



MSI 2014 ANNUAL REPORT

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.

2014 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.

2014 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.

2014 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.

Ms. Annalene M. Bautista, MSI Treasurer, replaced Mr. Romeo Castro, 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. 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
- ❖ Makings 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

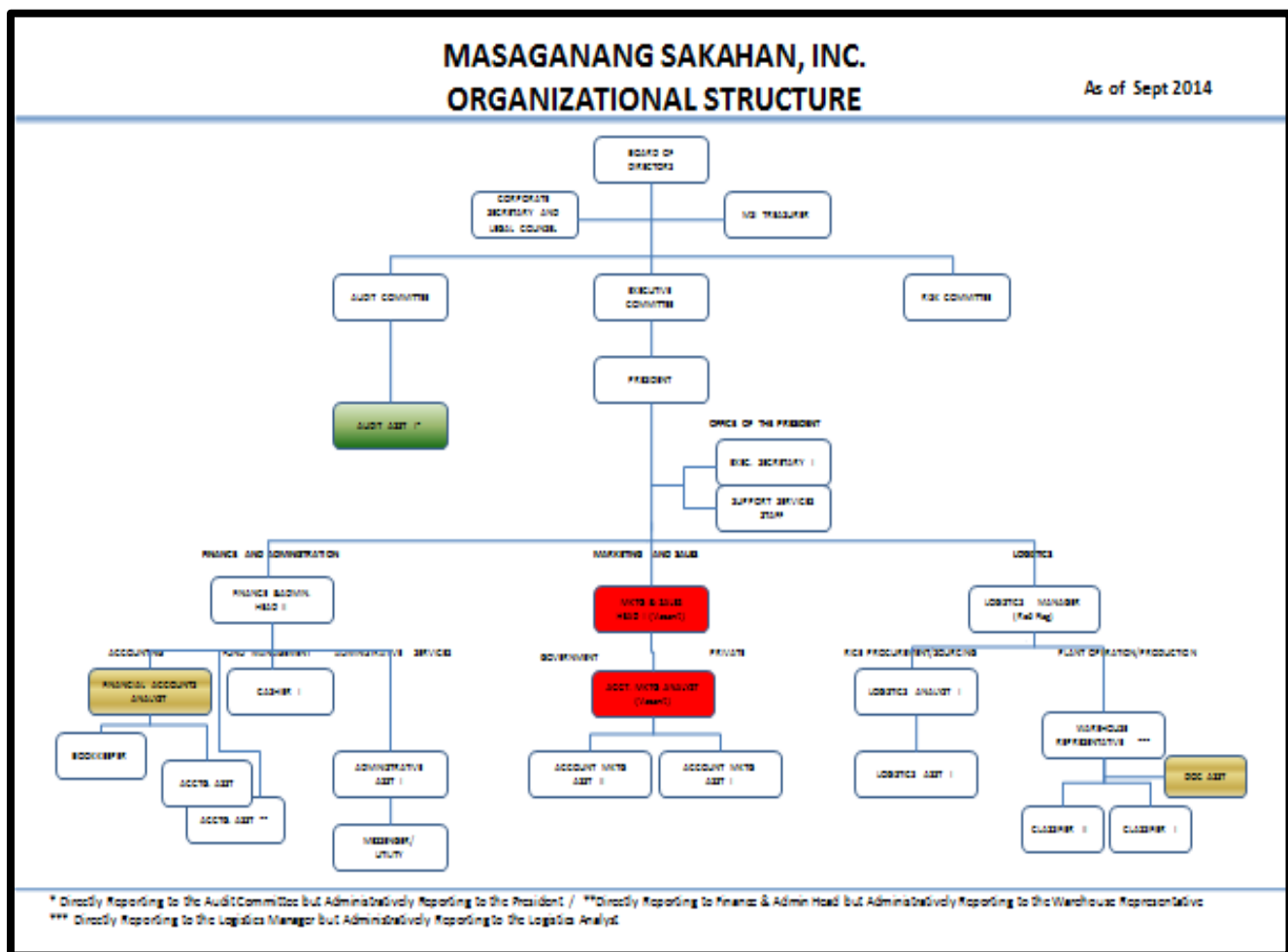
In the course of MSI operations, MSI seek to identify opportunities to reduce consumption of energy, water and other natural resources. We also strive to re-use and recycle where possible like paper and dispose of non-recyclable items responsibly, thereby minimizing our impact on the environment.

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

III. Organizational Structure

For 2014, MSI is composed of a total of 23 plantilla positions, with 18 filled up positions. One (1) position is for replacement brought about by the availment of early separation by the Audit Assistant by end of June 2014. There were two (2) positions for new hiring in Finance and Administration Unit and Logistics Unit, respectively, and two (2) vacant positions in the Marketing and Sales Unit.

The Amended Organizational Structure adoptive to the existing needs and operations of MSI is composed of 2 operational units, i.e, Logistics Unit & Marketing-Sales Unit, and 2 support units, i.e., Finance & Administration Unit and Unit under the Office of the President.



MSI BOARD IN ACTION

MSI Board for 2014 focused on enhancing the leadership skills of its Directors and employees and strengthening the core business of MSI.

A. Professional Directors Program for Continuing Education in Corporate Governance

For the year, part of MSI corporate governance initiatives and the program for continuing education of Directors, four (4) of MSI Directors attended the 5-Days Professional Directors Program conducted by the Institute of Corporate Directors, namely, Dir. Roy Oscillada, Dir. Conrado Roxas, Dir. Ramon Cervantes and Dir. Daniel Agustin.



B. Dividends Remittance to the National Government

For the second time in 2014, MSI remitted to the national government a total of P5,744,179.20 in cash dividend from its 2013 net income, representing a 20% increase in dividend remittance.



C. New Appointments

The Board unanimously approved the appointment of Ms. Annalene M. Bautista on September 23, 2014 to become the new MSI Treasurer, vice Mr. Romeo C. Castro who retired from LandBank. She assumed the primary responsibility for the custody of all moneys, securities and values of MSI which come into her possession.

D. Policies and Procedures

MSI Board continuously initiates the development, implementation and enhancement of policies and procedures in order to ensure that board policies, management execution and staff performance were properly synchronized.

For CY 2014 the Board promulgated the following policies and procedures:

1. Performance Evaluation Tool/System for Directors and Management
2. Inclusion of Mandated Leaves into the MSI Personnel Manual
3. Guideline on the Use of CCTV Camera
4. Amendments on the following:
 - 4.1 MSI Manual of Corporate Governance
 - 4.2 MSI Articles of Incorporation and By-Laws
 - 4.3 MSI No Gift Policy



E. Oath Taking of New Set of Members of the Board of Directors

In March 2, 2015, the oathtaking of the newly appointed MSI Directors was administered by Secretary Cesar V. Purisima of the Department of Finance and will serve the unexpired term of office that began on July 1, 2014 and to end on June 30, 2015.



MSI OPERATIONS



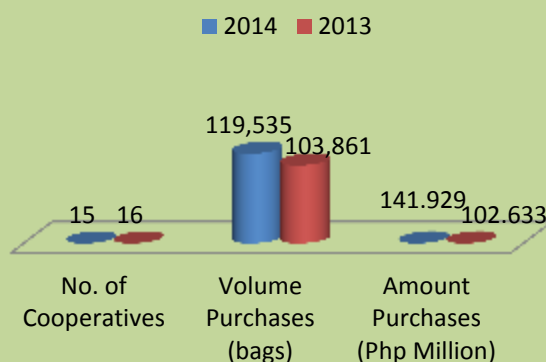
PURSUIT OF MANDATE

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

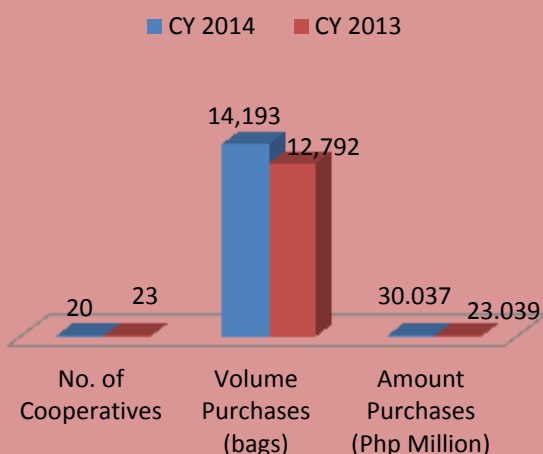
For the 2014, MSI's payment-in-kind program for palay came from fifteen (15) cooperatives which delivered a total of 119,535 bags amounting to P141.929 Million.

There is an increase in volume and amount by 15% and 38%, respectively.

Provided by Cooperatives (Palay)



Provided by Cooperatives (Milled Rice)

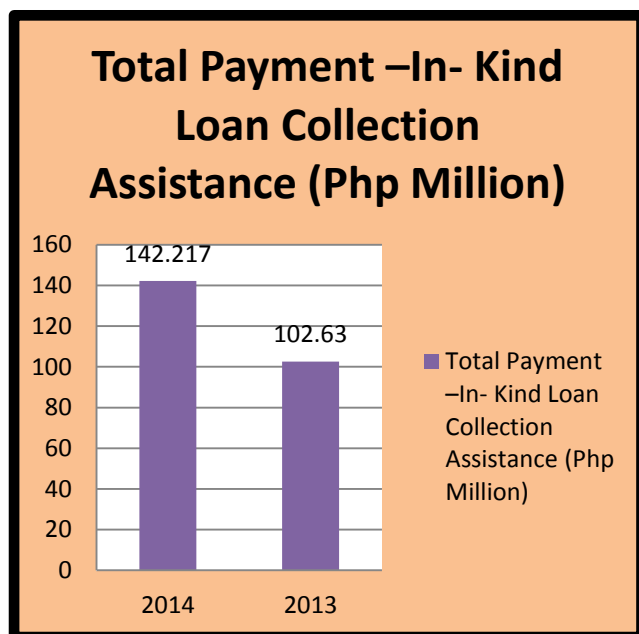
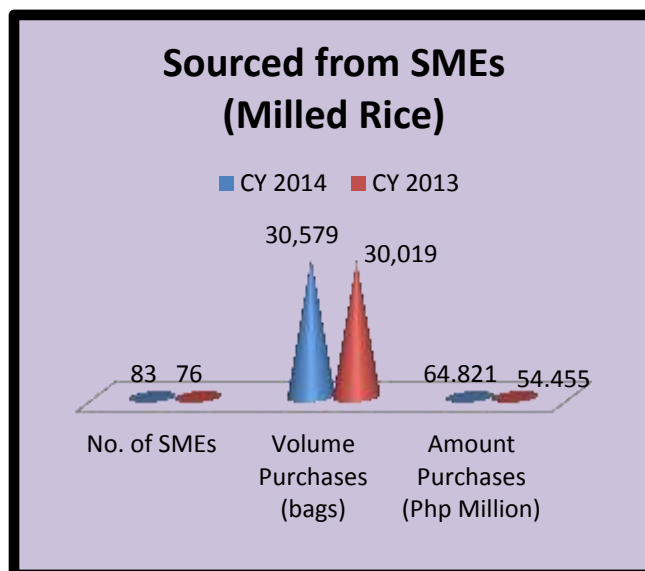


The significant increase in PIK amount is attributable to the market-led increase in the average cost of dried palay from P19.76/kg to P23.75/kg.

For 2014, twenty (20) cooperatives of farmers and fisherfolk provided MSI a total of 14,193 bags of milled rice amounting to P30.037 Million. This registered an increase of 11% and 30% in terms of volume and amount compared to year 2013.

MSI was able to source from 83 Small and Medium Enterprises (SMEs) a total of 30,579 bags of milled rice amounting to P64.821 Million. This posted an increase of 2% and 19% in terms of volume and amount compared to year 2013.

The significant improvement in the amount compared to last year can be attributed to 17% increase in average cost of milled rice from P1,814.00/bag to P2,120.00/bag this year.



For 2014, MSI was able to provide loan collection assistance to LandBank the amount of P142.217 Million under the Payment-In-Kind Program.

For PIK-Palay, MSI was able to collect a total of P141.129 Million.

And for PIK - Milled Rice, MSI was able to collect a total of P1.088 Million.

INSTITUTIONAL VIABILITY

KEY RESULTS AREA: SUSTAINABLE BUSINESS OPERATIONS AND DEVELOPMENT SUPPORT

For 2014, MSI delivered nationwide to LandBank Branches and Field Operating Units, including the subsidiaries, a total of 87,972 bags of milled rice, up by 3% compared to year 2013 of only 85,542 bags of milled rice.

MSI generated total sales of P208.83 Million and a gross margin of P24.24 Million, showing significant improvement over last year's sales of P169.75 and slight improvement in gross margin of P23.98 Million from last year's P23.98 Million, respectively.

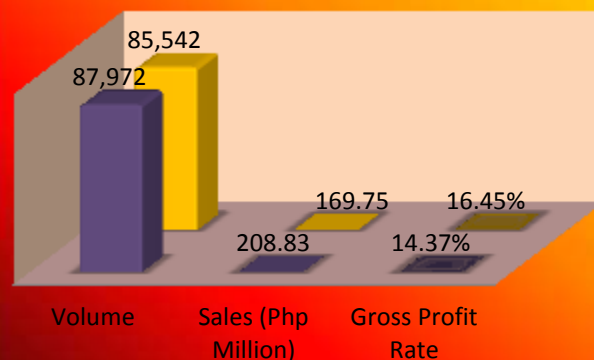
Substantial increase in MSI's gross sales can be attributed to increases in market prices of milled rice as per Bureau of Agricultural Statistics and MSI's market price canvasses.

For Non-LandBank Accounts, MSI was able to deliver the milled rice requirements of 54 corporate accounts and primary accounts (maintained and newly served).

A total of 14,560 bags of milled rice were traded giving the company revenues totalling to P30.46 Million and a gross profit of P3.62 Million or GP rate of 13.49%.

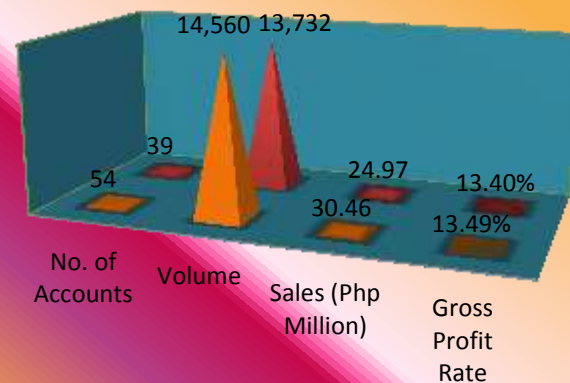
LandBank - Milled Rice

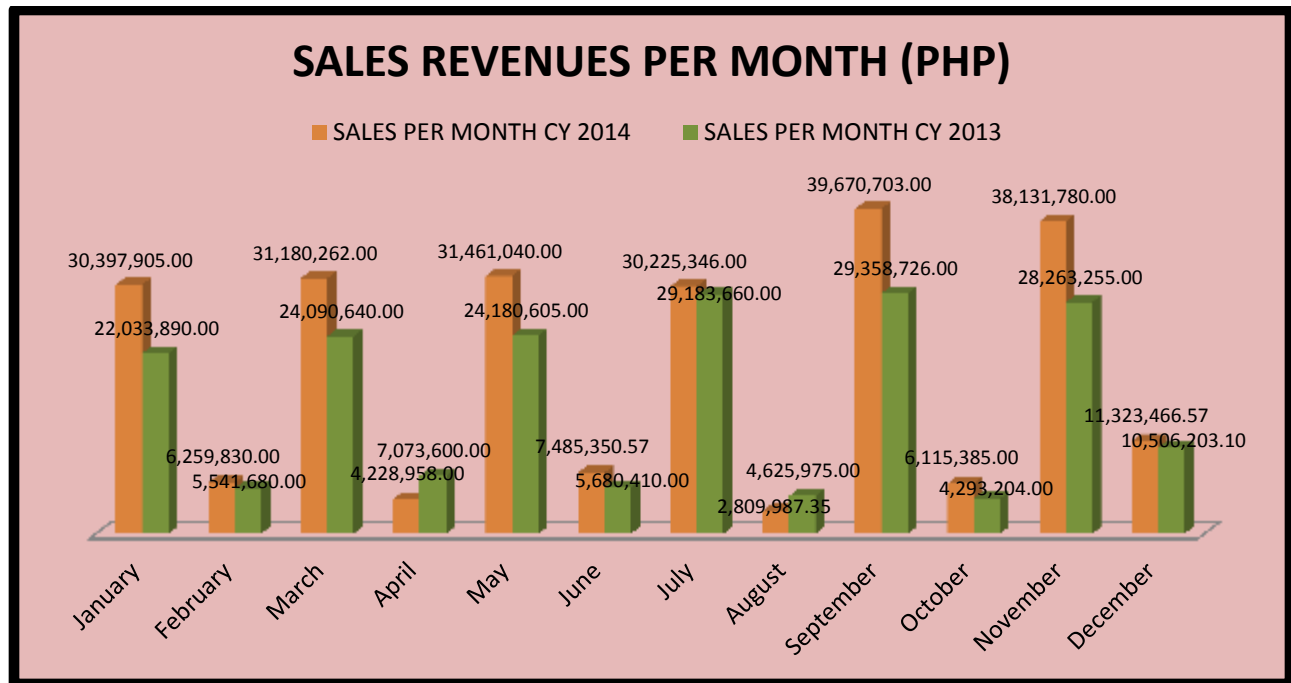
■ CY 2014 ■ CY 2013



Non-LandBank - Milled Rice

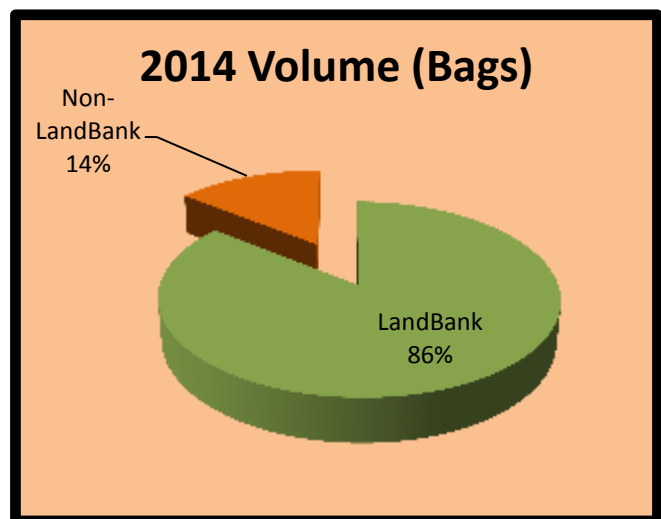
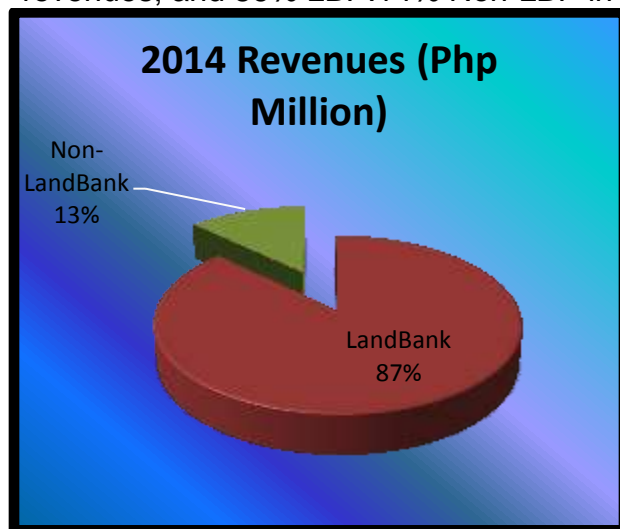
■ CY 2014 ■ CY 2013





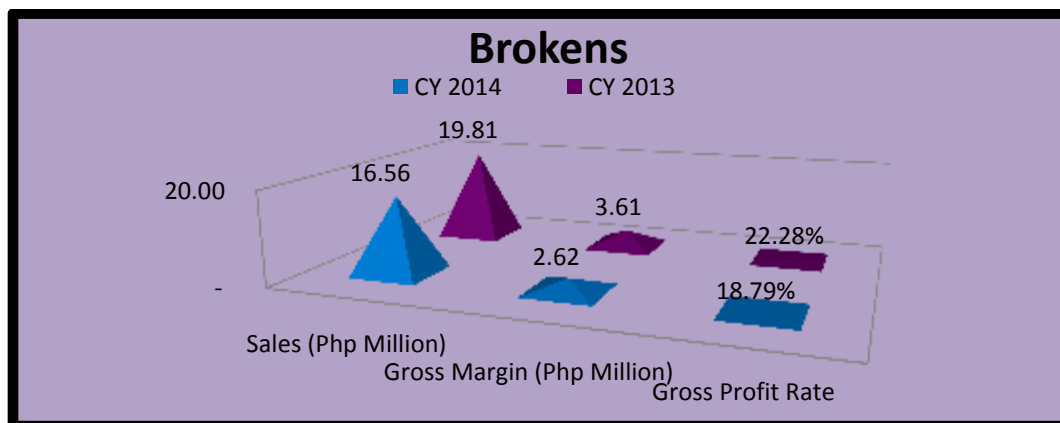
The above table showed the monthly sales turnover for milled rice for CY 2013 and CY 2014. The graphical trend showed an increase in sales every other month which could be traced to LandBank's allocation period.

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

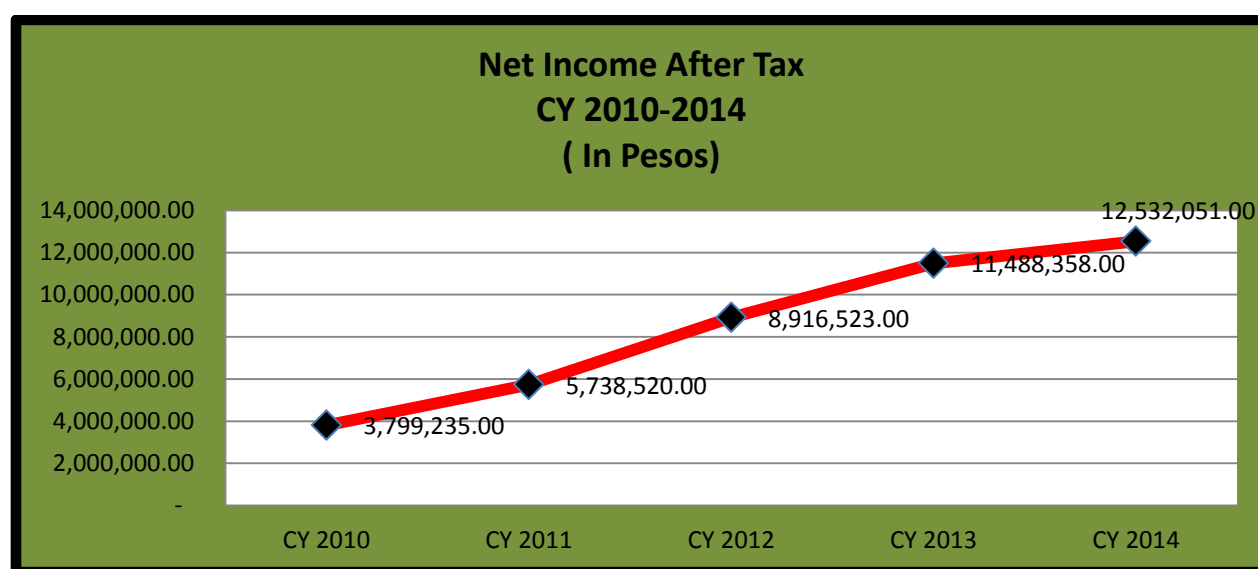


For 2014, MSI generated P16.56 Million from the sales of brokenes

For the Brokenes, sales (P19.81 Million) and gross margin (P3.61 Million) declined by 16% and 27%, respectively, compared to year 2013. The decreases can be attributed to the reduced volume traded for brokenes brought about by the slowdown of demand starting September 2014 as disposal coincides with the start of the harvest season. However, average selling price per bag remained high at P1,689.28/bag vs. P1,352.13/bag in 2013.

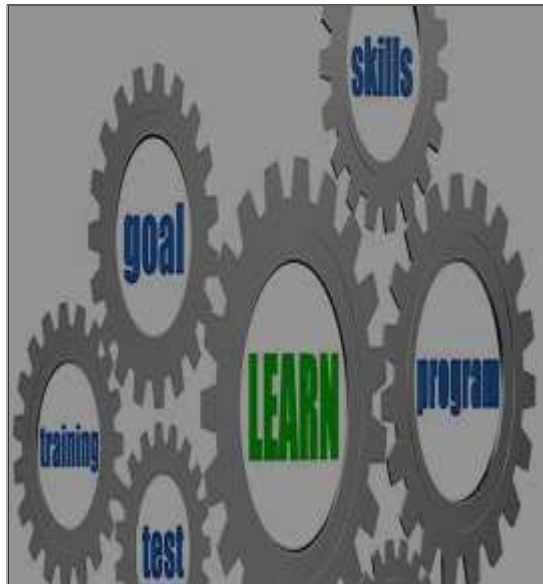


In summary, from CY 2010 to CY 2014, MSI continue to improve its Net Income (NIAT) brought about by the initial expansion of client base through the Landbank Conversion Program, completed nationwide since Nov-Dec 2012 and successfully sustained until 2014. This is also supported by maintaining and winning back lost corporate accounts. At present, MSI is developing more the primary markets whose procurement is anchored on the patronage of products with consistent good quality, availability and flexibility to demand to which MSI responds competitively.



NEW INITIATIVES

A. STAFF DEVELOPMENT AND TRAININGS



For the year, MSI has sent six (6) 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 2014:

1. Training on Republic Act No. 9184 and its Revised Implementing Rules and Regulations.
2. Technical Workshop on the performance Evaluation System for FY 2015
3. Integrated Corporate Reporting System (ICRS) Orientation/Workshop
4. Gender and Development Seminar

B. PILOT DEVELOPMENT OF PRIMARY MARKETS



For 2014, MSI started to focus on serving the “**primary market**”. This primary market refers to the type of clients whose main business activity involves the purchase of milled rice either consumption or for purposes of selling. (Examples: Restaurants, Hospitals, Hotels, Caterers, etc.)



FINANCIAL HIGHLIGHTS

FINANCIAL STATEMENTS

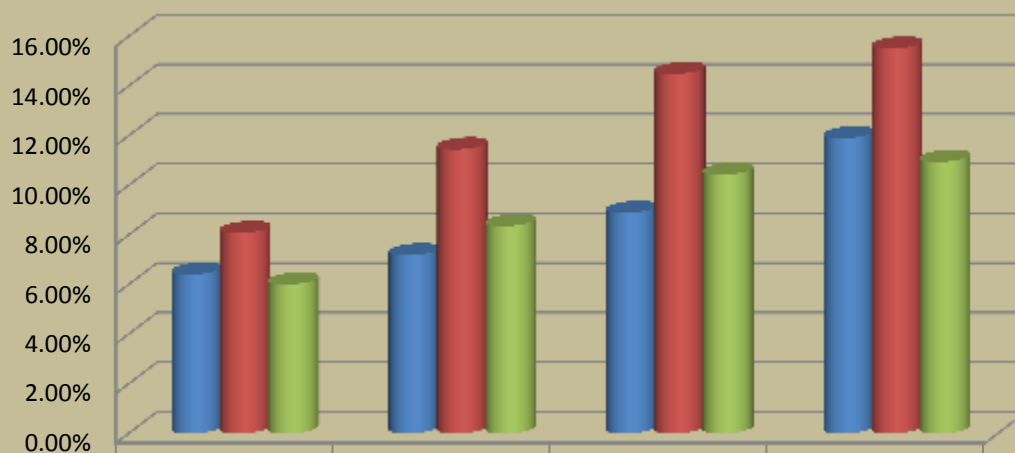
Sustainable Business Operation and Developmental Support (In Php Million)

	2011	2012	2013	2014
Gross Revenues	129.26	178.94	220.85	265.12
Cost of Sales	112.76	155.27	189.19	228.92
Gross Profit	16.50	23.67	31.66	36.20
Operating Expenses	12.84	15.38	20.44	19.15
Net Operating Income	3.66	8.29	11.22	17.06
Other Income	4.05	3.92	4.75	0.67
Net Income Before Tax	7.71	12.21	15.97	17.73
Net Income After Tax	5.74	8.92	11.49	12.52

Financial Condition

	2011	2012	2013	2014
Assets	120.30	169.99	179.64	148.94
Liabilities	24.86	63.36	70.80	34.65
Equity	95.44	106.64	108.84	114.29

FINACIAL INDICATORS



	CY 2011	CY 2012	CY 2013	CY 2014
Return on Assets	6.41%	7.18%	8.89%	11.90%
Return on Equity	8.08%	11.45%	14.49%	15.51%
Return on Investment	6.01%	8.36%	10.43%	10.95%



STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013 as restated
Sales		262,467,004	220,841,090
Cost of Sales		228,917,963	189,189,725
Gross Profit		33,549,040	31,651,365
Operating expenses	17	19,146,996	21,137,785
Income (Loss) from operations		14,402,045	10,513,580
Other income		3,328,913	4,747,840
Net income before tax		17,730,958	15,261,420
Provision for income tax	20	5,210,728	4,477,045
NET INCOME		12,520,230	10,784,375



STATEMENT OF FINANCIAL POSITION

December 31, 2014

(In Philippine Peso)

	Note	2014	2013 as restated
ASSETS			
Current Assets			
Cash and cash equivalents	3	45,968,339	61,977,396
FA – Fair Value through Profit or Loss	4	4,469,025	30,230,200
Accounts receivable	5	55,312,017	33,940,532
Inventories	6	31,951,537	36,411,907
Notes receivable	7	-	-
Prepaid expenses	8	1,297,624	4,085,511
Other assets	9	1,299,371	1,191,233
		140,297,913	167,836,779
Non-current Assets			
Property, plant and equipment	10	4,232,099	4,746,174
Investment properties	11	4,351,418	4,649,618
Investment in stocks and bonds	12	57,200	57,200
		8,640,717	9,542,992
		148,938,630	177,289,771
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current Liabilities			
Accounts payable	13	23,376,805	59,744,901
Other liabilities	14	11,269,908	10,029,004
		34,646,713	69,773,905
Stockholder's Equity			
Common stock	15	90,000,000	90,000,000
Preferred stock	15	10,000,000	10,000,000
Retained Earnings, End		14,291,917	7,515,866
		114,938,630	107,515,866
		148,938,630	177,289,771



STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2014
(In Philippine Peso)

	Capital Stock		Retained Earnings as restated	Total
	Common Stock	Preferred Stock		
Balance, January 01, 2013, as restated	90,000,000	10,000,000	1,781,112	101,781,112
Prior period adjustments			(273,009)	(273,009)
Net Income for CY 2013, as restated			10,784,375	10,784,375
Cash Dividends			(4,776,612)	(4,776,612)
Balance, December 31, 2012 as adjusted	90,000,000	10,000,000	7,515,866	107,515,866
Cash Dividends			(5,744,179)	(5,744,179)
Net income for CY 2014			12,520,230	12,520,230
Balance, December 31, 2014	90,000,000	10,000,000	14,291,917	114,291,917



CASH FLOW STATEMENT
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013 As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		227,205,165	227,585,080
Cash Paid to suppliers and employees		(259,011,795)	(203,581,881)
Interest and other income		204,433	504,684
Bank charges		150	(221)
Taxes, Licences and Fees		(3,511,200)	(3,089,804)
Net cash provided by operating activities		(35,113,247)	21,417,858
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of IT Software		(172,500)	0
Purchase of office equipment		(107,661)	(127,830)
Purchase of transportation equipment		0	(4,102,555)
Purchase of Furniture and Fixtures		(14,000)	0
Leasehold improvement		(39,445)	(33,660)
Purchase of other property, plant and equipment		(281,000)	0
Proceeds from/Placement of Investment		25,761,175	(30,230,200)
Proceeds from sale of office equipment			5952
Proceeds from Sale of Investment Property		(298,200)	0
Net cash Used in Investing Activities		24,848,369	(34,488,293)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of Cash Dividends		(5,744,179)	(4,776,612)
Net cash Used in Financing Activities		(5,744,179)	(4,776,612)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(16,009,057)	(17,847,047)
CASH AND CASH EQUIVALENTS, beginning of the year		61,977,396	79,824,443
CASH AND CASH EQUIVALENTS, END OF YEAR	3	45,968,339	61,977,396



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 per cent 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, 2014 were authorized for issue in accordance with the Resolution of the Board of Directors on February 20, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements preparation

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



2.2 Statement of compliance

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

2.3 Adoption of new accounting standards and accounting policies

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 resulted 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**

This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.



- 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 are classified 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 when it is probable that the future economic 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 Statement of Financial Position is comprised of cash in bank, short term investment and cash 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.

The cost of the palay stocks is the actual procurement cost. For the rice inventory, the cost includes the cost of palay issued for milling (using the FIFO valuation method) and other related expenses during palay procurement and milling expenses. Specific identification method of valuation of inventory of rice is being used since milling is done on a per order basis.

- 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 10 per cent 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:

	2014	2013
Cash in bank	25,656,660	48,596,564
High Yield Savings Account (HYSA) *	20,054,647	12,937,000
Operating fund - Sta. Rosa Grain Center (SRGC)	203,681	142,301
Cash collecting officer	13,351	281,531
Petty cash	40,000	20,000
	45,968,339	61,977,396

*This account represents placements at Land Bank of the Philippines Trust Banking Group maturing in 30 days.



4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This Account represents placement amounting to P30,230,200 in Money Market Unit Investment Trust Fund (MMUITF) in November 18, 2013 at LBP Trust Banking Group. As of December 31, 2014 the remaining balance of this investment amounted to P4,469,025.

5. ACCOUNTS RECEIVABLE

This account consists of trade receivables for the following:

	2014	2013 As restated
Rice	59,085,939	37,719,261
Palay	17,528,244	17,528,244
Others	966,804	961,997
	77,580,987	56,209,502
Allowance for probable losses	(22,268,970)	(22,268,970)
	55,312,017	33,940,532

6. INVENTORIES

This account consists of the following:

	2014	2013 As restated
Palay	22,102,103	25,914,557
Rice	3,390,373	9,143,855
Brokens	6,436,374	1,169,416
By-products	22,687	184,079
	31,951,537	36,411,907



7. NOTES RECEIVABLES

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

	2014	2013
Notes receivables	64,608	64,608
Allowance for probable losses	(64,608)	(64,608)
	0	0

8. PREPAID EXPENSES

This account consists of the following:

	2014	2013
Uniform	304,074	31,500
Rice benefit	291,964	78,221
Office rent	234,000	90,825
Taxes, licenses & fees	142,070	143,636
Taxes withheld	126,823	3,457,084
Insurance premium	90,825	26,746
Fidelity bond premium	75,000	10,499
Condo dues	22,369	0
Medical	10,499	247,000
	1,297,624	4,085,511

9. OTHER ASSETS

This account consists of the following:

	2014	2013
Guaranty deposits		473,937
Supplies and materials	826,933	717,296
Intangible	166,050	0
	1,299,371	1,191,233

Guaranty deposits are deposits for rental of office space and photocopying machine subject to refund. Supplies and materials represent cost of office supplies and sack inventory.

Intangible represents the net book value of the acquired accounting system. As of December 31, 2014, the total amortization expense recognized amounted to P6,450.

10. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Transportation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improvements	TOTAL
Cost, January 1, 2014	7,002,303	1,067,081	981,041	14,560	87,230	9,152,215
Additions		107,661	14,000	281,000	39,445	442,106
Adjustments		40,265	(39,665)			600
Balance, December 31, 2014	7,002,303	1,215,007	955,376	295,560	126,675	9,594,921
Accumulated depreciation/amortization, January 1, 2014	2,783,622	834,586	784,994	2,839	0	4,406,041
Depreciation/amortization	679,760	59,582	73,242	36,116	108,082	956,782
Adjustments		39,663	(39,664)			(1)
Balance, December 31, 2014	3,463,382	933,831	818,572	38,955	108,082	5,362,822
Net carrying amount, December 31, 2014	3,538,921	281,176	136,804	256,605	18,593	4,232,099
Net carrying amount, December 31, 2013	4,218,681	232,495	196,047	11,721	87,230	4,746,174



11. INVESTMENT PROPERTIES

This account pertains to the book value of land as follows:

	2014	2013
Investment property	4,351,418	4,649,618
Allowance for depreciation/Impairment loss	0	0
	4,351,418	4,649,618

12. INVESTMENT IN STOCKS AND BONDS

This account consists of investments with the following:

	2014	2013
Fil-Capital	208,400	208,400
PLDT	57,200	57,200
Cagayan Sugar Farmers Coop. Association	1,500	1,500
Archmar	200	200
	267,300	267,300
Allowance for market decline	(210,100)	(210,100)
	57,200	57,200

Allowance for market decline pertains to 100 per cent provision for impairment on investment in securities with Fil-Capital, Achmar and Cagayan Sugar Farmers Coop. Association.

13. ACCOUNTS PAYABLE

This account pertains to MSI's trade/business payables consisting of:

	2014	2013
Payment-in-kind – Palay & Rice	20,571,195	55,939,644
Rice suppliers	2,805,610	3,805,257
	23,376,805	59,744,901



Payment-in-kind - Palay & Rice represents payables of MSI to LBP for the collection in kind (Palay/Rice) from cooperatives with loans from LBP.

14. OTHER LIABILITIES

This account consists of the following:

	2014	2013 As restated
Income tax payable	1,698,443	3,149,149
Payable - Voucher	69,226	361,057
Trust liabilities – SSS, PHIC, Pag-ibig	64,668	0
Withholding tax payable	26,966	82,247
Retention payable	7,500	0
Deferred interest income	0	7,546
Miscellaneous liabilities	9,403,105	6,429,005
	11,269,908	10,029,004

Miscellaneous liabilities represents accrual of operating expenses such as salaries, retirement benefits, utilities, etc. for CY2014 and unapplied payments of clients temporarily lodged to this account as December 31, 2014. Said payments were already recorded in its proper accounts in January 2015.

15. CAPITAL STOCK

The increase in authorized capital stock from P25 million to P100 million divided into nine million common shares and one million 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 million capital stock.



16. RETAINED EARNINGS

The balance of this account as of December 31, 2014 is computed as follows:

	Amount
Retained Earnings, December 31, 2012	3,727,440
Add/(Deduct): Adjustments of prior years' errors	
Reversal of allowance for bad debts	131,080
Loss on shrinkage for CY 2012 and 2010	(2,077,408)
Retained Earnings, December 31, 2012 as restated	1,781,112
Net income for CY 2013, as restated	
Net income for CY 2013	11,488,358
Less: Correction in CY 2013 sales	(7,000)
Correction in prior year's expenses	(696,983)
Cash dividends to NG	(4,776,612)
Prior period adjustments	(273,009)
Retained Earnings, December 31, 2013, as restated	7,515,866
Net income for CY 2014	12,520,230
Cash dividends to NG	(5,744,179)
Retained Earnings, December 31, 2014	14,219,917



17. OPERATING EXPENSES

This consists of the personal services and maintenance and other operating expenses as follows:

	2014	2013 As restated
Salaries and wages	4,050,000	4,094,867
Loss on palay shrinkage	1,889,129	918,261
Other benefits	1,870,185	5,160,048
Bonus and incentives	1,828,750	1,880,800
Supplies and materials	1,512,759	1,125,039
Other services	1,171,684	906,154
Rent	1,089,900	1,038,000
Depreciation	848,700	341,129
Taxes, licenses and fees	840,546	1,048,662
Light, power and water	529,864	524,809
Representation and entertainment	499,429	370,307
Per diem/Allowances	486,000	528,000
Communication	422,029	479,405
Travelling expenses	307,021	302,719
SSS, Philhealth and Pag-ibig premiums	296,268	284,800
Spare parts	243,530	203,951
Repairs and maintenance	236,492	108,186
Security services	228,900	228,120
Gasoline and oil	218,759	226,829
Business development	115,503	87,501
Insurance	110,457	77,069
Amortization	114,532	85,240
Reproduction	105,635	111,136
Interest and other bank charges	95,461	114,598
Overtime pay	35,463	58,042
Loss on rice inventory	0	834,114
	19,146,996	21,137,785



18. EMPLOYEES BENEFITS

18.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2014	2013
Salaries and wages	4,050,000	4,094,867
Bonus and incentives	1,558,350	1,587,400
Social security costs	296,268	284,800
Other benefits	1,870,185	5,160,048
	7,774,803	11,127,115
Directors' remuneration	756,400	821,400
	8,531,203	11,948,515

18.2 Retirement benefits

MSI has a Retirement Benefit Plan which is non-contributory and provides a retirement benefit equal to one-half month basic salary for every year of service, where one –half shall include fifteen days salary based on the latest salary rate, five days of service incentive leaves, and one-twelfth (1/12) of the 13th month pay after satisfying certain age and service requirements.

The Plan was approved for implementation on July 20, 2010 but due to the meager income of MSI during that period, the Board asked the Management to set a seed fund of P200, 000 and a build – up every time there is extra-ordinary income.

The regular monthly accrual equivalent to 5 per cent of total basic salary of MSI employees was taken up as miscellaneous payables to MSI employees from July 2010 to December 2013 prior to the opening of a trust account at LBP Trust Banking Group (TBG) and the availability of the funding actuarial valuation report.

MSI engaged the services of an actuarial company last December 2013. Hereunder are the comments and recommendations:



1. The estimated annual normal cost or current contribution for the valuation period January 1, 2014 to December 31, 2014 is P343,804. This amount is recommended to be paid monthly or quarterly on the basis of a percentage of covered payroll for the period which is actuarially computed at 8.3 percent. This actuarial funding rate shall be the basis of current and future service contributions until the next actuarial valuation.
2. The past service liability as of January 1, 2014 is P6,316,399 (actuarial liability for services rendered prior to valuation date). It is recommended that this amount be paid within the valuation period; however if this is not feasible, payment may be amortized over a period not exceeding the remaining working life of the employee group. It should be pointed out that in case the unfunded actuarial liability is to be amortized and in the event that a benefit claim shall arise, the unfunded portion of the claim shall be due and payable to the retirement fund from the Corporation. However, this action may not be necessary if the retirement fund is actuarially costed periodically.
3. As of January 1, 2014, the vested benefit is P5,805,105 (benefit payable assuming all eligible employees will avail of their Plan benefit during the valuation period). This amount is based on the applicable benefit under the plan as of the valuation date.
4. It is also recommended that an actuarial valuation be made every two or three years to check the above recommended funding scheme and to adjust contributions due to deviations from the actuarial assumptions arising from the investment yield, mortality gains and losses, employee turnover and benefit forfeitures.

The assumptions used in determining pension obligation for the defined benefit plan are as follows:

Funding Method	: Accrued Benefit Actuarial Cost Method. Under this Method, the Annual Normal Cost is the present value of retirement benefits payable in the future in respect of services in the current period. The Past Service Liability is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date. The most commonly used form of Accrued Benefit Valuation Method is the Projected Unit Credit Method.
Salary Projection Rate	: 5.0 per cent compounded annually
Investment Rate	: 3.4 per cent p.a. compounded annually
Manner of Payment	: Lump Sum
Withdrawal Rate	: 4.33 per cent



The Fund is being administered by the LBP Trust Banking Group who is responsible for the investment strategy of the Plan. As of December 31, 2014, the accrued retirement benefit lodged to Miscellaneous liability account amounted to P1,186,192.45 while the amount of fund deposited/invested to LBP-TBG amounted to P2,594,166.70.

19. COMPLIANCE WITH TAX LAWS

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

A. Local

	2014	2013
Mayor's permit - Head Office & SRGC	644,568	606,046
Real estate tax	146,080	132,865
Community tax - Head Office	10,500	10,500
Barangay clearance	4,748	0
	805,896	749,411

B. National

	2014	2013
NFA License	33,300	32,410

C. Withholding taxes paid/accrued for the year:

	2014	2013
Taxes on compensation and benefits	833,794	702,204
Creditable withholding tax/es	434,607	642,772
	1,268,401	1,344,976

D. 2005 Deficiency tax paid during the year

	2014	2013
Corporate income tax	0	2,188,010
Value added tax	0	197,087
Expanded withholding tax	0	141,739
	0	2,526,836



20. 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. For CY 2014, the provision for income tax was computed as follows:

Net income before tax	17,730,957
Less: Income subjected to final tax	361,863
Net income subject to tax	17,369,094
Tax rate	30%
Provision for income tax	5,210,728

21. RESTATEMENT/RECLASSIFICATION

21.1 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 provisions of paragraph 42 of PAS 8.

21.2 Certain accounts in the CY 2013 financial statements (FS) were reclassified to conform to the CY 2014 FS presentation.

22. 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:

	2014	2013
Sales - rice allocation of LBP employees	205,706,763	169,749,983
Outstanding receivables	47,949,234	29,149,614
Receivables - miscellaneous from LBP Officers	35,000	35,000
Outstanding payables	20,571,195	55,939,644
	274,262,192	254,874,241



23. COMPENSATION OF KEY MANAGEMENT OFFICIALS

	2014	2013
Basic salary	1,122,000	1,104,494
Fringe benefits	161,607	196,775
	1,283,607	1,301,269