

**THE MERCANTILE SERVICE PROVIDENT  
SOCIETY**

**REPORT OF THE COMMITTEE**

**AND**

**ACCOUNTS**

**FOR THE**

**YEAR ENDED 31ST DECEMBER, 2024**



# THE MERCANTILE SERVICE PROVIDENT SOCIETY

(Inaugurated 20th December, 1939)

## TRUSTEES: THE CEYLON CHAMBER OF COMMERCE

(Established 25th March, 1839)

### REPORT OF THE COMMITTEE FOR THE YEAR ENDED 31ST DECEMBER 2024

#### COMMITTEE

Rule 7 (i) (a)	-	Mr. D.S.T.H. Mudalige (Chairman)
Rule 7 (i) (b)	-	Mr. K. Balendra Mr. B. Thewarathanthri
Rule 7 (i) (c)	-	Mr. D. A. Cabraal Ms. K.A. Wilson
Rule 7 (i) (d)	-	Ms. E. Sirimanne Mr. A.C.M. Irzan Mr. N. Jayasuriya Ms. E. Wickramaarachchi

The Membership of the Society as at 31st December 2024 was 18,049 as compared with 16,815 members for the previous year, and was distributed among the 44 contributing companies as follows:-

Number of companies as at 31st December 2023 was 45.

1) Singer (Sri Lanka) PLC	-	3598	11) Lankem Ceylon PLC	-	498
2) DFCC Bank	-	2340	12) Unilever Sri Lanka Ltd	-	471
3) Darley Butler & Co, Ltd	-	1435	13) E.B. Creasy & Co. PLC	-	424
4) The Capital Maharaja Orgnization Ltd	-	1265	14) Deloitte Partners	-	394
5) KPMG	-	1158	15) Nestle Lanka PLC	-	353
6) A Baur & Co, (Pvt) Ltd	-	879	16) Hotels Colombo (1963) Ltd	-	307
7) George Steuart & Co. Ltd	-	842	17) Ernst & Young	-	275
8) Morison PLC	-	822	18) Gestetner of Ceylon PLC	-	232
9) CIC Holdings PLC	-	722	19) C.W. Mackie PLC	-	207
10) Astron Ltd	-	587	20) Haleon Lanka (Private) Ltd	-	161

21) Hemas Holdings PLC	- 157	34) F.J. & G. De Saram	- 23
22) Finlays Colombo PLC	- 117	35) Premium Exports Ceylon Ltd	- 20
23) Reckitt Benckiser (Lanka) Ltd	- 91	36) Shums & Co. (Pvt) Ltd	- 19
24) The Ceylon Chamber of Commerce	- 86	37) IBM World Trade Corporation	- 18
25) Acme Printing & Packaging PLC	- 82	38) Lee Hedges PLC	- 17
26) Akzo Nobel Paints Lanka (Pvt) Ltd	- 75	39) Hayleys PLC	- 14
27) Ceylon Shipping Lines Ltd	- 71	40) Mercantile Investments and Finance PLC	- 13
28) Rhino Roofing Products Ltd	- 66	41) Shaw Wallace Ceylon Ltd	- 13
29) Chas P. Hayley & Co. Ltd	- 51	42) Ceylon Trading Co. Ltd	- 10
30) AT & T Global Information Solutions (Lanka) Ltd	- 41	43) Bartleet & Co. Ltd	- 08
31) Van Rees Ceylon Ltd	- 32	44) GlaxoSmithKline Pharmaceuticals (Pvt) Ltd	- 04
32) De Soysa & Co. (Pvt) Ltd	- 28		
33) Thomas Cook Lanka (Pvt) Ltd	- 23	Total Members	<u>18,049</u>

Singer Industries (Ceylon) PLC amalgamated with Singer (Sri Lanka) PLC with effect from 31.01.2024, which reduced the contributing companies from 45 to 44.

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 2024.

During the year, there was an increase of 1234 in the membership, making up a total membership of 18,049. With the restriction of admitting new contributing firms remaining in force, the number of contributing companies as at 31st December 2024 stood at 44.

The total income of the Society for the year 2024 was Rs.4,521 million as compared to Rs.4,665 million in 2023, thus recording a decrease of Rs.144.0 million which is a reduction of 3.1% as compared to the previous year.

The decrease in income was attributed to low rate of interest offered on government securities and deposits with state and private sector Banks compared to the previous year.

Interest income for 2024 was Rs.4,454 million as against Rs.4,644 million in 2023 which indicates a marginal reduction of 4.0% compared to the previous year. The Committee has proposed an annual distribution rate of 11.00% for the year 2024 amounting to Rs.3,620.3 million against a dividend of Rs.3,490.2 million in 2023.

The total Fund value increased from Rs.34.3 billion in 2023 to Rs.37.8 billion in 2024 thus recording a growth of 10.1% in the total fund value as at 31.12.2024.

The following table shows the investments as at 31st, December 2024 and the income earned during the year.

	<b><u>INVESTMENTS</u></b>		<b><u>INCOME</u></b>	
Fixed Deposits	Rs.	18,398,277,150	Rs.	2,282,772,404
Debentures	Rs.	7,706,167,715	Rs.	794,708,407
Treasury Bonds	Rs.	3,428,710,879	Rs.	425,464,561
Money Market A/C	Rs.	1,318,557,813	Rs.	57,539,980
Treasury Bills	Rs.	412,568,655	Rs.	12,568,655
Repurchases	Rs.	207,240,000	Rs.	44,840,000
Loans to Members	Rs.	5,743,521,532	Rs.	836,534,628
		<u>37,215,043,744</u>		<u>4,454,428,635</u>

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

<b>Year</b>	<b>Net Income</b>	<b>Rate</b>
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%
2017	2,311,289,397	10.00%
2018	2,515,718,114	10.00%
2019	2,948,486,318	10.00%
2020	2,754,920,369	9.25%
2021	2,745,283,428	8.50%
2022	3,705,537,076	10.00%
2023	4,612,377,267	13.00%

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.

11<sup>th</sup> July 2025

By Order of the Committee

**R. N. DE SARAM**  
Secretary.



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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF THE MERCANTILE SERVICE PROVIDENT SOCIETY

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of The Mercantile Service Provident Society ("the Fund"), which comprise the statement of financial position as at 31st December 2024, and the statement of income and expenditure, statement of changes in Fund and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies set out on pages 8 to 34.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31st December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the Code of Ethics for professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. These financial statements do not include the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines 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, management is responsible for assessing the Fund'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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



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## Auditor's Responsibilities for the Audit of the Financial Statements

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 SLAuSs 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

## Chartered Accountants

Colombo, Sri Lanka

11<sup>th</sup> July 2025

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C. P. Jayatilake FCA  
Ms. S. Joseph FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA

T. J. S. Rajakarier FCA  
W. K. D. C. Abeyratne FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
R.G.H. Raddella ACA

W. W. J. C. Perera FCA  
G. A. U. Karunaratne FCA  
R. H. Rajan FCA  
A.M.R.P. Alahakoon ACA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FCI, K. Somasundaram ACMA (UK), Ms. D. Corea Dharmaratne

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**STATEMENT OF INCOME & EXPENDITURE**

**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER**

	Note	2024 Rs.	2023 Rs.
Interest income	4	4,454,428,635	4,643,754,800
Other operating income	5	66,324,725	21,267,326
<b>Total income</b>		<u>4,520,753,360</u>	<u>4,665,022,126</u>
Administration expenses	6	(95,149,441)	(50,987,889)
Finance expenses	7	(1,233,304)	(1,656,970)
<b>Total expenses</b>		<u>(96,382,745)</u>	<u>(52,644,859)</u>
<b>Income over expenditure before taxation</b>		4,424,370,615	4,612,377,267
Income tax expense	8	(702,054,722)	(677,410,207)
<b>Income over expenditure for the year before distribution</b>		<u>3,722,315,893</u>	<u>3,934,967,060</u>
<b><u>Distribution</u></b>			
Income paid to resigned members in 2024 at the rate of 13% (2023 - 10%)		(427,242,006)	(271,905,618)
Income distributed to active members at the rate of 11% (2023 -13%)		(3,193,113,109)	(3,218,297,512)
<b>Total distribution</b>		<u>(3,620,355,115)</u>	<u>(3,490,203,130)</u>
<b>Transferred to revenue reserve</b>		<u>101,960,778</u>	<u>444,763,930</u>

*Figures in bracket indicate deductions.*

The financial statements are to be read in conjunction with the related notes which form a part of financial statements of the Fund set out on pages 8 to 34. The Auditor's Report is given on the pages 4 and 5.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**

AS AT 31 <sup>ST</sup> DECEMBER		2024	2023
	Note	Rs.	Rs.
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	9	2,181,066	1,378,735
Right of use asset	10	3,767,387	6,027,819
Financial investments measured at amortised cost	11	30,152,964,399	26,763,667,779
Loans to members	12	5,743,521,532	5,774,572,875
<b>Total Non Current Assets</b>		<u>35,902,434,384</u>	<u>32,545,647,208</u>
<b>Current Assets</b>			
Other receivables	13	460,756,159	455,045,425
Cash and cash equivalents	14	1,423,244,461	1,325,545,965
<b>Total Current Assets</b>		<u>1,884,000,620</u>	<u>1,780,591,390</u>
<b>Total Assets</b>		<u>37,786,435,004</u>	<u>34,326,238,598</u>
<b>RESERVE AND LIABILITIES</b>			
<b>Reserves</b>			
Members' account	15	37,213,043,024	33,670,373,335
Revenue reserve	16	32,988,419	190,657,788
<b>Total Reserves</b>		<u>37,246,031,443</u>	<u>33,861,031,123</u>
<b>Non Current Liabilities</b>			
Employee benefits	17	15,527,084	13,518,282
Lease liabilities	18	2,312,826	5,184,005
<b>Total Non Current Liabilities</b>		<u>17,839,910</u>	<u>18,702,287</u>
<b>Current Liabilities</b>			
Lease liabilities	18	1,672,426	1,679,749
Other creditors	19	147,421,413	94,718,746
Income tax liability		373,469,812	350,106,693
<b>Total Current Liabilities</b>		<u>522,563,651</u>	<u>446,505,188</u>
<b>Total Liabilities</b>		<u>540,403,561</u>	<u>465,207,475</u>
<b>Total Reserve and Liabilities</b>		<u>37,786,435,004</u>	<u>34,326,238,598</u>

*Figures in bracket indicate deductions.*

The financial statements are to be read in conjunction with the related notes which form a part of financial statements of the Fund set out on pages 8 to 34. The Auditor's Report is given on the pages 4 and 5.

**Preethi Fernando**

Chief Executive Officer

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

**D.S.T.H. Mudalige**

Chairman

**R. N. De Saram**

Secretary

11<sup>th</sup> July 2025

Colombo

# THE MERCANTILE SERVICE PROVIDENT SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. REPORTING ENTITY

#### 1.1 Domicile and Legal Form

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

The Ceylon Chamber of Commerce is the custodian of The Mercantile Service Provident Society.

#### 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 31<sup>st</sup> December 2024 was 12. (2023 - 12).

### 2. BASIS OF PREPARATION

#### 2.1 Statement of Compliance

The Financial Statements of the Company comprise the Statement of Income and Expenditure, Statement of Financial Position, Statement of Changes in Fund and Statement of Cash Flows together with the material accounting policies and notes to the Financial Statements which have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. These Financial Statements except information on Cash Flows have been prepared following the accrual basis of accounting.

#### 2.2 Basis of Measurement

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

- Investments have been stated at their fair value other than the investments that have a fixed redemption maturity value and have been acquired to match the obligations of the Fund.
- Loans given to members have been stated at the fair value since these loans have been granted at a rate which is less than the prevailing market interest rate.

#### 2.3 Functional and Presentation Currency

The functional currency is the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Sri Lankan Rupees, the Fund’s functional and presentation currency. There was no change in the Fund’s presentation and functional currency during the year under review.

#### 2.4 Presentation of Financial Statements

The assets and liabilities of the Fund presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**2. BASIS OF PREPARATION (CONTINUED)**

**2.5 Materiality and Aggregation**

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard -1 on 'Presentation of Financial Statements'.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Income and Expenditure Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

**2.6 Offsetting**

Assets and Liabilities, and income and expenses, are not offset unless required or permitted by SLFRSs/ LKASs.

**2.7 Accounting Judgements, Estimates and Assumptions**

The preparation of the financial statements of the Fund in conformity with SLFRSs/ LKASs requires management to make judgements, estimates and assumptions that influence 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 recognized in the period in which the estimates are revised, if the revision affects only that period and any future periods affected.

**a) Judgements**

Information about critical judgements in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Fund are included in the following notes to these Financial Statements;

<b>Financial Statement Area</b>	<b>Disclosure Reference</b>	
	<b>Note</b>	<b>Pages</b>
Financial Investments measured at amortized cost	11	25-26
Employee Benefits	17	28-29

**2.8 Going Concern**

The Committee Members are satisfied that the Fund has adequate resources to continue its operations in the foreseeable future and management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore going-concern basis has been adopted in preparing these Financial Statements.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3 MATERIAL ACCOUNTING POLICIES**

Except as stated below, the Fund has consistently applied accounting policies set out below to all periods presented in these financial statements.

**3.1 Assets and basis of their valuation**

Assets classified as current assets in the statement of Financial Position are cash and bank balances and those which are expected to be realized in cash during the normal operating cycle of the Fund's business 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 date of statement of financial position are classified as non-current assets.

**3.1.1 Leases**

At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund assesses whether,

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Fund has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Fund has the right to direct the use of the asset. The Fund has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Fund has the right to direct the use of the asset if either;

- the Fund has the right to operate the asset; or the Fund designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1<sup>st</sup> January 2019.

At inception or on reassessment of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. Where the lease agreement includes an annual adjustment on a variable such as GDP deflator, the Fund shall annually reassess the liability considering such variable and recognise the amount of remeasurement of the lease liabilities as an adjustment to the right-of-use asset.

**3 MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.1 Leases (Continued)**

**i) As a Lessee**

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Fund is reasonably certain to exercise, lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Fund estimate of the amount expected to be payable under a residual value guarantee, or if the Fund changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payments.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.1 Leases (Continued)**

**i) As a Lessee (Continued)**

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in income or expenditure if the carrying amount of the right-of-use asset has been reduced to zero.

**ii) As a Lessor**

When the **Fund** acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the **Fund** makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the **Fund** consider certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the **Fund** is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the **Fund** applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the **Fund** applies SLFRS 15 to allocate the consideration in the contract.

The **Fund** applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The **Fund** regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The **Fund** recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the **Fund** as a lessor in the comparative period were not different from SLFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.2 Property, Plant and Equipment**

**3.1.2.1 Recognition and Measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

When part of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income or profit or loss.

**3.1.2.2 Subsequent Expenditure**

The Cost of replacing 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 cost of the day-to-day servicing of property, plant and equipment are recognised in Statement of Income and Expenditure income as incurred.

**3.1.2.3 Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life 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. Leased assets are depreciated over the shorter of the lease term and their useful lives.

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

<b>Asset category</b>	<b>Useful life</b>
Furniture & fittings	10 years
Office equipment	5 years
Computer equipment	5 years

Depreciation of an asset begins when it is available for use, whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**3 MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.2 Property, Plant and Equipment (Continued)**

**3.1.2.4 Derecognition**

An item of property, plant and equipment is de-recognised upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the Statement of Income and Expenditure in the year the asset is de-recognised.

**3.1.3 Financial Instruments**

**3.1.3.1 Recognition and initial measurement**

Other receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not an FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**3.1.3.2 Classification and subsequent measurement**

**3.1.3.2.1 Financial Assets**

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequently to their recognition unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.3 Financial Instruments (Continued)**

**3.1.3.2 Classification and subsequent measurement (Continued)**

**3.1.3.2.1 Financial Assets (Continued)**

**a) Business Model Assessment**

The Fund makes an assessment of the objectives of the business model in which a financial asset is held as a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Fund's management.
- The risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reason for such sale and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

**b) Assessment whether contractual cash flows are solely payment of principal and interest**

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative cost), as well as a profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers;

- Contingent events that would change the amount or timing of cash flows
- Terms that may adjust the contractual coupon rate, including variable rate features
- Prepayment and extension features; and
- Terms that limits the Fund's claim to cash flows from specific assets (e.g. non - recourse features)

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.3 Financial Instruments (Continued)**

**3.1.3.2 Classification and subsequent measurement (Continued)**

**3.1.3.2.1 Financial Assets (Continued)**

**b) Assessment whether contractual cash flows are solely payment of principal and interest (Continued)**

The prepayment feature is consistent with the solely payment of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable addition compensation for early termination of the contract.

**(c) Subsequent Measurement and gains and losses**

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**3.1.3.2.2 Financial Liabilities**

**(a) Classification, subsequent measurement and gain and loss**

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**3.1.3.3 Derecognition**

**Financial Assets**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised in its Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.3 Financial Instruments (Continued)**

**3.1.3.3 Derecognition (Continued)**

**Financial Liabilities**

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Fund also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**3.1.3.4 Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**3.1.3.5 Impairment of Non-Financial Assets**

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Fund makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's value in use and its fair value less cost to sell and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

Impairment loss of continuing operations is recognized in the Statement of Income and Expenditure, in those expenses' categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.1 Assets and basis of their valuation (Continued)**

**3.1.3 Financial Instruments (Continued)**

**3.1.3.5 Impairment of Non-Financial Assets (Continued)**

If that is the case, carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Income and Expenditure.

**3.1.4 Cash and Cash Equivalents**

Cash and Cash Equivalents comprise cash balances, bank balances and short term highly liquid deposits which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**3.2 Liabilities and provision**

**3.2.1 General**

**a) Liabilities**

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from the reporting date. Noncurrent liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted for in preparing these Financial Statements.

Provisions 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.

**a) Provisions**

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events when it is more probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

Where there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized, even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**3.2.2 Retirement Benefit Obligation**

**3.2.2.1 Retirement Benefit Obligation Defined Benefit Plans – Gratuity**

The Fund computes the gratuity liability based on payment of Gratuity Act No. 12 of 1983 rather than 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 (CONTINUED)**

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**3 MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.2 Liabilities and provision (Continued)**

**3.2.2 Retirement Benefit Obligation (Continued)**

**3.2.2.2 Defined Contribution Plans – MSPS and ETF**

A defined contributed plan is a post-employment benefit plan under which an entity pays fixed contributed into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognized as an expense in income and expenditure in the period's during which services are rendered by employees.

The Fund contributes 12% on consolidated salaries/wages of the employees to Mercantile Service Provident Society (MSPS).

All the employees of the Fund are members of the Employees Trust Fund, to which the Fund contributes 3% on the consolidated salaries/wages of such employees.

**3.2.2.3 Short Term Employee Benefits**

Wages, salaries, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Fund.

**3.2.2.4 Termination Benefits**

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Fund recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

**3.3 Income and Expenditure**

**3.3.1 Revenue Recognition**

**3.3.1.1 Interests**

Interest income and expenses are recognized in the Statement of Income and Expenditure 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.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3 MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.3 Income and Expenditure (Continued)**

**3.3.1 Revenue Recognition (Continued)**

**3.3.1.2 Dividends**

Dividend income is recognized in the Statement of Income and Expenditure on the date the Fund's right to receive payments is established, which in the case of quoted securities is the ex-dividend rate.

**3.3.1.3 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.

**3.3.2 Expense Recognition**

Expenses are recognized in the Statement of Income and Expenditure on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

For the presentation of Statement of Income and Expenditure, the Committee Members are of the opinion that the nature of the expense's method presents fairly the element of the Fund's performance and hence, such presentation method is adopted.

**3.3.2.1 Income Tax Expenses**

Income tax expense comprises of current, deferred tax and other statutory taxes. Income tax expense is recognized in the Statement of Income and Expenditure.

The Fund has determined that interest and penalty related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes and therefore accounted for them under LKAS 37, Provision, contingent liabilities and contingent assets.

**a) Current Tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue (Amendment) Act. No 45 of 2022 and subsequent amendments thereto.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3 MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**3.3 Income and Expenditure (Continued)**

**3.3.2 Expense Recognition (Continued)**

**3.3.2.1 Income Tax Expenses (Continued)**

**a) Current Tax (Continued)**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue.

**b) Deferred Tax**

The Fund does not account for deferred taxation since there will not be any material temporary differences arising on the current taxation computation based on the provisions of the Inland Revenue (Amendment) Act No 45 of 2022 and amendments thereto.

**3.4 Statement of Cash Flows**

The statement of Cash Flow has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the LKAS 7 – Statement of Cash Flows.

**3.5 Events after reporting date**

All material events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

**3.6 Capital Commitments**

Capital commitments of the Fund have been disclosed in the respective Notes to the Financial Statements.

**3.7 Related party disclosure**

**3.7.1 Transactions with Related Parties**

The Fund carries out transactions in the ordinary course of its business with parties who are defined as related parties as per LKAS 24 - 'Related Party Disclosures' . Appropriate disclosures are made in the financial statements of the Fund disclosing the transactions with related parties.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER**

<b>4 Interest income</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Interest on fixed deposits (Note 4.1)	2,282,772,404	2,438,593,691
Interest on debentures	794,708,407	854,907,235
Interest on housing loans granted	576,904,481	557,040,176
Interest on treasury bonds	425,464,561	282,768,186
Interest on money market account	57,539,980	73,404,507
Interest on treasury bills	12,568,655	-
Interest on Repurchases	44,840,000	-
EIR adjustment to interest income on members loans	259,630,147	437,041,005
	<u>4,454,428,635</u>	<u>4,643,754,800</u>

**4.1 Interest on fixed deposits**

The average interest rate on fixed deposits declined from 26.39% in 2023 to 14.99% in 2024, leading to a reduction in interest income generated from these deposits.

<b>5 Other operating income</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Contributors' fee	16,803,000	15,792,500
Insurance handling fee	5,276,516	3,815,999
Sub lease income (Note 5.1)	1,389,440	1,364,440
Surcharge on late contributions	7,783,698	294,387
Write back sundry creditors (Note 5.2)	35,072,071	-
	<u>66,324,725</u>	<u>21,267,326</u>

**5.1 Sub lease income**

The Fund has leased out part of the building to Management System Limited and Secretarial and Accounting Solutions (Private) Limited. The Secretarial and Accounting Solutions (Private) Limited has terminated their lease agreement in December 2024.

The sub leases referred to above are short-term in nature and have been accounted for as operating leases.

**5.2 Write back sundry creditors**

The amounts written back during the year includes long outstanding unclaimed balances related to retired members, which remained unclaimed from 2013 to 2018.

<b>6 Administration expenses</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Staff costs (Note 6.1)	33,972,973	31,619,619
Secretarial charges	3,345,000	2,961,000
Rent, rates and security charges	1,103,180	1,123,449
Printing and stationery	895,631	821,442
Depreciation (Note 9)	574,572	581,486
Amortisation of right of use asset (Note 10)	2,260,432	2,260,432
Postage and telephone	348,704	362,660
Electricity and water	1,320,170	1,391,226
Computer processing charges	4,696,763	4,199,446
Computers and general ledger maintenance expenses	200,689	229,740
Audit fee and other professional fees (Note 6.2)	3,027,050	1,300,550
Provision made for irrecoverable withholding tax receivable (Note 13.2)	37,478,466	-
General expenses	5,905,609	4,115,987
Stamp duty	20,202	20,852
	<u>95,149,441</u>	<u>50,987,889</u>

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER**

**6 Administration expenses (Continued)**

<b>6.1 Staff costs</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Salaries and wages	27,332,193	25,399,764
Employees provident fund	3,817,506	3,406,107
Employees trust fund	606,059	652,292
Over time payments	208,413	23,808
Provision for Employee benefits (Note 17)	2,008,802	2,137,648
	<u>33,972,973</u>	<u>31,619,619</u>

**6.2 Audit fee and other professional fees**

Audit fee	1,110,133	750,000
Consultancy fee for treasury bond restructuring	254,648	-
Tax consultancy fees	1,662,269	550,550
	<u>3,027,050</u>	<u>1,300,550</u>

**7 Finance expenses**

	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Bank charges	310,340	387,405
Interest on lease liability (Note 18)	922,964	1,269,565
	<u>1,233,304</u>	<u>1,656,970</u>

**8 Income tax expenses**

	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Current tax expenses	702,054,722	677,431,030
Over provision with respect of prior year	-	(20,823)
	<u>702,054,722</u>	<u>677,410,207</u>

**8.1 Reconciliation of accounting profit and income tax expense**

	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Income over expenditure before taxation	4,424,370,615	4,612,377,267
Less: EIR adjustment to interest income on member loans	(259,630,147)	(437,041,005)
	<u>4,164,740,468</u>	<u>4,175,336,262</u>
Add: Aggregate disallowable expenses	96,382,745	52,644,859
Add: Income not subject to tax	811,213,898	661,401,477
Less: Aggregate allowable expenses	(57,660,526)	(50,589,525)
Taxable income	<u>5,014,676,584</u>	<u>4,838,793,073</u>
Tax on business income @ 14%	<u>702,054,722</u>	<u>677,431,030</u>
Income tax for the year	<u>702,054,722</u>	<u>677,431,030</u>

The Fund is liable for income tax at the rate of 14% (2023: 14%) in accordance with Inland Revenue (Amendment) Act No 45 of 2022. Further, the Fund opted to restructure its treasury bonds under the Domestic Debt Optimisation programme which made the Fund eligible to pay taxes on interest income earned on treasury bonds at a rate of 14% instead of 30%.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31<sup>ST</sup> DECEMBER

**9 Property, plant and equipment**

	<b>Furniture and fittings Rs.</b>	<b>Office equipment Rs.</b>	<b>Computer equipment Rs.</b>	<b>Total Rs.</b>
<b>Cost</b>				
Balance as at 1 <sup>st</sup> January 2023	2,460,752	1,263,988	4,377,127	8,101,867
Additions during the year	749,728	10,980	95,000	855,708
Written-off during the year	(594,650)	-	-	(594,650)
Balance as at 31 <sup>st</sup> December 2023	<u>2,615,830</u>	<u>1,274,968</u>	<u>4,472,127</u>	<u>8,362,925</u>
Balance as at 1 <sup>st</sup> January 2024	<b>2,615,830</b>	<b>1,274,968</b>	<b>4,472,127</b>	<b>8,362,925</b>
Additions during the year	<b>1,201,057</b>	<b>175,846</b>	<b>-</b>	<b>1,376,903</b>
<b>Balance as at 31<sup>st</sup> December 2024</b>	<b><u>3,816,887</u></b>	<b><u>1,450,814</u></b>	<b><u>4,472,127</u></b>	<b><u>9,739,828</u></b>
<b>Accumulated Depreciation</b>				
Balance as at 1 <sup>st</sup> January 2023	1,823,996	1,254,919	3,347,477	6,426,492
Charge for the year	110,539	5,725	465,222	581,486
Transfers during the year	(23,788)	-	-	(23,788)
Balance as at 31 <sup>st</sup> December 2023	<u>1,910,747</u>	<u>1,260,644</u>	<u>3,812,699</u>	<u>6,984,190</u>
Balance as at 1 <sup>st</sup> January 2024	<b>1,910,747</b>	<b>1,260,644</b>	<b>3,812,699</b>	<b>6,984,190</b>
Charge for the year	<b>126,146</b>	<b>32,725</b>	<b>415,701</b>	<b>574,572</b>
<b>Balance as at 31<sup>st</sup> December 2024</b>	<b><u>2,036,893</u></b>	<b><u>1,293,369</u></b>	<b><u>4,228,400</u></b>	<b><u>7,558,762</u></b>
<b>Carrying Value as at 31<sup>st</sup> December 2024</b>	<b><u>1,779,994</u></b>	<b><u>157,445</u></b>	<b><u>243,727</u></b>	<b><u>2,181,066</u></b>
Carrying Value as at 31 <sup>st</sup> December 2023	<u>705,083</u>	<u>14,324</u>	<u>659,428</u>	<u>1,378,735</u>

**9.1 Acquisition of property, plant and equipment during the year**

The Fund acquired property, plant and equipment to the aggregate value of Rs. 1,376,903 during the year, (2023 - Rs. 855,708). Cash payments amounting to Rs. 1,376,903 (2023 - Rs. 855,708) were made by the Fund during the year to purchase these assets.

**9.2 Fully depreciated property, plant and equipment in use**

Property, plant and equipment includes fully depreciated assets which are in use of normal business activities. The initial cost of fully depreciated property, plant and equipment which are still in use as at reporting date, is as follows :

	<b>2024 Rs.</b>	<b>2023 Rs.</b>
Furniture and fittings	<b>1,476,274</b>	1,451,776
Office equipment	<b>1,260,498</b>	1,227,670
Computer equipment	<b>3,686,027</b>	2,062,974
	<b><u>6,422,799</u></b>	<u>4,742,420</u>

**9.3 Property, plant and equipment pledged as security for Liabilities**

There were no items of property, plant and equipment in the Fund, pledged as securities for liabilities during the year (2023 - Nil).

**9.4 Title restriction on property, plant and equipment**

There are no restrictions that existed on the title of the property, plant and equipment of the Fund as at the reporting date.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31<sup>ST</sup> DECEMBER

<b>10 Right of Use Asset</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Cost</b>		
Balance as at 1 <sup>st</sup> January	17,329,979	17,329,979
<b>Balance as at 31<sup>st</sup> December</b>	<b>17,329,979</b>	<b>17,329,979</b>
<b>Amortisation</b>		
Balance as at 1 <sup>st</sup> January	11,302,160	9,041,728
Charge for the year	2,260,432	2,260,432
<b>Balance as at 31<sup>st</sup> December</b>	<b>13,562,592</b>	<b>11,302,160</b>
<b>Carrying amount as at 31<sup>st</sup> December</b>	<b>3,767,387</b>	<b>6,027,819</b>

Information about leases for which the Fund is a lessee is presented in Note 20.

**11 Financial investments measured at amortised cost**

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

	<b>Note</b>	<b>2024</b>	<b>2023</b>
		<b>Rs.</b>	<b>Rs.</b>
Investments in government securities	11.1	3,841,279,534	3,396,266,256
Other investments	11.2	26,311,684,865	23,367,401,523
		<b>30,152,964,399</b>	<b>26,763,667,779</b>

The following table consists of the fair values of the financial investments together with their carrying values.

	<b>Note</b>	<b>2024</b>		<b>2023</b>	
		<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
		<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Investments in government securities	11.1	3,841,279,534	3,768,589,107	3,396,266,256	3,223,019,219
Other investments	11.2	26,311,684,865	27,306,204,850	23,367,401,523	23,295,980,707
<b>Total Financial Investments</b>		<b>30,152,964,399</b>	<b>31,074,793,957</b>	<b>26,763,667,779</b>	<b>26,518,999,926</b>

**11.1 Investment in government securities**

Treasury bonds	3,428,710,879	3,356,020,452	3,396,266,256	3,223,019,219
Treasury bills	412,568,655	412,568,655	-	-
	<b>3,841,279,534</b>	<b>3,768,589,107</b>	3,396,266,256	3,223,019,219

**11.1.1** As per LKAS 26, "Accounting and Reporting by Retirement Benefit Plans" if the marketable securities with fixed redemption value have been acquired to match the obligation of the Fund, they can be carried at an amount based on their ultimate redemption value assuming a constant rate of return to maturity. The Fund has matched all investments in marketable securities with fixed redemption value (analysed under different maturity periods) to the total member obligations of the Fund (though not individually matched under each category based on time period) and therefore the Committee is of the view that such investments can be carried at amortised cost.

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**11 Financial investments measured at amortised cost (Continued)**

	2024		2023	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
<b>11.2 Other investments</b>				
Debentures (Note 11.4)	7,706,167,715	8,700,687,700	8,772,108,516	8,700,687,700
Fixed deposits	18,398,277,150	18,398,277,150	14,595,293,007	14,595,293,007
Repurchases (Note 11.5)	207,240,000	207,240,000	-	-
<b>Total Financial Investments</b>	<b>26,311,684,865</b>	<b>27,306,204,850</b>	<b>23,367,401,523</b>	<b>23,295,980,707</b>

11.3 The Fund invests in banks which are approved by the Committee with a minimum "A" rating from a registered rating agency.

	2024				2023			
	Redeemable date	Coupon Rate	Cost Rs.	Carrying value Rs.	Redeemable date	Coupon Rate	Cost Rs.	Carrying value Rs.
<b>11.4 Debentures</b>								
DFCC Bank PLC	12-Jun-25	11.00%	524,000,000	556,057,316	12-Jun-25	11.00%	524,000,000	556,057,315
DFCC Bank PLC	24-Oct-25	9.00%	1,000,000,000	1,017,260,274	24-Oct-25	9.00%	1,000,000,000	1,017,013,699
Hatton National Bank PLC	23-Sep-26	13.00%	254,300,000	263,217,918	23-Sep-26	13.00%	254,300,000	263,217,918
Hatton National Bank PLC	29-Jul-31	9.50%	1,032,630,000	1,074,557,607	29-Jul-31	9.50%	1,032,630,000	1,074,557,607
National Savings Bank	-	-	-	-	10-Sep-24	11.25%	373,000,000	385,991,130
National Development Bank PLC	-	-	-	-	30-Mar-24	14.00%	100,000,000	110,586,712
National Development Bank PLC	25-Sep-25	9.50%	2,100,030,000	2,153,595,149	25-Sep-25	9.50%	2,100,030,000	2,153,595,149
People's Bank	-	-	-	-	8-Nov-24	12.00%	451,000,000	459,006,795
People's Bank	27-Jul-25	9.50%	1,000,000,000	1,041,123,288	27-Jul-25	9.50%	1,000,000,000	1,041,123,288
Sampath Bank PLC	12-Apr-28	9.00%	1,000,000,000	1,065,095,890	12-Apr-28	9.00%	1,000,000,000	1,065,095,890
Seylan Bank PLC	-	-	-	-	18-Apr-24	15.00%	100,000,000	110,602,740
Seylan Bank PLC	12-Apr-26	9.75%	500,000,000	535,260,273	12-Apr-26	9.75%	500,000,000	535,260,273
			<b>7,410,960,000</b>	<b>7,706,167,715</b>			<b>8,434,960,000</b>	<b>8,772,108,516</b>

**11.5 Repurchases**

	2024				2023			
	Repurchase Date	Interest Rate	Cost Rs.	Carrying value Rs.	Repurchase Date	Interest Rate	Cost Rs.	Carrying value Rs.
	6-Feb-26	9.05%	200,000,000	207,240,000	-	-	-	-
			<b>200,000,000</b>	<b>207,240,000</b>			<b>-</b>	<b>-</b>

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AS AT 31<sup>ST</sup> DECEMBER

<b>12 Loans to members</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Loans to members (Note 12.1)	4,074,400,092	4,102,662,282
Prepaid expenses (Note 12.2)	1,669,121,440	1,671,910,593
	<u>5,743,521,532</u>	<u>5,774,572,875</u>
<b>12.1 Loans to members</b>		
Balance as at 1 <sup>st</sup> January	4,102,662,282	3,613,643,606
Loans granted during the year	1,162,246,600	1,768,889,200
Interest receivable on loans	34,832,134	33,277,944
Last year accrued interest payment	(33,277,944)	(29,935,674)
Amortisation of fair value adjustment - interest income (Note 12.2)	259,630,147	437,041,005
	<u>5,526,093,219</u>	<u>5,822,916,081</u>
Less:		
Repayment received during the year	(1,181,371,543)	(1,219,208,245)
Repayment receivable	(13,480,590)	(15,772,300)
Fair value adjustment in the members loans on initial recognition (Note 12.2)	(256,840,994)	(485,273,254)
	<u>1,451,693,127</u>	<u>(1,720,253,799)</u>
	<u>4,074,400,092</u>	<u>4,102,662,282</u>
<b>12.2 Prepaid expenses</b>		
Balance as at 1 <sup>st</sup> January	1,671,910,593	1,623,678,344
Fair value adjustment in members loans on initial recognition	256,840,994	485,273,254
Amortisation recognised in the members accounts (Note 15)	(259,630,147)	(437,041,005)
Balance as at 31 <sup>st</sup> December	<u>1,669,121,440</u>	<u>1,671,910,593</u>
<p>The Fund grants loans to its members at the rate of 10%. Since the average market interest rate for the year 2024 was 13.10%, loans granted during the year 2023 were fair valued at the average market interest rate in accordance with "SLFRS 9- Financial Instruments."</p> <p>Since, the loan rate of 10% at which the loans were granted was higher than the average market rate of 9.65% in the year of 2020, no fair valuation was made to the member loans granted during the year ended 31<sup>st</sup> December 2020.</p>		
<b>13 Other receivables</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Loan repayment receivables	13,480,590	15,772,300
Contribution receivable	349,818,269	294,134,931
Contributors fee receivable	1,378,000	1,381,000
Advance payments	179,711	18,750
Sub lease income receivable (Note 13.1)	-	1,469,508
Other receivables	133,378,055	142,268,936
	<u>498,234,625</u>	<u>455,045,425</u>
(-) Provision for impairment in other receivables (Note 13.2)	(37,478,466)	-
	<u>460,756,159</u>	<u>455,045,425</u>
<b>13.1 Sub lease income receivable</b>		
Balance as at 1 <sup>st</sup> January	1,469,508	1,447,156
Sub lease income for the year	1,389,441	1,447,156
Amount received during the year	(2,858,949)	(1,424,804)
Balance as at 31 <sup>st</sup> December	<u>-</u>	<u>1,469,508</u>
<b>13.2 Provision for impairment in other receivables</b>		
Balance as at 1 <sup>st</sup> January	-	-
Provision made during the year	37,478,466	-
Balance as at 31 <sup>st</sup> December	<u>37,478,466</u>	<u>-</u>

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AS AT 31<sup>ST</sup> DECEMBER

<b>14 Cash and cash equivalents</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Cash at bank	1,423,169,461	1,325,470,965
Cash in hand	75,000	75,000
Cash and cash equivalents for the cash flow purpose	<u>1,423,244,461</u>	<u>1,325,545,965</u>
<b>15 Members' account</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1 <sup>st</sup> January	33,670,373,335	32,211,879,194
Contribution received	5,688,879,885	4,711,318,229
Insurance maturity proceeds received (Note 15.1)	55,099,994	53,736,292
Income distributed	3,620,355,115	3,490,203,130
Amortization adjustment in member loans (Note 15.2)	(259,630,147)	(437,041,005)
Transfer of fair value adjustment from revenue reserve (Note 12.2)	259,630,147	437,041,005
	<u>43,034,708,329</u>	<u>40,467,136,845</u>
Less:		
Under paid interest of retired members (Note 15.3)	(14,475,224)	(16,802,976)
Outstanding loan balances of retired members (Note 15.3)	(850,947,258)	(994,275,260)
Insurance paid out (Note 15.4)	(162,291,744)	(162,584,920)
Payments to retired members	(4,793,951,079)	(5,623,100,354)
	<u>(5,821,665,305)</u>	<u>(6,796,763,510)</u>
Balance as at 31 <sup>st</sup> December	<u>37,213,043,024</u>	<u>33,670,373,335</u>
<b>15.1</b> Amount received by the Fund on the maturity of insurance policies on behalf of the members are accounted under member account.		
<b>15.2</b> Amortisation adjustment to members loans refers to the amortisation of the initial adjustment made to loans granted at beneficial rates.		
<b>15.3</b> Member loan outstanding amount and interest receivable are recovered from the respective member account at the point of retiring from the Fund.		
<b>15.4</b> Members who have obtained an insurance policy through the Fund for which the insurance premiums are paid by the Fund and the amount paid out at the maturity will be deducted from the member account.		
<b>16 Revenue reserve</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1 <sup>st</sup> January	190,657,788	182,934,863
Surplus of income over expenditure for the year after distribution	101,960,778	444,763,930
Transfer of fair value adjustment to members' account (Note 16.1)	(259,630,147)	(437,041,005)
Balance as at 31 <sup>st</sup> December	<u>32,988,419</u>	<u>190,657,788</u>
<b>16.1</b> The effective interest rate adjustment made to investment and interest income recognised on members loans based on fair value adjustments have been transferred to members' account.		
<b>17 Employee benefits</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1 <sup>st</sup> January	13,518,282	11,380,634
Provision recognised during the year	2,008,802	2,137,648
	<u>15,527,084</u>	<u>13,518,282</u>
Payments made during the year	-	-
Balance as at 31 <sup>st</sup> December	<u>15,527,084</u>	<u>13,518,282</u>

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31<sup>ST</sup> DECEMBER**

**17 Employee benefits (Continued)**

**17.1** The Fund computes the gratuity liability based on the Payment of Gratuities Act No. 12 of 1983 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.

<b>18 Lease Liability</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1 <sup>st</sup> January	6,863,754	9,395,655
Interest expense for the year (Note 7)	922,964	1,269,565
Repayment during the year	<u>(3,801,466)</u>	<u>(3,801,466)</u>
Balance as at 31 <sup>st</sup> December	<u>3,985,252</u>	<u>6,863,754</u>
Payable after one year	2,312,826	5,184,005
Payable within one year	<u>1,672,426</u>	<u>1,679,749</u>
	<u>3,985,252</u>	<u>6,863,754</u>

When measuring lease liabilities for leases that were classified as operating leases, the Fund discounted lease payments using its incremental borrowing rate as at 1<sup>st</sup> January 2019. The weighted average rate applied is 14.5%.

The Fund entered in to a lease agreement in 2016 with Ms. Helalini Preethi Fernando for lease of land and building bearing assessment No. 212, De Saram Place, Colombo 10 for a period of 10 years ending 31<sup>st</sup> August 2026. Previously this lease was classified as operating leases under LKAS 17.

**18.1 Maturity Analysis of Undiscounted Cash Flows**

Within one year	3,801,465	3,801,465
After one year but not more than three years	529,720	4,331,185
	<u>4,331,185</u>	<u>8,132,650</u>

**18.2 Amounts recognised in profit or loss**

**For the year ended 31<sup>st</sup> December 2024 - Leases under SLFRS 16**

	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Interest on lease liabilities	922,964	1,269,565
Depreciation of right-of-use assets	<u>2,260,432</u>	<u>2,260,432</u>
	<u>3,183,396</u>	<u>3,529,997</u>

**18.3 Amounts recognised in statement of cash flows**

Total cash outflow for leases	<u>3,801,466</u>	<u>3,801,466</u>
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**19 Other Creditors**

	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Unpaid balance for retired members	142,398,317	90,205,363
Sundry creditors	4,261,041	3,714,043
Deferred Sub Lease Income (Note 19.1)	762,055	799,340
	<u>147,421,413</u>	<u>94,718,746</u>

**19.1 Deferred Sub Lease Income**

This relates to advances received in relation to sub lease (refer Note 5)

**20 Related Party Disclosure**

**20.1 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 (KPM) of the Fund.

The compensation paid to KMPs are as follows:

<b>For the year ended 31<sup>st</sup> December</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Short term benefits	Nil	Nil
Post employment benefits	Nil	Nil

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31<sup>ST</sup> DECEMBER

**20 Related Party Disclosure (Continued)**

**20.2 Transactions with related entities**

According to LKAS 24 "Related Party Disclosures", sponsoring employers to the Fund were identified as related parties and no transactions were identified during the year.

**21 Financial Risk Management**

**Introduction and overview**

The Fund has exposure to the following risks from its use of financial instruments:

- 21.1 Credit risk
- 21.2 Liquidity risk
- 21.3 Market risk
- 21.4 Operational risk.

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout this financial statement.

**Risk management framework**

The Committee has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Committee is responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyze the risks faced by the Fund to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**21.1 Credit risk**

Credit risk is the risk of financial loss to the Fund if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's receivables from customers and investment securities.

**Receivable from members and other receivables**

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each members.

**21.1.1 Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows;

<b>As at 31<sup>st</sup> December</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
Financial investment (Note 11)	<b>30,152,964,399</b>	26,763,667,779
Loans to members (Note 12)	<b>5,743,521,532</b>	5,774,572,875
Other receivables (Note 13)	<b>460,756,159</b>	455,045,425
	<b><u>36,357,242,090</u></b>	<u>32,993,286,079</u>

**Investments**

The Fund limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a good credit rating. Management actively monitors credit ratings and given that the Fund only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

**21.2 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31<sup>ST</sup> DECEMBER

**21 Financial Risk Management (Continued)**

**21.2 Liquidity risk (Continued)**

The Fund ensures that its liquidity is maintained by investing in short, medium and long-term financial instruments to support operational and other Funding requirements. Short and medium-term requirements are regularly reviewed and managed by the finance team.

The table below summarises the maturity profile of the financial assets and financial liability of the Fund including interest payable and receivable.

**Maturity Profile of Financial Assets and Liabilities**

As at 31 <sup>st</sup> December 2024	Total Rs.	Less than One year Rs.	One to three years Rs.	Three to Five years Rs.	More than Five years Rs.
<b>Assets</b>					
Financial investments	30,152,964,399	12,729,725,102	8,858,069,730	4,970,576,833	3,594,592,734
Loans to members	5,743,521,532	313,882,758	987,109,479	1,588,923,306	2,853,605,989
Other receivables	498,054,914	498,054,914	-	-	-
Cash at Bank	1,423,169,461	1,423,169,461	-	-	-
<b>Total Assets</b>	<b>37,817,710,306</b>	<b>14,964,832,235</b>	<b>9,845,179,209</b>	<b>6,559,500,139</b>	<b>6,448,198,723</b>

**Liabilities**

Lease liabilities	3,985,247	1,672,426	2,312,826	-	-
Other creditors	146,659,358	146,659,358	-	-	-
<b>Total Liabilities</b>	<b>150,644,605</b>	<b>148,331,784</b>	<b>2,312,826</b>	<b>-</b>	<b>-</b>

As at 31 <sup>st</sup> December 2023	Total Rs.	Less than One year Rs.	One to three years Rs.	Three to Five years Rs.	More than Five years Rs.
<b>Assets</b>					
Financial investments	26,763,667,779	2,535,839,336	15,081,434,556	5,519,501,409	3,626,892,478
Loans to members	5,774,572,875	272,554,150	1,417,823,493	1,196,859,024	2,887,336,208
Other receivables	455,026,675	455,026,675	-	-	-
Cash at Bank	1,325,470,965	1,325,470,965	-	-	-
<b>Total Assets</b>	<b>34,318,738,294</b>	<b>4,588,891,126</b>	<b>16,499,258,049</b>	<b>6,716,360,433</b>	<b>6,514,228,686</b>

**Liabilities**

Lease liabilities	6,863,754	1,679,749	5,184,005	-	-
Other creditors	93,919,406	93,919,406	-	-	-
<b>Total Liabilities</b>	<b>100,783,160</b>	<b>95,599,155</b>	<b>5,184,005</b>	<b>-</b>	<b>-</b>

**Undiscounted Financial Liabilities**

As at 31 <sup>st</sup> December 2024	Total Rs.	Less than One year Rs.	One to three years Rs.	Three to Five years Rs.	More than Five years Rs.
Lease liabilities	4,331,185	3,801,465	529,720	-	-
Other creditors	146,659,358	146,659,358	-	-	-
<b>Total Liabilities</b>	<b>150,990,543</b>	<b>150,460,823</b>	<b>529,720</b>	<b>-</b>	<b>-</b>

As at 31 <sup>st</sup> December 2023	Total Rs.	Less than One year Rs.	One to three years Rs.	Three to Five years Rs.	More than Five years Rs.
Lease liabilities	8,132,650	3,801,465	4,331,185	-	-
Other creditors	93,919,406	93,919,406	-	-	-
<b>Total Liabilities</b>	<b>102,052,056</b>	<b>97,720,871</b>	<b>4,331,185</b>	<b>-</b>	<b>-</b>

The Fund has no significant concentration of liquidity risk during the reporting period.

**21.3 Market risk**

The market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31<sup>ST</sup> DECEMBER

**21 Financial risk management (Continued)**

**21.3 Market risk (Continued)**

**Currency risk**

The Fund is not exposed to currency risk as the transactions are made only in the Sri Lankan rupees (LKR).

**Interest rate risk**

Interest rate risk is the risk that the fair value of the cash flows of financial instruments will fluctuate because of changes in market interest rates; interest rate risk arises on interest bearing financial instruments recognized in the statement of financial position.

The interest rate risk of the company arises from financial instruments which are exposed to variable or fixed rate interest rates. Variable interest rates expose the company to cash flow due to the impact on the quantum of interest payable. Financial instruments with fixed interest rates are subject to variations in fair values due to market interest movements.

The Fund closely monitors market interest rate movements and implement appropriate strategies in order to minimize the interest rate risk associated with financial instruments with rates.

<b>As at 31<sup>st</sup> December,</b>	<b>2024</b>	<b>2023</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Fixed rate financial assets</b>		
Financial investments measured at amortised cost	<b>30,152,964,399</b>	26,763,667,779
Loans to members	<b>5,743,521,532</b>	5,774,572,875
	<b><u>35,896,485,931</u></b>	<u>32,538,240,654</u>

**21.4 Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Fund's operations.

The Fund's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Committee on follows.

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31<sup>ST</sup> DECEMBER**

**22 Fair Values of Financial Instruments**

**Fair value hierarchy**

Assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- Level 1 :** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Fund measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.
- Level 2 :** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 :** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

As at 31 <sup>st</sup> December	2024		2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
<b>Assets carried at amortised cost</b>				
Loans to members	5,743,521,532	5,743,521,532	5,774,572,875	5,774,572,875
Financial investments				
Investments government securities	3,841,279,534	3,868,589,107	3,396,266,256	3,223,019,219
Other investments	26,311,684,865	27,306,204,850	23,367,401,523	23,295,980,707
Other receivable	460,756,159	460,756,159	455,045,425	455,045,425
Cash and cash equivalents	1,423,244,461	1,423,244,461	1,325,545,965	1,325,545,965
	<b>37,780,486,551</b>	<b>38,702,316,109</b>	<b>34,318,832,044</b>	<b>34,074,164,191</b>
<b>Liabilities carried at amortised cost</b>				
Lease liability	3,985,252	3,985,252	6,863,754	6,863,754
Other creditors	146,659,358	146,659,358	93,919,406	93,919,406
	<b>150,644,610</b>	<b>150,644,610</b>	<b>100,783,160</b>	<b>100,783,160</b>

The carrying amounts of short term receivables and payables approximate the fair value. Hence the carrying value and the fair value has been considered to be the same.

**THE MERCANTILE SERVICE PROVIDENT SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31<sup>ST</sup> DECEMBER**

22 Fair Values of Financial Instruments (Continued)

22.1 Financial Assets and Liabilities by Fair Value Hierarchy

	2024				2023			
	Carrying Value Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Carrying Value Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.
<b>Financial Assets</b>								
Loans to members	5,743,521,532	-	-	5,743,521,532	5,774,572,875	-	-	5,774,572,875
Financial investments								
Investments government securities	3,841,279,534	-	3,841,279,534	-	3,396,266,256	-	3,396,266,256	-
Other investments	26,311,684,865	-	-	26,311,684,865	23,367,401,523	-	-	23,367,401,523
Other receivable	460,756,159	-	-	460,756,159	455,045,425	-	-	455,045,425
Cash and cash equivalents	1,423,244,461	-	1,423,244,461	-	1,325,545,965	-	1,325,545,965	-
	<u>37,780,486,551</u>	<u>-</u>	<u>5,264,523,995</u>	<u>32,515,962,556</u>	<u>34,318,832,044</u>	<u>-</u>	<u>4,721,812,221</u>	<u>29,597,019,823</u>
<b>Financial Liabilities</b>								
Lease liability	3,985,252	-	-	3,985,252	6,863,754	-	-	6,863,754
Other payables	146,659,358	-	-	146,659,358	93,919,406	-	-	93,919,406
	<u>150,644,610</u>	<u>-</u>	<u>-</u>	<u>150,644,610</u>	<u>100,783,160</u>	<u>-</u>	<u>-</u>	<u>100,783,160</u>

**23 Events occurring after the reporting date**

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the financial statements.

**24 Capital commitments**

There were no material Capital Commitments as at the reporting date, necessitating adjustment to or disclosures in the Financial Statements.

**25 Contingent Liabilities**

There were no material Contingent Liabilities as at reporting date, necessitating adjustment to or disclosures in the Financial Statements.

**26 Committee's responsibility for financial reporting**

The Committee acknowledge the responsibility for true and fair presentation of the Financial Statements in accordance with the Sri Lanka Accounting Standards.

## **NOTICE OF MEETING**

THE EIGHTY FIFTH ANNUAL GENERAL MEETING of the Mercantile Service Provident Society will be held at the Auditorium of the Ceylon Chamber of Commerce, 50, Nawam Mawatha, Colombo 2, on Friday 25<sup>th</sup> July 2025 at 4.00 p.m.

### **BUSINESS**

1. To confirm the Minutes of the Eighty Fourth Annual General Meeting held on 23<sup>rd</sup> July 2024.
2. Report and Accounts - To receive the Report of the Committee for the year 2024 and the Statement of Accounts for the year ended 31<sup>st</sup> December 2024, 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

**R.N.DE SARAM**

Secretary

Colombo, 11<sup>th</sup> July 2025