



Wafiyah Investment Account

Fund Performance Report for The
Quarter Ended 30 June 2016

BANK ISLAM



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1.0 Key Fund Information

Dear Investment Account Holder,

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

We are pleased to present the following Fund Performance Report of the Wafiyah Investment Account for the Quarter ended 30 June 2016.

1.1 Product Name

Wafiyah Investment Account (Wafiyah) - Under this Wafiyah Investment Account, the investment account holder, as the muwakkil or principal, authorises the Bank as its 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 where the investment account holder provides the Bank with the mandate to make the ultimate decision without specifying any particular restrictions or conditions.

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 an existing House Financing Portfolio and Personal Financing Portfolio which is aimed to provide stable profit over financing assets.

1.5 Nature of Investment Account

Term Investment Account. The minimum investment tenure is 1 day to a maximum of 10 years.

1.6 Investment Asset Allocation

The Bank will allocate investors' funds in an existing performing House Financing and Personal Financing Portfolio that is generating stable profit over financing assets.

1.7 Investor Profile

- Category of investors:
 - Corporate Customers
 - Government Agencies
 - Government Accounts
 - Universities
 - Companies, SMEs, 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 profit

The investor is advised to observe the following:

- The principal amount of investment is not guaranteed
- The investment is not protected by Perbadanan Insurans Deposit Malaysia (PIDM).

However, the product structure was designed to mitigate the risk of losing principal. In the event of a liquidation scenario, the Investment Account Holders is ranked ahead of other secured creditors, having the rights to the asset portfolio.

1.8 Valuation of the Allocated Asset

To be carried out on a monthly basis as part of the process to determine the returns to the investors. The returns on this investment account will be affected by the performance of the allocated assets.

1.9 Profit Payment Policy

Profit will be paid upon maturity or any payment frequency (for investors with tenure over 15 months), as agreed by the Bank and Investor (e.g. a 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

In Bank Islam, the Board of Directors 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 30 June 2016

Period	Position	Fund Size RM'000	Return on Assets (ROA) %	Return On Investment (ROI)
16 July 16 - 15 Aug 16	June	2,000,000	5.13	Based on the agreed expected return upon placement of fund, subject to Terms & Conditions

Note:

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

3.2 Asset Allocation

House Financing and Personal Financing Portfolio

4.0 Profit Payout

4.1 Profit & Loss Statement

WAFIYAH INVESTMENT ACCOUNT	
Profit & Loss Statement for the Quarter ended 30 June 2016	
	June 2016
	RM'000
Profit from financing	971
Direct expenses	-
Allowance for impairment on Financing	(90)
Total profit	881
Return on Asset	5.13%
Return on Investment	Based on the agreed expected return upon placement of fund, subject to Terms & Conditions

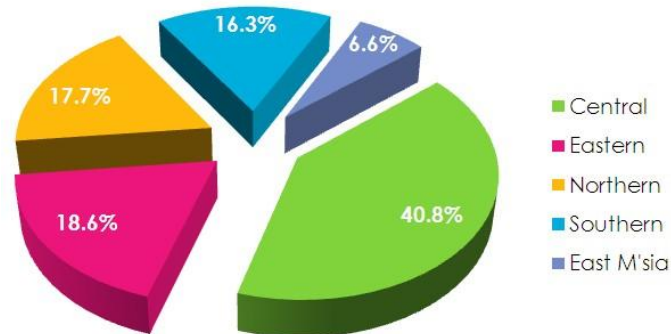
Note:

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

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

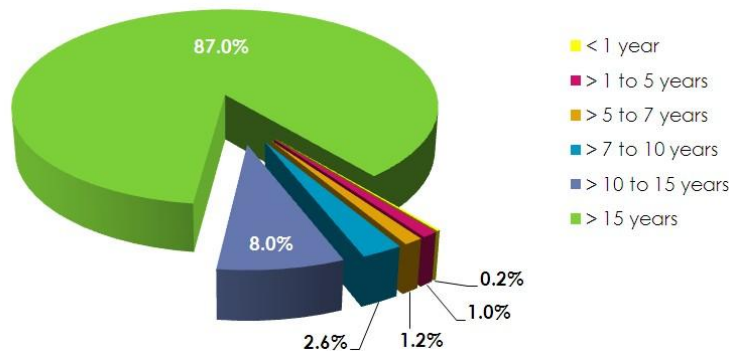
4.2 House Financing Portfolio Review as at 30 June 2016

House Financing Portfolio by Geographical Location in Malaysia



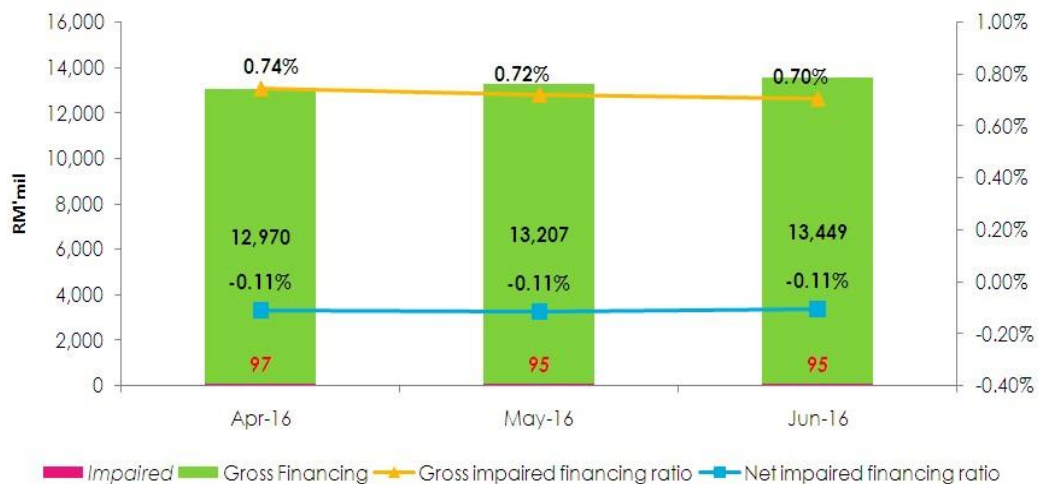
A total of 40.8% from the total House Financing Portfolio originates from the Central region. This reflects our concentration to developed areas such as the Klang Valley.

House Financing Portfolio by Remaining Maturity of Facilities



The bulk of the House Financing Portfolio has a maturity of more than 15 years. This will ensure stability in our profit stream which can then be beneficial to the investment return profile especially for long-term investors.

Asset Quality for Housing Portfolio



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

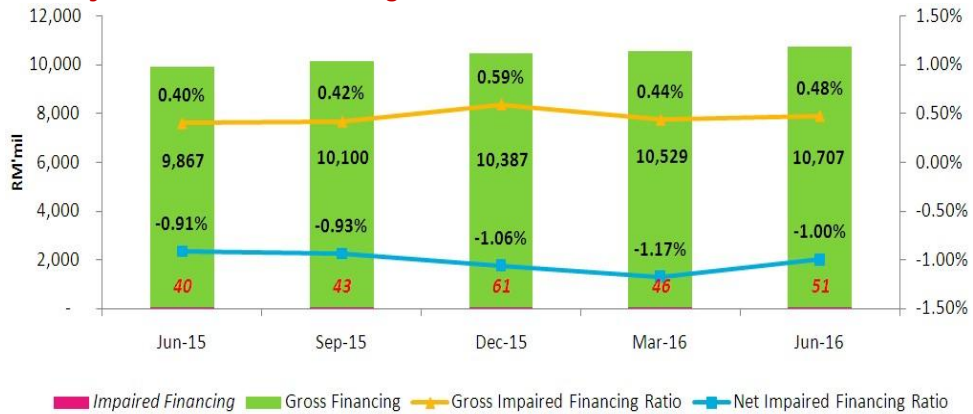
4.3 Personal Financing Portfolio Review as at 30 June 2016

Personal Financing Portfolio Growth in Bank Islam – in RM million



The Personal Financing Portfolio grows at a rate of 7.7% per annum. Asset Allocation for Wafiyah are only for those Personal Financing customers employed in the public sector.

Asset Quality for Personal Financing Portfolio



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

5.0 Economic Review and Prospects

The economic outlook is expected to be more challenging going forward as weak sentiments among the businesses and consumers are likely to exert downward pressures to aggregate demand. External events such as the UK referendum on June 23 and US interest rates could result in uncertain global growth prospects. Domestically, rising operational costs such as minimum wages, gas prices, steel prices, fuel prices and levy on foreign labour are expected to have a negative impact on profit margins. This would result in businesses becoming more cautious particularly in areas relating to capital expenditure and labour hiring as they seek to rely on productivity gains as a means to cost control and preserving bottom lines. Meanwhile, consumers are anticipated to tighten their wallets as softening labour market conditions and higher cost of living will constrain spending on discretionary goods and services. However, a weaker currency should help to sustain export growth. In addition, Bank Negara Malaysia (BNM) has the necessary means to stimulate the economy by way of reductions in the Overnight Policy Rate (OPR) and Statutory Reserve Requirement (SRR). As it stands, BNM has already announced a 25 basis point reduction in the policy rate on July 13 which brought the OPR from 3.25% to 3.00% while SRR was reduced by 50 basis points in February to 3.50%. Additionally, the reduction in EPF members' contribution rate from 11% to 8% beginning March 2016 should help sustain consumer spending. Malaysia's GDP is poised to grow between 4.0% and 4.5% in 2016 in view of stability in domestic demand amidst uncertainty in the external sector.

6.0 Property Market Outlook

Based on the latest preliminary Property Market Report released by National Property Information Centre (NAPIC), property market transaction value declined by 18% year-on-year to RM32.0 billion in the Q1'2016. The negative growth in transaction value is consistent with the 14% fall in volume to 80,029 units in the first quarter of this year. For affordable residential properties, the decline was at a less severe rate. Transaction value for properties below RM500,000 declined 11% year-on-year compared with a 23% decline for properties worth RM500,000 to RM1.0 million and a 20% decline for properties worth RM1.0 million and above. The soft property market also saw total new launches of residential property falling to 3,847 units in the 1Q'2016 from 9,258 units in the preceding quarter. This represents a decline of 58.4% quarter-on-quarter and 75.6% in comparison to launches in the 1Q'2015 (15,738 units). House prices ranging between RM150,001 – RM200,000 and RM300,001 – RM400,000 accounted for the lion share with new launches standing at 1,119 units (29.1% of total) and 1,087 units (28.3% of total) respectively. The Klang Valley property market is expected to remain soft in the short term. However, the economy - and by extension - the property market is expected to recover gradually due to the effects of government's spending on mega infrastructure works as well as the government's introduction of growth stabilization measures which are beginning to take place. The opening of the remaining three stations in the LRT Kelana Jaya Line Extension – Puchong Perdana, Puchong Prima and Putra Heights – at the end of June 2016 would provide good accessibility to these areas. Earlier on, eight new stations were opened along the Sri Petaling Line which also terminates at the Putra Height station. The on-going transport infrastructure projects in the Klang Valley such as the LRT Sri Petaling Line, LRT Kelana Jaya Extension Line, MRT SBK Line, MRT SBP Line, BRT Sunway, BRT KL-Klang, Sungai Besi – Ulu Kelang Elevated Expressway (Suke), Damansara – Shah Alam Expressway (DASH) and Eastern Klang Valley Expressway (EKVE) will not only enhance the existing property but will also become the catalyst for Transit Oriented Development along the alignments and within the vicinity of the stations.

7.0 Personal Financing Outlook

Based on the recent financing asset report (June 2016) released by Bank Negara Malaysia (BNM), the growth stood at slower pace, where it only increased by 3.30% or RM901.9 million from the total of RM27.29 billion in December 2015 to RM28.19 billion in June 2016. Bank Negara supervision over lending by non-banks has shown decreasing trend in the amount of personal financing granted by these institutions where the growth is only RM3billion, compared to RM4.4 billion in 2014 and RM10.2 billion in 2013. The current bearish sentiment in the oil and gas market also affected the growth of personal financing extended to those employed in these sector. Based on OPEC's Monthly Oil report on 12 July 2016 crude oil price stabilised at USD45/b. The OPEC Reference Basket increased by USD2.63 to average USD45.84/b in June 2016. ICE Brent ended up USD2.28 at USD49.93/b and NYMEX WTI gained USD2.06 to stand at USD48.85/b. The ICE Brent-WTI spread widened to USD1.07/b in June 2016, up from USD0.85/b in May 2016. Extra pre-cautions have been taken by the financial institutions in Malaysia especially on the exercise of Voluntary Separation Scheme (VSS) / Mandatory Separation Scheme (MSS) by major oil and gas companies. Target market for Financial Institutions has changed to more stable and reliable segments where the target group has shifted to Government and Professional segments such as doctors, dentists, accountants, lecturers, pilots, and engineers to name a few. BNM's findings on household debt in 2015, highlighted the risk to the domestic financial stability from household leverage was being mitigated by sound underwriting standards and risk management of banks, which accounted for 80% of financing to households. Margin compression has occurred amongst the financial institutions due to strong competition from the banking counterparts which aim to reach out to the same target market. Impaired financing and impairment provisions remain stable within the financial institutions in Malaysia where the ratio of net impaired financing to net total financing remained below 2% in 2016.

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