BANK SIMPANAN NASIONAL
Contents

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Background of BSN

- BSN was established on 1.12.1974 under the Act of Parliament 146 Laws of Malaysia 1974 and reports to Ministry of Finance.

- BSN is governed by the Development Financial Institutions Act (DFIA) 2002.

- DFIA requires BSN to maintain its accounts in compliance with approved accounting standards.
BSN has more than 5,400 employees with 377 branches, 700 ATMs and 59 CDMs nationwide.

BSN has in excess of 7 million customers with total deposit of more than RM16 billion, total loans of RM9 billion and total treasury investments of RM8.5 billion.

BSN’s main products include Personal Financing, Home Loan, Premium Savings Certificate (SSP), Islamic Banking Scheme, GIRO Savings Account, BSN Matrix and Matrix-i Debit Card as well as VISA and Master card.
Background of BSN (ctd)

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FRS 139 Implementation Issues

Compliance Requirements
- How will the new reporting requirements be applied?
- What additional information needs to be provided?
- Do ledgers and business systems contain the necessary data and if so where?
- What processes must be changed to capture and report new data?
- How much change is necessary to meet the additional requirements arising from FRS 139?
- Do you have sufficient numbers of suitably trained staff in the right locations?

Business Implications
- What are the wider implications on how the business is managed?
- Will profitability be sustained under the new basis?
- What will be the impact on your income and balance sheet?
- What impact will FRS 139 have on regulatory capital requirements and risk appetite?

Data availability
- Process redesign
- Systems scalability & architecture
- Organization design
- Product design & pricing
- Profitability & Solvency
- Regulatory & risk reporting
New and sophisticated requirements imposed on the system - requires a combination of Accounting and IT involvements

**Front Office systems**
- Incorporation of FRS 139 categories
- Derivation of default rates

**Support Application systems**
- Recording FRS 139 values per category
- Installation of new accounting logic

**Accounting systems**
- Parallel representation of FRS 139 / local GAAP
- Independent FRS 139 chart of accounts
- Fair Value calculator

How far back is it necessary to go retrieve data / is it currently captured?
<table>
<thead>
<tr>
<th>Current accounting</th>
<th>FRS 139 Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSN recognizes interest income based on the coupon rate. Any amortization of premium or accretion of discount is recognized in the income statement over the period of the tenure of the investment based on straight line method.</td>
<td>Recognition of income for investment in fixed income securities is based on the effective interest rate.</td>
</tr>
</tbody>
</table>
## Impact on BSN

<table>
<thead>
<tr>
<th>BSN currently has fixed income securities in the form of money market instruments (long term and short term).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization of premium (net of accretion of discount).</td>
</tr>
<tr>
<td>Recognition of income on effective interest rate method will result in differences compared to income recognized based on current accounting.</td>
</tr>
<tr>
<td>The impact is on the systems and processes.</td>
</tr>
</tbody>
</table>

## Action by management

| Management need to assess financial reporting system capability, whether the system can recognize the income based on effective interest rate method. |
## FRS 139 Impact On BSN

### FRS 139 – Categorization of financial assets

<table>
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<tr>
<th>Current accounting</th>
<th>FRS 139 Requirements</th>
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| New requirement under FRS 139. No specific requirement under current accounting standards. However, BSN adopted financial reporting presentation based on the requirement of Revised GP 8 issued by Central Bank Of Malaysia, which is already in compliance with FRS 139. | Financial assets are categorized into four categories. They are:-
1. Fair value to profit and loss (FVTPL);
2. Held to maturity (HTM);
3. Available for sale (AFS);
4. Loans and receivables (L&R) |
### Impact on BSN

BSN has adopted the categories of financial assets. The measurement basis of financial assets categorized as FVTPL and AFS are fair value. Changes in fair value for FVTPL is recognized in income stmt, whilst changes for AFS is recognized in equity. Under the current accounting standards, all quoted investments are recorded at the lower of cost or market value.

### Action by management

Management has already adopted categorization of financial assets in its financial statements.
# FRS 139 Impact On BSN

## Impairment of financial assets
- loans and receivables (“L&R”)

<table>
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<th>FRS 139 Requirements</th>
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<tbody>
<tr>
<td>◆ Specific provision – for non-performing loan individually identified as substandard, doubtful or bad; ◆ General provision - based on a percentage of loan portfolio, to cover for possible losses not specifically identified.</td>
<td>◆ Every balance sheet date, the management is required to assess objective evidence of impairment. The assessment can be based on individual or collective assessment. ◆ Individual assessment is to compare the current book value with the present value of future cash flows (PV of future CF). ◆ Collective assessment to determine default rate, based on the historical default rate experience of the portfolio.</td>
</tr>
</tbody>
</table>
## FRS 139 Impact On BSN

### Impairment of financial assets
- **loans and receivables ("L&R")**

<table>
<thead>
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<tbody>
<tr>
<td>BSN need to assess at least once at balance sheet date to determine impairment.</td>
</tr>
<tr>
<td>For individual assessment, the management needs to determine the PV of future CF for all identifiable loans and financing. The PV includes potential recovery from collateral;</td>
</tr>
<tr>
<td>For collective assessment, the management needs to determine default rate based on a sample of historical data which is sufficient to represent the current default rate.</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Action by management</th>
</tr>
</thead>
<tbody>
<tr>
<td>The management needs to design a methodology to determine default rate for all the loan portfolios for the purpose of collective assessment</td>
</tr>
<tr>
<td>The management also needs to design a methodology to calculate impairment losses for individual assessment.</td>
</tr>
</tbody>
</table>
BSN decided to acquire and implement a complete system solution to enable BSN to be fully FRS 139 compliant on Loans & Receivables by 1st January 2010.

Request for Information (RFI) (Sept 2008)

Based on RFI, develop Request For Proposal (RFP) document (Oct 2008)

Issued Request For Proposal (RFP) – to solicit proposals from vendors (27 Nov 2008).
Vendor selection process

Briefed vendors on the requirement. (3rd Dec 2008).

Tender closed on 24th Dec 2008

Technical Evaluation Committee (TEC) and Commercial Evaluation Committee (CEC) to evaluate proposals from vendors. Any issues on the proposal is listed for clarification with vendors.

Vendors presented their proposed solution & clarified issues raised.

TEC and CEC finalised the evaluation scoring based on the approved evaluation matrix.
Vendor selection process

Shortlisted vendors performed Proof of Concept (POC). (5 - 11 March 2009)

The Evaluation Committee finalised scoring for the POC. (15th March 2009)

Project Manager presented recommendation for vendor’s appointment to the Tender Committee. (19th March 2009)
THANK YOU
Objective of POC

- To demonstrate the shortlisted application system’s (AS) ability to account for all relevant deals from the bank’s portfolio according to FRS 139 requirements
- To demonstrate that the AS can generate accurate calculations and accounting entries for GL
- To validate the shortlisted vendors’ software functional and technical capabilities to support BSN FRS 139 requirements that were defined in the RFP
- To gain better understanding of the shortlisted vendor support capability by testing their knowledge
- To evaluate the comfort level of the bank IT personnel with the vendor through interaction during the POC
## Objective of POC

<table>
<thead>
<tr>
<th>No</th>
<th>Main Criteria</th>
<th>Weight age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Functional Requirements</td>
<td>25</td>
</tr>
<tr>
<td>2</td>
<td>Technical Requirements</td>
<td>25</td>
</tr>
<tr>
<td>3</td>
<td>Experience / Reference Site</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Implementation</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Product Support</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Training</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Total Technical Scoring</strong></td>
<td><strong>75</strong></td>
</tr>
<tr>
<td>7</td>
<td>Pricing</td>
<td>20</td>
</tr>
<tr>
<td>8</td>
<td>Company’s Information</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Total Commercial Scoring</strong></td>
<td><strong>25</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Overall Total Scoring</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
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