



TRUSTED | INNOVATIVE | SUSTAINABLE | RESPONSIBLE

ANNUAL REPORT 2017



WHAT'S INSIDE

ANNUAL REPORT 2017

01 | ABOUT KWAP

- 4 What We Do
- 8 Organisation Chart
- 10 2017 at a Glance
- 12 5-Year Financial Results Summary
- 13 Calendar of Events

02 | A DECADE OF EXCELLENCE

- 24 Achievements Over 10 Years
- 26 Milestones 2007-2017
- 28 Chief Executive Officer's Statement

03 | OUR LEADERSHIP

- 36 Board Members
- 50 Investment Panel
- 56 Senior Management

04 | CORPORATE GOVERNANCE

- 63 Statement on Corporate Governance
- 73 Statement on Internal Control
- 76 New Policies, Guidelines and Certifications
- 78 New Governance Initiatives

05 | ECONOMIC & STRATEGY REVIEW

- 83 Economic Review
- 85 Market Review and Outlook
- 90 Our 2020 Roadmap
- 92 Key Performance Indicators

06 | OUR PERFORMANCE IN 2017

INVESTMENT

- 96 Review of Investments by Chief Investment Officer
- 99 Investment Strategy
- 100 Performance by Asset Class
- 132 Our Subsidiaries
- 138 Global Investment Exposure

OPERATIONS

- 140 Review of Operations by Chief Operating Officer
- 141 Our Pensioners Come First
- 145 Customer Service
- 147 Contributions
- 151 Compliance and Enforcement
- 152 Enhancing Productivity via Information Technology
- 153 Investment Support and Services

STAKEHOLDER MANAGEMENT

- 154 Engagement with the Government & Institutions
- 156 Engagement with Employers
- 157 Engagement with External Fund Managers
- 158 Engagement with Pensioners
- 159 Nurturing Our Employees
- 166 Giving Back to the Community



RATIONALE

As the trusted custodian of the nation's retirement fund, we provide a solid platform for growth. Despite the challenging environment, KWAP continues to offer consistent returns by enhancing talent, broadening our network to international shores, and expanding investments while supporting the Government's agenda.

07 | MANAGING RISKS BEYOND OPPORTUNITY

- 173 Risk Management Overview
- 176 Enterprise Risk Management
- 177 Market Risk Management
- 182 Credit Risk
- 185 Compliance

08 | OUR FINANCIAL STATEMENTS

- 190 Auditor General Certification
- 194 Statement by the Chairman
- 195 Statutory Declaration
- 196 Statements of Comprehensive Income
- 197 Statements of Financial Position
- 199 Statements of Changes in Equity
- 201 Statements of Cash Flows
- 203 Notes to the Financial Statements

09 | APPENDIX

- 294 Glossary of Terms
- 298 Contact Details



This annual report is available online at
www.kwap.gov.my



To contact us, please refer to page 298
for Contact Details



The financial statements are available in
the Financial Statements section of the
Annual Report 2017

DANA YANG BERKAT

Usia tua sesantainya angin nyaman yang sihat,
renyai hayat anugerah Tuhan yang teramat nikmat.

Kini kita maruahi lagi sejarah kebajikan,
Menyemainya dengan benih jerih perih pendapatan
agar usia tua akan waras terpelihara:
damai di tangan, nikmat di hati dan indah di mata.

Dan tarikh lahirnya badan dana yang amat bertuah -
Mac - kini bulan yang molek, cahaya manis sejarah;
dengan wang dirancang untuk ranum ke usia sarat
peluh jujur rezeki subur mengisi dana berkat.

Sopan di tangan, jernih di mata dan santun di kalbu,
peranum labur jimat tercermat yang mengembang gebu.

Diurus tangan canggih amanah yang tulus berhemah
sehingga pepohon rezeki sempat merimbun buah.

Tulus petugas setia serasi bakti pekerja
ringani bahu pentadbir, suburi harta pesara,
alir pencen sumber harta yang luhur sepanjang hayat
tersimbah tuahnya ke yatim diri, ke badan sihat.

Dengan tekun berilmu, tindakan yang bersanubari,
yakini dipasti taman labur terindah harum ini.

5 - 15, February, 2007
A. SAMAD SAID



ABOUT KWAP

4 What We Do

8 Organisation Chart

10 2017 at a Glance

12 5-Year Financial Results Summary

13 Calendar of Events

01
SECTION

WHAT WE DO



KWAP, established on 1 March 2007, manages the pensions of civil servants in Malaysia. We receive contributions from the Federal Government, statutory bodies, local authorities and other agencies; and place the money in investment vehicles as permitted under the Retirement Fund Act 2007 (Act 662). Since taking over the Public Services Department (PSD)'s Post Pension Services Division functions in 2015, we also manage the payment of pensions, gratuity and any other benefits granted under the consolidated fund.



The Federal Government contributes 5% of the total annual budgeted emolument of Federal Government employees while statutory bodies, local authorities and agencies are required to contribute 17.5% of the basic salaries of their pensionable employees on a monthly basis.

Our investments are guided by policies set by our Investment Panel and approved by our Board. These include a Strategic Asset Allocation which is reviewed periodically to assure optimum returns from relatively low-risk investments. Our investments are carried out by a team of competent and experienced investment professionals.



Strategic yet vigilant investments has seen our fund size more than triple from RM41.9 billion in 2007 to RM140.8 billion as at end 2017, recording an average annual growth of 11.8%. As the fund has grown, we have increased the range of asset classes in which we invest, and as of 2010 have also begun to invest in international equity, fixed income and property. Currently, we have an investment presence in 31 countries in Asia, Australia, New Zealand, Europe, the Middle East and the Americas. Most of our international investments, and some domestic investments, are managed by external fund managers. In 2012, we also set up Prima Ekuiti (UK) Limited (Prima Ekuiti), a wholly-owned subsidiary based in the UK, to manage our investments in the UK and Europe.

An analysis of the fund's performance is reported monthly to the Investment Panel and the Board. The analysis includes performance against benchmark indices as well as absolute target returns for the different asset classes. Our ultimate aim is to generate sufficient returns so as to reduce the Government's financial liability in ensuring that civil servants are able to enjoy financial security in their golden years.

Going beyond our mandated role, we seek to enhance pensioners' knowledge on financial management. We also run various corporate social responsibility (CSR) events to uplift the lives of the marginalised and financially compromised.

WHAT WE DO



VISION

The trusted retirement fund that supports nation building by innovatively delivering sustainable benefits.



MISSION

Optimise investment returns and deliver excellent services by adopting best practices in meeting key stakeholders' commitments.



LEADERSHIP

An ability to lead oneself and lead others in order to continuously improve.

VALUES



TEAMWORK

Working together to provide efficient and effective outcomes for each stakeholder.



STAKEHOLDER ORIENTATION

A focus on all our stakeholders.



EXCELLENCE & ACHIEVEMENT

Achievement that is attained through excellence.



CONTINUOUS LEARNING & INNOVATION

To be innovative and constantly learn from our challenges and our achievements.



INTEGRITY

An expected internal trait of strong morals and principles.



ACCOUNTABILITY

Taking responsibility for our actions.

ASSURING YOUR PENSION

KWAP IN MALAYSIA'S PENSION SYSTEM

	Policy Setting	Member Contribution Collection	Investment Policy & Guidelines	Investment Management	Members Administration	Benefit Payments
	Set policy for pension / provident fund	Manage collection of individual members' contributions	Set investment policy and monitor performance	Execute investments management	Manage members' accounts	Manage financial administration and payment
Pensionable Civil Service	Treasury <ul style="list-style-type: none">Financial impact calculationApproves EPU policiesDevelops and reviews policies	<div>Appointed agent by the Federal Government</div> <div></div>				
	PSD Develops and reviews policies					
Armed Forces	MINDEF Develops and reviews policies	LTAT <ul style="list-style-type: none">Collection of contribution from armed forces personnel and the GovernmentCalculation of LTAT refund to KWAP		Veterans Affairs (MINDEF) <ul style="list-style-type: none">Communicates with retireesBenefits calculationCommunication with active membersAdministration of members' account balance <ul style="list-style-type: none">Disbursement of withdrawalsTransfers of refunds to KWAP		
	Private Sector and Non-pensionable Civil Service	EPF Provides policy input				

Legend:

Treasury : Treasury, Ministry of Finance
PSD : Public Services Department

MINDEF : Ministry of Defence
LTAT : Armed Forces Fund Board
EPF : Employees Provident Fund

ORGANISATION CHART



KWAP



100% Holding

Harta Integra Berkat Sdn Bhd

Investment holding company for a property investment in Malaysia

100% Holding

Capsquare Tower Sdn Bhd*

Investment holding company for a property investment in Malaysia

100% Holding

KWEST Sdn Bhd

Investment holding company for property development

100% Holding

KWAP MIT

Investment holding company for property investment in Australia

100% Holding

KWAP MIT 2

Investment holding company for property investment in Australia

100% Holding

KWAP MIT 3

Investment holding company for property investment in Australia

100% Holding

KWAP MIT 4

Investment holding company for property investment in Australia

100% Holding

Prima Harta (Jersey) Unit Trust

Investment in UK and Europe equity market

100% Holding

Prima Ekuiti (UK) Limited

Investment in UK and Europe equity market

100% Holding

Prima Harta 3 (Lux) Sàrl

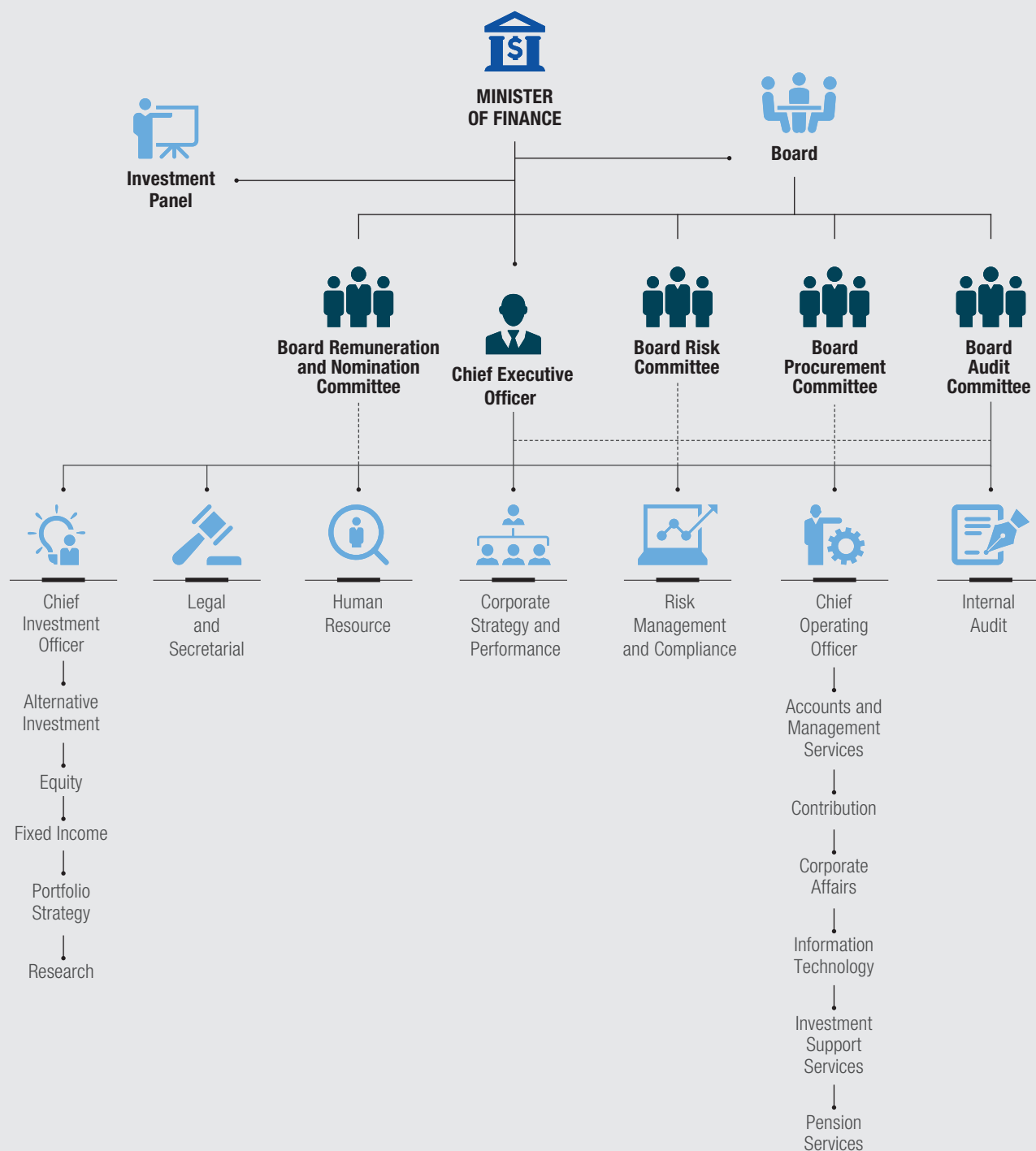
Investment holding company for property investment in Germany

33.34% Holding

Valuecap Sdn Bhd

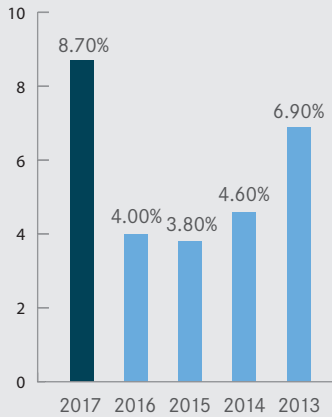
Asset management company

* As at 31 December 2017

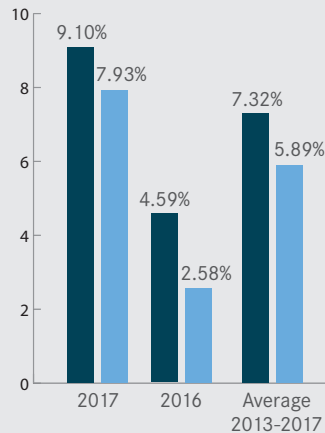


2017 AT A GLANCE

ACCOUNTING RATE OF RETURN

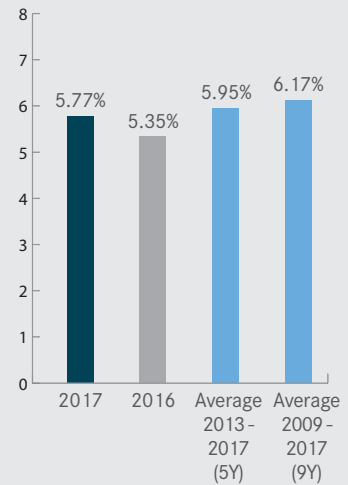


TIME WEIGHTED RATE OF RETURN (TWRR)



● TOTAL FUND ● BENCHMARK

RETURN ON INVESTMENT (ROI)



GROSS INVESTMENT INCOME

RM9.03
BILLION



TOTAL FUND SIZE

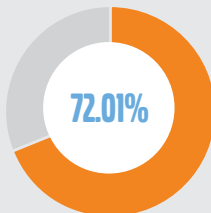
RM140.80
BILLION



SOURCE OF FUND

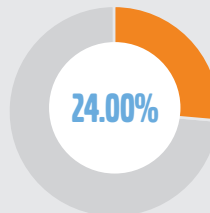
GROSS INVESTMENT INCOME

RM9.03
BILLION



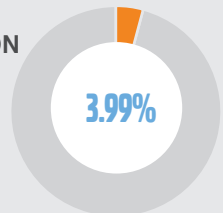
PENSION CONTRIBUTION

RM3.01
BILLION



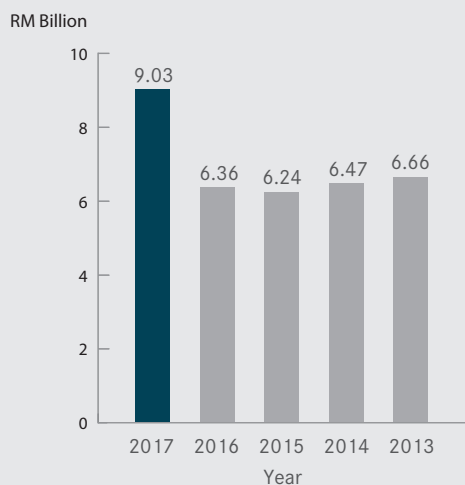
FEDERAL CONTRIBUTION

RM0.50
BILLION



* KWAP officially adopted MFRS effective 1 January 2016

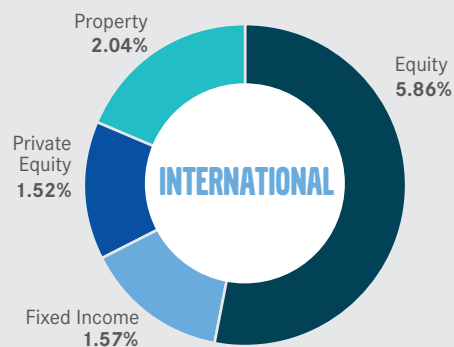
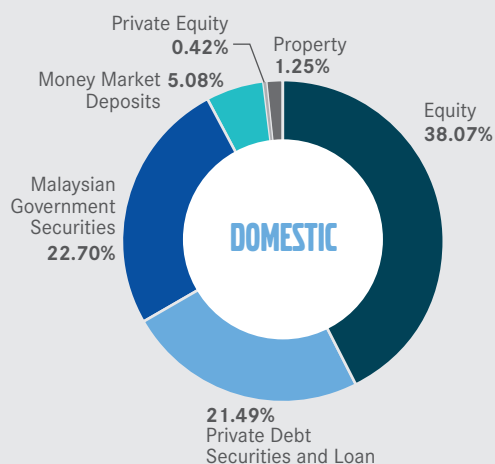
GROSS INVESTMENT INCOME



FUND SIZE GROWTH 2013-2017



INVESTMENT PORTFOLIO COMPOSITION AT COST (IN %)



5-YEAR FINANCIAL RESULTS SUMMARY

	2017 (1 Jan-31 Dec)	2016 (1 Jan-31 Dec)	2015 (1 Jan-31 Dec)	2014 (1 Jan-31 Dec)	2013 (1 Jan-31 Dec)
Fund Size at cost (RM Billion)	140.80	125.00	118.37	109.43	99.92
Growth per annum (%)	12.6	7.1	8.2	9.5	12.6
Income and Expenses (RM)					
Gross Investment Income (Billion)	9.03	6.36	6.24	6.47	6.66
Operating Expenses (Million)	368.82	271.63	193.62	120.91	94.98
Net Investment Income (Billion)	8.79	4.83	3.71	4.84	6.57
Income and Expenses (%)					
Gross Return on Investment (Gross ROI)	5.77	5.35	5.41	6.15	7.05
Accounting Rate of Return (Net ROI)	8.74	3.97	3.26	4.58	6.97
Operating Expenditure to Gross Income	3.49	4.27	3.10	1.87	1.42
Operating Expenditure to Average Fund	0.20	0.22	0.17	0.12	0.10
Return and Risk (%)					
Time Weighted Rate of Return	9.10	4.60	5.39	4.03	10.03
Volatility	2.41	2.16	3.14	2.38	3.15
Contribution (RM Billion)					
Pension Contribution	3.01	2.95	2.78	2.87	2.70
Federal Contribution	0.50	0.40	0.50	1.50	1.50
Investment Portfolio Composition at Cost (RM Billion)					
Domestic					
Equity	53.86	45.73	39.06	35.85	29.00
Private Debt Securities and Loan	30.39	29.11	31.40	28.78	28.63
Malaysian Government Securities + Quasi Bonds	32.11	32.86	29.43	29.49	25.55
Money Market Deposits	7.06	6.70	5.91	5.01	7.16
Private Equity	0.56	0.11	0.12	0.52	0.44
Property	1.77	1.81	1.21	0.00	0.00
International					
Equity	8.29	6.87	5.40	4.16	2.96
Fixed Income	2.22	2.56	2.51	2.47	1.66
Private Equity	2.15	1.64	1.14	0.67	0.37
Property	2.88	2.56	3.92	3.71	4.07
Management of Fund (%)					
Internally Managed	87.55	87.73	87.50	89.56	89.85
Externally Managed	12.45	12.27	12.50	10.44	10.15
Number of Contributing Employers	502	513	498	503	505
Number of Members	193,684	186,511	177,757	171,528	160,560
Number of KWAP Employees	577	592	529	255	207
Income Per Employee (RM Million)	15.65	10.74	11.80	25.37	32.29

CALENDAR OF EVENTS

13 & 25

January

Gifts For All

More than 400 employees at our main office in Integra Tower and the Pension Services Department in Cyberjaya were delighted by gifts presented to them by colleagues. The 'Gift Exchange' is an annual event in which every employee is assigned another employee to whom they are to present a gift. Not only does the event create excitement and fun, it also strengthens the spirit of camaraderie and cohesion among colleagues.



24

January

In Our CIO's Footsteps

KWAP organised our second 'In the Footsteps' session with our Chief Investment Officer (CIO), Nik Amlizan Mohamed, who shared her life and career journey with employees. This series seeks to provide employees the opportunity to connect with our leaders on a more personal level and, more importantly, to learn from their inspiring stories.



CALENDAR OF EVENTS

10

February

Celebrating Chinese New Year

Employees and tenants at Integra Tower were treated to an exhilarating acrobatic lion dance in the lobby, which served as the opening act of our Chinese New Year celebration. As the lions danced, the 'God of Prosperity' distributed mandarin oranges and fortune cookies to all present. The celebration then continued at the office break area on Level 36 which was intricately decorated to set the mood for Yee Sang (or prosperity) tossing, followed by a delectable oriental brunch.



21

March

Launch of KPEx Programme

The KWAP Productivity Excellence (KPEx) Programme is a strategic collaboration with the Malaysia Productivity Corporation (MPC) aimed at driving productivity improvement within KWAP. It was jointly launched by Dato' Wan Kamaruzaman Wan Ahmad, CEO of KWAP, and Dato' Razali Hussain, CEO of MPC, with the ultimate goal of elevating KWAP into a high-performing organisation.



3

April

Up Close and Personal with Major Dr Faiz Khaleed

Astronaut Major Dr Faiz Khaleed, who in 2006 had been one of just two candidates selected out of 11,000 hopefuls to undergo training at the Gagarin Cosmonaut Training Centre in Moscow, was invited to speak to employees about his life story. The trained medical doctor also talked about the Angkasawan Programme application and training processes, and the use of space technology in daily life. He believes failure is the best teacher and the sweetest victory is that which is the most difficult to achieve.



27

April

Financial Planning Programmes with civil servants in collaboration with Pejabat Setiausaha Kerajaan Negeri (SUK) – Perak

Following a pensioners' demographic study in 2016 which found that almost 50% of pensioners fall under the middle to low income categories, KWAP aspires to take the lead in equipping civil servants with basic understanding of financial planning to prepare for retirement. During the year, a total of seven engagement sessions were held for the purpose, attended by over about 2,000 current and future pensioners from Perak, Kedah, Perlis, Penang, Kelantan, Terengganu, Pahang and Selangor.



CALENDAR OF EVENTS

28

April

Night of Celebration

KWAP held a special 10th Anniversary annual dinner, themed Hollywood Glam, at The Majestic Hotel. Other than to promote the spirit of unity and togetherness among employees, the event served as a platform to recognise employees for their various contributions. This year, all employees who have been with KWAP for 10 years were feted.



5

June



Official Opening of New Home

KWAP officially launched our new main office in Integra Tower, combining the milestone with our 10th anniversary celebration by the Prime Minister of Malaysia, who also launched our new mobile app, MyPesara.



11-13

July

ICGN Annual Conference 2017

KWAP, together with the Minority Shareholder Watchdog Group (MSWG), co-hosted the International Corporate Governance Network (ICGN) Annual Conference 2017 at the Shangri-La Hotel, Kuala Lumpur. The conference brought together almost 400 delegates from around the world who shared best practices in investor stewardship obligations, policies and processes to enhance overall financial market stability and economic growth.



CALENDAR OF EVENTS

21
July

Oh Meriahnya Aidilfitri

The spirit of *Muhibbah* created many beautiful memories at the *Oh Meriahnya Aidilfitri* celebration held at Double Tree Hotel, Kuala Lumpur. Employees put on their best *Raya* outfits and even produced a video wishing *Selamat Hari Raya* to everyone.



1
August

Be Connected, Stay Connected

KWAP hosted a networking luncheon for corporate leaders and business partners from various industries in appreciation of those who have contributed to the organisation throughout our 10-year journey. The occasion brought together almost 200 leaders and business partners.



21

September

Inspiring Talk by Prof Jomo

As part of Portfolio Strategy Department (PSD)'s in-house Technology, Economics and Development talk series, we invited Professor Jomo Kwame Sundaram, Holder of the Tun Hussein Onn Chair in International Studies at the Institute of Strategic and International Studies, to give a talk entitled "Malaysia at 60 – What Have We Learnt And Where Do We Go From Here". The timing of the talk was auspicious as it coincided with the 20th anniversary of the Asian Financial Crisis of 1997 which had wide-ranging impact on the economy. The talk was well-received, in particular the



many insights given by Professor Jomo on lessons learnt from the financial crisis in terms of debt levels, foreign portfolio fund flows, foreign direct investment, financial liberalisation and other areas affecting investors.



15

December

Signing Ceremony with EFG Hermes Holding

The signing ceremony marked KWAP's first venture into the renewable energy sector by acquiring a 45% stake in Vortex Solar Investments Sàrl (Vortex). It is projected that Vortex's solar photovoltaic (PV) technology will lead to a reduction of 126,560 tonnes of CO₂ emissions per annum, cementing KWAP's commitment towards environmental sustainability.



CALENDER OF EVENTS

QUARTER 1

1.	CEO Mandate To Employees	11 January 2017	
2.	Gift Exchange (Main Office)	13 January 2017	
3.	CEO Mandate To External Fund Managers	20 January 2017	
4.	In The Footsteps of CIO – Nik Amlizan Mohamed	24 January 2017	
5.	Gift Exchange (PeSD)	25 January 2017	
6.	Chinese New Year Celebration	10 February 2017	
7.	Eco World Corporate Visit	14 February 2017	
8.	ESG Talk by Sime Darby	23 February 2017	
9.	<i>Teh Tarik</i> Session with Chairman	27 February 2017	
10.	Industry Expert Circuit Talk by Dato' Dr Mohamed Amin Mohamed Kassim, former Deputy MD of Century Logistic Holdings	28 February 2017	
11.	KWAP 10 th Anniversary – Internal Engagement Initiatives	1 March 2017	
12.	Ceramah by Ustaz Dato' Dr Mohd Izhar Arif of UKM – ' <i>Syukur</i> '	1 March 2017	
13.	<i>Majlis Bacaan Yassin & Doa Selamat Bersempena dengan Perpindahan KWAP ke Pejabat Baharu</i>	2 March 2017	
14.	Educational Programme with INCEIF	15 March 2017	
15.	KWAP Productivity Excellence (KPEX) Launch at PeSD	21 March 2017	
16.	Global Transformation Forum 2017	22 & 23 March 2017	
17.	Cheque Presentation To Malaysian Environmental NGOs	29 March 2017	
18.	Ministry of Finance Open Day 2017	30 March 2017	
19.	Signing Ceremony Between KWAP and E&O Berhad for Seri Tanjung Pinang Phase 2A	30 March 2017	



Internal Engagement



Internal Event



Corporate Event



External Engagement



External Event



Corporate Visit

QUARTER 2

20.	Aspiration Series 2017 – Major Dr Faiz Khaleed	3 April 2017	
21.	Sime Darby & Brunsfield Visit	14 April 2017	
22.	Foreign Exchange Talk by Bank Negara Malaysia	17 April 2017	
23.	Signing Ceremony Between KWAP and Edotco & Axiata	18 April 2017	
24.	Corporate Visit by Majlis Bandaraya Johor Baharu & Astaka Padu	20 April 2017	
25.	<i>Bengkel Persiapan Alam Persaraan</i> organised by Yayasan Pekerja Malaysia (YAPEM)	20 April 2017	
26.	Official Visit by Auditor General of Malaysia	25 April 2017	
27.	CELCOM Visit	26 April 2017	
28.	MyPesara Roadshow #1 Ipoh, Perak	27 April 2017	
29.	KWAP Annual Dinner 2017	28 April 2017	
30.	Financial Planning Talk in Batu Pahat	1 May 2017	
31.	Industry Expert Circuit #2 by Dato' Freida Pilus of Cempaka School	11 May 2017	
32.	Aspiration Series 2017 – Datuk Aznil Hj Nawawi	16 May 2017	
33.	PERKESO Visit	18 May 2017	
34.	MOU Signing Ceremony between KWAP & UPM For A Collaboration In The Areas of Retirement & Ageing	26 May 2017	
35.	<i>Majlis Sambutan Ulangtahun KWAP Yang Ke-10 oleh Perdana Menteri Malaysia</i>	5 June 2017	
36.	<i>Majlis Rakaman Takbir Hari Raya bersama AlHijrah</i>	13 June 2017	
37.	<i>Majlis Bersalam-salaman Aidilfitri 2017 – Main Office</i>	19 June 2017	
38.	<i>Majlis Bersalam-salaman Aidilfitri 2017 – PeSD</i>	22 June 2017	

CALENDER OF EVENTS



Internal Engagement



Internal Event



Corporate Event



External Engagement



External Event



Corporate Visit

QUARTER 3

39.	International Corporate Governance Network (ICGN) Annual Conference 2017	10 – 13 July 2017	
40.	MSCI Talk: Women's Leadership & Progress	13 July 2017	
41.	<i>Oh Meriahnya Raya 2017</i> : KWAP Hari Raya Gathering	21 July 2017	
42.	KWAP Connects 2017: Corporate Luncheon	1 August 2017	
43.	Actuarial Valuation Presentation to JPA & Government Servants	7 August 2017	
44.	<i>Larian Obor 2017</i> – SEA Games	11 August 2017	
45.	<i>Hari Perhimpunan 1Pesara Malaysia</i> at MAEPS, Serdang	15 & 16 August 2017	
46.	Risk Management & Controls Presentation to Government Ministries	22 August 2017	
47.	SUPERB Programme by Teraju	26 August 2017	
48.	<i>Merdeka</i> Celebration	16 August – 16 September 2017	
49.	International Monetary Fund Visit	13 September 2017	
50.	Central Bank of Indonesia Visit	20 September 2017	
51.	ASABRI and CIMB Principal Islamic Asset Management Visit	20 September 2017	
52.	Talk by Professor Jomo Kwame Sundaram	21 September 2017	

QUARTER 4

53.	KWAP Appreciation Tea	30 October 2017	
54.	KWAP Leadership Series – Ann Osman	1 November 2017	
55.	Women in Finance Talk by Franklin Templeton, Hong Leong Berhad & JP Morgan	29 November 2017	
56.	BNM Knowledge Sharing Session with KWAP	11 December 2017	
57.	Signing Ceremony with EFG Hermes Holding	15 December 2017	
58.	KYT Graduation Day	15 December 2017	
59.	In the Footsteps of COO – Nik Ahmad Fauzan Nik Mohamed	18 December 2017	
60.	KWAP Aspiration Series with Ras Adiba Radzi	20 December 2017	



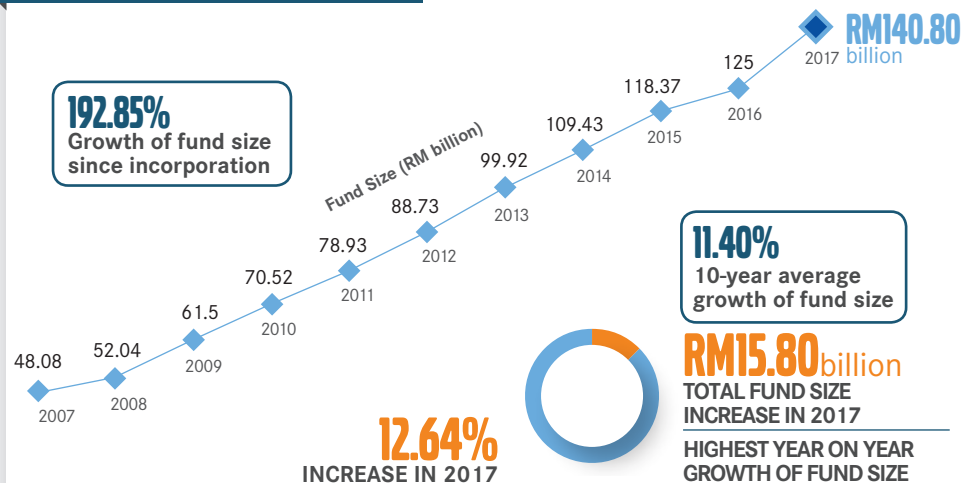
A DECADE OF EXCELLENCE

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ACHIEVEMENTS OVER 10 YEARS

The last 10 years have seen KWAP grow in terms of our fund size, number of contributing employers, number of pensioners supported and the geographical spread of our investments. As an organisation, too, we are now supported by a larger and more diversified team, and are guided by principles of responsible investing.

GROWTH OF TOTAL FUND SIZE



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PILLARS



ENVIRONMENT

Minimising Carbon Footprint



HUMAN CAPITAL

Ensuring the well-being of our people



GOVERNANCE

Achieving high standards of corporate governance



MEMBERS ADMINISTRATION

Ensuring delivery of key services in a timely and cost-effective manner



INVESTMENT MANAGEMENT

Integrating ESG across all asset classes



ETHICAL PRACTICES

Honesty, integrity, accountability in business operations



SOCIAL

Becoming a responsible organisation to the community through CSR initiatives



FINANCIAL PLANNING PROGRAMME

>3,000 public sector employees trained under KWAP Financial Training Programme as of end 2017

TOTAL ROLLING RETURN



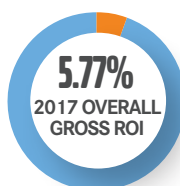
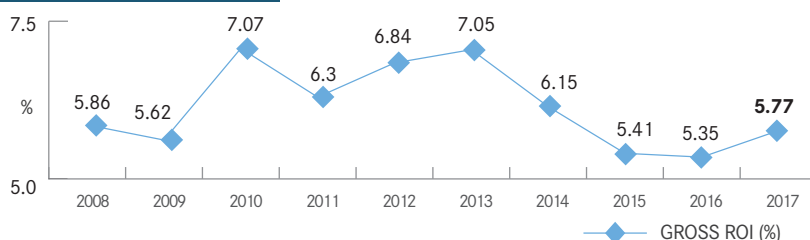
INVESTMENT PERFORMANCE 2017

GROSS INCOME
RM9.03 BILLION

YoY INCREASE OF
41.98%

HIGHEST
SINCE KWAP'S
INCORPORATION IN
2007

10-YEAR GROSS ROI

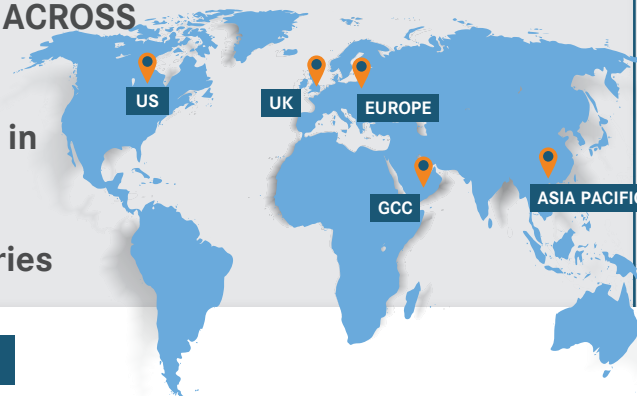


The graph above illustrates the Gross ROI for KWAP since its incorporation

INVESTMENT EXPOSURE

GLOBAL INVESTMENT
PRESENCE ACROSS

5 regions in
31 countries



KWAP'S DIVERSE AND PROGRESSIVE WORKFORCE

577

employees in 2017

93

employees in 2007



Male

46%



Female

54%



6%

Gen Z



63%

Gen Y



27%

Gen X



4%

Baby Boomers

MILESTONES 2007-2017

2007



- KWAP is established under the Retirement Fund Act 2007 (Act 662), which replaces the Pensions Trust Fund Act 1991 (Act 454), and assumes all powers, functions, activities, assets and liabilities of the Pensions Trust Fund.
- Operations relocate from Putrajaya to Menara Yayasan Tun Razak in Kuala Lumpur.
- KWAP develops a Board Charter, financial procedures and Investment Policy and Guidelines.
- A corporate website is launched.

2008



- Core values are redefined, while Vision and Mission formulated.
- KWAP's first Strategic Asset Allocation is developed.
- The Risk Management and Compliance Department is set up.
- The first Human Resources Information System is implemented.
- First CSR activity is undertaken, targeting students of a rural school.

2009



- A new trading room is opened, benchmarked against other asset management houses.
- The Portfolio Strategy Department is established.
- The Business Performance Department is established.
- First Financial Planning for Retirement Seminar is held for government employees.

2010



- Cabinet approves the proposal for KWAP to assist Government in funding pension liability.
- First announcement of financial results.
- KWAP ventures into international investments, and appoints external fund managers to manage international equity and fixed income.
- First international property in Melbourne, Australia, is acquired.
- Global custodian services is outsourced.

2011



- Second international property in Sydney, Australia, is acquired.
- KWAP subscribes to the first Islamic foreign denominated currency bond, hedged against Islamic cross-currency swap.
- KWAP obtains ISO 9001:2008 Quality Management System for Investment Management in domestic equities.
- Whistle Blowing Policy is established.

2012



- KWAP invests RM1.5 billion in the world's first perpetual sukuk.
- Prima Ekuiti (UK) Limited is set up to undertake equity investments in the UK.
- KWAP acquires our first property in London, UK.
- KWAP's domestic fixed income and international property is ISO 9001:2008 Quality Management System certified.

2013



- KWAP purchases three properties abroad, one in the UK and two in Australia.
- ISO 9001:2008 Quality Management System is expanded to include contribution management function.
- KWAP Young Talent (KYT) Programme is launched.

2014



- KWAP invests in new property sectors such as retail and logistics.
- Policies and procedures are established to implement Financial Reporting Standards (FRS) 139 and FRS 7.

2015



- Amended Retirement Fund Act is approved and gazetted.
- KWAP takes over the Public Services Department (PSD)'s Post Pension Services Division functions.
- Commences FRS implementation.
- KWAP becomes a member of the Institute of Integrity Malaysia (IIM), International Corporate Governance Network (ICGN) and the Asia Corporate Governance Association (ACGA).
- First acquisition of domestic property in Integra Tower, Kuala Lumpur.

2016



- KWAP's Vision, Mission and Core Values are revised to reflect an expanded role incorporating PSD's pension operations takeover.
- KWAP fully embarks on the MFRS accounting standards.
- KWAP achieves 93.8% of service level agreement (SLA) requirements for Pension Services, exceeding the target of 90%.
- Foray into the technology sector with investment in Uber Technologies Inc. (Uber).
- Acquisition of second domestic property in CapSquare, Kuala Lumpur.
- First disposal of international property, on London's Wood St.
- Move into new premises in Integra Tower, Kuala Lumpur.

2017



- KWAP celebrates 10th Anniversary.
- First foray into property development via Seri Tanjung Pinang Phase 2, in Penang.
- MyPesara mobile app is launched.
- Mandate to invest in US equities is approved.
- First investment in first Green Sukuk (i.e. socially responsible investment), issued by PNB Merdeka Ventures Sdn Bhd.
- Venture into renewable energy sector through 45% equity in Vortex Solar Investments Sàrl (Vortex).
- Named Best Institutional Investor at MSWG ASEAN Corporate Governance Recognition.
- First investment in Chinese private market via venture capitalist fund Trustbridge Partners VI LP (TBP VI).

CHIEF EXECUTIVE OFFICER'S STATEMENT



DATO' WAN KAMARUZAMAN WAN AHMAD
Chief Executive Officer

“ It has been by all means an incredible 10 years, for which credit goes to our people. Without their commitment to our cause – of safeguarding the pensionable years of Malaysian civil servants – we would not have achieved the many successes that we have. ”



It gives me great pleasure to present KWAP's annual report for the year 2017, which marked our 10th anniversary. Ten years is a veritable milestone in any organisation's journey, and for us at KWAP, it has been extremely uplifting to have been able to celebrate the occasion with our best performance, capping an already very encouraging annual performance since the pension fund was established in March 2007.



10 INCREDIBLE YEARS

In the last decade, we have grown not only in terms of our fund size but also in terms of organisational efficiencies and the positive impact we have on the country's financial, governance and social fabric.

As one of the largest institutional investors in the country, KWAP believes we can play a significant role in influencing the domestic corporate landscape in ways that will strengthen the national economy in the long term. This has spurred us to assume stewardship of responsible investing with the objective of encouraging more corporations to operate in a manner that creates a sound environmental, social and governance (ESG) scorecard. Our journey into ESG investing began in earnest in 2015 when KWAP became a signatory to the Malaysian Code for Institutional Investors. We recognise we are still relatively new in the ESG space, but are placing increasing emphasis on immersing the organisation in the growing ESG ecosystem.

A major organisational milestone was the inclusion of pension services under our functional portfolio in 2015. This meant not only having to manage an increasing fund size, but also the management of payout for a growing number of pensioners. With the Pension Services Department under our management, it became imperative for us to transition our systems and processes onto the digital platform

for the efficiencies that it provides. Digitalisation of our investment activity began much earlier, with the implementation of two core systems in 2010: the Real-time Electronic Transfer of Funds and Securities System (RENTAS) and Integrated Fund Investment Management System (IFIMS). Along with technological enhancements, these two systems have been continuously updated.

Our assets under management (AUM) has tripled from RM48.08 billion in 2007 to RM140.8 billion in 2017. This in itself is commendable; but it is with greater pride to note that the increase has been driven primarily by our investment performance. Based on sound investment strategies, we have overcome global and domestic financial upheavals to achieve a 9-year total rolling return of 7.32% while our average 10-year return on investment stands at 6.14%.

Underlying this performance has been the ability of our investment team to strike the right balance between seeking attractive yields and maintaining prudence as we adhere to our risk appetite. Diversification of asset types as well as our geographical presence has been an important part of our strategy. This has seen KWAP evolve from investing primarily in conventional assets such as listed equities, bonds, money market instruments and other types of fixed income investments to property and private equities while also venturing into new, high-growth sectors such as technology.

CHIEF EXECUTIVE OFFICER'S STATEMENT

It has been by all means an incredible 10 years, for which credit goes to our people. Without their commitment to our cause – of safeguarding the pensionable years of Malaysian civil servants – we would not have achieved the many successes that we have. Our workforce has increased more than six-fold from 93 staff in 2007 to 577 today. Their contributions, however, have been immeasurable. It is simply not possible to put numbers to their passion, dedication and work principles which have been critical to KWAP's performance. On behalf of the management, I would like to thank every single person who has worked with us – past and present – for making our 10-year journey as wonderful as it has been.

YEAR 2017 IN REVIEW

Following lacklustre outcomes in recent years, and despite rising geopolitical tensions, the economy bounced back in 2017 with notable growth in both developed and developing countries. Along with this recovery, major world indices soared, achieving their best performances since 2013.

Within the region, Malaysia outshone several other economies in terms of gross domestic product (GDP), achieving 5.9% growth as compared to 4.2% in 2016. It was an exciting year for equities, with the FBMKLCI registering a gain of 9.4%, reversing three straight years of negative performance. The local bond market also performed steadily despite concerns over the pace of monetary tightening and risk of portfolio outflows.

ROI in 2017

International property

16.30%

International equity

9.97%

Domestic equity

6.80%

OUR INVESTMENT PERFORMANCE

The economic climate in 2017 presented a conducive environment for KWAP to produce our best performance to date, enabling us to outperform our benchmark while being prudent and responsible in our investments. We surpassed our fund size target, achieving 12.64% growth from RM125 billion in 2016 to RM140.80 billion as at 31 December 2017. This contributed to a five-year average increase of 10.01% per annum, with investment income continuing to be the largest contributor to our asset expansion.

Overall, we achieved a gross return on investment (ROI) of 5.77%, marking an increase from 5.35% in 2016. International property was the highest performing investment with an ROI of 16.30%, followed by international equities which delivered



an ROI of 9.97%, and domestic equities at 6.80%. Other asset classes delivered ROIs between 2.72% and 5.83%.

Highlights of our investment activity for the year included strengthening our technology portfolio, venturing into property development as well as the US equities market.

Overall gross ROI advanced

5.77%

marking an increase of

0.42%

from the preceding year's ROI of 5.35%





Investment in Technology

Having created a presence in the technology space in 2016 with investments in Uber Technologies Inc. (Uber) and venture capital fund DAG Ventures VI LP (DAG VI) which focuses on top quartile US technology companies, this year we added another two highly-rated technology-focused venture capitals based in the region.

In August 2017, we invested in Southeast Asia-based Vickers Venture Fund V LP (Vickers V), which has a global portfolio comprising mainly telecommunications, media and technology companies. Subsequently, in December, we ventured into the Chinese private equity market through investment in China-focused VC fund, Trustbridge Partners VI LP (TBP VI).

Property Development

In March 2017, KWAP entered into our first collaboration with a property developer by acquiring 20% equity stake in Persada Mentari Sdn Bhd, which is developing Phase 2A of Seri Tanjung Pinang 2 (STP2A) in Penang with an estimated Gross Development Value (GDV) of RM19.1 billion. The land is currently undergoing reclamation, and 33.2 acres will be registered under KWAP. The deal was one of the biggest in the property sector in Malaysia in 2017, as noted by property consultants CBRE WTW and Savills Malaysia.¹

Another exciting development was the incorporation in August 2017 of KWEST Sdn Bhd (KWEST), which will serve as our property development arm. Following its establishment, KWEST will oversee our Property Development Section which was previously under our Alternative Investment Department.

¹ As noted in an article published in *The Edge Malaysia* dated 25 December 2017.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Investment in Equities

As part of our strategic international asset allocation initiatives, a US Equity mandate was approved and commenced in July 2017. The objective is to further diversify our international equities portfolio in tandem with our benchmark MSCI All Country World Index, and to leverage ongoing recovery of the developed market. Inclusion of the US into our equities geographic portfolio which already encompassed Asia Pacific, UK and Europe enables us to adopt a more dynamic country allocation strategy based on assessments of each region.

In domestic equities, our team has reorganised our portfolio to support growth plans and future resource allocation. Under the new structure, our portfolio managers will be able to perform their investments more efficiently by identifying targeted stocks and classifying them into distinctive portfolio mandates, synchronising the strategies for each portfolio. Migration to the new structure was executed swiftly and helped to significantly enhance our domestic equities portfolio returns.

Fixed Income Performance

Fixed income has always been a significant part of our portfolio, providing steady and assured returns. Over the last 10 years, as we have increasingly diversified our exposure into more money market instruments, our total assets in fixed income has more than doubled, from RM35.4 billion to RM72.52 billion, providing an average annual growth of 9.44%.

In 2017, we further entrenched our commitment to responsible investing by establishing an ESG Policy and Guidelines for our fixed income fund managers.

External Fund Managers

As at 31 December 2017, the total market value managed by our external fund managers (EFMs) stood at RM17.50 billion, making up 12.45% of our total assets. This marks an increase of 19.9% from the total funds managed by EFMs in 2016. Of this sum, RM7.9 billion was in domestic equities, RM4.18 billion in international equities and RM5.39 billion in fixed income – both domestic and international.

As our EFMs manage increasing volumes of our fund, we are enhancing our EFM portfolio monitoring, and in 2017 KWAP incorporated a Performance Monitoring Matrix into our performance assessment. The new matrix focuses on both the quantitative and qualitative aspects of fund management, and EFMs that fail to meet minimum performance standards will be subjected to performance monitoring on a monthly basis.



OUR OPERATIONAL ACHIEVEMENTS

As part of initiatives to improve operational effectiveness and efficiencies, in 2017 our Equity Department established a Central Dealing Unit (CDU). While segregating the duties of portfolio managers and execution dealers, the CDU will enhance trade execution and transparency as there will be closer monitoring of daily market and stock movements. At the same time, our Research Department introduced a new stock screening methodology which narrows down the best stocks to be included in our stock universe. This was supplemented by a credit rating model to rate current and prospective bond and sukuk investments.

A Step Ahead in ESG

In 2017, KWAP continued to advance our commitment towards ESG investment by establishing ESG Policy and Guidelines for Fixed Income. Under the new system, we are integrating ESG factors into our credit assessment and investment processes. The policy and guidelines also cover our engagement with bond issuers and borrowers to ensure they improve their ESG practices.

As at 31 December 2017, the total market value managed by the domestic External Fund Managers (EFMs) stood at

**RM7.9
billion**

an increase of

+26%



Our efforts to promote responsible stocks are supported by an ESG screening methodology developed by our Research Department through which we will be able to assign ESG ratings to the stocks and issuers that we cover. These ratings will also be used by our Corporate Strategy and Performance Department in their engagement with investee companies.

In terms of investment, we established a Global ESG Equity mandate in March 2017 to be managed by international fund managers. We also made our first socially responsible investment (SRI) into Green Sukuk issued by PNB Merdeka Ventures Sdn Bhd. In addition, we ventured for the first time into the renewable energy sector, by acquiring a 45% stake in Vortex Solar Investments Sàrl (Vortex). Vortex's solar Photovoltaics (PV) technology will lead to a reduction of 126,560 tonnes of CO₂ emissions per annum, cementing our commitment towards environmental sustainability.

We expect our EFMs to reflect our commitment to responsible investing and have embedded an ESG-related clause in our Investment Management Agreement (IMA) which was reviewed in 2017. This is supported by Corporate Level ESG Guidelines for External Fund Managers.

OUR PEOPLE

We aspire to be an employer of choice to be able to attract the best talent, and have been evolving the entire value chain of our human resources (HR) approach – from recruitment to talent development and succession planning – in order to achieve our goal.

Through the KWAP Young Talent (KYT) programme, launched in 2013, we are bringing on board fresh graduates with impressive resumes who undergo a comprehensive graduate management programme aimed at grooming them for leadership positions. This programme has been very successful and is gaining recognition as one of the best of its kind in the country.

We have also been intensifying our training and development programmes for all employees at different grades and levels of their career progression. In 2017, we introduced three new programmes: the Non-Executive Development Programme (NED), Junior Professional Leadership Programme (JPBL), and job rotation. The idea is to empower our people with the skills they need to realise their potential while helping us achieve our corporate goals.

As part of our employee value proposition, we also reviewed our rewards and remuneration scheme to make it competitive. Through the new scheme, we have ensured that our salary packages and benefits are commensurate with job criticality and the skills required to perform them.

MOVING FORWARD

Malaysia's prospects for 2018 remain strong and are expected to augur well for the domestic markets. Despite trailing the double-digit gains observed in regional markets last year, the equities market is likely to benefit from an improving macro-environment and positive sentiment. The

CHIEF EXECUTIVE OFFICER'S STATEMENT



Ringgit's rebound has been supported by strong domestic economic performance that could further support the bond market. More importantly, sustained interest in emerging markets is expected to benefit Malaysia.

KWAP will, of course, capitalise on the positive landscape to further grow our fund. Although managing a growing fund presents its own challenges, I am confident that with the investments we have made to enhance our systems and processes, as well as the care that goes into our talent and capacity-building, we have what it takes to sustain our growth momentum. We have become adept at identifying new and attractive investment opportunities, and will continue in this vein while adhering to our risk appetite. This requires a certain nimbleness which

we have demonstrated time and again, which will keep us on the right track as we advance.

Our long-term directions are driven by a committed team whose disciplined approach has delivered solid performances over the decade, helping to position our organisation for future success. As responsible investment has become fundamental to our management mission, we will gravitate towards ESG issues which lay the foundation for our sustainable growth.

On a personal note, it is a great pleasure to work with a group of people dedicated to excellence. I feel truly honoured to have such a fantastic team with me in KWAP; people who have demonstrated the willingness to go the extra mile for

No. of employees as at end 2017

577

the betterment of the organisation, and those we serve. My fervent wish is for us to continue our good work to ensure KWAP stays true to our values as we achieve our Vision and Mission. In so doing, we can look forward to another decade of creating value for the government, civil servants and all our other stakeholders.



OUR LEADERSHIP

- 36 Board Members
- 50 Investment Panel
- 56 Senior Management

BOARD MEMBERS



From left to right:

Encik Saat Esa

Federal Government Representative

Datuk Siti Zainab Omar

Federal Government Representative

Tan Sri Dr Mohd Irwan Serigar Abdullah

Secretary General of Treasury, Ministry of Finance
(MOF) – Chairman

Dato' Wan Kamaruzaman Wan Ahmad

Chief Executive Officer
Ex-Officio

Dato' Dr Gan Wee Beng

Private Sector Representative

Dato' Siow Kim Lun

Private Sector Representative



Datuk Azih Muda
Contributor Representative

Dato' Azmi Abdullah
Private Sector Representative

Encik Teo Khian How
Federal Government Representative

Encik Adnan Zaylani Mohamad Zahid
Bank Negara Malaysia Representative

Datuk Siti Zauyah Md Desa
Ministry of Finance Representative

Not in picture:
Dato' Che Pee Samsudin
Federal Government Representative
Retired on 15 October 2017

MEMBERS' PROFILE



TAN SRI DR MOHD IRWAN SERIGAR BIN ABDULLAH

Secretary General of Treasury, Ministry of Finance (MOF)
Chairman

Nationality	Malaysian
Age	60
Date of Appointment	1 January 2012
Length of Service	5 years
Date of Last Re-Appointment	1 March 2016

Tan Sri Dr Mohd Irwan Serigar Abdullah was reappointed as Chairman of the Board on 1 March 2016.

He is currently the Secretary General of Treasury, Ministry of Finance and serves as a Director on the Boards of various agencies and government bodies such as Bank Negara Malaysia, Malaysia Airlines System Berhad (MAS), Petroliaam Nasional Berhad (PETRONAS), Mass Rapid Transit Corporation Sdn Bhd (MRT Corp), Khazanah Nasional Berhad, Permodalan Nasional Berhad (PNB), Lembaga Tabung Haji (TH), Wakala Global Sukuk Berhad and Universiti Malaysia Kelantan. He is also the Chairman of Lembaga Hasil Dalam Negeri (LHDN), Cyberview Sdn Bhd, Malaysian Global Innovation and Creativity Centre (MAGIC) and holds an ex-officio position on the Board of Perbadanan Insurans Deposit Malaysia (PIDM).

He obtained his Bachelors Degree with Honours from University of Malaya, Masters of Science from University of Pennsylvania, USA and PhD in Economics from IIUM. He also attended the Advanced Management Program at Harvard Business School, Harvard University, USA.

ENCIK ADNAN ZAYLANI MOHAMAD ZAHID

BNM Representative

Nationality	Malaysian
Age	46
Date of Appointment	7 June 2016
Length of Service	1 year 6 months
Date of Last Appointment	NA

Encik Adnan Zaylani was appointed as a KWAP Board Member on 7 June 2016.

He is currently the Assistant Governor of BNM. He sits on the Board of various organisations including as Chairman of the Board of BNM Sukuk Berhad and a Director of Maybank Ventures Capital.

Encik Adnan obtained his Masters in Global Market Economy and Bachelor of Economics from the London School of Economics and Political Science.



MEMBERS' PROFILE

DATUK SITI ZAUYAH MD DESA

Ministry of Finance Representative

Nationality	Malaysian
Age	58
Date of Appointment	1 March 2016
Length of Service	1 year 9 months
Date of Last Appointment	NA



Datuk Siti Zauyah was appointed as a KWAP Board Member on 1 March 2016.

She is currently the Deputy Secretary General (Policy), Ministry of Finance, Malaysia. She sits on the Board of various government and non-government related organisations such as Johor Corporation, Employees Provident Fund, Bank Kerjasama Rakyat Malaysia Berhad, Majlis Amanah Rakyat (MARA), Govco Holdings Berhad, National Trust Fund, Pengurusan Aset Air Berhad, Felda Global Ventures Holdings Berhad, Felda Holdings Berhad, Bintulu Port Holdings Berhad, Malaysia Digital Economy Corporation Sdn Bhd, International Islamic Trade Asean Infrastructure Fund Limited and International Islamic Trade Finance Corporation.

Datuk Siti Zauyah holds a Bachelor of Science (Honours) in Quantity Surveying from the University of Reading, United Kingdom, a Diploma in Administration from the National Institute of Public Administration (INTAN) and a Masters in Business Administration (International Banking) from University of Manchester, United Kingdom.



DATUK SITI ZAINAB OMAR

Federal Government Representative

Nationality	Malaysian
Age	54
Date of Appointment	1 March 2016
Length of Service	1 year 9 months
Date of Last Appointment	NA

Datuk Siti Zainab was appointed as a KWAP Board Member on 1 March 2016. She is currently the Head of the Advisory Division of the Attorney General's Chambers.

Datuk Siti Zainab read Law and obtained an LLB (Hons) from University of Essex, United Kingdom and was admitted to the Bar of England & Wales (Grays's Inn) in 1986. In 1998, she was admitted to the Malaysian Bar as an Advocate & Solicitor.

Datuk Siti Zainab started her illustrious career in the Judicial and Legal Service of Malaysia in 1987 as Deputy Public Prosecutor in the Prosecution Division of the Attorney General's Chambers. From thereon, she has served in various capacities in a few other government agencies including being Treasury Solicitor in the Ministry of Finance. In 2007, she was appointed as the State Legal Advisor of Malacca. Thus, she has wide legal experience in dealing with privatisation projects and many legal spheres including constitutional, finance and Islamic finance, construction and contract law.

During her tenure, Datuk Siti Zainab has also been a Director on many Boards such as Syarikat Air Melaka Berhad, Kumpulan Melaka Berhad (KMB), Perbadanan Kemajuan Negeri Melaka (PKNM), Syarikat Perumahan Negara Berhad, Usahasama SPNB-LTAT Sdn Bhd, Sepang International Circuit Sdn Bhd, Indah Water Consortium, and a member of many other statutory bodies. She has also contributed as a member of many governmental and non-governmental committees including the Law Harmonization Committee in Islamic Finance established by Bank Negara Malaysia and the Steering Committee on Establishment of State Owned Enterprises and Government-Linked Companies law under Khazanah Nasional Berhad.

MEMBERS' PROFILE



ENCIK SAAT ESA

Federal Government Representative
(Appointed w.e.f. 16 October 2017)

Nationality	Malaysian
Age	58
Date of Appointment	16 October 2017
Length of Service	2.5 months
Date of Last Appointment	NA

Encik Saat Esa was appointed as a KWAP Board Member with effect from 16 October 2017. He is currently the Accountant General of Malaysia.

Encik Saat holds directorship in the Custodian of National Water Assets. He began his career as an accountant in the government sector in 1983. His extensive experience includes serving various ministries and government agencies, including the Ministry of Home Affairs, Ministry of Education, Bintulu Port Authority, the Fisheries Development Authority of Malaysia (LKIM) and the Selangor State's Treasury.

Encik Saat Esa holds a Bachelor with Honours Degree in Accounting. He is a holder of a Masters of Business Administration from Universiti Putra Malaysia and Aix-Marseille University, France. He is also a certified Chartered Accountant (CA) and a member of the Malaysian Institute of Accountants (MIA).

ENCIK TEO KHIAN HOW

Federal Government Representative
(Appointed w.e.f. 28 February 2017)

Nationality	Malaysian
Age	57
Date of Appointment	28 February 2017
Length of Service	10 months
Date of Last Appointment	NA

Encik Teo Khian How was appointed as a KWAP Board Member on 28 February 2017.

He is currently Director, Post Service Division, Public Service Department.

He obtained his Masters in Science Policy from Saitama University, Japan and Bachelor of Arts (Honors) from Universiti Kebangsaan Malaysia.



MEMBERS' PROFILE

DATO' SIOW KIM LUN

Private Sector Representative

Nationality	Malaysian
Age	67
Date of Appointment	1 March 2007
Length of Service	10 years 9 months
Date of Last Re-Appointment	1 March 2016

Dato' Siow Kim Lun was reappointed as a KWAP Board Member on 1 March 2016. He is currently a Director on the Boards of Citibank Berhad, UMW Holdings Berhad, Sunway Construction Group Berhad, Eita Resources Berhad, Hong Leong Assurance Berhad and Eco World International Berhad.

He obtained his Bachelor's Degree (Hons) in Economics from Universiti Kebangsaan Malaysia, Masters in Business Administration from the Catholic University of Leuven, Belgium and attended the Advanced Management Program at Harvard Business School, USA.





Dato' Azmi Abdullah was reappointed as a KWAP Board Member on 1 March 2016. He is currently an Independent Non-Executive Director of Bank Muamalat Malaysia Berhad where he is Chairman of the Remuneration and Board Risk Management Committees and member of Nomination, Board Audit and Veto. He is presently a Director of Amanah Raya Berhad, Ireka Corporation Berhad, Transnational Insurance Brokers Sdn Bhd, ECS Solution Sdn Bhd and Bayo Pay Sdn Bhd.

DATO' AZMI ABDULLAH

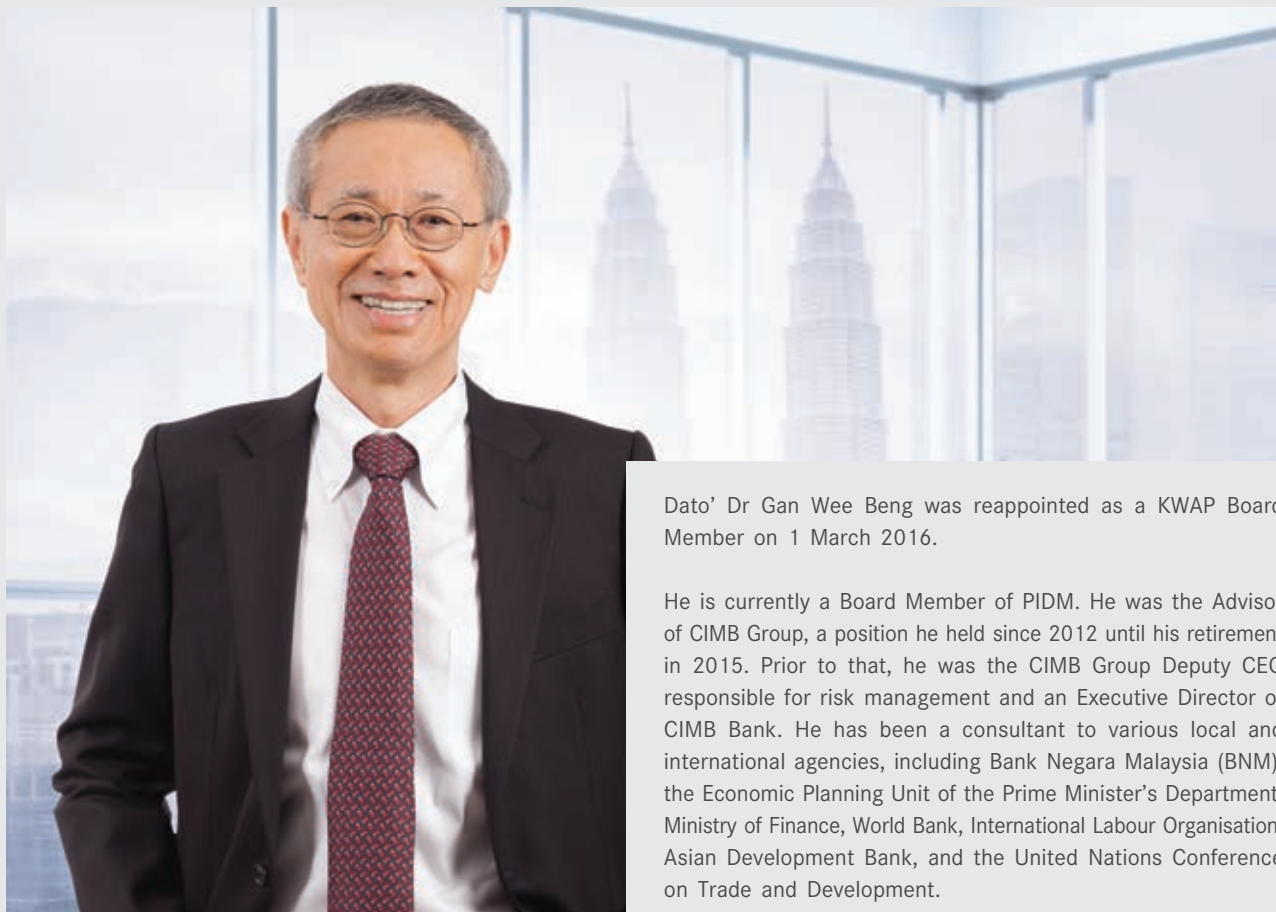
Private Sector Representative

Nationality	Malaysian
Age	66
Date of Appointment	20 September 2012
Length of Service	5 years 2 months
Date of Last Re-Appointment	1 March 2016

Dato' Azmi is also Chairman of the Investment Committee of Amanah Raya Berhad. Prior to joining Bank Muamalat, he was the First Managing Director and Chief Executive Officer of SME Bank for more than four years and the Managing Director and Chief Executive Officer of Bumiputera-Commerce Bank Berhad, where he served for more than 26 years in various departments.

He obtained a Bachelor of Arts (Hons) Degree in Economics and a Honorary Doctorate in Business Administration from Universiti Kebangsaan Malaysia (UKM).

MEMBERS' PROFILE



Dato' Dr Gan Wee Beng was reappointed as a KWAP Board Member on 1 March 2016.

He is currently a Board Member of PIDM. He was the Advisor of CIMB Group, a position he held since 2012 until his retirement in 2015. Prior to that, he was the CIMB Group Deputy CEO responsible for risk management and an Executive Director of CIMB Bank. He has been a consultant to various local and international agencies, including Bank Negara Malaysia (BNM), the Economic Planning Unit of the Prime Minister's Department, Ministry of Finance, World Bank, International Labour Organisation, Asian Development Bank, and the United Nations Conference on Trade and Development.

He was a member of BNM's Working Group on Market Risk Capital Adequacy Framework and a member of the National Economic Advisory Committee on Price Control and Subsidies.

Prior to joining CIMB Bank, Dato' Dr Gan was a Senior Adviser (Economics) for the Monetary Authority of Singapore besides having held the position of Associate Professor at the University of Malaya. He is also a recipient of the Tun Abdul Razak Foundation Award for Best Published Article in an academic journal. He holds Bachelor's and Masters' degrees in Economics from the University of Malaya and obtained his PhD from the University of Pennsylvania, USA.

DATO' DR GAN WEE BENG

Private Sector Representative

Nationality	Malaysian
Age	70
Date of Appointment	1 March 2013
Length of Service	4 years 9 months
Date of Last Re-Appointment	1 March 2016

DATUK AZIH MUDA

Contributor Representative

Nationality	Malaysian
Age	60
Date of Appointment	20 December 2013
Length of Service	4 years
Date of Last Re-Appointment	1 March 2016

Datuk Azih Muda was reappointed as a KWAP Board Member on 1 March 2016. He is currently the President of CUEPACS or the Congress of Union of Employees in the Public and Civil Services Malaysia. It is a national trade union centre in Malaysia with membership of 1,200,000 people.

He is also the President of the Amalgamated National Union of Local Authorities Employees (Anulae), a member of the National Council for Occupational Safety and Health and a member of the National Cost of Living Council.



MEMBERS' PROFILE

DATO' CHE PEE SAMSUDIN

Federal Government Representative
(Retired on 15 October 2017)

Nationality	Malaysian
Age	60
Date of Appointment	15 February 2015
Length of Service	2 years 8 months
Date of Last Re-Appointment	1 March 2016

Dato' Che Pee was reappointed as a KWAP Board Member on 1 March 2016. He retired as KWAP's Board Member on 15 October 2017 due to retirement from government service.





DATO' WAN KAMARUZAMAN WAN AHMAD

Chief Executive Officer

Ex-Officio

Nationality	Malaysian
Age	58
Date of Appointment	2 May 2013
Length of Service	4 years 7 months
Date of Last Re-Appointment	2 May 2017

Dato' Wan Kamaruzaman was reappointed as KWAP's Chief Executive Officer on 2 May 2017. He holds directorships in Valuecap Sdn Bhd, Malakoff Corporation Berhad and KWAP's subsidiary in London, Prima Ekuiti (UK) Limited.

Prior to joining KWAP, he served as the General Manager of the Treasury Department of the Employees Provident Fund (EPF) since October 2007. He began his professional career with Malayan Banking Berhad in 1981, mostly in the Treasury Department with two overseas postings in Hamburg, Germany as the Chief Dealer, and in London as Treasury Manager. After leaving Maybank in 1994, he served as CEO and Director in several companies within the Affin Group until 2005. He then briefly served Kemuncak Facilities Management Sdn Bhd and Izoma (M) Sdn Bhd, both as Executive Director of Finance until 2007.

Dato' Wan Kamaruzaman is currently Chairman of the Institutional Investors Council Malaysia (IIC) and a Board member of the Minority Shareholder Watchdog Group (MSWG), and was recently appointed as a Board member of Bond and Sukuk Information Platform Sdn Bhd. He is also a member of the Financial Stock Exchange – Environmental, Social and Governance (ESG) Advisory Committee in London, as well as the Institute of Integrity Malaysia. In addition, he is a corporate member of the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA).

Dato' Wan Kamaruzaman holds a Bachelor of Economics majoring in Analytical Economics (Hons) from the University of Malaya.

INVESTMENT PANEL



From left to right:

Datuk Abdul Farid Alias
Private Sector Representative

Dato' Mohammed Azlan Hashim
Chairman

Dato' Dr Yusof Ismail
Ministry of Finance Representative



Tan Sri Dr Ong Hong Peng
Private Sector Representative

Dato' Wan Kamaruzaman Wan Ahmad
(Secretary)
Chief Executive Officer

Encik Mohamed Nazri Omar
Private Sector Representative

Encik Johari Abdul Muid
Private Sector Representative

INVESTMENT PANEL'S PROFILE



DATO' MOHAMMED AZLAN HASHIM
Chairman

Dato' Mohammed Azlan Hashim was appointed as Chairman of the Investment Panel effective 1 June 2015.

He was previously a member of KWAP Investment Panel since 2010 as a private sector representative. He is the Chairman of several public listed entities including D&O Green Technologies Berhad, SILK Holdings Berhad, Scomi Group Berhad and is Deputy Chairman of IHH Healthcare Berhad. He sits on the Board of various government and non-government related organisations including Khazanah Nasional Berhad and Labuan Financial Services Authority.

He holds a Bachelor of Economics from Monash University, Australia and a qualified Chartered Accountant (Australia). He is a Fellow Member of the Institute of Chartered Accountants, Australia, member of Malaysian Institute of Accountants, Fellow Member of the Malaysian Institute of Directors, Fellow Member of the Malaysian Institute of Secretaries and Administrators and an Honorary Member of the Institute of Internal Auditors Malaysia.



DATO' DR YUSOF ISMAIL
Ministry of Finance's Representative

Dato' Dr Yusof Ismail was appointed as a member of the Investment Panel effective 15 May 2016.

He is currently the Under Secretary of Strategic Investment Division, Ministry of Finance. He served various positions in the Government including Special Officer to the Secretary General of Treasury, Energy Section of the Economic Planning Unit of the Prime Minister's Department and Deputy Director of the Manufacturing Industry Science and Technology Section, amongst others. In June 2013, he was appointed as the Deputy Chief Executive Officer of the Planning and Development Division of Lembaga Pembangunan Langkawi (LADA). He then returned to the Ministry of Finance in 2015 as Deputy Secretary of the Government Investment Company Division. He currently holds directorships in Lembaga Kemajuan Tanah Persekutuan (FELDA), GOVCO Holdings Berhad, AgroBank, Turus Pesawat Sdn Bhd, Sentuhan Budiman Sdn Bhd, Twin Eagles Ventures Sdn Bhd, DanaInfra Nasional Bhd, MRL Sdn Bhd, SSER Sdn Bhd, and Perbadanan PRIMA Malaysia.

He holds a Doctorate Degree (PhD) in Community Development from Universiti Putra Malaysia.



TAN SRI DR ONG HONG PENG

Private Sector Representative

Tan Sri Dr Ong Hong Peng was appointed as a member of the Investment Panel effective 15 March 2017.

Tan Sri Dr Ong Hong Peng is currently Chairman of the National Academy of Arts, Culture and Heritage (ASWARA) and a Board Member of Sepang International Circuit (SIC). He started his career in the civil service as an Assistant Director of the Public Service Department from 1981 to 1991. He served at the National Institute of Public Administration (INTAN) for four years and at the Economic Planning Unit, Prime Minister's Department for eight years. He also served as Secretary General, Ministry of Tourism and Culture, Malaysia for eight years.

Tan Sri Dr Ong holds a Masters in Economics from Hiroshima University, Japan and a PhD in Economics from Michigan State University, USA.



DATUK ABDUL FARID ALIAS

Private Sector Representative

Datuk Abdul Farid Alias was appointed as a member of the Investment Panel effective 1 October 2013.

He is currently the President and Chief Executive Officer/ Executive Director of Maybank Group.

He is the President Commissioner of PT Bank Maybank Indonesia Tbk as well as member of the Board of Directors of Etiqa International Holdings Sdn Bhd, Cagamas Holdings Berhad (Malaysia's national mortgage corporation), Payments Network Malaysia Sdn Bhd, STF Resources Sdn Bhd and Asian Banking School Sdn Bhd. He is Chairman of The Association of Banks in Malaysia (ABM), as well as Vice Chairman and a Fellow, Chartered Bankers of the Asian Institute of Chartered Bankers (AICB) and the Chartered Banker Institute (CBI) in the United Kingdom.

In addition, he is a member of the Asian Bankers Association (ABA) Policy Advocacy Committee and Emerging Markets Advisory Council (EMAC) of The Institute of International Finance based in Washington, DC. He was appointed a member of the ASEAN Business Advisory Council (ASEAN-BAC) Malaysia in 2016 and more recently, a Lee Kuan Yew Exchange Fellow under the Lee Kuan Yew Exchange Fellowship Programme of Singapore.

He holds a Masters of Business Administration (Finance) from University of Denver, USA and a Bachelor of Science in Accounting from Pennsylvania State University, USA. He also attended Harvard Business School's Advanced Management Program at Harvard University.

INVESTMENT PANEL'S PROFILE



ENCIK JOHARI ABDUL MUID

Private Sector Representative

Encik Johari Abdul Muid was appointed as a member of the Investment Panel effective 20 October 2015.

He is currently a Board Member of Bursa Malaysia Berhad, Malaysia DEBT Ventures, Nomura Asset Management Malaysia Sdn Bhd and Nomura Islamic Asset Management Malaysia Sdn Bhd. He started his career in CIMB Investment Bank Berhad in the Treasury Division, then joined CIMB Securities Sdn Bhd as the Senior Vice President for Institutional Sales. After serving CIMB Group for 20 years, he joined Valuecap Sdn Bhd as its Chief Investment Officer for a year before joining the Employees Provident Fund (EPF) as its Chief Investment Officer (Equity). He was promoted and became the Deputy CEO for Investment Division and later became the Deputy CEO of Pension Policy and Corporate Planning. After eight years of serving the EPF, he left to join RHB Bank Berhad as its Managing Director and retired in 2013.

He is a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom.



ENCIK MOHAMED NAZRI OMAR

Private Sector Representative

Encik Mohamed Nazri Omar was appointed as a member of the Investment Panel effective 1 May 2016.

He is currently the Managing Director/Chief Executive Officer of Danajamin Nasional Berhad, effective 1 May 2014. His corporate career has been within the financial industry, particularly in corporate banking and capital markets. He started his career at Citibank Berhad and subsequently served in Macquarie Bank Limited as well as RHB Sakura Merchant Bankers Berhad (currently known as RHB Investment Bank Berhad). Before joining Danajamin, he served in several capacities while at Kuwait Finance House (M) Bhd, which included Director of Investment Banking and Head of Capital Markets and Advisory.

Encik Nazri holds a Bachelor of Arts Degree majoring in Economics (Hons) and Government from Cornell University, USA.

**DATO' WAN KAMARUZAMAN WAN AHMAD**

Secretary

Dato' Wan Kamaruzaman Wan Ahmad was appointed as Secretary to the Investment Panel on 2 May 2013.

SENIOR MANAGEMENT



From left to right:

Hamkhushairi Jahari
Director, Internal Audit Department

Siti Ilmiah Ramli
Director, Human Resource Department

Syed Ali Haider Syed Shahabuddin
Director, Legal and Secretarial Department

Nazaiful Affendi Zainal Abidin
Director, Portfolio Strategy Department

Zalman Ismail
Director, Alternative Investments Department

Md Saffi Nadzir
Senior Director, Pension Services Department

Nik Ahmad Fauzan Nik Mohamed
Chief Operating Officer

Dato' Wan Kamaruzaman Wan Ahmad
Chief Executive Officer



Nik Amlizan Mohamed

Chief Investment Officer

Taufiq Iskandar Jamingan

Director, Equity Department

Azmeen Adnan

Director, Fixed Income Department

Tursina Yaacob

Director, Research Department

Ismail Zakaria

Director, Corporate Strategy and
Performance Department

Khairul Azwa Kamalul Bahrin

Director, Risk Management and Compliance
Department

Najihah Mohd Norwi

Director, Accounts and Management
Services Department

Ambalagam R. Marappan

Director, Contribution Department

SENIOR MANAGEMENT'S PROFILE



1

1 DATO' WAN KAMARUZAMAN WAN AHMAD
Chief Executive Officer

Dato' Wan Kamaruzaman Wan Ahmad is currently the Chief Executive Officer of Kumpulan Wang Persaraan (Diperbadankan) [KWAP], a position he has served since 2 May 2013.



2

2 NIK AMLIZAN MOHAMED
Chief Investment Officer

Nik Amlizan assumes her current role as the Chief Investment Officer of Kumpulan Wang Persaraan (Diperbadankan) (KWAP) in September 2014. Prior to the appointment, she was the Senior Director/Head of Equity. Her current responsibilities include strategising, developing and overseeing investment functions for KWAP across all asset classes namely, Equity, Fixed Income Securities, and Alternative Investments that include Private Equity, Property and Infrastructure. Her investment team also handles the Strategic Asset Allocation development, the Investment Policy and Guidelines, Performance Matrix and the selection of the investment related counterparties, amongst others.

She currently sits on the Board of Directors for Prestariang Berhad, Prima Ekuiti (UK) Limited (a wholly owned subsidiary of KWAP), i-VCap Management Sdn Bhd and Harta Integra Berkat Sdn Bhd. She is a member of the Institute of Integrity Malaysia since 2015.



3

3 NIK AHMAD FAUZAN NIK MOHAMED
Chief Operating Officer

Nik Ahmad Fauzan was appointed as Chief Operating Officer of KWAP in September 2015.

He has over 20 years of experience in conglomerates and the financial industry. Prior to joining KWAP, he was the Group Head Corporate Services of Pos Malaysia Berhad.

He obtained his Bachelors of Accountancy degree from the George Washington University, USA and an MBA in Finance and Investments from the same institution.



4

ZALMAN ISMAIL

Director, Alternative Investments Department

Zalman Ismail has over 20 years of experience in credit rating, equity research, corporate finance, and business development of telecommunications, property, healthcare, and the commodities industry. Prior to joining KWAP, he was the Head of Strategy and Business Development for Sime Darby Property Berhad. He is a Board member of Jambatan Kedua Sdn Bhd, Munchy Food Industries Sdn Bhd, and an Alternate Director of Malakoff Corporation Berhad.

He graduated with a BBA in Finance (Honours: Magna Cum Laude) from Eastern Michigan University, USA.



5

AZMEEN ADNAN

Director, Fixed Income Department

Azmeen Adnan has 20 years of experience in the banking and asset management industry having covered the areas of investment, treasury, sales, and product development. Prior to his current position, he was the Chief Executive Officer of Maybank Islamic Asset Management Sdn Bhd.

He is a member of Persatuan Pasaran Kewangan Malaysia. He obtained his BSc in Business Administration from the University of Denver in Colorado, USA.



6

TAUFIQ ISKANDAR JAMINGAN

Director, Equity Department

Taufiq has 10 years of experience in fund management. Prior to his appointment as Director of Equity Department, he was the Principal Officer of Prima Ekuiti (UK) Limited – a wholly owned subsidiary of KWAP in London.

From his initial background of fund management at Permodalan Nasional Berhad, Taufiq built his experience in investment, particularly in international equities.

He obtained both an LLB (Law) and Graduate Diploma in Business Management from the London School of Economics & Political Science (LSE), United Kingdom. He is also a member of Lincoln's Inn.



7

NAZAIFUL AFFENDI ZAINAL ABIDIN

Director, Portfolio Strategy Department

Nazaiful Affendi has 19 years of experience in capital markets including roles in research, market analysis and strategy with exposure in equity, fixed income and commodity. Prior to joining KWAP, he was an economist with the Securities Commission.

He graduated with a BBA (Hons) in Finance/Economics from the International Islamic University Malaysia and obtained an MBA in Finance from the same institution. He attended the 4th ASEAN Senior Management Development Program held in June and July 2011.

SENIOR MANAGEMENT'S PROFILE



8 TURSINA YAACOB
Director, Research Department

Tursina has 18 years of experience as an investment analyst covering various sectors in the domestic and global landscape. Sectors specialisation includes oil & gas, utilities, telecommunications, consumer products, automotive, commodities, and Islamic finance industry.

She obtained her BA (Hons) in Financial Economics from Coventry University, United Kingdom and an MBA (Strategic Management) from Universiti Teknologi Malaysia.

9 KHAIRUL AZWA KAMALUL BAHRIN
Director, Risk Management and Compliance Department

Khairul has over 20 years of experience in risk management and banking. Prior to joining KWAP, he was with OCBC Bank (Malaysia) Berhad.

He obtained his LLB (Hons) from the University of Liverpool, United Kingdom and an MBA Management from the University of Wales, Cardiff, United Kingdom. He is also a Certified Financial Risk Manager (FRM), Global Association of Risk Professionals.

10 ISMAIL ZAKARIA
Director, Corporate Strategy and Performance Department

Ismail has 18 years of experience in financial and corporate strategy specialising in business transformation. Prior to joining KWAP, he served in Group Strategy, Sime Darby Berhad. He is currently Chairperson of the Governance & Policy Working Group, Institutional Investors Council Malaysia.

He obtained his Bachelor of Commerce (Accounting & Finance) from the University of New South Wales, Australia.

11 SYED ALI HAIDAR SYED SHAHABUDDIN
Director, Legal and Secretarial Department

Syed Ali has 20 years of experience in legal practice. Prior to joining KWAP, he was the Head of Legal in KAF Investment Bank Berhad.

He graduated with an LLB (Hons) from the University of Glamorgan, Wales, United Kingdom and obtained his Certificate of Legal Practice from the Legal Profession Qualifying Board, Malaysia.



12 **SITI ILMIAH RAMLI**

Director, Human Resource Department

Siti Ilmiah has over 20 years of experience as a legal practitioner in a non-profit organisation and as a human resource practitioner in local and foreign organisations in Malaysia. Prior to this, she had served in Maybank Berhad.

She graduated with an LLB (Hons) from the University of London, United Kingdom and holds a Certificate of Legal Practice from the Legal Profession Qualifying Board, Malaysia.

13 **HAMKHUSHAIRI JAHARI**

Director, Internal Audit Department

Director of Internal Audit Department since October 2017, Hamkhushairi has 17 years of experience in the banking industry. Prior to joining KWAP, he was the Senior Country Audit Manager at Standard Chartered Bank Malaysia Berhad and Senior Risk Manager at Perbadanan Insurans Deposit Malaysia. He also spent a considerable number of years with Bank Negara Malaysia as a Senior Supervisor.

He graduated with a Bachelor of Accountancy from the University of Malaya, Kuala Lumpur and obtained a Certificate in Internal Audit and Business Risk from the Chartered Institute of Internal Auditors, United Kingdom. He is a Chartered Accountant under the Malaysian Institute of Accountants and a member of the Chartered Institute of Internal Auditors, United Kingdom.

14 **MD SAFFI NADZIR**

Senior Director, Pension Services Department

Md Saffi has 27 years of experience as an accountant. Prior to joining KWAP, he served in several government departments and statutory bodies.

He graduated with a Bachelor's Degree in Accounting from Universiti Teknologi MARA and obtained his MBA from Universiti Utara Malaysia. He is a Chartered Accountant with the Malaysian Institute of Accountants.

15 **AMBALAGAM R. MARAPPAN**

Director, Contribution Department

Ambalagam has 34 years of experience as an accountant. Prior to joining KWAP, he served in several divisions and branches within the Accountant General's Department.

He obtained his Bachelor's Degree (Hons) in Accounting from the University of Malaya and an MBA (Finance and International Studies) from the same institution. He is a Chartered Accountant with the Malaysian Institute of Accountants and a member of HBSACM (Harvard Business School Alumni Club of Malaysia).

16 **NAJIHAH MOHD NORWI**

Director, Accounts and Management Services Department

Najihah has 18 years of experience as a corporate accountant in sectors such as insurance, IT, utilities, and infrastructure. Prior to joining KWAP, she was the corporate accountant at MMC Berhad.

She is a professional accountant, a member of CPA Australia and graduated with a Bachelor of Business (Accounting and Finance) from Monash University, Australia.



CORPORATE GOVERNANCE

- 63 Statement on Corporate Governance
- 73 Statement of Internal Control
- 76 New Policies, Guidelines and Certifications
- 78 New Governance Initiatives

STATEMENT ON CORPORATE GOVERNANCE

Year 2017 signifies
a decade of KWAP's
journey since its
establishment
in 2007.

Throughout the decade-long journey, the Board of KWAP has continuously striven to adopt best practices in corporate governance in all of KWAP's processes and operations. These are evident in KWAP's initiatives to take part in promoting good corporate governance, namely through:

- 1 the establishment of KWAP's Corporate Governance: Principles and Voting Guidelines (Second Edition) in 2014
- 2 becoming a signatory to the Malaysian Code for Institutional Investors in 2015
- 3 the introduction of Corporate Level ESG Guidelines, ESG Guidelines for Investment, and ESG-Based Research Methodology in 2016

In remaining resilient and relevant as a pension fund that is progressive and truly engaged with its stakeholders, selected Board and Investment Panel members of KWAP have also visited other global pension funds and related organisations to share knowledge and exchange views in relation to managing retirement schemes including:

- California Public Employees' Retirement System (CalPERS) and California State Teacher's Retirement System (CalSTRS) in 2010 and 2017;
- PT Jamsostek (Persero), Indonesia in 2011; and
- Australian Prudential Regulation Authority, Victoria State Government and Retirement Home Operators in Australia in 2015.

The Board has also participated in several local and international programmes as part of the transformation and modernisation plan for KWAP. These include the Global Transformation Forum, the International Corporate Governance Network 2017 which was also hosted by KWAP, and the World Pension Summit at the Hague, Netherlands to equip the organisation in becoming a more progressive, proactive, and sustainable pension fund.

Among the changes approved by the Board in 2017 was the Revision of the Board Charter to reflect the changes to the Act, latest processes and practices within KWAP, and to imbue principles of good governance as well as the Investment Policy and Guidelines.

COMPOSITION OF THE BOARD

KWAP's Board comprises qualified, experienced, and skillful members with mixed backgrounds from the Government, Private Sector, Bank Negara Malaysia, and Contributor's representative, which are important for the overall strategic achievements of KWAP.

Section 6 of Act 662 stipulates that the Board shall consist of the following members, to be appointed by the Minister of Finance:

- (i) a Chairman who shall be the Secretary General of Treasury, the Ministry of Finance;
- (ii) a representative from Bank Negara Malaysia;
- (iii) a representative from the Ministry of Finance;

STATEMENT ON CORPORATE GOVERNANCE

- (iv) the Chief Executive Officer who shall be an ex-officio member;
- (v) three (3) representatives of the Government of Malaysia;
- (vi) three (3) other persons from the private sector with experience and expertise in business or finance; and
- (vii) a representative of the contributories to the Retirement Fund other than the representative of the Government of Malaysia.

A brief profile of each Board member is presented on pages 38 to 49 of this Annual Report.

In 2017, one (1) new Board member was appointed on 28 February 2017 to fill the vacancy under Section 6(4)(3) of the Act, as the representative of the Government of Malaysia, Encik Teo Khian How, the Director of Post Service Division of Public Service Department of Malaysia, replaced Dato' Yeow Chin Kiong who retired on 5 November 2016.

Another vacant Board seat under Section 6(4)(e) of the Act, due to the retirement of Dato' Che Pee Samsudin on 15 October 2017, was filled in the same year by Encik Saat Esa, the Accountant General of Malaysia effective, 16 October 2017.

Meanwhile, another Board member, Encik Adnan Zaylani Mohamad Zahid is currently on study/sabbatical leave since 1 September 2017 and the necessary arrangements had been made to appoint a representative from Bank Negara Malaysia in the interim.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As required under the Act and as part of good governance and best practices, the roles of the Chairman and the Chief Executive Officer of KWAP are distinct and separated.

The Chairman is principally responsible for ensuring effectiveness and conducting Board meetings while the Chief Executive Officer of KWAP, duly appointed by the Board with the approval of the Minister of Finance, is responsible for the daily operations, administration, and management of KWAP which includes overseeing the overall operations of the business and the implementation of policies and decisions made by the Board and the investment decisions made by the Investment Panel in accordance with the Act. The Chief Executive Officer is assisted by the management in handling the day-to-day administration of KWAP and its employees. The Chief Executive Officer is also an ex-officio member of the Board.

RESPONSIBILITIES AND ACCOUNTABILITIES OF THE BOARD

Under Section 6 of Act 662, the Board is entrusted with the responsibility for the administration and management of KWAP. This establishment of the Board is therefore to administer, set the strategic directions, and oversee the management of KWAP with a focus on protecting and enhancing the interests of its contributors and stakeholders.

In line with its statutory responsibility and as part of its functions, the Board formulates and determines administration and management policies and procedures to ensure KWAP achieves its objectives with success and excellence.

The Board assumes a number of specific tasks such as overseeing the proper conduct of operations, identifying principle risk areas and ensuring the proper implementation of appropriate systems to manage these risks as well as reviewing the adequacy and integrity of the internal control systems as specified in the Act and the Board Charter.

COMPONENTS OF AN EFFECTIVE BOARD

<i>Structuring a high-performing Board</i>	<ul style="list-style-type: none"> Structures the Board to match the organisation's requirements. Defines committees' roles, structure, and composition to complement the Board's requirements. Selects and nominates Board Members using a disciplined process. Evaluates the Board as a whole and each Board Member regularly.
<i>Ensuring effective Board operations and interactions</i>	<ul style="list-style-type: none"> Makes each Board meeting productive. Ensures the quality and timeliness of all Board information. Builds trust via positive Board interaction dynamics and open communication within the Board and with the management.
<i>Fulfilling the Board's fundamental roles and responsibilities</i>	<ul style="list-style-type: none"> Contributes to developing corporate strategy and setting of targets. Upholds a strong corporate performance management approach. Oversees development of the company's future leaders and human capital. Understands and manages the organisation's risks. Adopts a shareholders' perspective when making decisions. Balances valid stakeholder interests.

Board Meetings

During the financial year 2017, nine (9) Board meetings were held.

A summary of attendance of the Board Members is set out below:

No.	Name	Attendance	No.	Name	Attendance
1.	Tan Sri Dr Mohd Irwan Serigar Abdullah <i>Chairman</i>	9/9	7.	Encik Adnan Zaylani Mohamad Zahid <i>(*on study leave from 30 September 2017)</i>	7/9*
2.	Dato' Che Pee Samsudin <i>(*Retired on 15 October 2017)</i>	6/7	8.	Dato' Siow Kim Lun	9/9
3.	Encik Saat Esa <i>(*Appointed on 16 October 2017)</i>	0/2*	9.	Dato' Azmi Abdullah	8/9
4.	Datuk Siti Zauyah Md Desa	7/9	10.	Dato' Dr Gan Wee Beng	9/9
5.	Datuk Siti Zainab Omar	9/9	11.	Datuk Azih Muda	8/9
6.	Encik Teo Khian How <i>(*Appointed on 28 February 2017)</i>	6/7*	12.	Dato' Wan Kamaruzaman Wan Ahmad	9/9

STATEMENT ON CORPORATE GOVERNANCE

In circumstances where an immediate and urgent decision is required, and the Secretary is unable to convene a meeting, approval may be sought via a circular sent to all members of the Board. Decisions via circularisation requires majority approval which will be reported during the following Board meeting for ratification.

Among the Board's key activities for 2017 are as follows, which are within its powers as specified in Section 12 (1) of Act 662:

No.	Scope of Board's Responsibilities and Accountabilities as Provided by The Act	Board's Duties/Activities for year 2017
1.	To establish procedures with respect to financial and accounting matters, including keeping, closing, and auditing of KWAP accounts and the creation of its own financial and accounting procedures.	<ul style="list-style-type: none"> Approved KWAP's Audited Financial Statements for Financial Year 2016. Approved KWAP's Expenditure Budget for Financial Year 2018. Approved the Supplementary Budget on Property Related Expenditure of CapSquare Tower at 10 Jalan Munshi Abdullah Kuala Lumpur.
2.	To prescribe the responsibilities of the employees of KWAP including matters in respect of remuneration, terms and conditions of service, period of service, and leave of its employees.	<ul style="list-style-type: none"> Approved the Renewal of Contract of the Chief Executive Officer and several Heads of Department of KWAP. Approved the Proposal for Salary Adjustment for Employees of KWAP.
3.	To establish appropriate disciplinary authorities with respect to the conduct and discipline of the employees of KWAP.	<ul style="list-style-type: none"> Nil.
4.	To establish committees and procedures of such committees.	<ul style="list-style-type: none"> No new Committee was established in 2017.
5.	To regulate its internal procedures including procedures relating to operational matters.	<ul style="list-style-type: none"> Approved the Revised Board Charter. Approved the Revised KWAP Investment Policy and Guidelines. Approved the Replacement of Existing Risk Management and Compliance Framework with New Policies. Approved the Market Risk Management Policy. Approved the Market Risk Value-at-Risk Policy. Approved the Credit Risk Management Policy. Approved the Market Risk Stress Testing Policy.
6.	To prescribe the manner in which documents, cheques and instruments of any description shall be signed or executed on behalf of KWAP.	<ul style="list-style-type: none"> Nil.
7.	To provide for all matters which are required to be prescribed or which are necessary or expedient to give effect to and for the purposes of carrying into effect the provisions of the Retirement Fund Act 2007 (Act 662).	<ul style="list-style-type: none"> Approved the Appointment of Panel Solicitors, External Fund Managers and Vendors.

THE INVESTMENT PANEL

The Act also requires the establishment of an Investment Panel – a body which is responsible for matters pertaining to the investment of the Fund established under Section 7(1) of the Act. It therefore functions to provide strategic direction on all investment matters as well as determines and approves investment policy & guidelines, policies on risk management, asset allocation, and strategic directions on investment.

Composition of the Investment Panel

The Investment Panel shall consist of the following members, as stipulated in Section 7(2) of the Act, who shall be appointed by the Minister of Finance:-

- (i) a Chairman who shall be the Chairman of the Board or such other person as may be appointed by the Minister of Finance (Section 7(2)(a) of the Act);
- (ii) a representative from the Ministry of Finance (Section 7(2)(c) of the Act);
- (iii) the Chief Executive Officer of KWAP who shall be the secretary (Section 7(2)(d) of the Act); and
- (iv) Four (4) other persons from the public or private sector with experience and expertise in business, investment, banking and finance (Section 7(2)(e) of the Act).

One (1) notable change to the composition of the Investment Panel in 2017 was the appointment of Tan Sri Dr Ong Hong Peng who was appointed, effective 15 March 2017, as one (1) of the four (4) representatives from the public or private sector with experience and expertise in business, investment, banking and finance as per Section 7(2)(e) of the Act.

A brief profile of each Investment Panel member is presented on pages 52 to 55 of this Annual Report.

Primary Duties and Responsibilities of the Investment Panel

The Investment Panel is governed by Section 7(1) of the Act and is primarily responsible to approve, among other things, KWAP's strategic direction in relation to all investment matters which includes investment policy, guidelines, asset allocation strategy as well as the direction for all investment proposals. In executing its function, the Investment Panel shall report its activities to the Board and shall act in accordance with the general policy that may be issued by the Board and subsequently approved by the Minister of Finance.

Investment Panel Meetings

During the financial year 2017, twelve (12) Investment Panel Meetings and three (3) Special Meetings were held. A summary of attendance of the Investment Panel Members is set out below:

Investment Panel Meeting Attendance:

No.	Name	Attendance
1.	Dato' Mohammed Azlan Hashim <i>Chairman</i>	15/15
2.	Dato' Dr Yusof Ismail	12/15
3.	Datuk Abdul Farid Alias	8/15
4.	Encik Johari Abdul Muid	12/15
5.	Encik Mohammed Nazri Omar	12/15
6.	Tan Sri Dr Ong Hong Peng <i>(*Appointed on 15 March 2017)</i>	11/11

In the event where an immediate and urgent decision is required, and the Secretary is unable to convene a meeting, approval may be sought via circularisation to all members of the Investment Panel. Decisions via circularisation requires majority approval which will be reported during the following Investment Panel meeting for ratification.

For Year 2017, the Investment Panel deliberated and discussed 77 proposals whereby 69 proposals were subsequently approved including approval via circulation.

STATEMENT ON CORPORATE GOVERNANCE

BOARD COMMITTEES

In order to assist the Board in discharging its duties, the Board has established various committees to oversee specific matters relating to the operations of KWAP, namely the Board Audit Committee, Board Risk Committee, Board Remuneration and Nomination Committee, and Board Procurement Committee. In 2017, the terms of reference of the Board Committees which formed part of the Board Charter were reviewed and approved by the Board.

Details of activities of the Board Committees during the financial year 2017 are outlined below:

BOARD AUDIT COMMITTEE

(Formerly known as Audit Committee (AC))

The Board Audit Committee (BAC) was established to ensure establishment and enforcement of internal controls and systems at KWAP.

Membership

Currently, BAC comprises four (4) Board members, namely a Chairman and the following three (3) members who have been appointed by the Board:

- | | | |
|-------|-------------------------|------------|
| (i) | Dato' Azmi Abdullah | - Chairman |
| (ii) | Dato' Siow Kim Lun | - Member |
| (iii) | Dato' Dr Gan Wee Beng | - Member |
| (iv) | Dato' Che Pee Samsuddin | - Member |
- (retired on 15 October 2017)*

Dato' Azmi Abdullah is a member of the Malaysian Institute of Accountants (MIA).

Four (4) BAC meetings were held throughout year 2017.

Duties and Responsibilities of BAC

The following are the duties and responsibilities of BAC:

- (i) Financial Statements
 - (a) To recommend and review financial regulations, accounting regulations, policies, and practice;

- (b) To review the financial statements of KWAP with management and the auditors prior to their being approved by the Board; and

- (c) To review changes to Financial Procedures.

(ii) Internal Audit

- (a) To review and discuss the nature and scope of internal and external audit plans and ensure co-ordination of approach among the internal auditor, the external auditor and/or other external assurance and consulting service provider;

- (b) To review the audit observations and management's response of the internal auditor, the external auditor and/or the external assurance and consulting service provider;

- (c) To provide oversight in respect of any appointment, renewal, performance, and removal of the Head of Internal Audit Department;

- (d) To review the internal audit charter, activities, staffing, organisational structure of the internal audit function including the annual audit plan, and make appropriate recommendations to the Board; and

- (e) To review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Professional Practices Framework (IPPF) for Internal Auditing.

(iii) Internal Control

- (a) To provide independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with risk policies, laws, internal guidelines, and regulatory requirements.

(iv) Other Responsibilities

- (a) To discuss with the internal auditor, external auditor and/or other external assurance and consulting service provider on a regular basis any matter which they wish to discuss (in the absence of management where necessary);

- (b) To consider major findings of internal investigations and management's response;
- (c) To direct and provide oversight on any special investigations to be carried out by the internal auditor or any independent party, and review the outcomes of investigations;
- (d) To consider any related party transactions that may arise within KWAP; and
- (e) To consider other issues as defined by the Board.

KWAP's external auditor is the Auditor General of Malaysia as determined by the Statutory Bodies (Accounts and Annual Reports) Act 1980 [Act 240].

BAC Meeting Attendance:

No.	Name	Attendance
1.	Dato' Azmi Abdullah	4/4
2.	Dato' Siow Kim Lun	4/4
3.	Dato' Dr Gan Wee Beng	3/4
4.	Dato' Che Pee Samsuddin (*retired on 15 October 2017)	*2/3

Summary of BAC Activities:

Among major issues deliberated by the BAC during the year 2017 were:

- Consolidated Financial Statements of KWAP for the Financial Year Ended 31 December 2016;
- Amendments to the BAC's Terms of Reference;
- Internal Audit Reports on: KWAP's Australia Properties Investment; Human Resource – Recruitment, Succession Planning and Training and Audit of Mobile Device Management;
- Issues relating to the implementation of Malaysian Financial Reporting Standards (MFRS); and
- Internal Audit Reviews and Outstanding Audit Issues of several departments in KWAP.

BOARD RISK COMMITTEE

(Formerly known as Risk Management Committee (RMC))

The Board Risk Committee (BRC) was established to assist the Board in discharging its functions with regards to risk management.

Membership

Currently, BRC comprises three (3) Board members and one (1) Investment Panel member, i.e. a Chairman and the following three (3) other members who were appointed by the Board:

- (i) Dato' Dr Gan Wee Beng – Chairman
- (ii) Dato' Siow Kim Lun – Member
- (iii) Dato' Mohammed Azlan Hashim – Member
- (iv) Dato' Wan Kamaruzaman Wan Ahmad – Member

Four (4) BRC meetings and one (1) Special BRC meeting were held throughout the year 2017.

Duties and Responsibilities of BRC

The following are the duties and responsibilities of BRC:

- (i) Determine risk appetite and recommend to the Board for approval;
- (ii) Review risk management and compliance frameworks and policies and recommend to the Board for approval;
- (iii) Review risk management and compliance guidelines;
- (iv) Approve risk limits, and escalate to the Board if necessary;
- (v) Ensure an effective compliance process (for external and internal controls) by recommending controls for risks inherent in products, activities, processes, and systems;
- (vi) Approve Business Continuity Management (BCM) Policy;
- (vii) Ensure adequate infrastructure, resources and systems are in place to identify, measure, monitor and control risks for effective risk management within KWAP;
- (viii) Review KWAP's risk exposures and mitigating controls; and
- (ix) Consider other issues as defined by the Board.

STATEMENT ON CORPORATE GOVERNANCE

BRC Meeting Attendance:

No.	Name	Attendance
1.	Dato' Dr Gan Wee Beng	5/5
2.	Dato' Siow Kim Lun	5/5
3.	Dato' Mohammed Azlan Hashim	4/5
4.	Dato' Wan Kamaruzaman Wan Ahmad	5/5

Summary of BRC Activities:

Key issues deliberated by the BRC in 2017 were:

- Reports on Corporate Risk Profile, Risk Outlook, Operational Risk Events, Investment Risks, Foreign Exchange Exposures and Hedging Activities;
- Approval on the Restructuring of Risk Management and Compliance Department's Governing Documents;
- Approval of Policies including: Market Risk Management Policy; Market Risk Value-at-Risk Policy; Credit Risk Management Policy, Market Risk Stress Testing Policy, Fraud Risk Management Policy; Credit Rating Policy; Foreign Exchange Management Policy and KWAP Risk Appetite Statement Policy; and
- Compliance Update.

BOARD REMUNERATION AND NOMINATION COMMITTEE

(Formerly known as Remuneration Committee (REMCO))

The Board Remuneration and Nomination Committee (BRNC) was established to assist the Board in discharging its functions with its primary responsibility to establish the relevant policy framework in determining the appointment and remuneration of the management and staff of KWAP and recommend to the Board the performance related remuneration of the respective staff.

Membership

Currently, BRNC comprises four (4) Board members and one (1) Investment Panel member, i.e. a Chairman and the following four (4) other members who have been appointed by the Board:

- | | | |
|-------|---------------------------------|------------|
| (i) | Dato' Siow Kim Lun | – Chairman |
| (ii) | Dato' Mohammed Azlan Hashim | – Member |
| (iii) | Dato' Azmi Abdullah | – Member |
| (iv) | Datuk Azih Muda | – Member |
| (v) | Dato' Wan Kamaruzaman Wan Ahmad | – Member |

Five (5) BRNC meetings were held throughout the year 2017.

Duties and Responsibilities of BRNC

The following are the duties and responsibilities of BRNC:

- (i) On matters pertaining to human resource:
 - (a) To recommend the minimum requirements on the skills, experience, qualifications and other core competencies of KWAP's employees;
 - (b) To recommend and review terms and conditions of employment and service of KWAP's employees;
 - (c) To recommend and review code of conduct and discipline of KWAP's employees;
 - (d) To recommend the mechanisms for the formal assessment of the effectiveness of KWAP's employees;
 - (e) To recommend the promotion of KWAP's employees;
 - (f) To review and recommend to the Board the appointment, upgrading and promotion of Senior Management of KWAP Group;
 - (g) To vet and approve recommendations from the Executive Director/s on the appointment of senior executives;
 - (h) To consider and recommend the period of service of Executive Directors;

- (i) To consider the CEO and senior management's succession planning;
 - (j) To recommend the removal of the CEO and senior management if they are found to be ineffective, errant, or negligent in discharging their duties;
 - (k) To determine the remuneration and terms of employment of the CEO;
 - (l) To determine the performance contracts and targets, and the structure of rewards for the CEO, and to assess the CEO's performance against these targets;
 - (m) To recommend to the Board the remuneration framework for the CEO and senior management. The BRNC may obtain independent professional advice and any other information necessary in determining the framework;
 - (n) To recommend to the Board any proposals for the CEO's and senior management's (if any) remuneration and benefits including service contracts and compensation payment for approval;
 - (o) To establish a formal and transparent procedure for developing policy on the CEO's and senior management's (if any) remuneration and for fixing their individual remuneration packages;
 - (p) To review all benefits and entitlements of the CEO and senior management (if any) of KWAP Group;
 - (q) To consider compensation commitments/severance payments for the CEO in the event of early termination of the employment/service contracts; and
 - (r) To consider any other issues as defined by the Board.
- (ii) Its other functions include the following:
- (a) To recommend to the Board the framework or the broad policy for the remuneration of the Company's or Group's CEO and other senior management of the Company or Group as the BRNC's considerations

are designated to consider. It is the Board's duty and decision in determining the remuneration packages of Non-Executive Directors and the individuals concerned shall abstain from the discussion of their own remuneration;

- (b) To recommend to the Board any performance related pay schemes for KWAP;
- (c) To recommend to the Board the policy and scope of service agreements of the executive, termination payments and compensation;
- (d) To oversee any major changes concerning the employees of KWAP; and
- (e) To consider and examine relevant matters as the BRNC considers appropriate.

BRNC Meeting Attendance:

No.	Name	Attendance
1.	Dato' Siow Kim Lun	5/5
2.	Dato' Mohammed Azlan Hashim	5/5
3.	Dato' Azmi Abdullah	5/5
4.	Datuk Azih Muda	3/5
5.	Dato' Wan Kamaruzaman Wan Ahmad	5/5

Summary of BRNC Activities:

Among the proposals deliberated and endorsed by BRNC during the year 2017 were:

- Payment of Bonus 2016 and Annual Increment 2017;
- Revised Salary Structure and Benefits Review for Employees of KWAP; and
- Renewal of several Contracts of Employment of Heads of Department in KWAP.

STATEMENT ON CORPORATE GOVERNANCE

BOARD PROCUREMENT COMMITTEE

(Formerly known as Tender Board)

The Board Procurement Committee (BPC) was established to assist the Board in discharging its functions with regards to the evaluation of procurement proposals.

Membership

Currently, BPC comprises three (3) Board members, i.e. a Chairman and two (2) other Board members who were appointed by the Board:

- | | | |
|-------|---|------------|
| (i) | Datuk Siti Zauyah Md. Desa | – Chairman |
| (ii) | Dato' Che Pee Samsudin
(*Retired on 15 October 2017) | – Member |
| (iii) | Datuk Azih Muda | – Member |
| (iv) | Dato' Wan Kamaruzaman Wan Ahmad | – Member |

In 2017, four (4) BPC Meetings and two (2) Special BPC Meetings were held to deliberate and to recommend to the Board procurement proposals within its authority limits.

Duties and Responsibilities of BPC:

- (i) To review the tenderer's registration with the MOF and Contractor Services Centre, tender invitation advertisement, tender specifications, tender documents (if necessary), tender schedule prepared by the Tender Opening Committee, technical and financial evaluation reports etc.;
- (ii) To ensure that the procurement process complies with all applicable procurement ethics, policies and procedures;
- (iii) To review the tenderer's technical and financial capabilities. During the tender evaluation, the technical proposal would be opened and evaluated first, followed by the financial proposal;
- (iv) To consider and recommend awards which are beneficial to KWAP, taking into consideration factors such as pricing, utilisation of products/goods and/or services, delivery or completion period, maintenance cost as well as other relevant factors;

- (v) To decide on a re-tender process or to recommend any other procurement methods, if the BPC finds that the procurement procedures are not in accordance with the regulations or suspects that there are irregularities in the tender process;
- (vi) To consider and accept the tender, provided that a decision has been made by the Committee by at least a simple majority and is within the approved limit;
- (vii) To consider and accept any quotations acknowledged by the Quotations Committee that exceeds the quotations limit; and
- (viii) To consider other procurement issues as defined by the Board.

BPC Meeting Attendance:

No.	Name	Attendance
1.	Datuk Siti Zauyah Md Desa <i>Chairman</i>	6/6
2.	Dato' Che Pee Samsudin (*Retired on 15 October 2017)	3/4*
3.	Datuk Azih Muda	6/6
4.	Dato' Wan Kamaruzaman Wan Ahmad	6/6

APPOINTMENT AND REMUNERATION OF BOARD AND INVESTMENT PANEL MEMBERS

The Board and the Investment Panel members are appointed for a period not exceeding three (3) years, and on the expiry thereof are eligible for reappointment. The remuneration of the Board and Investment Panel is determined from time to time, subject to the approval of the Minister of Finance.

In 2017, the Board and Investment Panel members received a total remuneration of RM638,500 and RM547,980 respectively.

STATEMENT ON INTERNAL CONTROL



The transformation of internal audit in the last 10 years has achieved several milestones. In the early stage of KWAP's inception, the internal audit function was performed by external auditors. In 2012, the Internal Audit Department was finally set up with limited resources and has since steadily increased.



Throughout 2017, various audit assignments were conducted on operational and investment-related activities in accordance with the approved audit plan for the year. The Board Audit Committee deliberates regularly on audit reports that contain improvement opportunities, audit issues and management action plans to address internal control deficiencies. There is continuous follow-up and periodic escalation to the Board Audit Committee and Executive Committee on all outstanding audit issues until closure.

RESPONSIBILITY OF THE BOARD

The Board Members (The Board) hold the overall responsibility in maintaining a system of internal controls that is designed to ensure good corporate governance in KWAP's business operations and financial performance. The Board ensures that the operating infrastructure, systems of control, systems for risk identification and management, financial and operational controls, are in place and properly implemented. This involves identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures to maintain organisational risks within an acceptable risk profile.

The Board delegates specific roles and responsibilities for internal control to committees of the Board, namely the Board Audit Committee, Board Remuneration and Nomination Committee, Board Risk Committee; and Board Procurement Committee. These committees are chaired by independent Non-Executive Directors to ensure independent and fresh perspectives in decision making.

The Board is committed towards promoting effective standards of corporate governance and investor stewardship where KWAP is guided by the ICGN Global Governance Principles and Global Stewardship Principles.

The Board has adopted a Whistle Blowing policy which aims to encourage employees to raise any serious concerns that they may have about the way in which the organisation is run or about the conduct of those involved in running it. KWAP is committed to investigating any malpractice or unlawful activity that may exist within the organisation so that it can be dealt with appropriately which, if left unchecked could potentially cause serious damage to KWAP's reputation.

STATEMENT ON INTERNAL CONTROL

THE THREE LINES OF DEFENCE

The effectiveness of KWAP’s risk management framework is accomplished through 3 Lines of Defence.

1st LINE OF DEFENCE

As the first line of defence, the management has ownership, responsibility and accountability for the execution, evaluation and effective communication of key operational and management decisions.

The management is also responsible for maintaining effective internal control through the implementation of the following:

Framework, policies and procedures	Business Process Improvement	Human Resource	Staff Conduct
The documents are reviewed on a periodic basis to build consistencies into KWAP’s business operations and transform our vision and mission into results oriented actions. Each department is responsible for ensuring daily operations are performed in accordance with established frameworks, policies and procedures.	Business Architecture team focuses on the integration of key business processes across the organisation and continues to monitor the development and maintenance of policies and procedures.	Established proper guidelines on hiring, termination, compensation and staff training. The organisation is committed to enhancing the skills, competencies and capabilities of its employees to ensure proper and professional execution of their duties.	KWAP has issued an Employee Handbook on Code of Ethics and Conduct (The Codes) to provide guidance to employees in carrying out their duties and responsibilities consistent with KWAP’s values. The Codes stipulates ethical behaviour in line with relevant internal policies and guidelines.

2nd LINE OF DEFENCE

The second line of defence is provided through the establishment of the Risk Committee (RC) which assists the Board Risk Committee in deliberating risk management strategies, policies and guidelines prior to their approval. Its roles and responsibilities include the review and assessment of KWAP’s risk exposure, policy decisions, and appropriate mitigating controls. Hence, RC function is to ensure availability of infrastructure, resources and systems for effective risk management.

Performance Review

KWAP uses a Corporate Scorecard to operationalise the business objectives aligned to KWAP's vision of becoming an innovative and sustainable organisation.

Information Security

Information Security Policy contains key domains in managing and administering information security. This is to protect and preserve the confidentiality, integrity, and availability of all information within KWAP by leveraging on technology through centralised control of Virtual Desktop Infrastructure and Data Loss Prevention system.

Whistle Blowing Policy

KWAP encourages its employees to raise any serious concerns they may have about the way in which the organisation is run or about the conduct of those involved in running it. KWAP is committed to finding out if malpractice or unlawful activity exists within the organisation so that it can be dealt with appropriately as, if left unchecked, it could potentially cause serious damage to KWAP's reputation.

3rd LINE OF DEFENCE

Internal audit forms the organisation's third line of defence. Internal Audit is governed by an Internal Audit Charter approved by the Board Audit Committee. An independent audit function will, through a risk-based approach to its work, provide objective assurance on the adequacy of governance, risk management and the overall effectiveness of the internal control system. Through various audit assignments, the Internal Audit Department (IAD) highlighted identified risk exposure, audit issues as well as the respective management action plan to the Board Audit Committee for its oversight and direction.

NEW POLICIES, GUIDELINES AND CERTIFICATIONS

INTERNALISATION OF ESG WITHIN KWAP EMPLOYEES

As part of KWAP's effort to internalise ESG among its employees, the organisation invited institutions such as Sime Darby Berhad, Aberdeen Asset Management, and Robeco Asset Management to share some insights on ESG related topics. The topics included Sustainability at Sime Darby, Sustainable Investing, and Integrating ESG/Sustainability into the investment process.

In August 2017, the Human Resource Department, Corporate Strategy and Performance Department, and the Corporate Affairs Department collaborated and conducted a month-long campaign known as the KWAP Green Office ("KWAP GO") which entails various educational activities surrounding the concept of ESG that saw the participation of KWAP employees in the main office as well as in Cyberjaya. In addition, KWAP organised an ESG related programme as one of its Corporate Social Responsibility initiatives known as the "KWAP Liter of Light". The initiative aimed to provide affordable and sustainable solar light to indigenous community settlements with limited or no access to electricity. A total of 250 indigenous people are benefiting from this effort in 2017.

KWAP'S CORPORATE LEVEL ESG GUIDELINES

In 2017, KWAP internalised good ESG practices across its business and operational activities encompassing all the main areas namely investment, operations, and pension services administration and management by adopting KWAP's Corporate Level ESG guidelines.

The objectives of the Corporate Level ESG Guidelines are:

a) Role to Stakeholders –

To enable KWAP to fulfil its roles to its stakeholders (current and future) in a responsible and sustainable manner by adopting good ESG practices.

b) Sustainable Performance –

To improve the sustainability and long-term performance of KWAP and its investee companies. KWAP believes sustainability factors may significantly influence the risk-return profile of its investments.

c) Promotion of good ESG practices in the capital market and KWAP's business partners –

To leverage on KWAP's position as an institutional investor to improve ESG practices in:

i. The capital market vis-à-vis:

- Engagement with our investee companies.
- Collaboration with regulators (eg: Bursa Malaysia and Securities Commission)
- Collaboration with corporate governance (CG) bodies (eg: ICGN, ACGA, UNPRI and MSWG)
- Active role in CG related councils (eg: Institutional Investors Council and Security Commissions Key CG Stakeholders Group)

ii. Companies across KWAP's value chain, including its suppliers, third-party service providers, and other related business partners.

The Corporate Level ESG Guidelines consists of seven pillars namely:



The Corporate Level ESG Guidelines will be updated periodically to keep abreast with the latest best industry practices and to reflect KWAP's evolving ESG initiatives.

In addition to KWAP's Corporate Level ESG Guidelines, KWAP's commitment towards ESG in its investments and investment practices is reflected in the following documents which form part of its overall ESG Guidelines:

- ESG Guidelines for Investment
- Investment Policy and Guidelines
- ESG – Based Research Methodology

IMPLEMENTATION OF MFRS

In 2014, KWAP set a new milestone when the Malaysian Financial Reporting Standards (MFRS) was made mandatory. The standard took accounting and reporting to a new level particularly with MFRS 139 – “Financial Instruments Recognition and Measurements”. KWAP set a framework to ensure the smooth transition from Private Entity Reporting Standards to MFRS. All policies, processes, and financial restatements of FY2016 numbers were completed as per project milestones by 2017.

ELECTRONIC DOCUMENT MANAGEMENT SYSTEM (EDMS)

Set to drive the Pension Services Department (PeSD) towards operating in a paperless environment, EDMS has been developed to manage the creation, storage, and control of documents electronically. This system will benefit KWAP through savings from annual storage cost, resource optimisation and enhancement of risk management, among others.

ESTABLISHED CENTRAL DEALING UNIT

As part of initiatives to improve operational effectiveness and efficiencies through streamlining of resources, the Equity Department has established a Central Dealing Unit (CDU). Efficiency can be achieved through a clear segregation of duties between the portfolio managers and the execution dealers. The establishment of CDU will enhance trade execution effectiveness and transparency via closer monitoring of daily market and stock movements.

NEW GOVERNANCE INITIATIVES

MANAGEMENT VISITS

In 2017, KWAP continued to engage with its investee companies by organising 27 management visits, 14 local companies and 13 regional companies. The visits were led by KWAP Chief Executive Officer, Dato' Wan Kamaruzaman Wan Ahmad, and was participated by its senior management team.

Domestic Management Visits Conducted in 2017

No.	Company
1	123RF Technology Sdn Bhd
2	Eco World Development Group Berhad
3	Capitaland Malaysia Mall Trust
4	UEM Group Berhad
5	DRB-HICOM Berhad
6	TIME dotcom Berhad
7	Yinson Holdings Berhad
8	Lotte Chemical Titan Holdings Berhad
9	Eastern & Oriental Berhad
10	Globetronics Technology Berhad
11	Inari Amertron Berhad
12	SP Setia Berhad
13	Felda Global Ventures Holdings Berhad
14	Telekom Malaysia Berhad

As part of efforts to build relationships with its regional counterparts, KWAP organised a visit to Indonesia in August 2017. In addition to providing valuable information on present and potential investments in Indonesia via direct engagement with companies, government bodies and regulators, the trip provided an opportunity to obtain greater insight into the Environmental, Social and Governance (ESG) practices there.

International Management Visits Conducted in 2017

No.	Company
1	Coordinating Ministry for Maritime Affairs
2	PT Jasa Marga (Persero) Tbk
3	Ancora Capital Management
4	Indofood Sukses Makmur Tbk
5	Saratoga Asia
6	Mitra Adiperkasa
7	Bank Indonesia
8	Ministry of Finance (Indonesia)
9	Bank Mandiri
10	Ciputra Development Tbk
11	XL Axiata Tbk
12	BPJS Ketenagakerjaan
13	PT Wijaya Karya (Persero) Tbk

In addition, KWAP is enhancing its engagement with investee companies by raising issues on ESG during management visits/ AGMs to further improve corporate governance practices of its investee companies.

ESG WORKING LEVEL VISITS

KWAP's involvement in promoting good corporate governance includes ESG Working Level Visits which are led by the management team and KWAP officers to engage with investee companies such as Boustead Holdings Berhad, Amway (M) Holdings Berhad, Panasonic Manufacturing Malaysia Berhad, and Malaysia Airlines Berhad.

VOTING RIGHTS

In 2017, KWAP exercised its voting rights at Annual General Meetings and Extraordinary General Meetings (AGMs/EGMs). We presented our views and voted at 149 domestic AGMs/EGMs. In addition, KWAP's senior management attended 9 domestic AGMs/EGMs in 2017 to enhance KWAP's engagement as well as promote good corporate governance among its investee companies. Besides that, KWAP conducted direct engagements with its investee companies pre and post AGM in matters involving corporate, gender diversity, sustainability, and environmental issues. In line with the revised Malaysian Code on Corporate Governance by the Securities Commission, KWAP produced an ESG Guidelines for Fixed Income which was approved by KWAP's Investment Panel on 15 December 2017. The ESG Guidelines will be publicly disclosed and will serve as a reference point for KWAP's borrowers/bond issuers.

In addition, KWAP is currently in the midst of revising the ESG Guidelines for Equity Investments 2018 as it will be taking into consideration the Corporate Governance Guide by Bursa Malaysia which will be launched in due course to ensure coherence with regulations and industry best practice.



KWAP is an organisation that does not only focus on high performance and meeting targets. It is also an organisation that wants the best for its employees and their welfare. One such example is KWAP's programme to ensure its employees stay healthy by providing an office gym and trainers to help us stay healthy and fit. In the 10 years I have worked here, my most memorable experience was winning the Fit and Fab Challenge where the instructor helped me shed 19kg in 3 months! Which company does this? It goes to show that KWAP is committed to achieving its goals but also ensures its employees are taken care of to ensure they are fit to achieve those goals.



PIONEERING EMPLOYEE

KHAIRUL YUSRI – Fixed Income

NEW GOVERNANCE INITIATIVES

ENGAGEMENT WITH REGULATORS/GLICS

As part of KWAP initiatives in supporting good corporate governance, KWAP engages with regulators such as World Bank Group, Central Bank of Malaysia and Securities Commission to discuss Green Finance and Environment Policy.

ENGAGEMENT WITH CORPORATE GOVERNANCE BODIES

International Corporate Governance Network (ICGN)

KWAP has become a corporate member of the International Corporate Governance Network (ICGN). Represented by 638 members from more than 47 countries, ICGN was established to promote effective standards of corporate governance among institutions worldwide in 2017. A KWAP officer was appointed to be the country correspondence for Malaysia.

In 2017, KWAP hosted the International Corporate Governance Network (ICGN) Annual Conference 2017 at Shangri-La Hotel, Kuala Lumpur from 11 until 13 July 2017 with Minority Shareholder Watchdog Group (MSWG) as the Premier Partner. Over 350 senior capital market professionals from all regions of the world gathered to explore governance priorities in major Asian markets and achieve value creation through sustainable long-term practices. The ICGN Annual Conference 2017 is the world's premier conference for global investors, companies, and professional advisors who are committed to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.

Asian Corporate Governance Association (ACGA)

KWAP became a member of the Asian Corporate Governance Association (ACGA) in November 2015. ACGA is an independent, non-profit membership association dedicated to encouraging and facilitating improvements in corporate governance in Asia. It has 112 members, represented by eight sectors ranging from pension and sovereign wealth funds to corporates (listed and private) and accounting firms. KWAP had a separate engagement session with representatives from ACGA to discuss further on ESG matters.

United Nations Principles of Responsible Investment (UNPRI)

KWAP has engaged closely with representatives from UNPRI to further improve corporate governance in the region. PRI is the world's leading proponent of responsible investment where they act in the long-term interest of its signatories, of the financial market and economies as a whole. In addition, PRI provides understanding of the investment implications of ESG factors and supports its international network of investor signatories by incorporating these factors into their investment and ownership decisions. KWAP was represented in PRI's Annual Conference "PRI in Person 2017" which was held in Germany in September 2017. Subsequent to the PRI's Annual Conference in 2017, KWAP had a separate engagement session with representatives from PRI to discuss further on ESG matters.

FTSE Advisory Committee

KWAP's CEO was appointed an FTSE ESG Advisory Committee member in September 2015. The appointment to the Committee is by invitation extended by FTSE. The establishment of the Committee is to provide a forum for FTSE to interact with index users and other stakeholders with a view to enhance the underlying methodologies of the FTSE ESG ratings and associated index products, including the FTSE4Good Index Series.

ENGAGEMENT WITH OTHER INSTITUTIONS

Apart from engagement with regulators, government-linked companies, and corporate governance bodies, KWAP took step further by engaging with other institutions on ESG related matters. For instance, KWAP held discussions with representatives from Manulife Asset Management, BNP Paribas, BlackRock and Style Research Limited to keep abreast with latest ESG issues.

MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS (THE CODE)/INSTITUTIONAL INVESTORS COUNCIL (IIC)

KWAP endorsed its commitment to upholding good corporate governance standard by becoming a signatory to the Code. The Code comprises a set of principles which assists institutional investors to fulfil their stewardship responsibilities through influencing and promoting good corporate governance in their investee companies. KWAP CEO, Dato' Wan Kamaruzaman Wan Ahmad, was elected as its first Chairman.

In addition to the IIC formation, a special working committee was formed to focus on issues and topics of strategic importance which are of common interest to institutional investors and in line with the objectives of the IIC namely Market and Industry; and Governance and Policies. To date, there are 17 signatories under the Code which includes institutional investors, asset managers and asset owners.

KWAP actively participates in IIC events by having at least four meetings a year for at the council and working group levels. KWAP also received the Best Institutional Investor Award at the MSWG-ASEAN Corporate Governance Recognition 2017. This is an inaugural award to recognise institutional investors that have shown high commitment in advocating good corporate governance practices in the Malaysian capital market.





ECONOMIC & STRATEGY REVIEW

- 83 Economic Review
- 85 Market Review and Outlook
- 90 Our 2020 Roadmap
- 92 Key Performance Indicators

ECONOMIC REVIEW



In investments, strengthening economic activities have had a positive impact on assets. Equity prices rallied, with notable performance recorded in 2H17.



Solid real GDP growth
in 2017

5.9%

bears testimony to the country's fundamentals

The global economy grew steadily in 2017 on the back of simultaneous recovery in major advanced economies. Strong investment and manufacturing activities in the United States, Euro area and Japan, also known as G3, provided a substantial boost to global trade, which was more broad based and contributed to higher investment spending.

The US economy continued to show promising growth supported by a tight labour market despite concerns that the economy being in its late-cycle growth. Across the Atlantic, growth in the euro area remained strong with financial markets on a firm footing. In Japan, economic expansion remained positive for eight consecutive quarters as both manufacturing and non-manufacturing activities thrived. Meanwhile, inflationary pressures across the G3 remain contained, implying a gradual pace of monetary tightening across the developed world.

China's economy remained on its growth track in 2017, driven mainly by strong exports and domestic consumption. This has temporarily set aside certain issues concerning structural imbalances particularly related to its high corporate leverage. Strong trade surpluses, coupled with robust financial inflows, supported the Chinese yuan's appreciation of almost 7% against the dollar in 2017, reversing three consecutive years of depreciation. This, in turn, helped to anchor other regional currencies. China's cyclical upswing was key to supporting regional economies and commodity exporters with deep trade linkages with China. Against this backdrop, investment spending in these countries has also risen to strengthen corporate and household incomes.

Improvements in the global and domestic growth outlook seem intact, but global trade recovery is still vulnerable to any abrupt, fast-paced tightening or withdrawal of liquidity. Challenges therefore remain, especially in the absence of strong growth in wages in the developed economies which could dampen productivity and weaken consumption.

ECONOMIC REVIEW

In investments, strengthening economic activities has had a positive impact on assets. Equity prices rallied, with notable performance recorded in 2H17. Although this has raised concerns on the sustainability of the upward trend, macroeconomic fundamentals remain intact supporting the run up in stock prices. In addition, global financial market conditions are also stable as central banks played a supportive role in reversing macroeconomic imbalances and facilitating linkages between financial variables, macroeconomic outcomes and, most importantly, monetary transmission mechanisms. Against this backdrop, global central banks are projected to scale back some of their crisis era programmes, while controlling inflationary pressures effectively.

In Malaysia, the economic momentum has been strong, backed by robust growth in exports and resilient domestic demand. Real GDP growth of 5.9% in 2017 bears testimony to the country's fundamentals. Rising global oil prices and stable agricultural prices further augmented the country's financial position, contributing positively to the government's coffers.

While improving labour market conditions and private sector wage growth boosted domestic consumption, inflationary pressures are expected to remain contained on the back of official measures which include muting the impact of the global crude oil price on the consumer price index by keeping domestic petrol prices stable. On that note, Bank Negara Malaysia (BNM) is expected to leave its benchmark interest rate unchanged at 3.25% for 2018 to ensure

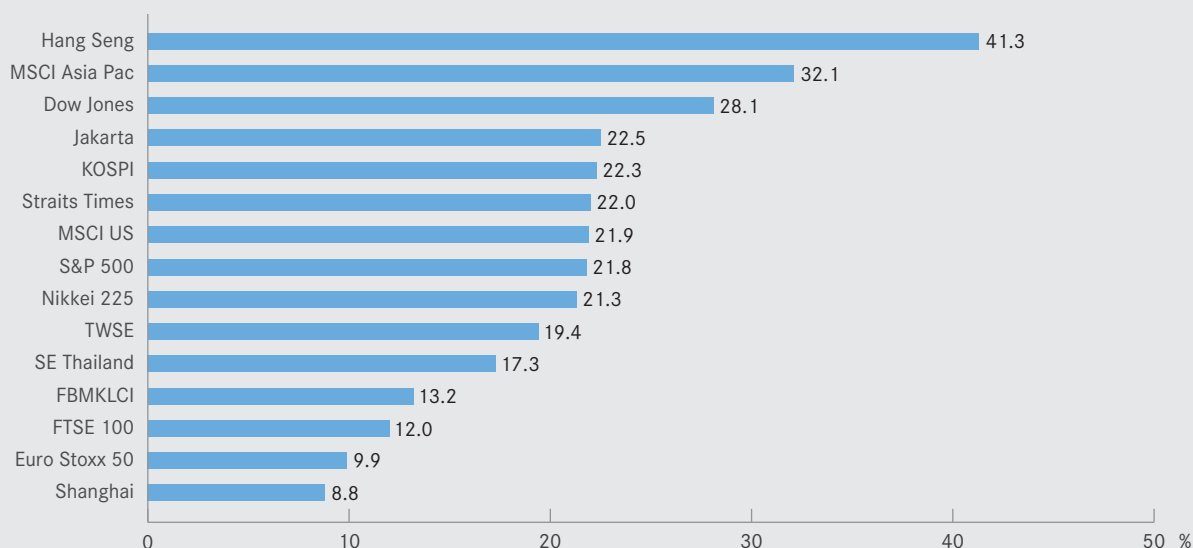
the domestic economy continues a steady growth path. Given Malaysia's openness to trade and its exposure to demand from both the US and China, the ringgit is anticipated to experience some volatility in the near term but to remain stable in view of BNM's foreign exchange market stabilisation measures.

Going forward, the global economy is envisaged to maintain its upbeat momentum in 2018 although escalation of trade protectionism measures could pose downside risks. In Asia, trade activity will continue to expand, albeit at a more moderate pace compared to 2017. That said, Malaysia's prospects are expected to be underpinned by resilient domestic demand and will be further sustained by policy support, both on the monetary and fiscal fronts. As a commodity exporter, higher prices, notably oil, will further support the positive trade momentum, leading us to anticipate sustainable economic growth ahead.

MARKET REVIEW AND OUTLOOK

As our fund has grown over the last 10 years, KWAP's investment analysis role has intensified. With our entry into international equities and fixed income investments, a standalone Research Department was established in 2011. From a team of five analysts, the size has quadrupled, enabling us to increase our stock coverage from 46 domestic counters to a total of over 500 counters across Asia Pacific and the US by 2017.

Global Equity Indices Performance In 2017 (Total Return)



EQUITIES MARKET REVIEW

Malaysia

The year 2017 marked a positive change for Malaysian equities after three consecutive years of negative performance. Opening at 1,641.7 points, the FBMKLCI index gained 9.4% to close at 1,796.8 points on 29 December 2017, its performance driven primarily by the financial sector along with improved credit costs and stabilised net interest margins. CIMB Group Holdings Berhad led the sector with a total return of 47.3%, followed by Malayan Banking Berhad with 26.2%. At the other end of the spectrum, Healthcare was the worst performing sector with a negative total return of 6.1% due to higher costs associated with a strengthening US Dollar and margin compression.

The FBMKLCI traded strongly in early 2017 on increasing crude oil prices following the production cut by the Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC producers in January. The upward momentum was further supported by an increase in foreign fund inflows and stronger gross domestic product (GDP) growth of 5.6% reported for the first quarter.

In the second half of the year, the local bourse began to retreat, mainly weighed by profit-taking due to foreign selling and disappointing corporate earnings. Stronger-than-expected GDP growth of 5.8% in the second quarter continued to lift the index

MARKET REVIEW AND OUTLOOK

before it was impacted by heightened geopolitical concerns and uncertainties surrounding US monetary policy and political developments following the launch of North Korea's missile. Nonetheless, its lacklustre performance was capped by positive sentiment brought by the 2018 Budget announcement in October. The FBMKLCI closed the year at its highest point, supported by both local and foreign fund buying, as well as recovery of the Ringgit, which touched the 4.045 level against the US Dollar, the strongest for 2017.

Despite an overall positive performance, the market barometer underperformed many of its regional peers on a total return basis. This may have been due to higher market risk premium as a result of speculation on an early 14th General Election.

In terms of valuation, the FBMKLCI's price-to-earnings (PE) multiple decreased slightly to 16.4 times in December 2017 from 16.5 times in December 2016. This made the index more attractive than its regional peers, given that the regional PE average stood at 18.0 times.

Over the past 10 years, the FBMKLCI has displayed resilience with a strong rebound after the global financial crisis in 2008. The local bourse gained by a stellar 45.2% year-on-year in 2009 following its 39% year-on-year contraction in 2008. As at end 2017, the index had gained 104.9% since its 10-year low of 876.8 points in 2008.

Asia Pacific

The MSCI Asia Pacific index gained 28.6% to close at 173.8 points on 29 December 2017. Growth was driven by the technology sector and led by TENCENT, which saw its share price increase 114.0% year-on-year. Meanwhile, the worst performing stock, Subaru Corporation, recorded a price decline of 24.9% year-on-year.

Despite heightened geopolitical tensions, 2017 was a good year for Korean equities due to stellar earnings growth of the technology and financial sectors. Until August, the technology sector remained buoyed by Apple's supply chain names, driven by expectations of significant upgrades in the organic light-emitting diode (OLED) in the new iPhones. Following the iPhone launch, Apple's supply chain names took a breather. Nevertheless, the memory market remained upbeat in anticipation of smartphone content upgrades and increasing demand for server dynamic random access memory (DRAM) fuelled by artificial intelligence.

In terms of valuation, the MSCI Asia Pacific's PE multiple stood at 16.0 times in December 2017 compared to 15.3 times in December 2016.

MSCI Asia Pacific index gained

28.6%



to close at

173.8 points

on 29 December 2017

MSCI US index gained

18.5%



to close at

2,544.6 points

on 29 December 2017

US

The MSCI US index gained 18.5% to close at 2,544.6 points on 29 December 2017.

The US market started 2017 with enthusiasm over Trump's pro-business agenda, with positive market behaviour in anticipation of enhanced corporate earnings as a result of tax cuts. The US Federal Reserve raised its base rates three times in 2017 and maintained a forecast of three more hikes in 2018, signalling confidence in the strength of the US economy in 2018.

This positive performance was driven by the technology sector, led by Apple Incorporation, which saw its share price rise 46.1% year-on-year, while the worst performing stock was General Electric, which contracted 44.8% in value year-on-year.

In terms of valuation, the MSCI US' PE multiple ended the year at 37.8 times in December 2017 compared to 29.2 times in December 2016.

Equities Market in 2018

Synchronised growth across developed and emerging markets, improving corporate earnings following higher commodity prices, and positive impact from the US tax bill on earnings are expected to inject the market with positive sentiment in 2018. Fiscal spending on infrastructure, particularly within emerging countries, as well as capital expenditure in the telecommunications and industrial space on 5th generation

wireless systems (5G) and automation will be among the key growth drivers during the year. Besides economic growth, continued capital expenditure should create more job opportunities and stabilise employment levels.

Global liquidity is set to expand as the Bank of Japan (BoJ), European Central Bank (ECB) and Sveriges Riksbank continue to engage in quantitative easing. Coupled with encouraging global economic growth, this strong liquidity could result in inflationary pressure leading to more synchronised rate hikes across the globe.

Despite the expected improvement in global growth, we remain cautious as geopolitical strains in the Middle East, between the US and China, and to some extent between the UK and the European Union (EU) could create market volatility. Additionally, uncertainties ahead of elections in Malaysia, Indonesia, Thailand and the US, among others, could affect market sentiment in these countries. There is also a downside risk to the global market from major policy decisions which could affect the economy and fund flows. Nonetheless, weaknesses in the market are seen as opportunities to accumulate stocks.

Our investment preferences are stocks with structural growth trends, healthy and sustainable financial positions, good corporate governance practices, and agile management teams. To balance the uncertainties, stocks with sustainable dividend yield are preferred.



I think KWAP already has a solid compensation/benefit plan for employees. KWAP also provides the opportunity and support in many ways for employees to improve and empower themselves in work related matter. So, it's a matter of how we can contribute to KWAP to make it bigger and stronger and in turn to serve the interest of pensioners and the nation.



PIONEERING EMPLOYEE

NUR NAJMAH – Accounts & Management Services

MARKET REVIEW AND OUTLOOK

BOND MARKET REVIEW

Increased economic growth and a shift by various central banks toward policy normalisation during the year were accompanied by uncertainties over President Trump's policies, UK triggering Article 50 and its surprise local election results, the French elections, and North Korean tensions, among others. This led to a mixed performance across the bond asset class.

The US Treasury yield curve flattened in 2017, as the front-end surged following the Fed's three rate hikes. Among 10-year government bonds, the IndoGB, ThaiGB, SGS and MGS finished the year in positive territory while the CGB and Golsec sold off. European government bonds ended 2017 in the red as politics dominated headlines following elections in the Netherlands, France and Germany while the ECB pledged a gradual withdrawal of quantitative easing.

In Malaysia, the Thomson Reuters BPAM All Bond Index performed better than in 2016, boosted by corporate bonds. Foreign investors closed the year as net sellers of local government and net buyers of local corporate bonds. Foreign buying in local government was reignited between 2Q2017 and 4Q2017 but was insufficient to reverse heavy outflows in 1Q2017.

Malaysia's corporate bond issuances sailed past the RM100 billion mark with ease for the first time since 2012, prompted by the need to lock in rates before future Fed rate hikes, funding infrastructure-related projects, and capital-raising from the banking sector. Removal of the mandatory credit rating effective 2017 boosted corporate issuances via the unrated bond route.

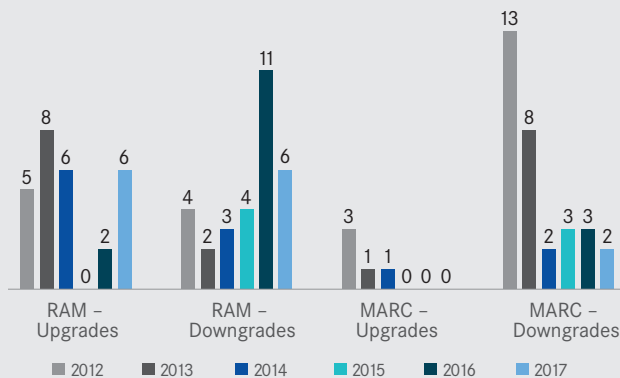
Top issuers in the rated segment were CIMB Bank Berhad (RM4.5 billion), Southern Power Generation (RM3.7 billion) and Maybank Islamic Berhad (RM3.5 billion) while Danainfra Nasional Berhad was the top issuer in the unrated government-guaranteed segment.

Domestic Credit Quality

Credit quality was resilient, reflecting economic growth and a favourable funding environment. This was observed from the magnitude of downgrades, which were less severe than in 2016. While upgrades increased three-fold, however, they still lagged behind downgrades in 2017.

The year's upgrades came from project finance, structured finance and banking, while most of the downgrades were from the media industry. The only default during the year was from the oil and gas industry after the issuer was downgraded twice. AAA and AA-rated credit spreads widened for the 10-year credit curve in 2017.

Rating Upgrades and Downgrades for Malaysia by RAM and MARC



Sovereign Ratings

Moody's (A3/Stable), S&P (A-/Stable) and Fitch (A-/Stable) affirmed Malaysia's sovereign rating with a Stable outlook in 2017. Moody's highlighted Malaysia as a large and diversified economy with robust medium-term growth prospects and ample natural resources which, however, is challenged by elevated system-wide leverage, fiscal consolidation implementation and external vulnerability. S&P stated monetary policy flexibility as a credit strength while Fitch remarked on Malaysia's strong growth relative to median 'A' category peers as one of the factors supporting the rating.

S&P upgraded Indonesia's sovereign rating by one notch to BBB-/Stable due to its strengthening fiscal metrics, bringing its investment grade title in line with Moody's and S&P's ratings. Indonesia won another sovereign rating upgrade in December by Fitch to BBB/Stable, with resilience to external shocks among the key reasons given.

In May, China's sovereign rating was cut by Moody's to A1/Stable due to increases in economy-wide leverage and eroding growth rates. Four months later, S&P downgraded China's rating by one notch to A+/Stable stressing a similar reason of prolonged debt growth which reduced financial stability.

Domestic Credit Market in 2018

The US Federal Reserve began its balance sheet reduction in October 2017 and the European Central Bank is set to reduce bond purchases in 2018, while numerous major central banks are expected to join the US Federal Reserve in normalising monetary policy. We expect cautious monetary tightening to stay supportive of funding and refinancing, and global credit conditions to improve in line with the synchronised global expansion.

Robust domestic growth and stable commodity prices underpin stable credit conditions in Malaysia, ensuring low default rates. Going into 2018, we remain cautious on the automotive, oil and

gas support services, and property sectors. Banking conditions are expected to remain stable backed by healthy liquidity conditions and sturdy capital buffers while asset quality risk is contained.

The banking and infrastructure sectors are likely to remain key drivers of primary market issuances, which should normalise in 2018 to between RM90 billion and RM100 billion following the bumper year in 2017, considering higher borrowing costs, among others. Overall, we are vigilant despite favourable conditions, as the number of downgrades has outpaced upgrades for a third year in a row.

As at end-2017, the FBMKLCI had gained

104.9%

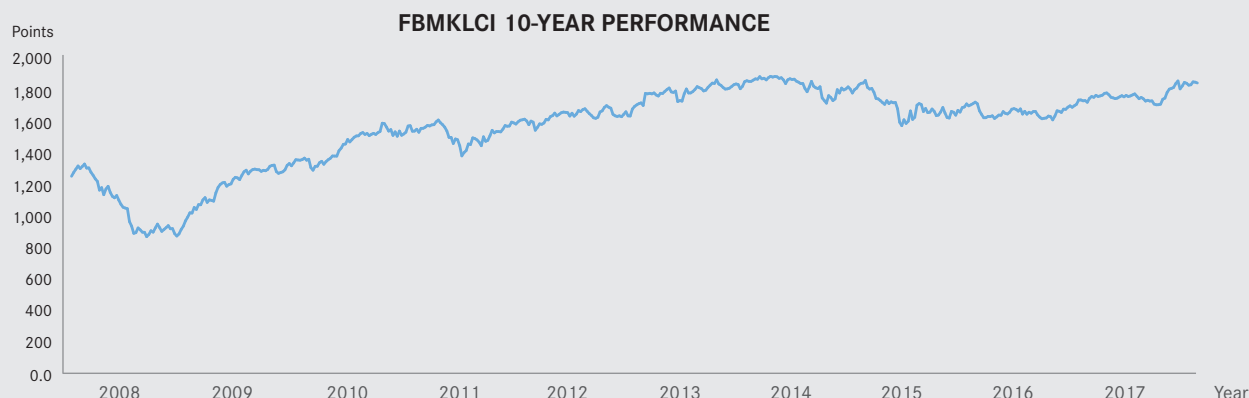
since its 10-year low of

876.8 points

in 2008



FBMKLCI 10-Year Performance



OUR 2020 ROADMAP

This roadmap will be reviewed in 2018 to chart for 2019 onwards.

2007-2015

Focus on building capabilities and growing asset base

- ⊙ Establish new Strategic Asset Allocation (SAA) and investment track record
- ⊙ Initiate international investment
- ⊙ Implement new operating model
- ⊙ Attract talent
- ⊙ Complete takeover of JPA BP operations
- ⊙ Amend Retirement Fund Act

Corporate Level

⊙ Branding and Culture

- Revise VMV reflecting expansion of KWAP's role
- Rebranding – work environment, culture, ESG practices
- Commence preparatory works to manage new pension scheme

Investment

⊙ Islamic finance

- Higher allocation for Shariah investments
- Use of Islamic financing for property and issuance of future corporate loans based on Islamic finance

⊙ Responsible investing

- Increase emphasis on ESG, sustainability and proactive shareholder activism

⊙ Beyond boundaries

- Conduct SAA review in 2016 with a focus on fund growth
- Enter into new international investments/markets

⊙ Alternative investment

- Further push into co-investment and greater focus on technology sector for PE
- Secure strategic land bank/form partnerships to facilitate property development initiatives and commerce pre-development work
- Venture into retirement oriented development

2016-2018

2019-2020

Operations

⦿ Pension Operations

- Integration of JPA BP with KWAP followed by transformation agenda
- Introduce value added products/services
- Establish pension research capability

⦿ Alignment with international standards

- Migration and implementation of MFRS

⦿ Talent Development

- Increase talent pool – 15% back-up ratio
- Become a knowledge focused organisation

⦿ Talent

- Nurture investment and pension industry experts

⦿ Operational Excellence

- Implement new IFIMS and other systems to enhance capability and productivity

⦿ Review feasibility of assuming pension liability of public sector's pension scheme

⦿ Investment strategy

- Continuous review of SAA in 2019 and implement corresponding investment strategies
- Formulate Asset Liability Management (ALM) Model

⦿ Alternative investment

- PE funds generating return and out of 'J' curve
- Development phase of property development to begin

⦿ Shariah and ESG

- Assess the progress and achievements of Shariah and ESG initiatives conducted from 2016-2018

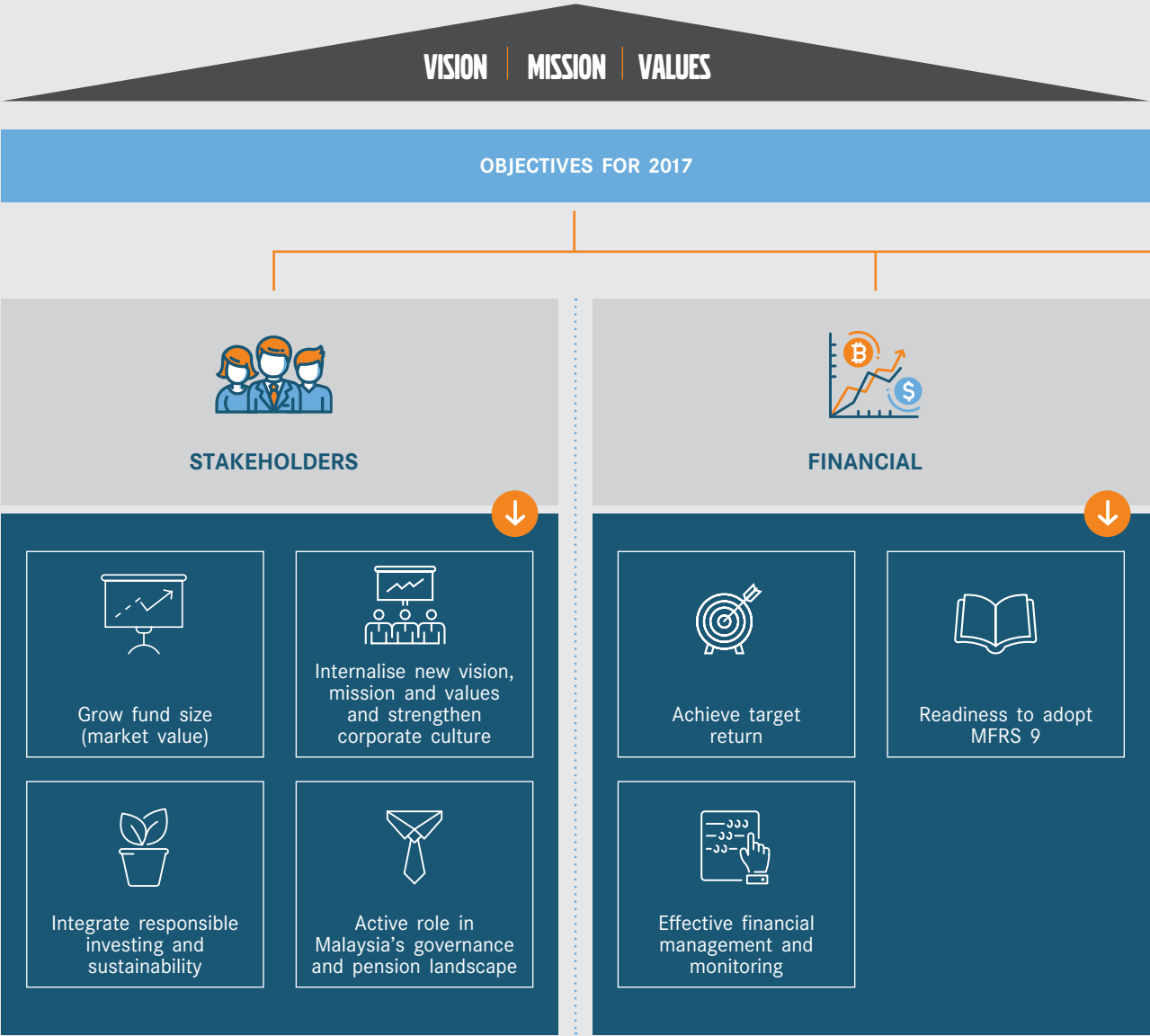
⦿ Pension services

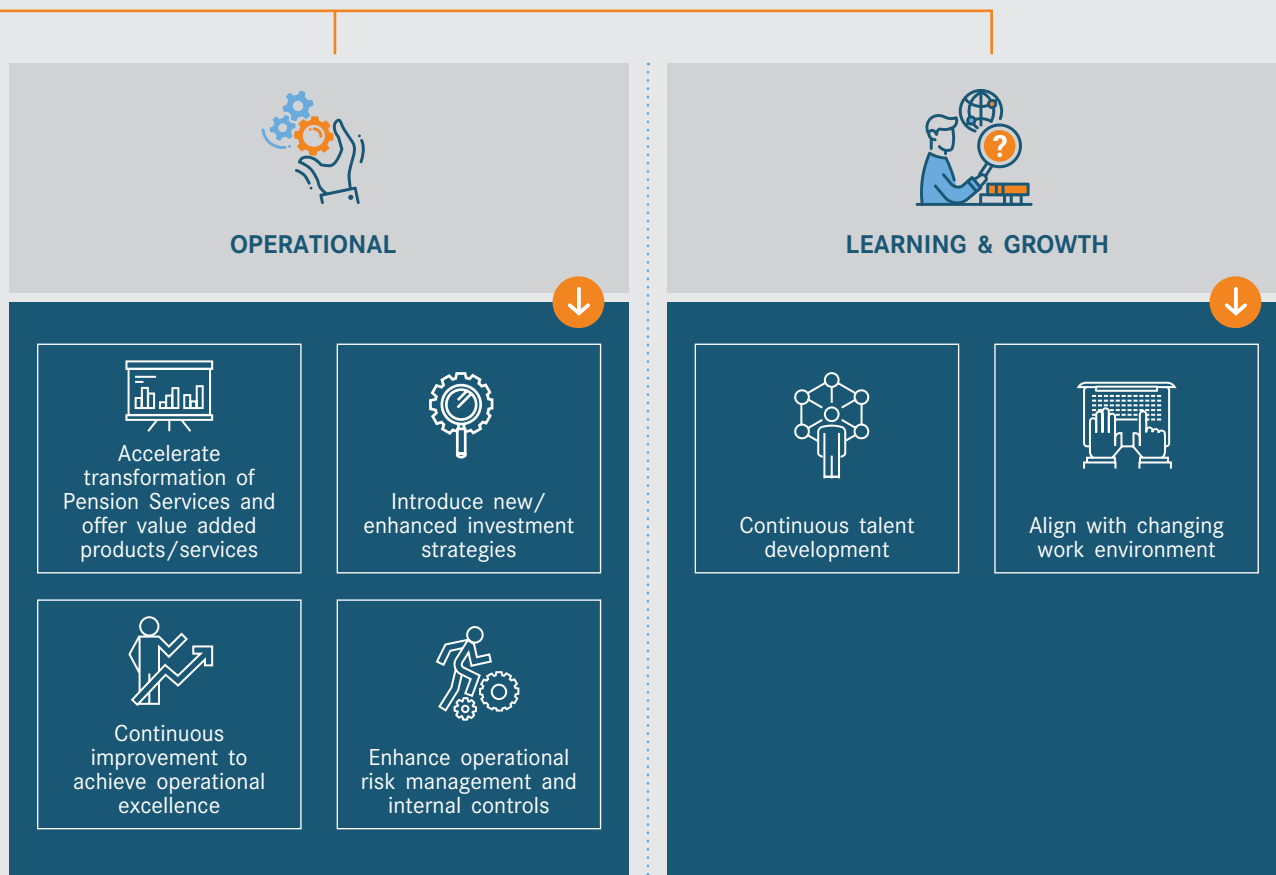
- Manage multiple pension schemes

⦿ Talent

- Active contribution at industry level on investment, pension, corporate governance and ESG matters

KEY PERFORMANCE INDICATORS

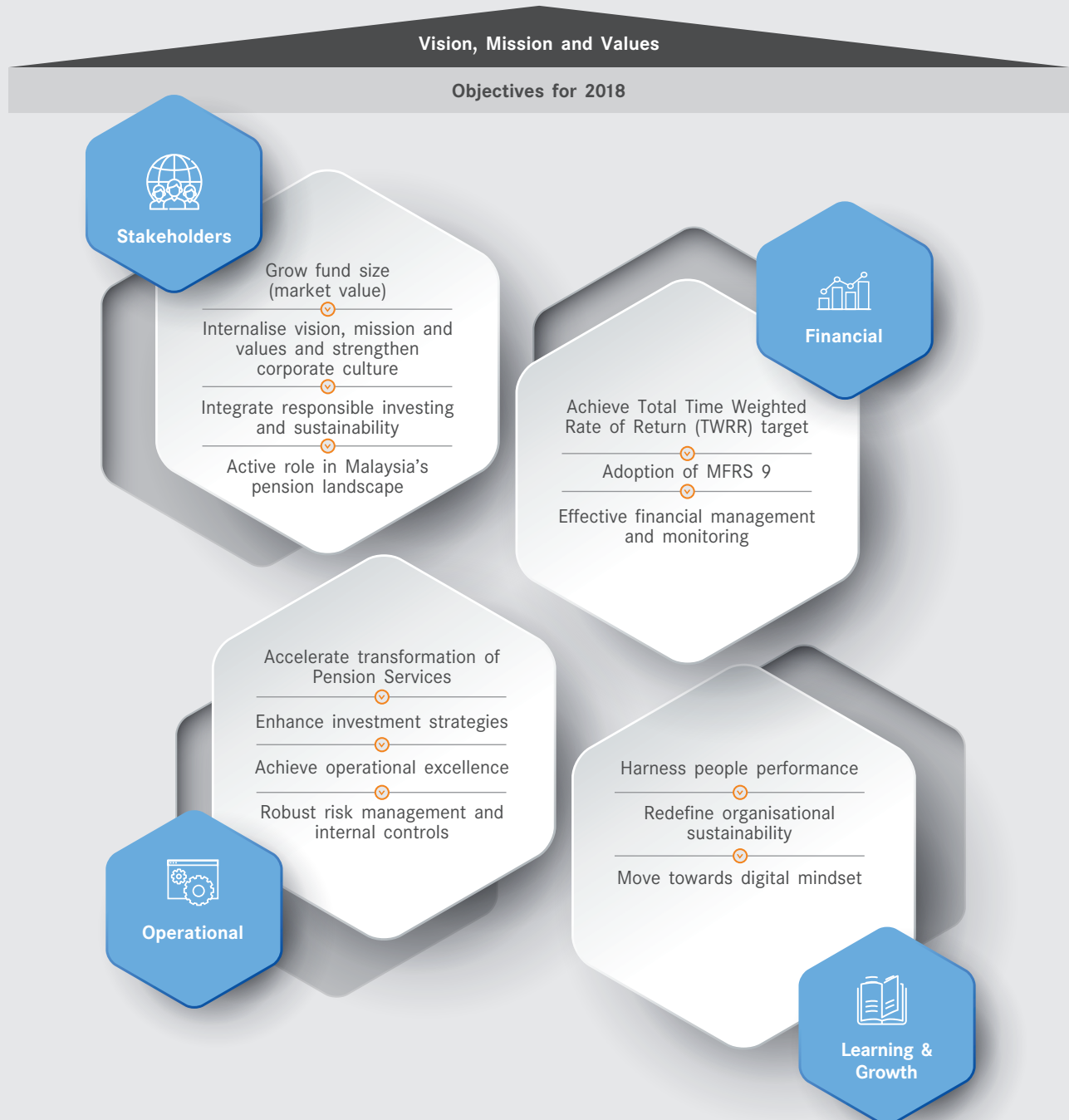




In meeting our vision, mission, and values, KWAP has established key objectives that drive the direction for the organisation that are categorised into four distinct pillars which are stakeholder management, financial, operational, and continuous talent development.

KEY PERFORMANCE INDICATORS

KWAP's 2017 Business Objectives





OUR PERFORMANCE IN 2017

INVESTMENT

- 96 Review of Investments by Chief Investment Officer
- 99 Investment Strategy
- 100 Performance by Asset Class
- 132 Our Subsidiaries
- 138 Global Investment Exposure

OPERATIONS

- 140 Review of Operations by Chief Operating Officer
- 141 Our Pensioners Come First
- 145 Customer Service
- 147 Contributions
- 151 Compliance and Enforcement
- 152 Enhancing Productivity via Information Technology
- 153 Investment Support and Services

STAKEHOLDER MANAGEMENT

- 154 Engagement with the Government & Institutions
- 156 Engagement with Employers
- 157 Engagement with External Fund Managers
- 158 Engagement with Pensioners
- 159 Nurturing Our Employees
- 166 Giving Back to the Community

REVIEW OF INVESTMENTS BY CHIEF INVESTMENT OFFICER



Nik Amlizan Mohamed
Chief Investment Officer

“ KWAP is capable of absorbing short-term market volatility,
and at the same time take advantage of the opportunities
that may arise during distressed market conditions. ”



It gives me **great pleasure to present our investment results** for the year **2017, especially as we celebrate our 10th anniversary with our best financial performance to date. Although the strengthening financial landscape played a role in this, our performance was also a reflection of the sound investment policies that we have in place, combined with the strategic forward thinking of our investment team.**



5-YEAR ROLLING TOTAL RETURN

6.44%

outperforming benchmark by

224

basis points

Accommodative monetary policies, strengthening commodity prices, especially that of oil, and synchronised uptrend in growth for most major economies last year, set the stage for a strong rebound in almost all investment classes. This was further complemented by a pick-up in US economic activity. Despite concern over the pace of monetary tightening, the Federal Reserve's decision to raise interest rates three times during the year was well telegraphed, and caused little disruption to financial markets, if at all.

KWAP achieved a record 12.64% increase in fund size, which saw the fund rising to RM140.80 billion from RM125.00 billion at end 2016.

In retrospect, revision of our Strategic Asset Allocation (SAA) at end 2016 was timely. It increased our domestic equities allocation with the provision of up to 1% of our asset under management (AUM) in domestic small-mid cap investments which generated a superior return of 17.36% against the benchmark of 15.87%. Similarly, a balanced strategy was adopted for our bond portfolio resulting in KWAP's ability to manoeuvre monetary tightening policies globally and overcome the threat of foreign outflows.

In the international market, we introduced a new mandate to invest in US equities, further widening the pool from which we are now able to include into our portfolio. We also began to outsource our Global Environmental, Social and Governance (ESG) mandate to external fund managers (EFMs) with an initial investment of USD200 million. At the same time, we are looking at direct investments in China A-Shares as we believe the China market represents the next growth area.

OUR INVESTMENT PERFORMANCE

As at 31 December 2017, fixed income made up 51.5% of our total fund, equity 42.8%, property (with leverage) 4.9% and private equity & infrastructure 2.4%. Each of the asset classes achieved positive returns during the year, with the highest return seen in equities at 15.0%, followed by property at 11.6%, private equity and infrastructure at 4.9%, and fixed income at 4.6%.

Overall, our gross and net ROI stood at 5.77% and 8.74%, respectively, contributing to the 12.64% expansion in our fund size to RM140.80 billion. Of our total asset under management, 87.88%, or RM123.67 billion, was in Malaysia – making KWAP one of the largest institutional investors in the country.

Over the past five years, namely from 2013-2017, our fund has grown from RM99.92 billion to RM140.80 billion, representing an average annual growth of 10.01%. In the same period, the fund registered an average gross ROI of 5.95%, surpassing the country's five-year average real GDP growth of 5.12%. This was the result of our investment team's ability to identify opportunities as they arose, and capitalise on the attractive returns offered across different asset classes and geographies.

Even more impressively, in the last five years, we achieved a total return, as measured by the time weighted rate of return (TWRR), of 6.44%, outperforming our benchmark by a significant 224 basis points.

Our domestic internal managers have consistently outperformed benchmarks identified over the past five years. For internal domestic equities, we achieved

REVIEW OF INVESTMENTS BY CHIEF INVESTMENT OFFICER



a five-year average TWRR of 6.84% as compared to the FBM100 benchmark of 2.22%. For domestic corporate bonds, our five-year average TWRR was 5.30% compared to the Quantshop Corp Medium Index benchmark of 4.50%; while for MGS, we registered 4.26% versus the Quantshop MGS All Index benchmark of 3.67%. Funds managed by external managers have also performed well overall in domestic equity and fixed income investment over the past five years.

KWAP's overall investments on the international fixed income front managed by internal and external managers have also performed commendably, achieving a five-year annualised TWRR of 9.46%, outperforming the benchmark JPM Global Aggregate Bond Index benchmark of 6.98%. Meanwhile, overall international equity investment achieved a five-year annualised TWRR of 11.99% versus the MSCI All Country World Index benchmark of 14.97%. The shortfall was largely due to our exposure to emerging markets including Asian equities, which underperformed most of the major global indices in 2017, while developed markets ended with strong gains driven by US equities in the same year.

INVESTMENT PHILOSOPHY

As an institutional investor, we aim to create long-term sustainable value for our stakeholders. This has guided us towards investments with strong ESG fundamentals which we believe are important in confronting some of the most defining challenges in the financial industry. Building on our ESG commitment, as of 2017, we are requiring our EFM's to also seek responsible investments by including an ESG clause in our Investment Management Agreement (IMA).

Geographically, although we have been investing overseas since 2009, the bulk of our investments is still concentrated in the domestic market because we believe in the country's long-term economic prospects, and seek to contribute towards the nation's economic growth as well as competitiveness. Nonetheless, we are actively on the lookout to expand our foreign exposure to optimise our returns and gain greater international standing. We also seek continuously to diversify our investments from the more traditional market segments into newer asset classes – always, however, maintaining our risk-return profile.

Moving ahead, booming global equity markets are likely to spawn increased speculative activity which would create market volatilities. To guard against these inherent risks, we intend to maintain as diversified a portfolio as possible. Our objective, as always, is to achieve the highest possible returns for our stakeholders in a manner that is prudent and responsible without compromising our risk appetite.

INVESTMENT STRATEGY

KWAP seeks to maximise the total returns on our fund on a sustainable basis through dynamic investment strategies. As a retirement fund, we do not seek short-term gain, but are instead driven to achieve consistent returns over five-year rolling periods, and are aided in the process by adhering to our risk appetite.

2017 Total return outperformed benchmark* by

117 bps

(9.10% vs 7.93%)

5-year rolling total return average of

6.44%

vs 5-year rolling GDP of **5.18%**

2017 ROI of

5.77%
(RM9.03 billion)

vs stretched target of **5.5%**
(RM7.44 billion)

As diversification is key to minimising investment risks, we outsource a portion of our fund to external fund managers (EFMs). With EFMs, moreover, we are able to compare the performance of our internal investment team with peers operating within the same investment parameters.

The parameters of our investment activities are set by our Strategic Asset Allocation (SAA), which determines the asset classes we can invest in, and provides a range of allocations for each to ensure optimal risk-return trade-offs. The SAA is continuously evaluated by a team of analysts who take into consideration current and anticipated movements in the financial and capital markets. When needed, the SAA is refined – with the Board and Investment Panel's approval – to enhance the fund's mobility to generate returns without taking risks beyond our capacity and capability. By adhering to our SAA, we have managed to grow our fund size over the years.

PERFORMANCE BY ASSET CLASS

EQUITIES

KWAP's equity exposure increased by 26.89% to RM60.2 billion as at 31 December 2017 from RM47.5 billion at the beginning of the year, representing 42.79% of our total assets. Domestic equities accounted for 86% of our total equity exposure, the rest being in foreign markets. Of the total RM60.2 billion, 80% was managed internally; the rest was outsourced to external fund managers (EFMs) appointed by KWAP.

In 2017 Equity recorded a total return of 15.03%, which outperformed the blended benchmark by 263 bps. The blended benchmark recorded a return of 12.40% for the same period.

In 2017, we realised a total income of RM4.19 billion from our equity investments, earning a return on investment (ROI) of 7.25%, most of which (82%) was derived from domestic equities. At the same time, internally managed equities contributed 79% of our total equity income, the balance flowing in from equity investments outsourced to our EFMs.

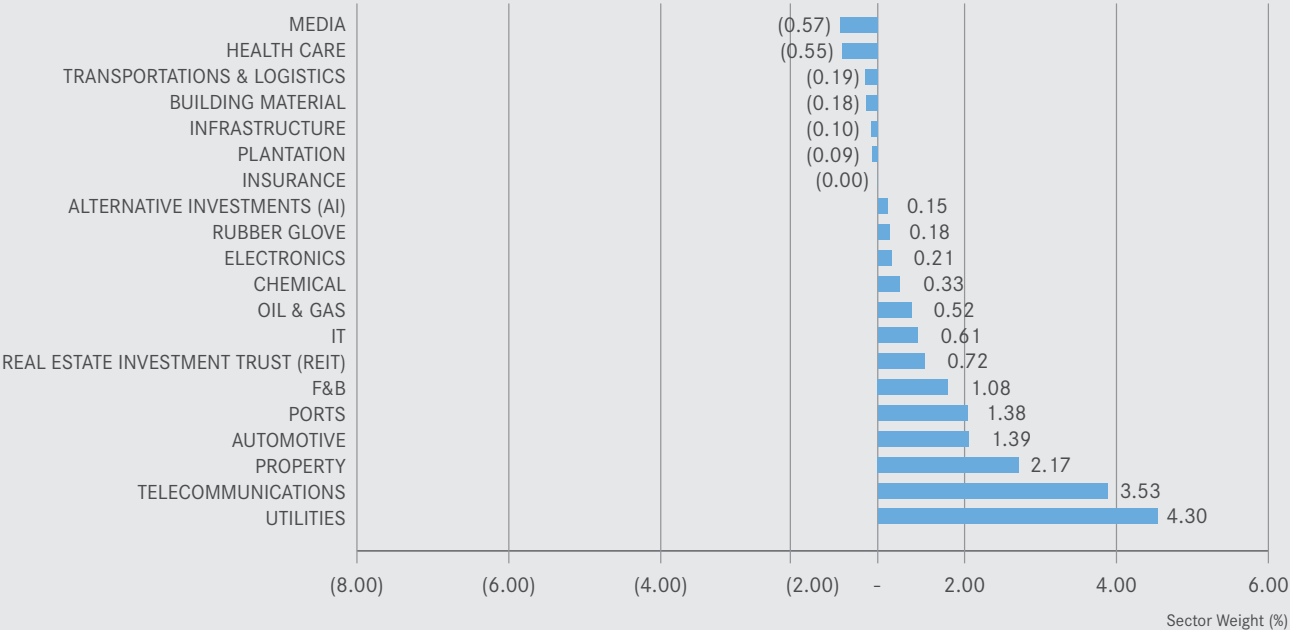
INTERNALLY MANAGED DOMESTIC EQUITIES

We exercise prudence in our investments by rigorously screening and evaluating potential investee companies to ensure they are fundamentally sound with strong track records of effective management, low earnings risk, good dividend yields and high liquidity.

We continue to be validated in our philosophy of prudent investment by achieving a total return of 15.80% as measured by the Time Weighted Rate of Return (TWRR) from our internally managed domestic portfolio in 2017. This meant that we outperformed the FBM100 Index, which recorded a TWRR of 12.74% for the year.

In terms of realised return, our team of internal investors recorded a total realised income of RM2.9 billion from domestic equities, representing an ROI of 6.73%.

Domestic Equity Sector Weight vs FBM100



INTERNALLY MANAGED INTERNATIONAL EQUITIES

KWAP's first foray into foreign equities began in 2012 with the establishment of an internally managed international equity mandate for the Asia Pacific ex-Japan market. In 2017, we expanded this market to include US equities.

2017 was a remarkable year for global equity markets, with MSCI World delivering a 23.1% return amidst resurgent economic growth and stellar corporate profits. US equity indices posted their best outing since 2013, largely supported by the tax reform and positive economic data. Relatively, Asia Pacific equities have outperformed the other markets and returned positively for the year. An upswing in global growth and recovery in commodity prices have managed to find their way into corporate profits, supporting the rally equities. The stronger-than-expected China economy which relieved investors of 'hard landing' worries has helped to strengthen the appetite for regional equity markets in 2017. In this environment, KWAP's

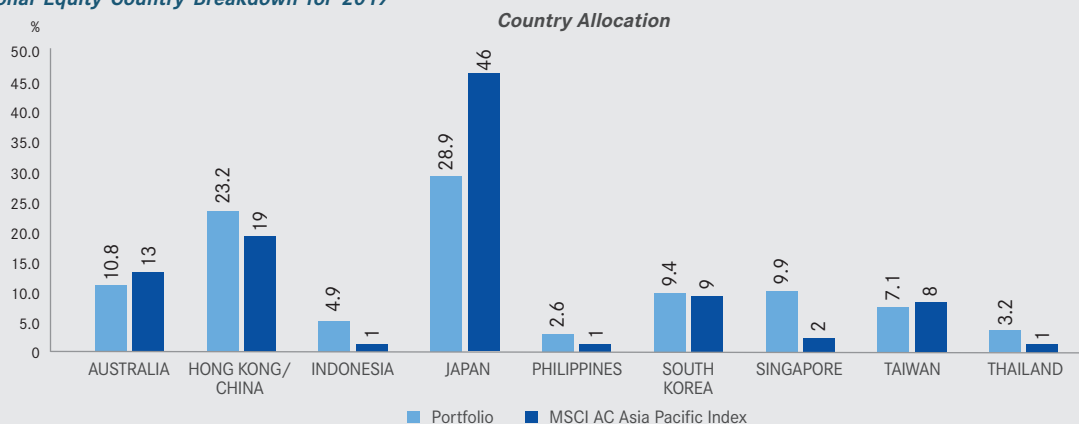
internal international equity investment allocated its investment in US and closing in on growth companies to ride on the recovery momentum.

Expansion into US equities combined with general growth in market value led to a 25.0% increase in our internally managed international equity fund size to RM4.5 billion from RM3.6 billion in 2016. Despite extreme volatilities across markets within the Asia Pacific region amidst heightened global uncertainties, our APAC fund returned 14.66% as measured by TWRR, underperforming our benchmark MSCI All Countries Asia Pacific Index by 1.84%.

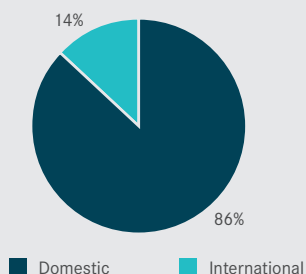
In terms of realised returns, the fund recorded a realised income of RM395.08 million, which translated into an ROI of 9.47%.

This commendable performance was achieved via an active investing approach driven by fundamental research of countries and sectors, always maintaining our investments within established risk tolerance parameters.

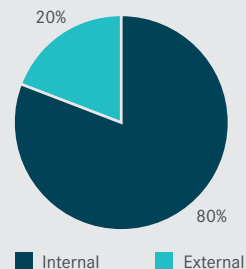
International Equity Country Breakdown for 2017



Equity Fund Size by Region



Equity Fund Size by Managers



PERFORMANCE BY ASSET CLASS

EXTERNALLY MANAGED DOMESTIC EQUITIES

As at end 2017, the total market value of domestic equities managed by EFMs stood at RM7.9 billion, an increase of 27.4% from RM6.2 billion in 2016. The equity portfolios managed by domestic EFMs account for 5.6% of our total fund size of RM140.8 billion. In total, there are 20 domestic EFMs, with five each managing Conventional and Shariah equities, six managing Small Caps, and four managing Environmental, Social and Governance (ESG) mandates.

Domestic TWRR

The total return for KWAP's outsourced domestic equity investment was 11.58% as compared to the FBM100 Index's gain of 12.74%, as at 31 December 2017, representing an underperformance of 116 bps. Conventional and ESG mandates recorded a weighted average TWRR of 12.09% and 11.46% respectively. Whilst Shariah mandate has recorded a weighted average TWRR of 8.80% against the FBM Hijrah Shariah Index's return of 8.20% and Small Cap mandate managed by EFMs at 16.74% against the FBM Small Cap Index's return of 15.87%.

As at end 2017, KWAP's domestic equity EFMs recorded an aggregate realised income of RM529.7 million, representing an ROI of 7.2%. On aggregate, the outsourced mandates underperformed their benchmark. To strengthen our exposure to domestic ESG and Small Cap investments, We are continuing to outsource funds to EFMs with additional capital injections to the top performing EFMs while adding new EFMs to existing mandates.

List of Domestic External Fund Managers as at 31 December 2017

	Fund Inception		Fund Inception
Conventional		Small Cap	
CIMB-Principal Asset Management Sdn Bhd	2005	Affin Hwang Asset Management Bhd	2014
Nomura Asset Management Malaysia Sdn Bhd	2007	Kenanga Investors Bhd	2014
Aberdeen Asset Management Sdn Bhd	2008	Maybank Asset Management Sdn Bhd	2015
Kenanga Investors Bhd	2011	Eastspring Investments Bhd	2015
Affin Hwang Asset Management Bhd	2016	UOB Asset Management Sdn Bhd	2017
		Amundi Malaysia Sdn Bhd	2017
Shariah		Environmental, Social and Governance (ESG)	
i-VCAP Management Sdn Bhd	2011	VCAP Asset Managers Sdn Bhd	2014
CIMB-Principal Islamic Asset Management Sdn Bhd	2012	Aberdeen Asset Management Bhd	2015
AmIslamic Asset Management Bhd	2012	BNP Paribas Investment Partners Malaysia Sdn Bhd	2015
AIIMAN Asset Management Bhd	2015	Corston-Smith Asset Management Sdn Bhd	2015
MIDF Amanah Asset Management Bhd	2016		

EXTERNALLY MANAGED INTERNATIONAL EQUITY

In 2017, KWAP's externally managed international investments were in four mandates, namely the United Kingdom (UK), Europe (euro), Asia Pacific ex-Japan (APEXJ), and Global Environmental, Social and Governance (ESG). Our wholly-owned subsidiary, Prima Ekuiti (UK) Limited (Prima Ekuiti), is responsible for both the UK and Europe mandates, while APEXJ mandates are managed by State Street Global Advisors Asia Limited (SSGA) and Invesco Asset Management Singapore Limited (Invesco), and Global ESG mandates by Nikko Asset Management Asia Limited (Nikko) and LGT Capital Partners (LGT).

As at end 2017, KWAP's international equity EFM's recorded an ROI of between 8.3% and 9.8%, totalling RM351.2 million. All portfolios outperformed their respective benchmarks except for Nikko. Both Invesco and SSGA outperformed the MSCI Asia Pacific ex Japan Index by 566 bps and 6 bps respectively. Similarly, the UK and Euro mandates did relatively well, outperforming the FTSE100 Index and MSCI Euro Index by 112 bps and 58 bps. Recently inception Nikko slightly underperformed the benchmark by 67 bps whilst LGT outperformed the MSCI ACWI ESG benchmark by 147 bps.

List of International External Fund Managers as at 31 December 2017

	Fund Inception
UK	
Prima Ekuiti (UK) Ltd	2012
Europe	
Prima Ekuiti (UK) Ltd	2014
Asia Pacific ex-Japan	
State Street Global Advisors Ltd	2011
Invesco Asset Management Singapore Ltd	2015
Global ESG	
Nikko Asset Management Asia Limited	2017
LGT Capital Partners	2017

PERFORMANCE BY ASSET CLASS

FIXED INCOME

Prior to KWAP's incorporation in 2007, cash was invested mainly in short and long-term deposit instruments. Since managing the fund, we have invested in other money market instruments such as banker's acceptance, Bank Negara Monetary Notes (BNMN), Malaysia Treasury Bills (MTB), commercial papers (CP), negotiable instruments of deposit (NID) and negotiable Islamic debt certificates (NIDC) for higher returns.

To minimise price risk and retain the value of our investments, hedging instruments have been introduced to manage both foreign exchange and interest rate fluctuations.

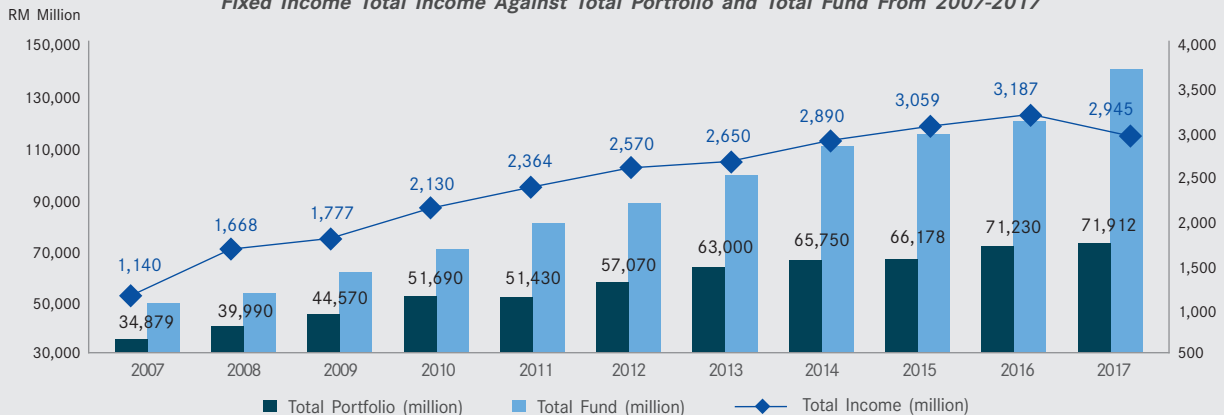
Our fixed income total portfolio has grown

2017 **RM71.91 billion**

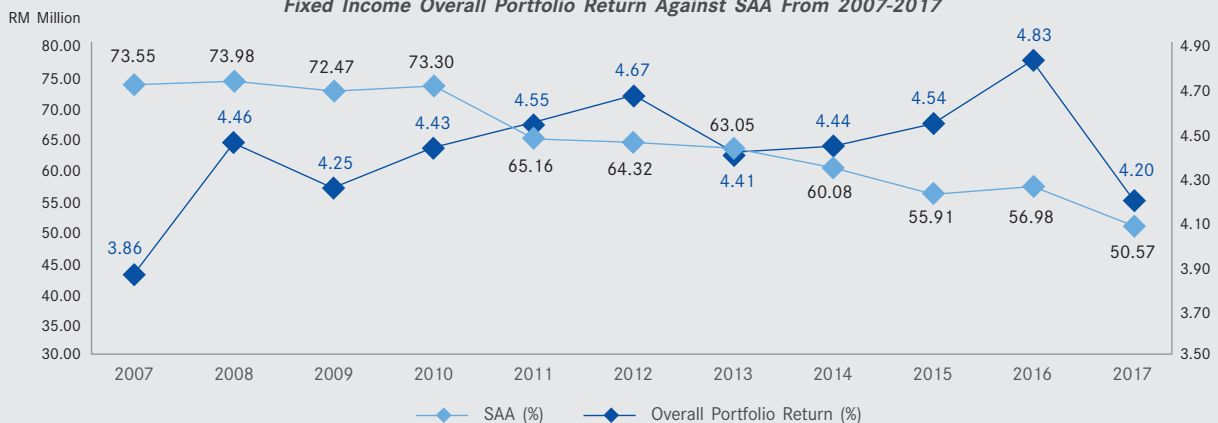
2007 **RM34.9 billion** 

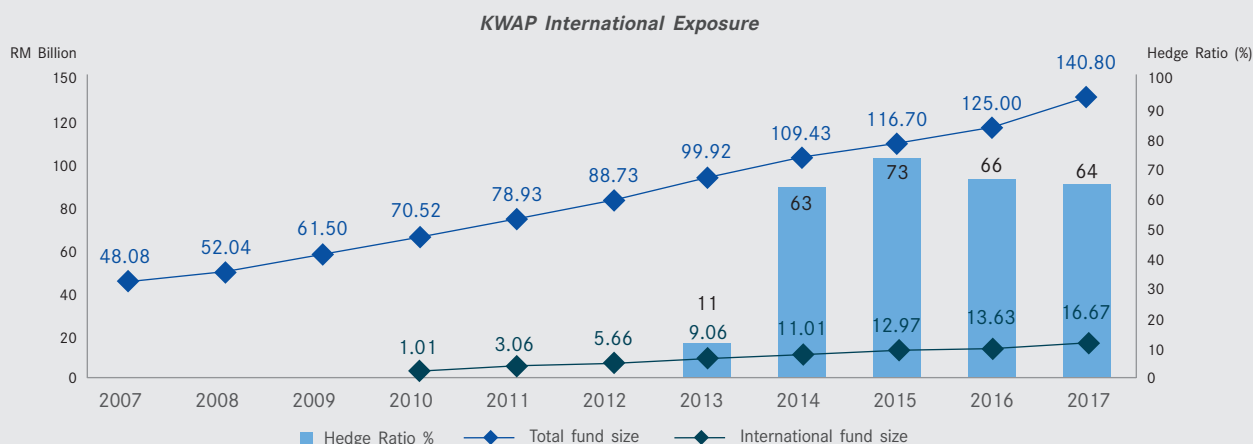
at an average annual growth rate of **9.44%**

Fixed Income Total Income Against Total Portfolio and Total Fund From 2007-2017



Fixed Income Overall Portfolio Return Against SAA From 2007-2017





Evolution of our Fixed Income Investments

In 2008, to enhance the segregation of duties and internal control, the back office unit that previously resided in the Fixed Income Department (FID) was merged with the investment settlement unit under the Accounts and Management Services Department (AMSD) to form the Investment Settlement Department. Later, in 2015, this department merged with the Custodian Department to form the Investment Support and Services Department.

In 2009, a new credit unit was set up to facilitate the credit evaluation/assessment and monitoring processes. The same year, FID began participating in the Institutional Securities Custodian Programme, which enhanced our secondary bond trading and increased our fee-based income.

In 2010, FID received approval for the implementation of hedging tools such as interest rate swap (IRS) and cross-currency swap (CCS) to strengthen our hedging on local and foreign investments.

In 2011, KWAP subscribed to the first Islamic foreign-denominated currency bond and hedged it via Islamic CCS. Subsequently, KWAP invested in the world's first Islamic Perpetual Sukuk issuance and obtained ISO 9001:2008 certification for domestic fixed income in 2012.

In 2013, FID invested in Malaysian Sovereign Dollar Bonds. KWAP also obtained approval to transact in Repurchase Agreements. The credit unit was integrated into the Research Department to segregate the functions of the front and middle offices.

In 2014, KWAP adopted the Risk Management and Compliance Department's Liquidity Risk Management Framework to enhance our cash flow management. Essentially, the framework improves the efficiency of our liquidity measurement and management, whilst enhancing our ability to finance short to medium-term liquidity requirements. Guided by the framework, we have implemented a cash flow projection system to forecast future incoming and outgoing fund flows for cash management purposes. The main objective of this initiative is to uplift efficiency in cash management whilst maximising returns on surplus cash.

In 2017, we established an Environment, Social and Governance (ESG) Policy and Guidelines for Fixed Income, integrating ESG factors into the credit assessment and investment processes. Under these guidelines, we ensure bond issuers and borrowers improve their ESG practices.

PERFORMANCE BY ASSET CLASS

INTERNALLY MANAGED FIXED INCOME

Malaysian Government Securities (MGS) and Quasi Government Bonds

2017 was an eventful year in terms of global developments that shaped the domestic market. Following the sharp sell-off in the bond market at end 2016 due to the US election results, Malaysian Government bonds started the year with yields at a high. The 10-year MGS yield opened the year above 4.20%, whilst the Ringgit weakened to RM4.48 against the US Dollar in the same period.

The second half of 2017 saw an improvement in global and domestic macro-economic conditions, underpinned by stronger global demand, higher commodity prices and robust domestic growth.

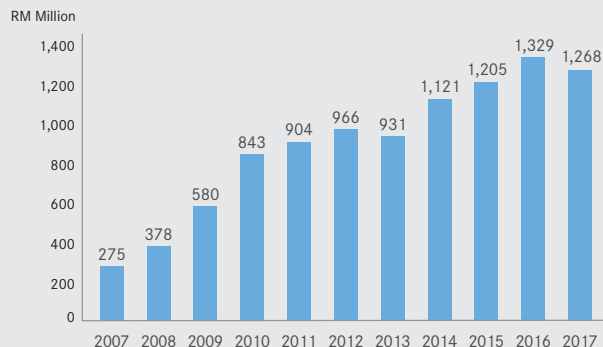
This led to a broad recovery for Malaysian financial markets and the return of foreign investment flows which saw the 10-year MGS yield closing the year at 3.91% and the Ringgit appreciating by 9.8% to close at 4.0465 against the US Dollar. During the same period, Bank Negara Malaysia's foreign reserves recorded a steady increase from USD95 billion to USD102 billion.

Despite a lacklustre first half of 2017 for the Malaysian bond market, KWAP remained an active participant in the primary and secondary markets for domestic government bonds and government guaranteed issuances. The annual cumulative trading volume in 2017 was recorded at RM15.73 billion which included purchase and sales volumes of RM7.91 billion and RM7.82 billion respectively.

KWAP's total investment in government securities – MGS, government investment issues (GII) and quasi government bonds – as at end 2017 stood at 22.6% of the total fund size as compared to 25.8% as at end 2016. Notwithstanding the reduction in the asset allocation of the portfolio, we registered an income of RM1.268 billion in 2017 compared to RM1.329 billion in 2016 with an average portfolio duration of 8.02 years.

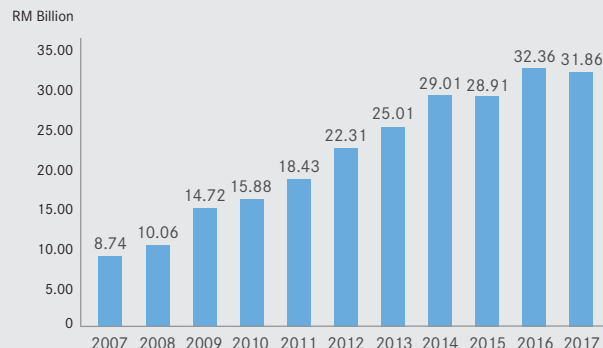
In anticipation of rising global and domestic interest rates in 2018, the domestic sovereign bond market is expected to be slightly pressured albeit with stable demand as the positive Malaysian economic outlook, a strengthening Ringgit and improved government fiscal position are likely to boost investor sentiment.

Investment Income from 2007-2017



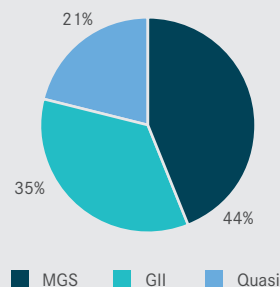
Source: FID

Holdings of Domestic Sovereign Bonds from 2007-2017



Source: FID

Portfolio segregation by instrument type as at 31 December 2017



Source: FID

Corporate Bonds

Domestic corporate bond issuance was significantly high in 2017, at RM126.3 billion compared to RM85.2 billion in 2016. Total issuances far surpassed the forecast by RAM Ratings of between RM95.0 billion – RM105.0 billion as well as the average issuance of the previous four years at around RM85 billion. There were more issuances of government guaranteed (GG) papers during the year totalling RM41.3 billion compared to RM28.5 billion in 2016. Overall, total issuances grew by 48% year-on-year (y-o-y) or by RM41 billion. Of the RM41 billion, close to 40% was from the unrated segment, with RM10 billion in GG papers. The month of December itself saw robust primary issuances as issuers opted to lock in rates before the expected rate hike in 2018, with RM13.7 billion issuances recorded.

For the year 2017, KWAP's portfolio holdings in corporate bonds (at market value) increased to RM15.78 billion from RM14.47 billion in 2016 on the back of sizeable purchases in the primary market. A total of RM1.191 billion was sold and redeemed as against new purchases of RM2.425 billion.

Income in 2017 decreased to RM750.2 million from RM827.2 million largely due to sizeable maturities and reinvestment into lower-yielding bonds. Amid the low interest rate environment, this contributed to a decrease in ROI from corporate bonds from 5.23% in 2016 to 5.00% in 2017.

In 2017, KWAP embarked on our maiden investment into a socially responsible investment (SRI), also known as Green Sukuk, issued by PNB Merdeka Ventures Sdn Bhd. Moving forward, we plan to invest more into SRI in line with our commitment to promote socially and environmentally responsible counters.

Supply of corporate bonds in 2018 is expected to be lower than in 2017, at around RM95 billion to RM100 billion which roughly translates to a net issuance of RM53 billion to RM58 billion based on scheduled maturities of RM42 billion for the year. We expect greater issuance in the early part of 2018 to lock in lower funding costs prior to the overnight policy rate (OPR) hike expected in the first quarter of the year. Aside from the OPR hike, yields are expected to go up in general as central banks globally halt their accommodative stance.

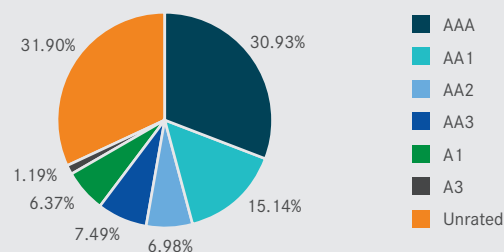
Corporate bond issuances in 2018 are likely to remain driven mainly by the GG segment on the back of financing needs of mega projects planned under the 11th Malaysia Plan as well as financial institutions refinancing and infrastructure related project financing.

Total issuances grew by

48% y-o-y to
RM41 billion

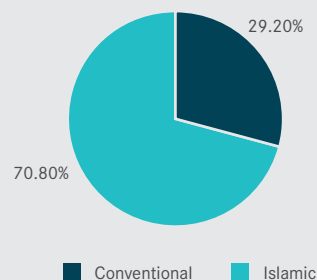


KWAP's corporate bonds exposure by rating



Source: FID

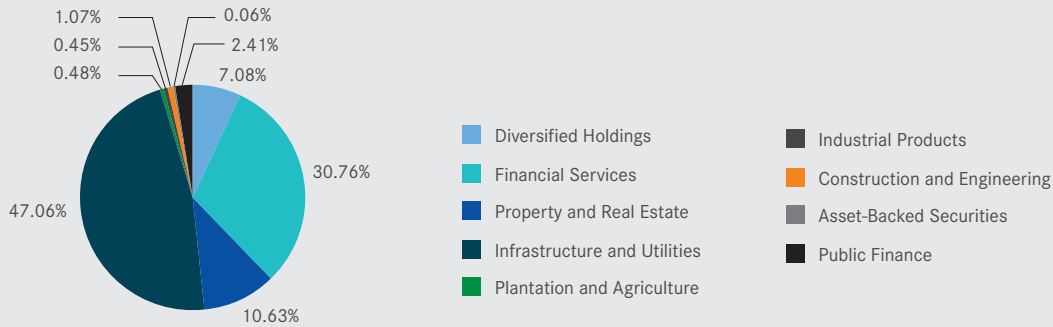
KWAP's exposure in corporate bonds according to principle



Source: FID

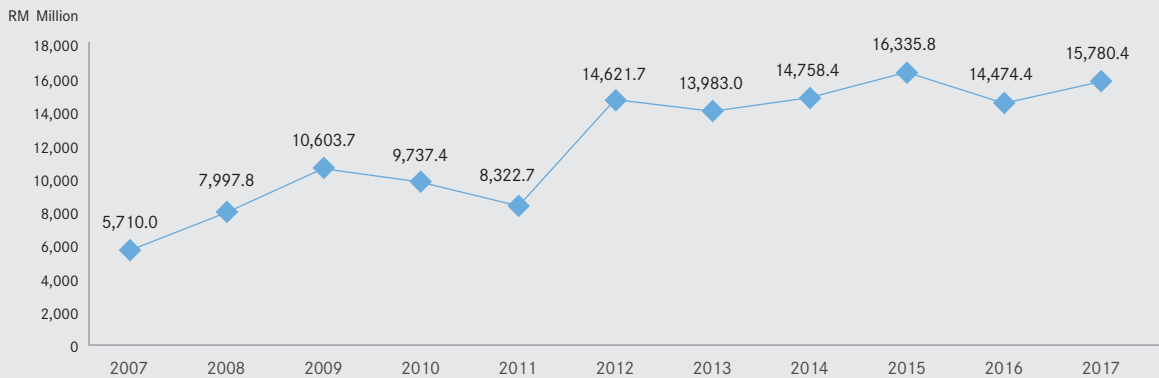
PERFORMANCE BY ASSET CLASS

KWAP's Corporate Bonds Exposure by Sector



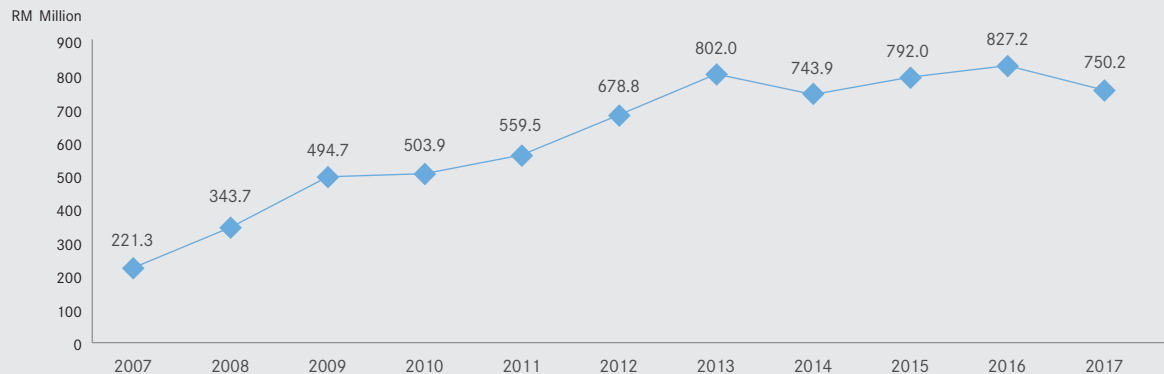
Source: FID

Market value of KWAP's holdings in corporate bonds from 2007-2017



Source: Investment Income Report (IIR), AMSD

Income from KWAP's holdings of corporate bonds from 2007-2017



Source: Investment Income Report (IIR), AMSD

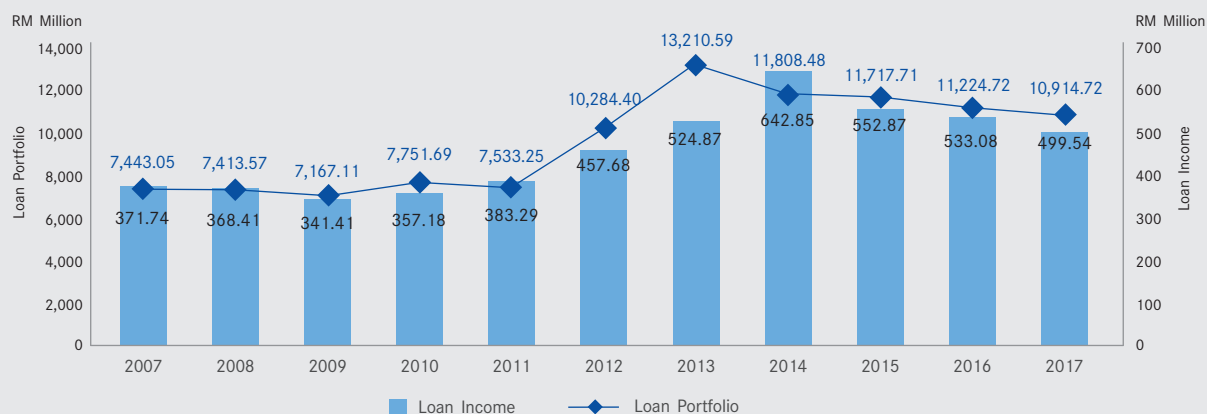
Loans

As at 31 December 2017, KWAP's total loan portfolio stood at RM10.91 billion, which constituted 7.8% of our total fund of RM140.80 billion. Changes in our loan portfolio in 2017 were due to loan repayment, maturity and early settlement.

2017 Loan Portfolio Movement

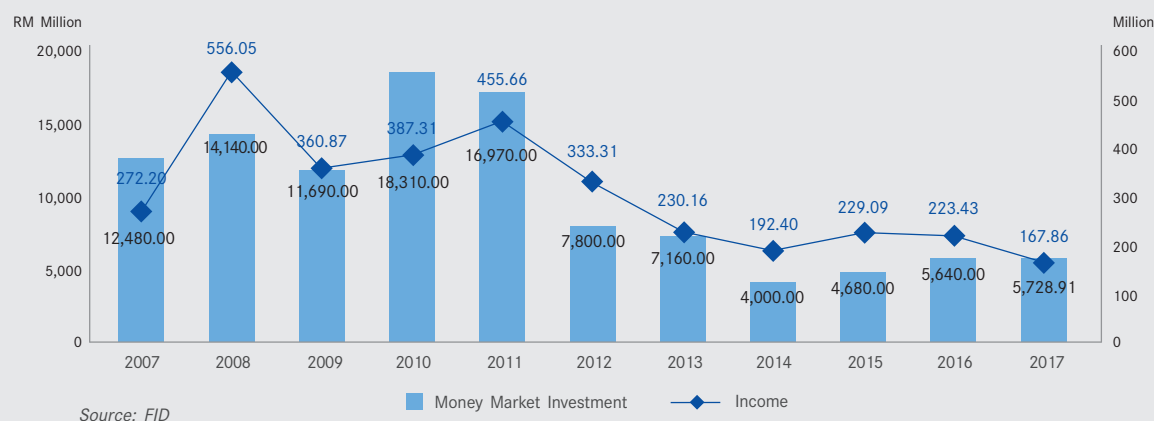
Loan Portfolio Movement	Amount (RM million)
Loan Portfolio as at 1 January 2017	11,224.72
Early repayment	(100.00)
Repayment/Maturity	(210.00)
Loan Portfolio as at 31 December 2017	10,914.72

2017 Loan Portfolio Performance



Money Market

KWAP's money market investment and income from 2007-2017

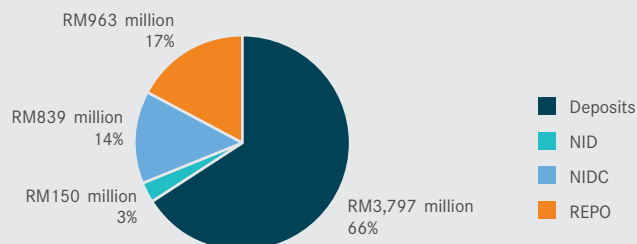


PERFORMANCE BY ASSET CLASS

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Money Market Investment (RM million)	12,480.00	14,140.00	11,690.00	18,310.00	16,970.00	7,800.00	7,160.00	4,000.00	4,680.00	5,640.00	5,728.91
Income (RM million)	272.20	556.05	360.87	387.87	455.66	333.31	230.16	192.40	229.09	223.43	167.86

As at end 2017, our total money market investments including Ringgit and foreign currencies stood at RM5.73 billion, an increase of 1.6% from RM5.64 billion at the beginning of the year. The chart below depicts the breakdown of money market investments as at 31 December 2017.

Money Market Investments as at 31 December 2017



Source: FID

Money market investments generated a gross income of RM167.91 million in 2017, which was 24.8% lower than the RM223.43 million attained in 2016.

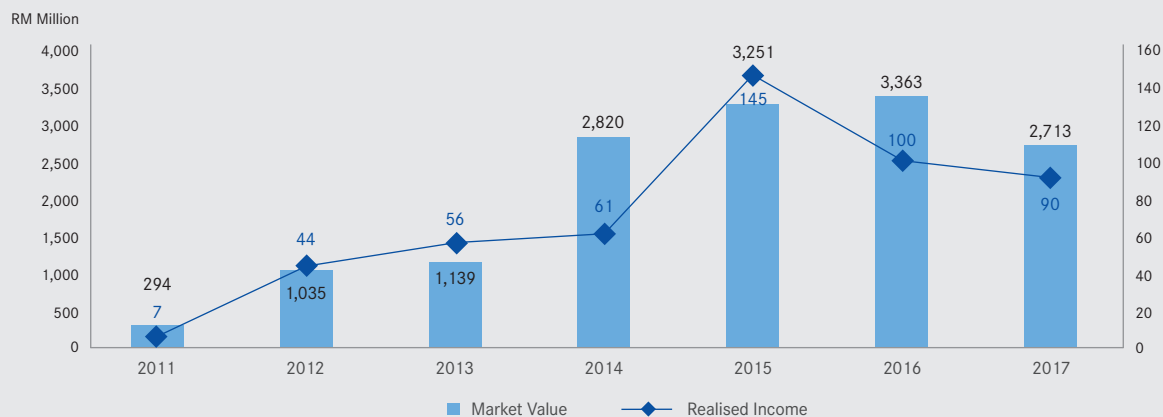
Our strategy for 2018 is to continue to address short to medium-term investment and operational obligations in addition to investing in higher-yielding instruments to maximise returns.

International Fixed Income

As part of our strategy to diversify our investment portfolio, KWAP has steadily increased the market value of our international fixed income portfolio from RM294 million as at end 2011 to RM2,713 million as at end 2017. In 2017, however, changes in the monetary environment prompted us to reduce our exposure to fixed income. Accordingly, our international fixed income portfolio decreased from RM3,363 million as at end 2016 to RM2,713 million at end 2017.

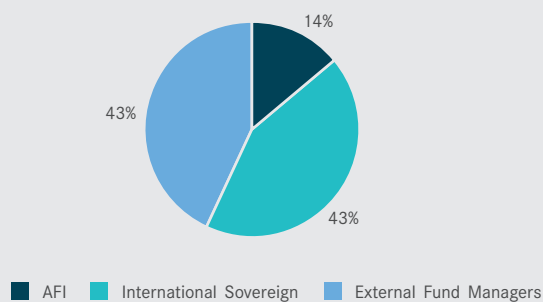
Despite the US Federal Reserve's three rate hikes, KWAP's internally managed fixed income portfolios continued to deliver steady performance, generating an aggregate realised income of USD137.7 million in 2017 (2016: USD100.15 million). Indeed, our International Sovereign portfolio exceeded expectations and recorded an ROI in excess of 8%. Meanwhile, our Asian Fixed Income (AFI) delivered an ROI of 5.06% and TWRR of 7.74%.

International Fixed Income Holdings and Realised Return, 2011-2017

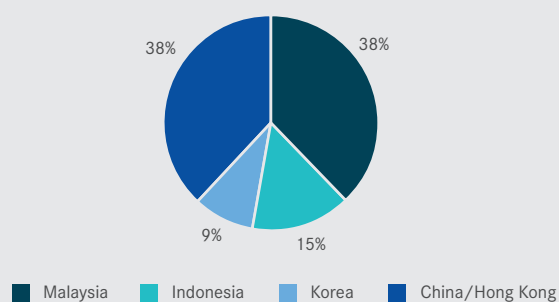


International Fixed Income Holdings as at 31 December 2017

International Fixed Income Holdings by Portfolio



Internally Managed International Fixed Income by Country



PERFORMANCE BY ASSET CLASS

EXTERNALLY MANAGED FIXED INCOME

When KWAP was incorporated in 2007, we had only two EFMs managing the domestic conventional bond mandates, who eventually penetrated into the international bond market while diversifying into Shariah bonds, or sukuk. Within 10 years, the EFMs' portfolios have grown by a marked 850.38%, from RM500 million to RM4.75 billion. In terms of the mandate mix, diversification into global sukuk in 2011 marked our first foray into the international market in response to government initiatives to promote the Islamic finance marketplace via the Malaysian International Islamic Financial Centre (MIFC). As of 2017, sukuk investments account for 40.46% and conventional bonds 59.54% of our total outsourced fixed income fund. Within this portfolio, international fixed income investments have gradually risen to make up 22.56% of the total.

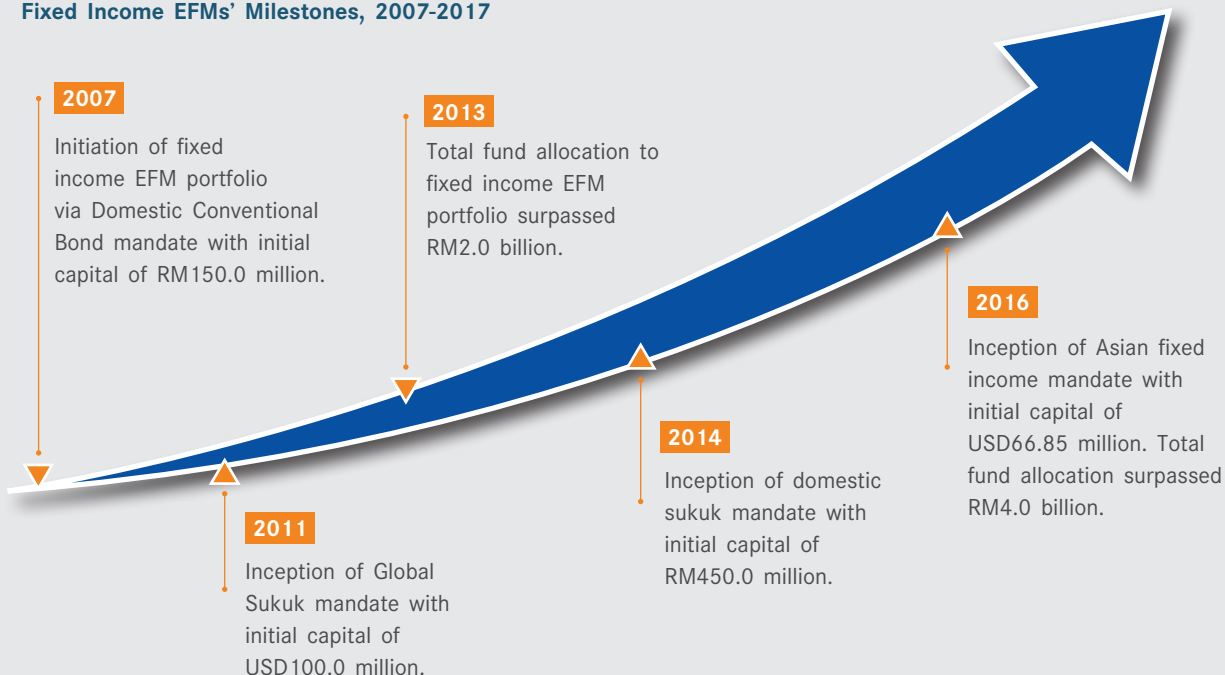
As at end 2017, the total fixed income funds outsourced to EFMs stood at RM5.39 billion, representing 3.83% of KWAP's fund size and marking an increase of 21.39% from RM4.44

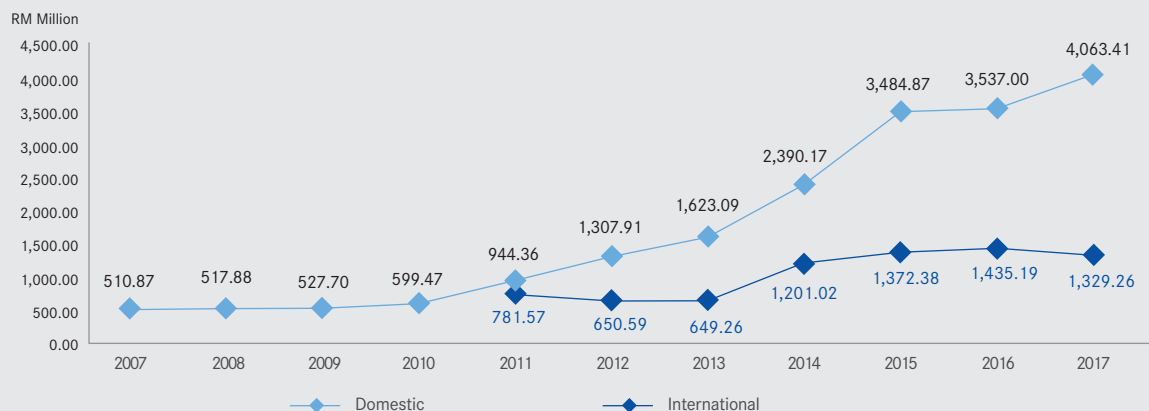
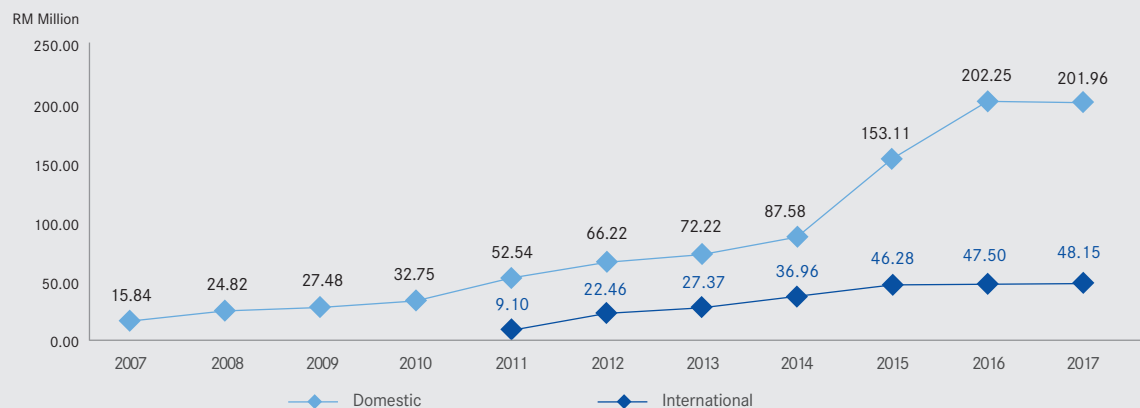
billion in 2016. In terms of geographical exposure, 75.35% of the externally-managed assets were invested in the domestic bond market and 24.65% in the global market.

As at end 2017, our EFMs were managing RM4.06 billion in domestic fixed income assets, accounting for 5.60% of KWAP's total fixed income investments. They recorded an aggregate realised income of RM201.96 million representing an average ROI of 5.56%.

EFMs' international fixed income exposure increased to USD328.42 million (RM1.32 billion) in 2017 from USD316.85 million (RM1.07 billion) in 2016. Combined with internally-managed bond portfolios, international EFM fixed income investment accounted for 0.95% of KWAP's fund size. As at end 2017, EFMs recorded an aggregate realised income of USD13.37 million from international fixed income representing an average ROI of 4.18%.

Fixed Income EFMs' Milestones, 2007-2017

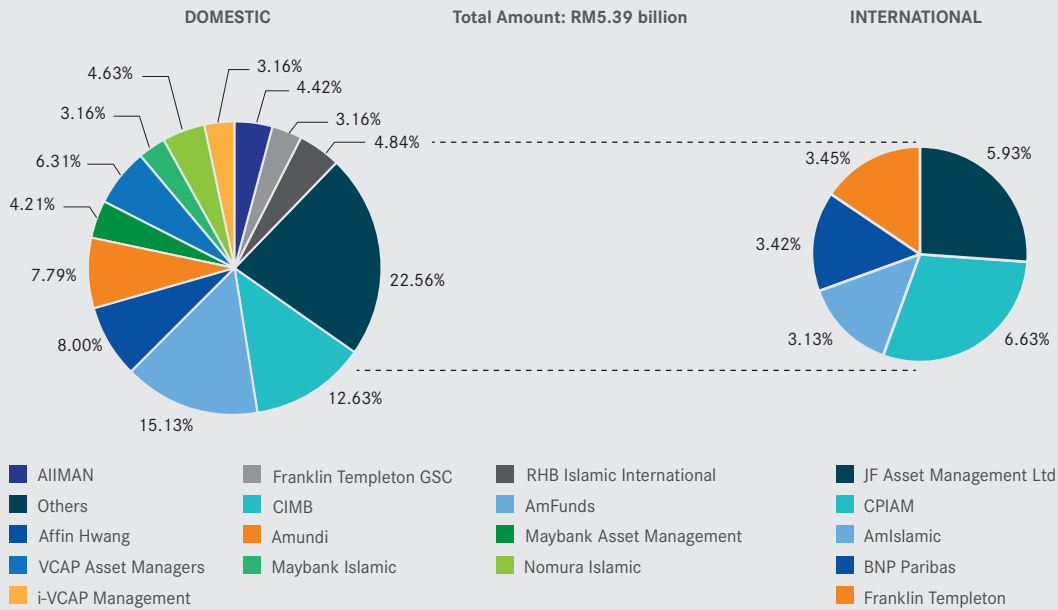


EFMs' Fixed Income Portfolio Market Value From 2007 to 2017**EFMs' Fixed Income Portfolio Income From 2007 to 2017**

Source: FID

PERFORMANCE BY ASSET CLASS

EFM Portfolios by Geographical Exposure



List of Domestic External Fund Managers as at 31 December 2017

Domestic	Fund Inception
CIMB-Principal Asset Management Bhd	2006
AmFunds Management Bhd	2007
Affin Hwang Asset Management Bhd	2011
Amundi Malaysia Sdn Bhd	2012
Maybank Islamic Asset Management Sdn Bhd	2014
Nomura Islamic Asset Management Sdn Bhd	2015
RHB Islamic International Asset Management Bhd	2015
Maybank Asset Management Sdn Bhd	2015
VCAP Asset Managers Sdn Bhd	2015
Franklin Templeton GSC Asset Management Sdn Bhd	2015
AIIMAN Asset Management Sdn Bhd	2015
i-VCAP Management Sdn Bhd	2015

Source: FID

List of International External Fund Managers as at 31 December 2017

International	Fund Inception
CIMB-Principal Islamic Asset Management Sdn Bhd	2011
Amlslamic Funds Management Sdn Bhd	2011
BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd	2014
Franklin Templeton GSC Asset Management Sdn Bhd	2014
JF Asset Management Limited	2015

ALTERNATIVE INVESTMENTS**Private Equity and Infrastructure Investments Performance**

KWAP built on the momentum established in the private equity/infrastructure mandate with 11 new investments during the year, comprising eight new funds and three new direct investments. While we increased our exposure in the North American and European regions through funds, most of our direct investments continued to be concentrated in the domestic market with just one in Europe.

Our direct investment activity saw us score several firsts. Via edotco Group Sdn Bhd (the largest communications tower provider in ASEAN with 28,000 towers), we have now ventured into regional infrastructure. Through Swift Haulage Sdn Bhd (the top ranking company in terms of twenty-foot equivalent units volume nationwide), we have debuted into local logistics. We also made our first foray into the renewable energy sector through the acquisition of 45% stake in Vortex Solar Investments Sàrl (Vortex). Vortex's solar photovoltaics (PV) technology will lead to a reduction of 126,560 tonnes of CO₂ emissions per annum, supporting our commitment towards environmental sustainability.

As at end 2017, KWAP had invested in 32 private equity funds and five direct private equity investments. Our total private equity investments amounted to RM2.75 billion or 1.94% of our total fund size, which is within the 4% allowed for the mandate under our Strategic Asset Allocation.

Our private equity investments generated a total income of RM103.8 million with an ROI of 4.96%, recording a 200% upsurge in income compared to 2016. This is mainly due to the increasing maturity of our portfolio.

Nonetheless, as private equity investments are long-term commitments, they typically accumulate negative net cash flows in the initial years of investments (investment period). This cash flow profile is called the J-curve effect, whereby returns are distributed later in the investment life when the portfolio companies mature and can be divested.

At present, with the majority of our private equity assets still in gestation period, KWAP is gradually rising from the deep J-curve and positive cash flows are expected in the near future.

PERFORMANCE BY ASSET CLASS

Figure 1: PE Funds Commitment Exposure by Geography

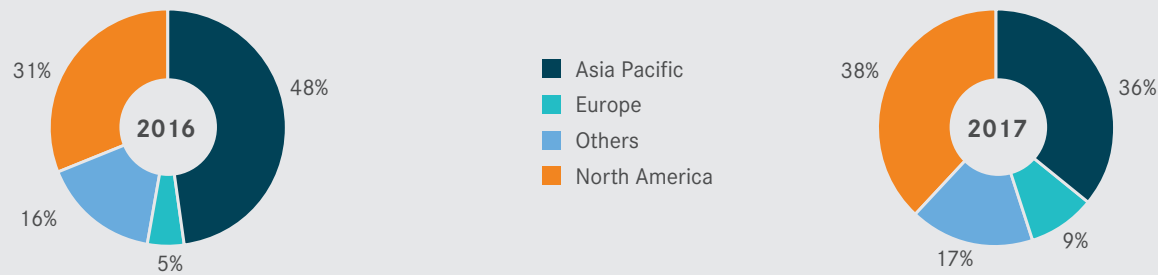


Figure 2: PE Funds Commitment Exposure by Strategy



Source: KWAP

Private Equity Technology Investments

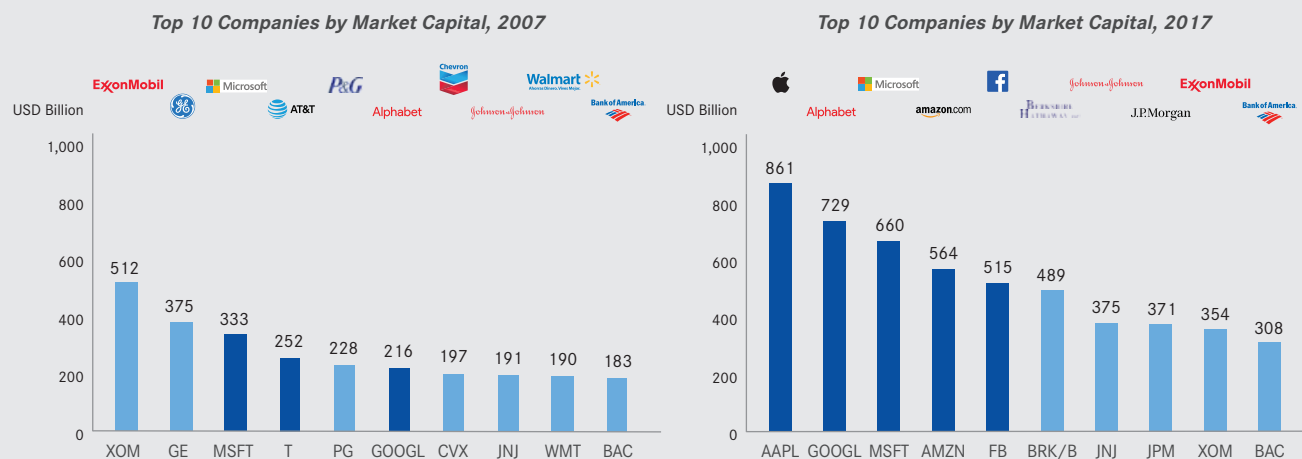
Just as technology companies are disrupting the economic landscape, they are also dominating the investment universe. They form the top five companies on the S&P 500 index, representing a total market capitalisation of USD3.3 trillion. Capitalising on this technological revolution, as of mid-2016 KWAP has started to invest directly into technology companies and indirectly, via venture capitals (VC) funds.

Our first direct technology investment, made in September 2016, was in Uber Technologies. Although the company has subsequently gone through a number of challenges, Uber continues to be the global market leader in the ridesharing economy with operations in over 616 cities in 77 countries, and 100%, 89% and 100% market share in Canada, the US and Latin America respectively. It is, moreover, on the right path for further growth with a new senior management intent on improving its internal culture.

In November 2016, we made our first investment in a VC fund, namely DAG Ventures VI LP (DAG). DAG is a US-based top quartile VC firm that invests in US technology related companies. The fund has already deployed 41% of its paid-in to capital contributions to date. Through our Investment in DAG, we have indirect exposure to deal flows of top tier VC firms, which include Benchmark Capital and Kleiner Perkins Caufield & Byers.

In 2017, KWAP continued to seek for opportunities in the technology sector, with a view that VCs are opportunity constrained, not capital constrained. It is important to note that 2% of the top VC funds account for 95% of the returns, as illustrated below. This highlights the significance of engagement with top decile VC firms.

Figure 4: Top 10 S&P 500 Companies



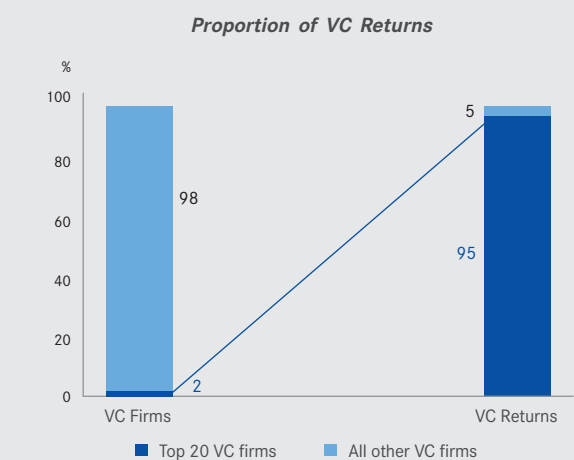
Source: Bloomberg

PERFORMANCE BY ASSET CLASS

Table 2: VC Backers of Technology Giants

Technology Companies	VC Firms that Backed Them
Apple	Sequoia Capital
Alphabet (previously Google)	Sequoia Capital, Kleiner Perkins Caufield & Byers
Microsoft	Technology Venture Investors
Amazon.com	Kleiner Perkins Caufield & Byers
Facebook	Accel Partners, Greylock Partners

Source: Crunchbase



Source: Wealthfront Inc.

• **Vickers Venture Fund V LP**

In August 2017, KWAP made an investment in Vickers Venture Fund V LP (Vickers V), a SEA-based VC fund with a global investment mandate, mainly within the Telecommunications, Media, and Technology (TMT) consumer, financial services and life sciences sectors.

Vickers is one of the most consistent GPs as they have gone on to record three first quartile and one second quartile performance, out of the total four previous funds, resulting in Vickers being ranked as the best performing SEA-based VC fund and the sixth best globally in the VC space.

The Vickers difference is their focus on ‘Platform investments’ that target the B-2-B-2-C business model which is represented in each of their funds. Vickers’ exposure in TMT is well-diversified into multiple sub-sectors. The fund’s best performing TMT sub-sectors in the past include Media-Tech (i.e. TV service platforms offering big data, advertisements, and internet services), Clean-Tech (i.e. Products or services that reduce negative environmental impact), Fin-Tech (i.e. Online financial services), and Software-As-A-Service (SAAS) (i.e. Centrally-hosted licensed software services). Their Life Science practice is currently represented in the regenerative and nano-tech drug delivery sub-sectors. This unique fund construct has seen their returns structured like a VC fund, with the risk profile of a growth fund.

Table 3: Top Performing VC Funds Globally

Firm	Location	Total Funds Raised Last 10 Years (USD million)	No. of Funds	Funds Q1	Funds Q2	Average Rank
Pittsford Ventures Management	US	200	6	6	0	1
Trustbridge Partners	China	2,410	5	5	0	1
Benchmark Capital	US	1,497	3	3	0	1
Matrix Partners	US	3,122	5	4	1	1.2
OrbiMed Advisors	US	5,349	5	4	1	1.2
Vickers Venture Partners	Singapore	367	4	3	1	1.25
New Enterprise Associates	US	11,530	6	4	2	1.33
AJU IB Investment	South Korea	312	3	2	1	1.33
Forbion Capital Partners	Netherlands	585	3	2	1	1.33
Future Venture Capital	Japan	19	3	2	1	1.33
General Catalyst Partners	US	2,010	3	2	1	1.33
Goodwell Investments	Netherlands	83	3	2	1	1.33
Helmet Venture Managers	Finland	12	3	2	1	1.33
Battery Ventures	US	2,825	10	7	2	1.4
Kleiner Perkins Caulfield & Byers	US	7,035	6	3	3	1.5
Lightspeed Venture Partners	US	4,676	4	3	0	1.5

Source: Preqin

PERFORMANCE BY ASSET CLASS

• Trustbridge Partners VI LP

In December 2017, KWAP ventured into the Chinese private market with our first investment in a China-focused VC fund, Trustbridge Partners VI LP (TBP VI). Along with Pittsford Ventures Management and Benchmark Capital, TBP has secured the top position among VC funds globally, as shown in Table 3. Of the three highest ranked VC funds, TBP has secured second position, based on consistent first quartile ranking across five funds and total funds raised in the last 10 years of USD2.4 billion.

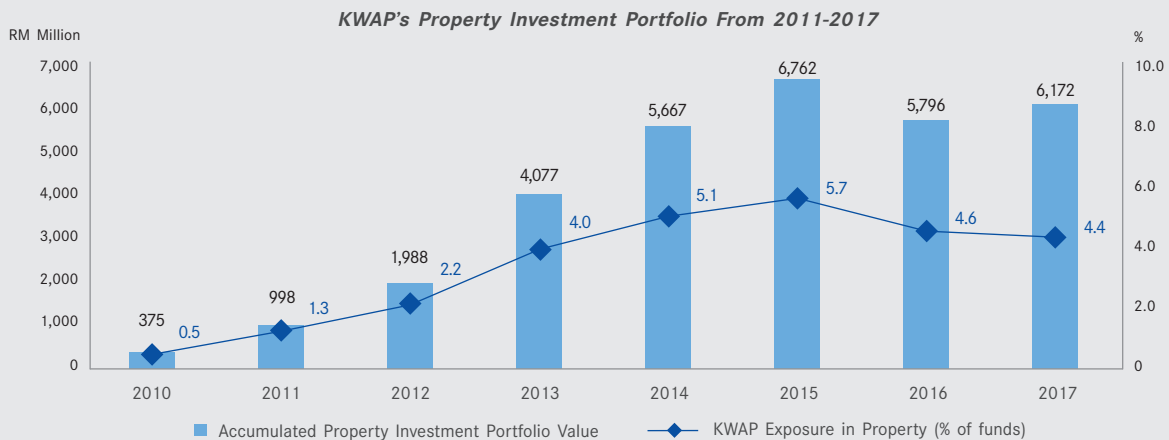
TBP's agility in adapting to China's growth trends has allowed it to capture opportunities in the different sectors quickly, resulting in first quartile returns across all previous five funds.

In its current portfolio, companies in the e-content (i.e. text, images and videos created for display on the internet) and tech-enabled consumer (i.e. commerce with transactions conducted on the internet) sectors were the best performing. Within these two sectors, TBP has a combined monthly active users (MAUs) count of 750 million, representing attractive cross-selling and up-selling opportunities between portfolio companies. TBP VI also focuses on healthcare.

PROPERTY INVESTMENTS

As at end 2017, KWAP had 12 properties in our portfolio valued at RM6.17 billion. Along with our commitment to responsible investing, seven of these properties are accredited with environmental certification such as the National Australian Built Environment Rating System (NABERS), the US' Leadership in Energy and Environmental Design (LEED), the UK's Building Research Establishment Environmental Assessment Method (BREEAM) and Energy Performance Certificate (EPC), and Malaysia's Green Building Index (GBI). 747 Collins Street, KWAP's office building in Melbourne, has the highest NABERS rating of 6 stars while Integra Tower in Kuala Lumpur has a Platinum (the highest) LEED rating.

The average occupancy of KWAP's properties as at end 2017 was 92.9%. The value of the portfolio increased by 4.68% y-o-y to RM6.17 billion, with a utilisation rate of 4.39% from the fund. In 2017, Property Investment generated a total income of RM627.8 million or a total return of 13.41%. Highlights of the year were the sale of an office building in Sydney, Australia, acquisition of logistics property in Germany, and the execution of a sale and purchase agreement to buy 40% interest in an office property in Melbourne, Australia.





20 Bridge Street, Sydney, Australia



Sale of Bridge Street, Sydney, Australia (The ASX Exchange)

In 2017, the Sydney central business district (CBD) office market experienced yield compression from 5.6% in 2016 to below 5.0%. The situation arose from lack of investment opportunities and limited supply of office space for occupiers' expansion. KWAP took advantage of the market position and divested 20 Bridge Street, Sydney (ASX Exchange) at AUD335.0 million, providing a yield of 4.4% given that the property had been acquired in 2011 at AUD185.0 million. The sale helped to reset the value of office towers in Australia.

*Article from The Australian Financial Review
dated 27 April 2017, Commercial Real Estate section-page 33.a*

PERFORMANCE BY ASSET CLASS



Zalando Distribution Warehouse, Erfurt, Germany

- **Acquisition of Zalando Distribution Warehouse, Erfurt, Germany**

Prior to 2017, KWAP's exposure to property investments were in Malaysia, Australia and the UK. In line with our geographical diversification strategy, in 2017, KWAP acquired a property in Germany – a logistics facility located in Erfurt, approximately 250km northeast of Frankfurt, at a price of €92.2 million. It is fully leased to online fashion retailer, Zalando.



747 Collins Street, Melbourne, Australia

- **Full Ownership of 747 Collins Street, Melbourne, Australia**

In December 2017, KWAP entered into a definitive agreement to acquire the remaining 40% interest in 747 Collins Street, Melbourne at a purchase price of AUD151.3 million. Prior to this, we already owned 60% interest in the office building, 96% of which is leased to the Australian Tax Office.



In the last 10 years, KWAP has achieved several milestones in its equity investments including operationalising its UK equity investment via the setting up of Prima Ekuiti (UK) Ltd, establishment of Asia Pacific ex-Japan (APEX) portfolio, expansion of the APEX mandate to include Japan market and recently the establishment of the US equity portfolio. This year, we will continue to expand our global equity investment into China, in particular China-A shares. The working environment in the Equity Department has always been fast-paced with a steep learning curve. You are constantly expected to perform your best, regardless of the circumstances.



PIONEERING EMPLOYEE

MUSHIDA MUHAMMAD
– Equity Department

PERFORMANCE BY ASSET CLASS

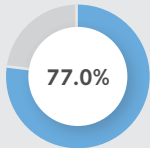
DOMESTIC PROPERTY INVESTMENTS



INTEGRA TOWER, KUALA LUMPUR (40-STOREY OFFICE)

Purchase price	RM1,065 MILLION
Date of acquisition	31 March 2015
Tenure	Freehold
Net lettable area	765,249 sq ft

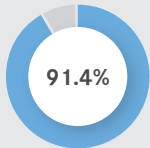
Occupancy rate
(as at 31 December 2017)



CAPSQUARE TOWER, KUALA LUMPUR (41-STOREY OFFICE)

Purchase price	RM474.3 MILLION
Date of acquisition	15 December 2016
Tenure	Freehold
Net lettable area	601,796 sq ft

Occupancy rate
(as at 31 December 2017)

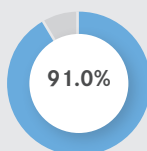


INTERNATIONAL PROPERTY INVESTMENTS

737 BOURKE STREET, MELBOURNE, AUSTRALIA
(12-STOREY OFFICE)

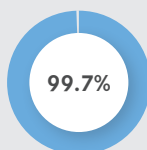
Purchase price	AUD113.0 MILLION
Date of acquisition	9 December 2010
Tenure	Freehold
Net lettable area	204,952 sq ft

Occupancy rate
(as at 31 December 2017)

747 COLLINS STREET, MELBOURNE, AUSTRALIA
(16-STOREY OFFICE)

Purchase price	AUD167.5 MILLION
Date of acquisition	30 September 2013
Tenure	Freehold
Net lettable area	430,914 sq ft

Occupancy rate
(as at 31 December 2017)



PERFORMANCE BY ASSET CLASS

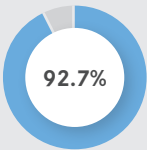
INTERNATIONAL PROPERTY INVESTMENTS



179 TURBOT STREET, BRISBANE, AUSTRALIA
(25-STOREY OFFICE)

Purchase price	AUD172.3 MILLION
Date of acquisition	31 October 2013
Tenure	Freehold
Net lettable area	268,831 sq ft

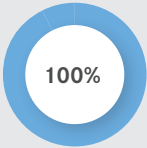
Occupancy rate
(as at 31 December 2017)



133 LENORE DRIVE, ERSKINE PARK, SYDNEY, AUSTRALIA (LOGISTICS)

Purchase price	AUD75.13 MILLION
Date of acquisition	30 November 2014
Tenure	Freehold
Net lettable area	480,430 sq ft

Occupancy rate
(as at 31 December 2017)

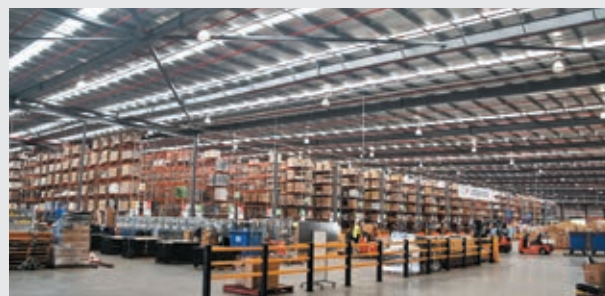
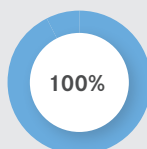


INTERNATIONAL PROPERTY INVESTMENTS

1 GRIFFIN CRESCENT, BRENDAL, QUEENSLAND,
AUSTRALIA (LOGISTICS)

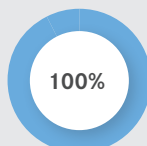
Purchase price	AUD73.70 MILLION
Date of acquisition	30 November 2014
Tenure	Freehold
Net lettable area	542,570 sq ft

Occupancy rate
(as at 31 December 2017)

38-46 BERNERA ROAD, PRESTONS, SYDNEY
AUSTRALIA (LOGISTICS)

Purchase price	AUD70.05 MILLION
Date of acquisition	30 July 2015
Tenure	Freehold
Net lettable area	237,884 sq ft

Occupancy rate
(as at 31 December 2017)



PERFORMANCE BY ASSET CLASS

INTERNATIONAL PROPERTY INVESTMENTS



145 LENORE DRIVE, SYDNEY AUSTRALIA (LOGISTICS)

Development cost including land cost **AUD13.3 MILLION**

Date of acquisition **23 December 2015**

Tenure **Freehold**

Proposed gross leasable area **7,577 sqm**

Occupancy rate
(as at 31 December 2017)

100%



10 GRESHAM STREET, LONDON, UK (OFFICE)

Purchase price **GBP200.0 MILLION**

Date of acquisition **24 October 2012**

Tenure **Leasehold (expiring on 24 June 2164)**

Net lettable area **259,759 sq ft**

Occupancy rate
(as at 31 December 2017)

100%

MILESTONES

2010

KWAP acquired its first international asset in Australia.

2011

Property investment exceeded RM1 billion in value. Acquired ASX Building in Sydney.

2012

Property investment surpassed RM2 billion in value. Acquired first property in UK.

2013

Property investment doubled to RM4 billion in value.

INTERNATIONAL PROPERTY INVESTMENTS

INTU UXBRIDGE, LONDON, UK (RETAIL)

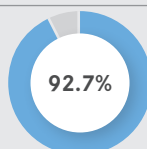
Purchase price **GBP174.8 MILLION**
(80% interest with remaining interest owned by Intu Properties PLC)

Date of acquisition **20 June 2014**

Tenure **Freehold**

Net lettable area **452,257 sq ft**

Occupancy rate
(as at 31 December 2017)



ZALANDO DISTRIBUTION WAREHOUSE, ERFURT, GERMANY (LOGISTICS)

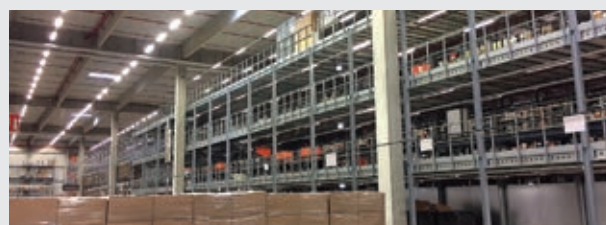
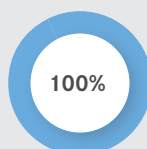
Purchase price **EUR92.23 MILLION**

Date of acquisition **5 May 2017**

Tenure **Freehold**

Net lettable area **980,641 sq ft**

Occupancy rate
(as at 31 December 2017)



2014

KWAP maiden investment in logistics assets. Property investment surpassed RM5 billion in value.

2015

KWAP acquired its first domestic asset. Property portfolio valued at RM6.7 billion.

2016

KWAP made its first divestment in property investment with the sale of £270 million office building.

2017

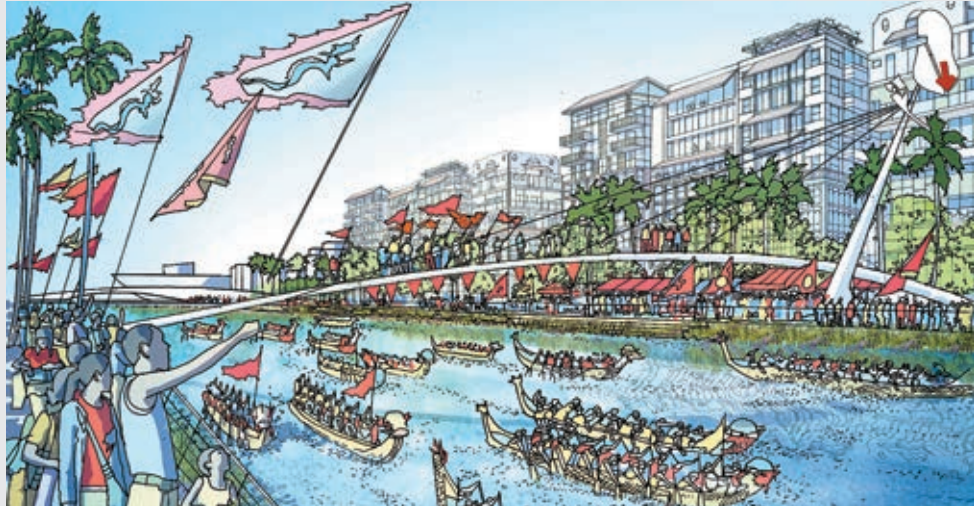
Investment exposure expanded into Germany, while sale of ASX Building in Sydney brought record-breaking yield.

PERFORMANCE BY ASSET CLASS

PROPERTY DEVELOPMENT

In 2017, KWAP further diversified our real estate portfolio by venturing into property development which allows for opportunities across the asset class with different risk and return profiles. A milestone was achieved in the formation of a wholly-owned subsidiary, KWEST Sdn Bhd (KWEST), to undertake property development investment. Incorporated on 4 August 2017, KWEST, short for KWAP Real Estate, will look at projects with estimated gross development values (GDVs) of RM20.3 billion and is expected to contribute revenue to KWAP by 2020. The idea of an investment arm to undertake property development investment had been mooted in 2016.

Before KWEST was established, KWAP ventured into our first collaboration with a property developer in March 2017 for a mixed development project – Phase 2A of Seri Tanjung Pinang 2 (STP2A) in Penang, which carries an estimated GDV of RM19.1 billion. KWAP owns 20% of Persada Mentari Sdn Bhd, a property development vehicle established to develop STP2A. Land for the development is currently undergoing reclamation, following which 33.2 acres (13.4 ha) will be registered under KWAP.



Artist impression of development in Seri Tanjung Pinang 2A





Artist impression of development in Jalan Stonor

The development will comprise residential districts inclusive of affordable housing. It is also envisioned to be a premier commercial destination with a population of close to 10,000. KWAP's decision to invest in STP2A was further supported by the provision of 70 acres (28.3 ha) of civic space and the ability of the project to drive infrastructure growth in Penang.

In line with our ESG commitment, we ensure our investments are sensitive to the environment and stakeholders. In the case of STP2A, the concession holder of the reclamation has initiated a mangrove replanting programme. The project's Environmental Committee meets regularly to monitor environmental issues related to the reclamation including noise and water quality level.

The deal was ranked among the top 10 in the property sector in Malaysia in 2017 by CBRE WTW and Savills Malaysia, renowned property consultants.

Apart from STP2A, KWEST has engaged with potential developers to plan the development of the two land parcels owned by KWAP on Jalan Stonor and Jalan Changkat Kia Peng, Kuala Lumpur. A Highest and Best Use study (HBU Study) was undertaken to determine the type of product that would yield the best returns given the medium-term market condition. Based on the preliminary estimation, the GDV expected from the two sites is RM1.2 billion.

As a responsible pension fund, KWAP recognises the need to take into consideration the nation's ageing population, and has incorporated Retirement Oriented Development (ROD) as one of our long-term real estate strategies. Throughout the year, we engaged with potential development partners and service providers, both local and international, with expertise in senior living. As a result, we have identified a potential investment opportunity with local and international players which is currently at the market study phase and product conceptualisation stage.

OUR SUBSIDIARIES

We set up our wholly-owned subsidiary Prima Ekuiti (UK) Limited (Prima Ekuiti) in 2012 to act as KWAP's investment partner in the European region with clear objectives, namely:



- to invest directly in foreign capital markets and generate optimum returns
- to complement KWAP's diversification strategy by expanding our investments and geographical presence beyond the Malaysian market
- to develop and attract talent by providing international exposure and experience to staff

Prima Ekuiti has grown progressively from its modest beginnings, its assets under management expanding five-fold from GBP100 million to more than GBP545 million in 2017, enabling it to be self-sufficient and operate independently, guided by its Board of Directors.

Since its inception on 2 May 2012, the UK equity portfolio has increased by 51.4% as compared to the FTSE 100 Index's return of 32.3% during the same period. Excluding cash, the equity carve-out portfolio returned 70.9%, outperforming its benchmark by 38.6%. As at end 2017, the UK equity portfolio's Net Asset Value (NAV) stood at 1.02x, and recorded a gross ROI of 8.2%, beating the benchmark dividend yield of approximately 4.0% and KWAP's income target of 8.0%.

The Euro equity portfolio, meanwhile, has increased by 46.9% since its inception on 2 September 2014, outperforming its benchmark by 29.6%. Excluding cash, the equity carve-out portfolio returned 43.6%, as compared to 26.3% by the benchmark. As at end 2017, Euro equity portfolio's NAV stood at 1.06x, while its gross ROI exceeded 10.4%, beating the benchmark dividend yield of 3.0% and KWAP's income target of 9.3%.

Prima Ekuiti managed to increase its assets under management by approximately

16.2% in 2017



PERFORMANCE IN 2017

Prima Ekuiti increased its assets under management by approximately 16.2% in 2017. The market value of its UK equity portfolio grew 8.7% to GBP296.55 million, surpassing the 7.6% increase in the FTSE 100 Index. At the same time, its Euro equity portfolio grew 9.8% to EUR279.86 million, outperforming the MSCI Euro Index by 1.1%, supported by its high concentration in stocks with high earnings growth potential.

Since the inception of both portfolios, a total of more than GBP51.9 million has been repatriated to KWAP from both funds.

Our subsidiary's turnover increased to GBP2.09 million from GBP2.02 million in 2016. Meanwhile, operating expenses grew by 1.9%, mainly due to higher operating costs given the larger team and the move to new office premises. Resultantly, profit after taxation amounted to GBP656,269, compared to GBP618,283 in the previous year.

Its balance sheet, too, strengthened with shareholders' funds increasing from GBP2.11 million in 2016 to GBP2.56 million as at end 2017. Significantly, Prima Ekuiti maintains a healthy liquidity position with cash and cash equivalents amounting to GBP2.1 million.

Looking ahead, it targets high single-digit organic growth in assets under management and prudent cash-cost management to ensure sustainable growth.

2018-2020 Corporate Blueprint

As part of the Prima Ekuiti 2018-2020 Corporate Blueprint, the company aims to adopt ESG standards in its investment operations as well as in daily business activities, in line with KWAP's commitment to responsible investing. It is also engaging with peers and market researchers with experience in the ESG space, and sharing their knowledge with KWAP.

Dividend Commitment

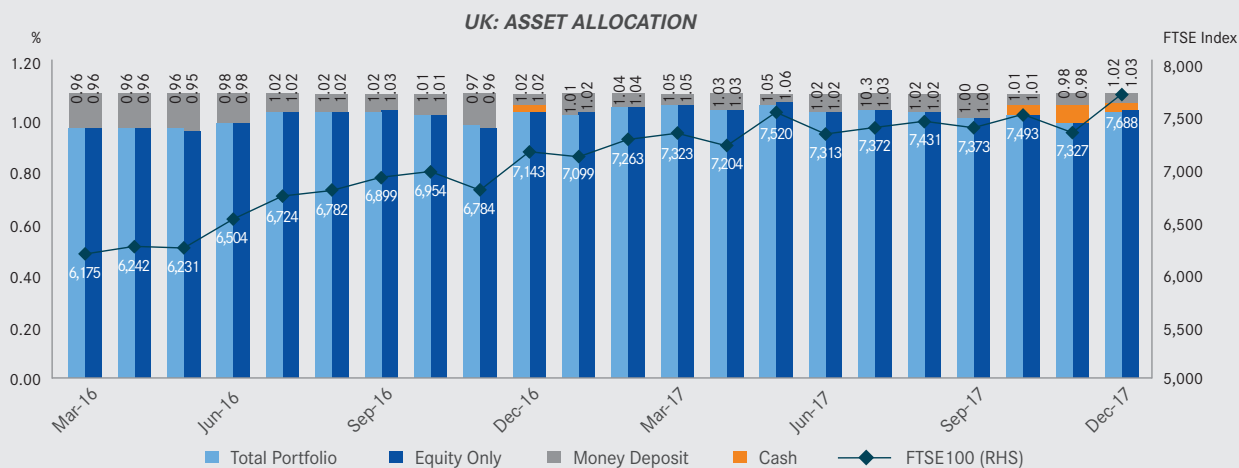
In 2015, Prima Ekuiti introduced a dividend policy of paying at least twice its share capital in the form of annual dividends. In 2017, it outperformed its dividend plan and distributed a total of GBP200,000 (net) in dividends to shareholders. Since 2015, Prima Ekuiti has distributed 12 times its share capital, or a total of GBP600,000, in the form of dividends to shareholders.

Non-financial Contributions to KWAP

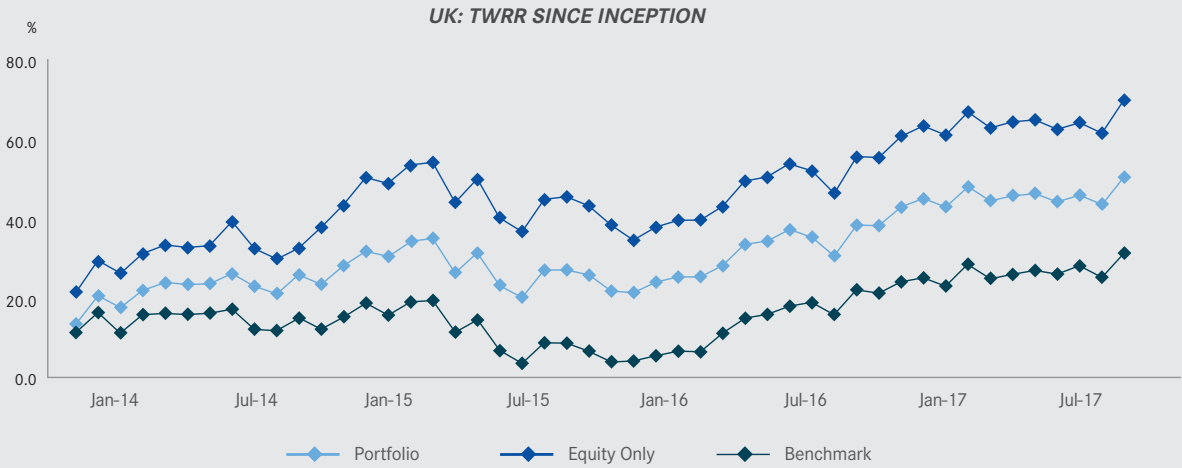
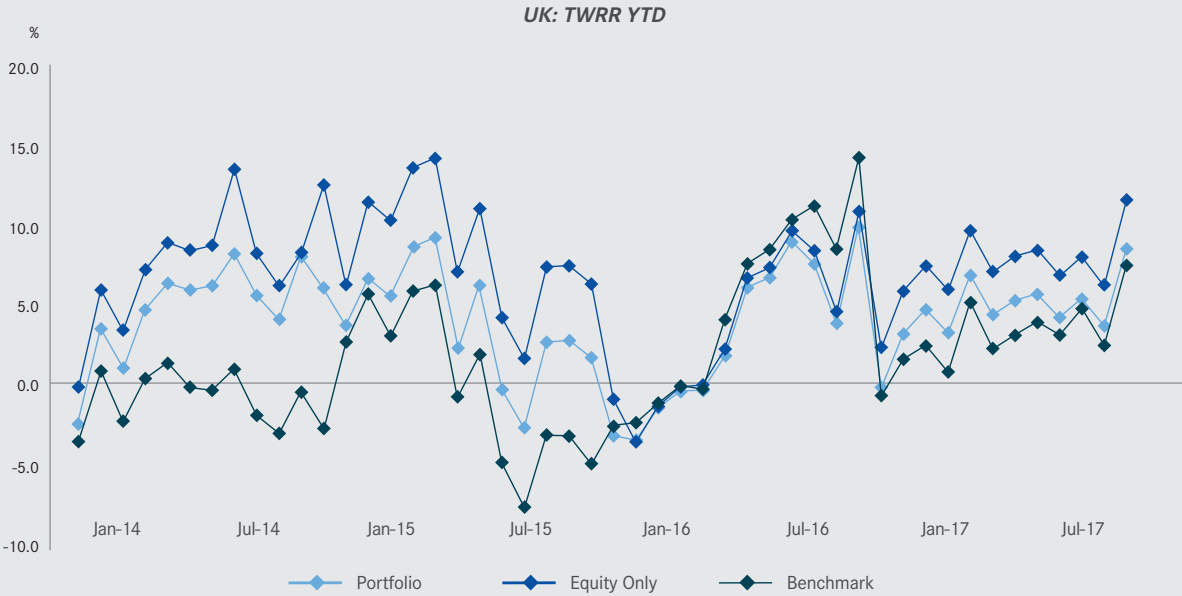
Prima Ekuiti has taken on the role of building a strong network in Europe to be able to attract the best talent to KWAP. Under the Prima Ekuiti – KWAP Attachment Programme, an employee from KWAP's equity department spent two weeks at Prima Ekuiti in 2017 during which he was exposed to the workings of the UK as well as European markets.

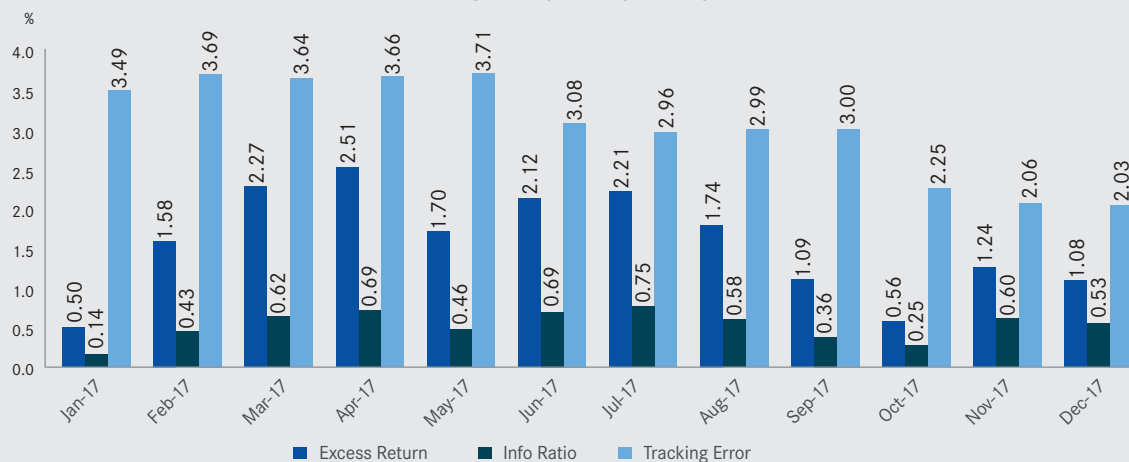
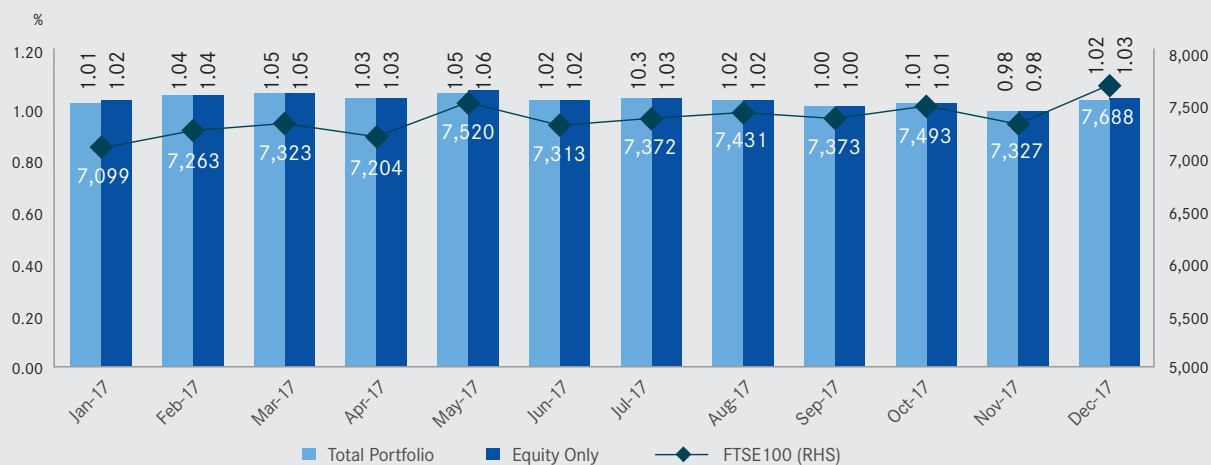
Prima Ekuiti also took on four Malaysian students from various UK universities for internships in 2017. In addition, it organised another Prima Ekuiti Investment Challenge, which aims to allow students to build better appreciation of the industry and provide an opportunity for participants to enhance various competencies. A total of 25 students from various universities participated in the competition.

UK Equity Portfolio in Graphs:



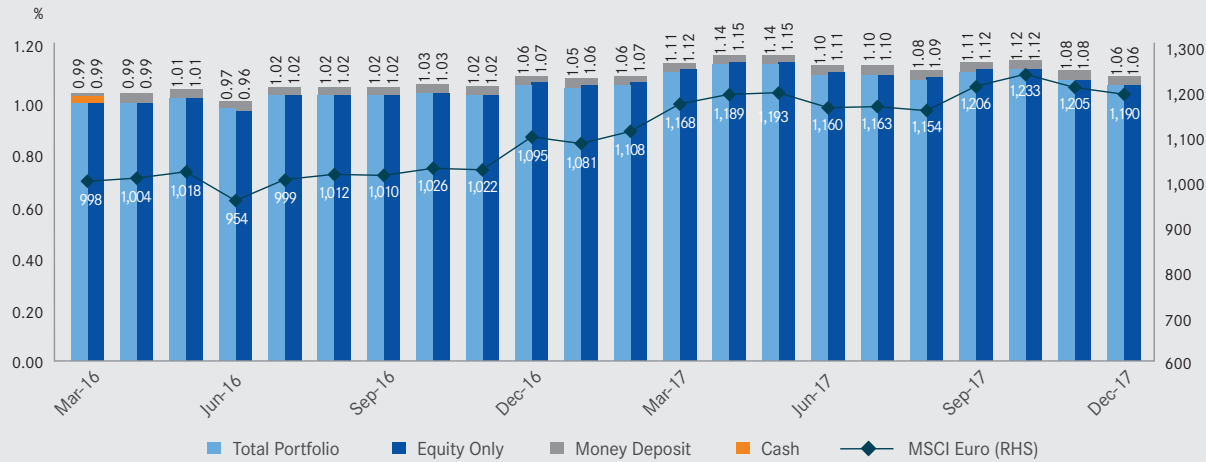
OUR SUBSIDIARIES



UK: INFORMATION RATIO**UK: NET ASSET VALUE**

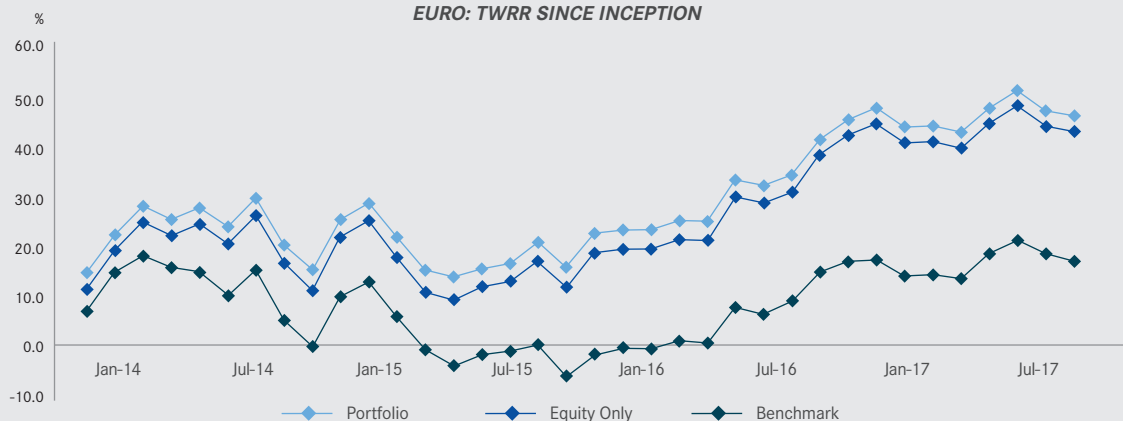
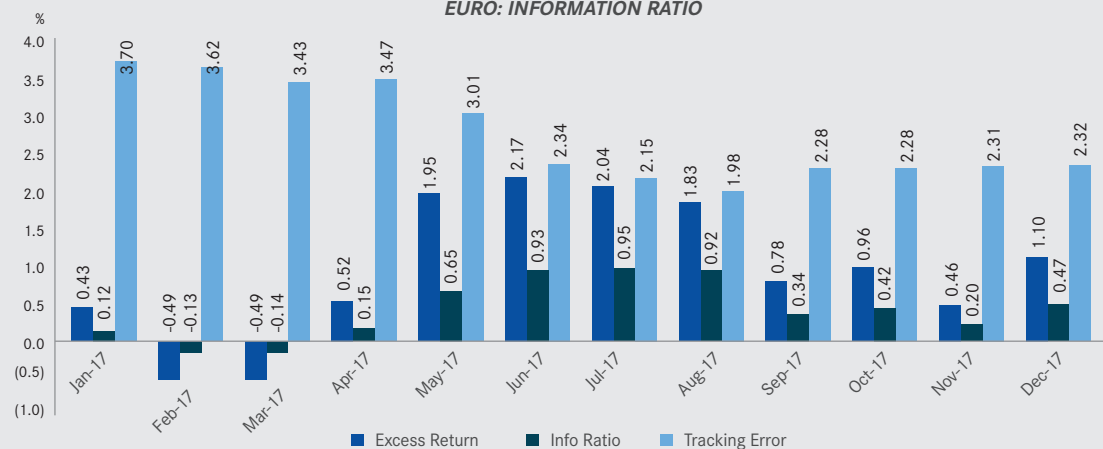
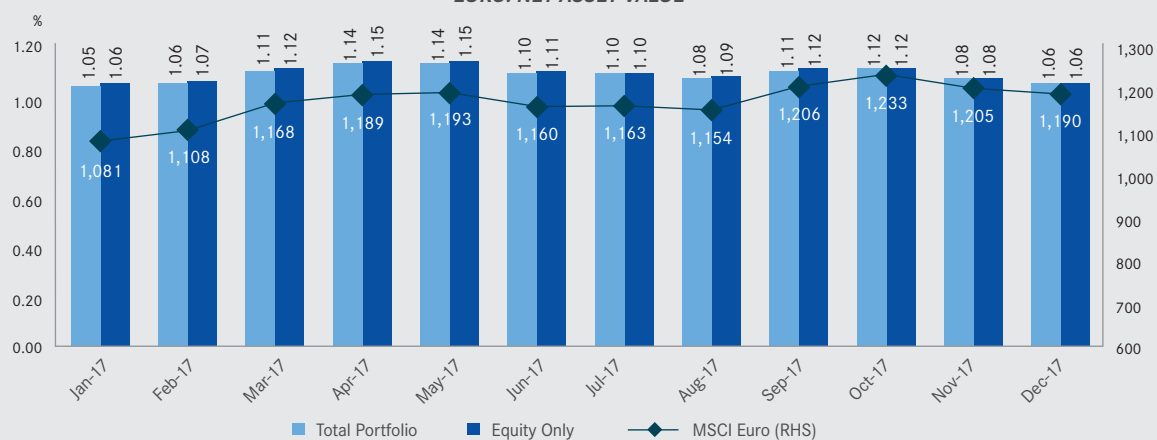
OUR SUBSIDIARIES

EURO: ASSET ALLOCATION



EURO: TWRR YTD



EURO: TWRR SINCE INCEPTION**EURO: INFORMATION RATIO****EURO: NET ASSET VALUE**

GLOBAL INVESTMENT EXPOSURE





REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER



Nik Ahmad Fauzan Nik Mohamed
Chief Operating Officer

“Our ultimate aim is for KWAP to operate at the highest level of productivity and efficiency. While this will necessarily be an ongoing process, the foundations that are being put into place today lend us assurance that we are on the right track to achieve all our targets in the medium and long term.”



KWAP has grown immensely in all relevant parameters over the last 10 years. Contributions from statutory bodies, local authorities and the Federal Government now total RM40.8 billion from a net initial collection of RM2.6 billion in 2007, while the fund has more than tripled in value from RM41.94 billion to RM140.80 billion.



Facilitating such growth, we continuously invest in our people and processes to enhance our operational efficiencies and productivity while maintaining a high level of service delivery.

In 2016, we moved our central and pension services operations into new premises with better facilities, ergonomic spaces and generally more conducive work environments to enhance the well-being and productivity of our people. During the year under review, our focus was on optimising our technological infrastructure – implementing digital systems for better data management, and replacing manual processes with best-in-class practices. At the same time, we continued with efforts to build our capabilities through programmes such as Lean Six Sigma and 5S workplace organisation.

All initiatives are progressing well, and it gives me pleasure to provide some highlights of the year below.

OUR PENSIONERS COME FIRST

In 2015, KWAP took over the role of a Federal Government agency for the purpose of processing and payment of pensions, gratuities and other related benefits. At our Pension Services Department (PeSD) in Cyberjaya we calculate and pay pension benefits and adjustments, funeral expenses and ex-gratia payments. We also manage pensioners' claims for medical treatment received in private clinics/hospitals and any related transport expenses for this. In addition, we help the Government budget for its contributions by making annual pension and medical budget forecasts.

Our pension services are monitored by the Government through a Service Level Agreement (SLA) based on the timeliness of pension payments as well as that of other retirement benefits. Under the agreement, we are to achieve a minimum SLA score of 90%. We have always met this target, and for 2017, we achieved an SLA score of 95.6%, marking an improvement from 93.8% in 2016.

REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER

2017 Initiatives

Since taking over the said pension service operations, we have made it our mission to keep enhancing our service delivery. This has seen us undertake various initiatives, and invest in new systems and tools, to not only meet current demands, but also prepare for future challenges.

As part of ongoing efforts, we embarked on several programmes in 2017, as detailed below.

KWAP Productivity Excellence (KPEX) Programme

KPEX was launched in March in collaboration with Malaysia Productivity Corporation (MPC), to elevate KWAP into a high-performing organisation. MPC is a government agency tasked with driving national productivity and quality management.

The three-year enterprise programme, spearheaded by PeSD in cooperation with our Human Resource Department, seeks to drive productivity and business process efficiency via the following initiatives:

- People readiness through Lean awareness and Lean Certification
- Development of PeSD Productivity Framework
- Identification of individual KPIs related to productivity
- Monitoring of process improvement initiatives

As a result of these initiatives, PeSD improved its overall productivity by 24% compared to the previous year.





Launching of PeSD 5S Programme

PeSD 5S Programme

The 5S programme was launched on 14 April, with the objective of creating and maintaining a safe, clean, organised and efficient working environment within PeSD.

The following activities were conducted during the year under the programme:

Activity
5S Training for 5S Committee
5S Awareness Talk by 5S consultant, Mr Alex Yap
5S Housekeeping Day
Continuous 5S Promotional Campaign
5S Audit Preparation Walkabout
5S Audit (1&2) and Surprise Audit
5S Prize Giving Ceremony



5S Prize Giving Ceremony

Data Enhancement

KWAP currently manages our pension services using a core system known as Power Generation 2 (PG2). We have no less than 861,000 entries in the system (inclusive of data from Sabah and Sarawak), the data being validated either upon receiving ad-hoc requests or on an event-triggered basis.

In 2017, PeSD initiated a two-year Data Enhancement project to ensure the current database is complete as we prepare to migrate to a new pension core system that will support a Business Intelligence Dashboard. Phase 1 of the project was completed, during which PeSD enhanced the accuracy of data for monthly pension payment purposes. Phase 2 will focus on database verification according to the different age categories.

REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER

Electronic Document Management System (EDMS)

An Electronic Document Management System (EDMS) has been developed for our pension services to manage the creation, storage and control of documents. An electronic system has become essential given the increasing volume of information – with more than 800,000 physical pensioners' files under our custody. EDMS represents a world-class best practice. Other than help us become environmentally friendlier as we transit into a paperless environment, its implementation from October 2017 brings the following benefits:

- Cost savings from the printing of documents
- Future savings from the cost of storing physical files
- Enhanced risk management via centralised information control and increased document security
- More efficient work process through faster search and multiple access to documents at any one time

Business Intelligence Tool

KWAP has acquired a Business Intelligence (BI) tool for better control and monitoring of the performance of our pension services, while also enabling us to produce pensioner demographic reports.

Through the system, KWAP stands to benefit from the following:

- Real-time and accurate performance information via interactive digital dashboard
- Centralised data governance – for consistency and clarity
- Ability for everyone, from decision-makers to functional teams, to access and analyse up-to-date information anytime, anywhere via tablets and mobile phones
- Meaningful reporting and analysis for better and faster decision-making

Extract, Transform & Load (ETL) Tool

PeSD and Information Technology Department (ITD) collaborated to deliver Talend, a tool that integrates data from internal and external systems, particularly that of external agencies, the Public Services Department (JPA), banks and the Human Resource Management & Information System for civil servants. By June 2018, KWAP will be able to extract data from any authorised source, transform the data to cater to the needs of the information user and distribute both the raw data and aggregated information to respective users.

KWAP Experiential Learning Programme (KELP)

The transfer of knowledge from pension subject matter experts (SMEs) who were on secondment to KWAP from JPA's Post Services Division (JPA.BPP) is being realised via KWAP Experiential Learning Programme (KELP).

Under KELP, a total of 21 talents were hired to job-shadow selected SMEs, and to complete Key Learning Areas (KLAs) whilst working on work process improvements under the coaching and mentoring of the SMEs. They were also required to develop Standard Operating Procedures and Department Guidelines that reflect the latest pension services work processes.

CUSTOMER SERVICE

Other than counter service in Cyberjaya, we answer queries from customers (mainly pensioners) via our call centre, email and online feedback form.

This year, we took our customer service experience to another level with the introduction on 1 July of the MyPesara mobile application. The app enables pensioners to access personal information or get updates on the status of their claims without having to make their way to our counters or even making a phone call to reach KWAP. Since its launch, it has been downloaded by almost 25,000 pensioners. In 2018, we aim to enhance the functionalities of MyPesara, and use it as a platform to educate pensioners about healthy ageing.



Almost
25,000
users after 6 months



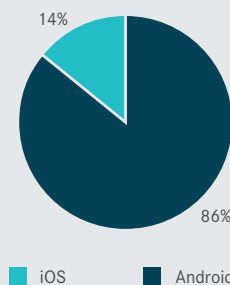
30
Total Appointments



4.5/5
App Rating



157
Total Feedbacks

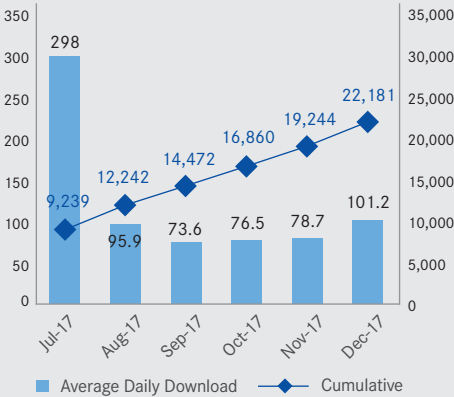


User Breakdown

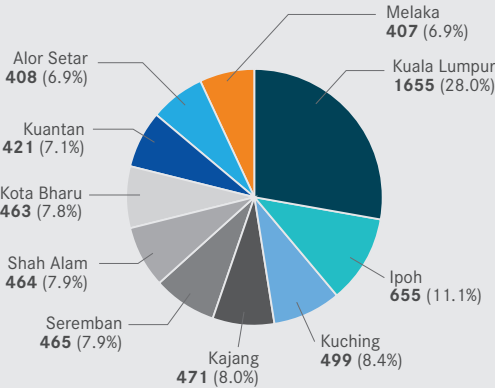


REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER

Download Trend



Top 10 User Locations



Name:
Mohd Tahir Mamood

Title:
penghargaan

Description:
Sungguh baik dan berfaedah untuk pesara2 bagi mendapatkan maklumat dan pengetahuan terkini. Terima kasih

PENSIONERS' FEEDBACK ON MyPESARA

50%: enquiries & requests for updates on personal info
20%: suggestions on improvements
20%: expressions of appreciation

Nama:
Aminuddin Abu Bakar

Title:
Apps MyPesara

Description:
Langkah bijak seiring teknologi maklumat

Name:
Abdul Aziz Husin

Title:
MYPESARA

Description:
Terbaik sangat benda ni... dan membantu sangat...

Name:
Mohd Tahir Mood Nor

Title:
mudah

Description:
Amat baik bagi peserta

Name:
Mohd Ramli Yahya

Title:
bagus

Description:
Sangat bagus kemudahan ini

CONTRIBUTIONS

Contributions from statutory bodies, local authorities and the Federal Government make up roughly half of KWAP's annual growth in funds, the other half derived from investment returns. In 2017, we received RM3.51 billion from contributions and RM7.78 billion from gross investment income.

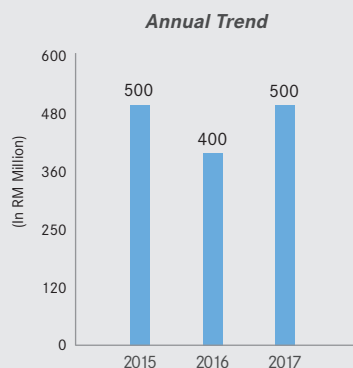
Over the last decade, a total of RM40.9 billion has been collected from our contributors, averaging RM4.09 billion annually. Various factors have played a part in the increase in contributions, most pertinently upward salary revisions, the increase in retirement age, the establishment of new statutory bodies and local authorities, and an overall increase in number of civil servants.

Sources of Contributions

• Federal Contribution

The Ministry of Finance (MoF) makes annual contributions to KWAP based on 5% of the total emolument of pensionable officers. A total of RM500 million was collected from the MoF in 2017.

Federal Contribution From 2015-2017



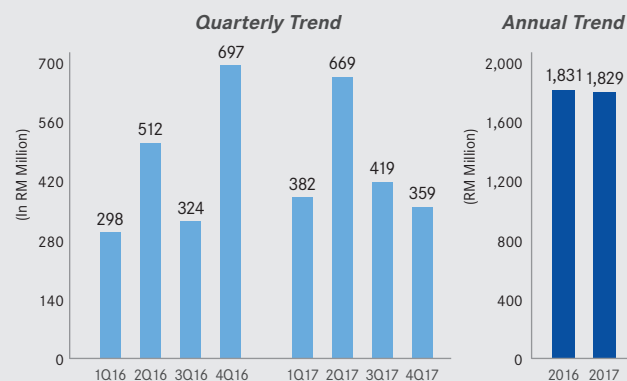
Collection from the MoF over the last 10 years averaged RM1.2 billion annually. This figure has dropped to an annual average of RM0.5 billion in the last three years.

• Government Share

This refers to the remittance of government shares from the Employees Provident Fund (EPF), Armed Forces Fund Board (LTAT), Public Service Department (PSD) and other central agencies to KWAP upon the withdrawal of employees' shares or upon retirement of pensionable officers.

In 2017, we received RM1.83 billion in the form of government shares, marking a minimal 0.1% decrease year-on-year (y-o-y). The average collected over the last 10 years was RM1.94 billion, reflecting steady amounts of remittances from EPF, LTAT, PSD and other central government agencies upon retirement of pensionable officers.

Government Share From 2016-2017



REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER

• Employers' Contribution

Statutory bodies and local authorities remit contributions to KWAP every month, in accordance with the Statutory and Local Authorities Pensions Acts 1980 (Act 239), while secondment agencies remit in accordance with Service Circular No. 12/2008 on the Policy and Procedures of Appointment of Secondment, Temporary and Permanent Transfers.

A total of RM1.18 billion was collected from employers in 2017, marking an increase of 6.1% y-o-y, mainly due to an additional increment for all civil servants under *Sistem Saraan Malaysia* (SSM).

Top 20 Contributors

The top 20 contributors represent 59.1% of the total collection from employers in 2017.

No.	Contributing Employers	Contribution (RM'million)
1	UNIVERSITI TEKNOLOGI MARA	145.95
2	MAJLIS AMANAH RAKYAT	80.36
3	UNIVERSITI KEBANGSAAN MALAYSIA	63.17
4	UNIVERSITI TEKNOLOGI MALAYSIA	41.81
5	UNIVERSITI PUTRA MALAYSIA	40.97
6	DEWAN BANDARAYA KUALA LUMPUR	38.76
7	UNIVERSITI MALAYA	34.71
8	HOSPITAL UNIVERSITI SAINS MALAYSIA	32.60
9	UNIVERSITI SAINS MALAYSIA	30.65
10	PUSAT PERUBATAN UNIVERSITI MALAYA	25.08
11	UNIVERSITI UTARA MALAYSIA	24.97
12	INSTITUT PENYELIDIKAN DAN KEMAJUAN PERTANIAN MALAYSIA	18.02
13	PIHAK BERKUASA KEMAJUAN PEKEBUN KECIL PERUSAHAAN GETAH	16.59
14	UNIVERSITI TUN HUSSEIN ONN MALAYSIA	16.48
15	UNIVERSITI TEKNIKAL MALAYSIA MELAKA	16.26
16	LEMBAGA PERTUBUHAN PELADANG KUALA LUMPUR	15.70
17	UNIVERSITI MALAYSIA SARAWAK	15.17
18	LEMBAGA KEMAJUAN TANAH PERSEKUTUAN (FELDA)	15.14
19	UNIVERSITI PENDIDIKAN SULTAN IDRIS	14.03
20	UNIVERSITI MALAYSIA SABAH	13.79

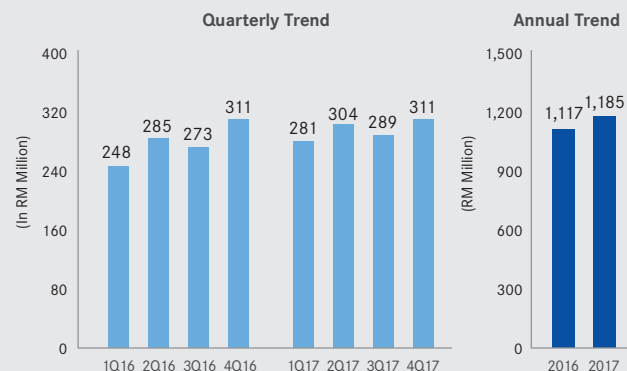
Starting with a contribution of RM450 million in 2007, employers' contributions have increased an average of RM900 million annually, leading to a cumulative contribution of RM8.97 billion over the last 10 years. A total of 193,684 members (employees) were recorded in 2017, up 81% from 106,944 members a decade ago.

This growth in contribution has been largely the result of an increase in number of statutory bodies incorporated under the SSM scheme, such as Syarikat Air Perlis, National Institutes of Biotechnology Malaysia, Institut Sukan Negara and Suruhanjaya Pengangkutan Darat (SPAD). Additionally, more local authorities have been created either through the delineation of existing authorities or the creation of new ones such as the Putatan and Semporna District Councils, Kuching Utara City Hall and Hang Tuah Jaya City Council.

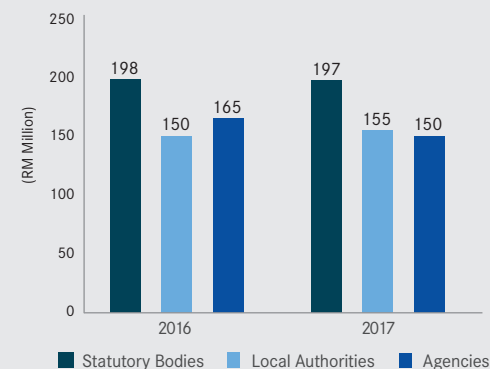
This has resulted in a near doubling of the number of employees in statutory bodies to 139,411 from 74,420 in 2007. Local authorities, meanwhile, have seen a more than 65% increase in employees from 31,991 to 52,745 employees in the same 10-year period.

As at 31 December 2017, a total of 502 employers were registered with KWAP with 193,684 employees.

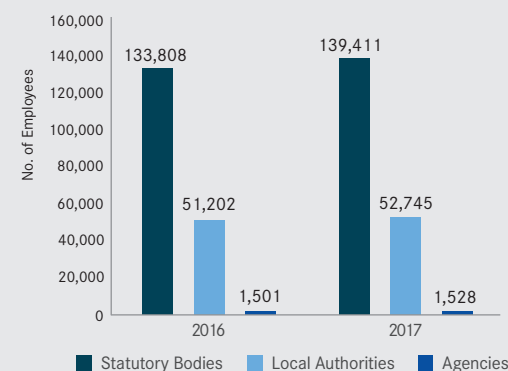
Employers' Contribution From 2016-2017



Employers' Contribution, by Category



Number of Employees, by Category



REVIEW OF OPERATIONS BY CHIEF OPERATING OFFICER

A total of 14 new employers from various categories were registered in 2017.

No.	Contributing Employers	Registration Date
1	JABATAN MUFTI NEGERI SARAWAK	17 January 2017
2	UNIVERSITI TEKNIKAL MARA SDN BHD	2 February 2017
3	LEMBAGA TEKNOLOGIS MALAYSIA	4 April 2017
4	PBT PENERANG	20 April 2017
5	MALAYSIAN RESOURCES CORPORATION BERHAD	4 May 2017
6	TECHNOLOGY PARK MALAYSIA	19 May 2017
7	YAYASAN HIJAU MALAYSIA	26 May 2017

No.	Contributing Employers	Registration Date
8	HOSPITAL PUSRAWI SDN BHD	15 June 2017
9	BANK KERJASAMA RAKYAT MALAYSIA BHD	7 July 2017
10	UNIT TRANSFORMASI EKONOMI NEGERI TERENGGANU	20 July 2017
11	URBANICE MALAYSIA	22 August 2017
12	YAYASAN WARISAN JOHOR	19 September 2017
13	AIROD SDN BHD	25 October 2017
14	CIDB MyIBS	6 December 2017

Summary of Collections From 2007-2017 (RM'Million)

Year	Collection (RM)			
	Federal Contribution	Government Share	Employer Contribution	Total
2007	1,180.00	970.16	447.23	2,597.39
2008	1,645.00	1,260.30	515.47	3,420.77
2009	1,100.00	2,104.85	563.32	3,768.17
2010	1,000.00	2,560.31	630.14	4,190.45
2011	1,500.00	1,855.69	675.84	4,031.53
2012	1,500.00	1,855.04	826.41	4,181.45
2013	1,500.00	1,772.90	929.54	4,202.44
2014	1,500.00	1,862.96	1,022.04	4,384.99
2015	500.00	1,719.99	1,064.51	3,284.49
2016	400.00	1,830.75	1,117.03	3,347.79
2017	500.00	1,829.04	1,184.87	3,513.91
Total	12,325.00	19,621.99	8,976.39	40,923.38

Summary of Employers and Members From 2008-2017

Year	Statutory Bodies		Local Authorities		Agencies		Total	
	Employers	Members	Employers	Members	Employers	Members	Employers	Members
2008	173	74,420	144	31,991	176	533	493	106,944
2009	175	86,518	146	34,251	221	669	542	121,438
2010	177	91,468	148	35,423	243	672	568	127,563
2011	181	96,881	149	36,349	271	825	601	134,055
2012	184	105,002	149	38,670	280	788	613	144,460
2013	194	116,641	149	43,325	162	594	505	160,560
2014	195	124,163	150	46,637	158	728	503	171,528
2015	195	128,267	150	48,713	153	777	498	177,757
2016	198	133,808	150	51,202	165	1,501	513	186,511
2017	197	139,411	155	52,745	150	1,528	502	193,684

COMPLIANCE AND ENFORCEMENT

To ensure government employers contribute the right amounts, and in a timely manner, our Compliance & Enforcement (C&E) team carries out random checks at premises. In 2017, the C&E team visited 20 local authorities, 26 statutory bodies and one agency in Kedah, Perlis, Pahang, Johor, Sabah, Sarawak, Negeri Sembilan, Selangor, Putrajaya and Kuala Lumpur.

Summary of Compliance and Enforcement visits in 2017:

No.	Month of Visit	State	Employer			Total
			Local Authority	Statutory Body	Agency	
1	March	Kedah	3	6	–	9
2	March	Perlis	1	2	–	3
3	May	Pahang	2	3	1	6
4	July	Johor	4	6	–	10
5	October	Sabah	4	–	–	4
6	October	Sarawak	–	4	–	4
7	November & December	Negeri Sembilan	3	5	–	8
8	December	Selangor	2	1	–	3
9	December	Putrajaya & Kuala Lumpur	1	1	–	2
Total			20	28	1	49



From my 10-year experience working with KWAP, what I have observed is that KWAP has learnt from the best in terms of management methodology and technology from successful businesses and pension fund organisations from other developed countries and adapted these into our own unique Malaysian culture. Using the latest technology as a tool we are also able to accept new innovative ideas and make changes for a better future for KWAP and our stakeholders.



PIONEERING EMPLOYEE

KAMARIAH – Pension Services

ENHANCING PRODUCTIVITY VIA INFORMATION TECHNOLOGY

KWAP invests continuously in IT to enhance the efficiency of our operations. From implementing IT systems to support our business processes, we are now leveraging the latest digital technologies for added security and automation, while also enhancing our knowledge repository.

Various IT related initiatives were carried out during the year.

IT Business Support System

A key IT development was progress made on the installation of an Integrated Fund Investment Management System (IFIMS) which captures the internal investment activities of KWAP and our subsidiaries. The system covers front, middle and back office processes and functions. With this new system, we are able to integrate domestic and international investment custodian systems, market data providers and all related third-party systems. IFIMS streamlines our current processes, and automates the overall investment management and reporting framework thus achieving the Straight-Through-Processing (STP) objective set earlier. The project kicked off on 5 December 2016 and is targeted for completion by end 2018.

Further enhancing the integration of data between KWAP and external parties, we implemented a new Extract, Transform and Load (ETL) tool. This new solution is more user-friendly and offers more efficient support.

In terms of service quality, we launched a helpdesk and service request system to improve the quality of helpdesk service of the different departments.

Internally, the year saw us roll out Phase II of our new Human Resource Management Information System (HRMIS), encompassing modules for Performance Management, Learning & Development, Talent Management, Manpower Planning, Recruitment Management and Succession Planning.

We also implemented a paperless, eco-friendly solution for Board meetings that helps to reduce costs while enabling Board members to access documents in a more secured and efficient manner.

Security & Governance

We streamlined the management and operational roles, responsibilities and accountabilities with respect to core IT infrastructure shared by our main office and the Pension Services Department (PeSD) in Cyberjaya. During the year, we also set up a managed Security Operation Centre (SOC) for our main office and PeSD.

Infrastructure and Operations

To safeguard KWAP's business continuity, we designed, tested and implemented disaster recovery strategies for our new main office and PeSD in Cyberjaya.

INVESTMENT SUPPORT AND SERVICES

The Investment Support and Services Department (ISSD) supports the investment team by making sure all documentation and compliance requirements are met.

ISSD was formed in 2015 from the merger of the Investment Settlement Department (ISD) under the ambit of the Accounts and Management Services (formerly known as Finance and Administration) and the Custodian Unit, which was a unit within Equity Department.

ISD was tasked with carrying out KWAP's settlement for investment activities, while carrying out post-compliance functions and providing accurate investment reports in a timely manner. Its main stakeholders were the Equity Department, Fixed Income Department, External Fund Management unit and Property Department unit. ISD also implemented Bank Negara Malaysia's Real-time Electronic Transfer of Funds and Securities (RENTAS) system for settlement purposes in 2011.

The Custodian Department, meanwhile, undertook asset servicing functions such as managing Bursa Malaysia's Central Depository System (CDS) as well as global and internal custodians (Bank of New York Mellon and Citibank) while delivering corporate actions, organising company AGMs/EGMs and regulatory reporting. Its main stakeholder was the Equity Department.

In 2017, a key focus for ISSD was to prepare for changes in KWAP's investment strategy while continuing with ongoing programmes to ensure all investment activities are carried out seamlessly.

Working with the investment team, it provided back-end support for operational activities on the consolidation of internal funds such as Apex Dividend and Apex Growth to enhance performance and optimise returns via savings from fees.

Continuing to improve business processes, it implemented eight initiatives to enhance operational efficiencies. This included working with Bursa Malaysia and Bank Negara Malaysia to integrate the IFIMS with Bursa Malaysia's Central Matching Facility for straight through processing capabilities. Together with Corporate Affairs Department, IT Department, Account & Management Services Department and Contribution Department, it also developed a dashboard to provide top management daily/monthly reports to keep them updated on investment performance and enhance decision-making. In addition, ISSD was responsible for testing and, eventually, subscribing to a secondary data service provider for the provision of market data to strengthen our risk mitigation framework.

Going forward, the Operations team will ensure that we continue to enhance our service delivery while improving our systems and processes to manage employers' contributions effectively and make our payments efficiently.

Among others, ISSD will be collaborating with the IT Department to further improve the department dashboard, and establish a database on domestic and international market rules and regulations. It will also provide all the support required for the smooth implementation of the new IFIMS, while developing a roadmap for more efficient Document Management and Business Process Management post IFIMS.

In terms of financial reporting, I am proud to share that KWAP has evolved from the Private Entities Reporting Standards (PERS) which we initially adopted to the Malaysian Financial Reporting Standards (MFRS). Having successfully completed this major transition, we will continue to keep up with the latest accounting and reporting standards to produce financial statements that comply with domestic and international best practice.

While continuing to invest in our systems and processes, emphasis will also be placed on the continuous development of our people to support all our technological advancements.

STAKEHOLDER MANAGEMENT



As the national pensioners' fund, we have a large group of stakeholders, key among which are the Government and regulators, employers, fund managers, pensioners and our employees. We embrace the role we play in national development and feel privileged to be able to also contribute to uplifting the lives of marginalised segments of society while promoting national unity. We therefore see the community at large as another key stakeholder group.



ENGAGEMENT WITH THE GOVERNMENT & INSTITUTIONS

We believe not only in fulfilling our social contract with each stakeholder group, but to do so in a manner that integrates KWAP into the national fabric and builds our brand as a trusted retirement fund that delivers sustainable benefits for all Malaysians. Towards this end, we invest into building relationships that communicate our commitment to creating value to the many lives we touch.

As part of our initiatives to promote good corporate governance, KWAP engages regularly with domestic and international institutions such as the World Bank Group, Bank Negara Malaysia and Securities Commission to discuss key governance and sustainability issues. We also engage with various organisations that place the highest importance on enhancing governance practice.

International Corporate Governance Network (ICGN)

KWAP became a corporate member of the International Corporate Governance Network (ICGN) in 2017. Represented by 638 members from more than 47 countries, ICGN was established to promote effective standards of corporate governance to institutions worldwide. An officer from KWAP was appointed to be the country correspondence for Malaysia.

In 2017, KWAP hosted ICGN's Annual Conference at Shangri-La Hotel, Kuala Lumpur from 11 until 13 July with the Minority Shareholder Watchdog Group (MSWG) as the Premier Partner. Over 350 senior capital market professionals from 27 countries gathered to explore governance priorities in major Asian markets and achieve value creation through sustainable long-term practices.

Asian Corporate Governance Association (ACGA)

KWAP became a member of the Asian Corporate Governance Association (ACGA) in November 2015. ACGA is an independent, non-profit association dedicated to encouraging and facilitating improvements in corporate governance in Asia. It has 112 members to date, representing eight sectors from pension and sovereign wealth funds to corporate organisations and accounting firms. KWAP had a separate engagement session with representatives from ACGA to discuss ESG matters.

Principles of Responsible Investment (PRI)

KWAP engages with representatives from PRI to further improve corporate governance in the region. PRI is a leading proponent of responsible investment and acts in the long-term interest of its signatories, financial markets and the global economy as a whole. It enhances understanding of the investment implications of ESG factors and supports its network of investor signatories to incorporate these factors into their investment and ownership decisions. KWAP attended PRI's Annual Conference, PRI in Person 2017, which was held in Germany in September 2017. Subsequently, KWAP engaged with representatives from PRI to discuss ESG matters.

FTSE Advisory Committee

KWAP's Chief Executive Officer was appointed as a FTSE ESG Advisory Committee member in September 2015. The Committee seeks to provide a forum for FTSE to interact with index users and other stakeholders with a view to enhance the underlying methodologies of the FTSE ESG ratings and associated index products, including the FTSE4Good Index Series.

Engagement with Other Institutions

To keep abreast of the latest ESG issues, KWAP has regular discourse on ESG related matters with proponents of responsible corporate citizenry. This year, it had discussions with Manulife Asset Management, BNP Paribas, BlackRock and Style Research Limited.

Institutional Investors Council (IIC)

KWAP is a signatory to the Malaysian Code for Institutional Investors (the Code), which informs the Institutional Investors Council (IIC), established in July 2015, and helps them fulfil their stewardship responsibilities through influencing and promoting good corporate governance in their investee companies. KWAP's CEO, Dato' Wan Kamaruzaman Wan Ahmad, was elected as IIC's first Chairman.

KWAP actively participated in all four IIC meetings during the year. We also received the Best Institutional Investor Award at the MSWG-ASEAN Corporate Governance Recognition 2017. This is an inaugural award to recognise institutional investors that have demonstrated adherence to good corporate governance practices in the Malaysian capital market.



In a decade, KWAP has managed to grow its fund size from RM48 billion in 2007 to RM140.8 billion currently. That's a growth of nearly 200%. Therefore

I am confident in the next 10 years, KWAP can grow its fund size to RM250 billion.



PIONEERING EMPLOYEE

NASRUL – Information Technology

STAKEHOLDER MANAGEMENT



Engagement with HR Managers in Kelantan



Engagement with HR Managers in Perak & Penang

ENGAGEMENT WITH EMPLOYERS

We engage with public sector employers to ensure they comprehend the importance of their contributions to safeguard employees’ pensions and assist them to better manage their pension documentation and remittance. Timely and complete document submission to KWAP is important to enable us to carry out our pension services efficiently.

During the year, our Customer Service team organised a number of sessions on Pension Document Management with the human resources managers at various ministries, federal and state agencies, statutory bodies and local authorities, as listed in the table below.

Date	Region/States
27 April	Northern Region 1 – Perak & Penang
28 April	Klang Valley
23 May	East Region – Terengganu & Pahang
29 August	Kelantan
28 October	Sarawak
08 November	Southern Region
22 November	Sabah
29 November	Northern Region 2 – Kedah & Perlis
15 December	Seremban

We also carried out the following external engagement programmes.

Date	Region/State	Location
24 May	Melaka	Jabatan Kesihatan Negeri Melaka
12 July	Selangor	Jabatan Pendidikan Bahasa Melayu
18 & 19 July	Selangor	Jabatan Lembaga Pengurusan Hartanah Melayu
10 August	Putrajaya	Jabatan Perikanan Malaysia
28 & 29 August	Kedah	Setiausaha Kerajaan Negeri Kedah
13 September	Kuala Lumpur	INTAN Kampus Tengah
20 October	Selangor	Perbadanan Labuan
16 November	Selangor	PERKESO



From left: Visits by Perbadanan Labuan, Persatuan Pesara Kerajaan Malaysia and PERKESO to our Cyberjaya offices



Fiesta NBOS in Pahang

In addition, visits are conducted to fund managers' premises to ensure adherence to KWAP's terms of agreement and the adoption of best business practices.

EFM Type	No. Quarterly Meetings	No. Monthly Meetings
Domestic Equities	60	8
International Equities	64	–
Fixed Income	16	–
Domestic Fixed Income	48	6
International Fixed Income	20	–

ENGAGEMENT WITH EXTERNAL FUND MANAGERS

KWAP continued to engage with all our external fund managers (EFMs) on a quarterly basis to discuss portfolio strategies, review their performance and operational compliance. For foreign EFMs, the sessions were conducted mainly by tele- or video-conferencing. Since incorporating a Performance Monitoring Matrix in our performance assessment, we have stepped up the monitoring of EFMs' portfolios. EFMs that fail to meet the minimum quantitative and qualitative criteria are subjected to performance monitoring exercise on a monthly basis. Monthly reviews are also held for portfolios undergoing restructuring.



En. Md Saffi Nadzir, Senior Director, Pension Services Department, delivering his opening remarks during a programme on pension document management held in Perak

STAKEHOLDER MANAGEMENT

ENGAGEMENT WITH PENSIONERS

Since taking over the provision of pension services from PSD in 2015, KWAP has taken it upon ourselves to educate civil servants about financial planning to safeguard their financial well-being during retirement. Accordingly, we organise financial planning programmes throughout the country.

In 2017, a total of six financial planning seminars were organised in Ipoh, Penang, Kuala Terengganu, Kelantan, Alor Setar and Selangor, in collaboration with the respective state governments. Most of the participants were pensioners or those about to retire from the civil service. A survey conducted among participants who attended these sessions showed that 97% believed the programme helped them improve their financial planning.

Through our Customer Service Section, KWAP also engages with pensioners and future retirees at various events organised by the Government and pensioners’ association. This enables us to form a stronger relationships with pensioners and ensure they are informed of our services.



Engagement with Pensioners and Future Retirees in 2017

Date	Event	State
30 March	<i>Hari Terbuka Kementerian Kewangan</i>	Putrajaya
15 & 16 August	<i>Hari 1Pesara 2017</i>	Selangor
23 September	Fiesta NBOS	Pahang
19 November	NBOS JPA Outreach Programme	Perak
04 December	<i>Persatuan Pesara Kerajaan Malaysia, Melaka</i>	Selangor

We also ensure a customer-friendly space at our premises in Cyberjaya at which pensioners are able to manage their enquiries in a comfortable environment.

Pension Services Department Office



Within MSC Area



Availability of Public Transport



Near Government Precincts



18,000 sq ft² Open Plan

NURTURING OUR EMPLOYEES

Our people are without doubt our most valuable assets. KWAP's strong performance scorecard over the years is the direct result of the capabilities of our people and their commitment to our shared goals. From the beginning, we have imbued our people with our values and passion for safeguarding the financial well-being of the country's pensioners. We have also provided training to keep enhancing our internal capabilities while taking care to present our employees a work environment that is conducive to optimal productivity.

The task of caring for our people falls on our Human Resources Department (HRD), which has adapted to growth in the number of employees – from 93 in 2007 to 577 in 2017 – by playing an increasingly strategic role in the organisation.

Changing Role of HR

Over the years, we have seen the number of our employees grow – from 93 in 2007 to 577 in 2017. Along with this growth, our HRD has kept up with technological innovation, investing in an increasing number of systems that allow for self-service functions. This has allowed HRD to focus more on specialised operations, thus evolve from a simple reactionary service provider to a team of experts who can be consulted by top management and frontline employees alike.

Members of our HRD team have become trusted organisational advisors who create value by aligning their approaches with KWAP's business objectives – from offering compelling employment bond and remuneration packages to building a sustainable talent pipeline. The team ensures that work at KWAP is always meaningful and engaging, and that every position in the organisation contributes to our goals and objectives. In so doing, it is putting in place the building blocks of a high-performance organisation.

Focus in 2017

A key HR challenge today is to understand and meet the expectations of millennials. Having done its research, HRD in 2017 developed a programme that focuses on the employee experience, integrating the core dimensions of digitalisation, engagement, culture, transferable learning and performance management.

• Digitalisation

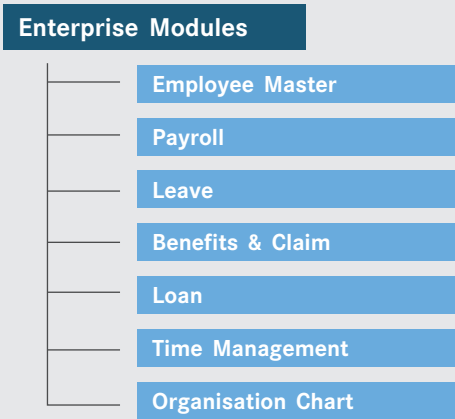
Digitalisation brings with it a greater degree of employee empowerment, i.e. the ability of employees to carry out various functions themselves. At the same time, it provides HRD with the tools to analyse data for better understanding of employees and how to manage them. In May 2016, we invested in a new Human Resources Management Information System (HRMIS) to replace the eP2P Human Management Information System which had been used since 2008. The new HRMIS comes with enhanced capabilities and capacity to manage HR functions through automation. In 2017, we completed its roll-out within the organisation.

The electronic HR system comprises two main suites, namely Enterprise Modules and Strategic Modules.

STAKEHOLDER MANAGEMENT

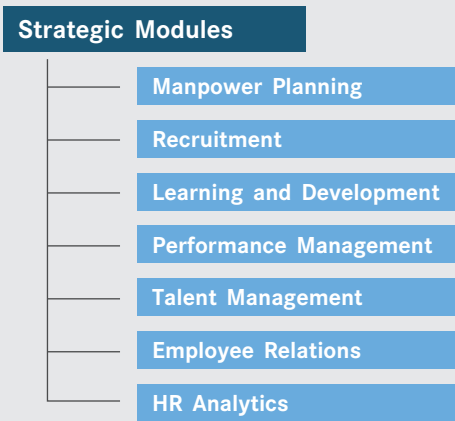
Enterprise Modules

Enterprise Modules encompass productivity software that expand traditional human resources management systems by incorporating employee self-service features. It comprises the following:



Strategic Modules

While Enterprise Modules handle HR operational matters, Strategic Modules focus on human capital development and management. It covers the following:



All the modules have complete functionalities and are process-based, automating many HR tasks for enhanced productivity. It is a full-function web-based system for easy access by employees anywhere and anytime.

PMCare Application

Our new PMCare+ application enables employees to access information on their medical entitlement and manage their medical benefits anytime and anywhere from IOS/Android mobile devices or personal computers with internet access. Functions covered include:

- Profile information on employees and their dependents
- Information on employee utilisation
- Locating the nearest medical provider
- Requesting a Guarantee Letter
- Online medical claims (for emergencies, panel clinics not within the vicinity, etc)

Learning and Development

In addition to digitalisation, we acknowledge that to build a more resilient workforce, we need to improve the speed of learning and performance change. Through our learning and development programmes we seek to enable learners to reach proficiency in the shortest possible time and to re-ignite their passion at work.

Based on this philosophy, in 2017 we introduced the following programmes:

- Job rotation for middle management and above: The programme enriches employees’ experience through the development of a wide range of skills, enabling them to adapt more easily to changes in jobs and career. Employees who undergo the programme are generally more engaged and satisfied with their jobs than those who specialise in a single skills set or domain. In addition, job rotation brings about the potential for increased product quality.
- Junior Professional Leadership Programme (JPBL) for Associates and Senior Associates: The programme aims to bridge skills gaps of selected competencies, propelling our associates for leadership positions in KWAP.
- Non-Executive Development Programme (NED) for non-executives: NED equips our non-executives with important functional skills to enable them to execute their operations efficiently to support the business.

• Talent Management

A critical element of successful talent management is the generation of a talent pool, namely a reliable and consistent internal source of talent to support succession planning.

The development of a skilled talent pool makes it easier to develop desirable skills sets in a broader group of employees, resulting in higher performance across all levels and functions. By cultivating an internal talent pool, we ensure that KWAP will have experienced and trained employees prepared to assume leadership roles as they become available.

We are already seeing merits of investing in people who are familiar with and loyal to KWAP. Recently, we promoted five internal talent to take over as Heads of Department both in Malaysia and in our Prima Ekuiti (UK) Limited office in London.

• Remuneration

In June 2017, we completed our Rewards and Remuneration Review Exercise. The review was done to ensure KWAP's remuneration is competitive and sustainable in the market, with total packages that reflect the job criticality, its challenges and the specific skills required to execute it effectively.

• Employee Engagement

We lend priority to employee engagement in the belief that non-monetary rewards and recognition can be as effective or more in raising job satisfaction and productivity. This has seen KWAP invest in a corporate culture steeped in employee recognition and growth with an emphasis on health and wellness. It has made KWAP a more empathetic employer, placing importance on even the little things that matter.

Initiatives undertaken to engage more effectively with our employees in 2017 include:

- Grouberide Week: Apart from help reduce traffic congestion and carbon emissions, this carpooling initiative via Uber or Grab encouraged greater communication within and between departments, while extending joint experiences beyond the office.

- KWAP Green Office (KWAP GO): This environment-motivated programme included 'GOmeals and GOpack' hashtag campaigns on Instagram, encouraging green behaviours such as bringing shopping bags to work and saying no to plastic bags. We also organised a 'KWAP GO!' day during which all staff dressed in green, as a fun effort to promote collective awareness of environmental issues.
- HR Marketplace "Wellness Beyond the Office": Through this one-day programme, we sought to heighten employees' appreciation of good health, providing free health check-ups. The message to employees was loud and clear: that their health and personal wellness is important to the company. The HR Marketplace also offered financial advisory checkpoints.
- Aspiration and Leadership Series: Under this programme, we invite inspiring leaders from various sectors in Malaysia to motivate our employees and help them gain a better understanding of the qualities that have contributed to the personalities' success in their careers and lives.

KWAP Young Talent Programme

In 2014, we launched the KWAP Young Talent (KYT) programme to recruit the best young minds and groom them to become future leaders. Designed to meet the interests and demands of millennials, this programme exposes them to the different functions within KWAP as they undergo training and development and receive personal coaching/mentoring by seniors who are keen to see them succeed in their careers. To date, we have brought in 45 KYTs in four batches from recruitment drives that include participation at the annual London Career Fair.

This year, we also took part in the CFA Career Day organised by the Chartered Financial Analyst Institute in August. Visibility of our structured and comprehensive programme has led to it becoming one of the most sought-after management trainee programmes in the industry.

STAKEHOLDER MANAGEMENT

Voices of KWAP Young Talent



Tan Hwai Jon

MEng in Mechanical Engineering,
University of Bristol, UK



How is KYT Programme different from other management trainee programmes offered in the industry?

KWAP's programme is designed to recognise talents, with a dedicated team to nurture and ensure the growth of each KYT. There are training modules to equip us with the right financial classes, communication skills, and even a make-up class for us to ensure we transition with poise into the working world. I cannot think of another place better than KWAP that offers such a programme, which has the full commitment of management, with comprehensive training that forms a strong bond among us trainees, and an intensive rotation programme with the opportunity to grow with the company for the next few years. Highly recommended!



Chia Mei Fung (Jamie)

LLB, City University, London,
LLM, Queen Mary University, UK



How did you stand out among thousands of recruitment candidates?

I believe being a law graduate with a career goal to work in investments within the world of finance allowed me to stand out among many. The ability to demonstrate a clear and well thought-out career plan coupled with the right set of values and hobbies related to sports and music was perhaps a major factor demonstrating that I would be a right fit for KWAP.



Nurul Ilham Al-Ameen Shahool Hameed

BSc in Economics,
University of Nottingham, UK



How would you describe the work-life balance in KWAP?

By far, I have been experiencing the balance every single day. Though I am always flooded with work and responsibilities, I always have time to chill and think after work. Some organisations out there drown you with work even after working hours. At KWAP, I am able to give my best and concentrate fully during working hours, but then enjoy a really good night's sleep when I go back home. The design of the office is also such that employees are free to chill while working. I don't necessarily have to be at my desk all the time to complete my tasks. If I want to sip coffee, grab a snack and chill on a beanbag whilst working, I can. The freedom is there as long as it maximises your productivity.



Ahmad Syakir Aiman Mohd Rahim

BSc in Mathematical Science with Statistics,
City University London, UK



How has this experience kick-started your career and where do you see yourself in five years?

Even though I have only been in KWAP for a few months, I have been getting a lot of exposure from both the front office and the back office. By the time I finish my rotation, I am confident that I will gain a lot more experience and knowledge which will not only assist me in my field of interest but also help me to be an all-rounder. I hope I can use these skills to contribute more to KWAP and be one of the key personnel in making investment decisions.

STAKEHOLDER MANAGEMENT



Chen Yee Liang (William)
BSc in Economics,
University College London, UK



How is KYT Programme different from other management trainee programmes offered in the industry?

When I was first briefed about KYT Programme, I was honestly surprised because the programme sounded too good to be true! Unlike other management trainees who are only allowed rotation within a specified department or division, KWAP allows KYTs to freely explore any department within the organisation. Also, KYT Programme is a great choice in terms of career acceleration as the organisation favours KYTs when it comes to learning and progression. What I like is the way the programme has been structured to help us transition from being students to working adults. This is very helpful considering the vast difference in lifestyle and expectations of others on us. With the technical and soft skills I have gained, I feel much more confident in undertaking my job.



Rabin Patmanathan
MPhil in Sociology and Demography,
University of Oxford, UK



How did you stand out among thousands of recruitment candidates?

I made the trip down to the Malaysian career fair in London, where I met a number of KWAP team members who were manning the company booth. We chatted for a bit and I passed them my CV. They contacted me the next day for an interview. To my surprise, I was interviewed by the CIO, Puan Nik Amlizan Mohamed, herself and I was very happy to be given such an opportunity. It seemed to me that the team took the recruitment process very seriously. A few weeks later, I was contacted by HR and given an offer. The story of how I interviewed with KWAP is more one of serendipity rather than design or careful planning, but it all worked out for the better.



A Home Away From Home

As part of our employee value proposition, we believe in offering our people a conducive work environment that encourages interaction while catering to the need for personal space to complete tasks requiring focused concentration, enhancing productivity.

This is perfectly reflected in the new premises we moved into in 2016 – Integra Tower which houses our main office in central Kuala Lumpur, and our Cyberjaya office where our Pension Services Department resides. Both premises boast open plan layouts and incorporate the latest technology to assist employees carry out their tasks efficiently.

At Integra Tower, we have a café, health & fitness centre, play area, collaborative spaces, auditorium that seats 90, meeting rooms, and many more to meet employees' expectations. Each of the four floors that we occupy in this building features works of art mostly by Malaysian artists, adding to the aesthetic sensibility of our workspace which our employees find both inspiring and uplifting.

In Cyberjaya, meanwhile, we offer similar facilities to ensure an efficient processing hub.

Both premises, moreover, are environment-friendly, supporting our commitment to ESG practices. By optimising natural sunlight, we are able to reduce electricity consumption for lights. Enclosed rooms feature brightness sensors. Indoor and outdoor plants provide greenery, improving air quality and enhancing a sense of well-being. To discourage waste, we have recycling bins in the different zones, low-flow faucets in the rest rooms, and use furniture made from recycled materials where possible.

Integra Tower has been certified Platinum for Leadership in Energy and Environmental Design (LEED), while our offices have been certified LEED Gold for Interior Design and Construction. Our ultimate objective is to create a zero-sum ecosystem that replaces resources at a rate equal to consumption, as a measure of our commitment to sustainability.

STAKEHOLDER MANAGEMENT

GIVING BACK TO THE COMMUNITY

The community is an extension of our stakeholder environment. The mere fact that we operate within the Malaysian community lends us a sense of responsibility for the well-being of the nation.

CANVAS Programme

In May, as part of the compulsory CSR programme that our KWAP Young Talent undergo, recruits from batch 2016 collaborated with Artcube Gallery to organise CANVAS, an art exhibition of works of emerging artists in the country. An auction of the exhibits raised RM20,000, which was channelled to the Malaysian Federation of the Deaf (MFD), whose mission is to empower the hearing impaired through inclusion in society.

While the main objective of the programme was to promote up-and-coming Malaysian artists, KWAP employees, too, stood to benefit from the opportunity to attend an art talk and workshop held by external art educators. We also used this platform to showcase KWAP'S own art collection.

Charity Visit to Rumah Ehsan, Kuala Kubu Bahru & RUKESA, Petaling Jaya

In conjunction with Aidilfitri celebrations, a number of KWAP representatives visited old folks at Rumah Ehsan in Kuala Kubu Bahru and underprivileged kids at Pusat Jagaan Rumah Kesayangan (RUKESA), Petaling Jaya on 23 June 2017 to bring cheer to the residents. KWAP also donated hampers and cash raised by employees throughout the Ramadhan month. This activities create stronger ties between the elderly, encouraging greater interaction between the generations.



#AnakAnakMalaysiaWalk

50 KWAP employees joined about 6,000 other Malaysians in the #AnakAnakMalaysiaWalk on 27 August 2017 at Dataran Kemerdekaan, Shah Alam. The walk, organised by the Star Media Group in partnership with Eco World Development Group Bhd, aimed to celebrate Malaysia's rich diversity and promote unity by bringing Malaysians from all walks of life together.

Danajamin Charity Run

65 KWAP employees, including our Chief Executive Officer Dato' Wan Kamaruzaman Wan Ahmad, participated in the second Danajamin Mighty Run, organised by Danajamin Nasional Berhad on 26 August 2017 at Centrus, Cyberjaya. The objective was to support the work of the National Autism Society of Malaysia (NASOM) in improving the quality of life of people with autism and their families.

Bursa Bull Charge Run

KWAP took part in the Bursa Bull Charge 2017, a run-for-charity event organised by Bursa Malaysia on 14 September. This is the fourth year that KWAP has participated in the event, with 16 employees representing the organisation in the 1.5km CEO Run, 2.5km Corporate Relay and 5.0km Corporate Challenge Run. The event was further enlivened by an energetic performance by KWAP's Cheer Squad.





The National Sports Day is celebrated on the second Saturday of October.

Larian Kewangan Jom Aktif 2017

National Sports Day was launched by the Ministry of Youth and Sports to help transform Malaysia into a sporting nation. In 2017, KWAP was appointed by the Majlis Kebajikan dan Sukan Anggota-Anggota Kementerian Kewangan as the official organiser and host of the *Larian Kewangan Jom Aktif 2017* in conjunction with the National Sports Day 2017. The event was held on 14 October at Multimedia University, Cyberjaya, attracting the participation of over 1,600 runners from various government agencies under the Ministry of Finance.



STAKEHOLDER MANAGEMENT

Liter of Light

In line with KWAP's efforts to build a sustainable future, we collaborated with Incitement Malaysia (a community of independent event organisers that create positive impact in the world) to build and install solar-powered lights for indigenous communities in Perak and Pahang.

A total of 120 solar-powered lights were installed by 100 KWAP Sustainability Heroes, benefiting more than 300 indigenous people living in Kampung Tibang, Slim River, Perak and Kampung Simoi Lama, Cameron Highlands in October 2017. With proper maintenance by the villagers, the solar-powered lights can be sustained for a lifetime.



KWAP collaborated with Incitement Malaysia to light up the lives of indigenous communities in Perak and Pahang through the Liter of Light Project.





Police Station Makeover

The Police Station Makeover Project was initiated as part of efforts to improve the livelihood of communities in the vicinity of KWAP's main office. A total of 50 KWAP volunteers joined forces with police personnel to repaint the walls surrounding the police station. A 100 square feet mini urban farm was also set up, with the planting of 16 cartridges that can yield 128 green plants in six weeks. The farm will promote a healthier eating lifestyle by producing wholesome organic fruits and vegetables.




Donation to Penang Flood Victims

KWAP donated RM50,000 to victims of the November 2017 Penang floods through the NSTP – Media Prima Disaster Fund. The organisation hoped that the donation would help lift the burden of flood victims who were struggling to rebuild their lives after the tragedy.

STAKEHOLDER MANAGEMENT

QUARTER 1

1	<i>Majlis Bacaan Yassin & Doa Selamat Bersempena Perpindahan KWAP ke Pejabat Baharu</i>	2 March 2017	
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QUARTER 2

2	MYPESARA CSR Programme: Financial Talk in Penang	1 May 2017	
3	KYT CSR Project: Art Exhibition at Artcube Gallery, Intermark	8 - 26 May 2017	
4	KYT CSR Project: CANVAS Art Talk	9 May 2017	
5	KYT CSR Project: Art Workshop	11 & 12 May 2017	
6	Distribution of Ramadhan dates to Pensioners	14 - 23 June 2017	
7	Distribution of dates to KWAP employees	14 June 2017	
8	<i>Ihya Ramadhan</i> with Ustaz Elyas Ismail	19 June 2017	
9	<i>Kasih KWAP</i> Charity Drive	19 - 23 June 2017	
10	Charity Visit to Rumah Ehsan Kuala Kubu Bahru & RUKESA Petaling Jaya	23 June 2017	



Workplace



Marketplace



Community



Environment

QUARTER 3

11	Danajamin Mighty Run 2017 at Centrus, Cyberjaya	26 August 2017	
12	#AnakAnakMalaysiaWalk 2017 at Dataran Kemerdekaan, Shah Alam	27 August 2017	
13	CSR Liter of Light Project: Perak	6 & 7 September 2017	
14	The Bursa Bull Charge 2017	14 September 2017	
15	Cash donation to <i>Tabung Bantuan Pusat Tahfiz Darul Ittifaqiyah</i> by KWAP employees	15 September 2017	
16	CSR Liter of Light Project: Cameron Highlands	20 & 21 September 2017	
17	<i>Larian Kewangan Jom Aktif 2017</i>	14 October 2017	

QUARTER 4

18	RM50,000.00 donation to Penang Flood Victims through Tabung Media Prima-NSTP	24 November 2017	
19	Police Station Makeover Project & Mini Urban farm	29 November 2017	&
20	<i>Program Pembangunan Dan Keberdayaan Warga Emas Anjuran Majlis Perbandaran Sepang 2017 Siri 2</i>	7 December 2017	



MANAGING RISKS BEYOND OPPORTUNITY

173 Risk Management Overview

176 Enterprise Risk Management

177 Market Risk Management

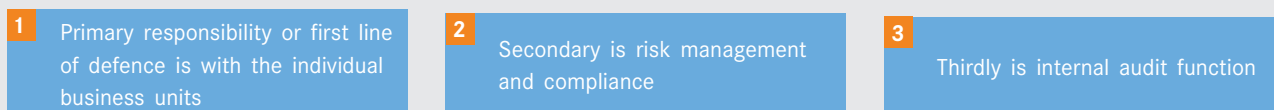
182 Credit Risk

185 Compliance

07
SECTION

RISK MANAGEMENT OVERVIEW

- Over the last decade and along with the expansion in investment activities and non-investment activities, KWAP's risk profile has also evolved and, with it, our risk management functions and capabilities. Back in 2008, Risk Management and Compliance Department (RMCD) started with only one (1) man-unit and in year 2017, the headcount stood at 13 employees.
- KWAP follows a three-line of defence model where:



- When assessing and managing KWAP's risk exposure, the organisation is very prudent in its investment and non-investment activities, guided by the tone from the top as articulated in at Risk Appetite Statement

No. Risk Appetite Statement		No. Risk Appetite Statement	
1	The Board recognises that the long-term goal of the fund is to meet the Government's pension liabilities and support additional research and dialogue with plan sponsors on how this goal can be achieved.	5	The Board recognises that there is a willingness and capacity to take on risks. The level of risk KWAP is willing to take should take into consideration KWAP's strategic objectives, stakeholder expectations, financial goals, and compensation strategies. This is assessed and considered in KWAP's Strategic Asset Allocation, Investment Strategies and Risk Management Framework.
2	The Board has general oversight and responsibility over the fund and the risks it takes on. Although investment decisions are taken by the Investment Panel, responsibility for the overall level of risk that is undertaken by KWAP comes under the purview of the Board. The Investment Panel and KWAP management take cognisance of this when carrying out their activities.	6	The Board recognises the need to balance its return expectations and risk appetite. The higher the quantum of expected return on investments, the higher the risk of not meeting those return expectations. These risks should be reported to the Board and Investment Panel on a periodic basis.
3	The Board considers and articulates this level of risk via this Risk Appetite Statement. It is presented as high-level broad and principle-based statements in order to support the complex, multifaceted, dynamic and overlapping nature of risks in KWAP.	7	The Board states that KWAP shall only take on risks that it can assess and manage at a reasonable level of comfort, so that such risks, in aggregate, in the normal course of business, shall not cause the fund material financial loss or material non-financial detriment and result in the fund failing to meet its strategic objectives.
4	The Board recognises that there is a need to actively manage the fund's investments with the objective to grow the fund size and achieve sustainable risk-adjusted returns on investments while ensuring safety and sufficient liquidity in the investment portfolio. This is to be achieved through dynamic investment strategies balanced with sound risk management practices.		

RISK MANAGEMENT OVERVIEW

No. Risk Appetite Statement	
8	<p>KWAP's choice of asset class, investment strategies and investment instruments are guided by the following key principles:</p> <ul style="list-style-type: none">• A reasonably high degree of confidence in the safety of assets• A reasonably high degree of liquidity in the asset or portfolio of assets• A reasonable return on investment adjusting for risks
9	<p>The major types of risk and levels of risk are as reflected in KWAP's Risk Management Framework. The major risk classes identified and specifically addressed are:</p> <ul style="list-style-type: none">• Strategic Risks• Market Risks• Credit Risks• Operational Risks• Compliance Risks• Liquidity Risk <p>Other risks are still recognised and managed via specific programmes.</p>
10	<p>KWAP's ability to take risks and the level of such risks, should take into account internal capacity to manage these risks. KWAP continuously works to boost its capabilities and expand its capacity via the enhancement of skill sets, knowledge, technology and other resources.</p>
	<ul style="list-style-type: none">• The implementation of a Risk Appetite Statement (RAS) defines the organisation's overarching attitude toward its investment and guides our decision making process.• RAS also sets out KWAP's ability and capability to take risk in the context of investment objectives and risk tolerance by addressing the following:<ul style="list-style-type: none">▶ The long-term goals of the fund, namely to meet the Government's pension liabilities.▶ The Board's oversight and responsibility over risks that the fund takes.▶ The need to strike a balance between return expectations and risk appetite.▶ Key considerations in willingness and capacity to take on risk such as strategic objectives, stakeholder expectations, financial goals, and compensation strategies.▶ Requirement of periodic risk reporting to the Board and Investment Panel.▶ Key criteria for investment activities such as safety, liquidity, and reasonable risk adjusted return on investment (ROI).▶ The need for KWAP to continuously enhance internal capacity and capability to manage risks.i. Complemented by a robust governance structure with independent lines of reporting between the risk taking units and the "control" units.ii. Enhanced by a series of documented rules as defined:<ul style="list-style-type: none">a) Enterprise Risk Management Frameworkb) Risk Management Policiesc) KWAP Guidelinesd) Departmental standard operating procedures

- We invest in our people, have clear policies, and ensure a robust risk operational process with significant investment in systems to ensure adequate control and provide for automation.
 - ▶ Robust governance control refers to segregation of reporting lines between departments in KWAP. The reporting lines are as per below:
 - ◆ Investment related departments such as Equity, Fixed Income, Alternative Investment, Research and Portfolio Strategy will report directly to the Chief Investment Officer (CIO).
 - ◆ Independent departments such as Legal & Secretarial, Corporate Strategy & Performance, Human Resources, and Risk Management & Compliance will report directly to the Chief Executive Officer (CEO).
 - ◆ Control function departments such as Information Technology, Contribution, Corporate Affairs, Accounts & Management Services, Investment Support Services and Pension Services will report directly to the Chief Operating Officer (COO).
 - ▶ The segregation of reporting line ensures there is no authority/approval overlap between the departments as well as to embed transparency in KWAP.
- iv. Credit Risk Management
- v. Operational Risk Management
- vi. Compliance
- ▶ During the session, RMCD shared KWAP's journey towards having a full-fledged risk management function and system in the organisation.
- A Risk Management Week themed Anti-terrorism and Fraud was conducted from 11 to 13 September 2017 with the aim to:
 - ▶ Improve KWAP's risk management culture.
 - ▶ Promote risk awareness and practice among all KWAP staff.
- Presentation to Bank Negara Malaysia on 11 December 2017:
 - ▶ To better understand KWAP's current business operations, risk, and investment management practices and future plans.
 - ▶ This is also part of BNM's on-going engagement with financial institutions to promote financial stability monitoring.

LIST OF ACTIVITIES IN 2017

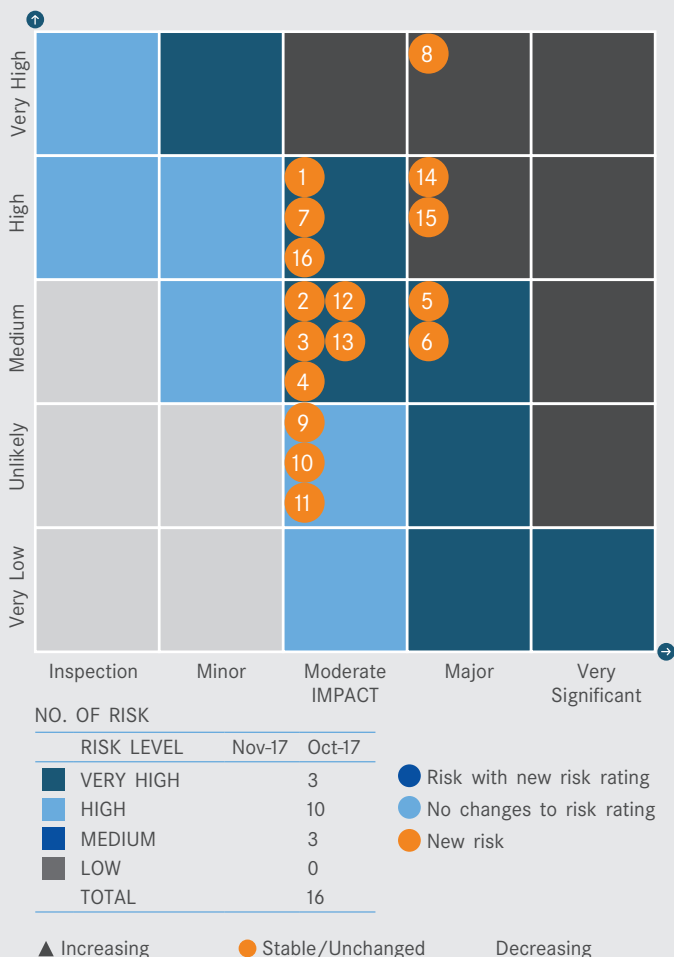
- Working visits related to the implementation of financial and financial risk management were conducted on 22 August 2017.
 - ▶ 13 delegates from six (6) ministries attended a knowledge sharing programme. RMCD briefed the delegation on:
 - i. Introduction of Risk Management
 - ii. Enterprise Risk Management
 - iii. Market Risk Management
- RMCD leveraged on technology to handle the multiple portfolio analytics and scenario analysis to cater to KWAP's portfolio. The analysis was derived from systems such as BarraOne, Credit Manager and Bloomberg to name a few, was distilled into key risk measures.
- The usage of technology will eliminate human error and ensure accuracy of the data. It is also less time consuming.

TECHNOLOGY AND INNOVATION IN RMCD

ENTERPRISE RISK MANAGEMENT

- KWAP's Corporate Risk Profile (CRP) outlines the number of risks, type of risks, and potential effects of risks that KWAP is willing to take on as well as the threats to which KWAP is exposed to and how those risks will affect the overall strategy of the organisation. It is presented in a balanced way with enough detail to provide context and clear risk descriptions.
- CRP considers the mitigation of potential risks and threats at both the corporate and operational levels, and assists the relevant parties to understand the range of risks they face and the potential impacts.
- CRP is crucial to identifying and assessing KWAP's existing risk management capacities and capabilities. Once the key risks are identified and documented, the key focus is to integrate risk information into existing departmental governance structures and planning, as well as its respective reporting cycles in a way that is simple where the key risks can be communicated effectively.
- CRP reports through its monthly Executive Committee meetings and the quarterly Risk Committee platform. It refers to the Risk Matrix, which is to illustrate the ranking of risks based on an assessment of their likelihood and impact.

- CRP reported as of November 2017:



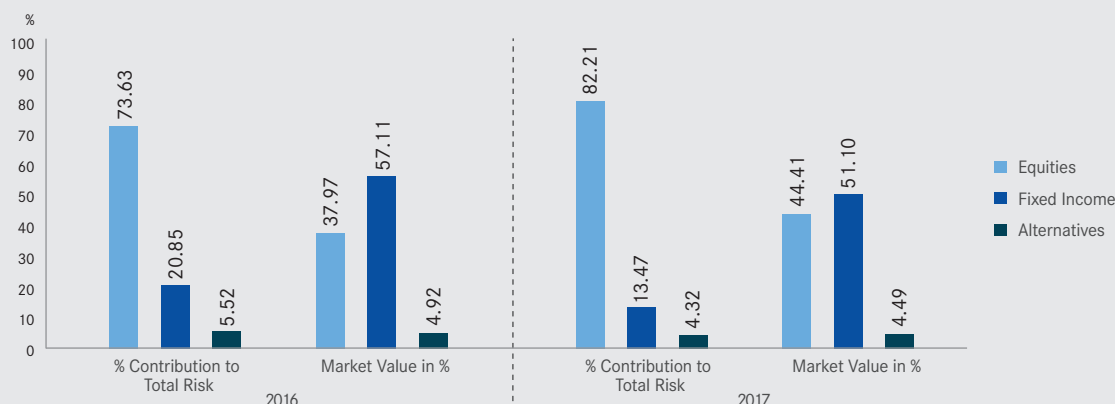
	Risk Category	Item	Risk Areas & 3-Month Outlook
INVESTMENT RISK	INV-MKT	1	Market Risk
	INV-MKT-FUNDING	2	Limitation for Convertibility of Foreign Currency
	INV-MKT-FOREX	3	Foreign Exchange Risk
	INV-CR-CONC	4	Credit Risk and Concentration Risk
COMPLIANCE	COMP-ACTS	5	Compliance to Retirement Fund Act (Amendment) Act 2015 and Other Relevant Acts Risk
	COMP-POL	6	Compliance to Int Policies/ Guidelines/SOP/Inv. Mandate
OPERATIONAL RISK – Main Office	OPE-IT SEC	7	Information Technology (IT) Security Risk
	OPE-PRO-HQ	8	Project Risk-IFIMS
	OPE-BCM	9	Business Continuity Management (BCM) Risk
	OPE-FRAUD	10	Fraud Risk
	OPE-CONT	11	Contribution Risk
OPERATIONAL RISK – PeSD	OPE-SLA	12	Achievement of Service Level Agreement Risk
	OPE-IT-PRO-PeSD	13	Information Technology (IT) Project Risk
STRATEGIC RISK	STRAT-INC	14	Achievement of Income Target
	STRAT-TAX	15	Tax Issue Risk
	STRAT-REP	16	Reputational Risk

MARKET RISK MANAGEMENT

Market risk is the risk of unexpected loss resulting from adverse changes in the value of assets arising from movements in market rates or prices. The predominant market risk drivers within KWAP's investments activities are mainly interest rate risk, equity risk and foreign currency risk.

There are three main asset classes that form KWAP's investment, namely Equity, Fixed Income and Alternative Investment (Property and Private Equity). Equity has the highest contribution to KWAP's total risk at 82.21%, followed by Fixed Income at 13.47% and Alternative Investment at 4.32% as of 31 December 2017, as displayed in the diagram below.

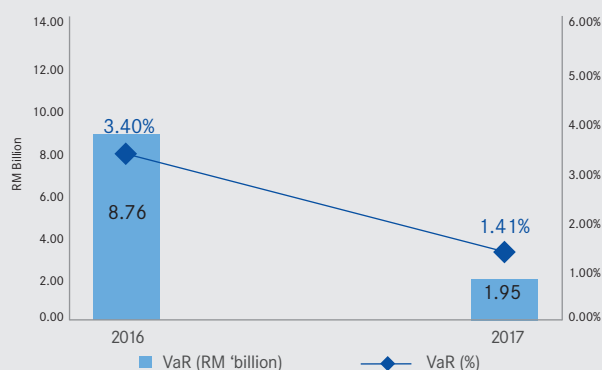
Total Risk Contribution by Asset Class as at 31 December 2017



VALUE AT RISK

A key market risk measure used in KWAP is Value-at-Risk (VaR). KWAP measures VaR as the worst possible loss that may occur at a 5% probability over a 10-day trading period. KWAP's VaR as at 31 December 2017 was 1.41% of the total fund's market value. In other words, for a two-week period, there is a 95% probability that KWAP will not lose more than 1.41% of the fund's market value due to market risk factors. The following chart refers.

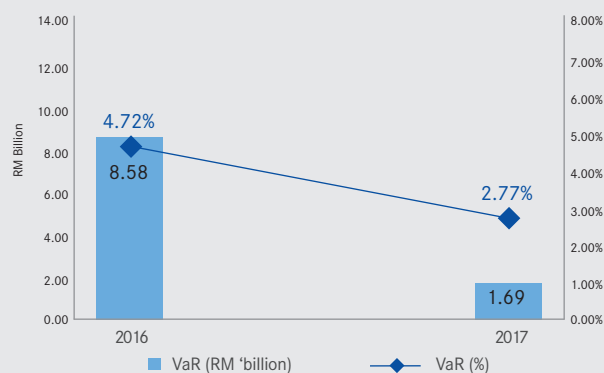
Value at Risk on Total Portfolio for 2017



EQUITY RISK EXPOSURE

The Equity Portfolio represents 42.83% of KWAP's total fund at market value for 2017. KWAP's equity VaR as at 31 December 2017 was 2.77% of the equity portfolio, where there was a potential loss of 2.77% of the portfolio value over a two-week period assuming a 95% confidence interval as shown below.

Equity Portfolio VaR for 2017



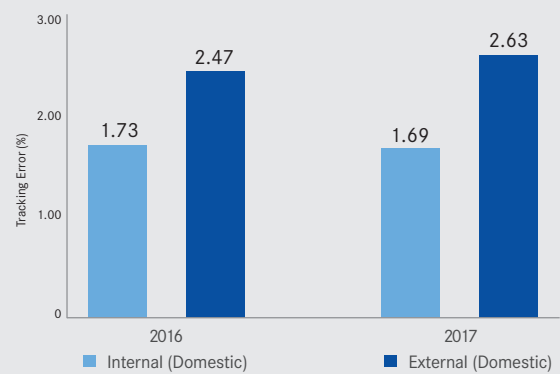
MARKET RISK MANAGEMENT

TRACKING ERROR

Tracking Error (TE) also known as active risk, measures the deviation of the portfolio from its benchmark. For example, a passive index fund would have a TE close to zero while an actively managed fund would normally have a higher TE.

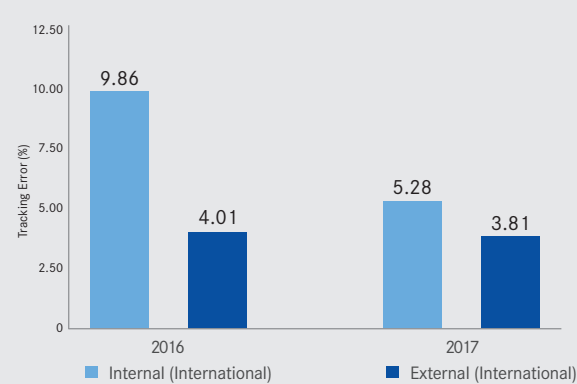
Internally managed Domestic Equity TE for 2017 was 1.69% as compared to a higher TE of 2.63% for externally managed Domestic Equity as illustrated in the following diagram.

Internal and External Domestic Equity Portfolio TE for 2017



KWAP's International Equity Portfolio TE is higher as compared to Domestic Equity. This can be attributed to its smaller mandate size and universe as compared to its respective benchmarks as illustrated in the next chart.

Internal and External International Equity Portfolio TE for 2017



STRESS TEST ON TOTAL EQUITY PORTFOLIO

KWAP periodically conducts stress test on its portfolios based on a range of scenarios. Results are reviewed, analysed and assessed to give insights into the portfolios' vulnerabilities.

The stress test results based on five common historical scenarios that may impact KWAP's total equity portfolios profit and loss are as follows.

Stress Test on 5 Scenarios

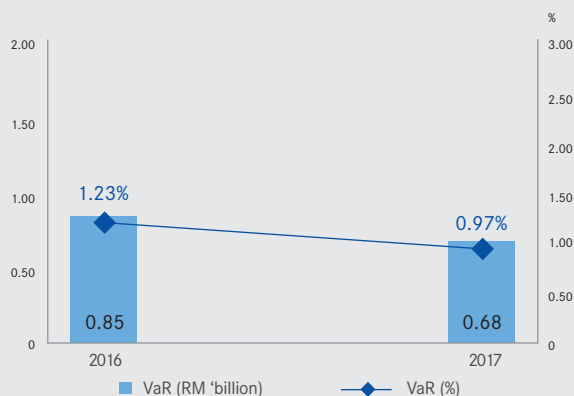
Scenario	P&L
1987 Market Crash (Aug. to Nov.)	-38.33%
1990 Reunification of Germany	-20.37%
2001 Sept 11	-13.56%
1994 US Rate Hike	-13.19%
2004 Emerging Market Troubles	-11.34%

Note: The sequence is based on worst case scenarios

FIXED INCOME RISK EXPOSURE

The Fixed Income Portfolio, which consists of Malaysian Government Securities (MGS), Government Investment Instruments (GII), Quasi-Government Bonds (QB), Corporate Bonds (CB) and Money Market (MM), represents 50.88% of KWAP's total fund as at 31 December 2017.

KWAP's Fixed Income VaR as at 31 December 2017 was at 0.97% of the fixed income portfolio with a potential loss of 0.97% of the portfolio value over a two week period assuming a 95% confidence interval.

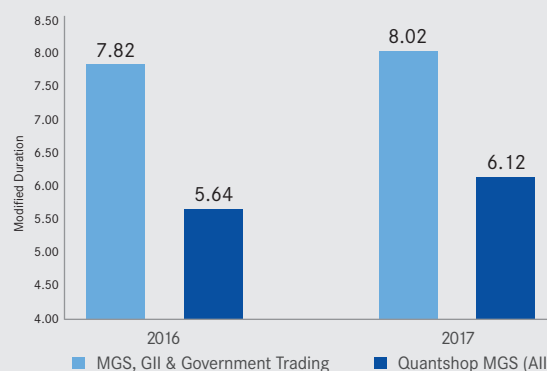
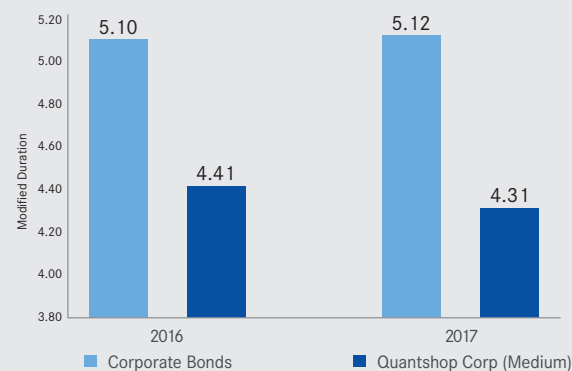
Fixed Income Portfolio VaR for 2017**Modified Duration**

Modified duration measures the sensitivity or change in value of a security or portfolio in response to a change in interest rates. It also follows the notion that interest rates and bond prices move in opposite directions. It is a sensitivity analysis used to determine the effects of a 1% change in interest rates on the price of a bond.

The MGS, GII and Government Trading (GVT) portfolio's modified duration as at December 2017 was at 8.02 as compared to 6.12 of its benchmark while Corporate Bond's (CB's) modified duration was at 5.12 as compared to its benchmark of 4.31.

On average, KWAP's modified duration in both MGS/GII/GVT and CB portfolios exceeded its respective benchmarks modified duration. This means that if interest rates moved by 1%, the portfolio market value would change by approximately 8.02% for MGS/GII/GVT and 5.12% for CB.

KWAP's Bond portfolio is mostly in long tenures, making it more sensitive to movements in interest rates as compared to its benchmarks. The higher duration is also in line with KWAP's investment strategy and risk appetite as a long-term pension fund investor. This is illustrated in the next diagram.

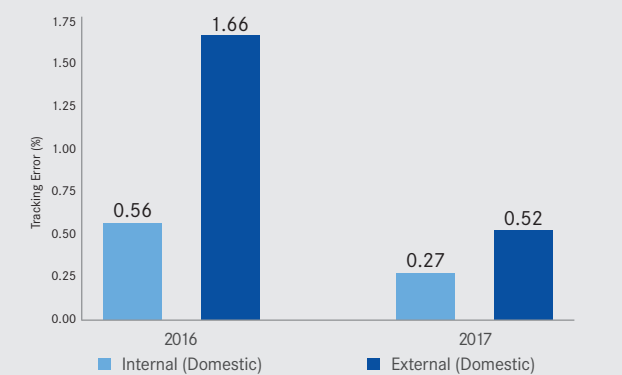
Modified Duration for MGS, GII & Government Trading as at 31 December 2017 (Internal versus Benchmark)**Modified Duration for Corporate Bonds as at 31 December 2017 (Internal versus Benchmark)**

MARKET RISK MANAGEMENT

TRACKING ERROR

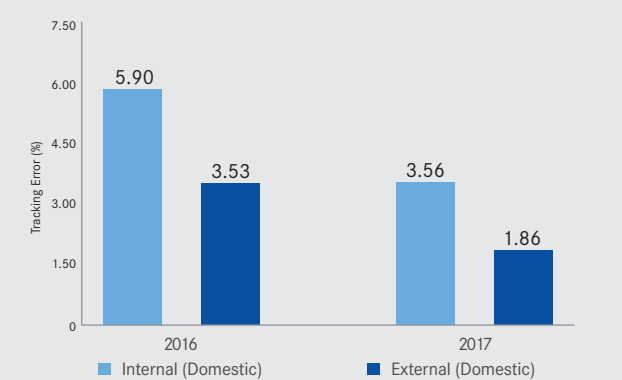
KWAP’s Internal and External Domestic Fixed Income portfolio TE for 2017 was 0.27% and 0.52% respectively. This is illustrated in the next chart.

Internal and External Domestic Fixed Income Portfolio TE for 2017



Internal and External International Fixed Income portfolio TE for 2017 was 3.56% and 1.86% respectively.

Internal and External International Fixed Income Portfolio TE for 2017



STRESS TEST ON FIXED INCOME PORTFOLIO

KWAP also periodically conducts stress tests on its Fixed Income portfolios. Based on five common historical scenarios, the estimated results to the Fixed Income Portfolio’s P&L are relatively minimal as shown in the next table.

Stress Test on 5 Scenarios

Scenario	P&L
2006 Emerging Market Crash	-0.42%
2000 Emerging Market Decline	-0.20%
2004 Emerging Market Troubles	-0.19%
1994 US Rate Hike	-0.18%
1998 Russian Financial Crisis	-0.12%

Note: The sequence is based on worst case scenarios

Estimated losses of the stress test for Fixed Income are minimal as compared to investments in equities. This may be attributed to KWAP’s substantial size in its Domestic Fixed Income Investments which had limited impact from external market shocks and volatility. On another note, bonds are also considered as a defensive investment.

Hedging and Derivative Products

A variety of derivative contracts are used to manage market risk exposures on KWAP’s investments especially on currency and interest rate movements. Derivative instruments used to manage those exposures are Cross Currency Swaps (CCS), Interest Rate Swaps (IRS) and Foreign Exchange Forward contracts (FX Forward). KWAP mostly uses FX Forwards to hedge its currency exposures in international markets back to the Malaysian Ringgit. This is to mitigate and offsets currency volatility on KWAP’s exposures overseas.

ALTERNATIVE INVESTMENTS

As at 31 December 2017, KWAP’s total exposure in Alternative Investments was at 5.42% of KWAP’s total fund. KWAP’s Alternative Investments consist of Property and Private Equity Investments.

Property

KWAP's properties are diversified both domestically and internationally which has a natural effect on risk mitigation. The properties are long term in nature, hence the risk is structural as opposed to transactional. Besides being exposed to movements in property prices, management of the rental leases are important in maintaining a steady income stream.

PE Fund, Infrastructure and Direct Investment

Risk management of PE funds were typically concentrated in the pre-appointment evaluation of its managers and investment strategies. Post appointment activities concentrated on operational risk management and monitoring of the funds with potential red flags as to possible write-offs or losses.

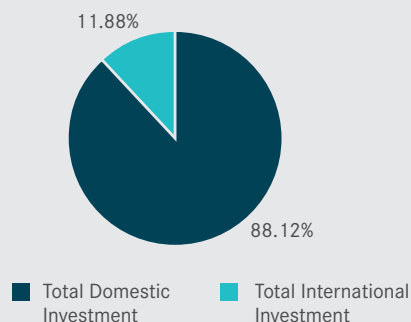
KWAP is also constantly developing its knowledge and skills to improve risk management of these markets which have grown and become attractive for investors as opposed to traditional assets such as equity and bonds.

International Exposure

Currency Risk

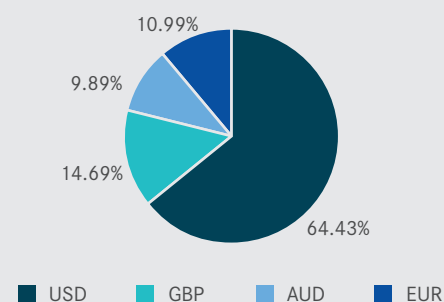
As at 31 December 2017, KWAP's exposure to international investments was at 11.88% of KWAP's total fund.

Percentage of KWAP's Total Exposure in Domestic and International Investment



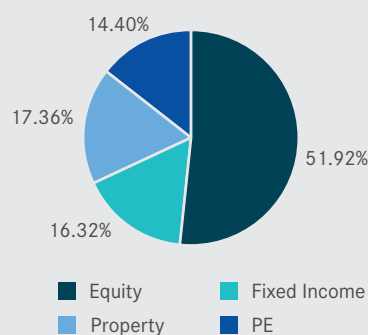
KWAP's foreign currency exposures through its investments can be broken down into four major currencies, namely USD, GBP, AUD and EUR. The currency exposures as at 31 December 2017 were as follows.

Percentage of KWAP's Investment by Currency



The next chart shows the proportion of the different asset classes within KWAP's international investments.

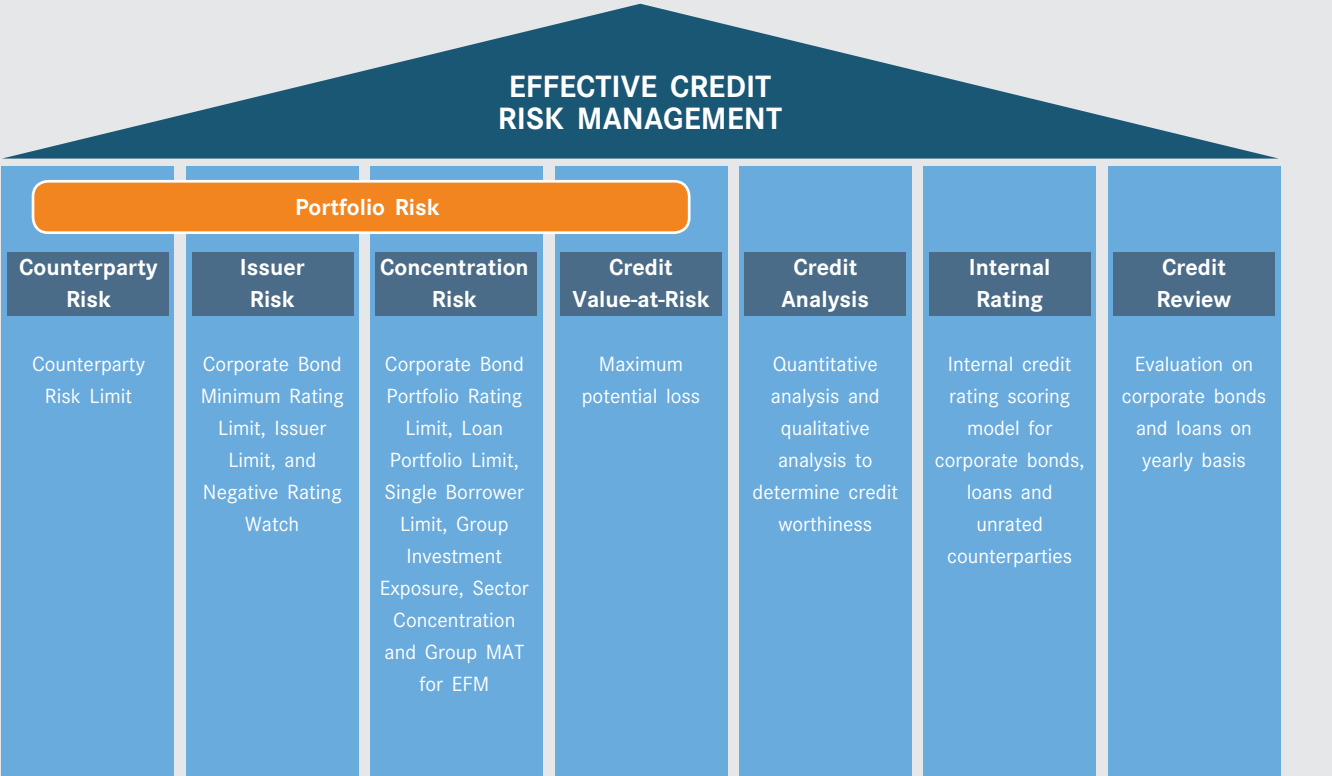
Percentage of KWAP's International Investment by Asset Type



CREDIT RISK

CREDIT RISK MANAGEMENT

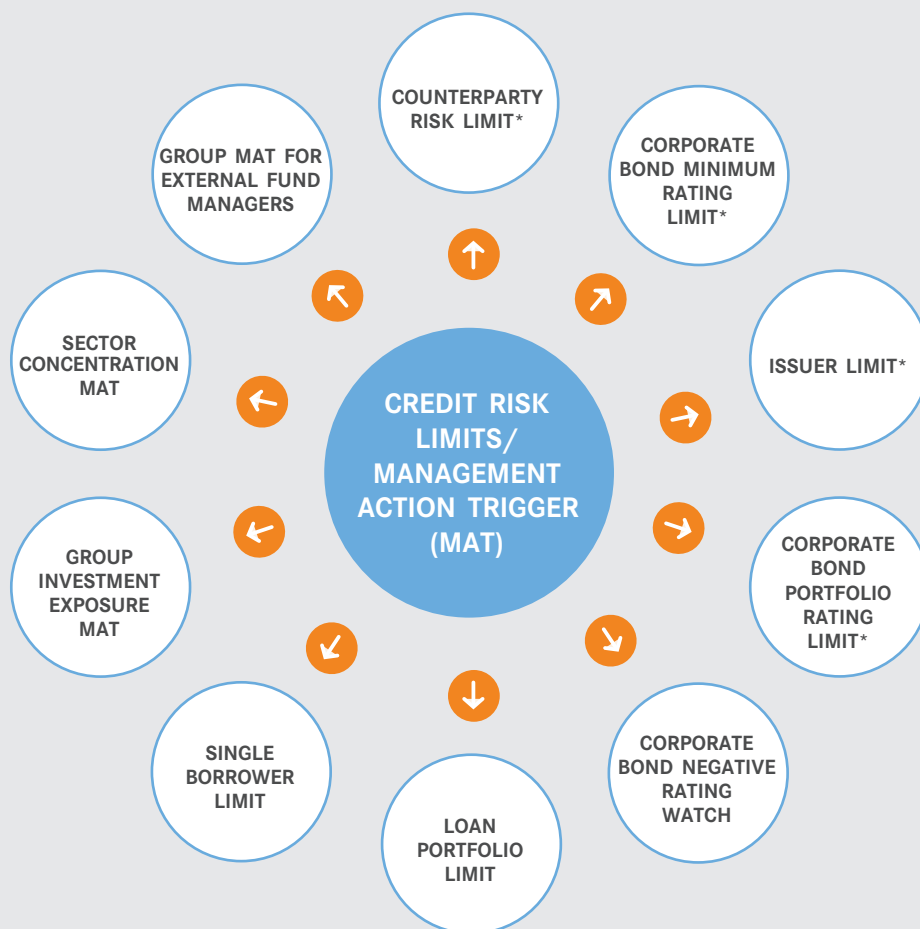
Credit risk is defined as the probability that a borrower or counterparty will fail to meet its financial obligations in accordance with the agreed terms. KWAP, being an active player in the domestic fixed income and money markets with participation in both primary and secondary markets, requires strong credit risk policies. Industry best practices are instilled via continuous updates of credit risk policies and processes. The purpose of credit risk management is to keep credit risk exposure within an acceptable level and to ensure the returns are commensurate with the risk taken. Credit Risk Policy and Credit Risk-related Guidelines were introduced to formalise the credit risk function covering credit risk measurement, credit risk assessment, and monitoring.



Credit Research provides credit analysis, internal ratings and credit reviews for the fixed income portfolio.

The Credit Committee is responsible for deliberating on all existing and new credit proposals, as well as credit related issues before tabling to the Investment Committee and the Investment Panel. Besides that, the Credit Committee reviews and approves the internal credit rating scoring for all credit proposals.

To manage KWAP's credit risk exposure, a series of credit risk limits and Management Action Triggers (MAT) have been placed, as illustrated below.



Note: Credit risk limits are marked with an asterisk (*)

CREDIT RISK

The credit risk limits are approved by the Board, and designed to either cap risk exposures within a certain asset class and sub-asset class or cap risk exposures to a single entity or issuer. Any breaches to these limits will be escalated to the senior management.

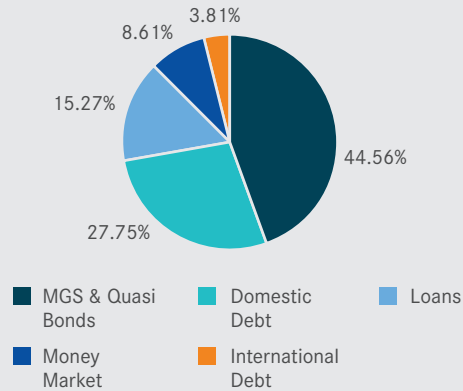
Management Action Trigger (MAT), on the other hand, are triggers that warrant management review and reassessment of the accompanying risk exposures.

KWAP employs Credit Value-at-Risk (Credit VaR) among others as a methodology to quantify credit risk. It is a measure of the maximum potential change in value of a portfolio of financial instrument with a given probability over a pre-set horizon. A credit risk quantification system is used to monitor the overall composition and quality of the credit portfolio by providing adequate information and analytical techniques. The Credit VaR Contribution as a percentage of exposure as of 31 December 2017 is 1.75% over a one-year time horizon and 99% confidence level.

In addition, stress testing is used to complement VaR analysis, as a risk management tool used to better understand the risk profile, evaluate business risks, thus allowing for the appropriate measures to be taken accordingly. Stress tests involve identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on KWAP's exposure and the assessment of KWAP's ability to withstand such changes. Steps are then identified to manage the risks and preserve capital.

In order to enhance visibility and promote better risk management of the bond portfolio, the negative rating watch is closely monitored to serve as part of pre-emptive measures in addressing potential downgrades and/or defaults of the bonds.

KWAP Fixed Income Portfolio (as at 29 December 2017)



The diagram displays KWAP's fixed income exposure, of which 44.56% is invested in Malaysian Government Securities (MGS) and Quasi Government Bonds, 27.75% in Domestic Debt, 15.27% in Loans and 8.61% in the Money Market. The remainder 3.81% was invested in International Debt.

COMPLIANCE

The compliance function in the organisation has gained prominence in recent years due to the nature and size of financial losses and loss of reputation that arise from compliance breaches. Compliance serves as an independent function that identifies, assesses, advises on, monitors, and reports on the compliance risk, that is, the risk of legal or regulatory sanction, financial loss, or loss to reputation that an organisation may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct, and standards of good practice.

The main objectives of compliance is to preserve KWAP's reputation so that our competitive standing, reputation and share value are not only maintained, but also enhanced. To achieve this objective, KWAP's underlying mission is to effectively measure and manage the compliance risk of the organisation to meet the expectations of all stakeholders. Compliance Risk within KWAP is defined as the risk of impairment to the organisation's business model, reputation and financial condition from a failure to meet laws and regulations, internal policies, and the expectation of stakeholders. Providing the foundation for this aspiration is the Compliance Framework which was implemented in 2010, from which the building blocks of the compliance functions are shaped. In managing the roll-out of the Compliance Framework, Compliance has adopted the Three Lines of Defense Model in managing KWAP's compliance risk.

SCOPE OF COMPLIANCE

(a) Regulatory Compliance

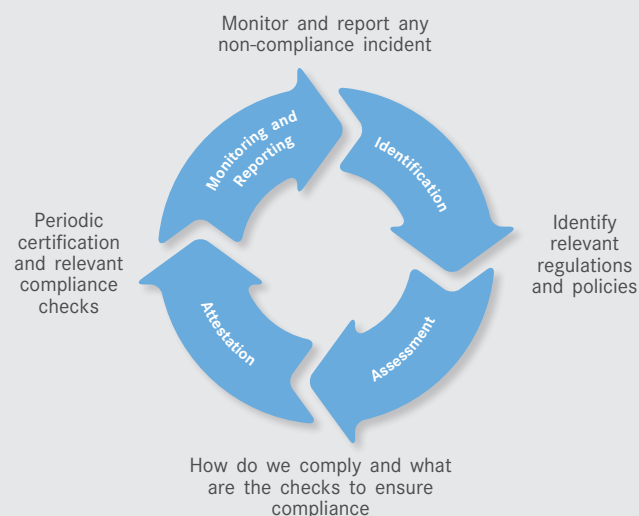
This covers the external regulations and guidelines which KWAP is bound to comply with, such as relevant Acts of Parliament, Minister of Finance's decrees, and relevant guidelines by regulatory bodies such as Bank Negara Malaysia, the Securities Commission and Bursa Malaysia. Ownership of regulatory compliance lies with the relevant operating unit at the transactional or operating level, where any potential breach is identified upfront before the event. A proactive approach adopted as non-compliance to the regulatory compliance is not an option.

(b) Internal Compliance

This covers compliance with internal policies and guidelines, for example Investment Policy and Guidelines, Discretionary Authority Limits, and Standard Operating Procedures. RMCD's approach in ensuring internal compliance is sustained through risk limit control in the investment system while operational process controls are embedded in the Standard Operating Procedures.

Compliance Process

Compliance activities are closely intertwined with compliance developments on the global front, existing legal requirements as well as KWAP's policies and procedures. The following diagram illustrates the compliance process and general approach taken in managing compliance risk.



COMPLIANCE

Value of Compliance

As business models change, new technologies emerge and new investment asset classes increase amidst intense focus on operational efficiencies. KWAP has never been more exposed to such a variety of risks. In this regard, the Board and senior management of KWAP have extended their fullest support and cooperation in moving compliance to the front-line. They have done this by establishing the tone from the top, which is quite simply, to comply with all rules and regulations and employ ethical behavior. All staff are aware that the Board and senior management must adopt an uncompromising stance if such trust is breached. The Compliance unit is increasingly becoming a point of reference and advisor for key strategic initiatives that KWAP embarks on.

The compliance culture is also being widened to our fund managers. Our fund managers will need to declare on an annual basis that all of KWAP's investment guidelines are captured in their investment systems. This is to ensure that the fund managers continuously adhere to the guidelines imposed on them.

Chinese Wall Policy

KWAP implemented the Chinese Wall Policy in 2014. This was introduced to establish procedures to control the flow of material non-public and price sensitive information within KWAP to minimise the risk of insider trading and potential breach of laws and regulations. It also helps to ensure that the possession of material non-public and price sensitive information does not give rise to the risk or perceived risk of a conflict between the public interest, KWAP's interest, and employees' personal interest.

Automated Self-Compliance Checklist

KWAP has also implemented the automated self-compliance where all attestations are now computerised via the system. The attestation exercise becomes paperless resulting in increased efficiency. The self-compliance checklist will be filled in by respective department's compliance liaison officers and signed off by their Head of Department via the system. The attestation exercise is conducted bi-annually in all investment related departments and annually in other departments.

Risk and Compliance Surprise Visit to External Fund Managers

In 2017, KWAP embarked on a due diligence exercise called risk and compliance surprise visit to our External Fund Managers (EFMs). The purpose was to ensure that the EFM's activities and practices comply with KWAP's investment mandate. Furthermore, KWAP assesses the EFMs' operations in areas of risk and control and makes recommendations on improvements in particular areas. KWAP completed the surprise visits to four domestic EFMs and two international EFMs in 2017.

OPERATIONAL RISK MANAGEMENT

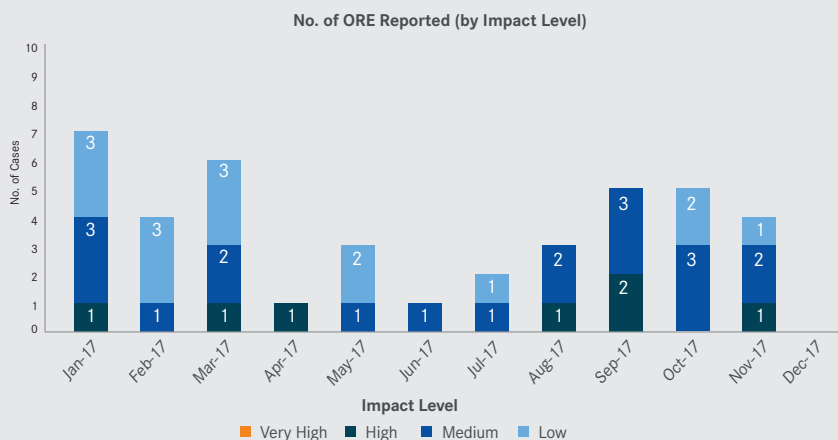
- To accommodate complex operations in today's business, KWAP utilises the Operational Risk Event (ORE) reporting to capture and record loss events or near misses that occur within KWAP's business operations.
- In 2017, there were no reported OREs with damaging impact on KWAP's operations as the majority of OREs were successfully rectified in a timely manner. The reported OREs fell mainly under the following categories of risk events:
 - Clients, products and business practices
 - Execution, delivery and process management
 - Business disruption and system failures

In addressing the reported OREs, proactive measures were taken such as:

- Presented operational risk event at EXCO meeting to ensure all issues were properly addressed.
- RMCD facilitates discussions with other respective parties to mitigate the risk and avoid recurrence of the same event.
- Follow-up on outstanding OREs with respective parties to ensure short-term and long-term mitigation in place to minimise recurrence of the same incident.

The next diagram displays the number of OREs throughout 2017:

No. of ORE Reported (by Impact Level)



“

At KWAP, over the years,
we have received a lot
of guests from all backgrounds,
from diplomats to ministers as
well as many others

which requires me to extend
KWAP's utmost hospitality.

This opportunity to meet
dignitaries and understand
their backgrounds is my most
memorable experience
so far working in KWAP.

I feel proud that
I am able to be of service
not just to KWAP
but to the country as well.

”

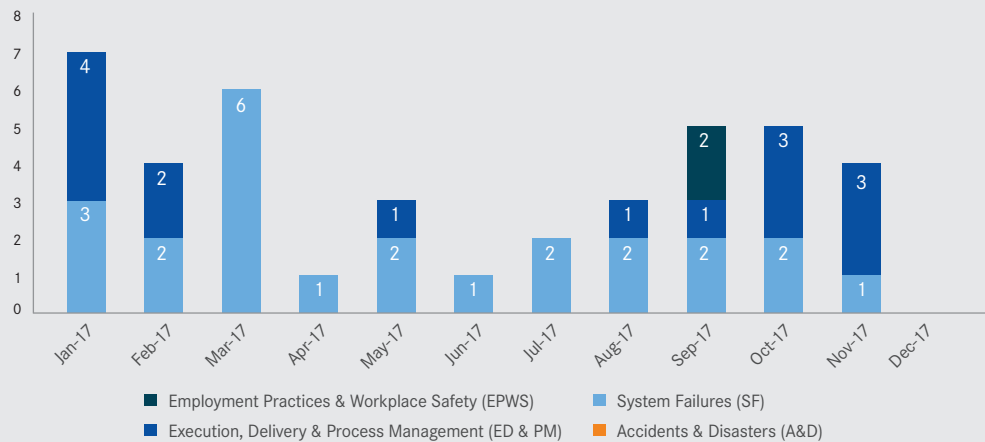


PIONEERING EMPLOYEE

INTAN MARIA MUSTAPHA – CEO's Office

COMPLIANCE

No. of OREs Reported (by Type)



Source: RMCD record year 2017

Apart from that, Operational Risk Management (ORM) unit took the initiative to establish the following documents:

- i. Fraud Risk Management Policy
- ii. Counter terrorism readiness and response plan

Business Continuity Management (BCM)

Business Continuity Management (BCM) has always been an integral part for KWAP. In 2017, in line with its business expansion, KWAP successfully conducted several Business Continuity Management (BCM) exercises:

- i. Non-live BCM Exercise for KWAP Main Office on 6 April 2017
- ii. Live BCM Exercise for KWAP Main Office on 14 April 2017
- iii. Non-live BCM Exercise for KWAP PeSD Office on 24 April 2017
- iv. Live BCM Exercise for KWAP PeSD Office on 28 October 2017
- v. Call tree exercise for KWAP PeSD Office on 23 November 2017

vi. Call tree exercise for KWAP Main Office on 14 December 2017

- BCM Exercise live requires identified critical functions to be performed (live) at KWAP's Alternate Site and upon completion, recovered back to primary office.
- BCM Exercise non-live requires identified critical functions to be performed in non-live environment. Data used in the exercise is dummy data.
- For both types of exercise (live & non-live), KWAP's personnel were mobilised and tasked to perform the recovery of critical functions within the required timeline at the alternate site.

The objectives of the exercise include:

- i. To gauge the readiness of all systems at the alternate site (KWAP Main Office to PeSD office and vice-versa)
- ii. To ensure system relocation from production environment into DR

environment is able to operate and function properly

- iii. To verify system capabilities based on accessibility and functionality
- iv. To ensure relevancy of critical functions as stated in Business Impact Analysis (BIA)
- v. To ensure employees' phone numbers are correct and updated
- vi. To measure the ability to resume business operations within the stipulated timeframe in the event of severe operational disruptions
- Moving forward, BCM Exercises will involve senior management (Crisis Management Team) to give them real exposure and experience in the event of disruption to the business/operations.
- Various scenarios of BCM Exercise will be incorporated such as table top and surprise BCM Exercise in the near future.



OUR FINANCIAL STATEMENTS

190 Auditor General Certification

194 Statement by the Chairman

195 Statutory Declaration

196 Statements of Comprehensive Income

197 Statements of Financial Position

199 Statements of Changes in Equity

201 Statements of Cash Flows

203 Notes to the Financial Statements

AUDITOR GENERAL CERTIFICATION



REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KUMPULAN WANG PERSARAAN (DIPERBADANKAN) FOR THE YEAR ENDED 31 DECEMBER 2017

Report on the Financial Statements

Opinion

I have audited the accompanying Financial Statements of the Kumpulan Wang Persaraan (Diperbadankan) and of the Group, which comprise the Statements of Financial Position as at 31 December 2017 and Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Kumpulan Wang Persaraan (Diperbadankan) and of the Group as at 31 December 2017 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia and the Retirement Fund Act 2007 (Act 662).

Basis for Opinion

I conducted the audit in accordance with the Audit Act 1957 and The International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence and Other Ethical Responsibilities

I am independent of the Kumpulan Wang Persaraan (Diperbadankan) and of the Group and I have fulfilled the other ethical responsibilities in accordance with The International Standards of Supreme Audit Institutions.

AUDITOR GENERAL CERTIFICATION

Information Other than the Financial Statements and Auditors' Report Thereon

The Board is responsible for the other information in the Annual Report. My opinion on the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group does not cover the information other than the Financial Statements and the Auditor General's Report thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Board for the Financial Statements

The Board is responsible for the preparation of Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group that give a true and fair view in accordance with approved financial reporting standards in Malaysia and the Retirement Fund Act 2007 (Act 662). The Board is also responsible for such internal control as it is necessary to enable the preparation of the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group, the Board is responsible for assessing Kumpulan Wang Persaraan (Diperbadankan) and of the Group's ability to continue as a going concern, disclosing as applicable, and using the going concern as basis of accounting.

Auditors' Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with The International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with The International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

AUDITOR GENERAL CERTIFICATION

- a. Identify and assess the risks of material misstatement of the Financial Statements of the Kumpulan Wang Persaraan (Diperbadankan) and of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kumpulan Wang Persaraan (Diperbadankan) and of the Group's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- d. Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Kumpulan Wang Persaraan (Diperbadankan) or the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my Auditor General's Report to the related disclosures in the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditor General's Report.
- e. Evaluate the overall presentation of the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) and of the Group, including the disclosures that achieves fair presentation.
- f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the Financial Statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during my audit.

AUDITOR GENERAL CERTIFICATION

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Retirement Fund Act 2007 (Act 662), I also report the following:

- a. In my opinion, the accounting and other records required to be kept by Kumpulan Wang Persaraan (Diperbadankan) and its subsidiaries of which I have acted as auditors have been properly kept in accordance with the provision of the Retirement Fund Act 2007 (Act 662).
- b. I have considered the accounts and the auditors' reports of all the subsidiaries of which I have not acted as auditor, which are indicated in note 10 to the Financial Statements, being accounts that have been included in the consolidated accounts.
- c. I am satisfied that the accounts of the subsidiaries that have been consolidated with the Kumpulan Wang Persaraan (Diperbadankan)'s Financial Statements are appropriate and proper in form and content for the purposes of the preparation of the Financial Statements of the Group and I have received satisfactory information and explanations required by me for those purposes.
- d. The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment.

Other Matters

This report is made solely for the Board and for no other purpose. I do not assume responsibility to any other person for the content of this report.



(TAN SRI DR. MADINAH BINTI MOHAMAD)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
12 JULY 2018

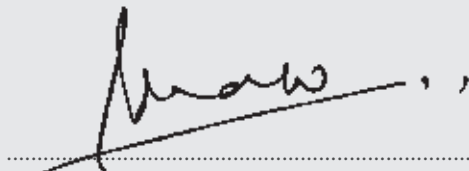


STATEMENT BY THE CHAIRMAN

AND A MEMBER OF THE BOARD OF KUMPULAN WANG PERSARAAN (DIPERBADANKAN)


We, **Tan Sri Dr Mohd Irwan Serigar bin Abdullah** and **Dato' Azmi bin Abdullah** being the Chairman and a member of the Board of Kumpulan Wang Persaraan (Diperbadankan) respectively, do hereby state that, in the opinion of the Board of Kumpulan Wang Persaraan (Diperbadankan), the Financial Statements, consisting of the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with the Notes to Financial Statements therein, are prepared in accordance with the Retirement Fund Act 2007 (Act 662) and the Malaysian Financial Reporting Standards (MFRS) as to give a true and fair view of the state of affairs of Kumpulan Wang Persaraan (Diperbadankan) as at 31 December 2017 and of its operating results and the cash flows of Kumpulan Wang Persaraan (Diperbadankan) for the year ended on that date.

Signed on behalf of the Board,



Name : **Tan Sri Dr Mohd Irwan Serigar bin Abdullah**
Title : Chairman of the Board
Date : 06 March 2018
Venue : Putrajaya

Signed on behalf of the Board,



Name : **Dato' Azmi bin Abdullah**
Title : Member of the Board
Date : 06 March 2018
Venue : Kuala Lumpur

STATUTORY DECLARATION

BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF
KUMPULAN WANG PERSARAAN (DIPERBADANKAN) 2017

I, **Wan Kamaruzaman bin Wan Ahmad**, being the officer primarily responsible for the financial management of Kumpulan Wang Persaraan (Diperbadankan), do solemnly and sincerely declare that the accompanying Financial Statements which includes the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes In Equity and the Statement of Cash Flows, in the following financial position together with the Notes To The Financial Statements to the best of my knowledge and belief, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the above named)
At Kuala Lumpur Wilayah Persekutuan)
On 06 March 2018)



Before me,



G1-1-2 Ground Floor, Menara 1 Dutamas,
Solaris Dutamas, No. 1 Jalan Dutamas 1,
50480 KUALA LUMPUR, MALAYSIA.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group		KWAP	
		31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Gross Investment Income	4	9,348,860	6,610,547	9,033,505	6,361,482
Other Non-Investment Income	4	1,433,066	1,300,466	1,215,419	1,279,609
Operating Expenses	5	(630,210)	(468,464)	(368,823)	(271,625)
Net Unrealised Gain/(Loss) On Financial Assets Designated As Fair Value Through Profit Or Loss		34,589	(62,943)	34,589	(62,943)
Impairment Loss On Available-For-Sale Financial Assets		(1,123,253)	(2,476,601)	(1,123,253)	(2,476,601)
Profit Before Taxation		9,063,052	4,903,005	8,791,437	4,829,922
Finance Cost		(59,909)	(116,213)	-	-
Share Of Results From Associates		86,423	49,046	-	-
Share Of Results From Joint Ventures		35,101	2,983	-	-
Taxation	6	(1,015)	(852)	-	-
Profit After Taxation		9,123,652	4,837,969	8,791,437	4,829,922
Attributable To:					
Contributors Of KWAP		9,123,652	4,837,969	8,791,437	4,829,922
		9,123,652	4,837,969	8,791,437	4,829,922
Other Comprehensive Income/(Loss)					
Item That May Be Reclassified Subsequently To Profit Or Loss:					
Foreign Exchange Reserves		(233,669)	(229,969)	-	-
Share Of Other Comprehensive Gain/(Loss) Of Associates And Joint Ventures		24,541	(67,485)	-	-
Gain On Available-For-Sale Financial Assets		3,514,721	127,221	3,514,721	127,221
Other Comprehensive Income/(Loss) For The Year		3,305,593	(170,233)	3,514,721	127,221
Total Comprehensive Income		12,429,245	4,667,736	12,306,158	4,957,143
Attributable To:					
Contributors Of KWAP		12,429,245	4,667,736	12,306,158	4,957,143
Total Comprehensive Income		12,429,245	4,667,736	12,306,158	4,957,143

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		KWAP	
		31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
	Note				
Non-Current Assets					
Property And Equipment	7	60,380	50,299	58,548	48,457
Computer Softwares	8	4,463	4,031	4,463	4,031
Investment Properties	9	5,309,382	5,552,499	710,575	1,759,224
Investment In Subsidiaries	10	–	–	2,606,888	2,342,294
Investment In Associates	11	1,175,390	615,224	1,008,428	614,314
Investment In Joint Ventures	12	366,879	393,418	10,000	10,000
Loans And Receivables	13	13,813,346	14,742,802	14,647,358	15,134,697
Available-For-Sale Financial Assets	14	110,006,562	95,204,535	110,006,562	95,204,535
		130,736,402	116,562,808	129,052,822	115,117,552
Current Assets					
Loans And Receivables	13	1,546,641	395,000	1,546,641	395,000
Financial Assets At Fair Value Through Profit Or Loss	15	823,786	1,746,400	823,786	1,746,400
Derivatives Financial Assets	16	539,181	7,412	539,181	7,412
Sundry Debtors And Deposits	17	235,616	124,659	172,419	114,913
Trade Receivables	18	2,445,007	1,587,887	2,467,577	1,585,073
Deposits And Placements With Financial Institution	19	6,684,323	6,491,770	6,678,292	6,491,770
Cash And Bank Balances	19	1,249,259	1,046,824	1,046,361	829,056
		13,523,813	11,399,952	13,274,257	11,169,624
Current Liabilities					
Derivatives Financial Liabilities	16	158,807	787,848	143,067	748,990
Trade Payables	20	1,280,490	479,956	1,257,332	461,993
Other Payables And Accruals	21	192,852	156,309	124,133	74,280
Borrowings	22	256,067	–	–	–
		1,888,216	1,424,113	1,524,532	1,285,263
Net Current Assets		11,635,597	9,975,839	11,749,725	9,884,361
		142,371,999	126,538,647	140,802,547	125,001,913

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		KWAP	
		31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Note					
Financed By:					
Allocation Of Statutory Funds	23	25,501,944	25,001,944	25,501,944	25,001,944
Pension Contributions	24	49,376,700	46,387,634	49,376,700	46,387,634
Retained Earnings	25	61,766,191	52,642,539	61,679,585	52,888,148
Other Reserves	26	(42,944)	(67,485)	–	–
Foreign Exchange Reserves	26	(43,664)	190,005	–	–
Available-For-Sale Reserves	26	4,238,908	724,187	4,238,908	724,187
		140,797,135	124,878,824	140,797,137	125,001,913
Non-Current Liabilities					
Deferred Tax Liabilities	27	154	101	–	–
Employee Benefits	28	5,410	–	5,410	–
Finance Lease		56,364	56,818	–	–
Borrowings	22	1,512,936	1,602,904	–	–
		142,371,999	126,538,647	140,802,547	125,001,913

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Non-Distributable				Distributable		Total RM'000
	Allocation Of Statutory Funds (Note 23) RM'000	Pension Contributions (Note 24) RM'000	Other Reserves (Note 26) RM'000	Foreign Exchange Reserve (Note 26) RM'000	Available- For-Sale Reserves (Note 26) RM'000	Retained Earnings (Note 25) RM'000	
At 1 January 2016	24,601,944	43,447,835	-	419,974	596,966	47,804,570	116,871,289
Profit For The Year	-	-	-	-	-	4,837,969	4,837,969
Other Comprehensive Income/(Loss)	-	-	(67,485)	(229,969)	127,221	-	(170,233)
Receipts From Statutory Funds	400,000	-	-	-	-	-	400,000
Net Pension Contribution And Claims Received	-	2,939,799	-	-	-	-	2,939,799
At 31 December 2016	25,001,944	46,387,634	(67,485)	190,005	724,187	52,642,539	124,878,824
At 1 January 2017	25,001,944	46,387,634	(67,485)	190,005	724,187	52,642,539	124,878,824
Profit For The Year	-	-	-	-	-	9,123,652	9,123,652
Other Comprehensive Income/(Loss)	-	-	24,541	(233,669)	3,514,721	-	3,305,593
Receipts From Statutory Funds	500,000	-	-	-	-	-	500,000
Net Pension Contribution And Claims Received	-	2,989,066	-	-	-	-	2,989,066
At 31 December 2017	25,501,944	49,376,700	(42,944)	(43,664)	4,238,908	61,766,191	140,797,135

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

KWAP	Non-Distributable					Distributable	
	Allocation Of Statutory Funds (Note 23) RM'000	Pension Contributions (Note 24) RM'000	Other Reserves (Note 26) RM'000	Foreign Exchange Reserve (Note 26) RM'000	Available- For-Sale Reserves (Note 26) RM'000	Retained Earnings (Note 25) RM'000	Total RM'000
At 1 January 2016	24,601,944	43,447,835	-	-	596,966	48,058,226	116,704,971
Profit For The Year	-	-	-	-	-	4,829,922	4,829,922
Other Comprehensive Income	-	-	-	-	127,221	-	127,221
Receipts From Statutory Funds	400,000	-	-	-	-	-	400,000
Net Pension Contribution And Claims Received	-	2,939,799	-	-	-	-	2,939,799
At 31 December 2016	25,001,944	46,387,634	-	-	724,187	52,888,148	125,001,913
At 1 January 2017	25,001,944	46,387,634	-	-	724,187	52,888,148	125,001,913
Profit For The Year	-	-	-	-	-	8,791,437	8,791,437
Other Comprehensive Income	-	-	-	-	3,514,721	-	3,514,721
Receipts From Statutory Funds	500,000	-	-	-	-	-	500,000
Net Pension Contribution And Claims Received	-	2,989,066	-	-	-	-	2,989,066
At 31 December 2017	25,501,944	49,376,700	-	-	4,238,908	61,679,585	140,797,137

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		KWAP	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash Flows From Operating Activities				
Profit Before Taxation	9,063,052	4,903,005	8,791,437	4,829,922
Adjustments For:				
Depreciation Of Property And Equipment and Investment Properties	108,516	128,012	24,221	30,721
Adjustments Of Property And Equipment and Investment Properties	–	19	–	19
Amortisation Of Computer Softwares	2,189	1,106	2,189	1,106
Net Unrealised Loss On Financial Assets Designated At Fair Value Through Profit Or Loss	(34,589)	62,943	(34,589)	62,943
Net Unrealised (Gain)/Loss On Fair Value Of Derivates	(951,437)	(332,880)	(927,753)	(311,926)
Gain On Divestment	(3,733,352)	(1,692,071)	(3,290,094)	(1,340,490)
Interest Income	(3,328,095)	(3,038,143)	(3,333,910)	(3,054,865)
Dividend Income	(1,464,727)	(1,058,969)	(1,921,911)	(1,466,260)
Unrealised Gain On Foreign Exchange	(443,681)	(929,884)	(253,274)	(929,896)
Impairment Of Investment	1,123,253	2,476,601	1,123,253	2,476,601
Operating Profit Before Changes In Working Capital	341,129	519,739	179,569	297,875
Changes In Working Capital:				
Changes In Trade Receivables	5,686,329	(512,192)	1,552,139	(813,196)
Changes In Sundry Debtors And Deposits	(110,957)	(17,048)	(57,506)	(23,555)
Changes In Trade Payables	800,534	6,642	795,339	(4,813)
Changes In Borrowings	165,645	(526,266)	–	–
Changes In Other Payables And Accruals	42,006	30,404	55,263	17,138
Net Cash Generated From/(Used In) Operating Activities	6,924,686	(498,721)	2,524,804	(526,551)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		KWAP	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash Flows From Investing Activities				
Proceeds From Sale Of Available-For-Sale Investments	67,899,506	44,167,816	71,262,326	43,816,234
Proceeds From Sale Of Financial Assets Designated At Fair Value Through Profit Or Loss	3,062,446	6,099,427	3,062,446	6,099,427
Proceeds From Sale Of Assets Held For Sale	–	775,801	–	–
Purchase Of Property And Equipment	(24,991)	(48,413)	(24,958)	(46,672)
Disposal Of Property And Equipment	19,444	–	19,444	–
Net Disposal/(Purchase) Of Investment Properties	264,871	(549,737)	1,081,930	(601,971)
Purchase Of Computer Softwares	(2,621)	(3,423)	(2,621)	(3,449)
Purchase From Sale Of Available-For-Sale Investments	(83,515,912)	(49,100,993)	(83,706,319)	(49,100,980)
Deposits And Placements With Financial Institutions	42,334	337,689	(584,772)	337,689
Purchase From Sale Of Financial Assets Designated At Fair Value Through Profit Or Loss	(2,105,242)	(7,405,855)	(2,105,242)	(7,405,855)
Increase In Derivatives	(209,373)	(21,028)	(209,938)	(14,951)
Interest Received	2,635,851	2,387,384	2,663,391	2,382,528
Dividend Received	1,424,400	1,032,309	1,893,511	1,429,245
(Increase)/Decrease In Investments In Subsidiaries, Associates And JV	(533,626)	(147,970)	(658,708)	801,641
Repayment Of Loans From Corporate Institution	673,045	492,990	673,045	492,990
Repayment Of Loans From Subsidiaries	–	–	441,650	312,399
Net Cash Used In Investing Activities	(10,369,868)	(1,984,003)	(6,194,815)	(1,501,725)
Cash Flows From Financing Activities				
Allocation Of Statutory Funds	500,000	400,000	500,000	400,000
Receipts Of Pension Contribution	3,013,909	2,947,785	3,013,908	2,947,785
Repayment Of Pension Contribution	(24,842)	(7,986)	(24,842)	(7,986)
Proceeds From Borrowings	–	–	–	–
Net Cash Generated From Financing Activities	3,489,067	3,339,799	3,489,066	3,339,799
Net Increase/(Decrease) In Cash And Cash Equivalents	43,885	857,075	(180,945)	1,311,523
Effect Of Changes In Foreign Currency	(233,669)	(229,969)	–	–
Cash And Cash Equivalents As At 1 January	4,959,490	4,332,384	4,741,722	3,430,199
Cash And Cash Equivalents As At 31 December	4,769,706	4,959,490	4,560,777	4,741,722

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

Retirement Fund (Incorporated) [KWAP] was established on 1 March 2007 under the Retirement Fund Act 2007 (Act 662) with a launching grant of RM27.0 million from the Federal Government of Malaysia.

The principal responsibility of KWAP is to manage the Retirement Fund (“the Fund”) established under section 13 of Retirement Fund Act 2007 (Act 662) towards achieving optimum returns on its investments. Sources of Fund are primarily annual contributions from Statutory Bodies, Local Government and Agencies, receipts of the Government’s portion of the Employee Provident Fund, Armed Forces Fund Board and others as well as investment income. The Fund is invested in Asset Classes in accordance with the Strategic Asset Allocation and Investment Policies and Guidelines upon the recommendation of KWAP’s Investment Panel and approval of the Board. The Fund shall be applied towards assisting the Federal Government in financing the government’s pension liability.

Effective from 1 November 2015, KWAP was officially appointed as an agent to the Government for the overall pension management and payment operation.

The principal activities of KWAP’s subsidiaries and associates are set out in Note 10 and Note 11, respectively. There were no significant changes in the nature of the principal activities of the Group and of KWAP during the financial year.

KWAP is a statutory body, incorporated and domiciled in Malaysia. The registered office and principal place of business of KWAP is located at Level 36, Integra Tower, The Intermark, 348 Jalan Tun Razak, 50400 Kuala Lumpur.

The Financial Statements for the financial year ended 31 December 2017 were accepted and approved by the Board of KWAP on 6 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis Of Preparation

The Financial Statements of the Group and of KWAP were prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), Retirement Fund Act 2007 and the provisions of the Companies Act 2016 in Malaysia.

The Financial Statements of the Group and of KWAP were prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of the Financial Statements were presented in Ringgit Malaysia (“RM”) being the functional currency of the Group and of KWAP whereby all values are rounded to the nearest thousand Ringgit Malaysia unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance

Standards and amendments that were issued and currently effective

The Group and KWAP have applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to the MFRS 107: “Statement of Cash Flows – Disclosure Initiative”;
- Amendments to the MFRS 112: “Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses”; and
- Annual Improvements to the MFRSs 2014 – 2016 Cycle - MFRS 12: “Disclosures of Interests in Other Entities”.

The adoption of the Amendments to the MFRS 107 required an additional disclosure of changes in liabilities arising from financing activities. Other than that, there was no impact of the adoption of the amendments to the Group and KWAP.

Standards and amendments that were issued but not yet effective

The standards and interpretations that were issued but not yet effective up to the date of issuance of the Group’s and of KWAP’s Financial Statements were disclosed below. The Group and KWAP intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 140 “Transfer of Investment Property”	1 January 2018
IC Interpretation 22: ‘Foreign Currency Transactions and Advance Consideration’	1 January 2018
MFRS 15: ‘Revenue from contracts with customers’	1 January 2018
MFRS 16: ‘Leases’	1 January 2019
MFRS 9: ‘Financial Instruments’	1 January 2018
IC Interpretation 23: ‘Uncertainty over Income Tax Treatments’	1 January 2019
Amendments to the MFRS 128: ‘Long-term Interests in Associates and Joint Ventures’	1 January 2019
Amendments to the MFRS 9: ‘Prepayment features with negative compensation’	1 January 2019
Amendments to the MFRS 3 “Annual Improvements to MFRS Standards 2015-2017 Cycle”	1 January 2019
Amendments to the MFRS 11 “Annual Improvements to MFRS Standards 2015-2017 Cycle”	1 January 2019
Amendments to the MFRS 112 “Annual Improvements to MFRS Standards 2015-2017 Cycle”	1 January 2019
Amendments to the MFRS 123 “Annual Improvements to MFRS Standards 2015-2017 Cycle”	1 January 2019
Amendments to MFRS 1 “Annual Improvements to MFRS Standards 2014-2016 Cycle”	1 January 2018
Amendments to MFRS 128 “Annual Improvements to MFRS Standards 2014-2016 Cycle”	1 January 2018
Amendments to MFRS 10 and MFRS 128 “Sale of Contribution of Assets between an Investor and its Associate or Joint Venture” (postponed)	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

Standards and amendments that were issued but not yet effective (continued)

It is expected that the adoption of the above standards and amendments will have no material impact to the Financial Statements of the period of initial application, except as described below:

- **The MFRS 9: 'Financial Instruments'**

The MFRS 9 shall replace the MFRS 139: 'Financial Instruments: Recognition and Measurement'.

The MFRS 9 retains but simplifies the mixed measurement model in the MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, Fair Value Through Profit Or Loss and Fair Value Through Other Comprehensive Income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at Fair Value Through Profit Or Loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not Held-For-Trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent payment of principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include the amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- For financial liabilities classified at Fair Value Through Profit or Loss, the fair value changes due to own credit risk shall be recognised directly to OCI with no subsequent recycling to profit or loss.
- When a financial liability measured at amortised cost is modified without resulting in a derecognition of the liability, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, shall be recognised immediately in profit or loss.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model in the MFRS 139. The expected credit loss model is forward-looking and eliminates the need of the occurrence for a trigger event before credit losses are recognised.

- **Amendments to the MFRS 128: 'Long-term Interests in Associates and Joint Ventures'**

Amendments to the MFRS 128 clarify that an entity shall apply the MFRS 9: 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which in substance form part of the entity's net investment, for which the settlement is neither planned nor likely to occur in the foreseeable future.

In addition, such long-term interest shall be subject to the loss allocation and impairment requirements in the MFRS 128.

The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

Standards and amendments that were issued but not yet effective (continued)

- **Amendments to the MFRS 9: 'Prepayment features with negative compensation'**

These amendments allow the measurement of some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount may be less than the unpaid amounts of the principal and interest. To qualify for the amortised cost measurement, the negative compensation must be a reasonable compensation for an early termination of the contract and the asset must be held within a 'held to collect' business model.

The amendments shall be applied retrospectively.

- **Annual Improvements to the MFRSs 2015 – 2017 Cycle:**

- Amendments to the MFRS 3: 'Business Combinations' (effective from 1 January 2019) clarify that when a party obtains control of a business that is a joint operation, the acquirer shall account the transaction as a business combination achieved in stages. Accordingly, the acquirer shall remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.
- Amendments to the MFRS 11: 'Joint Arrangements' (effective from 1 January 2019) clarify that when a party obtains the joint control of a business that is a joint operation, the party shall not remeasure its previously held interest in the joint operation.
- Amendments to the MFRS 112: 'Income Taxes' (effective from 1 January 2019) clarify that the recognition of income tax consequences of dividends on financial instruments classified as equity (either in profit or loss, Other Comprehensive Income or equity) shall depend on the recognition of past transactions that generated the distributable profits. Accordingly, the tax consequences are recognised in profit or loss when an entity determines that the payments on such instruments are distribution of profits (that is, dividends). Tax on dividend shall not be recognised in equity merely on the basis that it is related to distribution to owners.
- Amendments to the MFRS 123: 'Borrowing Costs' (effective from 1 January 2019) clarify that a specific borrowing that remains outstanding after the related qualifying asset is ready for its intended use or sale shall become part of the general borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries And Basis Of Consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has all of the following criterias:

- Power to exercise control over the financial and operating policies to direct the relevant activities of the entity;
- Exposure, or rights, to the variable returns from its investment with the entity; and
- The ability to use its power over the entity to affect its returns.

Subsidiaries are consolidated from the date of which control is transferred to the Group and are de-consolidated from the date that control ceases. Investments of unquoted shares in subsidiaries are recognised at cost whereby the amount is reconciled to the recoverable value including impairment losses for the year, if any. The policy in relation to the impairment of financial assets is as set out in Note 2.19.

Acquisition cost is measured at fair value of the assets received, equity instruments issued and existing outstanding liabilities or liabilities assumed at the date of exchange, plus direct costs attributable to the acquisition, if any.

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of the Non-Controlling Interests, if any.

Changes in ownership interests in subsidiaries without change of control

Transactions with Non-Controlling Interests that do not result in the loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest will result in an adjustment between the carrying amounts of the Controlling and Non-Controlling Interests to reflect their relative interests in the subsidiary. The difference between the amount of the adjustment to the Non-Controlling Interests and the consideration paid or received is recognised in equity attributable to owners of the Group, if any.

Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, the retained interest in the entity is remeasured to its fair value with the change in the carrying amount recognised in profit or loss, if any. The fair value becomes the initial carrying amount for the purposes of subsequent accounting of retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in Other Comprehensive Income in respect of that entity are accounted for as a direct disposal of the related assets or liabilities by the Group. This may result in the reclassification of amounts previously recognised in Other Comprehensive Income to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries And Basis Of Consolidation (continued)

(b) Basis of consolidation

The consolidated Financial Statements comprise the Financial Statements of KWAP and its subsidiaries. The individual Financial Statements of KWAP and its subsidiaries used in the preparation of the consolidated Financial Statements are prepared for the same reporting date. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the event where KWAP has less than the majority of the voting rights in an entity, consideration of the following is required in the assessment on the sufficiency of the voting rights in relation to KWAP's power over the entity:

- The size of KWAP's holding of voting rights relative to the size and dispersion of the holdings of other vote holders;
- Potential voting rights held by KWAP, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts or circumstances which indicate KWAP's current ability to direct the relevant activities at the time of the decision making including the voting patterns at previous shareholders' meetings.

Intra group transactions, balances and unrealised gains on transactions between KWAP and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset. The consolidated Financial Statements reflect only the external transactions of KWAP.

Losses within subsidiaries are attributed to the Non-Controlling Interests even if the attribution results in a deficit balance.

(c) Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is the aggregate of the consideration transferred, measured at fair value on the acquisition date and the amount of Non-Controlling Interest in an entity, if any. The Group elects on a transaction-by-transaction basis, whether to measure the Non-Controlling Interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are recognised as administrative expenses.

Any contingent consideration to be transferred by the acquirer shall be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration deemed to be an asset or liability, shall be recognised in the Statement of Comprehensive Income, in accordance with the MFRS 139: Financial Instruments - Recognition and Measurement ("MFRS 139") either in profit or loss or as changes to Other Comprehensive Income. Remeasurement is not required in the event the contingent consideration is classified as equity. Subsequent settlement is accounted for within equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries And Basis Of Consolidation (continued)

(c) Business combinations (continued)

In instances where the contingent consideration is outside the scope of the MFRS 139, it is measured in accordance with the appropriate MFRS.

Upon the acquisition of a business by the Group, assessment on the financial assets and liabilities is required for the appropriate designation and classification in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Inclusive is the separation of embedded derivatives in host contracts by the acquiree.

In the event the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to the fair value at the subsequent acquisition date through profit or loss.

The excess of the aggregate of consideration transferred, the amount recognised for the Non-Controlling Interests and the acquisition date fair value of any previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed, is initially recognised as goodwill. In the event the said consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in profit or loss.

(d) Investments in subsidiaries in separate Financial Statements

In KWAP's separate Financial Statements, investments in subsidiaries are carried at cost less accumulated impairment losses. Upon the disposal of investment in subsidiaries, the difference between the disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

The amount due from subsidiaries of which KWAP does not expect repayment in the foreseeable future is considered as part of KWAP's investments in the subsidiaries.

2.4 Investments In Associates And Joint Ventures

Associates are entities in which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting right. Significant influence is the power to participate in the financial and operating policy decisions of the entity but not the control or joint control over those policies.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in the assessment of the Group's significant influence over another entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments In Associates And Joint Ventures (continued)

On the acquisition of an investment in associates or joint ventures, the excess of the cost of investment over the Group's share of the net fair value of identifiable assets and liabilities of the entity is recognised as goodwill and subsequently included in the carrying amount of the investment. The excess of the Group's share of the net fair value of identifiable assets and liabilities of the entity over the cost of investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the Group's share of the associate's or joint venture's profit or loss for the period in which the investment is acquired.

Associates or joint ventures are accounted for using the equity method from the date the entity is recognised as an associate or a joint venture.

Step acquisition in associates

When the Group increases its stake in an existing investment and the investment becomes an associate for the first time, the goodwill is calculated at each stage of the acquisition. There is no fair value revaluation of previously owned share of net assets by the Group. The existing Available-For-Sale reserves is reversed in Other Comprehensive Income, thus restating the investment to cost. For an investment designated at Fair Value Through Profit Or Loss, the reversal resulting from the restatement to cost is made against the retained earnings. The share of profits (after dividends) together with the share of equity movements in relation to the previously held interest, if any, are accounted for in Other Comprehensive Income.

Increasing stake in an existing associate and retaining significant influence

The cost of acquisition of additional stake in an associate is added to the carrying amount of the associate and equity accounted. Goodwill arising on the purchase of the additional stake is determined using the fair value information at the date the additional interest is purchased. There is no remeasurement of previously held investment in the associate.

Under the equity method, the initial recognition of the investment in associates or joint ventures is recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates or joint ventures in profit or loss, as well as the Group's share of movements in Other Comprehensive Income of the associates or joint ventures in Other Comprehensive Income. Dividend received or receivable from the associates or joint ventures are recognised as a reduction in the carrying amount of the investments. In the event the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture (including any long term interest that in substance, form part of the Group's net investment in the associate or joint venture) further recognition of losses is not required by the Group with the exception of legal or constructive obligations or payments made on behalf of the associate or joint venture, if any.

Gains or losses arising from the upstream and downstream transactions between the Group and its associates or joint ventures are recognised in the consolidated Financial Statements, if any, only to the extent of unrelated investors' interests in the associates or joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the assets transferred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments In Associates And Joint Ventures (continued)

The preparation of the Financial Statements of the associates and joint ventures is of the same reporting date as the Group. Adjustments are made for the standardisation of accounting policies in line with the policies of the Group, where necessary.

Subsequent to the application of the equity method, the Group applies the MFRS 136: 'Impairment of Assets' ("MFRS 136") to determine the necessity of the recognition of additional impairment losses with respect to its net investment in associates or joint ventures, if any. The entire carrying amount of the investment is tested as a single asset for impairment in accordance with the MFRS 136, using the comparison between the recoverable amount (higher of value in use and fair value less costs to sell) and the carrying amount, where necessary. Impairment losses are recognised in profit or loss, if any. Reversal of impairment losses is recognised to the extent of the subsequent increase in the recoverable amount of the investment.

Loss of significant influence or joint control

When the Group ceases to equity account its associates or joint ventures because of the loss of significant influence or joint control, the retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss, if any. This fair value becomes the initial carrying amount for the purpose of subsequent accounting of the retained interest as a financial asset. In addition, any amount previously recognised in Other Comprehensive Income in respect of the entity is accounted for as a direct disposal of the related assets or liabilities by the Group. This may result in the reclassification of amounts previously recognised in Other Comprehensive Income to profit or loss.

If there is a reduction of the ownership interest in the associates or joint ventures but the significant influence or joint control is retained, only a proportionate share of the amounts previously recognised in Other Comprehensive Income is reclassified to profit or loss, where appropriate.

Dilution of gains or losses arising from investments in associates or joint ventures is recognised in profit or loss.

Investments in associates and joint ventures in separate Financial Statements

In KWAP's separate Financial Statements, investments in associates and joint ventures are carried at cost less accumulated impairment losses. Upon the disposal of investments in associates and joint ventures, the difference between the disposal proceeds and the carrying amounts of the investments is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following the initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment upon indication that the intangible asset may be impaired, when necessary. The amortisation period and amortisation method for intangible assets with finite useful lives are reviewed at each reporting date.

Changes in the expected useful lives or the expected pattern of consumption of the future economic benefits embodied in the asset are recognised by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense of intangible assets with finite useful lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently, upon indication that the carrying value may be impaired either individually or at the Cash-Generating Unit (“CGU”) level. Amortisation of the said intangible assets is not required. The useful lives of intangible assets with indefinite useful lives are reviewed annually to determine the feasibility of the useful life assessment. In the event it is no longer feasible to support the useful life, the change in the useful life from indefinite to finite is executed on a prospective basis.

Gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss upon derecognition.

Depreciation of intangible assets with finite useful lives is provided for on a straight-line basis where the cost of the asset is written off to its residual value based on the following rate:

Computer software and licenses	33.33%
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2.6 Property And Equipment

Property and equipment are initially measured at cost, net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the government. In the event the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment. The cost of an item of property and equipment is recognised as an asset if, and only if, it is probable that the future economic benefits associated with the item will flow to the Group and KWAP and the cost of the item can be reliably measured.

Subsequent to the initial recognition, property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to the bringing of the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group or KWAP. The cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property And Equipment (continued)

In the event of a requirement for the replacement of significant parts of the property and equipment in intervals, such parts are recognised as individual assets with specific useful lives and depreciation, respectively. Likewise, in the event of a major inspection, the replacement cost is recognised in the carrying amount of the property and equipment subject to the fulfilment of the recognition criteria. All other costs of repair and maintenance are recognised in profit or loss as incurred.

Depreciation of property and equipment is provided for on a straight-line basis where the cost of each asset is written off to its residual value based on the following rates:

Office Renovation	16.67%
Computers	20.00%
Paintings	20.00%
Office Furniture and Equipment	20.00%
Gymnasium Equipment	20.00%
Vehicles	20.00%
Electrical Equipment	33.33%

Capital work-in-progress consist of, amongst others, renovation work-in-progress and information system enhancement or upgrade-in-progress. Such capital work-in-progress as well as non-water colour based paintings are recognised at cost and are not depreciated until the respective assets are ready for their intended use.

At the end of the reporting period, the Group and KWAP shall assess for impairment, if any. If such indication exist, an analysis is performed to determine whether the carrying amount of the asset is fully recoverable. In the event the carrying amount of the asset exceeds its recoverable amount, the asset value is written down to its recoverable amount. The policy in relation to the impairment of non-financial assets is as set out in Note 2.18.

The residual value, useful life and depreciation method are reviewed at each reporting date and adjusted prospectively, where appropriate.

An item of property and equipment is derecognised upon disposal or when the future economic benefits are no longer expected from its use or disposal. Gains or losses on the derecognition of assets are recognised in profit or loss in the year the asset is derecognised, if any.

2.7 Financial Assets

The Group and KWAP classify its financial assets in the following categories: at Fair Value Through Profit Or Loss, Loans And Receivables, Available-For-Sale and Held-To-Maturity. The classification is dependent on the purpose for which the financial assets were acquired. The classification is determined at the initial recognition and, in the case of assets classified as Held-To-Maturity, re-evaluation of the designation is performed at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group and KWAP commits to purchase or sell the asset.

Financial assets, with the exception of financial assets carried at Fair Value Through Profit Or Loss, are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Financial Assets At Fair Value Through Profit Or Loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(a) Financial Assets At Fair Value Through Profit Or Loss

Financial Assets At Fair Value Through Profit Or Loss are Financial Assets Held-For-Trading, derivative financial assets or designated as such upon the initial recognition. Financial Assets Held-For-Trading are financial assets acquired for the purpose of trading, repurchase or sale in the near term. Other investment instruments classified as Financial Assets Held-For-Trading are fixed income investment instruments designated under the trading portfolio as well as derivatives instruments purchased directly or embedded in contracts that were entered into as at the date of the Statement of Financial Position.

Subsequent to the initial recognition, Financial Assets At Fair Value Through Profit Or Loss are measured at fair value. Gains or losses arising from changes in the fair value are recognised in profit or loss, if any. Net gains or net losses on Financial Assets At Fair Value Through Profit Or Loss exclude exchange differences, interest and dividend income. Exchange differences, interest and dividend income on Financial Assets At Fair Value Through Profit Or Loss are separately recognised in profit or loss as part of other income or losses.

Derivatives embedded in host contracts are recognised as separate derivatives and recorded at fair value, provided that their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not classified as Held-For-Trading or designated at Fair Value Through Profit Or Loss. Such embedded derivatives are measured at fair value whereby changes in the fair value are recognised in profit or loss. Reassessment is required in the event of changes in the terms of the contract with significant modification to the cash flows.

If embedded derivatives cannot be reliably measured separately either at the acquisition or at the end of the subsequent financial reporting period, the entire instrument is designated at Fair Value Through Profit Or Loss. However, if the entire instrument cannot be reliably measured, the entire instrument is then measured at cost less impairment.

Financial Assets At Fair Value Through Profit Or Loss are either presented as current or non-current assets. Financial assets held primarily for trading purposes are presented as current assets whereas financial assets not held primarily for trading purposes are presented as either current or non-current assets based on its settlement date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Loans And Receivables

Loans And Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, Loans And Receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss upon the impairment of Loans And Receivables through the amortisation process.

Loans And Receivables are classified as current assets with the exception of Loans And Receivables with maturity dates of more than twelve (12) months after the reporting date, which are classified as non-current assets.

(c) Available-For-Sale Financial Assets

Available-For-Sale Financial Assets are non-derivative financial assets designated as Available-For-Sale or are not classified in any other categories of financial assets under the MFRS 139.

Following the initial recognition, Available-For-Sale Financial Assets are measured at fair value. Gains or losses from changes in the fair value of financial assets are recognised in Other Comprehensive Income, with the exception of impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated under the effective interest rate method. Impairment losses, foreign exchange gains and losses on monetary instruments, dividends and interest income calculated using the effective interest rate method are recognised in profit or loss. Dividends from the Available-For-Sale equity instruments are recognised in profit or loss upon the establishment of the rights to receive the payment. The cumulative gains or losses previously recognised in Other Comprehensive Income are reclassified from equity to profit or loss as reclassification adjustment upon the derecognition of the financial assets.

Investments in equity instruments whereby the fair value cannot be reliably measured are recognised at cost less impairment losses.

The Available-For-Sale Financial Assets are classified as non-current assets with the exception of the Available-For-Sale Financial Assets which are expected to be realised within twelve (12) months after the reporting date, which are classified as current assets.

Financial assets are derecognised upon the expiry or transfer of the rights to receive cash flows from the investments and the substantial transfer of all risks and rewards of ownership by the Group. Upon the derecognition of the financial assets in its entirety, the difference between the carrying amount and the sum of consideration received including the cumulative gains or losses previously recognised in Other Comprehensive Income, if any, is recognised in profit or loss.

Regular way purchases or sales of financial assets are purchases or sales with the required delivery of financial assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date being the date the Group and KWAP commit to purchase or sell the assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Other Financial Assets

Trade receivables generally arise from transactions in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Group and KWAP. Trade and other receivables with the expected collection in one year or less (or in the normal operating cycle of the business if longer) are classified as Current Assets. Otherwise, they are presented as Non-Current Assets.

After the initial recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest rate method less provision for impairment. The policy in relation to the impairment of financial assets is as set out in Note 2.19.

2.9 Cash And Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and deposits with financial institutions that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value, net of bank overdrafts. Cash equivalents include short term deposits placement with maturity not more than ninety (90) days.

2.10 Leases

As lessee

Operating leases are leases where the substantial risk and reward of ownership of the assets are retained by the lessor. KWAP leases an office space in Cyberjaya for its Pension Services Department. Payments made under the operating lease are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

As lessor

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investment Properties

Investment properties comprise land, completed properties and properties under construction (“IPUC”) which are held for capital appreciation or rental purposes or both, and generally are not occupied for the use or in the operations of the Group. Investment properties are classified as long term investments with the initial recognition at cost including transaction costs.

Following the initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any, with the exception of freehold land with unlimited useful life and IPUC, which are not depreciated. IPUC are not depreciated as they are not ready for their intended use. Other investment properties are depreciated over the estimated economic useful lives. The depreciation charged for the leasehold land is ninety-nine (99 years) per annum on a straight-line method. The policy for the recognition and measurement of impairment losses of investment properties are set out in Note 2.18.

Subsequent expenditure is capitalised to the asset’s carrying amount only when it is probable that the future economic benefits associated with the expenditure will flow to the Group and KWAP and the cost of the item can be reliably measured. All other repairs and maintenance costs are expensed when incurred. In the event of a replacement, if any, the carrying amount of the replaced part is derecognised.

The residual value, useful life and depreciation method of investment properties are reviewed at the end of each financial year, and adjusted prospectively, when appropriate.

Investment properties are derecognised upon disposal or permanent withdrawal from use whereby no future economic benefit is expected from the disposal or retirement. Gains or losses on the disposal or retirement of investment properties are recognised in profit or loss in the year of disposal or retirement, if any.

Transfers are made to or from investment properties when, and only when, there is a change in use. In terms of a transfer from an investment property to owner-occupied property, the deemed cost for subsequent accounting purposes is the fair value at the date of change in use. For a transfer from an owner-occupied property to investment property, the property is subsequently accounted for in accordance with the accounting policy for property and equipment set out in Note 2.6 up to the date of change in use.

Freehold land with unlimited useful life is not depreciated and recognised at cost less impairment losses, if any.

Buildings	2.50%
Leasehold Land	1.01%
Investment Property	18.75%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Provisions

Provisions are recognised upon the present obligation (legal or constructive) resulting from past events where the outflow of economic resources to settle the obligation is probable and the amount of the obligation is reliably measured.

In the event of an expected reimbursement of provision to the Group and KWAP, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

For a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the best estimate of the expected expenditures required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money as well as the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance cost expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates. Reversal of provisions is executed in the event where the outflow of economic resources required to settle the obligation is no longer probable.

2.13 Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of financial liabilities.

Financial liabilities, within the scope of the MFRS 139, are recognised in the Statements of Financial Position when, and only when, the Group and KWAP become a party to the contractual provisions of the financial instruments. Financial liabilities are classified as either Financial Liabilities At Fair Value Through Profit Or Loss or other financial liabilities.

(a) Financial Liabilities At Fair Value Through Profit Or Loss

Financial Liabilities At Fair Value Through Profit Or Loss include financial derivatives that do not fulfil the hedge accounting criteria. Financial derivatives are measured at fair value, whereby the gains or losses are recognised in profit or loss. Exchange differences are included in the net gains or losses on derivatives.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial Liabilities (continued)

(b) Other Financial Liabilities

Other Financial Liabilities include trade and other payables as well as borrowings.

Trade and other payables are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost whereby the difference between the initially recognised amount and the redemption amount, if any, is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that was extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the occurrence of the draw-down. In the event that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on the said preference shares are recognised as finance cost in profit or loss.

In the event of recognition of the terms of a financial liability and the issuance of equity instruments by the Group to a creditor to extinguish all or part of the liability (debt for equity swap), the gain or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued, is recognised in profit or loss.

Borrowings are classified as current liabilities unless the Group or KWAP has an unconditional right to defer the settlement of the liability for at least twelve (12) months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Borrowing Costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of the asset. Capitalisation of borrowing costs commences upon the execution of activities to prepare the asset for its intended use or the occurrence of expenditures and borrowing cost when the sale is in progress. Borrowing costs are capitalised until the substantial completion for the intended use or sale of the asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets, is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs incurred in connection to the borrowing of funds.

2.15 Revenue And Income Recognition

Revenue and income are recognised to the extent that the inflow of economic benefits is probable and can be reliably measured. Revenue and income are measured at the fair value of the consideration received or receivable.

(a) Dividend income

Dividend income is recognised upon the establishment of the right to receive payment.

(b) Interest income

Interest income is recognised on an accrual basis using the effective interest rate method.

(c) Gains or losses from divestment

Gains or losses on disposal of investments are recognised upon the satisfaction of all terms of the agreement leading to the sale of the investments.

(d) Rental income

Rental income is recognised on an accrual basis over the term of the lease.

2.16 Income Tax

(a) Current tax

Current tax assets and liabilities are measured at the expected recoverable amount from the taxation authorities. The tax rates and tax laws employed for the computation of the recoverable amount are the tax rates and laws enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Income Tax (continued)

(a) Current tax (continued)

Current taxes are recognised in profit or loss with the exception of tax related items which are recognised outside profit or loss, either in Other Comprehensive Income or directly in equity.

KWAP is exempted from income tax in accordance with Section 127[3A] of the Income Tax Act 1967 for all income from domestic sources as well as the withholding tax in accordance with Section 107A(1) and Section 109 on the interests and specials classes of income. All income from international sources are subject to the income tax laws and rates of the respective country of origin.

(b) Deferred tax

Deferred tax is a provision using the liability method based on the temporary differences arising between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liabilities arise from the initial recognition of goodwill or of assets or liabilities in transactions that are not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in transactions that are not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Income Tax (continued)

(b) Deferred tax (continued)

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part utilisation of the deferred tax assets. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the utilisation of the deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year upon the realisation of the assets or settlement of the liabilities based on the tax rates and laws that were enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Such deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity. Deferred tax arising from a business combination is adjusted against the respective goodwill on acquisition.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off the current tax assets against the current tax liabilities, whereby the deferred taxes relate to the same taxable entity and taxation authority.

2.17 Foreign Currencies

(a) Functional and presentation currency

The individual Financial Statements of each entity in the Group is measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated Financial Statements are presented in Ringgit Malaysia ("RM") being the functional and presentation currency of the Group and of KWAP.

(b) Foreign currency transaction and balances

Transactions in foreign currencies are measured in the respective functional currencies of KWAP and its subsidiaries and are recorded on initial recognition in the functional currencies at the exchange rates prevailing on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot exchange rate at the reporting date.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at the reporting date are recognised in the Statement of Comprehensive Income with the exception of the exchange differences arising on monetary items that form part of the Group's net investment in foreign operations. Such items are recognised initially in Other Comprehensive Income and accumulated under the foreign exchange reserves in Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Foreign Currencies (continued)

(b) Foreign currency transaction and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as Available-For-Sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in Other Comprehensive Income.

Non-monetary items denominated in foreign currencies measured at historical cost are translated using the spot exchange rates at the date of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from the translation of non-monetary items carried at fair value are recognised in the Statement of Comprehensive Income for the financial year that it is incurred, with the exception of the exchange differences arising from the translation of non-monetary items whereby the respective gains and losses are recognised in Other Comprehensive Income.

(c) Foreign operations

The financial results and financial position of foreign operations with a different functional currency from the presentation currency of Ringgit Malaysia of the consolidated Financial Statements are translated into Ringgit Malaysia as follows:

- Assets and liabilities of foreign operations are translated at the closing rate prevailing at the reporting date;
- Income and expenses for each Statement of Comprehensive Income are translated at the average exchange rates for the financial year; and
- All resulting exchange differences are recognised directly to Other Comprehensive Income through the foreign exchange reserves.

In the event of a disposal of a foreign operation, the cumulative amount of exchange differences in relation to the foreign operation previously recognised in Other Comprehensive Income and accumulated in a separate component of equity, is reclassified from equity to the Statement of Comprehensive Income (as a reclassification adjustment) upon the recognition of gains or losses on disposal.

In relation to the partial disposal of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of exchange differences previously recognised in Other Comprehensive Income is reattributed to the Non-Controlling Interests in that foreign operation. For other partial disposal of a foreign operation, the proportionate share of the cumulative amount of exchange differences previously recognised in Other Comprehensive Income is reclassified to the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Foreign Currencies (continued)

(c) Foreign operations (continued)

Goodwill and fair value adjustments arising from the acquisition of foreign operations are recognised as assets and liabilities of the foreign operations and translated at the closing rate prevailing at the reporting date. Exchange differences arising from the recognition of goodwill and fair value are recognised in Other Comprehensive Income.

2.18 Impairment Of Non-Financial Assets

Impairment assessment is executed at each reporting date to identify the indication for impairment of assets. In the event of an indication for impairment or the requirement for an impairment assessment, the estimated recoverable amount of the asset is established.

Recoverable amount is the higher of fair value of the asset less costs to sell and value in use of the asset. For impairment assessment purposes, assets are grouped at the lowest levels where the cash flows are separately identifiable, i.e. cash-generating units ("CGU").

In the assessment of value in use, the estimated future cash flows expected to be generated by the asset are discounted to the present value using the pre-tax discount rate that reflects the current market assessments of the time value of money as well as the risks specific to the asset. In the event the carrying amount of the asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are initially allocated to reduce the carrying amount of goodwill allocated to the unit or groups of units, if any, followed by the reduction of the carrying amount of other assets in the unit or groups of units on a pro-rata basis. Impairment losses are recognised in profit or loss.

Assessment is executed at each reporting date to determine the indication of previously recognised impairment losses that may no longer exist or may have decreased. Previously recognised impairment losses are only reversed in the event of changes in the estimates used to determine the asset's recoverable amount from the previous recognition of impairment losses. In this case, the carrying amount of the asset is increased to its recoverable amount. However, such increase shall not exceed the previously determined carrying amount, net of depreciation, whereby there were no impairment losses previously recognised. Reversal of impairment losses is recognised in profit or loss. Impairment losses on goodwill are not reversed in the subsequent period.

2.19 Impairment Of Financial Assets

All financial assets (with the exception of financial assets designated at Fair Value Through Profit Or Loss) are assessed at each reporting date for any objective evidence of impairment as a result of one or more events which impacts the estimated future cash flows of the asset. Expected losses as a result of future events, no matter how likely, are not recognised. For investments in equity instruments, a significant or prolonged decline in the fair value of the investments below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial assets is estimated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

The accounting policies in relation to the recognition of impairment loss of financial assets during the subsequent measurement are as follows:

(a) Available-For-Sale Financial Assets

The objective evidence for impairment of Available-For-Sale Financial Assets are assessed on a quarterly basis. The assessment method employed by the Group and KWAP is dependent on the type of investment instrument classified as Available-For-Sale Financial Assets which are as follows:

(i) Equity Investment Instruments

Impairment loss is recognised when there is significant or prolonged decline in the fair value of the investment compared to the original cost as at the reporting date of the Statement of Financial Position. If any such evidence exists, the cumulative unrealised loss that was directly recognised in the Available-For-Sale Reserves is reversed and the impairment loss is recognised in profit or loss. The amount of impairment losses recognised in profit or loss is the difference between the acquisition cost and the current fair value less impairment losses that was previously recognised, if any.

Prior recognition of impairment losses of equity investment instruments classified as Available-For-Sale Financial Assets in the previous period are not reversed through profit or loss in the current period.

(ii) Fixed Income Investment Instruments

The impairment loss assessment of Fixed Income investment instruments classified as Available-For-Sale Financial Assets is consistent with the method employed for Held-To-Maturity Financial Assets. The consistent criteria was also used in the determination of the occurrence of objective evidence for impairment losses in accordance with the following triggers:

- Decline in the investment grade rating below the acceptable investment grade as at the reporting date of the Statements of Financial Position;
- Default in the payment of principal/interest in accordance with the repayment schedule;
- Cease of business operations/bankruptcy (upon filing of the case);
- PN17 classification of the invested company;
- Material fraud with publicised news/upon appointment of a financial advisor; and
- Qualified Audit Certificate of the invested company.

The amount of impairment losses of fixed income investment instruments classified as Available-For-Sale Financial Assets is measured as the difference between the carrying amount as at the reporting date of the Statements of Financial Position and the present value of the estimated future cash flows discounted at the financial asset's original effective yield method. The carrying amount of the financial asset is subsequently reduced and the amount of the impairment loss is recognised in profit or loss. In the event of a revaluation in the subsequent period which decreases the previously recognised impairment losses and the decrease can be related objectively to the occurrence of an event after the initial recognition of impairment, the reversal of the impairment losses is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

(b) Loans And Receivables

The objective evidence for impairment of Loans And Receivables are assessed on a quarterly basis. The financial assets are considered to be impaired when there is the occurrence of an objective evidence resulting from several triggers after the initial recognition of the financial assets which has an impact to the estimated future cash flows and the impact can be reasonably estimated.

The criteria employed by the Group and KWAP in the determination of the occurrence of objective evidence for impairment loss include the following triggers:

- Decline in the investment grade rating below the acceptable investment grade as at the reporting date of the Statements of Financial Position;
- Default in the payment of principal/interest in accordance to the repayment schedule;
- Cease of business operations/bankruptcy by the borrower (upon filing of the case);
- Receipt of the winding up order of the business operations by the borrower;
- Material fraud with publicised news/upon appointment of a financial advisor; and
- Qualified Audit Certificate of the borrower.

The amount of impairment losses is measured as the difference between the carrying amount of the Loans And Receivables and the present value of the estimated future cash flows discounted at the financial asset's original effective yield method. The carrying amount of the Loans And Receivables is subsequently reduced through the use of an allowance account and the amount of the impairment losses is recognised in profit or loss.

In the event of a revaluation in the subsequent period which decreases the amount of impairment loss and the decrease can be related objectively to the occurrence of an event after the initial recognition of impairment, the reversal of the previously recognised impairment losses is recognised in profit or loss.

Uncollectable Loans And Receivables is written off against the allowance for impairment losses. Such financial assets are written off after the completion of all necessary procedures and the amount of the loss has been determined.

(d) Receivables

Impairment losses on Receivables is recognised when there is an objective evidence of the inability to collect all outstanding debts pursuant to the approved procedures.

In the event of a revaluation in the subsequent period which decreases the amount of impairment loss and the decrease can be related objectively to the occurrence of an event after the initial recognition of impairment, the reversal of the previously recognised impairment losses is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee Benefits

(a) Short term benefits

Wages, salaries, bonuses, social security contributions (SOCSSO), Employees Provident Fund (EPF) contribution or pension contribution and gratuity to contract employees are recognised as expenses in the year in which the associated services are rendered by the employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when the services are rendered by the employees which subsequently increase the employees' entitlement to future compensated absences. Meanwhile, short term non-accumulated compensated absences such as sick leave are recognised when the absences occur.

(b) Long term benefits

Payments of long term benefits post-retirement and/or after the expiry of the contracts are recognised as employee benefits expenses on an accrual basis in the current year of the Statement of Comprehensive Income. At the same time, such amounts are recognised as liabilities categorised as employee benefits in the Statement of Financial Position. Types of long term benefits recognised on an accrual basis are as follows:

- Cash award in lieu of annual leave; and
- Post-retirement medical benefit.

The computation of post – retirement medical benefits to retirees is internally executed annually with the inaugural provision of post-retirement medical benefit in the Financial Statements of the financial year of 2017.

2.21 Fair Value Measurement

Financial instruments, such as derivatives and financial investments, are measured at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are set out in Note 30 to the Financial Statements.

Fair value is the price that would be received upon the sale of assets or paid upon the transfer of liabilities in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transactions for the sale of assets or transfer of liabilities occur either:

- In the principal market for the assets or liabilities, or
- In the absence of the principal market, in the most advantageous market for the assets or liabilities.

The principal or the most advantageous market must be accessible by the Group and KWAP. The fair value of assets or liabilities are measured using the assumptions that the market participants would use when pricing the assets or liabilities, assuming that the market participants will behave in their economic best interest.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Fair Value Measurement (continued)

The fair value measurement of non-financial assets takes into consideration the market participant's ability to generate the economic benefits by the utilisation of the assets in its highest and best use or by sale to another market participant that would utilise the assets in its highest and best use.

The Group and KWAP employ valuation techniques that are deemed appropriate in circumstances whereby sufficient data are available for the fair value measurement, with the maximisation of the use of relevant observable inputs and minimisation of the use of unobservable inputs.

Assets and liabilities for which the fair value is measured or disclosed in the Financial Statements are categorised in accordance with the following fair value hierarchy, based on the lowest level of input significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level of input significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level of input significant to the fair value measurement is unobservable.

In relation to assets and liabilities recognised in the Financial Statements on a recurring basis, reassessment of the categorisation is conducted to determine the occurrence of transfers of assets between the levels in the hierarchy (based on the lowest level of input significant to the fair value measurement as a whole) at the reporting date.

2.22 Contingent Assets And Contingent Liabilities

Contingent Assets are possible assets that arise from past events whereby the existence is confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and KWAP. There is no recognition of Contingent Assets, only disclosure of its existence where the inflow of economic benefits is probable but virtually uncertain. Contingent Liabilities are possible obligations that arise from past events whereby the existence is confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and KWAP, or present obligations that are not recognised because it is not probable that an outflow of resources will be required to settle the obligation. Contingent Liabilities may also arise in the extremely rare case where a liability is not recognised due to its inability to be measured reliably. There is no recognition of Contingent Liabilities, only its disclosure in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Offset Of Financial Instruments

Financial assets and liabilities are offset whereby the net amount is presented in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right shall not be contingent on future events and shall be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

2.24 Allocation Of Statutory Funds

KWAP receives an annual allocation from the Federal Government in accordance with section 13 of the Retirement Fund Act 2007 (Act 662).

2.25 Pension Contribution

Pension contributions are recognised upon receipt of contributions from Statutory Bodies, Local Authorities and other Agencies as well as Government's share, gratuities and other deductions in accordance with the Statutory and Local Authorities Pensions Act, 1980 (Act 239) and Service Circular No. 12/2008. Penalty for late contribution payments are recognised on cash basis.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated Financial Statements requires the establishment of judgements, estimates and assumptions by the Group and KWAP that affect the reported amounts of revenues, expenses, assets and liabilities as well as the accompanying disclosures and the disclosure of Contingent Assets and Liabilities in accordance with the relevant MFRS. Uncertainties in relation to the assumptions and estimates may result in outcomes which require material adjustments to the carrying amount of affected assets or liabilities in future periods.

Judgements applied by the Group and KWAP in the application of accounting policies, key assumptions concerning the future and other key sources of uncertainty estimation at the reporting date with significant risk of material adjustments to the carrying amount of affected assets and liabilities within the next financial year are discussed as follows:

(a) Impairment of interest in subsidiaries and associates

Assessment on the objective evidence for impairment of investments are conducted at each reporting date. Factors such as, amongst others, the prolonged shortfall between the indicative fair value and the carrying amount, significant changes with adverse effects on the investments as well as the deterioration of the financial performance of investment are taken into consideration to determine the objective evidence for impairment, if any.

Judgements are applied by the Group and KWAP in the selection of a suitable method of valuation such as, amongst others, the discounted cash flow, realisable net asset value and sector average price-earning ratio depending on the nature as well as the industries in relation to the investment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Impairment of interest in subsidiaries and associates (continued)

Upon the selection of a suitable method of valuation, certain assumptions are established to estimate the future recoverable amount of the investment. Such assumptions may include, amongst others, assumptions on the expected future cash flows, revenue growth, discount rate used for the purpose of discounting the future cash flows, which incorporates the relevant risks, as well as the expected future outcome of certain past events relating to the specific individual investment.

(b) Impairment of non-financial assets

Impairment of non-financial assets is executed when the carrying value of the asset or cash generating unit ("CGU") exceeds the recoverable amount of the asset or CGU, which is the higher of fair value less costs to sell and value in use. The calculation of the fair value less costs to sell is based on the available data from binding sales transactions, conducted at arm's length for similar assets or the observable market prices less the incremental costs for the disposal of assets. The calculation of the value in use is based on the discounted cash flow model whereby the cash flows are derived from the next five (5) year budget excluding the restructuring activities yet to be committed by the Group or KWAP, or significant future investments that will enhance the asset performance of the tested CGU. The recoverable amount is most sensitive to the discount rate employed for the discounted cash flow model and the expected future cash inflows as well as the growth rate used for extrapolation purposes.

(c) Impairment of financial assets

Impairment of financial assets is executed following certain indication for impairment such as, amongst others, the prolonged shortfall between the market value and the carrying amount, significant changes with adverse effects on the financial assets as well as the deterioration of the financial performance of the financial assets.

Judgement is required upon the determination of the definition of "significant" or "prolonged". Formulation of the judgement requires the evaluation of other factors, such as, the historical fair value movements as well as the duration and extent to which the fair value of the financial assets is less than its cost. The Group and KWAP considers the "significant" decline in fair value of financial assets as more than twenty percent (20%) decline whereas the "prolonged" period as a period greater than twelve (12) months.

Judgements are applied in the selection of a suitable method of valuation for financial assets such as, amongst others, the discounted cash flow, realisable net asset value and sector average price-earning ratio depending on the nature and the industries relating to the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Fair value of financial instruments

Fair value is the price that would be received upon the sale of assets or paid upon the transfer of liabilities in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transactions for the sale of the assets or transfer of liabilities occur either in the principal market for the assets or liabilities, or in the absence of the principal market, in the most advantageous market for the assets or liabilities.

The fair value of assets or liabilities is measured using the assumptions that the market participants would use when pricing the assets or liabilities, assuming that the market participants behave in their economic best interest.

In the absence of an active market, the fair value of financial instruments is determined using the valuation techniques that are deemed appropriate in circumstances whereby sufficient data are available for the fair value measurement with the maximisation of the use of relevant observable inputs and the minimisation of the use of unobservable inputs.

(e) Post-Retirement Medical Benefit Obligations

The present value of Post-Retirement Medical Benefit obligations is dependent on a number of factors that are determined on an actuarial basis based on a number of assumptions. The assumptions employed in the determination of the net cost for post-retirement medical benefit include the discount rate and the actual medical costs incurred during the financial year with the limit of a medical retiree's claim up to RM3,000 a year. Changes in the assumptions shall impact the carrying amount of the Post-Retirement Medical Benefit obligation.

The appropriate discount rate is determined annually upon the performance of the actuarial valuation. The most recent actuarial valuation was completed in 2017 whereby the interest rate was used to determine the present value of the estimated expected future cash outflows required to settle the Post-Retirement Medical Benefit Obligation.

The medical cost rate is based on the actual cost incurred by the Group and KWAP.

(f) Events After Reporting Date

Disclosure regarding the restructuring of the Syarikat Perumahan Negara Berhad loan financing has been finalised via the Commodity Murabahah Term Financing-I (CMTF-I) programme which amounted to RM530.30 million on 14 February 2018. However, the restructuring of the interest and penalty has not been finalised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. INCOME

Revenue of the Group and of KWAP consist of the following:

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Gross Investment Income				
Dividend Income	1,464,727	1,058,969	1,921,911	1,466,260
Gains From Divestment	3,733,352	1,692,071	3,290,094	1,340,490
Interest Income	3,328,095	3,038,143	3,333,910	3,054,865
Rental Income	348,053	376,834	38,102	56,125
Other Investment Income	474,633	444,530	449,488	443,742
	9,348,860	6,610,547	9,033,505	6,361,482
Other Non-Investment Income				
Other Operating Income	37,948	37,243	34,392	37,327
Net Gains Arising From Derivative Financial Instruments	951,437	332,880	927,753	311,926
Net Gains From Foreign Currency Exchange	443,681	930,343	253,274	930,356
	1,433,066	1,300,466	1,215,419	1,279,609

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. OPERATING EXPENSES

	Note	Group		KWAP	
		31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Employee Costs	A	107,124	92,379	102,832	88,837
Property Related Expenditure		68,958	58,004	13,645	14,162
Professional Services And Fees		181,963	139,444	108,567	90,364
Audit Fees		1,674	1,503	478	273
Directors' Fees And Remuneration		343	870	343	870
Depreciation Charges		145,025	128,012	24,221	30,721
Amortisation Charges		3,218	1,106	2,189	1,106
Withholding Tax		86,874	30,623	86,874	30,623
Management Aid		1,913	708	1,913	699
Rental Charges		2,278	6,360	14,524	5,265
Other Operating Expenditure		30,840	9,455	13,237	8,705
		630,210	468,464	368,823	271,625

Note A – Employee Costs:

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Salaries And Allowance	65,430	55,484	61,721	52,933
Contribution To KWAP, EPF And SOCSO	13,717	12,717	13,717	12,617
Others	27,977	24,178	27,394	23,287
	107,124	92,379	102,832	88,837

As at 31 December 2017, the number of employees of the Group is 582 (2016: 598), with 577 (2016: 592) being employees of KWAP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. TAXATION

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Current Taxation				
– Income Tax	1,015	852	–	–
Tax expenses for financial year	1,015	852	–	–

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate of the Group and of KWAP are as follows:

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Profit Before Taxation	9,063,051	4,903,005	8,791,437	4,829,922
Taxation At Malaysian Statutory Tax Rate Of 25% (2016: 25%)	2,265,763	1,225,751	2,197,859	1,207,481
Different Tax Rates In Other Countries*	(2,259)	(130)	–	–
Income Not Subject To Tax	(2,262,489)	(1,224,769)	(2,197,859)	(1,207,481)
Tax Expenses For The Financial Year	1,015	852	–	–

* Different tax rates in other countries refer to the corporate tax rate of Germany of 15%. (2016 – United Kingdom: 21%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

7. PROPERTY AND EQUIPMENT

	Office Renovation RM'000	Computers RM'000	Paintings, Office Furniture And Equipment RM'000	Gymnasium Equipment RM'000	Vehicles RM'000	Work In Progress RM'000	Electrical Equipment RM'000	Total RM'000
GROUP								
Cost								
At 1 January 2017	12,807	10,779	8,802	386	792	31,141	17	64,724
Additions	15,905	1,764	7,528	-	-	-	35	25,232
Adjustments/Disposal	(4,065)	(3,180)	(2,183)	-	-	(10,027)	11	(19,444)
At 31 December 2017	24,647	9,363	14,147	386	792	21,114	63	70,512
Accumulated depreciation								
At 1 January 2017	5,913	4,538	3,496	106	372	-	-	14,425
Depreciation Charge For The Year	2,476	1,639	1,974	77	126	-	9	6,301
Adjustments/Disposal	(4,641)	(3,128)	(2,843)	-	-	-	-	(10,612)
Foreign Exchange Difference	-	-	18	-	-	-	-	18
At 31 December 2017	3,748	3,049	2,645	183	498	-	9	10,132
Net Book Value								
At 31 December 2017	20,899	6,314	11,502	203	294	21,114	54	60,380
KWAP								
Cost								
At 1 January 2017	10,169	10,779	8,594	386	792	31,141	17	61,878
Additions	15,905	1,764	7,254	-	-	-	35	24,958
Adjustments/Disposal	(4,065)	(3,180)	(2,183)	-	-	(10,027)	11	(19,444)
At 31 December 2017	22,009	9,363	13,665	386	792	21,114	63	67,392
Accumulated depreciation								
At 1 January 2017	5,019	4,538	3,386	106	372	-	-	13,421
Depreciation Charge For The Year	2,442	1,639	1,741	77	126	-	10	6,035
Adjustments/Disposal	(4,641)	(3,128)	(2,843)	-	-	-	-	(10,612)
At 31 December 2017	2,820	3,049	2,284	183	498	-	10	8,844
Net Book Value								
At 31 December 2017	19,189	6,314	11,381	203	294	21,114	53	58,548

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

7. PROPERTY AND EQUIPMENT (CONTINUED)

	Office Renovation RM'000	Computers RM'000	Paintings, Office Furniture And Equipment RM'000	Gymnasium Equipment RM'000	Vehicles RM'000	Work In Progress RM'000	Electrical Equipment RM'000	Total RM'000
GROUP								
Cost								
At 1 January 2016	5,782	5,064	3,937	169	547	831	-	16,330
Additions	7,025	5,715	4,884	217	245	30,310	17	48,413
Adjustments/Disposal	-	-	(19)	-	-	-	-	(19)
At 31 December 2016	12,807	10,779	8,802	386	792	31,141	17	64,724
Accumulated depreciation								
At 1 January 2016	5,132	3,741	2,796	72	240	-	-	11,981
Depreciation Charge For The Year	781	797	700	34	132	-	-	2,444
Adjustments/Disposal	-	-	-	-	-	-	-	-
At 31 December 2016	5,913	4,538	3,496	106	372	-	-	14,425
Net Book Value								
At 31 December 2016	6,894	6,241	5,306	280	420	31,141	17	50,299
KWAP								
Cost								
At 1 January 2016	4,885	5,064	3,729	169	547	831	-	15,225
Additions	5,284	5,715	4,884	217	245	30,310	17	46,672
Adjustments/Disposal	-	-	(19)	-	-	-	-	(19)
At 31 December 2016	10,169	10,779	8,594	386	792	31,141	17	61,878
Accumulated depreciation								
At 1 January 2016	4,465	3,741	2,686	72	240	-	-	11,204
Depreciation Charge For The Year	554	797	700	34	132	-	-	2,217
Adjustments/Disposal	-	-	-	-	-	-	-	-
At 31 December 2016	5,019	4,538	3,386	106	372	-	-	13,421
Net Book Value								
At 31 December 2016	5,150	6,241	5,208	280	420	31,141	17	48,457

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. COMPUTER SOFTWARES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Cost				
At 1 January	9,787	6,388	9,787	6,338
Additions	2,423	3,449	2,423	3,449
Adjustments/Disposals	16	(50)	16	-
At 31 December	12,226	9,787	12,226	9,787
Accumulated Amortisation				
At 1 January	5,756	4,674	5,756	4,650
Charge For The Year	2,189	1,106	2,189	1,106
Adjustments/Disposal	(182)	-	(182)	-
Foreign Exchange Reserve	-	(24)	-	-
At 31 December	7,763	5,756	7,763	5,756
Net Carrying Amount				
At 31 December	4,463	4,031	4,463	4,031

Computer software relates to the licence fees, other directly attributable costs in the preparation of the assets for its intended use as well as the professional fees arising directly from the bringing of the assets to its working condition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

9. INVESTMENT PROPERTIES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Land And Building				
Cost				
At 1 January	6,012,170	5,375,551	1,807,711	1,205,740
Addition	359,961	636,619	15,754	601,971
Disposal	(624,832)	–	(1,097,705)	–
At 31 December	5,747,299	6,012,170	725,760	1,807,711
Accumulated Depreciation				
At 1 January	459,671	247,221	48,487	19,983
Depreciation Charge	102,215	125,568	18,190	28,504
Disposal	(77,046)	–	(51,492)	–
Foreign Exchange Reserve	(46,923)	86,882	–	–
At 31 December	437,917	459,671	15,185	48,487
Carrying Amount As At 31 December	5,309,382	5,552,499	710,575	1,759,224
Fair Value	7,966,632	6,453,939	767,241	1,849,540

There is no restriction on the realisation of the investment properties as well as no contractual obligation to either purchase, construct or develop investment properties or for the repairs, maintenance and enhancements of the properties by the Group and KWAP.

The realisation of investment properties is expected through the capital appreciation on its future sale. There is no formal arrangement to sell any of the investment properties as at 31 December 2017.

The fair value of the investment properties of the Group as at 31 December 2017 amounted to RM7,966.63 million (2016: RM6,453.94 million), which was determined based on the valuations performed at each reporting date.

The fair value of investment properties of KWAP as at 31 December 2017 amounted to RM767.24 million (2016: RM1,849.54 million) which has been determined based on valuations performed at each reporting date.

Valuations are performed by accredited independent valuers with recent experience in the land and properties valuation field. The valuations are based on the comparison method that involves the sales of similar properties, analysis and factors which can influence the value or price of the said properties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

10. INVESTMENT IN SUBSIDIARIES

	KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Shares At Cost		
Unquoted Shares Inside Malaysia	1,046,237	–
Unquoted Shares Outside Malaysia	1,560,651	2,342,294

Details of the subsidiaries, with the country of incorporation are as follows:

Name	Country Of Incorporation/ Principal Place Of Business	Effective Ownership Interest		Non-Controlling Interest		Principal Activities
		2017 %	2016 %	2017 %	2016 %	
KWAP Managed Investment Trust	Australia	100.0	100.0	–	–	Management of investment trust
KWAP Managed Investment Trust 2	Australia	100.0	100.0	–	–	Management of investment trust
KWAP Managed Investment Trust 3	Australia	100.0	100.0	–	–	Management of investment trust
KWAP Managed Investment Trust 4	Australia	100.0	100.0	–	–	Management of investment trust
Prima Ekuiti (UK) Limited	United Kingdom	100.0	100.0	–	–	Fund management services
Prima Harta (Jersey) Unit Trust	Jersey	100.0	100.0	–	–	Management of investment trust
Prima Harta 2 (Jersey) Unit Trust	Jersey	100.0	100.0	–	–	Management of investment trust
Prima Harta 3 (Lux) Sàrl	Luxembourg	100.0	–	–	–	Management of investment trust
Capsquare Tower Sdn Bhd	Malaysia	100.0	100.0	–	–	Management of property
KWEST Sdn Bhd	Malaysia	100.0	–	–	–	Management of property
Harta Integra Berkat Sdn Bhd	Malaysia	100.0	–	–	–	Management of property

* All subsidiaries are not audited by Jabatan Audit Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. INVESTMENT IN ASSOCIATES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Shares At Cost				
Quoted Shares	672,107	586,443	620,136	597,644
Unquoted Shares	388,292	16,670	388,292	16,670
	1,060,399	603,113	1,008,428	614,314
Share Of Post Acquisition Reserves	114,991	12,111	–	–
	1,175,390	615,224	1,008,428	614,314
Less: Allowance For Impairment Losses	–	–	–	–
	1,175,390	615,224	1,008,428	614,314
Market Value Of Quoted Shares				
Malakoff Corporation Bhd	371,706	547,823	371,706	547,823
Prestariang Bhd	95,383	117,257	95,383	117,257

No impairment loss was accounted for the Domestic Quoted Shares even though the market price is lower than cost. This was due to the fact that the recoverable amount for the Domestic Quoted Shares is higher than the cost and was measured by the valuation technique based on KWAP's accounting policy approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. INVESTMENT IN ASSOCIATES (CONTINUED)

Details of the associates, with the country of incorporation are as follows:

Name	Country Of Incorporation/ Principal Place Of Business	Effective Ownership Interest		Accounting Model Applied	Principal Activities
		2017 %	2016 %		
ValueCap Sdn Bhd Malaysia	Malaysia	33.33	33.33	Equity method	Investment in quoted securities
Malakoff Corporation Bhd	Malaysia	8.22	8.05	Equity method	Independent power producer company
Prestariang Bhd	Malaysia	13.01	11.66	Equity method	ICT service provider
Persada Mentari Sdn Bhd	Malaysia	20.00	–	Equity method	Management of property
Vortex Solar Investment Sàrl	Luxembourg	45.00	–	Equity method	Renewable energy sector

Malakoff Corporation Bhd and Prestariang Bhd are associates of the Group based on the existence of significant influence in the entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. INVESTMENT IN ASSOCIATES (CONTINUED)

Summary of the financial information in relation to each of the aggregated material associate of the Group is set out below. The summarised financial information represents the amounts in the Financial Statements of the associates and not the Group's share of those amounts.

	ValueCap Sdn Bhd RM'000	Malakoff Corporation Bhd RM'000	Prestariang Bhd RM'000	Persada Mentari Sdn Bhd RM'000	Vortex Solar Investment Sarl RM'000
2017					
Summarised Consolidated Statement Of Comprehensive Income					
Revenue	461,727	7,130,440	219,506	–	251,024
Profit/(Loss) For The Year	156,032	376,938	24,570	(357)	22,149
Summarised Consolidated Statement Of Financial Position					
Non-Current Assets	48,621	21,803,756	131,235	–	5,240,170
Current Assets	6,761,440	8,114,241	124,980	4,776	131,532
Total Assets	6,810,061	29,917,997	256,215	4,776	5,371,702
Non-Current Liabilities	6,015,301	19,620,791	24,286	–	2,479,645
Current Liabilities	411,497	3,380,545	60,627	132	37,167
Total Liabilities	6,426,798	23,001,336	84,913	132	2,516,812

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. INVESTMENT IN ASSOCIATES (CONTINUED)

Summary of the financial information in relation to each of the aggregated material associate of the Group is set out below. The summarised financial information represents the amounts in the Financial Statements of the associates and not the Group's share of those amounts. (continued)

2016	ValueCap Sdn Bhd RM'000	Malakoff Corporation Bhd RM'000	Prestariang Bhd RM'000
Summarised Consolidated Statement Of Comprehensive Income			
Revenue	242,647	6,098,420	132,072
Profit For The Year	46,433	406,042	9,048
Summarised Consolidated Statement Of Financial Position			
Non-Current Assets	49,471	22,967,511	21,355
Current Assets	5,436,495	7,296,025	176,120
Total Assets	5,485,966	30,263,536	197,475
Non-Current Liabilities	5,003,751	20,967,243	1,482
Current Liabilities	409,181	3,164,598	34,493
Total Liabilities	5,412,932	24,131,841	35,975

Persada Mentari Sdn Bhd and Vortex Solar Investment Sàrl were deemed as associates of the Group in the financial year of 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. INVESTMENT IN JOINT VENTURES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Shares At Cost,				
Unquoted Shares Outside Malaysia	335,583	373,269	–	–
Unquoted Shares In Malaysia	10,000	10,000	10,000	10,000
	345,583	383,269	10,000	10,000
Share Of Post Acquisition Reserves	21,296	10,149	–	–
	366,879	393,418	10,000	10,000

Details of the joint ventures, all incorporated in Malaysia, are as follows:

Name	Country Of Incorporation/ Principal Place Of Business	Effective Ownership Interest		Accounting Model Applied	Principal Activities
		2017 %	2016 %		
Tap Crunch International Sdn Bhd	Malaysia	50.0	50.0	Equity method	Investment holding entity
Tap Crunch Sdn Bhd	Malaysia	50.0	50.0	Equity method	Investment holding entity

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. INVESTMENT IN JOINT VENTURES (CONTINUED)

Summary of the financial information in relation to each of the aggregated material joint venture of the Group is set out below. The summarised financial information represents the amounts in the Financial Statements of the joint ventures and not the Group's share of those amounts.

	Tap Crunch International Sdn Bhd RM'000	Tap Crunch Sdn Bhd RM'000
2017		
Summarised Consolidated Statement Of Comprehensive Income		
Revenue	–	4,227
(Loss)/Profit For The Year	(4)	46,816
Summarised Consolidated Statement Of Financial Position		
Non-Current Assets	–	230,175
Current Assets	–	28
Total Assets	–	230,203
Non-Current Liabilities	2	20,002
Current Liabilities	14	14
Total Liabilities	16	20,016

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. INVESTMENT IN JOINT VENTURES (CONTINUED)

	Tap Crunch International Sdn Bhd RM'000	Tap Crunch Sdn Bhd RM'000
2016		
Summarised Consolidated Statement Of Comprehensive Income		
Revenue	–	4,568
(Loss)/Profit For The Year	(4)	20,303
Summarised Consolidated Statement Of Financial Position		
Non-Current Assets	–	187,573
Current Assets	–	33
Total Assets	–	187,606
Non-Current Liabilities	2	20,002
Current Liabilities	8	11
Total Liabilities	10	20,013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13. LOANS AND RECEIVABLES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Non-Current				
Commercial Loan	9,400,690	10,549,886	9,400,690	10,549,886
Fixed Income Investment	4,412,656	4,156,695	4,841,837	4,156,695
Loan To Related Parties	–	36,221	404,831	428,116
	13,813,346	14,742,802	14,647,358	15,134,697
Current				
Commercial Loan	1,513,000	395,000	1,513,000	395,000
Loan To Related Parties	33,641	–	33,641	–
	1,546,641	395,000	1,546,641	395,000

Loans And Receivables to corporate institutions are subject to interest rates ranging from 0.35% to 6.10% (2016: 3.99% to 5.98%) per annum as well as the annual review.

Loans And Receivables to related parties are unsecured, subject to interest rates ranging from 0.00% to 8.00% (2016: 0.00% to 8.00%) per annum as well as the annual review.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Quoted Shares In Malaysia	50,190,670	39,154,091	50,190,670	39,154,091
Quoted Shares Outside Malaysia	8,134,022	6,571,521	8,134,022	6,571,521
Unquoted Equity Funds In Malaysia	575,041	1,518	575,041	1,518
Unquoted Equity Funds Outside Malaysia	2,277,650	2,033,740	2,277,650	2,033,740
Quoted Bonds In Malaysia	46,269,441	44,215,996	46,269,441	44,215,996
Quoted Bonds Outside Malaysia	2,559,738	3,227,669	2,559,738	3,227,669
	110,006,562	95,204,535	110,006,562	95,204,535

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

(a) Available-For-Sale Financial Assets – Quoted Investments

Quoted investments are Available-For-Sale Financial Assets in listed equity and debt securities. The fair values of equity shares and quoted debt securities are determined by the reference to the published price quotations in active markets.

(b) Available-For-Sale Financial Assets – Unquoted Investments

Unquoted investments are Available-For-Sale Financial Assets in equity funds of unlisted entities whereby valuations are based on non-market observable information. The fair value of unquoted equity funds were estimated using the Net Asset Value (“NAV”).

(c) Impairment of Available-For-Sale Financial Assets

Impairment assessment of Available-For-Sale Financial Assets is conducted at each reporting date to determine the objective evidence for impairment, if any. For equity investments classified as Available-For-Sale Financial Assets, the objective evidence include the significant or prolonged decline in the fair value of investments below its cost. Judgement is required on the definition of “significant” and “prolonged”. Evaluation of factors, such as, the historical share price movements and the duration or extent whereby the fair value of investments is less than its cost, are taken into consideration in the formulation of the judgement.

Based on these criteria, the Group and KWAP identified an impairment of RM1.12 billion (2016: RM2.47 billion) on Available-For-Sale Financial Assets quoted and unquoted equity securities, which was recognised in profit or loss.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Current				
Tap Crunch Sdn Bhd	35,000	35,000	35,000	35,000
Shareholder's Loan	476,819	–	476,819	–
Fixed Income Investment	311,967	1,711,400	311,967	1,711,400
	823,786	1,746,400	823,786	1,746,400

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

16. DERIVATIVES FINANCIAL ASSETS AND LIABILITIES

	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Group Assets/ (Liabilities) RM'000	Nominal Value RM'000	Assets/ (Liabilities) RM'000	KWAP Assets/ (Liabilities) RM'000
2017						
Derivatives Designated As Hedges:						
Financial Assets:						
Warrants & Rights		7,483			7,483	
Forward Exchange Rate Contracts	9,647,113	531,698	539,181	9,647,113	531,698	539,181
Financial Liabilities:						
Cross Currency Swaps	392,889		(158,807)	353,950		(143,067)

	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Group Assets/ (Liabilities) RM'000	Nominal Value RM'000	Assets/ (Liabilities) RM'000	KWAP Assets/ (Liabilities) RM'000
2016						
Derivatives Designated As Hedges:						
Financial Assets:						
Warrants			7,412			7,412
Financial Liabilities:						
Forward Exchange Rate Contracts	9,360,619	(417,542)		9,110,619	(405,640)	
Cross Currency Swaps	680,515	(370,306)	(787,848)	590,515	(343,350)	(748,990)

Cross currency swaps and forward exchange rate contracts outstanding as at 31 December 2017 are designated as hedges of firm commitments with highly probable future payments and net revenue denominated in foreign currencies.

The terms of the cross currency swaps and forward exchange rate contracts were negotiated to match the terms of the commitments. There were neither previous application nor expectation of occurrence of hedge accounting in relation to those highly probable future transactions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

17. SUNDRY DEBTORS AND DEPOSITS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Other Receivables	13,713	13,551	7,510	3,586
Tax Recoverable	81,624	75,374	81,624	75,374
GST Control Account	2,466	27,563	2,466	27,563
Deposit Received	89,168	1,507	78,274	1,507
Prepayment And Advances	48,645	6,664	2,545	6,883
	235,616	124,659	172,419	114,913

18. TRADE RECEIVABLES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Sale Of Shares And Bonds	249,515	27,879	249,515	27,879
Dividend Income	40,327	26,660	40,327	37,015
Interest Income Receivables	692,244	650,759	692,244	672,337
Rental Income	14,832	590	588	590
Receivable From Brokers	1,435,092	875,709	1,435,092	840,962
Other Trade Receivables	12,997	6,290	49,811	6,290
	2,445,007	1,587,887	2,467,577	1,585,073

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. CASH AND CASH EQUIVALENTS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Deposit And Placements With Financial Institutions				
Deposits And Placements With Financial Institutions With Maturity Less 3 Months	3,520,447	3,912,666	3,514,416	3,912,666
Deposits And Placements With Financial Institutions With Maturity More Than 3 Months	3,163,876	2,579,104	3,163,876	2,579,104
	6,684,323	6,491,770	6,678,292	6,491,770
Cash And Bank Balances	1,249,259	1,046,824	1,046,361	829,056

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Cash And Cash Equivalents				
Deposits And Placements With Financial Institutions With Maturity Less Than 3 Months	3,520,447	3,912,666	3,514,416	3,912,666
Cash And Bank Balances	1,249,259	1,046,824	1,046,361	829,056
	4,769,706	4,959,490	4,560,777	4,741,722

Cash at bank earns interest at floating rates based on the daily bank deposit rates. Short term deposits are made for varying short periods between one (1) day and three (3) months, based on the immediate cash requirements of the Group and of KWAP, whereby interest is earned at the respective short term deposit rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. TRADE PAYABLES

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Fund Managers	–	433,082	–	433,082
Deposits On Property	6,495	15,778	6,495	15,778
Amount Due To Private Equity Fund	2,436	13,133	2,436	13,133
Trade Creditors	1,271,559	17,963	1,248,401	–
	1,280,490	479,956	1,257,332	461,993

Trade payables are interest free with the normal trade credit terms ranging from thirty (30) to ninety (90) days granted to the Group and KWAP.

21. OTHER PAYABLES AND ACCRUALS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Goods And Service Tax Payable ("GST")	–	(436)	–	(436)
Amount Due To Subsidiaries	–	–	21,607	3,019
Provision For Bonus	31,725	30,550	31,725	30,550
Provision For Services	44,205	31,061	44,934	14,610
Provision For External Managers Fees	5,410	19,807	15,734	19,807
Provision For Custodian Fees	10,229	1,912	1,495	1,912
Provision For Tax	2,091	1,742	5,273	1,742
Other Payables And Accruals	99,192	71,673	3,365	3,076
	192,852	156,309	124,133	74,280

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

22. BORROWINGS

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Non-Current	1,512,936	1,602,904	-	-
Current	256,067	-	-	-

Existing Group Borrowings

- (a) Loan amounting to AUD70.0 million to KWAP Managed Investment Trust (KWAP MIT) is at a floating interest rate of 3 months BBSY+1.30% per annum (2017: 3.08%, 2016: 3.11%), schedule to mature on 28 February 2018 and secured over the assets of KWAP MIT.
- (b) Loan amounting to GBP120.0 million to Prima Harta (Jersey) Unit Trust (PRIMA HARTA) is at a floating rate of LIBOR +1.35% per annum, scheduled to mature on 7 June 2019 and secured over the assets of Prima Harta.
- (c) Loan amounting to AUD113.4 million to KWAP Managed Investment Trust 3 (KWAP MIT 3) is at a floating rate of 3 months BBSY+1.10% per annum, scheduled to mature on 4 February 2021 and secured over the assets of KWAP MIT 3.

New Group Borrowing

- (a) Loan amounting to AUD160.0 million to KWAP Managed Investment Trust 4 (KWAP MIT 4) is at a floating rate of BBSY+180 bps per annum (2017: 3.39%, 2016: Nil), scheduled to mature in October 2022 and secured over the assets of KWAP MIT 4.

23. ALLOCATION OF STATUTORY FUNDS

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
At 1 January	25,001,944	24,601,944
Add: Allocation For Current Year	500,000	400,000
At 31 December	25,501,944	25,001,944

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

24. PENSION CONTRIBUTIONS

	Note	Group and KWAP	
		31 December 2017 RM'000	31 December 2016 RM'000
Contribution From Statutory Bodies, Local Authorities And Other Agencies	A	13,375,077	12,192,207
Contribution From Government's Share, Gratuities And Other Deductions	B	36,001,623	34,195,427
		49,376,700	46,387,634

Note A – Contribution From Statutory Bodies, Local Authorities And Other Agencies

The Group and KWAP receive monthly contributions for permanent employees with pensionable status from the respective employers such as Statutory Bodies, Local Authorities and Other Agencies. Contributions are based on 17.5% of the basic monthly salary of the employees.

	Group and KWAP		
	Accumulated Contributions RM'000	Receipts RM'000	Balance RM'000
2017			
Statutory Bodies	9,683,109	955,204	10,638,313
Local Authorities	2,404,388	221,691	2,626,079
Other Agencies	108,678	7,974	116,652
	12,196,175	1,184,869	13,381,044
Less:			
Repayment Of Claims	(3,968)	(1,999)	(5,967)
	12,192,207	1,182,870	13,375,077
2016			
Statutory Bodies	8,784,831	898,278	9,683,109
Local Authorities	2,194,108	210,280	2,404,388
Other Agencies	100,202	8,476	108,678
	11,079,141	1,117,034	12,196,175
Less:			
Repayment Of Claims	(3,838)	(130)	(3,968)
	11,075,303	1,116,904	12,192,207

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

24. PENSION CONTRIBUTIONS (CONTINUED)

Note B – Contribution From Government's Share, Gratuities And Other Deductions

Contributions from the Government's portion, gratuities and other deductions remitted to the Group and KWAP upon any withdrawals made by public officers under the Pensionable Employees Withdrawal Scheme were as follows:

	Contributions RM'000	Receipts RM'000	Balance RM'000
2017			
KWSP	26,183,633	1,257,809	27,441,442
KWSG	146,709	–	146,709
KWSG – Sabah	12,479	–	12,479
LTAT	6,849,837	482,219	7,332,056
SESCO	45,309	–	45,309
JPA	1,059,125	88,843	1,147,968
Others	40,353	169	40,522
	34,337,445	1,829,040	36,166,485
Less:			
Repayment Of Claims	(142,018)	(22,844)	(164,862)
	34,195,427	1,806,196	36,001,623
2016			
KWSP	25,049,793	1,133,840	26,183,633
KWSG	146,682	27	146,709
KWSG – Sabah	12,479	–	12,479
LTAT	6,232,903	616,934	6,849,837
SESCO	45,309	–	45,309
JPA	980,137	78,988	1,059,125
Others	39,391	962	40,353
	32,506,694	1,830,751	34,337,445
Less:			
Repayment Of Claims	(134,162)	(7,856)	(142,018)
	32,372,532	1,822,895	34,195,427

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. RETAINED EARNINGS

The Group's Retained Earnings amounting to RM61.77 billion was the balance of revenue reserve as at 31 December 2017 (2016: RM52.64 billion). KWAP's Retained Earnings amounting to RM61.68 billion was the balance of revenue reserves as at 31 December 2017 (2016: RM52.89 billion).

26. RESERVES

		Group		KWAP	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
	Note	RM'000	RM'000	RM'000	RM'000
Other Reserves		(42,944)	(67,485)	–	–
Foreign Exchange Reserves	A	(43,664)	190,005	–	–
Available-For-Sale Reserves	B	4,238,908	724,187	4,238,908	724,187
		4,152,300	846,707	4,238,908	724,187

Note A : Relates to exchange differences arising from foreign operations with a different functional currency to the presentation currency of Ringgit Malaysia ("RM") by KWAP.

Note B : Represents the movement of net accumulated unrealised fair value gains which was recognised from Available-For-Sale Financial Assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

27. DEFERRED TAX LIABILITIES

	Group	
	31 December 2017 RM'000	31 December 2016 RM'000
At 1 January	101	–
Amount Recognised In Profit Or Loss	53	101
As At 31 December	154	101
After Appropriate Offsetting As Follows:		
Deferred Tax Liabilities	(154)	(101)
	(154)	(101)
Deferred Tax Liabilities:		
– Settled More Than 12 Months	(154)	(101)
	(154)	(101)

The components and movements in Deferred Tax Assets and Liabilities during the financial year before adjustments comprise of the following:

	Depreciation RM'000	Total RM'000
At 1 January 2016	(101)	(101)
As At 31 December 2016/1 January 2017	(101)	(101)
Amount Recognised In Profit Or Loss	(53)	(53)
As At 31 December 2017	(154)	(154)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

28. EMPLOYEE BENEFITS

	Group and KWAP Post - Retirement Medical Benefits RM'000
At 1 January 2017	-
Provisions For The Year	5,416
Benefits Paid	(6)
As At 31 December 2017	5,410

The maturity structure of Employee Benefits are as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Maturing Within 12 Months	30	-
Maturing After 12 Months	5,380	-
	5,410	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

28. EMPLOYEE BENEFITS (CONTINUED)

- a) The movements of the present value in unfunded obligations are as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
At 1 January	-	-
Current Service Cost	5,416	-
Interest Cost	-	-
Benefits Paid	(6)	-
Net Actuarial Gain	-	-
As At 31 December	5,410	-

- b) The amounts recognised in the Statement of Financial Position were analysed as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Present Value Of Unfunded Obligations	-	-
Total Post-Retirement Costs Recognised In The Statements Of Comprehensive Income And Other Comprehensive Income	5,416	-
Benefits Paid	(6)	-
Net Liabilities As At 31 December	5,410	-

- c) The amounts recognised in the Statement of Comprehensive Income were analysed as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Current Service Cost	5,416	-
Total Post-Retirement Costs Recognised In The Statement Of Comprehensive Income And Other Comprehensive Income	5,416	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

28. EMPLOYEE BENEFITS (CONTINUED)

d) The principal actuarial assumptions employed were as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Discount Rate (%)	2.75%	–
Medical Cost Inflation (%)		
Below 30	1.9%	–
30 – 39	2.1%	–
40 And Above	2.4%	–
Average Life Expectancy (Years):	77	–
Male	75	–
Female	79	–

The provision of post-employment medical benefits is the Net Present Value [NPV], representing the present value of the estimated future cash outflows required to settle the Post-Retirement Medical Benefit Obligations. The NPV amount is discounted at the expected money market rate of 2.75%, as this underlying instrument is naturally considered to be conservative and liquid for KWAP. The inflation adjusted cashflows were applied to ensure potential changes in medical cost over the entire expected period of coverage is taken into account. The projected cashflows were categorised by age of beneficiaries since the expected period of coverage is deemed significantly lengthy. To ensure the expected inflation rates used are both conservative and reasonable, the short-ended cashflows were inflated with a relatively higher rate relative to the long-ended cashflows. This is based on the assumption that the expected inflation rate typically trends lower in the long-term as empirically observed in many cases in the developed countries.

KWAP has also utilised Malaysia's Life Expectancy report by the United Nations [UN] to provide model assumptions, in terms of the overall period of coverage for the entire post-employment medical benefits. With the available data, KWAP is able to estimate the life expectancy of all individual staff as well as current retirees, to represent their expected period of coverage. The Average Life Expectancy is derived from KWAP's estimated life expectancy of individual staff as well as current retirees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

28. EMPLOYEE BENEFITS (CONTINUED)

- e) The sensitivity analysis below were determined based on a method that extrapolates the occurrence of reasonable changes in key assumptions in the same Statement of Financial Position whereby all other assumptions remain constant:

	RM'000	Group and KWAP			
		31 December 2017		31 December 2016	
		RM'000		RM'000	
		Increase	Decrease	Increase	Decrease
Benefits Obligations As At 31 December	5,410			-	-
Discount Rate (1% Movement)	-	(1,402)	1,984	-	-
Average Life Expectancy (1 Year Movement)	-	269	(271)	-	-
	5,410	(1,132)	1,714	-	-

29. FINANCIAL RISK

The Group and KWAP are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, equity price risk, credit risk and liquidity risk.

The Group and KWAP have an approved set of guidelines and policies as well as internal controls which set out the overall business strategies for the management of the risks. The overall financial risk management objective is to enhance the contributors' value through the effective management of the risks.

The policies and procedures of risk management are reviewed and approved by the Board. The following sections provide details regarding the Group's and KWAP's exposure to the above-mentioned financial risks as well as the objectives, policies and processes for the management of these risks.

(a) Interest rate risk

Interest rate risk is the risk of the fluctuation of fair value or future cash flows of financial instruments due to changes in the market interest rates. The Group's and KWAP's exposure to the risk of changes in the market interest rates relate primarily to term loans with floating interest rates.

The Group and KWAP actively manage the interest rate risk with the maintenance of an interest rate cover ratio of a minimum of one and a half times (1.5).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to the reasonable possible change in interest rates on the portion of borrowings. With all other variables held constant, the table summarises the Group's and KWAP's exposure to interest rate risk on the loans with floating interest rates and fixed income securities.

	Group Effect On Equity RM'000	KWAP Effect On Equity RM'000	Group Effect On Profit Before Tax RM'000	KWAP Effect On Profit Before Tax RM'000
2017				
Increase In 100 Basis Points	488,292	488,292	156,720	165,060
Decrease In 100 Basis Points	(488,292)	(488,292)	(156,720)	(165,060)
2016				
Increase In 100 Basis Points	489,437	489,437	169,566	157,399
Decrease In 100 Basis Points	(489,437)	(489,437)	(169,566)	(157,399)

The Group and KWAP are exposed to various risks associated with the fluctuations in the prevailing levels of interest rate on its Statements of Financial Position and Statements of Cash Flows. The following table indicates KWAP's financial assets and financial liabilities at their effective interest rate and the carrying amount analysed by the maturity date or the next re-pricing date, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

GROUP 2017	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
Investment In Subsidiaries	-	-	-	-	-
Investment In Associates	-	-	-	1,175,390	1,175,390
Investment In Joint Ventures	-	-	-	366,879	366,879
Available-For-Sale Financial Assets	-	16,081,509	32,747,670	61,177,383	110,006,562
Financial Assets At Fair Value Through Profit Or Loss	823,786	-	-	-	823,786
Loans And Receivables	1,546,641	9,075,609	4,737,737	-	15,359,987
Derivatives Financial Assets	539,181	-	-	-	539,181
Deposits And Placements With Financial Institution	6,684,323	-	-	-	6,684,323
Other Non-Interest Sensitive Assets	-	-	-	9,304,107	9,304,107
Total Asset	9,593,931	25,157,118	37,485,407	72,023,759	144,260,215

KWAP 2017	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
Investment In Subsidiaries	-	-	-	2,606,888	2,606,888
Investment In Associates	-	-	-	1,008,428	1,008,428
Investment In Joint Ventures	-	-	-	10,000	10,000
Available-For-Sale Financial Assets	-	16,081,509	32,747,670	61,177,383	110,006,562
Financial Asset At Fair Value Through Profit Or Loss	823,786	-	-	-	823,786
Loans And Receivables	1,546,641	9,909,621	4,737,737	-	16,193,999
Derivatives Financial Assets	539,181	-	-	-	539,181
Deposits And Placements With Financial Institution	6,678,292	-	-	-	6,678,292
Other Non-Interest Sensitive Assets	-	-	-	4,459,943	4,459,943
Total Asset	9,587,900	25,991,130	37,485,407	69,262,642	142,327,079

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

GROUP 2016	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
Investment In Subsidiaries	-	-	-	-	-
Investment In Associates	-	-	-	615,224	615,224
Investment In Joint Ventures	-	-	-	393,418	393,418
Available-For-Sale Financial Assets	-	15,452,541	31,991,124	47,760,870	95,204,535
Financial Asset At Fair Value Through Profit Or Loss	1,746,400	-	-	-	1,746,400
Loans And Receivables	395,000	8,099,373	6,643,429	-	15,137,802
Derivatives Financial Assets	-	-	-	7,412	7,412
Deposits And Placements With Financial Institution	6,491,770	-	-	-	6,491,770
Other Non-Interest Sensitive Assets	-	-	-	8,366,199	8,366,199
Total Asset	8,633,170	23,551,914	38,634,553	57,143,123	127,962,760

KWAP 2016	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
Investment In Subsidiaries	-	-	-	2,342,294	2,342,294
Investment In Associates	-	-	-	614,314	614,314
Investment In Joint Ventures	-	-	-	10,000	10,000
Available-For-Sale Financial Assets	-	15,452,541	31,991,124	47,760,870	95,204,535
Financial Asset At Fair Value Through Profit Or Loss	1,746,400	-	-	-	1,746,400
Loans And Receivables	395,000	8,456,268	6,678,429	-	15,529,697
Derivatives Financial Assets	-	-	-	7,412	7,412
Deposits And Placements With Financial Institution	6,491,770	-	-	-	6,491,770
Other Non-Interest Sensitive Assets	-	-	-	4,340,754	4,340,754
Total Asset	8,633,170	23,908,809	38,669,553	55,075,644	126,287,176

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(b) Equity price risk

The Group's and KWAP's quoted equity securities are susceptible to market price risk arising from uncertainties in relation to the future values of investment securities. The Group and KWAP manage the equity price risk through diversification as well as placements of limits on the individual and total equity instruments. Reports on the equity portfolio are regularly submitted to the Group's and KWAP's senior management. Equity investment decisions are reviewed and approved by the Board of the Group and of KWAP.

Equity price sensitivity

The following table demonstrates the sensitivity to the reasonable possible change in equity price of the Group's and KWAP's equity investments, due to the changes in fair value of Available-For-Sale Financial Assets, with all other variables held constant.

	Group Effect On Equity RM'000	KWAP Effect On Equity RM'000	Group Effect On Profit Before Tax RM'000	KWAP Effect On Profit Before Tax RM'000
2017				
FBM KLCI				
Increase Of 5% In Equity Price	2,509,534	2,509,534	374	374
Decrease Of 5% In Equity Price	(2,509,534)	(2,509,534)	(374)	(374)
MSCI World				
Increase Of 10% In Equity Price	813,402	813,402	-	-
Decrease Of 10% In Equity Price	(813,402)	(813,402)	-	-
2016				
FBM KLCI				
Increase Of 5% In Equity Price	1,963,370	1,963,370	371	371
Decrease Of 5% In Equity Price	(1,963,370)	(1,963,370)	(371)	(371)
MSCI World				
Increase Of 10% In Equity Price	657,152	657,152	-	-
Decrease Of 10% In Equity Price	(657,152)	(657,152)	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(c) Foreign exchange risk

The foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in the foreign exchange rates.

The Group's and KWAP's exposure to foreign exchange risk includes international equity, fixed income and alternative investments such as private equity funds and properties.

The following table summarises the fair value of international investments of the Group and of KWAP by currencies:

	Group and KWAP Global Investments RM'000
2017	
Currency	
USD	5,544,831
AUD	1,669,587
GBP	1,659,945
EUR	1,589,205
HKD	1,218,421
2016	
Currency	
USD	5,219,077
AUD	824,654
GBP	2,194,571
EUR	1,199,652
HKD	1,379,225

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(c) Foreign exchange risk (continued)

The following table demonstrate the sensitivity to a reasonable change in the currencies of the Group's and of KWAP's international investments:

	Group and KWAP Effect On Profit Before Tax	
	RM'000	RM'000
2017	+3%	-3%
Currency		
USD	166,345	(166,345)
AUD	50,088	(50,088)
GBP	49,798	(49,798)
EUR	47,676	(47,676)
HKD	36,553	(36,553)

	Group and KWAP Effect On Profit Before Tax	
	RM'000	RM'000
2016	+3%	-3%
Currency		
USD	156,572	(156,572)
AUD	24,740	(18,194)
GBP	65,837	(65,837)
EUR	35,990	(24,740)
HKD	41,377	(41,377)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments in the event of defaults on the obligations of the counterparty. The Group's and KWAP's exposure to credit risk arise primarily from loan receivables. For other financial assets (including investments in bonds, money market instruments and deposits with banks), the Group and KWAP minimise the credit risk via exclusive transactions with high credit rating counterparties.

As at the reporting date, the Group's and KWAP's maximum exposure to credit risk are represented by the carrying amount of each class of financial assets recognised in the Statement of Financial Position, including derivatives with positive fair value.

(i) Credit quality

Various tools are utilised for the measurement of credit risk including third party solutions employed to compute the Credit Value-at-Risk (VaR) as well as internal credit rating scoring model for the provision of internal rating for corporate and financial institutions.

KWAP may invest in domestic bonds with the minimum rating of A3 (RAM), A- (MARC) as well as in international bonds with the minimum rating of BBB- (S&P or Fitch), Baa3 (Moody's) or the equivalent rating from other recognised international rating agencies. In relation to the private debt securities portfolio, the weighted average credit quality of the private debt securities portfolio is AA.

The internal credit rating scoring model is utilised as a tool to complement the existing credit evaluation process as well as to assist in the monitoring of the credit development. The methodology for the scoring model is based on the approach of rating agencies whereby the implementation is based on a set of scoring methodology for domestic and international credits. The model provides an internal rating for unrated bonds or loans, as well as identification of the discrepancy between KWAP's internal rating and the external ratings by the rating agencies for the rated bonds, if any.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(i) Credit quality (continued)

Debt securities are classified into an internal rating scale which is consistent with the rating agencies. The credit quality classification is as follows:

i. Long Term Rating For Payment Of Long Term Financial Obligations

Domestic	Credit Rating	Definition Of Quality Classifications
Sovereign	Sovereign	Issued/guaranteed by the government
Strong	AAA and AA	Superior/strong ability to meet financial obligations
Moderate	A	Adequate ability to meet financial obligations
Weak	BBB and below	Moderate/weak ability to meet financial obligations
International	Credit Rating	Definition Of Quality Classifications
Sovereign	Sovereign	Issued/guaranteed by the government
Strong	AAA and AA	Superior/strong ability to meet financial obligations
Moderate	A	Adequate ability to meet financial obligations
Weak	BBB and below	Moderate/weak ability to meet financial obligations

ii. Short Term Rating For Payment Of Short Term Financial Obligations

Domestic	Credit Rating	Definition Of Quality Classifications
Strong	P1/MARC ₁	Strong ability to meet financial obligations
Moderate	P2/MARC ₂	Adequate ability to meet financial obligations
International	Credit Rating	Definition Of Quality Classifications
Strong	A1/P1/F1	Strong ability to meet financial obligations
Moderate	A2/P2/F2	Adequate ability to meet financial obligations

iii. Non-Rated Financial Assets

Financial assets without external credit rating.

iv. Impaired

Impaired exposure which is assessed individually based on KWAP's investment policies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(i) Credit quality (continued)

31 December 2017						
Financial Assets (RM'000)	Sovereign	Strong	Moderate	Weak	Non-rated	Total
Group						
Available-For-Sale Financial Assets	31,659,090	13,945,922	2,649,460	574,708	–	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	346,967	–	–	–	476,819	823,786
Loans And Receivables	5,298,640	5,035,869	150,000	–	4,875,478	15,359,987
Trade Receivables	–	–	–	–	2,445,007	2,445,007
Sundry Debtors And Deposits	–	–	–	–	235,616	235,616
Deposits And Placements With Financial Institutions	–	5,800,556	883,767	–	–	6,684,323
Cash And Bank Balances	101	280,735	765,517	–	202,906	1,249,259
	37,304,798	25,063,082	4,448,744	574,708	8,235,826	75,627,158
KWAP						
Available-For-Sale Financial Assets	31,659,090	13,945,922	2,649,460	574,708	–	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	346,967	–	–	–	476,819	823,786
Loans And Receivables	5,298,640	5,869,881	150,000	–	4,875,478	16,193,999
Trade Receivables	–	–	–	–	2,467,577	2,467,577
Sundry Debtors And Deposits	–	–	–	–	172,419	172,419
Deposits And Placements With Financial Institutions	–	5,794,525	883,767	–	–	6,678,292
Cash And Bank Balances	101	280,735	765,517	–	8	1,046,361
	37,304,798	25,891,063	4,448,744	574,708	7,992,301	76,211,614

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(i) Credit quality (continued)

31 December 2016						
Financial Assets (RM'000)	Sovereign	Strong	Moderate	Weak	Non-rated	Total
Group						
Available-For-Sale Financial Assets	30,444,757	13,383,313	2,771,253	844,342	2,035,258	49,478,923
Financial Assets At Fair Value Through Profit Or Loss	1,711,400	-	-	-	35,000	1,746,400
Loans And Receivables	-	14,987,802	150,000	-	-	15,137,802
Trade Receivables	-	-	-	-	1,587,887	1,587,887
Sundry Debtors And Deposits	-	-	-	-	124,659	124,659
Deposits And Placements With Financial Institutions	-	4,565,091	-	806,027	1,120,652	6,491,770
Cash And Bank Balances	101	195,927	342,702	287,706	220,388	1,046,824
	32,156,258	33,132,133	3,263,955	1,938,075	5,123,844	75,614,265
KWAP						
Available-For-Sale Financial Assets	28,944,757	14,883,313	2,771,253	844,342	2,035,258	49,478,923
Financial Assets At Fair Value Through Profit Or Loss	1,711,400	-	-	-	35,000	1,746,400
Loans And Receivables	-	15,379,697	150,000	-	-	15,529,697
Trade Receivables	-	-	-	-	1,585,073	1,585,073
Sundry Debtors And Deposits	-	-	-	-	114,913	114,913
Deposits And Placements With Financial Institutions	-	4,565,091	-	806,027	1,120,652	6,491,770
Cash And Bank Balances	101	198,540	342,702	287,706	7	829,056
	30,656,258	35,026,641	3,263,955	1,938,075	4,890,903	75,775,832

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(ii) Maximum exposure to credit risk

The assessment of the credit risk of counterparties determines the required amount and type of collaterals. The treatment of collateral is established encompassing the acceptability and valuation of each type of collateral.

The main types of collaterals are as follows:

- Guarantees from the Government of Malaysia in relation to government-related loans;
- Charges over collaterals as well as guarantees from parent companies for loans to their respective subsidiaries in relation to corporate loans; and
- Cash and securities for securities in relation to repurchase transitions.

The Group and KWAP monitors the market value of collaterals including the possible request for additional collaterals in accordance with the underlying agreement.

Analysis of the maximum exposure to credit risk and collaterals and other credit enhancements

The following table illustrates the maximum exposure to credit risk by classes of financial assets as well as the total fair value of collaterals, the surplus collateral (to the extent whereby the fair value of the collateral held is greater than the exposure to which it relates), if any, as well as the net exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collateral and other credit enhancements (continued)

Types of collateral or credit enhancements

Group 31 December 2017	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements			
Financial Assets (RM'000)		Shares	Properties, Aircraft, Other Fixed Assets	Net Collateral	Net Exposure
Available-For-Sale Financial Assets	48,829,180	-	-	-	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	823,786	-	-	-	823,786
Loans And Receivables	15,359,987	306,653	206,671	513,324	14,846,663
Trade Receivables	2,445,007	-	-	-	2,445,007
Sundry Debtors And Deposits	235,616	-	-	-	235,616
Deposits And Placements With Financial Institutions	6,684,323	-	-	-	6,684,323
Cash And Bank Balances	1,249,259	-	-	-	1,249,259
	75,627,158	306,653	206,671	513,324	75,113,834

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collateral and other credit enhancements (continued)

Types of collateral or credit enhancements (continued)

KWAP 31 December 2017	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements			
Financial Assets (RM'000)		Shares	Properties, Aircraft, Other Fixed Assets	Net Collateral	Net Exposure
Available-For-Sale Financial Assets	48,829,180	-	-	-	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	823,786	-	-	-	823,786
Loans And Receivables	16,193,999	306,653	206,671	513,324	15,680,675
Trade Receivables	2,467,577	-	-	-	2,467,577
Sundry Debtors And Deposits	172,419	-	-	-	172,419
Deposits And Placements With Financial Institutions	6,678,292	-	-	-	6,678,292
Cash And Bank Balances	1,046,361	-	-	-	1,046,361
	76,211,614	306,653	206,671	513,324	75,698,290

Note:

For Malakoff shares, the basis used is the market price (RM0.98) x units holding (312,911,190 units).

For aircraft, the basis used is the half-life values x USD/MYR4.475 x RM100/250 million.

For other collaterals, the basis used is the fair value of the properties and other fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collateral and other credit enhancements (continued)

Types of collateral or credit enhancements (continued)

Group 31 December 2016	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements			
Financial Assets (RM'000)		Shares	Properties, Aircraft, Other Fixed Assets	Net Collateral	Net Exposure
Available-For-Sale Financial Assets	49,478,923	-	-	-	49,478,923
Financial Assets At Fair Value Through Profit Or Loss	1,746,400	-	-	-	1,746,400
Loans And Receivables	15,137,802	264,288	229,726	494,014	14,643,788
Trade Receivables	1,587,887	-	-	-	1,587,887
Sundry Debtors And Deposits	124,659	-	-	-	124,659
Deposits And Placements With Financial Institutions	6,491,770	-	-	-	6,491,770
Cash And Bank Balances	1,046,824	-	-	-	1,046,824
	75,614,265	264,288	229,726	494,014	75,120,251

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collateral and other credit enhancements (continued)

Types of collateral or credit enhancements (continued)

KWAP 31 December 2016	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements			
Financial Assets (RM'000)		Shares	Properties, Aircraft, Other Fixed Assets	Net Collateral	Net Exposure
Available-For-Sale Financial Assets	49,478,923	-	-	-	49,478,923
Financial Assets At Fair Value Through Profit Or Loss	1,746,400	-	-	-	1,746,400
Loans And Receivables	15,529,697	264,288	229,726	494,014	15,035,683
Trade Receivables	1,585,073	-	-	-	1,585,073
Sundry Debtors And Deposits	114,913	-	-	-	114,913
Deposits And Placements With Financial Institutions	6,491,770	-	-	-	6,491,770
Cash And Bank Balances	829,056	-	-	-	829,056
	75,775,832	264,288	229,726	494,014	75,281,818

Note:

For Malakoff shares, the basis used is the IPO price (RM1.80) x units holding (209,911,190 units).

For aircraft, the basis used is the half-life values x USD/MYR3.75 x RM100/250 million.

For other collaterals, the basis used is the fair value of the properties and other fixed assets.

Financial assets that are neither past due nor impaired

The aging analysis below illustrates the information regarding financial assets that are neither past due nor impaired. Investments in money market instruments and deposits with licensed banks that are neither past due nor impaired are placed with or entered with reputable financial institutions with high credit ratings as well as no history of default.

Financial assets that are either past due or impaired

The aging analysis below illustrates the information regarding financial assets that are either past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Aging analysis for financial assets that are past due but not impaired

The amounts in the following table reflect the exposure on the gross financial assets designated as past due but not impaired.

31 December 2017 Financial Assets (RM'000)	Neither Past Due Nor Impaired	Past Due Up To 1 Month	Past Due 1 to 3 Months	Past Due > 3 Months	Impaired	Total
Group						
Available-For-Sale Financial Assets	48,829,180	-	-	-	-	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	823,786	-	-	-	-	823,786
Loans And Receivables	15,324,035	-	6,859	29,093	-	15,359,987
Trade Receivables	2,445,007	-	-	-	-	2,445,007
Sundry Debtors And Deposits	235,616	-	-	-	-	235,616
Deposits And Placements With Financial Institutions	6,684,323	-	-	-	-	6,684,323
Cash And Bank Balances	1,249,259	-	-	-	-	1,249,259
	75,591,206	-	6,859	29,093	-	75,627,158

31 December 2017 Financial Assets (RM'000)	Neither Past Due Nor Impaired	Past Due Up To 1 Month	Past Due 1 to 3 Months	Past Due > 3 Months	Impaired	Total
KWAP						
Available-For-Sale Financial Assets	48,829,180	-	-	-	-	48,829,180
Financial Assets At Fair Value Through Profit Or Loss	823,786	-	-	-	-	823,786
Loans And Receivables	16,158,047	-	6,859	29,093	-	16,193,999
Trade Receivables	2,467,577	-	-	-	-	2,467,577
Sundry Debtors And Deposits	172,419	-	-	-	-	172,419
Deposits And Placements With Financial Institutions	6,678,292	-	-	-	-	6,678,292
Cash And Bank Balances	1,046,361	-	-	-	-	1,046,361
	76,175,662	-	6,859	29,093	-	76,211,614

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Aging analysis for financial assets that are past due but not impaired (continued)

31 December 2016 Financial Assets (RM'000)	Neither Past Due Nor Impaired	Past Due Up To 1 Month	Past Due 1 to 3 Months	Past Due > 3 Months	Impaired	Total
Group						
Available-For-Sale Financial Assets	49,478,923	-	-	-	-	49,478,923
Financial Assets At Fair Value						
Through Profit Or Loss	1,746,400	-	-	-	-	1,746,400
Loans And Receivables	15,125,586	-	-	12,216	-	15,137,802
Trade Receivables	1,587,887	-	-	-	-	1,587,887
Sundry Debtors And Deposits	124,659	-	-	-	-	124,659
Deposits And Placements With						
Financial Institutions	6,491,770	-	-	-	-	6,491,770
Cash And Bank Balances	1,046,824	-	-	-	-	1,046,824
	75,602,049	-	-	12,216	-	75,614,265

31 December 2016 Financial Assets (RM'000)	Neither Past Due Nor Impaired	Past Due Up To 1 Month	Past Due 1 to 3 Months	Past Due > 3 Months	Impaired	Total
KWAP						
Available-For-Sale Financial Assets	49,478,923	-	-	-	-	49,478,923
Financial Assets At Fair Value						
Through Profit Or Loss	1,746,400	-	-	-	-	1,746,400
Loans And Receivables	15,517,481	-	-	12,216	-	15,529,697
Trade Receivables	1,585,073	-	-	-	-	1,585,073
Sundry Debtors And Deposits	114,913	-	-	-	-	114,913
Deposits And Placements With						
Financial Institutions	6,491,770	-	-	-	-	6,491,770
Cash And Bank Balances	829,056	-	-	-	-	829,056
	75,763,616	-	-	12,216	-	75,775,832

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Financial assets exposed to credit risk individually assessed as impaired

An analysis of financial assets individually assessed as impaired as well as the movements on the impairment allowance during the year are as follows:

	2017		
	Allowances As At 1 January RM'000	Allowances Made During The Year RM'000	Allowances As At 31 December RM'000
Group			
Available-For-Sale	7,031,724	1,123,253	8,154,977
	7,031,724	1,123,253	8,154,977
KWAP			
Available-For-Sale	7,031,724	1,123,253	8,154,977
	7,031,724	1,123,253	8,154,977
	2016		
	Allowances As At 1 January RM'000	Allowances Made During The Year RM'000	Allowances As At 31 December RM'000
Group			
Available-For-Sale	4,555,123	2,476,601	7,031,724
	4,555,123	2,476,601	7,031,724
KWAP			
Available-For-Sale	4,555,123	2,476,601	7,031,724
	4,555,123	2,476,601	7,031,724

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk of difficulty to fulfil the financial obligations of the Group and KWAP due to the shortage of funds. Exposure to liquidity risk arises from the mismatch of maturities of financial assets and liabilities.

The Group and KWAP actively manage its debt maturity profile, operating cash flows and the availability of funding to ensure the fulfilment of all refinancing, repayment and funding requirements. As part of its overall prudent liquidity management, the Group and KWAP maintain a portfolio of highly liquid assets to meet its working capital and investment requirements.

In addition, the Group and KWAP maintain a balanced and flexible funding structure through the use of credit facilities, short as well as long term borrowings. Short term flexibility is achieved through credit facilities and short term borrowings.

The table below summarises the maturity profile of the Group's and of KWAP's financial liabilities based on contractual undiscounted repayment obligations.

Group	On Demand RM'000	Less Than 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	More Than 5 Years RM'000	Total RM'000
31 December 2017						
Financial Liabilities						
Derivatives Financial Liabilities	–	–	158,807	–	–	158,807
Trade Payables	1,280,490	–	–	–	–	1,280,490
Borrowings	–	256,068	–	1,512,935	–	1,769,003
Other Payables And Accruals	192,852	–	–	–	–	192,852
Total Undiscounted Financial Liabilities	1,473,342	256,068	158,807	1,512,935	–	3,401,152

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(e) Liquidity risk (continued)

KWAP	On Demand RM'000	Less Than 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	More Than 5 Years RM'000	Total RM'000
31 December 2017						
Financial Liabilities						
Derivatives Financial Liabilities	-	-	143,067	-	-	143,067
Trade Payables	1,257,332	-	-	-	-	1,257,332
Borrowings	-	-	-	-	-	-
Other Payables And Accruals	124,133	-	-	-	-	124,133
Total Undiscounted Financial Liabilities	1,381,465	-	143,067	-	-	1,524,532

Group	On Demand RM'000	Less Than 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	More Than 5 Years RM'000	Total RM'000
31 December 2016						
Financial Liabilities						
Derivatives Financial Liabilities	-	-	787,848	-	-	787,848
Trade Payables	479,956	-	-	-	-	479,956
Borrowings	-	-	-	1,602,904	-	1,602,904
Other Payables And Accruals	156,309	-	-	-	-	156,309
Total Undiscounted Financial Liabilities	636,265	-	787,848	1,602,904	-	3,027,017

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. FINANCIAL RISK (CONTINUED)

(e) Liquidity risk (continued)

KWAP	On Demand RM'000	Less Than 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	More Than 5 Years RM'000	Total RM'000
31 December 2016						
Financial Liabilities						
Derivatives Financial Liabilities	-	-	748,990	-	-	748,990
Trade Payables	461,993	-	-	-	-	461,993
Borrowings	-	-	-	-	-	-
Other Payables And Accruals	74,280	-	-	-	-	74,280
Total Undiscounted Financial Liabilities	536,273	-	748,990	-	-	1,285,263

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

- (a) Fair value of financial instruments by classes that are not carried at fair value whereby the carrying amounts are approximation of the fair value

Group	2017		2016	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial Assets				
Loans And Receivables	15,359,987	15,359,987	15,137,802	15,137,802
Financial Liabilities				
Borrowings	1,769,003	1,769,003	1,602,904	1,602,904

KWAP	2017		2016	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial Assets				
Loans And Receivables	16,193,999	16,193,999	15,529,697	15,529,697

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair value

(i) Cash and cash equivalents, receivables and payables

The carrying amounts of the above financial assets and liabilities are determined based on the reasonable approximation of fair value due either to the short term nature or being repayable on demand.

(ii) Available-For-Sale Financial Assets

a. Quoted shares

The fair value of quoted shares is directly determined by reference to the published market bid prices at the reporting date.

b. Unquoted shares

The fair value of unquoted shares is estimated using the discounted cash flow model based on various assumptions, including the current and expected credit losses, market rates of interest and assumptions in relation to market liquidity.

c. Bonds

The fair value of bonds is directly determined by reference to the published market bid prices at the reporting date.

(ii) Loans receivable

The fair value of loans receivables is estimated by the discounting of the estimated future cash flows using the current interest rates for financial assets with similar risk profile.

(iii) Other loans and borrowings

The carrying amount of the current portion of other loans and borrowings is based on the reasonable approximation of fair value due to the significant impact of discounting.

The carrying amount of certain other loans and borrowings is based on the reasonable approximation of fair value due to their nature being floating rate instruments re-priced to the market interest rates near the reporting date.

The fair value of non-current other loans and borrowings, other than the floating rate instruments, is estimated by the discounting of the expected future cash flows at the market incremental lending rate for similar types of borrowings at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair value (continued)

(iv) Financial Assets at Fair Value Through Profit Or Loss

a. Quoted bonds

The fair value of quoted bonds is directly determined by reference to the published market bid prices at the reporting date.

b. Unquoted bonds

The fair value of unquoted bonds is estimated using the discounted cash flow model based on various assumptions, including the current and expected credit losses, market rates of interest and assumptions in relation to market liquidity.

(v) Derivative Financial Assets and Liabilities

a. Forward contracts

The fair value of forward contracts is determined using the observable exchange rates from publicly available sources and through the extrapolation and interpolation techniques.

b. Cross currency swaps

The fair value of cross currency swaps is determined by discounting the anticipated future cash flows using the standard market interest rate yield curves developed from observable and publicly available quoted rates.

(c) Fair value hierarchy

The Group and KWAP employ the following hierarchy for the determination and disclosure of the fair value of financial instruments by valuation techniques:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Techniques whereby all inputs with significant effect on the recorded fair value is either directly or indirectly observable; and

Level 3: Techniques whereby inputs with significant effect on the recorded fair value is not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

As at 31 December 2017, the Group and KWAP held the following financial instruments carried at fair value in the Statement of Financial Position:

	31 December 2017			
	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group				
Financial Assets				
Available-For-Sale Financial Assets	110,006,562	58,210,227	48,829,180	2,967,155
Fair Value Through Profit Or Loss Investments	823,786	-	346,967	476,819
Derivatives Financial Assets	539,181	-	539,181	-
Deposits With Licensed Banks	6,684,323	-	-	6,684,323
Receivables, Deposits And Prepayments	2,680,623	-	-	2,680,623
Cash And Bank	1,249,259	-	-	1,249,259
	121,983,734	58,210,227	49,715,328	14,058,179
Financial Liabilities				
Borrowings	1,769,003	-	-	1,769,003
Payables And Accruals	1,473,342	-	-	1,473,342
Derivatives Financial Liabilities	158,807	-	158,807	-
	3,401,152	-	158,807	3,242,345
KWAP				
Financial Assets				
Available-For-Sale Financial Assets	110,006,562	58,210,227	48,829,180	2,967,155
Fair Value Through Profit Or Loss Investments	823,786	-	346,967	476,819
Derivatives Financial Assets	539,181	-	539,181	-
Deposits With Licensed Banks	6,678,292	-	-	6,678,292
Receivables, Deposits And Prepayments	2,639,996	-	-	2,639,996
Cash And Bank	1,046,361	-	-	1,046,361
	121,734,178	58,210,227	49,715,328	13,808,623
Financial Liabilities				
Borrowings	-	-	-	-
Payables And Accruals	1,381,465	-	-	1,381,465
Derivatives Financial Liabilities	143,067	-	143,067	-
	1,524,532	-	143,067	1,381,465

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

Group	Total RM'000	31 December 2016		
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Financial Assets				
Available-For-Sale Financial Assets	95,204,535	75,420,288	17,748,989	2,035,258
Fair Value Through Profit Or Loss Investments	1,746,400	1,711,400	-	35,000
Derivatives Financial Assets	7,412	-	7,412	-
Deposits With Licensed Banks	6,491,770	-	-	6,491,770
Receivables, Deposits And Prepayments	1,712,546	-	-	1,712,546
Cash And Bank	1,046,824	-	-	1,046,824
	106,209,487	77,131,688	17,756,401	11,321,398
Financial Liabilities				
Borrowings	1,609,188	-	-	1,609,188
Payables And Accruals	636,265	-	-	636,265
Derivatives Financial Liabilities	787,848	-	787,848	-
	3,033,301	-	787,848	2,245,453
KWAP				
Financial Assets				
Available-For-Sale Financial Assets	95,204,535	75,420,288	17,748,989	2,035,258
Fair Value Through Profit Or Loss Investments	1,746,400	1,711,400	-	35,000
Derivatives Financial Assets	7,412	-	7,412	-
Deposits With Licensed Banks	6,491,770	-	-	6,491,770
Receivables, Deposits And Prepayments	1,699,986	-	-	1,699,986
Cash And Bank	829,056	-	-	829,056
	105,979,159	77,131,688	17,756,401	11,091,070
Financial Liabilities				
Borrowings	-	-	-	-
Payables And Accruals	536,273	-	-	536,273
Derivatives Financial Liabilities	748,990	-	748,990	-
	1,285,263	-	748,990	536,273

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Policy of transfer between levels

The fair value of an asset to be transferred between levels is determined by the Group and KWAP as of the date of the event or change in circumstances which resulted in the transfer. There were no transfers between the Level 1 and Level 2 fair value measurements during the financial year.

(e) Reconciliation of Level 3 fair valuation

The reconciliation of the opening and closing balances of the Level 3 financial instruments, including movements is summarised below:

	Available-For-Sale Financial Assets Unquoted Shares RM'000
At 1 January 2017	2,035,258
Additional	621,130
Impairment	(8,405)
Net Fair Value Gain Recognised In Other Comprehensive Income	204,244
At 31 December 2017	2,852,227

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Sensitivity analysis

Sensitivity analysis of the Level 3 fair valuation is as follows:

	Group Effect On Equity RM'000	KWAP Effect On Equity RM'000	Group Effect On Profit Before Tax RM'000	KWAP Effect On Profit Before Tax RM'000
2017				
Available-For-Sale				
Increase Of 5% In Equity Price	2,916,235	2,916,235	-	-
Decrease Of 5% In Equity Price	(2,916,235)	(2,916,235)	-	-
Fair Value Through Profit Or Loss				
Increase Of 5% In Equity Price	-	-	374	374
Decrease Of 5% In Equity Price	-	-	(374)	(374)
2016				
Available-For-Sale				
Increase Of 5% In Equity Price	101,763	101,763	-	-
Decrease Of 5% In Equity Price	(101,763)	(101,763)	-	-
Fair Value Through Profit Or Loss				
Increase Of 5% In Equity Price	-	-	1,750	1,750
Decrease Of 5% In Equity Price	-	-	(1,750)	(1,750)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

31. RELATED PARTY TRANSACTIONS

The related parties and their relationship with the Group and KWAP are as follows:

Related Parties	Relationships
Harta Integra Berkat Sdn Bhd	Subsidiary
KWEST Sdn Bhd	Subsidiary
Capsquare Tower Sdn Bhd	Subsidiary
KWAP Managed Investment Trust	Subsidiary
KWAP Managed Investment Trust 2	Subsidiary
KWAP Managed Investment Trust 3	Subsidiary
KWAP Managed Investment Trust 4	Subsidiary
Prima Ekuiti (UK) Limited	Subsidiary
Prima Harta (Jersey) Unit Trust	Subsidiary
Prima Harta 2 (Jersey) Unit Trust	Subsidiary
Prima Harta 3 (Lux) Sàrl	Subsidiary
ValueCap Sdn Bhd	Associate
Malakoff Corporation Bhd	Associate
Prestariang Bhd	Associate
Persada Mentari Sdn Bhd	Associate
Vortex Solar Investments Sàrl	Associate
Tap Crunch International Sdn Bhd	Joint venture
Tap Crunch Sdn Bhd	Joint venture

Subsidiaries, associates and joint ventures

The information above is consistent with the list of subsidiaries, associates and joint ventures of the Group and KWAP as set out in Note 10, Note 11 and Note 12, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Significant Related Party Balances and Transactions

	KWAP			
	Subsidiaries		Associates	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Net Income				
Interest Income	32,212	21,554	–	–
Management Fee	3,267	10,562	–	–
Administrative Fee	93	93	–	–
Dividend On Income	457,185	407,291	26,672	23,418
Rental Income	13,674	–	–	–
	506,431	439,500	26,672	23,418
Amount Due From				
Trade Receivables	16,686	14,467	–	–
	16,686	14,467	–	–
Amount Due To				
Other Payables And Accruals	20,188	3,019	–	–
	20,188	3,019	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Between KWAP and The Government of Malaysia And Entities Related to The Government Of Malaysia

KWAP is an agency under the Ministry of Finance that reports directly to the Federal Government of Malaysia.

The significant transactions between KWAP and the Government of Malaysia and other entities controlled by the Government are as follows:

	KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Interest Income And Profit On Investments	2,133,229	1,475,098
Purchase Of Malaysian Government Securities And Bonds	10,324,343	18,419,899
Sale Of Malaysian Government Securities And Bonds	12,956,659	14,986,827
Repayment Of Loans	673,405	49,000

Key management personnel

Key management personnel are defined as the Board and senior management of KWAP whereby their remuneration are included as part of staff costs.

	Group		KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000	31 December 2017 RM'000	31 December 2016 RM'000
Wages, Salaries, Honorarium And Remuneration	12,353	7,682	12,104	7,433
Statutory Contribution To Employees Provident Fund	2,230	1,940	2,158	1,868
Long Term Incentive Plan	–	3,946	–	3,793
	14,583	13,568	14,262	13,094

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

32. OPERATING LEASES

Group and KWAP as lessee

The Group and KWAP lease the office space in the Cyberview Tower 12A for its Pension Services operations. The lease is for a three (3) year period commencing from 1 April 2016 at a fixed rate. The future minimum operating lease rentals payable are as follows:

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Less Than One Year	3,537	3,537
More Than One Year	884	4,421
	4,421	7,958

33. CAPITAL COMMITMENT

	Group and KWAP	
	31 December 2017 RM'000	31 December 2016 RM'000
Computer Software	10,573	28,495
Office Renovation	–	189
	10,573	28,684

34. EVENT AFTER REPORTING DATE

On 14 February 2018, the restructuring of loan to Syarikat Perumahan Negara Berhad via the Commodity Murabahah Term Financing-i (CMTF-i) programme amounted to RM530.30 million has been completed.



APPENDIX

294 Glossary of Terms

298 Contact Details

GLOSSARY OF TERMS

BNM

Bank Negara Malaysia

Bank Negara Malaysia (BNM) is the Malaysian central bank. Established on 26 January 1959 as the Central Bank of Malaya (Malay: Bank Negara Tanah Melayu), its main purpose is to issue currency, act as banker and adviser to the Government of Malaysia and regulate the country's credit situation.

BREXIT

British Exit

Abbreviation of "British Exit", which refers to Britain's withdrawal from the European Union.

BCP

Business Continuity Plan

Business Continuity Planning is the outcome of a BCM process and defines how the organisation will react in the aftermath of a crisis or disaster.

BCM

Business Continuity Management

Business Continuity Management is a management process that identifies events that threaten an operation and provides a framework for building resilience and the capability for an effective response to safeguard the interests of key stakeholders, and ensure business continuity in the aftermath of expected disaster.

CCS

Cross Currency Swap

An agreement between two parties to exchange interest payments and principal on loan denominated in two different currencies.

CRP

Corporate Risk Profile

Corporate Risk Profile is a reporting tool that summarises the key risk faced by a corporation or enterprise in order of severity of impact and probability of occurrence.

CSR

Corporate Social Responsibility

Corporate Social Responsibility is a form of corporate self-regulation integrated into a business model. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, employees, communities, stakeholders, and all other members of the public sphere.

DR

Disaster Recovery

Disaster Recovery is the process, policies, and procedures related to preparing for recovery or continuation of technology infrastructure critical to an organisation after a natural or human-induced disaster. Disaster recovery is a subset of business continuity. While business continuity involves planning for keeping all aspects of a business functioning in the midst of disruptive events, disaster recovery focuses on the IT or technology systems that support business functions.

EM

Emerging Market

Emerging Markets are nations with social or business activity in the process of rapid growth and industrialisation. As at 2010, there were more than 40 emerging markets in the world, with the economies of China and India considered to be the largest.

EPF

Employees Provident Fund

Employees Provident Fund (EPF), also known as Kumpulan Wang Simpanan Pekerja, was formally founded after enactment of Employees Provident Fund Act 1991 (Act 452), which grants employees retirement benefits via a body that is intended to manage their savings.

ERM**Enterprise Risk Management**

Enterprise Risk Management (ERM) in business includes the methods and processes used by organisations to identify, assess and manage risks related to the organisation and its goals.

ESG**Environment, Social and Governance**

Environmental, social and governance (ESG) refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of a company or business. Within these areas are a broad set of concerns increasingly included in the non-financial factors that figure in the valuation of equity, real-estate, corporate, and fixed-income investments. ESG is the catch-all term for criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases, govern how asset managers invest in portfolios.

GCSP**Global Custodial Service Provider**

A Global Custodial Service Provider, usually a bank or non-bank financial institution, processes cross-border securities trades, keeps financial assets safe and services the associated portfolios.

GDP**Gross Domestic Product**

Gross Domestic Product (GDP) refers to the market value of all goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

GDS**Government Debt Securities****GII****Government Investment Issue****GST****Government Service Tax**

Government Service Tax is a multi-stage consumption tax on goods and services. It is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution.

HEDGE

A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offset position in a related security.

HR**Human Resource**

Human Resource is the name of the function within an organisation charged with overall responsibility for implementing strategies and policies relating to the management of staff.

ICP**Incident Communication Plan**

Incident Communication Plan is crafted to provide a structured communication plan for an organisation when faced with a crisis or an incident where time and resources are limited. It functions as a guide to follow through during a crisis or an incident to ensure that crucial or critical information is communicated to relevant parties, efficiently and effectively in a timely manner.

ICT**Information and Communication Technology**

Information and Communication Technology consists of all technical means used to handle information and aid communication, including computer and network hardware, communication middleware as well as necessary software.

IFIMS**Integrated Fund Investment Management System****IMP****Incident Management Plan**

GLOSSARY OF TERMS

IPG

Investment Policy and Guidelines

Investment Policy and Guidelines serve to clearly communicate to all relevant parties the procedures, investment philosophy, guidelines and constraints to be adhered to by the parties.

IRS

Interest Rate Swap

An exchange of one set of cash flows (based on internet rate specifications) for another. It is often an exchange of a fixed payment for a floating payment that is linked to interest rate.

IT

Information Technology

Information technology is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

KWAP

Kumpulan Wang Persaraan (Diperbadankan)

Kumpulan Wang Persaraan (Diperbadankan) was formed on 1 March 2007 to replace the Pension Trust Fund.

KWSG

Kumpulan Wang Simpanan Guru

LTAT

Armed Forces Fund Board

Armed Forces Fund Board or Lembaga Tabung Angkatan Tentera, better known as LTAT, was established in August 1972 by an Act of Parliament.

LEED CERTIFICATION

Leadership in Energy and Environmental Design Certification

Leadership in Energy and Environmental Design (LEED) is one of the most popular green building certification programmes used worldwide.

MOF

Ministry of Finance

MPC

Monetary Policy Committee

OPEC

The Organisation of Petroleum Exporting

The Organisation of Petroleum Exporting Countries consisting of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.

OPR

Overnight Policy Rate

Overnight Policy Rate is an overnight interest rate set by BNM used for monetary policy direction. It is the target rate for the day-to-day liquidity operations of the BNM.

ORE

Operational Risk Event

Operational Risk Events arise from failure of the people, systems or processes in an organisation.

PDS

Private Debt Securities

PSD

Public Service Department

RENTAS

Real Time Electronic Transfer of Funds and Securities

RMC

Risk Management Committee

Risk Management Committee is a Board level committee consisting of Board members who carry out the risk oversight role in an organisation.

RMCD

Risk Management and Compliance Department

Risk Management and Compliance Department is a department entrusted to manage an organisation's risk and ensure compliance within the organisation.

ROI**Return on Investment**

Return on Investment is the ratio of realised income gained or lost against the average fund size (at cost) for the year.

SAA**Strategic Asset Allocation**

The primary goal of a strategic asset allocation is to create an asset mix that will provide an optimal balance between expected risk and returns for a long-term investment horizon.

SDL**Single Depositor Limit**

Limit as to the maximum an organisation is allowed to place a deposit with a single deposit taking institution e.g: banks.

SOC SO**Social Security Organisation**

SOC SO's function includes registration of employers and employees, collecting contributions, processing benefit claims, and making payments to injured workers and their dependents. SOC SO also provides vocational and physical rehabilitation benefits and enhances occupational safety and health awareness of workers.

SUKUK

Islamic bonds, structured in a way to generate returns without infringing Islamic law which prohibits interest or riba. Sukuk represents undivided shares in the ownership of tangible assets relating to particular projects or investment activity.

THE STUDY**Pension Liability Study**

A joint study conducted by KWAP, MOF and PSD to identify options available for KWAP to assist the Federal Government of Malaysia in funding its future pension liability.

TAA**Tactical Asset Allocation**

It is a method in which an investor takes a more active approach to position a portfolio into those assets, sectors or individual stocks that show the most potential for gains.

TE**Tracking Error**

Tracking Error measures the deviation of excess return of a portfolio over the benchmark.

TWRR**Time Weighted Rate of Return**

Time Weighted Rate of Return is a measure of return based on changes in values of investments over a specific time period.

TOTAL RETURN

Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time.

VaR**Value at Risk**

A risk metric used to estimate the quantum of loss to a portfolio over a given probability value within a pre-defined period.



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2007 Annual Report



2008 Annual Report



2009 Annual Report



2010 Annual Report



2011 Annual Report



2012 Annual Report



2013 Annual Report



2014 Annual Report



2015 Annual Report



2016 Annual Report

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