



A New Dawn

ANNUAL REPORT 2018



A NEW DAWN

For many, retirement brings fresh beginnings.
A new opportunity to sit back, relax, and enjoy
the activities they didn't have time for
when they were working.

As such, the concept for this annual report
celebrates life after retirement.
A new dawn made possible only by Kwap's
relentless efforts to ensure continued learning
and skills development amongst its retirees.
So they can enjoy their golden years
with financial security, comfort,
and meaningful fulfillment.

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, Februari, 2007
A. SAMAD SAID

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Datuk Ahmad Badri Mohd Zahir
Chairman

Message from the Chairman

It is an honour to present the Annual Report of Kumpulan Wang Persaraan (Diperbadankan) for the financial year ended 31 December 2018.

KWAP is not only impressive due to its size but also its prudent investment track record. This is reinforced by its performance in 2018, which continued to remain resilient despite various geopolitical challenges as well as macroeconomic pressures from both the global and domestic arenas. Sustained by sound principles of long-term investment, KWAP continued to contribute favourably to the pensioners' fund as a result of steady investment income registered in the period under review matching the momentum that soared to record levels in the preceding year. Significantly, the foundation further reinforced the position of KWAP as a steward of responsible investment while adding depth to its stakeholder engagement, especially with the stakeholder group that is most dear to us: ***civil service pensioners.***

Strategic Investment Support

The Board continued to play an active role in guiding KWAP's investment policies and procedures. Among the many advantages of managing a pension fund is its long-term perspective, offering KWAP enhanced flexibility in managing its risk appetite. This is something the Management has decided to do, with the Board's approval. Following a revised Investment Policy and Guidelines, we have agreed to the Investment Panel's proposal of broadening KWAP's risk appetite to enhance its risk-return exposure to investment classes that carry slightly higher risk profiles in order to increase our returns and grow the fund, as well as to explore more sub-asset classes, such as venture capital, for further portfolio diversification.

The revised Strategic Asset Allocation (SAA) is reflected and incorporated into the Investment Policy and Guidelines which the Board approved after receiving input from the Investment Panel. Inclusive of increased allocation for alternative asset classes, the SAA enabled the organisation to achieve admirable returns in a year that was challenging on the investment front.

The shift in our risk appetite is reflected in a new Risk Management Framework and Policy, which also takes into account a re-classification of our financial instruments in line with the newly implemented Malaysian Financial Reporting Standards (MFRS) 9. Adoption of the new standard has been a major exercise at KWAP, involving the review of numerous policies, which was undertaken by the Board Audit Committee.

Stronger Internal & External Governance

In addition to overseeing KWAP's investment performance, one of the Board's major concerns is to ensure a high level of governance within the organisation. By extension, we expect the companies in which we invest to also operate in a manner that is responsible to their various stakeholders. In this regard, KWAP has always observed shareholder activism by attending our investee companies' annual general meetings, and having regular engagements with their management.

In recent years, we have further intensified our role in shaping an increasingly more responsible corporate ecosystem by adopting environmental, social and governance (ESG) guidelines when making investment decisions. In 2015, KWAP became a signatory to the Malaysian Code for Institutional Investors. This was further strengthened in February 2018 when we also pledged our allegiance to the United Nations-supported Principles of Responsible Investment (PRI). As a signatory to the PRI, we commit to upholding six principles which promote widespread adherence to the tenets of ESG.

Stamping our stewardship in environmentally responsible investing, we organised KWAP's inaugural Inspire: Environmental Conference 2018 in July, which attracted no less than 450 representatives from a cross section of organisations, from corporate bodies to financial institutions, NGOs and government agencies. Given the success of the event, we hope it will inspire other organisations to emulate our effort and continue to organise this event annually.

Internally, in 2019, we will be reinforcing KWAP's own governance framework through the establishment of a governance and integrity function within management to ensure greater transparency and integrity in our operations across all levels in all departments.

Meaningful Stakeholder Engagement

Since taking over the function of serving pensioners from the Post Pension Services Division of the Federal Administration's Public Services Department (PSD) in 2015, KWAP has undertaken various initiatives to better understand the needs of retirees and those entering retirement. A landmark event in this regard was the Karnival Rasa Sayang, held in Ipoh in November 2018, to promote retirement preparedness and active ageing. The carnival was the first event of its kind to be held, allowing KWAP employees to interact directly with the people who are at the core of everything that we do. Not only has the carnival enabled us to engage in a more meaningful manner with pensioners, it also demonstrated KWAP's holistic approach to carrying out our functions.

Acknowledgements

The year 2018 marked KWAP's entry into our second decade of operations. While we are still a relatively young organisation, we have matured very rapidly as an investor, and an active ESG steward in the industry. This is the result of a forward-thinking leadership.

As such, I would like to express my sincere gratitude to each and everyone at KWAP for their contributions in shaping KWAP into the organisation that it is today. On behalf of the Board, I would also like to note our sincere appreciation of our former Chief Executive Officer (CEO) Dato' Wan Kamaruzaman Wan Ahmad, who initiated KWAP's transformation and steered the organisation through significant changes during his five-year tenure beginning in 2013.

At the same time, we would like to welcome Dato' Mohd Asri Hamidon @ Hamidin, who joined the Board on 27 October 2018 as a representative of the Ministry of Finance; and our new CEO Syed Hamadah Syed Othman, who brings with him many years of experience as an actuary.

I would also like to acknowledge the astute performance of our Board members and our Investment Panel, the able leadership of the entire Management team, and the dedication of all employees to the objectives of KWAP.

I have every confidence that, with the team we have here, we can achieve our vision of KWAP becoming the trusted retirement fund that supports nation building by innovatively delivering sustainable benefits.

To the entire KWAP family, once again, thank you. And to our stakeholders, especially pensioners, rest assured that we will continue to do our utmost to serve you to the best of our ability.



Datuk Ahmad Badri Mohd Zahir

Chairman

“Retirement is not an end goal, but a new stage in life with which to do all the things we never had time for. It’s a new dawn.”

Syed Hamadah Syed Othman
Chief Executive Officer



Message from the Chief Executive Officer

It is a pleasure and privilege to present this annual report as the new CEO of KWAP, a position I assumed as of 1 November 2018. A pleasure because, since its establishment in 2007, KWAP has maintained a steady path of prudent yet strategic growth; and a privilege because KWAP is Malaysia's largest public services pension fund, with a critical role in the safeguarding the retirement income of some 700,000 Malaysian pensioners who are now in their golden years.

The year 2018 was challenging on various fronts. Globally, geopolitical tensions due to Brexit, the ongoing US-China trade war and conflicts in the Gulf led to market volatilities, monetary tightening and

dampened trade, significantly impacting markets around the world, emerging economies and Malaysia included. While global growth slowed from 3.1% in 2017 to 3%, Malaysia's growth moderated from 5.9% to 4.7%. Our domestic economy was further impacted by the softening of the Ringgit and uncertainties surrounding the General Elections which saw a change in the Federal Administration, a first since the nation's independence in 1957.

Despite the above, KWAP achieved a gross investment income of RM7.06 Billion, the second highest in our history, while our time-weighted rate of return (TWRR) for one-, three- and five-year periods all exceeded our benchmarks by 0.17%, 1.09% and 1.66% respectively. Our total fund size stood at RM136.51 Billion at end 2018. The year under review also reflected the full adoption of the Malaysian Financial Reporting Standards (MFRS) 9 which replaces the existing MFRS 139.

2007-2018

Average Growth of Fund Size

10.49% p.a.

Average Gross Investment Income

RM6 Billion p.a.

Average Gross Return on Investment

6.23% p.a.

Investment Performance

KWAP continued to maintain a diversified portfolio of assets, both in Malaysia and internationally, to spread our risks and ensure sufficient liquidity. We are guided by our Strategic Asset Allocation (SAA), which is reviewed regularly to reflect changes in the investment environment, enabling us to optimise returns reflecting our risk tolerance. During the year, the SAA was revised to comprise 45% Equities, 40% Fixed Income and 15% Alternative Investments.

As of end 2018, we have RM58.21 Billion in Equities, representing 42.6% of our total assets. We realised a total income of RM1.91 Billion, of which 71% was from the domestic market. We outperformed the one-year rolling TWRR blended benchmark marginally by 0.17% whereas our five-year rolling TWRR stood at 1.87%, exceeding the blended benchmark by 2.55%.

From the RM69.48 Billion in Fixed Income investments, we generated total returns of RM3.37 Billion. Although our

allocation for Fixed Income has gradually reduced over the years, returns have increased. In 2018, for example, the five-year rolling TWRR for Fixed Income investments was 5.11%, which exceeded the blended benchmark by 0.69%. To protect the value of our international investments, we engaged in various hedging instruments such as Interest Rate Swaps (IRS), Foreign Exchange Forward contracts (FX Forward) and Cross-Currency Swaps (CCS).

Some performance highlights were seen in Alternative Investments, validating the decision to increase our exposure in the asset class. Significant income was derived from the divestment of Munchy Food Industries Sdn Bhd which generated a 33.2% internal rate of return after a holding period of 3.5 years. Meanwhile, we expanded our property portfolio and ventured into student accommodation in the UK while maintaining our strategy of acquiring retail complexes domestically. Combined, our Alternative Investments generated an income of RM648.5 million by the end of 2018.

Equity*

Total Market Value

RM58.21
Billion

Total Income

RM1.91
Billion

Alternative Investments

Fair Value

RM8.88
Billion

Total Income

RM648.5
Million

Fixed Income

Total Portfolio

RM69.48
Billion

Total Income

RM3.37
Billion

*As at 31 December 2018

Serving Pensioners Better

Since taking over pension services in 2015, KWAP has placed increasing focus on strengthening the efficiency of our operations. It gives me great pleasure to share that our team has continued to excel in carrying out its functions. The year saw us scoring 95.2% on our Service Level Agreement, exceeding the requirement of 90%. We also recorded higher productivity with a total of 83,914 transactions per employee as compared to 72,477 transactions per employee in 2017.

Just as we are reaping the benefits of digital technologies, we are also providing our pensioners the opportunity to use technology for added convenience. In 2017, we launched a mobile app that allows pensioners to access their personal information and get updates on the status of claims. In November 2018, we further enhanced the app's functionalities to include pensioners' medical records, modules on financial management, advisory services as well as an S.O.S feature which pensioners can use to identify their location and alert caretakers in the event of an emergency.



Inaugural Karnival Rasa Sayang, November 2018

Building a Stronger ESG Platform

KWAP continues to internalise good environmental, social and governance (ESG) practices across our business and operations while encouraging our investee companies to do the same.

Underlining our commitment to ESG, KWAP became the first pension fund in Malaysia to be a signatory to the United Nations-supported Principles of Responsible Investment (PRI) organisation. With the signing, we are now part of PRI's global network of policymakers who are working to further improve corporate governance and build a sustainable financial system for responsible investment.

In demonstrating KWAP's commitment to protecting the environment, we have begun investing in green tech companies. In 2018, moreover, we collaborated with the World Wide Fund for Nature (WWF) to host the inaugural KWAP Inspire: Environmental Conference. The regional conference, which attracted 456 delegates and 22 international speakers, was the first of its kind in Malaysia, providing a platform on which to create awareness of the importance of environmental sustainability among the investment and business communities.

We take pride in being recognised for our ESG efforts as KWAP emerged as the Asia Pacific ESG Champion at the AsianInvestor Institutional Excellence Awards 2018 held in Singapore.

Looking Forward

The global and domestic economies look set to continue to be challenging in 2019. Yet, I have every confidence that the strong team we have at KWAP, together with sound policies and strategic investment will see KWAP remain steadfast in safeguarding a sustainable pension system and delivering positive returns to our stakeholders.

Two key focus areas going forward are to maintain a sound investment strategy, and to further strengthen our governance framework. The former will see us enhance our risk management capabilities while the latter will involve setting up a governance or integrity function within KWAP.



AsianInvestor Institutional Excellence Award 2018

Our people are key to our ongoing success, and there are plans in the pipeline to grow as well as reward them. These include upskilling programmes and extending our KWAP Talent Pool programme. We also seek to establish a Talent Hub to serve as a platform on which our own retirees can continue to contribute to the fund via mentorship, project management and the provision of advisory services, among others. We have a rich repository of knowledge and skills within the organisation, which serves as a means to ensure we do not lose any intellectual capital should our experienced talent leave us.

While looking forward to a busy and successful year ahead, I would like to take this opportunity to thank the Board of Directors for the trust they have placed in me to helm the country's public service pension fund. I will do my best to live up to your expectations. I would also like to extend my appreciation to Dato' Wan Kamaruzaman Wan Ahmad, who had led the fund for five years and began the process of transforming it to be relevant to the current corporate landscape.

Most of all, my gratitude goes to all our employees, who have worked diligently over the years, enabling us to achieve the many successes we have. KWAP certainly has developed tremendously over the last 11 years, but I believe there is much more that we can do. With your continued collaboration and cooperation, we can play an even bigger role in nation building as we help Malaysian pensioners truly enjoy the dawn of their golden years.



Syed Hamadah Syed Othman
Chief Executive Officer



CHAPTER 1

Rising to Every Occasion

It is said that change is the only constant.
2018 was certainly a year of change.

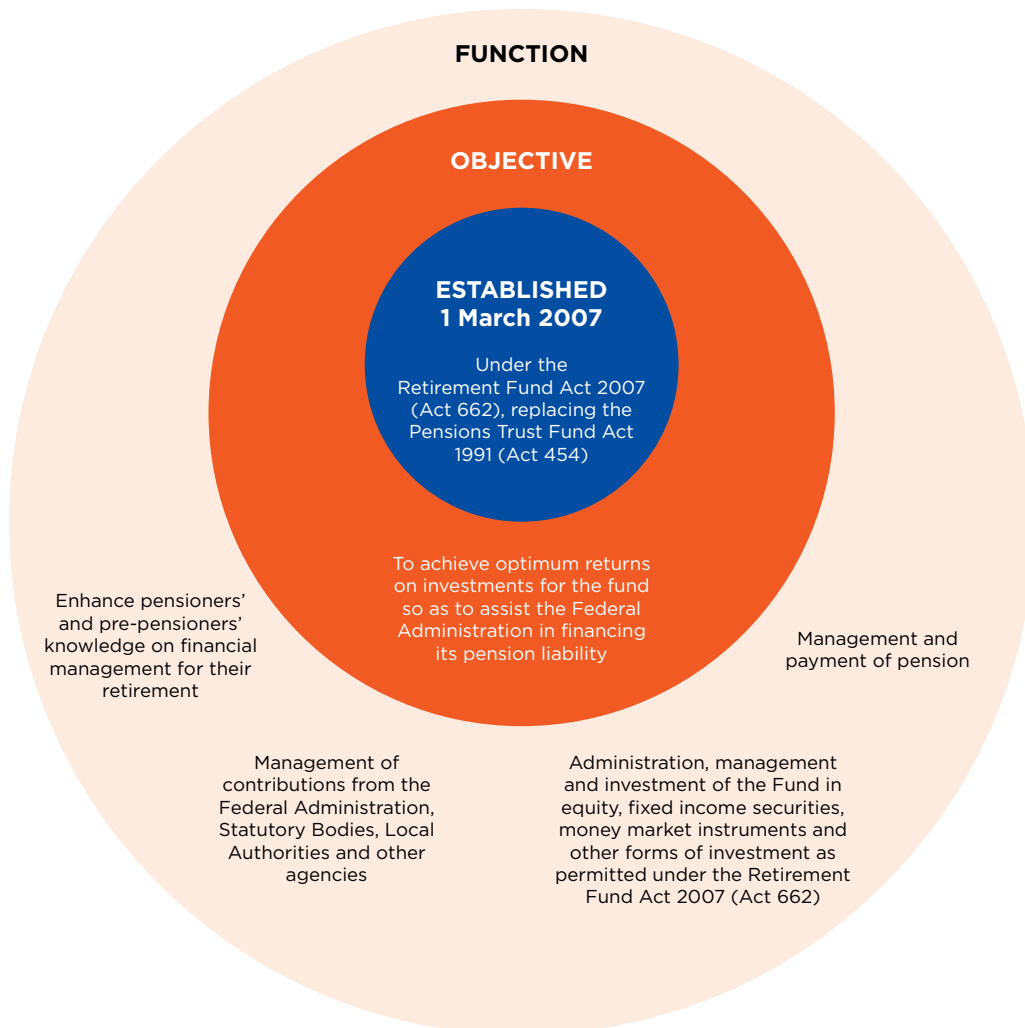
Through all the ups and downs, however,
our people managed to respond strategically
to changing market conditions
in order to maximise returns.

1.1 ABOUT KWAP

Our Role & Objectives



KWAP is the long-term investment manager of Malaysia's pension fund for civil servants. We manage contributions from the Federal Administration and relevant agencies to obtain maximum returns through sound management and investment. In 2015, KWAP also officially took over the Public Services Department (PSD)'s Post Pension Services Division roles, for pension payment, gratuities and other benefits.

At KWAP, our aim is to empower retirees with not only wealth through prudent and strategic investments, but also to enable them to achieve a better quality of life through programmes that facilitate more meaningful retirement.



1.1 ABOUT KWAP

KWAP within 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 investment management	Manage members' accounts	Manage financial administration and payment
Pensionable Civil Service	Treasury <ul style="list-style-type: none">• Financial impact calculation• Approve EPU policies• Develop and review policies	<div>Appointed Agent by the Federal Administration</div> <div></div>				
	PSD Develop and review policies					
Armed Forces	MINDEF Develop and review policies	LTAT <ul style="list-style-type: none">• Collection of contribution from armed forces personnel and the Federal Administration• Calculation of LTAT refund to KWAP <div></div>	Veterans Affairs (MINDEF) <ul style="list-style-type: none">• Communicate with retirees• Benefits calculation• Disbursement of withdrawals• Transfer of refunds to KWAP <div><ul style="list-style-type: none">• Communication with active members• Administration of members' account balance</div>			
Private Sector and Non-pensionable Civil Service	EPF Provide policy input	<div></div>				

Legend:

Treasury: Treasury, Ministry of Finance **PSD:** Public Services Department **MINDEF:** Ministry of Defence
LTAT: Armed Forces Fund Board **EPF:** Employees Provident Fund

1.1 ABOUT KWAP

Our Vision & Mission

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.



1.1 ABOUT KWAP

Our Core Values

Our core values guide the way we conduct ourselves and our business.



Leadership

We believe the ability to lead yourself and others will help all of us improve as individuals and as an organisation.



Excellence & Achievement

We believe in achievements attained through excellence in what we do.



Teamwork

We believe in working together to provide efficient and effective results for our stakeholders. We also learn from each other in the process.



Stakeholder Orientation

We focus on all of our stakeholders in what we do. Nobody is left behind.



Accountability

We believe in being accountable and responsible in our actions, as taking ownership in our actions and putting forth our best effort is of value to us.



Continuous Learning & Innovation

We believe in being innovative in what we do, and constantly learn from the various challenges encountered and achievements attained.

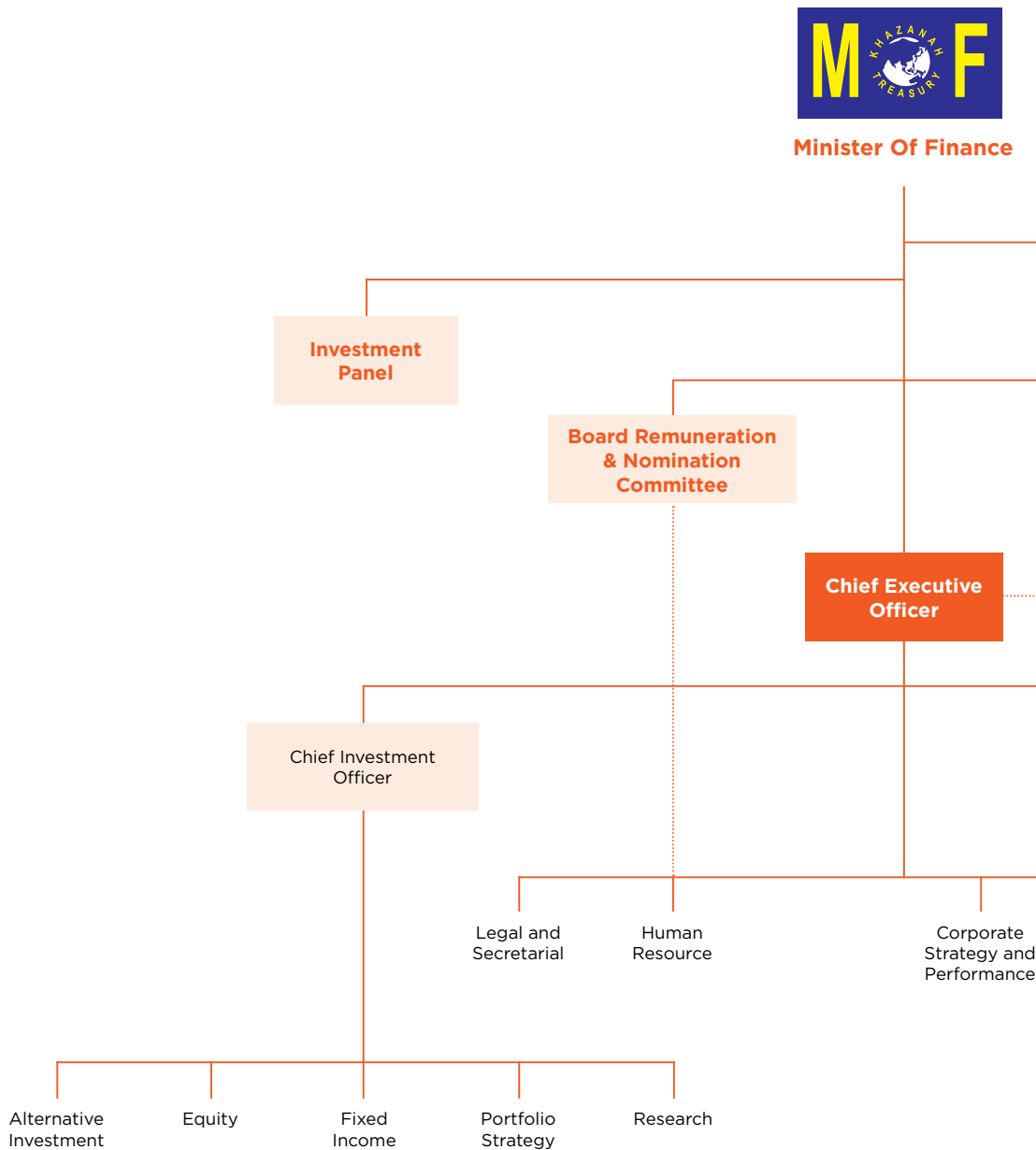


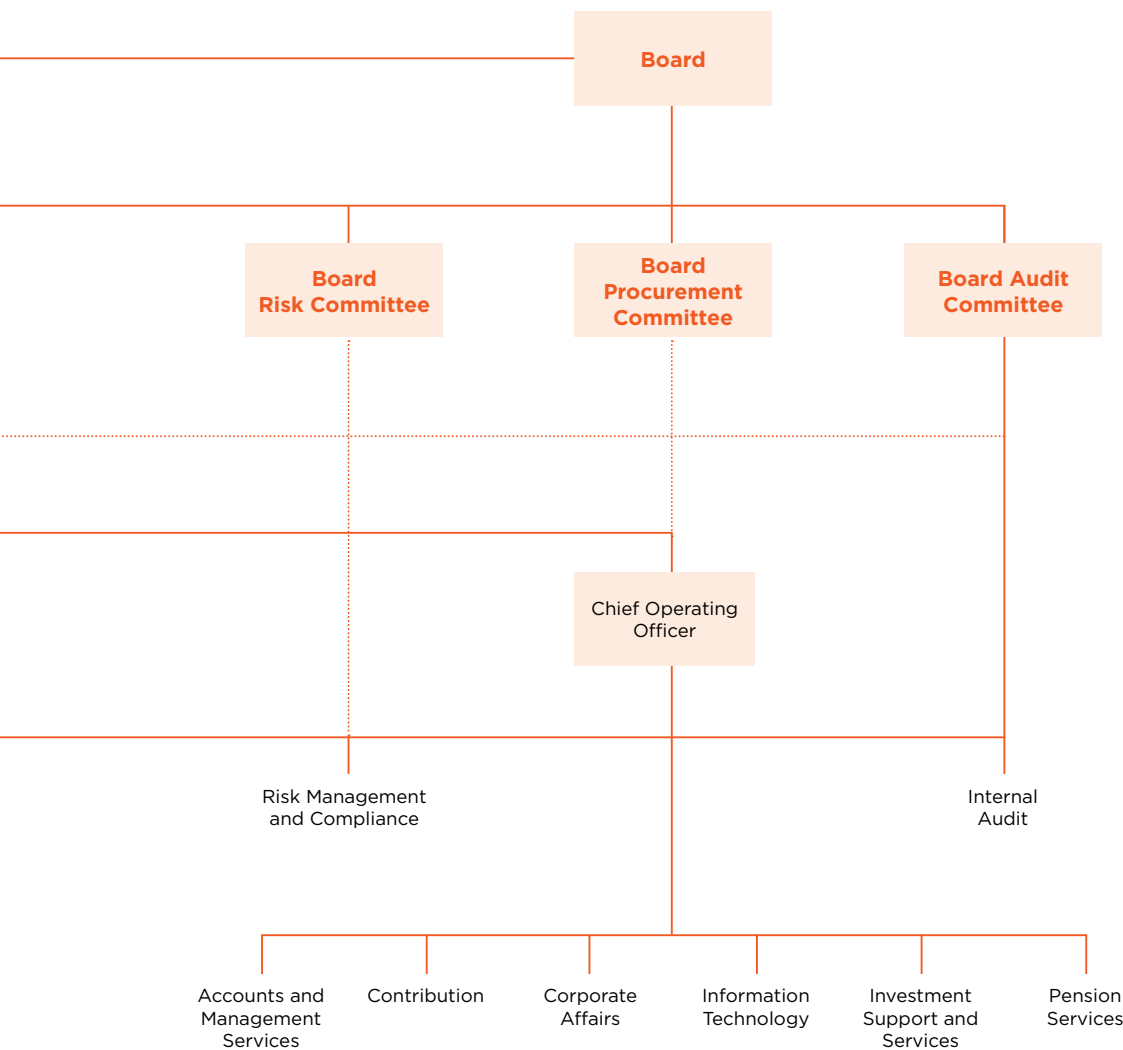
Integrity

We value strong morals and principles amongst our people, at all times. Always do the right thing, even when no one is watching.

1.1 ABOUT KWAP

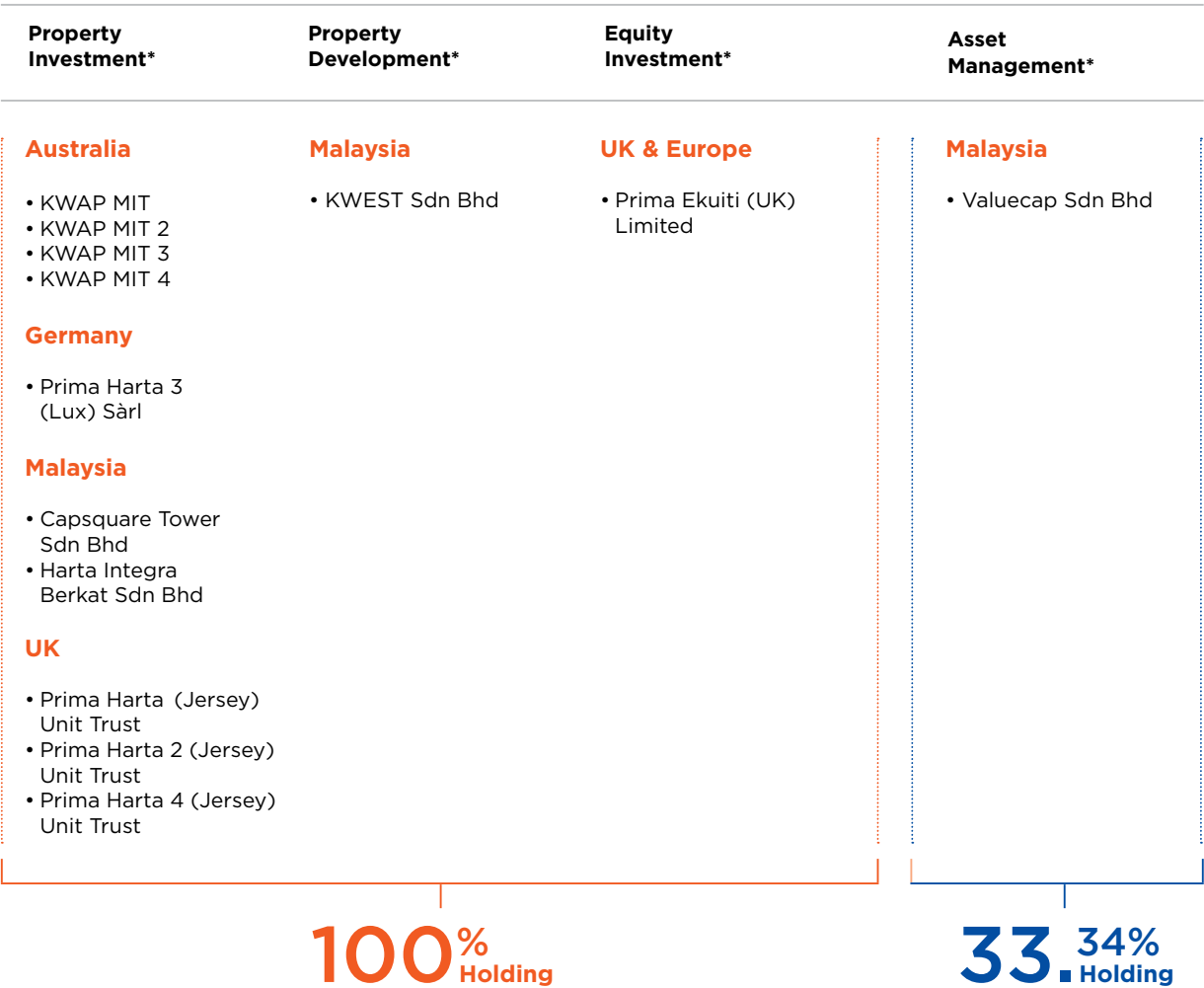
Organisation Structure





1.1 ABOUT KWAP

Company Structure



* These are investment platforms. It does not represent the perceived investment functions.

1.2 KWAP 2018

5-year Financial Summary

	2014	2015	2016	2017	2018
FUND SIZE AT COST (RM BILLION)	109.40	118.40	125.00	140.80	136.51
INCOME AND EXPENSES (RM)					
Gross Investment Income (Billion)	6.50	6.40	6.40	9.00	7.06
Operating Expenses (Million)	120.90	294.60	372.60	368.80	292.40
Net Investment Income (Billion)	4.80	4.40	4.80	8.80	1.20
INCOME AND EXPENSES (%)					
Gross Return on Investment (Gross ROI)	6.20	5.40	5.40	5.80	4.10
Accounting Rate of Return (Net ROI)	4.60	3.30	4.00	7.00	0.80
Operating Expenditure to Gross Income	1.90	4.60	5.90	4.10	4.10
Operating Expenditure to Average Fund	0.10	0.20	0.20	0.30	0.20
RETURN AND RISK (%)					
Time-Weighted Rate of Return	4.00	5.40	4.60	9.10	-1.30
Volatility	2.40	3.10	2.20	2.40	1.40
CONTRIBUTION (RM BILLION)					
Pension Contribution	2.87	2.80	3.00	3.00	2.90
Federal Contribution	1.50	0.10	0.40	0.50	0.50
INVESTMENT PORTFOLIO COMPOSITION					
AT COST (RM BILLION) DOMESTIC					
Equity	35.90	39.10	45.70	53.90	54.20
Corporate Bonds and Loans	28.00	31.40	29.10	30.40	28.00
Malaysian Sovereign Bonds	29.50	29.40	32.90	32.10	30.00
Money Market Deposits	5.00	5.90	6.70	7.10	9.40
Private Equity	1.20	0.10	0.10	0.60	0.60
Property	-	1.20	1.80	1.80	2.40
INTERNATIONAL					
Equity	4.20	5.40	6.90	8.30	10.20
Fixed Income	2.50	2.50	2.60	2.20	2.00
Private Equity	0.70	1.10	1.60	2.20	2.40
Property	3.70	3.90	2.60	2.90	2.60
MANAGEMENT OF FUND (%)					
Internally Managed	89.60	87.50	88.30	87.60	87.00
Externally Managed	10.40	12.50	11.70	12.40	13.00
Number of Contributing Employers	503	498	513	502	485
Number of Members	171,528	177,75	186,511	193,684	200,299
Number of KWAP Employees	255	529	592	591	603
Income Per Employee (RM Million)	25.40	12.20	15.30	15.30	11.70

1.3 KWAP 2018

2018 at a Glance: Business & Event Highlights



FEBRUARY

- UNPRI signing ceremony
- 1st in the region to be a signatory to the UN Principles of Responsible Investment (UNPRI)

- Operationalised KWEST Sdn Bhd (KWAP's property development arm)
- Projects include:
 - Seri Tanjung Pinang
 - Changkat Kia Peng



APRIL

- Divestment of Munchy's



- Flickers of Hope
- Mangrove tree planting in Sabak Bernam, Selangor
- KWAP Young Talent CSR project



AUGUST

- KWAP Sayang Pesara launch



SEPTEMBER

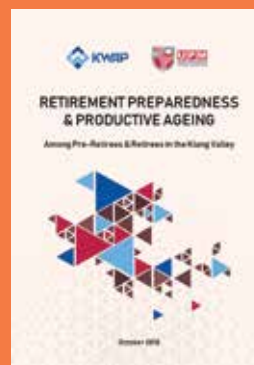
- Liter of Light 2.0



- 120 solar bulbs were installed in Kampung Ulu Tual A, Raub Pahang; and Kampung Batu 23, Tapah, Perak, benefiting 350 villagers

OCTOBER

- MyAgeing Research report



NOVEMBER

- Mantanani Island Volunteer Programme





MAY

JULY

- KWAP Charity Box for Rumah Ehsan & RUKESA



- KWAP Inspire Environmental Conference



- VIA²U employee engagement commences over a 5-month period
- Participation of a total of 574 employees

- Part of Sustainable Investment Week, a collaborative effort between KWAP, Securities Commission and Khazanah Nasional

AsianInvestor

DECEMBER

- KWAP Freemarket & Back-to-School Programme



- KWEST Talk Series on Rediscover Kuala Lumpur
- Leadership Series with Professor Mazlan Othman, Malaysia's first female astrophysicist

- ESG Champion in Asia Pacific

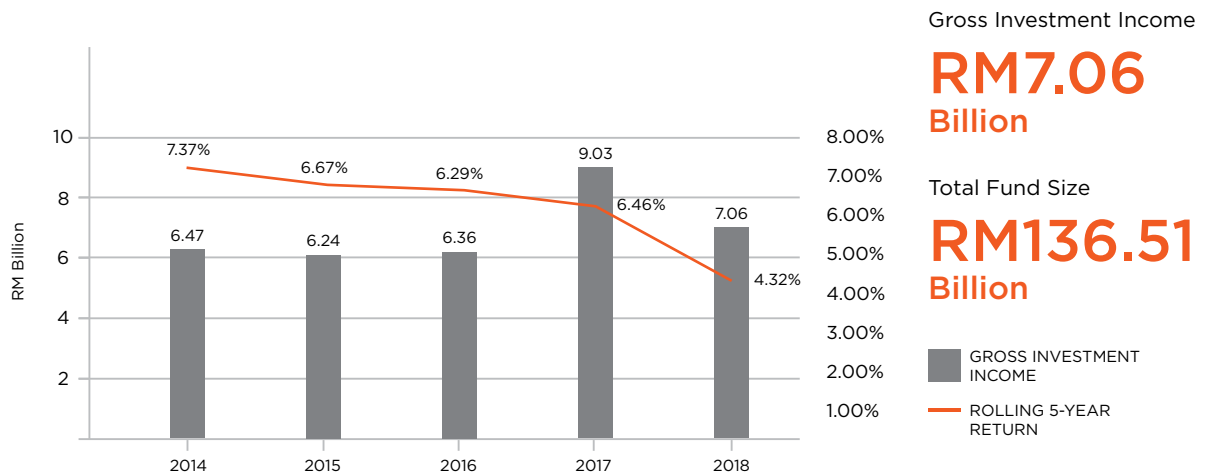


- KWAP won the Institutional Excellence Award 2018 under the category of proficiency in ESG capabilities

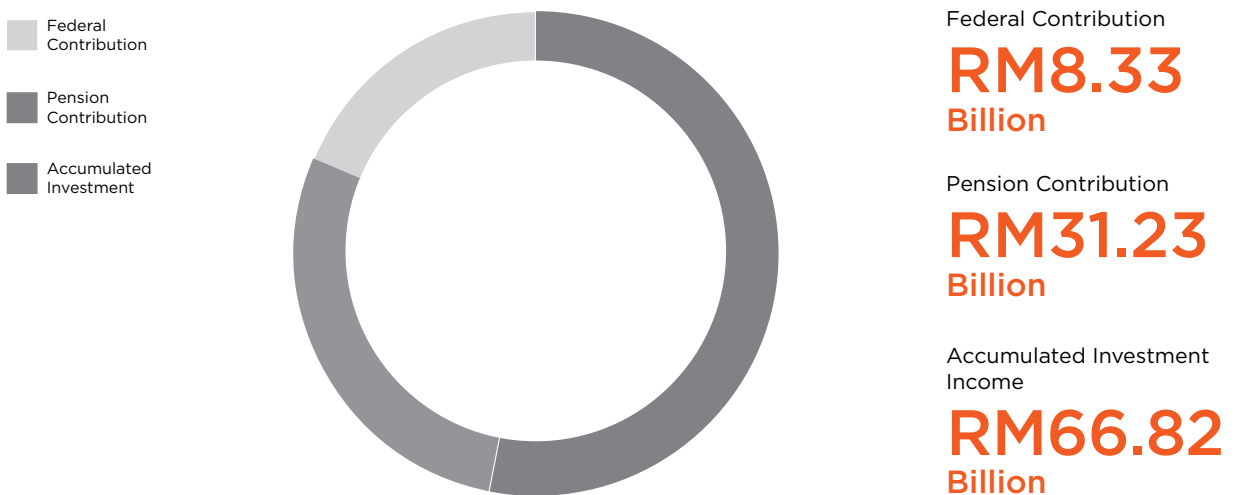
1.4 KWAP 2018

Performance Highlights

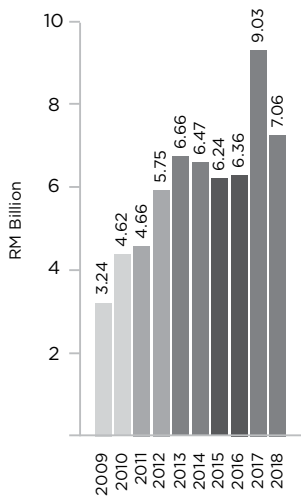
Rolling 5-Year Total Returns



Source of Fund: 2007-2018



Gross Investment Income



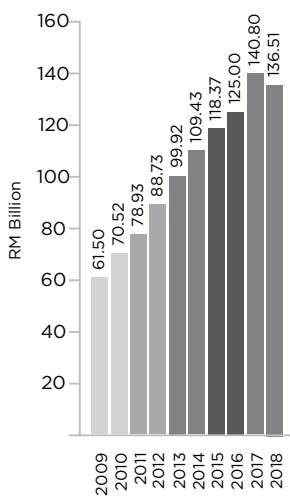
Gross Investment
Income in 2018

RM7.06
Billion

Average Gross
Investment Income
over 10 Years

RM6
Billion

Fund Size



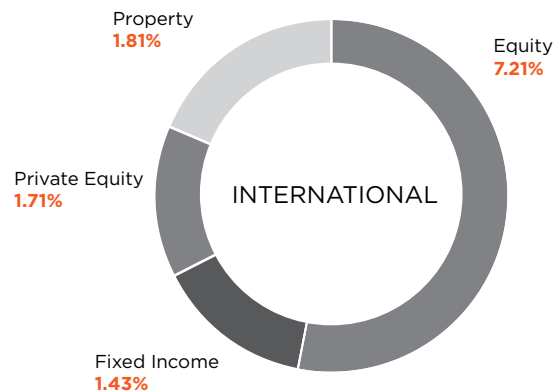
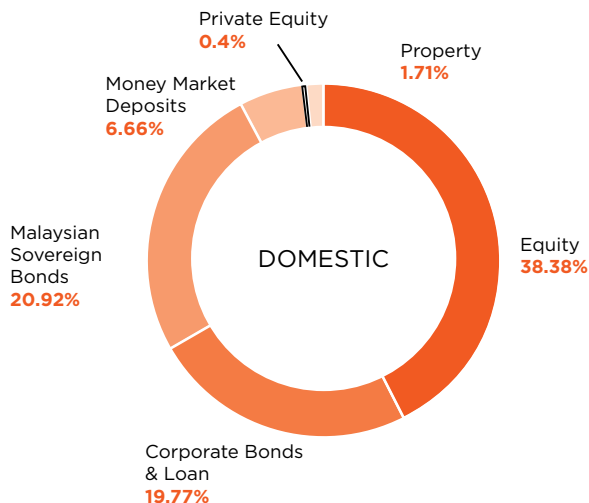
As of 31 December 2018

RM136.51
Billion

Average Fund Growth
over 10 Years

10.49%

Investment Portfolio Composition at Cost (in%)





CHAPTER 2

Stimulating Value for the Golden Generation

At KWAP, we believe that wealth, wellness and value go hand-in-hand. Our organisation and employees' skills are aligned with best standards and practices so we stay abreast with the latest developments that can increase value for our stakeholders and, ultimately, our pensioners.



2.1 PENSIONERS' WELLBEING

Creating Value for our People

When KWAP was set up in 2007, our role was primarily to manage incoming contributions and the investment of the fund. In 2015, when we took over selected functions of the Public Services Department (JPA)'s Post Pension Services Division, our role was extended to include payment of pensions, gratuity and other benefits to pensioners. For the first time, we were actually in direct contact with civil servants. We fully embraced our new role, relishing the fact that we were now in a position to serve the people for whom we were previously only managing and growing funds.

We strive not just to serve our retirees efficiently, but to prepare those approaching the end of their careers for retirement, empowering retirees with the knowledge and tools to lead healthier, more active and productive lives.

At the same time, we nurture and develop our employees in order to better serve our retirees, while ensuring they derive maximum satisfaction from working with KWAP. We recognise that we are only as good as our people. That is why we seek to attract the best talent and retain them by offering a stimulating and rewarding work environment.



Serving our Pensioners

Our Pension Services operations is located in Cyberjaya. It is here that we calculate and make pension payments as well as benefits and adjustments, funeral expenses and ex-gratia payments. We also manage pensioners' claims for medical treatments received in private clinics / hospitals and related transport expenses. In addition, we calculate and forecast the amount the Federal Administration will need to budget for its annual contributions towards pensions and other benefits.

While payments are made directly into pensioners' or their dependents' bank accounts, we operate counters in the Customer Service Unit in Cyberjaya where we meet walk-in pensioners and manage their requests and/or queries. This is supported by a call centre and communication with pensioners via email as well as the MyPesara app.

Our service delivery is monitored by the Federal Administration, based on the timeliness of payments. We continued to perform favourably in 2018 in this regard, achieving a Service Level Agreement (SLA) score of 95.2%, exceeding the 90% benchmark. The year also saw higher productivity among employees with a total of 11,076,683 transactions conducted, translating into 83,914 transactions per employee compared to 72,477 transactions per employee in 2017.

Service Level Agreement

2018

95.20%
Exceeding 90% benchmark

Higher Productivity

2018

83,914
Transactions
per employee

2017

72,477
Transactions
per employee



MyPesara App

Contributing to Pensioners' Well-being

As part of efforts to engage with retirees in a more holistic manner, KWAP Sayang Pesara was launched on 28 August 2018 at the Cyberjaya Office. The idea, mooted by KWAP Experiential Learning Programme talent, is to develop a closer relationship with retirees by talking to them to find out their needs while also educating them about the importance of their physical health. The ongoing programme is a first for KWAP and involves the support of our Human Resources, Corporate Affairs, as well as Corporate Strategy & Performance Departments.

Under the programme, Platinum Volunteers are deployed at our customer service counters every Monday and Tuesday to engage with pensioners and obtain their feedback on the service and activities which we have carried out while nurturing a closer bond with them. From September until year end 2018, a total of 252 responses were obtained. Health check-up booths are set up once or twice a month, offering pensioners free screening for basic health parameters such as blood pressure, sugar level and cholesterol level. Response to the initiative has been positive, with pensioners giving an average rating of 4.52 (out of a maximum of 5) to the Platinum Volunteers.

Separately, we organised our first-ever Karnival Rasa Sayang focusing on pensioners on 24 November in Ipoh. The event was an extension of efforts to engage in a meaningful way with pensioners. Karnival Rasa Sayang saw 33 service providers exhibit their products and services that have direct relevance to enhancing pensioners' financial, social, psychological and physical wellbeing. More than 1,500 retirees and pre-retirees benefitted from the event which featured organisations such as the Alzheimers Disease Foundation Malaysia, National Cancer Council Malaysia (MAKNA), Credit Counselling and Debt Management Agency (AKPK), RHB Trustees Berhad, Andalusia Travel & Tours, Grab, Celcom and MyNews.com, among others.

Karnival Rasa Sayang

24 November 2018

over **1,500** visitors





“We wish to change the perception among retirees who see retirement as an ending and instead encourage them to see it as a renewal phase that brings numerous opportunities to enjoy a healthy, active and productive life.”

Syed Hamadah Syed Othman, CEO



Enhanced MyPesara

On 22 November 2018, an upgraded MyPesara was launched offering more features that would benefit existing retirees as well as those planning to retire. These new features include:



A dashboard with easy access to personal information, pension payment statements, eKad Pesara as well as key notifications and updates from the Federal Administration



A toggle button that identifies the pensioner's location and alerts caretakers in the event of an emergency



A medical record that tracks daily water intake, glucose and blood pressure levels as well as a digital pill box to keep track of medication



An information hub with e-learning modules on retirement planning, financial management, health advice and useful tips on retirement



A re-employment site for pensioners with job coaching services



Benefits programme with coupons and discounts from merchant partners on food, commute, health, etc



An e-card function for pension cards that can be used for various transactions at participating merchant outlets



Tools including a financial calculator, spending tracker, directory of emergency services, events calendar and live surveys, among others

Merchants and content partners were carefully selected based on the relevance of their service offerings to pensioners' overall wellbeing. As at end 2018, MyPesara had been downloaded 68,860 times, almost three times more than at end 2017.

Preparing Civil Servants for Retirement

We believe it is important for Malaysians to fully understand retirement, what their options are at the retirement age, and how best they can prepare for retirement. A key aspect of healthy retirement is financial well-being. Hence, during the year, we continued to collaborate with JPA, AKPK and the Malaysian Financial Planning Council (MFPC) to run various financial planning sessions for civil servants.

27 programmes

were conducted for employees at government agencies and departments nationwide benefitting **3,491 participants**.

6 sessions

were held for **Institut Tadbiran Awan Negara (INTAN)** employees at its campuses in **Kuala Lumpur, Kemaman, Sungai Petani, Kluang, Sabah and Sarawak**. The two-hour sessions touched on cash flow management and debt management. Participants ranged in age from **21 years to 58 years**.



By 2030

15%
of Malaysians will be
above the age of 60 years

Understanding Pensioners & To-be Pensioners

By 2030, 15% of the Malaysian population will be above the age of 60 years, as opposed to 6.5% currently*. To prepare ourselves for a growing number of pensioners, KWAP seeks to understand Malaysia's pensioner profile. In September 2017, we engaged Malaysia Research Institute on Ageing (MyAgeing service) at Universiti Putra Malaysia (UPM) to survey pre-retirees as well as retirees. More than 1,600 Malaysians in the Klang Valley were polled for the study.

Some of the more pertinent findings are as follows:

- Over 60% of younger pre-retirees need financial advice or assistance to help them prepare for retirement, followed by help with emotional preparation.

- Top health ailments among pre-retirees and retirees are lifestyle-related hence preventable, like hypertension, diabetes and high cholesterol.
- Only 23% of retirees were involved in productive activities for the community such as volunteering and teaching.

The implication is that both pre-retirees and retirees could benefit from public programmes focused on helping them achieve financial retirement security while maintaining good health and continuing to contribute to the nation's economy. For more details of the survey, published on 30 October 2018, please refer to our website.

* Data provided by Department of Statistics Malaysia (DOSM) 2017.

2.2 PEOPLE & PROCESSES

Improving our Operations

To drive a high level of quality service to pensioners, we invest in our people and processes. We seek to enhance the productivity of our people through global best practices such as Lean and 5S methodologies while leveraging digital technologies for optimum process efficiencies.

KWAP Productivity Excellence Programme (KPEX) 2.0

KPEX was launched in 2017 focusing on enhanced productivity using Lean Six Sigma which, at its core, promotes the flow of value to the customer through continuous improvement and respect for people. At the same time, to create a more organised, conducive and cost effective work environment, we have adopted the 5S principles of identifying and eliminating waste in day-to-day processes. As a result of both programmes, our productivity improved by 16% year-on-year.

Productivity

16%
year-on-year improvement



Lean Programme

The Lean programme is being carried out in collaboration with Malaysia Productivity Corporation (MPC) as programme advisor, and our Human Resources Department as programme partner. It involves introducing the concept of Lean and its principles to all KWAP employees and engaging selected employees in carrying out Lean projects.

To date, almost all relevant employees have undergone the basic Lean Awareness Training, while project implementation, under the Lean Practitioner Programme, began in July 2018. A total of 14 employees – from PeSD, Contribution, Investment Support Services and Corporate Affairs – worked in groups to undertake six projects, five related to pension operations and one related to the contribution process.

Before embarking on the projects, they were introduced to two core Lean components:

Value Stream Mapping

which exposed them to project execution methodologies such as data collection, value analysis and process mapping

Lean Tools & Techniques

for problem-solving, project tracking and sustainable planning

Completed Process & Productivity Improvements

Transformation Cost Management Programme

A cost management dashboard was completed on 30 August, enabling us to identify cost hotspots and implement appropriate cost management initiatives.

5S Assessment

The 5S Programme kicked off in April 2017 at the Cyberjaya Office. On 10 October 2018, auditors from MPC conducted a comprehensive 5S assessment across our operations in PeSD for its Quality Environment / 5S practice, and certified us with 2 stars (out of a maximum of 3).

Through this programme, we have become more structured and organised in our daily operations. In addition, the Kaizen initiative under the 5S programme has encouraged employees to introduce small process improvements.

System & IT Enhancements

KWAP continues to invest in systems and infrastructure to ensure quality service delivery. During the year, we embarked on various initiatives to modernise our IT ecosystem, increase accessibility and mobility to the IT systems, secure data, and streamline IT governance processes while also focusing on cost savings and continuous improvements initiatives.

Mobility & Modernisation

An IT Operation Dashboard was implemented, where data visualisation using Business Intelligence (BI) and Extract, Transform and Load (ETL) tools have improved the monitoring and reporting of IT-related processes, activities and events that frequently change. Skype for Business (SFB) was further enhanced to enable online meetings with advanced calling options as well as other collaboration features for better communication across different geographical locations and time zones. In addition, a new IT Service Management (ITSM) system and self-service password reset with mobile apps capability were rolled out. All these systems are mobile friendly, hence accessible from anywhere, on any device and at any time.

Securing our Cyberspace

To beef up KWAP's IT security, an Information Security (InfoSec) month was organised in March to increase user awareness on the need to protect the confidentiality, integrity and availability of information and business data. The operating systems, server protection, data leakage protection, parameter security and intrusion prevention systems were enhanced. In addition, a cyber security framework was developed which was subsequently approved by the Board to be put into practice. A review of the requirements of Paynet's Guidelines on Cyber Resilience was completed. KWAP also conducted the annual Security Penetration Assessment (SPA) to assess the overall security of our IT platforms and threats that we face.

Streamline IT Governance Process

To enhance the governance of IT system related procurement, an Enterprise Architecture Review Workgroup (EARW) was established. The objectives are to maximise returns on investment by leveraging on existing solutions, standardise the solutions platform across the organisation, gather feedback from subject matter experts, and to speed up the procurement process.

IT Infrastructure Availability & Cost Saving

In 2018, our IT infrastructure hardware was enhanced and new infrastructure for Disaster Recovery (DR) was installed to fulfil scalable business operations and business continuity requirements. KWAP's IT network was also consolidated, streamlining and increasing broadband bandwidth for better performance at reduced cost. Additionally, our computing resources were reviewed to optimise capacity.

Continuous Improvement of Business IT Systems

A review of the Integrated Contribution Management System (ICMS) was conducted with business users to identify operational and functional challenges, and the ability of the system to manage future requirements. Other collaborations included working with the Corporate Affairs Department (CAD) to refresh KWAP's intranet portal, PULSE, and with the Accounts and Management Services Department (AMSD) to upgrade the Standard Accounting System for Government Agencies (SAGA), which is our financial accounting system, with new features.

The core pension administration and payment management system, known as Pension Online Workflow Environment (POWER) Generation 2 (PG2), was further enhanced to support a business intelligence (BI) dashboard. Other upgrades to the system to increase efficiency and productivity include workflow change, allowing online claim submissions by external parties and the implementation of new coding for batch processing. A total of 140 enhancements were completed during the year.

Completed Technology Enhancements

Customer Relationship Management (CRM)

The system records customer interactions, automates workflow processes such as tasks, calendars and alerts as well as tracks performance and productivity based on information logged in.

Data Warehouse (DW)

The initiative has migrated all our data onto a single platform, enhancing data quality, consistency and dashboard performance.

Extraction Transformation Loading (ETL)

ETL enhances the process of managing interactions within KWAP as well as with third parties. The tool manages the exchange of data between KWAP's core systems and external sources such as government agencies, banks, etc.

Business Intelligence (BI) Tool

Implementation of the BI Tool has centralised data onto a dashboard:

- Enables KWAP to measure real-time performance, leading to better process control
- Enables fast and accurate data analysis, enhancing the decision-making process

2.2 PEOPLE & PROCESSES

Developing our Employees

Recognising that our employees are our most valued assets, we invest in continuous training and development to help them realise their true potential while enriching our organisational capabilities and competencies. At the same time, we engage regularly with our employees to encourage a sense of ownership of their job functions, and enhance overall job satisfaction.

KWAP Experiential Learning Programme (KELP)

KELP is an accelerated on-the-job learning programme in which PeSD, especially new hires, are guided by employees seconded from JPA on various aspects of managing pensioners. The objectives of the programme are:

To accelerate transfer of knowledge from JPA subject matter experts (SMEs) to KWAP

To create our own SMEs in areas such as pension legislation and policies

To produce potential leaders for succession planning

To identify gaps in standard operating procedures (SOPs) and daily / routine tasks

The programme adopts a structured methodology, with specific employees designated to serve as on-the-job trainers. The trainers are guided by a framework which means all new hires receive the same training, which is tracked and recorded.

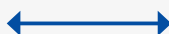


KELP Synopsis:



KELP Foundation Phase

1. PeSD Compulsory Trainings
2. Knowledge of Pension Ecosystem
3. Technical Knowledge & Skills
4. Foundational Assessments

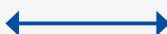


Pension Act Test



Experiential Learning Phase

1. Experiential Tours
2. Get Connected Series
3. Professional Reviews
4. Leadership Engagements
5. Special - CSR Project

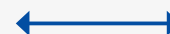


Key Learning Areas Rating
& Panel Interviews



Pinnacle State Phase

1. Supplementary Coaching
2. Network Initiation
3. Graduation Exercise
4. Inspirational Chapter



Work Improvements Presentation &
Final Assessment

The programme was launched on 30 November 2016, with 10 employees from the Pension Operations and Accounts & Reporting sections. On 2 July 2017, we recruited another nine PeSD employees from external organisations to make up to a pool of 19 KELP participants. All KELP participants undergo a total of 24 months' training covering six main Key Learning Areas, namely:

Pension Benefits

Derivatives Pension

Pension Payment Processing & Special Payments

Medical Benefits, Adjustment & Recalculation

Accounts & Reporting

Pension System – PG2

On 30 November 2018, the first batch of KELP participants completed the programme and graduated in early 2019. The remaining participants will continue on the programme until 2 July 2019. In addition, to meet a target of having 60 pension experts by 2021, more new talent are being recruited into the third installation of the programme, which commenced in mid-February 2019.

KWAP Young Talent Programme (KYT)

KYT serves as our main platform to recruit the best fresh graduates. Launched in 2014, KWAP has to date hired 50 young talents through the programme, 14 of whom have graduated and are now contributing full-time to the organisation in various capacities and functions.

The programme involves an intensive month-long onboarding classroom training followed by eight to 10 months of rotations to departments of participants' choice, with close guidance by the Human Resources Department. Throughout these rotations, the new recruits are assessed on leadership skills such as drive for performance and results, decision-making and relationship-building capabilities as well as technical and functional competencies. KYT talents are also required to carry out CSR projects, underlining the importance placed by KWAP on giving back to society.

15 fresh graduates were recruited under KYT Batch 2018 / 2019 at the Malaysian Career Fair, UK in March 2018, most of whom were JPA, MARA or Khazanah scholars.



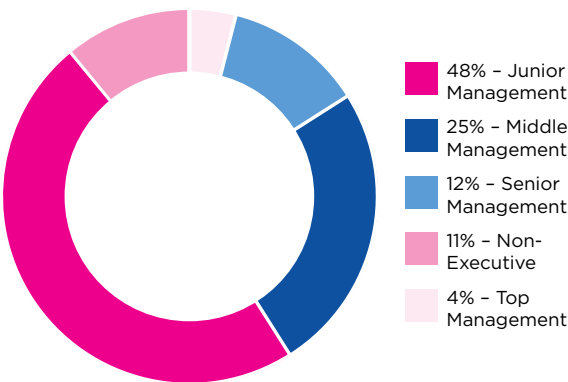
Upskilling the Workforce

We continually assess the capabilities and competencies of our people, and measure these against KWAP’s organisational needs. Training programmes are then organised to fill in gaps identified. These programmes cater to employees at all levels throughout the organisation.

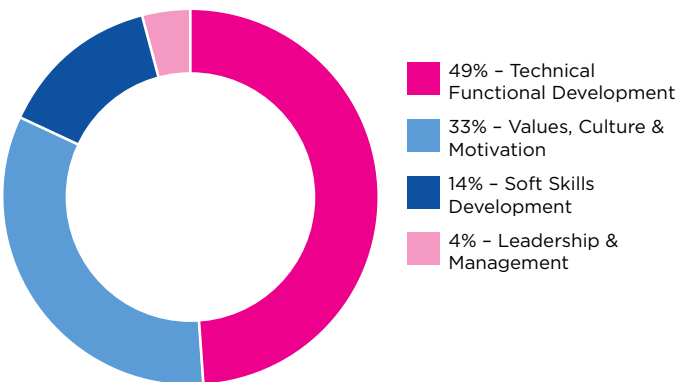
As we seek to become thought leaders in investment, pension, corporate governance and ESG ecosystems, employees are encouraged to enrol in courses that enhance their knowledge in relevant areas as well as to improve their language and oratorical skills to be able to participate more actively in global forums.

KWAP currently promotes the Registered Financial Planner (RFP) programme, and has organised Mandarin classes for those seeking a more international role. At the same time, we have launched the Hot Seats programme that serves as a platform for employees to engage in constructive debate. Our aim is to create a workplace where employees feel confident about expressing their views and opinions, and would like to nurture competent speakers at all levels in the organisation.

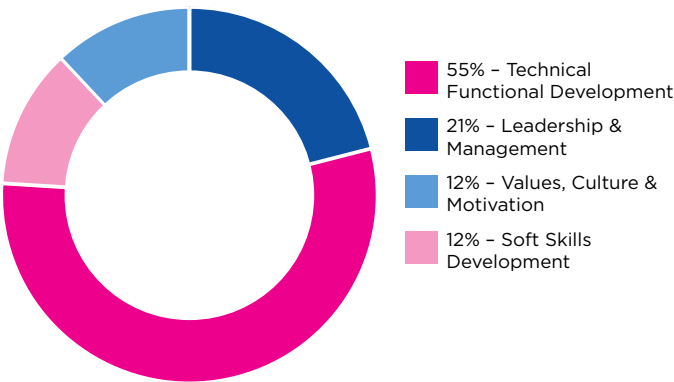
Learning Days by Employee Category



Learning Days by Programme Category



Training Budget Expenditure by Programme Category



Prima Ekuiti Internship

Prima Ekuiti (UK) Limited (Prima Ekuiti), our investment arm in the UK, runs an internship programme for Malaysian students in the UK. The programme is designed to give interns first-hand experience and practical lessons in the asset management industry. Last year saw the largest ever cohort of interns, with five students selected throughout the course of the year. In addition, the Prima Ekuiti Investment Challenge was held for the third year running, with the aim of allowing students to get a taste of investment analysis and asset management by requiring them to perform fundamental analysis on stocks of their choosing. The 2018 Investment Challenge drew the participation of 56 students.



VIA²U Programme

Our values define us. They shape the way we think and behave within the organisation as well as with our stakeholders. To ensure our employees live our values, and are aware of our vision and mission, we ran a five-month VIA²U (Values in Action via You) Programme in the second half of 2018.

The programme kicked off with a Management Alignment workshop, of which all Senior Management contributed towards developing a behavioural statement for KWAP's core values. This was followed by 'socialising' the core values via campaigns led by change agents, as well as through gamification using a mobile app. To encourage ownership, employees attended design-thinking workshops to develop creative gamification modules for the campaign. Throughout the programme, we collected insightful feedback from employees with regard to our values and workplace culture which were documented and analysed.



In total, 574 employees participated in the programme, including those in our Cyberjaya and London offices. A post-programme assessment indicated that employees are more aware of our corporate values and their behavioural definitions. Moving forward, we seek to measure the extent to which our employees have internalised our KWAP values.



Employee Profile in 2018

KWAP employs a total of 603 employees who have served an average of 4.2 years each. We are a relatively young organisation, with a mean employee age of 35 years. Most of our employees hold a degree (or its equivalent) or higher qualifications, with no less than 12% being postgraduates and/or accredited Chartered Financial Analysts.



KWAP KL Office

366
employees



KWAP Cyberjaya Office

237
employees

Employees' Average Age



Male

34.5
years



Female

34.4
years

Distribution by age



Below 30 years

233 employees

38.6%



31-40 years

247 employees

41.0%



41-50 years

106 employees

17.6%

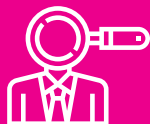


Above 50 years

17 employees

2.8%

Recruitment & Turnover



Recruited

94
employees



Attrition

5%
employees

Level of professional qualifications



Post Graduate / CFA Charter Holder

74 employees

12.3%



Degree / Professional Qualification

282 employees

46.7%

Diploma

187 employees

31.0%

Certificate

60 employees

10%

Diversity & Inclusion

KWAP recognises the value of diverse perspectives in enhancing our intellectual base and ability to make effective decisions. We therefore seek to bring together Malaysians of all cultural and academic backgrounds as well as different ages. Last year, new recruits were hired from nine different industries, while fresh graduates brought in through KYT had completed degree programmes in a wide range of subjects – from Accounting, Finance and Business Management to Real Estate, Law, Applied Language Studies and Physics.

In terms of age, we have a good representation of the different generations, especially Gens X, Y and Z. We are proud of the fact that women make up more than half of our total number of employees. We also have significant female representation among our senior management. Four Senior Management team members are women, as was our former Chief Investment Officer – Puan Nik Amlizan Mohamed.

Employee Distribution by Generation



Baby Boomers

12 employees

2%



Generation X

147 employees

24.4%



Generation Y

385 employees

63.9%



Generation Z

59 employees

9.8%

Gender Distribution



Male

282 employees

46.8%



Female

321 employees

53.2%

Ethnic Breakdown



Malay

550 employees

91.2%



Chinese

27 employees

4.5%



Indian

18 employees

3.0%



Others

8 employees

1.3%

Source of New Recruits by Industry



Financial Institutions

31 employees



Property

1 employee



Consultancies

5 employees



Oil & Gas

3 employees



Government

5 employees



Education

2 employees



Manufacturing

4 employees



Retail

12 employees



Services

14 employees



Fresh Graduates

17 employees

Employee Engagement

We believe it is important to communicate corporate news and updates regularly to employees, and have in place a number of channels through which this is accomplished. Other than an intranet, we hold regular Townhall sessions to keep our employees updated with current issues affecting our day-to-day operations. We also organise Aspiration talks at which noted individuals are invited to share their experiences with employees; and Hot Seats, a platform that encourages employees to engage in constructive debate amongst themselves. In addition, we invite leading personalities to share inspiring stories with our employees under the Leadership Series.

Going beyond corporate-centric communication, we demonstrate caring for our employees through wellness programmes. In 2018, these included initiatives to encourage good sleep as well as healthy diets. Under a 'Sleep It Right' programme, a psychologist gave a talk on the importance of quality sleep, while vendors set up booths to showcase a range of sleep-related products. Meanwhile, to encourage employees to eat a balanced diet, we collaborated with the Federal Agricultural Marketing Authority (FAMA) to sell local fruits at our office at discounted prices.



Sleep it Right



Board & IP Retreat at Johor



KWAP Nostalgia Raya



Hot Seat



KWAP Annual Dinner – Urban Night

Installing Solar-powered Lights in Villages

300

Orang Asli in Perak and Pahang



Serving the Underserved

Just as we seek to encourage pensioners to be part of mainstream life, contributing their experience and expertise to society, we extend a helping hand to pockets of the community that are underserved or marginalised through outreach programmes. We have made an impact on the lives of more than 300 Orang Asli in Perak and Pahang by installing solar-powered lights in their villages which, if cared for properly, will last a lifetime. We also regularly lend our time to visit and provide for old folks and orphans. We undertake these initiatives because we genuinely seek to be part of efforts to shape a more equitable and empowered nation.

2.3 GIVING BACK

Enhancing Lives

CSR Highlights

KWAP Freemarket CSR Programme 2018

Targeting the underprivileged from Kampung Batu 23, Tapah, Perak, KWAP Freemarket was held on 16 December 2019 to allow those in need to obtain daily essentials without having to pay for them. 40 KWAP volunteers participated in this CSR programme whereby various pre-loved or unused items contributed by employees were given away in the name of charity. More than 300 villagers benefited from this programme as part of spreading kindness and foster goodwill to the society that we serve.



KWAP Free Market in Tapah





Flickers of Hope

Flickers of Hope is a new CSR initiative launched in 2018 by KWAP Young Talent (KYT), as part of our mission to help protect and preserve the environment. Run in collaboration with Universiti Kebangsaan Malaysia (UKM), the aim is to preserve the firefly colony in Sabak Bernam, Selangor, by cultivating a conducive habitat for them to live and breed.

The programme started on 20 April with a talk by Prof. Dr Norela Sulaiman from the School of Environmental and Natural Resource Sciences, UKM, on the environmental issues faced by fireflies as well as the background work done to help preserve the firefly population.

On 26 April, 45 KWAP volunteers helped to plant 50 mangrove trees along the riverbank in Kampung Sungai Panjang, Sabak Bernam. While there, they had the opportunity to see the fireflies in their natural habitat.



Flickers of Hope

2.3 GIVING BACK

Enhancing Lives



Liter of Light in Raub, Pahang



Liter of Light in Perak



Liter of Light 2.0

Liter of Light 2.0 is a continuation of the programme initiated in 2017 which has successfully changed the lives of the marginalised in indigenous villages by installing solar-powered light bulbs, providing them with greater access to electricity. The programme started with a one-day workshop during which 80 KWAP volunteers learnt how to build the solar-powered light bulbs. This was followed by installation work on day two. Two locations were selected for the programme in 2018, namely Kampung Ulu Tual A, Raub, in Pahang and Kampung Batu 23, Tapah, in Perak. A total of 120 solar-powered bulbs were installed in both villages, enhancing the lives of over 70 families or more than 350 villagers.



With local Residents

Mantanani Island Volunteering Programme 2018 – Save Our Seas

38 KWAP sustainability heroes participated in a marine-themed volunteering programme held from 26 to 29 October 2018 on Mantanani Island off Kota Belud, Sabah.

In this collaborative effort between KWAP and Reef Check Malaysia, the objective was to conserve the marine ecosystem through reef rehabilitation and awareness building among the local community.



Mantanani Island Volunteering



Beach cleaning activity



Mantanani Island Vounteers



CHAPTER 3

Safeguarding the Future

We inculcate the principles of good corporate governance such as integrity, transparency and professionalism to protect and enhance shareholder value as we work to achieve our goals.



3.1 OUR LEADERSHIP

Board



**Datuk Ahmad Badri
Mohd Zahir**

Secretary General of
Treasury, Ministry of Finance
– Chairman

**Adnan Zaylani
Mohamad Zahid**

Bank Negara Malaysia
Representative

**Dato' Asri
Hamidon @ Hamidin**

Ministry of Finance
Representative



Datuk Saat Esa
Federal Government
Representative



Datuk Siti Zainab Omar
Federal Government
Representative



Teo Khian How
Federal Government
Representative



Dato' Siow Kim Lun
Private Sector
Representative

3.1 OUR LEADERSHIP

Board



Dato' Dr Gan Wee Beng
Private Sector
Representative



Dato' Azmi Abdullah
Private Sector
Representative



Datuk Azih Muda
Contributor
Representative



**Syed Hamadah Syed
Othman**
Chief Executive Officer

3.1 OUR LEADERSHIP

Board Members' Profiles



Datuk Ahmad Badri Mohd Zahir

Secretary General of Treasury,
Ministry of Finance – Chairman

Nationality	Malaysian
Age	58
Date of Appointment	12 September 2018
Date of Last Appointment	Not Applicable

Datuk Ahmad Badri Mohd Zahir was appointed as the Chairman of the Board on 12 September 2018.

He is currently the Secretary General of Treasury, Ministry of Finance. Prior to this, he was the Deputy Secretary-General (Management) of Treasury.

He has served for almost 30 years in the Ministry of Finance, holding several senior positions, including the Director of the National Budget Office and Under Secretary of Strategic Investment Division.



Adnan Zaylani Mohamad Zahid

Bank Negara Malaysia Representative

Nationality	Malaysian
Age	47
Date of Appointment	7 June 2016
Date of Last Re-appointment	1 October 2018

Adnan Zaylani reassumed his position as a KWAP Board Member on 1 October 2018.

He is currently the Assistant Governor of BNM responsible for Financial Development and Innovation, Islamic Banking and Takaful, Insurance Development, Development Finance and Inclusion and Legal.

He is the Chairman of the Board of Directors of BNM Sukuk Kijang Berhad, Board Member of Credit Guarantee Corporation Berhad (CGC), a member of the Board Executive Committee of the International Islamic Liquidity Management Corporation, and an Executive Committee Member and Audit Committee Member of INCEIF.

3.1 OUR LEADERSHIP

Board Members' Profiles



Dato' Asri Hamidon @ Hamidin

Ministry of Finance Representative

Nationality	Malaysian
Age	52
Date of Appointment	26 October 2018
Date of Last Appointment	Not Applicable

Dato' Asri Hamidon was appointed as a KWAP Board Member on 26 October 2018.

He is currently the Deputy Secretary-General (Investment) of the Ministry of Finance.

He began his career as an Assistant Director in the Economic Planning Unit of the Prime Minister's Department in 1994. Later, he moved to the Anti-Corruption Agency in April 1998, before serving as an Administrative and Diplomatic Officer in the Public Service Department in March 2003. Dato' Asri continued his service as the Principal Assistant Secretary in the Ministry of Finance (MOF) and has held several other positions since, including Deputy Under-Secretary, Investment, MOF Inc. and Privatisation Division.



Datuk Saat Esa

Federal Government Representative

Nationality	Malaysian
Age	59
Date of Appointment	16 October 2017
Date of Last Appointment	Not Applicable

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

He is a Director of 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, such as the Ministry of Home Affairs, Ministry of Education, Bintulu Port Authority, Fisheries Development Authority of Malaysia (LKIM) and the Selangor State Treasury.

He holds a Bachelor's Degree (Hons) in Accounting, and a Master of Business Administration degree from Universiti Putra Malaysia and Aix-Marseille University, France. He is also a Chartered Accountant and member of the Malaysian Institute of Accountants.



Datuk Siti Zainab Omar

Federal Government Representative

Nationality	Malaysian
Age	55
Date of Appointment	1 March 2016
Date of Last Appointment	Not Applicable

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

She is currently the Solicitor General II, Attorney General's Chambers.

Prior to this, she has served in various capacities in a few other government agencies including being Treasury Solicitor in the Ministry of Finance and the State Legal Advisor of Malacca. She currently sits on the Board of Subang Golf Course Corporation and Indah Water Consortium.

She obtained an LLB (Hons) from Essex University, United Kingdom and was admitted to the Bar of England & Wales (Gray's Inn) in 1986. In 1998, she was admitted to the Malaysian bar as an Advocate & Solicitor.



Teo Khian How

Federal Government Representative

Nationality	Malaysian
Age	58
Date of Appointment	28 February 2017
Date of Last Appointment	Not Applicable

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

He is currently Director of the Post Service Division of the Public Service Department.

He obtained his Master's in Science Policy from Saitama University, Japan and Bachelor of Arts (Hons) from Universiti Kebangsaan Malaysia.

3.1 OUR LEADERSHIP

Board Members' Profiles



Dato' Siow Kim Lun

Private Sector Representative

Nationality	Malaysian
Age	68
Date of Appointment	1 March 2007
Date of Last Re-appointment	1 March 2016

Dato' Siow Kim Lun was reappointed as a member of the Board on 1 March 2016. He is currently a member of 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 is also a member of the Land Public Transport Commission.

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



Dato' Dr Gan Wee Beng

Private Sector Representative

Nationality	Malaysian
Age	71
Date of Appointment	1 March 2013
Date of Last Re-appointment	1 March 2016

Dato' Dr Gan Wee Beng was reappointed as a member of the Board on 1 March 2016.

He is currently a Board Member of PIDM and the Chairman of KWEST Sdn Bhd, a wholly-owned subsidiary of KWAP. He was an Advisor to the CIMB Group, a position he held from 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, which include Bank Negara Malaysia (BNM), the Economic Planning Unit of the Prime Minister's Department, Ministry of Finance, World Bank, International Labour Organization, Asian Development Bank, and the United Nations Conference on Trade and Development.



Dato' Azmi Abdullah

Private Sector Representative

Nationality	Malaysian
Age	67
Date of Appointment	20 September 2012
Date of Last Re-appointment	1 March 2016

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 the Chairman of the Remuneration and Board Risk Management Committees, and a 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.



Datuk Azih Muda

Contributor Representative

Nationality	Malaysian
Age	61
Date of Appointment	20 December 2013
Date of Last Re-appointment	1 March 2016

Datuk Azih Muda was reappointed as a member of the Board on 1 March 2016. He is currently the President of CUEPACS and a Board Member of the Social Security Organisation (SOCSO / PERKESO). He is also President of the Amalgamated National Union of Local Authorities Employees (ANULAE).

3.1 OUR LEADERSHIP

Board Members' Profiles



Syed Hamadah Syed Othman

Chief Executive Officer

Nationality	Malaysian
Age	47
Date of Appointment	1 November 2018
Date of Last Appointment	Not Applicable

Syed Hamadah Syed Othman was appointed as the Chief Executive Officer of KWAP on 1 November 2018.

He is one of the leading practitioners in the pension and social security space in the country. Prior to joining KWAP, he was a Director at Actuarial Partners Consulting Sdn Bhd. During his tenure at the firm, he led the pension business and specialised in consulting on issues including pension funding and accounting, mergers and acquisitions, pension scheme design, pension reform and training.

3.1 OUR LEADERSHIP

Retired Board Members

Tan Sri Dr Mohd Irwan Serigar Abdullah

Former Secretary General of Treasury, Ministry of Finance
(Resigned on 14 May 2018)

Dato' Seri Dr Ismail Hj Bakar

Former Secretary General of Treasury, Ministry of Finance
(Resigned on 28 August 2018)

Datuk Siti Zauyah Md Desa

Former Ministry of Finance Representative
(Resigned on 26 October 2018)

Abdul Rahman Hussein

Former Bank Negara Malaysia Representative
(Term of appointment ended on 30 September 2018)

Dato' Wan Kamaruzaman Wan Ahmad

Chief Executive Officer
Ex-Officio (Resigned on 31 October 2018)

3.1 OUR LEADERSHIP

Investment Panel



**Dato' Mohammed
Azlan Hashim**
Chairman



Dato' Dr Yusof Ismail
Ministry of Finance
Representative



Tan Sri Dr Ong Hong Peng
Private Sector Representative



Datuk Abdul Farid Alias
Private Sector
Representative



Johari Abdul Muid
Private Sector
Representative



Mohamed Nazri Omar
Private Sector
Representative



**Syed Hamadah Syed
Othman**
Chief Executive Officer

3.1 OUR LEADERSHIP

Investment Panel's Profile



Dato' Mohammed Azlan Hashim

Chairman

Dato' Mohammed Azlan Hashim was appointed as the Chairman of KWAP's Investment Panel on 1 June 2015. He was previously a private sector representative on the Panel.

He also serves as the Chairman of several public-listed entities including Marine & General Berhad, D&O Green Technologies Berhad and Universiti Malaysia Terengganu, and sits on the Board of Labuan Financial Services Authority.

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



Dato' Dr Yusof Ismail

Ministry of Finance Representative

Dato' Dr Yusof Ismail was appointed as a member of the Investment Panel on 15 May 2016. He is currently the Under Secretary of Strategic Investment Division, Ministry of Finance.

He holds a Doctorate Degree (PhD) in Community Development from Universiti Putra Malaysia. He has served various positions in the Government including Special Officer to the Secretary-General of Treasury, Energy Section of the Economic Planning Unit in the Prime Minister's Department and Deputy Director of the Manufacturing Industry, Science and Technology Section, amongst others.

He currently holds directorships in Lembaga Kemajuan Tanah Persekutuan (FELDA), Perbadanan PRIMA Malaysia, AgroBank and DanaInfra Nasional Bhd, amongst others.



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.

He is a Board member of Berjaya Sompo Insurance Berhad, Sepang International Circuit and Malaysia Convention Bureau. Previously, he was the Chairman of the National Academy of Arts, Culture and Heritage (ASWARA).

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

In addition, he is the President Commissioner of PT Bank Maybank Indonesia Tbk as well as a member of the Board of Directors of Etiqa International Holdings Sdn Bhd, Cagamas Holdings Berhad, Payments Network Malaysia Sdn Bhd, STF Resources Sdn Bhd and Asian Banking School Sdn Bhd. He is the Chairman of The Association of Banks in Malaysia (ABM), as well as Vice Chairman and a Fellow of the 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 as a member of the ASEAN Business Advisory Council (ASEAN-BAC) Malaysia in 2016 and, more recently, a Fellow of the Lee Kuan Yew Exchange Fellowship Programme of Singapore.

3.1 OUR LEADERSHIP

Investment Panel's Profile



Johari Abdul Muid

Private Sector Representative

Johari Abdul Muid was appointed as a member of the Investment Panel effective 15 October 2015.

He is currently on the Boards of Bursa Malaysia Berhad, Malaysia Debt Ventures Berhad, Al Rajhi Bank Malaysia, 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. He 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 before joining the Employee Provident Fund (EPF) as its Chief Investment Officer (Equity). He was promoted to Deputy CEO of the 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.



Mohamed Nazri Omar

Private Sector Representative

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. 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 during his tenure in Kuwait Finance House (M) Bhd, which included Director of Investment Banking and Head of Capital Markets and Advisory.

He holds a Bachelor's Degree (Hons) in Economics and Government from Cornell University, USA.



Syed Hamadah Syed Othman
Chief Executive Officer

Syed Hamadah Syed Othman was appointed as Secretary to the Investment Panel effective 1 November 2018.

3.1 OUR LEADERSHIP

Executive Team



Syed Hamadah Syed Othman

Chief Executive Officer

Syed Hamadah Syed Othman was appointed as Chief Executive Officer effective 1 November 2018.



Azmeen Adnan

Chief Investment Officer

Azmeen has 21 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 Director of KWAP's Fixed Income Department. Prior to joining KWAP, 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, University of Denver in Colorado, USA.



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 25 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 Bachelor of Accountancy and MBA in Finance and Investments from George Washington University, USA.



Azlan Hussin

Senior Director, Equity Department

Azlan has more than 21 years of experience in portfolio management. Prior to this, he was the CEO of MIDF Amanah Asset Management Berhad.

Azlan started his career with SBB Asset Management (SBBAM) as an Investment Analyst and was later promoted to Vice President of Investment.

Subsequently, he joined Amanah Raya JMF Asset Management as a General Manager for Equity Investment.

Azlan graduated with BA (Hons) in Accounting and Finance from the South Bank University, London and obtained his ACCA from Emile Woolf College, London.



Zalman Ismail

Senior Director, Alternative Investments Department

Zalman has over 20 years of experience in credit rating, equity research, corporate finance and business development of the telecommunications, property, healthcare, and commodities industries. 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 from Eastern Michigan University, USA.



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

3.1 OUR LEADERSHIP

Executive Team



Nazaiful Affendi Zainal Abidin

Director, Portfolio Strategy Department

Nazaiful has about 20 years of experience in capital markets including roles in research, market analysis and strategy with exposure in equity, fixed income and commodities. 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.



Ambalagam R. Marappan

Director, Contribution Department

Ambalagam has over 35 years of experience as an accountant. Prior to joining KWAP, he served in several divisions and branches of the Accountant General's Department.

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



Hamkhushairi Jahari

Director, Internal Audit Department

Hamkhushairi has been the Director of the Internal Audit Department since October 2017. He has 18 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 Senior Supervisor.

He graduated with a Bachelor of Accountancy from University of Malaya, 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.



Tursina Yaacob

Director, Research Department

Tursina has over 20 years of experience as an investment analyst covering various sectors on the domestic and global landscape. Her areas of specialisation include oil & gas, utilities, telecommunications, consumer products, automotive, commodities and the Islamic finance industries.

She obtained a Bachelor's Degree (Hons) in Financial Economics from Coventry University, UK and an MBA (Strategic Management) from Universiti Teknologi Malaysia.



Siti Ilmiah Ramli

Director, Human Resources Department

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

She graduated with an LL.B (Hons) from the University of London, UK and obtained a Certificate of Legal Practice from the Legal Profession Qualifying Board, Malaysia.



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 LL.B (Hons) from the University of Liverpool and MBA Management from the University of Wales, Cardiff, both in the UK. He is also a Certified Financial Risk Manager (FRM) with the Global Association of Risk Professionals.

3.1 OUR LEADERSHIP

Executive Team



Ismail Zakaria

Director, Corporate Strategy and Performance Department

Ismail has over 19 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 the Chairperson of Governance & Policy Working Group with the Institutional Investors Council Malaysia.

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



Najihah Mohd Norwi

Director, Accounts and Management Services Department

Najihah has over 19 years of experience as a corporate accountant in sectors such as insurance, IT, utilities and infrastructure. Prior to KWAP, she was a 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.



Syed Ali Haidar Syed Shahabuddin

Director, Legal and Secretarial Department

Syed Ali Haidar has over 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 LL.B (Hons) from the University of Glamorgan, Wales, UK and obtained a Certificate of Legal Practice from the Legal Profession Qualifying Board, Malaysia.



Nor Faridah Amin

Head of Corporate Affairs Department

Nor Faridah is a Marketing graduate with more than 20 years of experience in sales, marketing & promotions, communications and event management.

She holds a Bachelor in Business Administration (Hons) in Marketing from MARA Institute of Technology, Shah Alam.

Nor Faridah has been with KWAP since 2010.



Md Hayrani Mireso

Head of Investment Support Services Department

Md Hayrani has been the Head of Investment Support Services Department since May 2018. He has 28 years of experience as an accountant as well as in treasury and fixed income management in the banking sector. Prior to joining KWAP, he served as a manager in the Treasury Division, Treasury and Investment Department at Bank Simpanan Nasional.

He obtained a Master of Business Administration (Finance) from the International Islamic University Malaysia (IIUM) and Bachelor of Accounting (Hons) from Universiti Kebangsaan Malaysia. He is also a Chartered Accountant with the Malaysian Institute of Accountants and a member of the Financial Markets Association of Malaysia.



Abdul Razak Jabar

Head of Information Technology Department

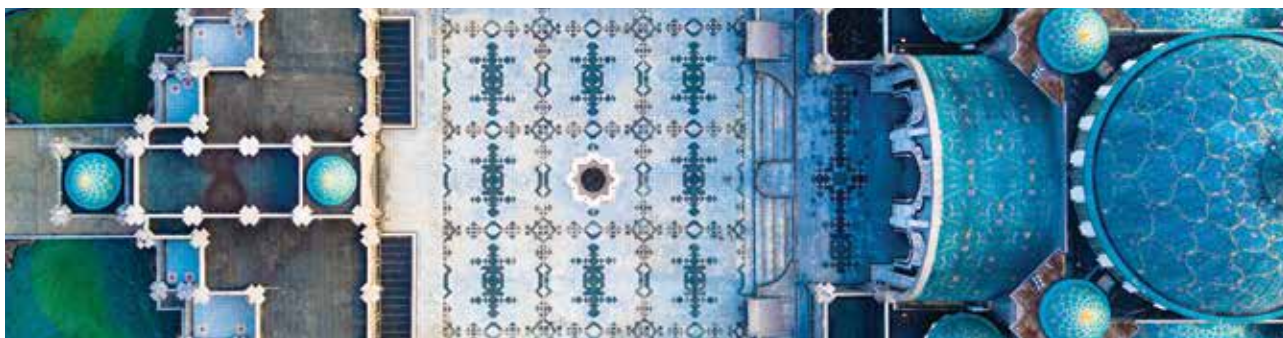
Abdul Razak has 20 years of experience in the Information Technology industry. Prior to joining KWAP, he was a senior consultant at a local and a multinational corporation implementing software and systems in the financial services industry.

He obtained his Bachelor of Information Technology (Information System) from Charles Sturt University, Australia. He is also a Certified Lead Auditor of Information Security Management Systems (ISMS) ISO 27001, and has certificates in ITIL v3 Foundation and COBIT v5.

3.2 CORPORATE GOVERNANCE

Statement on Corporate Governance

In maintaining the highest level of governance, KWAP adheres to all the regulations and provisions of the Retirement Fund Act 2007 (Act 662, or simply the Act). We also adopt best local and international governance practices, especially those related to pension funds.

**Board Composition**

KWAP's Board comprises qualified, experienced and highly skilled members representing the Federal Administration, private sector, Bank Negara Malaysia (BNM) and contributors. This diverse mix is important for the overall strategic achievements of KWAP.

As per Section 6 of Act 662, all Board members are to be appointed by the Minister of Finance. They include:

- the Secretary General of Treasury, Ministry of Finance, as KWAP's Chairman;
- a representative from BNM;
- a representative from the Ministry of Finance;
- the Chief Executive Officer who shall be an ex-officio member;
- three representatives of the Federal Administration of Malaysia;
- three persons from the private sector with experience and expertise in business or finance; and
- a representative of the contributories to the Retirement Fund other than the representative of the Federal Administration of Malaysia.

A brief profile of each Board Member is presented on pages 52 to 60 of this Annual Report.

In 2018, Abdul Rahman Hussein was appointed from 1 January 2018 until 30 September 2018 to serve as BNM's representative, pursuant to Adnan Zaylani Mohd Zahid's study leave. Abdul Rahman resigned on 30 September and Adnan Zaylani resumed his position on 1 October 2018.

Tan Sri Dr Mohd Irwan Serigar Abdullah resigned as Chairman of the Board on 14 May 2018 and was replaced by Datuk Seri Dr Ismail Hj Bakar on 12 June 2018. On 28 August, however, Datuk Seri Dr Ismail resigned pursuant to his appointment as the new Secretary General of Malaysia and was succeeded by the new Secretary General of Treasury, Malaysia, Datuk Ahmad Badri Mohd Zahir.

Another change to the Board was the appointment of Dato' Asri Hamidon @ Hamidin, the Deputy Secretary General (Investment) of Treasury, to replace Datuk Siti Zauyah Md Desa who resigned with effect from 26 October 2018.

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 the Board’s effectiveness and conducting Board meetings while the Chief Executive Officer, 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 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.

Responsibilities and Accountabilities of the Board

The Board is ultimately responsible for the administration and management of KWAP. It sets the organisation’s strategic direction, and oversees the management of KWAP with a focus on protecting and enhancing the interests of contributors and other stakeholders. The Board formulates KWAP’s administration and management policies and procedures to ensure KWAP achieves its objectives.

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

KWAP ensures a high-performing Board by:	<ul style="list-style-type: none">• Structuring the Board to match the organisation’s requirements;• Defining its committees’ roles, structure and composition to complement the Board’s requirements;• Selecting and nominating Board members using a disciplined process; and• Evaluating the Board as a whole and each member regularly.
To ensure effective Board operations and interactions, the Board is expected to:	<ul style="list-style-type: none">• Make each Board meeting productive;• Ensure the quality and timeliness of all Board information; and• Build trust via positive Board interaction dynamics and open communication within the Board and with Management.
The Board’s fundamental roles and responsibilities are to:	<ul style="list-style-type: none">• Contribute to corporate strategy and target setting;• Uphold a strong corporate performance management approach;• Oversee development of future KWAP leaders and human capital;• Understand and manage the organisation’s risks;• Adopt a shareholders’ perspective when making decisions; and• Balance valid stakeholder interests.

Board Meetings

During the financial year 2018, eight (8) Board meetings, one (1) Special Board Meeting and one (1) Special Board and Investment Panel meeting each were held.



A summary of attendance is set out below:

No.	Name	Attendance
1	Datuk Ahmad Badri Mohd Zahir – Chairman (Appointed on 12 September 2018)	4/4
2	Dato' Asri Hamidon @ Hamidin (Appointed on 26 October 2018)	3/3
3	Datuk Saat Esa	7/10
4	Datuk Siti Zainab Omar	9/10
5	Teo Khian How	10/10
6	Adnan Zaylani Mohamad Zahid (Reassumed his position on 1 October 2018)	2/4
7	Dato' Siow Kim Lun	10/10
8	Dato' Azmi Abdullah	8/10
9	Dato' Dr Gan Wee Beng	7/10
10	Datuk Azih Muda	8/10
11	Syed Hamadah Syed Othman (Appointed on 1 November 2018)	3/3
12	Dato' Wan Kamaruzaman Wan Ahmad (Resigned on 31 October 2018)	7/7
13	Tan Sri Dr Mohd Irwan Serigar Abdullah – Chairman (Resigned on 14 May 2018)	3/3
14	Datuk Seri Dr Ismail Hj Bakar – Chairman (Appointed on 14 May 2018 and resigned on 11 September 2018)	2/2
15	Datuk Siti Zaayah Md Desa (Resigned on 26 October 2018)	6/7
16	Abdul Rahman Hussein (Appointed on 1 January 2018 and resigned on 30 September 2018)	6/7

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 Board members. Decisions via circularisation require majority approval which will be reported during the following Board meeting for ratification.

Key Board activities in 2018 are as indicated in the table below.

No.	Board's Responsibilities and Accountabilities as Provided by The Act	Activities Carried Out
1	To establish procedures with respect to financial and accounting matters, including keeping, closing and auditing KWAP's accounts and the creation of its own financial and accounting procedures.	<ul style="list-style-type: none"> Approved KWAP's audited financial statements or the financial year 2018. Approved KWAP's expenditure budget for the financial year 2019.
2	To prescribe the responsibilities of KWAP's employees including matters in respect of remuneration, terms and conditions of service, period of service, and leave.	<ul style="list-style-type: none"> Approved the employment package of the Chief Executive Officer and contract renewals of several Heads of Department.
3	To establish appropriate disciplinary authorities with respect to the conduct and discipline of KWAP's employees.	Nil
4	To establish committees and procedures of such committees.	<ul style="list-style-type: none"> No new committee was established in 2018.
5	To regulate its internal procedures including procedures relating to operational matters.	<ul style="list-style-type: none"> Approved the revised KWAP Investment Policy and Guidelines. Approved the Risk Management Framework and Policies. Approved the Loan and Collateral Risk, Leverage Management Risk and Business Continuity Management 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"> Revision of the Limit of Authority for the Fixed Income Department.
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 KWAP's Sub-Custodian, External Fund Managers (EFMs), panel stockbrokers, adviser and consultants. Approved the termination of an EFM.

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 and 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).

A brief profile of each Investment Panel member is presented on pages 62 to 67 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. This 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 2018, thirteen (13) Investment Panel Meetings and two (2) Special Meetings were held. A summary of attendance of the Investment Panel Members is set out below:

No.	Name	Attendance
1	Dato' Mohammed Azlan Hashim – Chairman	15/15
2	Dato' Dr Yusof Ismail	14/15
3	Datuk Abdul Farid Alias	7/15
4	Johari Abdul Muid	14/15
5	Mohammed Nazri Omar	12/15
6	Tan Sri Dr Ong Hong Peng	15/15
7	Syed Hamadah Syed Othman	2/2
8	Dato' Wan Kamaruzaman Wan Ahmad	11/13

Board Committees

To assist in discharging its duties, the Board has established the following committees to oversee specific matters relating to KWAP's operations: the Board Audit Committee, Board Risk Committee, Board Remuneration and Nomination Committee, and Board Procurement Committee.

Details of activities of the Board Committees during the financial year 2018 are outlined below.

Board Audit Committee

The Board Audit Committee (BAC) was established to ensure a proper system of internal controls is set up and enforced in KWAP.



Membership

Currently, BAC comprises four (4) Board members, namely a Chairman and the following three 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; and
- (iv) Datuk Saat Esa – Member.

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

A total of five (5) meetings, including one (1) Special BAC meeting, were held in 2018.

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, external auditor and/or other external assurance and consulting service providers;
- (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 providers;
- (c) To provide oversight in respect of any appointment, renewal, performance or removal of the Head of Internal Audit Department;
- (d) To review the internal audit charter, activities, staffing and 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 regularly discuss with the internal auditor, external auditor and/or other external assurance and consulting service provider 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;
- (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].

No.	Name	Attendance
1	Dato' Azmi Abdullah	5/5
2	Dato' Siow Kim Lun	5/5
3	Dato' Dr Gan Wee Beng	5/5
4	Datuk Saat Esa (Appointed on 1 March 2018)	1/4



Summary of BAC Activities

Among the major issues deliberated by BAC in 2018 were:

- Consolidated Financial Statements of KWAP for the financial year ended 31 December 2017;
- Revised Internal Audit Charter;
- Revised Internal Audit's Issue Grading, Overall Audit Grading and Management Risk Awareness Assessment Methodology;
- Re-classification of financial instruments in accordance with the Malaysian Financial Reporting Standards (MFRS) 9;
- Risk assessment methodology and the internal audit plan for the financial year 2018;
- Issues relating to the implementation of MFRS 9; and
- Internal audit reviews and outstanding audit issues of several departments in KWAP.

Board Risk Committee

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

Membership

Currently, BRC comprises three (3) Board members and one (1) Investment Panel member, 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 (Resigned on 31 October 2018); and
- (v) Syed Hamadah Syed Othman – Member (Appointed on 1 November 2018).

Four (4) BRC meetings were held in 2018.

Duties and Responsibilities of BRC

The following are the duties and responsibilities of BRC:

- (i) Determine KWAP's 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.

No.	Name	Attendance
1	Dato' Dr Gan Wee Beng	4/4
2	Dato' Siow Kim Lun	4/4
3	Dato' Mohammed Azlan Hashim	3/4
4	Dato' Wan Kamaruzaman Wan Ahmad (Resigned on 31 October 2018)	3/3
5	Syed Hamadah Syed Othman (Appointed on 1 November 2018)	1/1

Summary of BRC Activities

Key issues deliberated by the BRC in 2018 were:

- Reports on corporate risk profile, risk outlook, operational risk events, investment risks, foreign exchange exposures and hedging activities, business continuity management;
- Approval of policies including Loan and Collateral Risk Policy; Leverage Management Risk Policy and Guidelines; Business Continuity Management Policy; and Cyber Security Framework; and
- Compliance updates.

Board Remuneration and Nomination Committee

The Board Remuneration and Nomination Committee (BRNC) assists the Board in establishing a relevant policy framework to determine the appointment and remuneration of KWAP's Management and employees. It also recommends to the Board performance-related remuneration of employees.

Membership

Currently, BRNC comprises four (4) Board members and one (1) Investment Panel member:

- (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
(Resigned on 31 October 2018); and
- (vi) Syed Hamadah Syed Othman – Member
(Appointed on 1 November 2018).

Five (5) meetings were held in 2018, including one (1) Special BRNC meeting.

Duties and Responsibilities of BRNC

(i) On matters pertaining to human resources:

- (a) To recommend the minimum requirements on skills, experience, qualifications and other core competencies of KWAP's employees;
- (b) To recommend and review the terms and conditions of employment and service of employees;
- (c) To recommend and review the code of conduct and discipline of employees;
- (d) To recommend the mechanisms for the formal assessment of employees;
- (e) To recommend the promotion of employees;
- (f) To review and recommend to the Board the appointment and promotion of senior management;
- (g) To vet and approve recommendations from the Executive Directors 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 or 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 policies 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);
- (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 any performance related pay schemes for KWAP;
- (b) To recommend to the Board the policy and scope of service agreements of the executive, termination payments and compensation;
- (c) To oversee any major changes concerning KWAP's employees; and
- (d) To consider and examine relevant matters as the BRNC considers appropriate.

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	5/5
5	Dato' Wan Kamaruzaman Wan Ahmad (Resigned on 31 October 2018)	4/4
6	Syed Hamadah Syed Othman (Appointed on 1 November 2018)	1/1

Summary of BRNC Activities

Among the proposals deliberated and endorsed by BRNC during the year 2018 were:

- Payment of Bonus for 2017 and Annual Increment for 2018;
- Approval of the Employment Terms of the Chief Executive Officer;
- Approval of the appointment of KWEST's Ex-Officio as CEO of KWEST Sdn Bhd;
- Proposal to formalise KWAP's succession planning and talent management strategy; and
- Renewal of several employment contracts of Heads of Department.

Board Procurement Committee

The Board Procurement Committee (BPC) assists the Board in discharging its functions with regard to the evaluation of procurement proposals.

Membership

Currently, BPC comprises four (4) Board members:

- (i) Datuk Siti Zauyah Md. Desa – Chairman;
- (ii) Datuk Saat Esa – Member;
- (iii) Datuk Azih Muda – Member;
- (iv) Dato' Wan Kamaruzaman Wan Ahmad – Member (Resigned on 31 October 2018); and
- (v) Syed Hamadah Syed Othman - Member (Appointed on 1 November 2018).

In 2018, two (2) BPC meetings were held to deliberate and 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 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 is 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.

No.	Name	Attendance
1	Datuk Siti Zauyah Md Desa	2/2
2	Datuk Saat Esa	0/1
3	Datuk Azih Muda	2/2
4	Dato' Wan Kamaruzaman Wan Ahmad	2/2
5	Syed Hamadah Syed Othman (Appointed on 1 November 2018)	Not appointed yet

Appointment and Remuneration of Board and Investment Panel Members

Members of the Board and the Investment Panel are appointed for a period of up to three years, on the expiry of which they are eligible for reappointment. The remuneration of Board and Investment Panel members is determined from time to time, subject to the approval of the Minister of Finance.

In 2018, the Board and Investment Panel members received a total remuneration of RM681,833 and RM440,120 respectively.

Conflict of Interests

KWAP has implemented various initiatives and policies to manage conflict of interests, which are available on our website.

- (i) Conflict of interests with regard to KWAP's Board and Investment Panel members are addressed in KWAP's Act and the Board Charter.
- (ii) KWAP's Code of Conduct for Investment Activities applies to all employees to manage confidentiality with respect to investment related non-public price information.
- (iii) An Integrity Pact was adopted to ensure all employees and service providers do not act in their personal interest in business transactions.
- (iv) A Chinese Wall policy may be triggered to control the flow of material non-public and price sensitive information within KWAP to manage the risk of insider trading and potential breach of laws and/or regulations.
- (v) Managing confidentiality of all information pertaining to KWAP is addressed by the Retirement Fund Act 2017 (Act 662).
- (vi) All employees are required to declare their assets under KWAP's Asset Declaration Policy.
- (vii) We enforce a No Gift Policy in line with best industry practice.

3.2 CORPORATE GOVERNANCE

Statement on Internal Control

Responsibility

The Board

Board Members (the Board) have overall responsibility for establishing and maintaining a sound system of internal controls in KWAP. The control structure comprises processes to identify, evaluate, monitor, manage and respond to significant risks faced by KWAP as we strive to achieve our business objectives. These controls, however, can only manage and mitigate our risks within an acceptable risk appetite, rather than eliminate the risk of failure entirely. The system therefore provides only reasonable, rather than absolute, assurance against material misstatement, fraud or loss.

The control structure and processes which have been instituted are reviewed and updated from time to time to reflect changes in the business environment.

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.

The Management

The Management is accountable to the Board and responsible for implementing the internal controls and processes established in KWAP. Management is also responsible for the execution and effective communication of key operational and management decisions. The team ensures that all relevant policies and procedures, operating infrastructure, systems and financial controls are in place to identify, evaluate and mitigate risks.

Key Internal Control Processes and Structure

The Board has established the following key processes to review the adequacy and effectiveness of KWAP’s system of internal controls:

Establishment of Framework, Policy, Manual and Procedures

- | | | |
|---|---|--|
| <ul style="list-style-type: none">• Framework, policies and procedures
Each department is responsible for ensuring these documents are enforced and embedded into their daily operations as well as reviewed periodically to build consistency into KWAP’s business operations and transform our vision and mission into results-oriented actions. | <ul style="list-style-type: none">• Human resources policies
Policies and guidelines on hiring and terminating employees, their compensation and training are important in managing our human resources and avoiding conflicts of interest. KWAP is committed to enhancing the skills, competencies and capabilities of our employees to ensure proper and professional execution of duties. | <ul style="list-style-type: none">• Performance review
A Corporate Scorecard has been established to map KWAP’s strategy, business initiatives, planning and reporting against expected outcomes. The review is tabled to the Management every quarter. |
|---|---|--|

Internal Audit

The Internal Audit function is governed by the Internal Audit Charter, which is approved by the Board Audit Committee (BAC). Internal Audit is integral to KWAP’s system of internal controls, with the Head of Internal Audit reporting directly to BAC in order to provide assurance on the adequacy of governance, risk management and the overall effectiveness of the system of internal controls, and providing recommendations for improvement.

Various audit activities were performed on investment, operations and information technology-related activities in accordance with the approved audit plan for the year.

BAC deliberates regularly on audit reports, focusing on areas of improvement and action plans committed by Management to address the root causes. There is continuous follow-up on all outstanding audit issues and periodic updates to the BAC and Executive Committee until closure.

During the year, the Audit Risk Assessment Methodology and Internal Audit Methodology were further enhanced to stay relevant with KWAP’s current operational and business environment.

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- | | | |
|---|--|--|
| <ul style="list-style-type: none">• Information security
Management leverages on technology to maintain data security through centralised control of a Virtual Desktop Infrastructure (VDI) and Data Loss Prevention (DLP) system. | <ul style="list-style-type: none">• Business process improvement
The role of Enterprise Architecture includes the development, maintenance and periodic review of policies and procedures, ensuring these are streamlined with KWAP's expectations. | <ul style="list-style-type: none">• Whistle blowing policy
This policy encourages employees or any other stakeholder 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 identifying and eliminating any malpractice or unlawful activity to uphold KWAP's integrity. |
|---|--|--|
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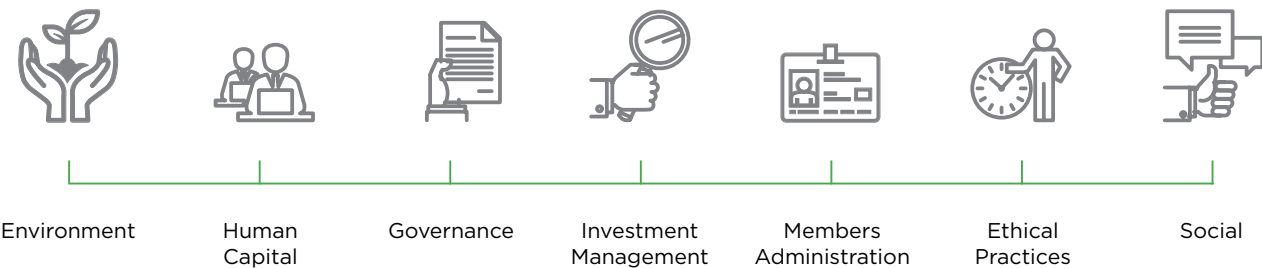
Risk Management

A second line of defence is provided through 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, the RC's function is to ensure availability of infrastructure, resources and systems for effective risk management.

3.2 CORPORATE GOVERNANCE

Responsible Investing

As one of the largest institutional investors in the country, KWAP seeks to influence how companies make their profits, ensuring they are balanced with strong environmental and social scorecards as well as good governance. We also exercise effective environmental, social and governance (ESG) stewardship to deliver sustainable long-term returns by incorporating the following seven basic pillars of ESG into KWAP’s ESG Guidelines:



We seek to invest only in companies that demonstrate sound ESG principles. In 2018, we rolled out ESG guidelines for our fixed income portfolio as well as domestic and international equity portfolios. ESG guidelines will be extended to our private equity investments in 2019.

Milestones in ESG

2015	Signed Malaysian Code for Institutional Investors
2016	Established KWAP Corporate Level ESG Guidelines
2017	Established KWAP ESG Guidelines for Fixed Income Investment
2018 FEB	First Malaysian pension fund to sign United Nations-Supported Principles of Responsible Investment (UNPRI)
JULY	KWAP Inspire: Environmental Conference 2018
SEPT	Introduction of KWAP's Carbon Footprint Investment Measurement to domestic & international equity portfolios
DEC	Established ESG Tracking Methodology
	ESG Champion in Asia Pacific at Asian Investors' Institutional Excellence Awards 2018

United Nations-supported Principles of Responsible Investment (PRI)

On 8 February 2018, KWAP took our responsible investment initiatives to a globally recognised platform by being the first pension fund in Malaysia to become a signatory to PRI - an independent non-profit organisation that encourages investors to adopt responsible investment by incorporating the following six (6) Principles into their investment and ownership decisions:

Principle 1:

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3:

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4:

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5:

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6:

We will each report on our activities and progress towards implementing the Principles.

As a signatory, we are committed to adopting these Principles and integrating them with our own ESG principles to generate sustainable risk-adjusted returns.

KWAP has also engaged closely with PRI representatives to further improve corporate governance in the region. One of our officers has been appointed as a member of the PRI Investment Working Group on Sustainable Palm Oil.

Ensuring Responsible Investments

To ensure our investee companies operate in a responsible manner, we have implemented various initiatives that include regular engagements through management visits, active participation in their annual general meetings (AGMs) and extraordinary general meetings (EGMs), as well as attendance by our Research Department at their analyst briefings. Resolutions to the companies on matters such as corporate exercises, gender diversity, sustainability and environmental issues are submitted prior to their AGMs and followed upon in subsequent management meetings.

We also share our Voting Guidelines with all our investee companies, clearly outlining our expectations on:

- the companies' transparency in disclosing financial and non-financial performance;
- policies that ensure the creation of sustainable shareholder value in the long term; and
- ESG disclosure in their annual reports and website.
 - These serve as a guideline on the manner in which KWAP will vote on resolutions raised at AGMs / EGMs. Further information on our Voting Guidelines can be found at: **www.kwap.gov.my**

To monitor our investee companies, we maintain an ESG watchlist based on three parameters: ESG Scorecard, carbon footprint and controversies. Those that are red-flagged are closely monitored with the aim of providing guidance to enhance their performance.

Additionally, KWAP sends an annual letter to all investee companies in which we underline KWAP values, and those we expect to see in their companies.

Keeping up with Best Practices

To keep abreast with the latest ESG issues and corporate governance matters, KWAP engages with regulators such as Bank Negara Malaysia, the Securities Commission, Bursa Malaysia, Malaysia Anti-Corruption Commission (MACC) as well as institutions that promote ESG such as the World Bank, Minority Shareholders Watchdog Group (MSWG), World Wildlife Fund (WWF) and ACCA Malaysia.

We maintain a pulse on emerging ESG issues through membership in various related organisations such as the International Corporate Governance Network (ICGN), Asian Corporate Governance Association (ACGA) and Institutional Investors Council (IIC). Our CEO has served as Chairman of the IIC since its inauguration in 2015.

We also contribute to knowledge-sharing within this fraternity. On 7-8 November 2018, one of our officers participated as a panel speaker at the OECD-Asian Roundtable on Corporate Governance hosted by the Securities Commission in Kuala Lumpur.

EFM Monitoring

As part of responsible investing, we monitor our external fund managers (EFMs) and ensure they adhere to our investment guidelines as they maintain a high level of performance. Reviews are held on a monthly or quarterly basis, while on-site visits are conducted at EFMs' premises to ensure adherence to our terms of agreement.

During the year, a total of 86 meetings, three annual visits and two compliance visits were conducted to monitor EFMs' compliance with relevant internal control procedures and best business practice in day-to-day trading activities.

The year 2018 also marked the third year of KWAP hosting the CEO's Mandate for EFMs. During the event, held on 8 February 2018, our CEO delivered his aspiration and expectations to the heads of all our EFMs.

To recognise our EFMs' performance and contributions to KWAP's returns, we organised an inaugural EFM Award 2017 on 13 April 2018.

Recognition from ACGA on Positive Influence on Corporate Malaysia

In its Corporate Governance Watch Report (CG Watch) 2018, produced in collaboration with CLSA Ltd, ACGA recognised KWAP as one of the GLICs that has helped improve Malaysia's corporate governance ranking in Asia from 7th to 4th position through enhanced ESG stewardship.

3.2 CORPORATE GOVERNANCE

Initiatives in 2018



Issued

150

**KWAP annual letters to
investee companies**



KWAP participated in all

3

**Institutional Investors
Council (IIC) engagements**



Our Research Department conducted

798

engagements



Management visits

8

local investee companies



Submitted resolutions to

150

**companies prior to
their AGMs / EGMs and
exercised our voting rights.**



On a regional trip to the Philippines,
**explored the potential for
investment**



Conducted working level visits to

13

public listed companies



KWAP Inspire Environmental Conference 2018

To reaffirm our commitment to mitigating climate change, KWAP organised an inaugural KWAP Inspire: Environmental Conference 2018. Held on 17 & 18 July 2018, the conference served to create awareness of the importance of sustainable, environmentally responsible business in order to manage real global, regional and local risks. It attracted more than 450 local and foreign participants from public-listed companies, financial institutions, asset owners and managers, NGOs and government bodies. A portion of the proceeds from the conference was channelled to local NGOs.

ESG Champion in Asia Pacific

As a result of our efforts to embed ESG into the corporate fabric of Malaysia, KWAP won the Institutional Excellence Award under the category of proficiency in Environmental, Social & Governance (ESG) capabilities at AsianInvestor's fifth Awards Gala Dinner held in Singapore on 10 December 2018. The awards programme is designed to recognise best practices among institutional investors across Asia Pacific in various categories including investment capabilities, innovation as well as environmental, social and governance (ESG) initiatives.





CHAPTER 4

Activating Growth

Over the decade, we have become adept in striking the right balance between seeking attractive yields and maintaining prudence to ensure optimum returns on investment in the long term.



4.1 ECONOMIC & STRATEGY REVIEW

Economic Review

The global economy continued to expand in 2018, led by the US which registered its strongest annual growth since 2008. However, growth was not uniform as trade tensions between the US and China impacted many other nations, notably China and its trade partners, which saw significant slowdown in the second half of 2018.

The US economy roared in 2018 partly due to the corporate tax cut late in 2017 which drove higher private consumption and investment spending. Due to the stronger-than-expected expansion, the Federal Reserve embarked on a tightening cycle and raised the Fed's fund rates four times during the year.

The combined effect of higher interest rates and a reduced Fed balance sheet created turbulence in markets around the world, especially in emerging economies. Global equity markets suffered a huge sell down towards the end of 2018, while President Trump's trade war against China caused regional currencies to weaken against the US dollar.

Other advanced markets faced their own structural challenges. European economies struggled with trade tensions and economic arrangements with the UK as the latter prepared to exit the European Union. These uncertainties led to further deterioration of consumer and business sentiment. Inflation in Japan was nowhere

near the Bank of Japan's target, leaving the central bank with no option but to continue with its expansionary monetary policy resulting in its balance sheet rising larger than the economy.

In China, real GDP growth slowed to a 28-year low of 6.6% in 2018 as internal and external demand faltered. Internally, credit growth weakened due to efforts to rein in debt; while externally it faced serious trade barriers imposed by the US. Tighter domestic financial conditions led to a retreat in equity prices and souring sentiment. The fall in China's renminbi did not help as concerns over economic fundamentals and future policy directions led to investors re-adjusting their portfolios along with re-assessed risks.

The prolonged trade spat between the US and China caused highly leveraged emerging economies with excessive dollar debt to experience a sell down in their currencies, raising concerns of a contagion effect. Several central banks (India, Indonesia, Mexico and the Philippines) resorted to raising interest rates to



Malaysia is expected to sustain its real GDP growth at

4.9%
in 2019

The prolonged trade spat between the US and China caused highly leveraged emerging economies with excessive dollar debt to experience a sell down in their currencies, raising concerns of a contagion effect.

cushion the fall. Meanwhile, the drop in commodity prices, specifically oil, triggered panic among investors on the fate of countries that depend on oil revenue as a source of Federal Administration income.

The year was particularly eventful for Malaysia, which saw a change in Federal Administration. Nonetheless, the country's economic fundamentals remained strong, supported by export diversity, sustained current account surplus and a sound banking system. However, being an open economy, the country was not spared from external headwinds. Volatile crude oil prices were also not favourable to the country's prospects and challenged the nation's fiscal position. External headwinds and emerging market foreign flow reversal contributed to a volatile ringgit, which subsequently ended the year on a stable note.

Moving forward, the Federal Administration envisages the economy to grow at a sustained pace of 4.9% in 2019. However, the domestic economy is vulnerable to global trade slowdown, escalating trade protectionism and the re-emergence of financial market volatility. Within this scenario, the risks to growth are tilted to the downside.

4.1 ECONOMIC & STRATEGY REVIEW

Market Review & Outlook

2018 Equity Market Review

Malaysia

2018 was a tumultuous year for the Malaysian equity market on the back of growing uncertainties in the external economic environment. This was partly due to rising US interest rates, escalating trade tensions between the US and China as well as volatile oil prices.

The Malaysian market, as represented by the FBMKLCI, started the year on a positive note and rose to an all-time high of 1,895.19 points on 19 April amid strong performance by global markets. The 25 bps hike in the OPR also supported the financial sector, which was the best performing sector in the FBMKLCI.

However, the market experienced a sell down in May as investors were concerned about changes in domestic policies. Although the FBMKLCI registered a decline of 5.9% for the whole of 2018, the Malaysia market barometer ranked higher than most of its regional peers on a total return basis, outperforming the MSCI AC Asia ex Japan (MXASJ) in six out of 12 months. The outperformance was partly attributed to strong liquidity conditions and the defensive nature of the domestic market.

Despite the fall in the index, the Malaysian market remains expensive in comparison with its regional peers.

Asia Pacific

Regional markets, as represented by the MSCI AP Index, fell by 15.6% in 2018 to close at 146.71 points. The China market was under pressure mainly due to a slowdown in economic activity and concerns regarding the trade conflict with the US. China's CSI300 index lost almost a quarter of its value after falling into bear market territory in 1H18, which also marked China as the worst-performing equity market of the year.

The FBMKLCI closed the year at

1,690.6 points,

a decline of

5.9%

The MSCI Asia Pacific index closed the year at

146.7 points,

a decline of

15.6%

The MSCI US index closed the year at

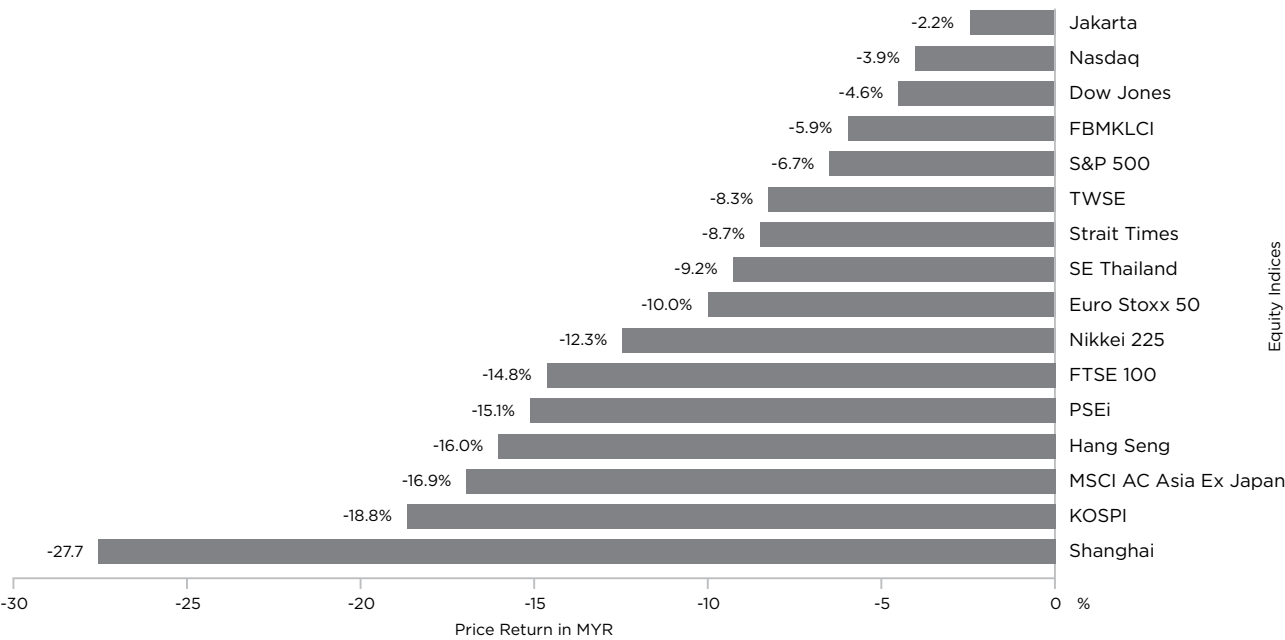
2,383.6 points,

a decline of

7.1%

Other regional markets were also negatively impacted by the slowdown in China and the global trade tensions. As such, exporters in South Korea, Taiwan and Japan did not fare well in 2018. The sell off in Asia was particularly pronounced in part because of the strong US dollar that had drawn money out of riskier emerging markets as investors took profits from a stellar run in 2017.

Global Equity Indices Performance in 2018 (Price Return in MYR)



Source: Bloomberg

US

For US equities, 2018 was the worst year since the financial crisis. Global equity markets retreated from its strong performance in 2017, stoked by concerns of a slowing global economy and tightening monetary policy. Mounting geopolitical tensions from escalating trade war between the US and China to Brexit, rattled investors and weighed heavily on equities.

2018 will be remembered for its extreme volatility. The VIX Index, which gauges US equity market volatility, spiked throughout the year, with five spikes reaching very high levels. Volatility was driven by signs of global economic slowdown, concerns about monetary policy, political dysfunction, inflation fears and worries about increased regulation of the technology sector. Widespread nervous sentiment caused a drag on the US market, as represented by the MSCI US Index, which fell by 7.1% to close at 2,383.55 points on 31 December 2018.

Equity Market in 2019

Global earnings growth is expected to moderate in 2019. In the US, the expected slowdown partly reflects a higher hurdle versus 2018 when corporate tax cuts provided a big boost to company earnings. US earnings growth estimates look set to normalise from a high of 24% in 2018 to 9% in 2019, according to Thomson Reuters data. This is still above the global average. Emerging markets are set to maintain double-digit earnings growth, led by China as its tech sector recovers.

Slower global economic growth and falling earnings coupled with higher volatility from events such as US Federal Reserve tightening, trade wars, uncertainties in China, concerns in Italy and Brexit would imply lower returns. There is also a downside risk to the global market from major policy decisions, which could affect the global economy and fund flows. Nonetheless, weaknesses in the market are seen as an opportunity to accumulate.

On the domestic front, we believe reforms will take time. Malaysia remains firmly in a transitional phase as investors, businesses and consumers adjust to new policies and initiatives. Wholesale structural changes will take time to implement and will be subjected to execution risks. The renewed heightened dependence on oil is an added risk, as the Federal Administration's 2019 Budget is based on an average Brent selling price of USD72 per barrel. The concern is risk to the -3.4% fiscal deficit (as a % of GDP) target for 2019. Oil and Gas is expected to make up 19.5% of the Federal Administration's revenue in 2019, to be used to repay the Goods and Service Tax (GST) and income tax refunds of RM37 billion.

2018 Bond Market Review

Malaysian Sovereign Bonds

2018 was a challenging year for the domestic sovereign bond market amid US monetary tightening as a combination of higher US Treasury yields, US-China trade tensions and volatility in global equity markets led to broad weakness in emerging markets.

The first half of 2018 was a volatile period for domestic sovereign bonds as risk appetite deteriorated leading up to GE14. The 10-year US Treasury yield reached a high of 3.12% as Donald Trump initiated his trade-tariff war. Multiple rounds of selling by foreign investors during that period saw domestic bond yields increase as the 10-year MGS benchmark traded at 4.26% in May, compared to its opening level of 3.96% on 1 January 2018. Investor sentiment was also pressured by concerns over the fiscal stability of the Federal Administration in response to the abolishment of the Goods and Services Tax (GST).

The market staged a mild recovery towards the second half of the year, underpinned by robust domestic demand as local banks and investment funds took advantage of historically high yields. Concerns over the Federal Administration's fiscal position resurfaced in November with the announcement of Budget 2019 as the 2018 deficit of 3.7% exceeded expectations. However, negative sentiment was outweighed by optimism surrounding the US-China trade war after both countries agreed to a 90-day truce. Expectations of slower monetary tightening in the US also supported risk sentiment and saw the 10-year US Treasury yield trade at a low of 2.74% by the end of 2018. The improvement in sentiment also led to a broad-based recovery for the domestic bond market as yields shifted lower, with the 10-year MGS benchmark closing the year at 4.06%.

Domestic Corporate Bond Market

In Malaysia, bonds outperformed stocks as the Thomson Reuters (TR) BPAM All Bond Index clocked in a 4.10% return. The TR BPAM Corps All Bond Index was the top performing bond index at 5.52% with the TR BPAM Quasi All Bond Index coming a close second with a 5.45% return. Foreign investors were net sellers of Government bonds and corporate bonds, bringing total outflows to RM21.9 billion, the largest since 2008. This was attributed to global liquidity tightening and emerging market debt contagion fears. Despite net foreign outflow pressure, bonds benefited from support received by long-term structural onshore buyers.

Corporate bonds and sukuk supply declined to RM104 billion in 2018 from RM122 billion in 2017 driven by fewer Government Guaranteed (GG) issuances. GG issuance fell to RM29 billion from RM38 billion in 2017 due to lower funding requirements on the back of a review by the Federal Administration of several mega projects. The value of AAA issuances was RM5.0 billion less at RM24.0 billion. AA issuance remained the same at RM30.0 billion while single A issuance increased by RM1.0 billion year on year. In the unrated space, issuance fell to RM14.0 billion in 2018 from RM21.0 billion previously.

As in previous years, the bulk of corporate bond and sukuk issuances came from infrastructure (RM36.6 billion in 2018 versus RM35.9 billion in 2017). GG issuances for infrastructure continued to dominate, accounting for 60% of total infra bond and sukuk supply in 2018 versus 54% in 2017. The financial services sector saw the second highest issuance, at RM22.0 billion, which was a slight drop from RM26.3 billion in 2017. The decline was due to lower issuance of senior and subordinated debts.

Domestic Credit Quality

Credit quality did not exhibit signs of stress with no bond defaults in 2018. However, rating agencies issued more downgrades (nine) than upgrades (two), mostly in the second half of the year.

The upgrades hailed from the banking industry while most of the downgrades were from media, road tolls, banking

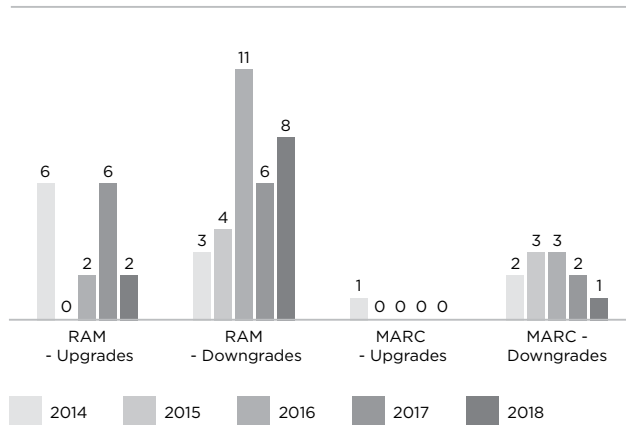
(foreign), industrial products and property. The property, industrial products and media sectors were affected by sector-specific rather than issuer-specific challenges. The media sector, for example, faced a structural shift towards digital platforms and declining advertising expenditure by corporates.

Sovereign Ratings

All three major rating agencies (Moody's, S&P and Fitch) affirmed Malaysia's sovereign rating despite earlier concerns of a negative credit rating given the weakened fiscal position and high Federal Administration debt levels.

Moody's highlighted that Malaysia benefits from robust growth potential and deep domestic capital markets while challenges include high debt burden relative to peers, a narrow revenue base and susceptibility to confidence-based capital flows. S&P views favourably the Federal Administration's emphasis on strengthening its fiscal position. Fitch's rating affirmation not only takes into consideration the Goods and Services Tax removal, but also improved governance and the intention to reduce the fiscal deficit.

Rating Upgrades and Downgrades for Malaysia by RAM and MARC



Source: RAM Ratings, MARC

S&P revised the outlook for Australia from Negative to Stable and reaffirmed its AAA sovereign rating. Deteriorating Federal Administration finances were among the reasons for a negative outlook placed on Australia in the past.

In summary, most of the sovereigns covered under Moody's exhibited a Stable outlook while those with Negative outlooks were regionally concentrated in sub-Saharan Africa, the Caribbean and Latin America.

Bond Market in 2019

The market is focused on growth concerns and recession risk as major central banks exit their accommodative policy stance. The US Federal Reserve remains firmly on its rate normalisation stance into 2019, which leads to a continued flattening of the US treasury yield curve. A key concern would be the Federal Reserve being too aggressive in raising interest rates leading to a yield curve inversion which signals a deceleration in growth and potential recession.

Spillover effects from numerous headwinds such as trade wars, potential slowdown in China, tightening global liquidity and political risks are likely to affect global investors' demand for local bonds. We envisage domestic foreign outflows in 2019 to stay moderate rather than revisit 2018 levels due to a slower pace of US Fed interest rate hikes. Domestic demand from pension funds and banks are expected to stay supportive in 2019 underpinned by healthy asset growth. Bond market volatility from headwinds creates opportunities for investors.

Thorough due diligence will be crucial to avoid getting caught in any potential credit quality deterioration from external headwinds. We do not expect default rates to rise materially in the near term unless there is a sharp drop in Malaysia's GDP growth.

Primary market corporate bond issuances will normalise to around RM90 billion in 2019 as the Federal Administration rationalises certain infrastructure projects. However,

infrastructure, utilities and financial services will remain key drivers of primary market issuances. Issuers are expected to front-load refinancing needs due to heavier maturities in the second half of 2019 and to lock in lower funding cost as global interest rates tick higher.

2018 Private Equity Landscape

Throughout 2018, the private equity (PE) and venture capital industry saw robust fundraising in aggregate terms, which was positive for markets supported by investments from private equity. Investor demand remained strong as healthy capital distributions to investors continued to fuel activity.

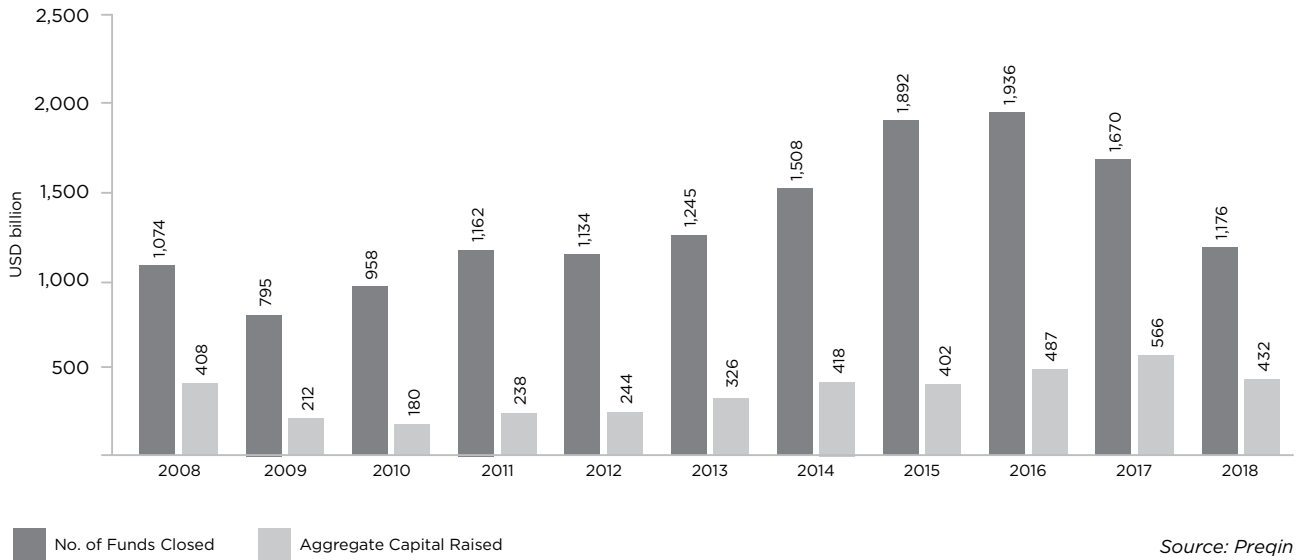
2018 was the fifth consecutive year in which fundraising exceeded USD400 billion, with 1,176 funds raising a total of USD432 billion globally. At the same time, this was short of 2017's banner year of USD566 billion. The decline could be early indication that market uncertainty is starting to impact investor activity.

Buyout funds continued to dominate the market with 215 funds raising a total of USD235 billion while venture capital funds had another strong year with 605 vehicles achieving a final close.

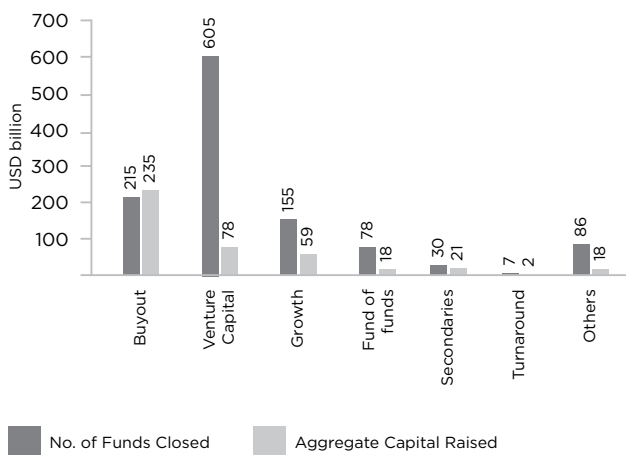
North America-focused vehicles raised the most private equity capital of any region in 2018, followed by funds targeting Europe, Asia and the rest of the world. Asia-focused funds' share of total capital raised in 2018 was six percentage points lower than in 2017, marking the region's smallest market share since 2013. Funds focused on North America and Europe, however, saw their total capital increase by four and two percentage points respectively.

While investors' appetite for the asset class is showing no signs of diminishing, growing uncertainties surrounding valuations as well as rising expectations of a correction in the market indicate that investors are looking at recognised brands and established managers more than ever.

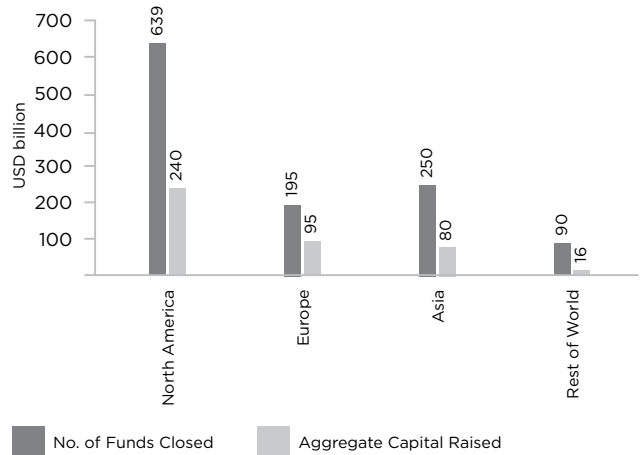
Annual Global Private Equity Fundraising, 2008-2018



Global Private Equity Fundraising in 2018 by Fund Type



Private Equity Fundraising in 2018 by Primary Geographic Focus



2018 Infrastructure Landscape

Investors invest in infrastructure for diversification, high risk-adjusted returns and a reliable income stream backed by real assets. A record USD90 billion was secured by the 68 funds that closed in 2018, up significantly from USD75 billion in 2017. While capital secured is up, the number of funds closed last year fell significantly to 68 compared with 94 funds in 2017, illustrating that capital is increasingly concentrated among a smaller pool of managers.

North America-focused funds continued to dominate the unlisted infrastructure fundraising market, raising USD49.0 billion, representing North America's largest share (54%) of the global total since the global financial crisis. Plans for investment in US infrastructure by the US Administration are a positive sign for fund managers seeking opportunities in this space. Early 2018 unveiled plans of as much as USD200 billion being spent by the US Federal budget to stimulate USD1.5 trillion in spending for over a decade.

Europe-focused funds recorded the greatest growth (48%) in terms of market share of all regions from 2017, securing USD35 billion or 41% of the total in 2018. This compares to USD24 billion in 2017 and marks its largest ever share of global fundraising. In contrast to the growth seen in the aforementioned markets, funds targeting Asia and the rest of the world secured an aggregate USD6.3 billion, down from USD14 billion in 2017, as investors increasingly looked to established infrastructure markets and greater opportunities in North America and Europe.

In 2018, funds pursuing a diversified strategy (investing in different infrastructure asset types and sectors) accounted for nearly half of funds closed and three-quarters of total unlisted infrastructure capital raised, up from 43% and 65%, respectively in 2017. Amid intense competition for assets and rising prices, the ability of managers to effectively deploy capital through a diversified strategy is an important differential/factor for investors with concerns over potential deal pipeline. Diversified funds closed in 2018 recorded an average size of more than USD2.0 billion, compared with

USD1.3 billion in 2017, significantly impacting the market-wide increase in average fund size seen in 2018. This was driven by consistently larger funds reaching a final close – 12 having raised USD2.0 billion or more compared with four in 2017.

2019 Private Equity & Infrastructure Landscape Outlook

The private equity industry has seen strong growth in recent years, with cash flows to investors fuelling record fundraising activity. 2019, however, could present a new market dynamic and new opportunities. In the context of rising competition and a continued trend of high valuations, industry players believe the private equity market may be on the brink of correction. Just when this occurs, however, is difficult to determine.

In any case, fund managers have various tools at their disposal to navigate cyclical challenges. For example, distressed private equity – a specific yet broad investment strategy which seeks to gain exposure to companies in financial distress as a result of the difficult economic climate – offers more diversification and higher potential returns in such an environment. In this way, investments in distressed private equity can act as a buffer to existing investment portfolios during a downturn. Moreover, selection of managers with proven through-the-cycle returns and managers with distinct operating/sector expertise may also prove to be a performing strategy through the economic downturn.

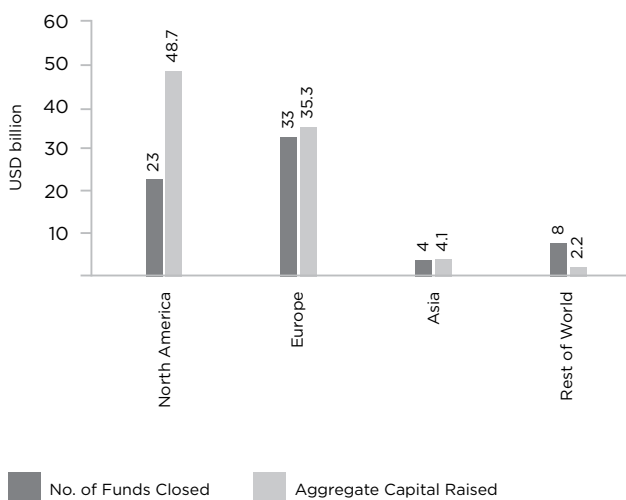
In addition, while investors are cautious of the high valuation environment, paying a high price for a portfolio company or an asset does not necessarily minimise returns. With the right information, focus on recession-resilient business models and funding structures could lead to strong performance.

In the infrastructure space, enthusiasm has not waned as the industry has several catalysts on its side. For example, China's Belt and Road Initiative and a potentially large US Administration infrastructure package indicate vast deficits in the global infrastructure landscape, enticing new investors and capital to the asset class. Further, infrastructure assets are able to provide reliable income stream and have low correlation with other asset classes.

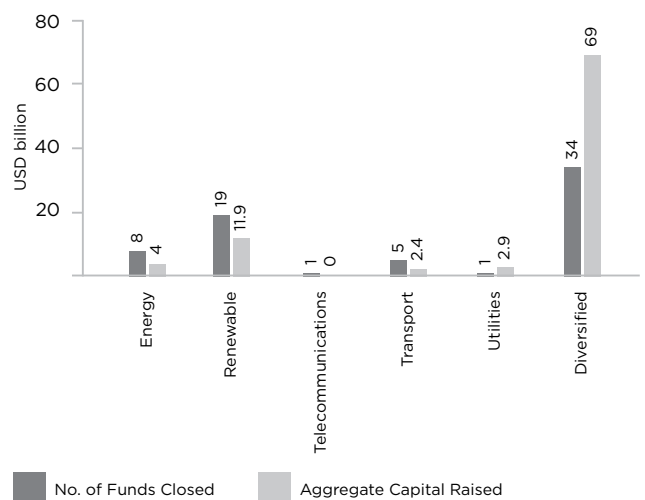
Annual Global Unlisted Infrastructure Fundraising, 2008-2018



Unlisted Infrastructure Fundraising in 2018 by Primary Geographic Focus



Unlisted Infrastructure Fundraising in 2018 by Industry



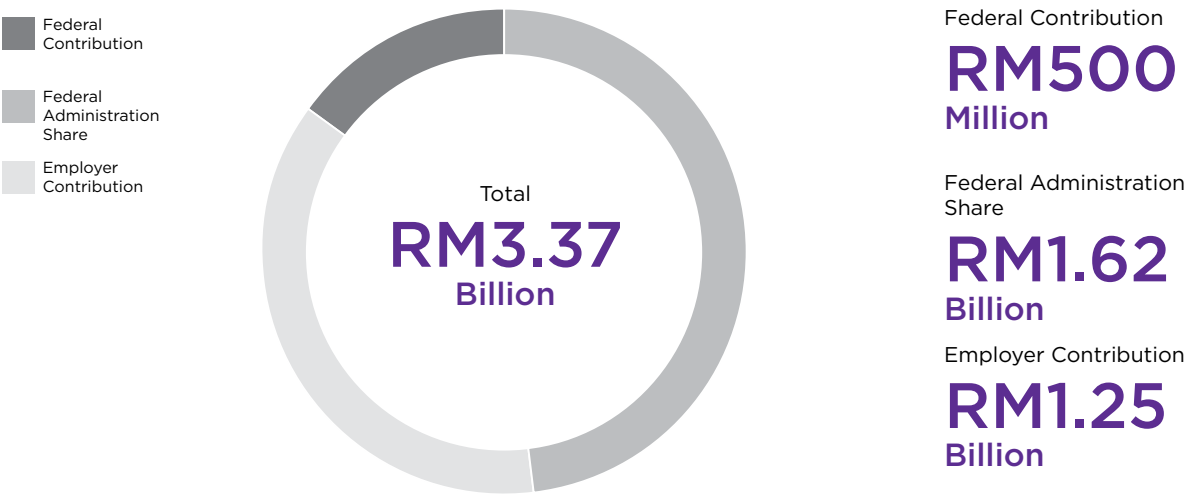
4.2 CONTRIBUTION & INVESTMENT

Contribution Management

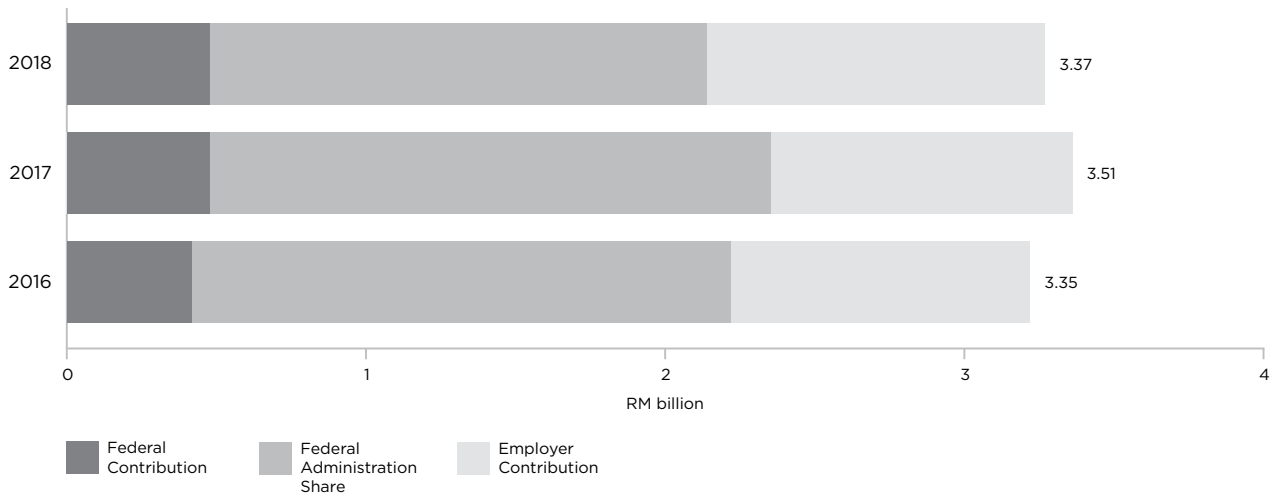
Contributions from the Federal Administration, statutory bodies, local authorities and agencies play a major part in KWAP's annual fund growth.

For the financial year 2018, KWAP received a total of RM3.37 billion in contributions. This comprised RM500 million from the Federal Administration, RM1.62 billion from the Federal Administration share of contributing agencies, and the remaining RM1.25 billion from employers. This was RM140 million less than the total contributions received in 2017, due to a reduction in the Federal Administration share from contributing agencies.

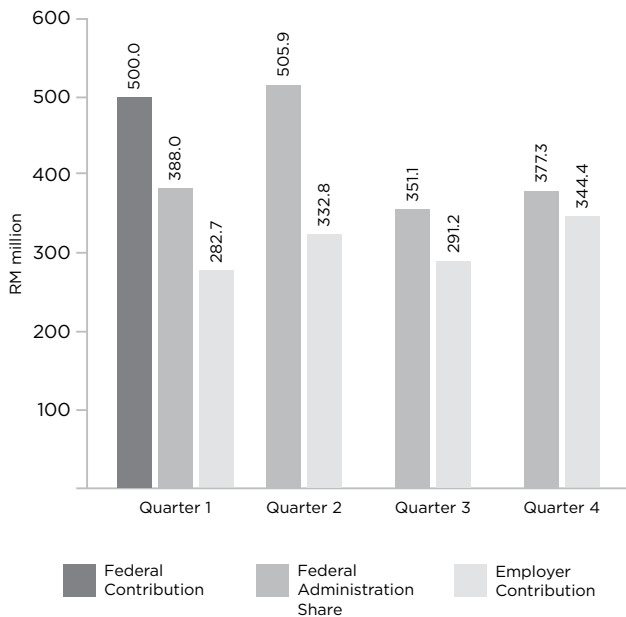
Sources of Contribution: 2018



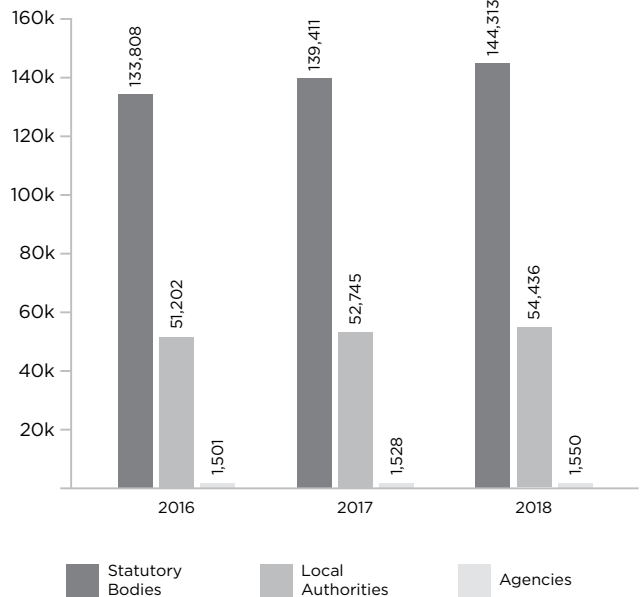
Total Contributions 2016-2018



Quarterly Contributions in 2018, by Type



Number of Employees, by Category



Top 20 Contributors

No	Employer	RM (million)
1	Universiti Teknologi Mara	166.13
2	Majlis Amanah Rakyat	83.05
3	Universiti Kebangsaan Malaysia	67.11
4	Universiti Teknologi Malaysia	45.72
5	Universiti Putra Malaysia	42.09
6	Dewan Bandaraya Kuala Lumpur	39.14
7	Universiti Malaya	35.85
8	Hospital Universiti Sains Malaysia	32.84
9	Universiti Sains Malaysia	28.00
10	Universiti Utara Malaysia	25.08
11	Pusat Perubatan Universiti Malaya	22.79
12	Pihak Berkuasa Kemajuan Pekebun Kecil Perusahaan Getah	21.73
13	Institut Penyelidikan Dan Kemajuan Pertanian Malaysia	18.14
14	Universiti Tun Hussein Onn Malaysia	17.43
15	Universiti Teknikal Malaysia Melaka	17.37
16	Universiti Pendidikan Sultan Idris	17.30
17	Lembaga Pertubuhan Peladang Kuala Lumpur	15.90
18	Universiti Malaysia Sarawak	15.82
19	Universiti Malaysia Sabah	15.01
20	Lembaga Kemajuan Tanah Persekutuan (FELDA)	14.54
		741.04

Various initiatives were undertaken in 2018 to further improve KWAP's management of pension contributions. These included a Business Process Reengineering exercise which involved a review of the existing key functions, digital systems and human resources in order to enhance our operational capabilities.

Continuing from the preceding years, employers were encouraged to remit their contributions via Electronic Fund Transfer (EFT). As at 31 December 2018, 391 employers (or 81% of the total) are utilising the EFT payment facility.



We seek to develop strong relationships with employers, and engage with them regularly to keep them updated on contribution matters. A total of 48 engagement and compliance enforcement visits were conducted during the year to the various ministries, state secretaries, local authorities, statutory bodies and agencies in relation to the Statutory and Local Authorities Pension Act 1980 (Act 239) and Service Circular No. 12/2018. In addition, a three-day Awareness Programme was conducted at our office in October 2018 to update employers on contribution matters.

To gauge employers' level of satisfaction with services provided by KWAP, we conducted an annual Customer Survey. In 2018, we scored 77%, which was deemed as satisfactory.

4.3 OUR PERFORMANCE

Investment Strategy & Performance

The year 2018 presented a challenging environment for investments across the board reflecting macroeconomic and geopolitical uncertainties. After two years of growth, the MSCI World Index delivered a negative return of -9.59% (in MYR terms). Within the domestic bond market, although domestic corporate bond issuance exceeded the RM100 billion mark for the second year, the value of issuance dropped from RM122 billion in 2017 to RM104 billion.

Despite these challenges, KWAP recorded our second highest gross investment income of RM7.06 billion. Our time weighted rate of return (TWRR) for the year exceeded our benchmark by 0.17%, and over a 10-year timeframe, we have achieved a TWRR of 6.44%, exceeding the blended benchmark of 1% by 544 bps.

As of 2018, we will no longer limit our focus on measuring our performance in terms of return on investment (ROI) but will expand to include total returns as it provides a more holistic and sustainable way of managing our investments. This approach allows us to grow the fund sustainably as it takes a total portfolio approach whilst managing risks dynamically.

The SAA for 2018 was revised to take into account the macroenvironment, and was approved by the Board in March. Over the years, our SAA has evolved to increase our portfolio diversification in terms of asset class, geography and strategy. In 2018, a higher allocation was given to alternative investments with potentially uncorrelated sources of returns to better manage our risks. Alternative investments also enable us to capitalise on emerging themes and trends.

In terms of geographical diversification, this year we made our first foray into China's equity market by investing directly into A-shares listed on the Shanghai and Shenzhen Stock Exchanges. We also further diversified our international property portfolio by including student accommodation in the UK. Our international investments have grown steadily over the years. However the bulk (87%) of our assets are still in Malaysia.

At year end, our fund size amounted to RM136.51 billion, 3.1% less than RM140.80 billion at end 2017.

Investment Strategy

KWAP seeks to maximise our total returns on a sustainable basis through dynamic investment strategies in line with the fund's risk appetite. To improve our risk-adjusted returns, we seek to diversify our investment portfolio with allocations into a spectrum of asset classes in different geographic locations. This has seen us expand our investments overseas and into alternative investment classes, while increasing the amount allocated to EFMs.

We seek to participate in private equity investments primarily in partnership with specialised investment managers or by leveraging our partners' networks, sector and geographic expertise to source long-term direct investment and co-investment opportunities. We have strategic investments with many leading private equity firms across various geographies which open up private capital opportunities in markets we cannot access easily.

The infrastructure team employs the same approach and invests globally on a long-term basis, primarily in the power generation and telecommunications sectors with a focus on direct investments, including platforms and co-investments.

KWAP seeks to maximise the total return of the fund on a sustainable basis through dynamic investment strategies in line with the fund's risk appetite.



We continue to outsource funds to strengthen our exposure to domestic Shariah, ESG, Small Cap and Absolute Return investments. This is done via additional capital injection into the top performing EFMs and adding new EFMs to existing mandates.

Although EFMs go through a stringent selection process, we actively monitor their performance once they start investing on KWAP's behalf. This requires frequent and direct interaction with our investment managers as we ensure proper alignment of interests between manager and investor.

In November 2018, KWAP began the process of demarcating our core and non-core portfolios in order to develop a more predictable and steady stream of income on a year-to-year basis while improving our financial performance and financial position (ie Profit and Loss Statement and Balance Sheet). The demarcation is based on the source of return, with investments providing income-based returns forming the core of our portfolio while those generating capital gains forming the non-core component.

Over the medium to long term, the core component should provide stable income and returns from dividends, coupon payments, rental income and realisation from profits. This component serves as the defensive portion of the total portfolio during a bear market and will be relatively more stable. Despite the nature of this portfolio, realisation of income is still possible if the need to do so arises. The non-core component, which is technically more short-term in nature, is more susceptible to market movements. Returns from this component comes from price change/capital gains in equities, fixed income and the revaluation of alternative assets.

At the same time, the adoption of total returns remains integral to KWAP's long-term performance as it allows the Fund to harvest multiple sources of returns, ie income and capital growth (and preservation).

Equity Five-year TWRR

Outperformed benchmark by

255

basis points

Domestic Sovereign Bonds

Achieved a TWRR of

4.50%

vs

Benchmark

3.60%

Domestic Corporate Bonds

Achieved a TWRR of

5.51%

vs

Benchmark

4.65%

International Fixed Income

Achieved a TWRR of

1.33%

vs

Benchmark

0.74%

Investment Performance

As at 31 December 2018, Fixed Income made up 50.88% of our total fund, Equity 42.6% and Private Equity & Infrastructure 2.9%, while Real Estate made up the remainder. Our Alternative Investment portfolio performed exceptionally well, recording a total return of 13.38% for the year. Fixed Income delivered a return of 4.58% in 2018 which was slightly lower than the 4.62% achieved in 2017. Our Equity portfolio, however, was most impacted by the challenging environment, and recorded a return of -10.1%.

Our total investment realised income of RM5.93 billion consists of RM3.37 billion from Fixed Income, RM1.91 billion from Equity and RM0.65 billion from Alternative Investments.

Internally managed portfolios continued to achieve very encouraging results, with most outperforming their benchmarks. For domestic Equity, we outperformed our benchmark by 347 bps in terms of its five-year TWRR. We also achieved a TWRR of 4.50% for domestic sovereign bonds, and a TWRR of 5.51% for domestic corporate bonds, the latter outperforming the benchmark Quantshop Corporate Medium Index's returns of 4.65%. Our internally managed international Fixed Income portfolio achieved a TWRR of 1.33% versus the benchmark's 0.74%.

Our EFM's also performed well in most asset classes. All our externally managed international Equity portfolios, except for the newly incepted Euro AR, outperformed their respective benchmarks. The UK and Euro mandates outperformed the FTSE100 Index and MSCI Euro Index by 234 bps and 173 bps respectively, while the Global ESG mandates outperformed their benchmarks by 897 bps and 659 bps, respectively.

In terms of international Fixed Income, our EFM's outperformed the stipulated benchmark by 85 bps and 38 bps for one-year and three-year rolling periods.

Strong performance by Private Equity and Infrastructure was contributed in part by divestment of our stake in Munchy Food Industries Sdn Bhd (Munchys), a co-investment made together with a regional fund partner.

Impact of MFRS9 on KWAP's Bottom Line

In 2018, in line with adoption of the accounting standard MFRS9, the recording investment performance reflected the new approach in accounting policy. MFRS9 recognises net changes in unrealised gains / loss for investment assets classified as Fair Value Through the Statement of Profit or Loss (FVTPL) in the profit and loss statement, versus MFRS139 which recognises the net changes in unrealised gains / loss in reserves for investment assets classified as available for sale. During MFRS139 adoption, all equity investments were classified as available for sale.

In light of the new approach and to continue to reflect the traits of a long-term investment fund, the approach to equity investment management transited into a two-pronged approach, namely via FVTPL and Fair Value Through Other Comprehensive Income (FVOCI) portfolios. MFRS9 allows an irrevocable election to FVOCI on an instrument-by-instrument basis. Instruments classified under FVOCI can only recognise dividends in profit and loss while net changes in the unrealised gain and loss are recognised in the reserve, versus the FVTPL which recognises both dividends and net changes in the unrealised gain and loss in the profit and loss statement.

4.3 OUR PERFORMANCE

Equity

KWAP's total equity market value as at 31 December 2018 stood at RM58.21 billion, representing 42.62% of our total assets. Domestic equity accounted for 84% of our total equity exposure, with 86% managed internally – the rest outsourced to EFMs appointed by KWAP.

Equity outperformed the blended benchmark of three and five years, as shown in the table below:

	2018 (%)	2017 (%)	3 Years (%)	5 Years (%)
Total Equity	-10.10	15.03	1.87	1.87
Blended Benchmark	-9.06	12.40	0.58	-0.68
Alpha	-1.05	2.63	1.29	2.54

In 2018, we realised a total income of RM1.91 billion from our equity investments, most of which (85%) was derived from domestic equity.

Internally Managed Domestic Equity

In 2018, we categorised our internally managed domestic equity into core and non-core portfolios. The core portfolio reflects our long-term investment strategy which focuses on growing our net asset value (NAV) coupled with growing steady income from dividends. Meanwhile, the non-core portfolio reflects shorter-term trading strategies.

In terms of time-weighted rate of return (TWRR), internally managed domestic equity outperformed the benchmark by 209 and 347 bps respectively.

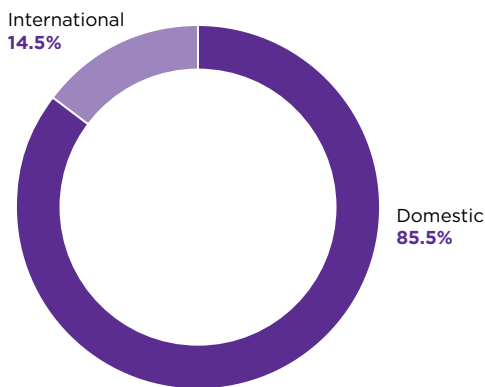
In terms of the realised return, our team recorded a total realised income of RM1.31 billion.

Internally Managed International Equity

KWAP's first foray into foreign equities began in 2012 with the establishment of an internally managed international equity mandate for the Asia Pacific market. In 2017, we expanded this market to include US equities. In late 2018, KWAP made a historic incursion into China's financial markets by investing directly into A-shares listed on the Shanghai and Shenzhen Stock Exchanges using the Hong Kong Stock Exchange's Stock Connect platform. The initiative is part of KWAP's receptiveness towards the inclusion of China A-shares in MSCI indices in July and September 2018.

Overall, 2018 was a difficult year for global equity markets, with the MSCI World Index delivering a -9.59% (in MYR terms) return, after two years of growth in asset prices. Despite strong growth and resilient corporate earnings in the US, economic growth elsewhere decelerated notably

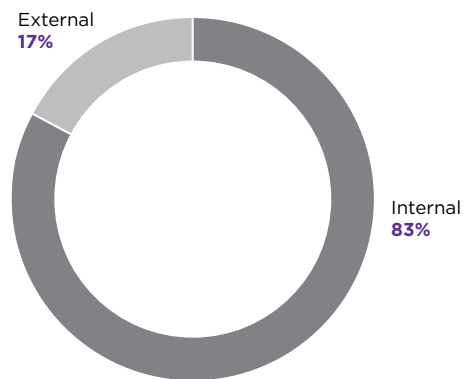
Equity Fund Size by Region



in the Eurozone and China, while global growth became less synchronised, the downside was further exacerbated by a tightening of monetary policy in the US, and the trade war rhetoric. As US President Donald Trump prepared to slap more tariffs in order to close the gap of more than USD300 billion in trade deficit, there was increased volatility, especially in the last three months of the year.

The volatile market in 2018 saw our internally managed international equity portfolio record a TWRR of -14.09% versus the benchmark of -9.59%. At the same time, our team recorded a total realised income of RM237.50 million.

Equity Fund Size by Managers



Externally Managed Domestic Equity

The total equity portfolios managed by domestic EFMs account for 5.2% of our total fund size of RM136.57 billion. Of our 22 domestic EFMs, five managed Conventional, Shariah and Small Cap mandates; four managed Absolute Return mandates; and three managed Environmental, Social and Governance (ESG) mandates.

As at 31 December 2018, KWAP's domestic equity EFMs recorded an aggregate realised income of RM34.77 million. On aggregate, all the outsourced mandates except for Small Cap mandates underperformed their respective benchmarks.

List of Domestic External Fund Managers as at 31 December 2018

	Fund Inception		Fund Inception
Conventional		Small Cap	
CIMB-Principal Asset Management Sdn Bhd	2005	Affin Hwang Asset Management Berhad	2014
Nomura Asset Management Malaysia Sdn Bhd	2007	Maybank Asset Management Sdn Bhd	2015
Aberdeen Standards Investments (Malaysia) Sdn Bhd	2008	Eastspring Investments Berhad	2015
Kenanga Investors Berhad	2011	UOB Asset Management (Malaysia) Sdn Bhd	2017
Affin Hwang Asset Management Berhad	2016	Amundi Malaysia Sdn Bhd	2017
Islamic		Environment, Social & Governance (ESG)	
i-VCAP Management Sdn Bhd	2011	VCAP Asset Managers Sdn Bhd	2014
CIMB-Principal Islamic Asset Management Sdn Bhd	2012	BNP Paribas Asset Management Malaysia Sdn Bhd	2015
AmIslamic Fund Management Sdn Bhd	2012	Corston-Smith Asset Management Sdn Bhd	2015
AIIMAN Asset Management Berhad	2015	Absolute Return	
MIDF Amanah Asset Management Berhad	2016	Eastspring Investments Berhad	2018
		Aberdeen Standards Investments (Malaysia) Sdn Bhd	2018
		MIDF Amanah Asset Management Berhad	2018
		Affin Hwang Asset Management Berhad	2018

Externally Managed International Equity

In 2018, KWAP's externally managed international investments were in five mandates, namely the United Kingdom (UK), Europe (Euro), European Absolute Return (Euro AR), 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 UK, Euro and Euro AR 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 are managed by Nikko Asset Management Asia Limited (Nikko) and LGT Capital Partners (LGT).

As at 31 December 2018, KWAP's international equity EFMs recorded a realised income ranging between 1.7% and 8.7% to total RM322.89 million. All portfolios outperformed their respective benchmarks except for the newly incepted Euro AR. The UK and Euro mandates did well, outperforming the FTSE100 Index and MSCI Euro Index by 234 bps and 173 bps respectively. The Global ESG mandate did exceptionally well with Nikko outperforming the benchmark by 897 bps while LGT outperformed the MSCI ACWI ESG benchmark by 659 bps.

List of International EFMs as at 31 December 2018

	Fund Inception
UK	
Prima Ekuiti (UK) Ltd	2012
Europe	
Prima Ekuiti (UK) Ltd	2014
European Absolute Return	
Prima Ekuiti (UK) Ltd	2018
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

4.3 OUR PERFORMANCE

Fixed Income

KWAP's Fixed Income portfolio has grown from RM34.9 billion in 2007 to RM69.48 billion in 2018, with a slight reduction from 2017 (RM72.52 billion) due to a reduction in our Strategic Asset Allocation (SAA).

Despite the SAA reduction, total income from the Fixed Income portfolio grew by 14.24% to RM3.37 billion compared to RM2.95 billion in 2017. It also registered a total return of 4.58% compared to 4.62% in 2017.

KWAP continued to protect our international investments by minimising price risks and retaining the value of our investment through hedging instruments such as Interest Rate Swaps (IRS), Foreign Exchange Forward contracts (FX Forward) and Cross-Currency Swaps (CCS). These hedging tools are used only to mitigate the risk of price volatility and not for speculative profit-taking purposes.

Our Fixed Income portfolio

RM69.48 billion

in 2018, from

RM72.52 billion

in 2017

Total income from Fixed Income

RM3.37 billion

in 2018, compared to

RM2.95 billion

in 2017

TWRR

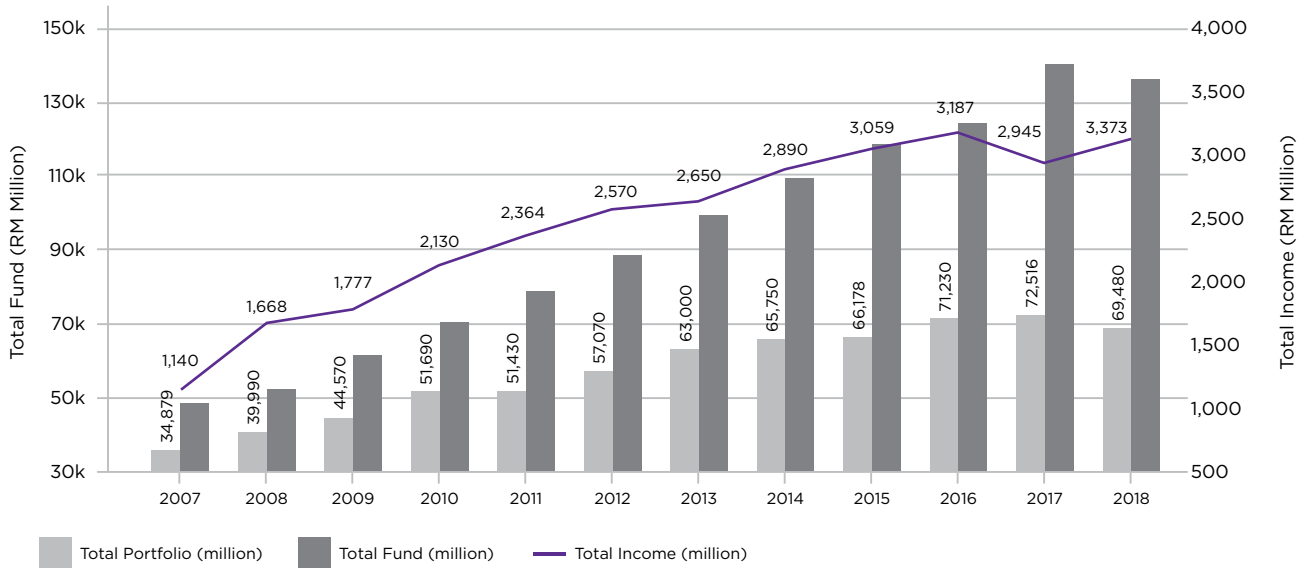
4.58%

in 2018, compared to

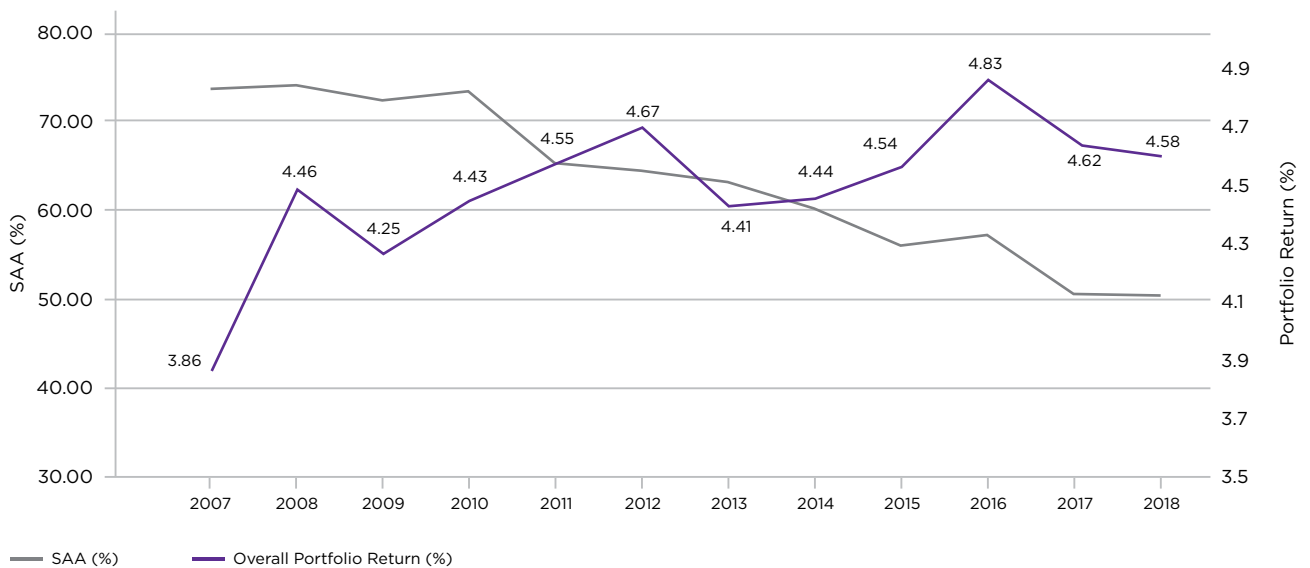
4.62%

in 2017

Fixed Income Total Income against Total Portfolio and Total Fund from 2007-2018



Fixed Income Overall Portfolio Return against SAA from 2007-2018



Internally Managed Fixed Income

Malaysian Sovereign Bonds

Despite higher levels of volatility in the Malaysian bond market, the domestic sovereign portfolio achieved a TWRR of 4.5% and a higher realised income of RM1.33 billion in 2018 compared to RM1.27 billion in the previous financial year with an average portfolio duration of eight years.

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 2018 was recorded at RM23.86 billion which included purchase and sales volume of RM11.386 billion and RM12.472 billion respectively.

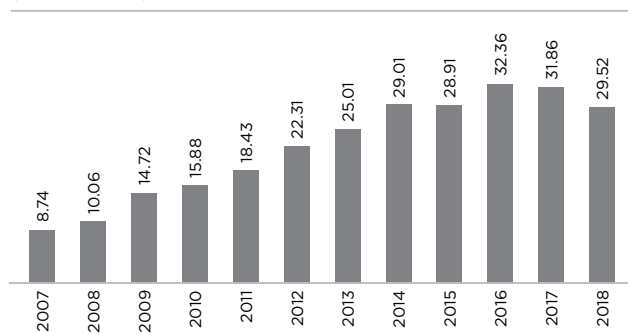
KWAP's total investment in sovereign bonds as at 31 December 2018 stood at 21.62% of the total fund size as compared to 22.64% as at 31 December 2017.

Investment Income (RM million)



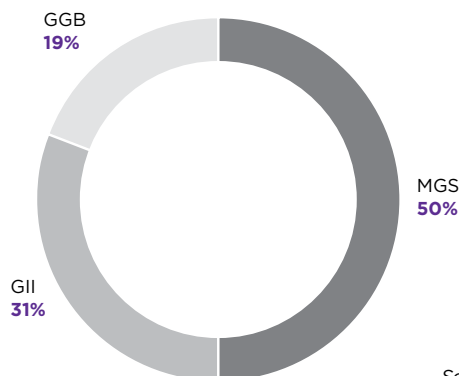
Source: FID

Holdings of Domestic Sovereign 2007-2018 (RM billion)



Source: FID

Portfolio Segregation by Instrument Type as at 31 December 2018



Source: FID

Corporate Bonds

For the year 2018, KWAP's internal domestic corporate bond portfolio achieved TWRR of 5.51%, outperforming the benchmark Quantshop Corporate Medium Index which showed returns of 4.65%.

KWAP's holdings in corporate bonds (at market value) decreased to RM14.72 billion on 31 December 2018 from RM15.78 billion at the beginning of the year on the back of sizeable bond sales due to lower SAA for corporate bonds and loans. A total of RM2.62 billion was sold and redeemed as against RM660 million in new purchases.

Income in 2018 increased to RM797.67 million from RM750.2 million in 2017 despite the lower SAA target on the back of active trading and reinvestment into higher yielding bonds and sukuk.

Income increased to

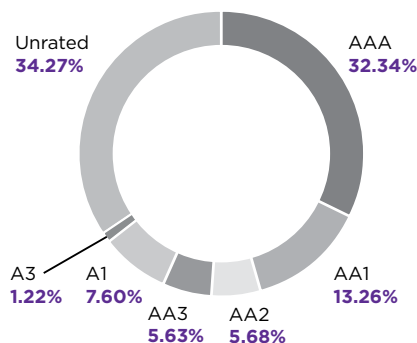
RM797.67 million

in 2018, from

RM750.20 million

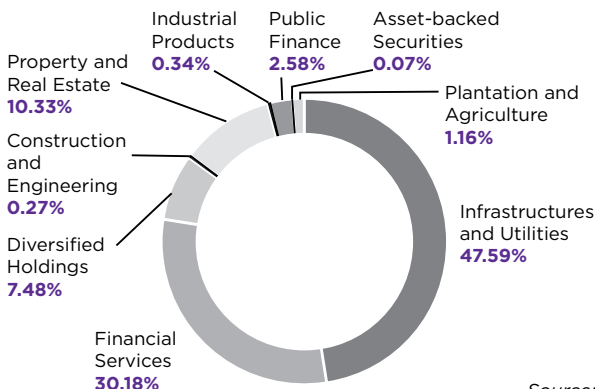
in 2017

KWAP's Corporate Bonds Exposure by Rating



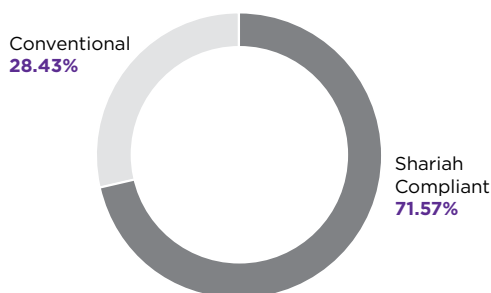
Source: FID

KWAP's Corporate Bonds Exposure by Sector



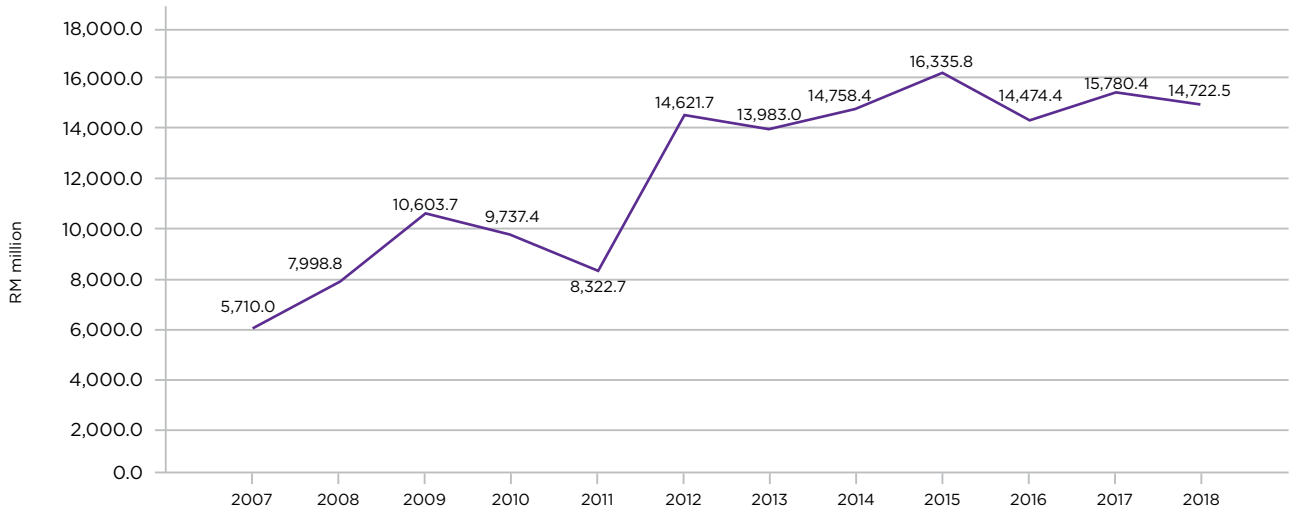
Source: FID

KWAP's Corporate Bonds Exposure according to Principle



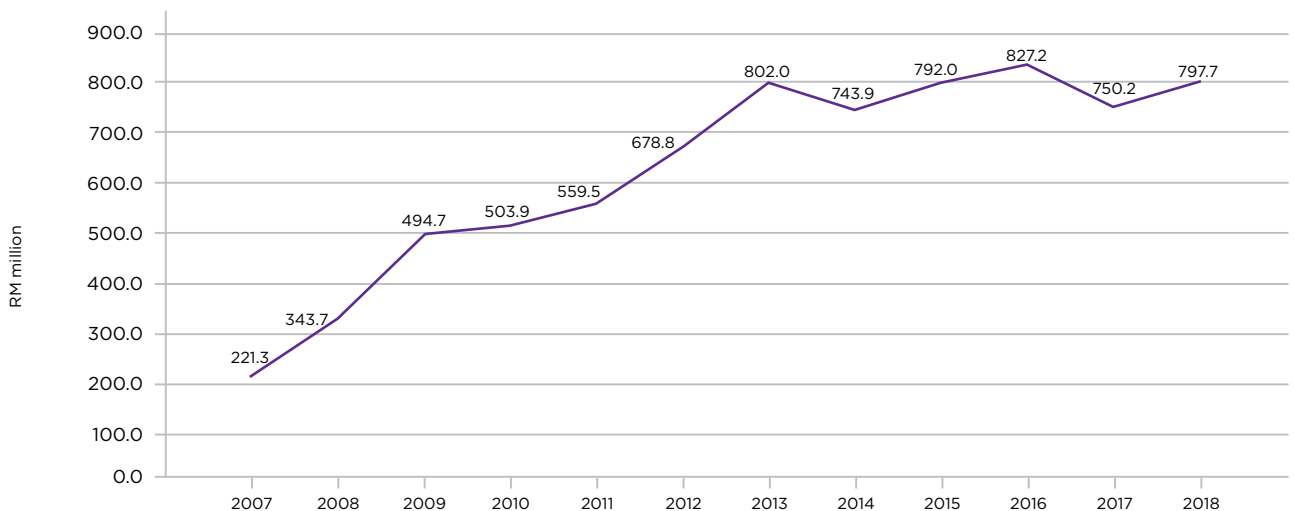
Source: FID

Market Value of KWAP's Holdings in Corporate Bonds from 2007-2018



Source: Investment Income Report (IIR), AMSD

Income Received from KWAP's Holdings of Corporate Bonds from 2007-2018



Source: Investment Income Report (IIR), AMSD

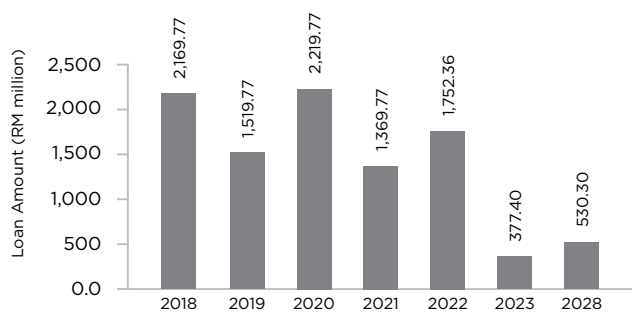
Loans

As at 31 December 2018, our Loan Portfolio stood at RM8.76 billion constituting 6.42% of KWAP's total fund. The portfolio achieved RM477.08 million in income compared to RM499.54 million in 2017. This was due to bigger maturity / repayment amounts in 2018.

2018 Loan Portfolio Movement

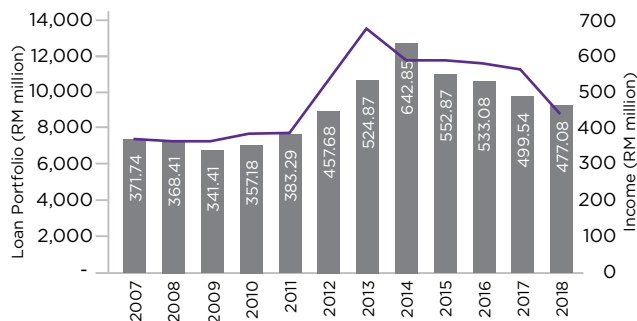
Loan Portfolio Movement	Amount (RM million)
Loan Portfolio as at 1 January 2018	10,914.72
Repayment / Maturity	(2,169.77)
Restructuring – Retired old loans	(513.00)
Restructuring – New loans	530.30
Loan Portfolio as at 31 December 2018	8,762.25

Loans Maturity Profile



Source: FID

2018 Loan Portfolio Performance



Source: FID

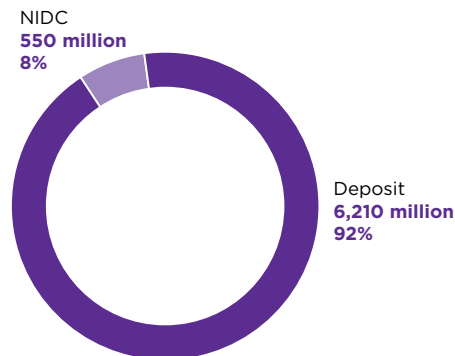
Money Market

As at 31 December 2018, money market investment in Ringgit stood at RM6.76 billion, an increase of 41.42% from RM3.54 billion at the beginning of 2018. KWAP's investment in foreign currencies stood at USD130.92 million, GBP10.59 million, AUD198.55 million and EUR67.52 million. KWAP's total cash balances represent 5.8% of KWAP's total fund size.

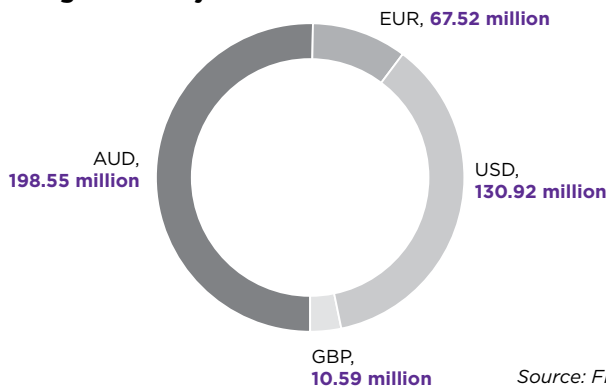
In 2018, money market investments generated a gross income of RM259.69 million, an increase of 54.61% from RM167.96 million in 2017. This was mainly attributed to higher cash balances and higher yields offered by financial institutions for deposits, especially towards end 2018.

Money Market Investment as at 31 December 2018

MYR Money Market Investment

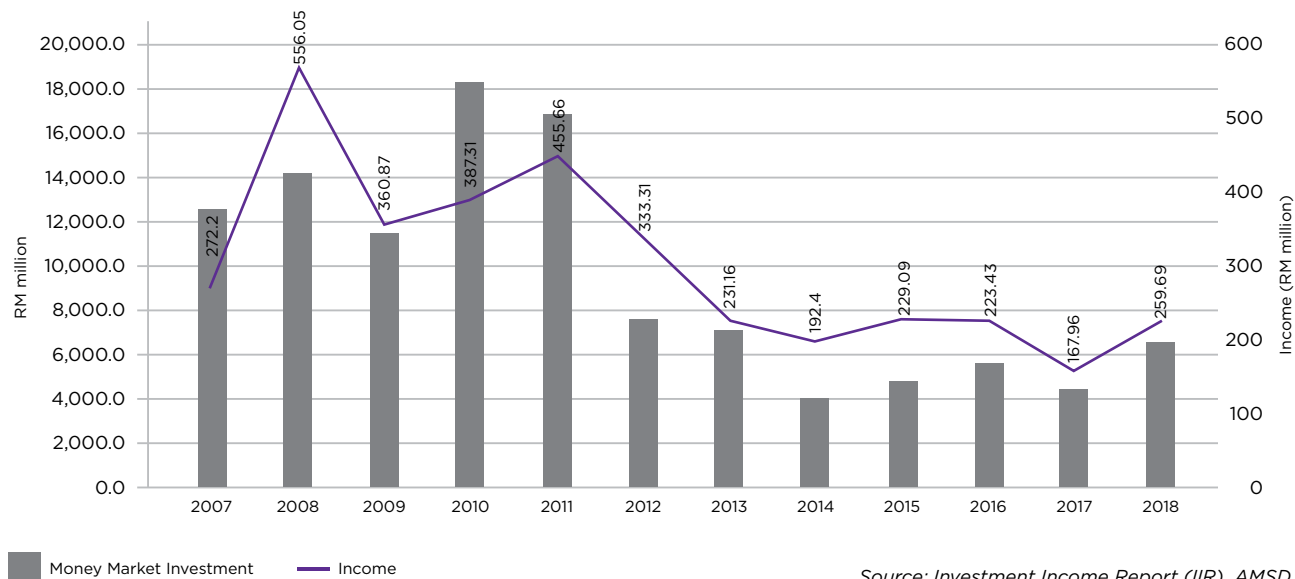


Foreign Currency Investment



Source: FID

Money Market Investment and Income from 2007-2018

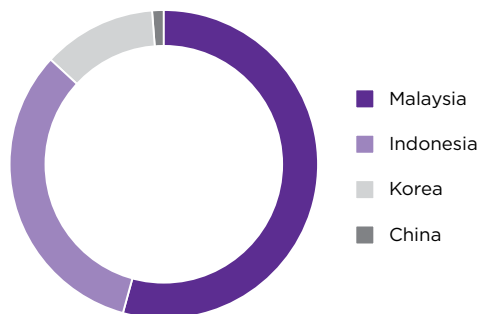


International Fixed Income

Despite the US Federal Reserve's four rate hikes, KWAP's internally managed international fixed income portfolios continued to deliver steady performance by generating an aggregate realised income of RM153.52 million. Meanwhile, the International Sovereign portfolio recorded an ROI of 15.13%.

The International Fixed Income Portfolio's 2018 TWRR stood at 1.33% versus the benchmark's 0.74%. The outperformance was driven by our strategy to overweigh US dollar denominated bonds (versus local currency bonds) and duration against benchmark.

Asian Fixed Income Holdings as at 31 December 2018



Changes in the monetary environment prompted KWAP to reduce our asset allocation in Fixed Income. This saw our International Fixed Income Portfolio reduce from RM1,383 million as at 31 December 2017 to RM1,034 million at 31 December 2018.

While global growth concerns emerged in 4Q2018 due to weak economic data from China, Europe, Japan and the US, we expect yields to remain flat in 2019. Hence, the portfolio shall continue to deliver stable income next year.

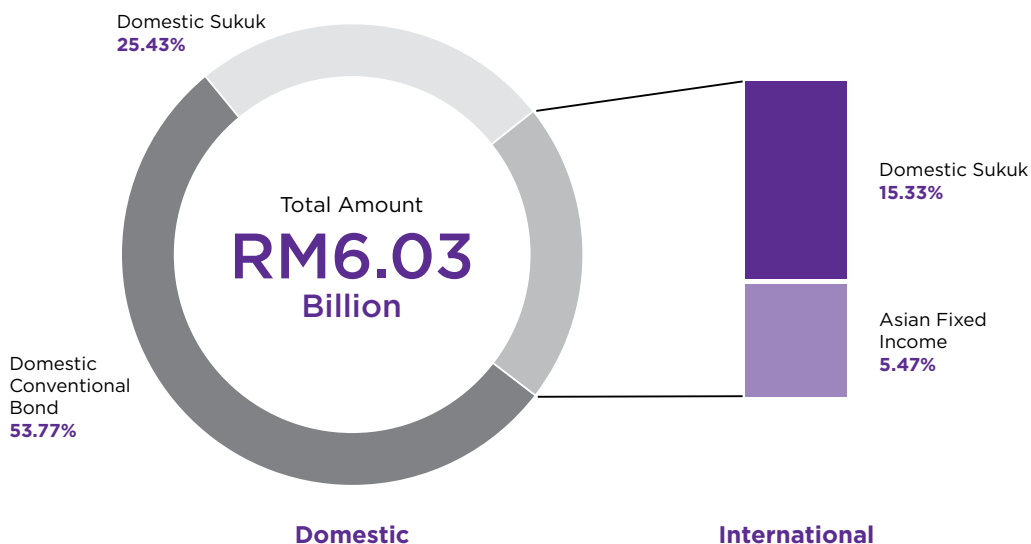
Externally Managed Fixed Income

The number of Fixed Income EFMs has increased from only two managing the domestic conventional bond mandate to 17 in both domestic and international Fixed Income, with an asset size increase of over 3,000% in 12 years. The EFMs' fund size has grown from RM150.0 million in 2006 to RM6,029.50 million in 2018.

A total of RM6.03 billion was outsourced to EFMs which represents 4.42% of KWAP's fund size as at 31 December 2018. In terms of geographical exposure, 78.11% of the externally managed assets were invested in the domestic bond market and 21.89% were allocated in the global market.

As at 31 December 2018, total assets managed by domestic EFMs stood at RM4.71 billion, accounting for 6.78% of overall fixed income investments. The domestic EFMs recorded an aggregate realised income of RM221.38 million or 5.08% of the average domestic EFM fund size. On a relative basis, domestic EFMs outperformed the stipulated benchmark by 28 bps and 73 bps for year-to-date and three-year rolling periods.

EFM Exposure by Geographical and Mandate Type

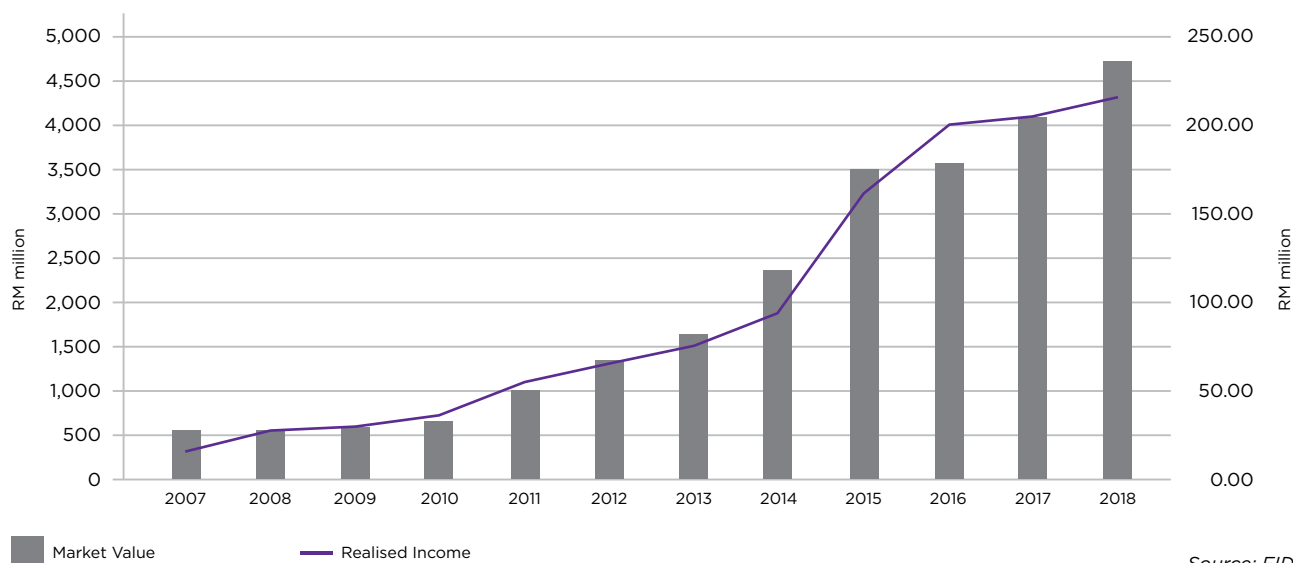


List of Domestic External Fund Managers as at 31 December 2018

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	2014
RHB Islamic International Asset Management Bhd	2014
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

Domestic EFM's Market Value and Realised Income



Source: FID

Our EFM's international investments amounted to RM1,319.88 million as at 31 December 2018. Combined with internally managed international bond portfolios, international EFM fixed income investment accounted for 0.97% of KWAP's fund size. During the year, international Fixed Income EFM

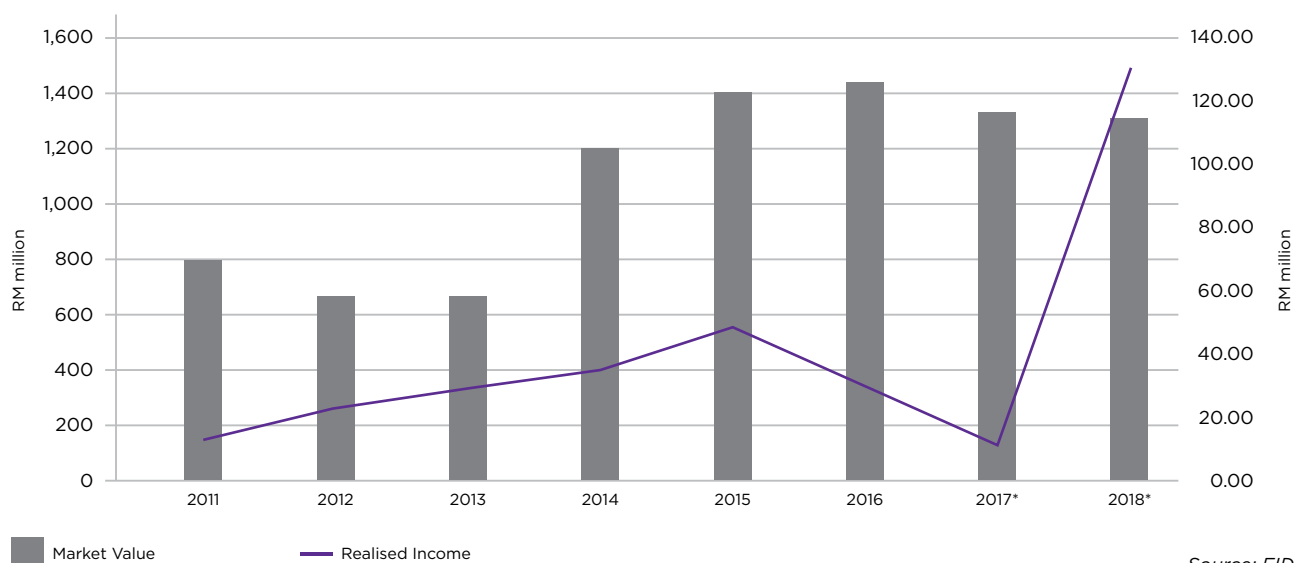
recorded an aggregate realised income of RM135.83 million, representing 12.38% of the average international EFM fund size. The international EFM's outperformed the stipulated benchmark by 85 bps and 38 bps for 2018 and three-year rolling periods, respectively.

List of International External Fund Managers as at 31 December 2018

International	Fund Inception
CIMB-Principal Islamic Asset Management Sdn Bhd	2011
AmlIslamic 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

Source: FID

International EFM's Market Value and Realised Income



Source: FID

* 2017-2018 with hedging / Fx.

4.3 OUR PERFORMANCE

Alternative Investments

Private Equity and Infrastructure Investment Performance

KWAP’s private equity (PE) and infrastructure portfolios generated strong returns for the year 2018 relative to other asset classes. As of end 2018, our private equity and infrastructure programme has generated a one-year total return of 25.02%. Gains in the infrastructure portfolio were the strongest contributor to our total relative performance.

In 2018, KWAP’s Strategic Asset Allocation (SAA) for PE and infrastructure increased to 6% from 4% in 2017. The allocation for PE specifically increased to 4% from 3% in 2017 while for infrastructure the SAA increased to 2% from 1%. The team has also expanded correspondingly.

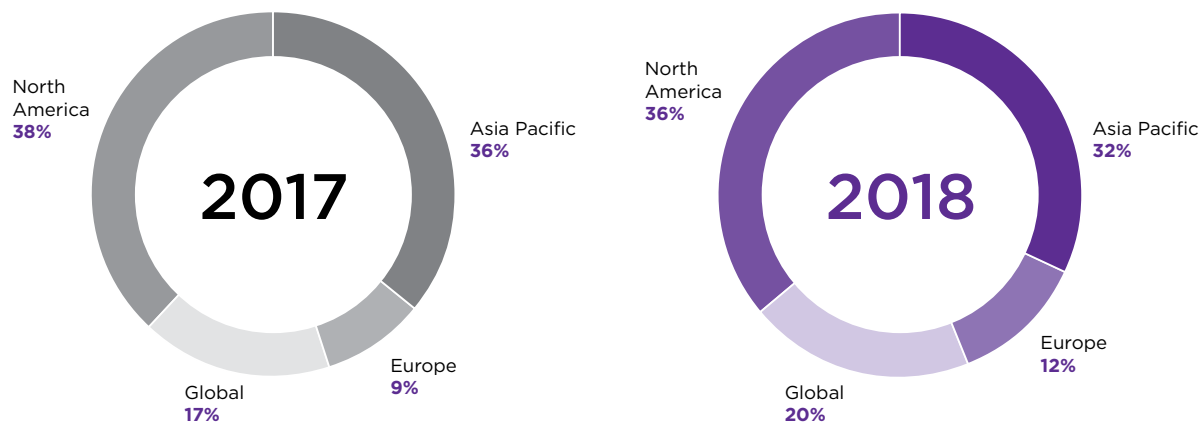
We committed to 10 private equity and infrastructure funds, mainly with new investing relationships, resulting

in increased exposure in funds with a global and European geographical allotment as well as funds executing the buyout strategy.

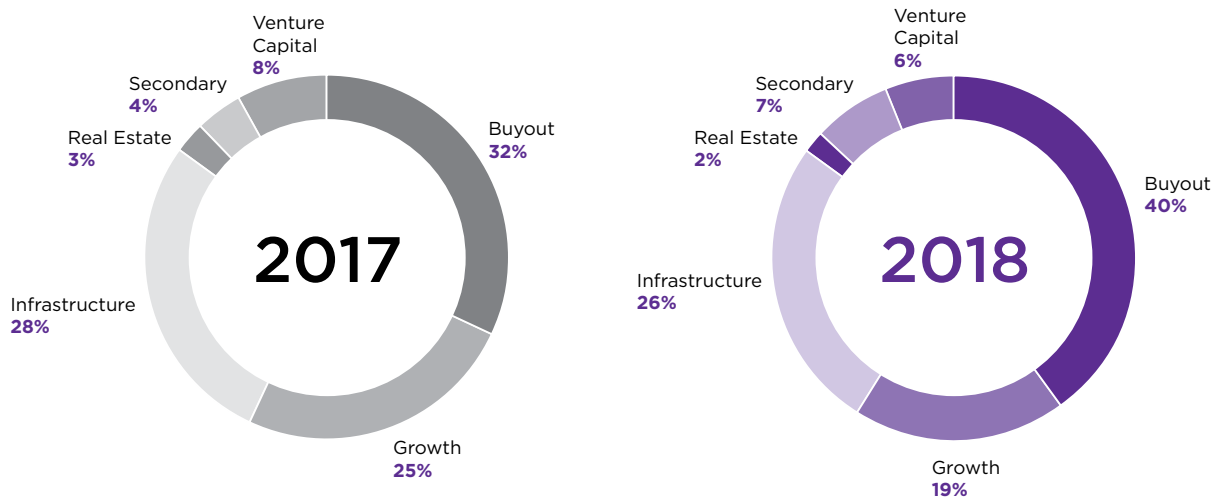
As at end 2018, KWAP has invested in 34 private equity funds (including two approved PE funds that are closing in 2019) and two direct private equity investments. KWAP’s total private equity investments amounted to RM2.30 billion or 1.69% of our total fund size, which is within private equity’s SAA of 4%.

Likewise, KWAP has invested in eight infrastructure funds and two direct infrastructure investments amounting to RM1.60 billion or 1.18% of our total fund size, within the infrastructure SAA of 2%.

PE and Infrastructure Funds Commitment Exposure by Geography



PE and Infrastructure Funds Commitment Exposure by Strategy



As our private equity and infrastructure asset classes continue to grow and approach their asset allocation targets, we expect to reap increased benefits from their contribution to total fund returns. KWAP's PE and infrastructure total investment income reached RM421.08 million, reflecting a 197% increase from RM141.69 million in 2017. This was driven by distributions from our fund investments and proceeds from the divestment of our direct stake in Munchy Food Industries Sdn Bhd (Munchys), a co-investment made together with a regional fund partner.

Seminal Divestiture

In June 2018, KWAP completed the disposal of our equity stake in Munchys, a Malaysia-based snack food manufacturer, to a global private equity firm generating an internal rate of return of 33.2% and a multiple on invested capital of 3.9x after a holding period of 3.5 years. The sale of Munchys demonstrates KWAP's capacity and ability to invest in a leading private company and work with the management team and existing fund partner to capitalise growth opportunities.

Innovation Capital

In the 2018 Budget announced in October 2017, the Malaysian Administration included a RM1 billion allocation for venture capital (VC) investments by Government-Linked Investment Companies (GLIC), to encourage VC activity and develop the VC ecosystem in the country. This initiative is being supported by the current Federal Administration with the 2019 Budget allocating RM2 billion in matching grants to Government-Linked Investment Funds to co-invest in PE and VC funds.

KWAP is supportive of the Federal Administration's initiatives and aims to invest in the growing VC space in Malaysia which would help small local companies (including entrepreneurs, start-ups, and Small-to-Medium Enterprises (SMEs)) to navigate the early stages of their development and rapidly grow into future regional champions.

In pursuit of the 2018 Budget's RM1 billion VC allocation, without compromising returns, KWAP has committed to long-term partnerships alongside two top-quartile General Partners (GPs) with regional exposure to invest more in Malaysia and is amongst the first of GLICs to have done so.

ESG Achievements

KWAP makes a conscientious effort to invest in opportunities that incorporate ESG considerations as we believe focusing on these issues is critical to responsible investing while also enhancing our risk-adjusted returns in the long term. Our private equity and infrastructure portfolio includes funds that have established internal procedures for ESG analysis as well as assets which are sustainable alternatives to ESG-related challenges, such as renewable energy.

Out of the total returns generated by the PE and Infrastructure portfolio in 2018, 47% was from ESG-themed solutions-based assets.

Our ESG-related returns are mainly driven by income and gains from infrastructure investments. On a standalone basis, 86% of the total returns generated by the infrastructure portfolio was from ESG-themed infrastructure assets.

Returns generated from the infrastructure portfolio included divestitures by Equis, a fund manager in our portfolio,

of its renewable-power platform consisting of solar, wind and hydroelectric power operations in Australia, Japan, India, Indonesia, the Philippines and Thailand as well as unrealised gains from our direct investment in Vortex Solar Investments S.à.r.l. (Vortex), an investment made together with Tenaga Nasional Berhad (TNB).

Vortex has a portfolio of 365 MW operating solar photovoltaic (PV) plants across 24 sites in the United Kingdom.

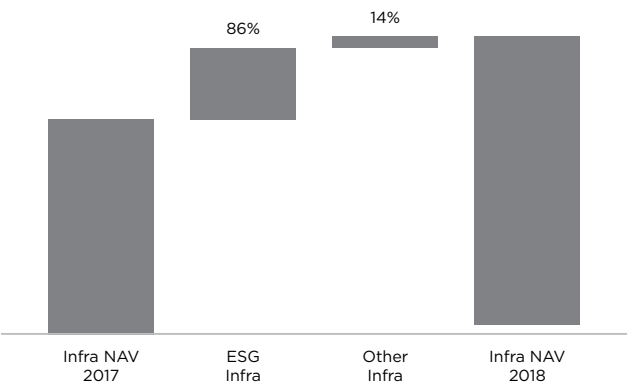
Vortex’s 365 MW of solar PV continues to lead to a reduction of 126,560 tonnes of CO2 emissions per annum, supporting KWAP’s sustainability agenda to contribute towards a low carbon economy.

KWAP’s performance in renewable energy platforms illustrates our ability to generate returns in line with ESG principles through the adoption of socially and environmentally responsible investment practices.

PE and Infrastructure Total Returns 2018



Infrastructure NAV – Value Attribution Bridge



Geographical Footprint of Solar Plants



Name of Investment

Vortex Solar Investments S.à.r.l. (Vortex)

365MW
of installed capacity

24
sites

Current average asset age of 4.5 years

Backed by 15-year power purchase agreements with 3 reputable off-takers

Supported by the UK Administration's renewable energy incentives

4.3 OUR PERFORMANCE

Property Investment

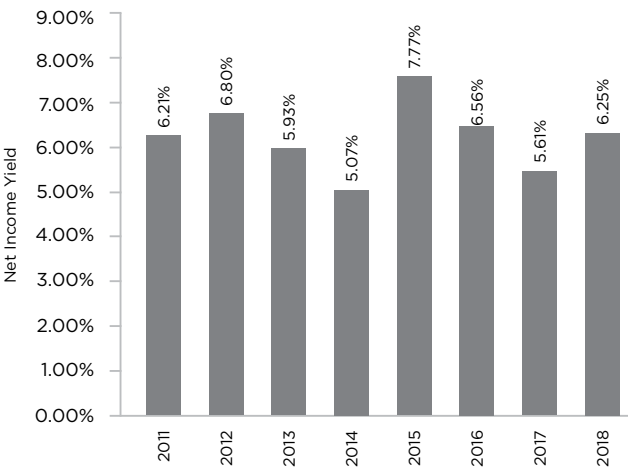
As at 31 December 2018, KWAP had 14 properties in our portfolio valued at RM6.90 billion. Reflecting our ESG principles, seven of these properties are accredited with environmental certifications such as the National Australian Built Environment Rating System (NABERS), Leadership in Energy and Environmental Design (LEED) of US, Building Research Establishment Environmental Assessment Method (BREEAM), Energy Performance Certificate (EPC) of UK, and Green Building Index (GBI) of Malaysia. Our own office building at 747 Collins Street, Melbourne has the highest NABERS rating of 6 stars. It gained recognition from the Australian Chartered Institution of Building Services Engineers (CIBSE) for Best Energy Management Initiative in 2018. Our Integra Tower in Kuala Lumpur has the highest LEED rating of Platinum and has been KWAP’s main office since November 2016. During the year, we acquired two purpose built students’ accommodation in the UK. This was KWAP’s maiden foray into alternative property investment. Prior to this, KWAP had only invested in the conventional asset classes of office, logistics and retail buildings.

Since KWAP first ventured into property investment in 2010, we have earned a total income of RM2.20 billion. For the year 2018 alone, we have generated a total realised income of RM227.42 million.

Performance

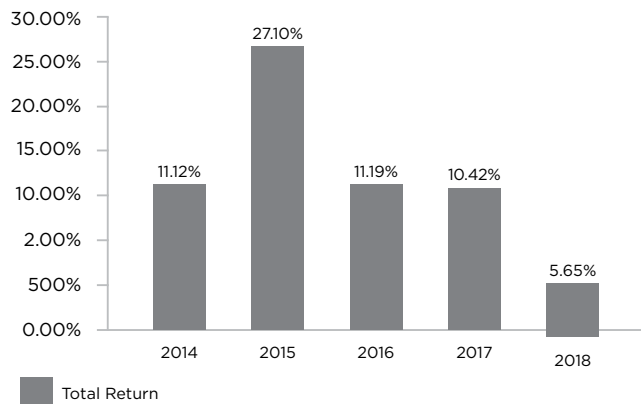
Property Investment generated 6.25% net yield on investment cost. Presented in the graph below is the net income yield on investment cost of KWAP’s property portfolio from 2011 to 2018.

KWAP’s property portfolio net income yield on investment cost from 2011-2018



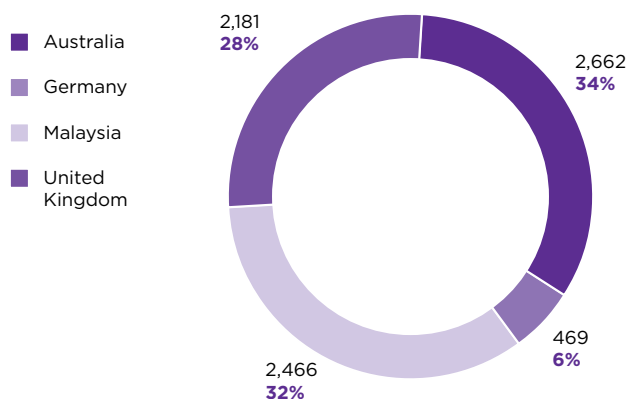
For the year 2018, KWAP's property investment recorded a total return of 5.65%. This was lower than the total return of 10.42% in 2017 due to a year on year reduction in the capital value of our UK properties, namely Intu Uxbridge and 10 Gresham Street. The general fall in property value was a result of Brexit sentiment and softening of the UK retail sector. The chart below shows the historical total returns of KWAP's property portfolio.

5-year Total Returns of KWAP's Property Portfolio

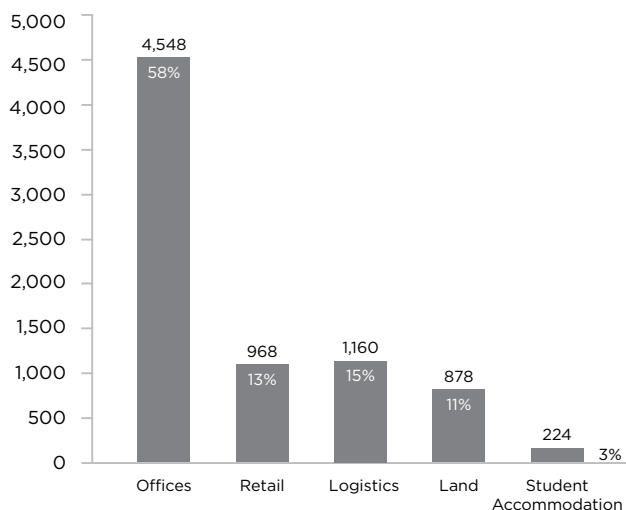


The geographical and asset type exposures of KWAP's property portfolio based on investment cost are as shown in the following respective charts. About 32% of our investments are in domestic properties, while the remainder are overseas. The average occupancy of KWAP's properties was 95.8%, reflecting a strong portfolio of investments in high quality properties.

Geographical Exposure as at 31 December 2018 (RM million)*



Asset Type Exposure as at 31 December 2018 (RM million)*



* Includes land owned by KWEST, which was operationalised in February 2018.



800 Bristol Road, Birmingham, UK



The Mill House, Edinburgh, UK

Main Activities in 2018

In 2018, we consolidated our ownership of 747 Collins Street, Melbourne from 60% to 100%. In addition, we further diversified our exposure to property types by including student accommodation alongside offices, logistics and retail properties.

Acquisition of The Mill House, Edinburgh and 800 Bristol Road, Birmingham

We acquired two purpose-built student accommodation buildings in the UK, namely 800 Bristol Road in Birmingham and The Mill House in Edinburgh. The properties were acquired at a purchase price of £14.62 million and £25.13 million respectively.

Domestic Property Investment

Integra Tower, Kuala Lumpur (40-storey Office)

Purchase Price

RM1,065.00
million

Date of Acquisition	31 March 2015
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Tenure	Freehold
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Net Lettable Area	765,249 sq ft
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Capsquare Tower, Kuala Lumpur (41-storey Office)

Purchase Price

RM474.30
million

Date of Acquisition	15 December 2016
---------------------	-------------------------

Tenure	Freehold
--------	-----------------

Net Lettable Area	601,796 sq ft
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International Property Investment



737 Bourke Street, Melbourne, Australia (12-storey Office)

Purchase Price

AUD113.00
million

Date of Acquisition

9 December 2010

Tenure

Freehold

Net Lettable Area

204,952 sq ft



747 Collins Street, Melbourne, Australia (16-storey Office)

Purchase Price

AUD318.78
million

Date of Acquisition

30 September 2013 (60% interest)

8 February 2018 (40% interest)

Tenure

Freehold

Net Lettable Area

430,914 sq ft

179 Turbot Street, Brisbane, Australia (25-storey Office)

Purchase Price

AUD172.30
million

Date of Acquisition **31 October 2013**

Tenure **Freehold**

Net Lettable Area **268,831 sq ft**



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**



1 Griffin Crescent, Brendale, Queensland, Australia (Logistics)

Purchase Price

AUD73.70
million

Date of Acquisition **30 November 2014**

Tenure **Freehold**

Net Lettable Area **542,570 sq ft**





**38 - 46 Bernara 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**



**133A, Lenore Drive, Erskine Park, Sydney, Australia
(Logistics)**

Purchase Price

Land cost

AUD5.14
million

Development Cost

AUD8.16
million

Date of Acquisition **23 December 2015**

Tenure **Freehold**

Net Lettable Area **81,558 sq ft**

10 Gresham Street, London, UK (Office)

Purchase Price

GBP200.00
million

Date of Acquisition	24 October 2012
Tenure	Leasehold (expiring in 24 June 2164)
Net Lettable Area	259,759 sq ft



Intu Uxbridge, London, UK (Retail)

Purchase Price

GBP174.80
million

(80% interest)
20% interest is owned by Intu
Properties PLC

Date of Acquisition	20 June 2014
Tenure	Freehold
Net Lettable Area	452,257sq ft



**800 Bristol Road, Birmingham, UK
(Student Accommodation)**

Purchase Price

GBP14.62
million

Date of Acquisition	8 August 2018
Tenure	Freehold
Net Lettable Area	31,724 sq ft





**The Mill House, Edinburgh, UK
(Student Accommodation)**

Purchase Price

GBP25.13
million

Date of Acquisition	8 August 2018
Tenure	Scottish Freehold
Net Lettable Area	63,212 sq ft



**Zalando Distribution Warehouse, Erfurt, Germany
(Logistics)**

Purchase Price

EUR92.26
million

Date of Acquisition	5 May 2017
Tenure	Freehold
Net Lettable Area	1,381,794 sq ft

KWEST Sdn Bhd – Property Development



KWEST's objective is to become a leading institutional real estate development investor and realise significant investment returns on behalf of KWP with a healthy pipeline of quality assets.

Following its incorporation as a wholly owned subsidiary of KWP in August 2017, KWEST Sdn Bhd (KWEST) became operational on 1 March 2018. KWEST is striving to become a leading institutional real estate development investor with the aim to realise good real estate investment returns.

As of December 2018, KWEST manages 0.65% of KWP's Assets Under Management related to three committed real estate development projects.

For its maiden investment, KWEST entered into an agreement with Eastern & Oriental Berhad (E&O) to develop Seri Tanjung Pinang 2 Phase 2A (STP2A). In this development, KWEST owns 20% of Persada Mentari Sdn Bhd (PMSB), a property development vehicle established to develop STP2A. Eight parcels of land for development equivalent to 33.2 acres owned by KWEST are currently undergoing reclamation.

STP2A is to be a premier commercial and residential destination on an offshore man-made island northeast of Penang. Reclamation work is in its final stages, and is expected to be completed in 2019.

Infrastructure works of STP2A commenced in July 2018 with construction works starting on one of the two planned bridges. Temporary access along this bridge is anticipated to be completed in 2019 which will allow construction vehicles access from Penang Island to STP2A.



Pre-planning activities kicked off in 2018, signaling healthy progression of the project, with PMSB strategising the overall master plan which will take a catalytic approach that embodies the concept of ‘Cradle to Care’ on a wider scale, whilst tapping on Penang’s existing strength on tourism and hospitality. This concept will encompass products catering to various target groups from families to millennials and senior citizens.

Other than STP2A, KWEST will focus on retirement-oriented developments (ROD) as one of our real estate strategies. We have engaged with several potential development partners with expertise in senior living, and identified investment opportunities with local and international players currently at the market study and development brief stages.

Similarly, KWEST has engaged with two potential developers for the development of two land parcels owned by KWAP, namely Jalan Stonor and Changkat Kia Peng. Both projects are currently in the planning stage where concepts and products are being developed.

KWEST’s total invested capital in 2018 stood at RM641.90 million. Barring any unforeseen circumstances, KWEST expects its investment and financial performance in 2019 to be satisfactory against the backdrop of a market that has slowed down due to cautious sentiments triggered by economic concerns.

Corporate Information

Board of Directors

1. Dato’ Dr Gan Wee Beng
2. Datuk Mohamed Razeek Md Hussain Maricar
3. Fahariah Abdul Wahab
4. Syed Hamadah Syed Othman (Replacing Dato’ Wan Kamaruzaman Wan Ahmad effective 1 November 2018)
5. Sufian Abdullah

Prima Ekuiti (UK) Limited



Since its inception on 2 May 2012, the UK equity portfolio's returns have increased by 35.6%, more than double the FTSE100 Index's return of 15.8% during the same period.

Prima Ekuiti (UK) Limited (Prima Ekuiti) is our wholly owned subsidiary in the UK, established in 2012 to act as KWAP's investment partner in the European region.

With an initial capital of GBP100 million to be invested in UK equities, Prima Ekuiti has grown its asset under management, expanded its investment coverage and diversified its investment styles via the establishment of the Euro Equity portfolio in 2015 and the European Absolute Return Fund in 2018. The market value of its UK equity portfolio has increased to GBP228.4 million while its Euro equity portfolio has grown to EUR209.2 million, marking an expansion of EUR157.3 million from its initial investment of EUR 170 million in 2015.

Both portfolios have repatriated a total of more than GBP121.1 million since inception. Meanwhile, a new Absolute Return portfolio was established in June 2018 with an initial capital of EUR75 million. The new fund represents a move towards an investment that is more focused on longer-term thematic investments as reflected by its three-year investment horizon.

In 2018, Prima Ekuiti distributed an additional GBP200,000 in dividends to KWAP, bringing the total dividends paid out since the introduction of the dividend payment programme in 2015 to GBP900,000.

Investment Review

Although the UK equity portfolio declined by 10.4% in 2018 to GBP228.38 million, it outperformed the benchmark FTSE100, which declined by 12.5%. Since its inception on 2 May 2012, the portfolio has increased by 35.6%, more than double the FTSE100 Index's return of 15.8% during the same period. As at 31 December 2018, its UK equity portfolio's Net Asset Value (NAV) stood at 0.88x, recording a gross return on investment (ROI) of 4.2%, beating the benchmark dividend yield of approximately 4% and meeting KWAP's income target of 4.1%.

Meanwhile, the Euro equity portfolio registered a return of -13.1% in 2018, also outperforming its benchmark MSCI Euro Index by 110 bps, supported by concentration on growth stocks, and a decision to increase its cash allocation as the markets showed signs of weakening. Since its inception on 2 September 2014, the Euro equity portfolio has increased by 27.6%, outperforming its benchmark by 23.8%. As at 31 December 2018, its Euro equity portfolio's Net Asset Value (NAV) stood at 0.89x, with a recorded gross ROI of 3.6%, beating the benchmark dividend yield of 3% and meeting KWAP's income target of 3.6%.



Global Investment
Presence in

31
Countries



Equity



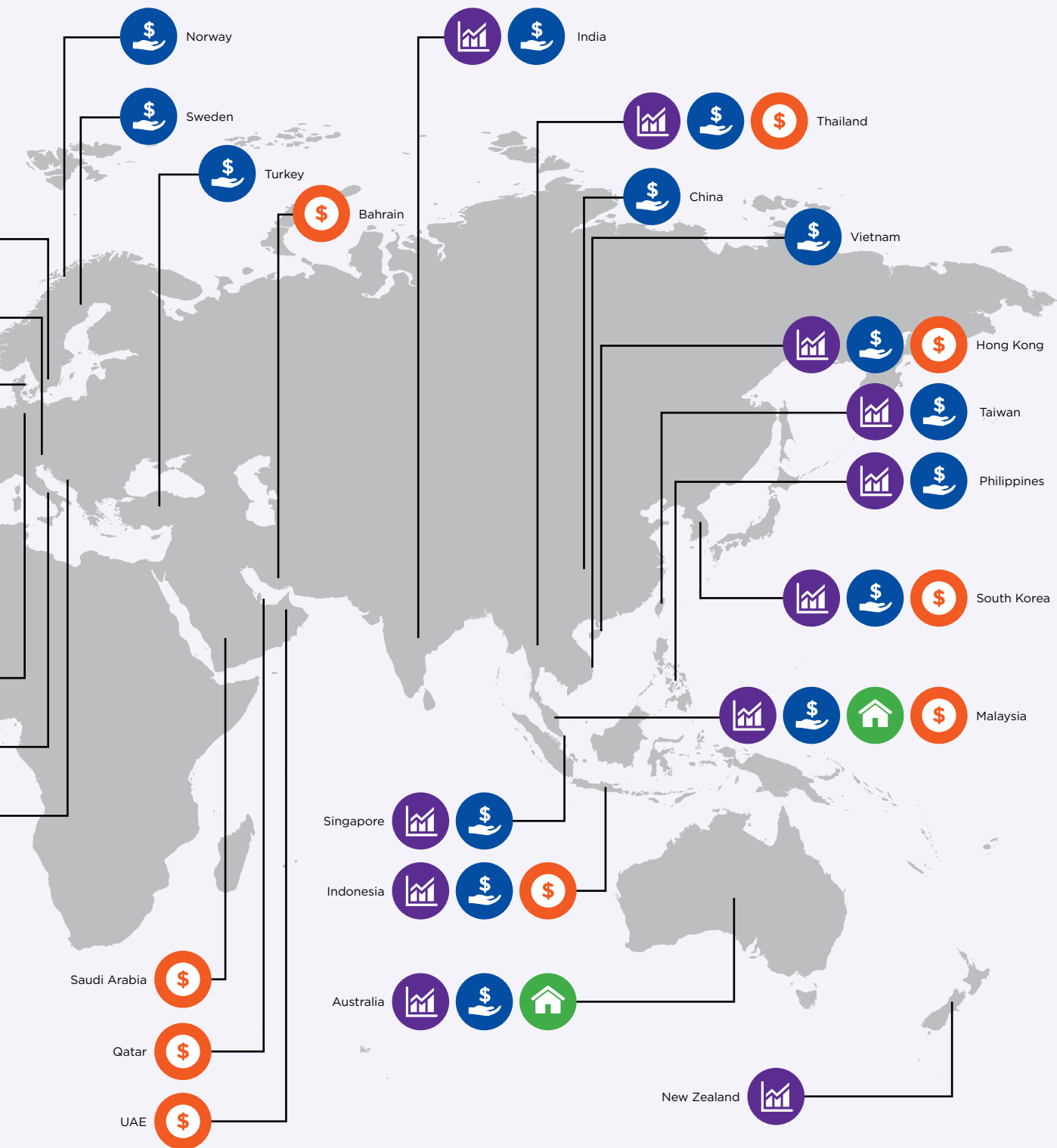
Private Equity



Property



Fixed Income



4.4 MANAGING RISKS BEYOND OPPORTUNITY

Risk Management & Compliance

Over the last 12 years, in line with the expansion in investment activities and non-investment activities, KWAP’s risk profile has evolved and, with it, our risk management functions and capability. Starting out with only one personnel in the Risk Management & Compliance Department (RMCD), the headcount as at end 2018 stood at 13.

In managing our risks, we adhere to the three-line defence model in which:

- Primary responsibility, or the first line of defence, is with the individual business units
- The second line of defence comprises risk management and compliance
- The third line is the internal audit function

We remain very prudent in our investment and non-investment activities, guided by the tone from the top, as articulated in our Risk Appetite Statement.

No. Risk Appetite Statement

1. The Board and Investment Panel have general oversight and responsibility over the Fund and approve the Risk Appetite Statement which is presented as high level, broad, principle-based statements to support the complex, multifaceted, dynamic, and overlapping nature of risks in KWAP. The Investment Panel is responsible for KWAP’s investment decisions while the Board is responsible for the overall level of risk that is undertaken by KWAP. The Investment Panel and KWAP Board will take cognisance of this when carrying out their activities.

2. The Board and Investment Panel recognise that there is a need to actively manage the Fund’s investments with the objective to grow the fund size, achieve sustainable long-term risk-adjusted return on investments while ensuring safety and sufficient liquidity in the Fund portfolio. This is to be achieved through dynamic investment strategies balanced with sound risk management practices, coupled with the need to balance return expectations with risk appetite. These risks should be reported to the Board and Investment Panel on a periodic basis.
3. The Board and Investment Panel recognise that there is a willingness and capacity to take on risks. The level of risk KWAP is willing to take should consider 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.
4. The Board and Investment Panel state that KWAP shall only take on risks that it can assess and manage at a reasonable level of comfort, hence such risks, in aggregate, in the normal course of business, shall not cause the Fund material financial loss or material non-financial detriment which results in the Fund failing to meet its strategic objectives.
5. For its investment portfolios, KWAP’s choice of asset classes, investment strategies and products are to be guided by the following key principles:
 - A reasonably high degree of confidence in the preservation of capital value
 - A reasonably high degree of liquidity in the asset or portfolio of assets
 - A reasonable return on investment adjusting for risks

6. KWAP's ability to take risks and the level of risk should take into account internal capacity to manage these risks. Where necessary and required, KWAP will source expertise from external parties. KWAP should continuously work to boost internal capabilities and expand capacity via enhancement of skill sets, knowledge, technology and other resources.

The Risk Appetite Statement (RAS) defines KWAP's overarching attitude toward investment and guides our decision-making process. RAS also sets out our ability and capability to take risk in the context of investment objectives and risk tolerance by addressing the following:

- The long-term goal of the fund, which is to meet the Federal Administration's pension liabilities
- The Board's oversight and responsibility over the risk that the fund takes
- The need to balance 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 total return
- The need for KWAP to continuously enhance internal capacity and capability to manage risks

RAS is complemented by a robust governance structure with independent lines of reporting between risk-taking and "control" units. It is further enhanced by a series of guiding principles, namely:

- a) Enterprise Risk Management Framework
- b) Risk Appetite Statement Policy
- c) Risk Management Policies
- d) Risk Management Guidelines
- e) Departmental Standard Operating Procedures

We invest in our people, have clear policies and ensure robust, risk-aware operational processes (with significant investment in systems to ensure adequate control and automation). Robust governance control refers to segregation of reporting lines between departments in KWAP.

- Investment-related departments such as Equity, Fixed Income, Alternative Investment, Research and Portfolio Strategy report directly to the Chief Investment Officer (CIO).
- Independent departments such as Legal & Secretarial, Corporate Strategy & Performance, Human Resources and Risk Management & Compliance 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 report directly to the Chief Operating Officer (COO).

The segregation of reporting lines ensures there is no authority/approval overlap between the departments while embedding greater transparency.

Activities in 2018

- **KWAP's internal credit rating scoring model validation**
RMCD initiated and completed an Internal Credit Rating Scoring Model Validation exercise to ensure the scoring model is performing as expected, in line with its design objectives and business uses. The exercise started on 21 April and was completed on 14 August. The final report on the exercise was approved on 27 September.

• **Risk management awareness and practices talks within KWAP**

Four risk awareness talks were organised on the following topics:

- Insider Trading by Securities Commission, 16 July
- Fraud Awareness by Polis Diraja Malaysia (PDRM), 24 September
- Risk Budgeting by MSCI, 1 October
- Anti-Bribery by Dr KM Loi, 1 November

• **Risk and compliance team surprise visits to External Fund Managers (EFMs)**

Six surprise visits were conducted to ensure our EFMs comply with the approved Investment mandate and that they have robust internal risk controls in place. The EFMs visited were:

- VCAP Asset Managers Sdn Bhd (VCAM)
- iVCAP Asset Management Sdn Bhd (i-VCAP)
- Aberdeen Standards Investments (Malaysia) Sdn Bhd (AAM)
- Maybank Asset Management Sdn Bhd (MAM)
- Maybank Islamic Asset Management Sdn Bhd (MIAM)
- Eastspring Investments Berhad (EIB)

• **Risk team visit to KWAP's properties**

The Risk Team visited the following three properties in which we have vested interest in order to discuss potential risk matters with the asset manager and our investment advisors, as well as to ensure relevant risk controls are in place:

- KWAP's Australia Properties, 27-30 August
- Cap Square Tower, 8 November
- Integra Tower, 11 December

• **Risk infrastructure and controls presentation to Lembaga Pelabuan Bintulu representatives**

The presentation, on 30 August, was made to 12 representatives from Lembaga Pelabuan Bintulu (LBP) as part of initiatives to establish a Risk Management Department in LBP. Through the presentation, the team sought to introduce LBP to industry best practices to mitigate their business risks.

Technology and Innovation in RMCD

RMCD leverages technology to handle multiple portfolio analytics and scenario analysis to cater to KWAP's portfolio. Analyses from systems such as BarraOne, Credit Manager and Bloomberg are then distilled into key risk measures.

Enterprise Risk Management (ERM)

KWAP's Corporate Risk Profile (CRP) outlines the number of risks, type of risks, and potential effects of risks that the organisation is willing to take 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 the corporate and operational levels, and assists the relevant parties to understand the range of risks they face as well as their potential impacts.

CRP is crucial in identifying and assessing KWAP's existing risk management capacity and capabilities. Once key risks are identified and documented, the focus is to integrate risk information into existing departmental governance structures and planning, as well as into respective reporting cycles in a manner in which the key risks can be communicated effectively.

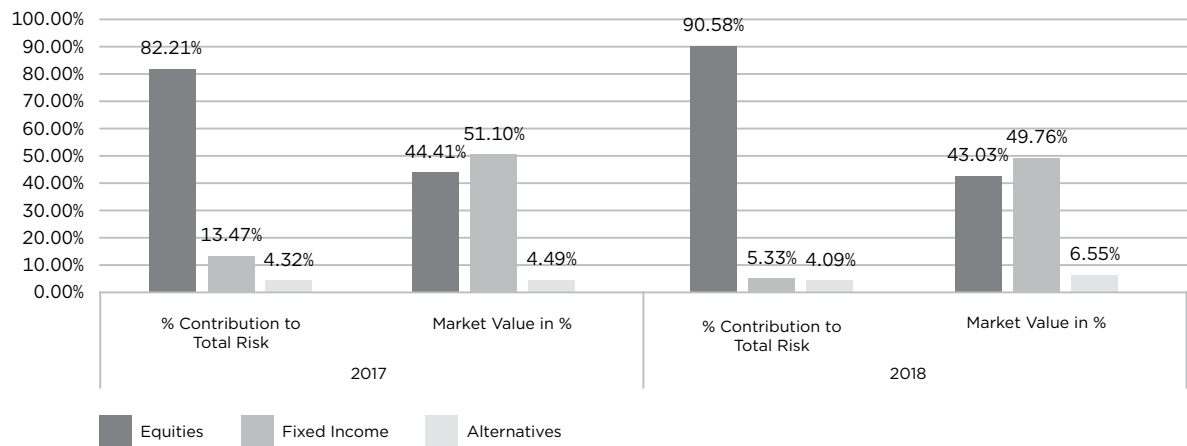
Our CRP is reported monthly at Executive Committee meetings and quarterly Risk Committee meetings. It refers to the Risk Matrix, in which risks are ranked based on their likelihood and impact.

Market Risk

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 investment activities are interest rate risk, equity risk and foreign currency risk.

As at 31 December 2018, of our three main asset classes, Equity contributes the most to KWAP's total risk at 90.58%, followed by Fixed Income at 5.33% and Alternative Investment (Property, Property Development and Private Equity), at 4.09%.

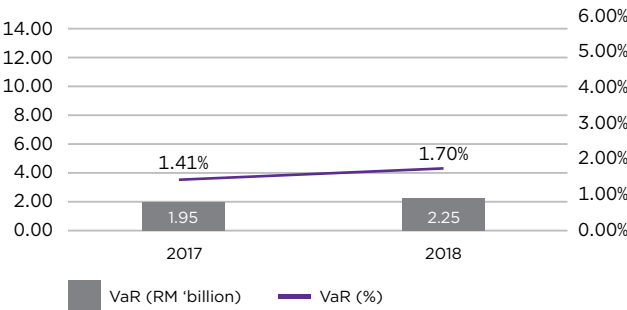
Total Risk Contribution by Asset Class



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 95% confidence interval over a 10-day trading period. Our VaR as at 31 December 2018 was 1.70% of the total fund's market value. In other words, for two weeks following the year end, there was a 95% chance that KWAP would not lose more than 1.70% of the fund's market value due to market risk.

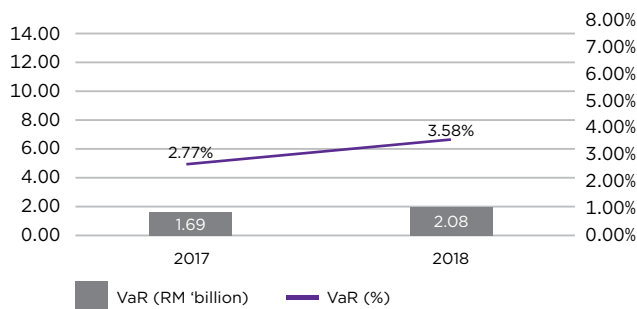
Value-at-Risk of Total Portfolio for 2018



Equity Risk Exposure

Our Equity portfolio represented 43.03% of KWAP's total fund at market value for 2018. KWAP's Equity VaR as at 31 December 2018 was 3.58%, i.e there was a potential loss of 3.58% of the portfolio value over a two-week period assuming a 95% confidence interval as shown below.

Equity Portfolio VaR at end 2018

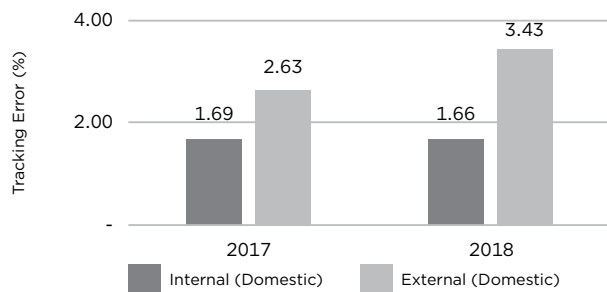


Tracking Error

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.

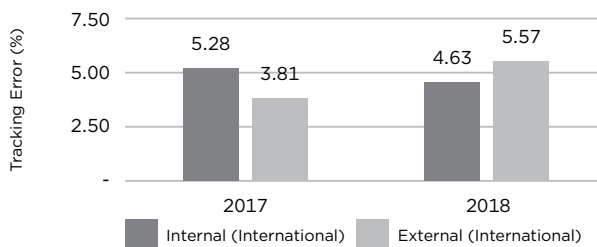
Internally managed Domestic Equity TE for 2018 was 1.66% as compared to a TE of 3.43% for externally managed Domestic Equity, as illustrated in the following diagram.

Internal and External Domestic Equity Portfolio TE for 2018



KWAP's International Equity Portfolio TE is higher than that for Domestic Equity because of its smaller mandate size and universe as compared to its respective benchmarks as illustrated in the diagram below.

Internal and External International Equity Portfolio TE for 2018



Stress Test on Total Equity Portfolio

KWAP periodically conducts stress tests on our portfolios based on a range of scenarios. Results are reviewed, analysed and assessed for insight into our portfolio vulnerabilities.

Results of the stress test based on five common historical scenarios that may impact KWAP's total Equity portfolio's profit and loss are as follows.

Stress Test on 5 Scenarios

Scenario	P&L
1987 Market Crash (Aug to Nov)	-17.16%
1990 Reunification of Germany	-8.63%
2001 Sept 11	-6.14%
1994 US Rate Hike	-5.99%
2004 Emerging Market Troubles	-5.23%

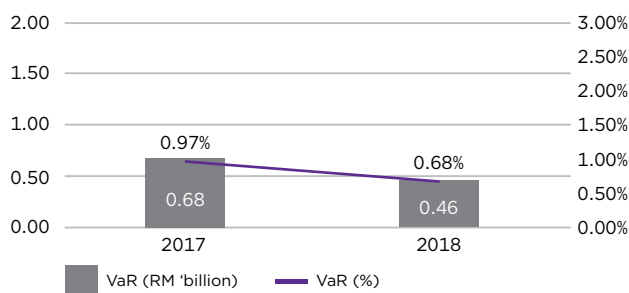
Note: The sequence is based on the worst case scenario

Fixed Income Risk Exposure

Our 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 49.76% of KWAP's total fund as at 31 December 2018.

KWAP's Fixed Income VaR as at 31 December 2018 was 0.68% with a potential loss of 0.68% of the portfolio value over a two-week period assuming a 95% confidence interval.

Fixed Income Portfolio VaR at end 2018



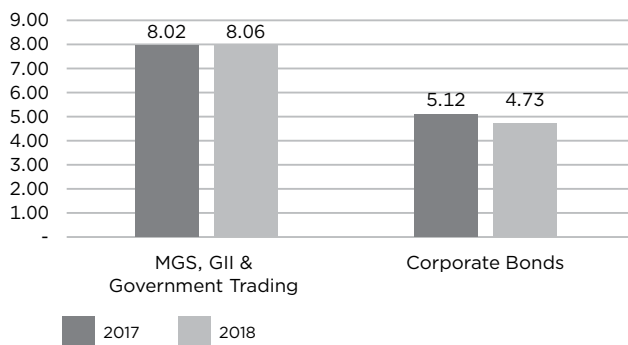
Modified Duration

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 effect of a 1% change in interest rate on the price of a bond.

The MGS, GII and Government Trading (GVT) portfolio's modified duration as at December 2018 was 8.06 as compared to 8.02 at end 2017 while Corporate Bond's (CB)'s modified duration was 4.73 as compared to 5.12 at end 2017. This means that if the yield moved by 1%, the portfolio market value would change by approximately 8.06% for MGS/GII/GVT and 4.73% for Corporate Bonds.

The higher duration is also in line with KWAP's investment strategy and risk appetite as a long-term investor. This is illustrated in the diagram below.

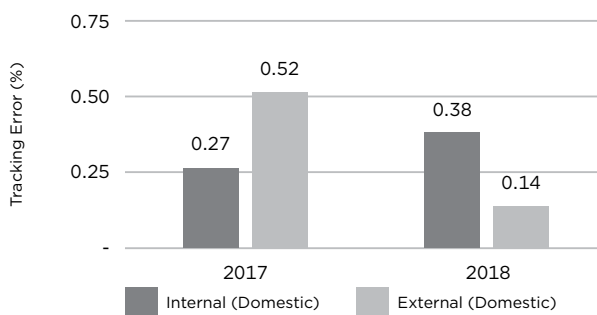
Modified Duration for MGS, GII & Government Trading and Corporate Bond Portfolios



Tracking Error

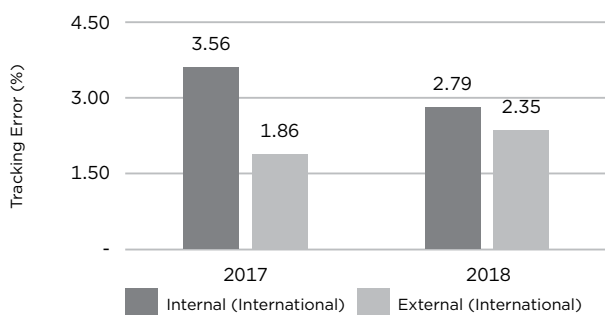
KWAP's Internal and External Domestic Fixed Income portfolio TE for 2018 was 0.38% and 0.14% respectively. This is illustrated in the diagram below.

Internal and External Domestic Fixed Income Portfolio TE for 2017 & 2018



Internal and External International Fixed Income portfolio TE for 2018 was 2.79% and 2.35% respectively.

Internal and External International Fixed Income Portfolio TE for 2017 & 2018



Stress Test on Fixed Income Portfolio

KWAP also periodically conducts stress tests on our Fixed Income portfolios. Based on five common historical scenarios, the estimated results to Fixed Income portfolio's P&L is minimal as shown in the table below.

Stress Test on 5 Scenarios

Scenario	P&L
2008 - 2009 Global Financial Crisis	4.26%
2006 Emerging Market Crash	-0.40%
1994 US Rate Hike	-0.16%
2000 Emerging Market Decline	-0.15%
2004 Emerging Market Troubles	-0.15%

Note: The sequence is based on the worst case scenario

Losses estimated by the stress test for Fixed Income are minimal as compared to investments in equities. This may be attributed to KWAP's substantial Domestic Fixed Income Investments which are less susceptible to 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 hedge market risk exposures on 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 Forwards). KWAP mostly uses FX Forwards to hedge our currency exposure in international markets back to Ringgit Malaysia.

Alternative Investments

As at 31 December 2018, KWAP's total exposure in Alternative Investment was 6.55% which is still within the 2020 SAA target of 15%. KWAP's Alternative Investments consists of private equity, infrastructure and real estate.

Real Estate

KWAP's real estate is 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 movement in property prices, management of the rental leases are important in maintaining steady income streams.

PE Fund, Infrastructure and Direct Investment

Risk management of PE funds typically concentrates on the pre-appointment evaluation of managers and investment strategies. Post-appointment activities concentrate on operational risk management and monitoring such as due diligence for the funds with potential red flags as to possible write-offs or losses.

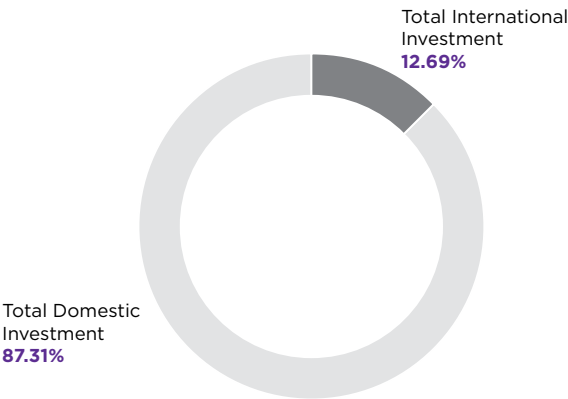
KWAP is also constantly developing our knowledge and skills by attending forums and training as well as active engagement with market players and industry experts to improve risk management of these markets which are becoming more attractive to investors than traditional assets such as equity and bonds.

International Exposure

Currency Risk

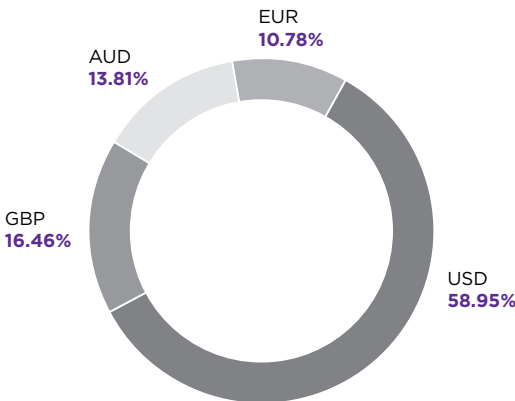
As at 31 December 2018, KWAP’s exposure to international investments was 12.69% of our total fund.

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



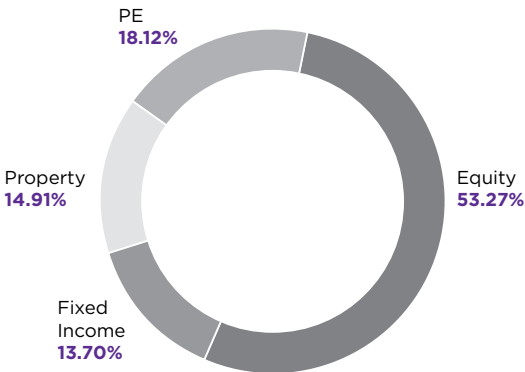
KWAP’s foreign currency exposures through investments can be broken down into four major currencies, namely USD, GBP, AUD and EUR. The currency exposures as at 31 December 2018 is illustrated as follows.

Percentage of KWAP’s Foreign Investment by Currency



The next chart shows the proportion of various asset classes within KWAP’s international investments.

Percentage of KWAP’s International Investment by Asset Type

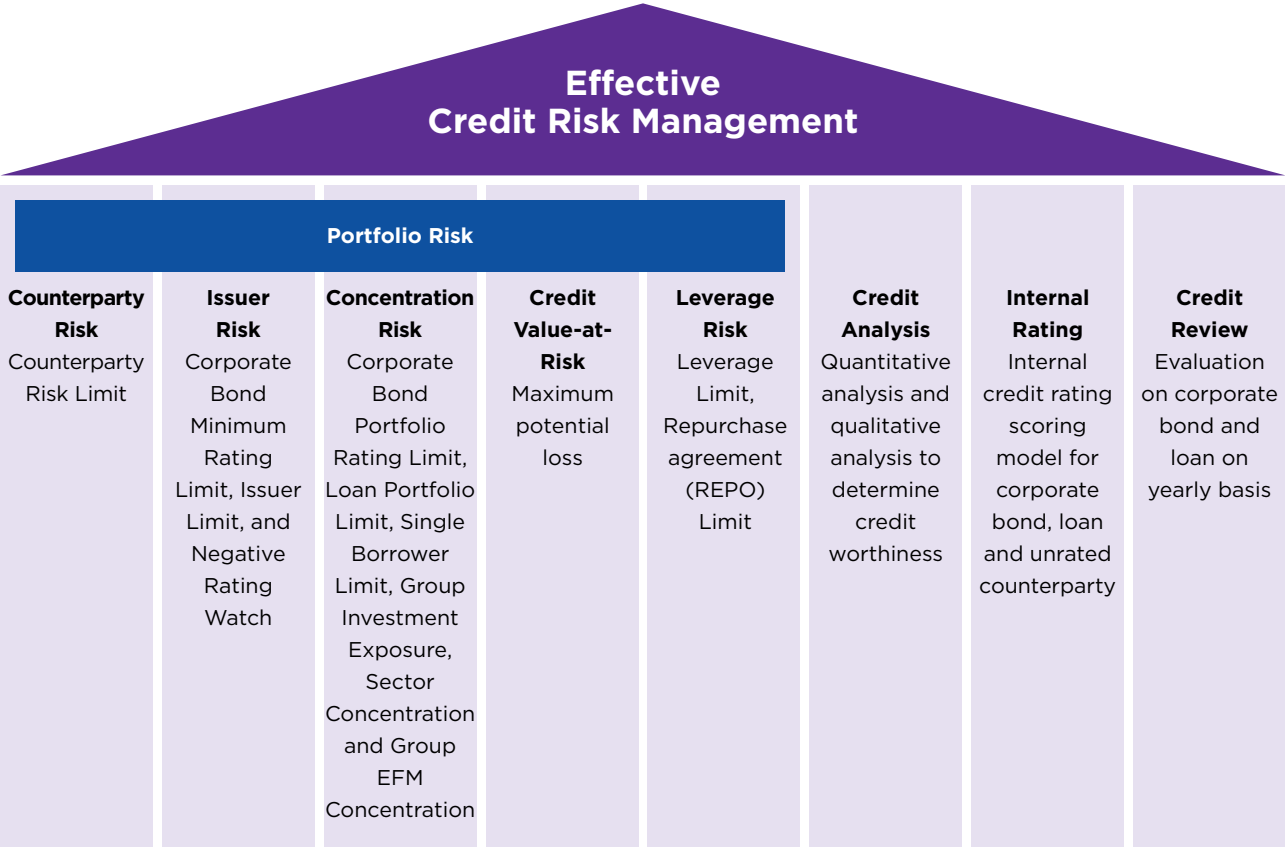


Credit Risk

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 agreed terms. As an active player in the domestic Fixed Income and money markets with participation in both primary and secondary market, KWAP 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. The 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.

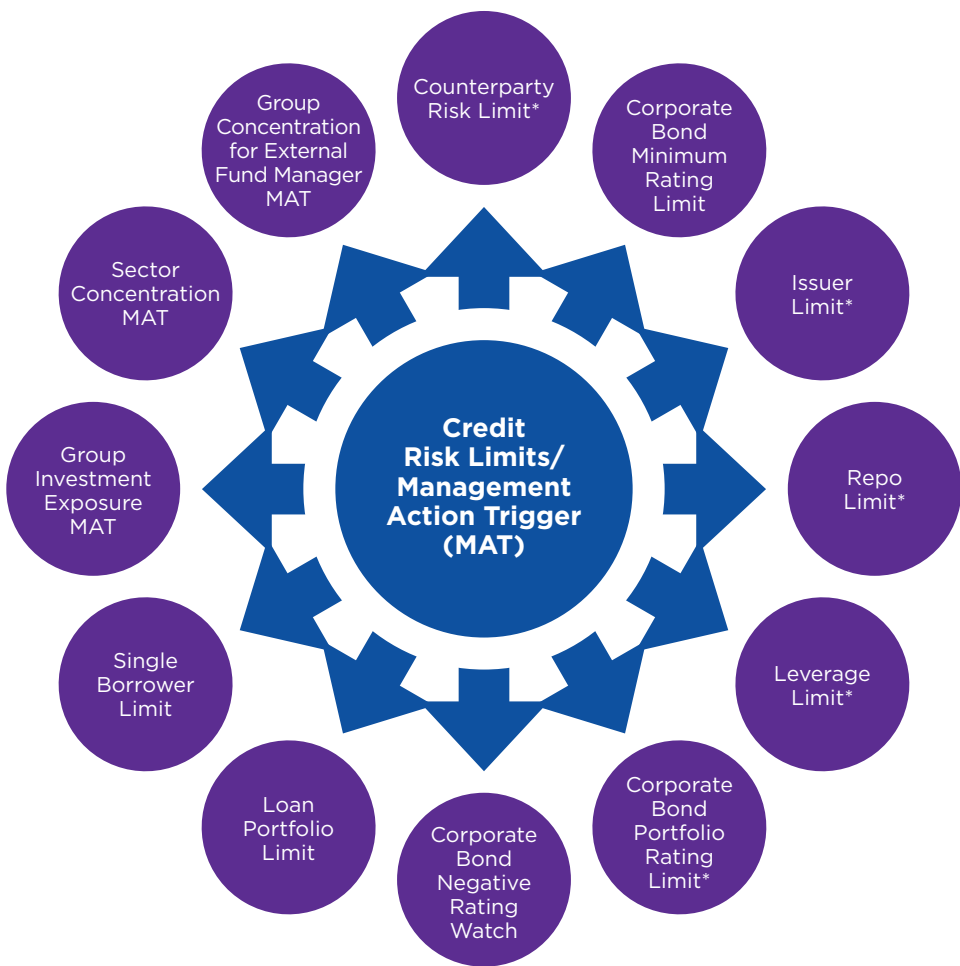


Credit Research provides credit analysis, internal ratings, and credit reviews for the Fixed Income portfolio.

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. In addition, 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 next.



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

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

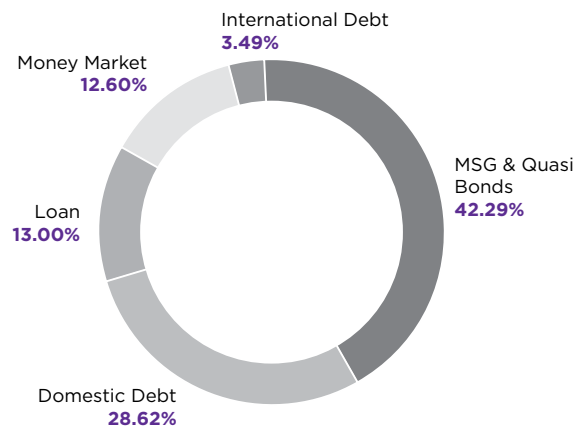
Management Action Triggers (MAT), on the other hand, are triggers that warrant management review and reassessment of the accompanying risk exposures.

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 instruments 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.

Stress testing is used to complement VaR analysis, as a risk management tool to better understand the risk profile, evaluate business risks and thus allow for appropriate measures to be taken. Stress tests involve identifying possible events or future changes in the financial and economic conditions that could have an unfavourable effect on KWAP's exposure; and assessing KWAP's ability to withstand such changes. Actions are then identified to manage the risks and preserve capital.

In order to enhance visibility and better manage bond portfolio risks, the negative rating watch is closely monitored to prevent potential downgrades and/or default of the bonds.

KWAP Fixed Income Portfolio (As at 31 December 2018)



The diagram displays KWAP's Fixed Income exposure, of which 42.29% is in Malaysian Government Securities (MGS) and Quasi Government Bonds, 28.62% in Domestic Debt, 13.00% in Loan and 12.6% in the Money Market. The remainder 3.49% 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 arises from any breach in compliance. Compliance serves as an independent function that identifies, assesses, advises on, monitors and reports on compliance risk, namely the risk of legal or regulatory sanction, financial loss, or loss to reputation that an organisation may suffer as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

The main objective 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, our mission is to measure and manage our compliance risk and meet the expectations of all stakeholders. Providing the foundation to 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 compliance risk in KWAP.

Scope of Compliance

a) Regulatory Compliance

This covers external regulations and guidelines which KWAP is bound to comply with such as the relevant Act of Parliament, Minister of Finance's Decree and relevant guidelines by regulatory bodies such as Bank Negara Malaysia, Securities Commission and Bursa Malaysia. Ownership of regulatory compliance is with the relevant operating unit at transactional or operating level, where any potential breach shall be identified upfront before the event. A proactive approach has been adopted as non-compliance is not an option.

b) Internal Compliance

This covers compliance to internal policies and guidelines, such as our Investment Policy and Guidelines, Discretionary Authority Limits and Standard Operating Procedures. RMCD's approach in ensuring internal compliance is through risk limit control in the investment system and operational process controls 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.



Value of Compliance

As business models change, new technologies emerge and new investment asset classes increase amid intense focus on operational efficiencies, KWAP has never been more exposed to such myriad risks. In this regard, Board and Senior Management 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, to comply with all rules and regulations and maintain a high level of corporate ethics. All employees are aware of the Board and Senior Management's uncompromising stance on compliance. The Compliance unit is increasingly becoming a point of reference and advisor for any key strategic initiative that KWAP embarks on.

Our compliance culture is also being shared with our fund managers, who need to declare annually that all of KWAP's investment guidelines are captured in their investment systems. This is to ensure that our fund managers always adhere to our guidelines. To ensure our EFMs comply with our investment mandate, we have been carrying out risk and compliance surprise visits since 2017.

Chinese Wall Policy

KWAP implemented a Chinese Wall Policy in 2014 to establish procedures that control the flow of material non-public and price sensitive information within KWAP, hence minimising 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 conflict between public interest, KWAP's interest and employees' personal interest.

Automated Self-Compliance Checklist

KWAP has introduced automated self-compliance systems for all attestation processes. The attestation exercise becomes paperless and more efficient. Self-compliance checklists are filled in by each department's compliance liaison officers and signed off by the Head of Department via the system. The attestation exercise is carried out bi-annually for all investment related departments and annually for other departments.

Operational Risk Management (ORM)

In order 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 our business operations.

In 2018, there were no reported OREs with damaging impact on our operation as the majority of OREs were successfully rectified in a timely manner. The reported OREs fell mainly under the following risk categories:

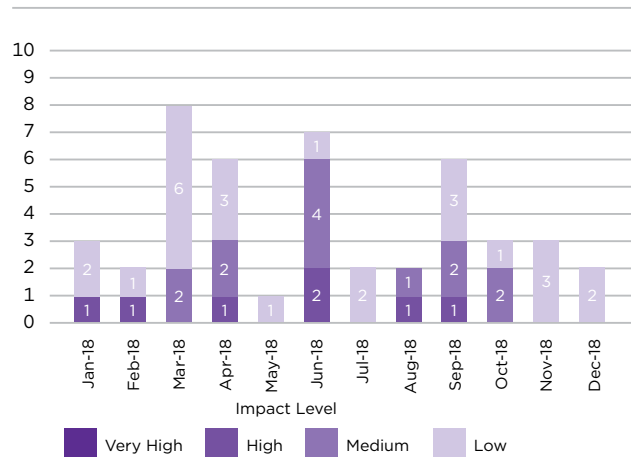
- Clients, products and business practices
- Execution, delivery and process management
- Business disruption and system failures

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 facilitated discussions with other parties to mitigate risk and avoid recurrence of risk events
- Follow-up on outstanding OREs with respective parties to ensure mitigation actions are in place to minimise recurrence of the incident

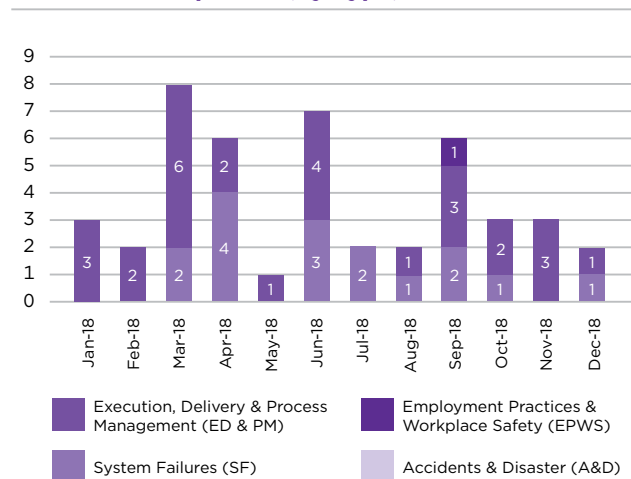
The diagram below displays the number of OREs throughout 2018:

No. of OREs Reported (by Impact Level)



Source: RMCD record year 2018

No. of OREs Reported (by Type)



Source: RMCD record year 2018

Business Continuity Management (BCM)

BCM has always been integral to KWAP. In 2018, in line with our business expansion, we conducted several Business Continuity Management exercises:

- Live BCM Exercise – requiring critical functions to be performed (live) at KWAP's alternate site and, upon completion, recovered back to primary office.
- Non-live BCM Exercise – requiring critical functions to be performed in a non-live environment.

For both exercises, KWAP 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 were to:

- Gauge readiness of all systems at alternate site (KWAP Main Office to PeSD office and vice-versa)
- Ensure systems are able to function properly in the DR environment
- Verify system capabilities based on accessibility and functionality
- Ensure relevance of critical functions as stated in Business Impact Analysis (BIA)
- Ensure employees' phone numbers are correct and updated
- 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 (ie Crisis Management Team) to give them exposure and experience in the event of disruption to the business/operations. Various scenarios will be incorporated in the near future such as table top and surprise exercises.



CHAPTER 5

Empowering Progress

We are constantly in pursuit of high performance and excellence, pushing boundaries through innovation and persistence to deliver sustainable value over the long term.

AUDITOR GENERAL CERTIFICATION



**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 2018 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 2018 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.



(JOHARI BIN ISMAIL)
ON BEHALF OF AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
11 JULY 2019



STATEMENT BY THE CHAIRMAN

AND A MEMBER OF THE BOARD OF KUMPULAN WANG PERSARAAN (DIPERBADANKAN)

We, **Datuk Ahmad Badri bin Mohd Zahir** 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 2018 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 : **Datuk Ahmad Badri bin Mohd Zahir**
Title : Chairman of the Board
Date : 08 July 2019
Venue : Kuala Lumpur

Signed on behalf of the Board,



Name : **Dato' Azmi bin Abdullah**
Title : Member of the Board
Date : 08 July 2019
Venue : Kuala Lumpur

STATUTORY DECLARATION

BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF
KUMPULAN WANG PERSARAAN (DIPERBADANKAN) 2018

I, **Syed Hamadah bin Syed Othman**, 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 08 July 2019)



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 2018

	Note	Group		KWAP	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
GROSS INVESTMENT INCOME	4	7,290,977	9,348,860	7,056,783	9,033,505
Dividend Income		2,035,261	1,464,727	2,157,808	1,921,911
Gains From Divestment		1,556,492	3,733,352	1,556,492	3,290,094
Interest Income		3,132,272	3,328,095	3,154,046	3,333,910
Rental Income		309,047	348,053	32,271	38,102
Other Investment Income		257,905	474,633	156,166	449,488
Other Non-Investment Income	4	448,406	1,433,066	451,697	1,215,419
Operating Expenses	5	(542,401)	(630,210)	(292,329)	(368,823)
Transaction Cost		(53,734)	-	(53,734)	-
Net Unrealised (Loss)/Gain On Financial Assets					
Designated As Fair Value Through Profit Or Loss		(5,912,695)	34,589	(5,922,909)	34,589
Impairment Loss On Available-For-Sale					
Financial Assets		-	(1,123,253)	-	(1,123,253)
Allowance Made For Impairment Losses		2,458	-	2,458	-
Profit Before Taxation		1,233,011	9,063,052	1,241,966	8,791,437
Finance Cost		(74,441)	(59,909)	-	-
Share Of Results From Associates		(75,309)	86,423	-	-
Share Of Results From Joint Ventures		(29,324)	35,101	-	-
Taxation	6	(2,201)	(1,015)	-	-
PROFIT AFTER TAXATION		1,051,736	9,123,652	1,241,966	8,791,437
ATTRIBUTABLE TO:					
Contributors Of KWAP		1,051,736	9,123,652	1,241,966	8,791,437
		1,051,736	9,123,652	1,241,966	8,791,437

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		KWAP	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
Note	RM'000	RM'000	RM'000	RM'000
OTHER COMPREHENSIVE (LOSS)/INCOME				
ITEM THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:				
Fair Value Changes On Equity Instruments				
At Fair Value Through Other Comprehensive Income Reserves				
- Revaluation Loss	(4,217,640)	-	(4,217,640)	-
- Loss From Sale Transferred To Retained Earnings	(75,105)	-	(75,105)	-
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:				
Foreign Exchange Reserves	(121,166)	(233,669)	-	-
Share Of Other Comprehensive (Loss)/Gain Of Associates And Joint Ventures	(3,699)	24,541	-	-
Gain On Available-For-Sale Financial Assets	-	3,514,721	-	3,514,721
Fair Value Changes On Debt Instruments				
At Fair Value Through Other Comprehensive Income Reserves				
- Revaluation Loss	(96,769)	-	(96,769)	-
- Loss Allowance On Debt Instruments At Fair Value Through Other Comprehensive Income	2,440	-	2,440	-
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(4,511,939)	3,305,593	(4,387,074)	3,514,721
TOTAL COMPREHENSIVE (LOSS)/INCOME	(3,460,203)	12,429,245	(3,145,108)	12,306,158
ATTRIBUTABLE TO:				
Contributors Of KWAP	(3,460,203)	12,429,245	(3,145,108)	12,306,158
TOTAL COMPREHENSIVE (LOSS)/INCOME	(3,460,203)	12,429,245	(3,145,108)	12,306,158

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group		KWAP	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
		RM'000	RM'000	RM'000	RM'000
NON-CURRENT ASSETS					
Property And Equipment	7	68,756	60,380	66,366	58,548
Computer Softwares	8	4,433	4,463	4,433	4,463
Investment Properties	9	5,335,163	5,309,382	696,878	710,575
Land Held For Property Development	9	641,045	-	-	-
Investment In Subsidiaries	10	-	-	3,699,623	2,606,888
Investment In Associates	11	424,185	1,175,390	387,292	1,008,428
Investment In Joint Ventures	12	376,020	366,879	10,000	10,000
Available-For-Sale Financial Assets	13	-	110,006,562	-	110,006,562
Loans And Receivables	14	8,640,851	13,813,346	8,973,821	14,647,358
Debt Instruments At Amortised Cost	15	17,153,861	-	17,153,861	-
Debt Instruments At Fair Value Through Profit And Loss ("FVTPL")	16	369,425	-	369,425	-
Equity Instruments At Fair Value Through Profit And Loss ("FVTPL")	16	35,948,086	-	35,948,086	-
Debt Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	17	30,744,344	-	30,744,344	-
Equity Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	18	25,258,816	-	25,258,816	-
		124,964,985	130,736,402	123,312,945	129,052,822
CURRENT ASSETS					
Asset Held For Sale		307,256	-	-	-
Loans And Receivables	14	150,000	1,546,641	150,000	1,546,641
Debt Instruments At Fair Value Through Profit And Loss ("FVTPL")	16	897,424	823,786	1,101,556	823,786
Derivative Financial Assets	19	43,350	539,181	43,350	539,181
Sundry Debtors And Deposits	20	121,648	235,616	142,358	172,419
Trade Receivables	21	1,517,539	2,445,007	1,519,946	2,467,577
Deposits And Placements With Financial Institutions	22	9,530,277	6,684,323	9,530,277	6,678,292
Cash And Bank Balances	22	1,812,174	1,249,259	1,533,563	1,046,361
		14,379,668	13,523,813	14,021,050	13,274,257

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2018

		Group		KWAP	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Note	RM'000	RM'000	RM'000	RM'000
CURRENT LIABILITIES					
Derivative Financial Liabilities	19	118,224	158,807	109,179	143,067
Trade Payables	23	634,996	1,280,490	595,149	1,257,332
Other Payables And Accruals	24	133,438	192,852	114,839	124,133
Deferred Income		6,512	-	433	-
Borrowings	25	893,484	256,067	-	-
		1,786,654	1,888,216	819,600	1,524,532
NET CURRENT ASSETS		12,593,014	11,635,597	13,201,450	11,749,725
		137,557,999	142,371,999	136,514,395	140,802,547
FINANCED BY:					
Allocation Of Statutory Funds	26	26,001,944	25,501,944	26,001,944	25,501,944
Pension Contributions	27	52,230,752	49,376,700	52,230,752	49,376,700
Withdrawal by Federal Government	28	(4,500,000)	-	(4,500,000)	-
Retained Earnings	29	66,849,371	61,766,191	66,952,995	61,679,585
Other Reserves	30	(46,642)	(42,944)	-	-
Foreign Exchange Reserves	30	(164,830)	(43,664)	-	-
Available-For-Sale Reserves	30	-	4,238,908	-	4,238,908
Fair Value Through Other Comprehensive Income ("FVOCI") Reserves	30	(4,175,040)		(4,175,040)	
		136,195,555	140,797,135	136,510,651	140,797,137
NON-CURRENT LIABILITIES					
Derivative Financial Liabilities	19	6,680	-	-	-
Deferred Tax Liabilities	31	66	154	-	-
Employee Benefits	32	3,744	5,410	3,744	5,410
Finance Lease		54,296	56,364	-	-
Long Term Deposit		7,930	-	-	-
Borrowings	25	1,289,728	1,512,936	-	-
		137,557,999	142,371,999	136,514,395	140,802,547

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 2018

Group	Allocation Of Statutory Funds (Note 26) RM'000	Pension Contributions (Note 27) RM'000	Withdrawal by Federal Government (Note 28) RM'000	Fair Value				Total	
				Non-Distributable		Distributable			
				Other Reserves (Note 30) RM'000	Foreign Exchange Reserves (Note 30) RM'000	Available- For-Sale Reserves (Note 30) RM'000	Through Other Comprehensive Income Reserves (Note 30) RM'000		Retained Earnings (Note 29) RM'000
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
Effects of MFRS 9 Adoption	-	-	-	-	-	(4,238,908)	212,034	4,031,444	4,570
RESTATED AT 1 JANUARY 2018	25,501,944	49,376,700	-	(42,944)	(43,664)	-	212,034	65,797,635	140,801,705
Profit For The Year	-	-	-	-	-	-	-	1,051,736	1,051,736
Other Comprehensive Loss	-	-	-	(3,698)	(121,166)	-	(4,387,074)	-	(4,511,938)
Receipts From Statutory Funds	500,000	-	-	-	-	-	-	-	500,000
Withdrawal by Federal Government	-	-	(4,500,000)	-	-	-	-	-	(4,500,000)
Net Pension Contribution And Claims Received	-	2,854,052	-	-	-	-	-	-	2,854,052
AT 31 DECEMBER 2018	26,001,944	52,230,752	(4,500,000)	(46,642)	(164,830)	-	(4,175,040)	66,849,371	136,195,555

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

		Non-Distributable		Distributable					
		←		→					
		Fair Value							
KWAP	Allocation Of Statutory Funds (Note 26) RM'000	Pension Contributions (Note 27) RM'000	Withdrawal by Federal Government (Note 28) RM'000	Other Reserves (Note 30) RM'000	Foreign Exchange Reserves (Note 30) RM'000	Available- For-Sale Reserves (Note 30) RM'000	Through Other Comprehensive Income Reserves (Note 30) RM'000	Retained Earnings (Note 29) RM'000	Total RM'000
AT 1 JANUARY 2017									
	Profit For The Year	25,001,944	46,387,634	-	-	724,187	-	52,888,148	125,001,913
	Other Comprehensive Income/(Loss)	-	-	-	-	-	-	8,791,437	8,791,437
	Receipts From Statutory Funds	500,000	-	-	-	3,514,721	-	-	3,514,721
	Net Pension Contribution And Claims Received	-	2,989,066	-	-	-	-	-	500,000
AT 31 DECEMBER 2017									
		25,501,944	49,376,700	-	-	4,238,908	-	61,679,585	140,797,137
Effects of MFRS 9 Adoption									
		-	-	-	-	(4,238,908)	212,034	4,031,444	4,570
RESTATED AT 1 JANUARY 2018									
	Profit For The Year	25,501,944	49,376,700	-	-	-	212,034	65,711,029	140,801,707
	Other Comprehensive Loss	-	-	-	-	-	-	1,241,966	1,241,966
	Receipts From Statutory Funds	500,000	-	-	-	-	(4,387,074)	-	(4,387,074)
	Withdrawal by Federal Government	-	-	-	-	-	-	-	500,000
	Net Pension Contribution And Claims Received	-	-	(4,500,000)	-	-	-	-	(4,500,000)
AT 31 DECEMBER 2018									
		26,001,944	52,230,752	(4,500,000)	-	-	(4,175,040)	66,952,995	136,510,651

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 2018

	Group		KWAP	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit Before Taxation	1,233,011	9,063,052	1,241,966	8,791,437
Adjustments For:				
Depreciation Of Property And Equipment	160,948	108,516	21,932	24,221
Amortisation Of Computer Softwares	2,330	2,189	2,330	2,189
Net Unrealised Loss/(Gain) On Financial Assets Designated At Fair Value Through Profit and Loss	5,912,695	(34,589)	5,922,909	(34,589)
Net Unrealised Gain On Fair Value Of Derivative	(3,441)	(951,437)	(9,980)	(927,753)
Gain From Divestment	(1,556,492)	(3,733,352)	(1,556,492)	(3,290,094)
Profit On Sale Of Property And Equipment	(4)	-	-	-
Adjustment Of Computer Softwares	(26)	-	(268)	-
Interest Income	(3,132,272)	(3,328,095)	(3,154,046)	(3,333,910)
Dividend Income	(2,035,261)	(1,464,727)	(2,157,808)	(1,921,911)
Share Of Results From Associates And Joint Ventures	392,358	-	-	-
Unrealised Gain On Foreign Exchange	(405,821)	(443,681)	(405,821)	(253,274)
Impairment Losses	(2,458)	1,123,253	(2,458)	1,123,253
Operating Profit / (Loss) Before Changes In Working Capital	565,567	341,129	(97,736)	179,569
CHANGES IN WORKING CAPITAL:				
Decrease In Trade Receivables	927,468	5,686,329	947,631	1,552,139
Decrease/(Increase) In Sundry Debtors And Deposits	118,766	(110,957)	30,061	(57,506)
(Decrease)/Increase In Trade Payables	(645,494)	800,534	(662,183)	795,339
(Decrease)/Increase In Borrowings	637,417	165,645	-	-
(Decrease)/Increase In Other Payables And Accruals	(59,414)	42,006	(9,294)	55,263
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,544,310	6,924,686	208,479	2,524,804

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		KWAP	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds From Sale Of Available-For-Sale Investments	-	67,899,506	-	71,262,326
Proceeds From Sale Of Financial Instruments				
At Amortised Cost	17,131,676	-	17,131,676	-
Proceeds From Sale Of Financial Assets Designated				
At Fair Value Through Profit And Loss	21,253,786	3,062,446	21,939,405	3,062,446
Proceeds From Sale Of FVOCI Investments	14,603,692	-	14,895,861	-
Purchase Of Property and Equipment	(16,908)	(24,991)	(15,873)	(24,958)
Disposal Of Property and Equipment	90	19,444	90	19,444
Net Disposal/(Purchase) of Investment Properties	(1,160,757)	264,871	(28)	1,081,930
Purchase Of Computer Softwares	(2,274)	(2,621)	(2,274)	(2,621)
Purchase Of Available-For-Sale Investments	-	(83,515,912)	-	(83,706,319)
Deposits And Placements With Financial Institutions	2,790,037	42,334	2,790,037	(584,772)
Purchase Of Financial Assets Designated				
At Fair Value Through Profit And Loss	(39,890,525)	(2,105,242)	(39,890,525)	(2,105,242)
Purchase Of FVOCI Investments	(16,609,709)	-	(16,609,709)	-
(Increase)/Decrease in Derivatives	455,248	(209,373)	461,943	(209,938)
Interest Received	2,807,963	2,635,851	2,823,658	2,663,391
Dividend Received	1,653,834	1,424,400	1,776,381	1,893,511
Decrease/(Increase) in Investments in				
Subsidiaries, Associates and JV	647,298	(533,626)	(458,035)	(658,708)
Repayment Of Loans	2,152,475	673,045	2,152,475	673,045
Repayment Of Loans From Subsidiaries	-	-	-	441,650
NET CASH GENERATED FROM / (USED IN)				
INVESTING ACTIVITIES	5,815,926	(10,369,868)	6,995,082	(6,194,815)

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		KWAP	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Allocation Of Statutory Funds	500,000	500,000	500,000	500,000
Receipts Of Pension Contribution	2,873,643	3,013,909	2,873,643	3,013,908
Repayment Of Pension Contribution	(19,591)	(24,842)	(19,591)	(24,842)
Withdrawals by Government	(4,500,000)	-	(4,500,000)	-
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	(1,145,948)	3,489,067	(1,145,948)	3,489,066
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	6,214,288	43,885	6,057,613	(180,945)
EFFECT OF CHANGES IN FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	(86,993)	(233,669)	-	-
AS AT 1 JANUARY	4,769,706	4,959,490	4,560,777	4,741,722
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	10,897,001	4,769,706	10,618,390	4,560,777

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 were accepted and approved by the Board of KWAP on 8 July 2019.

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”) and the Retirement Fund Act 2007.

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 unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP

On 1 January 2018, the Group and KWAP adopted the MFRS 9: Financial Instruments ("MFRS 9") issued by the Malaysian Accounting Standard Board ("MASB") in November 2014 as the standard becomes effective for the annual period beginning 1 January 2018, which resulted in changes in the accounting policies and adjustments to the amounts previously recognised in the Financial Statements.

In accordance with the transitional provisions provided in the MFRS 9, the comparative information for the FY2017 Financial Statements were not restated and continued to be reported under the previous accounting policies governed under the MFRS 139: Financial Instruments ("MFRS 139"). The cumulative effects of the initial application of the MFRS 9 were recognised as an adjustment to the opening balance of the retained earnings as at 1 January 2018.

The detailed impact of changes in the accounting policies are set out in Note 2.

The adoption of the MFRS 9 resulted in the following changes to the accounting policies of the Group and KWAP:

(i) Classification and measurement of financial instruments

The following table summarises the impact on the classification and measurement of financial instruments to the Group's and to KWAP's financial assets on 1 January 2018:

Group		As at 1 January 2018			
		Original Measurement Category Under MFRS 139	New Measurement Category Under MFRS 9	Original Carrying Amount Under MFRS 139 RM'000	New Carrying Amount Under MFRS 9 RM'000
FINANCIAL ASSETS	Note				
Loans and Receivables		Loans and Receivables	Loans and Receivables	1,546,641	1,546,641
Financial Assets at Fair Value Through Profit or Loss		FVTPL*	FVTPL	823,786	823,786
Derivative Financial Assets		FVTPL	FVTPL	539,181	539,181
Sundry Debtors and Deposits		Amortised Cost	Amortised Cost	235,616	235,616
Trade Receivables		Amortised Cost	Amortised Cost	2,445,007	2,445,007
Deposits and Placements With Financial Institutions		Amortised Cost	Amortised Cost	6,684,323	6,684,323
Cash and Bank Balances		Amortised Cost	Amortised Cost	1,249,259	1,249,259
Loans and Receivables		Loans and Receivables	Loans and Receivables	8,971,509	8,971,509
Loans and Receivables		Loans and Receivables	Amortised Cost	3,341,837	3,341,837

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

Group (continued)

Group (continued)		As at 1 January 2018			
		Original Measurement Category Under MFRS 139	New Measurement Category Under MFRS 9	Original Carrying Amount Under MFRS 139 RM'000	New Carrying Amount Under MFRS 9 RM'000
FINANCIAL ASSETS	Note				
Investment Securities - Debt Instruments		Loans and Receivables	FVTPL	1,500,000	1,504,595
Investment Securities - Equity Instruments	a	Available-For-Sale	FVTPL	34,369,684	34,369,684
Investment Securities - Equity Instruments	b	Available-For-Sale	FVOCI**	26,807,699	26,807,699
Investment Securities - Debt Instruments	c	Available-For-Sale	FVTPL	504,136	504,136
Investment Securities - Debt Instruments	d	Available-For-Sale	FVOCI	48,325,044	33,156,612
FINANCIAL LIABILITIES					
Derivative Financial Liabilities		FVTPL	FVTPL	158,807	158,807
Trade Payables		Amortised Cost	Amortised Cost	1,280,490	1,280,490
Other Payables And Accruals		Amortised Cost	Amortised Cost	192,852	192,852
Borrowings		Amortised Cost	Amortised Cost	256,067	256,067

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP		As at 1 January 2018			
		Original Measurement Category Under MFRS 139	New Measurement Category Under MFRS 9	Original Carrying Amount Under MFRS 139 RM'000	New Carrying Amount Under MFRS 9 RM'000
FINANCIAL ASSETS	Note				
Loans And Receivables		Loans And Receivables	Loans And Receivables	1,546,641	1,546,641
Financial Assets at Fair Value Through Profit or Loss		FVTPL*	FVTPL	823,786	823,786
Derivative Financial Assets		FVTPL	FVTPL	539,181	539,181
Sundry Debtors And Deposits		Amortised Cost	Amortised Cost	172,419	172,419
Trade Receivables		Amortised Cost	Amortised Cost	2,467,577	2,467,577
Deposits And Placements With Financial Institutions		Amortised Cost	Amortised Cost	6,678,292	6,678,292
Cash And Bank Balances		Amortised Cost	Amortised Cost	1,046,361	1,046,361
Loans And Receivables		Loans And Receivables	Loans And Receivables	9,805,521	8,971,509
Loans And Receivables		Loans And Receivables	Amortised Cost	3,341,837	3,341,837
Investment Securities - Debt Instruments		Loans And Receivables	FVTPL	1,500,000	1,504,595
Investment Securities - Equity Instruments	a	Available-For-Sale	FVTPL	34,369,684	34,369,684
Investment Securities - Equity Instruments	b	Available-For-Sale	FVOCI**	26,807,699	26,807,699
Investment Securities - Debt Instruments	c	Available-For-Sale	FVTPL	504,136	504,136
Investment Securities - Debt Instruments	d	Available-For-Sale	FVOCI	48,325,044	33,156,612

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP (continued)

		As at 1 January 2018			
		Original	New	Original	New
		Measurement	Measurement	Carrying	Carrying
		Category	Category	Amount	Amount
		Under	Under	Under	Under
FINANCIAL LIABILITIES	Note	MFRS 139	MFRS 9	MFRS 139	MFRS 9
				RM'000	RM'000
Derivative Financial Liabilities		FVTPL	FVTPL	143,067	143,067
Trade Payables		Amortised Cost	Amortised Cost	1,257,332	1,257,332
Other Payables And Accruals		Amortised Cost	Amortised Cost	124,133	124,133

* FVTPL - Fair Value Through Profit or Loss

** FVOCI - Fair Value Through Other Comprehensive Income

There were no changes in the classification and measurement of financial liabilities of the Group and KWAP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

Notes

(a) Comprised of equity instruments previously classified as Available-For-Sale (“AFS”) under the MFRS 139 whereby it was elected not to apply the FVOCI option under the MFRS 9.

(b) Comprised of non-traded equity instruments previously classified as AFS under the MFRS 139 whereby it was elected to apply the FVOCI option under the MFRS 9. Accordingly, the financial instrument shall be accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted or required.

(c) Comprised of debt instruments previously classified as Loans and Receivables which failed to satisfy the Solely Payment of Principal and Interest (“SPPI”) requirement under the MFRS 9 hence classified as FVTPL from the date of initial application.

(d) Comprised of debt instruments under the business model whose objective is achieved by both the collection of contractual cash flows and sale of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

The following table is a reconciliation of the carrying amounts in the Group's Statement of Financial Position from the MFRS 139 to MFRS 9 as at 1 January 2018:

GROUP

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
FAIR VALUE THROUGH PROFIT OR LOSS					
OPENING BALANCE (MFRS 139)	823,786	-	-	823,786	-
Addition:					
From Available-For-Sale (MFRS 139) – FVOCI Option Not Elected	-	34,369,684	-	34,369,684	-
From Available-For-Sale (MFRS 139) – Required Reclassification Based on Classification Criteria	-	504,136	-	504,136	-
From Loans & Receivables (MFRS 139) – Required Reclassification Based on Classification Criteria	-	1,533,641	4,595	1,538,236	4,595
CLOSING BALANCE (MFRS 9)	823,786	36,407,461	4,595	37,235,842	4,595

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

GROUP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
LOANS AND RECEIVABLES AT AMORTISED COST					
OPENING BALANCE (MFRS 139)	15,359,987	-	-	15,359,987	-
Subtractions:					
To Amortised Cost Instruments (MFRS 9) - Required Reclassification Based on Classification Criteria	-	(3,341,837)	-	(3,341,837)	-
To FVTPL - Debt Instruments (MFRS 9) - Required Reclassification Based on Classification Criteria	-	(1,533,641)	-	(1,533,641)	-
CLOSING BALANCE (MFRS 9)	15,359,987	(4,875,478)	-	10,484,509	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

GROUP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (WITH RECYCLING)					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
Additions – debt instruments:					
From Available-For-Sale (MFRS 139)	-	48,325,044	-	48,325,044	-
From Loans And Receivables (MFRS 139) – Required Reclassification Based on Classification Criteria	-	-	-	-	-
CLOSING BALANCE (MFRS 9)	-	48,325,044	-	48,325,044	-
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (WITH RECYCLING)					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
Additions – equity instruments:					
From Available-For-Sale	-	26,807,699	-	26,807,699	-
CLOSING BALANCE (MFRS 9)	-	26,807,699	-	26,807,699	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

GROUP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
INVESTMENT SECURITIES - AMORTISED COST					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
Additions:					
From Available-For-Sale (MFRS 139)	-	-	-	-	-
From Loans And Receivables (MFRS 139)	-	3,341,837	-	3,341,837	-
Increase In Expected Credit Losses (MFRS 9)	-	-	(25)	(25)	(25)
CLOSING BALANCE (MFRS 9)	-	3,341,837	(25)	3,341,812	(25)
INVESTMENT SECURITIES - AVAILABLE-FOR-SALE FINANCIAL ASSETS					
OPENING BALANCE (MFRS 139)	110,006,562	-	-	110,006,562	-
Subtractions:					
To Fair Value Through Profit or Loss	-	(34,873,820)	-	(34,873,820)	-
To FVOCI - Equity Instruments	-	(26,807,699)	-	(26,807,699)	-
To FVOCI - Debt Instruments	-	(48,325,044)	-	(48,325,044)	-
To Amortised Cost	-	-	-	-	-
CLOSING BALANCE (MFRS 9)	110,006,562	(110,006,562)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

GROUP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
DERIVATIVE FINANCIAL ASSETS					
OPENING BALANCE (MFRS 139)	539,181	-	-	539,181	-
CLOSING BALANCE (MFRS 9)	539,181	-	-	539,181	-
SUNDRY DEBTORS AND DEPOSITS					
OPENING BALANCE (MFRS 139)	235,616	-	-	235,616	-
CLOSING BALANCE (MFRS 9)	235,616	-	-	235,616	-
TRADE RECEIVABLES					
OPENING BALANCE (MFRS 139)	2,445,007	-	-	2,445,007	-
CLOSING BALANCE (MFRS 9)	2,445,007	-	-	2,445,007	-
DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS					
OPENING BALANCE (MFRS 139)	6,684,323	-	-	6,684,323	-
CLOSING BALANCE (MFRS 9)	6,684,323	-	-	6,684,323	-
CASH AND BANK BALANCES					
OPENING BALANCE (MFRS 139)	1,249,259	-	-	1,249,259	-
CLOSING BALANCE (MFRS 9)	1,249,259	-	-	1,249,259	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

The following table is a reconciliation of the carrying amounts in KWAP's Statement of Financial Position from the MFRS 139 to the MFRS 9 as at 1 January 2018:

KWAP

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
FAIR VALUE THROUGH PROFIT OR LOSS					
OPENING BALANCE (MFRS 139)	823,786	-	-	823,786	-
Addition:					
From Available-For-Sale (MFRS 139) – FVOCI Option Not Elected	-	34,369,684	-	34,369,684	-
From Available-For-Sale (MFRS 139) – Required Reclassification Based on Classification Criteria	-	504,136	-	504,136	-
From Loans & Receivables (MFRS 139) – Required Reclassification Based on Classification Criteria	-	1,533,641	4,595	1,538,236	4,595
CLOSING BALANCE (MFRS 9)	823,786	36,407,461	4,595	37,235,842	4,595

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.2 Statement Of Compliance (continued)**

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
LOANS AND RECEIVABLES					
AT AMORTISED COST					
OPENING BALANCE (MFRS 139)	16,193,999	-	-	16,193,999	-
Subtractions:					
To Amortised Cost Instruments (MFRS 9) - Required Reclassification Based on Classification Criteria	-	(3,341,837)	-	(3,341,837)	-
To FVTPL - Debt Instruments (MFRS 9) - Required Reclassification Based on Classification Criteria	-	(1,533,641)	-	(1,533,641)	-
CLOSING BALANCE (MFRS 9)	16,193,999	(4,875,478)	-	11,318,521	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (WITH RECYCLING)					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
Additions – debt instruments:					
From Available-For-Sale (MFRS 139)	-	48,325,044	-	48,325,044	-
From Loans And Receivables (MFRS 139) – Required Reclassification Based on Classification Criteria	-	-	-	-	-
CLOSING BALANCE (MFRS 9)	-	48,325,044	-	48,325,044	-
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (WITH RECYCLING)					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
Additions – equity instruments:					
From Available-For-Sale	-	26,807,699	-	26,807,699	-
CLOSING BALANCE (MFRS 9)	-	26,807,699	-	26,807,699	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
INVESTMENT SECURITIES - AMORTISED COST					
OPENING BALANCE (MFRS 139)	-	-	-	-	-
ADDITIONS:					
From Available-For-Sale (MFRS 139)	-	-	-	-	-
From Loans And Receivables (MFRS 139)	-	3,341,837	-	3,341,837	-
Increase In Expected Credit Losses (MFRS 9)	-	-	(25)	(25)	(25)
CLOSING BALANCE (MFRS 9)	-	3,341,837	(25)	3,341,812	(25)
INVESTMENT SECURITIES - AVAILABLE-FOR-SALE FINANCIAL ASSETS					
OPENING BALANCE (MFRS 139)	110,006,562	-	-	110,006,562	-
Subtractions:					
To Fair Value Through Profit or Loss	-	(34,873,820)	-	(34,873,820)	-
To FVOCI - Equity Instruments	-	(26,807,699)	-	(26,807,699)	-
To FVOCI - Debt Instruments	-	(48,325,044)	-	(48,325,044)	-
To Amortised Cost	-	-	-	-	-
Closing Balance (MFRS 9)	110,006,562	(110,006,562)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(i) Classification and measurement of financial instruments (continued)

KWAP (continued)

	MFRS 139 Carrying Amount As At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Carrying Amount As At 1 January 2018 RM'000	Retained Earnings Impact As At 1 January 2018 RM'000
DERIVATIVE FINANCIAL ASSETS					
OPENING BALANCE (MFRS 139)	539,181	-	-	539,181	-
CLOSING BALANCE (MFRS 9)	539,181	-	-	539,181	-
SUNDRY DEBTORS AND DEPOSITS					
OPENING BALANCE (MFRS 139)	172,419	-	-	172,419	-
CLOSING BALANCE (MFRS 9)	172,419	-	-	172,419	-
TRADE RECEIVABLES					
OPENING BALANCE (MFRS 139)	2,467,577	-	-	2,467,577	-
CLOSING BALANCE (MFRS 9)	2,467,577	-	-	2,467,577	-
DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS					
OPENING BALANCE (MFRS 139)	6,678,292	-	-	6,678,292	-
CLOSING BALANCE (MFRS 9)	6,678,292	-	-	6,678,292	-
CASH AND BANK BALANCES					
OPENING BALANCE (MFRS 139)	1,046,361	-	-	1,046,361	-
CLOSING BALANCE (MFRS 9)	1,046,361	-	-	1,046,361	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.2 Statement Of Compliance (continued)**

(a) Standard and amendments to published standards that are effective and applicable to the Group and KWAP (continued)

(ii) Impairment of financial assets

The following table is a reconciliation of the closing impairment allowance in accordance with the MFRS 139 to the opening impairment allowance in accordance with the MFRS 9 as at 1 January 2018. Changes to the impairment allowance under the MFRS 9 were due to the reclassification of financial assets between Amortised Cost and fair value as well as the remeasurement of impairment using the Expected Credit Loss ("ECL") requirements.

	Loss Allowance Under MFRS 139/ Provision Under MFRS 137 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Closing Balance As At 1 January 2018 RM'000
<u>LOANS AND RECEIVABLES</u>				
<u>(MFRS 139) / FINANCIAL</u>				
<u>ASSETS AT AMORTISED</u>				
<u>COST (MFRS 9)</u>				
Investment Securities	-	-	25	25
	-	-	25	25
<u>AVAILABLE FOR SALE</u>				
<u>FINANCIAL INSTRUMENTS</u>				
<u>(MFRS 139) / FINANCIAL</u>				
<u>ASSETS AT FAIR VALUE</u>				
<u>THROUGH OTHER</u>				
<u>COMPREHENSIVE</u>				
<u>INCOME (MFRS 9)</u>				
Investment Securities	-	-	2,923	2,923
	-	-	2,923	2,923
<u>TRADE RECEIVABLES</u>				
	-	-	-	-
<u>SUNDRY DEBTORS</u>				
<u>AND DEPOSITS</u>				
	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement Of Compliance (continued)

(b) 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
MFRS 16: 'Leases'	1 January 2019
IC Interpretation 23: 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to the MFRS 3: 'Business Combinations Annual Improvements to MFRS Standards 2015-2017 Cycle'	1 January 2019
Amendments to the MFRS 9: 'Financial Instruments – Prepayment Features with Negative Compensation'	1 January 2019
Amendments to the MFRS 11: 'Joint Arrangements – Annual Improvements to MFRS Standards 2015-2017 Cycle'	1 January 2018
Amendments to the MFRS 112: 'Income Taxes Annual Improvements to MFRS Standards 2015-2017 Cycle'	1 January 2019
Amendments to the MFRS 119: 'Employee Benefits – Plan Amendment, Curtailment or Settlement'	1 January 2019
Amendments to the MFRS 123: 'Borrowing Costs Annual Improvements to MFRS Standards 2015-2017 Cycle'	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.2 Statement Of Compliance (continued)****(b) Standards and amendments that were issued but not yet effective (continued)**

Description	Effective for annual periods beginning on or after
Amendments to the MFRS 128: 'Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures'	1 January 2019
Amendments to the MFRS 3: 'Business Combinations – Definition of a Business'	1 January 2020
Amendments to the MFRS 101: 'Presentation of Financial Statements' and MFRS 108: 'Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material'	1 January 2020
MFRS 17: 'Insurance Contracts'	1 January 2021
Amendments to MFRS 10: 'Consolidated Financial Statements' and MFRS 128: 'Investments In Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	To be confirmed

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and KWAP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 non-financial assets is as set out in Note 2.18.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries and Basis of Consolidation (continued)

(a) Subsidiaries (continued)

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 the 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 2018

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 the Group.

Losses within subsidiaries are attributed to the Non-Controlling Interests even if the attribution results in a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries and Basis of Consolidation (continued)

(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 9, in profit or loss. Remeasurement is not required in the event the contingent consideration is classified as equity. Subsequent settlement is accounted for within equity. Prior to 1 January 2018, 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, in profit or loss or as changes to Other Comprehensive Income.

In instances where the contingent consideration is outside the scope of the MFRS 9, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries and Basis of Consolidation (continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments In Associates And Joint Ventures (continued)

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 FVOCI reserves is reversed in Other Comprehensive Income, thus restating the investment to cost. For an investment designated at FVTPL, 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 required. There was no remeasurement of previously held investment in the associate in the reporting period.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments In Associates And Joint Ventures (continued)

Increasing stake in an existing associate and retaining significant influence (continued)

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 (the 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, if any. 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 2018

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 tax, except where the amount of tax incurred is not recoverable from the government. In the event the amount of tax incurred is not recoverable from the government, the tax 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property And Equipment (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets

(a) Initial Recognition

Financial assets are recognised when the Group and KWAP become a party to the contractual provisions of the instrument. Upon the initial recognition, the Group and KWAP measure a financial asset at its fair value including, in the case of a financial asset not measured at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset or financial liability, if any. The classification of a financial asset and a financial liability is determined at the initial recognition.

Regular way purchases and sales of financial assets are recognised using settlement date accounting. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets.

(b) Classification and Subsequent Measurement

(i) Financial Assets - Policy applicable from 1 January 2018

From 1 January 2018, the Group and KWAP applied the MFRS 9 and classify its financial assets in the following measurement categories – Amortised Cost, FVOCI or FVTPL.

The classification requirements for debt and equity instruments are described below:

1. Debt instruments

Debt instruments are instruments that satisfy the definition of a financial liability from the issuer's perspective. The classification and subsequent measurement of debt instruments are dependent on the Group's and KWAP's business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Group and KWAP classify its debt instruments into one of the following three (3) measurement categories:

Amortised Cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent SPPI, and are not designated at FVTPL, are measured at Amortised Cost using the effective interest method. The carrying amount of these assets is adjusted by impairment losses recognised and measured using the ECL model. Interest income on financial assets measured at Amortised Cost is recognised in the Statement of Comprehensive Income and presented as Interest Income. The losses arising from impairment of financial instruments are recognised in the Statement of Comprehensive Income as Allowance Made For Impairment Losses. The losses arising from impairment of financial assets other than financial instruments are recognised in the Statement of Comprehensive Income as Impairment On Other Assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Classification and Subsequent Measurement (continued)

(i) Financial Assets - Policy applicable from 1 January 2018 (continued)

1. Debt instruments (continued)

FVOCI

Financial assets that are held for the collection of contractual cash flows and subsequent sale of the assets, where the assets' cash flows represent SPPI, and are not designated at FVTPL, are measured at FVOCI. The changes in fair value are recognised through Other Comprehensive Income, except for the recognition of impairment losses which are measured using the ECL model, interest income and foreign exchange gains or losses on the financial assets' amortised cost are recognised in profit or loss. Interest earned whilst holding the financial assets are recorded as Interest Income using the effective interest method. Upon derecognition, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified to profit or loss and presented in Gains From Divestment.

FVTPL

Financial assets that do not satisfy the criteria for Amortised Cost or FVOCI, including financial assets Held-For-Trading ("HFT") and derivatives, are measured at FVTPL. Upon derecognition, the gain or loss on a financial asset that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented as Gains From Divestment. Interest earned whilst holding the financial assets are reported as Interest Income using the effective interest method.

Business model assessment

The Group and KWAP assess the objective of a business model in which a financial asset is held at a portfolio level which best reflects the way the business is managed and information is provided to management. The factors under consideration include policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning the contractual interest revenue, maintenance of a particular interest rate profile, matching the duration of the financial assets to the duration of the financial liabilities that are funding the said assets or realisation of cash flows through the sale of the financial assets.

Other factors under consideration also include the frequency, volume and timing of sales in prior periods, evaluation of the financial asset's performance, the reporting to key management personnel as well as the assessment and management of the risks.

Reclassification of debt investments

The Group and KWAP reclassify debt instruments when and only when there is a change in the business model for managing those said assets. There were reclassifications of debt instruments during the financial year due to the changes in the business model.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Classification and Subsequent Measurement (continued)

(i) Financial Assets - Policy applicable from 1 January 2018 (continued)

2. Equity instruments

Equity instruments are instruments that satisfy the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Upon initial recognition, the Group and KWAP may occasionally elect to classify irrevocably an equity instrument that is not held for trading at FVOCI. Such classification is determined on an instrument-by-instrument basis. When this election is used, the fair value gains and losses are recognised in Other Comprehensive Income and are not subsequently reclassified to profit or loss, including upon disposal. Dividends earned whilst holding the equity instrument are recognised in the Statement of Comprehensive Income and presented as Dividend Income upon the establishment of the right to receive the payment.

Upon derecognition, the gains and losses on equity instruments at FVTPL, is recognised in the Statement of Comprehensive Income and presented as Gains From Divestment.

(ii) Financial Assets - Policy applicable before 1 January 2018

Prior to 1 January 2018, the Group and KWAP classify its financial assets in the following categories: at FVTPL, Loans and Receivables, AFS and Held-To-Maturity ("HTM"). 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 financial assets classified as HTM, the re-evaluation of the designation is performed at the end of each reporting period.

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 FVTPL, are initially recognised at fair value including the transaction costs that are directly attributable to the acquisition of the financial asset, if any. Financial assets at FVTPL are initially recognised at fair value and transaction costs are expensed in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Classification and Subsequent Measurement (continued)

(ii) Financial Assets - Policy applicable before 1 January 2018 (continued)

i. Financial assets at FVTPL

Financial assets at FVTPL are financial assets HFT, derivative financial assets or designated as such upon the initial recognition. Financial assets HFT are financial assets acquired for the purpose of trading, repurchase or sale in the near term. Other investment instruments classified as financial assets HFT are fixed income investment instruments designated under the trading portfolio as well as derivative 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 FVTPL 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 FVTPL exclude exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL 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 HFT or designated at FVTPL. 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 FVTPL. However, if the entire instrument cannot be reliably measured, the entire instrument is then measured at cost less impairment.

Financial assets at FVTPL 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Classification and Subsequent Measurement (continued)

(ii) Financial Assets - Policy applicable before 1 January 2018 (continued)

ii. 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 12 months after the reporting date, which are classified as Non-Current Assets.

iii. AFS financial assets

AFS financial assets are non-derivative financial assets designated as AFS or are not classified in any other categories of financial assets under the MFRS 139.

Following the initial recognition, AFS 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 AFS 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, if any.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial Assets (continued)

(b) Classification and Subsequent Measurement (continued)

(ii) Financial Assets - Policy applicable before 1 January 2018 (continued)

iii. AFS financial assets (continued)

The AFS financial assets are classified as Non-Current Assets with the exception of the AFS financial assets which are expected to be realised within 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.

(iii) Derecognition other than a modification of loan

Financial assets, or a portion thereof, are derecognised upon the expiry of the contractual rights to receive the cash flows from the assets, or upon transfer of the asset and either (i) the Group and KWAP transfer substantially all the risks and rewards of ownership, or (ii) the Group and KWAP neither transfer nor retain substantially all the risks and rewards of ownership and do not retained control of the asset.

(c) Reclassification of Financial Assets

The Group and KWAP may choose to reclassify non-derivative financial assets out from the FVTPL category (other than equity instruments), in rare circumstances, in the event the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and KWAP may also choose to reclassify financial assets that would satisfy the definition of Loans and Receivables out of the FVTPL or FVOCI category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity by the Group and KWAP. The Group and KWAP reclassify debt instruments when and only when there is a change in the business model for managing those assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 9, are recognised in the Statement of Financial Position when, and only when, the Group and KWAP become a party to the contractual provisions of the financial instruments. From 1 January 2018, the Group and KWAP classify its financial liabilities in the following measurement categories - Amortised Cost or FVTPL. Financial liabilities are classified and subsequently measured at amortised cost, except for:

- (i) financial liabilities at FVTPL; and
- (ii) financial guarantee contracts and loan commitments.

The classification and measurement of financial liabilities of the Group and of KWAP have remained unchanged from the MFRS 139, except for financial guarantee contracts and loan commitments.

Amortised Cost

Financial liabilities issued by the Group and KWAP are classified as financial liabilities at Amortised Cost, where the substance of the contractual arrangement results in an obligation by the Group and KWAP either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Non-derivative financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs, if any. Subsequent to the initial recognition, non-derivative financial liabilities are measured at Amortised Cost using the effective interest method. Amortised Cost is calculated by taking into consideration any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Financial liabilities measured at Amortised Cost include deposits from customers, deposits from banks, repurchase agreements and debt securities issued and other borrowed funds.

FVTPL

Financial liabilities at FVTPL include financial derivatives that do not satisfy 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial Liabilities (continued)

Other Financial Liabilities

Borrowings are derecognised from the Statement of Financial Position upon the discharge, cancellation or expiry of the obligation specified in the contract. The difference between the carrying amount of a financial liability that was derecognised or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, if any, 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.

2.9 Derecognition Of Financial Assets And Liabilities

The Group and KWAP derecognise a financial asset when the contractual cash flows from the financial asset expire or when the rights to receive the contractual cash flows of the financial assets are transferred in a transaction in which substantially all the risks and rewards of ownership are also transferred. Any interest in the transferred financial assets that is created or retained by the Group and KWAP is recognised as a separate asset or liability.

A financial liability is derecognised from the Statement of Financial Position upon the discharge, cancellation or expiry of the obligation specified in the contract by the Group and KWAP.

2.10 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 90 days.

2.11 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 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 99 years on a straight-line method. The policy for the recognition and measurement of impairment losses of non-financial assets 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investment Properties (continued)

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%
Land Held For Property Development	0.00%

Land Held For Property Development consists of land where by no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified as Non-Current Assets and is recognised at cost.

2.13 Provisions

Provisions are recognised upon the presence of an 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 for 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 assessment 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 the 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.

Accounting policies applied from 1 January 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset with the exception of financial assets that were subsequently credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 there will be no reversal of the temporary differences in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Income Tax (continued)

(b) Deferred tax (continued)

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 be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 the 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 be applied for 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as FVOCI Income 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Foreign Currencies (continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 assessment 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.

Impairment 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets

Accounting policies applied from 1 January 2018

The Group and KWAP assess on a forward looking basis the ECL associated with its financial assets carried at Amortised Cost and FVOCI. The impairment methodology applied is dependent on whether there was a significant increase in credit risk.

The ECL represents a probability-weighted estimate of the difference between the present value of cash flows according to a contract and the present value of cash flows that the Group and KWAP expect to receive, over the remaining life of the financial instrument.

The measurement of the ECL reflects:

- an unbiased and probability-weighted amount that is determined by the evaluation of a range of possible outcomes;
- the time value of money; and
- the reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(a) Financial assets accounted for at Amortised Cost and FVOCI

There are three (3) categories of financial assets accounted for at Amortised Cost and FVOCI which reflect their respective credit risk and determination of the loan loss provision of each category.

At each reporting date, the Group and KWAP measure the ECL through a loss allowance at an amount equal to the 12-months ECL provided that there is no significant increase in credit risk of a financial instrument or a group of financial instruments since the initial recognition. For all other financial instruments, a loss allowance at an amount equal to the lifetime ECL is required.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied from 1 January 2018 (continued)

(a) Financial assets accounted for at Amortised Cost and FVOCI (continued)

A summary of the assumptions in relation to the ECL model of each category is as follows:

(i) Stage 1: 12-months ECL

For credit exposures where there was no significant increase in credit risk since the initial recognition and no credit impairment upon origination, a portion of the lifetime ECL associated with the possibility of the occurrence of default events within the next 12 months is recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there was a significant increase in credit risk since the initial recognition but no credit impairment upon origination, a lifetime ECL is recognised. A significant increase in credit risk is presumed if the interest and/or principal repayments are more than 30 days but less than 89 days past due.

(iii) Stage 3: Lifetime Expected Credit Loss – credit impaired

Financial assets are assessed as credit impaired upon the occurrence of one or more events with detrimental impact to the estimated future cash flows of the asset. As the same criterias under the MFRS 139 are employed, KWAP's methodology for specific provisions remains unchanged. For financial assets with credit impairment, a lifetime ECL is recognised.

On the term of the financial assets, the Group and KWAP account for the credit risk by the appropriate provision of the ECL on a timely basis, whereby the historical loss rates for each category of financial asset is taken into consideration in the calculation of the ECL rates and adjusted for forward-looking macroeconomic data.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied from 1 January 2018 (continued)

(a) Financial assets accounted for at Amortised Cost and FVOCI (continued)

There were no significant changes to the estimation techniques or assumptions during the reporting period.

Significant increase in credit risk

The Group and KWAP consider the probability of default upon the initial recognition of financial assets and whether there was a significant increase in credit risk on an ongoing basis throughout each reporting period. In the assessment of a significant increase in credit risk, the Group and KWAP compare the risk of the occurrence of default on the financial asset as at the reporting date against the risk of default as at the date of the initial recognition, taking into consideration available, reasonable and supportable forward-looking information.

The following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations; and
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied from 1 January 2018 (continued)

(a) Financial assets accounted for at Amortised Cost and FVOCI (continued)

Low credit risk exemption

Financial instruments with the following characteristics are considered to have low credit risk at the reporting date:

- a low risk of default;
- strong capacity to meet the contractual cash flow obligations in the near term by the borrower; and
- adverse changes will not necessarily reduce the ability of the borrower to make payments when they fall due.

Definition of default and credit-impaired financial assets

The Group and KWAP define the default of a financial instrument, which is fully aligned with the definition of credit-impairment, when it meets one or more of the following criterias:

Quantitative criteria:

Failure of the counterparty to make contractual payment within 90 days when they fall due.

Satisfies the criteria of unlikeliness to pay by the counterparty, which indicate its significant financial difficulty such as the following instances:

- breach of financial covenants;
- concessions made by the lender relating to the counterparty's financial difficulty;
- high probability of bankruptcy or other financial reorganization;
- insolvency; and
- disappearance of an active market for the financial asset due to financial difficulties.

Credit-impairment of financial instruments are assessed on an individual basis by the Group and KWAP.

Write off of financial assets

The Group and KWAP write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and subsequently concluded that there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on the inability of the debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and KWAP may write-off financial assets that are still subject to enforcement activity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied prior to 1 January 2018

Financial assets (with the exception of financial assets designated at FVTPL) are assessed at each reporting date for any objective evidence of impairment as a result of one or more events which impact 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. The impairment loss of the financial assets is estimated upon the existence of any such objective evidence.

The accounting policies in relation to the recognition of impairment loss of financial assets during the subsequent measurement are as follows:

(a) AFS Financial Assets

The objective evidence for impairment of AFS 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 AFS 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 AFS 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 AFS financial assets in the previous period are not reversed through profit or loss in the current period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied prior to 1 January 2018 (continued)

(a) AFS Financial Assets (continued)

(ii) Fixed Income Investment Instruments

The impairment loss assessment of fixed income investment instruments classified as AFS financial assets is consistent with the method employed for HTM 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 AFS 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied prior to 1 January 2018 (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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Impairment Of Financial Assets (continued)

Accounting policies applied prior to 1 January 2018 (continued)

(b) Loans and Receivables (continued)

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.

(c) 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and included in the net gain or loss on fair value movement of derivative.

2.21 Employee Benefits

(a) Short term benefits

Wages, salaries, bonuses, social security contributions (SOCSO), 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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 33 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 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 was no recognition of contingent assets, only disclosure of its existence whereby 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 was no recognition of Contingent liabilities, only its disclosure in the Financial Statements.

2.24 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 as well as in the event of default, insolvency or bankruptcy.

2.25 Allocation of Statutory Funds

KWAP receives an allocation from the Federal Government in accordance with section 13 of the Retirement Fund Act 2007 (ACT 662).

2.26 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 investments 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.

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 investment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of non-financial assets

Impairment of non-financial assets is executed when the carrying value of the asset or 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) 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 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Post-Retirement Medical Benefit obligation

The present value of the Post-Retirement Medical Benefit obligation 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 FY2018 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. INCOME

Other non-investment income of the Group and of KWAP consist of the following:

	Note	Group		KWAP	
		31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
GROSS INVESTMENT INCOME	A	7,290,977	9,348,860	7,056,783	9,033,505
OTHER NON-INVESTMENT INCOME					
Other Operating Income		39,144	37,948	35,896	34,392
Net Gains Arising From					
Derivative Financial Instruments		3,441	951,437	9,980	927,753
Net Gains From Foreign Currency Exchange		405,821	443,681	405,821	253,274
		448,406	1,433,066	451,697	1,215,419

Note A: Included in the gross investment income are net gain on the following:

	Note	Total RM'000
Net gain arising from financial assets designated at FVTPL		2,640,214
Dividends on equity securities measured at FVOCI		909,938
Net gain arising from investment in debt instruments designated at FVOCI		80,868
Net gain arising from financial assets measured at amortised cost		518,728
Interest income under the effective interest method	B	2,855,884

Note B: Interest Income Under The Effective Interest Method:

Government Debt Security	1,300,072
Corporate Debt Security	1,037,084
Loans	518,728
	2,855,884

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. OPERATING EXPENSES

	Note	Group		KWAP	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Employee Costs	A	112,090	107,124	104,556	102,832
Property Related Expenditure		78,243	68,958	21,603	13,645
Professional Services And Fees		128,927	181,963	79,686	108,567
Audit Fees		1,366	1,674	279	478
Directors' Fees And Remuneration		666	343	574	343
Depreciation Charges		160,948	145,025	21,932	24,221
Amortisation Charges		2,330	3,218	2,330	2,189
Withholding Tax		32,884	86,874	32,897	86,874
Management Aid		3,710	1,913	3,710	1,913
Rental Charges		2,790	2,278	15,259	14,524
Other Operating Expenditure		18,447	30,840	9,503	13,237
		542,401	630,210	292,329	368,823

Note A – Employee Costs:

	Group		KWAP	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Salaries And Allowance	72,783	65,430	65,997	61,721
Contribution To KWAP, EPF And SOCSO	16,436	13,717	16,246	13,717
Others	22,871	27,977	22,313	27,394
	112,090	107,124	104,556	102,832

As at 31 December 2018, the number of employees of the Group is 603 (2017: 582), with 590 (2017: 577) being employees of KWAP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. TAXATION

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
CURRENT TAXATION				
Foreign Income Tax	2,289	962	-	-
DEFERRED TAXATION				
Foreign Income Tax	(88)	53	-	-
TAX EXPENSES FOR THE FINANCIAL YEAR	2,201	1,015	-	-

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 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
PROFIT BEFORE TAXATION	<u>1,233,011</u>	<u>9,063,052</u>	<u>1,241,966</u>	<u>8,791,437</u>
Taxation at Malaysian Statutory Tax Rate of 24% (2017:24%)	295,923	2,265,763	298,072	2,197,859
Different Tax Rates In Other Countries*	2,289	(2,259)	-	-
Income Not Subject To Tax	(296,035)	(2,262,516)	(298,072)	(2,197,859)
Capital Allowances In Excess Of Depreciation	24	27	-	-
TAX EXPENSES FOR THE FINANCIAL YEAR	2,201	1,015	-	-

* Different tax rates in other countries refers to the corporate tax rate of Germany of 15%.
(FY2018 – United Kingdom: 19%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

7. PROPERTY AND EQUIPMENT

	Office Renovation RM'000	Computers RM'000	Furniture and Equipment and Paintings 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 2018	24,647	9,363	14,147	386	792	21,114	63	70,512
Additions	399	434	3,038	-	135	12,902	-	16,908
Adjustments/Disposal	(2)	90	54	-	(249)	-	17	(90)
AT 31 DECEMBER 2018	25,044	9,887	17,239	386	678	34,016	80	87,330
ACCUMULATED DEPRECIATION								
At 1 January 2018	3,748	3,049	2,645	183	498	-	9	10,132
Depreciation Charge For The Year	3,853	1,757	2,622	73	128	-	13	8,446
Adjustments/Disposal	100	(9)	68	-	(234)	-	(2)	(77)
Foreign Exchange Difference	50	-	23	-	-	-	-	73
AT 31 DECEMBER 2018	7,751	4,797	5,358	256	392	-	20	18,574
NET BOOK VALUE								
AT 31 DECEMBER 2018	17,293	5,090	11,881	130	286	34,016	60	68,756
KWAP COST								
At 1 January 2018	22,009	9,363	13,665	386	792	21,114	63	67,392
Additions	399	320	2,117	-	135	12,902	-	15,873
Adjustments/Disposal	(2)	90	54	-	(249)	-	17	(90)
AT 31 DECEMBER 2018	22,406	9,773	15,836	386	678	34,016	80	83,175
ACCUMULATED DEPRECIATION								
At 1 January 2018	2,820	3,049	2,284	183	498	-	10	8,844
Depreciation Charge For The Year	3,722	1,745	2,526	73	128	-	13	8,207
Adjustments/Disposal	-	(9)	3	-	(234)	-	(2)	(242)
AT 31 DECEMBER 2018	6,542	4,785	4,813	256	392	-	21	16,809
NET BOOK VALUE								
AT 31 DECEMBER 2018	15,864	4,988	11,023	130	286	34,016	59	66,366

7. PROPERTY AND EQUIPMENT (CONTINUED)

	Office Renovation RM'000	Computers RM'000	Furniture and Equipment and Paintings 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 2018

8. COMPUTER SOFTWARES

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
COST				
At 1 January	12,226	9,787	12,226	9,787
Additions	2,274	2,423	2,274	2,423
Adjustments/Disposals	-	16	-	16
AT 31 DECEMBER	14,500	12,226	14,500	12,226
ACCUMULATED AMORTISATION				
At 1 January	7,763	5,756	7,763	5,756
Charge For The Year	2,330	2,189	2,330	2,189
Adjustments/Disposals	(26)	(182)	(26)	(182)
AT 31 DECEMBER	10,067	7,763	10,067	7,763
NET CARRYING AMOUNT AT 31 DECEMBER	4,433	4,463	4,433	4,463

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 2018

9. INVESTMENT PROPERTIES AND LAND HELD FOR PROPERTY DEVELOPMENT**a) Investment Properties**

	Group		KWAP	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
LAND AND BUILDING COST				
At 1 January	5,747,299	6,012,170	725,760	1,807,711
Addition	1,160,757	359,961	28	15,754
Disposal	-	(624,832)	-	(1,097,705)
Reclassification To Assets Held For Sale	(375,494)	-	-	-
Reclassification To Land Held For Property Development	(641,045)	-	-	-
AT 31 DECEMBER	5,891,517	5,747,299	725,788	725,760
ACCUMULATED DEPRECIATION				
At 1 January	437,917	459,671	15,185	48,487
Depreciation Charge	152,502	102,215	13,725	18,190
Adjustments	-	-	-	-
Disposal	-	(77,046)	-	(51,492)
Reclassification To Assets Held For Sale	(68,238)	-	-	-
Foreign Exchange Reserve	34,174	(46,923)	-	-
AT 31 DECEMBER	556,354	437,917	28,910	15,185
CARRYING AMOUNT AS AT 31 DECEMBER	5,335,163	5,309,382	696,878	710,575
FAIR VALUE	7,933,009	7,966,632	770,876	767,241

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. As at 31 December 2018, there was an intention to sell one investment property being the 737 Bourke Street in Melbourne, Australia under KWAP MIT 1 with the scheduled completion by 31 December 2019. The asset was transferred to Asset Held For Sale during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

9. INVESTMENT PROPERTIES AND LAND HELD FOR PROPERTY DEVELOPMENT (CONTINUED)

a) Investment Properties (continued)

The fair value of the investment properties of the Group as at 31 December 2018 amounted to RM7,933 million (2017: RM7,966.6 million), which was determined based on the property valuations performed at each reporting date. The fair value of investment properties of KWAP as at 31 December 2018 amounted to RM770.9 million (2017: RM767.2 million) which was determined based on the property 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 involve sales of similar properties, analysis and factors which can influence the value or price of the said properties.

As at 31 December 2018, the total fair value of two parcels of land, being Lot 102, Jalan Stonor and Lot 392, Jalan Changkat Kia Peng that were purchased in 2015 and 2016, is RM227.9 million based on the acquisition cost.

KWAP exercised its judgement in ensuring the valuation methods and estimates carried in the recognition year are reflective of actual market state and circumstances. Based on its assessment, KWAP is of the view that the acquisition cost is still relevant and reflective of the value of the land. KWAP will assess the value of the land periodically for the purposes of ensuring that its carrying amount in the Financial Statements is in accordance to the adopted accounting standard.

As at 31 January 2019, KWAP decided to transfer its ownership on 'Menara AIA Cap Square' to Capsquare Tower Sdn Bhd (CTSB); a subsidiary wholly owned by KWAP. However, there is no impact on financial figures as the transfer is only an internal transfer between companies within the Group.

b) Land Held For Property Development

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
LAND HELD FOR PROPERTY DEVELOPMENT COST				
At 1 January	-	-	-	-
Addition	641,045	-	-	-
AT 31 DECEMBER	641,045	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. INVESTMENT IN SUBSIDIARIES

	KWAP	
	31 December	31 December
	2018	2017
	RM'000	RM'000
Shares At Cost		
Unquoted Shares Inside Malaysia	1,679,628	1,046,237
Unquoted Shares Outside Malaysia	2,019,995	1,560,651
	3,699,623	2,606,888

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
		2018 %	2017 %	2018 %	2017 %	
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) S.á.r.l	Luxembourg	100.0	100.0	-	-	Management of investment trust
Prima Harta 4 (Jersey) Unit Trust	Jersey	100.0	-	-	-	Management of investment trust
Capsquare Tower Sdn Bhd	Malaysia	100.0	100.0	-	-	Management of property
KWEST Sdn Bhd	Malaysia	100.0	100.0	-	-	Property development
Harta Integra Berkat Sdn Bhd	Malaysia	100.0	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 2018

11. INVESTMENT IN ASSOCIATES

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Shares At Cost,				
Quoted Shares	-	672,107	-	620,136
Unquoted Shares	387,292	388,292	387,292	388,292
	387,292	1,060,399	387,292	1,008,428
Share Of Post Acquisition Reserves	36,893	114,991	-	-
	424,185	1,175,390	387,292	1,008,428
Less: Allowance For Impairment Losses	-	-	-	-
	424,185	1,175,390	387,292	1,008,428
Market Value Of Quoted Shares				
Malakoff Corporation Bhd	-	371,706	-	371,706
Prestariang Bhd	-	95,383	-	95,383

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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
		2018 %	2017 %		
ValueCap Sdn Bhd	Malaysia	33.33	33.33	Equity method	Investment in quoted securities
Vortex Solar Investment Sarl	Luxembourg	45.00	45.00	Equity method	Renewable energy
Prestariang Bhd	Malaysia	-	13.01	Equity method	ICT service provider
Malakoff Corporation Bhd	Malaysia	-	8.22	Equity method	Independent power producer company

Prestariang Bhd and Malakoff Corporation Bhd ceased to be associates of the Group on 30 September 2018 and 31 October 2018 respectively based on the absence of significant influence in the entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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.

2018

	ValueCap Sdn Bhd RM'000	Vortex Solar Investment S.a.r.l. RM'000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Revenue	(809,660)	48,904
Profit/(Loss) For The Year	(1,129,924)	39,198
Other Comprehensive Income	(1,129,924)	39,198
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Non-Current Assets	321,642	856,574
Current Assets	5,224,424	29,379
Total Assets	5,546,066	885,953
Non-Current Liabilities	6,014,948	552,880
Current Liabilities	87,051	47,976
Total Liabilities	6,101,999	600,856

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

11. INVESTMENT IN ASSOCIATES (CONTINUED)

2017

	Prestariang Bhd RM'000	Malakoff Corporation Bhd RM'000	ValueCap Sdn Bhd RM'000	Vortex Solar Investment S.a.r.l. RM'000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Revenue	219,506	7,130,440	461,727	251,024
Profit/(Loss) For The Year	24,570	376,938	156,032	22,149
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Non-Current Assets	131,235	21,803,756	48,621	5,240,170
Current Assets	124,980	8,114,241	6,761,440	131,532
Total Assets	256,215	29,917,997	6,810,061	5,371,702
Non-Current Liabilities	24,286	19,620,791	6,015,301	2,479,645
Current Liabilities	60,627	3,380,545	411,497	37,167
Total Liabilities	84,913	23,001,336	6,426,798	2,516,812

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. INVESTMENT IN JOINT VENTURES

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Shares At Cost,				
Unquoted Shares Outside Malaysia	295,305	335,583	-	-
Unquoted Shares In Malaysia	10,000	10,000	10,000	10,000
	305,305	345,583	10,000	10,000
Share Of Post Acquisition Reserves	70,715	21,296		-
	376,020	366,879	10,000	10,000
Less: Allowance for impairment losses	-	-	-	-
	376,020	366,879	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 Interest Ownership Interest		Accounting Model Applied	Principal Activities
		2018 %	2017 %		
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 2018

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.

2018

	Tap Crunch International Sdn Bhd RM'000	Tap Crunch Sdn Bhd RM'000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Revenue	-	149,067
(Loss)/Profit For The Year	(5)	6,332
Other Comprehensive Income	(5)	6,332
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Non-Current Assets	-	-
Current Assets	-	50,368
Total Assets	-	50,368
Non-Current Liabilities	2	45,002
Current Liabilities	16	260
Total Liabilities	18	45,262

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. INVESTMENT IN JOINT VENTURES (CONTINUED)

2017

	Tap Crunch International Sdn Bhd RM'000	Tap Crunch Sdn Bhd RM'000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Revenue	-	4,227
(Loss)/Profit For The Year	(4)	46,816
Other Comprehensive Income		
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 2018

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Quoted Shares In Malaysia	-	50,190,670	-	50,190,670
Quoted Shares Outside Malaysia	-	8,134,022	-	8,134,022
Unquoted Equity Funds In Malaysia	-	575,041	-	575,041
Unquoted Equity Funds Outside Malaysia	-	2,277,650	-	2,277,650
Quoted Bonds In Malaysia	-	46,269,441	-	46,269,441
Quoted Bonds Outside Malaysia	-	2,559,738	-	2,559,738
	-	110,006,562	-	110,006,562

(a) AFS Financial Assets - Quoted Investments

Quoted investments are AFS financial assets in listed equities and debt securities. The fair values of equity shares and quoted debt securities are determined by reference to the published price quotations in active markets.

(b) AFS Financial Assets - Unquoted Investments

Unquoted investments are AFS 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").

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

14. LOANS AND RECEIVABLES

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
NON-CURRENT				
Commercial Loan	8,637,889	9,400,690	8,637,889	9,400,690
Loan To Related Parties	2,962	-	335,932	404,831
Fixed Income Investment	-	4,412,656	-	4,841,837
	8,640,851	13,813,346	8,973,821	14,647,358
CURRENT				
Commercial Loan	150,000	1,513,000	150,000	1,513,000
Loan To Related Parties	-	33,641	-	33,641
	150,000	1,546,641	150,000	1,546,641

Loans and Receivables to corporate institutions are subject to interest rates ranging from 3.99% to 5.88% (2017: 0.35% to 6.10%) 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% (2017: 0.00% to 8.00%) per annum as well as the annual review.

(a) Movements in the allowance for Loans and Receivables

There were no allowances made for impairment losses for Loans and Receivables during the year based on the absence of the loss given default assigned to all loans due to the government guarantees as well as favourable internal ratings for all loans.

(b) Impact of movements in the gross carrying amount on allowance for impairment losses

Allowance for impairment losses reflected the measurement of ECL using the three (3) stage approach under the MFRS 9, as described in the significant accounting policies section.

There was no allowance for impairment losses for the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

14. LOANS AND RECEIVABLES (CONTINUED)**(c) Information about the nature and effect of modification on the measurement of allowance for impairment losses**

There were no modifications of loans during the reporting period.

(d) Write-offs still under enforcement activity

There was no contractual amount outstanding on financial assets that were written off during the reporting period.

15. DEBT INSTRUMENT AT AMORTISED COST

	Group		KWAP	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
NON-CURRENT				
Fixed Income Instruments	17,153,861	-	17,153,861	-
	17,153,861	-	17,153,861	-

(a) Reclassification of debt instruments at amortised cost

At 10 December 2018, there was a reclassification of previously held financial assets at FVOCI of RM13,516.9 million to Amortised Cost. The reclassification was due to a change in the business model from financial assets HFT to financial assets that are held for the collection of contractual cash flows.

The fair value of the reclassified asset as at 31 December 2018 was RM13,516.9 million. The fair value gains that would have been recognised in Other Comprehensive Income if the financial assets were not reclassified was RM257.9 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. DEBT INSTRUMENT AT AMORTISED COST (CONTINUED)

(b) Movements in the allowance for debt instruments at amortised cost

	12-months expected credit losses RM'000	Total RM'000
DEBT INSTRUMENTS AT AMORTISED COST		
AT 1 JANUARY 2018	25	25
Net remeasurement of loss allowance	(15)	(15)
AT 31 DECEMBER 2018	10	10

There were no purchase of credit-impaired financial assets at the initial recognition and during the year, hence no recognition of the ECL.

(c) Impact of movements in gross carrying amount on allowance for impairment losses

Allowance for impairment losses reflected the ECL measured using the three-stage approach under the MFRS 9, as described in the significant accounting policies section.

The gross carrying amount of debt instruments at Amortised Cost increased by RM13,812.1 million primarily due to the following debt instruments:

- originated or acquired during the reporting period; and
- reclassification during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. DEBT INSTRUMENT AT AMORTISED COST (CONTINUED)

(c) Impact of movements in gross carrying amount on allowance for impairment losses (continued)

Gross carrying amount of debt instruments at amortised cost	12-months expected credit losses RM'000	Total RM'000
AT 1 JANUARY 2018	3,341,812	3,341,812
Transfers:	-	-
- Transferred to 12-months ECL	15	15
New financial assets originated or purchased	37,196	37,196
Reclassification	13,774,838	13,774,838
Write-offs	-	-
Financial assets that have been derecognised	-	-
Exchange fluctuation and other changes	-	-
AT 31 DECEMBER 2018	17,153,861	17,153,861

(d) Write-offs still under enforcement activity

There was no contractual amount outstanding on financial assets that were written off during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
NON-CURRENT				
Equity Instruments At Fair Value				
Through Profit Or Loss	30,826,595	-	30,826,595	-
- Quoted	3,442,313	-	3,442,313	-
- Unquoted	1,679,178	-	1,679,178	-
- Fixed Income Investment (Perpetual Bond)				
Debt Instruments At Fair Value				
Through Profit Or Loss				
- Fixed Income Investment	369,425	-	369,425	-
	36,317,511	-	36,317,511	-
CURRENT				
Debt Instruments At Fair Value				
Through Profit Or Loss				
- Tap Crunch Sdn Bhd	35,000	35,000	35,000	35,000
- Shareholder's Loan	-	476,819	204,132	476,819
- Fixed Income Investment	862,424	311,967	862,424	311,967
	897,424	823,786	1,101,556	823,786

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

17. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

DEBT INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
- Fixed Income Investment	30,744,344	-	30,744,344	-
	30,744,344	-	30,744,344	-

(a) Reclassification of debt instruments at FVOCI

At 10 December 2018, there was a reclassification of previously held financial assets at FVOCI of RM13,516.9 million to Amortised Cost. The reclassification was due to a change in the business model from financial assets HFT to financial assets that are held for the collection of contractual cash flows.

The fair value of the reclassified asset as at 31 December 2018 was RM13,516.9 million. The fair value gains that would have been recognised in Other Comprehensive Income if the financial assets were not reclassified is RM257.9 million.

b) Movements in allowance for debt instruments at FVOCI

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	12-months expected credit losses RM'000	Total RM'000
AT 1 JANUARY 2018	2,923	2,923
Net remeasurement of loss allowance	(1,359)	(1,359)
New financial assets originated or purchased	106	106
Financial assets that have been derecognised	(1,195)	(1,195)
Exchange fluctuations	5	5
AT 31 DECEMBER 2018	480	480

There was no undiscounted ECL at the initial recognition of credit-impaired financial assets purchased during the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

17. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**(c) Impact of movements in gross carrying amount on allowance for impairment losses**

Allowance for impairment losses reflected the ECL measured using the three (3) stage approach under the MFRS 9, as described in the significant accounting policies section. The following explanation relates to the contribution of the significant changes in the gross carrying amount of debt instruments at FVOCI during the year to the changes in the allowance for impairment losses for the Group and KWAP under the ECL model.

Overall the total allowance for impairment losses decreased by RM2.4 million compared to the opening balance at the beginning of the year. The net reduction was driven by the reduced collective provisioning/specific provisioning and partially offset by an increase in the collective provisioning/specific provisioning.

The gross carrying amount of debt instruments at FVOCI decreased by RM17,580.7 million primarily due to the following debt instruments:

- originated or acquired during the reporting period; and
- derecognition during the reporting year.

GROSS CARRYING AMOUNT OF DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	12-months expected credit losses RM'000	Total RM'000
AT 1 JANUARY 2018	48,325,044	48,325,044
New financial assets originated or purchased	7,906,441	7,906,441
Write-offs	-	-
Financial assets that have been derecognised	(11,947,501)	(11,947,501)
Reclassification	(13,516,902)	(13,516,902)
Changes due to modifications that did not result in derecognition	(55,185)	(55,185)
Exchange fluctuation and other changes	32,447	32,447
AT 31 DECEMBER 2018	30,744,344	30,744,344

(d) Write-offs still under enforcement activity

There was no contractual amount outstanding on financial assets that were written off during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
NON-CURRENT				
Equity Instruments At Fair Value Through Other Comprehensive Income				
- Quoted Equity	25,258,816	-	25,258,816	-
	25,258,816	-	25,258,816	-

The fair value of equity instruments held at FVOCI are as follows:

	Fair value as at 31 December 2018 RM'000
Listed securities	
MYETF DOW JONES ISLAMIC MARKET MALAYSIA TITANS 25	108,412
MYETF MSCI MALAYSIA ISLAMIC DIVIDEND	2,154
MYETF MSCI SEA ISLAMIC DIVIDEND	1,610
BERMAZ AUTO BERHAD	62,436
DRB-HICOM BHD	3,283
GAMUDA BHD	239,070
IJM CORPORATION BHD	218,626
DUTCH LADY MILK INDUSTRIES BHD	22,850
FRASER & NEAVE HOLDINGS BHD	289,380
MSM MALAYSIA HOLDING	24,214
PPB GROUP BHD	260,090
UMW HOLDINGS BHD	416,528
QL RESOURCES BHD	33,763
MALAKOFF CORPORATION BERHAD	309,097
AMMB HOLDINGS BHD	506,913
BIMB HOLDINGS BHD	131,989
HONG LEONG BANK BHD	519,974
MALAYAN BANKING BHD	4,009,226
PUBLIC BANK BHD	3,001,242
RHB BANK BERHAD	806,246
SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD	14,500

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The fair value of equity instruments held at FVOCI are as follows: (continued)

	Fair value as at 31 December 2018 RM'000
Listed securities (continued)	
IHH HEALTHCARE BERHAD	695,024
DIGI.COM BHD	1,216,449
LINGKARAN TRANS KOTA HOLDINGS BHD	15,207
TIME DOTCOM BHD	483,327
YTL POWER INTERNATIONAL BHD	32,008
LAFARGE MALAYSIA BERHAD	36,881
PETRONAS GAS BHD	1,669,449
TSH RESOURCES BHD	51,534
WESTPORTS HOLDINGS BERHAD	418,990
BOUSTEAD HOLDINGS BHD	271,710
FGV HOLDINGS BERHAD	195,925
IJM PLANTATIONS BHD	56,208
SIME DARBY PLANTATION BERHAD	1,488,610
TDM BHD	13,987
GENTING PLANTATIONS BERHAD	483,770
IOI CORPORATION BHD	838,437
EASTERN & ORIENTAL BHD	100,100
SIME DARBY PROPERTY BERHAD	307,334
ECO WORLD DEVELOPMENT GROUP	31,178
MAH SING GROUP BHD	103,715
MALAYSIAN RESOURCES CORPORATION BHD	21,783
SP SETIA BHD	657,496
ECO WORLD INTERNATIONAL BERHAD	55,615
AL-AQAR HEALTHCARE REIT	81,954
AXIS REAL ESTATE INVESTMENT TRUST	153,780
CAPITALAND MALAYSIA MALL TRUST	156,873
IGB REAL ESTATE INVESTMENT TRUST	165,954
PAVILION REAL ESTATE INVESTMENT TRUST	135,782
SUNWAY BERHAD	41,593
SUNWAY REAL ESTATE INVESTMENT TRUST	176,199
AEON CO. (M) BHD	17,067
MALAYSIA AIRPORT HOLDINGS BHD	314,352
AMWAY (M) HOLDINGS BHD	92,655
ASTRO MALAYSIA HOLDINGS BERHAD	27,232

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The fair value of equity instruments held at FVOCI are as follows: (continued)

	Fair value as at 31 December 2018 RM'000
Listed securities (continued)	
AXIATA GROUP BERHAD	1,499,708
BINTULU PORT HOLDINGS BHD	189,352
KPJ HEALTHCARE BHD	136,837
MAXIS BHD	579,737
MISC BHD	433,616
MMC CORPORATION BHD	46,863
POS MALAYSIA BERHAD	102,393
SAPURA ENERGY BERHAD	117,294
TELEKOM MALAYSIA BHD	409,259
SP SETIA BERHAD - PREFERENCE SHARES	93,966
SP SETIA BERHAD - PREFERENCE SHARES	60,013
	25,258,816

The portfolio structure with a combination of FVTPL and FVOCI classified financial assets is consistent with the Group's and KWAP's risk profile and risk appetite.

Dividend recognised from investments in equity instruments held during the reporting period was RM 2,158.4 million.

Disposal of investments in equity instruments measured at FVOCI

Since 1 January 2018, there were disposals of equity instruments designated at FVOCI with a total fair value of RM2,099.8 million at the time of disposal and a total realised loss of RM75.1 million subsequently recorded in the Other Comprehensive Income up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Group			KWAP		
	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Assets/ (Liabilities) RM'000	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Assets/ (Liabilities) RM'000
2018						
CURRENT ASSETS						
Derivative Designated as Hedges:						
Financial Assets:						
Warrants & Rights	-	964		-	964	
Forward Exchange Rate Contracts	2,188,120	42,386	43,350	2,188,120	42,386	43,350
CURRENT LIABILITIES						
Financial Liabilities:						
Interest Rate Swaps	15,584	(9,045)		-	-	
Cross Currency Swaps	276,020	(108,913)		276,020	(108,913)	
Forward Exchange Rate Contracts	8,352,190	(266)	(118,224)	8,352,190	(266)	(109,179)
NON-CURRENT LIABILITIES						
Derivative Financial Instruments	6,680	(6,680)	(6,680)	-	-	-

	Group			KWAP		
	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Assets/ (Liabilities) RM'000	Nominal Value RM'000	Assets/ (Liabilities) RM'000	Assets/ (Liabilities) RM'000
2017						
CURRENT ASSETS						
Derivative 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
CURRENT LIABILITIES						
Financial Liabilities:						
Cross Currency Swaps	392,889	(158,807)	(158,807)	353,950	(143,067)	(143,067)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The outstanding cross currency swaps and forward exchange rate contracts as at 31 December 2018 were 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 the occurrence of hedge accounting in relation to the said highly probable future transactions.

20. SUNDRY DEBTORS AND DEPOSITS

	Group		KWAP	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Withholding Tax Receivable	329	-	329	-
Other Receivables	8,539	13,713	50,165	7,510
Tax Recoverable	83,818	81,624	83,818	81,624
GST Control Account	20,803	2,466	-	2,466
Deposit Received	1,678	89,168	1,678	78,274
Prepayment And Advances	6,481	48,645	6,368	2,545
	121,648	235,616	142,358	172,419

(a) Movements in allowance for sundry debtors and deposits

There was no allowance for impairment losses for sundry debtors and deposits for the reporting year.

(b) Impact of movements in gross carrying amount on allowance for impairment losses

Allowance for impairment losses reflected the ECL measured using the three-stage approach under the MFRS 9, as described in the significant accounting policies section.

There was no allowance for impairment losses during the reporting year.

(c) Write-offs still under enforcement activity

There was no contractual amount outstanding on financial assets that were written off during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

21. TRADE RECEIVABLES

	Group		KWAP	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Sale Of Shares And Bonds	116,068	249,515	116,067	249,515
Dividend Income	64,009	40,327	90,011	40,327
Interest Income Receivables	600,264	692,244	600,263	692,244
Rental Income	6,807	14,832	-	588
Receivable From Brokers	678,844	1,435,092	678,844	1,435,092
Other Trade Receivables	51,547	12,997	34,761	49,811
	1,517,539	2,445,007	1,519,946	2,467,577

(a) Movements in allowance for trade receivables

There was no allowance for impairment losses for trade receivables during the reporting period.

(b) Impact of movements in gross carrying amount on allowance for impairment losses

Allowance for impairment losses reflected the ECL measured using the three-stage approach under the MFRS 9, as described in the significant accounting policies section.

There was no allowance for impairment losses during the reporting year.

(c) Write-offs still under enforcement activity

There was no contractual amount outstanding on financial assets that were written off during the reporting period.

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FOR THE YEAR ENDED 31 DECEMBER 2018

22. CASH AND CASH EQUIVALENTS

	Group		KWAP	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
DEPOSIT AND PLACEMENTS WITH FINANCIAL INSTITUTIONS	RM'000	RM'000	RM'000	RM'000
Deposits And Placements With Financial Institutions With Maturity Less 3 Months	9,084,827	3,520,447	9,084,827	3,514,416
Deposits And Placements With Financial Institutions With Maturity More Than 3 Months	445,450	3,163,876	445,450	3,163,876
	9,530,277	6,684,323	9,530,27	6,678,292
CASH AND BANK BALANCES	1,812,174	1,249,259	1,533,563	1,046,361

	Group		KWAP	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
CASH AND CASH EQUIVALENTS	RM'000	RM'000	RM'000	RM'000
Deposits And Placements With Financial Institutions With Maturity Less Than 3 Months	9,084,827	3,520,447	9,084,827	3,514,416
Cash And Bank Balances	1,812,174	1,249,259	1,533,563	1,046,361
	10,897,001	4,769,706	10,618,390	4,560,777

Cash at bank earns interest at the 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.

(a) Movements in the allowance for deposits and placements with financial institutions

There was no allowance for impairment losses for cash and cash equivalents during the reporting year.

(b) Impact of movements in gross carrying amount on allowance for impairment losses

Allowance for impairment losses reflects the ECL measured using the three-stage approach under the MFRS 9, as described in the significant accounting policies.

There was no allowance for impairment loss for the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

23. TRADE PAYABLES

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Deposits On Property	23,792	6,495	8,132	6,495
Amount Due To Private Equity Fund	-	2,436	-	2,436
Trade Creditors	610,626	1,271,559	586,439	1,248,401
Rental Income Received In Advance	578	-	578	-
	634,996	1,280,490	595,149	1,257,332

Trade payables are interest free with the normal trade credit terms ranging from 30 to 90 days granted to the Group and KWAP.

24. OTHER PAYABLES AND ACCRUALS

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Goods And Service Tax Payable ("GST")	3,712	-	-	-
Sales and Service Tax ("SST") Payable	460	-	460	-
Withholding Tax Payable	1,472	-	952	-
Amount Due to Subsidiaries	38,168	-	38,168	21,607
Provision For Bonus	28,517	31,725	28,518	31,725
Provision For Services	25,911	44,205	25,911	44,934
Provision For External Managers Fees	17,327	5,410	16,056	15,734
Provision For Custodian Fees	1,430	10,229	1,430	1,495
Provision For Tax	392	2,091	-	5,273
Other Payables And Accruals	16,049	99,192	3,344	3,365
	133,438	192,852	114,839	124,133

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

25. BORROWINGS

	Group		KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Non-Current	1,289,728	1,512,936	-	-
Current	893,484	256,067	-	-

Existing Group Borrowings

- (a) Loan amounting to AUD70.0 million to KWAP Managed Investment Trust ("KWAP MIT") is at a fixed interest rate using the interest rate derivative. It is scheduled to mature in February 2023 and secured over the assets of KWAP MIT.
- (b) Loan amounting to AUD113.4 million to KWAP Managed Investment Trust 3 ("KWAP MIT 3") is at a floating rate of three months BBSY+1.10% per annum, scheduled to mature on 4 February 2021 and secured over the assets of KWAP MIT 3.
- (c) Loan amounting to AUD160.0 million to KWAP Managed Investment Trust 4 ("KWAP MIT 4") is at a floating rate of BBSY + margin per annum (2018: 3.61%, 2017: 3.39%), scheduled to mature in October 2022 and secured over the assets of KWAP MIT 4.
- (d) 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.

New Group Borrowings

- (a) Loan amounting to AUD103.0 million to KWAP Managed Investment Trust 2 (KWAP MIT 2) is at an interest rate of 5.00% per annum, schedule to mature on 3 January 2020.
- (b) Loan amounting to EUR54.2 million to Prima Harta (Jersey) Unit Trust 3 ("Prima Harta 3") is at an interest rate of three-months EURIBOR +1.1% margin, schedule to mature on 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

26. ALLOCATION OF STATUTORY FUNDS

	Group and KWAP	
	31 December	31 December
	2018 RM'000	2017 RM'000
At 1 January	25,501,944	25,001,944
Add: Allocation For Current Year	500,000	500,000
At 31 December	26,001,944	25,501,944

27. PENSION CONTRIBUTIONS

	Note	Group and KWAP	
		31 December	31 December
		2018 RM'000	2017 RM'000
Contribution From Statutory Bodies, Local Authorities And Other Agencies"	A	14,624,744	13,375,077
Contribution From Government's Share, Gratutities And Other Deductions"	B	37,606,008	36,001,623
		52,230,752	49,376,700

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

27. PENSION CONTRIBUTIONS (CONTINUED)

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
2018			
Statutory Bodies	10,638,313	1,016,378	11,654,691
Local Authorities	2,626,079	229,141	2,855,220
Other Agencies	116,652	5,682	122,334
	13,381,044	1,251,201	14,632,245
Less:			
Repayment Of Claims	(5,967)	(1,534)	(7,501)
	13,375,077	1,249,667	14,624,744
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

27. 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:

2018	Contributions RM'000	Receipts RM'000	Balance RM'000
KWSP	27,441,442	1,090,653	28,532,095
KWSG	146,709	-	146,709
KWSG - Sabah	12,479	-	12,479
LTAT	7,332,056	458,309	7,790,365
SESCO	45,309	-	45,309
JPA	1,147,968	72,889	1,220,857
Others	40,522	591	41,113
	36,166,485	1,622,442	37,788,927
Less:			
Repayment Of Claims	(164,862)	(18,057)	(182,919)
	36,001,623	1,604,385	37,606,008
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

28. WITHDRAWAL BY FEDERAL GOVERNMENT

During the year, there was a withdrawal by the Federal Government amounting to RM4.5 billion (2017 : nil) from the Total Accumulated Reserves of KWAP executed in accordance with Section 13(5) of the Retirement Fund Act 2007 (Act 662) for the purpose of partial financing of the pension liability for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

29. RETAINED EARNINGS

The Group's Retained Earnings amounting to RM66.8 billion was the balance of revenue reserves as at 31 December 2018 (2017: RM61.8 billion). KWAP's Retained Earnings amounting to RM67.0 billion was the balance of revenue reserves as at 31 December 2018 (2017: RM61.7 billion).

30. RESERVES

		Group		KWAP	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Other reserves		(46,642)	(42,944)	-	-
Foreign exchange reserves		(164,830)	(43,664)	-	-
Available-for-sale reserves		-	4,238,908	-	4,238,908
		Group		KWAP	
		31 December	31 December	31 December	31 December
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
		Note			
Debt instrument at Fair Value					
Through Other Comprehensive					
Income reserves	A	(94,431)	-	(94,431)	-
Equity instrument at Fair Value					
Through Other Comprehensive					
Income reserves	B	(4,080,609)	-	(4,080,609)	-
		(4,175,040)	-	(4,175,040)	-

Note A: There are investments classified as debt instruments at FVOCI whereby the changes in fair value are accumulated within the Financial Assets at FVOCI Reserves within equity. The accumulated changes in fair value are transferred to profit or loss upon disposal of the investments.

Note B: The Group and KWAP has elected to recognise changes in the fair value of equity instruments in Other Comprehensive Income whereby the changes in fair value are accumulated within the Financial Assets at FVOCI Reserves within equity. The accumulated changes in fair value are transferred to Retained Earnings upon derecognition of the investments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

31. DEFERRED TAX LIABILITIES

	Group	
	31 December 2018 RM'000	31 December 2017 RM'000
At 1 January	154	101
Amount Recognised In Profit Or Loss	(88)	53
As At 31 December	66	154
After Appropriate Offsetting As Follows:		
Deferred Tax Liabilities	(66)	(154)
	(66)	(154)
Deferred Tax Liabilities:		
- Settled More Than 12 Months	(66)	(154)
	(66)	(154)

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 2017	(154)	(101)
As At 31 December 2017/ 1 January 2018	(154)	(101)
Amount Recognised In Profit Or Loss	88	(53)
As At 31 December 2018	(66)	(154)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. EMPLOYEE BENEFITS

	Group and KWAP Post - Retirement Medical Benefits RM'000
At 1 January 2018	5,410
Provisions For The Year	(1,658)
Benefits Paid	(8)
As At 31 December 2018	3,744

The maturity structure of Employee Benefits are as follows:

	Group and KWAP 31 December 2018 RM'000	31 December 2017 RM'000
Maturing Within 12 Months	36	30
Maturing After 12 Months	3,708	5,380
	3,744	5,410

(a) The movements of the present value in unfunded obligations are as follows:

	Group and KWAP 31 December 2018 RM'000	31 December 2017 RM'000
At 1 January	5,410	-
Current Service Cost	(1,658)	5,416
Interest Cost	-	-
Benefits Paid	(8)	(6)
Net Actuarial Gain	-	-
As At 31 December	3,744	5,410

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. EMPLOYEE BENEFITS (CONTINUED)

(b) The amounts recognised in the Statement of Financial Position were analysed as follows:

	Group and KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000
Net Liabilities As At 1 January	5,410	-
Present Value Of Unfunded Obligations	-	-
Total Post-Retirement Costs Recognised In The Statements Of Comprehensive Income And Other Comprehensive Income	(1,658)	5,416
Benefits Paid	(8)	(6)
NET LIABILITIES AS AT 31 DECEMBER	3,744	5,410

(c) The amounts recognised in the Statement of Financial Position are analysed as follows:

	Group and KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000
Current Service Cost	(1,658)	5,416
TOTAL POST-RETIREMENT COSTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME	(1,658)	5,416

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. EMPLOYEE BENEFITS (CONTINUED)

(d) The principal actuarial assumptions employed were as follows:

	Group and KWAP	
	31 December 2018 RM'000 %	31 December 2017 RM'000 %
Discount Rate (%)	4.7%	2.8%
Medical Cost Inflation (%)		
Below 30	1.9%	1.9%
30 - 39	2.1%	2.1%
40 And Above	2.4%	2.4%
Average Life Expectancy (Years):	83	77
MALE	82	75
FEMALE	84	79

The provision of post-employment medical benefits is based on 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 4.73%, on the basis that underlying instrument is naturally considered to be conservative and liquid for the Group and KWAP. The inflation adjusted cashflows were applied to ensure the consideration of the potential changes in medical cost over the entire expected period of coverage. The projected cashflows are categorized by the age of beneficiaries since the expected period of coverage is deemed significantly lengthy. To ensure the expected inflation rates employed are both conservative and reasonable, the short-ended cashflows are 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 developed countries.

The Malaysia's Life Expectancy report by the United Nations (UN) was also utilized to provide model assumptions, in terms of the overall period of coverage for the entire post-employment medical benefits. With the available data, the Group and KWAP are 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 the estimated life expectancy of individual staff as well as current retirees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. EMPLOYEE BENEFITS (CONTINUED)

- (e) The sensitivity analysis below are 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 2018		31 December 2017	
		RM'000		RM'000	
		Increase	Decrease	Increase	Decrease
Benefits Obligations As At 31 December	3,744	-	-	-	-
Discount Rate (1 % Movement)	-	(970)	1,373	(1,402)	1,984
Average Life Expectancy (1 Year Movement)	-	186	(187)	269	(271)
	3,744	(784)	1,186	(1,132)	1,714

33. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)**(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.

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
2018				
Increase In 100 Basis Points	(2,958,869)	(2,958,869)	(9,694)	(9,694)
Decrease In 100 Basis Points	2,958,869	2,958,869	9,694	9,694
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

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 repricing date, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

GROUP	0-12 Months	>1-5 Year	Over 5 Years	Non-Interest Sensitive	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000
Investment In Subsidiaries	-	-	-	-	-
Investment In Associates	-	-	-	424,185	424,185
Investment In Joint Ventures	-	-	-	376,020	376,020
Loans And Receivables	150,000	8,084,033	556,818	-	8,790,851
Debt Instruments At Amortised Cost	-	4,064,072	13,089,789	-	17,153,861
Debt Instruments At Fair Value					
Through Profit And Loss	897,424	260,412	109,013	-	1,266,849
Equity Instruments At Fair Value					
Through Profit And Loss	-	179,178	1,500,000	34,268,908	35,948,086
Debt Instruments At Fair Value Through					
Other Comprehensive Income	-	12,854,721	17,889,623	-	30,744,344
Equity Instruments At Fair Value Through					
Other Comprehensive Income	-	-	-	25,258,816	25,258,816
Derivative Financial Assets	43,350	-	-	-	43,350
Deposits And Placements					
With Financial Institutions	9,530,277	-	-	-	9,530,277
Other Non-Interest Sensitive Assets	-	-	-	9,808,014	9,808,014
TOTAL ASSET	10,621,051	25,442,416	33,145,243	70,135,942	139,344,653

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

KWAP	0-12 Months	>1-5 Year	Over 5 Years	Non-Interest Sensitive	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000
Investment In Subsidiaries	-	-	-	3,699,623	3,699,623
Investment In Associates	-	-	-	387,292	387,292
Investment In Joint Ventures	-	-	-	10,000	10,000
Loans And Receivables	150,000	8,417,003	556,818	-	9,123,821
Debt Instruments At Amortised Cost	-	4,064,072	13,089,789	-	17,153,861
Debt Instruments At Fair Value					
Through Profit And Loss	1,101,556	260,412	109,013	-	1,470,981
Equity Instruments At Fair Value					
Through Profit And Loss	-	179,178	1,500,000	34,268,908	35,948,086
Debt Instruments At Fair Value Through					
Other Comprehensive Income	-	12,854,721	17,889,623	-	30,744,344
Equity Instruments At Fair Value Through					
Other Comprehensive Income	-	-	-	25,258,816	25,258,816
Derivative Financial Assets	43,350	-	-	-	43,350
Deposits And Placements		-	-	-	9,530,277
With Financial Institutions	9,530,277				
Other Non-Interest Sensitive Assets	-	-	-	3,963,544	3,963,544
TOTAL ASSET	10,825,183	25,775,386	33,145,243	67,588,183	137,333,995

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(a) Interest rate risk (continued)

GROUP	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
2017					
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 Asset 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
Derivative Financial Assets	539,181	-	-	-	539,181
Deposits And Placements					
With Financial Institutions	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	0-12 Months RM'000	>1-5 Year RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Total RM'000
2017					
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
Derivative Financial Assets	539,181	-	-	-	539,181
Deposits And Placements					
With Financial Institutions	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

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33. FINANCIAL RISK (CONTINUED)

(b) Equity price risk

The Group's and KWAP's quoted equity instruments 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 quoted equity shares, 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
2018				
FBM KLCI				
Increase Of 5% In Equity Price	2,397,181	2,397,181	1,134,240	1,134,240
Decrease Of 5% In Equity Price	(2,397,181)	(2,397,181)	(1,134,240)	(1,134,240)
MSCI World				
Increase Of 10% In Equity Price	814,180	814,180	814,180	814,180
Decrease Of 10% In Equity Price	(814,180)	(814,180)	(814,180)	(814,180)
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)	-	-

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33. 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:

2018		Group and KWAP Global Investments RM'000
Currency		
USD		7,395,285
AUD		7,395,285
GBP		1,417,107
EUR		1,841,031
HKD		1,176,245

2017		Group and KWAP Global Investments RM'000
Currency		
USD		5,544,831
AUD		1,669,587
GBP		1,659,945
EUR		1,589,205
HKD		1,218,421

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33. 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 +3%	RM'000 -3%
2018		
Currency		
USD	221,859	(221,859)
AUD	33,212	(33,212)
GBP	42,513	(42,513)
EUR	55,231	(55,231)
HKD	35,287	(35,287)

	Group and KWAP Effect On Profit Before Tax	
	RM'000 +3%	RM'000 -3%
2017		
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)

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FOR THE YEAR ENDED 31 DECEMBER 2018

33. 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 derivative with positive fair value.

(i) Credit risk management

The Group and KWAP considers the probability of default upon the initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and KWAP compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. Available, reasonable and supportive forward-looking information are taken into consideration and the following indicators are incorporated:

- Internal credit rating;
- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

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33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(i) Credit risk management (continue)

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is the failure of the counterparty to make contractual payments within 90 days of when they fall due.

All of the financial assets are considered to be low risk, and thus the recognition of the provision of impairment during the reporting year was limited to 12-months ECL. Management consider 'low risk' to be the investment grade credit rating by a minimum of one (1) major credit rating agency.

In the determination of an improvement of the credit risk of a modified financial asset with the loss allowance measured at lifetime ECL to the extent of reverting to the loss allowance measured at 12-months ECL, the grading system (i.e. investment and non-investment grade) was employed to assess improvement in credit quality of a modified financial asset.

The said financial assets are monitored until the loss allowance is subsequently remeasured at the lifetime ECL.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(ii) Measurement of Expected Credit Loss

The Group and KWAP use the three (3) stage approach for Loans and Receivables and debt instruments to reflect the respective credit risk and the determination of the loss allowance for each category. A summary of the assumptions underpinning the Group's and KWAP's ECL model is as follows:

Category	Group's and KWAP's definition of category	Basis for recognising ECL
Stage 1	Debtors with a low risk of default and a strong capacity to meet contractual cash flows.	12 month ECL
Stage 2	Debtors for which there is a significant increase in credit risk or presumption of a significant increase in credit risk if the interest and/or principal repayments are 30 days past due.	Lifetime ECL
Stage 3	Interest and/or principal repayments are 90 days past due or there is evidence to indicate credit-impairment of financial asset	Lifetime ECL

Based on the above, the loss allowance is measured on either 12-months ECL or lifetime ECL using a PD x LGD x EAD methodology as follows:

- PD ("Probability of Default") - the likelihood that the debtor would not be able to repay during the contractual period;
- LGD ("Loss Given Default") - the percentage of the contractual cash flows that will not be collected in the event of default; and
- EAD ("Exposure At Default") - the outstanding amount that is exposed to default risk.

The Group and KWAP identified the Malaysian Gross Domestic Product ("GDP") and the USD/MYR exchange rate as the most relevant factors for domestic instruments, and the federal funds rate and the broad commodity index as the most relevant factors for international instruments. The Group and KWAP accordingly adjust the external benchmark information based on the expected changes in these factors. There were no significant changes to estimation techniques or assumptions were made during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(iii) 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 the internal credit rating scoring model for the provision of internal rating for corporate and financial institutions.

The Group and 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 recognized 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 the 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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(iii) 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/MARC1	Strong ability to meet financial obligations
Moderate	P2/MARC2	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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

The credit quality of financial assets can be assessed by reference to the internal rating system adopted by the Group and KWAP.

a. Debt instruments at FVOCI

	12-months expected credit loss RM'000	Lifetime expected credit losses Not credit impaired RM'000	Lifetime expected credit losses Credit impaired RM'000	Purchased or originated Credit- impaired RM'000
AA	29	-	-	-
A	145	-	-	-
BBB	307	-	-	-

b. Debt instruments at amortised cost

	12-months expected credit loss RM'000	Lifetime expected credit losses Not credit impaired RM'000	Lifetime expected credit losses Credit impaired RM'000	Purchased or originated Credit- impaired RM'000
AA	8	-	-	-
A	2	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(iv) Estimated value of collateral for financial assets

	Value of collateral RM'000	Gross exposure to credit risk RM'000	Unsecured portion of credit exposure RM'000
Loans and Receivables	377,900	9,123,821	8,745,921

(v) Credit quality

Group 31 December 2018 Financial Assets (RM'000)	Sovereign	Strong	Moderate	Weak	Non-rated	Total
Loans And Receivables	5,041,392	3,599,459	150,000	-	-	8,790,851
Debt Instruments At Amortised Cost	10,312,509	6,691,352	150,000	-	-	17,153,861
Debt Instruments At Fair Value Through Profit And Loss	862,424	116,951	233,564	18,910	35,000	1,266,849
Equity Instruments At Fair Value Through Profit And Loss	-	1,500,000	179,178	-	-	1,679,178
Debt Instruments At Fair Value Through Other Comprehensive Income	15,591,640	12,202,457	2,130,058	820,189	-	30,744,344
Trade Receivables	-	-	-	-	1,517,539	1,517,539
Sundry Debtors And Deposits	-	-	-	-	121,648	121,648
Deposits And Placements With Financial Institutions	-	7,371,922	2,158,355	-	-	9,530,277
Cash And Bank Balances	101	401,098	1,132,356	-	278,619	1,812,174
	31,808,066	31,883,239	6,133,511	839,099	1,952,806	72,616,721

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(v) Credit quality (continued)

KWAP						
31 December 2018						
Financial Assets (RM'000)	Sovereign	Strong	Moderate	Weak	Non-rated	Total
Loans And Receivables	5,041,392	3,932,429	150,000	-	-	9,123,821
Debt Instruments At						
Amortised Cost	10,312,509	6,691,352	150,000	-	-	17,153,861
Debt Instruments At Fair Value						
Through Profit And Loss	862,424	321,083	233,564	18,910	35,000	1,470,981
Equity Instruments At Fair Value						
Through Profit And Loss	-	1,500,000	179,178	-	-	1,679,178
Debt Instruments At Fair						
Value Through Other						
Comprehensive Income	15,591,640	12,202,457	2,130,058	820,189	-	30,744,344
Trade Receivables	-	-	-	-	1,519,946	1,519,946
Sundry Debtors And Deposits	-	-	-	-	142,358	142,358
Deposits And Placements						
With Financial Institutions	-	7,371,922	2,158,355	-	-	9,530,277
Cash And Bank Balances	101	401,098	1,132,356	-	8	1,533,563
	31,808,066	32,420,341	6,133,511	839,099	1,697,312	72,898,329

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(v) Credit quality (continued)

Group

31 December 2017

Financial Assets (RM'000)	Sovereign	Strong	Moderate	Weak	Non-rated	Total
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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

(vi) 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.

For financial assets reflected in the Statement of Financial Position, the exposure to credit risk equals the carrying amount. For credit related commitments and contingents that are irrevocable over the life of the respective facilities, the exposure to credit risk is generally the full amount of the committed facilities.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financial assets that are exposed to credit risk for the Group and KWAP is 0.35% (2017 : 0.68%). The financial effect of collateral held for the remaining financial assets are deemed to be insignificant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collaterals and other credit enhancements (continued)

Types of collateral or credit enhancements

GROUP 31 December 2018	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements Held			
		Shares	Properties, Transport Vehicle, Other Fixed Assets	Net Collateral	Net Exposure
Financial Assets (RM'000)					
Loans And Receivables	8,790,851	286,329	91,571	377,900	8,412,952
Debt Instruments At Amortised Cost	17,153,861	-	-	-	17,153,861
Debt Instruments At Fair Value					
Through Profit And Loss	1,266,849	-	-	-	1,266,849
Equity Instruments At Fair Value					
Through Profit And Loss	1,679,178	-	-	-	1,679,178
Debt Instruments At Fair Value Through					
Other Comprehensive Income	30,744,344	-	-	-	30,744,344
Trade Receivables	1,517,539	-	-	-	1,517,539
Sundry Debtors And Deposits	121,648	-	-	-	121,648
Deposits And Placements With					
Financial Institutions	9,530,277	-	-	-	9,530,277
Cash And Bank Balances	1,812,174	-	-	-	1,812,174
	72,616,721	286,329	91,571	377,900	72,238,822

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)**(d) Credit risk (continued)****Analysis of the maximum exposure to credit risk and collaterals and other credit enhancements (continued)**Types of collateral or credit enhancements (continued)

KWAP 31 December 2018	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements Held			
		Shares	Properties, Transport Vehicle, Other Fixed Assets	Net Collateral	Net Exposure
Financial Assets (RM'000)					
Loans And Receivables	9,123,821	286,329	91,571	377,900	8,745,921
Debt Instruments At Amortised Cost	17,153,861	-	-	-	17,153,861
Debt Instruments At Fair Value					
Through Profit And Loss	1,470,981	-	-	-	1,470,981
Equity Instruments At Fair Value					
Through Profit And Loss	1,679,178	-	-	-	1,679,178
Debt Instruments At Fair Value Through					
Other Comprehensive Income	30,744,344	-	-	-	30,744,344
Trade Receivables	1,519,946	-	-	-	1,519,946
Sundry Debtors And Deposits	142,358	-	-	-	142,358
Deposits And Placements With					
Financial Institutions	9,530,277	-	-	-	9,530,277
Cash And Bank Balances	1,533,563	-	-	-	1,533,563
	72,898,329	286,329	91,571	377,900	72,520,429

Note:

For Malakoff shares, the basis used is the market price (RM0.80) x units holding (357,911,190 units).

For transport vehicle, the basis used is the half-life values x USD/MYR4.0475 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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collaterals and other credit enhancements (continued)

Types of collateral or credit enhancements (continued)

GROUP 31 December 2017	Maximum Exposure To Credit Risk	Fair Value Of Collateral And Credit Enhancements Held			
		Shares	Properties, Transport Vehicle, Other Fixed Assets	Net Collateral	Net Exposure
Financial Assets (RM'000)					
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	15,359,986	306,653	206,671	513,324	14,846,662
Trade Receivables	2,445,007	-	-	-	2,445,007
Sundry Debtors And Deposits	235,616	-	-	-	235,616
Deposits and Placements	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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Analysis of the maximum exposure to credit risk and collaterals 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 Held		Net Collateral	Net Exposure
		Shares	Properties, Transport Vehicle, Other Fixed Assets		
Financial Assets (RM'000)					
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	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 transport vehicle, the basis used is the half-life values x USD/MYR4.0475 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 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

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.

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.

Group 31 December 2018 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
Loans And Receivables	8,790,851	-	-	-	-	8,790,751
Debt Instruments At Amortised Cost	17,153,861	-	-	-	-	17,153,861
Debt Instruments At Fair Value Through Profit And Loss	1,266,849	-	-	-	-	1,266,849
Equity Instruments At Fair Value Through Profit And Loss	1,679,178	-	-	-	-	1,679,178
Debt Instruments At Fair Value Through Other Comprehensive Income	30,744,344	-	-	-	-	30,744,344
Trade Receivables	1,517,539	-	-	-	-	1,517,539
Sundry Debtors And Deposits	121,648	-	-	-	-	121,648
Deposits And Placements With Financial Institutions	9,530,277	-	-	-	-	9,530,277
Cash And Bank Balances	1,812,174	-	-	-	-	1,812,174
	72,616,721	-	-	-	-	72,616,721

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)**(d) Credit risk (continued)****Aging analysis for financial assets that are past due but not impaired (continued)**

KWAP 31 December 2018 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
Loans And Receivables	9,123,821	-	-	-	-	9,123,821
Debt Instruments At Amortised Cost	17,153,861	-	-	-	-	17,153,861
Debt Instruments At Fair Value Through Profit And Loss	1,470,981	-	-	-	-	1,470,981
Equity Instruments At Fair Value Through Profit And Loss	1,679,178	-	-	-	-	1,679,178
Debt Instruments At Fair Value Through Other Comprehensive Income	30,744,344	-	-	-	-	30,744,344
Trade Receivables	1,519,946	-	-	-	-	1,519,946
Sundry Debtors And Deposits	142,358	-	-	-	-	142,358
Deposits And Placements With Financial Institutions	9,530,277	-	-	-	-	9,530,277
Cash And Bank Balances	1,533,563	-	-	-	-	1,533,563
	72,898,329	-	-	-	-	72,898,329

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(d) Credit risk (continued)

Aging analysis for financial assets that are past due but not impaired (continued)

Group 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
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	15,324,034	-	6,859	29,093	-	15,359,986
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

KWAP 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
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 2018

33. 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:

		2018	
	Allowances As At 1 January RM'000	Allowances Made During The Year RM'000	Allowances As At 31 December RM'000
Group			
Financial Asset At Amortised Cost	25	(15)	10
Debt Instruments At Fair Value Through Other Comprehensive Income	2,923	(2,443)	480
	2,948	(2,458)	490
KWAP			
Financial Asset At Amortised Cost	25	(15)	10
Debt Instruments At Fair Value Through Other Comprehensive Income	2,923	(2,443)	480
	2,948	(2,458)	490

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)**(d) Credit risk (continued)****Financial assets exposed to credit risk individually assessed as impaired (continued)**

	Allowances As At 1 January RM'000	2017 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

(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 financial 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(e) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's and of KWAP's financial liabilities based on contractual undiscounted repayment obligations.

Group 31 December 2018	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
FINANCIAL LIABILITIES						
Derivative Financial Liabilities	-	-	9,311	115,593	-	124,904
Trade Payables	634,996	-	-	-	-	634,996
Other Payables And Accruals	133,438	-	-	-	-	133,438
Borrowings	-	-	893,484	1,289,728	-	2,183,212
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	768,433	-	902,796	1,405,320	-	3,076,550
KWAP 31 December 2018	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
FINANCIAL LIABILITIES						
Derivative Financial Liabilities	-	-	266	108,913	-	109,179
Trade Payables	595,149	-	-	-	-	595,149
Other Payables And Accruals	114,839	-	-	-	-	114,839
Borrowings	-	-	-	-	-	-
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	709,988	-	266	108,913	-	819,167

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

33. FINANCIAL RISK (CONTINUED)

(e) Liquidity risk (continued)

Group	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 years	Total
31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
FINANCIAL LIABILITIES						
Derivative 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

KWAP	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 years	Total
31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
FINANCIAL LIABILITIES						
Derivative 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. 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	2018		2017	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
FINANCIAL ASSETS				
Loans And Receivables	8,790,851	8,790,851	15,359,987	15,359,987
Debt Instruments At Amortised Costs	17,153,861	16,895,936	-	-
FINANCIAL LIABILITIES				
Borrowings	2,183,212	2,183,212	1,769,003	1,769,003

KWAP	2018		2017	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
FINANCIAL ASSETS				
Loans And Receivables	9,123,821	9,123,821	16,193,999	16,193,999
Debt Instruments At Amortised Costs	17,153,861	16,895,936	-	-

- (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) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair value (continues)

(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 repriced 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair value (continues)

(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 2018

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

As at 31 December 2018, the Group and KWAP held the following financial instruments carried at fair value in the Statement of Financial Position:

	31 December 2018			
	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group				
FINANCIAL ASSETS				
Debt Instruments At Fair Value Through Profit And Loss ("FVTPL")	1,266,849	-	1,231,849	35,000
Equity Instruments At Fair Value Through Profit And Loss ("FVTPL")	35,948,086	30,826,595	1,679,178	3,442,313
Debt Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	30,744,344	-	30,744,344	-
Equity Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	25,258,816	25,258,816	-	-
Derivative Financial Assets	43,350	964	42,386	-
Deposits And Placements With Financial Institutions	9,530,277	-	-	9,530,277
Trade Receivables	1,517,539	-	-	1,517,539
Sundry Debtors And Deposits	121,648	-	-	121,648
Cash and Bank Balances	1,812,174	-	-	1,812,174
	106,243,083	56,086,375	33,697,757	16,458,951
FINANCIAL LIABILITIES				
Borrowings	2,183,212	-	-	2,183,212
Payables And Accruals	768,434	-	-	768,434
Derivative Financial Liabilities	124,904	-	124,904	-
	3,076,550	-	124,904	2,951,646

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

	31 December 2018			
	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
KWAP				
FINANCIAL ASSETS				
Debt Instruments At Fair Value Through Profit And Loss ("FVTPL")	1,470,981	-	1,231,849	239,132
Equity Instruments At Fair Value Through Profit And Loss ("FVTPL")	35,948,086	30,826,595	1,679,178	3,442,313
Debt Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	30,744,344	-	30,744,344	-
Equity Instruments At Fair Value Through Other Comprehensive Income ("FVOCI")	25,258,816	25,258,816	-	-
Derivative Financial Assets	43,350	964	42,386	-
Deposits And Placements With Financial Institutions	9,530,277	-	-	9,530,277
Trade Receivables	1,519,946	-	-	1,519,946
Sundry Debtors And Deposits	142,358	-	-	142,358
Cash and Bank Balances	1,533,563	-	-	1,533,563
	106,191,721	56,086,375	33,697,757	16,407,589
FINANCIAL LIABILITIES				
Borrowings	-	-	-	-
Payables And Accruals	709,988	-	-	709,988
Derivative Financial Liabilities	109,179	-	109,179	-
	819,167	-	109,179	709,988

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

		31 December 2017		
	Total	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	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
Derivative 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
Derivative 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
Derivative 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	1,381,464	-	-	1,381,465
Derivative 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 2018

34. 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:

	Equity Instruments At Fair Value Through Profit or Loss Unquoted Shares RM'000	Available-For- Sale Investments Unquoted Shares RM'000
At 1 January 2018	-	2,852,227
Reclassification after MFRS 9 adoption	2,852,227	(2,852,227)
Additional	232,089	-
Net Fair Value Gain Recognised In Profit and Loss	357,997	-
At 31 December 2018	3,442,313	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. 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
2018				
DEBT INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS ("FVTPL")				
Increase Of 5% In Equity Price	-	-	11,957	11,957
Decrease Of 5% In Equity Price	-	-	(11,957)	(11,957)
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS ("FVTPL")				
Increase Of 5% In Equity Price	-	-	172,116	172,116
Decrease Of 5% In Equity Price	-	-	172,116	172,116
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)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

35. 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) S.à r.l.	Subsidiary
Prima Harta 4 (Jersey) Unit Trust	Subsidiary
ValueCap Sdn Bhd	Associate
Vortex Solar Investments S.à r.l.	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 2018

35. RELATED PARTY TRANSACTIONS (CONTINUED)

Significant Related Party Balances and Transactions

	KWAP			
	Subsidiaries		Associates	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
NET INCOME				
Interest Income	23,467	32,212	-	-
Management Fee	-	3,267	-	-
Administrative Fee	-	93	-	-
Dividend On Income	122,547	457,185	29,563	26,672
Rental Income	14,487	13,674	-	-
	160,501	506,431	29,563	26,672
AMOUNT DUE FROM				
Trade Receivables	47,784	16,686	-	-
	47,784	16,686	-	-
AMOUNT DUE TO				
Other Payables and Accruals	99,208	20,188	-	-
	99,208	20,188	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

35. 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 2018 RM'000	31 December 2017 RM'000
Interest Income And Profit On Investments	1,723,874	2,133,229
Purchase Of Malaysian Government Securities And Bonds	11,264,481	10,324,343
Sale Of Malaysian Government Securities And Bonds	12,420,184	12,956,659
Repayment Of Loans	1,059,775	673,405

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 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Wages, Salaries, Honorarium And Remuneration	17,375	12,353	16,160	12,104
Statutory Contribution To Employees Provident Fund	2,900	2,230	2,688	2,158
Long Term Incentive Plan	-	-	-	-
	20,275	14,583	18,848	14,262

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

36. 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 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 2018 RM'000	31 December 2017 RM'000
Less Than One Year	993	3,537
More Than One Year	-	884
	993	4,421

37. CAPITAL COMMITMENT

	Group and KWAP	
	31 December 2018 RM'000	31 December 2017 RM'000
Computer Software	1,559	10,573
	1,559	10,573

CHAPTER 6

Appendix

GLOSSARY OF TERMS

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.

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.

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.

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.

SOCISO (Social Security Organisation)

SOCISO's function includes registration of employers and employees, collecting contributions, processing benefit claims, and making payments to injured workers and their dependents. SOCISO 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

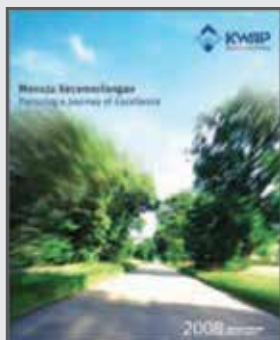
Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time.

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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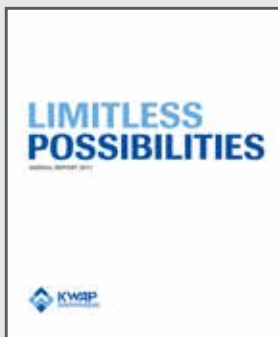
2008 Annual Report



2009 Annual Report



2010 Annual Report



2011 Annual Report



2012 Annual Report



2013 Annual Report



2014 Annual Report



2015 Annual Report



2016 Annual Report



2017 Annual Report



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