

# MASAGANANG SAKAHAN, INC.

## ANNUAL REPORT

2016



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### 2016





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# **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

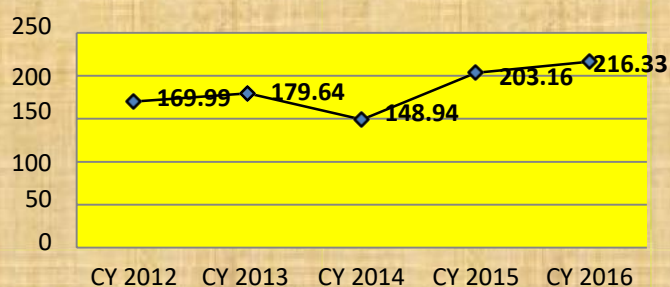
## Sustainable Business Operation and Developmental Support (In Php Million)

	2012	2013	2014	2015	2016
Gross Revenues	178.94	220.85	265.12	291.65	287.32
Cost of Sales	155.27	189.19	228.92	235.34	226.05
Gross Profit	23.67	31.66	36.20	56.31	61.27
Operating Expenses	15.38	20.44	19.15	20.40	23.14
Net Operating Income	8.29	11.22	17.06	35.91	38.13
Other Income	3.92	4.75	0.67	0.55	0.48
Net Income Before Tax	12.21	15.97	17.73	36.46	38.61
Net Income After Tax	8.92	11.49	12.52	25.63	27.12

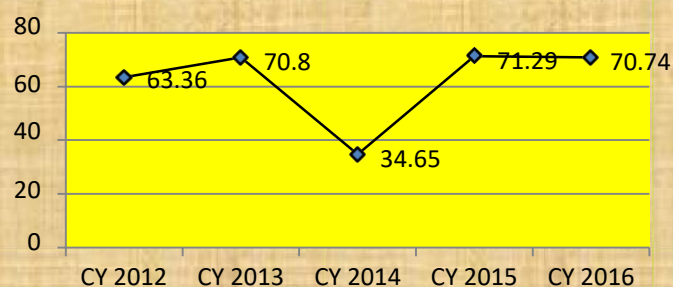
## Financial Condition

	2012	2013	2014	2015	2016
Assets	169.99	179.64	148.94	203.16	216.33
Liabilities	63.36	70.80	34.65	71.29	70.74
Equity	106.64	108.84	114.29	131.88	145.59

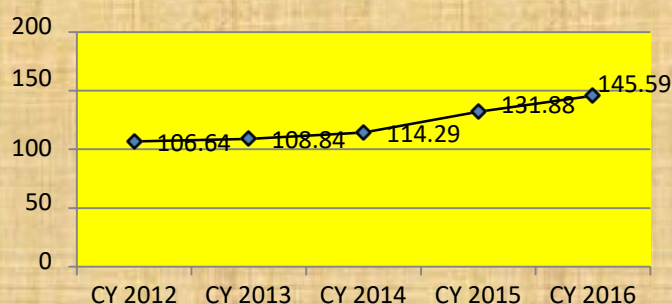
### ASSETS (Php Million)



### LIABILITIES (Php Million)



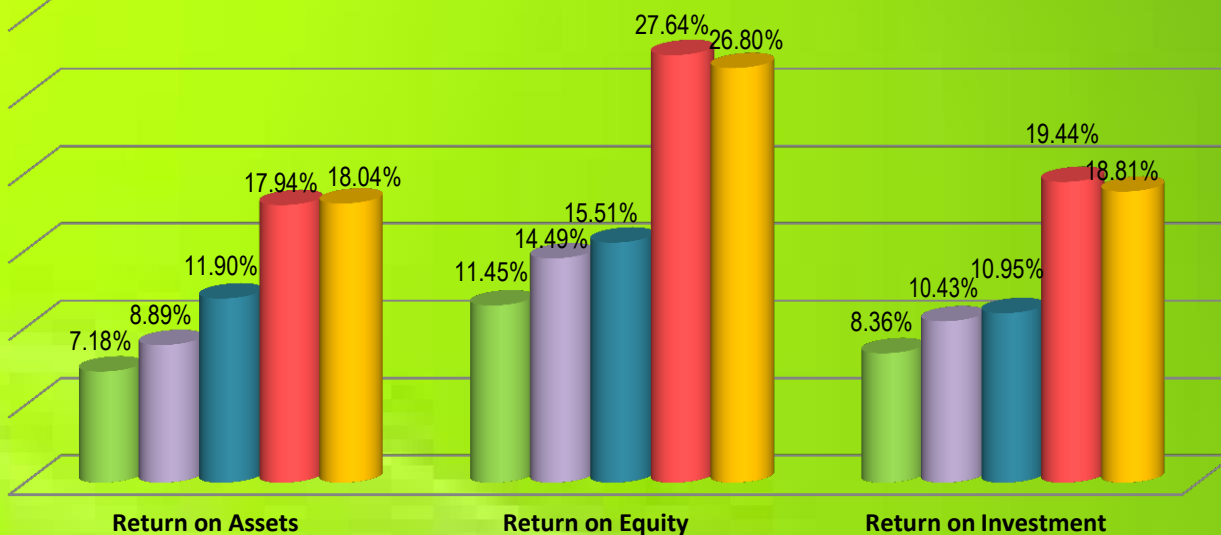
### EQUITY (Php Million)



# FINANCIAL HIGHLIGHTS

## FINANCIAL INDICATORS

■ CY 2012 ■ CY 2013 ■ CY 2014 ■ CY 2015 ■ CY 2016





# MESSAGE FROM THE CHAIRMAN OF THE MSI BOARD



**MR. CRISPINO T. AGUELO**  
**Chairman**

*Masaganang Sakahan, Inc. (MSI) being a LandBank Subsidiary plays a vital role in safeguarding the welfare of the farmers and their cooperatives and organizations. Similar with LandBank, MSI is in continuous pursuit of balancing thrust of providing assistance to these mandated sectors with the goal of maintaining financial objectives, to ensure sustainability.*

*Our 2016 performance is marked with challenges brought about by the calamities that greatly affected the agriculture sector. However, in spite of this, the Board and management worked closely to address difficulties and provided timely responses and actions. We stayed on track of our plans and strategies anchored on the five perspectives namely social impact, stakeholders, internal process, financial, and learning and growth. Thus, MSI attained an average of 97.3% for the identified strategic objectives committed to the Governance Commission for the GOCCs (GCG) and LANDBANK.*

*Certainly, it was a tough year for MSI but an opportunity to strive stronger and rise above in every hardship. I commend the hard work, passion and dedication showed by the Board of Directors, Committees, Management and Staff leading to the attainment of our year-end targets. Moreso, 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 see positive developments in our operations and remains steadfast with our commitment to always prioritize the interest of our stakeholders, ensure integrity in our dealings and excellence in our services.*

# PRESIDENT'S REPORT

*Year 2016 is a tough and challenging year characterized by calamities- typhoons that vastly affected our palay producing cooperatives and changes in national policies. However, in the face of all these adversities and challenges, CY 2016 also marked continuous improvement in MSI operations and financial performance.*

## **A. FOCUS ON SOCIAL IMPACT**

### **On Market Access**

*Through our persistent marketing efforts and some policy changes, MSI, without foregoing our corporate accounts for milled rice, developed and expanded market by tapping the so called “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 selling purposes.*

*For CY 2016, MSI attained 100% accomplishment of 39 primary markets served with a total traded volume of 10,459.5 bags of milled rice or 116% of CY 2016 target volume traded of 9,000 bags.*

### **On Assistance to Mandated Sectors**

*For CY 2016, MSI assisted 22 cooperatives in its Payment-In-Kind (PIK) for loan payment to LANDBANK amounting to P141.47 million. The decline by 12% from last year's 25 assisted cooperatives was mainly due to inability of some cooperatives to produce quality Class A palay as a greater portion of their production was heavily*



**ROY C. OSCILLADA**  
**President-CEO/GM**



damaged by the typhoons & flooding. To help some of the small cooperatives, MSI, with support from its board of directors, made emergency procurement of their Class B palay produce.

MSI's cooperative-partners were given due recognition in December 2, 2016 for their support and contribution in the success of the MSI PIK Program during the awarding ceremony held at Sta. Rosa, Nueva Ecija. The Top-Three Cooperatives were given Trophy plus a fixed assets of cooperatives' choices that will be used in their operation in the amount of P100,000.00 (1<sup>st</sup> Prize), P75,000.00 (2<sup>nd</sup> Prize) and P50,000.00 (3<sup>d</sup> Prize) respectively, while the rest of cooperatives were given Certificates of Recognition.

For the longest time, MSI support to its mandated sector has been to provide marketing assistance and free solar drying facilities. Since 2015, 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 landholdings that will cater to farmers-cooperatives and organization in order to expand our assistance to them. This gives birth to the MSI- Agri-Development Center (MSI-ADC) which offers the following integrated services: (1) buying station for palay; (2) solar drying facilities; (3) warehousing of palay/rice inventories; (4) mechanical truck scale; and (5) learning farm for agri-related activities.

In CY 2016, MSI started the first phase for the development of the property to include among others the following initiatives/undertakings: (1) Improvement of office facilities and construction of guard house; (2) Development of goat raising project and in the process of creating guidelines for its dispersal; (3). Preparation for the Pilot Test: Small scale farming for "malagkit" or glutinous palay/rice; and (4) Construction of the 80-Ton Mechanical Truck Scale.

## **B. CUSTOMERS/STAKEHOLDERS-CENTERED**

### **On Customers Satisfaction**

MSI conducted for the second year a survey to assess the level of customer satisfaction to the quality of our services. The survey results of average 4.06 (5 - highest and 1- lowest) is 102% achievement of the average 4.0 target for CY 2016 affirmed that we are doing things right.

## **C. ENHANCING INTERNAL PROCESSES**

Our toll milling process had sustained improvement in milling efficiency which had reached an average milling recovery of 64%. This represents the higher end of the industry average range of milling recovery from a low of 62% to a high of 64%.

By strengthening logistics operation, MSI was able to shorten its delivery response to clients in CY 2016 to an average of 2.83 days.

In our efforts to improve our business efficiency, MSI also focused in 2016 on reviewing and enhancing operational structure and policies. We have developed the following: (1) re-alignment of positions with other LBP subsidiaries; (2) Internal Audit Manual; (3) Policies on Waiver of Penalty and on Receivables- Trade/Business and (4) Come-up with a Whistle-blowing policy.

#### **D. IMPROVING FINANCIALS**

MSI realized gross revenues of P287.32 million. This enabled MSI to attain a gross profit of P61.27 million, 9% higher than last year's gross profit of P56.31 million. MSI expenses increased by 13% or P2.74 million from last year's P20.40 million to this year's P23.14 million. As a result, net operating income rose 6% from P35.91 million in 2015 to P38.13 million in 2016. Net Income After Tax increased by P1.49 million or 6% to P27.12 million from P25.63 million in 2015.

Total resources reached P216.33 million, higher by 6% or P13.17 million compared to year 2015 of P203.16 million. Total liabilities reduced by 1% or P0.54 million from last year's P71.28 million to this year's P70.74 million.

Stockholder's equity improved by P13.71 million or 10% from last year's P131.88 million to P145.59 million in 2016.

MSI attained 100% of the target EBITDA Margin of 14% (P40.750 million).

More so, with timely forecasting and faster inventory turn-over, our warehousing operation was able to fully maximize our warehouse capacity totalling 126,274 bags of palay.

#### **E. EFFORTS ON LEARNING AND GROWTH**

For CY 2016, MSI provided essential (basic and/or intermediate) trainings to all employees in order to strengthen our human resource capabilities.

Also, MSI organized a two (2) days Strategic Business Planning in June 22-23, 2016 participated by selected MSI Employees and the MSI Board of Directors to discuss the business model to be adopted starting 2017. The session covers lectures, assessment, presentation and activities pertaining to the analysis of the changing business environment, determination of strategic implication, strategy development and strategy evaluation.



# MSI Agri-Development Center



## TRAINING

*Goat  
Raising*

## TECHNOLOGY TRANSFER

*Small  
Scale  
Farming*



## CAPABILITY BUILDING

*Solar Drying*

*Warehousing*



## SERVICES

*Trucking  
Scaling*





For the first time since its inception in 1974, MSI has undertaken a bold step toward the purchase of about 2.4 ha. real property situated at Brgy. Maliolio, Sta. Rosa, Nueva Ecija. - 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. Thus, MSI-Agri-Development Center (MSI-ADC) was born.

MSI-ADC was acquired for the purpose of establishing a Model Learning Farm for small landholdings and development of facility for the efficient and effective provision of assistance and services to our mandated sectors - the farmer-cooperatives and organizations. MSI-ADC intends to offer the following integrated services: (1) buying station for palay; (2) solar drying facilities; (3) warehousing of palay/rice inventories; (4) mechanical truck scale; and (5) learning farm for agri-related activities.

The establishment of the Model Learning Farm is mainly for technology transfer and capability building. 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 first stage of improving the facility in preparation for the setting-up of agri-related projects that will be installed in the acquired property.

For CY 2016, MSI management worked on to improve the office at MSI-ADC. This effort was initiated to provide our people conducive working environment and comfort for our business partners.



MSI-ADC also started the pilot testing for goat raising project starting with one (1) male and four (4) female under the arrangement of paiwi or paalaga system within the MSI-ADC facility engaging local farmer and his wife as caretakers to help in their livelihood. By end of CY 2016, a total of twelve (12) off springs (8 males and 4 females) were added to the initial five (5) goats. The 12 off-springs were equally divided between MSI-ADC and the Caretakers. On the other hand, the drafting of guidelines for system of dispersal is underway.





**A**n 80-Ton capacity truck scale was also purchased and installed together with the construction of guard house. This initiative is to ensure adequate control on the weight of stocks and provide our PIK farmers-cooperatives and organization the truck scale services for free which they previously avail for a fee from other rice millers nearby with truck scale. The said truck scale will also be available to the public for a fee to service traders and other farmers in the area and as an additional source of income for MSI.

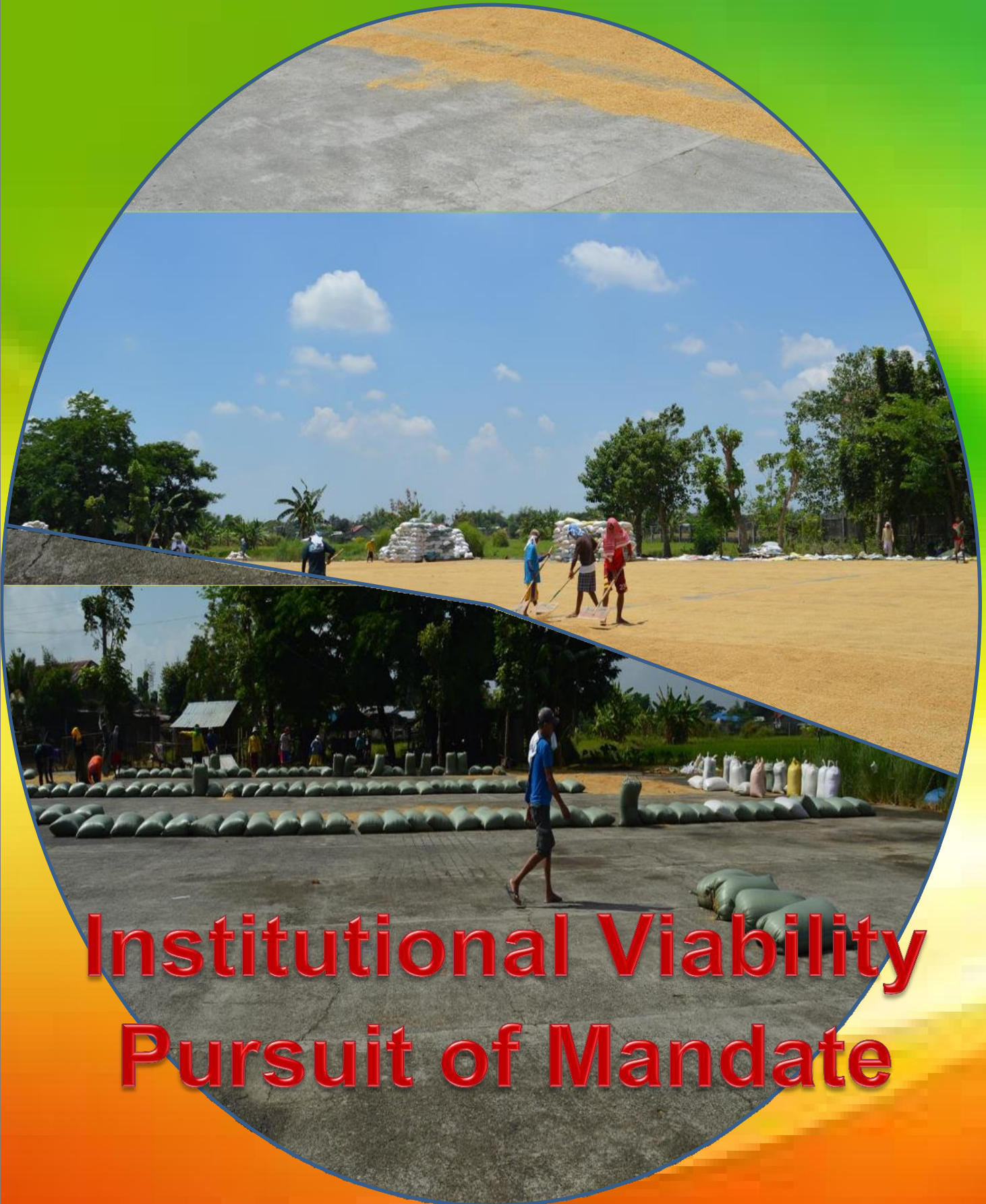


**L**and preparation for small scale farming of “malagkit” or glutinous variety of palay/rice has also been made. This will serve as pilot test for the purpose of showcasing productive use of small farm/landholdings.





# *Our Mandate*



**Institutional Viability  
Pursuit of Mandate**



# OPERATIONAL HIGHLIGHTS

## Institutional Viability

### I. MSI CORPORATE GOVERNANCE STRUCTURE

MSI Board of Directors and Management are strongly committed to ensuring high standards of corporate governance, which is fundamental to the company's business operations sustainability. MSI's corporate governance structure lays out the governance policies and procedures, processes, mechanisms, system and guidelines that are adopted by the company. The governance structure also clearly establishes the lines of accountability and responsibility coming from the Top Management - Board of Directors down to the officers and staff. The relevant policies on good governance of MSI is embodied in its Articles of Incorporation, By-Laws, Corporate Governance Manual and Code of Conduct for MSI Employees.

#### 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.

Board is chaired by LANDBANK Director, Mr. Crispino T. Aguelo, with Mr. Liduvino S. Geron as Vice-Chairman, who also came from LANDBANK. In 2016, MSI Board under a hold-over capacity 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-CEO/General Manager
- Alex A. Lorayes  
LANDBANK SVP
- Conrado B. Roxas  
Representative, Private Sector
- 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.
- 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 MSI 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;

# OPERATIONAL HIGHLIGHTS

- 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.

## **Board Orientation**

MSI Personnel Policy states that all newly appointed Board of Directors shall be briefed or oriented by the President and CEO on the company's essential information but not limited to history, programs, projects, products and services and financial positions.

## **MSI Board in Action**

The MSI Board of Directors in its first meeting of the year reviews the company's vision-mission and monitors the implementation of MSI's strategies and plan. The President-CEO/GM through the presentation of management's report and quarterly performance evaluation scorecard report provided the Board of Directors updates on MSI's progress in terms of achieving its commitment target for the year.

At the start of the year, the Board Calendar pertaining to the indicative schedule of meetings for CY 2016 was set.

For the year 2016, the MSI Board of Directors acted upon the following:

Board Resolution No.	PARTICULAR
<b>2016-01</b>	<i>Restructuring and Alignment of MSI Positions with LBP Subsidiaries</i>
<b>2016-02</b>	<i>MSI Charter Statement and Strategy Map</i>
<b>2016-03</b>	<i>Adjustment to CY 2016 Corporate Operating Budget</i>
<b>2016-04</b>	<i>Authority to Receive Donations</i>
<b>2016-05</b>	<i>Adopting the CY 2015 Performance Based Bonus System for Masaganang Sakahan, Inc. (MSI) In Accordance with Executive order No. 80, s. 2012 and GCG Memorandum Circular No. 2015-05</i>
<b>2016-06</b>	<i>Adopting the Performance-Based Incentive System in Accordance with GCG Memorandum Circular No. 2015-06</i>
<b>2016-07</b>	<i>Authority to Issue MSI's Financial Statements for CY 2015</i>

Board Resolution No.	PARTICULAR
<b>2016-08</b>	<i>Declaration of Cash Dividends</i>
<b>2016-09</b>	<i>Approval of Prior Year's Adjustments</i>
<b>2016-10</b>	<i>Disposal of SRGC Scrap Materials</i>
<b>2016-11</b>	<i>MSI's Directors Continuing Education</i>
<b>2016-12</b>	<i>Approving the Commencement of the Re-Organization of Masaganang Sakahan, Inc. Under GCG MC No. 2015-14 and Providing its Governance Structure</i>
<b>2016-13</b>	<i>Regularization of MSI Internal Auditor</i>
<b>2016-14</b>	<i>Strategic Business Planning</i>
<b>2016-15</b>	<i>Opening of Account at Robinsons Bank and Update Union Bank Account</i>
<b>2016-16</b>	<i>Business Plan</i>
<b>2016-17</b>	<i>Proposal for Policy on Waiver of Penalties</i>
<b>2016-18</b>	<i>Revised MSI Retirement Benefit Plan</i>
<b>2016-19</b>	<i>MSI Enrollment in LandBank WeAccess</i>
<b>2016-20</b>	<i>Policy on Receivables-Trade/Business</i>
<b>2016-21</b>	<i>MSI Strategy Map and Business Model</i>
<b>2016-22</b>	<i>Development Plan for MSI-ADC</i>
<b>2016-23</b>	<i>MSI Proposed Guidelines on Whistle Blowing and Reporting</i>
<b>2016-24</b>	<i>Retirement of the Institutional Sales Assistant</i>
<b>2016-25</b>	<i>Separate Plantilla Position for the General Manager</i>
<b>2016-26</b>	<i>Regularization of MSI IT Specialist I and the Executive Secretary</i>
<b>2016-27</b>	<i>MSI Internal Audit Manual</i>
<b>2016-28</b>	<i>Authorized User in WeAccess</i>
<b>2016-29</b>	<i>Award of Contract for the Supply, Delivery and Construction of Truck Scale with Guard House</i>
<b>2016-30</b>	<i>2016 MSI Risk Control Self-Assessment Matrix</i>
<b>2016-31</b>	<i>Marketing Plan for 2017</i>
<b>2016-32</b>	<i>Availing of the eFPS Facility in Filing Tax Returns and Payment of Taxes</i>
<b>2016-33</b>	<i>Emergency Sourcing of Class B Palay</i>
<b>2016-34</b>	<i>2017 Corporate Operating Budget</i>



# OPERATIONAL HIGHLIGHTS

## 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.

## Board Performance

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. All Directors accomplished the IPED on or before April 8, 2016 for the 2015 Board of Directors, Chairman and President and CEO performance.

Additionally, in December 15, 2016, MSI Board of Directors used and accomplished its designed Performance Evaluation Tool for the Board of Directors, Committees' and President and CEO Performance Evaluation for CY 2016.

## Board Attendance

MSI Board held twelve (12) regular meetings and two (2) special meetings or a total of fourteen (14) meetings, with the Directors' average attendance of 97%.

## Board Rating PCEO Performance for CY 2015 and CY 2016

In a meeting held last March 16, 2016, the Board without the presence of PCEO Roy Oscillada had an executive session to discuss and assess the President and CEO performance for CY 2015. Dir. Agustin was tasked to summarize the collegial assessment for PCEO Oscillada.

While in December 15, 2016, in another executive session without the presence of the PCEO Oscillada, MSI Board again assessed the performance of the PCEO for CY 2016.

## Dividends Remittance to the National Government

Last May 23, 2016, during the 2016 GOCC Day held at Rizal Hall, Malacañang Palace initiated by the Governance Commission for the GOCCs, an event for the annual ceremonial turn-over of GOCC's dividends to H.E. President Benigno S. Aquino III and to recognize GOCCs' achievements and significant contributions to the country's national development, MSI Directors namely Dir./Chairman Crispino T. Aguelo, Dir./Pres. & CEO Roy C. Oscillada, Dir. Liduvino S. Geron, Dir. Conrado B. Roxas and Dir. Daniel R. Agustin attended the ceremonial turn-over of MSI's cash dividend for CY 2015 amounting to P12,816,150.00 from its CY 2015 net income, representing 105% increase in dividend remittance compared to 2014 dividend of P6,260,115.00.

BOARD OF DIRECTORS		POSITION	2016 BOARD MEETINGS													
			Jan. 29 2016	Feb. 17, 2016	Mar. 16, 2016	Apr. 21, 2016	May 6, 2016 (Special)	May 26, 2016	Jun. 16, 2016	Jul. 28, 2016	Aug. 19, 2016 (Special)	Aug. 25, 2016	Sept. 15, 2016	Oct. 21, 2016	Nov. 24, 2016	Dec. 15, 2016
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	/	/	/	/	/	/	/	/	/	/	/	/	/	/
8	Miguel Ramon O. Unson III	Member	/	/	/	/	/	X	/	/	/	/	/	/	/	/
9	Nestor T. Tapia	Member	/	X	/	X	/	X	/	/	/	/	/	/	/	/

LEGEND : (/) Present (X) Absent

# Our Commitment

Component					Baseline 2015	Actual 2016	Target 2016	% Accomp.	
Objective/Measure		Formula	Weight	Rating System					
SOCIAL IMPACT	SO 1	Strengthen the Competitiveness and Technical Knowledge of the LandBank Assisted Farmer-Cooperatives							
	SM 1	Total No. of Cooperatives with Improved Quality of Palay that Benefited from the Payment in Kind (PIK) Program	No. of Cooperatives	10%	(Actual/Target) X Weight	25	22	30	73%
		Sub-total		10%			7.3%		
FINANCIAL	SO 2	Strengthen Financial Viability							
	SM 2	Increase in EBIDTA Margin	Absolute Percentage	10%	(Actual/Target) X Weight	13%	14%	14%	100%
		Sub-total		10%			10%		
STAKEHOLDER	SO 3	Promote Customer Satisfaction in the Delivery of Services							
	SM 3	Customer Satisfaction Survey	Average (Mean) Respondent Rating (5 = Excellent, 1 = Poor)	15%	All or Nothing	Average of 4.52	Average of 4.06	Average of 4	102%
	SM 4	Primary Market* Developed	No. of Retailers/End-User Accounts	10%	(Actual/Target) X Weight	35	39	39	100%
	SM 5	Volume of Rice Sold	Volume of Rice (Bags)	10%	(Actual/Target) X Weight	10,673	10,459.5	9,000	116%
		Sub-total		35%			35%		
INTERNAL PROCESSES	SO 4	Enhance Existing Toll Milling Process Comparable with the Grading Quality of the Industry							
	SM 6	Average Milling Recovery Rate	Absolute Percentage	15%	(Actual/Target) X Weight	63.43%	64%	63%	102%
	SO 5	Streamline Market Linkaging Process							
	SM 7	On-time Delivery (Lead Time)	Average No. of Days from End of Milling to End of Delivery	10%	(1-((Actual-Target)/Target) X Weight	2.55 days	2.83 days	4 days	129%
	SO 6	Strengthen Business and Development Support Mechanisms							
	SM 8	Utilization Rate of Santa Rosa Grain Center	Warehouse utilization per year (cavans)	10%	(Actual/Target) X Weight	134,778 cavans	126,274 cavans	120,000 cavans	105%
		Sub-total		35%			35%		
LEARNING AND GROWTH	SO 7	Develop Strategic Skills & Competence of Officers and Staff							
	SM 9	Average Competency in the Organization	Based on training needs analysis and number of personnel	10%	All or Nothing	Developed Competency Framework	100% Completed BASIC TRAINING  100% Completed Intermediate Training	100% Completed BASIC TRAINING  100% Completed Intermediate Training	100%
		Sub-total		10%			10%		
		Grand Total		100%			97.3%		



# OPERATIONAL HIGHLIGHTS

## 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 will be scheduled to attend the Professional Directors Program.

For CY 2016, MSI Board of Directors had attended various trainings/seminars. Below are the lists of trainings that they attended:

<b>Name of Directors</b>	<b>Trainings Attended</b>
Crispino T. Aguelo	<i>Strategic Business Planning</i>
Liduvino S. Geron	<i>Strategic Business Planning AML and Compliance Awareness Training Public Governance Forum Asian Food and Agribusiness Conference</i>
Roy C. Oscillada	<i>Strategic Business Planning Creating Culture of Innovation</i>
Conrado B. Roxas	<i>RICS- RISM Asia Valuation Conference 2016</i>
Alex A. Lorayes	<i>Strategic Business Planning Real Estate Markets and Urban and Regional Economics.</i>
Miguel Ramon O. Unson III	<i>Strategic Business Planning</i>
Ramon K. Cervantes	<i>Strategic Business Planning</i>
Daniel R. Agustin	<i>Strategic Business Planning</i>
Nestor T. Tapia	<i>Capacity Building Training for Civil Society Organizations</i>

## B. 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.

### 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./President-CEO/GM Roy C. Oscillada, Dir. Daniel R. Agustin and Dir. Nestor T. Tapia.

### Executive Committee in Action

For the year CY 2016, the MSI Executive Committee acted upon on at least 20 Ex-Com Resolutions pertaining to operations, employees' hiring and compensation and endorsed the same to the Board for approval.

<b>Ex-Com Resolution No.</b>	<b>PARTICULAR</b>
<b>2016-01</b>	<i>MSI Restructuring and Alignment of MSI Positions with LBP Subsidiaries</i>
<b>2016-02</b>	<i>Adjustment to COB Due to Booking</i>
<b>2016-03</b>	<i>Authority to Issue MSI's Financial Statements for CY 2015</i>
<b>2016-04</b>	<i>Declaration of Cash Dividends</i>
<b>2016-05</b>	<i>Approval of Prior Year's Adjustments</i>
<b>2016-06</b>	<i>Disposal of SRGC Scrap Materials</i>
<b>2016-07</b>	<i>Regularization of MSI Internal Auditor</i>
<b>2016-08</b>	<i>Opening of Bank Account at Robinsons Bank and Closing of Union Bank Account</i>
<b>2016-10</b>	<i>MSI Business Plan</i>
<b>2016-11</b>	<i>Policy on the Waiver of Penalty</i>
<b>2016-12</b>	<i>Policy on Accounts Receivables</i>
<b>2016-13</b>	<i>MSI Enrollment in LandBank WeAccess</i>
<b>2016-14</b>	<i>MSI Whistle Blowing Policy</i>

# OPERATIONAL HIGHLIGHTS

Ex-Com Resolution No.	PARTICULAR
2016-15	<i>Restore Separate Plantilla Position of General Manager</i>
2016-16	<i>Regularization of MSI IT Specialist I and the Executive Secretary</i>
2016-17	<i>Award of Contract for the Supply, Delivery and Construction of a Truck Scale and a Guard House</i>
2016-18	<i>Availing of the eFPS Facility in Filing Tax Returns and Payment of Taxes</i>
2016-19	<i>Emergency Sourcing of Class B Palay</i>
2016-20	<i>2017 Corporate Operating Budget</i>

## Executive Committee Attendance

The MSI Executive Committee held twelve (12) meetings for CY 2016, with the Director's average attendance of 90%.

DATE OF EXECUTIVE COMMITTEE MEETINGS FOR CY 2016	L.S. GERON CHAIRMAN	R. C. OSCILLADA MEMBER	C. B. ROXAS MEMBER D.	E. R. AGUSTIN MEMBER F.	N.T. TAPIA MEMBER
January 21, 2016	/	/	/	/	X
February 11, 2016	/	/	/	/	X
March 9, 2016	/	/	/	/	X
April 19, 2016	/	/	/	/	X
May 12, 2016	/	/	/	/	X
June 13, 2016	/	/	/	/	X
July 19, 2016	/	/	/	/	/
August 18, 2016	/	/	/	/	/
September 8, 2016	/	/	/	/	/
October 19, 2016	/	/	/	/	/
November 21, 2016	/	/	/	/	/
December 8, 2016	/	/	/	/	/
TOTAL	12	12	12	12	6

( / ) Present (X) Absent

## Governance and Risk Committee

The MSI Governance and Risk Committee assist 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./President-CEO/GM Roy C. Oscillada, Dir. Miguel Ramon O. Unson III and Dir. Daniel R. Agustin.

## Governance Committee in Action

For CY 2016, the Committee reviewed, evaluated and monitored progress and/or endorsed to the Board the following:

- MSI Directors' Continuing Education
- Internet Based Performance Evaluation for Directors
- MSI Material Risk Factors and Measure to Manage the Risk
- CY 2016 MSI Risk Control Self-Assessment Matrix
- CY 2014, CY 2015 and CY 2016 Corporate Governance Scorecard Result and Status of Accomplishment

## Governance and Risk Committee Attendance

For the year, there were three (3) meetings held by the Governance and Risk Committee with 100% or perfect attendance from its members.

DATE OF GOVERNANCE AND RISK COMMITTEE MEETINGS FOR CY 2016	C. T. AGUELO CHAIRMAN	R. C. OSCILLADA MEMBER	G. B. ROXAS MEMBER H.	I. R. AGUSTIN MEMBER J.	M.R. O. UNSON III MEMBER
March 9, 2016	/	/	/	/	/
June 16, 2016	/	/	/	/	/
October 21, 2016	/	/	/	/	/
TOTAL	3	3	3	3	3

( / ) Present (X) Absent

## 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.



# OPERATIONAL HIGHLIGHTS

## Audit Committee in Action

CY 2016, MSI Audit Committee reviewed, evaluated, monitored progress and acted on the following:

- Approved the Audit Plan for CY 2016 and CY 2017
- COA Audit Report for CY 2014 and 2015 and MSI's Action Plan as April 30, 2016
- HOSTAD Audit Report and MSI's Action Plan and Status of Implementation of the Remaining Open Findings as of November 15, 2016.
- MSI Internal Audit Report for MSI-ADC Operations
- Regularization of MSI Internal Auditor
- MSI Internal Audit Manual

## Audit Committee Attendance

For the year, a quarterly meeting were held by the Audit Committee with 100% or perfect attendance from its members.

DATE OF AUDIT COMMITTEE MEETINGS FOR CY 2016	R. K CERVANTES CHAIRMAN	A. LORAYES MEMBER	M.R. O. UNSON III MEMBER
March 16, 2016	/	/	/
May 26, 2016	/	/	/
August 25, 2016	/	/	/
November 24, 2016	/	/	/
TOTAL	4	4	4

(/ ) Present (X) Absent

## II. MSI Work Force

MSI recognizes the significant contribution of its manpower to achieve its institutional goals. MSI for 2016 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

the year, MSI has sent all of its employees to trainings and seminars conducted by recognized

agencies intended to develop and enhance the For skills of its existing workforce towards efficient and effective carrying out of tasks and responsibilities.

### Trainings/Seminars Attended

1. Strategic Business Planning'
2. CPCS Train the Trainer Session
3. LBP Orientation on the CPCS for Subsidiaries
4. Orientation and Workshop on the GOCC Monitoring System (GMS) on the Integrated Corporate Reporting System (ICS)
5. Seminar of ISO
6. Seminars for Auditors
7. Technical Writing for Beginners
8. Orientation on Gender Mainstreaming Evaluation Framework and GAD Planning and Budgeting
9. Pre-Membership Educational Seminar
10. Personality Development
11. Seminar for Non-Accountants
12. Expanded Withholding Tax and Final Withholding Tax Seminar
13. Collection Management Strategies
14. Content Management System "Joomla"
15. ISO 9001-2015 Quality Management System Awareness Course
16. Basic GAD Orientation and Introduction to Gender Analysis
17. Credit and Collection Management
18. How to Implement 5S in the Workplace



### 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 For employee has P13,000.00 allowance for this sole purpose.

# OPERATIONAL HIGHLIGHTS

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 in June 15, 2016 and purchased for each employee protective gear (hard hat) and emergency kit (whistle and flash light).

## Gender and Development



National Women's Month Celebration (NWMC).

This year's theme is “**Kapakanan ni Juana, Isama sa Agenda!**” (Include Women in the Agenda).

The theme resonates the call for gender-balance in leadership and decision making positions both in public and private sector; inclusion of women's concerns in leadership platforms and the government's development agenda; and capacitating and preparing women and girls to reach their

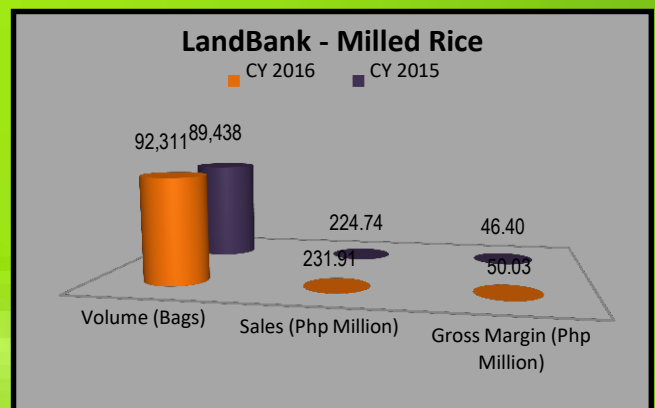


## III. Financials

### A. Milled Rice Trading

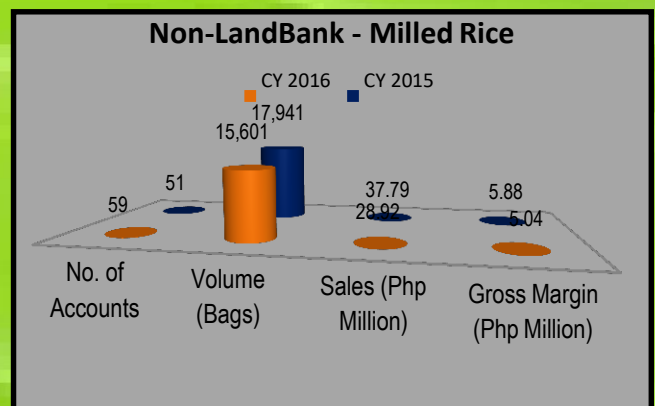
For 2016, MSI delivered nationwide to LANDBANK Branches and Field Operating Units, including the subsidiaries, a total of 92,311 bags of milled rice, up by 3% compared to year 2015 of only 89,438 bags of milled rice.

MSI generated total sales of P231.91 million and a gross margin of P50.03 million, showing 3% improvement over last year's sales of P224.74 and an 8% improvement in gross margin from last year's P46.40 million, respectively.



For Non-LANDBANK Accounts, MSI was able to deliver the milled rice requirements of 59 corporate accounts and primary accounts.

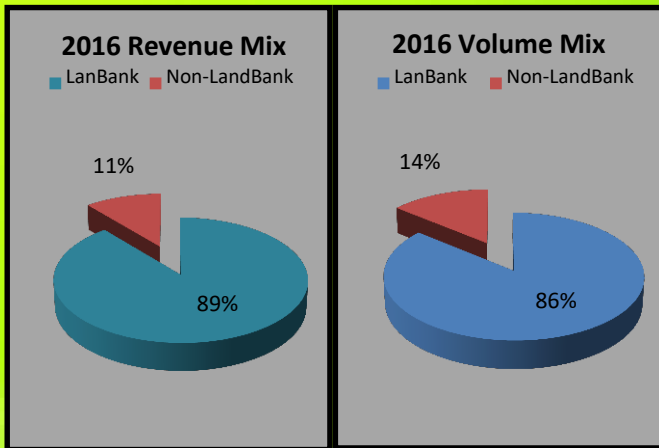
A total of 15,600.5 bags of milled rice were traded giving the company revenues amounting to P28.92 million and a gross profit of P5.04 million.





# OPERATIONAL HIGHLIGHTS

The LANDBANK and Non-LANDBANK Mix stood at 89% LANDBANK: 11% Non-LANDBANK in terms of revenues; and 86% LANDBANK: 14% Non-LBP in terms of volume



The table below shows the monthly sales turnover for milled rice for CY 2016 and CY 2015. 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

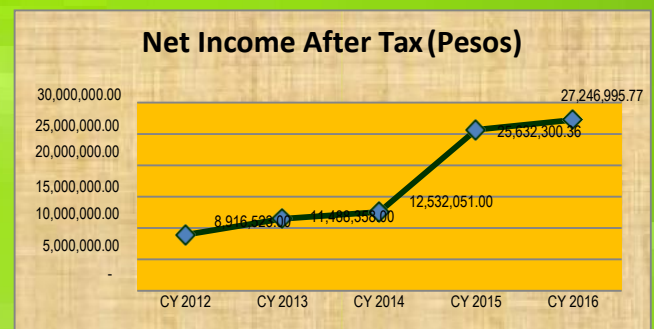
For 2016, MSI generated P18.24 million from the sales of broken with gross margin of P4.37 million. Compared to the same period last year, there was a decrease by 18% in terms of sales and an increase of 67% in terms of gross margin.

The decline in the sales of broken is due to portion of 2014 wet season inventory were only disposed in February 2015. On the other hand, the significant improvement in gross margin is brought about by the "on-time disposal strategy" of broken inventory.

MSI generated P6.07 million from the sales of by-products with a gross margin of P1.71 million. Compared with same period last year, there was an increase in sales and gross margin by 9% and 37%, respectively. This significant increase in margin can be traced to increased gross profit rate to 29% from last year's 39%.

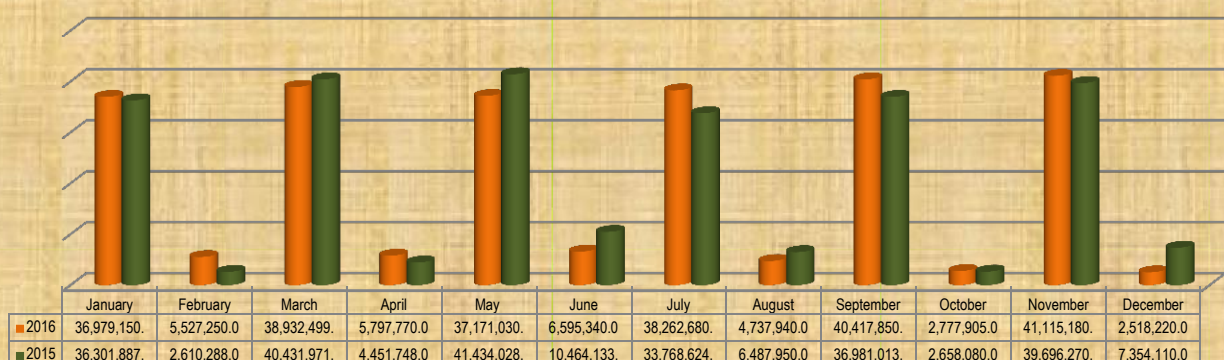
## C. Net Income After Tax

CY 2012 to CY 2016, 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 2016. This is also supported by maintaining and winning back lost corporate accounts and establishing the primary market. For CY 2016, 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 increase in the NIAT from CY 2015 to CY 2016 by 6% can be attributed to continued stability of market prices and lower costs.

## REVENUES PER MONTH (Php)



# OPERATIONAL HIGHLIGHTS

## Pursuit of Mandate

### A. Payment In Kind Program

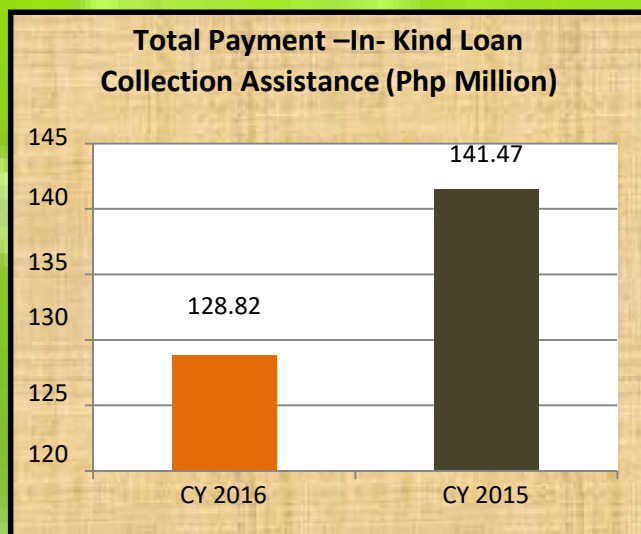
Payment-In-Kind (PIK) is a scheme that provides marketing assistance to farmer/cooperative borrowers of LANDBANK to sell their palay harvest or milled rice produced at a price based on market prevailing plus a premium. It is also a scheme of collection wherein palay harvest and milled rice produce of 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 2016, MSI's Payment-in-kind (PIK) program for palay came from twenty-two (22) cooperatives which delivered a total of 126,274 bags amounting to P122.92 Million.

Compared to last year, there is a decrease in volume and amount by 6% and 5%, respectively.

MSI PIK Program-Milled Rice from Nagkakaisang Magsasaka,PMPC also decreased 51% due to rice requirement of LBP Region I Branches and Field Units transferred from Nagkakaisang Magsasaka PMPC to MSI.

For 2016, MSI was able to provide loan collection assistance to LANDBANK under the Payment-In-Kind Program the amount of P128.82 million, lower by 9%, from last year's P141.47 million collection.

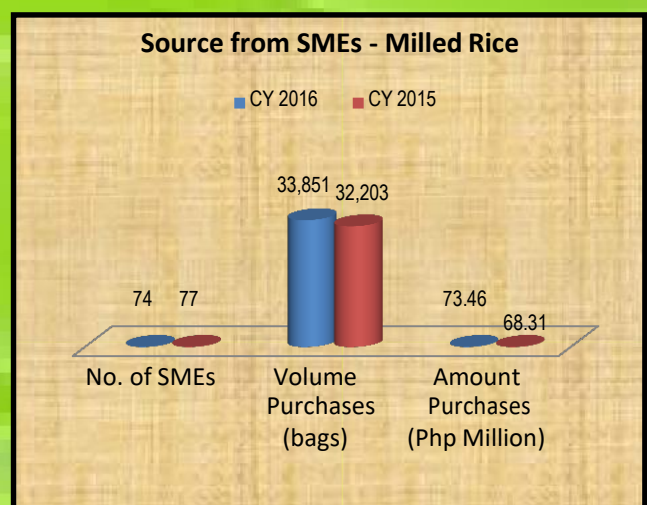


### B. Marketing Support

For 2016, twenty-one (21) farmer-cooperatives provided MSI a total of 15,594 bags of milled rice amounting to P34.34 million. This registered a decrease of 19% and 17% in terms of volume and amount compared to year 2015.



MSI was able to source from 74 Small and Medium Enterprises (SMEs) a total of 33,851 bags of milled rice amounting to P73.46 million. This posted an increase of 5% and 8% both in terms of volume and amount compared to year 2015.





# OPERATIONAL HIGHLIGHTS

## Corporate Social Responsibility

### A. 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 2016, MSI provided farmers-cooperative an estimated P1.26 million incentives, this is lower by 7% compared to last year estimated incentives at P1.35 million.

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

#### Cooperatives Recognition Program

In December 2, 2016, a month after MSI's 42<sup>st</sup> 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 namely: (1) BADECO; (2) Bagong Buhay ng Mabini; (3) Bagong Buklod; (4) Bagong Silang; (5) BALITE MPC; (6) FBRC ; (7) KADRE; (8) Malabon Kaingin; (9) Pakul; (10) United Pulo Producers Co-op; (11) Pulong Buli; (12) San Pablo; (13) Sapang Kubo; (14) Talabutab Norte; (15) BAMC; (16) Bantug MPC; (17) H. Romero IA and (18) Nagkakaisang Magsasaka PMPC.

Mr. Boy Padua, Account Officer of LBP Nueva Ecija Lending Center, partner Toll Miller, MSI Board of Directors Chairman Crispin T. Aguelo, Dir./PCEO/GM Roy C. Oscillada, and MSI Employees also graced on the said occasion.



From the expected guest lists, eight (8) cooperatives failed to attend the event due to busy schedules and previous arrangements.

The guests were welcomed by the MSI's PCEO/GM Oscillada and each cooperative-member attendees were introduced by their chosen representatives.

Selected MSI staff as well as cooperatives prepared a song and dance number for entertainment.

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 cooperative chosen items amounting to P100,000.00 (First Place), P75,000.00 (Second Place) and P50,000.00 (Third Place).



The closing remarks was rendered by no other than MSI Chairman of the Board, Mr. Crispino T. Aguelo.

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





# OPERATIONAL HIGHLIGHTS

## PIK-Cooperatives Recognition Program



First Place : BAMC



Special Award : Nagkakaisang Magsasaka PMPC



Second Place : Talabutab Norte



Plaque of Appreciation : LandBank of the Philippines



Third Place : BADECO



## OPERATIONAL HIGHLIGHTS

### Donations to PIK- Farmer-Cooperatives

In February 2016, MSI continued what it has started in CY 2015 which is facilitating the distribution of donations by LCDFI of items including office furniture and equipment to three (3) 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) Divina Pastora MPC; (2) Bagong Silang PMPC; and (3) TCP – 3 Lagare Farmers MPC.



## Gauging Our Services

For year 2016, MSI for the second year conducted Customer Satisfaction Survey with its twenty-six (26) 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 4.06 from a scale of 1 to 5 with 5 being the highest.

## B. 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. 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.

In CY 2015, 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.



As an active partner of the program, MSI employees including thousands of volunteers participated in the clean-up activity of the Manila Bay, Roxas Boulevard last August 20, 2016. Additionally, MSI employees partook in the “EM MudBall Workshop” initiated by the Manila Bay SUNSET Partnership Program, Inc.

# OPERATIONAL HIGHLIGHTS

In November 19, 2016, LBP Subsidiaries sponsored the clean-up activity at the Manila Bay. The event was well supported and attended by partners and a number of volunteers.



## 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.

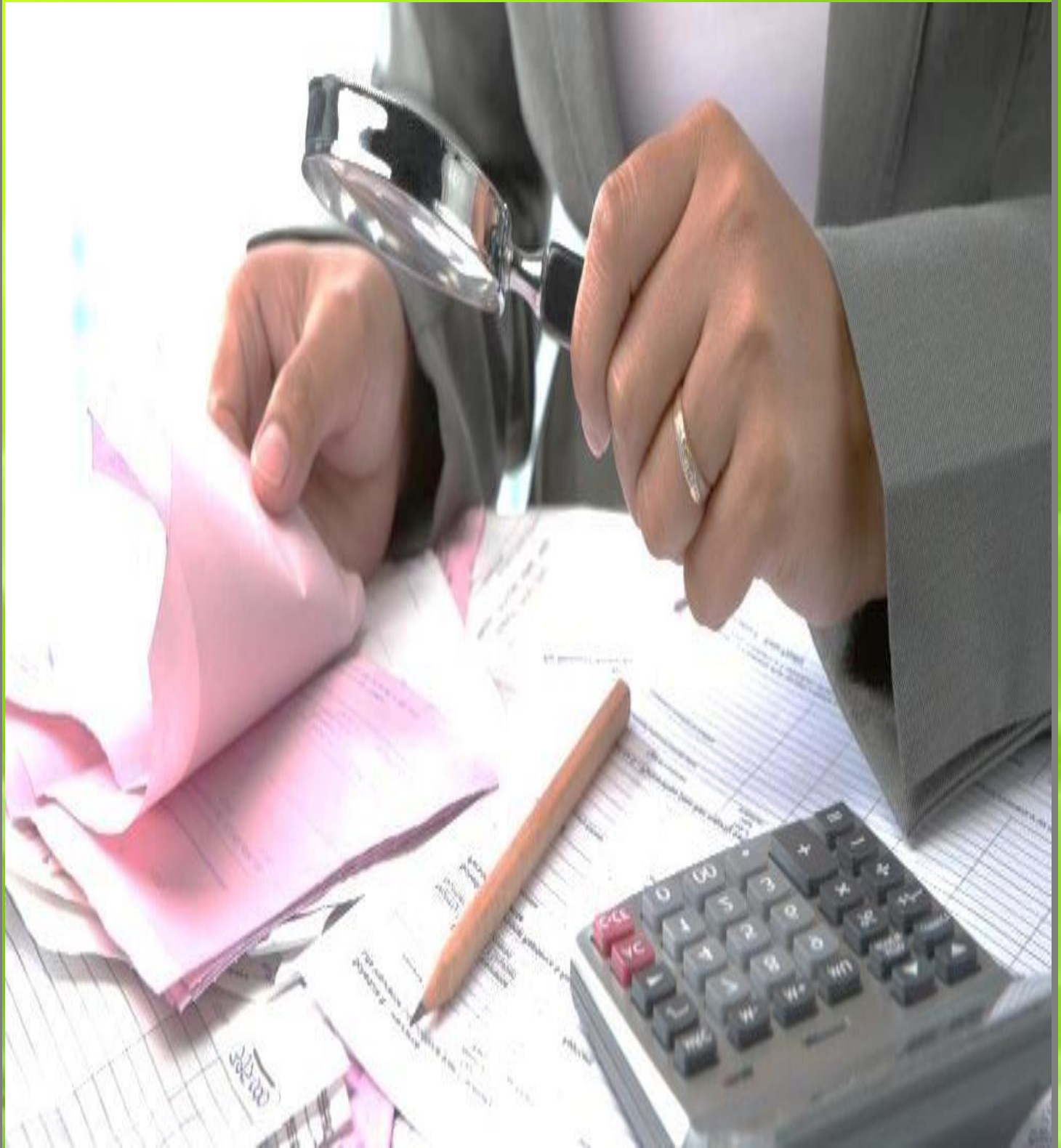
Also this year, MSI's adopted a **Whistle Blowing Policy**. It is the policy that aimed to uphold the highest ethical standards among its officers and employees and to promote good governance at all levels of the organization in accordance to the code of Conduct of the Corporation and similar applicable issuances. These guidelines aim to encourage the employees with creditable information to blow the whistle against graft and corrupt practices and other reportable conditions by providing protection and assistance to employees who voluntarily disclose their knowledge or give evidence about graft and corrupt practices. It shall be the duty of all employees of the Corporation who witness or become aware of any attempted, on-going or consummated act of graft and corruption and other reportable conditions involving any employee, to report the same at the earliest possible time.

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





# **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.**  
12<sup>th</sup> Floor, SyCipLaw 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, 201 and 2015, 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, 2016 and 2015 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

February 17, 2017



**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, 2016 and 2015, 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/General Manager**

**ANNALENE M. BAUTISTA**  
**Treasurer**

Signed this 17<sup>th</sup> day of February 2017



# MSI AUDITED FINANCIALS

## MASAGANANG SAKAHA, INC.

(A wholly-owned subsidiary of Land Bank of the Philippines)

### STATEMENT OF FINANCIAL POSITION

December 31, 2016 and 2015

(In Philippine Peso)

	Note	2016	2015
<b>ASSETS</b>			
Cash and cash equivalents	3	59,357,913	44,433,650
Investments			
Financial assets available-for-sale securities	4	104,158	17,341,424
Investment in stocks and bonds	5	57,200	57,200
Receivables (net)	6	74,498,447	71,349,962
Inventories	7	52,462,798	41,442,810
Other Assets			
Prepayments	8	1,011,158	1,071,950
Others	9	2,967,502	723,959
Investment property	10	4,351,418	4,351,418
Property, plant and equipment (net)	11	21,473,229	22,362,129
Biological assets	12	48,900	30,000
		<b>216,332,723</b>	<b>203,164,502</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
<b>Financial Liabilities</b>			
Accounts payable	13	62,790,624	63,040,771
Other payables	14	7,947,620	8,245,340
		<b>70,738,244</b>	<b>71,286,111</b>
<b>Equity</b>			
Share capital	15	100,000,000	100,000,000
Retained earnings	16	45,594,479	31,878,391
		<b>145,594,479</b>	<b>131,878,391</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>216,332,723</b>	<b>203,164,502</b>

# MSI AUDITED FINANCIALS

## STATEMENT OF COMPREHENSIVE INCOME For the Year Ended December 31, 2016 and 2015 (In Philippine Peso)

	Note	2016	2015
Business income			
Sales revenue		287,325,780	291,645,974
Cost of sales		226,055,418	235,335,803
Gross profit		61,270,362	56,310,171
Operating expenses	17	23,144,437	20,399,655
Income from operations		38,125,925	35,910,516
Other business income		486,574	545,726
Net income before tax		38,612,499	36,456,242
Income tax expense	20	11,493,314	10,823,942
<b>NET INCOME</b>		<b>27,119,185</b>	<b>25,632,300</b>
OTHER COMPREHENSIVE INCOME		0	0
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>27,119,185</b>	<b>25,632,300</b>



# MSI AUDITED FINANCIALS

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2016 and 2015

(In Philippine Peso)

	Capital Stock		Retained Earnings as restated (Note 16)	Total
	Common Stock	Preferred Stock		
	(Note 15)			
Balance, December 31, 2014	90,000,000	10,000,000	14,291,917	114,291,917
Net Income for CY 2015			25,632,300	25,632,300
Cash dividends declared			(6,260,115)	(6,260,115)
Prior period adjustments			(1,785,711)	(1,785,711)
Balance, December 31, 2015	90,000,000	10,000,000	31,878,391	131,878,391
Net Income for CY 2016			27,119,185	27,119,185
Cash dividends declared			(12,816,150)	(12,816,150)
Prior period adjustments			(586,947)	(586,947)
Balance, December 31, 2016	90,000,000	10,000,000	45,594,479	145,594,479

# MSI AUDITED FINANCIALS

## CASH FLOW STATEMENT

For the Year Ended December 31, 2016 and 2015

(In Philippine Peso)

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		279,392,818	271,950,911
Collection of Interest and other income		97,716	88,681
Payment of bank charges		(400)	(13,398)
Payment of taxes, licenses and fees		(9,611,177)	(470,941)
Cash payments to suppliers and employees		(258,294,752)	(235,162,721)
<b>Net cash generated from/(used in) operating activities</b>		<b>11,584,205</b>	<b>36,392,532</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from/placement of investments		16,729,134	(12,611,516)
Payment for leasehold improvement		(71,930)	(34,340)
Purchase of furniture and fixtures		(248,757)	(13,500)
Purchase of office equipment		(252,239)	(73,450)
Purchase of land and land improvements		0	(18,989,000)
Purchase of biological assets		0	(30,000)
Proceeds from sale of office equipment		0	4,700
Proceeds from sale of transportation equipment		0	80,000
<b>Net cash provided by/(used in) investing activities</b>		<b>16,156,208</b>	<b>(31,667,106)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends		(12,816,150)	(6,260,115)
<b>Net cash Used in Financing Activities</b>		<b>(12,816,150)</b>	<b>(6,260,115)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>14,924,263</b>	<b>(1,534,689)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	3	<b>44,433,650</b>	<b>45,968,338</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	3	<b>59,357,913</b>	<b>44,433,650</b>



# 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 an Agri-Development Center, formerly named as Sta. Rosa Grain Center, located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2016 were authorized for issue in accordance with the Resolution No. 2017-09 adopted by the Board of Directors on February 15, 2017.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of financial statements preparation**

The financial statements have been prepared on a historical cost basis, except for financial asset available-for-sale securities which has been stated at fair value. All values are rounded to the nearest peso.

### **Statement of compliance**

The financial statements of Masaganang Sakahan, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Revised Chart of Accounts (RCA) for Government Corporations prescribed in COA Circular Nos. 2015-010 and 2016-006.

# MSI AUDITED FINANCIALS

The accounting policies adopted in the preparation of these financial statements are set out below, which have been consistently applied to both years presented, unless otherwise stated.

## **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.



# MSI AUDITED FINANCIALS

- 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 comprises 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:

	2016	2015
Cash in bank	50,905,976	36,746,225
High Yield Savings Account (HYSA) *	8,205,005	7,443,131
Operating fund – MSI Agri-Development Center	206,459,473	204,294
Cash collecting officer	473	0
Petty cash	40,000	40,000
	<b>59,357,913</b>	<b>44,433,650</b>

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

## 4. FINANCIAL ASSETS AVAILABLE-FOR-SALE SECURITIES

This account pertains to the net investment placement of MSI through LBP Trust Banking Department amounting to P104,158 and P17,341,424 as of December 31, 2016 and 2015, respectively.

## 5. INVESTMENT IN STOCKS AND BONDS

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

## 6. RECEIVABLES

This account consists of trade receivables from sale of the following:

	2016	2015
Rice	78,751,171	75,095,038
Palay	17,528,244	17,528,244
Others	1,151,041	1,060,258
	97,430,456	93,683,540
Allowance for impairment	(22,932,009)	(22,333,578)
	<b>74,498,447</b>	<b>71,349,962</b>



# MSI AUDITED FINANCIALS

## 7. INVENTORIES

This account consists of the following:

	2016	2015
Palay	49,136,255	40,449,067
Rice	3,301,410	537,962
Brokens	(13,889)	455,246
By-products	39,022	535
	<b>52,462,798</b>	<b>41,442,810</b>

## 8. PREPAYMENTS

This account consists of the following:

	2016	2015
Taxes withheld	342,815	138,945
Medical	273,001	247,001
Insurance premium	199,921	84,467
Taxes, Licenses & fees	154,167	328,043
Uniform	25,000	80,000
Other services	10,080	20,625
Fidelity bond premium	6,174	10,499
Office rent	0	90,825
Rice benefit	0	71,545
	<b>1,011,158</b>	<b>1,071,950</b>

## 9. OTHER ASSETS

This account consists of the following:

	2016	2015
Guaranty deposits	1,846,125	370,438
Supplies and materials	994,027	206,821
Intangible assets	127,350	146,700
	<b>2,967,502</b>	<b>723,959</b>

# MSI AUDITED FINANCIALS

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 assets pertains to the net book value of the acquired accounting system and amortized using the straight line method. As of December 31, 2016, the total amortization expense recognized amounted to P38,700.

## 10. INVESTMENT PROPERTY

This account pertains to land acquired through payment in kind by millers.

## 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, 2016	10,782,000	8,087,000	6,442,934	1,183,202	837,986	415,560	25,574	27,774,256
Additions	0	0	0	252,239	248,757	0	71,930	572,926
Adjustments					27,279			27,279
<b>Balance, December 31, 2016</b>	<b>10,782,000</b>	<b>8,087,000</b>	<b>6,442,934</b>	<b>1,435,441</b>	<b>1,114,022</b>	<b>415,560</b>	<b>97,504</b>	<b>28,374,461</b>
Accumulated depreciation/amortization , January 1, 2016	0	160,789	3,513,111	906,828	739,243	92,156	0	5,412,127
Depreciation/amortization	0	643,157	535,754	103,802	90,058	53,201	35,854	1,461,826
Adjustments					27,279			27,279
<b>Balance, December 31, 2016</b>	<b>0</b>	<b>803,946</b>	<b>4,048,865</b>	<b>1,010,630</b>	<b>856,580</b>	<b>145,357</b>	<b>35,854</b>	<b>6,901,232</b>
<b>Net carrying amount, December 31, 2016</b>	<b>10,872,000</b>	<b>7,283,054</b>	<b>2,394,069</b>	<b>424,811</b>	<b>257,442</b>	<b>270,203</b>	<b>61,650</b>	<b>21,473,229</b>
<b>Net carrying amount, December 31, 2015</b>	<b>10,872,000</b>	<b>7,926,211</b>	<b>2,929,823</b>	<b>276,374</b>	<b>98,743</b>	<b>323,404</b>	<b>25,574</b>	<b>22,362,129</b>

## 12. BIOLOGICAL ASSETS

This comprises the cost of livestock totalling P30,000 consisting of four female and one male Anglo Nubian Goats costing P6,000 each acquired on May 6, 2015 and their offspring which were recorded as gain. These livestock are taken care of at MSI-ADC compound for breeding purposes. The increase in fair market value of the offspring weighing 126 kilograms as of December 31, 2016 amounted to P18,900.



# MSI AUDITED FINANCIALS

## 13. ACCOUNTS PAYABLE

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

	2016	2015
Land Bank of the Philippines (LBP)	59,311,362	61,130,991
Rice suppliers	3,479,262	1,909,780
	<b>62,790,624</b>	<b>63,040,771</b>

Payables to LBP arise from collection in kind such as Palay and Rice from cooperatives in connection with their loans to LBP.

## 14. OTHER PAYABLES

This account consists of the following:

	2016	2015
Income tax payable	3,327,902	3,973,873
Payable - Voucher	93,717	1,552,396
Trust liabilities – SSS, PHIC, Pag-ibig	(65,910)	(70,484)
Miscellaneous liabilities	4,591,911	2,789,555
	<b>7,947,620</b>	<b>8,245,340</b>

Miscellaneous liabilities pertains to accrual of operating expenses such as retirement benefits, utilities, performance bonus incentives, leave credits, milling fee, audit fee, etc. as of December 31, 2016.

## 15. SHARE CAPITAL

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 fully subscribed and paid the P100 million capital stock.

# MSI AUDITED FINANCIALS

## 16. RETAINED EARNINGS

The prior period adjustments as of December 31, 2015 and 2016 pertain to the following:

Year	Accounts Affected	Particulars	Amount
<b>CY 2015</b>	Miscellaneous Income	Long outstanding payable after negative result of confirmation	96,944
	Taxes and Licenses	Deficiency tax – CYs 2011 & 2012	(1,121,129)
	Audit Fee	Audit fee for CYs 2012, 2013 & 2014	(558,398)
	Other benefits/Bonus and incentives	Rice allocation and PBI for CY 2014	(180,759)
	Rental Expense	Condo dues for August 2014	(22,369)
			<b>(1,785,711)</b>
<b>CY 2016</b>	Loss on palay shrinkage	Correction of overstatement of loss on palay shrinkage	170,660
	Bad debts	Correction of overstatement of allowance for bad debts in CY 2014	145,860
	Travelling Expenses	Correction on travelling expenses	11,934
	Miscellaneous Income	Unrecorded income in CY 2014	400
	Cost of sales	Correction in the understatement of cost of sales in CY 2015	(631,280)
	Other services	Correction in the other services expense in CY 2014	(116,322)
	Audit fee	Audit fee for CY 2015	(124,167)
	Sales	Correction in the overstatement of sales	(44,032)
			<b>(586,947)</b>

The declaration of cash dividend to the National Government for CY 2016 and 2015 of P13,559,593 and P12,816,150, respectively, were approved on February 15, 2017 in Board Resolution No. 2017-09 and on February 17, 2016 in Board Resolution No. 2016- 08, respectively.

MSI appropriated P15.0 million for plant expansion/construction of a new warehouse which was approved by the Board on February 15, 2017 in Board Resolution No. 2017-10.



# MSI AUDITED FINANCIALS

## 17. OPERATING EXPENSES

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

	2016	2015
<b>Personnel services</b>		
<i>Salaries and wages</i>	5,042,595	4,062,645
<i>Other Compensation</i>		
Bonus and incentives	2,862,550	2,351,020
Overtime pay	112,111	63,312
<i>Personnel benefit contributions</i>		
SSS, Philhealth and Pag-ibig Premiums	363,501	298,138
<i>Other personnel benefits</i>		
Other benefits	2,250,030	2,044,620
	<b>10,630,787</b>	<b>8,819,735</b>
<b>Maintenance and other operating expenses</b>		
<i>Supplies and materials expense</i>		
Office supplies expense	1,501,836	1,482,198
<i>Taxes, insurance premiums and other fees</i>		
Taxes, dues and license	1,305,578	1,538,436
Insurance	281,133	390,004
<i>Other maintenance and operating expenses</i>		
Rent	952,875	1,089,900
Per diem/Allowances	890,000	526,000
Representation and entertainment	684,433	540,524
Business development	115,696	108,395
Reproduction	47,892	101,850
Other maintenance and operating expenses	1,714,465	1,544,596
<i>Losses</i>		
Loss on palay shrinkage	653,112	1,035,506
<i>Communication expense</i>		
Communication	555,804	479,635
<i>Utility expenses</i>		
Light, power and water	417,879	395,589
<i>Travelling expenses</i>		
Travelling Expense – Local	388,477	368,230
<i>General Services</i>		
Security services	289,116	217,560
<i>Repairs and maintenance</i>		
Spare parts	190,329	328,668
Repairs and maintenance	171,067	212,434
Gasoline, oil and lubricant expenses	127,791	129,087
	<b>10,287,483</b>	<b>10,488,612</b>
<b>Non-cash expenses</b>		
Depreciation	1,425,972	965,215
Impairment loss	744,291	0
Amortization	55,204	46,709
	<b>2,225,467</b>	<b>1,011,924</b>
<b>Financial expenses</b>		
Interest and other bank charges	700	79,384
	<b>23,144,437</b>	<b>20,399,655</b>

# MSI AUDITED FINANCIALS

## 18. EMPLOYEES BENEFITS

### 18.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2016	2015
Salaries and wages	5,042,595	4,062,645
Bonus and incentives	2,862,550	2,080,620
Other benefits	2,250,030	2,044,620
Social security costs	363,501	298,138
Overtime pay	112,111	63,313
	10,630,787	8,549,336
Directors' remuneration		
Per diem	890,000	526,000
Bonus and incentives	0	270,400
	890,000	796,400
	11,520,787	9,345,736

### 18.2 Retirement benefits

The MSI Retirement Plan is a participant to the LBP Subsidiaries Retirement Benefit Plan which is non-contributory. The Plan was approved by the board of Directors for Implementation on July 2010.

The Report on Valuation dated October 12, 2016 of the MSI Retirement Plan for Valuation dates: January 1, 2015, December 31, 2015 and December 31, 2016 contains, among others, the following:

#### Characteristics of the Defined Benefit Plan and its Associated Risks

The Masaganang Sakahan, Inc. Retirement Benefit Plan is a non-contributory and of the defined benefit type which provides a retirement benefit equal to one-half month basic salary for every year of service, where one-half shall include fifteen (15) days salary based on the latest salary rate, five (5) days of service incentive leaves, and one-twelfth (1/12) of the 13<sup>th</sup> month pay.

#### Regulatory Framework in which the Retirement Plan Operates

In accordance with the provision of the Labor Code, MSI is required to pay an eligible employees at least minimum regulatory benefit upon normal retirement, subject to age and service requirements. If the benefit under the Retirement Plan is less than the benefit provided by the Labor Code, MSI is required to pay the deficiency.



# MSI AUDITED FINANCIALS

## **Responsibilities of Trustees**

The Retirement Plan Trustee, as appointed by MSI in the Trust Agreement executed by and between MSI and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and actuary to value the Retirement Fund. As the administrator of the Retirement Plan, the Retirement Plan Trustee (rather than the MSI) is responsible for the ultimate control, disposition, or management of the money received or contributed.

## **Unusual or Significant Risks to which the Retirement Plan Exposes the MSI**

There are no unusual or significant risks to which the Retirement Plan exposes the MSI. However, in the event benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall be immediately due from MSI to the Retirement Fund.

## **Plan Amendments, Curtailments, or Settlements**

There was no plan amendment, curtailment, or settlement recognized for the financial years ended December 31, 2015 and December 31, 2016.

## **Amounts Recognized in the Financial Statements**

The valuation results are based on the employee data as of valuation dates. The discount rate assumption is based on the PDEX (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of employees as the estimated term of the benefit obligation.

It is assumed that MSI initially applied the Amended Philippine Accounting Standard (PAS) No. 19 (R) (as amended in June 2011) on January 1, 2015. The amended PAS 19 (R) simplifies the reporting of the defined benefit cost by introducing the Net Interest Approach, which disaggregates the defined benefit cost into the following components:

1. Service Cost (cost of services received);
2. Net Interest (financing effect of paying for benefits in advance or in arrears); and
3. Remeasurements (period to period fluctuations in the amounts of defined benefit obligations and plan assets).

# MSI AUDITED FINANCIALS

Under the Net Interest Approach, Service Cost and Net Interest on the net defined benefit liability (asset) are both recognized in Profit or Loss, while Remeasurements of the net defined benefit liability (asset) are recognized outside profit or loss in Other Comprehensive Income (OCI). It is further required by Amended PAS 19(R) that remeasurements recognized in OCI shall not be reclassified to profit or loss in a subsequent period. Instead, the Company may either accumulate the remeasurements in OCI or transfer those amounts recognized in OCI within equity in accordance with Amended PAS 19 (R) 122.

Upon initial application of the amended accounting standard, the Defined Benefit Obligation (DBO) is P6,662,345 and the Fair Value of Plan Assets is P2,591,667 resulting in a Net Defined Benefit Liability at a transition amounting to P4,070,678.

As of December 31, 2015, the Defined Benefit Obligation is P6,951,391 while the Fair Value Plan of Assets is P2,596,616, resulting in a Net Defined Benefit Liability of P4,354,775.

As of December 31, 2016, the Defined Benefit Obligation is P7,987,829 while the Fair Value Plan of Assets is P4,166,753, resulting in a Net Defined Benefit Liability of P3,821,076.

The components of the Defined Benefit Cost (DBC) recognized in Profit or Loss (P&L) are:

1. The Service Cost (Current and Past), and
2. Net Interest on the Net Defined Benefit Liability (Asset).

The Defined Benefit Cost to be recognized in P7L as of December 31, 2015 and December 31, 2016 are expenses of P526,680 and P513,587, respectively.

The components of the Defined Benefit Cost recognized in OCI are the remeasurements, which consist of the Actuarial Gains and Losses during the year on the DBO, return on Plan Assets, and Changes in the Effect of the Asset Ceiling. The DBC recognized in OCI as of December 31, 2015 and December 31, 2016 are Expense (Income) of (P242,584) and P826,515, respectively.

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, 2016, the amount of P513,587 was recognized as other benefits and recorded as Payable-Miscellaneous to the Fund.



# MSI AUDITED FINANCIALS

## 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

	2016	2015
Mayor's permit - Head Office & SRGC	794,468	956,016
Real estate tax	155,227	246,189
Community tax - Head Office	10,500	10,500
Barangay clearance	2,200	2,550
	<b>962,395</b>	<b>1,218,252</b>

### B. National

	2016	2015
NFA License	<b>32,846</b>	<b>33,250</b>

### C. Withholding taxes paid/accrued for the year:

	2016	2015
Taxes on compensation and benefits	898,147	738,056
Creditable withholding tax/es	1,199,587	389,301
	<b>2,097,734</b>	<b>1,127,357</b>

### D. 2005 Deficiency tax paid during the year

	2016	2015
Corporate income tax	0	1,086,147
Value added tax	0	0
Expanded withholding tax	0	34,982
	<b>0</b>	<b>1,121,129</b>

## 20. INCOME TAX EXPENSE

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.

The provision for income tax was computed as follows:

# MSI AUDITED FINANCIALS

	2016	2015
Net income before tax	38,612,499	36,456,242
Less: Income subjected to final tax	301,453	376,437
Net income subject to tax	38,311,046	36,079,805
Tax rate	30%	30%
<b>Provision for income tax</b>	<b>11,493,314</b>	<b>10,832,942</b>

## 21. 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 and remittance of LBP's loan receivables 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:

	2016	2015
Sales - rice allocation of LBP employees	231,896,705	224,815,942
Outstanding receivables	66,870,797	62,220,476
Receivables - miscellaneous from LBP Officers	0	35,000
Outstanding payables	59,311,362	61,130,991
	<b>358,078,864</b>	<b>348,202,409</b>

## 22. COMPENSATION OF KEY MANAGEMENT OFFICIALS

The basic salary received by the key management official amounted to P857,000 and P780,000 for CY 2016 and 2015, respectively.



# The Working Board





# BOARD OF DIRECTORS



**Crispino T. Aguelo**  
Director

Mr. Crispino T. Aguelo, 70 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.



**Roy C. Oscillada**  
Director

Mr. Roy C. Oscillada, 54 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-CEO/General Manager of MSI and Members 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 42 units credit 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 a Fellow of the Institute of Corporate Directors (ICD).

Mr. Oscillada field of expertise includes (1) Business Management, (2) Human Resource Development, (3) Corporate Governance, (4) Audit-Risk Management, (5) Research, and (6) Manufacturing Production.



**Daniel R. Agustin**  
Director

Mr. Daniel R. Agustin, 66 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.



**Liduvino S. Geron**  
Director

Mr. Liduvino S. Geron, 52 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 Branch Banking Sector 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.



**Alex A. Lorayes**  
Director

Mr. Alex A. Lorayes, 54 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. Lorayes 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.



# BOARD OF DIRECTORS



**Ramon K. Cervantes**  
**Director**

Mr. Ramon K. Cervantes, 59 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



**Conrado B. Roxas**  
**Director**

Mr. Conrado B. Roxas, 61 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 retired as 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 a Fellow of the 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



**Miguel Ramon O. Unson III**  
**Director**

Mr. Miguel Ramon O. Unson III, 70 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, Entrepinoy 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.



**Nestor T. Tapia**  
**Director**

Mr. Nestor T. Tapia, 51 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 as 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.

# CORPORATE OFFICERS



**Cesar S. Cabañes**  
**Corporate Secretary and Legal Counsel**

Atty. Cesar S. Cabañes, 42 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, 53 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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