

Chief Executive Officer's Message

DATUK SERI TAJUDDIN ATAN
CEO

The past year has seen Bursa Malaysia gain traction on several strategic fronts and achieve new milestones. In a year of on-going economic and geopolitical challenges, we demonstrated our resilience in facing the increasing headwinds. This was made possible by the strong fundamentals we have put in place in our continued effort to become ASEAN's Multinational Marketplace.

We continue to enhance the breadth and depth of our product offerings in meeting market participants' needs, be it in managing their risk profile and exposure, or in seeking diversification option to achieve insulation from the volatility of different asset classes.

INNOVATING FROM CORE STRENGTHS

The capital market is a space with growth potential, and where innovation is key to unlocking opportunities. As part of our strategy, we maintained our focus on areas where we have attained our biggest differentiators, namely our strengths in the Islamic capital market, our commodity product which is recognised and accepted globally, as well as our achievements in the area of sustainability, while continuously looking for new opportunities, particularly through strategic alliances, innovation and technology.



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Financial Results	2016	2015	% change
Operating Revenue (RM million)	472.7	487.7	▼ 3.1%
Operating Expenses (RM million)	236.2	239.8	▼ 1.5%
Profit After Tax and Minority Interest (PATAMI) (RM million)	193.6	198.6	▼ 2.5%
Cost to Income Ratio (%)	46.6	46.2	▲ 0.4pp
Net Profit Margin (%)	40.0	39.8	▲ 0.2pp
PATAMI Growth (%)	(2.5)	0.2	▼ 2.7pp
Return on Equity (%)	23.2	25.6	▼ 2.4pp

pp percentage point

INCREASING OUR DIVERSITY

We capitalised on the growing acceptance of Bursa Suq Al-Sila' (BSAS) as a global commodity Murabahah trading platform, offering five commodities which are tradable in 28 major currencies and operating in a 15-hour, 6-day market.

We recognised the growing demand for Shariah-compliant investment opportunities. To this end, we are proud that we have established Bursa Malaysia-*i*, the world's first end-to-end Shariah-compliant investing platform which provides investors with a new landscape where investors are able to invest in Shariah-compliant investment instruments in a Shariah-compliant manner.

We enhanced our Malaysian Government Securities Futures, our interest-based products, and added tin futures to our list of commodity products, underscoring our aim for a more diverse product portfolio.

LEVERAGING ON ECOSYSTEM

Our pool of market participants forms the core of our ecosystem. Domestic institutions continue to be the major player in our market, while we see retail investors institutionalised through the unit trusts industry.

We continue to see strong participation by foreign institutions, despite the challenges of 2016. While retail participation would contribute to market velocity, active involvement from both domestic and foreign institutions cushioned us from the impact of volatile market conditions.

We will continue to build and capitalise on the strength of our ecosystem, reaching out to identified segments of the community.

SUSTAINING GOVERNANCE

In the face of the uncertainties that characterised 2016, the strong governance that we have built up over the years remain at the heart of our resilience. What we have put in place, in essence, is developed market governance in an advanced emerging market. We strive to provide opportunities for higher returns to our participants, but not at the expense of a high standard of corporate governance and investor protection, which together are at the heart of the dual role that we play as a market operator as well as a frontline regulator.

The recognitions by the World Bank 'Doing Business 2017' and the World Economic Forum 'Global Competitiveness Report 2016-2017', are acknowledgements accorded to Malaysia as a progressive and maturing market.

The FTSE4Good Bursa Malaysia (F4GBM) Environmental, Social and Governance (ESG) Index that we launched in 2014 is another testament of our effort in inculcating sustainability initiatives that can benefit our PLCs in environmental, social and economic terms. The constituents of F4GBM index has increased to 42 at the end of the year under review.

DRIVING SUSTAINABILITY

We recognise that sustainability practices are fast gaining importance as a criterion in investors' investment decisions. We aim to be the leading exchange for sustainability in ASEAN with the highest number of listed issuers embedding sustainability practices in their operation and reporting, and the choice listing destination for companies that have good sustainability practices. With this aim, we took steps to further improve the adoption of sustainability practices and reporting among listed issuers in our market, through rule amendments and the issuance of a Sustainability Reporting Guide & Toolkits – the first of its kind in ASEAN.

The new reporting framework, the F4GBM Index and being a signatory to the United Nation's Sustainable Stock Exchanges Initiative demonstrated the cohesiveness of our sustainability initiatives and have gained us international recognition. It is also a testament that as a frontline regulator, we are able to make a difference towards the long term development of the nation, to push the bar and to lead within ASEAN.

SUSTAINING PERFORMANCE

Given the exceptionally challenging macro market conditions of 2016, we are pleased that we are able to report a commendable result.

We recorded a profit after tax and minority interest of RM193.6 million, compared to RM198.6 million previously. The cost to income ratio increased marginally by 0.4 percentage point, while Return on Equity declined 2.4 percentage points to 46.6% and 23.2%, from 46.2% and 25.6%, respectively.

Year-on-year operating revenue slid by 3.1%, mainly from the contraction in securities trading revenue. The reduced activities in the Securities Market was however partially offset by growth in other revenue streams, namely from derivatives trading revenue, and the Market Data segment. A five-year review of our performance returns a 23.9% expansion from RM381.5 million in 2011 to RM472.7 million in 2016.

Operating expenses were kept in check at RM236.2 million with our robust cost-management discipline. This translates into a 1.5% decrease compared to RM239.8 million in 2015. Manpower and Technology expenses remained the two major cost drivers, signalling our continued investment in our talent strategy as well as ensuring that we are equipped with the relevant technology in performing our role to maintain a fair, orderly and efficient market.

MALAYSIA-ASEAN CORPORATE GOVERNANCE TRANSPARENCY INDEX, FINDINGS AND RECOGNITION 2016

EXCELLENCE

- Top Corporate Governance and Performance (Overall Category)
- Long Term Value Creation

MERIT

- CG Disclosures
- Best AGM (Overall Category)

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In view of our performance and looking at the operating conditions ahead, Bursa Malaysia's Board of Directors has recommended a final dividend of 17 sen per share to be approved at our 40th Annual General Meeting to be held in March 2017. If approved, the total dividends paid by Bursa Malaysia in 2016 will amount to 34.0 sen per share, representing a dividend yield of 3.8%.

Segmental Performance

Our Securities Market returned a trading revenue of RM212.9 million, on the back of an Average Daily Trading Value (ADV) for Securities Market On-Market Trades of RM1.8 billion. On the IPO front, eleven new listings were welcomed in 2016, the same number achieved in 2015, raising RM0.6 million.

Our Derivatives Market segment continued to chart growth in trading volume, mainly as a result of heightened activities to manage volatility and exposure to risks in the markets. Average daily contracts traded was up by 1.2% to 57,829 contracts, with a total of 14.2 million contracts traded in 2016 compared to 14.1 million in 2015. This generated a trading revenue of RM88.7 million, an increase of 3.0% year-on-year.

In the Islamic Capital Market, the ADV for BSAS commodity trading platform increased commendably by 7.2% to RM16.3 billion in 2016, compared to RM15.2 billion in the previous year, bringing in trading revenue of RM16.4 million.

TOWARDS A DEVELOPED MARKET

Optimising Organisational Structure for Organisation Effectiveness (OOS)

Part of our strategy is to develop Bursa Malaysia to be a High Performance Organisation. In 2016, we embarked on the OOS Project.

The OOS Project has a set of clear objectives of making Bursa Malaysia a more productive, efficient and effective high performance organisation that is regional ready and future-proof in facing a more competitive environment and an ever-changing regulatory landscape. All these are imperative as we continue with our journey to stay ahead and meet the evolving needs of our customers and stakeholders in this highly competitive industry.

The outcome of the OOS Project was put into effect on 15 February 2017, and the line-up of the Management Committee and Senior Management can be found on pages 30 to 31 of this Report.

Having a balanced regulatory framework

We are moving towards a principle-based approach in our regulatory framework, one that maintains high standards of corporate governance and self-regulation while allowing vibrant participation from the markets. By streamlining Bursa Malaysia's regulatory role, it will enhance our efficiency as a platform for capital raising and investment, while upholding investor protection.

Seeding market sustainability

We are cognisant of the significance of our Small-Medium Enterprise segment in becoming the next pool of PLCs. We are working towards establishing a new market to provide access to fund raising for this segment of the economy. A consultation paper seeking public feedback on this proposal was issued during the year under review.

Participating in growth

The performance of Bursa Malaysia as an Exchange, primarily through our expanding portfolio of products and services, provides an opportunity for retail investors to participate in the growth of the market. This comes hand in hand with the need for education, helping Malaysians from all walks of life understand the returns that can be realised beyond traditional savings or fixed deposits.

As we aim to improve financial literacy, educating and empowering tomorrow's investors to participate in the next generation of growth and the creation of economic value, we continue to invest heavily in BursaMktPlc, the website we created to provide newcomers with knowledge on capital markets for them to get started, and for the experienced investors to use the tools we have created to help them be more savvy in their investment decisions. We will be expanding our research coverage to capture the medium and small market capitalised PLCs.

We will scale our digital outreach capabilities to grow the knowledge and experience of investors and listed companies and further develop our capital market ecosystem to one that is comprehensive in offerings, strong in governance and efficient in performance.

Nurturing retail investor participation in the capital markets remains a key challenge for us moving forward. We continue to invest in the future generation through our education initiatives, reaching out to the student community, and expanding the Bursa Young Investors' Club, among others.

Further discussions can be found in the Our Strategy and Management Discussion and Analysis sections of this Report.

FORGING AHEAD

Towards our aim to be the Centre of ASEAN and a key regional player with international reach by 2020, we will continue to leverage on technology to offer innovative and diverse products and services, a more enriching customer experience and achieve operational excellence. We will also expand our cross-border footprint through greater exchange alliances, Shariah connectivity and ASEAN businesses to offer a more compelling value proposition for our stakeholders.

We will continue to strengthen the Exchange's value proposition as a sustainable and dynamic national exchange that catalyses economic progress and capital market development with a strong niche in Islamic capital market and commodity derivatives market, upholding a high standard of corporate governance, sustainability practices as well as investor protection, at the very heart of ASEAN's growth.

APPRECIATION

The many initiatives and enhancements that we have implemented has stood us in good stead to create a market that remains attractive to our investors, offering depth and breadth of capital market products and services. This has enabled us to carve out a strong position as a leading market in ASEAN. This could not have been achieved without the support and unrelenting commitment of my Chairman, Board of Directors and valued staff members. We remain firmly committed to realising our strategy to become the Centre of ASEAN and create long-term value for our shareholders.

Our immense gratitude goes to our investors, our shareholders, our regulators and market partners, for your strong belief in us. As we continue to navigate the uncertain and ever-changing environment ahead, we will remain focused on strengthening our market governance while creating a vibrant marketplace through seeking new growth opportunities.



Datuk Seri Tajuddin Atan
Chief Executive Officer

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