



2015

ANNUAL REPORT

MASAGANANG SAKAHAN, INC.



VISION

By 2025, MSI is a prime provider of developmental assistance to farmer cooperatives and organizations towards self-sustainability.



MISSION

MSI will provide agri-related opportunities and services to farmer cooperatives and organizations to help improve their income capacity and exposure to developmental framework to further increase their level of productivity.

FINANCIAL HIGHLIGHTS

Sustainable Business Operation and Developmental Support (In Php Million)

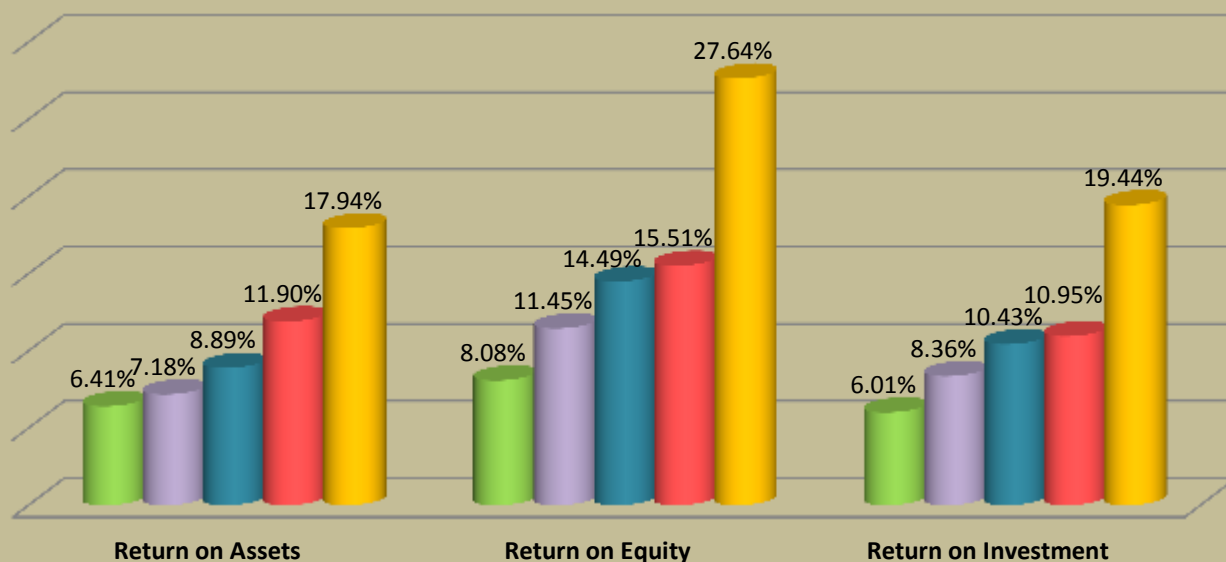
	2011	2012	2013	2014	2015
Gross Revenues	129.26	178.94	220.85	262.47	291.65
Cost of Sales	112.76	155.27	189.19	228.92	235.34
Gross Profit	16.50	23.67	31.66	33.55	56.31
Operating Expenses	12.84	15.38	20.44	19.15	20.40
Net Operating Income	3.66	8.29	11.22	14.40	35.91
Other Income	4.05	3.92	4.75	3.33	0.55
Net Income Before Tax	7.71	12.21	15.97	17.73	36.46
Net Income After Tax	5.74	8.92	11.49	12.52	25.63

Financial Condition

	2011	2012	2013	2014	2015
Assets	120.30	169.99	179.64	148.94	203.16
Liabilities	24.86	63.36	70.80	34.65	71.29
Equity	95.44	106.64	108.84	114.29	131.88

FINANCIAL INDICATORS

■ CY 2011 ■ CY 2012 ■ CY 2013 ■ CY 2014 ■ CY 2015



MESSAGE FROM THE CHAIRMAN OF THE MSI BOARD

MSI plays a very important role in ensuring the welfare of LANDBANK's mandated sector – the farmers and their cooperatives and organizations.

Just like LANDBANK itself, MSI has continuously aimed at balancing our thrust of providing assistance to these mandated sectors with our goal of maintaining our financial objectives, to ensure sustainability.

Our 2015 performance is marked with inspiring figures as MSI attained 100% or more in all of the identified strategic objectives committed to the Governance Commission for the GOCCs (GCG) and LANDBANK. We stayed on track of our plans and strategies anchored on the four perspectives namely stakeholders, internal process, financial, and learning and growth.



Indeed, it was a good year for MSI and I commend the Board of Directors, Committees, Management and Staff for working conscientiously towards the achievement of our year-end targets. I would also like to acknowledge the continued patronage of our stakeholders in all of our undertakings which is the very essence of our corporate existence.

May we continue to strive harder and attain success in our future endeavors.

MR. CRISPINO T. AGUELO
Chairman

PRESIDENT AND CEO'S REPORT



Year 2015 marked continuous improvement in MSI operations and financial performance. Through our board's directions and guidance, together with the management's and our workforce's teamwork and esprit de corps, we have attained what we have targeted for the year.

FOCUS ON STAKEHOLDERS

Through our persistent marketing efforts and some policy changes, MSI without foregoing our corporate accounts for milled rice, developed and expanded our niche market which we call the "primary market" of milled rice. This primary market refers to businesses whose core business activity involves the purchase of milled rice either for consumption or for purposes of selling.

For CY 2015, MSI served 35 primary accounts and 16 corporate accounts

with a combined traded volume of 17,941 bags of milled rice, higher by 23% compared to CY 2014 traded volume of 14,560 bags.

Also in the same year, MSI assisted 25 cooperatives for its Payment-In-Kind (PIK) Program for Palay and Milled Rice and collected for LANDBANK loan payment of cooperatives amounting to P141.47 million.

These cooperative-partners were given due recognition in December 2015 for their support and contribution in the success of the PIK Program.

It is also in 2015 that MSI conducted its first ever survey to assess the level of customer satisfaction to the quality of our services. The survey results are very encouraging and affirm that we are doing things right.

Also this year, MSI management through the Board's stewardship initiated the purchase of a two-hectare property located in Sta. Rosa, Nueva Ecija intended to be

developed as a Learning Farm for small land holdings that will cater to farmers-cooperatives and organization in order to expand our assistance to them.

ENHANCING INTERNAL PROCESSES AND LEARNING

With the strengthening of logistics through procurement of additional cargo trucks in CY 2014, MSI was able to shorten its delivery response to clients in CY 2015 to an average of 2.55 days.

Our toll milling process remained comparable with the industry standard and stood at 63.43% average milling recovery.

Moreso, with good forecasting and inventory turn-over, our plant operation was able to fully maximize our warehouse capacity and housed a total of 134,778 cavans of palay.

In our efforts to improve our business efficiency, MSI also focused in 2015 on reviewing and enhancing operational structure and policies. We have developed a competency framework and provided essential training to employees in order to strengthen our human resource capabilities.

IMPROVING FINANCIALS

MSI realized gross revenues of P291.65 million, higher by 11% or P 29.18 million compared to year 2014 of P 262.47 million. This enabled MSI to attain a gross profit of P56.31 million, 68% higher than last year's gross profit of P33.55 million. As a result, net operating income rose 149% from P14.40 million in 2014 to P35.91 million in 2015. Net Income After Tax increased by P13.11 million or 105% to P25.63 million from P12.52 million in 2014.

Total resources reached P203.16 million, higher by 36% or P54.23 million compared to year 2014 of P 148.94 million. Total liabilities increased by 106% or P36.64 million from last year's P34.65 million to this year's P71.29million. Stockholder's equity improved by P17.59 million or 15% from last year's P114.29 million to P131.88 million in 2015.

ROY C. OSCILLADA
President and CEO



SPECIAL FEATURE

**MSI
AGRI-DEVELOPMENT
CENTER**





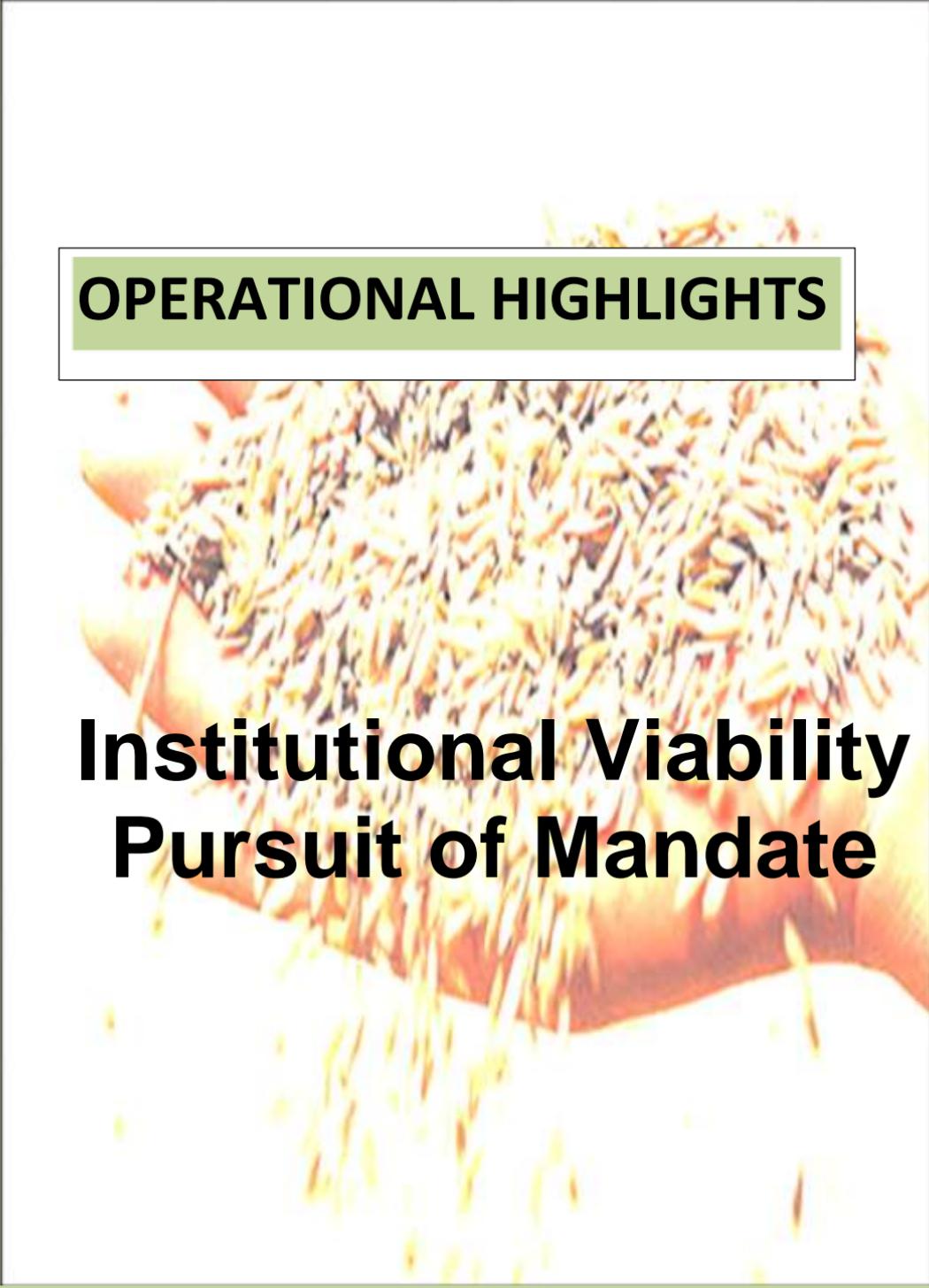
Standing (Left to Right) : Dir. Miguel Ramon O. Unson III, Dir. Conrado B. Roxas, Dir. Liduvino S. Geron (Vice-Chairman), Dir. Nestor T. Tapia, Dir. Crispino T. Aguelo (Chairman), Dir. Alex A. Loreyes, Ms. Annalene M. Bautista (Treasurer), Dir. Ramon K. Cervantes and Dir. Daniel R. Agustin
Seated (Left to Right) : Ms. Margie (LBP SPAD), Atty. Malab (LBP SPAD), Dir. Roy C. Oscillada (President and CEO), Ms. Blesilde R. Macalelad (Finance and Admin. Unit Head)

For the first time since its inception in 1974, MSI has undertaken this year a bold step toward the purchase of an agricultural property as a result of steadily improving operations. This move was initiated by MSI management and Board of Directors in order to further strengthen its operations and broaden the services to its mandated sector – the farmer-cooperatives and organizations.

Last August 28, 2015, LANDBANK, represented by SPAD Head, Atty. Cristina Malab, and MSI, represented by Pres. and CEO Roy Oscillada, sealed the agreement for MSI's purchase of about 2.4 ha. real property situated at Brgy. Maliolio, Sta. Rosa, Nueva Ecija. The property was acquired for the purpose of establishing a Model Learning Farm for small landholdings. The contract signing was witnessed and attended by selected LANDBANK-SPAD and MSI Representatives, MSI Board of Directors and Treasurer.

The establishment of the Model Learning Farm is mainly for technology transfer. It intends to provide our farmer-cooperatives and organizations access to technology which they can replicate and apply in their own farms with the end goal of improving their production and earning capacity towards self-sufficiency.

At present, MSI management is in its initial stage of improving the facilities in preparation for the pilot testing of agri-related projects that will be installed in the acquired property.



OPERATIONAL HIGHLIGHTS

**Institutional Viability
Pursuit of Mandate**

OPERATIONAL HIGHLIGHTS

INSTITUTIONAL VIABILITY

I. MSI CORPORATE GOVERNANCE STRUCTURE

A. MSI Board Composition

Masaganang Sakahan, Inc.(MSI) is a wholly owned subsidiary of LANDBANK, and is governed by a Board of Directors with eleven (11) seats of which two (2) are unoccupied. Of the nine (9) Board Members, four (4) were from LANDBANK while five (5) came from the private sectors. All of them were appointed by the President of the Philippines.

MSI Board is chaired by LANDBANK Director, Mr. Crispino T. Aguelo, with Mr. Liduvino S. Geron as Vice-Chairman, who also came from LANDBANK. In 2015, MSI Board is composed of the following:

- Crispino T. Aguelo
LANDBANK Director, Chairman MSI Board
- Liduvino S. Geron
LANDBANK SVP, Vice-Chairman MSI Board
- Roy C. Oscillada
MSI President and CEO
- Conrado B. Roxas
LANDBANK FVP
- Alex A. Lorayes
LANDBANK SVP
- Ramon K. Cervantes
Representative, Private Sector
- Daniel R. Agustin
Representative, Private Sector
- Nestor T. Tapia
Representative, Private Sector
- Miguel Ramon O. Unson III
Representative, Private Sector

Functions of MSI Board

- Provide the corporate leadership of MSI subject to the rule of law, and the objectives set by the National Government through the Supervising Agencies and the GCG;
- Establish the MSI's vision and mission, strategic objectives, policies and procedures, as well as defining the MSI's values and standards through Charter Statements, Strategy Maps and other control mechanism mandated by best business practices.

OPERATIONAL HIGHLIGHTS

- Determine important policies that bear on the character of MSI to foster its long-term success, ensure its long term viability and strength, and secure its sustained competitiveness;
- Determine the organizational structure of MSI, defining the duties and responsibilities of its Officers and employees and adopting a compensation and benefit scheme that is consistent with the GOCC Compensation and Position Classification System (CPCS) developed by GCG and formally approved by the President of the Philippines;
- Ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in pursuit of the applicable laws, rules and regulations;
- Provide sound written policies and strategic guidelines on MSI's operating budget and major capital expenditures, and prepare the annual and supplemental budgets of MSI;
- Comply with all reportorial requirements, as required in the Articles of Incorporation and By-laws, as well as applicable laws, rules and regulations;
- Formally adopt and conduct annually the mandated Performance Evaluation System (PES) and the Performance Scorecard and timely and accurate report the results to the GCG; and
- Ensure the fair and equitable treatment of all Stakeholders and enhancing MSI's relations with its Stakeholders.

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

In March 2, 2015, the oath taking 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.



OPERATIONAL HIGHLIGHTS

MSI Board in Action

The MSI Board of Directors in its first Board meeting for CY 2015 in February sets the Board and Committees' calendar or meeting schedule for CY 2015. Accordingly, the Board also conducted yearly reviews of the company's vision-mission and monitors the implementation of MSI's strategies and plan. The Pres. and CEO through the presentation of management's report provided the Board of Directors updates on MSI's progress in terms of achieving its commitment target for the year.

For the year 2015, the MSI Board of Directors acted upon the following:

Board Resolution No.	PARTICULAR
2015-01	<i>Adopting the CY 2014 Performance Based Bonus System for Masaganang Sakahan, Inc. (MSI) in Accordance with Executive Order No. 80,s.2012 and GCG Memorandum Circular No. 2014-05</i>
2015-02	<i>Adopting the CY 2014 Performance Based Incentive System in Accordance with GCG Memorandum Circular No. 2014-06</i>
2015-03	<i>Approval and Authority to Issue 2014 Financial Statements & Declaration of Dividends</i>
2015-04	<i>Amending Board Resolution No. 2014-13 : Sale of TCT No. N-27173</i>
2015-05	<i>MSI Authority to Manage and Administer Retirement Fund</i>
2015-06	<i>Proposal to Amend Purchase Cost of LBP ROPA – Board Resolution NO/ 2014-23</i>
2015-07	<i>Declaration of Cash Dividends</i>
2015-08	<i>Referendum: Hiring of SRGC Documentation Assistant</i>
2015-09	<i>Performance Enhancement Incentive</i>
2015-10	<i>Acquisition of New Air-conditioning Unit</i>
2015-11	<i>Membership in the Manila Bay S.U.N.S.E.T. Partnership Program, Inc.</i>
2015-12	<i>Payment of Deficiency Tax for CY 2011</i>
2015-13	<i>Authority to Negotiate for the Lease of New Office Unit</i>
2015-14	<i>Disposal of SRGC Obsolete Rice Mill Machine</i>
2015-15	<i>MSI's Enhanced Annual Reward Program</i>
2015-16	<i>2016 MSI Performance Scorecard (Charter Statement – Vision, Mission, Core Values; Strategy Map and CY 2016 Performance Scorecard)</i>
2015-17	<i>Pig Raising Project</i>
2015-18	<i>Prior Year's Adjustments</i>
2015-19	<i>Write-Off of Investments</i>
2015-20	<i>Regularization of SRGC Documentation Assistant</i>
2015-21	<i>Payment Proposal of Josiah's Catering, Inc./Cuissentials Food and Beverage Services Corporation</i>
2015-22	<i>2016 MSI Corporate Operating Budget</i>
2015-23	<i>Hiring of Audit Assistant</i>

OPERATIONAL HIGHLIGHTS

Achieving Commitment Targets to the Government

		CY 2015		
		Target	Actual	% Accompl
SO1	<i>Strengthen the Market Access of LANDBANK-Assisted Cooperatives</i>			
SM 1	Primary Market* Developed	35	35	100%
SM 2	Volume of Rice Sold	7,500 bags	10,678 bags	149%
SO 2	<i>Strengthen the Competitiveness and Technical Knowledge of the LANDBANK-Assisted Farmer-Cooperative</i>			
SM 3	Total No. of Cooperative with Improved Quality of Palay that Benefitted from the Payment In Kind (PIK) Program	25	25	100%
SO 3	<i>Promote customer satisfaction in the delivery of services</i>			
SM 4	Customer Satisfaction Survey	Average of 4.0	Average of 4.52	113%
SO 4	<i>Strengthen Financial Viability</i>			
SM 5	Increase EBIDTA Margin	8	13	163%
SO 5	<i>Maintain Existing Toll Milling Process Comparable with the Grading Quality of the Industry</i>			
SM 6	Average Milling Recovery Rate	63%	63.43%	101%
SO 6	<i>Streamline Market Linkaging Process</i>			
SM 7	On-Time Delivery (Lead Time)	Not more than 12 Days	2.55 Days	472%
SO 7	<i>Strengthen Business and Development Support Mechanism</i>			
SM 8	Utilization Rate of Sta. Rosa Grain Center	109,000 cavans	134,778 bags	124%
SO 8	<i>Develop strategic skills and competence of officers and staff</i>			
SM 9	Average competency in the organization	Develop competency framework(together with LANDBANK)	Developed MSI Competency Framework	100%

Board Compensation

The MSI Board Chairman and Members received a per diem of P5,000.00 per meeting while the Committees' Chairman and Members received a per diem of P3,000.00 per meeting. This is based on E.O. No. 24 PRESCRIBING RULES TO GOVERN THE COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS/TRUSTEES IN GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS.

OPERATIONAL HIGHLIGHTS

Board Performance and Attendance

The MSI Board continuously adopted the GCG – IPED (Performance Evaluation of Directors) in rating themselves and their peer performance. The rating instrument was designed to evaluate the effectiveness of director in the performance of their individual responsibilities and duties in their eyes and in the eyes of their peers.

For CY 2015, nine (9) Directors received appointment from the President of the Philippines. Two new Directors namely Dir. Alex A. Lorayes and Dir. Nestor T. Tapia replaced Ms. Ma. Victoria A. Reyes and Mr. Ronald John A. Estalilla, respectively.

MSI Board held eight (8) meetings, with the Directors' average attendance of 98.44%.

BOARD OF DIRECTORS		POSITION	2015 BOARD MEETINGS							
			20-Feb-15	24-Mar-15	22-May-15	26-Jun-15	30-Jul-15	28-Aug-15	23-Oct-15	11-Dec-15
1	Crispino T. Aguelo	Chairman	/	/	/	/	/	/	/	/
2	Liduvino S. Geron	Vice-Chairman	/	/	/	/	/	/	/	/
3	Roy C. Oscillada	Member	/	/	/	/	/	/	/	/
4	Conrado B. Roxas	Member	/	/	/	/	/	/	/	/
5	Daniel R. Agustin	Member	/	/	/	/	/	/	/	/
6	Ramon K. Cervantes	Member	/	/	/	/	/	/	/	/
7	Alex A. Lorayes	Member	NA	/	/	/	/	/	/	/
8	Miguel Ramon O. Unson III	Member	/	/	/	/	/	/	/	/
9	Nestor T. Tapia	Member	NA	/	/	/	X	/	/	/

LEGEND: (/) Present (X) Absent (NA) Not Applicable

B. Dividends Remittance to the National Government

For CY 2015, MSI remitted to the national government a total of P12,816,150.00 in cash dividend from its 2015 net income, representing a 105% increase in dividend remittance compared to 2014 dividend of P6,260,115.00.

C. Training and Continuing Education by the Board

In CY 2014, MSI sought the Board approval for the continuing education of the Members of the Board through the Professional Directors Program as per **Board Resolution No. 2014-14: Continuing Education of the Board of Directors**. In the said year, eight (8) of our Directors had attended the Orientation Course and four (4) have completed the Professional Directors Program. MSI Directors who have already attended such program in the past no longer attended the program anew, while new MSI Directors were scheduled to attend the Professional Directors Program in CY 2016.

For CY 2015, MSI Board of Directors had attended various trainings/seminars. Below are the lists of trainings that they attended:

OPERATIONAL HIGHLIGHTS

1. Trust Banking Seminar for Board of Directors as conducted by the Trust Institute Foundation of the Philippines.
2. Global Sustainable Finance Conference on global trends and instruments on climate change mitigation & adaptation trainings
3. Updating on Anti-Money Laundering Act
4. 4th Annual Forum on Corporate Governance
5. 2015 PASIA World Conference
6. 2015 TransUnion Financial Services Summit and Global Forum (Chicago, USA)
7. Asia Banking Forum 2015- ASEAN
8. Seminar on Credit Information System (RA 9510)
9. Climate Change Adaptation in Agriculture
10. Position Classification for GOCCs
11. Effective Internal Audit
12. 1st Manila Bay Conference 2015
13. Role of Women Directors
14. Mental Models : Thinking About the Box
15. Orientation on ISO 9001:2008 Quality Management System for Land Bank of the Philippines (LBP) Subsidiaries

D. The Board Committees

The MSI Board delegated specific functions and responsibility to the three (3) committees in order to provide assistance in complying with the principles of good corporate governance. These three committees are as follows: The Executive Committee, The Governance and Risk Committee and the Audit Committee. The three committees report to the entire Board as a collegial body and minutes of their meetings are circulated to all members of the Board.

1. Executive Committee

The MSI Executive Committee have the powers conferred upon by the Board if not in session, except to make radical changes and departures from policies as well as sell, mortgage, or in any manner alienate or encumber real holdings or properties of the corporation

The Executive Committee also perform the responsibilities of the GCG-required Nominations and Remunerations Committee under GCG Memorandum Circular No. 2012-07

MSI Executive Committee is chaired by Dir. Liduvino S. Geron, with members namely: Dir. Conrado B. Roxas, Dir./Pres. and CEO Roy C. Oscillada, Dir. Daniel R. Agustin and Dir. Nestor T. Tapia.

Executive Committee in Action

For the year CY 2015, the MSI Executive Committee acted upon on atleast 20 Ex-Com Resolutions pertaining to operations, employees' hiring and compensation and endorsed the same to the Board for approval.

OPERATIONAL HIGHLIGHTS

Below are the lists of Executive Committee Resolutions:

EXCOM Resolution No.	PARTICULAR
2015-01	<i>Adopting the CY 2014 Performance Based Bonus System for Masaganang Sakahan, Inc. (MSI) in Accordance with Executive Order No. 80,s.2012 and GCG Memorandum Circular No. 2014-05</i>
2015-02	<i>Adopting the CY 2014 Performance Based Incentive System in Accordance with GCG Memorandum Circular No. 2014-06</i>
2015-04	<i>Amending Board Resolution No. 2014-13 : Sale of TCT No. N-27173</i>
2015-05	<i>Amendment Proposal of Article VII, Section 1 of the LBP Subsidiaries Retirement Plan</i>
2015-06	<i>Amendment to Ex-Com Resolution No. 2014-23</i>
2015-07	<i>Declaration of Dividends for Fiscal Year 2014</i>
2015-08	<i>Hiring of Documentation Assistant</i>
2015-09	<i>Acquisition of Air-conditioning Unit</i>
2015-10	<i>Membership in the Manila Bay S.U.N.S.E.T. Partnership Program, Inc.</i>
2015-11	<i>Authority to Negotiate for MSI Office Space of Pres. Roy C. Oscillada</i>
2015-12	<i>Payment of Deficiency Tax for CY 2011</i>
2015-13	<i>Disposal of SRGC Obsolete Rice Mill Machine</i>
2015-14	<i>MSI's Enhanced Annual Reward Program</i>
2015-15	<i>2016 MSI Performance Scorecard</i>
2015-16	<i>Pig Raising Project</i>
2015-17	<i>Prior Year's Adjustments</i>
2015-18	<i>Write-Off of Investments</i>
2015-19	<i>Regularization of SRGC Documentation Assistant</i>
2015-20	<i>2016 MSI Corporate Operating Budget</i>

Executive Committee Attendance

The MSI Executive Committee held eleven (11) meetings for CY 2015, with the Director's average attendance of 95%.

EXECUTIVE COMMITTEE		POSITION	2015 EX-COM MEETINGS										
			23-Jan-15	13-Feb-15	17-Mar-15	17-Apr-15	16-May-15	19-Jun-15	24-Jul-15	14-Aug-15	22-Sep-15	16-Oct-15	8-Dec-15
1	Liduvino S. Geron	Chairman	/	/	/	/	/	/	/	/	/	/	/
2	Roy C. Oscillada	Member	/	/	/	/	/	/	/	/	/	/	/
3	Conrado B. Roxas	Member	/	/	/	/	OB	/	/	/	/	/	/
4	Daniel R. Agustin	Member	/	/	/	/	/	/	/	/	/	/	/
5	Nestor T. Tapia	Member	NA	NA	NA	/	/	X	/	/	/	X	/

LEGEND: (/) Present (X) Absent (OB) Official Business (NA) Not Applicable

OPERATIONAL HIGHLIGHTS

2. Governance and Risk Committee

The MSI Governance and Risk Committee assists the Board of Directors in fulfilling their corporate governance and risk management responsibilities.

The Governance and Risk Committee is Chaired by Dir. Crispino T. Aguelo with members namely: Dir. Conrado B. Roxas, Dir./Pres. and CEO Roy C. Oscillada, Dir. Miguel Ramon O. Unson III and Dir. Daniel R. Agustin.

For CY 2015, the Committee reviewed and evaluated CY 2015 MSI Risk Control Self-Assessment Matrix for submission to the LANDBANK-Risk Management Group, which in turn, provides technical support to MSI on risk assessment and evaluation. The MSI's CY 2015 RCSA covers identification of MSI Risks on Operations, Financials and Compliance as well as MSI's corresponding control measures, control adequacy and action plans. The RCSA also shows estimated and potential loss in peso value.

For the year, there is only one meeting held by the Governance and Risk Committee with perfect attendance from its members.

3. Audit Committee

The MSI Audit Committee provides support to the Board in overseeing, monitoring and evaluating the adequacy and effectiveness of MSI's financial reporting policies, practices and control, internal control system and provides oversight of internal and external audit functions and compliance functions.

MSI Audit Committee is chaired by Dir. Ramon K. Cervantes with Dir. Alex A. Lorayes and Dir. Miguel Ramon O. Unson III as members.

For CY 2015, MSI Audit Committee reviewed MSI Status Report and Compliance as of October 2015 to COA's CY 2014 Audit Findings and Recommendations. Additionally, the Committee had a discussion on the Status of Implementation of Prior Year's Findings and Recommendation.

For the year, there is only one meeting held by the Audit Committee with perfect attendance from its members.

OPERATIONAL HIGHLIGHTS

II. MSI Work Force

MSI recognizes the significant contribution of its manpower to achieve its institutional goals. MSI for 2015 focused on reviewing and enhancing operational structure and policies. A competency framework was developed and essential training was provided to employees in order to strengthen human resource capabilities.

Training and Developmental Programs for Employees

For the year, MSI has sent all 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.

Trainings/Seminars Attended

1. Agency Procurement Compliance and Performance Indicator System
2. Training n R.A. 9184 and its Revised Implementing Rules and Regulations
3. Corporate Governance Scorecard Orientation
4. Employee's Withholding Tax Strategies and Fringe Benefit Tax
5. Orientation on ISO 9001:2008 Quality Management System for LANDBANK Subsidiaries

Health and Safety

MSI values the health of its employees. All officers and regular employees are entitled to medical, dental, optical and hospitalization benefits. Every year, each employee has P13,000.00 allowance for this sole purpose.

Covered employees may use part of said benefits to pay the enrollment cost of a health maintenance program.

MSI ensures a safe and healthy working environment for all its employees, outside contractors and visitors. To maintain such environment, MSI informs its staff regarding policies and practices.

MSI in preparation for the "Big One" had participated in the earthquake drill initiated by the All Asia Capital Building Administration and purchased for each employee protective gear (hard hat) and emergency kit (whistle and flash light).

OPERATIONAL HIGHLIGHTS

III. Financials

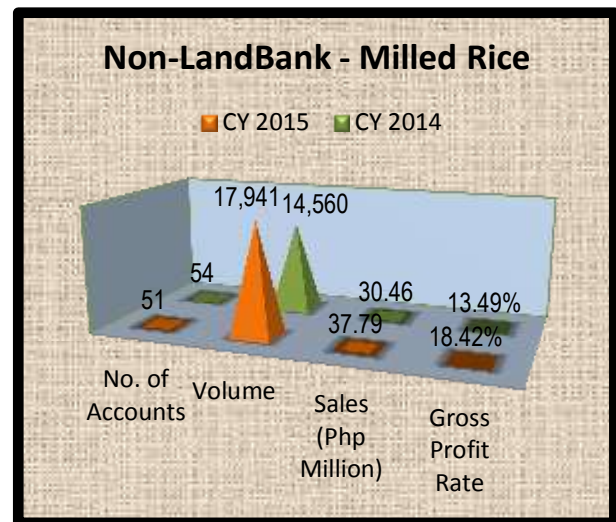
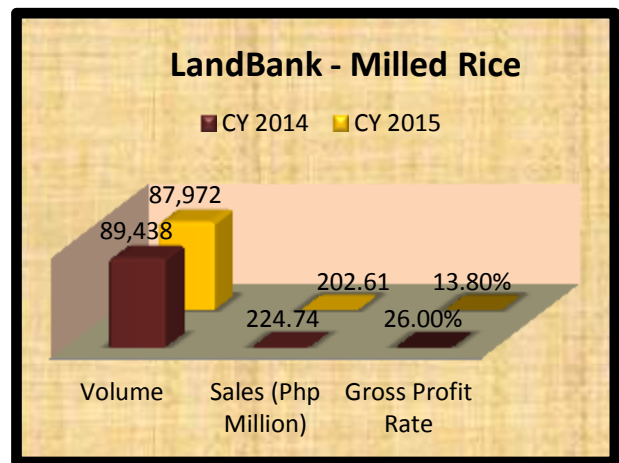
A. Milled Rice Trading

For 2015, MSI delivered nationwide to LANDBANK Branches and Field Operating Units, including the subsidiaries, a total of 89,438 bags of milled rice, up by 2% compared to year 2014 of only 87,972 bags of milled rice.

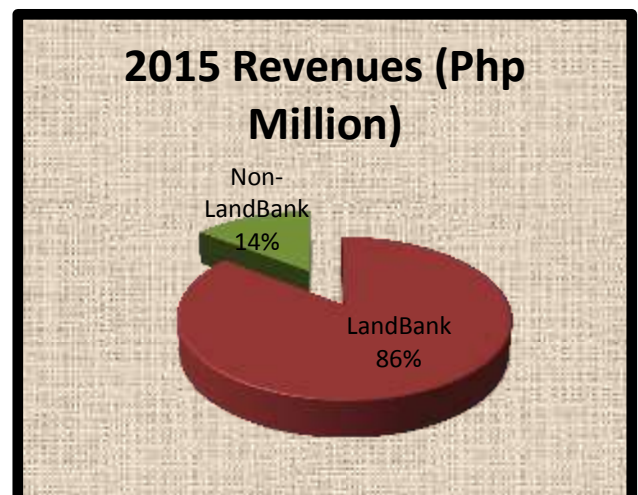
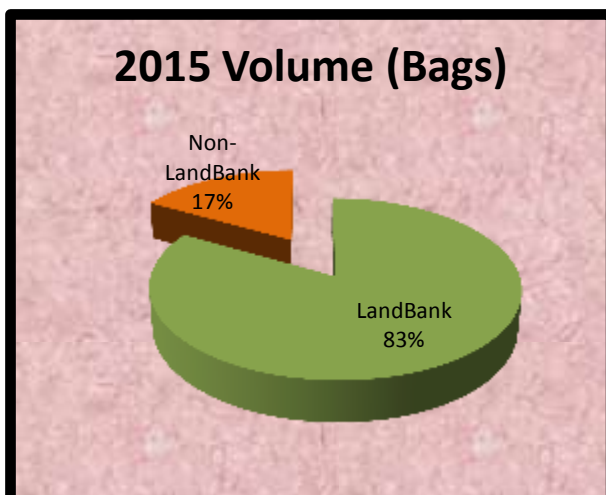
MSI generated total sales of P224.74 million and a gross margin of P46.40 million, showing improvement over last year's sales of P202.61 and significant improvement in gross margin from last year's P24.63 million, respectively.

For Non-LANDBANK Accounts, MSI was able to deliver the milled rice requirements of 51 corporate accounts and primary accounts.

A total of 17,941 bags of milled rice were traded giving the company revenues amounting to P37.79 million and a gross profit of P5.88 million or GP rate of 18.42%%.

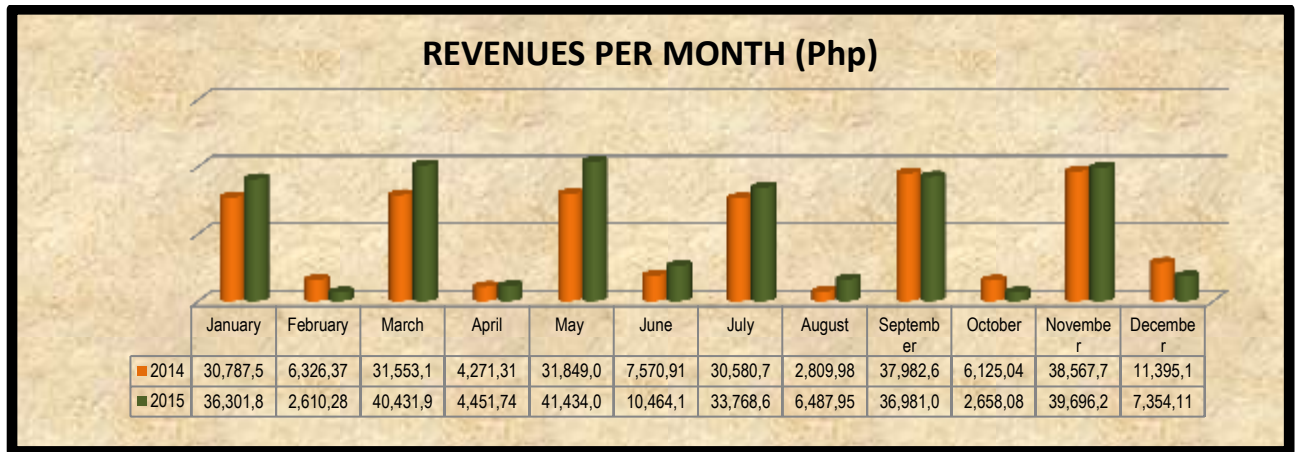


The LANDBANK and Non-LANDBANK Mix stood at 86% LANDBANK:14% Non-LANDBANK in terms of revenues; and 83% LANDBANK:17% Non-LBP in terms of volume



OPERATIONAL HIGHLIGHTS

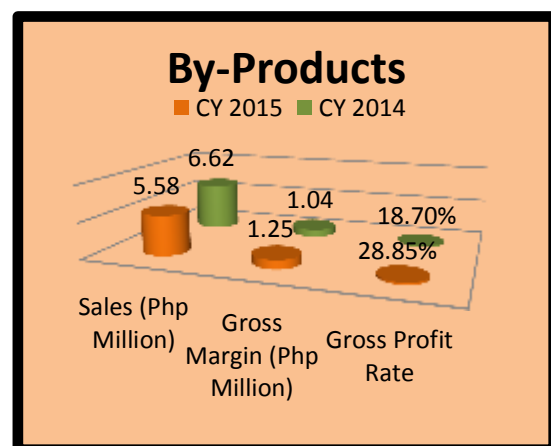
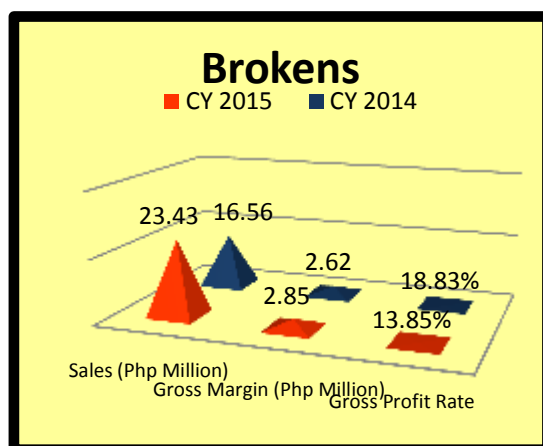
The table below shows the monthly sales turnover for milled rice for CY 2015 and CY 2014. The graphical trend shows an increase in sales every other month which could be traced to LANDBANK's allocation period.



B. Broken and By-Products

For 2015, MSI generated P23.43 million from the sales of broken with gross margin of P2.85 million. Compared to the same period last year, there was an increase by 41% and 9% in terms of sales and gross margin. The significant improvement in sales is brought about by increase in volume sold for broken while a slight increase in gross margin was due to reduced gross profit rate of only 13.85% compared with last year's 18.83%.

On the other hand, MSI generated P5.58 million from the sales of by-products with a gross margin of P1.25 million. Compared with same period last year, there was a decline in sales by 16% but an increase in gross margin by 20%. This reduction in sales can be attributed to low market prevailing price while the increase in margin can be traced to increased gross profit rate to 28.85% from last year's 18.70%.

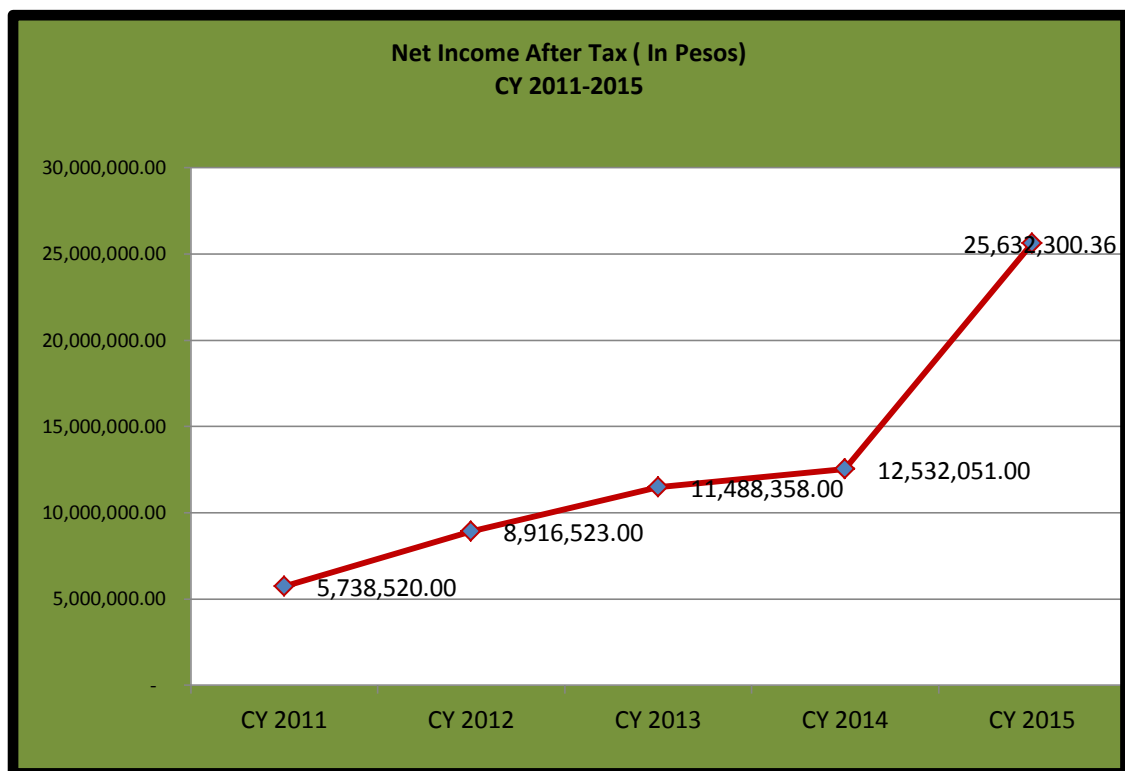


OPERATIONAL HIGHLIGHTS

C. Net Income After Tax

CY 2011 to CY 2015, MSI continue to improve its Net Income (NIAT) brought about by the expansion of client base. Initially, this was made possible by directly serving LANDBANK rice requirement nationwide since Nov-Dec 2012 and successfully sustained until 2015. This is also supported by maintaining and winning back lost corporate accounts and establishing the primary market. For CY 2015, 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.

The significant increase in the NIAT from CY 2014 to CY 2015 by more than 200% can be attributed to the following (1) increase in volume of business and (2) continued stability of market prices and lower costs.



OPERATIONAL HIGHLIGHTS

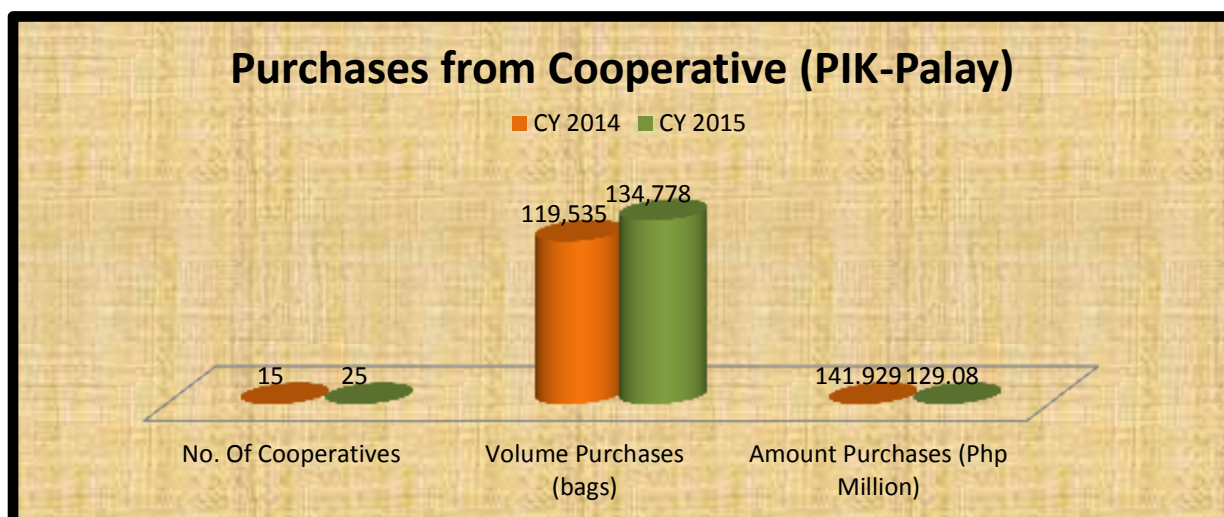
PURSUIT OF MANDATE

A. Payment In Kind Program

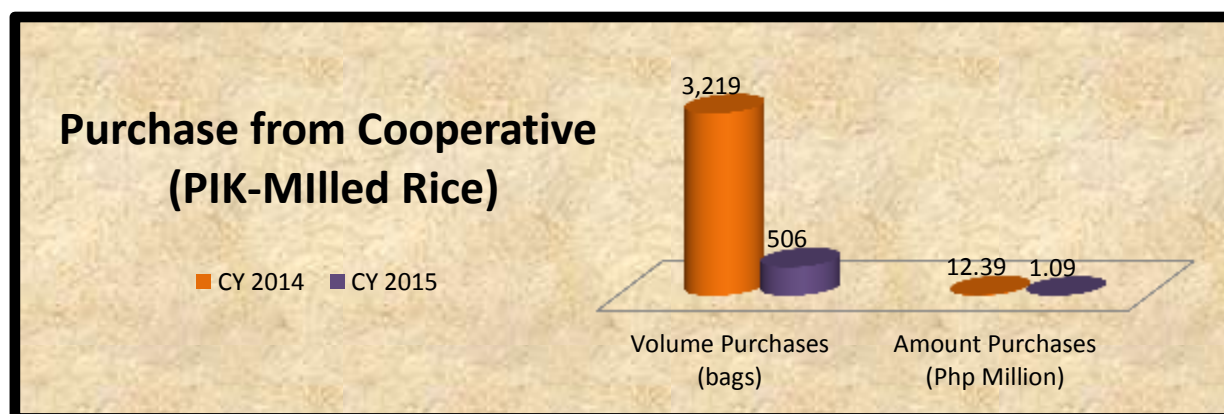
Payment-In-Kind (PIK) is a scheme that provides marketing assistance to farmer/cooperative borrowers of LANDBANK to sell their palay harvest or milled rice produced at a price based on market prevailing plus a premium. It is also a scheme of collection wherein palay harvest and milled rice produce of farmer/co-op borrowers of LANDBANK are accepted by MSI as loan amortizations, which in turn, remits the cash payment to LBP upon sale of the commodities.

For the 2015, MSI's Payment-in-kind (PIK) program for palay came from twenty-five(25) cooperatives which delivered a total of 134,778 bags amounting to P129.08 Million.

There is an increase in volume and amount by 13% and 9%, respectively.



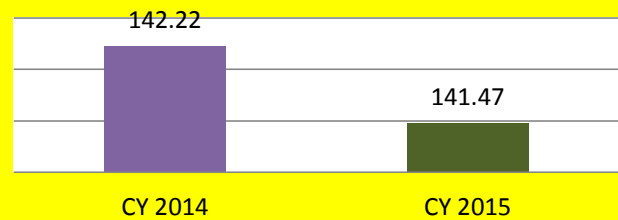
MSI PIK Program-Milled Rice from Nagkakaisang Magsasaka PMPC also increased significantly due to allocating the LANDBANK-Region I milled rice requirements to the said co-op.



OPERATIONAL HIGHLIGHTS

For 2015, MSI was able to provide loan collection assistance to LANDBANK under the Payment-In-Kind Program the amount of P141.47million, slightly lower by 0.5%, from last year's P142.22 million collection.

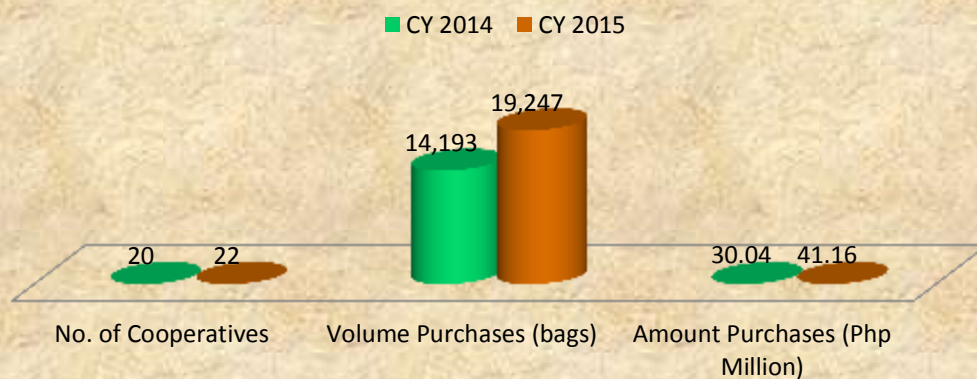
Total Payment-In-Kind Loan Collection Assistance (Php Million)



B. Marketing Support

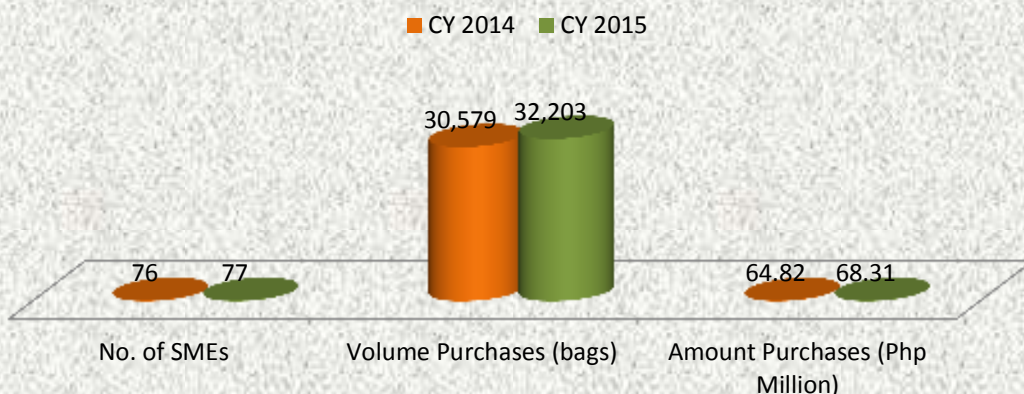
For 2015, twenty-two (22) farmer-cooperatives provided MSI a total of 19,247 bags of milled rice amounting to P41.16million. This registered an increase of 36% and 37% in terms of volume and amount compared to year 2014.

Purchases from Cooperatives (Milled Rice)



MSI was able to source from 77 Small and Medium Enterprises (SMEs) a total of 32,203 bags of milled rice amounting to P68.31million. This posted an increase of 5% both in terms of volume and amount compared to year 2014.

Purchases from SMEs (Milled Rice)



OPERATIONAL HIGHLIGHTS

C. Corporate Social Responsibility

C.1 For Our 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:

MSI at present is engaging into the provision of marketing support/assistance by way of ensuring ready market for farmers cooperatives produced and/or market linking services. Also, MSI PIK Program enabled our farmers-cooperative to improve their income-level capacity through MSI's provision of price incentives for good quality of palay produce. For CY 2015, MSI provided farmers-cooperative an estimated P1.35 million incentives, this is higher by 13% compared to last year estimated incentives at P1.20 million.

In addition, MSI solar drying facilities is also available for free for cooperatives drying needs as part of MSI's services for PIK patronage.

Cooperatives Recognition Program

In December 4, 2015, a month after MSI's 41st Anniversary, Annual Recognition of Partner Cooperatives under the MSI PIK Program was held at Consuelo's Hotel Function Room located in Brgy. San Mariano, Sta. Rosa, Nueva Ecija.

The event was well attended by eighteen (18) cooperatives, Representatives from LANDBANK Nueva Ecija Lending Center, MSI Board of Directors namely Chairman Crispin T. Aguelo, Dir. Daniel R. Agustin, Dir. Nestor T. Tapia, Dir./PCEO Roy C. Oscillada and MSI Employees. From the expected guest lists, seven (7) cooperatives failed to attend the event due to busy schedules and previous arrangements.

The event highlights includes: (1) giving certificate of recognition to all participating cooperatives; (2) awarding of plaque for special award and (3) awarding of plaque and cooperatives' chosen item to top three outstanding cooperatives.



OPERATIONAL HIGHLIGHTS

The cooperative awardees based on MSI selection criteria were as follows:



1st Place – BAMC



2nd Place – BADECO



3rd Place – Talabutab Norte



Special Award
Nagkakaisang Magsasaka PMPC

Donations to PIK- Farmer-Cooperatives



In December 2015, MSI facilitated the distribution of donations by LCDFI of items including office furniture and equipment to twelve (12) MSI PIK Farmer-Cooperatives. These farmer-cooperatives were classified by the LANDBANK Nueva Ecija Lending Center as maturing/developing cooperatives.

The farmer-cooperative recipients are as follows: (1) Bagong Silang MPC; (2) Balite MPC; (3) Divina Pastora MPC; (4) FBRC; (5) Kadre Development Coop. (6) Malabong Kaingin MPC; (7) Pulong Buli PMPC; (8) San Pablo PMPC; (9) Sitio Sapang Kuno PMPC; (10) TCP 3 Lagare PMPC; (11) United PULO PMPC; and (12) Valle PMPC.

OPERATIONAL HIGHLIGHTS

Gauging Our Services

For year 2015, MSI initiated the conduct of its first ever Customer Satisfaction Survey with its twenty-five (25) PIK cooperatives as survey respondents. The survey intended to assess the level of customer satisfaction to the quality of MSI services. The survey yielded very encouraging figures getting an average of 4.52 from a scale of 1 to 5 with 5 being the highest.

C.2 For Our Customers

MSI continued and intensified what it had initiated in CY 2013 regarding proper handling of customer complaint for our milled rice trading business with the end view of continuous quality improvement in our processes and delivery of service.

MSI Sales Team in coordination with the Logistics Team ensured presence in the delivery services in order to immediately attend to any customer complaints/concerns/feedback. With proper reporting and coordination, immediate action is being undertaken in order to maintain and strengthen our relationship with the clients.

C.3 Protecting the Environment

MSI in the course of its daily operations continuously identified opportunities to reduce consumption of energy, water and other natural resources. It has been a long practice to recycle items when possible like used paper and responsibly dispose non-recyclable items, so that in our simple means, we are able to protect our environment and raise awareness amongst stakeholders and the wider community.

C.3.1 Membership to Manila Bay S.U.N.S.E.T Partnership Program, Inc.



This year, MSI, in recognition of its significant role in the protection and preservation of the environment as well as educating the public and promoting awareness on the environment, entered into an agreement to become a Member of the Manila Bay S.U.N.S.E.T. Partnership Program, Inc.

Being a partner in this program is a worthwhile undertaking that is consistent with MSI's Corporate Social Responsibility.



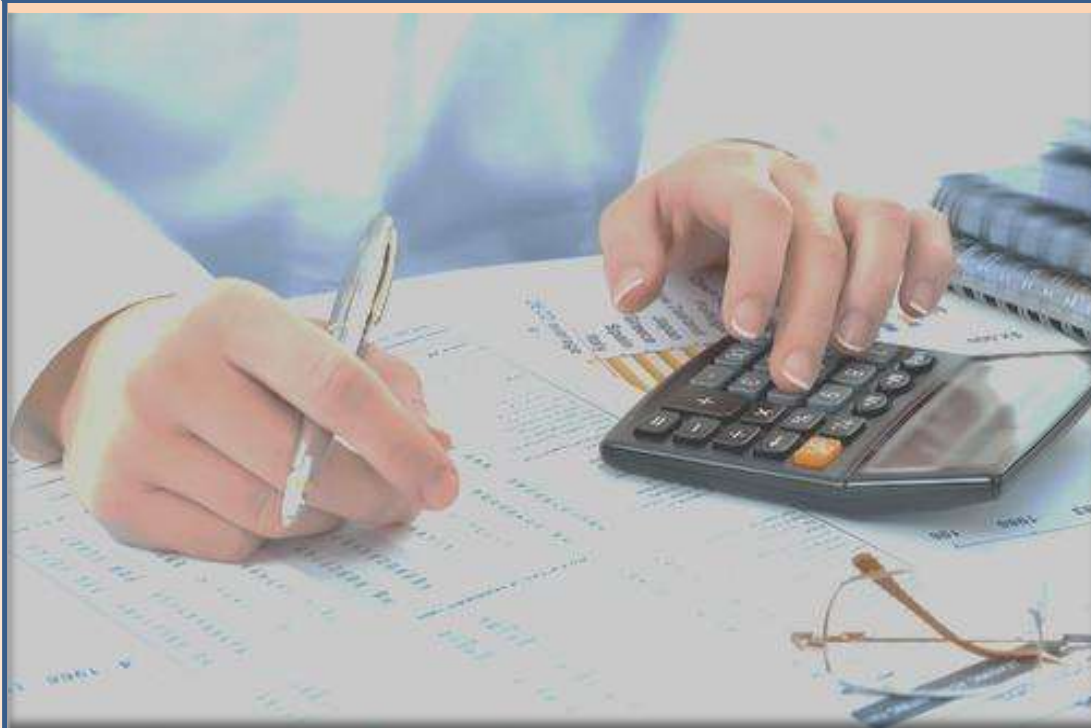
Last August 8, 2015, a formal signing of the memorandum of agreement was attended by the Heads of Subsidiaries and the Honorary Chairperson of the Partnership, LANDBANK President Gilda E. Pico, in Roxas Boulevard, fronting the Manila Bay. Thereafter, a clean-up activity was conducted by almost a thousand volunteers including the MSI employees.

OPERATIONAL HIGHLIGHTS

D. Compliance and Disclosure

MSI's Citizen's Charter, Anti-Red Tape Act of 2007 is posted in a conspicuous place at the MSI Office. It could easily be seen by visitors and stakeholders of MSI. All these provided contact information for all MSI stakeholders who want to raise feedback, issues and concerns to MSI delivery of services.

On the other hand, the MSI Website provides information not limited to MSI's Compliance with Transparency Seal and Corporate Governance Seal, Conditions covered by R.A. 10149 and Disclosure Requirements under Section 43, GCG MC 2012-07.



MSI AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Masaganang Sakahan, Inc.
6th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

We have audited the accompanying financial statements of **Masaganang Sakahan, Inc.** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all materials respects, the financial position of **Masaganang Sakahan, Inc.** as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

CORA D. MARQUEZ
Supervising Auditor

11 March 2016



MASAGANANG SAKAHAN, INC.
A LandBank Subsidiary

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Masaganang Sakahan, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Commission on Audit (COA), the state auditor has examined the financial statements of the company in accordance with Philippine Public Standards on Auditing and its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such examination.

CRISIPINO C. AGUELO
Chairman of the Board

ROY C. OSCILLADA
President & CEO

ANNALENE M. BAUTISTA
Treasurer

Signed this 17th day of February 2016

MSI AUDITED FINANCIALS

STATEMENT OF FINANCIAL POSITION December 31, 2015 and 2014 (In Philippine Peso)

	Note	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	3	44,433,650	45,968,339
Available-for-sale Financial Assets	4	17,341,424	0
Financial assets at fair value through profit or loss	5	0	4,469,025
Accounts receivable	6	71,349,962	55,312,017
Inventories	7	41,442,810	31,951,537
Notes receivable	8	0	-
Prepaid expenses	9	1,071,950	1,297,624
Other assets	10	723,959	1,299,371
		176,363,755	140,297,913
Non-current Assets			
Property, plant and equipment	11	22,362,129	4,232,099
Investment properties	12	4,351,418	4,351,418
Investment in stocks and bonds	13	57,200	57,200
Biological Assets	14	30,000	0
		26,800,747	8,640,717
		203,164,502	148,938,630
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current Liabilities			
Accounts payable	15	63,040,771	23,376,805
Other liabilities	16	8,245,340	11,269,908
		71,286,111	34,646,713
Stockholder's Equity			
Common stock	17	90,000,000	90,000,000
Preferred stock	17	10,000,000	10,000,000
Retained Earnings, End		31,878,391	14,291,917
		131,878,391	114,291,917
		203,164,502	148,938,630

MSI AUDITED FINANCIALS

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
Sales		291,645,974	262,467,004
Cost of Sales		235,335,803	228,917,963
Gross Profit		56,310,171	33,549,040
Operating expenses	19	20,399,655	19,146,996
Income from operations		35,910,516	14,402,045
Other income		545,726	3,328,913
Net income before tax		36,456,242	17,730,958
Provision for income tax	22	10,823,942	5,210,728
NET INCOME		25,632,300	12,520,230
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME		25,632,300	12,520,230

MSI AUDITED FINANCIALS

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2015 and 2014

(In Philippine Peso)

	Capital Stock		Retained Earnings as restated (Note 18)	Total
	Common Stock	Preferred Stock		
	(Note 17)			
Balance, January 01, 2013, as restated	90,000,000	10,000,000	7,515,866	107,515,866
Cash dividends declared			(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 Dividends			(6,260,115)	(6,260,115)
Prior period adjustments			(1,785,711)	(1,785,711)
Net income for CY 2015			25,632,300	25,632,300
Balance, December 31, 2015	90,000,000	10,000,000	31,878,391	131,878,391

MSI AUDITED FINANCIALS

CASH FLOW STATEMENT

For the Year Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		271,950,911	226,608,765
Cash payments to suppliers and employees		(235,162,721)	(259,011,495)
Collection of Interest and other income		88,681	204,433
Payment of bank charges		(13,398)	150
Payment of taxes, licenses and fees		(470,941)	(3,511,200)
Net cash generated from/(used in) operating activities		36,392,532	(35,709,647)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of IT Software		0	(172,500)
Purchase of office equipment		(73,450)	(107,661)
Purchase of land and land improvements		(18,989,000)	0
Purchase of furniture and fixtures		(13,500)	(14,000)
Payment of leasehold improvement		(34,340)	(39,445)
Purchase of other property, plant and equipment		0	(281,000)
Purchase of biological assets		(30,000)	0
Proceeds from sale of office equipment		4,700	0
Proceeds from sale of investment property		0	298,200
Placement of/Proceeds from investments		(12,611,516)	25,761,175
Proceeds from sale of transport equipment		80,000	0
Net cash provided by/(used in) investing activities		(31,667,106)	25,444,769
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends		(6,260,115)	(5,744,179)
Net cash Used in financing activities		(6,260,115)	(5,744,179)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,534,689)	(16,009,057)
CASH AND CASH EQUIVALENTS, beginning of year	3	45,968,339	61,977,396
CASH AND CASH EQUIVALENTS, END OF YEAR	3	44,433,650	45,968,339

MSI AUDITED FINANCIALS

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, 2015 were authorized for issue in accordance with the Resolution No. 2016-07 adopted by the Board of Directors on February 17, 2016.

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).

MSI AUDITED FINANCIALS

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 – Accounting Policies, Changes in Accounting Estimates and 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: Recognition and Measurement

This standard classifies the financial assets as at fair value through profit and loss; held to maturity investments; loans and receivables; and available-for-sale financial assets. These categories apply to measurement and profit or loss recognition.

- 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.

MSI AUDITED FINANCIALS

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.

MSI AUDITED FINANCIALS

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash in bank	36,746,225	25,656,660
High Yield Savings Account (HYSA) *	7,443,131	20,054,647
Operating fund - Sta. Rosa Grain Center (SRGC)	204,294	203,681
Cash collecting officer	0	13,351
Petty cash	40,000	40,000
	44,433,650	45,968,339

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

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This amount represent net investment placement of MSI through LBP Trust Banking Department amounting to P17,341,424 as of December 31, 2015.

5. 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. This was already closed and invested to other type of investment as of December 31, 2015.

6. ACCOUNTS RECEIVABLE

This account consists of trade receivables for the following:

	2015	2014
Rice	75,095,038	59,085,939
Palay	17,528,244	17,528,244
Others	995,650	966,804
	93,618,932	77,580,987
Allowance for probable losses	(22,268,970)	(22,268,970)
	71,349,962	55,312,017

MSI AUDITED FINANCIALS

7. INVENTORIES

This account consists of the following:

	2015	2014
Palay	40,449,067	22,102,103
Rice	537,962	3,390,373
Brokens	455,246	6,436,374
By-products	535	22,687
	41,442,810	31,951,537

8. NOTES RECEIVABLES

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

	2015	2014
Notes receivables	64,608	64,608
Allowance for probable losses	(64,608)	(64,608)
	0	0

9. PREPAID EXPENSES

This account consists of the following:

	2015	2014
Taxes, licenses & fees	328,043	304,074
Medical	247,001	234,000
Taxes withheld	138,945	126,823
Office rent	90,825	90,825
Insurance premium	84,467	291,964
Uniform	80,000	75,000
Rice benefit	71,545	142,070
Other services	20,625	0
Fidelity bond premium	10,499	10,499
Condo dues	0	22,369
	1,071,950	1,297,624

MSI AUDITED FINANCIALS

10. OTHER ASSETS

This account consists of the following:

	2015	2014
Guaranty deposits	370,438	306,388
Supplies and materials	206,821	826,933
Intangible	146,700	166,050
	723,959	1,299,371

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, 2015, the total amortization expense recognized amounted to P6,450.

11. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Land	Building & Land Improve- ment	Transpor- tation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improve- ments	TOTAL
Cost, January 1, 2015	0	0	7,002,303	1,215,007	955,376	295,560	126,675	9,594,921
Additions	10,782,000	8,087,000	0	73,450	13,500	120,000	34,340	19,110,290
Disposals	0	0	(559,369)	(105,255)	(130,890)	0	0	(795,514)
Balance, December 31, 2015	10,782,000	8,087,000	6,442,934	1,183,202	837,986	415,560	161,015	27,909,697
Accumulated depreciation/amortization , January 1, 2015	0	0	3,463,382	933,831	818,572	38,955	108,082	5,362,822
Depreciation/amortization Adjustments	0	160,789	597,408	78,249	76,550	53,201	41,327	1,007,524
	0	0	(547,679)	(105,252)	(155,879)	0	13,968	(822,778)
Balance, December 31, 2015	0	160,789	3,513,111	906,828	739,243	92,156	134,441	5,547,568
Net carrying amount, December 31, 2015	10,872,000	7,926,211	2,929,823	276,374	98,743	323,404	25,574	22,362,129
Net carrying amount, December 31, 2014	0	0	3,538,921	281,176	136,804	256,605	18,593	4,232,099

MSI AUDITED FINANCIALS

12. INVESTMENT PROPERTIES

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

	2015	2014
Investment property	4,351,418	4,351,418
Allowance for depreciation/Impairment loss	0	0
	4,351,418	4,351,418

13. INVESTMENT IN STOCKS AND BONDS

This account consists of investments with PLDT amounting to P57,200.

The investments with Fil-Capital, Cagayan Sugar Farmers Cooperative Association and Archmar have been derecognized from the books in CY 2015 based on confirmation from the Securities and Exchange Commission that these investees are already non-existent.

14. BIOLOGICAL ASSETS

This comprises the cost of livestock consisting of four female and one male Anglo Nubian Goats costing P6,000 each acquired on May 6, 2015 and taken care of at MSI SRGC compound for breeding purposes.

15. ACCOUNTS PAYABLE

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

	2015	2014
Payment-in-kind – Palay & Rice	61,130,991	20,571,195
Rice suppliers	1,909,780	2,805,610
	63,040,771	23,376,805

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

MSI AUDITED FINANCIALS

16. OTHER LIABILITIES

This account consists of the following:

	2015	2014
Income tax payable	3,973,873	1,698,443
Payable - Voucher	1,552,396	69,226
Trust liabilities – SSS, PHIC, Pag-ibig	(70,484)	91,634
Retention payable	0	7,500
Miscellaneous liabilities	2,789,555	9,403,105
	8,245,340	11,269,908

Miscellaneous liabilities represents accrual of operating expenses such as salaries, retirement benefits, utilities, etc. for CY2015 and unapplied payments of clients as December 31, 2015 arising from the sale of rice.

17. 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.

18. RETAINED EARNINGS

The declaration of cash dividend to the National Government for CY 2015 and 2014 of P12,816,150 and P6,260,115, respectively, were approved on February 17, 2016 and March 24, 2015 in Board Resolution No. 2016-08 and in Board Resolution No. 2015-07, respectively.

The prior period adjustments pertain to the corrections of CY 2014 and prior years' transactions as follows:

Particular	Amount
Prior year's deficiency tax	1,121,129
Audit fee	558,398
Payable miscellaneous	(96,944)
Condo dues	22,369
Other benefits	180,759
	1,785,711

MSI AUDITED FINANCIALS

19. OPERATING EXPENSES

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

	2015	2014
Salaries and wages	4,062,645	4,050,000
Bonus and incentives	2,351,020	1,828,750
Other benefits	2,044,620	1,870,185
Other services	1,544,596	1,171,684
Taxes, licenses and fees	1,538,436	840,546
Supplies and materials	1,482,198	1,512,759
Rent	1,089,900	1,089,900
Loss on palay shrinkage	1,035,506	1,889,129
Depreciation	965,215	848,700
Representation and entertainment	540,524	499,429
Per diem/Allowances	526,000	486,000
Communication	479,635	422,029
Light, power and water	395,589	529,864
Insurance	390,004	110,457
Travelling Expenses	368,230	307,021
Spare parts	328,668	243,530
SSS, Philhealth and Pag-Ibig premiums	298,138	296,268
Security services	217,560	228,900
Repairs and maintenance	212,434	236,492
Gasoline and oil	129,087	218,759
Business development	108,395	115,503
Reproduction	101,850	105,635
Interest and other bank charges	79,384	95,461
Overtime pay	63,312	35,463
Amortization	46,709	114,532
	20,399,655	19,146,996

MSI AUDITED FINANCIALS

20. EMPLOYEES BENEFITS

20.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2015	2014
Salaries and wages	4,062,645	4,050,000
Bonus and incentives	2,080,620	1,558,350
Social security costs	298,138	296,268
Other benefits	2,044,620	1,870,185
		7,774,803
Directors' remuneration		
Per diem	526,000	486,000
Bonus and incentives	270,400	270,400
	796,400	756,400
	9,282,423	8,531,203

20.2 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:

MSI AUDITED FINANCIALS

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

MSI AUDITED FINANCIALS

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, 2015, the amount of fund deposited/invested in the LBP-TBG amounted to P2,596,616.39 and the amount of P1,529,996.41 was lodged to Payable-Voucher account.

21. 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

	2015	2014
Mayor's permit - Head Office & SRGC	956,016	644,568
Real estate tax	246,189	146,080
Community tax - Head Office	10,500	10,500
Barangay clearance	2,550	4,748
	1,218,252	805,896

B. National

	2015	2014
NFA License	33,250	33,300

C. Withholding taxes paid/accrued for the year:

	2015	2014
Taxes on compensation and benefits	738,056	833,794
Creditable withholding tax/es	389,301	434,607
	1,127,357	1,268,401

D. 2005 Deficiency tax paid during the year

	2015	2014
Corporate income tax	1,086,147	0
Value added tax	0	0
Expanded withholding tax	34,982	0
	1,121,129	0

MSI AUDITED FINANCIALS

22. 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 2015, the provision for income tax was computed as follows:

Net income before tax	36,456,242
Less: Income subjected to final tax	376,437
Net income subject to tax	36,079,805
Tax rate	30%
Provision for income tax	10,832,942

23. 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.

Some officers of LBP constitute the Board of Directors and Executive Committee of MSI.

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

	2015	2014
Sales - rice allocation of LBP employees	224,815,942	205,706,763
Outstanding receivables	62,220,476	47,949,234
Receivables - miscellaneous from LBP Officers	35,000	35,000
Outstanding payables	61,130,991	20,571,195
	348,202,409	274,262,192

24. COMPENSATION OF KEY MANAGEMENT OFFICIALS

	2015	2014
Basic salary	1,122,000	1,122,000
Fringe benefits	202,919	161,607
	1,324,919	1,283,607

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Crispino T. Aguelo
Director

Mr. Crispino T. Aguelo, 69 years old, has been appointed as MSI Director since December 10, 2012. At present, he is the Chairman of the MSI Board of Directors and the Governance and Risk Committee and his directorship is only with that of LandBank of the Philippines and MSI.

Mr. Aguelo finished his B.S. Commerce at Aklan College. Before joining LandBank and MSI, Mr. Aguelo is former President of the Pambansang Kilusan ng mga Samahang Magsasaka (PAKISAMA) and also a former Member of the Presidential Agrarian Reform Council (PARC).

Mr. Aguelo field of expertise includes: (1) Organic farming/sustainable agriculture, (2) Cooperative organizing and management, (3) Agrarian Reform Advocacy, and (4) Para legalism.



Liduvino S. Geron
Director

Mr. Liduvino S. Geron, 51 years old, has been appointed as MSI Director since June 3, 2011. At present, he occupied the position as Vice-Chairman of the Board and Chairman of Executive Committee. He is also a LandBank Senior Vice President and the Head of LandBank Strategic Planning Group and his directorship is only with MSI.

Mr. Geron finished his B.S. Agricultural Engineering from the University of the Philippines, Los Baños and got his M.S. in Systems Agriculture at the University of Western Sydney, Australia.

Over the years of occupying various positions, Mr. Geron accumulated experience in the following aspects: (1) Credit Operations; (2) Credit Policy; (3) Lending Programs; (4) Branch Banking Operations; and (5) Strategic Planning and Execution.

Mr. Geron field of expertise includes Banking and Finance and Strategic Planning and Execution.

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Roy C. Oscillada
Director

Mr. Roy C. Oscillada, 53 years old, joined MSI in February 2012 as MSI General Manager and has been appointed as MSI Director since February 14, 2012. At present, he occupied the position as the President and CEO of MSI and a Member of the Board, Executive Committee and Governance and Risk Committee and his directorship is only with MSI.

Mr. Oscillada finished his Bachelor of Arts in Classical Studies (A.B.), Bachelor of Philosophy, (Ph.B.), Magna Cum Laude at the University of Sto. Tomas and completed the academic requirements for Master of Science in Business Administration at St. Louis University.

Prior to working at MSI, he was an Assistant Professor at St. Louis University and Foreign Labor Supervisor, Technical Support & Country Sales-Philippines, Fu Sheng Industrial Corporation, Taiwan. He is also a Fellow of Institute of Corporate Directors (ICD).

Mr. Oscillada field of expertise includes Management, Training, Research and Production.



Daniel R. Agustin
Director

Mr. Daniel R. Agustin, 65 years old, has been appointed as MSI Director since March 19, 2013. At present, he is a Member of the MSI Board, Executive Committee and Governance and Risk Committee and his directorship is only with MSI.

Mr. Agustin finished his A.B. Philosophy and Master in Industrial Relations at the University of the Philippines.

Before joining MSI, Mr. Agustin worked in Insurance Company as an Assistant Manager and also as an Assistant Professional Lecturer at the Trinity University for Asia and Dela Salle University.

Mr. Agustin field of expertise is in Industrial Relations.

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Conrado B. Roxas
Director

Mr. Conrado B. Roxas, 60 years old, has been appointed as MSI Director since June 3, 2013. At present, he occupied the position as Member of the Board, Executive Committee and Governance and Risk Committee. He is also a LandBank First Vice President and the Head of LandBank Banking Operations Group and his directorship is only with MSI.

Mr. Roxas finished his B.S.C. Accounting, Cum Laude, at the University of San Agustin. A Certified Public Accountant with MBA units at the Philippine Christian University and had completed an Advanced Leadership Course Seminar at the Haggai Institute in Maui, Hawaii.

Over the years, Mr. Roxas occupied various positions in LandBank including Heading the Internal Audit Department, became a former Director of LandBank Realty and Development Corporation and Metro South Cooperative Bank, Incorporated and a Member of various organizations. He is also a Fellow of Institute of Corporate Directors (ICD).

Mr. Roxas field of expertise includes: (1) Internal Auditing, (2) Corporate Management, (3) Education, (4) Business Development and Feasibility Evaluation for SMEs, (5) Personal and Full Scale Group Mentoring, (6) Cooperative Management Consultancy and (7) Governance Advocacy



Nestor T. Tapia
Director

Mr. Nestor T. Tapia, 50 years old, has been appointed as MSI Board of Director in March 24, 2015. At present, he is a Member of the MSI Board of Director and the Executive Committee, a Project Officer at the Rural Poor Institute for Land and Human Rights Services (RIGHTSNET), Inc. and his directorship is only with MSI

Mr. Tapia finished his B.A. Economics at the Dela Salle Araneta University.

Before joining MSI, Mr. Tapia worked at an Executive Director to the Center for Rural Empowerment Services in Central Mindanao, Inc., and had acquired experienced as a Research Assistant, Alliance and Advocacy Work and Campaign Planning

and Management.

Mr. Tapia field of expertise includes Community Organizing and Electoral Management.

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Miguel Ramon O. Unson III
Director

Mr. Miguel Ramon O. Unson III, 69 years old, has been appointed as MSI Director since March 5, 1996. At present, he is a Member of the MSI Board of Director, Governance and Risk Committee and Audit Committee and his directorship is only with MSI.

Mr. Unson III finished his B.S. Business Administration at San Beda College and his Master of Business Management at the Escuela Superior de Administracion y Direccion de Empresas, Spain. He is also a Fellow in Physical Distribution & Material Management – Stanford Research Institute, California, U.S.A.

Mr. Unson III has accumulated experiences being a former Director of various organizations such as Morningside Agribusiness Corporation, Entepinoy Volunteers Foundation, Core Prime Business Corp, etc. He also worked as a Chief of Staff of Congressional Oversight Committee on Agricultural and Fisheries Modernization (COCAF) and held various positions at San Miguel Corporation.

Mr. Unson III field of expertise includes: (1) General Management, (2) Production Management, (3) Agribusiness and (4) Physical Distribution and Transportation.



Ramon K. Cervantes
Director

Mr. Ramon K. Cervantes, 58 years old, has been appointed as MSI Board of Director in June 3, 2011. At present, he is a Member of the MSI Board of Directors and Chairman of the Audit Committee and his directorship is only with MSI.

Mr. Cervantes finished B.S. in Business Administration, Magna Cum Laude and Bachelor of Laws at the University of Nueva Caceres. He also took up Master in Development Management completing the academic units at the Asian Institute of Management.

Over the years, he accumulated experiences as College Instructor, Legal Officer, Litigation Lawyer and retired as First Vice President of LandBank Human Resource Management Group.

Mr. Cervantes field of expertise includes: (1) Human Resource Law, (2) Development Banking and (3) Education and Management

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Alex A. Lorayes
Director

Mr. Alex A. Lorayes, 53 years old, has been appointed as MSI Director in March 24, 2015. At present, he is a Member of the MSI Board of Directors and Audit Committee. He is also a Senior Vice President of LandBank heading the Agrarian Services Group and his directorship is only with MSI.

Mr. Lorayes had a degree in B.S. in Civil Engineering and a Master's Degree in Business Administration and Financial Management. He is a Licensed Civil and Geodetic Engineer and Licensed Real Estate Consultant as well.

Mr. Lorayes has accumulated experiences occupying various posts in LandBank such as being a Project Analyst and Loan Credit Officer, Field Operations Manager, Branch and Lending

Center Head, Land Valuation Office and Agrarian Operations Center Head and Regional Head.

Mr. Cervantes field of expertise includes: (1) Banking and Credit/ Lending, (2) Credit /Accounts Management, (3) Property Valuation and Real Estate Development, (4) Planning Community/Cooperative Organizing and Development, (5) Project Feasibility Evaluation, and (6) Project Management / Evaluation and Review.

MASAGANANG SAKAHAN, INC.

DIRECTORS AND CORPORATE OFFICERS

PROFILE



Cesar S. Cabañes
Corporate Secretary and Legal Counsel

Atty. Cesar S. Cabañes, 41 years old, has been appointed as MSI Corporate Secretary and Legal Counsel in June 3, 2011.

Atty. Cabañes finished his A.B. Classical at the University of Sto. Tomas. He also took up Bachelor of Laws from the Arellano University and Juris Doctor at the Ateneo de Manila University.

Presently, aside from being MSI Corporate Secretary and Legal Counsel, he is also the Head of Banking Legal Services of LandBank, a Legal Counsel of the LBP Provident Fund Office and a Director of the LBP Service Corporation. He used to be a Former Associate Lawyer at Zambrano and Gruba Law Office.

Atty. Cabañes field of expertise includes: (1) corporate, commercial and banking laws; (2) taxation; and (3) government procurement and credit transactions.



Annalene M. Bautista
Treasurer

Ms. Annalene M. Bautista, 52 years old, has been appointed as MSI Treasurer in March 24, 2015. At present, aside from being MSI Treasurer, she is also Vice President of LandBank heading the Facilities and Procurement Services Group and a Director of LandBank Resources and Development Corporation.

Ms. Bautista, finished her B.S. in Accountancy, Cum Laude at the Polytechnic University of the Philippines and a Certified Public Accountant. She took up Master's Degree in Business Administration and earned 30 units in Masters in Risk and Insurance Management.

Ms. Bautista has accumulated experiences occupying various posts in LandBank such as being a Former Branch Head, Relationship Manager, Area Head and Compliance Officer to name a few.

Ms. Bautista field of expertise includes: (1) Accounting, (2) Banking and (3) Management.



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