

**THE MERCANTILE SERVICE PROVIDENT
SOCIETY**

REPORT OF THE COMMITTEE

AND

ACCOUNTS

FOR THE

YEAR ENDED 31ST DECEMBER, 2017

THE MERCANTILE SERVICE PROVIDENT SOCIETY

(Inaugurated 20th December, 1939)

TRUSTEE : THE CEYLON CHAMBER OF COMMERCE

(Established 25th March, 1839)

REPORT OF THE COMMITTEE FOR THE YEAR ENDED 31ST DECEMBER 2017

COMMITTEE

Rule 7 (i) (a)	-	Mr. A.N. Esufally (Chairman)
Rule 7 (i) (b)	-	Dr. S.S.H. Wijayasuriya Mr. V. Govindasamy
Rule 7 (i) (c)	-	Mr. D.A. Cabraal Mr. S. Mudalige
Rule 7 (i) (d)	-	Mr. C.L.T.P. Rupasinghe Mr. E.A.P. Ekanayake Ms. E. Sirimanne Mr. S. Samaranayake

The Membership of the Society as at 31st December 2017 was 15,399 as compared with 14,628 members for the previous year, and was distributed among the 53 contributing firms as follows:-

Acme Printing & Packaging PLC.	-	63	Ernst & Young.	-	138
Astron Ltd.	-	412	E.B. Creasy & Co, PLC.	-	408
A Baur & Co, (Pvt) Ltd.	-	913	F.J. & G. De Saram.	-	53
AT & T Global Information Solutions (Lanka) Ltd.	-	48	Finlays Colombo Ltd.	-	141
Akzo Nobel Paints Lanka (Pvt) Ltd.	-	90	Gamma Pharmaceuticals (Pvt) Ltd.	-	100
Bartleet & Co, Ltd.	-	30	George Steuart & Co, Ltd.	-	471
Ceylon Shipping Lines Ltd.	-	117	Gestetner of Ceylon PLC.	-	186
Ceylon Trading Co, Ltd.	-	10	Glaxo SmithKline Pharmaceuticals (Pvt) Ltd.	-	127
Chemanex PLC.	-	2	Grand Oriental Hotel.	-	371
CIC Holdings PLC.	-	611	Hemas Holdings PLC.	-	202
Chas P. Hayley & Co, Ltd.	-	22	Hayleys PLC.	-	11
C.W. Mackie PLC.	-	165	IBM World Trade Corporation.	-	115
Darley Butler & Co, Ltd.	-	582	KPMG	-	1155
De Soysa & Co, Ltd.	-	54	Lankem Ceylon PLC.	-	425
DFCC Bank.	-	1631	Lee Hedges PLC.	-	12

Malship (Ceylon) Ltd.	-	3	Shums & Co, (Pvt) Ltd.	-	18
Mercantile Investments and Finance PLC.	-	20	Singer Industries (Ceylon) PLC.	-	33
Morison PLC.	-	469	Singer (Sri Lanka) PLC.	-	2352
M.S.J. Industries (Ceylon) (Pvt) Ltd.	-	250	SmithKline Beecham (Pvt) Ltd	-	457
Nestle Lanka PLC.	-	402	Thomas Cook Lanka (Pvt) Ltd.	-	60
Premium Exports Ceylon Ltd.	-	26	The Cargo Boat Despatch Co, Ltd.	-	1
PricewaterhouseCoopers.	-	474	The Capital Maharaja Organisation Ltd.	-	1271
Ranfer Teas (Pvt) Ltd.	-	1	The Ceylon Chamber of Commerce.	-	89
Reckitt Benckiser (Lanka) Ltd.	-	125	Unilever Sri Lanka Ltd.	-	548
Rhino Roofing Products Ltd.	-	63	Van Rees Ceylon Ltd.	-	24
Richard Pieris & Co, PLC.	-	1	Whittall Boustead Ltd.	-	4
Shaw Wallace Ceylon Ltd.	-	43			-----
					<u>15,399</u>

On behalf of the Committee of Management of the Mercantile Service Provident Society it gives me pleasure to present the Annual Report of the Society for the financial year ended 31st December 2017.

During the year there was an increase of 771 in the membership, making up a total membership of 15,399. With the restriction of admitting new contributing firms remaining in force, the number of contributing firms as at 31st December 2017 stood at 53.

The total income of the Society for the year 2017 was Rs. 2,344.9 million as compared to Rs. 1,832.9 million in 2016, thus recording an increase of Rs. 512 million which is 27.9% over the previous year.

The downward trend in interest rates continued right through the year 2014 and 2015, but in the year 2016 and 2017 interest rates started moving up which helped us to earn a higher income compared to the previous years. Interest income for 2017 was Rs. 2,306 million as against Rs. 1,862 million in 2016. The share portfolio recorded a loss of Rs. 6.9 million in 2017 as compared to the loss of Rs. 71.9 million in the previous year. The Committee managed to keep the distributable rate of 10% in 2017 same as previous year. Current year the Society was able to distribute a dividend of Rs. 1,990.5 million as against dividend of Rs. 1,743.6 million in 2016 recording an increase of Rs. 246.9 million over the last year.

The total fund value increased from Rs. 21.2 billion in 2016 to Rs. 23.5 billion in 2017 thus recording a growth of 10.7% in the total fund value.

The following table shows the investments as at 31st, December 2017 and the income earned during the year.

	<u>INVESTMENTS</u>	<u>INCOME</u>
Loans to Members	Rs. 3,699,108,205	Rs. 436,043,446
Treasury Bonds	Rs. 13,309,794,271	Rs. 1,364,733,578
Fixed Deposits	Rs. 2,918,270,212	Rs. 260,585,776
Commercial Papers	Rs. 338,069,575	Rs. 41,190,818
Savings A/C	Rs. 162,724,322	Rs. 18,491,097
Bank Guaranteed Debentures	Rs. 2,087,623,833	Rs. 182,652,177
Fund Managers (Equity)	Rs. 468,910,109	1. Gain on Disposal of Shares / Interest Income / Dividend Income Rs. 69,673,969
		2. Unrealised Loss on Shares Rs. (48,137,003)
	Rs. 22,984,500,526	Rs. 2,325,233,858

Given below are details of the Excess Income Over Expenditure before taxation and rates of income distribution for the past ten years.

Year	Net Income	Rate
2007	788,233,669	12.50%
2008	989,460,982	13.00%
2009	1,741,815,944	21.00%
2010	1,767,040,069	18.00%
2011	1,171,660,223	10.00%
2012	1,584,664,658	11.75%
2013	1,792,069,288	11.50%
2014	1,908,169,039	11.00%
2015	1,691,763,327	9.00%
2016	1,800,727,013	10.00%

As the Committee would like to be in a position to answer questions on which members would like further information as fully as possible it would be appreciated if any queries they may have can be submitted to the Secretary prior to the Meeting.

By Order of the Committee

DUMINDA HULANGAMUWA
Secretary.

04th May 2018



KPMG
(Chartered Accountants)
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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE MERCANTILE SERVICE PROVIDENT FUND SOCIETY

Report on the Financial Statements

We have audited the accompanying financial statements of The Mercantile Service Provident Fund Society, ("the Fund"), which comprise the statement of financial position as at December 31, 2017, and the statement of income & expenditure, statement of changes in fund and, statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Committee's Responsibility for the Financial Statements

The Committee is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Committee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHARTERED ACCOUNTANTS

May 04, 2018
Colombo,
Sri Lanka

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B. K. D. T. N. Rodrigo FCA

THE MERCANTILE SERVICE PROVIDENT SOCIETY
STATEMENT OF INCOME & EXPENDITURE

<i>For the year ended 31 December,</i>	Note	2017 Rs.	2016 Rs.
Interest income	4	2,305,585,641	1,862,024,214
Other operating income	5	87,490,728	36,707,864
Net losses from financial investments	6	(48,137,003)	(65,829,500)
Total income		2,344,939,366	1,832,902,578
Administration expenses	7	(33,278,144)	(31,929,410)
Finance expense	8	(371,825)	(246,155)
Total expenses		(33,649,969)	(32,175,565)
Income over expenditure before taxation		2,311,289,397	1,800,727,013
Income tax expense	9	(207,263,446)	(172,644,784)
Income over expenditure for the year before distribution		2,104,025,951	1,628,082,229
<u>Distribution</u>			
Income paid to resigned members in 2017 at the rate of 2016 of 10% (2015 - 9%)		(138,145,238)	(121,136,499)
Income distributed to active members at 10% (2016-10%)		(1,852,357,510)	(1,622,461,103)
Total distribution		(1,990,502,748)	(1,743,597,602)
Transferred to revenue reserve		113,523,203	(115,515,373)

The annexes notes to the financial statements form an integral part of these financial statements.

THE MERCANTILE SERVICE PROVIDENT SOCIETY
STATEMENT OF FINANCIAL POSITION

<i>As at 31 December,</i>		2017	2016
	Note	<u>Rs.</u>	<u>Rs.</u>
Assets			
Non Current Assets			
Property, plant and equipment	10	1,623,580	1,515,019
Loans to members	11	3,699,108,205	3,277,896,520
Financial investments	12	19,173,452,960	17,555,853,559
Total Non Current Assets		<u>22,874,184,745</u>	<u>20,835,265,098</u>
Current Assets			
Other receivable	13	226,341,763	195,073,074
Cash & cash equivalents		399,149,829	214,229,939
Total Current Assets		<u>625,491,592</u>	<u>409,303,013</u>
Total Assets		<u>23,499,676,337</u>	<u>21,244,568,111</u>
Reserve and Liabilities			
Reserve			
Member account	14	23,399,759,292	21,180,196,632
Revenue reserve	15	84,658,510	38,302,903
Total Reserves		<u>23,484,417,802</u>	<u>21,218,499,535</u>
Non Current Liabilities			
Employee benefits	16	9,424,760	8,217,282
Total Non Current Liabilities		<u>9,424,760</u>	<u>8,217,282</u>
Current Liabilities			
Other creditors	17	1,771,622	10,731,962
Current taxation		4,062,153	7,119,332
Total Current Liabilities		<u>5,833,775</u>	<u>17,851,294</u>
Total Liabilities		<u>15,258,535</u>	<u>26,068,576</u>
Total Reserve and Liabilities		<u>23,499,676,337</u>	<u>21,244,568,111</u>

The annexed Notes to the Financial Statements form an integral part of these Financial Statements.

Mr. Averell Goonetilleke
Chief Executive Officer

The Committee is responsible for the preparation and presentation of these Financial Statements;
Approved for and on behalf of the Committee:

Mr. A.N. Esufally
Chairman

Mr. D.K. Hulangamuwa
Secretary

04th May 2018
Colombo.

THE MERCANTILE SERVICE PROVIDENT SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

1.1 Domicile and Legal Form

Mercantile Service Provident Society (“the Fund”) is a defined contribution plan established on 20th December 1939. The registration office of the Fund is situated at No.212, De Saram Place, Colombo 10.

1.2 Principal Activities and Nature of Operations

The principal activity of the Fund is to manage the funds received from members.

1.3 Number of Employees

The total number of employees of the Fund as at 31st December 2017 was 14. (2016 – 14).

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The Statement of Financial Position, Statement of Income and Expenditure together with the notes, (the “Financial Statements”) of the Fund as at 31st December 2017 and for the year then ended have been prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka and complies with the requirements of the Companies Act No 07 of 2007.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Investments have been stated at their fair values other than investments that have a fixed redemption maturity value and have been acquired to match the obligations of the plan.

2.3 Comparative Information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

2.4 Functional and Presentation Currency

All values presented in the Financial Statements are in Sri Lankan Rupees and rounded to the nearest rupee value.

THE MERCANTILE SERVICE PROVIDENT SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

2.5 Use of Estimate and Judgment

The preparation of the Financial Statements in conformity with SLAS's requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Current taxation (Note 3.1.a)
- Defined benefit plan (Note 3.5.b)
- Provisions and contingencies (Note 3.7)

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

3.1 Income Tax Expenses

Income tax expense comprises of current & deferred tax expense recognized in the statement of income and expenditure.

a) Current Taxation

The Fund's liability to taxation has been computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and amendments thereto.

b) Deferred Taxation

The Fund does not account for deferred taxation since there will not be any temporary differences arising on the current tax computation based on the provisions of the Inland Revenue Act No 10 of 2006 and amendments thereto.

ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets in the statement of financial position are cash and those, which are expected to be realized in cash during the normal operating cycle of the Fund or within one year from the reporting date whichever is shorter. Assets other than current assets are those, which the Fund intends to hold beyond a period of one year from the reporting date.

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

3.2 Property, Plant and Equipment

a) Recognition and Measurement

Property, Plant & Equipment are recorded at cost less accumulated depreciation which is provided for on the bases specified in 3.2© less accumulated impairment losses if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Asset category	Useful life
Furniture & fittings	10 years
Office equipment	5 years
Computer equipment	5 years

Depreciation is provided proportionately from the date of purchase up to the date of disposal of property, plant and equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

d) Impairment of Property, Plant and Equipment

The carrying value of property plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the statement of comprehensive income unless it reverses a previous revaluation surplus for the same asset.

3.3 Financial Instruments

Retirement benefit plan investments shall be carried at fair value other than Investments that have a fixed redemption value and that have been acquired to match the obligations of the plan and investments which are held for which an estimate of fair value is not possible.

Initial and subsequent recognition

Financial instruments of the Fund comprise treasury bonds, debentures, fixed deposits, commercial papers and share investments.

The Fund initially recognizes financial assets on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Share investments are measured subsequently at fair value and debentures, treasury bonds, fixed deposits and commercial paper investments are measured subsequently at amortised cost using Effective Interest Rate.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that it created or retained by the Fund is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts intends either to settle on a net basis or realize the assets and settle the liability simultaneously.

Marketable securities have fixed redemption value and that have been acquired to match the obligation of the plan are carried at amount based on their ultimate redemption value assuming a constant rate of return to maturity.

The fund has matched all investments in marketable securities other than investment in equity securities, with fixed redemption value to an obligation and therefore all investments are carried at amortised cost.

3.4 Impairment of Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in the statement of income and expenditure.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost the reversal is recognised in the statement of income and expenditure.

THE MERCANTILE SERVICE PROVIDENT SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities in the statement of financial position are those obligations payable on demand or within one year from the reporting date. Items classified as non current liabilities are those obligations, which expire beyond a period of one year from the reporting date.

All known liabilities have been accounted for in preparing the financial statements. Provision and liabilities are recognized when the fund has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.5 Employee Benefits

a) Defined contribution plans – The Mercantile Service Provident Fund and Employee's Trust Fund (ETF)

All employees who are eligible for Mercantile Service Provident Society Fund and Employees Trust Fund contributions are covered by relevant contribution funds in line with respective statutes and regulations.

b) Defined Benefit Plan

The Fund computes the gratuity liability based on Gratuities Act than any other formula based internal model after taking into consideration the lower number of employees the Fund had as at reporting date.

The liability is not externally funded nor actuarially valued.

3.6 Non-derivative financial liabilities

The Fund initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The fund has the following non-derivative financial liabilities: other creditors.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

THE MERCANTILE SERVICE PROVIDENT SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

3.7 Provisions and contingencies

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

STATEMENT OF INCOME AND EXPENDITURE

3.8 Revenue Recognition

3.8.1 Interests

Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.8.2 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in other operating income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment.

3.8.3 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

3.9 Expenditure Recognition

Operating Expenses

All expenditure incurred in day-to-day operations of the fund and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the excess or deficit over the expenses for the year.

Provision has also made for all known liabilities and depreciation on property, plant and equipment.

CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka accounting standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

3.10 New accounting Standards issued but not yet effective

A number of new standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements.

3.10.(a) Standards issued but not yet adopted which is not expected to have an impact

The following new or amended standards are not expected to have an impact on the Fund's financial statements.

SLFRS 15 Revenue from Contracts with Customers – effective from 01 January 2018

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December,

	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
4. Interest income		
Interest on fixed deposits	260,585,776	142,816,799
Interest on commercial papers	41,190,818	29,195,959
Interest on treasury bonds	1,364,733,577	1,181,113,726
Interest on debentures	182,652,177	138,907,579
Interest on savings account	18,491,096	11,681,115
Interest on housing loans granted	342,623,399	303,498,046
Interest income from fund managers	1,888,751	4,998,709
EIR adjustment to interest income on members loans	93,420,047	49,812,281
	<u>2,305,585,641</u>	<u>1,862,024,214</u>
5. Other operating income		
Contributors' fee	14,976,465	13,747,750
Gain / (Loss) on disposal of shares	41,255,010	(6,061,071)
Insurance handling fee	4,729,046	4,388,674
Dividend income	26,530,207	24,632,511
	<u>87,490,728</u>	<u>36,707,864</u>
6 Net losses from financial investments		
Unrealised Loss on shares	(48,137,003)	(65,829,500)
	<u>(48,137,003)</u>	<u>(65,829,500)</u>
7 Administration expenses		
Staff costs (Note 7.1)	19,786,152	18,318,712
Secretarial Charges	2,358,434	2,193,408
Rent and security charges	2,560,864	2,731,261
Printing and stationery	563,441	490,423
Depreciation	479,555	526,576
Postage and telephone	469,938	489,010
Electricity and water	722,517	666,968
Computer processing charges	2,816,134	2,475,744
Computers and general ledger maintenance expenses	309,405	226,591
Audit fee	616,877	611,266
Fund managers fee	1,083,446	1,714,663
General expenses	1,478,406	1,452,388
Stamp duty	32,975	32,400
	<u>33,278,144</u>	<u>31,929,410</u>

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

<i>For the year ended 31 December,</i>	2017	2016			
	<u>Rs.</u>	<u>Rs.</u>			
7 Administration expenses (Cont.)					
7.1 Staff costs					
Salaries and wages	15,590,987	14,503,538			
Employees provident fund	2,484,526	2,299,531			
Employees trust fund	402,203	372,972			
Over time payments	36,236	39,047			
Provision for Employee benefits	1,272,200	1,103,624			
	<u>19,786,152</u>	<u>18,318,712</u>			
8 Finance expense					
Bank charges	371,825	246,155			
	<u>371,825</u>	<u>246,155</u>			
9 Income tax expenses					
Current tax expenses	43,604,345	39,143,083			
(Over)/under provision in respect of prior year	7,880,944	-			
With holding taxation	19,304,799	13,192,565			
Notional tax	136,473,358	120,309,136			
	<u>207,263,446</u>	<u>172,644,784</u>			
10 Property, plant and equipment					
	Furniture & fittings	Office equipment	Computer equipment	Total	
	Rs.	Rs.	Rs.	2017	2016
				Rs.	Rs.
Cost					
Balance as at 1st January	1,927,348	1,223,435	2,872,328	6,023,111	7,784,753
Additions during the year	6,650	4,235	577,231	588,116	158,468
Disposals during the year	-	-	-	-	(1,920,110)
Balance as at 31 December	<u>1,933,998</u>	<u>1,227,670</u>	<u>3,449,559</u>	<u>6,611,227</u>	<u>6,023,111</u>
Accumulated depreciation					
Balance as at 1st January	1,353,696	1,138,808	2,015,588	4,508,092	5,901,626
Charge for the year	127,348	57,392	294,815	479,555	526,576
Disposals during the year	-	-	-	-	(1,920,110)
Balance as at 31 December	<u>1,481,044</u>	<u>1,196,200</u>	<u>2,310,403</u>	<u>4,987,647</u>	<u>4,508,092</u>
Carrying Value					
As at 31 December 2017	<u>452,954</u>	<u>31,470</u>	<u>1,139,156</u>	<u>1,623,580</u>	
As at 31 December 2016	<u>573,652</u>	<u>84,627</u>	<u>856,740</u>		<u>1,515,019</u>

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NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31 December,</i>	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
11 Loans to members		
Loans to members (Note 11.1)	2,922,706,956	2,615,310,199
Prepaid expenses (Note 11.2)	776,401,249	662,586,321
	<u>3,699,108,205</u>	<u>3,277,896,520</u>
11.1 Loans to members		
Balance as at 01 January	2,615,310,199	2,321,812,875
Loans granted during the year	1,089,762,550	847,570,680
Interest receivable on loans	19,217,211	16,894,010
Last year accrued interest payment	(16,894,010)	(14,873,918)
Amortisation of fair value adjustment - Interest income	93,420,047	49,812,281
	<u>3,800,815,997</u>	<u>3,221,215,928</u>
Less:		
Repayment received during the year	(663,220,561)	(492,094,085)
Repayment receivable	(7,653,505)	(6,965,056)
Fair value adjustment in the members loans on initial recognition (Note 11.2)	(207,234,975)	(106,846,588)
	<u>(878,109,041)</u>	<u>(605,905,729)</u>
Balance as at 31 December	<u>2,922,706,956</u>	<u>2,615,310,199</u>
11.2 Prepaid expenses		
Balance as at 01 January	662,586,321	605,552,014
Fair value adjustment in members loans on initial recognition	207,234,975	106,846,588
Amortisation recognised in the members accounts	(93,420,047)	(49,812,281)
Balance as at 31 December	<u>776,401,249</u>	<u>662,586,321</u>

12 Financial investments

The Fund's financial instruments are summarised by the following categories:

<i>As at 31 December,</i>	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
Investments in government securities	13,360,579,231	12,673,910,850
Other investments	5,343,963,620	4,016,296,302
Investments in equity securities	468,910,109	865,646,407
	<u>19,173,452,960</u>	<u>17,555,853,559</u>

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
13 Other receivable		
Loan repayment receivables	7,653,505	6,965,056
Contribution receivable	210,691,238	186,313,128
Contributors fee receivable	962,000	290,000
Other receivable	177,198	186,855
Advance payments	<u>6,857,822</u>	<u>1,318,035</u>
	<u>226,341,763</u>	<u>195,073,074</u>
14 Member account		
Balance as at 01 January	21,180,196,632	18,805,801,046
Contribution received	3,267,232,783	2,956,809,452
Insurance maturity proceeds received	13,767,329	11,430,360
Income distributed	1,990,502,748	1,743,597,602
Amortization adjustment in member loans (Note 14.1)	(93,420,047)	(49,812,281)
Transfer of fair value adjustment to members account (Note 15.2)	<u>93,420,047</u>	<u>49,812,281</u>
	26,451,699,492	23,517,638,460
Less:		
Under paid interest of retired members	(10,414,470)	(4,594,474)
Outstanding loan balances of retired members	(522,741,960)	(325,107,496)
Insurance paid out	(157,634,864)	(146,289,145)
Payments to retired members	<u>(2,361,148,906)</u>	<u>(1,861,450,713)</u>
	(3,051,940,200)	(2,337,441,828)
Balance as at 31 December	<u>23,399,759,292</u>	<u>21,180,196,632</u>

14.1 Amortisation adjustment to members loans refers to the Amortisation of the initial adjustment made to loans granted at beneficial rates on initial recognition.

	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
15 Revenue reserve		
Balance as at 01 January	38,302,903	193,823,944
Surplus/(Deficit) of income over expenditure for the year after distribution	113,523,203	(115,515,373)
Payable to retired members (Note 15.1)	26,252,451	9,806,613
Transfer of fair value adjustment to members account (EIR adjustment) (Note 15.2)	<u>(93,420,047)</u>	<u>(49,812,281)</u>
Balance as at 31 December	<u>84,658,510</u>	<u>38,302,903</u>

15.1 As per the Fund's policy, all the balances payable to retired members which are outstanding for more than 5 years are transferred to Revenue Reserve with the intention of paying them in case if the member requests subsequently. Accordingly, during the year Fund has transferred Rs. 26.2 million balances payable to retired members to Revenue reserve.

15.2 The EIR adjustment made to investment and interest income recognised on members loans based on fair value adjustments have been transferred to members account.

	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
16 Employee benefits		
Balance as at 01 January	8,217,282	7,113,658
Provision for the year	<u>1,272,200</u>	<u>1,103,624</u>
	9,489,482	8,217,282
Payments made during the year	<u>(64,722)</u>	-
Balance as at 31 December	<u>9,424,760</u>	<u>8,217,282</u>

The Fund computes the gratuity liability based on Gratuities Act rather than any other formula based internal model after taking into consideration the lower number of employees the Fund had as at reporting date.

The liability is not externally funded nor actuarially valued.

THE MERCANTILE SERVICE PROVIDENT SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31 December,</i>	2017	2016
	<u>Rs.</u>	<u>Rs.</u>
17 Other creditors		
Sundry Creditors	1,771,622	10,731,962
	<u>1,771,622</u>	<u>10,731,962</u>

18 Related Party Disclosure

18.1 Transactions with Key Management Personnel.

According to LKAS 24 "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Committee Members of the Fund have been classified as Key Management Personnel (KMP) of the Fund.

The compensation paid to KMPs are as follows:

For the year ended 31 December,	2017	2016
	Rs.	Rs.
Short term benefits	Nil	Nil
Post employment benefits	Nil	Nil

No other payments such as post employment benefits, termination benefits and share based payments have been paid to key management personnel during the year.

NOTICE OF MEETING

THE SEVENTY EIGHTH ANNUAL GENERAL MEETING of the Mercantile Service Provident Society will be held at the Ceylon Chamber of Commerce, 50, Nawam Mawatha, Colombo 2, on 22nd June 2018 at 4.00 p.m.

BUSINESS

1. To confirm the Minutes of the Seventy Seventh Annual General Meeting held on 20th July 2017.
2. Report and Accounts - To receive the Report of the Committee for the year 2017 and the Statement of Accounts for the year ended 31st December 2017, with the Report of the Auditors thereon.
3. Committee - To elect four members to the Committee under Rule 7 (i) (d).
4. Auditors - To re-appoint Auditors and authorise the Committee to determine their remuneration.
5. Any other business of which due notice shall have been given.

By Order of the Committee

DUMINDA HULANGAMUWA

Secretary

Colombo, 04th May 2018