

EXECUTIVE SUMMARY

INTRODUCTION

GSIS Family Bank was originally registered as Royal Savings and Loan Association (RSLA) on 1 February 1971. It has authorized capital stock of P2 million and began operations on February 8 of the same year. In September 1981, RSLA amended its Articles of Incorporation whereby it changed its name from RSLA to Royal Savings Bank (RSB) and increased its authorized capital stock to P40 million. In June 1984, RSB discontinued operations and was placed under receivership by the Central Bank of the Philippines.

RSB reopened in September 1984 pursuant to a tripartite agreement entered into by the Central Bank of the Philippines (CBP), Philippine Deposit Insurance Corporation (PDIC) and ComBank, then a wholly owned subsidiary of GSIS. Subsequently, RSB was renamed Commercial Savings Bank (ComSavings) in June 1985.

Bangko Sentral ng Pilipinas (BSP) issued a Circular Letter dated August 30, 2001 authorizing Comsavings to adopt as its trade name, GSIS Family Bank, a thrift bank, effective July 2, 2001.

GSIS Family Bank (GFB), a subsidiary of the Government Service Insurance System, which owns 99.55 per cent of the Bank's total subscribed capital stock is located at 2/F, AIC Grande Tower, Garnet Road, Ortigas Center, Pasig City. Aside from its head office in Ortigas, GFB has 21 branches; 11 in Cavite; seven in Metro Manila; two in Laguna and one in Bulacan.

In addition to the powers granted under the Savings and Loan Association Act, otherwise known as Republic Act no. 3779, and the Corporation Code of the Philippines, as amended, GFB is formed to engage in, carry on, and exercise all the powers and assume all the obligations of a savings and mortgage bank as provided in the General Banking Act. It started its operations in February 1971. It was granted special authorities to accept/create demand deposits in September 2001 and to accept government deposits in 2006. GFB's Automated Teller Machine (ATM) operations started in April 2004.

There are seven Members of the Board and on top of management operations is the President, supported by the GFB's principal officers.

As at December 31, 2011, GFB has 183 regular employees and one management consultant. Of the 183 regular employees, 64 are bank officers.

The Bank's operating budget for 2011, excluding Interest on Bills Payable, is P347.954 million.

FINANCIAL HIGHLIGHTS

I. Comparative Financial Position (In Philippine Peso)

| | 2011 | 2010 | Increase (Decrease) |
|---------------|---------------|---------------|------------------------|
| Resources | 2,095,638,705 | 3,575,351,835 | (1,479,713,130) |
| Liabilities | 1,686,097,563 | 2,885,295,375 | (1,199,197,812) |
| Capital Funds | 409,541,142 | 690,056,460 | (280,515,318) |

II. Comparative Results of Operation (In Philippine Peso)

| | 2011 | 2010 | Increase (Decrease) |
|-------------------|---------------|-------------|------------------------|
| Income | 79,177,988 | 620,539,678 | (541,361,690) |
| Expenses | 298,539,371 | 497,204,225 | (198,664,854) |
| Net (loss) Income | (219,361,383) | 123,335,453 | (342,696,836) |

SCOPE OF AUDIT

Our audit of the Bank's transactions and accounts covered the period January 1 to December 31, 2011 to be able to express an opinion on the financial statements for the year ending December 31, 2011, in accordance with applicable IFRS/IAS and other pertinent laws, rules and regulations.

INDEPENDENT AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements as at December 31, 2011 in view of GFB's valuation reserves, capitalized losses and provision for separation pay/leave credits carried in the statement of financial position as deferred charges at P134.441 million as discussed in Note 17 and in the CY 2010 Annual Audit Report of GFB. This constitutes a departure from the Conceptual Framework for Financial Reporting 2010 (IFRS Framework).

OTHER SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATIONS

The Allowance for impairment loss recognized on the Investment Property as at December 31, 2011 is not in conformity with the provisions of International Accounting Standards (IAS) 36, thus resulted in understatement of Allowance for impairment loss - Investment Property and overstatement of Surplus account by P13.555 million.

We recommend that Management:

- a. Develop written policy/procedures for calculating and documenting the allowance for impairment loss in compliance with the International Accounting Standards (IAS) 36 to ensure that the account balance is fairly presented in the financial statement;

- b. Revisit and re-assess GFB's valuation policy and strictly adhere to the provisions of IAS 36 specifically in setting up the Allowance for impairment loss; and
- c. Prepare the necessary adjusting entries to correct the Allowance for impairment loss and Surplus accounts.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the 10 audit recommendations (one in 2008, three in 2009 and six in 2010) embodied in the CY 2010 Annual Audit Report, seven were implemented, two were partially implemented and one was not implemented.