
Cherry Tree Mortgages Limited – In Administration

Joint Administrators' progress
report for the period 13 October
2012 to 12 April 2013

9 May 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the ninth 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 April 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 have been considering the most beneficial exit route from the administration which is discussed in more detail below.

Outcome for creditors

The Administrators expect a distribution to be made to unsecured creditors in due course, however the quantum and timing of this distribution remains uncertain, principally due to uncertainty around a potential pension liability.

As reported previously, the Pensions Regulator ("the Regulator") listed Cherry Tree as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

In September 2010 the Pensions Regulator's Determinations Panel (the "Panel") decided that an FSD should be issued against six Lehman group entities. Cherry Tree was among 38 companies that the Panel decided should not be issued with an FSD.

The Scheme Trustees have requested that the Upper Tribunal overturns the Panel's decision and rule that the 38 companies (including Cherry Tree) should also be subject to an FSD. Cherry Tree is still, therefore, at risk from this potential liability, but (together with the 36 other affected entities) maintains that the FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. Following a judgment on 14 June 2012, the Upper Tribunal declined the strike out, meaning that Cherry Tree is still at risk of a FSD. An appeal has been made to the Court of Appeal and the hearing began on 29 April 2013.

The Administrators continue to monitor the pensions issues closely and are seeking an interim resolution.

Change of Administrators

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DA Howell, DY Schwarzmann and MJA Jervis cease to be Joint Administrators of the Company.

The Court also ordered that former Joint Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

Future reports

The Administrators will next report to creditors in approximately six months.

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

Overview

The principal activity of Cherry Tree was 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 agreed in principle the claim of LBHI against Cherry Tree at \$1.2m.

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

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. DA Howell, MJA Jervis and DY Schwarzmann ceased to be Administrators on 22 March 2013.
<i>Appointer's name and address:</i>	The directors of the Company, 25 Bank Street, London E14 5LE made the initial appointment of the Administrators. The Court has subsequently varied the appointed Administrators.
<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>	The current Joint Administrators are GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 Court has granted a fourth extension of the Administration 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 seek permission to distribute from the administration and proceed to dissolve the Company.
<i>Estimated dividend for unsecured creditors:</i>	Based on current information, it is anticipated that there will be a dividend to unsecured creditors.
<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

At the initial meeting of creditors which was held by correspondence on 22 May 2009, creditors resolved that the Administrators' remuneration 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.

Time cost information to 30 September 2012 was provided in our previous report. Enclosed at Section 6 of this report is a summary of the Administrators' time costs for the period 1 October 2012 to 28 February 2013, presented in accordance with the Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for the period 1 October 2012 to 28 February 2013 total £28,783, which represents 86.83 hours at an average hourly rate of £331.49.

To date, remuneration of £559,974 plus VAT, in respect of the time costs to 28 February 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 April 2013 is set out overleaf.

The IT costs incurred during the period are Cherry Tree's contribution to the production and running of the Entity Prioritisation Model ("EPM") whose cost was incurred by Lehman Brothers International (Europe). The EPM has been used for considering options in respect of the pensions issue.

Receipts in the period, as discussed in Section 2, were:

- £834,146 in respect of the sale of tax losses; and
- £18,338 earned in interest from the investment of funds on the money markets.

Section 5 Receipts and Payments Account

	As at 12 April 2013 GBP (£)	As at 12 October 2012 GBP (£)	Movements GBP (£)
Receipts			
Sale of mortgage portfolio	14,201,068	14,201,068	-
Sale of tax losses	1,061,900	227,754	834,146
Tax function costs recharged	29,710	29,710	-
Interest recieved gross	173,144	154,806	18,338
Total Receipts	15,465,822	14,613,338	852,484
Payments			
Legal fees	45,197	42,936	2,261
Employee costs	1,763	1,763	-
IT costs	5,741	-	5,741
Joint Administrators' remuneration	559,974	513,037	46,937
Joint Administrators' Category 1 disbursements	2,370	2,370	-
Statutory advertising	1,374	1,374	-
VAT Paid	99,372	89,984	9,388
Total Payments	715,791	651,464	64,327
Net Position	14,750,031	13,961,874	788,157
Cash Balances			
HSBC (non-interest bearing)	1,061,706	291,828	769,878
Money Market	13,688,325	13,670,046	18,279
Total Cash	14,750,031	13,961,874	788,157

Section 6 *Joint Administrators' time costs for the period
1 October 2012 to 28 February 2013*

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.10	84	18.00	7,452	21.25	5,586	10.65	2,343	50.00	15,465
Administration and Planning	2.40	2,011	7.50	3,105	2.60	658	-	-	12.50	5,774
Asset Realisations	-	-	-	-	0.80	202	-	-	0.80	202
Statutory and Compliance	-	-	1.80	745	14.20	3,593	1.60	341.00	17.60	4,579
Tax and VAT	0.30	308	2.80	1,456	1.00	471	0.70	108.00	4.80	2,343
LBT Recharges	0.02	10	0.27	115	0.29	81	0.55	114.00	1.13	320
Grand Total	2.82	2,413	30.37	12,873	40.14	10,591	13.50	2,906	86.83	28,783

Current charge out rates		Business Recovery Services	Specialist
Grade		Max £/hr	Max £/hr
Partner		838	1,027
Director		639	932
Senior manager		492	869
Manager		414	634
Senior Associate		346	389
Associate/Support Staff		220	204

* 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 October 2012 to 28 February 2013

Accounting and Treasury - £15,465

- 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; and
- Dealing funds on the money markets and inputting deals.

Strategy and planning - £5,774

- Preparations for and attending the Upper Tribunal pensions hearing;
- Participating in discussions to try and resolve the pension issue;
- Reviewing financial information; and
- Updating strategy documents.

Asset realisations - £202

- Updating list of creditor claims; and
- Reviewing creditor claim submissions.

Tax and VAT - £4,679

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

Statutory and Compliance - £2,343

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

LBL recharges - £320

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