

# CEO'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS



**DATO'  
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*Chief Executive Officer*

## CEO'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

The financial year under review saw us take a significant step forward in realising value from our latent potential to turn in our best financial performance since 2008. However, this is but the tip of the iceberg as we continue to further expand our capabilities to set the pace for the remaining two years of our strategic blueprint. Our performance in FY2014 has created significant value for our shareholders as we continued to build our investing base by reaching out to new investors and enhancing services for existing ones.

### 2014: BUILDING COMMUNITIES AND CAPABILITIES

With the completion of our technology revamp in 2013, we embarked on our journey forward anchored on two focal points: value extraction and building for the future. Towards these ends, we have implemented outreach initiatives that go beyond the traditional means of communication while at the same time enhancing our market structure.

As a result of these initiatives, we now have a more accessible market, a wider product range and a more facilitative trading environment, all of which encourage greater retail participation in our markets. Some highlights of the year include:

- Creating the dynamic BursaMKTPLC eCommunity to reach out to our new generation of retail investors.
- Introducing the Environmental, Social and Governance (ESG) Index to enhance market sustainability.
- Expanding our range of products to broaden our appeal to investors both new and old.
- Streamlining our policies to make our market more accessible and efficient.
- Being the first Exchange amongst all ASEAN Trading Link participants to offer ASEAN post trade services.

These achievements have increased our relevance as a market for both domestic and regional investors, and taken us closer to our goal of becoming a High Performance Organisation (HPO) and a leading exchange within the ASEAN region.

Today, Bursa Malaysia is a more competitive and facilitative market poised to capitalise on the opportunities that ASEAN has to offer. While we continue to build on our achievements in 2014, particularly in reaching out to the community, the initiatives to attain our long-term sustainability are ongoing.

### 2014 ACHIEVEMENTS

- ✓ Best financial performance since 2008 with PATAMI of RM198.2 million
- ✓ Leveraged on digital communications through the launch of BursaMKTPLC
- ✓ Championed sustainable practices by introducing Environmental, Social and Governance (ESG) Index - FTSE4Good Bursa Malaysia (F4GBM)
- ✓ Expanded market offerings with the addition of USD denominated refined bleached deodorised palm olein futures contract and MyETF MSCI Malaysia Islamic Dividend Fund
- ✓ Revamped derivatives participantship structure to reduce cost of entry
- ✓ Introduced new guide for Independent Advisers and issued framework to accord flexibility for client trading account opening
- ✓ Launched ASEAN post trade services to support our regional investors

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## DEVELOPING CAPABILITIES

Key to our future success and sustainability is the creation of a robust investing community. From digital media innovations to new market structure enhancements, our initiatives in 2014 have created value for our stakeholders while strengthening market integrity and efficiency. These initiatives in 2014 were focused on three core areas:

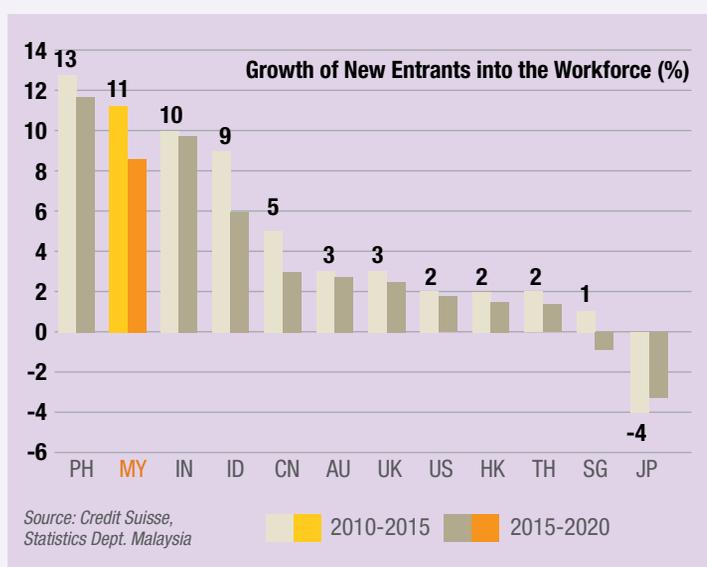
1. Reaching out and building communities
2. Enhancing our market structure and maintaining fair, orderly and efficient markets
3. Further enhancing our transformation into a HPO

These achievements have set us upon the right path towards becoming ASEAN's Multinational Marketplace and towards long-term sustainability.

### REACHING OUT AND BUILDING COMMUNITIES

Just as we have spent the past few years redefining ourselves as a stock exchange, our activities between 2014 and 2016 will see us make a strong statement about our value proposition to both regional and global investors—namely as an interwoven community of our partners, customers, issuers and investors working together to drive the Malaysian capital market forward.

We made community building a key point in 2014, enabling Bursa Malaysia to expand its capabilities and reach out to all stakeholders, particularly to new retail investors and to young working professionals. According to Credit Suisse and the Malaysian Department of Statistics, Malaysia will have one of the fastest growing working population in the world between now and 2020. The demographic group that will be coming into the workforce represents the future core of our retail investor base, and we must start now to encourage their participation in our market.



### REACHING OUT TO THE DIGITAL GENERATION

The flagship programme under our digital outreach initiative is the BursaMKTPLC, a one-stop online portal for all traders and investors that we launched on 28 April 2014. BursaMKTPLC is a first-of-its-kind virtual marketplace that creates a completely unique user experience designed to provide market insights, rich online pricing information and investor education. Our aim is to create an active and vibrant eCommunity focusing on enhancing trading and developing financial literacy.

### STEPPING UP INVESTOR EDUCATION AND AWARENESS

In 2014, we conducted a number of education and engagement programmes via advocacy sessions and workshops to communicate our core messages to our various stakeholders such as issuers, financial intermediaries and retail investors. To create awareness of the level and quality of disclosures by listed issuers in relation to the Malaysia Code of Corporate Governance, we also issued Findings of Corporate Governance Disclosures in Annual Reports. On the youth front, we stepped up our engagement with this demographic group through our Bursa Young Investors' Club (BYIC) and Young Corporate Malaysians (YCM) programmes. I am grateful to have been given the chance to speak directly to some of our programme participants and the feedback I received during the question and answer session has convinced me that we will see continuous growth in our capital market.

### LAUNCHING NEW PRODUCTS AND SERVICES

We continue to expand our range of products and services to offer greater choice to our existing customers and to attract new customers. While innovation is a priority for us, we take prudent measures to ensure our new offerings fall within an acceptable range of risks and that they add value to our role as the Exchange. We also introduced a host of new trading products for our securities and derivatives markets. Information on these products and the ESG are detailed in the respective sections of this annual report.

### COLLABORATING WITH EXTERNAL MARKETS

To further extend the reach of our market outside our borders, we signed a Memorandum of Understanding (MoU) with the Saudi Stock Exchange (Tadawul) to develop cross-border activities in developing both capital markets. The MoU will enhance the financial and economic linkages between Malaysia and Saudi Arabia, whilst facilitating the exchange of knowledge and capital market expertise.

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## ENHANCING OUR MARKET STRUCTURE

We are constantly looking at ways to develop our market structure to secure long-term sustainability. One of our core initiatives designed to enhance our market structure is the implementation of ASEAN Post Trade services. We are the first exchange participating in the ASEAN Trading Link to implement the service and we believe that it represents an important value add for our market traders.

We have also taken steps to ease access to our markets by streamlining entry requirements through policy changes such as the revamp in the derivatives market participantship structure. These measures are in line with our overall drive to make us a more efficient and effective market.

## MAINTAINING A FAIR, ORDERLY AND EFFICIENT MARKET

Bursa Malaysia has a regulatory duty to uphold market integrity by ensuring a fair, orderly and efficient market. To this end, we are continuously looking at new developments in best practices for markets and to champion these practices to our PLCs.

Our efforts in this area have helped propel the overall level of corporate governance (CG) in Malaysian PLCs - an improvement that has been recognised by international CG watchdogs.

## TRANSFORMING INTO A HPO

We took another step forward in 2014 towards transforming Bursa Malaysia into a HPO. Talent recruitment and management reform remain key enablers of this transformation and we have continued to drive the development of our talent bench by implementing aggressive employee recruitment and retention strategies.

We have bolstered our capabilities in line with our demand for higher standards of governance, and we continued the process of institutionalising the new performance benchmarks into our corporate culture.

To support our journey towards becoming a HPO organisation, our Group Human Resources (GHR) has instituted a number of talent management programmes designed to secure our long-term sustainability and meet our future talent requirements.

## BEST PERFORMANCE SINCE 2008

Our financial performance in 2014 is the best since 2008 and is trending in the right direction. Bursa Malaysia posted a record profit after tax and minority interest (PATAMI) of RM198.2 million (+15% y-o-y), an improved cost-to-income ratio of 46.1% (-2 percentage points y-o-y) and a higher return on equity (ROE) of 25.4% (+5 percentage points y-o-y). Financial performance for the year under review was driven by higher trade volumes in all three of our markets due to higher domestic participation.

### FINANCIAL HIGHLIGHTS

Financial Results	2014	2013	% change
	RM million	RM million	
Operating Revenue	471.3	439.8	+7%
Other Income	32.5	35.2	-8%
Operating Expenses	(232.0)	(229.4)	+1%
Profit Before Tax	271.8	245.6	+11%
Income Tax Expense	(67.8)	(66.2)	+2%
Profit After Tax	204.0	179.4	+14%
Minority Interest	(5.8)	(6.3)	-8%
PATAMI	198.2	173.1	+15%
<b>Financial Ratios</b>			
Cost to Income Ratio	46.1%	48.3%	2 percentage points
Return on Equity	25.4%	20.7%	5 percentage points

### 7% GROWTH IN OPERATING REVENUE

Operating revenue rose to RM471.3 million in 2014 from RM439.8 million in 2013, which represents a growth of 7%. Apart from higher trading revenue from all three markets, the greater number of new structured warrant listings and secondary issues in 2014 also improved revenue growth.

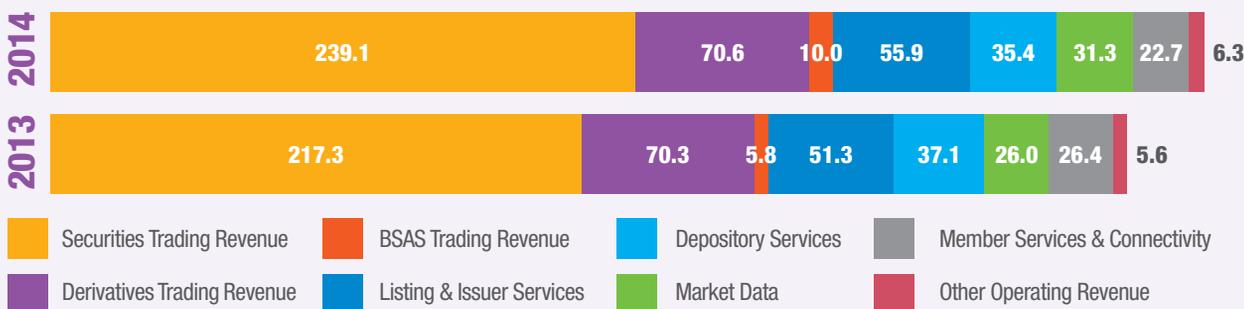
Revenue from our securities trading activities rose 10% to RM239.1 million in 2014 from RM217.3 million in 2013. Revenue growth was supported by higher domestic participation, particularly in the retail segment.

Our Derivatives Market saw a marginal increase in trading revenue of RM70.6 million from RM70.3 million in 2013. Although volume traded showed a healthy 16% increase, lower guarantee and collateral management fees offset the increase.

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Meanwhile, Bursa Suq Al-Sila' (BSAS) trading continued its upward trend with revenue growing by 72% to RM10.0 million in 2014. The continuous revenue growth in BSAS trading over the last few years is a positive indication of the growing acceptance of BSAS by domestic banks and sukuk issuers, which bodes well for us as our strategy calls for us to leverage on Malaysia's status as a leading Islamic capital market.

### OPERATING REVENUE (RM million)



### OPERATING EXPENSE STABILISED; TECHNOLOGY INVESTMENT YIELDING SAVINGS

Total operating expenses grew by 1% to RM232.0 million in 2014 compared to RM229.4 million in 2013. Our expenses for the year continued to focus on talent building and development to support our vision of transforming into a HPO. Staff costs rose 6% to RM127.6 million in 2014 from RM120.0 million in 2013.

Other operating expenses, which include marketing and development, professional fees and administrative expenses, continued to grow as we expanded our capabilities and our reach into the region. However, the overall growth in our operating expenses was offset by lower depreciation costs as we had successfully replaced our previous trading system with a higher capacity but more cost efficient Bursa Trade Securities 2 (BTS 2).

### OPERATING EXPENSES (RM million)



### REWARDING OUR SHAREHOLDERS

Bursa Malaysia's Board of Directors has recommended a final dividend of 18 sen subject to shareholders' approval at our Annual General Meeting to be held in March 2015. If approved, the total dividend paid by Bursa Malaysia in 2014 will amount to 54 sen per share, which includes a 20 sen special dividend and a 16 sen interim dividend paid in August 2014. The total dividend paid of RM288.1 million represents a 6.7% dividend yield.

### SEGMENTAL PERFORMANCE

The Securities Market, as well as the Islamic and Alternative Markets (IAM), continued to make good progress, while the Derivatives Market was affected by lower guarantee and collateral management fees earned. Exchange Holding was affected by lower broker services from the rationalisation effort undertaken by Bursa Malaysia to enable brokers to use their own network, and lower interest income earned subsequent to the distribution of a special dividend in 2013 and 2014 respectively.

Segmental Review	2014	2013	% change
	RM million	RM million	
Segmental Profit/(Loss) From:			
Securities Market	294.3	256.8	+15%
Derivatives Market	40.8	44.1	-7%
Islamic & Alternative Markets	5.4	0.9	+500%
Exchange Holding	(8.9)	3.1	-387%
<b>Total Segmental Profit</b>	<b>331.6</b>	<b>304.9</b>	<b>+9%</b>
Overheads	(59.8)	(59.3)	+1%
<b>Profit Before Tax</b>	<b>271.8</b>	<b>245.6</b>	<b>+11%</b>

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### UPHOLD MARKET INTEGRITY

Bursa Malaysia has always strived to fulfil its key regulatory role in ensuring a fair, orderly and efficient market. This commitment is the key enabler of all that we do as an organisation, and we are duty-bound to ensure that these obligations are dispensed to the best of our ability. To this end, we are continuously looking at new developments in best practices for markets, and ensuring that these practices are observed by Malaysian public listed companies.

In 2014, to address the International Organisation of Securities Commissions' Principles for Financial Market Infrastructures Principle 4, we restructured the Clearing Guarantee Fund, by replacing the RM60 million Standby Credit Facility from Bursa Malaysia with cash allocated from Bursa Malaysia Securities Clearing. This initiative was part of recommended best practices, published in February 2013, jointly undertaken by World Bank and the International Monetary Fund in relation to the Financial Sector Assessment Program on Principles for Financial Market Infrastructures. The restructure effectively strengthens our credit risk management framework and provides greater clarity on the accessibility and availability of funds in the event of a default. We also took proactive actions to manage the wide variety of risks that could affect our business and the markets.

To ensure that our markets operate in a fair, orderly and efficient manner, and that market integrity is upheld, we implemented mitigation measures and controls to manage business interruption, market regulation and systemic risks. We are pleased to report that both our securities and derivatives trading systems posted a 100% uptime in 2014.

Apart from the usual risks, we are also watchful of any emerging risks that could pose a threat to Bursa Malaysia. For example, we made cyber security a priority in 2014, and have subscribed to a Securities Operations Centre service to address potential digital threats to our systems. We have also received ISO27001 certification from Cyber Security Malaysia, which certifies that our system meets the required data and information protection metrics.

Last year we implemented Last Price Limits to control price aberrations during the last 15 minutes of trading. As part of our mandate to maintain a fair and orderly market, this market control feature complements our current Static Price Limits and Dynamic Price Limits to prevent wild fluctuations in securities prices owing to erroneous trades and other aberrations at market close.

### LEVERAGING ON THE GLOBAL PULSE

As a regional and global player, we keep a finger on the pulse of global trends to ensure that our plans make the most of the opportunities presented by a dynamic investing environment.

Changing global trends represent both challenges and opportunities for us, and we must remain agile to leverage on new developments to remain sustainable. We have already adjusted some of our priorities in response to global developments and been rewarded in doing so. The following are some key trends with respect to the industry and our responses to them.

#### 1. Accelerated growth in the derivatives business:

Over the last few years, the exchange industry has witnessed the increasing importance and rapid growth of the derivatives business. This trend continued in 2014, evidenced by continued mergers and acquisitions activity involving derivatives exchanges and the signing of MoUs aimed at strengthening collaboration and relationships between various exchanges.

We are cognisant of the increasing interest in derivatives products, particularly by the retail segment, and have embarked on a number of initiatives including education and awareness programmes to ensure that our retail participants are equipped to trade in derivatives products. We have also made the cost of entry cheaper for Trading Participants to take advantage of the growing interest in derivatives trading.

#### 2. Growing importance of market data and information:

Market Data and Information Services have in recent years been acknowledged as a key area of growth for exchanges going forward, and are now being viewed as a significant revenue line in their own right. 2014 saw exchanges working to improve in this area by expanding their service offerings and holding cross-border collaborations.

As we have seen in the financial analysis of the Securities Market, contributions from the Market Data segment showed the highest revenue percentage increase as compared to the other segments. This is due largely to our investments in new information packages. We believe that demand for our market data will only continue to grow, especially as ASEAN continues to gain prominence as a major investment destination.

#### 3. Increasing globalisation of trading and investment:

While the globalisation of trading and investment has been a common feature of the exchange industry over the last few decades, 2014 saw further development in this area as countries such as China, Thailand and Saudi Arabia sought regulatory approval for greater cross border trading and listing. The formation of the AEC by the end of 2015 and its expected lifting of barriers are further evidence of this trend.

In addition to our outreach activities conducted in regional countries, we have also expanded our targets to set sights on other strategic partners such as the Saudi Stock Exchange (Tadawul), with whom we have signed an MoU. We remain selective about our partners as we need to be convinced of mutual benefit in terms of value creation.

It is important to note that global trends are dynamic and that they do have both direct and indirect consequences on our business. To ensure our long-term sustainability as a business, we must continue to keep a watchful eye on market trends and changing regulatory requirements, and adjust our position in relation to developments.

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## MOVING FORWARD

### OUTLOOK OPTIMISTIC DESPITE CHALLENGING 2015

2015 is shaping up to be another challenging year as global markets have remained volatile. We believe that we will continue to see challenges in the form of pressure on commodity prices and volatility in currency prices. However, we remain confident that the initiatives that we have undertaken and planned will enable us to sustain the momentum we have created for ourselves.

Upward-trending PATAMI and operating revenue coupled with managed operating expenses over the past six years are evidence that the building blocks and processes we have put in place have served us well despite challenging operating conditions. With strong fundamentals in place, we believe that we will be able to face 2015 with similarly optimistic expectations.

Aside from the global economy, we also face challenges in the form of greater competition from other exchanges in the region and in navigating changing regulatory requirements. However, we believe that Malaysia's track record of being a resilient market due to its strength in investor protection and robust corporate governance framework will continue to be a draw for investors, hence supporting the growth agenda whilst maintaining market confidence and integrity.

### GROWING REVENUE AND PROFITS; MANAGED EXPENSES



\* PATAMI for 2009 excludes the gain on disposal of a subsidiary.

### TAKING THE NEXT STEP IN REALISING SHAREHOLDER VALUE

We take continuous steps to transform our latent potential into value for our stakeholders. This can be seen from our healthy dividend yield of 6.7% in 2014 and other key financial ratios. Our return to shareholders has been trending in the right direction since 2008. Return on Equity improved to 25.4% in 2014 from 20.7% in 2013.

The additional resources we have put in place over the last few years which include human capital and infrastructure development, and the streamlining of processes, will continue to enhance our returns as an exchange operator to our shareholders, as we keep our focus trained on our role as a market regulator.

We are confident that we have most of the components in place necessary for us to become ASEAN's Multinational Marketplace, and it is now a matter of reaching out to the investing community to determine how we can best serve their needs.

At the same time, we are aware that Bursa Malaysia plays a unique role in serving as a benchmark for other PLCs. Indeed, our theme for action in 2015 is "Open Skies, Driving Sustainability", which puts governance and sustainability within a newly integrated AEC at the centre of our activities.

## APPRECIATION

Over the last few years, we have worked hard to transform Bursa Malaysia into an entity that is capable of competing with leading exchanges in the region, but our work is not yet complete. Now is the time for us to show that we are not an exchange with mere potential, but an exchange capable of delivering value to all stakeholders, from our shareholders to the general public.

On behalf of Bursa Malaysia's management, I would like to express our thanks and appreciation to all our stakeholders who have worked hard together with us to put the Exchange in our current enviable position. I would like to make special mention of appreciation to the staff of Bursa Malaysia without whom our plans would have remained just that: plans. Execution is everything, and I believe that the progress we have made over the past few years is testament to the success of their execution.

Nonetheless, I would like to take this opportunity to remind all of us that the hard work has only just begun. The challenges we will face in the new ASEAN landscape will be unlike anything that we have experienced before, and there will be difficult obstacles ahead of us. But with challenges come opportunity, and I relish the opportunities that will doubtless be presented to us.

I am hopeful that we will continue to enjoy the support of our many stakeholders even as we chart our way through this heretofore new territory and I look forward to the years to come.