

2017 Annual Report



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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.

CORE VALUES

Social Responsibility: Service to Community and Customer Satisfaction

Trust: Trustworthy

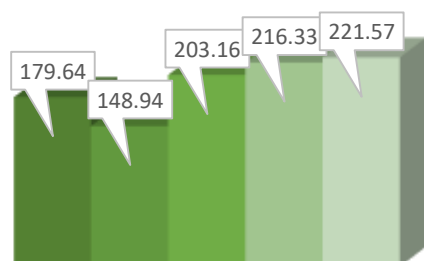
Excellence: Quality and Competitiveness

Professionalism: Teamwork, Dedication, Commitment, Competence and Mutual Respect

FINANCIAL HIGHLIGHTS

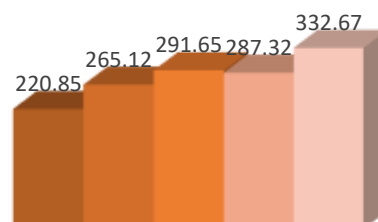
Total Assets (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



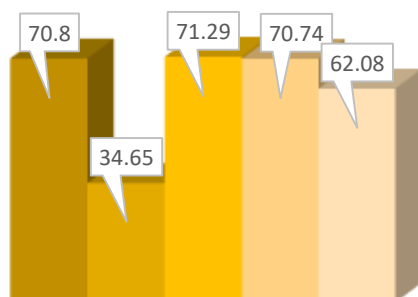
Gross Revenues (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



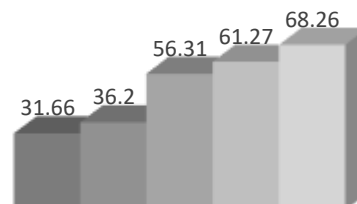
Total Liabilities (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



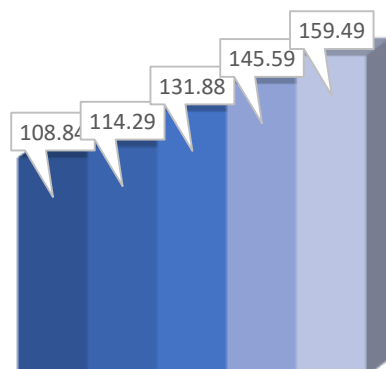
Gross Profit (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



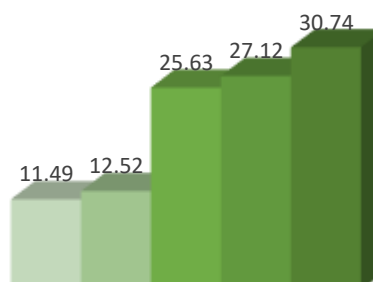
Total Equity (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



Net Income After Tax (in Php Million)

■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017



FINANCIAL HIGHLIGHTS

Sustainable Business Operation and Developmental Support

(in Php Miliion)

	2013	2014	2015	2016	2017
Gross Revenues	220.85	265.12	291.65	287.32	332.67
Cost of Sales	189.19	228.92	235.34	226.05	264.41
Gross Profit	31.66	36.20	56.31	61.27	68.26
Operating Expenses	20.44	19.15	20.40	23.14	25.05
Net Operating Income	11.22	17.06	35.91	38.13	43.21
Other Income	4.75	0.67	0.55	0.48	0.62
Net Income Before Tax	15.97	17.73	36.46	38.61	43.83
Net Income After Tax	11.49	12.52	25.63	27.12	30.74

Financial Condition (in Php Million)

	2013	2014	2015	2016	2017
Assets	179.64	148.94	203.16	216.33	221.57
Liabilities	70.80	34.65	71.29	70.74	62.08
Equity	108.84	114.29	131.88	145.59	159.49

Financial Indicators (%)

	2013	2014	2015	2016	2017
Return on Assets	6.57	7.68	14.56	12.93	14.04
Return on Equity	10.74	11.29	20.82	19.55	20.15
Return on Investment	11.28	14.14	34.08	37.18	39.75

CHAIRMAN'S AND PRESIDENT'S REPORT

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 2017 performance is marked with challenges characterized by changes in national policies. 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 four perspectives namely customers/stakeholders, internal process, financial, and learning and growth. Thus, MSI attained an average of 92.4% 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.



*Mr. Crispino T. Aguero,
Chairman, MSI Board*

May we continue to see positive developments in our operations and remain steadfast with our commitment to always prioritize the interest of our stakeholders, ensure integrity in our dealings and excellence in our services.

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 for purposes of selling.

For CY 2017, MSI served 44 primary markets out of the targeted 47 primary markets in its performance scorecard with a total transaction of 15,515.94 bags of milled rice.

On Assistance to Mandated Sectors

For CY 2017, MSI attained 113% accomplishment of the 30 farmer cooperatives equivalent to 34 farmer cooperatives assisted in its Payment-In-Kind (PIK) for loan payment to LANDBANK amounting to P144.10 million, with an increase of 17% from last year's P122.92 Million.

MSI's cooperative-partners were given due recognition by the end of 2017 for their support and contribution in the success of the MSI PIK Program at the awarding ceremony held at MSI-ADC, Sta. Rosa, Nueva Ecija. The Top-Three Cooperatives namely the United Pulo MPC (1st Prize), Talabutab Norte PMPC (2nd Prize), and Bantug PMPC (3rd Prize) was given a trophy plus a fixed assets of cooperatives' choice that will be used in their operation in the amount of P100,000.00 (1st Prize), P75,000.00 (2nd Prize) and P50,000.00 (3rd 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 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.

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.

For CY 2017, MSI has continuously developed the 2-hectare facility as a learning farm and technology promotions center. The 80-Ton truck scale is now fully operational and farmer-cooperatives have the primary benefit of use.

CENTERED ON CUSTOMERS / STAKEHOLDERS



*Mr. Roy C. Oscillada
President-CEO/General
Manager*

On Customers Satisfaction

MSI conducted for the third consecutive year a survey to assess the level of customer satisfaction to the quality of our services. The survey results of average of 4.42 or 100% of respondents giving at least Satisfactory rating affirmed that we are doing things right.

ENHANCING INTERNAL PROCESSES

Our toll milling process had sustained improvement in milling efficiency which have 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.

For CY 2017, MSI accomplished 56% of the total number of deliveries made within 4 days. MSI has also developed its own Freedom of Information Manual to provide full public disclosure and transparency in the public service.

IMPROVING FINANCIALS

MSI realized gross revenues of P 332.67 million. This enabled MSI to attain a gross profit of P68.26 million; while MSI expenses is P25.05 million. As a result, net operating income for CY 2017 was P43.21 million and a Net Income After Tax of P30.74 million, achieving 92.13% of its target of P33.35 million.

Total resources reached P221.57 million, higher by 2% or P5.24 million compared to same period last year of P 216.33 million. Total liabilities decreased by 12% from last year's P70.74 million to this year's P62.08 million.

Stockholder's equity improved by P13.90 million or 10% from last year's P145.59 million to P159.49 million in CY 2017.

More so, with timely forecasting and faster inventory turn-over, our warehousing operation was able to fully maximize our warehouse capacity for CY 2017 by 2.41 times, totaling to 132,550 bags of palay achieving 98.37% of its target. This capacity represents the total maximum moving inventory per year of the present warehouse whose full capacity is at 55,000 bags (based on area). However, it is worth mentioning that additional capacity of 120,000 bags will be available once the new warehouse will be completed.

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.

For CY 2017, MSI was able to establish the competency baseline of the employees to ensure that the average required competencies are met

OPERATIONAL HIGHLIGHTS: MSI Agri-Development Center



*MSI Agri-Development Center
Sta. Rosa, Nueva Ecija*



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 improving the office of MSI-ADC through utilizing unused work station in MSI's Head Office. This effort was for purposes of providing 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. For CY 2017, the On the other hand, the drafting of guidelines for system of dispersal is underway.

An 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.



On 2017, MSI held the inauguration of the truck scale and guard house before it was fully operational with the farmer cooperatives having the primary benefit of use.



Land preparation for small scale farming of “malagkit” or glutinous variety of palay/rice has also been made. Pilot test for the planting of the malagkit variety of palay and special rice which will showcase the productive use of small landholdings also took place this 2017.



Pursuit of Mandate



OPERATIONAL HIGHLIGHTS: *Institutional Viability*

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.

MSI BOARD COMPOSITION

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

MSI Board is chaired by LANDBANK Director, Mr. Crispino T. Aguelo, with Mr. Liduvino S. Geron as Vice-Chairman, who also came from

LANDBANK. In 2017, MSI Board under a hold-over capacity and is composed of the following:

Crispino T. Aguelo

LANDBANK Director, Chairman MSI Board

Liduvino S. Geron

LANDBANK EVP, Vice-Chairman MSI Board

Roy C. Oscillada

MSI President and CEO

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.

- 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 compensation and benefit scheme that is consistent with the GOCC Compensation and Position Classification System (CPCS) developed by GCG and formally approved by the President of the Philippines;
- Ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in pursuit of the applicable laws, rules and regulations;
- Provide sound written policies and strategic guidelines on

MSI's operating budget and major capital expenditures, and prepare the annual and supplemental budgets of MSI;

- Comply with all reportorial requirements, as required in the Articles of Incorporation and By-laws, as well as applicable laws, rules and regulations;
- Formally adopt and conduct annually the mandated Performance Evaluation System (PES) and the Performance Scorecard and timely and accurate report the results to the GCG; and
- Ensure the fair and equitable treatment of all Stakeholders and enhancing MSI's relations with its Stakeholders.

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 Pres. and CEO 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 2017 was set.

For the year 2017, the MSI Board of Directors acted upon the following:

Board Resolution No.	PARTICULAR		
2017-01	Annual Review of MSI's Vision, Mission and Strategy Map	2017-06	Adopting the Performance-Based Incentive System in Accordance with GCG Memorandum Circular No. 2015-06
2017-02	Amendments to MSI New CASA	2017-07	Allowance for Probable Losses
2017-03	Purchase of Computers and Microsoft Legalized Software Licenses Designed for Government Agencies and MSI Annual Procurement Plan for FY 2017	2017-08	Requirements for MSI-GCG PAN 2017
2017-05	Amendments to the Corporate By-Laws and Articles of Incorporation	2017-09	Authority to Issue CY 2016 Financial Statements and Declaration of Dividends
2016-06	Adopting the CY 2016 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	2017-10	Appropriation of Retained Earnings for FY 2016
		2017-11	Regularization of Sales Representatives
		2017-12	Disposal of MSI Delivery Truck
		2017-13	Training and Personnel Development Policy
		2017-14	MSI Training Plan for CY 2017
		2017-15	Truck Scale Policy
		2017-16	Policy on Classification, Handling, Access and Disclosure of Information Assets
		2017-17	Regularization of MSI Accountant II

2017-18	Retirement and Hiring of Governance and Risk Specialist II	Salary Schedule Under EO 201, EO 36 and GCG MC No. 2017-03
2017-19	GCG Recommendations on the Amendments to MSI Articles of Incorporation and By-Laws	2017-30 MSI Performance Scorecard for 2018
2017-20	Authority of the MSI Head to Procure a Performance Bond with the GSIS and to Execute the Related Documents	2017-31 Special Recognition for MSI Sales Personnel
2017-21	Designated Signing Officers	
2017-22	Resignation of Executive Secretary	
2017-23	Approval to Charge Schedule of A/R Representing Unsupported CWT of CY 2015 and Prior Years to Retained Earnings	
2017-24	Sale Proposal of MSI ROPA Sto Niño, South Cotabato	
2017-25	2018 Corporate Operating Budget	
2017-26	Freedom of Information Manual	
2017-27	Resignation of Accountant II	
2017-28	Proposed Adoption of the Modified Salary Schedule under EO 201	
2017-29	LBP Recommendations on the MSI Proposed Adoption of Modified	

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 GOCCs INCLUDING GFIs.

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 last 2017 for the 2016 Board of Directors, Chairman and President and CEO performance.

Additionally, in December 13, 2017, MSI Board of Directors accomplished its designed Performance Evaluation Tool for the Board of Directors,

Committees' and President and CEO Performance Evaluation for CY 2017.

BOARD ATTENDANCE

MSI Board held twelve (12) regular meetings and one (1) special meeting or a total of thirteen (12) meetings, with the Directors' average attendance of 100%.

BOARD OF DIRECTORS		POSITION	2017 BOARD MEETINGS													Total
			Feb. 2, 2017	Feb. 15, 2017	Mar. 29, 2017	April 27, 2017	May 25, 2017	June 29, 2017	July 27, 2017	Aug. 31, 2017	Sept. 28 2017	Oct. 12, 2017 (Special)	Oct. 18, 2017	Nov. 22, 2017	Dec. 13, 2017	
1	Crispino T. Aguero	Chairman	/	/	/	/	/	/	/	/	/	/	/	/	/	13
2	Liduvino S. Geron	Vice-Chairman	/	/	/	/	/	/	/	/	/	/	/	/	/	13
3	Roy C. Oscillada	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
4	Conrado B. Roxas	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
5	Daniel R. Agustin	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
6	Ramon K. Cervantes	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
7	Alex A. Lorayes	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
8	Miguel Ramon O. Unson III	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13
9	Nestor T. Tapia	Member	/	/	/	/	/	/	/	/	/	/	/	/	/	13

In a meeting held last December 13, 2017, the Board without the presence of PCEO Roy Oscillada had an executive session to discuss and assess the President and CEO performance for CY 2016. Dir. Agustin was tasked to summarize the collegial assessment for PCEO Oscillada.

DIVIDENDS REMITTANCE TO THE NATIONAL GOVERNMENT

Last August 15, 2018, during the 2017 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 President Rodrigo Roa Duterte and to recognize GOCCs' achievements and significant contributions to the country's national development, MSI Officer-in-Charge, Ms. Blesilda R. Macalalad attended the ceremonial turn-over of MSI's cash dividend for CY 2017 amounting to P15,370,240.50 from its CY 2017 net income.

OUR COMMITMENT

CUSTOMERS/STAKEHOLDERS

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Component					Annual Target	Accomplishment		Rating
Strategic Objective (SO)/ Strategic Measure(SM)		Formula	Weight	Rating System		Baseline (2016)	Actual (2017)	
SO 1	Strengthen the Market Access							
SM 1	Primary market* developed	No. of retailers or end-user accounts	10%	(Actual / Target) x Weight	47	39	44	9.36%
SM 2	Volume of rice sold to primary market	Volume of rice (in bags)	20%	(Actual / Target) x Weight	17,000	10,459.5 bags	15,515.94	18.25%
SO 2	Strengthen the Competitiveness and Technical Knowledge of LBP Assisted Farmer Organization							
SM 3	Total number of cooperatives with improved quality of palay that benefited from the Payment-In-Kind (PIK)	No. of cooperatives	10%	(Actual / Target) x Weight	30	22	34	10%
Sub-total			40%					37.61%
SO 3	Promote Customer Satisfaction and Sales Recognition Program							
SM 4	Percentage of stakeholders which rated MSI with at least Satisfactory rating	Total number of respondents with at least Satisfactory rating (upper two boxes of a 5-point scale) / Total number of respondents	10%	(Actual / Target) x Weight	100% of respondents which gave Very Good or Excellent Rating **	Average of 4.06	100% of respondents gave Very Good or Excellent Rating (Average of 4.42)	10%
Sub-total			10%					10%
SO 4	Strengthen Financial Viability							

Component					Annual Target	Accomplishment		Rating
Strategic Objective (SO)/ Strategic Measure(SM)		Formula	Weight	Rating System		Baseline (2016)	Actual (2017)	
SM 5	Net Income After Tax (NIAT)	Absolute amount (in Million Pesos)	15%	(Actual / Target) x Weight	33.35	27.12	30.52	13.73%
Sub-total			15%					13.73%
SO 5	Shore Up Logistical Processes for Quicker Turn-Around Time							
SM 6	Percentage of deliveries made on time	Total number of deliveries made within 4 days / Total number of deliveries	10%	(Actual / Target) x Weight	90%	N/A	56%	6.22%
SO 6	Increase Productivity of MSI-Agri Development Center							
SM 7	Capacity utilization ratio of MSI-ADC warehouse	Total incoming rice inventory (in cavans) / Full capacity of warehouse (55,000 cavans)	10%	(Actual / Target) x Weight	2.45	2.30	2.41	9.84%
Sub-total			20%					16.06%
SO 7	Establish Quality Management System							
SM 8	ISO 9001 Certification		5%	All or nothing	Certificate of Readiness for ISO 9001:2015	N/A	Certificate of Readiness for ISO 9001:2015	5%
SO 8	Strengthen Competencies of Employees in the Organization							
SM 9	Average Required Competencies Met		10%	All or nothing	Establish Competency Baseline	100% Completed Basic Training 100% Completed Intermediate Training	Established Competency Baseline	10%

Component				Annual Target	Accomplishment		Rating
Strategic Objective (SO)/ Strategic Measure(SM)		Formula	Weight		Baseline (2016)	Actual (2017)	
Sub-total			15%				15%
TOTAL			100%				92.40%

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 2017, MSI Board of Directors had attended various trainings/seminars.

THE BOARD COMMITTEE

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./Pres. and CEO 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 the following Ex-Com Resolutions pertaining to operations, employees' hiring and compensation and endorsed the same to the Board for approval.

Ex-Com Resolution No.	PARTICULAR
2017-01	Annual Review of MSI's Vision, Mission and Strategy Map
2017-02	Amendments to MSI New CASA
2017-03	Requirements for MSI-GCG PAN 2017
2017-04	Authority to Issue CY 2016 Financial Statements and Declaration of Dividends
2017-05	Appropriation of Retained Earning for FY 2016
2016-06	Regularization of Sales Representatives
2017-07	Training and Personnel Development Policy
2017-08	MSI Training Plan for CY 2017
2017-09	Truck Scale Policy
2017-10	Policy on Classification, Handling, Access and Disclosure of Information Assets
2017-11	Regularization of MSI Accountant II
2017-12	Recast 2017 Corporate Operating Budget
2017-13	Designated Signing Officers
2017-14	Adoption of the Modified Salary Schedule under EO 201
2017-15	MSI Performance Scorecard 2018

EXECUTIVE COMMITTEE ATTENDANCE

The MSI Executive Committee held eight (8) meetings for CY 2017, with the Director's average attendance of 100%.

EXECUTIVE COMMITTEE		POSITION	2017 EX-COM MEETINGS								TOTAL
			Jan. 20, 2017	Feb. 9, 2017	Mar. 16, 2017	Apr. 20, 2017	May 18, 2017	Jul. 14, 2017	Nov. 9, 2017	Dec. 7, 2017	
1	Liduvino S. Geron	Chairman	/	/	/	/	/	/	/	/	8
2	Roy C. Oscillada	Member	/	/	/	/	/	/	/	/	8
3	Conrado B. Roxas	Member	/	/	/	/	/	/	/	/	8

4	Daniel R. Agustin	Member	/	/	/	/	/	/	/	/	8
5	Nestor T. Tapia	Member	/	/	/	/	/	/	/	/	8

GOVERNANCE & 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./Pres. and CEO Roy C. Oscillada, Dir. Miguel Ramon O. Unson III and Dir. Daniel R. Agustin.

GOVERNANCE & RISK COMMITTEE IN ACTION

For CY 2017, the Committee reviewed, evaluated and monitored progress and/or endorsed to the Board the following:

- MSI CY 2017 Risk Control Self-Assessment Matrix
- MSI CY 2015 Corporate Governance Scorecard Results
- MSI CY 2018 Risk Control Self-Assessment Matrix

GOVERNANCE & RISK COMMITTEE ATTENDANCE

For the year, there were two (2) meetings held by the Governance and Risk Committee with 100% or perfect attendance from its members.

GOVERNANCE AND RISK COMMITTEE		POSITION	2016 GOVRISKCOM MEETINGS		
			Mar.29, 2017	Nov. 22, 2017	TOTAL
1	Crispino T. Aguelo	Chairman	/	/	2
2	Roy C. Oscillada	Member	/	/	2
3	Conrado B. Roxas	Member	/	/	2
4	Daniel R. Agustin	Member	/	/	2
5	Miguel Ramon O. Unson III	Member	/	/	2

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.

AUDIT COMMITTEE IN ACTION

For CY 2017, MSI Audit Committee reviewed, evaluated, monitored progress and acted on the following:

- Approved the Audit Plan for CY 2018
- COA Audit Report and MSI's Action Plans
- HOSTAD Audit Report and MSI's Action Plan and Status of Implementation of the Remaining Open Findings
- MSI Internal Audit Report

AUDIT COMMITTEE ATTENDANCE

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

AUDIT COMMITTEE		POSITION	2017 AUDITCOM MEETINGS				TOTAL
			Feb. 2, 2017	May 25, 2017	August 31, 2017	November 22, 2017	
1	Ramon K. Cervantes	Chairman	/	/	/	/	4
2	Alex A. Lorayes	Member	/	/	/	/	4
3	Miguel Ramon O. Unson III	Member	/	/	/	/	4

MSI WORKFORCE

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

For the year, MSI has sent all of its employees to trainings and seminars conducted by recognized agencies intended to develop and enhance the skills of its existing workforce towards efficient and effective carrying out of tasks and responsibilities.

Trainings/Seminars Attended:

1. Understanding and Transitioning to ISO 9001:2015
2. The Essentials of Income Tax
3. Effective Warehouse and Inventory Management
4. Training Needs Analysis
5. Key Account Management: Getting More Sales Out of Strategic Accounts
6. Effective Office Administration
7. Internal Control and Auditing
8. High Impact Selling: Strategies and Skills for Sales Excellence
9. Advanced MS Excel 2013
10. Effective Leadership Skills

HEALTH AND SAFETY

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

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

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

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

OPERATIONAL HIGHLIGHTS: FINANCIALS

MILLED RICE TRADING

For 2017, MSI delivered nationwide to LANDBANK Branches and Field Operating Units, including the subsidiaries, a total of 95,803 bags of milled rice, up by 4% compared to year 2016 of only 92,311 bags of milled rice.

MSI generated total sales of P260.02 million and a gross margin of P56.76 million, showing 12% improvement over last year's sales of P231.91 and an 13% improvement in gross margin from last year's P50.03 million, respectively.

For Non-LANDBANK Accounts, MSI was able to deliver the milled rice requirements of 68 corporate accounts and primary accounts.

A total of 20,243.46 bags of milled rice were traded giving the company revenues amounting to P38.95 million and a gross profit of P4.43 million.

The LANDBANK and Non-LANDBANK Mix stood at 87% LANDBANK: 13% Non-LANDBANK in terms of revenues; and 83% LANDBANK: 17% Non-LBP in terms of volume

BROKENS AND BY-PRODUCTS


For 2017, MSI generated P25.48 million from the sales of brokens with gross margin of P5.70 million. Compared to the same period last year, there was an increase of 40% in terms of sales and an increase of 30% in terms of gross margin.

The the significant improvement in gross margin is brought about by the "on-time disposal strategy" of brokens 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%.

NET INCOME AFTER TAX

CY 2012 to CY 2017, 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 2017. This is also supported by maintaining and winning back lost corporate accounts and establishing the primary market. For CY 2017, 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 2016 to CY 2017 by 13% can be attributed to continued stability of market prices and lower costs.

OPERATIONAL HIGHLIGHTS: PURSUIT OF MANDATE

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 2017, MSI's Payment-in-kind (PIK) program for palay came from thirty-four (34) cooperatives which delivered a total of 132,467 bags amounting to P144.10 Million.

Compared to last year, there is an increase in volume and amount by 5% and 17%, respectively.

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

For 2017, MSI was able to provide loan collection assistance to LANDBANK under the Payment-In-Kind Program the amount of P146.73 million, higher by 14%, from last year's P128.82 million collections.

MARKETING SUPPORT

MSI was able to source from 77 Small and Medium Enterprises (SMEs) a total of 33,512 bags of milled rice amounting to P75.51 million. This posted an decrease of 1% and increase of 3% in terms of volume and amount compared to year 2015.

OPERATIONAL HIGHLIGHTS: CORPORATE SOCIAL RESPONSIBILITY

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 farmer's 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 2017, 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 truck scaling facility is also available for free for cooperatives as part of MSI's services for PIK patronage.

COOPERATIVES RECOGNITION PROGRAM



In December 22, 2017, a month after MSI's 42st Anniversary, Annual Recognition of Partner Cooperatives under the MSI PIK Program was held at MSI Agri-Development Center located in Brgy. Maliolio, Sta. Rosa, Nueva Ecija.

Due to busy schedule, we made the celebration very simple by inviting only the top three

cooperatives namely; United Pulo Producers Mpc, Talabatutab Norte Pmpc, and Bantug Pmpc.

Pres-CEO/General Manager Roy C. Oscillada, was also delivering a valuable message to all and MSI Employees also graced on the said occasion.

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

The event highlights includes: (1) giving certificate of recognition to all participating cooperatives; (2) 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 PCEO/General Manager, Mr. Roy C. Oscillada.

The PIK cooperatives awardees based on MSI selection criteria were as follows:



UNITED PULO PRODUCERS MPC

1st Place



TALABUTAB NORTE PMPC

2nd Place



BANTUG PMPC

3rd Place

GAUGING OUR SERVICES

For year 2017, MSI for the third year conducted Customer Satisfaction Survey with its thirty (30) 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 4.42 from a scale of 1 to 5 with 5 being the highest.

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.


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.

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.
12th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Masaganang Sakahan, Inc. (MSI)** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statement of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the MSI as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the MSI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, management is responsible for assessing the MSI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MSI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MSI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Note 29 to the 2017 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


ROCHIE J. FELICES
Supervising Auditor

March 7, 2018




MASAGANANG SAKAHAN, INC.
A LANDBANK SUBSIDIARY

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

The Management of the Masaganang Sakahan, Inc. is responsible for the preparation of the financial statements as at December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The 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 before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Masaganang Sakahan, Inc. in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.


CRISPINO T. AGUELO
Chairman of the Board


March 06, 2018

Date Signed


ANNALENE M. BAUTISTA
Treasurer

March 06, 2018

Date Signed


ROY C. OSCILLADA
President-CEO/General Manager

March 6, 2018

Date Signed

12th Floor All Asia Capital Center, 105 Paseo De Roxas, Legazpi Village, Makati City 1229
Tel. Nos. : 893-9376; 893-7698; 893-9369; 892-3498; 893-9208 Fax No. 819-5995

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Philippine Peso)

	Retained Earnings (Note 18)	Share Capital		Total
		Common	Preferred	
		(Note 19)		
BALANCE AT JANUARY 1, 2016	31,878,391	90,000,000	10,000,000	131,878,391
CHANGES IN EQUITY FOR 2016				
Add/(Deduct):				
Comprehensive Income for the year	27,119,185			27,119,185
Declaration of Cash Dividends	(12,816,150)			(12,816,150)
Other Adjustments	(586,947)			(586,947)
BALANCE AT DECEMBER 31, 2016	45,594,479	90,000,000	10,000,000	145,594,479
CHANGES IN EQUITY FOR 2017				
Add/(Deduct):				
Comprehensive Income for the year	30,740,495			30,740,495
Declaration of Cash Dividends	(13,559,593)			(13,559,593)
Other Adjustments	(3,281,436)			(3,281,436)
BALANCE AT DECEMBER 31, 2017	59,493,945	90,000,000	10,000,000	159,493,945

The Notes on pages 9 to 27 form part of these statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Philippine Peso)

	Note	2017	2016
Income			
Business Income	20	332,667,093	287,325,780
Gains	21	221,349	36,750
Other Non-Operating Income	22	404,609	449,824
Total Income		333,293,051	287,812,354
Expenses			
Direct Costs	23	(264,408,489)	(226,055,418)
Personnel Services	24	(11,309,425)	(10,997,287)
Maintenance and Other Operating Expenses	25	(9,996,479)	(9,267,871)
Non-Cash Expenses	26	(3,745,227)	(2,878,579)
Financial Expenses	27	(2,750)	(700)
Total Expenses		(289,462,370)	(249,199,855)
Net Income Before Tax		43,830,681	38,612,499
Income Tax Expense	30	(13,090,186)	(11,493,314)
Net Income After Tax/			
Total Comprehensive Income		30,740,495	27,119,185

The Notes on pages 9 to 27 form part of these statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	86,772,303	59,357,913
Financial Asset	5	102,961	104,158
Receivables	6	45,480,462	54,988,027
Inventories	7	45,814,263	53,456,825
Non-Current Assets Held For Sale	8	60,000	0
Other Current Assets	9	1,246,344	2,857,283
Total Current Assets		179,476,333	170,764,206
Non-Current Assets			
Receivables, net	6	14,765,846	19,510,420
Other Investment	10	57,200	57,200
Investment Property	11	4,291,418	4,351,418
Property, Plant and Equipment, net	12	22,842,198	21,473,229
Biological Assets	13	43,050	48,900
Intangible Assets, net	14	94,767	127,350
Total Non-Current Assets		42,094,479	45,568,517
Total Assets		221,570,812	216,332,723
LIABILITIES			
Current Liabilities			
Financial Liabilities	15	53,392,921	62,790,624
Inter-Agency Payables	16	1,903,711	3,261,992
Other Payables	17	6,780,235	4,685,628
Total Liabilities		62,076,867	70,738,244
EQUITY			
Retained Earnings	18	59,493,945	45,594,479
Stockholders' Equity	19	100,000,000	100,000,000
Total Equity		159,493,945	145,594,479
Total Liabilities and Equity		221,570,812	216,332,723

The Notes on pages 9 to 27 form part of these statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Revenue		341,504,157	279,392,818
Other Receipts		161,460	97,716
Total Cash Inflows		341,665,617	279,490,534
Cash Outflows			
Payment to Suppliers and Employees		(286,858,733)	(258,294,752)
Payment of Taxes, Licenses and Fees		(10,962,045)	(9,611,177)
Other Disbursements		(450)	(400)
Total Cash Outflows		(297,821,228)	(267,906,329)
Net Cash Provided by Operating Activities		43,844,389	11,584,205
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from Sale of Property, Plant & Equipment		220,000	0
Proceeds of Matured Investments		0	16,729,134
Total Cash Inflows		220,000	16,729,134
Cash Outflows			
Purchase of Property, Plant, Equipment		(3,090,406)	(572,926)
Total Cash Outflows		(3,090,406)	(572,926)
Net Cash Provided by/(Used in) Investing Activities		(2,870,406)	16,156,208
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Cash Dividends		(13,559,593)	(12,816,150)
Cash Used in Financing Activities		(13,559,593)	(12,816,150)
Net Increase in Cash and Cash Equivalents		27,414,390	14,924,263
Cash and Cash Equivalents, January 1	4	59,357,913	44,433,650
Cash and Cash Equivalents, December 31	4	86,772,303	59,357,913

The Notes on pages 9 to 27 form part of these statements.

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

1. CORPORATE INFORMATION

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

The primary objectives of MSI are:

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

The MSI's principal office of business is located at the 12th Floor SycipLaw Center, 105 Paseo de Roxas, Legaspi Village, Makati City, while its Agri-Development Center, formerly named as Sta. Rosa Grains Center, is located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2017 were authorized for issue in accordance with the Resolution No. 2018-06 adopted by the Board of Directors on February 22, 2018.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared on historical cost basis, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in Philippine Peso, the country's functional currency.

The preparation of financial statements in compliance with the adopted PAS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The significant accounting policies that have been used in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. 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.

b. PAS 17 – Leases

As a lessee, operating lease payment is recognized as an expense on a straight-line basis over the lease term.

c. 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.

d. PAS 36 – Impairment of Assets

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications from external and internal sources of information:

- (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- (d) the carrying amount of the net assets of the entity is more than its market capitalization;
- (e) evidence is available of obsolescence or physical damage of an asset;
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected;

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

e. PAS 39 – Financial instruments: Recognition and Measurement

This standard classifies the financial assets as at fair value through profit or loss; held to maturity investments; loans and receivables; and available-for-

sale financial assets. These categories apply to measurement and profit or loss recognition.

f. PAS 40 - Investment Property

This standard applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions, may be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognized in profit or loss.

g. PAS 41 – Biological Assets

This standard requires biological assets to be measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured.

3.2 Cash and cash equivalents in the Statement of Financial Position comprises cash in bank, short term investment and cash on hand.

3.3 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.

3.4 Allowance for probable losses is set up for expected losses from non-moving trade receivables considering the debtor's capacity to pay.

3.5 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. Specific identification method of valuation of inventory of rice is being used since milling is done on a per order basis.

Tolerable Weight Loss

Taking into consideration all the loss causing factors, the following formula is adopted for all palay stored for a maximum of 18 months duration to calculate the expected total Tolerable Weight Loss (TWL):

$$\%Y = -0.085458 + 0.0075178 X$$

Where, %Y is the percentage of weight loss, and X is the number of days of storage.

The said percentage will serve as the standard tolerable allowance for losses in weights of stored palay (referring to the natural loss causing factors such as MC Variation, Rodent Infestation and Bird Infestation). All other additional tolerable allowances not covered in the above computation, as in below cases, shall be discussed and computed separately.

1. Uncontrolled insect infestation
2. In-warehouse/Outside Piling Spillages
3. Scale Error
4. Truck scale-platform scale variances.

Following the NFA Standards for the acceptable weight loss and considering the inventory turn-over of MSI, the MSI's tolerable weight loss shall not be more than 2 per cent. The NFA TWL Formula shall be applied for palay stocks stored above 270 days and maximum of 540 days.

The following is the computation of shrinkage per pile:

- a. For kilograms loss in percentage

$$\text{Formula} = \frac{\text{Total Kilos Per Pile} - \text{Total Kilos of Palay Issued}}{\text{Total Kilos Per Pile}}$$

- b. For amount of loss

$$\text{Formula} = \text{Total Amount of Palay Per Pile} - \text{Total Amount of Palay Issued Per Pile}$$

The booking of loss on palay shrinkage shall be made after the pile has been fully issued through the following entry:

Dr.	Loss on Palay Shrinkage	XXX
Cr.	Inventory Palay	XXX

3.6 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.

3.7 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.

3.8 Investment properties comprises land acquired by the Corporation in settlement of loans through foreclosure or dation in payment and are measured initially at cost. Subsequent to initial recognition, these are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognized when they have either been disposed of. Any gains or losses on derecognition of an investment property are recognized in the profit and loss in the year of derecognition.

3.9 Non-current assets held for sale is a real estate acquired through repossession or foreclosure that the Corporation intends to sell within one year from the date of classification as held for sale.

The Corporation classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Corporation is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair values. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Corporation and there is sufficient evidence that the Corporation remains committed to sell the asset.

Assets classified as held for sale are not subject to depreciation or amortization, and are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell.

3.10 Intangible Asset comprises computer software capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives of three to five years.

3.11 Biological assets are measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016
Cash in Bank	78,214,223	50,905,976
High Yield Savings Account (HYSA)	8,311,577	8,205,005
Operating Fund – MSI Agri-Development Center	206,503	206,459
Cash - Collecting Officer	0	473
Petty Cash	40,000	40,000
Total	86,772,303	59,357,913

The High Yield Savings Account (HYSA) represents placements at Land Bank of the Philippines Trust Banking Group maturing in 30 days.

5. FINANCIAL ASSET

This account pertains to the net investment placement of MSI through LBP Trust Banking Department amounting to P102,961 and P104,158 as at December 31, 2017 and 2016, respectively.

6. RECEIVABLES

6.1 Trade Receivables

Accounts	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Accounts Receivable	45,286,593	36,688,502	81,975,095	54,837,057	41,442,358	96,279,415
Allowance for Impairment- Accounts Receivable	0	(21,941,895)	(21,941,895)	0	(21,941,895)	(21,941,895)
Net Value-Accounts Receivable	45,286,593	14,746,607	60,033,200	54,837,057	19,500,463	74,337,520
Notes Receivable	0	64,608	64,608	0	64,608	64,608
Allowance for Impairment- Notes Receivable	0	(64,608)	(64,608)	0	(64,608)	(64,608)
Net Value-Notes Receivable	0	0	0	0	0	0
Receivables-Miscellaneous	50,772	678,417	729,189	550	678,417	678,967
Allowance for Impairment- Receivable Miscellaneous	0	(674,365)	(674,365)	0	(674,365)	(674,365)
Net Value-Receivables- Miscellaneous	50,772	4,052	54,824	550	4,052	4,602
Receivable Others	143,097	266,327	409,424	150,420	257,045	407,465
Allowance for Impairment- Receivable- Others	0	(251,140)	(251,140)	0	(251,140)	(251,140)
Net Value-Receivable-Others	143,097	15,187	158,284	150,420	5,905	156,325
Total	45,480,462	14,765,846	60,246,308	54,988,027	19,510,420	74,498,447

6.2 Aging of Receivables

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	45,286,593	2,918,620	3,371,080	18,185,882	20,811,011
Receivable-Miscellaneous	50,772	50,772	0	0	0
Receivable-Others	143,097	0	0	0	143,097
Total	45,480,462	2,969,392	3,371,080	18,185,882	20,954,108

The Receivable-Others consists of Receivable-Miscellaneous, Receivables- Others and Notes Receivables amounting to P729,189, P409,425 and P64,608, respectively.

The Notes Receivables represents restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes.

7. INVENTORIES

This account consists of the following:

	2017	2016
Held for Sale:		
Palay	43,642,231	49,136,255
Rice	1,104,193	3,301,410
Brokens	660,313	(13,889)
By-products	25,272	39,022
Sub-total	45,432,009	52,462,798
Held for Consumption:		
Office Supplies Inventory	382,254	994,027
Total	45,814,263	53,456,825

Supplies and materials represent cost of office supplies and sack inventories.

8. NON-CURRENT ASSETS HELD FOR SALE

This consists of land with carrying value of P60,000 acquired through repossession or foreclosure that the Corporation intends to sell within one year from the date of classification as held for sale.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2017	2016
Prepayments:		
Taxes Withheld	(31,494)	342,815
Medical	273,000	273,001
Insurance Premium	267,887	199,921
Taxes, Licenses and Fees	149,299	154,167
Fidelity Bond Premium	9,687	6,174
Uniform	0	25,000
Other Services	0	10,080
Guaranty Deposits	577,965	1,846,125

	2017	2016
Total	1,246,344	2,857,283

The prepayments are expenditures paid but not yet incurred. When the prepayments are eventually consumed, it is charged to expense.

Guaranty deposits are deposits for rental of office space and performance bond subject to refund.

10. OTHER INVESTMENT

This account consists of investment in shares of stock with PLDT.

11. INVESTMENT PROPERTY

This account consists of land acquired through payment in kind by millers. There was no impairment loss recognized during the year. The decrease of P60,000 in the carrying amount was due to the reclassification of one parcel of land to Non-Current Assets Held for Sale.

12. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

Particulars	Land	Building & Land Improve-ment	Transpor-tation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improve-ments	Technical & Scientific Equipment	TOTAL
Cost, January 1, 2017	10,782,000	8,087,000	6,442,934	1,435,441	1,114,022	415,560	61,650	0	28,338,607
Additions	0	43,110	179,800	817,057	0	52,439	0	1,998,000	3,090,406
Adjustment	0	56,699	(429,093)	0	0		(56,699)	0	(429,093)
Balance, December 31, 2017	10,782,000	8,186,809	6,193,641	2,252,498	1,114,022	467,999	4,951	1,998,000	30,999,920
Accumulated depreciation/ amortization, January 1, 2017	0	803,946	4,048,865	1,010,630	856,580	145,357	0	0	6,865,378
Depreciation/ amortization	0	691,045	583,372	210,029	54,167	57,696	4,951	164,835	1,766,095
Adjustments	0	0	(473,751)	0	0	0		0	(473,751)
Balance, Dec. 31, 2017	0	1,494,991	4,158,486	1,220,659	910,747	203,053	4,951	164,835	8,157,722
Net Carrying Amount, Dec. 31, 2017	10,782,000	6,691,818	2,035,155	1,031,839	203,275	264,946	0	1,833,165	22,842,198
Net Carrying Amount, Dec. 31, 2016	10,782,000	7,283,054	2,394,069	424,811	257,442	270,203	61,650	0	21,473,229

13. BIOLOGICAL ASSETS

This comprises the costs of livestock totaling 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 P36,750, while the corresponding expenses amounted to P17,850.

The following is the reconciliation of the carrying amount of the breeding stocks:

	Amount
Carrying Amount as at January 1, 2017	48,900
Gain due to birth of offspring	1,350
Decrease due to death	(7,200)
Carrying Amount as at December 31, 2017	43,050

14. INTANGIBLE ASSET

This account consists of accounting system software. Changes in this account are as follows:

	2017	2016
Carrying Amount, January 1	127,350	146,700
Addition: Purchases	44,000	0
Deduction: Reclassification to Office Equipment	(35,000)	0
Total	136,350	146,700
Amortization	(41,583)	(19,350)
Carrying Amount, December 31	94,767	127,350

15. FINANCIAL LIABILITIES

This account consists of MSI's trade/business payables to the following:

	2017	2016
Land Bank of the Philippines (LBP)	49,232,086	59,311,362
Rice suppliers	4,160,835	3,479,262
Total	53,392,921	62,790,624

MSI acts as collecting agent for LBP. The payables to LBP arise from collection in kind such as Palay and Rice from cooperatives for payment of loans to LBP.

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016
Income tax payable	1,794,245	3,327,902
Trust liabilities – SSS, Pag-ibig, BIR	109,466	(65,910)
Total	1,903,711	3,261,992

17. OTHER PAYABLES

This account consists of:

	2017	2016
Accrued Benefits and Incentives	3,056,482	2,245,450
Accrued Milling Fee	1,323,007	796,948
Taxes Withheld	546,799	53,278
Accrued Retirement Fund	513,587	513,587
Accrued Audit Fee	450,000	273,750
Accrued Prizes	220,000	83,760
Accrued Leave Credits	215,245	309,265
Accrued Communication	18,527	2,500
Medicard Refund	13,305	7,140
Accrued Security Services	11,040	59,076
Accrued Rent	8,935	83,491
Accrued Travelling	3,405	0
Tax Refund	3,325	0
Others	396,578	257,383
Total	6,780,235	4,685,628

18. RETAINED EARNINGS

The other adjustments as at December 31, 2017 and 2016 pertain to the following:

Year	Accounts Affected	Particulars	Amount
CY 2017	Depreciation	Correction of depreciation expense in prior years	(29,967)
	Accounts Receivable-T/B	Correction on taking up CWTs and error in taking up sales invoices in CY 2016	(2,923,348)
	Other Services-Prizes	Correction of prior period expense of other services on VRB	(50,000)
	Inventory-By products	Correction of prior period overstatement of inventories by-products	(33,320)

Year	Accounts Affected	Particulars	Amount
	Accounts Payable-T/B	Taking up of prior year's expenses (supplies)	(9,316)
	Leasehold Improvement	Adjustment to amortization due to reclassification of Leasehold Improvement	4,725
	AP-Voucher	Cancellation of payment of appraisal fee taken up on CY 2016	42,750
	Audit fee	Audit fee for CY 2016	(168,250)
	AP-Voucher	Taking up actual expenses for December 2016	(19,517)
	AP-T/B	Cancellation of order in CY 2016	75,200
	AP-T/B	Taking up of expenses (supplies) in prior year	(174,996)
	A/R.-Miscellaneous	Refund for unnecessary expenses	2,078
	A/R-Others	Refund for unnecessary expenses	2,525
Total			(3,281,436)
CY 2016	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 in traveling 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)
Total			(586,947)

The declaration of cash dividend to the National Government for CY 2017 and 2016 of P15,356,186 and P13,559,593, respectively, were approved on February 22, 2018 in Board Resolution No. 2018-06 and on February 15, 2017 in Board Resolution No. 2017-09, 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.

19. STOCKHOLDERS' EQUITY

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 P100 million capital stock was subscribed and fully paid by its parent, the LBP.

20. BUSINESS INCOME

This account includes all income derived from business trading operation.

21. GAINS

	2017	2016
Gain on Sale of Transportation Equipment	219,999	0
Gain on Change in Fair Market Value of Biological Assets	1,350	36,750
Total	221,349	36,750

22. OTHER NON-OPERATING INCOME

	2017	2016
Interest-Banks/Placements	196,727	301,453
Miscellaneous Income	137,982	148,371
Contribution Revenue	69,900	0
Total	404,609	449,824

The Contribution Revenue pertains to the remaining book value of the donated vehicle from LBP Leasing and Finance Corporation.

23. DIRECT COSTS

This account represents cost of rice sold.

24. PERSONNEL SERVICES

This account consists of the following:

	2017	2016
<i>Salaries and Wages</i>	5,310,149	5,042,595
<i>Other Compensation</i>		
Bonus and Incentives	2,687,353	2,862,550
Christmas Raffle	910,000	880,000
Non-Commutable Allowance	872,000	890,000
Rice Allowance	592,882	454,821
Representation Allowance	249,000	268,500
Transportation Allowance	159,000	136,000
Uniform Allowance	109,799	95,000
Overtime Pay	108,663	112,111

	2017	2016
<i>Personnel Benefit Contributions</i>		
SSS, Philhealth and Pag-Ibig Premiums	384,461	363,501
<i>Other Personnel Benefits</i>		
Retirement Gratuity	513,587	513,587
Medical Benefits	273,001	247,000
Terminal Leave Benefit	11,530	0
Others	0	21,623
Total	12,181,425	11,887,288

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016
<i>Supplies and Materials Expense</i>		
Office Supplies Expense	1,720,216	1,501,836
<i>Taxes, Insurance Premiums and Other Fees</i>		
Taxes, Dues and License	1,143,811	1,305,578
Insurance	457,132	281,133
Fidelity Bond Premiums	26,161	31,936
	1,627,104	1,618,647
<i>Training Expense</i>		
Trainings/Seminars	141,420	386,290
<i>Communication Expense</i>		
Telephone Expense	265,153	323,335
Internet Expense	172,935	195,579
Postage and Courier	100,849	36,890
	538,937	555,804
<i>Utility Expenses</i>		
Power	329,338	400,101
Water	44,516	17,778
	373,854	417,879
<i>Awards/ Rewards and Prizes</i>		
Prizes	220,000	0
Awards/Reward Expense	38,000	38,000
	258,000	38,000
<i>Professional Services</i>		
Auditing Services	450,000	273,750
<i>General Services</i>		
Security Services	348,961	289,116

	2017	2016
<i>Travelling Expenses</i>		
Travelling Expense - Local	267,250	252,477
<i>Repairs and Maintenance</i>		
Fuel, Oil and Lubricant Expenses	208,900	127,791
Repairs and Maintenance	180,706	171,067
Spare Parts	143,411	190,329
	533,017	489,187
<i>Labor and Wages</i>		
Milling	548,482	(460)
Handling	107,768	50,696
Wages	19,184	41,700
Truck Scale	0	4,483
	675,434	96,419
<i>Other Maintenance and Operating Expenses</i>		
Rent	907,200	952,875
Representation Expenses	398,584	415,932
Advertising Expenses	253,210	192,848
Condo Dues		255,910
	145,438	
Business Development Expenses	108,715	115,696
Membership Dues and Subscription	80,138	78,020
Registration	21,808	21,176
GPS Device	19,512	0
Website Maintenance	10,080	2,240
Notarial	1,380	1,500
Reproduction	1,268	47,892
Donations	0	2,216
Caretaker Fee	0	17,850
Miscellaneous	242,953	354,310
	2,190,286	2,458,465
Total	9,124,479	8,377,870

26. NON-CASH EXPENSES

This account consists of the following:

	2017	2016
<i>Depreciation</i>		
Depreciation-Motor Vehicle	583,372	535,754
Depreciation-Building	538,244	504,307
Depreciation-Office Equipment	210,029	103,802
Depreciation-Technical & Scientific	164,835	0

Depreciation-Land Improvement	152,801	138,850
Depreciation-OPPE	57,696	53,201
Depreciation-Furniture & Fixtures	54,167	90,058
	1,761,144	1,425,972
<i>Impairment Loss</i>		
Impairment Loss -Inventories	1,930,349	653,112
Impairment Loss- Receivables	0	744,291
Impairment Loss - Biological Assets	7,200	0
	1,937,549	1,397,403
<i>Amortization</i>		
Amortization - Intangible Asset	41,583	19,350
Amortization - Leasehold	4,951	35,854
Improvement		
	46,534	55,204
Total	3,745,227	2,878,579

27. FINANCIAL EXPENSES

This account pertains to bank charges of P2,750 and P700 for CY 2017 and 2016, respectively.

28. EMPLOYEES BENEFITS

28.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2017	2016
Salaries and Wages	5,310,149	5,042,595
Bonus and Incentives	2,687,353	2,862,550
Other Benefits	2,410,799	2,212,030
Social Security Costs	384,461	363,501
Representation Allowance	249,000	268,500
Transportation Allowance	159,000	136,000
Overtime Pay	108,663	112,111
	11,309,425	10,997,287
Directors' Remuneration		
Per Diem	872,000	890,000
Total	12,181,425	11,887,287

28.2 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 20, 2010. It was revised upon approval of the Board on July 28, 2016.

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 Plan is 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 13th month pay.

Regulatory Framework in which the Retirement Plan Operates

In accordance with the provisions of the Labor Code, MSI is required to pay 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.

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 immediately be due from MSI to the Retirement Fund.

Plan Amendments, Curtailments, or Settlements

There was no plan amendment, curtailment, or settlement recognized for the financial year ended December 31, 2017.

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).

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 transition amounting to P4,070,678.

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

As of December 31, 2017, the Defined Benefit Obligation is P8,399,670 while the Fair Value of Plan Assets is P4,181,732 resulting in a Net Defined Benefit Liability of P4,217,938.

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 recognized in P&L amounted to P513,587 for CY 2017 and 2016.

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, 2017 and December 31, 2016 are Expense (Income) of P294,482 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, 2017, the amount of P513,587 was recognized as other benefits and recorded as Payable-Miscellaneous to the Fund.

29. 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

	2017	2016
Mayor's Permit - Head Office & SRGC	948,792	794,468
Real Estate Tax	154,167	155,227
Community Tax - Head Office	10,500	10,500
Barangay Clearance	2,570	2,200
Total	1,116,029	962,395

B. National

	2017	2016
NFA License	30,206	32,846

C. Withholding taxes paid/accrued for the year:

	2017	2016
Taxes on Compensation and Benefits	884,889	898,147
Creditable Withholding Tax/es	1,152,673	1,199,587
Total	2,037,562	2,097,734

On February 12, 2018, MSI received a Preliminary Assessment Notice P-LA008537-047-2015 dated February 7, 2018 from the BIR regarding the deficiencies noted in the payment of taxes for the taxable year 2015, particularly Income Tax, Expanded Withholding Tax and Withholding Tax on Compensation. The documents necessary to refute the findings were already forwarded to the BIR on February 27, 2018.

30. 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 provisions for income taxes were computed as follows:

	2017	2016
Net Income Before Tax	43,830,681	38,612,499
Less: Income Subjected to Final Tax	196,727	301,453
Net Income Subject to Tax	43,633,954	38,311,046
Tax Rate	30%	30%
Provision For Income Tax	13,090,186	11,493,314

31. 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:

	2017	2016
Sales - Rice Allocation of LBP		
Employees	260,027,120	231,896,705
Outstanding Receivables	51,049,653	66,870,797
Outstanding Payables	49,232,086	59,311,362
Total	360,308,859	358,078,864

32. COMPENSATION OF KEY MANAGEMENT OFFICIAL

The basic salary received by the key management official amounted to P864,000 for CY 2017 and 2016.

33. RECLASSIFICATION

Certain accounts in the CY 2016 financial statements (FS) were reclassified to conform to the CY 2017 FS presentation.

THE WORKING BOARD

BOARD OF DIRECTORS



Crispino T. Aguelo
Chairman/Director

Mr. Crispino T. Aguelo, 71 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, 55 years old, joined MSI in February 2012 as MSI General Manager and has been appointed as MSI Director since February 14, 2012. At present, he occupied the position as the President and CEO of MSI and 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 also a Fellow of Institute of Corporate Directors (ICD).

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



Daniel R. Agustin
Director

Mr. Daniel R. Agustin, 67 years old, has been appointed as MSI Director since March 19, 2013. At present, he is a Member of the MSI Board, Executive Committee and Governance and Risk Committee and his directorship is only with MSI.

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

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

Mr. Agustin field of expertise is in Industrial Relations.



**Liduvino S. Geron
Director**

Mr. Liduvino S. Geron, 53 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, 55 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.



Ramon K. Cervantes
Director

Mr. Ramon K. Cervantes, 60 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, 62 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 also a Fellow of Institute of Corporate Directors (ICD).

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



Miguel Ramon O. Unson III
Director

Mr. Miguel Ramon O. Unson III, 71 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 (COCAFM) 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, 52 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, 43 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, 54 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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