

STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of Bursa Malaysia is committed to maintaining a sound internal control and risk management system. Each business unit or functional group has implemented its own control processes under the leadership of the Chief Executive Officer (CEO), who is responsible for good business and regulatory governance. The following statement outlines the nature and scope of the Group's internal control and risk management in 2014.

BOARD'S RESPONSIBILITY

The Board affirms its overall responsibility for the Group's system of internal control and risk management and for reviewing the adequacy and integrity of the system. The system of internal control covers governance, risk management, financial, strategy, organisational, operational, regulatory and compliance control matters. The Board recognises that this system is designed to manage, rather than eliminate, the risks of not adhering to the Group's policies and achieving goals and objectives within the risk tolerance established by the Board and Management. Therefore, the system provides reasonable, but not absolute, assurance against the occurrence of any material misstatement, loss or fraud.

In 2014, the adequacy and effectiveness of internal controls were reviewed by the Audit Committee (AC) in relation to the internal audits conducted by Group Internal Audit (GIA) during the year. Audit issues and actions taken by Management to address the issues tabled by GIA were deliberated during the AC meetings. Minutes of the AC meetings which recorded these deliberations were presented to the Board.

A Risk Management Committee (RMC) was established and maintained in accordance with Section 22 of the Capital Markets and Services Act 2007 (CMSA) to provide risk oversight and ensure prudent risk management of Bursa Malaysia's business and operations. At its meetings in 2014, the RMC reviewed, deliberated and provided advice on matters pertaining to the key corporate risks, risk assessment of projects and programmes, operational risks and mitigation measures, as well as enterprise risk management (ERM) activities.

Internal control and risk-related matters which warranted the attention of the Board were recommended by the AC and RMC to the Board for its approval and matters or decisions made within the AC and RMC's purview were updated to the Board for its notation.

KEY INTERNAL CONTROL PROCESSES

The Group's internal control system comprises the following key processes:

1. Separation of Commercial and Regulatory Functions

- a. The Group's commercial and regulatory functions are segregated to ensure the proper discharge of Bursa Malaysia's regulatory duties. Both these functions operate independently of each other to ensure that business units are not in a position to unduly influence any regulatory decision made by the Regulation unit. It is Bursa Malaysia's statutory duty to always act in the best interest of the public, with particular regard for the need to protect investors. Public Interest Directors are appointed by the Minister of Finance to Bursa Malaysia's Board to ensure decisions are made in the public interest.

To this end, regulatory committees have been set up to deliberate and decide on regulatory matters to ensure Bursa Malaysia upholds its obligation to safeguard the public interest. These committees, apart from Board members, comprise independent individuals with significant and relevant industry experience.

- b. Processes are established and set out in the Guidelines for Handling Conflicts of Interest (COI) to deal with any possible COI which may arise in the course of Bursa Malaysia performing its commercial or regulatory role.

2. Authority and Responsibility

- a. Certain responsibilities are delegated to Board Committees through clearly defined Terms of Reference (ToR) which are reviewed annually.
- b. The Authority Limits Document is reviewed periodically to reflect the authority and authorisation limits of Management in all aspects of Bursa Malaysia's major business operations and regulatory functions.
- c. The Group's Management Governance Framework, comprising two committees for the governance function and three committees for the business operations function, has clearly defined ToR to enable good business and regulatory governance.

3. Planning, Monitoring and Reporting

- a. An annual planning and budgetary exercise is undertaken requiring all divisions to prepare business plans and budgets for the forthcoming year. These are deliberated and approved by the Board before implementation.
- b. The Board is updated on the Group's performance at scheduled meetings. The Group's business plan and budget performance for the year are reviewed and deliberated by the Board on a half-yearly basis. Financial performance variances are presented to the Board on a quarterly basis.
- c. There is a regular and comprehensive flow of information to the Board and Management on all aspects of the Group's operations to facilitate the monitoring of performance against the Group's corporate strategy, business and regulatory plans. The Board also reviews and approves the Annual Regulatory Report, which informs the Securities Commission (SC), under Section 16 of the CMSA, of the extent to which Bursa Malaysia and its subsidiaries have complied with their duties and obligations under Sections 11 and 21 of the CMSA.

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- d. The Director of Corporate Services, who is also the Chief Financial Officer (CFO), is required to provide assurance to the AC that appropriate accounting policies have been adopted and applied consistently, the going concern basis applied in the Annual Financial Statements and Condensed Consolidated Financial Statements is appropriate; and that prudent judgements and reasonable estimates have been made in accordance with the requirements set out in the Malaysian Financial Reporting Standards (MFRSs). The CFO also assures that adequate processes and controls are in place for effective and efficient financial reporting and disclosures under the MFRSs and Bursa Malaysia Securities Berhad Main Market Listing Requirements (MMLR); and that the Annual Financial Statements and quarterly Condensed Consolidated Financial Statements give a true and fair view of the financial position of the Group and do not contain material misstatement.

4. Policies and Procedures

- a. Clear, formalised and documented internal policies, standards and procedures are in place to ensure compliance with internal controls and relevant laws and regulations. A list of identified laws and regulations applicable to Bursa Malaysia is documented and maintained to facilitate compliance. Regular reviews are performed to ensure that documentation remains current and relevant. Common Group policies are available on Bursa Malaysia's intranet for easy access by employees.
- b. GIA conducts a system readiness review to ensure that due process has been complied with prior to the implementation or launch of significant system development and enhancement projects. Post implementation reviews are also conducted after a predefined period of time to assess the realised benefit of the implemented systems and projects.

5. Audits

- a. Through its internal audits, GIA assesses compliance with policies and procedures as well as relevant laws and regulations. In addition, it examines and evaluates the effectiveness and efficiency of the Group's internal control system using the Committee of Sponsoring Organisations of the Treadway Commission Internal Control - Integrated Framework as a guide.

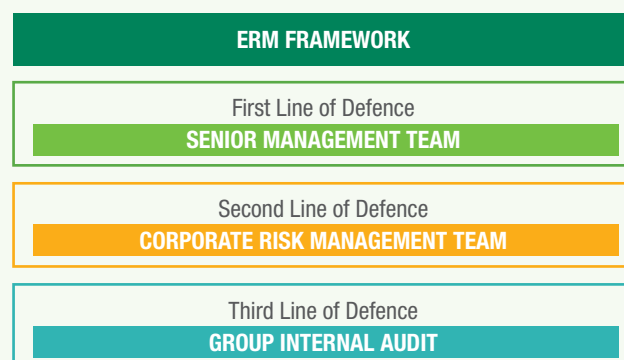
GIA assesses the Group's Internal Control system according to the following five interrelated control elements:

- Control Environment
 - Risk Assessment
 - Control Activity
 - Information and Communication
 - Monitoring
- b. Annual on-site regulatory audits are conducted by the SC on the Group's operations to ensure compliance with its duties and obligations under the CMSA, as well as its policies and procedures.
- c. The yearly certification for Information Security Malaysian Standard, MS ISO/ IEC 27001:2007 Information Security Management Systems was carried out by CyberSecurity Malaysia.

- d. The Auditor Independence Policy requires the lead audit engagement and concurring partners be subject to a five-year rotation with a five-year cooling off period. An annual plan, comprising a planned statutory audit, recurring non-audit services and other anticipated non-audit services by the External Auditors, requires prior approval by the AC. The AC's approval is also required for unplanned non-audit services obtained from the current External Auditors.
- e. The GIA team is required to conduct an assessment of the internal control system pertaining to the processes of the relevant business units/functional groups which have a bearing on the financial information of Bursa Malaysia, to ensure the reliability and integrity of such information. The Senior Executive Vice President, GIA who is also the Head of GIA is required to confirm the effective operation of process controls which support the preparation of the financial statements.
- f. In addition to the annual audit, the External Auditors are engaged to conduct limited reviews of the quarterly financial results together with the cumulative quarters in accordance with International Standard on Review Engagements 2410 (ISRE 2410), "Review of Interim Financial Reporting Information Performed by the Independent Auditor of the Entity" for the first three quarters of the financial year.

6. Risk Management

- a. The Group has in place an Enterprise Risk Management (ERM) framework for managing risks affecting its business and operations. One of the key features of our ERM framework is a risk governance structure comprising three lines of defence with established and clear functional responsibilities and accountabilities for the management of risk.



- b. Senior Management, which includes Management Committee members and Divisional Heads, are the first line of defence and are accountable for all risks assumed under their respective areas of responsibility in line with the Risk Management Policy and Guidelines. This group is also responsible for creating a risk-awareness culture, which will ensure greater understanding of the importance of risk management and ensure that its principles are embedded in key operational processes and in all projects.

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- c. The second line of defence is provided by the Corporate Risk Management team, with oversight by the RMC. The Corporate Risk Management team is responsible for monitoring the risk management activities of the Group and ensuring compliance with, as well as effective implementation of risk policies and objectives. The RMC provides directions and has an oversight role in the risk management process. The ToR of the RMC were revised in January 2014 to provide clarity to the purpose and responsibilities of the RMC with regard to risk management. At its scheduled meetings in 2014, the RMC appraised and assessed the efficacy of the controls and progress of action plans taken to mitigate and monitor the risk management exposure of the Group, including Bursa Malaysia Securities Clearing Sdn Bhd and Bursa Malaysia Derivatives Clearing Berhad. The RMC also monitored the progress and status of ERM activities, as well as raised issues of concern for Management's attention.
- d. The third line of defence is provided by the GIA. The GIA reports directly to the AC and provides independent assurance of the adequacy and reliability of risk management processes and system of internal control, and ensures compliance with risk-related regulatory requirements.
- e. Within the framework, there is an established and structured process for the identification, assessment, communication, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls at the divisional and corporate levels. In order to improve our risk management process and reporting, our risk management system has been upgraded to the latest software version with new and enhanced functionalities.
- f. Our level of risk tolerance is expressed through the use of a risk impact and likelihood matrix with an established risk tolerance boundary demarcating those risks that are deemed to have "exceeded risk tolerance" and those which have not. We have clear risk treatment guidance on the actions to be taken for the relevant risks.
- g. To ensure that our ERM framework and processes remain sound and are in compliance with international recognised standards, we are reviewing our existing ERM framework and processes against the ISO 31000 Risk Management – Principles and Guidelines and will revise and update our Risk Management Policy and Guidelines accordingly in 2015.
- h. The management of the significant risks identified for the financial year 2014 are outlined below:

SIGNIFICANT RISKS

for the financial year 2014

RISK 1 BUSINESS INTERRUPTION RISK

RISK 2 CYBERATTACK RISK

RISK 3 TALENT MANAGEMENT RISK

RISK 4 COMPETITION RISK

RISK 5 COUNTERPARTY CREDIT RISK

RISK 6 MARKET REGULATION RISK

i. Business Interruption Risk

A comprehensive Business Continuity Plan (BCP), including a Disaster Recovery Plan which is tested annually, is in place to ensure continuity of our business and technology operations. We conducted two BCP exercises in 2014, one for the Derivatives Market and the other for the Securities Market. The Islamic, Bond and Offshore markets were tested together with the Securities Market industry wide testing. This is to provide assurance that in the unlikely event that Bursa Malaysia encounters major business interruption, its alternate site and backup systems can be successfully activated to resume its critical business operations. In 2014, Bursa Malaysia did not face any major business interruption.

A BCP exercise for the Securities Market, which operates on the Bursa Trade Securities 2 (BTS2) platform, was conducted on 16 August 2014 by means of a simulated power failure. The Securities, Islamic, Bond and Offshore markets were all tested, as well as other Bursa Malaysia's supporting functions and systems. Since some of the test objectives were not fully met, a re-test for those systems/functions was conducted on 13 September 2014. All test objectives were met in this second test, and the recovery was successfully completed within the target recovery time for all the systems/functions.

A BCP exercise for the Derivatives Market, which operates on the Globex platform, was conducted on 1 March 2014 between Bursa Malaysia Derivatives (BMD)'s primary site and CME Group Inc. (CME)'s new disaster recovery (DR) site in New York City. The primary focus was on establishing connectivity to CME's DR site. The second test between BMD's primary site and CME's DR site was successfully conducted on 29 March 2014 with industry participants.

As part of the Business Continuity Management (BCM) improvement exercise, in 2014, we conducted an internal review of our BCM framework, processes and procedures to comply with the ISO 22301:2012 Standards. A review of Bursa Malaysia's existing BCM programme, framework and practices to benchmark against the BCM System requirements in ISO 22301:2012 Standards was completed in May 2014. The updating of the BCM framework, processes and procedures to comply with the Principles of ISO 22301:2012 Standards is ongoing and with enhancements to our BCM framework, processes and procedures planned for operationalisation in 2015.

ii. Cyberattack Risk

To ensure that our systems are secured, Bursa Malaysia has set in place adequate IT security tools and mechanisms to detect, protect against and respond to cyberattacks. These tools and mechanisms include:

- Firewall and intrusion prevention system;
- Clean pipe services;
- Applications and systems segmentation;
- Anti-virus and anti-malware; and
- Round-the-clock cyber threats monitoring.

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We will continue to review and enhance these tools and mechanisms to address new and increasingly sophisticated cyber threats.

iii. Talent Management Risk

In 2014, we undertook several initiatives to ensure accelerated growth in behavioural, technical and functional competencies with an emphasis on increasing our employee value proposition and motivating our employees. These initiatives included:

- Embarking on a Senior Leadership Development Programme to harness leadership capability and groom future leaders for mission critical positions;
- Introducing the Individual Development Plan/Programme to equip our employees with the necessary behavioural, technical and functional competencies to increase the capacity and productivity of the talent within the organisation;
- Performance improvement planning to help identified employees attain the desired level of performance and behaviour; and
- A Bursa Malaysia-wide team building programme for all employees to internalise our core values, instil behavioural values and develop a strong commitment towards making Bursa Malaysia a High Performance Organisation.

iv. Competition Risk

In order to maintain Bursa Malaysia's competitive position, we have established a Blueprint to guide us in our journey to become Asia's Leading Marketplace. We have identified various initiatives in our 2014-2016 strategy to enable Bursa Malaysia to:

- Stay relevant in a more competitive environment;
- Leverage our strength and infrastructure to facilitate capital market development and capture new opportunities; and
- Tap regional growth through alliances and collaborations.

v. Counterparty Credit Risk

Bursa Malaysia has set in place robust risk management processes and procedures to manage counterparty/settlement risks and prevent any systemic impact on the market. In the area of managing counterparty/settlement risks, Bursa Malaysia Securities Clearing Sdn Bhd and Bursa Malaysia Derivatives Clearing Berhad act as the clearing houses for equities and derivatives trades, respectively. These processes and procedures of the clearing houses are in line with the Principles for Financial Market Infrastructures issued by the Committee on Payment and

Settlement Systems, Technical Committee of the International Organisation of Securities Commissions, which include the following:

- Daily mark-to-market positions, initial and variation margin requirements and collateral management;
- Monitoring capital requirements and adequacy;
- Managing credit exposures via price, trading, single client, equity and position limits;
- Monitoring monthly the financial health of the clearing settlement banks via the risk weighted capital ratio and credit ratings. The concentration risk is also monitored based on the Trading Clearing Participant's (TCP) or Clearing Participant's (CP) total trade settlements with the relevant clearing settlement banks;
- Maintenance and stress-testing the adequacy of the Clearing Guarantee Fund (CGF) and the Clearing Fund for equities and derivatives trading, respectively; and
- Conducting annual default drill exercises by stimulating default scenarios to test the effectiveness of the Default Management Procedures.

In 2014, there were no settlement defaults by any TCP or CP and neither the CGF nor the Clearing Fund was called upon.

We will continue to review and enhance the above processes and procedures in accordance with best practices and standards to ensure they are viable and robust.

vi. Market Regulation Risk

The discharge of our regulatory functions ensures that our market continues to operate in an orderly and fair manner with sound investor protection. In regulating the market we adopt a five-pronged approach comprising development, supervision, engagement, enforcement and education. We also adopt a risk-based approach in regulating the market and seek to ensure that the key risk areas are identified, monitored and managed effectively.

7. Performance Measurement

- a. Key Performance Indicators, which are based on the Corporate and Divisional Balanced Scorecard approach, are used to track and measure staff performance.
- b. Yearly employee engagement and customer satisfaction surveys are conducted to gain feedback on the effectiveness and efficiency of stakeholder engagement for continuous improvement.

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8. Staff Competency

Hiring and termination guidelines are in place while training and development programmes are conducted to ensure that staff are kept up to date with the necessary competencies to carry out their respective duties towards achieving the Group's objectives.

9. Conduct of Staff

- a. Bursa Malaysia's corporate culture is founded on the following core values which are continuously inculcated in staff in their service to Bursa Malaysia and its stakeholders:

B – uilding Relationships
U – nited to Achieve
R – esponsibility
S – implicity
A – gility

- b. A Code of Ethics is established for all employees, which defines the ethical standards and work conduct required at Bursa Malaysia.
- c. Bursa Malaysia has a Whistleblower Policy and Procedures (WPP) to provide an avenue for staff or any external party to report any breach or suspected breach of any law or regulation, including business principles and the Group's policies and guidelines, in a safe and confidential manner. An employee who makes a report of improper conduct in good faith shall not be subject to unfair dismissal, victimisation, demotion, suspension, intimidation or harassment, discrimination, any action causing injury, loss or damage or any other retaliatory actions by the Company. The AC has the overall responsibility in overseeing the implementation of the WPP for Bursa Malaysia Group.
- d. A Securities Transaction Policy is established to govern the securities transactions of the Group's staff. The policy prohibits employees from using unpublished price sensitive information obtained during the course of their work for personal gain or for the gain of other persons. Employees (including principal officers) are also not allowed to trade in the securities of Bursa Malaysia during the closed period, which is 30 calendar days preceding the announcement of Bursa Malaysia's quarterly and annual financial results.
- e. A Corporate Fraud Policy is established to aid in the detection and prevention of fraud and to promote consistent organisational behaviour and practices.
- f. A Confidentiality Policy is established for the management, control and protection of confidential information used by the Group to avoid leakage and improper use of such information.
- g. Management and employees at Grade E6 and above are required to annually declare and provide an update on assets acquired or disposed during the year.

- h. Segregation of duties is practised whereby conflicting tasks are assigned to different members of staff to reduce the scope for error and fraud.

10. Insurance

Sufficient insurance coverage and physical safeguards on major assets are in place to ensure the Group's assets are adequately covered against any mishap that could result in material loss. A yearly policy renewal exercise is undertaken by Management to review the coverage based on the current fixed asset register and the respective net book values and "replacement values", i.e. the prevailing market price for the same or similar item, where applicable. The underwriter also assists by conducting a risk assessment, which helps Bursa Malaysia to assess the adequacy of the intended coverage. There is also a yearly exercise to ensure adequacy and renewal of the Group's professional indemnity insurance coverage.

REVIEW OF THIS STATEMENT

Pursuant to paragraph 15.23 of MMLR, the External Auditors have reviewed this Statement for inclusion in the 2014 Annual Report, and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control Guidelines for Directors of Listed Issuers, nor is the Statement factually inaccurate. This Statement was approved by the Board on 29 January 2015. GIA has reviewed this Statement and reported to the AC that, while it has addressed certain individual lapses in internal control during the course of its internal audit assignments for the year, it has not identified any circumstances which suggest any fundamental deficiencies in the Group's internal control and risk management system.

CONCLUSION

The Board is of the view that the system of internal control and risk management is in place for the year under review, and up to the date of approval of this Statement, is sound and sufficient to safeguard the Group's assets, as well as the shareholders' investments, the interests of customers, regulators, employees and other stakeholders.

The Board has received assurance from the CEO and CFO that the company's internal control and risk management system is operating adequately and effectively, in all material aspects, based on the framework adopted by the Group.