



Wafiyah Investment Account

Fund Performance Report
for the Quarter Ended 31 December 2017

BANK ISLAM



Wafiyah Investment Account

Fund Performance Report for the Quarter Ended 31 December 2017

1.0 Key Fund Information

Dear Investment Account Holder,

Congratulations on becoming Bank Islam's Wafiyah Investment Account holder, an investment account designed to meet your investment needs. The investment account was introduced to the Malaysian market in May 2016 (for Corporate customers) and September 2016 (for Retail customers) in line with the implementation of the Islamic Financial Services Act 2013 (IFSA).

We are pleased to present the following Fund Performance Report of the Wafiyah Investment Account for the Quarter ended 31 December 2017.

1.1 Product Name

Wafiyah Investment Account (Wafiyah) - Under this Wafiyah Investment Account, the Investment Account Holder (IAH), as the muwakkil or principal, authorises the Bank as his/her agent to undertake investment activities to achieve certain expected returns from the investment.

1.2 Investment Account Type

Unrestricted Investment Account - refers to a type of investment account whereby the IAH, without specifying any particular restrictions or conditions, provides the Bank with the mandate to make the ultimate decision to invest.

1.3 Fund Investment Objective

To generate moderate returns over an agreed period of the investment based on the underlying risk profile of the assets.

1.4 Fund Investment Strategies

- To ensure investment is within the investment objective of the Fund with its asset allocation safeguarding the investment portfolio.
- Currently, the Bank invests in its existing House & Fixed Asset Financing and Personal Financing Portfolio aimed at providing stable profits.

1.5 Nature of Investment Account

Term Investment Account. For retail customers, the tenure offered is 1 month, 3 months or 6 months. For corporate customers, the minimum tenure is 1 day to a maximum of 10 years or as specified by the Bank on a case-to-case basis.

1.6 Investment Asset Allocation

The Bank will allocate IAH's funds in its existing House & Fixed Asset Financing and Personal Financing Portfolio that generate stable profits.

1.7 Investor Profile

- Category of investors:
 - Retail:
 - Individuals (Residents and Non Residents)
 - Small and Medium Enterprises (SMEs)

Corporate:

- Corporate
- Government Agencies
- Government Accounts
- Universities
- Companies and Partnerships
- Other Business & Non- Business Entities
- Investors with either a short or medium term investment horizon
- Investors who require a portfolio of Shariah-compliant investments
- Investors with low to medium risk tolerance
- Investors who seek stable profits

Note: Investors are advised to carefully consider all risk factors before making an investment decision. Investors will be exposed to the following risks; Market risk, Credit risk, Liquidity risk, Operational risk, and Legal risk. Please visit Bank Islam's website for further explanation of each risk.

1.8 Valuation of the Allocated Assets

To be carried out on a monthly basis as part of the process to determine the returns to the IAH. The returns on this investment account will be affected by the performance of the allocated assets including, but not limited to, the quality of assets (i.e. impairment) and movement of Effective Profit Rate (EPR) in relation to financing assets that are priced based on floating rate methods etc.

The principal and returns are not guaranteed and an IAH risks earning no returns at all. This investment account is not protected by Perbadanan Insurans Deposit Malaysia (PIDM).

However, the product structure was designed to mitigate the risk of losing the principal amount. In the event of a liquidation scenario, the IAHs are ranked ahead of depositors.

1.9 Profit Payment Policy

Profit will be paid upon maturity or any payment frequency (for investment with tenure over 15 months), as agreed by the Bank and IAH (e.g. monthly / quarterly / half-yearly / yearly basis).

1.10 Statement on any Changes

There have been no changes in the investment objectives, strategies, restrictions and limitations during the quarter period.

2.0 Risk Statement

The Board of Directors of Bank Islam has the ultimate responsibility to manage risks related to its operations and business activities by setting risk appetite and tolerance levels that are consistent with the Bank's overall business objectives and desired risk profile. The Board Risk Committee, which is assisted by the Risk Management Division, ensures that there is an effective oversight on development of strategies, policies, procedures and infrastructure to manage the Bank's risks.

3.0 Fund Performance

3.1 Performance for the Quarter Ended 31 December 2017

Position	Fund Size RM'000	Return on Assets (ROA)* % (p.a.)	Return on Investment (ROI)** % (p.a.)			Distribution Period
			1 month	3 months	6 months	
October	2,792,231	5.20	3.50	4.00	4.00	16 Nov 17 - 15 Dec 17
November	2,486,482	5.21	3.50	4.00	4.00	15 Dec 17 - 31 Dec 17
			3.50	3.60	3.70	1 Jan 18 - 15 Jan 18
December	2,367,207	5.23	3.50	3.60	3.70	16 Jan 18 - 15 Feb 18

* ROA - allocated assets of the fund.

** Or as mutually agreed based on negotiation with the Bank subject to the Terms and Conditions.

Note:

For further illustration, please refer to the Product Disclosure Sheet (PDS), Terms & Conditions and Investment Confirmation Notice (where applicable).

3.2 Asset Allocation

House & Fixed Asset Financing and Personal Financing Portfolios.

4.0 Profit Payout

4.1 Profit & Loss Statement

WAFIYAH INVESTMENT ACCOUNT			
Profit & Loss Statement for the Quarter ended 31 December 2017			
	October	November	December
	RM'000	RM'000	RM'000
Profit from financing	12,361	13,472	11,672
Direct expenses*	-	-	-
Allowance for impairment on financing	(623)	(704)	(554)
Total Profit	11,738	12,768	11,118
Return on Asset (p.a.)	5.20%	5.21%	5.23%
Return on Investment (p.a.)	Based on the mutually agreed expected return upon placement of fund, subject to Terms & Conditions		

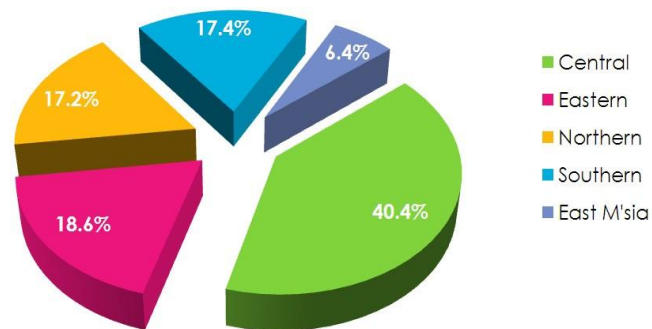
* Expenses are identifiable, measurable and must be incurred in order to complete a specific investment activity (including financing).

Note:

- The Return on Investment (ROI) for Wafiyah Investment Account is based on the mutually agreed expected return upon placement of fund, subject to Terms & Conditions.
- In general, due to the investment nature of the product, the ROI is expected to be higher than the Bank's deposit rates.

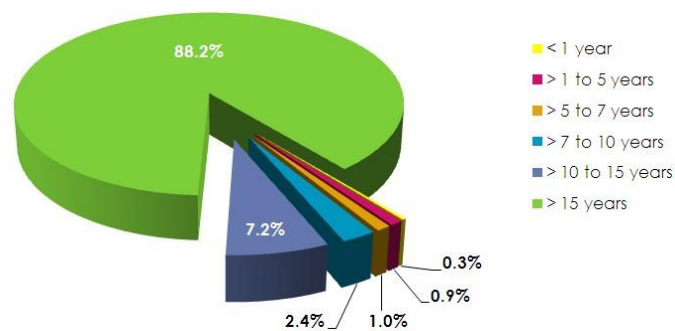
4.2 House and Fixed Asset Financing Portfolio Review as at 31 December 2017

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



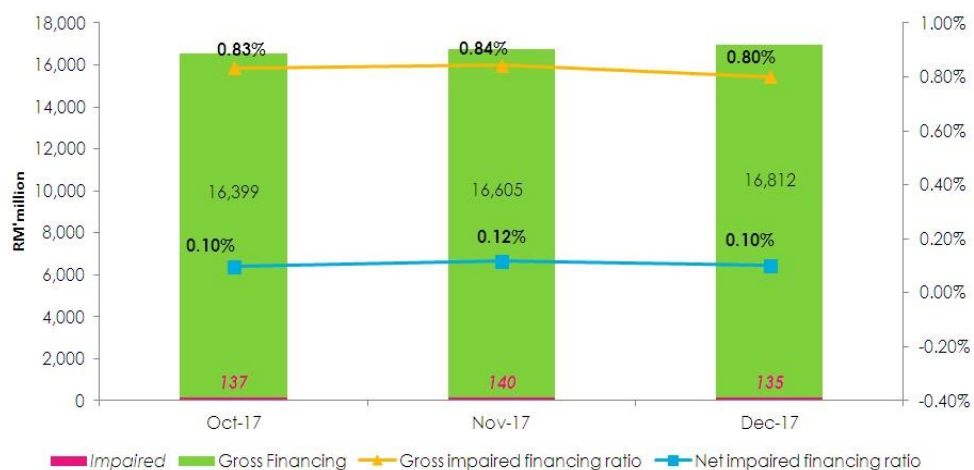
A total of 40.4% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration on developed areas such as the Klang Valley.

House and Fixed Asset Financing Portfolio by Remaining Maturity of Facilities



The majority of the House and Fixed Asset Financing Portfolio has a maturity of more than 15 years. This will ensure stability in our profit stream which can then benefit the investment return profile especially for long-term investment accounts.

Asset Quality for Housing Portfolio



The portfolio's low impaired financing ratio reflects strong asset quality.

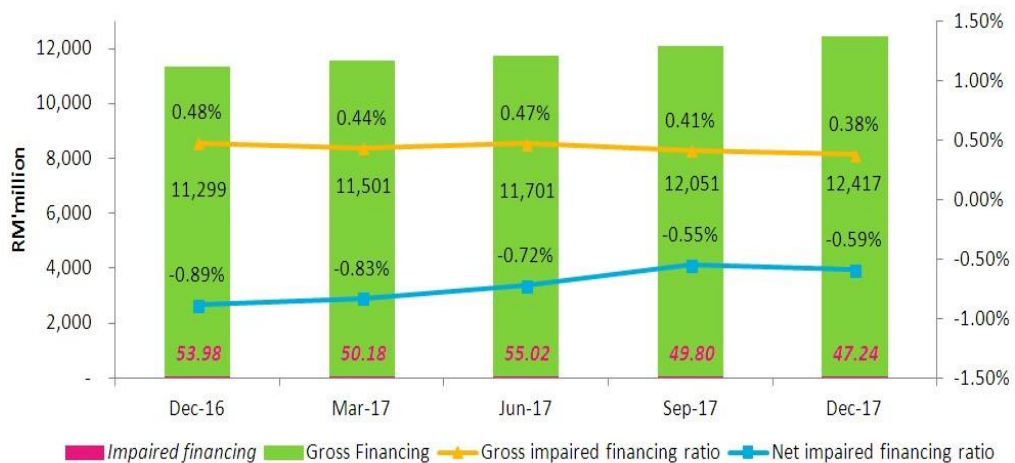
4.3 Personal Financing Portfolio Review as at 31 December 2017

Personal Financing Portfolio Growth in Bank Islam - RM' Million



The Personal Financing (PF) portfolio has grown at a rate of 9.89% per annum. The PF portfolio allocated for Wafiyah comprises only those offered to employees in the public sector.

Asset Quality for Personal Financing Portfolio



The portfolio's low impaired financing ratio reflects strong asset quality.

5.0 Economic Review and Prospects

The rise in US interest rates in December 2017 indicates that the global economy is on firmer footing. Such decision made by the US Federal Reserve was based on the premise of the continuous improvement in the labour market whereby the unemployment rate declined from 4.7% at the end of 2016 to 4.1% as of December 2017. Other central banks were also taking a similar step such as the Bank of England and the Bank of Korea where their policy rates were raised by 25 basis points to 0.50% and 1.50% respectively in November. Additionally, the decision to maintain oil supplies by the OPEC and some of the Non OPEC member countries in November have resulted in Brent Crude prices to increase to USD66.87 per barrel at the end of December 2017 from USD53.72 per barrel in 2016. Against such a backdrop, the Malaysian economy would stand to benefit from improving world economy. Already, export growth for the first eleven months was at 20.7% compared to 0.4% in the same period of 2016. This was largely underpinned by 20.7% growth in the Electrical & Electronics (E&E) exports, which accounted for more than one third of total exports. Commodities related exports such as crude petroleum, liquefied natural gas (LNG) and palm oil were also recording higher growth of 31.5%, 30.9% and 18.3% respectively during the first eleven months of 2017. In view of improving economic growth, the BNM's Monetary Policy Committee (MPC) meeting in November 2017 explicitly indicated that the committee members are considering to review the current degree of monetary policy accommodation. The latest MPC statement has resulted in talks among the private economists of possible increase in the Overnight Policy Rate (OPR) in 2018. It is not surprising given that inflation rate is currently hovering at 3.9% in the first eleven months which is higher than the long term average of 2.8%. Going forward, the Malaysian economy is projected to grow between 5.0% and 5.5% in 2018 from an estimated growth of between 5.2% and 5.7% in 2017 based on the official forecast. The economic performance will be supported by sustained domestic demand amidst improving external sector. (Note: BNM on 25 January 2018 increased the OPR by 25 basis points to 3.25%. Subsequently, Bank Islam increased its Base Rate [BR] by similar quantum to 3.90% effective 1 February 2018).

6.0 Property Market Outlook

The residential property market remained generally mild in 2017. According to latest data published by National Information Center (NAPIC), Q32017 indicated a decline of 1.2% Q-on-Q in the volume of transactions of residential properties. During Q32017, 47,501 transactions took place compared to 48,076 during Q22017 and 49,578 during Q32016. However, the value of transactions in Q32017 indicated an increase of 8.9% compared to Q32016 and 3.0% compared to Q22017. The Malaysian House Price Index (MHPI) up to H12017 continued to rise moderately with the MHPI marked at 184.1 points (2010: base year), up by 5.6% on annual basis in Q22017. The total new launches increase to 28,397 units in H12017 compared to 21,456 units launched in H22016. Although the focus is mainly on affordable house, for H12017, new launches by private developer priced from RM400,001 and above took up 49.8% compared to 18.4% for properties between RM250,001 to RM300,00.00 and 10.5% for those priced between RM300,001 and RM400,000 of the new residential launches. Such a wide disparity between supply and demand of affordable house worsened the imbalances in the market. Despite so, improvement in the overall economy and positive housing policy changes will bring about a positive impact. Residential properties in the Klang Valley area will still be in demand due to growing economy and various incentives support provided by the government under PPA1M, PRIMA, RUMAWIP, "Skim Rumah Pertama Ku" "Rumah Selangor Ku" and "My Deposit 2018" to name a few. For affordable housing, there should be an increase in efficiency in the provision of affordable homes to accelerate the rebalancing of undersupply towards the affordable homes in the market. Bank Islam's HFA portfolio continues to expand from RM16.6 billion in November 2017 to RM16.8 billion in December 2017. Such performance is in line with the banking industry's HFA which increased from RM511.9 billion in October 2017 to RM515.9 billion in November 2017. Meanwhile, HFA's Gross Impaired Financing Ratio fell from 0.84% in November 2017 to 0.80% in December 2017, compared to the industry's level of 1.09%. This indicates a prudent credit assessment adopted by Bank Islam. Moving forward, prospects for residential properties is expected to remain healthy as rapid urbanisation and relatively young workforce would result in higher demand for house financing. In this regard, Bank Islam will continue to focus on the strategic areas that could potentially be developed into a township while mindfully taking note on the emerging risks.

7.0 Personal Financing (PF) Outlook

Personal Financing (PF) portfolio assets continue to expand to RM12.4 billion in December 2017, representing an increase of 9.89% from the previous year. This reflects rising demand for Bank Islam PF amidst intense competition from banking and non banking institution. Asset impairment was well contained as Gross Impaired Financing Ratio declined further to 0.38% at the end of 2017 from 0.48% in 2016. This was significantly lower than the industry's level of 2.19% and indicates a stringent credit assessment adopted by the Bank Islam. Stable labour markets and predictable income stream among borrowers as well as rising economic growth are the key factors for improving credit quality. Against such a backdrop, the PF portfolio is set to expand further in 2018 in line with forecasted economic growth during the year.

Prepared by:

BANK ISLAM MALAYSIA BERHAD

“THE FUND PERFORMANCE REPORT IS PROVIDED SOLELY FOR THE BENEFIT OF THE INVESTMENT ACCOUNT HOLDERS AND IS NOT TO BE COPIED, QUOTED, OR REFERRED TO IN WHOLE OR IN PART WITHOUT BANK ISLAM’S PRIOR WRITTEN CONSENT. BANK ISLAM ACCEPTS NO RESPONSIBILITY TO ANYONE OTHER THAN THE PARTIES IDENTIFIED IN THE FUND PERFORMANCE REPORT FOR THE INFORMATION CONTAINED IN THIS DOCUMENT”