

# 2018 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

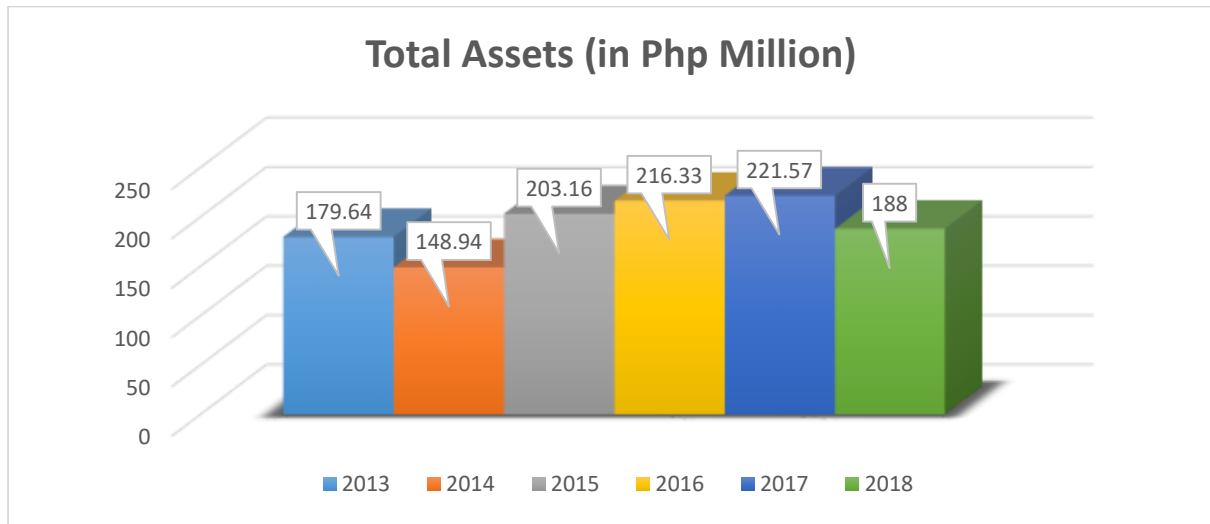
**Social Responsibility:** Service to Community and Customer Satisfaction

**Trust:** Trustworthiness

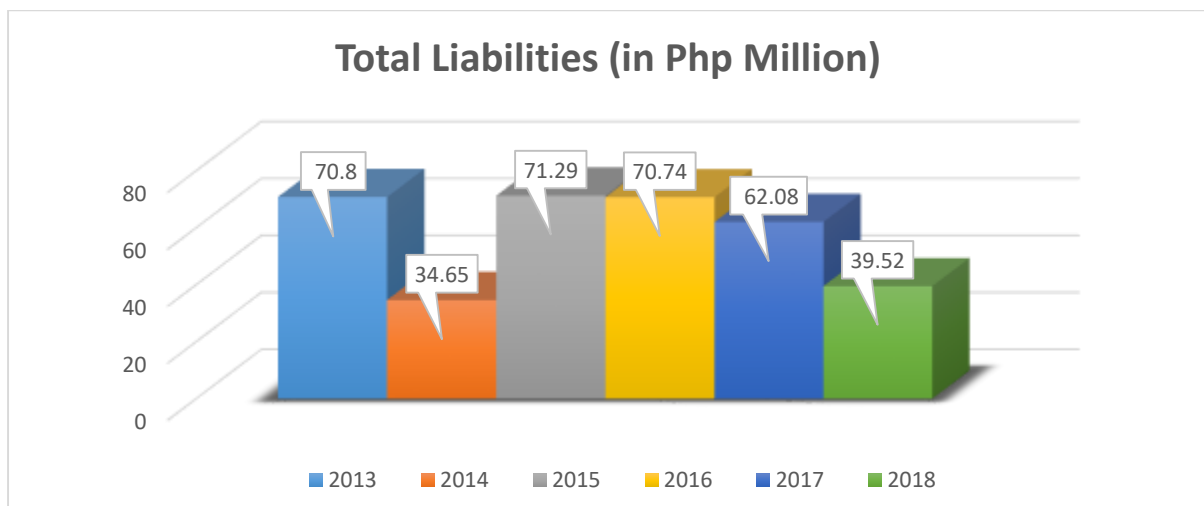
**Excellence:** Quality and Competitiveness

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

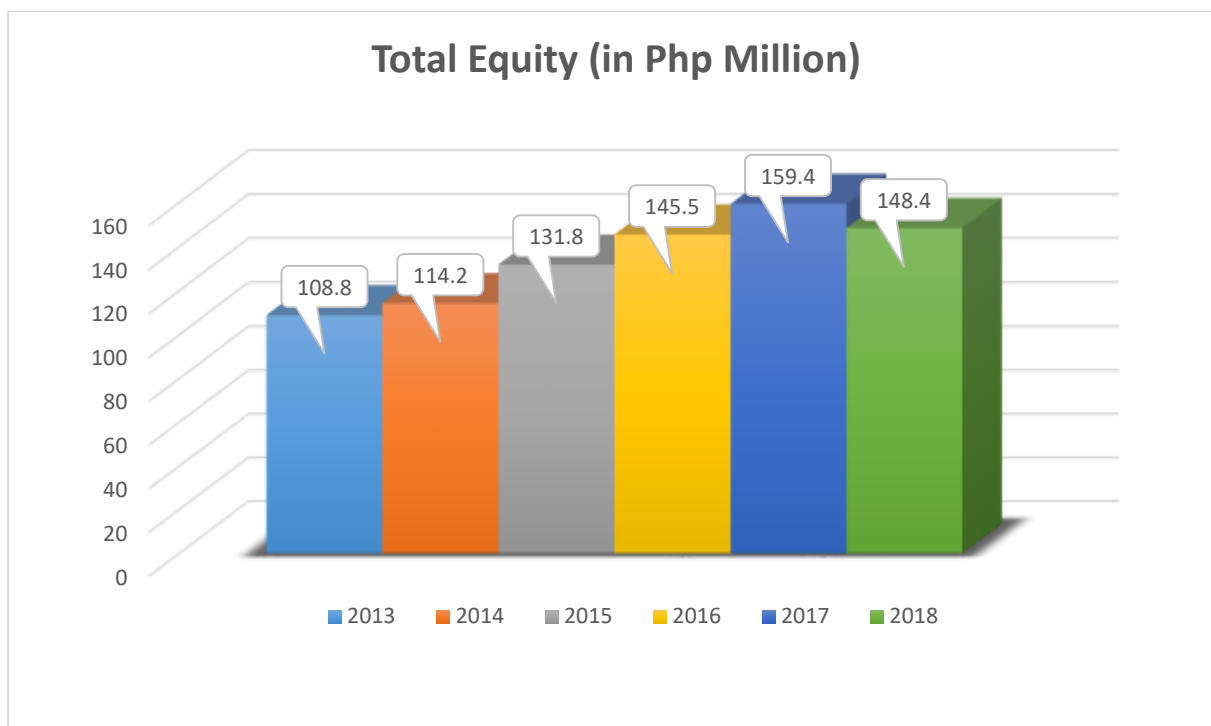
# FINANCIAL HIGHLIGHTS



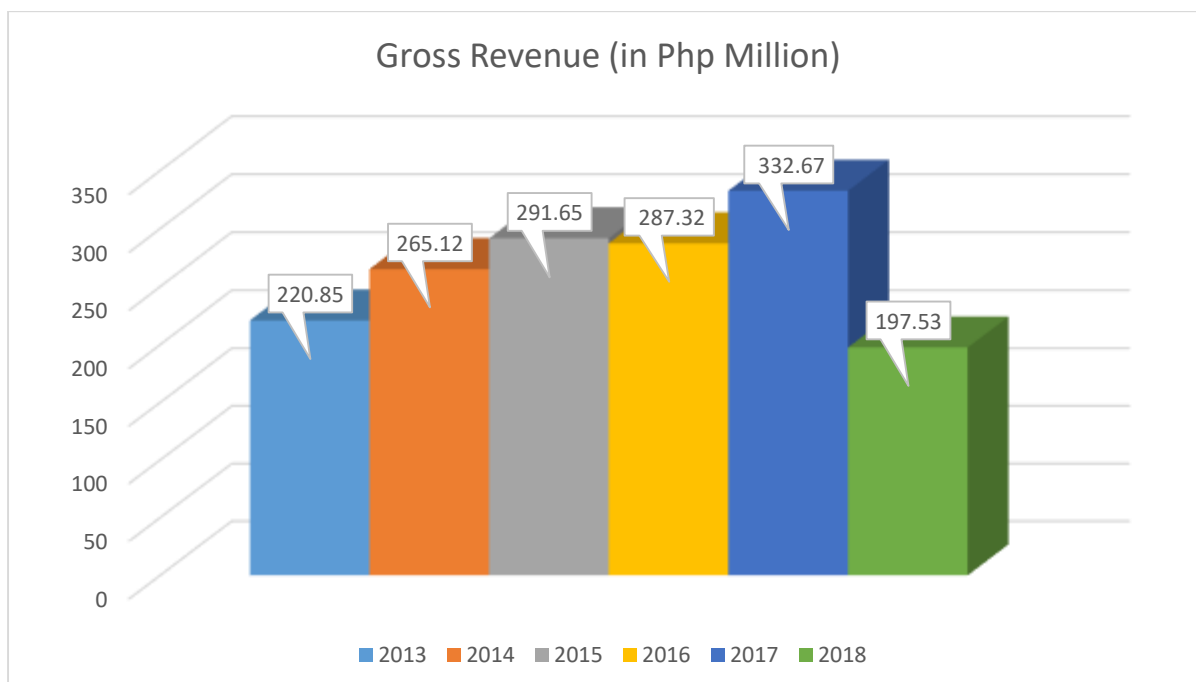
This year's total resources reached P188.00 million, lesser by -15.15% or P33.57 million compared to year 2017 of P 221.57 million



Total liabilities decreased by -36.34% from last year's P62.08 million to this year's P39.52 million.



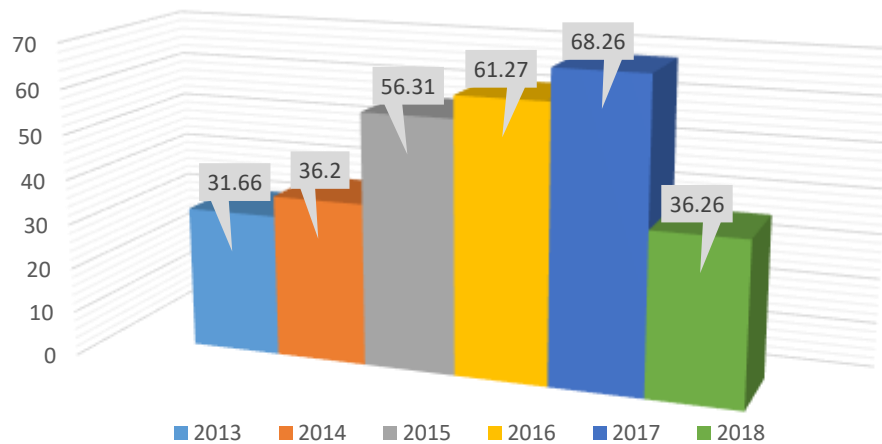
Stockholder's equity declined by -6.91% or P11.02 million from last year's P159.49 million to P148.47 million this year.



MSI realized gross revenues of P197.53 million which is -40.41% lesser than last year's gross revenue of P332.67 million.

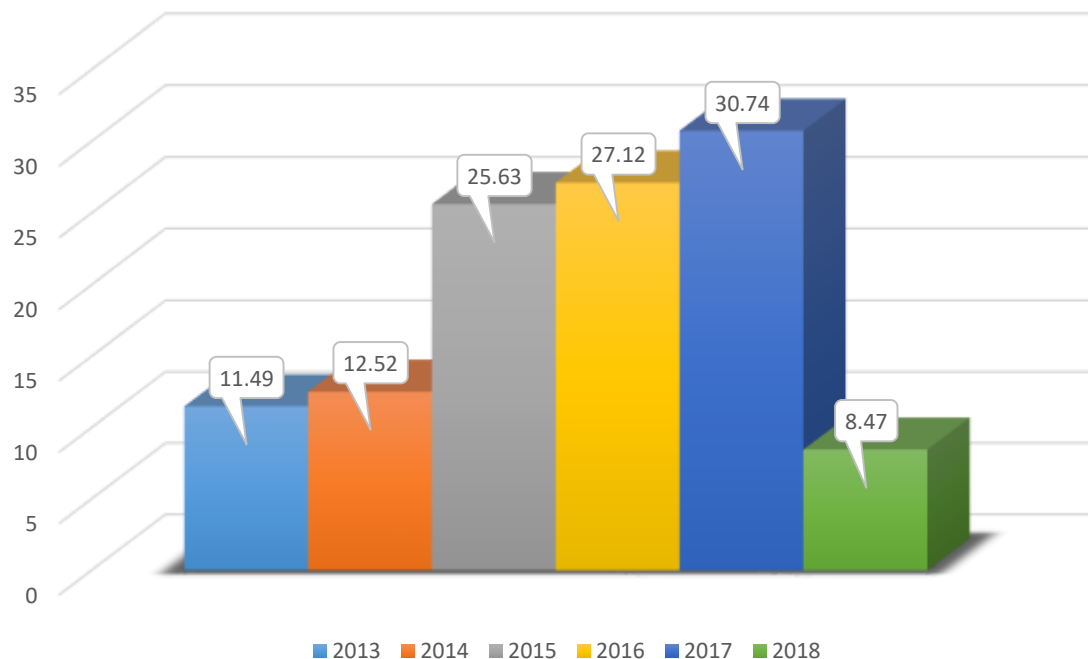


## Gross Profit (in Php Million)



Gross Profit decreased by -53% or P32.00 million from P68.26.74 million in 2017 to 36.26 million this year.

## Net Income After Tax (in Php Million)



Net Income After Tax decreased by -72.50% or P22.27 million from P30.74 million in 2017 to 8.47 million this year. MSI attained 24% or P8.48M of the CY 2018 target Net Income After Tax (NIAT) of P35.05M.

# FINANCIAL HIGHLIGHTS

## Sustainable Business Operation and Developmental Support

(in Php Miliion)

	2013	2014	2015	2016	2017	2018
Gross Revenues	220.85	265.12	291.65	287.32	332.67	197.53
Cost of Sales	189.19	228.92	235.34	226.05	264.41	161.27
Gross Profit	31.66	36.20	56.31	61.27	68.26	36.26
Operating Expenses	20.44	19.15	20.40	23.14	25.05	25.44
Net Operating Income	11.22	17.06	35.91	38.13	43.21	10.82
Other Income	4.75	0.67	0.55	0.48	0.62	1.08
Net Income Before Tax	15.97	17.73	36.46	38.61	43.83	11.90
Net Income After Tax	11.49	12.52	25.63	27.12	30.74	8.48

## Financial Condition (in Php Million)

	2013	2014	2015	2016	2017	2018
Assets	179.64	148.94	203.16	216.33	221.57	188.00
Liabilities	70.80	34.65	71.29	70.74	62.08	39.53
Equity	108.84	114.29	131.88	145.59	159.49	148.47

## Financial Indicators (%)

	2013	2014	2015	2016	2017	2018
Return on Assets	6.57	7.68	14.56	12.93	14.04	4.45
Return on Equity	10.74	11.29	20.82	19.55	20.15	5.69
Return on Investment	11.28	14.14	34.08	37.18	39.75	11.90

## CHAIRMAN'S AND PRESIDENT'S REPORT



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

After 44 years of relentless fulfillment of its mandate in the pursuit of the mandate of

LandBank considering its primordial role in providing marketing support services to rice farmers, and its stakeholders, MSI has been religiously fulfilling its mandate in the delivery of marketing interventions to farmers assisted

by the Bank.

Year 2018 is a challenging year for MSI due to the implementation of E.O 36 (Salary Standardization Law) which led to the removal of the bank's rice benefit to employees and consequently affected MSI overall sales performance.

Our 2018 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.

During the second semester of 2018, the resignation of our President and CEO Mr. Roy C. Oscillada and the transition of leadership delegation together with company directions and management took effect whereby Ms. Blesilda R. Macalalad was appointed as Officer-In-Charge and the concurrent Corporate Services Manager.



Ms. Blesilda R. Macalalad is a graduate of Bachelor of Science in Business Administration major in Accounting at the University of the East in 1977. She passed the Accountancy Board exam in April

1978 and joined the Masaganang Sakahan, Inc in 1988. As a Certified Public Accountant, she is adamant in rearing and spearheading the organizational mandate as she earnestly drives the direction and leadership of MSI.

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. More so, I would also like to acknowledge the continued patronage of our stakeholders in all of our undertakings which is the very essence of our corporate existence.

May we continue to see positive developments in our operations and 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, MSI focused on corporate accounts for milled rice, developed and expanded market.

For CY 2018, MSI attained 46% increase in total accomplishment from 66 corporate clients in 2017 to 99 in 2018. A 22% increase in volume of milled rice sold from 20,243 bags in 2017 to 24,634 bags in 2018.

### On Assistance to Mandated Sectors

For CY 2018, MSI assisted 14 cooperatives in its Payment-In-Kind (PIK) for loan payment to LANDBANK amounting to P98.64 million.

MSI continued to support to its mandated sector by providing marketing assistance and free solar drying facilities. For CY 2018, MSI management through the Board's stewardship initiated to implement the "**Free usage of Truck Scale Services**" for PIK paying cooperatives in order to expand assistance.

## CENTERED ON CUSTOMERS / STAKEHOLDERS



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

### On Customers Satisfaction

MSI conducted for the fourth year a survey to assess the level of customer satisfaction to the quality of our services. The survey results of average 4.42 (using a 5-point rating scale with

adjectival equivalent of 5-Excellent, 4-Very Good, 3-Good, 2-Fair and, 1-Poor) is

100% achievement of the 100% respondents giving Very Good or Excellent Rating target affirming 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 deliver 100% of the orders on time or within four (4) days, achieving 100% of CY 2018 target of delivering 100% of the orders on time.



## MSI FINANCIALS



MSI realized gross revenues of P198.61 million which is -40.41% lesser than last year's gross revenue of P333.29 million. MSI expenses decreased by -35.50% or P 102.76 million from last year's P289.46 million to this year's 186.70 million. Net Income After Tax decreased by -72.50% or P22.27 million from P30.74 million in 2017 to 8.47 million this year.

MSI attained 24% or P8.48M of the CY 2018 target Net Income After Tax (NIAT) of P35.05M.

Stockholder's equity declined by -6.91% or P11.02 million from last year's P159.49 million to P148.47 million this year.

## EFFORTS ON LEARNING AND GROWTH

For CY 2018, MSI provided essential (basic and/or intermediate) trainings to all employees in order to bolster our roster of human capital capabilities.

In CY 2018, MSI is continuously strengthening the competencies of its employees through the establishment of competency baseline of the employees. For 2019, MSI will address the competency gaps identified through trainings and seminars in collaboration with globally competitive institutions to abridge inadequacies on technical, administrative and other business competencies essential to the usual business of the company.

In the objective of establishing a quality management system, MSI is already ISO 9001:2015 Certified.



# *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, two (2) were from LANDBANK while (1) from GOCC and five (6) came from the private sectors. All of them were appointed by the President of the Philippines.

MSI Board is chaired by Mr. Crispino T. Aguelo, with Mr. Liduvino S. Geron as Vice-Chairman. In 2018, MSI Board under a hold-over capacity and is composed of the following:

#### **Crispino T. Aguelo**

Chairman

#### **Liduvino S. Geron**

LANDBANK EVP, Vice-Chairman MSI Board

#### **Roy C. Oscillada**

Representative, GOCC

#### **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.
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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 2018 was set.

For the year 2018, the MSI Board of Directors acted upon the following:

Board Resolution No.	PARTICULAR
<b>2018-01</b>	Annual Review of MSI's Vision, Mission and Strategy Map

<b>2018-02</b>	MSI Quality Management System Manual	Manager and Election of the Officer-In-Charge
<b>2018-03</b>	Adopting the FY 2016 Performance –Based Bonus System for Masaganang Sakahan Inc. (MSI) in accordance with Executive Order No. 80, s. 2012 and GCG Memorandum Circular No. 2017-01	<b>2018-12</b> Retirement Benefit of the President-CEO in his capacity as general manager
<b>2018-04</b>	Adopting the Performance-Based Incentive in accordance with GCG Memorandum Circular No.2015-06	<b>2018-13</b> Implementation of modified salary schedule with step increments under E.O 36, S. 2017
<b>2018-05</b>	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. 2017-01	<b>2018-14</b> Authorization for MSI OIC/Corporate Services Manager to sign documents for Land Bank Visa Debit Card Payroll Facility
<b>2018-06</b>	Authority to issue CY 2017 Financial Statements and Declaration of Dividends	<b>2018-15</b> 2019 Corporate Operating Budget and Performance Scorecard
<b>2018-07</b>	Amendment of Payment schedule on the sale of ROPA Sto. Nino, South Cotabato (T-588888)	<b>2018-16</b> Special Recognition for MSI Sales Personnel
<b>2018-08</b>	Closure of Bank	<b>2018-17</b> Guidelines in the review and compliance Procedures of SALN
<b>2018-09</b>	Regularization of MSI Accountant II	<b>2018-18</b> Retirement of Bookkeeper
<b>2018-10</b>	Designated MSI Representatives for GMS, GLMS, and MIS	<b>2018-19</b> Proposed Increase Service Contract Rate
<b>2018-11</b>	Resignation of the President/General	<b>2018-20</b> MSI Position on the Dissolution
		<b>2018-21</b> Revised Corporate Operating Budget

## 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 2019 for the 2018 Board of Directors, Chairman and President and CEO performance.

## BOARD ATTENDANCE

MSI Board held twelve (12) regular meetings and one (1) special meeting or a total of thirteen (13) meetings, with the Directors' average attendance of 100%.

BOARD OF DIRECTORS		POSITION	2018 BOARD MEETINGS													Total
			Jan. 24, 2018	Feb. 22, 2018	Mar. 22, 2018	April 17, 2018	May 17, 2018	June 19, 2018	July 19, 2018	Aug. 23, 2018	Sept. 21, 2018	Oct. 18, 2018	Nov. 22, 2018	Nov. 22, 2018 Annual	Dec. 14, 2018	
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

During the Second Semester of 2018, the transition of leadership took effect whereby Ms. Blesida Macalalad was appointed as Officer-In-Charge. Ms. Macalalad is the concurrent Corporate Services Manager and she has been serving the mandate of MSI for almost three decades.

## DIVIDENDS REMITTANCE TO THE NATIONAL GOVERNMENT



Last May 15, 2019, during the 2018 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 was able to alight upon the significant challenges encountered within the year, MSI Officer-In-Charge, Ms. Blesilda R. Macalalad attended the ceremonial turn-over of MSI's cash dividend for CY 2018 amounting to P4,238,507.50 from its CY 2018 net income.

## OUR COMMITMENT

	C o m m i t m e n t					2018 Targ ets	2018 Accompl ishment	Rating
	Strategic Objective (SO)/ Strategic Measure(SM)		Formula	Weig ht	Rating System			
CUST OMER S/STA KEHO	SO 1	Strengthen the Market Access						
	SM 1	Primary market* developed	No. of retailers or end-user accounts	10 %	(Act ual / Targ et) x Weig ht	52	59	10%

	SM 2	Volume of rice sold to primary market	Volume of rice (in bags)	10%	(Actual / Target) x Weight	119,400	18,491.45	1.55 %
	SO 2	<b>Strengthen the Competitiveness and Technical Knowledge of LBP Assisted Farmer Organization</b>						
	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	33	14	4.24 %
	SO 3	<b>Promote Customer Satisfaction and Sales Recognition Program</b>						
	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	Survey results are still to be interpreted by a third party provider.*	%
		<b>Subtotal of Weights:</b>		<b>40%</b>				<b>15.79%</b>
	SO 4	<b>Strengthen Financial Viability</b>						
FINANCIAL	SM 5	Net Income After Tax (NIAT)	Absolute amount (in Million Pesos)	15 %	(Actual / Target) x Weight	35.05	8.27	3.54 %
		<b>Subtotal of Weights:</b>		<b>15%</b>				<b>3.54 %</b>
	SO 5	<b>Shore Up Logistical Processes for Quicker Turn-Around Time</b>						
INT E								

LEARNING AND GROWTH	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%	100%	10%
	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	2.70	1.43	5.30%
		<b>Subtotal of Weights:</b>		<b>20%</b>				<b>15.30%</b>
	SO 7	Enhance Marketing Strategies						
	SM 8	Percentage of Total Bids Won or Served	Number of total bids won or served / Number of total bids tendered	10 %	(Actual / Target) x Weight	65 %	88.64%	10 %
	SO 8	Strengthen Competencies of Employees in the Organization						
	SM 9	Percentage of Employees Meeting Required Competencies	Total employees with identified competency gaps addressed / 50% of employees with identified competency gaps	10 %	(Actual / Target) x Weight	50% of employees with identified competency gaps addressed	50% of employees with identified competency gaps addressed	10%
	SO 8	Establish Quality Management System						
	SM 10	Improve Processes to Quality Management System	Actual Accomplishment	5 %	All or nothing	Certification under ISO 9001:2015	Certification under ISO 9001:2015 Standards	5%
		<b>Subtotal of Weights:</b>		<b>25%</b>				<b>25%</b>
		<b>TOTAL OF WEIGHTS:</b>		<b>100 %</b>				<b>59.63%</b>



## TRAINING AND CONTINUING EDUCATION BY THE BOARD

In CY 2018, in view of its Board Resolution No. 2014-14: Continuing Education of the Board of Directors, MSI Board of Directors had attended various trainings/seminars within their respective field of expertise to further augment the command responsibility and leadership guidance in the management facets of the organization.

## 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 2018, 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
2018-01	Annual Review of MSI's Vision, Mission and Strategy Map
2018-02	Authority to Issue CY 2017 Financial Statements and Declaration of Dividends

<b>2018-03</b>	Amendments on the Interim Performance Based Bonus Per GCG MC No. 2018-01
<b>2018-04</b>	Further Amendments of MSI Articles of Incorporation and By Laws
<b>2018-05</b>	Amendment of Payment Schedule on the Sale of MSI ROPA Sto. Nino, South Cotabato (T-58888)
<b>2018-06</b>	Closure of Land Bank and Union Bank Accounts
<b>2018-07</b>	Regularization of MSI Accountant II/Retirement Benefit of the PCEO in His Capacity as General Manager
<b>2018-08</b>	Implementation of MSI Modified Salary Schedule with Step Increments Under E.O No. 36, S.2017
<b>2018-09</b>	Proposal For The Actuarial Valuation
<b>2018-10</b>	Retirement of the Bookkeeper
<b>2018-11</b>	Proposed Wage Increase For MSI-ADC Guards
<b>2018-12</b>	Revised Corporate Operating Budget

## EXECUTIVE COMMITTEE ATTENDANCE

The MSI Executive Committee held eight (8) meetings for CY 2018, with the Director's average attendance of 100%.

EXECUTIVE COMMITTEE	POSITION	2018 EX-COM MEETINGS												TOTAL
		January 18, 2018	February 15, 2018	March 14, 2018	April 13, 2018	May 10, 2018	July 12, 2018	Aug.16, 2018	Sept.14, 2018	Oct.12, 2018	Nov.15, 2018	Dec. 10, 2018	TOTAL	
1	Liduvino S. Geron	Chairman	/	/	/	/	/	/	/	/	/	/	11	33,000
2	Roy C. Oscillada	Member	/	/	/	/	/	/	/	/	/	/	11	33,000
3	Conrado B. Roxas	Member	/	/	/	/	/	/	/	/	/	/	11	33,000
4	Daniel R. Agustin	Member	/	/	/	/	/	/	/	/	/	/	11	33,000
5	Nestor T. Tapia	Member	/	/	/	/	/	/	/	/	/	/	11	33,000

## 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 2018, the Committee reviewed, evaluated and monitored progress and/or endorsed to the Board the following:

- MSI CY 2018 Risk Control Self-Assessment Matrix

## GOVERNANCE & RISK COMMITTEE ATTENDANCE

For the year, there were four (4) meetings held by the Governance and Risk Committee with 100% or perfect attendance from its members.

GOVERNANCE AND RISK COMMITTEE		POSITION	2018 GOVRISKCOM MEETINGS					TOTAL
			May 17, 2018	June 25, 2018	October 18, 2018	December 14, 2018		
1	Crispino T. Aguero	Chairman	/	/	/	/	4	12,000
2	Roy C. Oscillada	Member	/	/	/	/	4	12,000
3	Conrado B. Roxas	Member	/	/	/	/	4	12,000
4	Daniel R. Agustin	Member	/	/	/	/	4	12,000
5	Miguel Ramon O. Unson III	Member	/	/	/	/	4	12,000

## 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 2018, 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 2018, a bi-annual meeting was held by the Audit Committee with 100% or perfect attendance from its members.

AUDIT COMMITTEE	POSITION	2018 AUDITCOM MEETINGS				TOTAL	
		April 17, 2018	Dec. 14, 2018				
1	Ramon K. Cervantes	Chairman	/	/		2	6,000
2	Alex A. Lorayes	Member	/	/		2	6,000
3	Miguel Ramon O. Unson III	Member	/	/		2	6,000

## MSI WORKFORCE

MSI recognizes the significant contribution of its manpower to achieve its institutional goals. MSI for 2018 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. Employees withholding Tax & Fringe Benefits- May 16, 2018
2. Creative Problem Solving, Decision Making & Business Coach- May 23, 2018
3. Marketing in the Digital Age- May 24, 2018
4. Work Attitude and Value Enhancement Program- June 27, 2018

### HEALTH AND SAFETY

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 also 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).



On August 16, 2018, Syciplaw Center building administration and management conducted Earthquake drill practice in preparation and readiness for the "Big One", where MSI and all agencies in the building participated.



## OPERATIONAL HIGHLIGHTS: FINANCIALS

### MILLED RICE TRADING

LandBank/ Subsidiaries - Directly MSI-ADC- Served	DEC. 2018	DEC. 2017	VAR.	% INC. (DEC.)
Volume (Bags)	32,865	95,803	(62,938)	(66)
Sales (P0.00M)	94.05	260.02	(165.97)	(64)
Cost (P0.00M)	70.89	203.26	(132.37)	(65)
Gross Margin	23.17	56.76	(33.59)	(59)
Ave. Selling Price/Bag (90%HR; 10% Broken only)	P2,862.49 *Including delivery cost	P2,714.11 *Including delivery cost	P148.38	5

For 2018, MSI delivered nationwide to LANDBANK Branches and Field Operating Units, including the subsidiaries, a total of 32,685 bags of milled rice, representing a -66% decrease compared to year 2017 of 95,803 bags of milled rice.

MSI generated total sales of P98.05 million and a gross margin of P23.17 million, showing -64% decrease in sales over last year's sales of P56.76 and a -59% decrease in gross margin over 2017 in total performance.

Non-Land Bank –Corporate Accounts	DEC. 2018	DEC. 2017	VAR.	% INC. (DEC.)
No. of Clients	99	68	31	46
Volume (@50 kg/bag)	24,634.32	20,243.46	4,390.86	22
Sales (P0.00M)	53.94	38.95	14.99	38
Cost (P0.00M)	47.66	34.52	13.14	38
Gross Margin	6.28	4.43	1.85	42
Min. Selling Price/Bag	P2,250.00	P2,000.00		
Max. Selling Price/Bag	P2,700.00	P2,700.00		

For Non-LANDBANK Accounts, MSI was able to deliver the milled rice requirements of 99 corporate accounts and primary accounts.

A total of 24,634.32 bags of milled rice were traded giving the company revenues amounting to P53.94 million and a gross margin of P6.28 million.

The LANDBANK and Non-LANDBANK Mix stood at 63% LANDBANK: 37% Non-LANDBANK in terms of revenues; and 56% LANDBANK: 44% Non-LBP in terms of volume

## BROKENS AND BY-PRODUCTS

For 2018, MSI generated P8.71 million from the sales of brokens with gross margin of P2.04 million. Compared to the same period last year, there was a significant decrease of 66% in terms of sales and an decrease of 64% in terms of gross margin.

The significant decline was mainly due to the implementation of E.O 36 (Salary Standardization Law) which led to the removal of the bank's rice benefit to employees and consequently affected MSI overall sales performance.

## NET INCOME AFTER TAX

CY 2018, MSI continued to pursue with its mandate and developed 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.

Net Income After Tax decreased by -72.50% or P22.27 million from P30.74 million in 2017 to 8.47 million this year. **MSI attained 24% or P8.48M of the CY 2018 target Net Income After Tax (NIAT) of P35.05M.** The decrease in the NIAT from CY 2017 to CY 2019 is mainly attributed to abrupt implementation of E.O 36 last April 2018.

## ***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 2018, MSI's Payment-in-kind (PIK) program for palay came from Fourteen (14) cooperatives which delivered a total of 75,580 bags amounting to P98.64 Million. Compared to last year, there is a significant decrease in volume and amount by -41% and -32%, respectively.

For 2018, MSI was able to provide loan collection assistance to LANDBANK under the Payment-In-Kind Program the amount of P98.64 million, lower by -32%, from last year's P144.10 million collections.

### **MARKETING SUPPORT**

In 2018, MSI was able to source from 71 Small and Medium Enterprises (SMEs) a total of 11,848 bags of milled rice amounting to P27.82 million. This posted an decrease of -65% in terms of volume and 63% in terms amount compared to year 2017.

## **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 2018, 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.

### **GAUGING OUR SERVICES**

For year 2018, MSI for the fourth 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**

For Cy 2018, MSI continued and intensified its initiative 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.

### *Manila Bay Clean Up*

Membership to Manila Bay S.U.N.S.E.T Partnership Program, Inc. This year, MSI, in recognition of its significant role in the protection and preservation of the environment as well as educating the public and promoting awareness on the environment, entered into an agreement to become a Member of the Manila Bay S.U.N.S.E.T. Partnership Program, Inc. Being a partner in this program is a worthwhile undertaking that is consistent with MSI's Corporate Social Responsibility.

MSI Participated in the 1st Quarter Manila Bay Clean-up on January 27, 2018 at the Las Piñas-Paranaque Critical Habitat and Ecotourism Area (LPPCHEA) Long Island, Las Piñas City.



## 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 last 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  
Corporate Government Sector  
Cluster 1 – Banking and Credit

## INDEPENDENT AUDITOR'S REPORT

**The Board of Directors**  
Masagang Sakahan, Inc.  
12<sup>th</sup> 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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

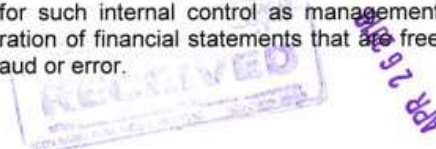
In our opinion, the financial statements present fairly, in all material respects, the financial position of the MSI as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

#### *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 these 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 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 Foundation 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.



APR 26 2019

### 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 supplementary information in Note 29 to the 2018 financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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 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

February 21, 2019







## MASAGANANG SAKAHAN, INC.

A Land Bank Subsidiary

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

The Management of Masaganang Sakahan, Inc. is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, 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 Masaganang Sakahan, Inc.'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 Masaganang Sakahan, Inc. or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Masaganang Sakahan, Inc.'s financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Commission on Audit, the independent auditor appointed by the stockholders, has audited the financial statements of the Masaganang Sakahan, Inc. in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

**CRISPINO C. AGUELO**  
Chairman of the Board

**BLÉSILDA R. MACALALAD**  
OIC/Corporate Services Manager

**ANNALENE M. BAUTISTA**  
Corporate Treasurer

Signed this 21<sup>st</sup> day of February, 2019.

12th Floor SycipLaw Center, 105 Paseo de Roxas, Legaspi Village, Makati City 1229  
Tel. Nos. 893.9376 \* 892.3498 \* 893.9208 \* Fax No. 819.5995 \* 893.7698

APR 26 2019

**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF FINANCIAL POSITION**  
**As at DECEMBER 31, 2018 and 2017**  
(In Philippine Peso)

	Note	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	4	93,483,549	86,772,303
Financial Asset	5	2,604,534	102,961
Receivables, net	6	16,888,846	45,480,462
Inventories	7	23,824,755	45,814,263
Non-Current Assets Held For Sale	8	0	60,000
Other Current Assets	9	3,551,164	1,246,344
<b>Total Current Assets</b>		<b>140,352,848</b>	<b>179,476,333</b>
<b>Non-Current Assets</b>			
Receivables, net	6	22,163,103	14,765,846
Other Investment	10	57,200	57,200
Investment Property	11	4,291,418	4,291,418
Property, Plant and Equipment, net	12	21,053,057	22,842,198
Biological Assets	13	43,050	43,050
Intangible Assets, net	14	46,217	94,767
<b>Total Non-Current Assets</b>		<b>47,654,045</b>	<b>42,094,479</b>
<b>Total Assets</b>		<b>188,006,893</b>	<b>221,570,812</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade Payables	15	31,044,043	53,392,921
Inter-Agency Payables	16	191,700	1,903,711
Other Payables	17	8,294,153	6,780,235
<b>Total Liabilities</b>		<b>39,529,896</b>	<b>62,076,867</b>
<b>EQUITY</b>			
Retained Earnings	18		
Unappropriated		33,476,997	44,493,945
Appropriated		15,000,000	15,000,000
Stockholders' Equity	19	100,000,000	100,000,000
<b>Total Equity</b>		<b>148,476,997</b>	<b>159,493,945</b>
<b>Total Liabilities and Equity</b>		<b>188,006,893</b>	<b>221,570,812</b>

The Notes on pages 9 to 29 form part of these financial statements.

**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended DECEMBER 31, 2018 AND 2017  
(In Philippine Peso)

	Note	2018	2017
<b>Income</b>			
Business Income	20	197,534,692	332,667,093
Gains	21	380,000	221,349
Other Non-Operating Income	22	701,290	404,609
<b>Total Income</b>		<b>198,615,982</b>	<b>333,293,051</b>
<b>Expenses</b>			
Direct Costs	23	(161,270,510)	(264,408,489)
Personnel Services	24	(14,361,644)	(11,309,425)
Maintenance and Other Operating Expenses	25	(8,273,797)	(9,996,479)
Non-Cash Expenses	26	(2,802,163)	(3,745,227)
Financial Expenses	27	(400)	(2,750)
<b>Total Expenses</b>		<b>(186,708,514)</b>	<b>(289,462,370)</b>
<b>Net Income Before Tax</b>		<b>11,907,468</b>	<b>43,830,681</b>
Income Tax Expense	30	(3,430,453)	(13,090,186)
<b>Net Income After Tax/</b>			
<b>Total Comprehensive Income</b>		<b>8,477,015</b>	<b>30,740,495</b>

*The Notes on pages 9 to 29 form part of these financial statements.*

**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended **DECEMBER 31, 2018 AND 2017**  
(In Philippine Peso)

	Retained Earnings		Share Capital		Total
	Appropriated (Note 18)	Unappropriated	Common	Preferred (Note 19)	
<b>BALANCE AT JANUARY 1, 2017</b>	<b>15,000,000</b>	<b>30,594,479</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>145,594,479</b>
<b>CHANGES IN EQUITY FOR 2017</b>					
Add/(Deduct):					
Net 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)
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>15,000,000</b>	<b>44,493,945</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>159,493,945</b>
<b>CHANGES IN EQUITY FOR 2018</b>					
Add/(Deduct):					
Net Income for the year		8,477,015			8,477,015
Declaration of Cash Dividends		(15,370,248)			(15,370,248)
Other Adjustments		(4,123,715)			(4,123,715)
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>15,000,000</b>	<b>33,476,997</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>148,476,997</b>

*The Notes on pages 9 to 29 form part of these financial statements.*



**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CASH FLOWS**  
For the years ended **DECEMBER 31, 2018 AND 2017**  
(In Philippine Peso)

	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Collection of Revenue		150,663,676	341,504,157
Other Receipts		315,950	161,460
<b>Total Cash Inflows</b>		<b>150,979,626</b>	<b>341,665,617</b>
<b>Cash Outflows</b>			
Payment to Suppliers and Employees		(182,329,076)	(286,858,733)
Payment of Taxes, Licenses and Fees		(9,686,644)	(10,962,045)
Other Disbursements		(400)	(450)
<b>Total Cash Outflows</b>		<b>(192,016,120)</b>	<b>(297,821,228)</b>
<b>Net Cash Provided by/(Used in) Operating Activities</b>		<b>(41,036,494)</b>	<b>43,844,389</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Proceeds from Sale of Investment Property		261,925	0
Proceeds from Sale of Property, Plant & Equipment		0	220,000
Proceeds of Matured Investments		62,856,063	0
<b>Total Cash Inflows</b>		<b>63,117,988</b>	<b>220,000</b>
<b>Cash Outflows</b>			
Purchase of Property, Plant, Equipment		0	(3,090,406)
<b>Total Cash Outflows</b>		<b>0</b>	<b>(3,090,406)</b>
<b>Net Cash Provided by/(Used in) Investing Activities</b>		<b>63,117,988</b>	<b>(2,870,406)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Outflows</b>			
Payment of Cash Dividends	18	(15,370,248)	(13,559,593)
<b>Cash Used in Financing Activities</b>		<b>(15,370,248)</b>	<b>(13,559,593)</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>6,711,246</b>	<b>27,414,390</b>
<b>Cash and Cash Equivalents, January 1</b>	4	<b>86,772,303</b>	<b>59,357,913</b>
<b>Cash and Cash Equivalents, December 31</b>	4	<b>93,483,549</b>	<b>86,772,303</b>

*The Notes on pages 9 to 29 form part of these financial statements.*



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

## **1. CORPORATE INFORMATION**

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

The primary objectives of MSI are:

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

The MSI's principal office of business is located at the 12<sup>th</sup> 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:

	2018	2017
Cash in Bank	22,069,405	78,214,223
High Yield Savings Account (HYSA)	71,167,641	8,311,577
Operating Fund – MSI Agri-Development Center	206,503	206,503
Cash - Collecting Officer	0	473
Petty Cash	40,000	40,000
<b>Total</b>	<b>93,483,549</b>	<b>86,772,303</b>

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 in LBP Trust Banking Department.

	2018	2017
Beginning Balance as at January 1	102,961	109,668
Additional investments made		
Gov't Securities-Treasury Bills	1,528,601	0
Gov't Securities-Coupons	1,000,000	0
Accrued interest	2,438	591
Amortization of discount on the acquisition of investment-Treasury Bills	20,489	0
Less: Fair value decrease-Treasury Bills	(8,783)	0

	<b>2018</b>	<b>2017</b>
Fair value decrease-Coupons	(39,651)	(3,811)
Amortization of premium on acquisition Coupons	(1,521)	(3,487)
	<b>2,604,534</b>	<b>102,961</b>
<b>Balance as at December 31</b>		

## 6. RECEIVABLES

### 6.1 Trade Receivables

Accounts	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Accounts Receivable	16,600,128	43,998,952	60,599,080	45,286,593	36,688,502	81,975,095
Allowance for Impairment-Accounts Receivable	0	(21,941,895)	(21,941,895)	0	(21,941,895)	(21,941,895)
<b>Net Value-Accounts Receivable</b>	<b>16,600,128</b>	<b>22,057,057</b>	<b>38,657,185</b>	<b>45,286,593</b>	<b>14,746,607</b>	<b>60,033,200</b>
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)
<b>Net Value-Notes Receivable</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Receivables-Miscellaneous	0	685,429	685,429	50,772	678,417	729,189
Allowance for Impairment-Receivable Miscellaneous	0	(674,366)	(674,366)	0	(674,365)	(674,365)
<b>Net Value-Receivables-Miscellaneous</b>	<b>0</b>	<b>11,063</b>	<b>11,063</b>	<b>50,772</b>	<b>4,052</b>	<b>54,824</b>
Receivable Others	288,718	346,123	634,841	143,097	266,327	409,424
Allowance for Impairment-Receivable- Others	0	(251,140)	(251,140)	0	(251,140)	(251,140)
<b>Net Value-Receivable-Others</b>	<b>288,718</b>	<b>94,983</b>	<b>383,701</b>	<b>143,097</b>	<b>15,187</b>	<b>158,284</b>
<b>Total</b>	<b>16,888,846</b>	<b>22,163,103</b>	<b>39,051,949</b>	<b>45,480,462</b>	<b>14,765,846</b>	<b>60,246,308</b>

## 6.2 Aging of Receivables

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	16,600,128	3,973,095	2,905,490	2,371,290	7,350,253
Receivable-Miscellaneous	0	0	0	0	0
Receivable-Others	288,718	288,718	0	0	0
<b>Total</b>	<b>16,888,846</b>	<b>4,261,813</b>	<b>2,905,490</b>	<b>2,371,290</b>	<b>7,350,253</b>

The Receivable-Others consists of Receivable-Miscellaneous, Receivables-Others and Notes Receivables amounting to P685,429, P634,841 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:

	2018	2017
Held for Sale:		
Palay	21,761,001	43,642,231
Rice	952,864	1,104,193
Brokens	177,995	660,313
By-products	13,978	25,272
	22,905,838	45,432,009
Held for Consumption:		
Office Supplies Inventory		
Office Supplies	153,155	176,372

	<b>2018</b>	<b>2017</b>
Supplies and Materials –Rice Sacks	765,762	205,882
	918,917	382,254
<b>Total</b>	<b>23,824,755</b>	<b>45,814,263</b>

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

## **8. NON-CURRENT ASSETS HELD FOR SALE**

This consists of land acquired through repossession or foreclosure that the Corporation intends to sell within one year from the date of classification as held for sale. In 2018, the land with carrying value of P60,000 was sold for P440,000.00.

## **9. OTHER CURRENT ASSETS**

This account consists of the following:

	<b>2018</b>	<b>2017</b>
Prepayments:		
Overpayment of Corporate Income Tax	3,290,720	0
Insurance Premium	148,084	267,887
Fidelity Bond Premium	9,687	9,687
Taxes, Licenses and Fees	2,517	149,299
Taxes Withheld	(104,125)	(31,494)
Medical	0	273,000
Uniform	0	0
Other Services	0	0
Guaranty Deposits	204,281	577,965
<b>Total</b>	<b>3,551,164</b>	<b>1,246,344</b>



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

	2018	2017
<b>At Cost</b>		
At January 1	4,291,418	4,351,418
Additions/(Disposals)	0	0
Transfers/Adjustment	0	(60,000)
At December 31	4,291,418	4,291,418

This account consists of lands acquired through payment in kind by millers. There was no impairment loss recognized during the year.

## 12. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

Particulars	Land	Building & Land Improvement	Transportation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improvements	Technical & Scientific Equipment	TOTAL
Cost, January 1, 2018	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
Additions	0	0	0	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0	0	0	0
<b>Balance, December 31, 2018</b>	<b>10,782,000</b>	<b>8,186,809</b>	<b>6,193,641</b>	<b>2,252,498</b>	<b>1,114,022</b>	<b>467,999</b>	<b>4,951</b>	<b>1,998,000</b>	<b>30,999,920</b>
Accumulated depreciation/			4,158,486	1,220,659	910,747	203,053	4,951		8,157,722

Particulars	Land	Building & Land Improvement	Transportation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improvements	Technical & Scientific Equipment	TOTAL
amortization, January 1, 2018	0	1,494,991						164,835	
Depreciation/ amortization	0	662,580	596,390	250,327	38,768	61,256	0	179,820	1,789,141
Adjustments	0	0	0	0	0	0	0	0	0
<b>Balance, Dec. 31, 2018</b>	<b>0</b>	<b>2,157,571</b>	<b>4,754,876</b>	<b>1,470,986</b>	<b>949,515</b>	<b>264,309</b>	<b>4,951</b>	<b>344,655</b>	<b>9,946,863</b>
<b>Net Carrying Amount, Dec. 31, 2018</b>	<b>10,782,000</b>	<b>6,029,238</b>	<b>1,438,765</b>	<b>781,512</b>	<b>164,507</b>	<b>203,690</b>	<b>0</b>	<b>1,653,345</b>	<b>21,053,057</b>
<b>Net Carrying Amount, Dec. 31, 2017</b>	<b>10,782,000</b>	<b>6,691,818</b>	<b>2,035,155</b>	<b>1,031,839</b>	<b>203,275</b>	<b>264,946</b>	<b>0</b>	<b>1,833,165</b>	<b>22,842,198</b>

### 13. BIOLOGICAL ASSETS

This account consists of four females and one male Anglo Rubian goats and its offspring presented at their carrying value as at December 31, 2018. Originally, the breeding livestock acquired in May 6, 2015 costing P30,000. There was no movement in the account during the year.

### 14. INTANGIBLE ASSET

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

	2017	2017
Balance as of January 1	94,767	127,350
Addition: Purchases	0	44,000
Deduction: Reclassification to Office Equipment	0	(35,000)
Total	94,767	136,350
Amortization	(48,550)	(41,583)
Balance as of December 31	46,217	94,767

## 15. TRADE PAYABLES

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

	2018	2017
	29,357,963	49,232,086
Land Bank of the Philippines (LBP)		
	1,686,080	4,160,835
Rice suppliers		
<b>Total</b>	<b>31,044,043</b>	<b>53,392,921</b>

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:

	2018	2017
Trust liabilities – SSS, Pag-ibig, BIR	191,700	109,466
Income tax payable	0	1,794,245
<b>Total</b>	<b>191,700</b>	<b>1,903,711</b>

## 17. OTHER PAYABLES

This account consists of:

	2018	2017
Accrued Benefits and Incentives	3,989,919	3,056,482
Accrued Milling Fee	1,507,390	1,323,007

	<b>2018</b>	<b>2017</b>
Accrued Travelling	852,575	3,405
Accrued Retirement Fund	684,451	513,587
Accrued Audit Fee	450,000	450,000
Accrued Leave Credits	199,919	215,245
Accrued Communication	23,634	18,527
Accrued Security Services	11,354	11,040
Medicard Refund to Employees	0	13,305
Accrued Rent	0	8,935
Accrued Prizes	0	220,000
Tax Refund to Employees	0	3,325
Taxes Withheld	0	546,799
Others	574,911	396,578
<b>Total</b>	<b>8,294,153</b>	<b>6,780,235</b>

## 18. RETAINED EARNINGS

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

<b>Year</b>	<b>Accounts Affected</b>	<b>Particulars</b>	<b>Amount</b>
<b>CY 2018</b>	Accounts Receivable-T/B	Correction on taking up CWTs	(1,240)
	Sales	Correction in overstatement of sales	(5,600)
	Cost of Sales	Correction in understatement of cost of sales	(12,400)
	Due to BIR	Correction in over remittance of prior years' tax	(18,378)



Year	Accounts Affected	Particulars	Amount
	Due to BIR	Take up payment of deficiency tax for CY 2015	(100,630)
	Salaries and Wages	Salary Standardization Law differential for CY 2017	(3,800,936)
	Terminal Leave Credits	Salary Standardization Law differential for CY 2017	(214,659)
	Overtime Pay	Salary Standardization Law differential for CY 2017	(12,925)
	Office Supplies Expense	Understated sacks expense from CY 2017	(5,000)
	Audit Fee	Overstated audit fee for CY 2017	21,262
	Accounts Receivable-T/B	Correction on taking up CWTs	40,370
	Miscellaneous Income	Understated miscellaneous income	300
	Cost of Sales	Overstated cost of sales	100
	Sales	Understated sales	3,650
	Payables - Miscellaneous	Adjustment on accounts payable - miscellaneous	71,076
	Trainings Seminar Expense &	CY 2017 Training Expense	(88,707)
<b>Total</b>			<b>(4,123,715)</b>
<b>CY 2017</b>	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)

Year	Accounts Affected	Particulars	Amount
	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)
	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
<b>Total</b>			<b>(3,281,436)</b>

The cash dividend to the National Government for CY 2017 amounting P15,370,248, approved on February 22, 2018 per Board Resolution No. 2018-06, was paid on June 2018.

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.

The abrupt decline in Net Income in 2018 is due to the removal of rice benefit of Land Bank employees in line with the adoption of EO 36.

## **1. 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 fully paid and issued to its parent, the Land Bank of the Philippines.

## **2. BUSINESS INCOME**

This account includes all revenues derived from business trading operation.

## **3. GAINS**

	<b>2018</b>	<b>2017</b>
Gain on Sale of Investment Property	380,000	0
Gain on Sale of Transportation Equipment	0	219,999
Gain on Change in Fair Market Value of Biological Assets	0	1,350
<b>Total</b>	<b>380,000</b>	<b>221,349</b>

#### 4. OTHER NON-OPERATING INCOME

	2018	2017
Interest-Banks/Placements	472,626	196,727
Miscellaneous Income	228,664	137,982
Contribution Revenue	0	69,900
<b>Total</b>	<b>701,290</b>	<b>404,609</b>

#### 5. DIRECT COSTS

This account represents cost of rice sold.

#### 6. PERSONNEL SERVICES

This account consists of the following:

	2018	2017
<i>Salaries and Wages</i>	8,205,248	5,310,149
<i>Other Compensation</i>		
Bonus and Incentives	3,365,198	2,687,353
Representation Allowance	219,000	249,000
Transportation Allowance	169,500	159,000
Uniform Allowance	132,000	109,799
Overtime Pay	135,506	108,663
Other Bonuses and Allowances		
Christmas Raffle	0	910,000
Rice Allowance	331,277	592,882
<i>Personnel Benefit Contributions</i>		
SSS, Philhealth and Pag-Ibig Premiums	391,036	384,461
<i>Other Personnel Benefits</i>		
Retirement Gratuity	684,451	513,587
Medical Benefits	273,000	273,001
Terminal Leave Benefit	254,228	11,530

	<b>2018</b>	<b>2017</b>
Loyalty Award	201,200	0
<b>Total</b>	<b>14,361,644</b>	<b>11,309,425</b>

## 7. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	<b>2018</b>	<b>2017</b>
<i>Supplies and Materials Expense</i>		
Office Supplies Expense	1,043,568	1,720,216
Fuel, Oil and Lubricant Expenses	135,411	208,900
	<b>1,178,979</b>	<b>1,929,116</b>
<i>Taxes, Insurance Premiums and Other Fees</i>		
Taxes, Dues and License	1,317,381	1,143,811
Insurance	435,418	457,132
Fidelity Bond Premiums	29,674	26,161
Registration	24,270	21,808
	<b>1,806,743</b>	<b>1,648,912</b>
<i>Training Expense</i>		
Trainings/Seminars	<b>419,920</b>	<b>141,420</b>
<i>Communication Expense</i>		
Telephone Expense	240,637	265,153
Internet Expense	114,648	172,935
Postage and Courier	64,042	100,849
	<b>419,327</b>	<b>538,937</b>
<i>Utility Expenses</i>		
Power	239,376	329,338
Water	50,604	44,516
	<b>289,980</b>	<b>373,854</b>
<i>Awards/ Rewards and Prizes</i>		
Prizes	0	220,000



	<b>2018</b>	<b>2017</b>
Awards/Reward Expense	0	38,000
	<b>0</b>	<b>258,000</b>
<i>Professional Services</i>		
Auditing Services	<b>450,000</b>	<b>450,000</b>
<i>General Services</i>		
Security Services	<b>337,361</b>	<b>348,961</b>
<i>Travelling Expenses</i>		
Travelling Expense - Local	<b>248,837</b>	<b>267,250</b>
<i>Repairs and Maintenance</i>		
Spare Parts	155,990	143,411
Repairs and Maintenance	71,946	180,706
Website Maintenance	0	10,080
	<b>227,936</b>	<b>334,197</b>
<i>Labor and Wages</i>		
Handling	73,265	107,768
Wages	7,000	19,184
Milling	(650)	548,482
Truck Scale	0	0
	<b>79,615</b>	<b>675,434</b>

*Other Maintenance and Operating Expenses*

Rent/Lease Expenses	1,041,805	1,052,638
Directors' and Committee Members' Fees	828,000	872,000
Representation Expenses	393,775	398,584
Advertising Expenses	116,379	253,210
Business Development Expenses	92,500	108,715
Membership Dues	34,160	50,000
GPS Device	22,176	19,512
Subscription	0	30,138

	<b>2018</b>	<b>2017</b>
Notarial	0	1,380
Printing and Publication	0	1,268
Donations	0	0
Caretaker Fee	0	0
Miscellaneous	286,304	242,953
	<b>2,815,099</b>	<b>3,030,398</b>
<b>Total</b>	<b>8,273,797</b>	<b>9,996,479</b>

## 8. NON-CASH EXPENSES

This account consists of the following:

	<b>2018</b>	<b>2017</b>
<i>Depreciation (Note 12)</i>		
Depreciation-Transportation Equipment	596,390	583,372
Depreciation-Building	506,031	538,244
Depreciation-Office Equipment	250,327	210,029
Depreciation-Technical & Scientific Equipment	179,820	164,835
Depreciation-Land Improvement	156,549	152,801
Depreciation-OPPE	61,256	57,696
Depreciation-Furniture & Fixtures	38,768	54,167
	<b>1,789,141</b>	<b>1,761,144</b>
<i>Impairment Loss</i>		
Impairment Loss - Inventories*	964,472	1,930,349
Impairment Loss - Biological Assets (Note 13)	0	7,200
	<b>964,472</b>	<b>1,937,549</b>
<i>Amortization</i>		

Amortization - Intangible Asset (Note 14)	48,550	41,583
Amortization - Leasehold Improvement (Note 12)	0	4,951
	<b>48,550</b>	<b>46,534</b>
<b>Total</b>	<b>2,802,163</b>	<b>3,745,227</b>

## 9. FINANCIAL EXPENSES

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

### 10. EMPLOYEES BENEFITS

#### 10.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	<b>2018</b>	<b>2017</b>
Salaries and Wages	8,205,248	5,310,149
Bonus and Incentives	3,365,198	2,687,353
Other Benefits	1,876,156	2,410,799
Social Security Costs	391,036	384,461
Representation Allowance	219,000	249,000
Transportation Allowance	169,500	159,000
Overtime Pay	135,506	108,663
	<b>14,361,644</b>	<b>11,309,425</b>
<b>Total</b>		

#### 10.2 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 13<sup>th</sup> 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, 2018.

### **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, 2018, the Defined Benefit Obligation is P12,325,910 while the Fair Value of Plan Assets is P3,943,715 resulting in a Net Defined Benefit Liability of P8,382,195.

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 P658,636 for CY 2018 and P513,587 for CY 2017.

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, 2018 and December 31, 2017 are Expense (Income) of P4,703,094 and P513,587, 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, 2018, the amount of P684,451 was recognized as Other Compensation-Retirement Gratuity and recorded as Payable-Miscellaneous to the Fund.

**11. 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

	2018	2017

	<b>2018</b>	<b>2017</b>
Mayor's Permit - Head Office & SRGC	1,126,723	948,792
Real Estate Tax	143,636	154,167
Community Tax - Head Office	10,500	10,500
Barangay Clearance	2,570	2,570
<b>Total</b>	<b>1,283,429</b>	<b>1,116,029</b>

B. National

	<b>2018</b>	<b>2017</b>
NFA License	<b>33,353</b>	<b>30,206</b>

C. Withholding taxes paid/accrued for the year:

	<b>2018</b>	<b>2017</b>
Taxes on Compensation and Benefits	1,480,052	884,889
Creditable Withholding Tax/es	519,427	1,152,673
<b>Total</b>	<b>1,999,479</b>	<b>2,037,562</b>

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.

## 12. 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:

	<b>2018</b>	<b>2017</b>
Net Income Before Tax	11,907,468	43,830,681

	<b>2018</b>	<b>2017</b>
Less: Income Subjected to Final Tax	472,626	196,727
Net Income Subject to Tax	11,434,842	43,633,954
Tax Rate	30%	30%
<b>Provision For Income Tax</b>	<b>3,430,453</b>	<b>13,090,186</b>

### **13. 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:

	<b>2018</b>	<b>2017</b>
Sales - Rice Allocation of LBP		
Employees	94,052,920	260,027,120
Outstanding Receivables	27,462,992	51,049,653
Outstanding Payables	29,357,963	49,232,086
<b>Total</b>	<b>150,873,875</b>	<b>360,308,859</b>

### **14. COMPENSATION OF KEY MANAGEMENT OFFICIAL**

The basic salary received by the key management official amounted to P864,000 for CY 2018 and 2017.

### **15. RECLASSIFICATION**

Certain accounts in the CY 2017 financial statements (FS) were reclassified to conform to the CY 2018 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 (COCAFAM) 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.



**Masaganang Sakahan, Inc.**

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