
Cherry Tree Mortgages Limited – In Administration

Joint Administrators' progress
report for the period 13 April 2013 to
12 October 2013

8 November 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the tenth progress report prepared by the Joint Administrators (the "Administrators") of Cherry Tree Mortgages Limited (the "Company" or "Cherry Tree").

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 12 October 2013.

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for the creditors of the Company as a whole, than would be likely if the Company were wound up (without first being in Administration).

The specific aims of the Administration were to:

- Protect and control the Company's portfolios of assets; and
- Realise these assets, including mortgage portfolios, on a managed basis.

These specific aims have been achieved and the Administrators are now pursuing the most beneficial exit route from the Administration.

Outcome for creditors

On 24 June 2013 the Court gave the Administrators of Cherry Tree permission to agree and pay a dividend in respect of the claims of unsecured creditors. The Administrators declared and paid a first interim dividend of 9 pence to the Company's unsecured non-preferential creditors on 20 September 2013.

The quantum and timing of any further distribution remains uncertain at this stage.

Pension Liability

We explained in our most recent report that the Upper Tribunal's decision not to grant the strike-out application that was brought by Cherry Tree and 36 other entities was being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk that we have explained previously of a Financial Support Direction ("FSD") being imposed on Cherry Tree remains in place.

The Supreme Court issued its judgment on 24 July 2013 in a case brought by certain other Lehman entities, whereby it held that liability derived from a FSD would constitute a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential additional unsecured debt rather than an Administration expense.

During the period covered by this report Cherry Tree joined with the other 36 entities to establish a collective reserve for possible FSD liability. However, it was not possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it was therefore not brought into full effect. Following this, Cherry Tree is participating in a court process which may assist in determining whether the entities could make a collective reserve or whether they will need to reserve separately.

The Administrators continue to monitor the pensions issues closely.

Exit route from administration

On the application of the Administrators, the High Court made an order to further extend the period of the Administration to 30 November 2014.

Future reports

The Administrators will next report to creditors in approximately six months or when the Administration comes to an end, whichever is sooner.

Signed:



GE Bruce
Joint Administrator
Cherry Tree Mortgages Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr have been appointed as Joint Administrators of Cherry Tree Mortgages Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Section 2 Joint Administrators' actions to date

Background

The principal activity of Cherry Tree was an investment in the equity release mortgage portfolio of More 2 Life Limited with funding that was procured from LB SF No.1.

Administrators' actions to date

The sale of Cherry Tree's entire mortgage portfolio was completed on 30 July 2009 for total consideration of £14.2m.

On 24 October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement the Administrators have adjudicated and admitted the claim of LBHI against Cherry Tree at £685k (\$1.2m).

To date, the Administrators have received c. £1.1m in respect of the sale of tax losses to other group companies.

On 31 July 2013, the Administrators issued a notice of intended dividend to the unsecured creditors of Cherry Tree. The final date for creditors to prove their claims was 30 August 2013.

The Administrators have adjudicated upon all claims received and on 20 September 2013 declared a first interim dividend of 9p in the £ to creditors whose claims had been admitted.

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8953 of 2008
<i>Full name:</i>	Cherry Tree Mortgages Limited
<i>Trading name:</i>	Cherry Tree Mortgages Limited
<i>Registered number:</i>	05529374
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	CJ Patrick (resigned 28/11/08), EW Marley Shaw (resigned 28/11/08)
<i>Company secretary:</i>	Clifford Chance Secretaries (CCA) Limited (resigned 01/12/08)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	13 October 2008
<i>Current Administrators' names and addresses:</i>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The original appointment of Administrators was made by the directors of the Company, 25 Bank Street, London E14 5LE.
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted four successive extensions to the Administration period to: 30 November 2010, 30 November 2011; 30 November 2013 and more recently to 30 November 2014.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However the most likely exit route from the Administration is to continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so in June 2013) and then to apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 9p in the £ to unsecured non-preferential creditors on 20th September 2013. The quantum and timing of any further dividends remains uncertain at present.
<i>Estimated values of the prescribed part and Cherry Tree's net property:</i>	Not applicable as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

In May 2009, the Administrators requested and received consent from Cherry Tree's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 March 2013 to 30 September 2013, presented in accordance with the Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £57,281 plus VAT, which represents 159.76 hours at an average hourly rate of £358.54.

To date, remuneration of £604,843 plus VAT, in respect of the time costs incurred to 31 August 2013, has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 12 October 2013 is set out overleaf.

Key movements in period

- £2.375m in respect of a first interim dividend paid to unsecured creditors;
- £92.3k received in respect of 2010 tax losses surrendered to Acenden Ltd. No further receipts are anticipated in respect of 2010;
- £44.8k plus VAT drawn by the Administrators in respect of their remuneration; and
- £22.7k earned in interest from the investment of funds on the money markets.

Cash held as at 12 October 2013 totals approximately £12.4m.

Section 5 Receipts and Payments Account

	Estimated to realise per Directors' Statement of Affairs GBP (£)	As at 12-Oct-13 GBP (£)	As at 12-Apr-13 GBP (£)	Movements GBP (£)
Receipts				
Sale of mortgage portfolio	23,600,390	14,201,068	14,201,068	-
Inter-company debtors	28,817	-	-	-
Sale of tax losses		1,154,184	1,061,900	92,284
Tax function costs recharged		29,710	29,710	-
Interest received gross		195,913	173,144	22,769
Total	23,629,207	15,580,875	15,465,822	115,053
Payments				
Legal fees		59,267	45,197	14,070
Employee costs		1,763	1,763	-
IT costs		5,741	5,741	-
Joint Administrators' remuneration		604,843	559,974	44,869
Joint Administrators' Category 1 disbursements		2,370	2,370	-
Statutory advertising		10,824	1,374	9,450
Irrecoverable VAT (see note 1)		110,921	99,372	11,549
Total		795,729	715,791	79,938
Distributions				
1st dividend to unsecured creditors of 9p in the £, declared in September 2013		2,375,042	-	2,375,042
Total		2,375,042	-	2,375,042
Cash in hand / (movement in year)		12,410,104	14,750,031	(2,339,927)
Cash in hand is represented by				
HSBC (non-interest bearing)		110,393	1,061,706	(951,313)
Money Market		12,299,711	13,688,325	(1,388,614)
Total Cash		12,410,104	14,750,031	(2,339,927)

Notes:

(1) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.

Section 6 Joint Administrators' time costs for the period 1 March 2013 to 30 September 2013

Joint administrators' time costs for the period 1 March 2013 to 30 September 2013

Classification of work	Partner/Director	Senior Manager/Manager	Senior Associate	Associate/Support Staff	Total hours
	Hours	£	Hours	£	Hours
Accounting and Treasury	-	6,246	24.55	4,448	59.20
Administration and Planning	11.75	7,310	2.05	167	31.85
Creditors	-	991	-	870	6.10
Statutory and Compliance	2.75	4,753	27.00	1,300	46.05
Tax and VAT	-	4,969	4.35	345	15.25
LBL Recharges	0.04	112	0.36	135	1.30
Grand Total	14.54	24,381	58.31	7,265	159.75
Average Hourly Rate	666	453	273	219	359

Current charge out rates	Business Recovery Services	Specialist
Grade	Max £/hr	Max £/hr
Partner	838	1069
Director	639	970
Senior manager	512	905
Manager	431	571
Senior Associate	360	278
Associate/Support Staff	229	212

The Administrators' remuneration has been fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration. The maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

* Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown given an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Narrative of the Joint Administrators' time costs for the period 1 March 2013 to 30 September 2013

Accounting and Treasury - £17,719

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts;
- Managing funds in various institutions in order to mitigate risk;
- Dealing funds on the money markets and inputting deals; and
- Dealing with dividend distribution to unsecured creditors.

Administration and Planning - £15,748

- Preparations for and attending the Upper Tribunal pensions hearing;
- Participating in discussions to try and resolve the pension issue;
- Discussions regarding strategy for the Administration including quantum and timing of the distribution;
- Reviewing financial information; and
- Updating strategy documents.

Creditors - £1,861

- Adjudicating unsecured creditor claims; and
- Updating list of creditor claims and status of such claims.

Statutory and Compliance - £15,093

- Preparation of Administrators' ninth progress report;
- Preparation of Administrators' receipts and payments account;
- Circulation of progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare detailed remuneration summary and narrative of work undertaken;
- Undertaking six monthly review of Administration;
- Manage Cherry Tree Administration database; and
- Review of time costs in preparation for billing.

Tax and VAT - £6,489

- Dealing with Corporation Tax and VAT queries;
- Preparation of Corporation Tax returns; and
- VAT reconciliation and preparation of VAT returns.

LBL Recharges - £371

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the Administration companies.