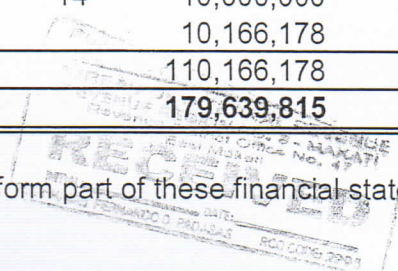


**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2013  
(In Philippine Peso)

	Note	2013	2012 As restated
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	92,207,596	79,824,443
Accounts receivable	4	33,815,952	37,055,382
Inventories	5	38,886,531	39,882,741
Notes receivable	6	0	0
Prepaid expenses	7	4,085,511	6,368,855
Other assets	8	1,191,233	1,323,437
		170,186,823	164,454,858
<b>Non-current Assets</b>			
Property, plant and equipment	9	4,746,174	909,318
Investment properties	10	4,649,618	4,649,618
Investment in stocks and bonds	11	57,200	57,200
		9,452,992	5,616,136
<b>TOTAL ASSETS</b>		<b>179,639,815</b>	<b>170,070,994</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	12	59,744,901	54,552,110
Other liabilities	13	9,728,736	11,791,444
		69,473,637	66,343,554
<b>Equity</b>			
Common stock	14	90,000,000	90,000,000
Preferred stock	14	10,000,000	10,000,000
Retained Earnings, End		10,166,178	3,727,440
		110,166,178	103,727,440
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>179,639,815</b>	<b>170,070,994</b>

The Notes on pages 8 to 17 form part of these financial statements.

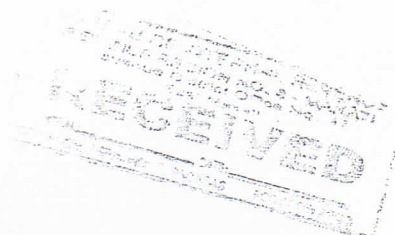


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**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the Year Ended December 31, 2013  
(In Philippine Peso)

	Note	2013	2012 As restated
Sales		220,848,090	178,935,741
Cost of sales		189,189,724	155,266,021
Gross profit		31,658,366	23,669,720
Operating expenses	15	20,440,802	18,290,105
Income (Loss) from operations		11,217,564	5,379,615
Other income		4,747,840	3,919,946
Net income before tax		15,965,404	9,299,561
Provision for income tax	18	4,477,045	3,290,662
<b>NET INCOME</b>		<b>11,488,359</b>	<b>6,008,899</b>

The Notes on pages 8 to 17 form part of these financial statements.

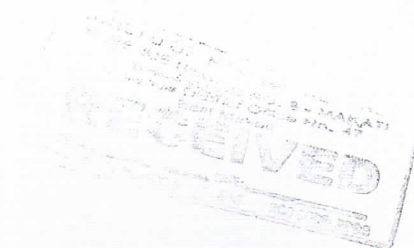


SEP 03 2014

**MASAGANANG SAKAHAN, INC.**  
 ( A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
 For the year ended December 31, 2013  
 (In Philippine Peso)

	Capital Stock		Retained Earnings (As restated)	Total
	Common Stock	Preferred Stock		
Balance, January 01, 2012	90,000,000	10,000,000	(2,281,459)	97,718,541
Net income for CY 2012, as restated			6,008,899	6,008,899
<b>Balance, December 31, 2012, as restated</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>3,727,440</b>	<b>103,727,440</b>
Adjustments			(273,009)	(273,009)
Cash dividends			(4,776,612)	(4,776,612)
Net income for CY 2013			11,488,359	11,488,359
<b>Balance, December 31, 2013</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>10,166,178</b>	<b>110,166,178</b>

The Notes on pages 8 to 17 form part of these financial statements.

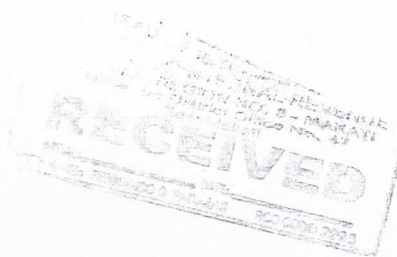


SEP 03 2014

**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2013  
(In Philippine Peso)

	Note	2013	2012 As restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		227,585,080	165,491,062
Cash paid to suppliers and employees		(203,581,881)	(143,548,393)
Interest and other income		504,684	870,320
Bank charges		(221)	(20,304)
Taxes, Licences and Fees		(3,089,804)	66,715
<b>Net cash generated from operating activities</b>		<b>21,417,858</b>	<b>22,859,400</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of office equipment		(127,830)	(123,515)
Purchase of transportation equipment		(4,102,555)	0
Repair of transportation equipment		0	(82,640)
Leasehold improvement		(33,660)	(139,626)
Purchase of other property, plant and equipment		0	(14,560)
Placement in short term investment		0	(14,936,490)
Proceeds from sale of office equipment		5,952	0
<b>Net cash used in investing activities</b>		<b>(4,258,093)</b>	<b>(15,296,831)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends		(4,776,612)	0
<b>Net cash used in financing activities</b>		<b>(4,776,612)</b>	<b>0</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		12,383,153	7,562,569
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>		<b>79,824,443</b>	<b>72,261,874</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>3</b>	<b>92,207,596</b>	<b>79,824,443</b>

The Notes on pages 8 to 17 form part of these financial statements.



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

**1. CORPORATE INFORMATION**

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

The primary objectives of MSI are:

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

The Corporation operates a Grain Center located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2013 were authorized for issue in accordance with the Resolution of the Board of Directors on February 20, 2014.

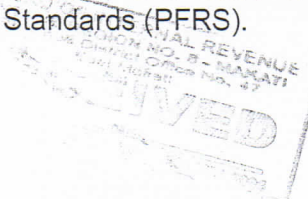
**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of financial statements preparation**

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

**2.2 Statement of compliance**

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



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### 2.3 Adoption of new accounting standards and accounting policies

The accounting policies adopted are consistent with those of previous financial year except that the Corporation adopted those new/revised standards mandatory for financial years beginning on or after January 01, 2005.

The changes in accounting policies resulted from adoption of the following new or revised standards:

- PAS 8 – Errors

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

a) restating the comparative amounts for the prior period(s) presented in which the error occurred: or

b) if the error occurred before the earliest prior period presented; restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

- PAS 17 – Leases

Lease payment is recognized as an expense on a straight-line basis over the lease term.

- PAS 19 – Employee benefits

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

- PAS 39 – Financial instruments

Investments are recorded at cost at the time of acquisition. Upon acquisition, the investments are classified as marketable securities when the maturity is 90 days to one year while investments with fixed determinable payments and fixed maturity are classified as held-to-maturity investments that an entity has the positive intention and ability to hold to maturity.

- PAS 40 - Investment Property

Investment property is recognized as an asset when it is probable that the future economic benefits that are associated with the property will flow to the entity.

The accounting policies adopted in preparing the financial statements are as follows:

a. Cash and cash equivalents in the Statement of Financial Position is comprised of cash in bank, short term investment and cash on hand.

b. Trade receivables which generally have 30-90 day term are recognized and carried at original invoice amount. When there is objective evidence that the Corporation will not be able to collect the receivables, an allowance for probable losses is provided.

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

d. Inventories are valued at cost including the costs incurred in bringing each item to its present condition.

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

e. Investment and other financial assets are recorded at cost at the time of acquisition. Non-derivative financial assets with fixed determinable payment and maturity are classified as held-to-maturity when the Corporation has the positive intention and ability to hold to maturity. Investments are classified as marketable securities upon acquisition when the maturity is 90 days to one year while investment with maturity of more than one year is considered as long term investments.

f. Property, Plant and Equipment are recorded at cost. Depreciation is computed on a straight-line method over the estimated useful life of the respective assets after deducting the 10 per cent residual value. Maintenance and repairs are charged to expenses as incurred while major repairs and betterments are capitalized. When the items of property or equipment are disposed, the related cost and accumulated depreciation are removed from the accounts and any gain is treated as income.

g. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss.

### 3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2013	2012 As restated
Cash in bank	48,596,564	12,155,641
Special Deposit Account- Bangko Sentral ng Pilipinas	0	67,505,000
High Yield Savings Account (HYSA) & Money Market Unit Investment Trust Fund (MMUITF)*	43,167,200	0
Operating fund - Sta. Rosa Grain Center (SRGC)	142,301	143,802
Cash collecting officer	281,531	0
Petty cash	20,000	20,000
	<b>92,207,596</b>	<b>79,824,443</b>

\*These placements at Land Bank of the Philippines Trust Banking Group consist of HYSA and MMUITF in the amount of P12,937,000 and P30,230,200, respectively. HYSA will mature in 30 days while MMUITF may be withdrawn as the need arises.

#### 4. ACCOUNTS RECEIVABLE

This account consists of trade receivables for the following:

	2013	2012 As restated
Rice	37,725,761	40,976,701
Palay	17,528,244	17,528,244
Others	961,997	950,487
	56,216,002	59,455,432
Allowance for probable losses	(22,400,050)	(22,400,050)
	<b>33,815,952</b>	<b>37,055,382</b>

#### 5. INVENTORIES

This account consists of the following:

	2013	2012
Palay	28,389,181	29,391,332
Rice	9,143,855	8,044,416
Brokens	1,169,416	2,339,061
By-products	184,079	107,932
	<b>38,886,531</b>	<b>39,882,741</b>

#### 6. NOTES RECEIVABLES

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

	2013	2012
Notes receivables	64,608	64,608
Allowance for probable losses	(64,608)	(64,608)
	<b>0</b>	<b>0</b>



## 7. PREPAID EXPENSES

This account consists of the following:

	2013	2012
Taxes withheld	3,457,084	5,803,614
Medical	247,000	247,000
Taxes, licenses & fees	143,636	132,865
Office rent	90,825	86,500
Rice benefit	78,221	65,319
Insurance premium	26,746	23,058
Fidelity bond premium	10,499	10,499
Uniform	31,500	0
<b>TOTAL</b>	<b>4,085,511</b>	<b>6,368,855</b>

## 8. OTHER ASSETS

This account consists of the following:

	2013	2012
Guaranty deposits	473,937	732,125
Supplies and materials	717,296	591,312
	<b>1,191,233</b>	<b>1,323,437</b>

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

## 9. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Transpor- tation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improvements	TOTAL
Cost, January 1, 2013	2,899,748	1,011,891	981,041	14,560	139,625	5,046,865
Additions	4,102,555	127,830	0	0	33,660	4,264,045
Disposals	0	(72,640)	0	0	0	(72,640)
<b>Balance, December 31, 2013</b>	<b>7,002,303</b>	<b>1,067,081</b>	<b>981,041</b>	<b>14,560</b>	<b>173,285</b>	<b>9,238,270</b>
Accumulated depreciation/amortization, January 1, 2013	2,552,313	872,634	712,382	218	0	4,137,547
Depreciation/amortization	231,309	(38,048)	72,612	2,621	86,055	354,549

Balance, December 31, 2013	2,783,622	834,586	784,994	2,839	86,055	4,492,096
Net carrying amount, December 31, 2013	4,218,681	232,495	196,047	11,721	87,230	4,746,174
Net carrying amount, December 31, 2012	347,435	139,257	268,659	14,342	139,625	909,318

## 10. INVESTMENT PROPERTIES

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

	2013	2012
Investment property	4,649,618	4,649,618
Allowance for depreciation/Impairment loss	0	0
	<b>4,649,618</b>	<b>4,649,618</b>

## 11. INVESTMENT IN STOCKS AND BONDS

This account consists of investments with the following:

	2013	2012
Fil-Capital	208,400	208,400
PLDT	57,200	57,200
Cagayan Sugar Farmers Coop. Association	1,500	1,500
Archmar	200	200
	267,300	267,300
Allowance for market decline	(210,100)	(210,100)
	<b>57,200</b>	<b>57,200</b>

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

## 12. ACCOUNTS PAYABLE

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

	2013	2012
Payment-in-kind – Palay & Rice	55,939,644	52,072,060
Rice suppliers	3,805,257	2,480,050
	<b>59,744,901</b>	<b>54,552,110</b>

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

### 13. OTHER LIABILITIES

This account consists of the following:

	2013	2012 As restated
Income tax payable	3,149,149	6,084,338
Deferred interest income	7,546	0
Payable - Voucher	83,452	385,315
Withholding tax payable	81,520	229,831
Miscellaneous liabilities	6,407,069	5,091,960
	<b>9,728,736</b>	<b>11,791,444</b>

Miscellaneous represents accrual of operating expenses such as salaries, retirement benefits, utilities, etc. for CY2013.

### 14. CAPITAL STOCK

The increase in authorized capital stock from P25 million to P100 million divided into nine million common shares and one million preferred shares with a par value of ten pesos (P10.00) per share was approved by the Securities and Exchange Commission on January 14, 1993.

The Land Bank of the Philippines has fully subscribed and paid MSI's P100 million capital stock.

### 15. OPERATING EXPENSES

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

	2013	2012 As restated
Other benefits	5,135,048	1,494,886
Salaries and wages	4,094,867	3,802,507
Bonus and incentives	1,973,900	1,527,400
Supplies and materials	1,125,039	1,276,023
Rent	1,038,000	1,136,046
Bad debts expense	834,114	835,260
Taxes, licenses and fees	781,822	3,505,769
Per diem/allowances	528,000	630,000
Loss on palay shrinkage	521,046	364,657

Light, power and water	481,595	505,330
Communication	449,236	452,781
Representation and entertainment	369,255	454,394
Depreciation	341,129	238,122
Travelling expenses	296,925	378,619
SSS, Philhealth and Pag-ibig Premiums	284,800	270,209
Gasoline and oil	226,829	149,675
Security services	206,820	229,140
Spare parts	203,951	56,874
Reproduction	111,136	109,550
Interest and other bank charges	115,098	21,824
Repairs and maintenance	108,186	52,073
Business development	87,501	0
Amortization expense	85,240	0
Insurance	77,069	185,646
Overtime pay	58,042	20,573
Other services	906,154	592,747
	<b>20,440,802</b>	<b>18,290,105</b>

## 16. EMPLOYEES BENEFITS

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

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

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

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

1. The past service liability as of January 1, 2014 is P6,316,399 (actuarial liability for services rendered prior to valuation date). It is recommended that this amount be paid within the valuation period; however if this is not feasible, payment may be amortized over a period not exceeding the remaining working life of the employee group. It should be pointed out that in case the unfunded actuarial liability is to be amortized and in the event that a benefit claim shall arise, the unfunded portion of the claim shall be due and payable to the retirement fund from the Corporation. However, this action may not be necessary if the retirement fund is actuarially costed periodically.

2. As of January 1, 2014, the vested benefit is P5,805,105 (benefit payable assuming all eligible employees will avail of their Plan benefit during the valuation period). This amount is based on the applicable benefit under the plan as of the valuation date.

The balance of the accrual for the retirement fund as of December 31, 2013 is P3,432,435.

## 17. 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

	2013	2012
Mayor's permit - Head Office & SRGC	606,046	398,467
Realty tax	132,865	124,516
Municipal license - SRGC	0	122,100
Locational clearance -SRGC	0	22,700
Community tax - Head Office	10,500	10,500
Barangay clearance	0	1,400
	<b>749,411</b>	<b>679,683</b>

### B. National

	2013	2012
NFA License	<b>32,410</b>	32,410
BIR Registration	0	500
	<b>32,410</b>	32,910

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

	2013	2012
Taxes on compensation and benefits	702,204	635,641
Creditable withholding tax/es	642,772	147,064
	<b>1,344,976</b>	<b>782,705</b>

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

	2013	2012
Corporate income tax	2,188,010	0
Value added tax	197,087	0
Expanded withholding tax	141,739	0
	<b>2,526,836</b>	<b>0</b>

## 18. PROVISION FOR INCOME TAX

Tax liabilities for the current period are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

	2013	2012
Net income before tax	15,965,404	12,207,185
Less: Income subjected to final tax	1,041,920	1,238,312
Net Income subject to tax	14,923,484	10,968,873
Tax rate	30%	30%
<b>Provision for tax</b>	<b>4,477,045</b>	<b>3,209,662</b>

## 19. RESTATEMENT

Corrections of the prior year's expenses and income are classified as prior period adjustments. The prior year's financial statements were restated to correct the prior period errors in accordance with the provisions of paragraph 42 of PAS 8.

## 20. RELATED PARTY TRANSACTIONS

A Management Contract exists between the MSI and the LBP wherein MSI guarantees the purchase of rice in amounts equivalent to the rice requirements of the employees of the Bank. Also, there is a Payment-in-Kind Program wherein MSI undertakes the collection of loan receivables of LBP from farmers/cooperatives in the form of palay and rice, the value of which is payable to the Bank within 90 days. Further, included in the members of the Board of Directors and Executive Committee of MSI are LBP Officers.

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

	2013	2012
Sales - rice allocation of LBP employees	169,749,983	144,347,548
Outstanding receivables	29,149,614	38,349,590
Receivables - miscellaneous from LBP Officers	35,000	35,000
Outstanding payables	55,932,364	52,072,060
	<b>254,866,961</b>	<b>234,804,198</b>

## 21. COMPENSATION OF KEY MANAGEMENT OFFICIALS

	2013	2012
Basic salary	1,104,494	911,438
Fringe benefits	196,775	134,721
	<b>1,301,269</b>	<b>1,046,159</b>