

Our Ref JMC/WGS/OGH/MGE/N00112/PF7

To The Creditors

10 May 2012

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 NDFA)
High Court of Justice, Chancery Division, Companies Court (the Court)
Ref 19593 of 2009**

1 INTRODUCTION

1.1. Following the appointment of Andrew Hosking and I as joint administrators of the 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 A, Form 2.24B together with an account of our receipts and payments for the period ended 13 April 2012 in accordance with Rule 2.47.
- Appendix B, a statement of the remuneration charged by the joint administrators and a statement of expenses incurred in the period 14 October 2009 to 13 April 2012.
- Appendix C, an analysis of our time costs as required by Statement of Insolvency Practice 9.

1.2. Andrew Hosking and I are both 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

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

A list of personnel permitted by Grant Thornton to accept appointments as insolvency practitioners and of their respective authorising bodies may be inspected at the above address.

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 ASSETS AND LIABILITIES

Assets

3.1. 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).

3.2. 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.

3.3. Client Account Monies

There remains c.£4.2 million of monies held in the Company's client accounts relating to investment products which have previously matured. However, the Company has been unable to trace the owners of these investments (these investors are referred to as "non-responders").

I will shortly be applying to Court for guidance on how to deal with the costs of tracing non-responder 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 the repatriation exercise from the non-responder client monies so that it does not impact funds available to unsecured creditors.

3.4. Taxation

Terminal Loss Relief Claim

We continue to liaise with HM Revenue & Customs in regard to our terminal loss relief application in the sum of £934,597.

The progress of the claim has been delayed, as it has required the accounts of the Company,

for the period prior to our appointment, to be constructed from the incomplete records we hold.

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

As I have previously advised, Counsel's advice in relation to the policy in place has indicated that any claim under the policy is remote. As such, at this stage, I do not intend to take any further action. However, I am aware that the Financial Services Compensation Scheme (FSCS) is currently looking into this matter and may pursue a claim under third party rights against insurers.

Liabilities

3.6. 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 is highly dependent on: the terminal loss relief claim and the Financial Service Compensation Scheme's (FSCS) submitted claim.

3.7. 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.

3.8. Preferential Creditors

Preferential claims currently amount to £1,641.60, and I will shortly be making a distribution to this class of creditor.

3.9. 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.

3.10. 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.

4 LEHMAN BROTHERS BACKED FINANCIAL PRODUCTS

4.1. As explained previously, investors in Lehman Brothers backed financial products are unsecured creditors in three separate entities:

4.1.1. NDFA in administration on the grounds that the advice obtained by the joint administrators' is that all Lehman plans were mis-sold, as the plan literature contained insufficient warning concerning the risk to invested capital of counter-party failure

4.1.2. the Lehman Brothers entities that the plans were invested in, on the grounds that these companies are in formal insolvency proceedings and the investments have not been satisfied. This could be any one of three entities: Lehman Brothers Securities N.V. ("LBS"), Lehman Brothers Treasury Co B.V. ("LBT")

and Lehman Brothers Bankhaus AG ("LBBAG"), and

4.1.3. Lehman Brothers Holdings Inc ("LBHI") on the grounds that LBHI provided a guarantee for all of the investments.

- 4.2. Please note that depending on how the claims are dealt with by the respective Lehman entities the direct creditor may be the legal holder of the issued security. However, investors should be aware that this does not affect their position as the ultimate beneficial creditor of any subsequent distribution.
- 4.3. **Claims in the insolvency of NDFA**
As you are aware, the Company's insolvency arose as a result of claims from investors that the Company's literature, in respect of structured products where Lehman Brothers entities acted as counter-party, did not adequately warn investors as to the risks of counter-party failure.
- 4.4. You will also be aware that, in dealing with investors' claims for compensation, the Financial Services Compensation Scheme (FSCS) has drawn a distinction between 'capital secure' and 'capital at risk' products. The legal advice I have received from Counsel has drawn no such distinction. Therefore, I consider that investors in both plans are unsecured creditors. This results in significant unsecured creditors arising as a result of the failure of Lehman Entities, amounting to a theoretical maximum of c.£36m.
- 4.5. However, I would advise, given the high 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.
- 4.6. **Claims in the insolvency of LBS, LBT and LBBAG**
As mentioned in my previous report, I have submitted a contingent claim in the insolvency of LBS and LBT. Furthermore I continue to liaise closely with Brewin Dolphin Limited ("Brewin"), the legal noteholders, who have also submitted claims. I have recently met with the trustees of both LBS and LBT to discuss the claim agreement procedure and likely distributions.

The trustees of LBS have undertaken their own valuation procedures based on the final terms of the investment agreements (between Brewin and LBS). In simple terms, if the date of the maturity of the security had already passed they used actual market data and where the plans were due to mature at some point in the future they have engaged independent specialists to value the investments. In arriving at their valuation they have also been restricted by the local insolvency law in the Dutch Antilles. It is the joint administrators' understanding that once LBHI had made its first distribution, LBS would also be in a position to make a distribution. However, it is likely to be a considerable length of time before LBS is in a position to make a final distribution.

The trustees of LBT have embarked upon a similar process, although at this stage they are not as far progressed. They anticipate having completed valuing the securities by July 2012. Following this they will ask creditors to agree their proposals for distributing any realisations,

this will include agreement of the valuation process undertaken. Should this go according to plan the trustees' current estimation is that an interim distribution will be made in July 2013.

LBBAG has not been prepared to correspond with the joint administrators and is only willing to speak directly with the individual investors. It is the joint administrators' understanding that this affects c.80 investors and the Directors of NDFA have previously advised that all of these individuals have been contacted by NDFA prior to the administration appointment and have lodged claims in the LBBAG insolvency.

However we continue to monitor the LBBAG insolvency process and should they decide to adopt a process similar to the trustees of LBS and LBT we will ensure that claims are lodged accordingly.

4.7. **Claims in the insolvency of LBHI**

As you may be aware, Brewin are the legal, albeit not beneficial, owners of the notes invested with LBT, LBS and LBBAG. As such Brewin have previously lodged claims calling on the LBHI guarantee. As you may also be aware LBHI recently made an interim unsecured distribution and this has been received by Brewin.

4.8. **Action to be undertaken**

I will continue to liaise with LBS and LBT to monitor the likely distribution process.

In addition, as a result of the LBHI distribution I am now liaising with my legal advisors and the trustees of the bankrupt Lehman estates to try to arrange for the return of these monies, and any future distributions made by LBHI, LBS, LBT or LBBAG, to investors.

Before I am able to distribute these monies there are a number of issues that need to be considered, and our initial legal advice is that the joint administrators will need to make an application to Court for guidance on any distribution. Specifically, it is anticipated we will be asking the Court how claims should be valued, whether it is efficient to make onward distributions following receipt of each individual Lehman distribution or whether dividends should be pooled before distribution and finally, confirm how the costs of distributing these monies will be met.

I will continue to keep investors updated, both in writing and on the NDFA helpline website: <http://ndfa.creditorhelpline.co.uk/>. However, as our legal advice suggests, any requisition and attendance at a Court hearing is likely to take a considerable period of time.

5 REMAINING BUSINESS BOOK MANAGED BY THE COMPANY

5.1. 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 to ensure the continuing management of these plans through to maturity and hope to have transferred these plans within the next six month period.

5.2. I do not foresee that any value will be realised during the transfer of this book due to the RBS

branding of the products and difficulties surrounding renewal rights.

6 EXTENSION OF THE ADMINISTRATION

- 6.1. As mentioned above it is my intention to transfer the plan management of the remainder of the business book in the following six months. Following this transfer the Company will be placed in to a Creditors Voluntary Liquidation as agreed in my proposals dated 7 December 2009.

7 JOINT ADMINISTRATORS' REMUNERATION AND EXPENSES

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.
- 7.4. Payments of the joint 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 joint administrator may draw sums on account.
- 7.5. 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 2011 to 13 April 2012) are £122,770.
- 7.6. 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 C that my time costs to date are £1,153,047.27 and from the receipts and payments account attached at Appendix A that we have drawn £773,034. In addition I have drawn expenses of £5,825 as indicated in Appendix A.

8 OTHER EXPENSES INCURRED BY THE JOINT ADMINISTRATORS

- 8.1. The expenses incurred by the joint administrators in the last six months primarily relate to legal advice. These fees were incurred following advice in relation to the position of investors and their status as unsecured creditors and the status of unsecured claims made against the Lehman Brothers entities on behalf of the underlying investors.

Should you have any queries, please call the creditor helpline on 0844 770 2203.

Yours faithfully
for and on behalf of NDF Administration Limited



Martin Ellis
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	Court case number 19593 of 2009
--	------------------------------------

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

We (a) Martin G Ellis and Andrew L Hosking of Grant Thornton UK LLP
30 Finsbury Square, London EC2P 2YU

Joint Administrators of the above company attach a progress report for the period

from

to

(b) 14 October 2011

(b) 13 April 2012

(b) Insert dates

Signed Martin G Ellis
Joint Administrator

Dated 10 May 2012

APPENDIX A

NDF Administration Limited - In Administration

Receipts & Payments - 14 October 2009 to 13 April 2012

	14 Oct 2009 to 13 Oct 2011	14 Oct 2011 to 13 Apr 2012	14 Oct 2009 to 13 Apr 2012	Statement Of Affairs Comparison (Estimated to Realise)
	£	£	£	£
Receipts				
ISA mortgage Commissions	540,741	305	541,045	
RBS Income from Structured Products	70,081	-	70,081	
Company monies in client accounts and interest	123,221	100,584	223,805	
Prudential Management Fees	424,041	-	424,041	
Management Charge Rebates	151,589	-	151,589	
Sale of Financial Books	400,001	-	400,001	
Book Debts	39	-	39	40,562
Long position realisation	43,183	-	43,183	
Cash at Bank	1,603,139	-	1,603,139	1,813,893
Misc Float Receipts	1,078	1,041	2,119	
Cash in Osborne Clarke Client A/c at Appointment	45,656	-	45,656	
	3,402,768	101,929	3,504,698	1,854,455
Payments				
Home Protection Commissions	24,442	-	24,442	
Broker Fees and Product Administration Costs	528,163	4,889	533,051	
Rents & Property Expenses	3,550	-	3,550	
Investor Helpline & Website Costs	271,486	900	272,386	
Insurance	55,669	-	55,669	
Bank Charges	67,319	420	67,739	
Client Monies Account Adjustment	49,718	-	49,718	
Funds to overdrawn old company account	280	-	280	
Interest Payable	6,979	-	6,979	
HSBC Direct Debit claw back deposit (repayable)	-	-	-	
Client Account Deposits to Cover Bank Charges	6,887	-	6,887	
Stationery	16,593	-	16,593	
Postages	126,069	7,656	133,725	
PAYE/NI	234,437	-	234,437	
Net Wages	272,872	-	272,872	
Pension Contributions	26,730	-	26,730	
Employee Expenses/Redundancy	3,765	-	3,765	
PR Fees	10,050	-	10,050	
Legal Fees	287,908	91,045	378,953	
Sale of Business Costs	16,000	-	16,000	
Administrators Fees	773,034	-	773,034	
Administrators Expenses	5,825	-	5,825	
FSA Regulatory Fees	26,000	-	26,000	
Misc Float Payments	2,482	-1,608	875	
VAT Paid	312,141	19,598	331,739	
Tracing Agent Fees	2,325	-	2,325	
Corporation Tax	-	37,375	37,375	
	3,130,726	160,274	3,291,000	
Floating Current Account Balance	272,043	-58,345	213,698	

**Remuneration charged and expenses incurred by the joint administrators
in the period 14 October 2009 to 13 April 2012**

	14 Oct 2009 to 13 Oct 2011	14 Oct 2011 to 13 Apr 2012	14 Oct 2009 to 13 Apr 2012
	£	£	£
Joint administrators' fees:			
Time costs	773,034	-	773,034
Expenses	5,825	-	5,825
Professional fees:			
Bankside	9,450	-	9,450
Phoenix Financial PR	600	-	600
Legal fees:			
Osborne Clarke LLP	287,908	91,045	378,953
Insurance:			
PYV Limited	55,669	-	55,669
Other administration expenses:	1,998,239	69,229	2,067,468
Total	<u>3,130,726</u>	<u>160,274</u>	<u>3,291,000</u>

NDF Administration Limited - In Administration

APPENDIX C

SIP 9 Timecost Analysis for the period 14 October 2009 to 13 April 2012

	Partner		Manager		Executive		Administrator		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Administration and Planning	111.50	58,058.00	409.10	145,249.25	1,022.13	243,462.85	1,757.69	294,232.21	3,300.42	741,002.31
Creditors	-	-	82.25	28,655.75	86.70	21,545.75	228.50	36,839.00	397.45	87,040.50
Investigations	-	-	0.75	247.50	59.00	15,179.10	116.95	17,689.79	176.70	33,116.39
Realisation of Assets	0.25	102.50	248.45	84,384.75	206.80	51,818.40	234.09	35,695.10	689.59	172,000.75
Trading	-	-	208.70	65,742.57	76.65	19,137.25	226.60	35,007.50	511.95	119,887.32
Total	111.75	58,160.50	949.25	324,279.82	1,451.28	351,143.35	2,563.83	419,463.60	5,076.11	1,153,047.27

Total fees billed to date (Time) : £ 773,034

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.