

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

To The Creditors

11 November 2011

Ink 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 October 2011 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 October 2011.
- 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
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Former trading address	25 Grosvenor Road St Albans AL1 3AW
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Directors

Paul Bispham

John Waller

Company Secretary

Versec Secretaries Limited

Shareholding

Nil

1.8%

Shareholding

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**

I am currently liaising with both my legal advisors and Counsel concerning the non-responder funds held in the Company's client accounts. Furthermore, I am in the process of preparing an application 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.

3.4. **Broker Account Monies**

I have undertaken further investigation in to Company monies held in broker accounts and am in the process of realising a further £80,913 of additional funds to the estate relating primarily to interest properly earned by the Company.

3.5. **Possible claims in the insolvency of the Lehmans Entities**

As mentioned in my previous report, I have submitted a contingent claim in the insolvency of Lehman Brothers Inc, Lehman Brothers Security N.V. and Lehman Brothers Treasury Co B.V.. I am currently liaising with Brewin Dolphin (the legal, albeit not beneficial, owners of the notes), my legal advisors and the trustees of the bankrupt Lehman estates to ensure that

all claims are properly lodged.

3.6. **Taxation**

Terminal Loss Relief Claim

A terminal loss relief application has been made in the sum of £934,597. HM Revenue & Customs are currently reviewing this claim and I have been advised by my tax team that to progress this claim it is likely that I will need to produce full financial statements, compared with the management accounts currently available, prepared under UK GAAP for HM Revenue & Customs to consider.

3.7. **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.

Liabilities

3.8. 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, the Financial Service Compensation Scheme's (FSCS) submitted claim and the success of the Company's contingent claim against Lehman Brothers.

3.9. 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.

3.10. **Preferential Creditors**

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

3.11. **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.

3.12. **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 REMAINING BUSINESS BOOK MANAGED BY THE COMPANY

4.1. 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 with RBS to ensure the continuing management of these plans through to maturity.

5 LEHMAN BROTHERS BACKED FINANCIAL PRODUCTS

5.1. 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.

5.2. 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.

5.3. 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.

5.4. 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.

6 EXTENSION OF THE ADMINISTRATION

6.1. On 7 September 2011 the Court ordered that the administration of the Company be extended in accordance with paragraph 76(2)(a) of Schedule B1 to the Insolvency Act 1986 for a period of 12 months. The revised date for the automatic termination of the administration is now 12 October 2012.

6.2. The Company has continued to act as plan manager for the RBS products following its insolvency in October 2009. The extension was granted by the Court due to the on-going necessity for FSA plan management permissions. This was a necessary extension as should the Company have been placed in Liquidation, the FSA plan manager permissions may have been withdrawn.

7 REVISION OF ADMINISTRATORS' STATEMENT OF PROPOSALS

7.1. Andrew Lawrence Hosking, one of the joint administrators of the Company, has resigned as a partner in Grant Thornton UK LLP. As such, it will not be practicable for him to continue as an administrator of the Company. The Directors of the Company are currently considering his resignation and the appointment of a new joint administrator in his place.

7.2. As stated and agreed in the initial proposals, should the Company be placed in a creditors' voluntary liquidation, Martin Ellis and Andrew Hosking would be appointed as joint liquidators of the Company. This proposal now needs revision and a new proposal is detailed below in section 8 of this report. It is a requirement of the Insolvency Act 1986 (as

amended) that any substantial changes to the administrators' proposals are agreed by creditor vote. As such, please find enclosed form 2.25B "Notice of conduct of business by correspondence" attached for your review, and return, should you wish to vote.

- 7.3. Should you not wish to fill in this form it will not affect your unsecured claim against the Company or the relevant Lehman Brothers entity.

8 REVISED PROPOSALS

- 8.1. The revision to the agreed administration proposals is as follows:

"It is proposed that the administration will end by the Company going into creditors' voluntary liquidation, or if there are no monies available for unsecured creditors, by the dissolution of the Company. If the Company is placed into creditors' voluntary liquidation it is proposed that the joint administrators in office at that date will be appointed liquidators, any act in the liquidation to be done by any one or more of the liquidators. However, creditors may nominate a different liquidator or liquidators if nomination to that effect is received prior to 5 December 2011."

9 JOINT 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 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.
- 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 April 2011 to 13 October 2011) are £173,034.

- 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 C that my time costs to date are £1,028,642 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.

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.

Yours faithfully
for and on behalf of NDF Administration Limited



PP 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.

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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)
Martin Gilbert Ellis & Andrew Lawrence 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

(b) Insert date

From
(b) 14 April 2011

To
(b) 13 October 2011

Signed

Martin C. Ellis
Joint Administrator

Dated

11/11/2011



NDF Administration Limited - In Administration

Receipts & Payments - 14 October 2009 to 13 October 2011

	14 Oct 2009 to 13 Apr 2011	14 Apr 2011 to 13 Oct 2011	14 Oct 2009 to 13 Oct 2011	Statement Of Affairs Comparison (Estimated to Realise)
	£	£	£	£
Receipts				
ISA mortgage Commissions	540,741	-	540,741	
RBS Income from Structured Products	70,081	-	70,081	
Interest	63,577	59,644	123,221	
Prudential Management Fees	424,041	-	424,041	
Management Charge Rebates	145,829	5,760	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	1,602,376	763	1,603,139	1,813,893
Misc Float Receipts	818	260	1,078	
Cash in Osborne Clarke Client A/c at Appointment	45,656	-	45,656	
	3,336,341	66,427	3,402,768	1,854,455
Payments				
Home Protection Commissions	24,442	-	24,442	
Broker Fees and Product Administration Costs	512,987	15,176	528,163	
Rents & Property Expenses	3,550	-	3,550	
Investor Helpline & Website Costs	270,861	625	271,486	
Insurance	55,418	252	55,669	
Bank Charges	65,984	1,335	67,319	
Client Monies Account Adjustment	49,718	-	49,718	
Funds to overdrawn old company account	280	-	280	
Interest Payable	6,554	425	6,979	
HSBC Direct Debit claw back deposit (repayable)	25,000	-25,000	-	
Client Account Deposits to Cover Bank Charges	6,887	-	6,887	
Stationery	16,593	-	16,593	
Postages	123,104	2,965	126,069	
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	280,658	7,250	287,908	
Sale of Business Costs	16,000	-	16,000	
Administrators Fees	600,000	173,034	773,034	
Administrators Expenses	4,552	1,274	5,825	
FSA Regulatory Fees	26,000	-	26,000	
Misc Float Payments	20	2,462	2,482	
VAT Paid	276,213	35,928	312,141	
Tracing Agent Fees	1,350	975	2,325	
	2,914,025	216,701	3,130,726	
Floating Current Account Balance	422,316		272,043	

**Remuneration charged and expenses incurred by the joint administrators in the period
14 October 2009 to 13 October 2011**

	14 Oct 2009 to 13 Apr 2011	14 Apr 2011 to 13 Oct 2011	14 Oct 2009 to 13 Oct 2011
	£	£	£
Joint administrators' fees:			
Time costs	600,000	173,034	773,034
Expenses	4,552	1,273	5,825
Professional fees:			
Bankside	9,450	-	9,450
Phoenix Financial PR	600	-	600
Legal fees:			
Osborne Clarke LLP	280,658	7,250	287,908
Insurance:			
PYV Limited	55,418	251	55,669
Other administration expenses:	1,963,347	34,892	1,998,239
Total	<u>2,914,025</u>	<u>216,701</u>	<u>3,130,726</u>

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

APPENDIX C

	Partner		Manager		Executive		Administrator		Total		
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Avg. Hrly Rate
Administration and Planning	109.90	56,938.00	353.85	122,313.00	895.07	213,265.25	1,634.60	267,670.82	2,993.42	660,187.07	220.55
Creditors	-	-	68.15	22,687.25	63.95	15,851.18	214.90	34,395.50	347.00	72,933.93	210.18
Investigations	-	-	0.75	247.50	55.90	14,428.10	97.70	14,489.29	154.35	29,164.89	188.95
Realisation of Assets	0.25	102.50	238.95	82,057.25	181.90	45,169.40	150.09	23,594.81	571.19	150,923.96	264.23
Trading	-	-	205.70	64,467.57	65.25	16,287.25	223.60	34,677.50	494.55	115,432.32	233.41
Total	110.15	57,040.50	867.40	291,772.57	1,262.07	305,001.18	2,320.89	374,827.92	4,560.51	1,028,642.17	225.55

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.

The Insolvency Act 1986

Statement of administrator's revised proposals

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)

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

attach as a schedule to this form a copy of our revised proposals in respect of the administration of the above company.

A copy of these revised proposals was sent to all known creditors on

(b) 11/11/2011

*Delete as applicable

Signed Martin Ellis
Joint Administrator

(b) Insert date

Dated 11/11/2011

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 <div style="text-align: right;">[full name of Court]</div>	Court case number 19593 of 2009

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

Notice is hereby given by (a) Martin Gilbert Ellis and Andrew Lawrence Hosking of 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 Limited, 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 the resolution.

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

This form must be received at (d) NDF Administration Limited – In Administration, c/o Grant Thornton UK LLP, 30 Finsbury Square, London, EC2P 2YU

(e) Insert closing date

by 12.00 hours on (e) Monday 5 December 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 being disregarded.

Repeat as necessary for the number of resolutions attached

Resolution (1) It is proposed that the administration will end by the company going into creditors voluntary liquidation, or if there are no monies available for unsecured creditors, by the dissolution of the company. If the company is placed into creditors voluntary liquidation it is proposed that the administrators in office at that date will be appointed liquidators, any act in the liquidation to be done by any one or more of the liquidators. However, creditors may nominate a different liquidator or liquidators if nomination to that effect is received prior to 5 December 2011.

I am *in Favour / Against

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 Mark Colli
Joint Administrator

Dated 11/11/2011