

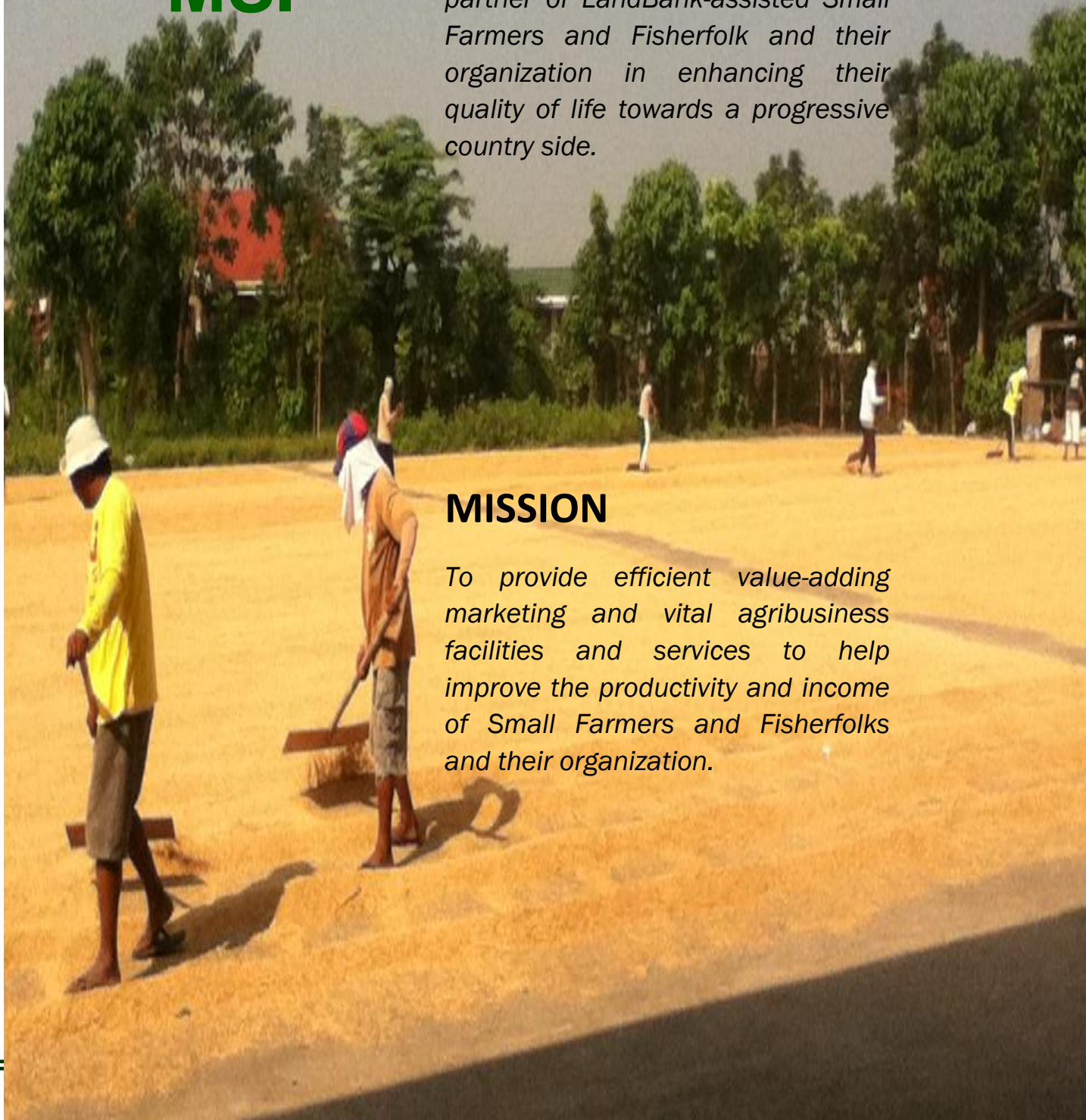


VISION

By 2018, the lead development partner of LandBank-assisted Small Farmers and Fisherfolk and their organization in enhancing their quality of life towards a progressive country side.

MISSION

To provide efficient value-adding marketing and vital agribusiness facilities and services to help improve the productivity and income of Small Farmers and Fisherfolks and their organization.



ABOUT MASAGANANG SAKAHAN, INC.



I. Corporate Governance Structure

A. The Board of Directors

MSI Board is primarily responsible for the governance of MSI. It is responsible in fostering the long term success of MSI and secures its sustained competitiveness in a manner consistent with its fiduciary responsibility which is exercising the best interest of MSI, LBP and the State.

The MSI Board of Directors is composed of 11 members who are appointed by the President of the Philippines. Of the eleven, 4 Directors were from LandBank of the Philippines and MSI while the remaining were from the private sectors.

2013 Board of Directors

Position	Name	Affiliation
Chairman	Crispino T. Aguelo	LandBank
Vice-Chairman	Liduvino S. Geron	Landbank
Members	Conrado B. Roxas	Landbank
	Roy C. Oscillada	LandBank – MSI
	Victoria A. Reyes	Private Sector
	Ramon K. Cervantes	Private Sector
	Daniel R. Agustin	Private Sector
	Ramon O. Unson III	Private Sector
	Ronald John A. Estalilla	Private Sector
	Marco Elmer A. Cabrera	Private Sector
	Santiago S. Corpuz	Private Sector

B. Committees

To assist in complying with the principles of good governance, the Board constituted the following Committees:

1. **Executive and Nominations and Remuneration Committee:** The Executive Committee having the powers conferred upon the Board if not in session except the power to make radical changes and departures from policies as well as power to sell, mortgage, or in any manner alienate or encumber real holdings or properties of the corporation shall consist of five (5) members of the Board. Furthermore, said committee is also tasked to perform the responsibilities of the GCG-required Nominations and Remunerations Committee.

2013 Executive and Nomination and Remuneration Committee

POSITION	NAME
Chairman	<i>Liduvino S. Geron</i>
Members	<i>Conrado B. Roxas</i>
	<i>Roy C. Oscillada</i>
	<i>Daniel R. Agustin</i>
	<i>Santiago S. Corpuz</i>

- 2. Governance and Risk Committee:** The Governance and Risk Committee assist the Board of Directors in fulfilling its corporate governance and risk management responsibilities. The committee is composed of five (5) members of the Board and chaired by the Chairman of the Board.

2013 Governance and Risk Committee

POSITION	NAME
Chairman	<i>Crispino T. Aguelo</i>
Vice-Chairman	<i>Conrado B. Roxas</i>
Members	<i>Ma. Victoria A. Reyes</i>
	<i>Miguel Ramon O. Unson III</i>
	<i>Daniel R. Agustin</i>

- 3. Audit Committee:** The Audit Committee oversee, monitor and evaluate the adequacy and effectiveness of MSI's internal control system and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with the regulatory agencies/audit bodies. The audit committee is composed of three (3) members of the board, whose Chairman has an audit, accounting or finance background.

2013 Audit Committee

POSITION	NAME
Chairman	<i>Ramon K. Cervantes</i>
Members	<i>Marco Elmer A. Cabrera</i>
	<i>Ronald John A. Estalilla</i>

C. Corporate Officers

MSI is run by a professional and competent management.

Mr. Roy C. Oscillada, the President & General Manager is the Chief Executive Officer that is duly elected/appointed by the Board of Directors who exercise the power and performs the duties and responsibilities pertaining to the office of the chief executive of a corporation. He is responsible in the general supervision of the affairs of MSI.

Mr. Romeo C. Castro, MSI Treasurer is duly elected/appointed by the Board who is primarily responsible for the custody of all moneys, securities and values of MSI which come into his possession.

Atty. Cesar Cabanes, MSI Corporate Secretary/Legal Counsel/Compliance Officer is duly elected/appointed by the Board of Directors who acts as the adviser of the board members of their responsibilities and obligations, keeping minutes of meetings and ensures fulfilment of disclosure requirements to regulatory bodies. Furthermore, he is also responsible in monitoring compliance of MSI to the rules and regulations of appropriate government agencies.

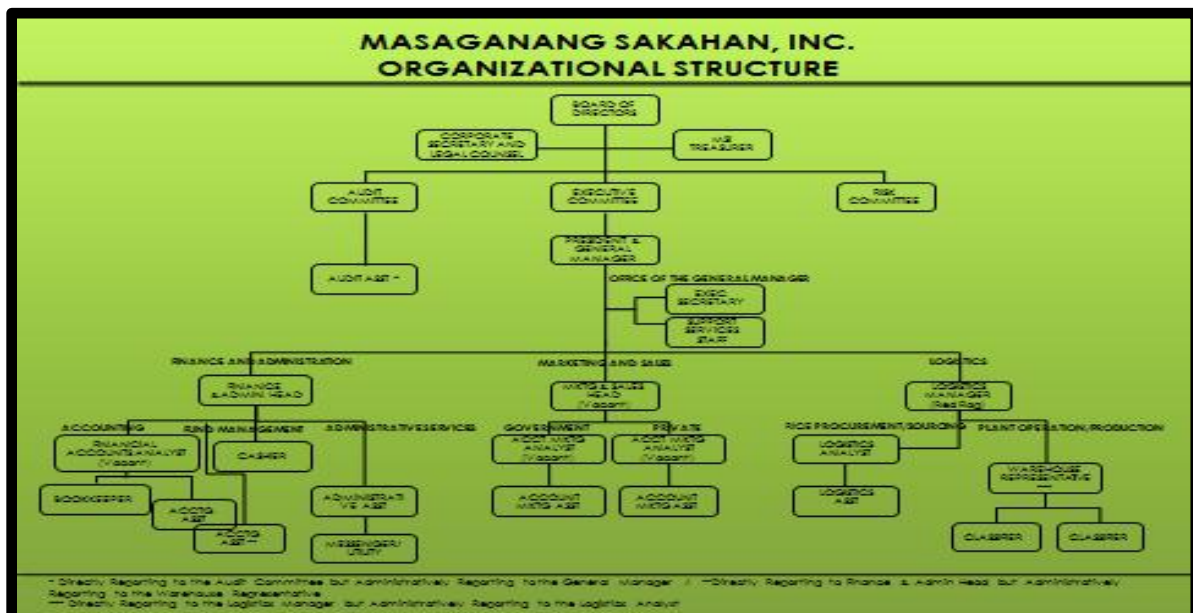
II. Organizational Structure

Management proposed and implemented the new organizational structure adoptive to the existing needs and operations of MSI. It is composed of 2 operational units and 2 support units.

The operational units are: (1) Marketing and Sales – responsible for achieving the sales target and expanding the client based and (2) Logistics – responsible for supporting the requirement needs of Marketing and Sales Unit, overseeing plant operations and ensuring assistance to cooperatives of farmers and fisherfolk.

The support units are: (1) Office of the President and General Manager – responsible in directing, monitoring and reporting MSI operational performance and (2) Finance and Administration Unit – responsible in ensuring proper recording/booking/reporting all transactions periodically.

For 2013, MSI total manpower is 19 regular employees, 15 were Head Office-Based while the remaining 4 of were based in Sta. Rosa Grains Center (SRGC).



III. Products and Services

A. Agricultural Facilities and Value-Adding Services

- ❖ Management of Grains Center with facilities for:
 - a. Solar Drying
 - b. Warehousing
 - c. Logistics
 - d. Rice Milling
- ❖ Capability-building for partner cooperatives on the above post-harvest operation.

B. Market Linkaging of Agricultural Commodities

- ❖ Procurement and/or trading of palay, milled rice, by products and other agricultural commodities.
- ❖ Market linkaging through direct marketing or tie-ups between farmer-cooperatives and consumer cooperatives, corporations or other market outlets in urban center.

C. Payment-in-Kind Scheme

- ❖ Loan payment assistance in terms of farmers produce, e.g., palay, or other agricultural commodities.
- ❖ Facilitate and improve both the farmers' ability to pay credit and LandBank's loan collection efficiency.



IV. Corporate Social Responsibility

A. PARTNER/SUPPLIERS

MSI recognizes that sustainable business and quality service involves solid partnerships between MSI and its primary supplier/partner, the farmers and their cooperatives. Thus, MSI in support to their partner farmer-cooperatives is in continuous pursuit of identifying projects and opportunities intended to improve the productivity and income of its farmers-cooperatives:



Currently, MSI is into:

- ❖ Provision of marketing support/assistance through ensuring ready market for
- ❖ farmers cooperatives produced and/or market linking services
- ❖ Improving farmers-cooperative income through provision of price incentives for quality produce via Payment In Kind Program
- ❖ Making available MSI solar drying facilities for free for cooperatives drying needs
- ❖ Recognition/Award for Cooperatives active participation to MSI Program

MSI in the future is looking into:

- ❖ Provision of capability and training needs of partner farmer-cooperatives

B. CUSTOMERS



MSI believes that integrity in dealings with customers is a prerequisite for a successful and sustained business relationship.

MSI operation is focused on meeting customer demands and requirements. MSI goal is to provide products and services which give fair value and consistent quality and reliability in return for fair reward.

MSI operate policies of continual improvement, of both processes and the skills of our staff, to take best advantage of advances in technology.

MSI has established lines of communication which allow us to respond quickly and efficiently to customer feedbacks and requirements.

Our sales effort and delivery capability are aligned in order to ensure that we can successfully and consistently deliver what we promise.

C. ENVIRONMENT



MSI acknowledges that there are inevitable environmental impacts associated with daily operations. Thus, MSI aim to minimize any harmful effects and consider the development and implementation of environmental standards to achieve this to be of great importance. As such, MSI strongly encourage the internationally established 3 Rs:

- ❖ reduce
- ❖ re-use
- ❖ recycle

In the course of MSI operations, MSI seek to identify opportunities to reduce consumption of energy, water and other natural resources. We also strive to re-use

and recycle where possible like paper and dispose of non-recyclable items responsibly, thereby minimizing our impact on the environment.

In addition, this year, MSI management initiated a tree-planting program and intends to continue the said activity to ensure MSI support for keeping the nature at its better condition.

It is anticipated that by adopting simple, environmentally friendly initiatives, MSI will raise awareness amongst stakeholders and the wider community.



MSI BOARD IN ACTION

MSI Board initiates the development, implementation and enhancement of policies and procedures in order to ensure that actions by the Board, management and staff were properly guided and in order.

Below under are the policies and procedures that were acted upon by the Board for CY 2013:

1. Creation of Position Title/Pay Grade and Position Listings of Masaganang Sakahan, Inc.
2. Creation and Merging of Required Board Committees
3. Amendment of MSI By-Laws
4. MSI No Gift Policy
5. Performance Evaluation System (PES)
6. Essential Part of Manual of Corporate Governance
 - 6.1 Formal Charter of Expectations
 - 6.2 Statement of Directors' Responsibility confirming the truth and fairness of MSI's Financial Statements
 - 6.3 Corporate Social Responsibility to Partner-Suppliers, Customers and the Environment
 - 6.4 Disclosure by Directors
 - 6.5 Penalties for Non-Compliance
7. MSI Manual on Corporate Governance.



MSI OPERATIONS



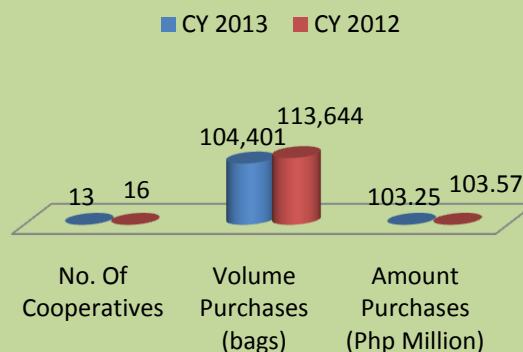
KEY RESULTS AREA: MARKETING ASSISTANCE AND CREDIT MANAGEMENT SERVICE TO PURSUIT OF MANDATE TO COOPERATIVES OF FARMERS AND FISHERFOLK



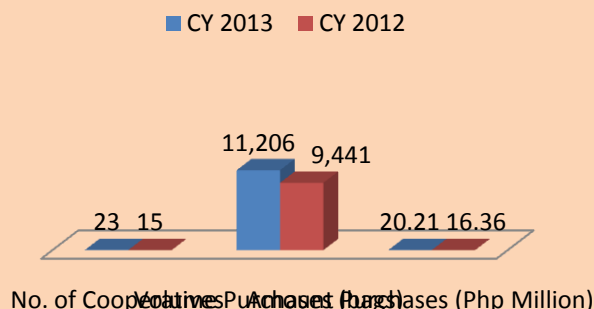
For the 2013, MSI procured a total of 104,401 bags of palay from 13 cooperatives of farmers and fisherfolk amounting to P104.401 Million.

With the 3 cooperatives non-participation, MSI procurement fell short by 9,243 bags compared to 2012, however, the average procurement(bag) per cooperative increased by 13% from 7,103 bags (2012) to 8,031 bags (2013).

Purchases from Cooperative (Palay)

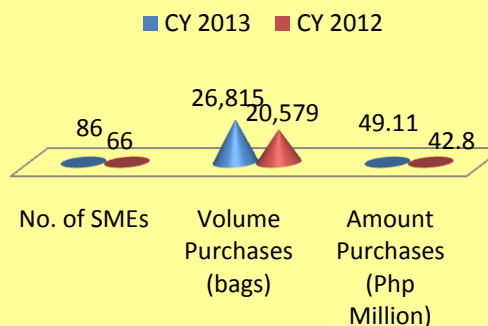


Purchases from Cooperatives (Milled Rice)



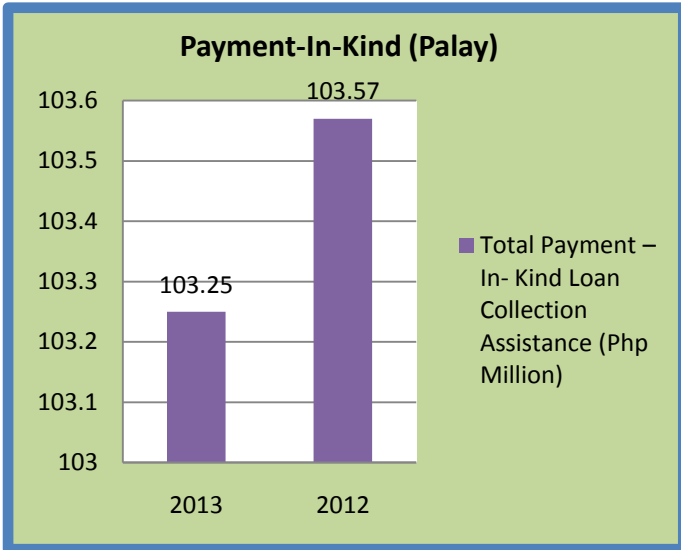
For 2013, MSI procured milled rice from 23 cooperatives of farmers and fisherfolk a total of 11,206 bags of milled rice amounting to P20.21 Million. This registered an increase of 19% and 24% both in terms of volume and amount purchases compared to year 2012.

Purchases from SMEs (Milled Rice)



MSI was able to procure from 86 Small and Medium Enterprises (SMEs) a total of 26,815 bags of milled rice amounting to P49.11 Million. This registered an increase of 30% and 15% both in terms of volume and amount purchases compared to year 2012.

The significant improvement in the volume and amount purchases of milled rice to cooperatives and SMEs was due to the Full Conversion Program from local purchases to 100% MSI directly-served Landbank branches nationwide.



For 2013, MSI was able to provide loan collection assistance to LandBank in the amount of P103.25 Million under the Payment-In-Kind Program for Palay. Despite the typhoon that badly hit the Region 3 areas that affected the farmers produced and non-participation of 3 cooperatives in the program either due to co-ops opted to plant onion instead of palay or coops opted for three cropping in a year thus harvest does not coincide with MSI scheduled procurement, the company still attained 99.69% accomplishment against the year-end target collection of P103.57 Million.

Further, in recognition to the vital role of cooperatives in the attainment of MSI mandates, MSI for the second time conducted its Annual PIK Cooperatives Recognition Program in July 9, 2013 with 2013 theme “Sustaining Partnership Towards Rice Sufficiency”.



Certificate of Awards were given to the following below cited cooperatives that ranks as the Top Three (3) based on MSI selection criteria for PIK Awardees:



BAMC – 1st Place

Talabutab Norte MPCl – 2nd Place

Bantug MPCl – 3rd Place

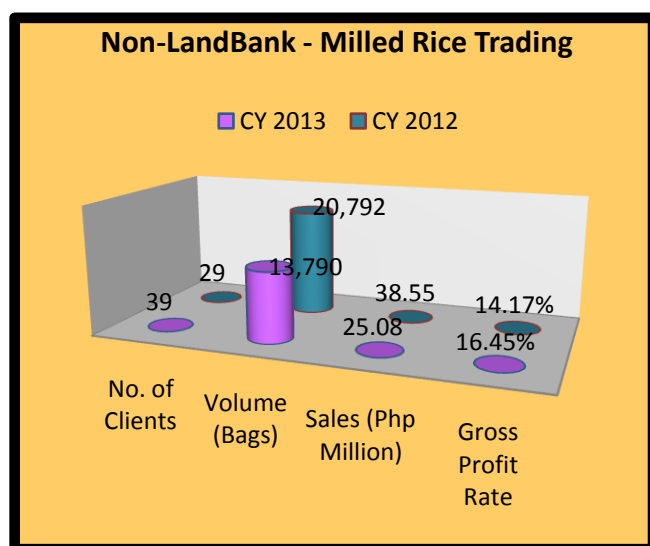
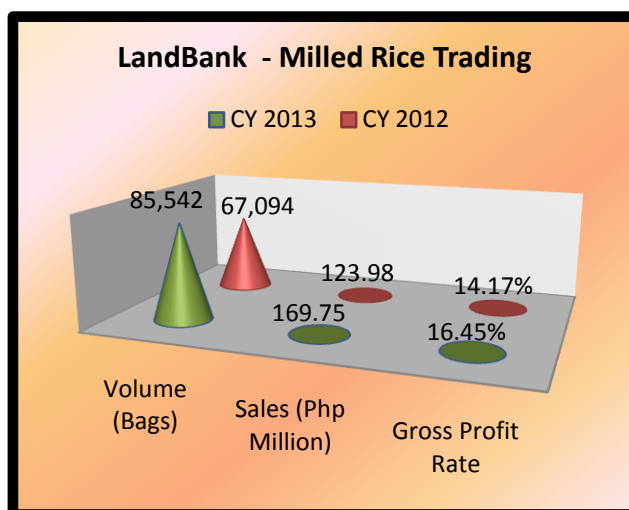
INSTITUTIONAL VIABILITY

KEY RESULTS AREA: SUSTAINABLE BUSINESS OPERATIONS AND DEVELOPMENT SUPPORT

For 2013, with the Full Conversion Program, thereby serving all LandBank Branches and Field Operating Units nationwide, MSI sold a total of 85,542 bags of milled rice, up by 27% compared to year 2012 of only 67,094 bags of milled rice.

MSI generated total sales of P169.75 Million and a gross margin of P23.98 Million, showing significant improvement over last year's sales and gross margin of P123.98 Million and P16.33 Million, respectively.

There was a significant improvement in MSI's gross profit rate from 15.17% in 2012 to 16.45% in 2013 attributed to increase in market dictated prices due to constriction of rice supply brought about by the calamities/typhoon that hit certain areas in the Philippines.

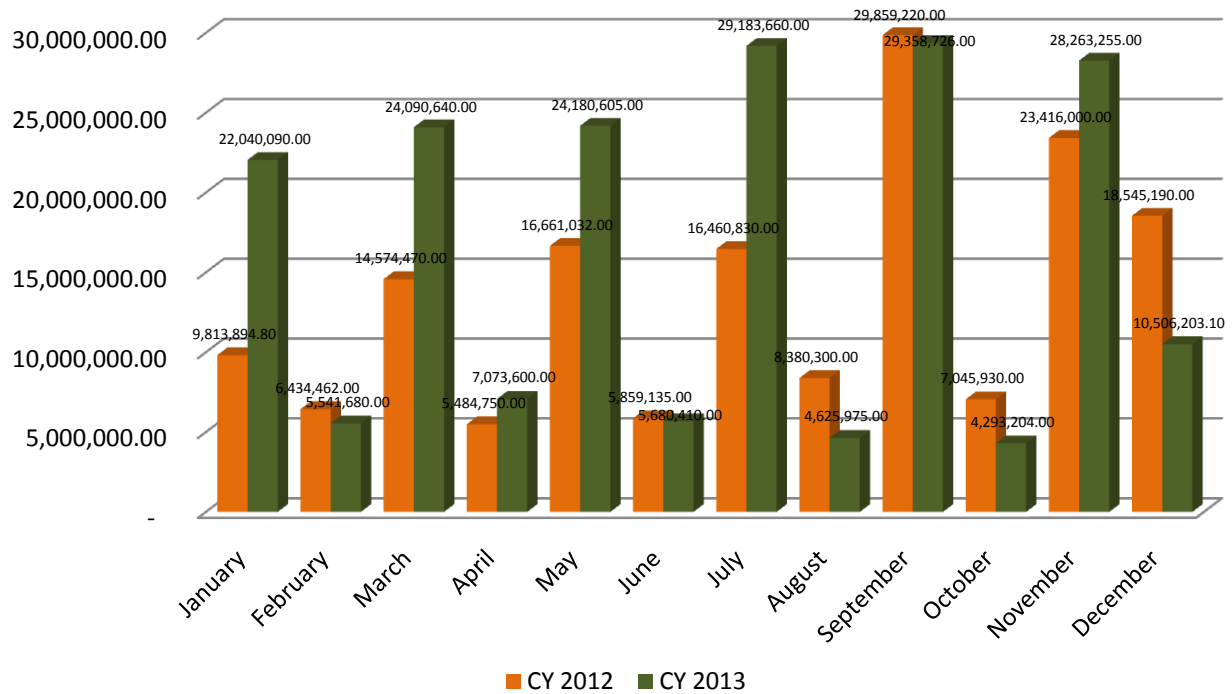


For 2013, MSI was able to serve the milled rice requirements of 39 corporate accounts (maintained and newly served).

A total of 13,790 bags of milled rice were traded giving the company revenues totalling to P25.08 Million and a gross profit rate of 16.45%.

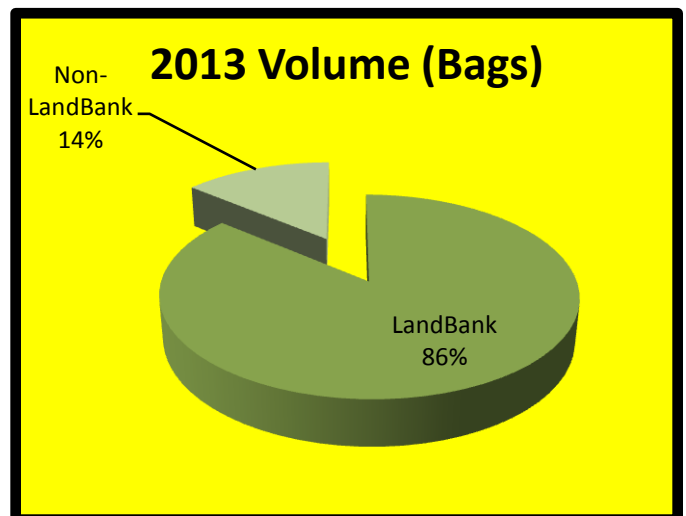
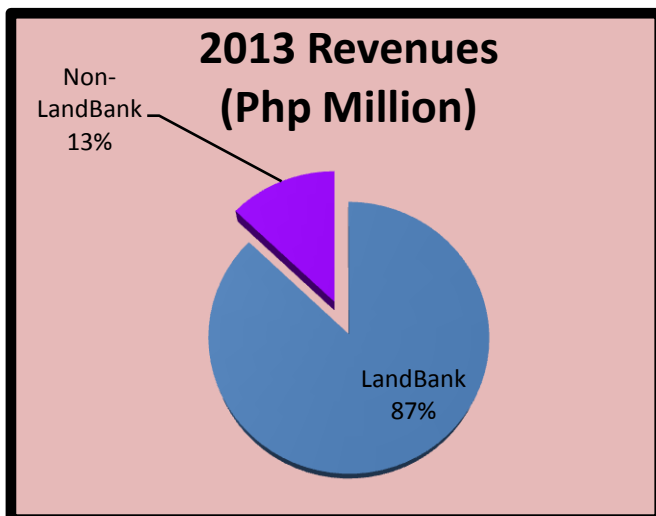
Despite increase in number of clients served from 29 in CY 2012 to 39 in CY 2013, compared to last year, there was a reduction in volume and revenues generated which can be attributed to the reduction in LandBank's order for donation to the typhoon victims in 2013.

Sales Revenues Per Month CY 2012 VS CY 2013



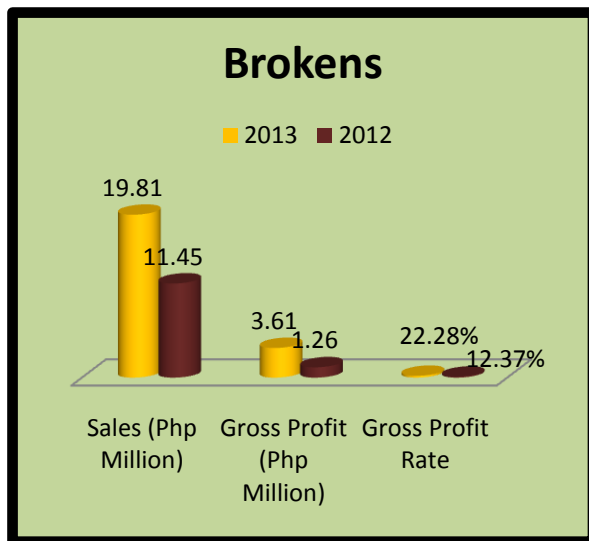
The above table showed the monthly sales turnover for milled rice for CY 2012 and CY 2013. It is noted that September 2012 showed significant improvement in sales as it marked the start of the LandBank Conversion Program. CY 2013 is characterized by a 100% LandBank Conversion of Local Purchase to Directly MSI-Served.

The LandBank and Non-Landbank Mix in terms of revenues and volume stood at 87:13 and 86:14, respectively.

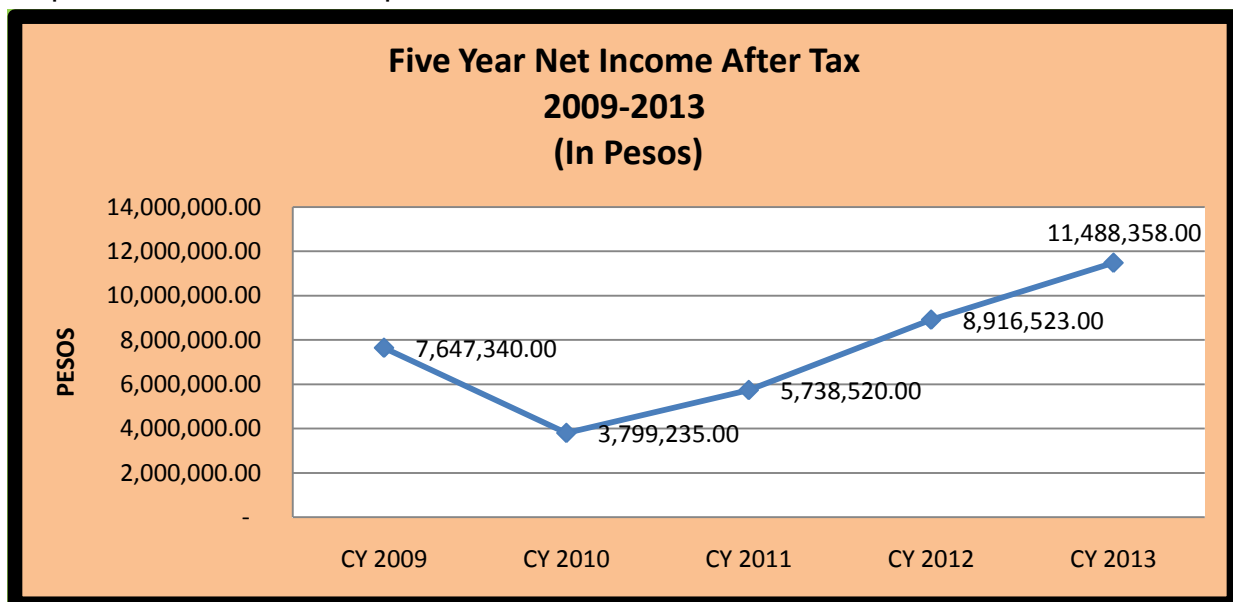


For 2013, MSI generated P19.81 Million from the sales of Brokens and P5.70 Million for By-Products. Compared to year 2012, sales from brokens (P11.45 Million) and by-products (P4.95 Million) increased by 73% and 15%, respectively.

Gross Profit and Gross Profit Rate both on brokens and by-products also showed significant improvement compared to last year which can be attributed to the market dictated increases in selling prices due to rising demand.



For CY 2009 to CY 2010, there was a dropped in the NIAT due to the strict implementation of R.A 9184 thereby requiring all government agencies to fully comply with the procurement procedures resulting to MSI drastic losing of big government accounts either due to bidding or cash conversion. However, for CY 2010 to CY 2013, there was a gradual improvement in the NIAT brought about by the expansion of client base through Landbank Conversion Program and maintaining and winning back lost corporate accounts to competition.



NEW INITIATIVES

STAFF DEVELOPMENT AND TRAININGS



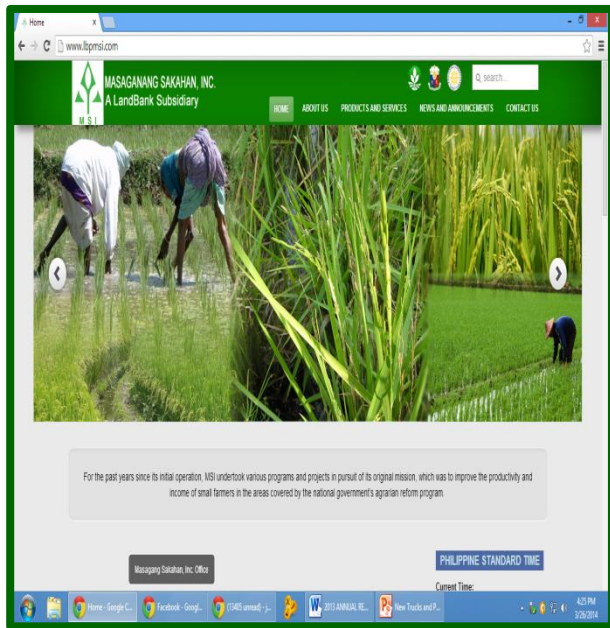
For the year, MSI has sent seven (7) of its employees to trainings and seminars conducted by recognized agencies intended to develop and enhance the skills of its existing workforce towards efficient and effective carrying out of tasks and responsibilities. Listed below were the seminars attended by selected employees of MSI for 2013:

1. PhilGEPS V1.1 Training for Buyers
2. Withholding Tax Policies for Government Withholding Agents
3. Sales and Operation Planning
4. Supervisory Effectiveness for Improved Quality and Productivity
5. Effective Selling and Negotiation Techniques
6. Effective Purchasing Management

IMPROVED PRODUCT PACKAGING AND DESIGN

It is also in CY 2013 that MSI introduced its new packaging design for purposes of safeguarding the quality of goods and as a promotional tool. The newly designed packaging comes in 50kgs (size 21X38) and 25kgs (size 18X29) laminated sacks with two sides full color printing and 2 kgs (size 8.5X13) plastic pack with two sides full color printing.





WEBSITE DEVELOPMENT

MSI through the assistance of SolutionsResource, a website development provider have initiated the development of MSI owned website for purposes of having own internet identity, professional and credible image, broaden market audience, promotion of products and services and educating customers.

Currently, MSI Website is already up and is in continuous enhancement to conform with the government regulatory requirements/standards and connect with the broaden market via internet.

NEW HAULING TRUCKS

To strengthen logistics in terms of speedy delivery services, management acquired two (2) brand new hauling trucks for 2013. These two (2) Isuzu trucks can be described as 6 and 4 wheeler with both open/dropside cargo hold and same engine displacement of 4600cc.

With the two (2) additional trucks, MSI delivery lead time showed significant improvement from 2012 average of 15 days to 2013 average of 13 days.





STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
Sales		220,848,090	178,935,741
Cost of Sales		189,189,724	155,266,021
Gross Profit		31,658,366	23,669,720
Operating expenses	15	20,440,802	15,378,361
Income (Loss) from operations		11,217,564	8,291,359
Other income		4,747,840	3,915,826
Net income before tax		15,965,404	12,207,185
Provision for income tax	17	4,477,045	3,290,662
NET INCOME		11,488,358	8,916,523

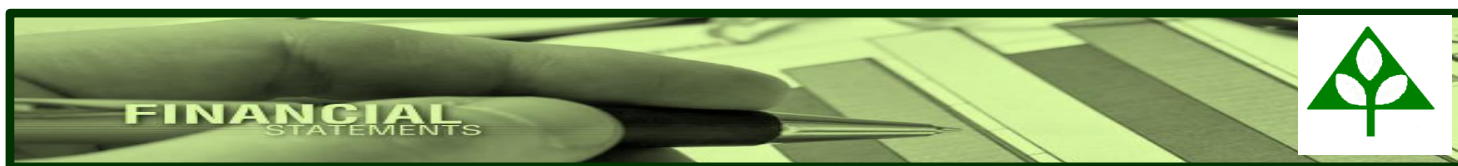


STATEMENT OF FINANCIAL POSITION

December 31, 2013

(In Philippine Peso)

	Note	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	3	92,207,596	79,824,983
Accounts receivable	4	33,815,952	36,976,322
Inventories	5	38,886,531	39,882,741
Notes receivable	6	-	-
Prepaid expenses	7	4,085,511	6,368,855
Other assets	8	1,191,233	1,323,437
		170,186,823	164,376,338
Non-current Assets			
Property, plant and equipment	9	4,746,174	909,319
Investment properties	10	4,649,618	4,649,618
Investment in stocks and bonds	11	57,200	57,200
		9,452,992	5,616,136
		179,639,815	169,992,474
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current Liabilities			
Accounts payable	12	59,744,901	54,552,110
Other liabilities	13	11,056,633	8,805,300
		70,801,533	63,357,410
Stockholder's Equity			
Common stock	14	90,000,000	90,000,000
Preferred stock	14	10,000,000	10,000,000
Retained Earnings, End		8,838,282	6,635,064
		108,838,282	106,635,064
		179,639,815	169,992,474



STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2013

(In Philippine Peso)

	Capital Stock		Surplus	Total
	Common Stock	Preferred Stock		
Balance, January 01, 2012	90,000,000	10,000,000	(2,281,459)	97,718,541
Net income for 2012			8,916,523	8,916,523
Balance, December 31, 2012			6,635,064	106,635,064
Cash Dividends			(4,776,612)	(4,776,612)
Adjustments			(273,009)	(273,009)
Balance, December 31, 2012 as adjusted	90,000,000	10,000,000	1,585,444	101,858,452
Adjustments			(4,235,520)	(4,235,520)
Net income for 2013			11,488,358	11,488,358
Balance, December 31, 2013	90,000,000	10,000,000	8,838,282	108,838,282



MASAGANANG SAKAHAN, INC.
(A Wholly-Owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

The Masaganang Sakahan, Inc. (MSI) was registered with the Securities and Exchange Commission on December 11, 1974 under SEC Registration No. 59145. The LBP acquired 100% equity ownership of MSI in 1974 and invested to date P100 million in the Corporation's common and preferred shares of stocks.

The primary objectives of MSI are:

- To engage in and carry on the business of purchase, and acquire, operate, maintain, lease, sell, and dispose of and deal in agricultural equipment and farm machineries and all other articles pertaining to agriculture;
- To make available its farm equipment and machineries to the farmers, owner-cultivators, agricultural lessees, tillers, and/or other beneficiaries of land reform for farm mechanization and development so as to obtain full utilization of lands and enhancement of agricultural products; and
- To engage in the business of purchase and sale, barter and exchange of rice and other cereals, and other commodities of native production in the Philippines.

The Corporation operates a Grain Center located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2012 were authorized for issue in accordance with a resolution of the Board of Directors on February 20, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis and all values are rounded to the nearest peso.

Statement of compliance

The financial statements of Masaganang Sakahan, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).



2.2 Adoption of new accounting standards

The accounting policies adopted are consistent with those of previous financial year except that the Corporation adopted those new/revised standards mandatory for financial years beginning on or after January 01, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- PAS 8 – Errors

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred: or
- b) if the error occurred before the earliest prior period presented; restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

- PAS 17 – Leases

Lease payment is recognized as an expense on a straight-line basis over the lease term.

- PAS 19 - Employee benefits

The equivalent value of the employees' leave credits for the year is accrued but termination benefit is not yet recognized as a liability.

- PAS 39 - Financial instruments

Investments are recorded at cost at the time of acquisition. Upon acquisition, the investments are classified as marketable securities when the maturity is 90 days to one year while investments with fixed determinable payments and fixed maturity as held-to-maturity investments that an entity has the positive intention and ability to hold to maturity.



- PAS 40 - Investment Property

Investment property is recognized as an asset since it is probable that future benefits that are associated with the property will flow to the entity.

The accounting policies adopted in preparing the financial statements are as follows:

- a. Cash and cash equivalents in the balance sheet is comprised of cash in banks and on hand.
- b. Trade receivables which generally have 30-90 day term are recognized and carried at original invoice amount. When there is objective evidence that the Corporation will not be able to collect the receivables, an allowance for probable losses is provided.
- c. Allowance for probable losses is set up for expected losses from non-moving trade receivables considering the debtor's capacity to pay.
- d. Inventories are valued at cost including the costs incurred in bringing each item to its present condition.
- e. Investment and other financial assets are recorded at cost at the time of acquisition. Non-derivative financial assets with fixed determinable payment and maturity are classified as held-to-maturity when the Corporation has the positive intention and ability to hold to maturity. Investments are classified as marketable securities upon acquisition when the maturity is 90 days to one year while investment with maturity of more than one year is considered as long term investments
- f. Property, Plant and Equipment are recorded at cost. Depreciation is computed on a straight-line method over the estimated useful life of the respective assets after deducting the ten percent (10%) residual value. Maintenance and repairs are charged to expenses as incurred while major repairs and betterments are capitalized. When the items of property or equipment are disposed, the related cost and accumulated depreciation are removed from the accounts and any gain is treated as income.
- g. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss.



3. CASH AND CASH EQUIVALENTS

This account consists of the following:

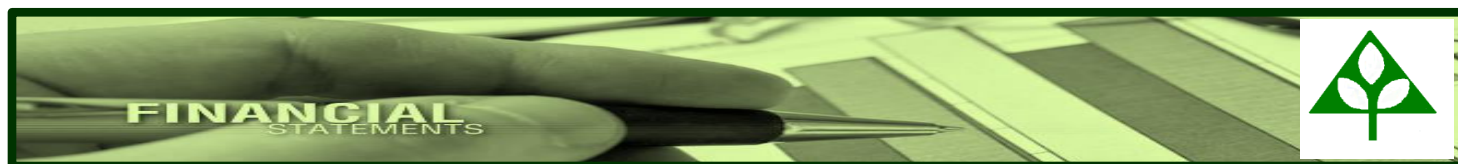
		2013		2012
Cash in Bank	P	48,596,564	P	12,156,181
HYSA & MMUITF (Land Bank)		43,167,200		67,505,000
Operating Fund (SRGC)		142,301		143,802
Cash Collecting Officer		281,531		
Petty Cash		20,000		20,000
	P	92,207,596	P	79,824,983

* This account represents MSI's placements on December 18, 2013 HYSA – Land Bank on Account No. 45977TA01 in the amount of P12,955,800 for 30 days at 1.07500% per annum and in Money Market Unit Investment Trust Fund – Land Bank in the amount of P30,230,200 per COP No. 001857 dated November 18, 2013.

4. ACCOUNTS RECEIVABLE

This account consists of the following:

		2013		2012
Trade				
Rice	P	37,725,761	P	40,971,441
Palay		17,528,244		17,528,244
Others		961,997		950,487
		56,216,002		59,450,172
Allowance for probable losses		(22,400,050)		22,473,850
	P	33,815,952		36,976,322



5. INVENTORIES

This account consists of the following:

		2013		2012
Palay	P	28,389,180	P	29,391,332
Rice		9,143,855		8,044,416
Brokens		1,169,416		2,339,061
By-Products		184,079		107,932
	P	38,886,531	P	39,882,741

The cost of the palay stocks is the actual procurement cost. For the rice inventory at SRGC, the cost includes the cost of palay issued for milling using the average method, procurement expenses (related expenses incurred during procurement of palay) and milling expenses.

6. NOTES RECEIVABLES

This account represents the restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes, as follows:

		2013		2012
Notes Receivables	P	64,608	P	64,608
Allowance for Probable losses		(64,608)		(64,608)
		-		-

7. PREPAID EXPENSES

		2013		2012
Taxes withheld	P	3,457,085	P	5,803,614
Fidelity Bond premium		10,499		10,499
Rice Benefit		78,221		65,318
Medical		247,000		247,000
Insurance Premium		26,746		23,058
Office rent		90,825		86,500
Uniform		31,500		
Taxes, Licenses & Fees		143,636		132,865
TOTAL	P	4,085,511	P	6,368,854



8. OTHER ASSETS

This account consists of the following:

		2013		2012
Guaranty deposits	P	473,938	P	732,125
Supplies and Materials		717,296		591,312
	P	1,191,233	P	1,323,437

9. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Transportation Equipment	Office Equipment	Furnitures & Fixtures	Other PPE	Leasehold Improvement	TOTAL
Cost, January 1, 2013	2,899,748	1,011,891	981,041	14,560	139,626	5,046,866
Additions	4,102,555	127,830			33,660	4,264,045
Disposals	-	(72,640)				(72,640)
December 31, 2013	7,002,303	1,067,081	981,041	14,560	173,286	9,238,270
Accumulated depreciation/amortization						
January 1, 2013	2,552,313	872,634	712,382	218		4,137,547
Depreciation/amortization	231,309	(38,048)	72,612	2,621	86,055	354,549
December 31, 2013	2,783,622	834,586	784,994	2,839	86,055	4,492,096
Net carrying amount, December 31, 2013	4,218,681	232,495	196,047	11,721	87,230	4,746,174
Net carrying amount, December 31, 2012	347,435	139,257	268,659	14,342	139,626	909,319



10. INVESTMENT PROPERTIES

		2013		2012
Investment Property	P	4,649,618	P	4,649,618
Allowance depreciation / Impairment loss		-		-
		4,649,618		4,649,618

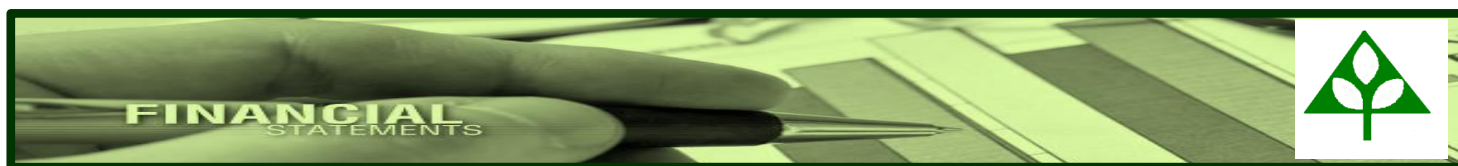
11. INVESTMENT IN STOCKS AND BONDS

		2013		2012
PLDT	P	57,200	P	57,200
Fil-Capital		208,400		208,400
Archmar		200		200
Cagayan Sugar Farmers Coop. Assoc.		1,500		1,500
		267,300		267,300
Allowance for market decline		(210,100)		(210,100)
	P	57,200		57,200

12. ACCOUNTS PAYABLE

Payables – Trade/Business

		2013		2012
PIK Palay/Rice	P	55,932,364	P	52,072,060
Rice Suppliers		3,805,257		2,480,050
	P	59,737,621	P	54,552,110



13. OTHER LIABILITIES

This account consists of the following:

		2013		2012
Deferred Interest Income	P	7,547	P	
Payable-Voucher		83,452		385,315
Withholding Tax Payable		81,567		229,831
Income Tax Payable		4,787,336		3,290,662
Miscellaneous		5,468,186		4,899,492
TOTAL	P	10,428,087	P	8,805,300

Miscellaneous Liabilities represents accrual of unpaid expenses for 2013.

14. CAPITAL STOCK

The increase in authorized capital stock from P25,000,000.00 to P100,000,000.00 divided into 9,000,000 common shares and 1,000,000 preferred shares with a par value of ten pesos (P10.00) per share was approved by the Securities and Exchange Commission on January 14, 1993.

The Land Bank of the Philippines has fully subscribed and paid MSI's P100,000,000.00 capital stock



15. OPERATING EXPENSES

		<u>2013</u>	<u>2012</u>
Salaries and wages	P	4,094,868	P 3,732,357
Other Benefits		5,135,048	1,482,986
Supplies and materials		1,125,039	1,276,023
Bonus and incentives		1,973,900	1,831,150
Light, power and water		481,595	505,330
Other Services		906,154	592,747
Rent		1,038,000	1,136,046
Representation and entertainment		369,255	454,394
Security Services		206,820	229,140
Taxes, licenses and fees		781,822	712,093
Communication		449,236	452,781
Business development		87,501	
Depreciation		341,129	238,122
SSS, Philhealth and Pag-ibig Premiums		284,800	270,209
Travelling expenses		296,925	378,619
Gasoline and Oil		226,829	149,675
Insurance		77,069	152,477
Repairs and maintenance		108,186	52,073
Spare Parts		203,951	56,874
Per diem/Allowances		528,000	249,000
Reproduction		111,136	109,550
Loss on Palay shrinkage		521,046	364,657
Loss on Rice Inventory		834,114	909,660
Overtime Pay		58,042	20,573
Amortization Expense		85,240	
Interest and other bank charges		115,098	21,824
	P	20,440,802	P 15,378,361



16. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulation No. 15-2010 hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year:

A. Local

		2013		2012
Mayor's Permit - Head Office & SRGC	P	606,046	P	398,467
Community Tax - Head Office		10,500		10,500
Realty Tax		132,865		124,516
Municipal License - SRGC				122,100
Locational Clearance(SRGC)				22,700
Barangay Clearance				1,400
	P	749,411	P	679,683

B. National

		2013		2012
NFA License	P	32,410	P	32,410
	P	32,410	P	32,410

C. Withholding taxes paid/accrued for the year:

		2013		2012
Taxes on compensation and benefits	P	702,204	P	635,641
Creditable withholding tax/es		642,772		147,064
	P	1,344,977	P	782,705



17. PROVISION FOR INCOME TAX

Tax liabilities for the current period are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

Net Income before tax	P	15,965,404	P	12,207,185
Less: Income subjected to final tax		1,041,919		1,238,312
Net Income subject to tax	P	14,923,484	P	10,968,873
Tax rate		30%		30%
Provision for tax		4,477,045		3,290,662

18. RESTATEMENT

Corrections of the prior year's expenses and income are classified as prior period adjustments. The prior year's financial statements were restated to correct the prior period errors in accordance with the provision of paragraph 42 of PAS 8.

19. RELATED PARTY TRANSACTIONS

A Management Contract exists between the MSI and the LBP wherein MSI guarantees the purchase of rice in amounts equivalent to the rice requirements of the employees of the Bank. Also, there is a Payment-in-Kind Program wherein MSI undertakes the collection of loan receivables of LBP from farmers/cooperatives in the form of palay and rice, the value of which is payable to the Bank within 90 days. Further, included in the members of the Board of Directors and Executive Committee of MSI are LBP Officers.

The transactions of MSI with LBP, the parent corporation, are as follows:

		2013		2012
Sales - rice allocation of LBP employees	P	169,749,983	P	144,347,548
Outstanding Receivables		29,149,614		38,349,590
Receivables - Miscellaneous form LBP Officers		35,000		35,000
Outstanding Payables		55,932,364		52,072,060
	P	254,866,961	P	234,804,198



20. COMPENSATION OF KEY MANAGEMENT OFFICIALS

		2013		2012
Basic Salary	P	1,104,494	P	911,438
Fringe Benefits		196,775		134,721
Total	P	1,301,269	P	1,046,159