Situations Fund Investment**

In March 2011, we committed \$13.5 million to Catalyst Fund III, a special situations fund that focuses on control and/or influence investments in distressed and undervalued Canadian situations.

### **NG Capital Partners I**

#### **Growth Equity Fund Investment**

In March 2011, we committed \$6.0 million to NG Capital Partners I, a growth equity fund that focuses on investing in Peruvian companies in industries with high growth potential. NG focuses on consumer-oriented companies including retail, education and restaurants to take advantage of the growing middle-class.

### **DBAG Expansion Capital Fund**

#### **Growth Equity Fund Investment**

In May 2011, we committed \$6.0 million equivalent (Euro denominated) to DBAG Expansion Capital Fund, a growth equity fund that focuses on middle-market industrial and engineering companies in Germany.

### **Capsugel**

#### **Large-cap Buyout Co-investment**

In May 2011, we committed to Capsugel, a provider of hard capsules and drug delivery systems for pharmaceutical and healthcare industries.

### **RAC**

#### **Large-cap Buyout Co-investment**

In September 2011, we committed to RAC, a provider of motor-related and breakdown assistance services to consumer and corporate clients in the UK.

### **Firth Rixson 2011 Debt**

#### **Special Situations Co-investment**

In November 2011, we purchased 18% Senior Unsecured PIK Notes issued by Firth Rixson, a provider of seamless rolled rings, forgings and specialty metals to primarily the aerospace market.

### **NB Alternatives Direct Co-investment Program**

In November 2011, we committed \$200 million to NB Alternative direct co-investment program. This is intended to grant NBPE greater access to co-investment transactions consistent with the Company's strategy of increasing its exposure to direct transactions. We expect this capital to be invested over a 3-5 year period and we may also make other investments from time to time in addition to participating in this program.

### **Wayzata Opportunities Fund II**

#### **Secondary Purchase Fund Investment**

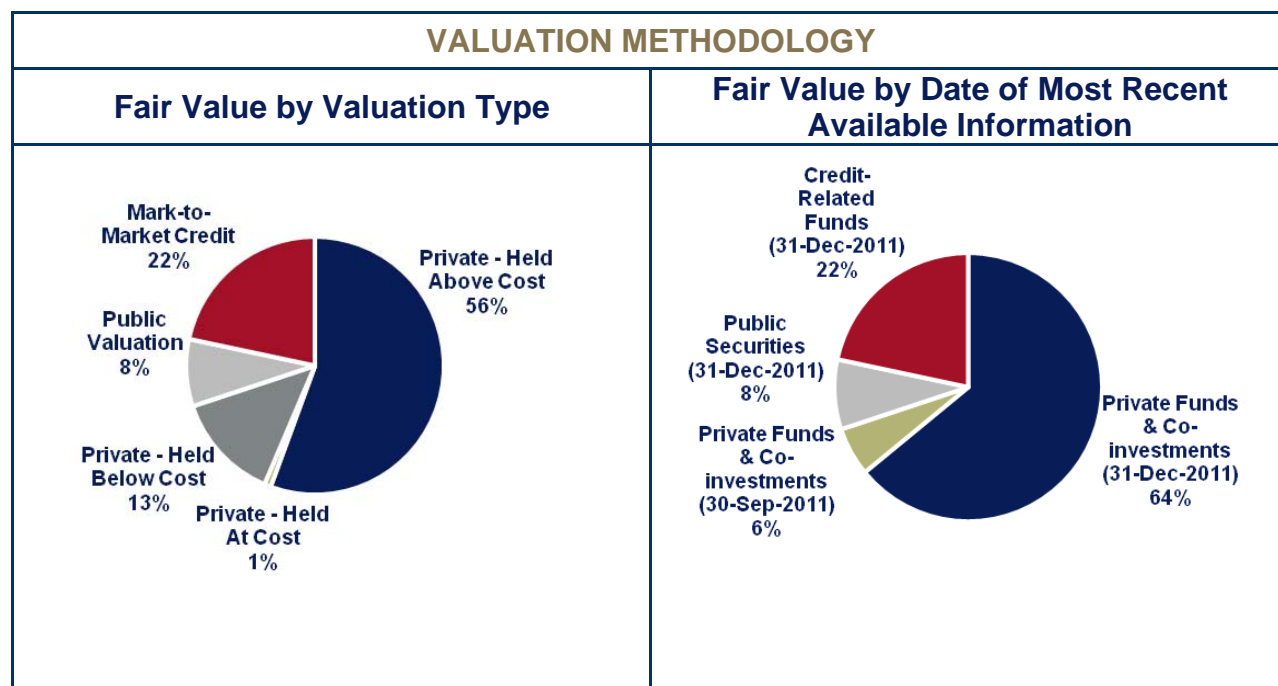
In December 2011, we purchased a \$7.4 million commitment to Wayzata Opportunities Fund II in a secondary transaction.

## VALUATION METHODOLOGY

We carry our private equity investments on our books at fair value using the best information we have reasonably available to determine or estimate fair value. Publicly traded securities are valued based on quoted prices as of the last day of the relevant period less discounts to reflect legal restrictions associated with the securities, if any, that affect marketability. We determine such values for publicly traded securities held directly as well as known public positions held in the underlying private equity investments on a look-through basis. We estimate fair value for private interests based on a methodology that begins with the most recent information available from the general partner of the underlying fund or the lead investor of a direct co-investment, and considers subsequent transactions, such as drawdowns or distributions, as well as other information judged to be reliable that reports or indicates valuation changes, including realizations and other portfolio company events. We proactively re-value our investments before we have received updated information from the fund manager or lead sponsor if we become aware of material events that justify a change in valuation. Our Investment Manager utilized the most recently available information to revalue our direct and co-investment valuations on a preliminary basis as of 31 December 2011 and one co-investment was valued as of 30 September 2011. If we conclude that it is probable that we will sell an investment, we adjust our carrying value to the amount we expect to realize from the sale, exclusive of transaction costs.

Our NAV per Share of \$11.03 as of 31 December 2011 was \$0.38 higher than previously reported in our December 2011 Monthly Report principally due to the receipt of additional portfolio valuation information. Companies held through multiple fund investments are generally marked at the lowest of the GP valuations and in some cases the average of the GP valuations.

The graphs below illustrate the diversification of our private equity investments by valuation type and the date of most recent available information as of 31 December 2011.



## PERFORMANCE BY ASSET CLASS<sup>1, 2</sup>

Based on the multiple of total value to paid-in capital ("TVPI") since inception, our private equity portfolio increased in fair value by approximately 5.7% from 1.05x at 31 December 2010 to 1.11x at 31 December 2011.

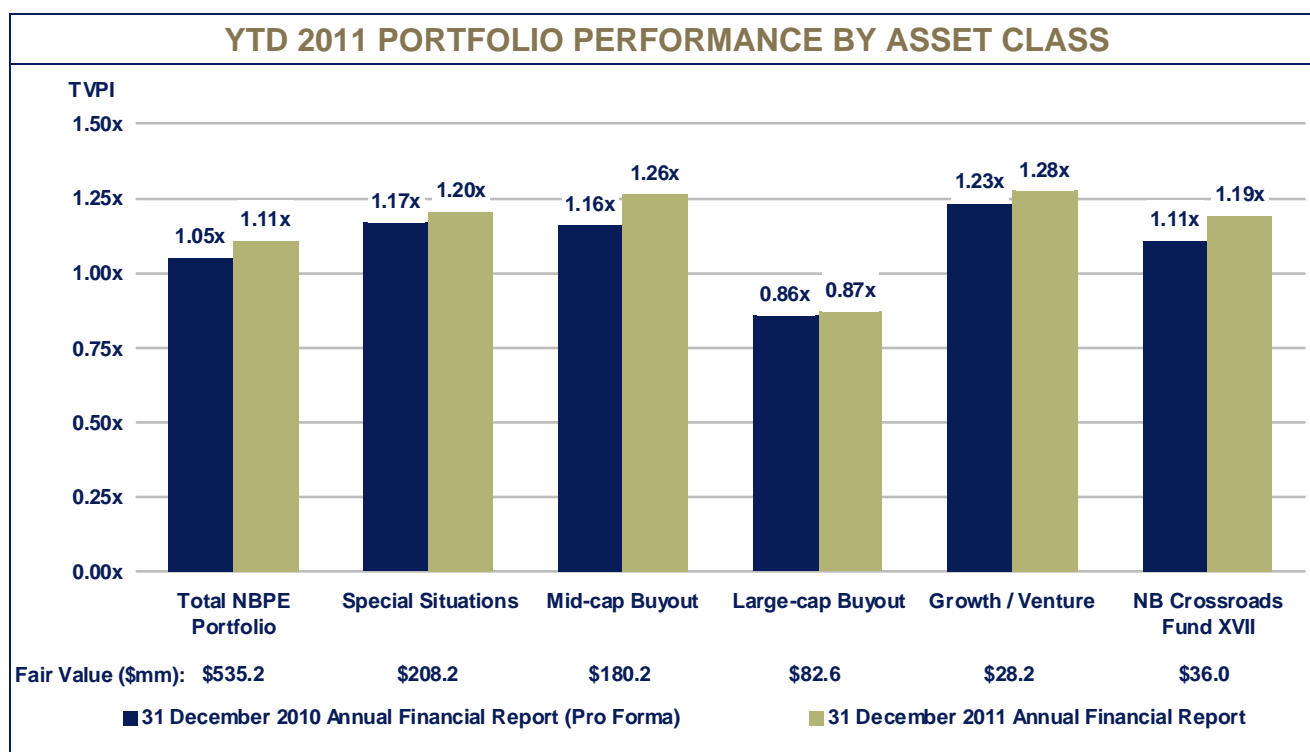
The increase in value during the year was driven by realized and unrealized gains across the portfolio, including an increase of approximately 2.6% in the special situations portfolio from 1.17x at 31 December 2010 to 1.20x at 31 December 2011.

The value of the mid-cap buyout portfolio increased by approximately 8.6% to 1.26x due to net unrealized gains related to fund investments and co-investments.

The value of the large-cap buyout portfolio increased modestly during the year by approximately 1.2% to 0.87x. The value of the growth / venture portfolio was up by approximately 4.1% to 1.28x.

In addition, our investment in NB Crossroads Fund XVII, a diversified fund of funds portfolio, increased in total value by approximately 7.2% during the year.

The graph below illustrates a summary of our portfolio performance since inception by asset class as of 31 December 2011.



1. Totals may not sum due to rounding.

2. A portion of the December 2011 secondary transaction in Wayzata Opportunities Fund II is unfunded through a deferred purchase price. For performance calculations, this deferred purchase price is netted against fair value. Therefore the fair value shown on this page will not tie to private equity fair value.

## PORTFOLIO INVESTMENT PERFORMANCE

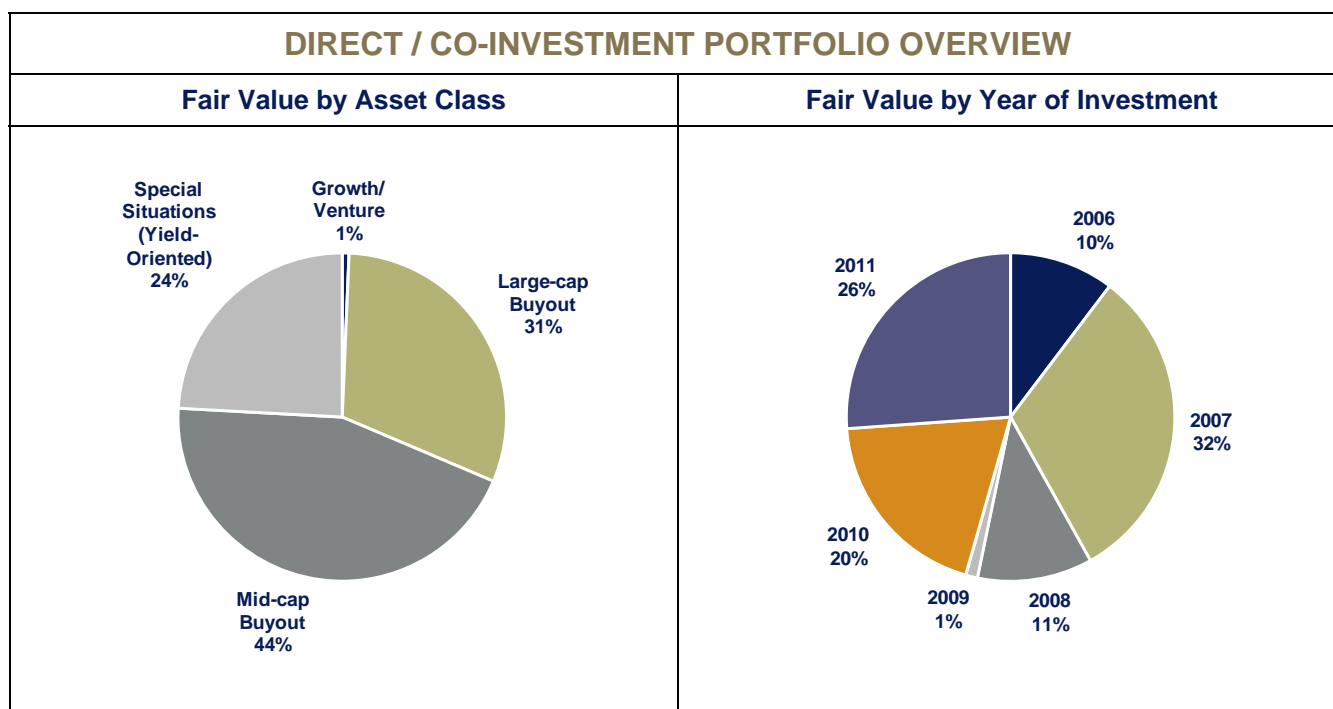
The table below outlines the performance of our unrealized underlying investments by asset class and valuation range as of 31 December 2011. The following analysis totals approximately \$552.2 million in fair value, and is based on the most recent information available at the underlying company level. Across the portfolio, 77% of unrealized fair value and 59% of unrealized cost basis was held at or above cost on a company by company basis as of 31 December 2011.

| <b>AGGREGATE PORTFOLIO COMPANY ANALYSIS BY ASSET CLASS AND VALUATION RANGE <sup>1</sup></b> |  |                         |                         |
|---|--|-------------------------|-------------------------|
| <b>Total Unrealized Portfolio</b>   |  | <b>31 December 2011</b> | <b>31 December 2011</b> |
| <b>Multiple Range</b>   |  | <b>Cost</b>             | <b>Value</b>            |
| 2.0x +  |  | 23.3                    | 92.6                    |
| 1.0x - 2.0x   |  | 248.8                   | 313.6                   |
| Held at Cost  |  | 17.9                    | 17.9                    |
| 0.5x - 1.0x   |  | 139.8                   | 115.8                   |
| 0.25x - 0.5x  |  | 29.9                    | 10.5                    |
| < 0.25x   |  | 29.6                    | 1.8                     |
| <b>Total Unrealized (\$m)</b>   |  | <b>\$489.3</b>          | <b>\$552.2</b>          |
| <b>Special Situations</b>   |  | <b>31 December 2011</b> | <b>31 December 2011</b> |
| <b>Multiple Range</b>   |  | <b>Cost</b>             | <b>Value</b>            |
| 2.0x +  |  | 1.3                     | 10.0                    |
| 1.0x - 2.0x   |  | 132.0                   | 156.3                   |
| Held at Cost  |  | 1.6                     | 1.6                     |
| 0.5x - 1.0x   |  | 67.3                    | 57.3                    |
| 0.25x - 0.5x  |  | 4.1                     | 1.4                     |
| < 0.25x   |  | 1.7                     | -                       |
| <b>Total Unrealized (\$m)</b>   |  | <b>\$208.1</b>          | <b>\$226.6</b>          |
| <b>Mid-cap Buyout</b>   |  | <b>31 December 2011</b> | <b>31 December 2011</b> |
| <b>Multiple Range</b>   |  | <b>Cost</b>             | <b>Value</b>            |
| 2.0x +  |  | 12.8                    | 46.9                    |
| 1.0x - 2.0x   |  | 72.0                    | 99.3                    |
| Held at Cost  |  | 4.0                     | 4.0                     |
| 0.5x - 1.0x   |  | 31.2                    | 24.9                    |
| 0.25x - 0.5x  |  | 6.3                     | 2.4                     |
| < 0.25x   |  | 13.6                    | 1.4                     |
| <b>Total Unrealized (\$m)</b>   |  | <b>\$140.0</b>          | <b>\$178.8</b>          |
| <b>Large-cap Buyout</b>   |  | <b>31 December 2011</b> | <b>31 December 2011</b> |
| <b>Multiple Range</b>   |  | <b>Cost</b>             | <b>Value</b>            |
| 2.0x +  |  | 4.2                     | 16.6                    |
| 1.0x - 2.0x   |  | 33.0                    | 41.5                    |
| Held at Cost  |  | 6.5                     | 6.5                     |
| 0.5x - 1.0x   |  | 35.4                    | 28.7                    |
| 0.25x - 0.5x  |  | 16.3                    | 5.5                     |
| < 0.25x   |  | 12.8                    | 1.0                     |
| <b>Total Unrealized (\$m)</b>   |  | <b>\$108.3</b>          | <b>\$99.7</b>           |
| <b>Growth / Venture</b>   |  | <b>31 December 2011</b> | <b>31 December 2011</b> |
| <b>Multiple Range</b>   |  | <b>Cost</b>             | <b>Value</b>            |
| 2.0x +  |  | 4.9                     | 19.1                    |
| 1.0x - 2.0x   |  | 11.7                    | 16.6                    |
| Held at Cost  |  | 5.8                     | 5.8                     |
| 0.5x - 1.0x   |  | 5.9                     | 4.9                     |
| 0.25x - 0.5x  |  | 3.2                     | 1.3                     |
| < 0.25x   |  | 1.5                     | 0.1                     |
| <b>Total Unrealized (\$m)</b>   |  | <b>\$33.0</b>           | <b>\$47.8</b>           |

1. Assets not included consist primarily of cash held by underlying private equity funds and investments not yet identified. Values based on underlying company level data and may differ from net asset value.

## DIRECT / CO-INVESTMENT PORTFOLIO SUMMARY

Our direct / co-investment portfolio consisted of 33 investments as of 31 December 2011. Illustrated below is the diversification of our direct / co-investment portfolio by asset class and year of investment based on fair value.



## DIRECT / CO-INVESTMENT PORTFOLIO SUMMARY

Listed below is a description of the unrealized companies in our direct / co-investment portfolio as of 31 December 2011.<sup>1</sup>

| Company Name   | Asset Class                         | Business Description   |
|--|-------------------------------------|--|
| Avaya, Inc.  | Large-cap Buyout                    | Provider of communication systems, applications and services for enterprises, including businesses, government agencies and other organizations  |
| Bourland & Leverich Supply Co. LLC                     | Mid-cap Buyout                      | Distributor of oil country tubular goods to the domestic oil and gas industry  |
| Capsugel   | Large-cap Buyout                    | Provides hard capsules and drug delivery systems for pharmaceutical and healthcare industries  |
| CommScope, Inc.  | Large-cap Buyout                    | Global provider of infrastructure solutions for communications networks  |
| Dresser Holdings, Inc.                                 | Mid-cap Buyout                      | Global manufacturer and marketer of highly engineered energy infrastructure and oilfield equipment for mission-critical applications   |
| Edgen Murray Corporation                               | Mid-cap Buyout                      | Global distributor and marketer of high performance steel and alloy products used primarily in energy infrastructure applications  |
| Energy Future Holdings Corp.                           | Large-cap Buyout                    | Energy company that manages a portfolio of competitive and regulated energy businesses located in Texas, including unregulated power generation, retail electric supply, and regulated electric utilities                        |
| Fairmount Minerals, Ltd.                               | Mid-cap Buyout                      | Producer of high purity sand for a broad range of industrial applications, including sand-based proppants for the oil and gas industry   |
| First Data Corporation                                 | Large-cap Buyout                    | Provider of electronic commerce and payment solutions for merchants, financial institutions, and card issuers globally, with operations in 36 countries, serving over 6 million merchant locations and thousands of card issuers |
| Firth Rixson, plc (Equity, Mezzanine Debt & PIK Notes) | Mid-cap Buyout / Special Situations | Supplier of highly engineered rings, forgings and specialist metal products primarily to global aerospace engine manufacturers   |
| Freescale Semiconductor, Inc.                          | Large-cap Buyout                    | Designer and manufacturer of semiconductors for a variety of end-markets including the automotive, consumer, industrial, networking and wireless industries  |
| GazTransport & Technigaz S.A.S.                        | Mid-cap Buyout                      | Designer and installer of cryogenic containment systems for liquefied natural gas carriers   |
| Group Ark Insurance Holdings Limited                   | Mid-cap Buyout                      | Lloyd's market underwriter of a geographically diverse book of global specialty insurance and reinsurance risks  |
| J.Crew Group, Inc.                                     | Large-cap Buyout                    | Specialty retailer of women's, men's and children's apparel, shoes and accessories   |
| Kyobo Life Insurance Co., Ltd.                         | Mid-cap Buyout                      | Life insurance company based in Korea that offers a broad range of savings and protection products targeted at middle- and upper-income consumers  |
| Pepcom GmbH  | Mid-cap Buyout                      | Germany's 5th largest cable operator with more than 630,000 subscribers of video, broadband and voice services   |

1. Dresser is a mostly realized investment with escrow proceeds as remaining unrealized value which we expect to be fully realized in the future.



## DIRECT / CO-INVESTMENT PORTFOLIO SUMMARY

Listed below is a description of the unrealized companies in our direct / co-investment portfolio as of 31 December 2011.

| Company Name                             | Asset Class                         | Business Description  |
|--|-------------------------------------|---|
| Press Ganey Associates, Inc.             | Mid-cap Buyout                      | Provider of patient satisfaction measurement and quality and performance improvement solutions to healthcare institutions   |
| The RAC                                  | Large-cap Buyout                    | Provides motor-related and breakdown assistance services to consumer and corporate clients in the UK  |
| Royalty Notes (Hormone Therapy)          | Special Situations                  | Royalty notes that are collateralized by the sale of a testosterone gel used for hormone replacement therapy  |
| Royalty Notes (Neuropathic Pain)         | Special Situations                  | Royalty notes backed by the worldwide sales of a leading neuropathic pain medication that is marketed globally by a premier pharmaceutical company                    |
| Sabre Holdings Corporation               | Large-cap Buyout                    | World leader in travel commerce, providing a broad portfolio of transaction processing, distribution, and technology solutions to the global travel industry          |
| Salient Federal Solutions, LLC           | Mid-cap Buyout                      | Provider of technology and engineering services to government agencies, primarily within the intelligence community and the Department of Defense                     |
| Seventh Generation, Inc.                 | Growth / Venture                    | Manufacturer of authentic, safe, and environmentally-responsible household products for a healthy home  |
| SonicWall, Inc. (Equity & 2nd Lien Debt) | Mid-cap Buyout / Special Situations | Developer of advanced intelligent network security and data protection solutions for small and large enterprises worldwide  |
| Suddenlink Communications                | Special Situations                  | Provider of cable broadband solutions for residential and commercial customers in the United States   |
| The SI Organization, Inc.                | Mid-cap Buyout                      | Provider of high-end systems engineering and integration solutions and modeling, simulation, analysis and risk mitigation services to the U.S. Intelligence Community |
| Swissport International AG               | Mid-cap Buyout                      | Worldwide leader in ground handling services, providing ramp services, passenger services, and cargo services to more than 650 airlines                               |
| Syniverse Technologies, Inc.             | Large-cap Buyout                    | Provider of technology and business solutions for the global telecommunications industry  |
| TPF Genco Holdings, LLC                  | Mid-cap Buyout                      | Five natural gas-fired power plants located in California, Texas, Illinois, Virginia and West Virginia, representing 2,480 megawatts of generating capacity           |
| Univar Inc.                              | Large-cap Buyout                    | Global distributor and marketer of commodity and specialty chemicals to a broad array of end markets  |

## DIRECT / CO-INVESTMENT PORTFOLIO SUMMARY

Since inception, our direct / co-investment portfolio has generated a 1.16x TVPI multiple as of 31 December 2011. In aggregate, the valuation of our direct / co-investment portfolio increased by approximately 7.4% during the year, driven by improved operating performance.

The table below outlines the performance of our direct / co-investment portfolio from inception through 31 December 2011 by asset class and current valuation range. The number of investments and the TVPI multiples are based on all realized and unrealized direct / co-investments, while the current fair values are based on unrealized direct / co-investments as of 31 December 2011. As of 31 December 2011, the fair value of our direct / co-investment portfolio was \$136.9 million.

### DIRECT / CO-INVESTMENT PERFORMANCE BY ASSET CLASS & VALUATION RANGE<sup>1</sup>

| (\$ in millions)<br>Asset Class               | # of Direct /<br>Co-investments | Realized<br>Proceeds | 31-Dec-2011<br>Fair Value | Total Value to<br>Paid-in Capital | % of<br>Fair Value |
|---|---------------------------------|----------------------|---------------------------|-----------------------------------|--------------------|
| Mid-cap Buyout & Growth Equity                | 21                              | \$48.6               | \$61.8                    | 1.41x                             | 45.1%              |
| Large-cap Buyout                              | 11                              | 2.2                  | 42.1                      | 0.78x                             | 30.7%              |
| Direct Yield Investments (Special Situations) | 7                               | 11.7                 | 33.0                      | 1.23x                             | 24.1%              |
| <b>Total Direct / Co-investments</b>          | <b>39</b>                       | <b>\$62.5</b>        | <b>\$136.9</b>            | <b>1.16x</b>                      | <b>100.0%</b>      |

| (\$ in millions)<br>Multiple Range   | # of Direct /<br>Co-investments | Realized<br>Proceeds | 31-Dec-2011<br>Fair Value | Total Value to<br>Paid-in Capital | % of<br>Fair Value |
|--------------------------------------|---------------------------------|----------------------|---------------------------|-----------------------------------|--------------------|
| Greater than 2.0x                    | 6                               | \$22.0               | \$14.5                    | 2.79x                             | 10.6%              |
| 1.0x to 2.0x                         | 21                              | 29.6                 | 93.3                      | 1.25x                             | 68.2%              |
| 0.5x to 1.0x                         | 8                               | 11.0                 | 22.4                      | 0.91x                             | 16.4%              |
| Less than 0.5x                       | 4                               | -                    | 6.6                       | 0.28x                             | 4.8%               |
| <b>Total Direct / Co-investments</b> | <b>39</b>                       | <b>\$62.5</b>        | <b>\$136.9</b>            | <b>1.16x</b>                      | <b>100.0%</b>      |

| (\$ in millions)<br>Vintage Year     | # of Direct /<br>Co-investments | Realized<br>Proceeds | 31-Dec-2011<br>Fair Value | Total Value to<br>Paid-in Capital | % of<br>Fair Value |
|--------------------------------------|---------------------------------|----------------------|---------------------------|-----------------------------------|--------------------|
| 2006 & 2007                          | 14                              | \$46.0               | \$58.9                    | 1.08x                             | 43.1%              |
| 2008 & 2009                          | 5                               | 3.2                  | 15.5                      | 1.25x                             | 11.3%              |
| 2010                                 | 10                              | 10.8                 | 26.6                      | 1.58x                             | 19.5%              |
| 2011                                 | 10                              | 2.5                  | 35.8                      | 1.06x                             | 26.1%              |
| <b>Total Direct / Co-investments</b> | <b>39</b>                       | <b>\$62.5</b>        | <b>\$136.9</b>            | <b>1.16x</b>                      | <b>100.0%</b>      |

1. NBPE holds multiple securities that may be held at different valuations based on the positioning of the security in the capital structure and timing of investment.

## LARGEST UNDERLYING INVESTMENTS

As of 31 December 2011, our direct fund and co-investment portfolio had exposure to approximately 590 underlying companies. Including NB Crossroads Fund XVII and Fund XVIII, our private equity portfolio had exposure to over 3,200 underlying companies, with our allocable portion of approximately 500 companies valued at greater than \$100,000. Our 10 largest portfolio company investments totaled approximately \$87.5 million in fair value, or 16% of private equity fair value. Our 20 largest portfolio company investments totaled approximately \$129.6 million in fair value, or 24% of fair value. No individual company accounted for more than 3.5% of total NAV as of 31 December 2011. Listed below are the 20 largest underlying investments in alphabetical order.

| Company Name                            | Status  | Asset Class        | Partnership(s)   |
|---|---------|--------------------|--|
| Author Solutions                        | Private | Growth / Venture   | Bertram Growth Capital I, Fund XV III                            |
| Avaya                                   | Private | Large-cap Buyout   | Co-investment, Fund XV III                                       |
| Bourland & Leverich Supply Co.          | Private | Mid-cap Buyout     | Co-investment, Fund XV II, Fund XV III                           |
| Capsugel                                | Private | Large-cap Buyout   | Co-investment  |
| Cobalt International Energy, Inc.       | Public  | Large-cap Buyout   | Carlyle/Riverstone III, First Reserve XI                         |
| Edgen Murray                            | Private | Mid-cap Buyout     | Co-investment, Fund XV II, Fund XV III                           |
| Fairmount Minerals                      | Private | Mid-cap Buyout     | Co-investment  |
| Royalty Notes (Hormone Therapy)         | Private | Special Situations | Direct Investment  |
| Firth Rixson (Mezzanine Debt)           | Private | Special Situations | Direct Investment  |
| Freescale Semiconductor Holdings I Ltd. | Public  | Large-cap Buyout   | Co-investment, Blackstone V, Carlyle II, Fund XV II, Fund XV III |
| Group Ark Insurance                     | Private | Mid-cap Buyout     | Co-investment, Aquiline, Fund XV III                             |
| HD Supply Company (Debt)                | Private | Special Situations | Oaktree Opps V II, OCM Opps V IIb, OCM Prin Opps IV              |
| Kyobo Life Insurance                    | Private | Mid-cap Buyout     | Co-investment, Corsair III, Fund XV III                          |
| RAC                                     | Private | Large-cap Buyout   | Co-investment  |
| Sabre                                   | Private | Large-cap Buyout   | Co-investment, Fund XV II, Fund XV III                           |
| SonicWall (Second Lien Debt)            | Private | Special Situations | Direct Investment  |
| Syniverse Holdings Inc.                 | Private | Large-cap Buyout   | Co-investment, Fund XV III                                       |
| Terra-Gen Power                         | Private | Mid-cap Buyout     | ArcLight Energy Partners IV, Fund XV III                         |
| The SI Organization                     | Private | Mid-cap Buyout     | Co-investment, Fund XV III                                       |
| TPF Genco                               | Private | Mid-cap Buyout     | Co-investment, Fund XV II, Fund XV III                           |

As of 31 December 2011, approximately \$45.2 million of our private equity portfolio was comprised of investments directly or indirectly in publicly-traded securities. This amount represented approximately 8% of private equity fair value.

## BUYOUT PORTFOLIO ANALYSIS

Listed below is a description of the 50 largest buyout investments as of 31 December 2011.

| Company Name                   | Business Description   |
|--------------------------------|--|
| Advance Pierre Foods           | Supplier of value-added protein and handheld convenience products to the foodservice, school, retail, club, vending, and convenience store markets   |
| Avaya                          | Provider of communication systems, applications and services for enterprises, including businesses, government agencies and other organizations  |
| BioReliance                    | Provider of outsourced testing and manufacturing services to pharmaceutical and biopharmaceutical companies  |
| Bourland & Leverich Supply Co. | Distributor of oil country tubular goods to the domestic oil and gas industry  |
| Buckeye Partners               | Publicly traded partnership that owns and operates one of the largest independent refined petroleum products pipeline systems in the U.S. in terms of volumes delivered, with 5,400 miles of pipeline  |
| Capsugel                       | Capsugel is a leading global provider of hard capsules and an innovator in drug delivery systems for the pharmaceutical, over-the-counter drug, and health and nutrition industries  |
| Cetera Financial Group         | Independent broker-dealer comprised of three distinct broker-dealers, serving approximately 5,000 financial advisors throughout the U.S. and with over \$70 billion of assets under administration   |
| CHC Helicopter                 | Largest global commercial helicopter operator, providing helicopter transportation services primarily to the offshore oil and gas industry for exploration and production  |
| Cobalt International Energy    | Independent global exploration and production company with a portfolio in the deepwater U.S. Gulf of Mexico and offshore West Africa   |
| CommScope, Inc.                | Global provider of infrastructure solutions for communications networks  |
| Community & Southern Bank      | Commercial bank offering products and services in Georgia  |
| Convatec LLC                   | Developer, manufacturer, marketer and distributor of medical devices for advanced wound care, ostomy and acute fecal incontinence markets  |
| Cyanco                         | Manufacturer and supplier of sodium cyanide to the gold mining industry in North and South America   |
| Edgen Murray                   | Global distributor and marketer of high performance steel and alloy products used primarily in energy infrastructure applications  |
| Fairmount Minerals             | Producer of high purity sand for a broad range of industrial applications, including sand-based proppants for the oil and gas industry   |
| First Data                     | Provider of electronic commerce and payment solutions for merchants, financial institutions, and card issuers globally, with operations in 36 countries, serving over 6 million merchant locations   |
| Firth Rixson                   | Supplier of highly engineered rings, forgings and specialist metal products primarily to global aerospace engine manufacturers   |
| FR Midstream                   | Holds a portfolio of MLP securities in US midstream assets and midstream energy companies  |
| Freescale Semiconductor        | Designer and manufacturer of semiconductors for a variety of end-markets including the automotive, consumer, industrial, networking and wireless industries  |
| Fu Sheng Industrial Co. Ltd    | Manufacturer and distributor of industrial air compressors and golf club heads in China and internationally  |
| GazTransport & Technigaz       | Designs and installs cryogenic containment systems for Liquefied Natural Gas (LNG) carriers  |
| GenPower Holdings, L.P.        | Joint venture focused on developing, constructing, acquiring, and operating power plants in the United States  |
| Great Point Power              | Owner of interests in a fully contracted portfolio of four power generation facilities and one transmission facility, with approximately 695 megawatts of net generation and 440 megawatts of net transmission capacity with assets located in New York, New Jersey, Texas, California, and Hawaii |
| Group Ark Insurance            | Lloyd's market underwriter of a geographically diverse book of global specialty insurance and reinsurance risks  |
| H.C. Stark Group               | Global supplier of refractory metals and advanced ceramics for multiple industry segments with manufacturing facilities in America, Europe and Asia  |

## BUYOUT PORTFOLIO ANALYSIS

Listed below is a description of the 50 largest buyout investments as of 31 December 2011.

| Company Name                 | Business Description   |
|------------------------------|--|
| HellermannTyton              | Global manufacturer and distributor of high-performance cable management products, with operations in 34 countries and 11 production facilities in nine countries  |
| Higher One                   | Provider of electronic refund management services and other financial services to universities and their students in the United States   |
| J.Crew Group, Inc.           | Specialty retailer of women's, men's and children's apparel, shoes and accessories   |
| Kyobo Life Insurance         | Life insurance company based in Korea that offers a broad range of savings and protection products targeted at middle- and upper-income consumers  |
| Lantheus Medical Imaging     | Supplier of radiopharmaceuticals and contrast agents for nuclear and ultrasound-based cardiovascular diagnostic imaging procedures   |
| Laramie Energy LLC           | Energy company focused on acquiring and developing natural gas resources in the Rocky Mountain region in the U.S.  |
| NFR Energy                   | North American onshore exploration and production company acquiring producing gas properties and developing the Haynesville gas shale  |
| Nielsen                      | Global information and media company providing essential marketing information analytics and industry expertise to customers around the world  |
| OneWest Bank                 | Regional savings and loan bank based in Southern California (formerly known as IndyMac Federal Bank FSB)   |
| Pepcom GmbH                  | Germany's 5th largest cable operator with more than 630,000 subscribers of video, broadband and voice services   |
| Press Ganey Associates       | Provider of patient satisfaction measurement and quality and performance improvement solutions to healthcare institutions  |
| RAC Limited                  | Provider of breakdown services in the U.K. The Company also operates as an insurance broker for auto and home policies and a legal and motor claims services business                                      |
| Sabre                        | World leader in travel commerce, providing a broad portfolio of transaction processing, distribution, and technology solutions to the global travel industry   |
| SonicWall                    | Developer of advanced intelligent network security and data protection solutions for small and large enterprises worldwide   |
| Star Atlantic Waste Holdings | Vertically integrated waste management companies along the East Coast of the U.S., owning and/or operating 10 landfills, one greenfield landfill, 18 transfer stations, and numerous collection operations |
| Stock Spirits                | One of the fastest growing spirits companies in Europe and the owner of many of Central Europe's premier drinks brands   |
| Swissport International AG   | Worldwide leader in ground handling services, providing ramp services, passenger services, and cargo services to more than 650 airlines  |
| Syniverse Technologies, Inc. | Provider of technology and business solutions for the global telecommunications industry   |
| Terra-Gen Power              | Renewable energy company focused on owning, operating, and developing utility-scale wind, geothermal, and solar generation, with 831 megawatts in 21 operating renewable energy projects                   |
| The SI Organization          | Provider of high-end systems engineering and integration solutions and modeling, simulation, analysis and risk mitigation services to the U.S. Intelligence Community                                      |
| Torus Insurance              | Energy-focused insurance vehicle underwriting large, complex technical lines worldwide   |
| TPF Genco                    | Five natural gas-fired power plants located in California, Texas, Illinois, Virginia and West Virginia, representing 2,480 megawatts of generating capacity  |
| Tumi                         | High-end luggage and business accessory brand, designing and marketing its products to professionals and brand-conscious frequent travelers  |
| Validus                      | Provider of reinsurance and insurance, conducting its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. and Talbot Holdings Ltd.                                       |
| WideOpenWest                 | Cable company in the United States with over 1.4 million homes passed and over 350,000 subscribers, providing cable television, high-speed data and digital telephony services                             |

## BUYOUT PORTFOLIO ANALYSIS

In connection with our portfolio monitoring process, our Investment Manager analyzed the operational performance and valuation metrics for the 50 largest buyout investments based upon fair value at 31 December 2011.

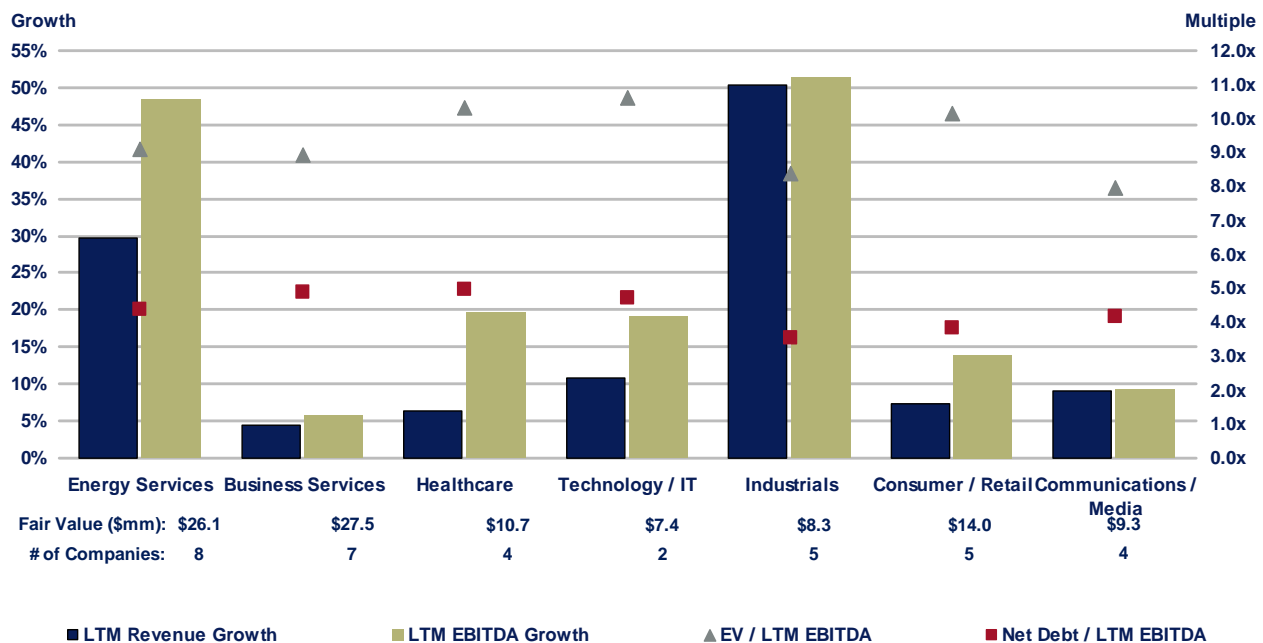
| BUYOUT PERFORMANCE AND VALUATION ANALYSIS <sup>1</sup>  |  |
|---|--|
| Traditional Buyout Investments  | Other Buyout Investments   |
| <ul style="list-style-type: none"> <li>◆ Traditional buyout investments that were valued based on a multiple of cash flow (total enterprise value as a multiple of EBITDA) <ul style="list-style-type: none"> <li>– 35 companies with approximately \$103.2 million of fair value, representing 19% of private equity fair value and 39% of buyout fair value</li> </ul> </li> <li>◆ Summary metrics for the traditional buyout investments: <ul style="list-style-type: none"> <li>– Weighted average valuation multiple of 9.3x LTM EBITDA</li> <li>– Weighted average leverage multiple of 4.4x LTM EBITDA</li> <li>– Weighted average LTM revenue growth of 16%</li> <li>– Weighted average LTM EBITDA growth of 24%</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>◆ Power generation and utility companies, financial institutions and publicly traded companies <ul style="list-style-type: none"> <li>– 15 companies with approximately \$61 million of fair value, representing 11% of private equity fair value and 23% of buyout fair value</li> </ul> </li> <li>◆ Five privately held financial institutions (\$25 million of fair value) grew book value by 9% over the last twelve months and were valued at 1.27x book value on a weighted average basis</li> <li>◆ Four power generation and utility companies (\$20 million of fair value) were valued based on a variety of metrics, including price per kilowatt hour of generation capacity</li> <li>◆ Six publicly traded companies (\$16 million of fair value) generated a weighted average total return of 14% during the calendar year 2011</li> </ul> |

1. Portfolio company operating and valuation metrics are based on most recently available information (unaudited). Private equity fair value as of 31 December 2011.

## BUYOUT PORTFOLIO ANALYSIS

The figure below illustrates the key operating, valuation, and leverage statistics for the largest traditional buyout investments by industry sector. In conducting the analysis, our Investment Manager utilized the most recently available information (principally as of 31 December 2011 but also as of 30 September 2011) to evaluate the year-over-year growth in revenue and EBITDA for each company. In addition, our Investment Manager analyzed the most recently available valuation multiple (enterprise value to LTM EBITDA) and leverage multiple (net debt to LTM EBITDA) for each company. The aggregate metrics by industry sector represent weighted averages based on the fair value of each underlying company at 31 December 2011.

### WEIGHTED AVERAGE LTM PERFORMANCE AND VALUATION METRICS BY INDUSTRY SECTOR: LARGEST TRADITIONAL BUYOUT INVESTMENTS



## SPECIAL SITUATIONS PORTFOLIO ANALYSIS

Listed below is a description of the 25 largest special situations investments as of 31 December 2011.

| Company Name                              | Business Description  |
|---|---|
| 3B The Fibreglass Company                 | European manufacturer and seller of glass fiber composite material solutions for the automotive, wind energy, electrical, electronic, and construction markets  |
| Aleris International                      | Production of aluminum rolled and extruded products as well as aluminum recycling and the production of specification alloys  |
| American Commercial Lines                 | Provides marine transportation and manufacturing with a fleet of over 2,500 barges and approximately 125 tow boats and facilities that provide support services   |
| Caesars Entertainment Corp.               | Diversified gaming company that provides casino entertainment principally in the United States and England  |
| Callidus Capital                          | Privately held Canadian company specializing in creative and innovative funding solutions for companies that are unable to obtain adequate funding from conventional lending institutions                 |
| Charter Communications                    | The fourth largest cable provider in the United States, providing advanced video, high-speed internet and telephone services  |
| Claire's Stores (Debt)                    | Specialty retailer of fashion accessories and jewelry for kids, teenagers, and young women  |
| Clear Channel Communications              | Diversified media company that provides mobile and on-demand entertainment and information services, including radio broadcasting and outdoor advertising services  |
| Energy Future Holdings                    | Energy company that manages a portfolio of competitive and regulated energy businesses located in Texas, including unregulated power generation, retail electric supply, and regulated electric utilities |
| Firth Rixson (Mezzanine Debt & PIK Notes) | Supplier of highly engineered rings, forgings and specialist metal products primarily to global aerospace engine manufacturers  |
| Gateway Casinos & Entertainment Inc.      | Casino operator in Western Canada, operating nine casinos in British Columbia and Alberta   |
| Grede Foundries                           | Designer and manufacturer of cast, machined, and assembled metal components for transportation and industrial markets   |
| HD Supply (Debt)                          | Industrial distributor in North America serving over 500,000 professional customers, including contractors, government entities, maintenance professionals, home builders and industrial businesses       |
| Hilton Hotels                             | Leading global hospitality company which owns and manages hotels and resorts, with more than 540 hotels and resorts in 78 countries   |
| Intrawest                                 | Developer and manager of mountain and beach destination resorts in North America and Europe   |
| Lehman Brothers Inc.                      | Previously the fourth largest investment bank, providing investment banking, equity and fixed income sales and trading, investment management and private banking   |
| MGM Resorts International                 | Owner and operator of casino resorts in the United States   |
| Minntex                                   | Owns and operates power generation facilities   |
| SonicWALL                                 | Developer of advanced intelligent network security and data protection solutions for small and large enterprises worldwide  |
| Royalty Notes (Hormone Therapy)           | Royalty notes backed by the sales of a testosterone gel used for hormone replacement therapy  |
| Royalty Notes (Neuropathic Pain)          | Royalty notes backed by the worldwide sales of a leading neuropathic pain medication that is marketed globally by a premier pharmaceutical company  |
| Suddenlink Communications                 | Provider of cable broadband solutions for residential and commercial customers in the United States   |
| Sundevil Power Holdings                   | Natural-gas fired power generating assets   |
| Tribune Company                           | Media company that engages in publishing, interactive, and broadcasting businesses in the U.S.  |

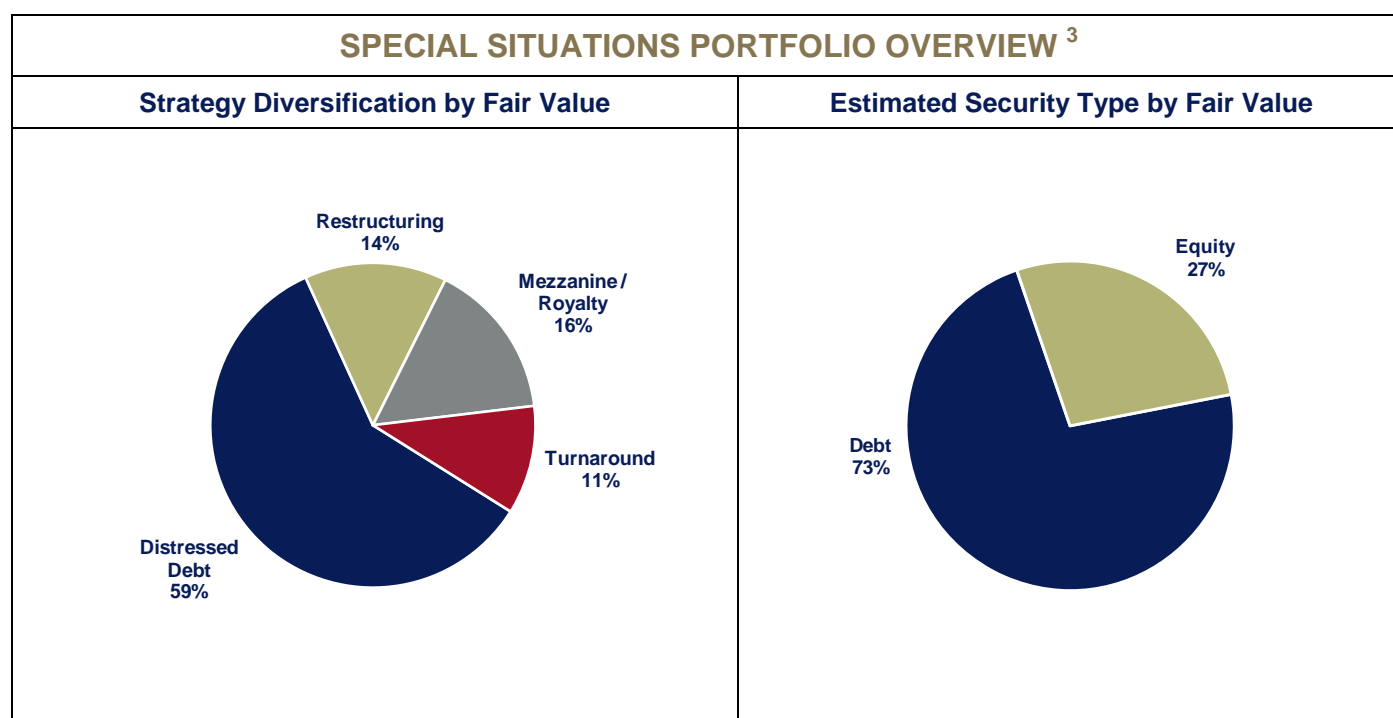


## SPECIAL SITUATIONS PORTFOLIO ANALYSIS

The fair value of our special situations portfolio (including special situations secondary purchases) was approximately \$212.6 million as of 31 December 2011, or 39% of private equity fair value<sup>1</sup>. Within this 39% of the portfolio, 28% of total private equity fair value was held in direct yield-oriented investments or credit related funds that provide a monthly estimate of the mark-to-market fair value of their debt investments.

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

The seven direct yield investments in the special situations portfolio had a fair value of \$33.0 million as of 31 December 2011. These direct yield investments in the portfolio generated annualized income of approximately \$4.0 million through cash and PIK interest, had a weighted average yield to maturity of approximately 14.3%, and had a weighted average senior leverage multiple of 2.2x.<sup>2</sup>



1. The \$212.6 million of special situations fair value includes special situations secondary purchases.
2. Based on the net leverage that is senior to the security held by NBPE.
3. Special situations diversification statistics are based on most recently available quarterly information and the Investment Manager's estimates as of 31 December 2011.

## NB CROSSROADS FUND OF FUNDS INVESTMENTS

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

As of 31 December 2011, the fair value of our investment in Fund XVII was \$36.0 million, representing 7% of private equity fair value. The asset class diversification of our investment in Fund XVII based on private equity fair value at year end was as follows<sup>1</sup>: Mid-cap Buyout – 24%; Large-cap Buyout – 24%; Growth / Venture – 47%; and Special Situations – 5%. As of 31 December 2011, Fund XVII consisted of 62 primary fund investments, seven co-investments and five secondary purchases and included exposure to over 1,210 separate companies, with the ten largest companies totaling approximately \$5.7 million in fair value to NBPE, or 1.1% of private equity fair value. At 31 December 2011, we had unfunded commitments of \$3.7 million to Fund XVII.

As of 31 December 2011, the aggregate fair value of our investments in Fund XVIII was \$60.9 million, representing 11% of private equity fair value. The asset class diversification of our investments in Fund XVIII based on private equity fair value at year end was as follows<sup>1</sup>: Mid-cap Buyout – 49%; Large-cap Buyout – 19%; Growth / Venture – 17%; and Special Situations – 15%. As of 31 December 2011, Fund XVIII consisted of 73 primary fund investments, 35 co-investments and 13 secondary purchases and included exposure to over 1,800 separate companies, with the ten largest companies totaling approximately \$6.1 million in fair value to NBPE, or 1.2% of private equity fair value. At 31 December 2011, we had unfunded commitments of \$16.0 million to Fund XVIII.

The table below lists our ten largest investments by current net asset value in Fund XVII and Fund XVIII in alphabetical order as of 31 December 2011. The ten largest investments in Fund XVII had a fair value of approximately \$13.2 million, or 2.5% of private equity fair value. The ten largest investments in Fund XVIII had a fair value of approximately \$18.4 million, or 3.4% of private equity fair value.

| Ten Largest Investments in Fund XVII                |                    | Ten Largest Investments in Fund XVIII             |                  |
|---|--------------------|---|------------------|
| Partnership   | Asset Class        | Partnership                                       | Asset Class      |
| Apollo Investment Fund VI                           | Large-cap Buyout   | American Securities Partners V                    | Mid-cap Buyout   |
| Canaan VII  | Growth / Venture   | Aquiline Financial Services Fund                  | Mid-cap Buyout   |
| Carlyle/Riverstone Global Energy and Power Fund III | Large-cap Buyout   | Court Square Capital Partners II                  | Mid-cap Buyout   |
| CVC European Equity Partners IV                     | Large-cap Buyout   | Doughty Hanson & Co. V                            | Mid-cap Buyout   |
| Meritech Capital Partners III                       | Growth / Venture   | New Enterprise Associates 12, Limited Partnership | Venture          |
| New Enterprise Associates XII                       | Growth / Venture   | New Mountain Partners III, L.P.                   | Mid-cap Buyout   |
| Summit Partners Private Equity Fund VII             | Growth / Venture   | KKR 2006 Fund L.P.                                | Large-cap Buyout |
| Thoma Cressey Fund VIII                             | Mid-cap Buyout     | KRG Capital Fund IV                               | Mid-cap Buyout   |
| Trinity Ventures IX                                 | Growth / Venture   | LS Power Equity Partners II                       | Mid-cap Buyout   |
| Warburg Pincus Private Equity IX                    | Special Situations | Veritas Capital Fund III                          | Mid-cap Buyout   |

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

## LIQUIDITY AND CAPITAL RESOURCES

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

As of 31 December 2011, we had no outstanding borrowings from our \$250.0 million credit facility. We had cash and cash equivalents of \$77.9 million and \$250.0 million of undrawn capacity on the credit facility, resulting in total capital resources of \$327.9 million. With unfunded private equity commitments of \$306.3 million at year end, we continued to maintain a conservative capital structure with approximately 107% of unfunded commitments backstopped by cash and the undrawn credit facility.

The table below outlines our liquidity and capital commitment position as of 31 December 2011.

| <b>CAPITAL COMMITMENT POSITION AT 31 DECEMBER 2011</b> |                  |
|--|------------------|
| (\$ in millions)                                       | <b>31-Dec-11</b> |
| Net Asset Value  | \$544.4          |
| Total Private Equity Investments                       | \$538.4          |
| Private Equity Investment Level                        | 99%              |
| Unfunded Private Equity Commitments                    | \$306.3          |
| Total Private Equity Exposure                          | \$844.7          |
| Cash and Cash Equivalents                              | \$77.9           |
| Undrawn Credit Facility                                | \$250.0          |
| Total Capital Resources                                | \$327.9          |
| Excess capital resources                               | \$21.6           |
| Excess capital resources %                             | 7%               |

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

The key financial covenant for our credit facility is a maximum debt to value ratio of 50.0%. The debt to value ratio is calculated as total debt and current liabilities divided by Restricted NAV, with Restricted NAV defined as the fair value of all private equity investments (less any excluded value) plus cash and cash equivalents. At 31 December 2011, the debt to value ratio was 2.4%.

The two other covenants are a secured asset ratio and a commitment ratio. The secured asset ratio is not to exceed 80.0% and is defined as total debt and current liabilities divided by Secured Assets, with Secured Assets defined as the value of secured private equity investments plus cash and cash equivalents. At 31 December 2011, the secured asset ratio was 2.8%.

The commitment ratio is defined as Restricted Total Exposure divided by the aggregate of Shareholder's equity and the total amount of the credit facility, with Restricted Total Exposure defined as the value of private equity investments (less any excluded value) plus unfunded private equity commitments. If the debt to value ratio is greater than 25.0% and the commitment ratio is greater than 130.0%, then we become restricted from making new private equity investments. At 31 December 2011, the commitment ratio was 106.3%.

## SHARE REPURCHASES

From July 2008 through May 2009, we repurchased 3,150,408 Shares, or 5.8% of the originally issued Shares, pursuant to a liquidity enhancement program on Euronext Amsterdam.

On 22 October 2010, we launched a new Share Buy-Back Programme in order to begin implementing the Capital Return Policy. The Share Buy-Back Programme was extended on 30 August 2011, 29 November 2011, and 9 March 2012, subject to further extension, will end on 31 May 2012. Under the terms of the Share Buy-back Programme, Jefferies International Limited ("JIL") has been appointed to effect on-market repurchases of Shares on behalf of NBPE on Euronext Amsterdam and/or the Specialist Fund Market of the London Stock Exchange<sup>1</sup>. Shares bought back under the Share Buy-Back Programme will be cancelled.

In 2011, we repurchased a total of 1,387,656 Shares at a weighted average price of \$7.41 per Share. As of 31 December 2011, we have repurchased an aggregate 4,864,831 Shares, or 9.0% of the originally issued Shares, at a weighted average price of \$4.48 per Share.

| <b>LIQUIDITY ENHANCEMENT PROGRAMME AND SHARE BUY-BACK PROGRAMME ACTIVITY</b> |                                     |  |
|--|-------------------------------------|--|
| <b>Time Period</b>   | <b>Number of Shares Repurchased</b> | <b>Weighted Average Repurchase Price per Share</b> |
| July 2008 - May 2009   | 3,150,408                           | \$2.93   |
| November 2010  | 123,482                             | \$7.01   |
| December 2010  | 203,285                             | \$7.05   |
| January 2011   | 276,011                             | \$7.00   |
| February 2011  | -                                   | -  |
| March 2011   | 92,504                              | \$7.30   |
| April 2011   | 55,683                              | \$8.03   |
| May 2011   | 35,825                              | \$8.84   |
| June 2011  | 44,787                              | \$8.62   |
| July 2011  | 11,818                              | \$8.36   |
| August 2011  | 215,224                             | \$8.02   |
| September 2011   | 273,682                             | \$7.53   |
| October 2011   | 222,122                             | \$6.86   |
| November 2011  | 85,000                              | \$6.96   |
| December 2011  | 75,000                              | \$6.98   |
| <b>Total / Weighted Average</b>  | <b>4,864,831</b>                    | <b>\$4.48</b>                                      |

1. The Share Buy-back Programme was managed previously by The Royal Bank of Scotland N.V. (London Branch) and The Royal Bank plc, however following the acquisition by JIL of the corporate broking business of RBS Hoare Govett, management of the Share Buy-back Programme was transferred to JIL.

## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

## RISK FACTORS

*Our company is subject to, and an investment in our company's shares involves, substantial risks, which may adversely impact our business, financial condition, results of operations and/or the value of your investment. Investors in our company's class A shares ("Class A Shares") and zero dividend preference shares ("ZDP Shares") should carefully consider such risks, which include, without limitation, those set out below. If any such risks occur, our business, financial condition, results of operations and the value of your investment would likely suffer.*

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

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

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

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

### **The shares could continue to trade at a discount to net asset value.**

The shares could continue to trade at a discount to net asset value for a variety of reasons, including, without limitation, due to market conditions or to the extent investors undervalue the Investment Manager's investment management activities. Also, since there is generally a period of years before a new private equity fund has completed making its investments, return on our investments in such funds is not likely to be realized for a substantial time period, if at all, which could negatively impact the value of the shares. Additionally, unlike traditional private equity funds, we intend to continuously reinvest the cash we receive, except in limited circumstances (including in connection with our company's Capital Return Policy and Share Buy Back Programme). Therefore, the only way for investors to realize their investment is to sell their shares for cash. Accordingly, in the event that a holder of shares requires immediate liquidity, or otherwise seeks to realize the value of its investment in our company, through a sale of shares, the amount received by the holder upon such sale may be less than the underlying net asset value of the relevant shares sold.

### **The trading markets that the Class A Shares and ZDP Shares are admitted to are less liquid than certain other major exchanges, which could affect the price of our shares.**

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



## RISK FACTORS

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

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

### **The price attributed to the Class A Shares on Euronext Amsterdam and the SFM may vary significantly and the price attributed to the ZDP Shares on the SFM and the CISX may vary significantly.**

The Class A Shares are admitted to trading on Euronext Amsterdam and the SFM and the ZDP Shares are admitted to trading on the SFM and the CISX. The price attributed to the Class A Shares or ZDP Shares, as the case may be, may vary significantly on one exchange versus the other. As such, no guarantee is given that investors will receive best pricing and execution on one market over another. We and our company accept no responsibility whatsoever with regards to the pricing of the Class A Shares and execution of trades therein on Euronext Amsterdam and the SFM, the pricing of the ZDP Shares and execution of trades therein on the SFM and the CISX, nor do we accept any responsibility for any pricing and/or execution variation between any of these exchanges. Investors are responsible for informing themselves as to the best pricing and execution available, in the case of the Class A Shares, on both Euronext Amsterdam and the SFM, and, in the case of the ZDP Shares, on both the SFM and the CISX.

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

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

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

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

# DIRECTORS' REPORT

## Principal Activity

NB Private Equity Partners Limited ("NBPE", the "Company", "We", or "Our") is a closed-end investment company registered in Guernsey. Our registered office is Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey GY1 4HY. We invest in private equity through private equity funds and co-investments. We may also make opportunistic investments. Our Class A shares are listed and admitted to trading on Euronext Amsterdam by NYSE Euronext and on the Specialist Fund Market of the London Stock Exchange plc under the symbol "NBPE". Our zero dividend preference shares (see note 6) are listed and admitted to trading on the Daily Official List of the Channel Islands Stock Exchange and the Specialist Fund Market of the London Stock Exchange under the symbol "NBPZ".

## Statement of Responsibility

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Law. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## Disclosure of Information to Auditor

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



## DIRECTORS' REPORT

### Material Contracts

NBPE, NB PEP Investments LP (Incorporated) and the Investment Manager entered into that certain Investment Management and Services Agreement on 25 July 2007 (as amended and restated on 25 January 2008), whereby the Investment Manager, subject to the overall supervision of the Directors, was appointed as NBPE's investment manager. NBPE and Heritage International Fund Managers Limited entered into that certain Administration Agreement on 3 July 2007 (as amended by side letter on 22 June 2009), whereby NBPE appointed Heritage International Fund Managers Limited to act as administrator and company secretary to NBPE. NBPE, as general partner, and NB PEP Associates LP (Incorporated), as special limited partner, entered into that certain limited partnership agreement of NB PEP Investments LP (Incorporated) on 25 July 2007, as amended and restated on 16 July 2008. NBPE is party to a Share Buy-Back Agreement with Jefferies International Limited ("JIL") in relation to the on market repurchases of class A shares on behalf of NBPE. The Share Buy-Back Agreement was initially entered into between NBPE and The Royal Bank of Scotland N.V. (London Branch) ("RBS N.V.") on 22 October 2010 and was subsequently amended and extended on 30 August 2011, novated on 7 November 2011 from RBS N.V. to The Royal Bank of Scotland plc ("RBS plc") in respect of repurchases of shares made on the Specialist Fund Market only, and extended on 29 November 2011. The Share Buy-Back Agreement was then novated by RBS N.V. and RBS plc to JIL on 1 March 2012 and extended on 9 March 2012 for the period to 31 May 2012.

### Shareholdings of the Directors

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

### Major Shareholders

As at 31 December 2011, insofar as is known to NBPE, the following persons were interested, directly or indirectly, in 5% or more of the Class A Shares in issue (excluding Class A Shares held in treasury):

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

### List of NBPE Subsidiaries

| Name  | Place of Incorporation<br>(or Registration) and<br>Operation | Proportion of<br>Ownership Interest % |
|---|--|---------------------------------------|
| <b><i>Directly Owned</i></b>                      |  |                                       |
| NB PEP Investments, LP (Incorporated)             | Guernsey   | 99.9%                                 |
| <b><i>Indirectly Owned</i></b>                    |  |                                       |
| NB PEP Investments Limited                        | Guernsey   | 100.0%                                |
| NB PEP Investments DE, LP                         | United States  | 100.0%                                |
| NB PEP Investments LP Limited                     | Guernsey   | 100.0%                                |
| NB PEP Investments I, LP (Incorporated)           | Guernsey   | 100.0%                                |
| NB PEP Holdings Limited                           | Guernsey   | 100.0%                                |
| Various holding entities for specific investments | United States  | 100.0%                                |

## DIRECTORS' REPORT

We also confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole as required by the EU Transparency Directive, Disclosure and Transparency Rules ("DTR") 4.1 12R and by the Wft Decree; and
- The annual report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face as required by the EU Transparency Directive, Disclosure and Transparency Rules ("DTR") 4.1 12R and by the Wft Decree.

By order of the Board

Talmai Morgan  
Director

John Hallam  
Director

Date: 12 March 2012

### Certain Information

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

## SUBSEQUENT EVENTS

### Subsequent Events

Please also note the following subsequent events:

NBPE invested \$4.4 million into private equity investments and received \$0.9 million of distributions during January. As a result of this investment activity, the Company's private equity investment level was 100% at 31 January 2012 based on the restated unaudited NAV of \$548.5 million. Approximately 72% of the contributions were invested in buyout funds, 17% were invested in special situation funds, and 11% were invested in growth equity/venture funds. A majority of the distributions during the month were from fund investments in Platinum Equity Capital Partners II and NB Crossroads Fund XVII.

As of 31 January 2012, the restated unaudited NAV per share was \$11.13, which represents an increase of 0.9% compared to the audited NAV per share of \$11.03 at 31 December 2011.

During the month of January, NBPE's aggregate trading volume on Euronext Amsterdam, the London Stock Exchange, and over-the-counter trading platforms was 660,736 shares, which represents an average daily trading volume of approximately 30,033 shares. The trading volume in January included approximately 185,330 shares traded over-the-counter and not reported on Euronext Amsterdam or the London Stock Exchange.

During January, a total of 69,360 shares were repurchased under the Share Buyback Programme at an aggregate net purchase price of \$484,936 or a weighted average price per share of approximately \$6.98. All of the shares bought back in January were cancelled. The share repurchases during the month were accretive to NBPE's NAV by less than \$0.01 per share.

During February, under the previously announced NB Alternatives direct co-investment program, NBPE funded two mid-cap buyout co-investments, one in ADPI, a provider of dental practice management and the other in Blue Coat, a provider of web security and network optimization appliances and services. In addition, NBPE committed \$50 million to the NB Athyrium drug royalty investment program and funded a special situation direct investment in royalty backed notes that are collateralized by the sale of medication delivery and blood collection products.

During February, NBPE invested \$42.5 million into private equity investments and received \$8.4 million of distributions during February. As a result of this investment activity, the Company's private equity investment level was 107% of NAV at 29 February 2012. Approximately 88% of the contributions were invested in buyout co-investments, 9% were invested in special situation co-investments, 2% were invested in special situation funds, and 1% was invested in growth equity/venture funds. A majority of the distributions during the month were from fund investments in Platinum Equity Capital Partners II and Avista Capital Partners.

As of 29 February 2012, the unaudited NAV per share was \$11.20, which represents an increase of 0.6% compared to the unaudited restated NAV per share of \$11.13 at 31 January 2012. During February, NBPE's portfolio value increased due to \$2.3 million of unrealized gains on public securities, \$2.1 million of unrealized gains on credit-related fund investments, and \$0.5 million of positive foreign exchange adjustments. Share repurchases during the month were accretive to NAV per share by approximately \$0.01.

During the month of February, NBPE's aggregate trading volume on Euronext Amsterdam, the London Stock Exchange, and over-the-counter trading platforms was 476,346 shares, which represents an average daily trading volume of approximately 22,683 shares. The trading volume in February included approximately 101,509 shares traded over-the-counter and not reported on Euronext Amsterdam or the London Stock Exchange.

## SUBSEQUENT EVENTS

During February, a total of 32,113 shares were repurchased under the Programme at an aggregate net purchase price of \$223,120 or a weighted average price per share of approximately \$6.94. There were two days in which transactions were conducted, and all of the shares bought back in February were cancelled. The share repurchases during the month were accretive to NBPE's NAV by approximately \$0.01 per share. As of 29 February 2012, there were 49,243,696 class A ordinary shares and 10,000 class B ordinary shares outstanding, with 3,150,408 class A ordinary shares held in treasury.

All data noted above can also be found on the NBPE website ([www.nbprivateequitypartners.com](http://www.nbprivateequitypartners.com)).

## DIRECTORS, ADVISORS AND CONTACT INFORMATION

### Ordinary Share Information

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

### ZDP Share Information

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

### Board of Directors

Talmay Morgan (Chairman)  
John Buser  
John Hallam  
Christopher Sherwell  
Peter Von Lehe

### Registered Office

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

### Investment Manager

NB Alternatives Advisers LLC  
325 North St. Paul Street, Suite 4900  
Dallas, TX 75201  
United States of America  
Tel: +1-214-647-9593  
Fax: +1-214-647-9501  
Email: [pe\\_fundoffunds@nbalternatives.com](mailto:pe_fundoffunds@nbalternatives.com)

### Guernsey Administrator

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

### Fund Service and Recordkeeping Agent

Capital Analytics II LLC  
325 North St. Paul Street, Suite 4700  
Dallas, TX 75201  
United States of America

### Independent Auditors and Accountants

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

### Depository Bank

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

### Paying Agent

Jefferies International Limited  
68 Upper Thames Street  
London EC4V 3BJ  
Tel: +44 (0) 20 7029 8766

### Joint Corporate Brokers

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

Jefferies International Limited  
68 Upper Thames Street  
London EC4V 3BJ  
Tel: +44 (0) 20 7029 8766

For general questions about NB Private Equity Partners Limited, please contact us at [IR\\_NBPE@nb.com](mailto:IR_NBPE@nb.com) or at +1-214-647-9593.

The website address for NB Private Equity Partners Limited is [www.nbprivateequitypartners.com](http://www.nbprivateequitypartners.com).

**NB PRIVATE EQUITY PARTNERS LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended 31 December 2011 and 2010**



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

## **Independent Auditor's Report**

### **The Members of NB Private Equity Partners Limited**

We have audited the accompanying consolidated balance sheets, including the consolidated condensed schedules of private equity investments of NB Private Equity Partners Limited ('the Company') and subsidiaries as of 31 December 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the 2011 consolidated financial statements referred to above give a true and fair view, in all material respects, of the financial position of NB Private Equity Partners Limited and subsidiaries as of 31 December 2011, and of the results of their operations and changes in net assets and their cash flows for the year then ended and are in conformity with accounting principles generally accepted in the United States of America.

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

### **Independent Auditor's Report – continued**

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



Robert A Hutchinson

For and on behalf of  
KPMG Channel Islands Limited  
Chartered Accountants and Recognised Auditors  
Guernsey

Date: 12 March 2012



## NB Private Equity Partners Limited

### Consolidated Balance Sheets

31 December 2011 and 2010

| Assets  | 2011                  | 2010                  |
|---|-----------------------|-----------------------|
| Private equity investments<br>(cost of \$493,864,537 for 2011 and \$537,626,591 for 2010)   | \$ 538,393,517        | \$ 591,438,896        |
| Cash and cash equivalents   | 74,578,471            | 47,556,616            |
| Restricted cash   | 3,364,018             | -                     |
| Other assets  | 2,708,603             | 3,299,379             |
| <b>Total assets</b>   | <b>\$ 619,044,609</b> | <b>\$ 642,294,891</b> |
| Liabilities   |                       |                       |
| Liabilities:  |                       |                       |
| Credit facility loans   | \$ -                  | \$ 47,500,000         |
| Zero dividend preference share liability  | 59,551,702            | 55,726,333            |
| Payables to Investment Manager and affiliates   | 1,790,200             | 2,055,588             |
| Accrued expenses and other liabilities  | 11,002,409            | 6,649,502             |
| Net deferred tax liability  | 1,783,203             | 2,908,248             |
| <b>Total liabilities</b>  | <b>\$ 74,127,514</b>  | <b>\$ 114,839,671</b> |
| Net assets  |                       |                       |
| Class A shares, \$0.01 par value, 500,000,000 shares authorized,<br>52,495,577 shares issued, and 49,345,169 shares outstanding for 2011<br>(53,883,233 shares issued, and 50,732,825 shares outstanding for 2010 ) | \$ 524,956            | \$ 538,832            |
| Class B shares, \$0.01 par value, 100,000 shares authorized,<br>10,000 shares issued and outstanding  | 100                   | 100                   |
| Additional paid-in capital  | 529,079,201           | 539,358,974           |
| Retained earnings (deficit)   | 24,014,750            | (3,713,018)           |
| Less cost of treasury stock purchased (3,150,408 shares)  | (9,248,460)           | (9,248,460)           |
| Total net assets of the controlling interest  | 544,370,547           | 526,936,428           |
| Net assets of the non-controlling interest  | 546,548               | 518,792               |
| <b>Total net assets</b>   | <b>\$ 544,917,095</b> | <b>\$ 527,455,220</b> |
| <b>Total liabilities and net assets</b>   | <b>\$ 619,044,609</b> | <b>\$ 642,294,891</b> |
| <b>Net asset value per share for Class A and Class B shares</b>   | <b>\$ 11.03</b>       | <b>\$ 10.38</b>       |
| <b>Net asset value per zero dividend preference share (Pence)</b>   | <b>115.83</b>         | <b>107.95</b>         |

The accounts were approved by the board of directors on 12 March 2012 and signed on its behalf by

Talmai Morgan

John Hallam

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

## NB Private Equity Partners Limited

### Consolidated Condensed Schedules of Private Equity Investments

31 December 2011 and 2010

| Private equity investments   | Cost                  | Fair Value            | Unfunded Commitment   | Private Equity Exposure |
|------------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| <b>2011</b>                  |                       |                       |                       |                         |
| Fund investments             | \$ 361,090,441        | \$ 401,536,989        | \$ 105,019,241        | \$ 506,556,230          |
| Direct co-investments-equity | 111,592,039           | 116,757,312           | 201,281,082           | 318,038,394             |
| Direct co-investments-debt   | 21,182,057            | 20,099,216            | N/A                   | 20,099,216              |
|                              | <b>\$ 493,864,537</b> | <b>\$ 538,393,517</b> | <b>\$ 306,300,323</b> | <b>\$ 844,693,840</b>   |

**2010**

|                              |                       |                       |                       |                       |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Fund investments             | \$ 426,600,243        | \$ 475,202,891        | \$ 111,790,734        | \$ 586,993,625        |
| Direct co-investments-equity | 92,657,233            | 99,446,914            | 3,767,504             | 103,214,418           |
| Direct co-investments-debt   | 18,369,115            | 16,789,091            | N/A                   | 16,789,091            |
|                              | <b>\$ 537,626,591</b> | <b>\$ 591,438,896</b> | <b>\$ 115,558,238</b> | <b>\$ 706,997,134</b> |

| Private equity investments in excess of 5% of net asset value | Fair Value |
|---|------------|
|---|------------|

**2011**

|   |                   |
|---|-------------------|
| NB Crossroads Fund XVII                 | \$ 35,953,112     |
| NB Crossroads Fund XVIII                |                   |
| Large-cap Buyout                        | 11,074,039        |
| Mid-cap Buyout                          | 31,356,530        |
| Special Situations                      | 9,050,955         |
| Venture                                 | 9,465,028         |
|   | <b>60,946,552</b> |
| Centerbridge Credit Partners Fund, L.P. | 32,136,572        |

**2010**

|   |                   |
|---|-------------------|
| NB Crossroads Fund XVII                 | \$ 36,478,342     |
| NB Crossroads Fund XVIII                |                   |
| Large-cap Buyout                        | 10,278,437        |
| Mid-cap Buyout                          | 30,197,181        |
| Special Situations                      | 9,233,511         |
| Venture                                 | 8,399,985         |
|   | <b>58,109,114</b> |
| Centerbridge Credit Partners Fund, L.P. | 32,116,316        |
| OCM Opportunities Fund VIIb, L.P.       | 41,345,065        |

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

## NB Private Equity Partners Limited

### Consolidated Condensed Schedules of Private Equity Investments

31 December 2011 and 2010

| Geographic diversity of private equity investments <sup>(1)</sup> | Fair Value<br>2011    | Fair Value<br>2010    |
|---|-----------------------|-----------------------|
| North America   | \$ 423,252,623        | \$ 429,877,666        |
| Europe  | 91,559,644            | 86,424,281            |
| Asia / Rest of World  | 16,528,161            | 13,198,409            |
| Not classified  | 7,053,089             | 61,938,540            |
|   | <b>\$ 538,393,517</b> | <b>\$ 591,438,896</b> |

| Industry diversity of private equity investments <sup>(2)</sup> | Fair Value<br>2011 | Fair Value<br>2010 |
|---|--------------------|--------------------|
| Diversified / Undisclosed / Other                               | 26.0%              | 21.1%              |
| Energy / Utilities  | 13.5%              | 18.0%              |
| Financial Services  | 11.9%              | 11.9%              |
| Industrials   | 11.2%              | 10.0%              |
| Consumer / Retail   | 9.0%               | 11.4%              |
| Communications / Media  | 8.3%               | 8.1%               |
| Healthcare  | 7.0%               | 5.9%               |
| Technology / IT   | 5.6%               | 6.0%               |
| Transportation  | 4.2%               | 4.1%               |
| Business Services   | 3.3%               | 3.2%               |
|   | <b>100.0%</b>      | <b>100.0%</b>      |

| Asset class diversification of private equity investments <sup>(3)</sup> | Fair Value<br>2011 | Fair Value<br>2010 |
|--|--------------------|--------------------|
| Large-Cap Buyout   | 8.6%               | 21.4%              |
| Large-Cap Buyout Co-Invest   | 8.1%               | 4.6%               |
| Mid-cap Buyout   | 20.7%              | 19.5%              |
| Mid-cap Buyout Co-Invest   | 12.3%              | 11.8%              |
| Special Situation  | 31.6%              | 29.0%              |
| Special Situation Co-Invest  | 6.1%               | 4.1%               |
| Growth/Venture   | 8.0%               | 6.9%               |
| Secondary Purchases  | 4.6%               | 2.7%               |
|  | <b>100.0%</b>      | <b>100.0%</b>      |

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

<sup>(2):</sup> Industry diversity is based on underlying portfolio companies and direct co-investments.

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

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

# NB Private Equity Partners Limited

## Consolidated Statements of Operations and Changes in Net Assets

For the years ended 31 December 2011 and 2010

|   | 2011                  | 2010                   |
|---|-----------------------|------------------------|
| <b>Interest and dividend income</b>   | \$ 5,734,583          | \$ 2,195,535           |
| <b>Expenses</b>   |                       |                        |
| Carried interest  | -                     | 44,535                 |
| Investment management and services  | 7,101,381             | 7,754,688              |
| Administration and professional   | 2,627,841             | 4,236,405              |
| Finance costs   |                       |                        |
| Zero dividend preference shares   | 4,338,615             | 3,882,092              |
| Credit facility   | 1,485,848             | 1,934,167              |
|   | 15,553,685            | 17,851,887             |
| <b>Net investment income (loss)</b>   | <b>\$ (9,819,102)</b> | <b>\$ (15,656,352)</b> |
| <b>Realized and unrealized gains (losses)</b>   |                       |                        |
| Net realized gain (loss) on investments,<br>net of tax expense of \$2,664,705 for 2011 and \$1,015,800 for 2010                       | \$ 45,863,795         | \$ 2,012,393           |
| Net change in unrealized gain (loss) on investments,<br>net of tax expense (benefit) of (\$770,236) for 2011 and \$2,112,471 for 2010 | (8,289,169)           | 59,759,229             |
| <b>Net realized and unrealized gain (loss)</b>  | <b>37,574,626</b>     | <b>61,771,622</b>      |
| <b>Net increase (decrease) in net assets resulting from operations</b>  | <b>\$ 27,755,524</b>  | <b>\$ 46,115,270</b>   |
| Less net increase (decrease) in net assets resulting from operations<br>attributable to the non-controlling interest                  | 27,756                | 46,160                 |
| <b>Net increase (decrease) in net assets resulting from operations<br/>attributable to the controlling interest</b>                   | <b>\$ 27,727,768</b>  | <b>\$ 46,069,110</b>   |
| Net assets at beginning of year attributable to the controlling interest  | 526,936,428           | 483,169,412            |
| Less cost of stock repurchased and cancelled (1,387,656 shares for 2011 and 326,767 shares for 2010)                                  | 10,293,649            | 2,302,094              |
| <b>Net assets at end of year attributable to the controlling interest</b>   | <b>\$ 544,370,547</b> | <b>\$ 526,936,428</b>  |
| <b>Earnings (loss) per share for Class A and Class B shares of the controlling interest</b>   | <b>\$ 0.55</b>        | <b>\$ 0.90</b>         |

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

## NB Private Equity Partners Limited

### Consolidated Statements of Cash Flows

For the years ended 31 December 2011 and 2010

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| Cash flows from operating activities:  |                      |                      |
| Net increase (decrease) in net assets resulting from operations attributable to the controlling interest   | \$ 27,727,768        | \$ 46,069,110        |
| Net increase (decrease) in net assets resulting from operations attributable to the non-controlling interest                                     | 27,756               | 46,160               |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: |                      |                      |
| Net realized (gain) loss on investments  | (45,863,795)         | (2,012,393)          |
| Net change in unrealized (gain) loss on investments  | 8,289,169            | (59,759,229)         |
| In-kind payment of interest income   | (907,435)            | (873,914)            |
| Amortization of finance costs  | 672,357              | 464,366              |
| Change in restricted cash  | (3,364,018)          | -                    |
| Change in other assets   | (18,964)             | 319,922              |
| Change in payables to Investment Manager and affiliates  | (265,388)            | (409,409)            |
| Change in accrued expenses and other liabilities   | 3,363,027            | 5,308,737            |
| Net cash provided by (used in) operating activities  | (10,339,523)         | (10,846,650)         |
| Cash flows from investing activities:  |                      |                      |
| Distributions from private equity investments  | 87,840,197           | 46,801,173           |
| Proceeds from sale of private equity investments   | 87,294,148           | 40,505,400           |
| Contributions to private equity investments  | (50,382,827)         | (51,395,276)         |
| Purchases of private equity investments  | (29,596,491)         | (25,639,175)         |
| Net cash provided by (used in) investing activities  | 95,155,027           | 10,272,122           |
| Cash flows from financing activities:  |                      |                      |
| Credit facility loan payments  | (47,500,000)         | (40,852,433)         |
| Stock repurchased and cancelled  | (10,293,649)         | (2,302,094)          |
| Credit facility loan borrowing   | -                    | 22,504,673           |
| Proceeds from Issuance of Zero Dividend Preference Shares  | -                    | 4,904,286            |
| Net cash provided by (used in) financing activities  | (57,793,649)         | (15,745,568)         |
| Effect of exchange rates on cash balances  | -                    | (34,809)             |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>27,021,855</b>    | <b>(16,354,905)</b>  |
| Cash and cash equivalents at beginning of year   | 47,556,616           | 63,911,521           |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$ 74,578,471</b> | <b>\$ 47,556,616</b> |
| <b>Supplemental cash flow information</b>  |                      |                      |
| Interest paid  | \$ 65,233            | \$ 653,205           |
| Net taxes paid   | \$ 1,408,585         | \$ 72,013            |
| <b>Supplemental non-cash flow investing activities</b>   |                      |                      |
| Payable for investment purchased   | \$ 3,364,018         | \$ -                 |

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

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Note 1 – Organization

NB Private Equity Partners Limited and its subsidiaries (the “Company”, “We”, or “Our”) is a closed-end investment company registered in Guernsey. Our registered office is Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey GY1 4HY. We invest in private equity through private equity funds and co-investments. We may also make opportunistic investments. Our Class A shares are listed and admitted to trading on Euronext Amsterdam by NYSE Euronext and on the Specialist Fund Market of the London Stock Exchange plc under the symbol “NBPE”. Our zero dividend preference shares (see note 6) are listed and admitted to trading on the Daily Official List of the Channel Islands Stock Exchange and the Specialist Fund Market of the London Stock Exchange under the symbol “NBPZ”.

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

The Company is managed by NB Alternatives Advisers LLC (“NB Alternatives” or “Investment Manager”) pursuant to an investment management and services agreement. NB Alternatives is a subsidiary of Neuberger Berman Group LLC (“NBG”).

### Note 2 – Summary of Significant Accounting Policies and Risks

#### Basis of Presentation

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

#### Market Risk

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

Market conditions for publicly traded and privately held investments in portfolio companies held by the partnerships may affect their value in a manner similar to the potential impact on direct co-investments made by the Company in publicly traded and privately held securities. The partnership investments of the Company may also hold financial instruments (including debt and derivative instruments) in addition to their investments in portfolio companies that are susceptible to market price risk and therefore may also affect the value of the Company’s investment in the partnerships. As with any individual investment, market prices may vary from composite index movements.

#### Credit Risk

Credit risk is the risk of losses due to the failure of counterparty to perform according to the terms of a contract. The Company may invest in a range of debt securities directly or in funds which do so. Until such investments are sold or are paid in full at maturity, the 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.

## NB Private Equity Partners Limited

### *Notes to Financial Statements*

31 December 2011 and 2010

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 evaluating from time to time whether to hold some of the Company's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

#### **Liquidity Risk**

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

#### **Use of Estimates**

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

#### **Principles of Consolidation**

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

#### **Cash and Cash Equivalents**

Cash and cash equivalents are valued at cost plus accrued interest, which approximates fair value. These balances represent amounts held with financial institutions that are readily accessible to pay expenses or fund investments. As of 31 December 2011 and 2010, \$77,942,489 and \$47,556,616 are held with JPMorgan Chase, respectively.

#### **Restricted Cash**

As of 31 December 2011, we are required to maintain a cash balance of at least \$3,364,018 by an investment purchase agreement with a deferred payment provision.

#### **Valuation of Investments**

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

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04") which amended ASC 820-10, Fair Value Measurements and Disclosures – Overall. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. While many of the amendments to U.S. GAAP are not expected to have a significant effect on practice, the new guidance changes some fair value measurement principles and disclosure requirements. The amendments in ASU 2011-04 are to be applied prospectively. For public

## NB Private Equity Partners Limited

### *Notes to Financial Statements*

31 December 2011 and 2010

entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact the adoption will have on the financial statements and disclosures.

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

#### **Investment Income**

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

#### **Operating Expenses**

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

#### **Realized Gains and Losses on Investments**

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

#### **Net Change in Unrealized Gains and Losses of Investments**

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

#### **Carried Interest**

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

#### **Currency Translation**

Investments denominated in a currency other than U.S. dollars are translated into U.S. dollar equivalents using spot rates as of the valuation date. The Company does not separate the changes relating to currency exchange rates from those relating to changes in the fair value of the investments held. These fluctuations are combined and included in the net change in unrealized gain (loss) on investments in the Consolidated Statements of Operations and Changes in Net Assets. For the years ended 31 December 2011 and 2010, the effect of translation to U.S. dollars decreased valuations of foreign investments by approximately \$537,909 and \$1,016,947, respectively.

The Company has unfunded commitments denominated in a currency other than U.S. dollars. These unfunded commitments are in Euro and amounted to €5,096,820 and €7,387,103 at 31 December 2011 and 2010 respectively; they have been included in the Consolidated Condensed Schedules of Private Equity Investments at the U.S. dollar exchange rate in effect at 31 December 2011 and 2010. The effect on the unfunded commitment of the change in the exchange rate between Euros and U.S. dollars was a decrease in the U.S. dollar obligation of \$224,289 and \$1,827,354, for 31 December 2011 and 2010 respectively.



# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Income Taxes

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

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

Investments made in entities that generate U.S. source investment income may subject the Company to certain U.S. federal and state income tax consequences. A U.S. withholding tax at the rate of 30 percent may be applied on the Company's distributive share of any U.S. source dividends and interest (subject to certain exemptions) and certain other income that we receive directly or through one or more entities treated as either partnerships or disregarded entities for U.S. federal income tax purposes.

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

We recognize a tax benefit in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. To date, we have not provided any reserves for taxes as all related tax benefits have been fully recognized. Although we believe we have adequately assessed for our uncertain tax positions, we acknowledge that these matters require significant judgment and no assurance can be given that the final tax outcome of these matters will not be different.

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

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

### Forward Foreign Exchange Contracts

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

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

## Note 3 – Agreements, including related party transactions

### Management and Administration

We pay the Investment Manager a management fee calculated at the end of each calendar quarter equal to 37.5 basis points (150 basis points per annum) of the net asset value of our private equity and opportunistic investments. For purposes of this computation, the net asset value is reduced by the net asset value of any investment for which the Investment Manager is sepa-

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

rately compensated as investment manager. For the years ended 31 December 2011 and 2010, the management fee expenses were \$6,566,664 and \$7,192,204, respectively.

We also pay the Investment Manager for certain accounting and administrative services at the rate of 2.5 basis points per quarter (10 basis points per annum) applied to the net asset value of our private equity and opportunistic investments at the end of each calendar quarter, computed as described above. The amount incurred by the Company for the years ended 31 December 2011 and 2010 for these services were \$534,717 and \$562,484, respectively.

We pay to Heritage International Fund Managers Limited ("Heritage"), an affiliate of the Trustee, a fee for providing certain administrative functions relating to certain corporate services and Guernsey regulatory matters affecting the Company. Fees for these services are paid as invoiced by Heritage. We paid Heritage \$124,525 and \$153,080 for the years ended 31 December 2011 and 2010, respectively, for such services.

For the years ended 31 December 2011 and 2010, we paid our independent directors a total of \$195,000 and \$219,944 respectively.

Expenses related to the Investment Manager are included in investment management and services in the consolidated statements of operations and changes in net assets. Administration and professional expenses include fees for directors, audit and tax, trustee, legal, listing, and other items.

### Special Limited Partner's Noncontrolling Interest in Subsidiary

An affiliate of the Investment Manager is a Special Limited Partner in a consolidated partnership subsidiary. At 31 December 2011 and 2010, the noncontrolling interest of \$546,548 and \$518,792 represented the Special Limited Partner's capital contribution to the partnership subsidiary and income allocation, respectively. The amount of the noncontrolling ownership interest in the subsidiary was agreed between the General Partner and Special Limited Partner of the subsidiary.

The following table reconciles the carrying amount of net assets, net assets attributable to the controlling interest and net assets attributable to the noncontrolling interest at 31 December 2011 and 2010.

|   | Controlling Interest |              | Noncontrolling Interest | Total          |
|---|----------------------|--------------|-------------------------|----------------|
| <b>Net assets balance, 31 December 2009</b>                     | \$                   | 483,169,412  | \$ 472,632              | \$ 483,642,044 |
| Net increase (decrease) in net assets resulting from operations |                      | 46,069,110   | 46,160                  | 46,115,270     |
| Stock repurchased and cancelled                                 |                      | (2,302,094)  | -                       | (2,302,094)    |
| <b>Net assets balance, 31 December 2010</b>                     | \$                   | 526,936,428  | \$ 518,792              | \$ 527,455,220 |
| Net increase (decrease) in net assets resulting from operations |                      | 27,727,768   | 27,756                  | 27,755,524     |
| Stock repurchased and cancelled                                 |                      | (10,293,649) | -                       | (10,293,649)   |
| <b>Net assets balance, 31 December 2011</b>                     | \$                   | 544,370,547  | \$ 546,548              | \$ 544,917,095 |

### Carried Interest

The Special Limited Partner is entitled to a carried interest in an amount that is, in general, equal to 7.5 percent of our consolidated net increase in net assets resulting from operations for a fiscal year in the event that our internal rate of return for such period, based on our net asset value, exceeds 7.5 percent. If losses are incurred for a period, no carried interest is earned and such loss amounts are carried forward to be included in the calculations for future periods. Carried interest is reduced by the

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

amount of carried interest that we paid during the period to any investment for which the Investment Manager serves as investment manager. Carried interest is also accrued and paid on any economic gain that we realize on treasury stock transactions. (See note 10). Carried interest is accrued periodically and paid at the conclusion of the fiscal year. As of 31 December 2011, no carried interest was accrued. As of 31 December 2010, \$44,535 carried interest was accrued.

### Shares Owned by Lehman Brothers

Simultaneously with the closing of the initial offering of the Company and related transactions, affiliates of Lehman Brothers, which were not party to the bankruptcy filing of LBHI, purchased 14,500,000 Class A shares, in the form of restricted depositary shares applicable to investors in the United States, at the offering price. The restriction on re-sale of these shares expired on 18 July 2010. Additionally, Lehman Brothers acquired 802,319 shares on the open market in 2007 and 2008, which are not subject to any restrictions on resale.

### Investments with the Investment Manager's Platform

The Company holds limited partner interests in private equity funds of funds managed and sponsored by the Investment Manager. These investments are excluded from the calculation of management fees. As of 31 December 2011 and 2010, the aggregate net asset value of these funds was approximately \$96.9 million and \$94.6 million, respectively, and associated unfunded commitments were \$19.7 million and \$23.8 million, respectively.

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

We have committed \$200 million to NB Alternatives direct co-investment program as of 31 December 2011.

We committed \$50 million to Athyrium drug royalty program in February 2012.

### Note 4 – Fair Value of Financial Instruments

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

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

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

The following tables detail the Company's financial assets and liabilities that were accounted for at fair value as of 31 December 2011 and 2010 by level. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| As of 31 December 2011            | Assets (Liabilities) Accounted for at Fair Value |             |                       |                       |
|-----------------------------------|--|-------------|-----------------------|-----------------------|
|                                   | Level 1  | Level 2     | Level 3               | Total                 |
| Cash and cash equivalents         | \$ 74,578,471                                    | \$ -        | \$ -                  | \$ 74,578,471         |
| Restricted cash                   | 3,364,018  | -           | -                     | 3,364,018             |
| Private equity investments        | 3,509,338  | -           | 534,884,179           | 538,393,517           |
| Forward foreign exchange contract | -  | -           | (2,569,077)           | (2,569,077)           |
| <b>Totals</b>                     | <b>\$ 81,451,827</b>                             | <b>\$ -</b> | <b>\$ 532,315,102</b> | <b>\$ 613,766,929</b> |
| <b>As of 31 December 2010</b>     |  |             |                       |                       |
| Cash and cash equivalents         | \$ 47,556,616                                    | \$ -        | \$ -                  | \$ 47,556,616         |
| Private equity investments        | -  | -           | 591,438,896           | 591,438,896           |
| Forward foreign exchange contract | -  | -           | (2,548,502)           | (2,548,502)           |
| <b>Totals</b>                     | <b>\$ 47,556,616</b>                             | <b>\$ -</b> | <b>\$ 588,890,394</b> | <b>\$ 636,447,010</b> |

As of 31 December 2011 and 2010, the Company has assessed its positions and concluded that all of its private equity investments are classified as level 3, except for one publicly traded co-investment classified as level 1 as of 31 December 2011.

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

The following table summarizes the changes in the fair value of the Company's level 3 private equity investments for the year ended 31 December 2011.

| (dollars in thousands)   |                     |                   |                       |                    |                  |                        |                               |
|--|---------------------|-------------------|-----------------------|--------------------|------------------|------------------------|-------------------------------|
| For the Year Ended 31 December 2011  |                     |                   |                       |                    |                  |                        |                               |
|  | Large-cap<br>Buyout | Mid-cap<br>Buyout | Special<br>Situations | Growth/<br>Venture | Diversified      | Secondary<br>Purchases | Private Equity<br>Investments |
| Balance, 31 December 2010  | \$ 137,043          | \$ 183,922        | \$ 199,664            | \$ 27,656          | \$ 36,478        | \$ 6,676               | \$ 591,439                    |
| Purchases of investments and/or<br>contributions to investments  | 21,310              | 9,883             | 35,396                | 5,968              | 2,349            | 7,979                  | 82,885                        |
| Realized gain (loss) on investments  | (5,405)             | 22,624            | 26,314                | 4,249              | 1,233            | 718                    | 49,733                        |
| Changes in unrealized appreciation<br>(depreciation) of investments<br>(including changes related to<br>investments still held at the reporting<br>date) | (4,416)             | (1,557)           | (15,656)              | (1,408)            | 2,762            | 1,324                  | (18,951)                      |
| Changes in unrealized appreciation<br>(depreciation) of investments sold<br>during the year  | 10,159              | -                 | -                     | -                  | -                | -                      | 10,159                        |
| Distributions from investments   | (75,619)            | (42,486)          | (42,157)              | (8,200)            | (6,870)          | (1,049)                | (176,381)                     |
| Transfers in and/or (out) of level 3   | (4,000)             | -                 | -                     | -                  | -                | -                      | (4,000)                       |
| <b>Balance, 31 December 2011</b>   | <b>\$ 79,072</b>    | <b>\$ 172,386</b> | <b>\$ 203,561</b>     | <b>\$ 28,265</b>   | <b>\$ 35,952</b> | <b>\$ 15,648</b>       | <b>\$ 534,884</b>             |

**NB Private Equity Partners Limited***Notes to Financial Statements*

31 December 2011 and 2010

The following table summarizes the changes in the fair value of the Company's level 3 private equity investments for the year ended 31 December 2010.

| (dollars in thousands)   |                     |                   |                       |                    |                  |                        |                               |
|--|---------------------|-------------------|-----------------------|--------------------|------------------|------------------------|-------------------------------|
| For the Year Ended 31 December 2010  |                     |                   |                       |                    |                  |                        |                               |
|  | Large-cap<br>Buyout | Mid-cap<br>Buyout | Special<br>Situations | Growth/<br>Venture | Diversified      | Secondary<br>Purchases | Private Equity<br>Investments |
| Balance, 31 December 2009  | \$ 176,739          | \$ 150,726        | \$ 151,687            | \$ 19,115          | \$ 31,833        | \$ 4,713               | \$ 534,813                    |
| Purchases of investments and/or<br>contributions to investments  | 8,940               | 23,732            | 28,780                | 6,175              | 3,887            | 1,784                  | 73,298                        |
| Realized gain (loss) on investments  | (8,843)             | (1,833)           | 14,426                | (697)              | 543              | 13                     | 3,609                         |
| Changes in unrealized appreciation<br>(depreciation) of investments<br>(including changes related to<br>investments still held at the reporting<br>date) | 15,803              | 20,860            | 15,769                | 3,063              | 5,771            | 843                    | 62,109                        |
| Changes in unrealized appreciation<br>(depreciation) of investments sold<br>during the year  | 1,202               | -                 | -                     | -                  | -                | -                      | 1,202                         |
| Distributions from investments   | (56,798)            | (9,563)           | (10,998)              | -                  | (5,556)          | (677)                  | (83,592)                      |
| Transfers in and/or (out) of level 3   | -                   | -                 | -                     | -                  | -                | -                      | -                             |
| <b>Balance, 31 December 2010</b>   | <b>\$ 137,043</b>   | <b>\$ 183,922</b> | <b>\$ 199,664</b>     | <b>\$ 27,656</b>   | <b>\$ 36,478</b> | <b>\$ 6,676</b>        | <b>\$ 591,439</b>             |

There were no transfers between level 1 and level 2 during the years ended 31 December 2011 and 2010. The Company accounts for transfers at the end of the reporting period in which such transfers occur.

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

Our special situations investments include hedge funds valued at approximately \$45.5 million and \$44.7 million at 31 December 2011 and 2010 respectively. As of 31 December 2011, one hedge fund amounting to \$13.4 million is redeemable quarterly with a 60 day advance notice. Another hedge fund amounting to \$32.1 million is not redeemable for the first two to three years following investment, and has rolling two year lock-up periods thereafter. Hedge funds generally have a right to restrict redemptions in order to avoid a forced sale of underlying assets.

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Note 5 – Credit Facility

A subsidiary of the Company has entered into an agreement with Lloyds Banking Group (Bank of Scotland) regarding a senior secured revolving credit facility ("Facility") of up to \$250 million. The term of the Facility is seven years and expires in August 2014. At 31 December 2011 and 2010, \$0 and \$47.5 million were outstanding and substantially all assets are pledged pursuant to the following:

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

The Company is required to meet certain portfolio diversification tests, a minimum fund/co-investment threshold, maximum exposure limitations, a maximum debt to value ratio, a maximum debt to secured assets ratio and a maximum over-commitment test. In addition, the Facility limits the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, acquisitions, mergers, repurchase of shares, liens or other matters customarily restricted in such agreements. The zero dividend preference shares (note 6) and the forward foreign exchange contract (note 7) are compliant with the credit facility agreement. At 31 December 2011 and 2010, the Company met all requirements under the Facility.

All borrowings under the Facility bear interest at a floating rate, calculated as LIBOR or Euribor, as appropriate, plus 1.35% per annum. At 31 December 2010, interest rates on the outstanding balance range from 1.61828% to 1.6325% per annum.

In addition, we are required to pay a non-utilization fee calculated as 40 basis points per annum on the daily balance of the unused Facility amount. For the year ended 31 December 2011, we incurred and expensed \$25,481 for interest and \$1,007,778 for non-utilization fees related to the Facility. For the year ended 31 December 2010, we incurred and expensed \$616,302 for interest and \$871,122 for non-utilization fees related to the Facility. As of 31 December 2011 and 2010, unamortized capitalized debt issuance costs (included in other assets) were \$1,000,706 and \$1,397,725 respectively. Capitalized amounts are being amortized on a straight-line basis over the term of the Facility. Such amortization amounted to \$397,019 and \$397,019 for the years ended 31 December 2011 and 2010, respectively.

An active market for debt that is similar to that of the Facility does not exist. Management estimates the fair value of the Facility based on comparison to debt instruments with comparable characteristics. Management has estimated that the fair values of the Facility, based on the balance outstanding, are approximately \$0 and \$44.5 million at 31 December 2011 and 2010 respectively. However, these estimates are affected by and are subject to significant variability due to the disruptions in the current market for such debt.

### Note 6 – Zero Dividend Preference Shares

On 30 November 2009 the Company issued 30,000,000 zero dividend preference shares ("ZDP Shares"). On 16 April 2010 the Company issued additional 2,999,999 ZDP Shares. The additional ZDP Shares rank *pari passu* with the first ZDP Shares. The holders of the ZDP Shares are entitled to a redemption amount of 100.0 pence per ZDP Share as increased daily at such a daily compound rate as would give a final entitlement of 169.73 pence on 31 May 2017, resulting in an effective interest rate of 7.3% annually. The ZDP shares rank prior to the class A and B shares in respect of repayment of the final entitlement. However, they rank behind any borrowings that remain outstanding. They carry no entitlement to income and their entire return takes the form of capital.

**NB Private Equity Partners Limited***Notes to Financial Statements**31 December 2011 and 2010*

The following table reconciles the liability for ZDP shares for the years ended 31 December 2011 and 2010.

| <b>Zero dividend preference shares</b> | <b>Pounds Sterling</b> | <b>U.S. Dollars</b>  |
|--|------------------------|----------------------|
| <b>Liability, 31 December 2009</b>     | <b>£ 30,236,761</b>    | <b>\$ 48,871,677</b> |
| Offering proceeds, 16 April 2010       | 3,080,443              | 4,904,286            |
| Accrued interest                       | 2,305,923              | 3,625,736            |
| Unamortized premium                    | 101,171                | 155,600              |
| Currency conversion                    | -                      | (1,830,966)          |
| <b>Liability, 31 December 2010</b>     | <b>£ 35,724,298</b>    | <b>\$ 55,726,333</b> |
| Accrued interest                       | 2,602,071              | 4,085,080            |
| Premium amortization                   | (9,742)                | (15,216)             |
| Currency conversion                    | -                      | (244,495)            |
| <b>Liability, 31 December 2011</b>     | <b>£ 38,316,627</b>    | <b>\$ 59,551,702</b> |

Capitalized offering costs amounted to \$2,036,441 and \$2,036,441 (included in other assets) as of 31 December 2011 and 2010 and are being amortized using the effective interest rate method. The unamortized balance at 31 December 2011 and 2010 is \$1,480,969 and \$1,749,720, respectively.

**Note 7 – Forward Foreign Exchange Contract**

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

The contract provides that we will purchase £40,000,000 on 17 May 2017 for \$64,820,000 from the Lloyds Banking Group (Bank of Scotland). The contract further provides that the security interests granted to the bank under the credit facility as described in note 5 also apply to any amounts we may owe the bank pursuant to this contract. As of 31 December 2011 and 2010, the fair value of the forward foreign exchange contract was (\$2,569,077) and (\$2,548,502) (included in accrued expenses and other liabilities), respectively, in the consolidated balance sheets.



# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Note 8 – Income Taxes

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

|                                    | 31 December 2011    | 31 December 2010    |
|------------------------------------|---------------------|---------------------|
| Current tax expense                | \$ 2,664,705        | \$ 1,015,800        |
| Deferred tax expense (benefit)     | (770,236)           | 2,112,471           |
| <b>Total tax expense (benefit)</b> | <b>\$ 1,894,469</b> | <b>\$ 3,128,271</b> |

|                                     | 31 December 2011    | 31 December 2010    |
|-------------------------------------|---------------------|---------------------|
| Gross deferred tax assets           | \$ 1,184,461        | \$ 4,866,958        |
| Valuation allowance                 | (930,229)           | (4,785,468)         |
| Net deferred tax assets             | 254,232             | 81,490              |
| Gross deferred tax liabilities      | 2,037,435           | 2,989,738           |
| <b>Net deferred tax liabilities</b> | <b>\$ 1,783,203</b> | <b>\$ 2,908,248</b> |

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

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

### Note 9 – Earnings (Loss) per Share

The computations for earnings (loss) per share for the years ended 31 December 2011 and 2010 are as follows:

|   | For the Years ended 31 December |                |
|---|---------------------------------|----------------|
|   | 2011                            | 2010           |
| Net increase (decrease) in net assets resulting from operations attributable to the controlling interest  | \$ 27,727,768                   | \$ 46,069,110  |
| Divided by weighted average shares outstanding for Class A and Class B shares of the controlling interest | 50,092,462                      | 51,048,666     |
| <b>Earnings (loss) per share for Class A and Class B shares of the controlling interest</b>               | <b>\$ 0.55</b>                  | <b>\$ 0.90</b> |

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Note 10 – Treasury Stock

The Company continues to maintain a liquidity enhancement policy that is intended to enhance and strengthen the liquidity in the trading of the Company's class A shares. The Company's Liquidity Enhancement Agreement with ABN AMRO Bank N.V. London Branch, which had been in force since 21 July 2008 (and which was subsequently renewed with The Royal Bank of Scotland N.V. ("RBS") on 29 June 2010), expired on 28 June 2011. Under the terms of Share Buy Back Programme (described below), the Liquidity Enhancement Agreement was suspended from 21 October 2010 to 28 June 2011.

On 22 October 2010, we launched a new Share Buy-Back Programme in order to begin implementing the Capital Return Policy. The Share Buy-Back Programme was extended on 30 August 2011, 29 November 2011, and 9 March 2012, and unless further extended, will end on 31 May 2012. Under the terms of the Share Buy-back Programme, Jefferies International Limited ("JIL") has been appointed to effect on-market repurchases of Shares on behalf of NBPE on Euronext Amsterdam and/or the Specialist Fund Market of the London Stock Exchange. Shares bought back under the Share Buy-Back Programme will be cancelled.

The aggregate number of class A shares which may be repurchased pursuant to the Share Buy-back Agreement is limited to 6,776,250 shares (being 12.5 per cent of the total number of class A shares outstanding as of 21 October 2010, the day before the Share Buy-back Programme commenced). The Company may increase such maximum, subject to any limits to the authority granted to the Company by its shareholders to effect share repurchases. The Company currently has shareholder authority to repurchase shares in the market, the aggregate value of which may be up to 14.99 percent of its net asset value on 1 January in the relevant year in which the buyback is made. The maximum price which may be paid for a class A share is an amount equal to the higher of (i) the price of the last independent trade and (ii) the highest current independent bid, in each case, with respect to the class A shares on the relevant exchange (being the Specialist Fund Market of the London Stock Exchange or Euronext Amsterdam by NYSE Euronext).

The following table summarizes the Company's shares at 31 December 2011 and 2010.

|   | <u>31 December 2011</u> | <u>31 December 2010</u> |
|---|-------------------------|-------------------------|
| Class A shares outstanding                                  | 49,345,169              | 50,732,825              |
| Class B shares outstanding                                  | 10,000                  | 10,000                  |
|   | <u>49,355,169</u>       | <u>50,742,825</u>       |
| Class A shares held in treasury - number of shares          | 3,150,408               | 3,150,408               |
| Class A shares held in treasury - cost                      | \$ 9,248,460            | \$ 9,248,460            |
| Class A shares repurchased and cancelled - number of shares | 1,714,423               | 326,767                 |
| Class A shares repurchased and cancelled - cost             | \$ 12,595,743           | \$ 2,302,094            |

# NB Private Equity Partners Limited

## Notes to Financial Statements

31 December 2011 and 2010

### Note 11 – Financial Highlights

|  |           |                   |                   |
|--|-----------|-------------------|-------------------|
| <b>Per share operating performance</b>                       |           |                   |                   |
| <b>(based on average shares outstanding during the year)</b> |           |                   |                   |
|  |           | <b>2011</b>       | <b>2010</b>       |
| Beginning net asset value 1 January                          | \$        | 10.38             | \$ 9.46           |
| Stock repurchased and cancelled                              |           | 0.10              | 0.02              |
| Net increase in net assets resulting from operations:        |           |                   |                   |
| Net investment income (loss)                                 |           | (0.20)            | (0.31)            |
| Net realized and unrealized gain (loss)                      |           | 0.75              | 1.21              |
| <b>Ending net asset value 31 December</b>                    | <b>\$</b> | <b>11.03</b>      | <b>\$ 10.38</b>   |
| <b>Average shares outstanding</b>                            |           | <b>50,048,997</b> | <b>50,906,209</b> |

|   |  |              |              |
|---|--|--------------|--------------|
| <b>Total return</b>                                   |  |              |              |
| <b>(based on change in net asset value per share)</b> |  |              |              |
|   |  | <b>2011</b>  | <b>2010</b>  |
| Total return before carried interest                  |  | 6.26%        | 9.83%        |
| Carried interest                                      |  | -            | 0.06%        |
| <b>Total return after carried interest</b>            |  | <b>6.26%</b> | <b>9.77%</b> |

|  |  |              |              |
|--|--|--------------|--------------|
| <b>Net investment income (loss) and expense ratios</b> |  |              |              |
| <b>(based on weighted average net assets)</b>          |  |              |              |
|  |  | <b>2011</b>  | <b>2010</b>  |
| Net investment income (loss)                           |  | (1.86%)      | (3.20%)      |
| Expense ratios:  |  |              |              |
| Expenses before interest and carried interest          |  | 2.94%        | 3.53%        |
| Interest expense                                       |  | -            | 0.13%        |
| Carried interest                                       |  | -            | 0.01%        |
| <b>Total</b>   |  | <b>2.94%</b> | <b>3.67%</b> |

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

### Note 12 – Commitments and Contingencies

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

### Note 13 – Subsequent Events

Except as disclosed in note 3, there have been no subsequent events through 12 March 2012, the date the financial statements were issued, that require recognition or disclosure in the consolidated financial statements.