

THE MERCHANT COMPANY ENDOWMENT TRUST
Charity No: SC002002

Trustees' Annual Report and Financial Statements

For the year ended 31 July 2022

THE MERCHANT COMPANY ENDOWMENTS TRUST

Trustees' Annual Report and Financial Statements

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Reference and administrative details

Principal Office

The Merchants' Hall
22 Hanover Street
Edinburgh
EH2 2EP

Secretary and Chamberlain

██████████ from March 2022

Auditors

Henderson Loggie LLP
Ground Floor, 11-15 Thistle Street
Edinburgh
EH21DF

Investment Managers

Cazenove Capital Management Limited
24-25 Charlotte Square
Edinburgh
EH24ET

Bankers

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH22AD

Solicitors

Motton Fraser
Quaite 1 mile Two
2 Lister Square
Edinburgh
EH39GL

THE MERCHANT COMPANY ENDOWMENTS TRUST

The Trustees' Annual Report *(continued)*

For the year ended 31 July 2022

Structure, governance and management

Nature of governing document

The trust is a body corporate of charitable status. The constitution of the trust is contained in the Edinburgh Merchant Company Order Confirmation Act 1996 (Part IV). The constitution is available on the website www.mcoe.org.uk.

Appointment of trustees

The Endowments Trust members are as follows:

- a. The Master, the Treasurer and the 12 Assistants of the Company of Merchants of the City of Edinburgh for the time being, ex officio.
- b. Five members to be elected by the Council for the City of Edinburgh.
- c. Two ministers of the Edinburgh Presbytery of the Church of Scotland to be elected by the said Presbytery.
- d. Three persons to be elected by the Company of Merchants of the City of Edinburgh from among the Members.

The election of the elected members of the Endowments Trust shall take place annually at any General Meeting of the Company of Merchants of the City of Edinburgh in November.

Any member of the Endowments Trust, upon the expiry of his/her term of office, shall be eligible for re-election unless otherwise disqualified under the Edinburgh Merchant Company Order Confirmation Act 1996.

The Chairman of the Endowments Trust is the Master of the Royal Company of Merchants of the City of Edinburgh or in his or her absence, the Treasurer.

There were no transactions with connected parties except in the ordinary course of business.

Policies and procedures for induction and training of Trustees

In January 2022 a training session on Scottish charity regulations and the duties of charity trustees was provided by the Company lawyers and was attended by the majority of Trustees. The Trust also offers a variety of training opportunities through a variety of professional advisors.

Decision-making structure

Policies and strategy are agreed by the Trustees at their regular meetings. The charitable work of the Trust is carried out by the Royal Company of Merchant Charities Committee, chaired by one of the Trustees. The administration of the Trust is carried out by the Secretary and Chamberlain, the Almoner and the team of the Royal Company of Merchants of the City of Edinburgh.

Risk Management

The Trustees recognise their responsibility to regularly assess main risks and aim to mitigate exposure to these risks.

Principal significant risks are major repairs and vacancies in the property portfolio and fluctuations in the value and dividends in the investment portfolio.

THE MERCHANT COMPANY ENDOWMENT TRUST

The Trustees' Annual Report (continued)

For the year ended 31 July 2022

Objectives and activities

Endowment Trust

The objective of the Trust is to provide assistance to decent, peaceable men and women aged at least 55 on 1 July in the year of their election, unless, at a younger age they are certified on medical grounds as being unable to earn their living. Beneficiaries must be persons who have lived or worked in the City of Edinburgh or the County of Midlothian. Assistance may be given by way of cash grant, pension, gift of appliances, provision of accommodation and other support. The Trust funds an Almoner to give personal contact and further finance and care to beneficiaries where needed. The Trust consists of general funds which are also applied in connection with running the Sir William Fraser Homes (The Fraser Trust). There are also two funds which are administered separately by the Trust; The Russell and Foster Endowment and The Sir John Foster Fraser Bequest. The Trust owns two groups of flats which are rented at social housing and mixed rent rates to frail and elderly people and managed by Dunedin Canmore Housing Association.

The Fraser Trust (Sir William Fraser Homes)

The Fraser Trust was wound up in 1997 but the Endowments Trust continues to maintain the homes in terms of Section 114 of the Constitution, either by providing them to poor persons resident in the City of Edinburgh or Midlothian with preference given to authors and artists, or by letting to tenants on a commercial basis with the rents received, after payment of the costs incurred in maintaining the properties, being directed towards providing accommodation for needy citizens of Edinburgh.

The Russell and Foster Endowment

The Russell and Foster Endowment was formed from the estate of the late Henry W Russell in 1954. It is required that the fund is administered by the Endowments Trust as a separate fund. The free income is applied by the Trust in payment of annual pensions to respectable indigent Protestant men and women at a rate of £600 per annum. In the year no grants were made (2021 - £4,200). The fund value at 31 July 2022 was £472,872 (2021 - £486,384).

The Sir John Foster Fraser Bequest

The Foster Fraser Bequest was formed from a bequest by the late Sir John Foster Fraser in 1961. It is required to be administered as a separate fund by the Endowments Trust who must have regard to applying funds towards helping people "engaged in the literary profession, scientists, artists, musicians, educationalists and other cultural Scottish people who have fallen on hard times." In the year, no grants were made (2021 - £700) and the fund value at 31 July 2022 was £160,162 (2021 - £159,924).

Grant making policy

Grants are paid in accordance with the objectives set out in the Trust purposes above. The Almoner makes an assessment and reports to the Trustees, to enable decisions on which Grants should be made.

Following discussions among the trustees it was concluded that the current rules governing the Endowments Trust restricted the ways in which assistance could be given to deserving and qualified causes. At a meeting of the Members on 8 December 2021 the Members resolved to make an application to OSCR for a charity reorganisation scheme for variation of the Constitution so as to:-

- Expand the purposes of the Charity to allow its resources to be applied for wider purposes and to benefit a wider class of beneficiaries;
- Recognise that the Fraser Trust has been wound up; and
- Make certain administrative changes, including to add provisions to the Constitution which would allow the Members to amend the Constitution subject to the consent of, or initiation to OSCR, in terms of the 2005 Act.

THE MERCHANT COMPANY ENDOWMENTS TRUST

The Trustees' Annual Report *(continued)*

For the year ended 31 July 2022

Objectives and activities *(continued)*

An application to change the constitution was submitted to OSCR in April 2022. The application was approved in December 2022 and the impact will principally be to :

- Enable assistance to be given to organisations as well as individuals
- Allow projects benefiting people under the age of 55 to be supported
- Allow for the William Fraser Homes to be sold, and the proceeds reinvested in projects with the same charitable purposes.

Financial review

The group's net expenditure after gains and losses for the year was £41,665 compared with the previous year's net income of £678,502. This was after realised and unrealised losses on listed investments of £66,422 (2021: gains of £204,797) and a loss on revaluation of investment property of £215,000 (2021: £Nil).

It is the policy of the Trustees that any realised gains on investments are re-invested within the portfolio. It is the policy of the Trustees to keep and maintain their properties.

The financial statements have been prepared in accordance with the statutory requirements of the Trust Constitution (Edinburgh Merchant Company Order Confirmation Act 1996, Part VI Sections 92 to 127).

The Trust's income is derived mainly from heritable investments and quoted investments. The wholly owned subsidiary company MCET Ltd donates its profits to the Trust under the Gift Aid Scheme and this has enabled the Trustees to increase the level of reserves in order to fund the project outlined under "Achievements and performance."

The Royal Company of Merchants of the City of Edinburgh provides administration and accounting services for the Trust. During the year under review the Endowments Trust group paid costs totalling £104,232 (2021: £101,689) which were recharged by the Royal Company of Merchants of the City of Edinburgh.

Investment policy

It is the Trustees' policy to invest in such a way that both investment growth and regular investment income is available to meet the needs of the Trust. This has been achieved by keeping the portfolio of both properties and listed investments under regular review.

(a) Listed investments

The portfolio has been managed by Cazenove Capital Management Limited since October 2014. Details of the portfolio are shown in Note 10.

(b) Properties

The Trust owns a parade of shops at Drumsheugh in Edinburgh plus a private car park. The Trust has appointed Ryden, Property Consultants as the factor for these properties. The factor's responsibility includes carrying out the scheduled rent reviews, negotiation and settlement, the collection of rents and the maintenance of the car park.

The Trust owns the entire share capital of MCET Ltd, a company which owns let property at 58 Albany Street, Edinburgh and a domestic property in Hillside Street, Edinburgh.

Reserves policy

It is the Trustees' policy to maintain a level of endowed reserves that will provide sufficient income to cover the Trust's regular commitments. Reserves in excess of this are available for disbursement.

THE MERCHANT COMPANY ENDOWMENTS TRUST

The Trustees' Annual Report *(continued)*

For the year ended 31 July 2022

Reserves policy *(continued)*

The unrestricted reserves for the Endowments Trust General Fund at 31 July 2022 were £20,582,167. This generated income before investment gains and losses of £162,452, which was sufficient to cover disbursement of charitable funds and cover the finance of the expansion of the Trust's property used for charitable purposes, thus fitting the reserves policy.

Achievements and performance

Beneficiaries

During the year, The Endowments Trust paid annuities to 220 beneficiaries. £300 each was paid on 31 December 2021 and £330 each was paid on 1 June 2022. In addition, a Christmas gift of £30 each was paid on 10 December 2022.

A number of other beneficiaries received gift vouchers or white goods during the year.

Investment performance

The investment performance is compared with industry benchmarks regularly and the income generated was considered to be in accordance with the investment policy. Performance is kept under review with regular meetings with the investment managers.

Plans for future periods

The Trustees have considered the future strategy of the Trust, and have applied to OSCR to widen the scope of charitable giving while remaining within the original parameters of the various Trusts to increase the amount of grants which are given each year.

Statement of Trustees' Responsibilities

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles of the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE MERCHANT COMPANY ENDOWMENTS TRUST

The Trustees' Annual Report (continued)

For the year ended 31 July 2022

In so far as the trustees are aware:

- there is no relevant audit information of which the charity's auditors are unaware; and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Trust:



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Chairman

THE MERCHANT COMPANY ENDOWMENTS TRUST

Independent Auditor's Report to the Trustees

For the Year Ended 31 July 2022

Opinion

We have audited the financial statements of The Merchant Company Endowments Tmst (the 'parent charity') and its subsidiaries (the 'group') for the year ended 31 July which comprise the group and charity Statement of Financial Activities, the group and charity Balance Sheet, the group and tmst Statement of Cash Flows and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

give a true and fair view of the state of the group's and parent charity's affairs as at 31 July 2022, and of the group's and parent charity's incoming resources and application of resources, including the group's and parent charity's income and expenditure, for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent charity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the trustees with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The trustees are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

THE MERCHANT COMPANY ENDOWMENTS TRUST

Independent Auditor's Report to the Trustees (*continued*)

For the Year Ended 31 July 2022

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities Accounts (Scotland) Regulations 2006 require us to report to you if, in our opinion:

the information given in the financial statements is inconsistent in any material respect with the trustees' report; or

adequate and proper accounting records have not been kept by the parent charity; or

- the parent charity's financial statements are not in agreement with the accounting records; or

we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 5, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group and parent charity's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group or parent charity or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above, to detect material misstatements in respect of irregularities including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

As part of our planning process:

- We enquired of management the systems and controls the group and parent charity has in place, the areas of the financial statements that are mostly susceptible to the risk of irregularities and fraud, and whether there was any known, suspected or alleged fraud. Management informed us that there were no instances of known, suspected or alleged fraud;
- We obtained an understanding of the legal and regulatory frameworks applicable to the group and parent charity. We determined that the following were most relevant: GDPR; lease agreements; and Charity law.
- We considered the incentives and opportunities that exist in the group and parent charity, including the extent of management bias, which present a potential for irregularities and fraud to be perpetrated, and tailored our risk assessment accordingly; and

Using our knowledge of the group and parent charity, together with the discussions held with management at the planning stage, we formed a conclusion on the risk of misstatement due to irregularities including fraud and tailored our procedures according to this risk assessment.

THE MERCHANT COMPANY ENDOWMENTS TRUST

Independent Auditor's Report to the Trustees (continued)

For the Year Ended 31 July 2022

The key procedures we undertook to detect irregularities including fraud during the course of the audit included:

- Inquiry of management about any known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing minutes of board and sub-committee meetings;
- Review of legal and professional fee expenditure;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular investment property valuations, valuation of bad debt provision, and assumptions regarding defined benefit pension liability; and
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness.

Owing to the inherent limitations of an audit, there is unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). For instance, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charity's trustees, as a body, in accordance with Regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.



Henderson Loggie LLP
Chartered Accountants
Statutory Auditor

Henderson Loggie LLP is eligible to act as auditor in terms of section 1212 of the Companies Act 2006.

Ground Floor
11-15 Thistle Street
Edinburgh
EH21DF

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THE MERCHANT COMPANY ENDOWMENTS TRUST
Group and Trust Statements of Financial Activities (incorporating an Income and Expenditure Account.)
For the year ended 31 July 2022

	Notes	Endowments Trust				Group		
		Restricted Funds			2022 Endowments Trust Total	2021 Total	2022 Total	2021 Total
		Unrestricted Funds	Foster Fraser	Russell & Foster				
Income:								
Donations and legacies	3	273,321	-	-	273,321	271,483	10,838	
Income from investments	4	349,919	4,077	3,850	357,846	343,019	698,260	
Other income		9,000	-	-	9,000	-	9,000	
		<u>632,240</u>	<u>4,077</u>	<u>3,850</u>	<u>640,167</u>	614,502	<u>732,246</u>	
Income from charitable activities	5	<u>312,201</u>	<u>-</u>	<u>-</u>	<u>312,201</u>	311,095	<u>312,201</u>	
Total income and endowments		<u>944,441</u>	<u>4,077</u>	<u>3,850</u>	<u>952,368</u>	925,597	<u>1,044,447</u>	
Expenditure on:								
Raising funds	6	(224,666)	(100)	(2,497)	(227,263)	(128,474)	(177,701)	
Charitable activities	7	(557,323)	-	-	(557,323)	(431,414)	(433,947)	
Total expenditure		<u>(781,989)</u>	<u>(118)</u>	<u>(2,497)</u>	<u>(784,604)</u>	(559,888)	<u>(804,690)</u>	
Net income before gains and losses		162,452	3,959	1,353	167,764	365,709	239,757	
Realised (losses)/gains on investments	! Ob	(91,261)	-	(11,291)	(102,552)	204,797	(102,552)	
Unrealised gains/(losses) on investments	! Ob	43,425	(3,721)	(3,574)	36,130	-	36,130	
Revaluation of investment properties	! Oa	215,000	-	-	215,000	-	(215,000)	
Deferred tax on revalued assets	! Oc	-	-	-	-	-	76,000	
Fair value movement in subsidiary	! Oc	(358,007)	-	-	(358,007)	107,996	-	
Net (expenditure)/income		<u>(28,391)</u>	<u>238</u>	<u>(13,512)</u>	<u>(41,665)</u>	678,502	<u>(41,665)</u>	
Reconciliation of funds:								
Total funds brought forward		<u>20,610,558</u>	<u>159,924</u>	<u>486,384</u>	<u>21,256,866</u>	20,578,364	<u>21,256,866</u>	
Total funds carried forward		<u>20,582,167</u>	<u>160,162</u>	<u>472,872</u>	<u>21,215,201</u>	21,256,866	<u>21,215,201</u>	

THE MERCHANT COMPANY ENDOWMENTS TRUST
Group and Trust Balance Sheets as at 31 July 2022
Endowments Trust

	Notes	<u>Restricted Funds</u>			<u>2022</u>		<u>2021</u>	
		Unrestricted Funds	Foster Fraser	Russell & Foster	<u>Endowments Trust</u>	<u>Trust Total</u>	<u>2022</u>	<u>2021</u>
		£	£	£	£	£	£	£
Fixed Assets								
Tangible Fixed Asset	9	5,923,931	-	-	5,923,931	6,072,062	5,923,931	6,072,062
Investments								
Property	10(a)	7,105,001	-	-	7,105,001	6,890,001	11,175,001	11,390,001
Listed investments	10(b)	1,918,091	94,333	401,710	2,414,134	1,488,800	2,414,134	1,488,800
Investment in MCET Ltd	10(c)	4,361,318	-	-	4,361,318	4,719,325		
Total Fixed Assets		19,908,441	94,333	401,710	19,804,384	19,270,218	19,251,306	18,295,028
Current Assets								
Debtors	11	112,119	-	37	112,156	175,519	253,788	365,366
Inter-company control account MCET Cash at bank and in hand	11	1,746,069	65,829	71,125	1,883,023	2,598,415	2,190,564	2,765,097
Total Current Assets		1,958,716	65,829	71,162	2,209,570	2,874,462	2,444,352	3,213,046
Liabilities								
Creditors: Amounts falling due within one year	12	(218,497)	-	-	(218,497)	(255,559)	(275,824)	(292,235)
Net current assets		1,740,219	65,829	71,162	1,877,210	2,618,903	2,168,528	2,838,228
Total assets less current liabilities		21,048,560	160,162	472,872	21,681,594	21,789,091	21,681,594	21,789,091
Creditors due after more than one year	13	(466,393)	-	-	(466,393)	(532,225)	(466,393)	(532,225)
Total net assets		20,582,167	160,162	472,872	21,215,201	21,256,866	21,215,201	21,256,866
The funds of the charity								
Non distributable investment property reserve	14	6,988,412	-	-	6,988,412	6,773,412	6,642,940	6,660,440
Revenue reserve	14	7,704,260	48,979	54,403	7,797,852	7,997,885	8,153,114	8,110,857
Endowed Reserve	14	5,889,495	111,183	418,469	6,419,147	6,485,569	6,419,147	6,485,569
Total charity funds		20,582,167	160,162	472,872	21,215,201	21,256,866	21,215,201	21,256,866

I, **[Redacted]** of the Trustees on 2023.

THE MERCHANT COMPAI YENDOWMENT TRUST
Group and Trust Statement of Cash Flows
At as 31 July 2022

	Trust 2022 £	Trust 2021 £	Group 2022 £	Group 2021 £
Cash flows from operating activities				
Net (expenditure)/income	(41,665)	678,502	(41,665)	678,502
Losses/(gains) on investments	66,422	(312,793)	66,422	(204,797)
FV movement in subsidiary	358,007			
FV Movement in properties	(215,000)		215,000	
Decrease/(increase) in debtors	63,363	(57,535)	111,578	(14,694)
(Decrease)/increase in creditors	(37,062)	(30,040)	(16,411)	(122,038)
Depreciation charges	148,131	148,131	148,131	148,131
Dividends and interest	(27,433)	(21,686)	(27,476)	(21,712)
Cash provided by/(used in) operating activities	314,763	404,579	455,579	463,392
Cash flows from investing activities				
Dividends and interest	27,433	21,686	27,476	21,712
Payments to acquire fixed assets		(1,331)		(1,331)
Payments to acquire investments	(1,511,698)	(404,228)	(1,511,698)	(404,228)
Proceeds from the sale of investments	637,693	330,103	637,693	330,103
Movement in cash held for re-investment	(117,751)	83,356	(117,751)	83,356
Cash (used in)/provided by investing activities	(964,323)	29,586	(964,280)	29,612
Cash flows from financing activities				
Repayment of bank loans	(65,832)	(65,832)	(65,832)	(65,832)
Cash used in financing activities	(65,832)	(65,832)	(65,832)	(65,832)
Net cash movement in the year	(715,392)	368,333	(574,533)	427,172
Cash and cash equivalents at start of the year	2,598,415	2,230,082	2,765,097	2,337,925
Cash and cash equivalents at end of the year	1,883,023	2,598,415	2,190,564	2,765,097
Cash and cash equivalents comprise:				
Cash at bank and in hand	1,883,023	2,598,415	2,190,564	2,765,097

THE MERCHANT COMPANIES ENDOWMENTS TRUST
Notes to the Financial Statements
For the year ended 31 July 2022

1 Accounting Policies

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the charity's financial statements.

a) Basis of preparation

The financial statements have been prepared under the historical cost accounting rules, and in accordance with applicable accounting standards, as modified by the revaluation of UK listed investments and investment properties. The charity is a Public Benefit Entity and the financial statements comply with the charity's Constitution, the Statement of Recommended Practice (SORP) FRS 102 'Accounting and Reporting by Charities (revised 2015)', FRS 102, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The financial statements are prepared in sterling, which is the functional currency of the entity. Monetary amounts in these financial statements are rounded to the nearest £.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the trust and of its subsidiary undertakings. The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of in year are included in the consolidated statement of financial activities from the date of acquisition or up to the date of disposal.

c) Going concern

As recommended by the Financial Reporting Council, the trustees have prepared detailed budgets setting out the charity's expected performance over 12 months from approval of the financial statements. On the basis of these projections and having considered the charity's reserves and cash position, the trustees believe it is appropriate to prepare the financial statements on a going concern basis.

d) Income

Income is recognised when the charity has entitlement to the funds, when it is probable that the income will be received and the amount can be measured reliably. Donations and similar incoming resources are recognised when the charity is entitled to it, usually on receipt. Income from investments is accounted for when the charity is entitled to the income based on rental agreements in place.

e) Expenditure

All expenditure is included on an accruals basis and is recognised when there is a legal or constructive obligation to pay for the expenditure. The charity is not registered for VAT and accordingly costs are shown gross of irrecoverable VAT. Where directly attributable, expenditure is allocated to the relevant functional category.

Expenditure on raising funds includes the cost of investment management services and letting agency fees. Expenditure on charitable activities includes costs incurred by the charity in the letting of operational assets to the charity's beneficiaries. It includes both direct costs and the indirect costs necessary to support these activities.

Support costs are allocated between governance costs and other support costs. Governance costs comprise those costs involving the public accountability of the charity and its compliance with regulations and best practice. They therefore include the costs of statutory audit. Other support costs relate to the administrative costs of running the charity and are allocated to charitable activities accordingly.

f) Taxation

The Trust is a recognised charity and has no liability to taxation. Deferred taxation (arising with the subsidiary) is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

g) Fixed assets

Properties classified as investment properties are not depreciated. Properties used as social housing for public benefit are not classified as investment properties but as fixed assets and are depreciated.

Depreciation is provided on all fixed assets on book cost at rates and bases calculated to write off the cost of each asset over its expected useful life as follows:

Heritable Property	2%	Fixtures and Fittings	10%	IT Equipment	33%
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THE MERCHANT COMPANY V ENDOWMENTS TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

1 Accounting Policies (continued)

h) Investment properties

Investment property is carried at fair value determined annually and derived from the current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the income and expenditure account.

i) Investments

Investments are a form of basic financial instrument and are initially recognised at their transaction value and subsequently measured at their fair value at the balance sheet date by reference to the Stock Exchange mid prices. Realised and unrealised gains and losses are charged or credited in the statement of financial activities. The charity has no complex financial instruments. The main form of financial risk faced by the charity is that of volatility in the investment markets due to wider economic conditions. Investment income is recognised when receipt is probable.

j) Debtors

Other debtors are recognised at the settlement amount due.

k) Cash

Cash comprises cash at bank and in hand and short term liquid investments with a short term maturity date.

l) Creditors and provisions

Creditors and provisions are recognised where the charity has a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are normally recognised at their settlement amount.

m) Pension

The Trust contributes to a defined benefit pension scheme, details of which are held in note 16 to the financial statements.

n) Reserves

General reserve - The general reserve is held for meeting the objectives of the Trust. Any year end surplus or deficit is applied to the general reserve.

Endowment reserve - Investments are held within an endowment reserve, income from which is used in furtherance of the Trust's activities. Unrealised gains and losses on investments are applied to each fund within the endowment reserves on the same proportion of investments held.

2 Purpose of the Trust Fund

In terms of the Merchant Company Order Act 1996 (Part VI) the free income of the Trust shall, after expenses of management and pensions of employees, be applied to the payment of annual ex gratia pensions or gifts of money and in providing lodging, clothing, food, fuel, furnishings and other benefits to qualifying persons.

3 Donations and legacies

	Trust 2022 £	Trust 2021 £	Group 2022 £	Group 2021 £
Legacy & donation	10,112		10,112	
Donation from subsidiary	263,209	271,483		
	273,321	271,483	10,112	
	= =	=	=	=

THE MERCHANT COMPAI Y ENDOWMENT TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

4 Income from investments

	Trillst 2022 £	Trnst 2021 £	Group 2022 £	Group 2021 £
Dividends	26,441	20,774	26,441	20,774
Interest	912	912	1,065	938
Commercial letting income	330,413	321,333	685,628	676,548
	<u>357,846</u>	<u>343,019</u>	<u>713,134</u>	<u>698,260</u>

5 Income from charitable activities

	Trillst 2022 £	Trust 2021 £	Group 2022 £	Group 2021 £
Domestic letting income	312,211	311,095	312,201	311,095

6 Expenditure on raising funds

	Trillst 2022 £	Trnst 2021 £	Group 2022 £	Group 2021 £
Professional fees for letting	29,953	28,896	30,851	37,730
Other costs of letting	140,115	60,192	141,764	88,403
Total direct costs	170,068	89,088	172,615	126,133
Support costs (note 8)	44,424	31,366	56,062	43,550
Total letting costs	214,492	120,454	228,677	169,683
Investment management fee	12,789	8,020	12,789	8,020
	<u>227,281</u>	<u>128,474</u>	<u>241,466</u>	<u>177,703</u>

7 Expenditure on charitable activities

	Trillst 2022 £	Trust 2021 £	Group 2022 £	Group 2021 £
Professional fees - Cyrenians	43,329	35,356	43,329	35,356
Other professional fees	26,239	8,433	27,790	8,965
Direct support costs - JMH & Little Road	91,436	33,396	91,436	33,396
Depreciation	148,131	148,132	148,131	148,132
Grants to beneficiaries	168,879	133,963	168,879	133,964
Unwinding discount factor		2,186		2,186
Total direct costs	478,014	361,466	479,565	361,999
Support costs (note 8)	71,629	65,448	71,629	65,448
Governance costs - audit fee	7,680	4,500	12,030	6,500
	<u>557,323</u>	<u>431,414</u>	<u>563,224</u>	<u>433,947</u>

THE MERCHANT COMPANY ENDOWMENTS TRUST
Notes to the Financial Statements (continued)
For the year ended 31 July 2022

8 Support costs

	Trst 2022 £	Trst 2021 £	Group 2022 £	Group 2021 £
Costs recharged by the Merchant Company	92,644	89,513	104,232	101,689
Bank charges	335	485	385	493
Ex gratia pensions	94	91	94	91
Past service cost	15,317		15,317	
Loan interest	7,663	6,725	7,663	6,725
Total support costs	116,053	96,814	127,691	108,998
<i>Allocated on a pro rata basis as follows:</i>				
Raising funds	44,424	31,366	56,062	43,550
Charitable activities	71,629	65,448	71,629	65,448
	116,053	96,814	127,691	108,998

9 Fixed assets

	JM Heritable Property £	JM Furniture and Fittings £	Little Road, Liberton, Phase 1&2 Heritable Property £	Computer Equipment £	Trust 2022 £	Group 2022 £
Cost						
At 31 July 2021	3,499,038	5,748	3,885,349	1,331	7,391,466	7,391,466
Additions						
At 31 July 2022	3,499,038	5,748	3,885,349	1,331	7,391,466	7,391,466
Depreciation						
At 31 July 2021	769,791	5,748	543,422	443	1,319,404	1,319,404
Charge for the year	69,981		77,707	443	148,131	148,131
At 31 July 2022	839,772	5,748	621,129	886	1,467,535	1,467,535
Net book value						
At 31 July 2022	2,659,266		3,264,220	445	5,923,931	5,923,931
At 31 July 2021	2,729,247		3,341,927	888	6,072,062	6,072,062

THE MERCHANT COMPAI V ENDOWMENTS TRUST
Notes to the Financial Statements (continued)
For the year ended 31 July 2022

10 Investments

(a) Properties held for investment purposes - held in the UK.

Investment properties	Trust 2022 £	Trust 2021 £	Group 2022 £	Group 2021 £
Fair value				
Sir William Fraser Homes	4,320,0100	3,965,000	4,320,000	3,965,000
Dmmsheugh shops and car park	2,785,0100	2,925,000	2,785,000	2,925,000
Feu	1	1	1	1
Albany Street			3,820,000	4,250,000
Hillside Street			250,000	250,000
	7,105,0101	6,890,001	11,175,001	11,390,001
Costs				
Sir William Fraser Homes	74,283	74,283	74,283	74,283
Dmmsheugh shops and car park	188,155	188,155	188,155	188,155
Feu	1	1	1	1
Albany Street			4,168,127	4,168,127
Hillside Street			82,500	82,500
	262,439	262,439	4,513,066	4,513,066

The market value is determined by the Master's Comt on the advice of property professionals. A valuation was performed by Graham & Sibbald in October 2022 to reflect the value as at 31 July 2022. The members of the Master's Comt are not aware of any subsequent material change in value.

(b) Listed investments

<i>Investments held on recognised Stock Exchange - held in the UK</i>	Investments	Cash	Group & Trust 2022	Group & Trust 2021
	£	£	£	£
Value of portfolio at 31 July 2021	1,444,228	44,572	1,488,800	1,293,234
Purchases	1,511,698	(1,511,698)		
Disposal proceeds	(637,693)	637,693		
Realised (losses)/gains	(102,552)		(102,552)	22,900
Unrealised gains/(losses)	36,130		36,130	181,897
Management fee		(10,524)	(10,524)	(7,925)
Dividend movement		26,021	26,021	20,904
Cash movement		976,259	976,259	(18,961)
Dividends received not yet remitted				(3,249)
Value of portfolio at 31 July 2022	2,251,800	162,323	2,413,134	1,488,800

The portfolio has been managed by Cazenove Capital Management Limited and they are invested in accordance with the objectives agreed by the Trustees. All investments are carried at their fair value. Investments in equities and bonds are traded in quoted public markets. Holdings in multi-asset funds are at bid price. The basis of fair value for quoted investments is equivalent to market value, using the bid price. Asset sales and purchases are recognised at the date of trade at their transaction value.

THE MERCHANT COMPANY ENDOWMENTS TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

10 Investments (continued)

The main risk to the trust from financial instruments lies in the combination of uncertain investment markets and volatility to growth and incomes. The Trust's investment strategy is to maximise income and ensure capital growth of funds in excess of inflation each year and as such the portfolio is invested in medium to high risk stocks. Liquidity risk is anticipated to be low as all assets are traded in markets with good liquidity and high trading volumes and this is expected to continue. The Trust manages these investment risks by retaining expert advisors to manage its investment portfolio. The investment policy is reviewed annually to ensure the protection of the real value of the portfolio in the longer term.

	2022	2021
The portfolio is invested in:		
Equities and bonds	92.8%	97.01%
Cash	7.2%	2.99%
	<hr/>	<hr/>
	100.00%	100.00%
	<hr/>	<hr/>

(c) Investment in subsidiary

MCET Ltd (SC215839) is a wholly owned subsidiary which owns property at 58 Albany Street, Edinburgh and Hillside Street, Edinburgh. The profit generated by the company from the let of property, will be used in accordance with the policy of the Endowments Trust. The results of MCET Limited included within the group results for the year are summarised below:

	2022	2021
	£	£
Turnover	355,215	355,215
	<hr/>	<hr/>
(Loss)/profit for the year	(94,798)	379,479
Donation to parent company	(263,209)	(271,483)
	<hr/>	<hr/>
	(358,007)	107,996
	<hr/>	<hr/>
Net assets	4,361,318	4,719,325
	<hr/>	<hr/>
	2022	2021
	£	£
Investment properties	4,070,000	4,500,000
Net investment assets	291,318	219,325
	<hr/>	<hr/>
Net assets	4,361,318	4,719,325
	<hr/>	<hr/>
Represented by:		
Share capital	4,129,207	4,129,207
Non-distributable property reserve	167,500	400,000
Distributable reserve	64,611	190,118
	<hr/>	<hr/>
Total shareholders' funds	4,361,318	4,719,325
	<hr/>	<hr/>

THE MERCHANT COMPAN'V ENDOWMENTS TRUST
Notes to the Financial Statements (continued)
For the year ended 31 July 2022

11 Debtors

	Trust 2022	Trust 2021	Group 2022	Group 2021
	£	£	£	£
Sundry debtors	112,156	175,519	253,788	364,766
Vat refund				600
Amounts due from subsidiary	100,528	100,528		
	212,684	276,047	253,788	365,366

12 Creditors : amounts falling due within one year

	Trust 2022	Trust 2021	Group 2022	Group 2021
	£	£	£	£
Amounts due to related parties	7,004		7,004	
Vat payable			20,901	
Deferred income	64,088	4,830	94,664	35,407
Audit fee accrual	7,680	4,500	12,030	6,500
Sundry creditors	73,893	180,397	75,393	184,496
Loan due to Royal Bank of Scotland	65,832	65,832	65,832	65,832
	218,497	255,559	275,824	292,235

	Trust 2022	Trust 2021	Group 2022	Group 2021
	£	£	£	£
Deferred income				
Deferred income at 1 August 2021	4,830	16,735	35,407	
Resources deferred during the year	64,088	4,830	94,664	35,407
Amounts released from previous year	(4,830)	(16,735)	(35,407)	
	64,088	4,830	94,664	35,407

13 Creditors: due after more than one year

	Group & Trust 2022	Group & Trust 2021
	£	£
RBS -Bank loan	466,393	532,225

In the financial year to 31.7.2009 the Endowments Trust borrowed £1.3m from the Royal Bank of Scotland, to assist with the development of sheltered housing flats (Jack Martin House) for the Frail and Elderly at Brandfield Street, Edinburgh. The loan is repayable in 240 monthly instalments starting September 2010, the last of which is in August 2030.

THE MERCHANT COMPANION ENDOWMENTS TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

13 Creditors: due after more than one year (continued)

<i>Analysis of debt</i>	Group & Trust 2022 £	Group & Trust 2021 £
Due within 1 year	65,832	65,832
Due between 1 and 2 years	65,832	65,832
Due between 2 and 5 years	197,496	197,496
Due after 5 years	203,065	268,897
	532,225	598,057

14 Funds

	Unrestricted	<u>Restricted</u>			Group Total 2022 £
	General Fund 2022 £	Foster Fraser 2022 £	Russell & Foster 2022 £	Endowments Trust Total 2022 £	
Non-distributable property reserve					
At beginning of year	6,773,412			6,773,412	6,660,440
Revaluation of properties in year	215,000			215,000	(215,000)
Transferred to Revenue Reserve					197,500
Deferred tax on revalued assets					
At end of year	6,988,412			6,988,412	6,642,940
	==				
Revenue Reserve					
At beginning of year	7,899,815	45,020	53,050	7,997,885	8,110,857
Incoming resources	944,441	4,077	3,850	952,368	1,044,447
Outgoing resources	(781,898)	(118)	(2,497)	(784,604)	(804,690)
Transferred from property reserve					(197,500)
Loss on investment in subsidiary	(358,007)			(358,007)	
At end of year	7,704,260	48,979	54,403	7,807,642	8,153,114
Endowed reserve					
At beginning of year	5,937,331	114,904	433,334	6,485,569	6,485,569
Movement in year	(47,836)	(3,721)	(14,865)	(66,422)	(66,422)
At end of year	5,889,495	111,183	418,469	6,419,147	6,419,147
Total funds at end of year 2022	20,582,167	160,162	472,872	21,215,201	21,215,201

THE MERCHANT COMPANION ENDOWMENTS TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

14 Funds (continued)

	General Fund	Foster Fraser	Russell & Foster	Endowments Trust Total	Group Total
	2021	2021	2021	2021	2021
Non-distributable property reserve					
At beginning of year	6,773,412			6,773,412	6,584,440
Revaluation of properties in year					
Deferred tax on revalued assets					76,000
	<hr/>	---	<hr/>	<hr/>	<hr/>
At end of year	6,773,412			6,773,412	6,660,440
Revenue Reserve					
At beginning of year	7,427,478	42,024	54,678	7,524,180	7,713,152
Incoming resources	916,658	3,820	5,119	925,597	1,009,355
Outgoing resources	(552,317)	(824)	(6,747)	(559,888)	(611,650)
Loss on investment in subsidiary	107,996			107,996	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	7,899,815	45,020	53,050	7,997,885	8,110,857
Endowed reserve					
At beginning of year	5,800,676	105,290	374,806	6,280,772	6,280,772
Revaluation in year	136,655	9,614	58,528	204,797	204,797
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,937,331	114,904	433,334	6,485,569	6,485,569
Total funds at end of year 2021	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	20,610,558	159,924	486,684	21,256,866	21,256,866

General Funds

These funds are used to provide assistance by way of cash grant, pension, gift of appliances, provision of accommodation and other support to qualifying persons who have lived or worked in the City of Edinburgh or the County of Midlothian. These include running the Sir William Fraser Homes (The Fraser Trust), Spylaw Street Cottages and Jack Martin House

The Russell and Foster Endowment

The Russell and Foster Endowment was formed from the estate of the late Remy W Russell in 1954. It is required that the fund is administered by the Endowments Trust as a separate fund. The free income is applied by the Trust in payment of annual pensions to respectable indigent Protestant men and women.

The Sir John Foster Fraser Bequest

The Foster Fraser Bequest is required to be administered as a separate fund by the Endowments Trust. No payments were made during the year. The free income is applied in helping people "engaged in the literary profession, scientists, artists, musicians, educationalists and other cultural Scottish people, who have fallen on hard times."

THE MERCHANT COMPANY ENDOWMENTS TRUST

Notes to the Financial Statements (continued)

For the year ended 31 July 2022

15 Pensions

The Endowments Trust has no active members of the Merchant Company Retirement Benefits Scheme, a defined benefits scheme. The assets of the scheme are held separately from those of the Royal Company of Merchants of the City of Edinburgh in an independent administered fund. The scheme is funded and at the last FRS 102 valuation by Mercer, as at 31 July 2022 shows a surplus. At the triennial valuation, as at 31 July 2021, a funding level of 99% was confirmed. During the year, the Trust made a contribution towards the past service deficit of £15,411 (2021 £45,951). On the 31 October 2011, the scheme was closed to future accrual.

The following information is based on the FRS 102 valuation of the fund at 31 July 2022:-

	2022 % p.a	2021 % p.a
Price Inflation rate (RPI)	3.20	3.20
Price Inflation rate (CPI)	2.80	2.75
Salary increase rate	4.20	4.20
Discount rate	3.50	1.60

Life expectancy is based on the CMI Mortality Projections Model 2021 converging to 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.5	23.3
Future pensioners	22.8	24.8

The net pension (deficit)/asset was:

	2022 £000	2021 £000
Estimated employer assets	1,251	1,370
Present value of scheme liabilities	(939)	(1,281)
Effect of asset ceiling	(312)	89
Net pension (deficit)/asset		

An asset ceiling adjustment has been made to prevent the Company recognising a pension asset as any surplus in the scheme belongs to the members.

THE MERCHANT COMPANY ENDOWMENTS TRUST
Notes to the Financial Statements (continued)
For the year ended 31 July 2022

15 Pensions (continued)

Reconciliation of fair value of scheme assets:

	2022 £000	2021 £000
Opening fair value of scheme assets	1,370	1,270
Expected return on assets	22	19
Contributions by employer	26	46
Actuarial (losses)/gains	(124)	82
Estimated benefits paid	(43)	(47)
	1,251	1,370

Reconciliation of defined benefit obligation:

	2022 £000	2021 £000
Opening defined fair value obligation	1,281	1,316
Interest cost	21	19
Actuarial (losses)	(320)	(7)
Estimated benefits paid	(43)	(47)
	939	1,281

16 Financial instruments

	Trust 2022	Trust 2021	Group 2022	Group 2021
Carrying amount of financial assets				
Assets measured at fair value through profit and loss	9,519,135	8,378,801	13,589,135	12,878,801

Financial assets measured at fair value through profit and loss represent listed investments and investment properties

17 Related party transactions.

Some staff and overhead expenses of the Trust are met by the Royal Company of Merchants of the City of Edinburgh and are recharged. The value of the recharge during the year was £92,644 (2021: £89,513). At the year end the balance due to the Royal Company of Merchants of the City of Edinburgh was £3,672 (2021: £nil).

The Trust's subsidiary, MCET Limited, donated funds of £263,209 (2021: £271,483) during the year. The amount due to the Trust at the year end and included within debtors was £100,528 (2021: £100,528).

During the year, Trinity Factoring Services Ltd, a company that A Seale, a trustee, is a director of, donated £ 1,250 to the Endowments Trust.

During the year no trustees received any remuneration (2021: £nil) or any reimbursement of expenses (2021: £nil).

18 Ultimate controlling party

The charity is constituted under the Edinburgh Merchant Company Order Confirmation Act 1996 (Part IV) and is controlled by its elected trustees.

THE MERCHANT COMPANION ENDOWMENTS TRUST
Notes to the Financial Statements (continued)
For the year ended 31 July 2022

19 Commitments

Operating lease - rental income

Future minimum rents receivable under non-cancellable operating leases are as follows

	Trust 2022	Trust 2021	Group 2022	Group 2021
Within 1 year	474,734	479,739	867,829	872,834
Within 2-5 years	1,454,849	1,528,879	2,272,349	2,738,779
Later than 5 years	4,136,551	4,474,918	4,136,551	4,474,918
	<u>6,066,134</u>	<u>6,483,536</u>	<u>7,276,729</u>	<u>8,086,531</u>