

Our Ref WGS/OGH/ALH/N00112/PF - 7

To The Creditors

5 May 2011

Recovery and Reorganisation

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU
www.grant-thornton.co.uk

Dear Sirs

**NDF Administration Limited - In Administration (the Company or NDF A)
High Court of Justice, Chancery Division, Companies Court (the Court)
Ref 19593 of 2009**

1 INTRODUCTION

- 1.1. Following the appointment of Martin Ellis and I as joint administrators of the above company by the Directors of the Company on 14 October 2009, I now report on the progress of the administration to date and attach:
- Appendix 1, Form 2.24B together with an account of our receipts and payments for the period ended 13 April 2010 in accordance with Rule 2.47.
 - Appendix 2, a statement of the remuneration charged by the Joint Administrators in the period 14 October 2010 to 13 April 2011 and a statement of expenses incurred in the period;
 - Appendix 3, an analysis of our time costs as required by Statement of Insolvency Practice 9;
 - Appendix 4, an extract from the Insolvency Rules 1986 relating to creditors' rights to request additional information from the Administrators (Rule 2.48A);
 - Appendix 5, an extract from the Insolvency Rules 1986 relating to creditors' rights to challenge the Joint Administrators' fees if excessive (Rule 2.109).
 - Form 2.25B Voting form for a resolution that the joint administrators be discharged from liability in accordance with paragraph 98 of Schedule B1 of the Insolvency Act 1986 with effect from 14 days after the final progress report is sent to creditors.
- 1.2. Both Andrew Hosking and Martin Ellis are authorised by The Insolvency Practitioners Association to act as insolvency practitioners.
- 1.3. In accordance with paragraph 100 (2) of Schedule B1 to the Insolvency Act 1986 the functions of the administrators are to be exercised by any or all of them.

2 STATUTORY INFORMATION

2.1. The Company's statutory details are as follows:

Registered number	01955637
Date of incorporation	7 November 1985
Registered office	30 Finsbury Square London EC2P 2YU
Former trading address	25 Grosvenor Road St Albans AL1 3AW
Directors	Shareholding
Paul Bispham	Nil
John Waller	1.8%
Company Secretary	Shareholding
Versec Secretaries Limited	Nil

3 SALE OF BUSINESS ASSETS

Sale of Structured Product Book and Pure Insurance Products Book

3.1. As mentioned in my last report, the Structured Product Book was sold on 3 February 2010 to Meteor Capital Group Limited (Meteor), this excluded any Lehman Brothers backed structured products. The Pure Insurance Products Book was sold to Synergy Financial Products Limited (SFPL) on 19 January 2010.

Sale of ISA Mortgage Book

3.2. I also completed a sale of the ISA Mortgage Book to SFPL on 31 March 2011.

3.3. As mentioned in my previous report, I had been able to successfully trade the ISA Mortgage Book since October 2009, with the intention of selling the Book in order to secure its on-going administration for the benefit of the investors and avoid the early winding up of investments, whilst ensuring a fair return to creditors.

- 3.4. I had previously engaged Grant Thornton UK LLP's Corporate Finance department to undertake significant marketing activities, with advertisements placed in all the major broadsheets.
- 3.5. As a result of this extensive marketing process, I undertook detailed due diligence with a number of interested parties which has concluded with the sale to SFPL. Throughout the sale process I liaised with the Financial Services Authority.

4 ASSETS AND LIABILITIES

Assets

- 4.1. Cash at bank on appointment
The Company had cash at bank of c.£1.54 million at the date of my appointment (excluding client account monies).
- 4.2. Book debts
The Company books and records indicated book debts amounting to c.£40k at the date of my appointment. These debts are irrecoverable due to legitimate related party set-offs.
- 4.3. I previously reported that c.£100,000 may be due from Prudential. Whilst this debt was due, significant amounts were also due to Prudential which has resulted in full set-off of the £100,000.
- 4.4. Client Account Monies
I am currently obtaining legal advice in regards to the non-responder funds held in the Company's client accounts. I will be taking further steps to trace these non-responders to enable distribution of their outstanding funds. It is likely that I will shortly be applying to court for guidance on how to deal with the costs of tracing these investors and repatriating any monies owed to them. Specifically I will be requesting from the Court permission to deduct any costs I incur as a result of these investments from the non-responder client monies so that it does not impact unsecured creditors.
- 4.5. I have undertaken further investigation as to Company monies held in the Client accounts and have realised c.£100k of additional funds to the estate relating primarily to interest properly earned by the Company.
- 4.6. Possible claims in the insolvency of the Lehman Entities
As mentioned in my previous report, I have submitted a contingent claim in the insolvency of Lehman Brothers Inc and in the insolvencies of other European Lehman Entities.
- 4.7. These claims would only crystallise in the event that the Financial Services Compensation Scheme (FSCS) determines that some claims against the Company in respect of the mis-selling of structured products backed by Lehman Entities are valid. The extent to which the FSCS pays any compensation to the investor and takes an

assignment of the debt, subsequently making a corresponding claim in the insolvency of the Company, may give rise to a contingent claim for the Company against the respective Lehman Entities. I would, however, highlight that it will be at the discretion of relevant Lehman Insolvency Practitioner to adjudicate on this claim.

4.8. However, I will liaise with the FSCS to determine whether such a claim is ultimately pursued by the Company or the FSCS.

4.9. Taxation

Terminal Loss Relief Claim

I am currently investigating the possibility of pursuing a terminal loss relief claim which may be available to the Company. I am in the process of submitting a loss relief application but the amount of any refund which may be recoverable is not yet known.

4.10. Claim under the Company's professional indemnity (PI) insurance

I have investigated the possibility of making a claim under the Company's relevant PI insurance cover. Counsel's advice in relation to the policy in place has indicated that any claim under the policy is remote. This is primarily due to certain clauses relating to claims arising from third party insolvencies.

Liabilities

4.11. As per my previous report I am still of the opinion that there will remain sufficient net asset realisations to enable a small dividend to unsecured creditors. The quantum and timing of such a payment will depend on: the terminal loss relief claim, the FSCS's submitted claim and the success of the Company's contingent claim against Lehman Brothers.

4.12. In the event that the above recovery action results in negligible or small realisations there may be insufficient funds to effect a distribution to unsecured creditors.

4.13. Preferential Creditors

At the time of the sale of the ISA Mortgage Book the remaining employee of the Company transferred to SFPL a second employee contract having been terminated, by consent, prior to the transfer. As such, the Company has no further employees. I am now therefore in a position to adjudicate on the preferential claims, which currently amount to £1,641.60, and I will shortly be making a distribution to this class of creditor.

4.14. Unsecured Creditors

As detailed in my previous report unsecured liabilities are estimated to total £50,520.46 and consist of c.25 creditors. This does not include the potential contingent liabilities arising from the Lehman Entities backed structured products.

4.15. Contingent Creditors

There are significant contingent creditors arising as a result of the failure of Lehman Entities. These contingent claims amount to a theoretical maximum of c.£36 million.

5 REMAINING BUSINESS BOOK MANAGED BY THE COMPANY

Following the sale of the ISA Mortgage Book the only remaining products managed by the Company are the four Royal Bank of Scotland Plc (RBS) plans, Skyline, Royal Deposit, Navigator and Autopilot. I am in negotiations with RBS to ensure the continuing management of these plans through to maturity.

6 LEHMAN BROTHERS BACKED FINANCIAL PRODUCTS

6.1. FSCS Claims

As you are aware a number of the Company's financial products were backed by Lehman Brothers. Furthermore, as I have stated in previous correspondence, a number of investors have made claims to the FSCS that the Company's literature was deficient in relation to its representations as to the effect of counter-party failure.

6.2. In its assessment of claims to date I understand that the FSCS has drawn a distinction between products which are considered "Capital Secure" and products where the invested capital was "at risk".

6.3. It is my understanding that "Capital Secure" creditors have been contacted by the FSCS and provided with claim forms. While the FSCS adjudicates on these on a case by case basis I believe that the majority of "Capital Secure" investments have been offered compensation and any claims in relation to Lehman Brothers or the Company are assigned to the FSCS in full.

6.4. The FSCS indicated in September 2010 that the "Capital at Risk" would not be considered for compensation in the same way as the "Capital Secure" products. However, I am aware that the FSCS will examine "Capital at Risk" claims on a case by case basis and so any investors who believe they were mis-sold their product should contact the FSCS.

6.5. Claims in the insolvency of NDFA

Legal advice that I have received, in relation to the question of whether the products were mis-sold, has not distinguished between "Capital at Risk" and "Capital Secure". Therefore, if a future appointed liquidator is in a position to make a distribution to unsecured creditors, they are likely to invite claims from all investors for consideration (albeit claims will be considered on a case by case basis).

6.6. However, I would advise, given the likely value of unsecured claims in this case and the relatively small volume of assets available, any distribution would represent only a fraction of the losses suffered by investors.

6.7. Notwithstanding the above all investors who have not received compensation from the FSCS will remain creditors of the relevant Lehman Brothers entity. As previously advised I have made claims on behalf of all these individuals, however, I have not yet been furnished with any information from the Lehman Brothers' insolvencies as to when a distribution may be made.

7 Exit Routes

- 7.1. Following the conclusion of a number of small outstanding administration tasks I should soon be in a position to place the Company into a creditors' voluntary liquidation, as agreed by the Creditors in my proposals of 7 December 2009. I anticipate that this is likely to occur before I am next due to report to creditors (at the two year anniversary of the administration).

8 Joint Administrators' discharge from liability

- 8.1. As reported above, the administration is likely to end within the next six months, at which point the Joint Administrators require their discharge from liability. I attach, for your attention, an appropriate resolution on Form 2.25b and should be grateful if you would return by 12.00 hours on 13 June 2011 to NDF Administration Limited – In Administration, c/o Grant Thornton UK LLP, 30 Finsbury Square, London, EC2P 2YU, for your vote to be valid.

- 8.2. The resolution to be considered is as follows:

“The Joint Administrators be discharged from liability in accordance with paragraph 98 of schedule B1 to the Insolvency Act 1986 with effect from 14 days after they send their final progress report to creditors.”

9 Administrators' Remuneration and Expenses

- 9.1. In accordance with my proposals dated 7 December 2009 the Joint Administrators' remuneration is calculated according to the time properly given by the Joint Administrators and their staff in attending to matters arising in the administration.
- 9.2. Background information regarding the fees of administrators can be found at <http://www.insolvency-practitioners.org.uk> (navigate via 'Regulation and Guidance' to 'Creditors Guides to Fees'). Alternatively I will supply this information by post on request.
- 9.3. The administrator will charge out of pocket expenses at cost. Mileage is charged at standard rates which comply with HM Revenue and Customs limits or AA recommended rates. VAT is added to disbursement charges as necessary.
- 9.4. Payments of the administrator's remuneration and disbursements are to be met from funds held in the administration in priority to the claims of creditors, and, after approval of the basis, the administrator may draw sums on account.


- 9.5. Our fees for acting as Joint Administrators has been fixed by reference to our time costs. The time costs for this administration for the current period (from 14 October 2010 to 13 April 2011) are £185,768.65.
- 9.6. On 23 December 2009 the creditors resolved that we draw our remuneration by reference to our time costs. You will note from the SIP 9 table attached at Appendix 3 that my time costs to date are £904,627.29 and from the receipts and payments account attached at Appendix 1 that we have drawn £600,000. In addition I have drawn expenses of £4,552 as indicated in Appendix 1.

10 Other expenses incurred by the Joint Administrators

- 10.1. The significant expense incurred by the Joint Administrators in the last six months relates to legal advice. These fees have been incurred as a result of a complex sale process in relation to the ISA Mortgage book, the on-going Lehman claim process, the ISA status application and advice in relation to the position of investors and their status as unsecured creditors.

Should you have any further queries please contact the NDF Administration Helpline on 0844 770 2203.

Yours faithfully
for and on behalf of NDF Administration Limited



per Andrew Hosking
Joint Administrator

The affairs, business and property of NDF Administration Limited are being managed by Andrew Hosking and Martin Ellis, appointed as joint administrators on 14 October 2009.

Enc

The Insolvency Act 1986

Administrator's progress report

Name of Company NDF Administration Ltd

Company number 01955637

In the High Court of Justice, Chancery Division, Companies Court (full name of court)

Court case number 19593 of 2009

(a) Insert full name(s) and address(es) of administrator(s)

I/We (a)
 Andrew Lawrence Hosking & Martin Gilbert Ellis of
 Grant Thornton UK LLP
 30 Finsbury Square
 London
 EC2P 2YU

joint administrators of the above company attach a progress report for the period

(b) Insert date

From (b) 14 October 2010

To (b) 13 April 2011

Signed

Martin Gilbert Ellis

 Joint Administrator

Dated

_____ *5 May 2011* _____

NDF Administration Limited - In Administration

Receipts & Payments - 14 October 2009 to 13 April 2011

	14 Oct 2009 to 13 Oct 2010	14 Oct 2010 to 13 Apr 2011 (last 6 months)	14 Oct 2009 to 13 Apr 2011	Statement Of Affairs Comparison (Estimated to Realise) (£)
Receipts	Total (£)	Total (£)	Total (£)	Total (£)
ISA mortgage Commissions	353,982	186,758	540,741	
RBS Income from Structured Products	70,081	-	70,081	
Interest	63,371	207	63,577	
Prudential Management Fees	285,675	138,366	424,041	
Management Charge Rebates	128,865	16,964	145,829	
Sale of Financial Books	200,001	200,000	400,001	
Book Debts	30	9	39	40,562
Long position realisation	43,183	-	43,183	
Cash at Bank	1,552,081	50,295	1,602,376	1,813,893
Misc Float Receipts	796	22	818	
Cash in Osborne Clarke Client A/c at Appointment	45,656	-	45,656	
	2,643,720	692,621	3,336,341	1,854,455
Payments				
Home Protection Commissions	24,442	-	24,442	
Broker Fees and Product Administration Costs	431,344	81,643	512,987	
Rents & Property Expenses	3,550	-	3,550	
Investor Helpline & Website Costs	270,105	756	270,861	
Insurance	53,678	1,740	55,418	
Bank Charges	49,373	16,611	65,984	
Client Monies Account Adjustment	47,218	2,500	49,718	
Funds to overdrawn old company account	280	-	280	
Interest Payable	6,554	-	6,554	
HSBC Direct Debit Claw Back Deposit (repayable)	25,000	-	25,000	
Client Account Deposits to Cover Bank Charges	6,887	-	6,887	
Stationery	14,395	2,198	16,593	
Postages	112,813	10,291	123,104	
PAYE/NI	159,356	75,081	234,437	
Net Wages	194,349	78,523	272,872	
Pension Contributions	19,980	6,750	26,730	
Employee Expenses/Redundancy	3,765	-	3,765	
PR Fees	10,050	-	10,050	
Legal Fees	165,837	114,821	280,658	
Sale of Business Costs	16,000	-	16,000	
Administrators Fees	600,000	-	600,000	
Administrators Expenses	4,552	-	4,552	
FSA Regulatory Fees	26,000	-	26,000	
Misc Float Payments	20	-	20	
VAT Paid	239,060	37,153	276,213	
Tracing Agent Fees	-	1,350	1,350	
	2,484,607	429,417	2,914,025	
Floating Current Account Balance	159,113	263,203	422,316	

Appendix 2 - Remuneration charged and expenses incurred by the Joint Administrators in the period

	14 Oct 2009 to 13 Oct 2010 (£)	14 Oct 2010 to 13 Apr 2011 (last 6 months) (£)	14 Oct 2009 to 13 Apr 2011 (£)
Joint Administrators fees:			
Time costs	600,000	-	600,000
Expenses	4,552	-	4,552
Professional fees			
Bankside	9,450	-	9,450
Phoenix Financial PR	600	-	600
Legal fees			
Osborne Clarke LLP	165,837	114,821	280,658
Insurance			
PYV Limited	53,678	1,740	55,418
Other administration expenses	1,650,490	312,856	1,963,347
Total	<u>2,484,607</u>	<u>429,417</u>	<u>2,914,025</u>

NDF Administration Limited - In Administration
SIP 9 Timcost Analysis for the period 14 October 2009 to 13 April 2011

	Partner		Manager		Executive		Administrator		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Administration and Planning	85.30	43,678.00	278.70	91,256.75	721.75	172,244.55	1,374.90	231,358.32	2,460.65	538,537.62
Creditors	-	-	63.65	20,844.75	52.85	13,180.25	211.40	33,902.50	327.90	67,927.50
Investigations	-	-	0.75	247.50	53.50	13,852.10	91.90	13,619.29	146.15	27,718.89
Realisation of Assets	21.55	11,525.00	235.20	80,498.50	171.60	42,655.40	147.09	23,174.81	575.44	157,853.71
Trading	-	-	201.95	62,873.82	60.15	15,038.25	223.60	34,677.50	485.70	112,589.57
Total	106.85	55,203.00	780.25	255,721.32	1,059.85	256,970.55	2,048.89	336,732.42	3,995.84	904,627.29

Total fees billed to date (Time) : £ 600,000

Administration & Planning

Includes; case planning; statutory obligations (e.g statutory returns); maintenance of cash and estate records; general correspondence, investor correspondence and liaising with HM Revenue & Customs, the Financial Services Authority and the Financial Services Compensation Scheme.

Creditors

Includes; correspondence with preferential and unsecured creditors; dealing with ROT claims; pensions and employees.

Investigations and Reports
on Directors

Includes; Statutory duty of investigation into company's affairs under Statement of Insolvency Practice (SIP2); investigating the directors conduct, and reconciliation of client accounts, in compliance with FSA regulations.

Realisation of Assets

Includes; dealing with the sale of the business and the assets of the Company; dealing with Solicitors.

Trading

Includes; working with OPAL on the daily trading of the plans, working on RBS products, and dealing with investor queries in relation to ongoing products.

Appendix 4 - An extract from the Insolvency Rules 1986 relating to creditors' rights to request additional information from the Administrators

Rule 2.48A

If (a) within 21 days of receipt of a progress report under Rule 2.47—

- (i) a secured creditor, or
 - (ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors (including the creditor in question), or
- (b) with the permission of the court upon an application made within that period of 21 days, any unsecured creditor,

makes a request in writing to the administrator for further information about remuneration or expenses (other than pre-administration costs) set out in a statement required by Rule 2.47(1)(db) or (dc), the administrator must, within 14 days of receipt of the request, comply with paragraph (2).

- (2) The administrator complies with this paragraph by either (a) providing all of the information asked for, or (b) so far as the administrator considers that (i) the time or cost of preparation of the information would be excessive, or

(ii) disclosure of the information would be prejudicial to the conduct of the administration or might reasonably be expected to lead to violence against any person, or
(iii) the administrator is subject to an obligation of confidentiality in respect of the information,
giving reasons for not providing all of the information.

- (3) Any creditor, who need not be the same as the creditor who requested further information under paragraph (1), may apply to the court within 21 days of—

(a) the giving by the administrator of reasons for not providing all of the information asked for, or
(b) the expiry of the 14 days provided for in paragraph (1),
And the court may make such order as it thinks just

- (4) Without prejudice to the generality of paragraph (3), the order of the court under that paragraph may extend the period of 8 weeks provided for in Rule 2.109(1B) by such further period as the court thinks just.”

Appendix 5 - An extract from the Insolvency Rules 1986 relating to creditors' rights to challenge the Joint Administrators' fees if excessive

Rule 2.109

- (1) Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the unsecured creditors (including that creditor) or the permission of the court, may apply to the court for one or more of the orders in paragraph (4).
 - (1A) Application may be made on the grounds that—
 - (a) the remuneration charged by the administrator,
 - (b) the basis fixed for the administrator's remuneration under Rule 2.106, or
 - (c) expenses incurred by the administrator,is or are, in all the circumstances, excessive or, in the case of an application under sub-paragraph (b), inappropriate.
 - (1B) The application must, subject to any order of the court under Rule 2.48A(4), be made no later than 8 weeks after receipt by the applicant of the progress report which first reports the charging of the remuneration or the incurring of the expenses in question ("the relevant report").
- (2) The court may, if it thinks that no cause is shown for a reduction, dismiss it without a hearing but it shall not do so without giving the applicant at least 5 business days' notice, upon receipt of which the applicant may require the court to list the application for a without notice hearing. If the application is not dismissed, the court shall fix a venue for it to be heard, and give notice to the applicant accordingly.
- (3) The applicant shall, at least 14 days before the hearing, send to the administrator a notice stating the venue and accompanied by a copy of the application, and of any evidence which the applicant intends to adduce in support of it.
- (4) If the court considers the application to be well-founded, it must make one or more of the following orders—
 - (a) an order reducing the amount of remuneration which the administrator was entitled to charge;
 - (b) an order fixing the basis of remuneration at a reduced rate or amount;
 - (c) an order changing the basis of remuneration;
 - (d) an order that some or all of the remuneration or expenses in question be treated as not being expenses of the administration;
 - (e) an order that the administrator or the administrator's personal representative pay to the company the amount of the excess of remuneration or expenses or such part of the excess as the court may specify;and may make any other order that it thinks just; but an order under sub-paragraph (b) or (c) may be made only in respect of periods after the period covered by the relevant report.
- (5) Unless the court orders otherwise, the costs of the application shall be paid by the applicant, and are not payable as an expense of the administration.

Rule 2.48

Notice of conduct of business by correspondence

Name of Company NDF Administration Ltd	Company number 01955637
In the High Court of Justice, Chancery Division, Companies Court (full name of court)	Court case number 19593 of 2009

(a) Insert full name(s)
and address(es) of
administrator(s)

Notice is hereby given by (a)
Andrew Lawrence Hosking & Martin Gilber Ellis
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

(b) Insert full name and
address of registered
office of the company

to the creditors of (b) NDF Administration Ltd
30 Finsbury Square
London
EC2P 2YU

(c) Insert number of
resolutions enclosed

that, pursuant to paragraph 58 of Schedule B1 to the Insolvency Act 1986, enclosed is (c)
one resolution for your consideration. Please indicate below whether you are in favour or
against this resolution.

(d) Insert address to
which form is to be
delivered

This form must be received at (d)
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

(e) Insert closing date

by 12.00 hours on (e) 14 June 2011 in order to be
counted. It must be accompanied by details in writing of your claim unless those details have
already been submitted for the purpose of a meeting of creditors. Failure to do so
will lead to your vote(s) being disregarded.

Repeat as necessary for
the number of

Resolution (1) that the joint administrators be discharged from liability in accordance with
paragraph 98 of Schedule B1 of the
Insolvency Act 1986 with effect from 14 days
after the final progress report is sent to
creditors. I am *in Favour / Against

resolutions attached
*Delete as appropriate

TO BE COMPLETED BY CREDITOR
WHEN RETURNING FORM:

Name of creditor

Signature of creditor
(If signing on behalf of creditor, state
capacity e.g. director/solicitor)

If you require any further details or clarification prior to returning your votes, please
contact me/us at the address above.

Signed

Maki Colby

Joint Administrator

Dated

5 May 2011