

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)

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
Financial asset at 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	0	0
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	9,452,992
TOTAL ASSETS		148,938,630	177,289,771
LIABILITIES AND 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
Equity			
Common stock	15	90,000,000	90,000,000
Preferred stock	15	10,000,000	10,000,000
Retained earnings, End	16	14,291,917	7,515,866
		114,291,917	107,515,866
TOTAL LIABILITIES AND EQUITY		148,938,630	177,289,771

The Notes on pages 8 to 19 form part of these financial statements.

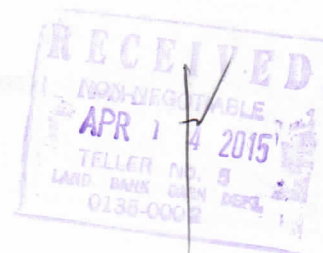
MASAGANANG SAKAHAN, INC.
 (A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
 (In Philippine Peso)



	Note	2014	2013 As restated
Sales		262,467,004	220,841,090
Cost of sales		228,917,963	189,189,725
Gross profit		33,549,041	31,651,365
Operating expenses	17	19,146,996	21,137,785
Income 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

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
 (A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
 For the year ended December 31, 2014
 (In Philippine Peso)



	Capital Stock		Retained	Total
	Common Stock (Note 15)	Preferred Stock	Earnings As restated (Note 16)	
Balance, December 31, 2012, as restated	90,000,000	10,000,000	1,781,112	101,781,112
Cash dividends			(4,776,612)	(4,776,612)
Prior period adjustments			(273,009)	(273,009)
Net income for CY 2013, as restated			10,784,375	10,784,375
Balance, December 31, 2013, as restated	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

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso, unless otherwise stated)

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 As restated
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	306,388	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, Archmar and Cagayan Sugar Farmers Coop. Association.

13. ACCOUNTS PAYABLE

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

	2014	2013 As restated
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
<i>Income tax payable</i>		
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 as of December 31, 2014 arising from the sale of rice. These unapplied payments were already recorded in the 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)
	(1,946,328)

Retained Earnings, December 31, 2012 as restated	1,781,112
Net income for CY 2013, as restated	
Net income for CY 2013	11,488,359
Less: Correction in CY 2013 sales	(7,000)
Correction in prior year's expenses	<u>(696,984)</u>
Cash dividends to NG	10,784,375
Prior period adjustments	(4,776,612)
	(273,009)
Retained Earnings, December 31, 2013, as restated	7,515,866
Net income for CY 2014	12,520,230
Cash dividends to NG	<u>(5,744,179)</u>
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		
Per diem	486,000	528,000
Bonus and incentives	270,400	293,400
	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 month salary shall mean 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 contained in the actuarial report:

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 in Miscellaneous liabilities account amounted to P1,186,192.45 while the amount of fund deposited/invested in 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

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.

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 As restated
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