



Wafiyah Investment Account

Fund Performance Report for the Quarter
Ended 30 September 2016

BANK ISLAM



Wafiyah Investment Account

Fund Performance Report for the Quarter Ended 30 September 2016

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 September 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 & Fixed Asset Financing 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 & Fixed Asset 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

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 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. The principal and returns are not guaranteed and an investment account holder 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 principal. In the event of a liquidation scenario, the Investment Account Holders is ranked ahead of depositors.

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 September 2016

Position	Fund Size RM'000	Return on Assets (ROA) %	Return On Investment (ROI)	Distribution Period
July	129,593	5.00	Based on the agreed expected return upon placement of fund, subject to Terms & Conditions	16 Aug 16 - 15 Sept 16
August	1,288,024	4.86		16 Sept 16 – 15 Oct 16
September	1,507,357	4.84		16 Oct 16 – 15 Nov 16

Note:

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

3.2 Asset Allocation

House & Fixed Asset 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 September 2016			
	July 2016	August 2016	September 2016
	RM'000	RM'000	RM'000
Profit from financing	5,543	3,985	6,559
Direct expenses*	-	-	-
Allowance for impairment on Financing	(550)	(396)	(672)
Total profit	4,993	3,589	5,887
Return on Asset	5.00%	4.86%	4.84%
Return on Investment	Based on the agreed expected return upon placement of fund, subject to Terms & Conditions		

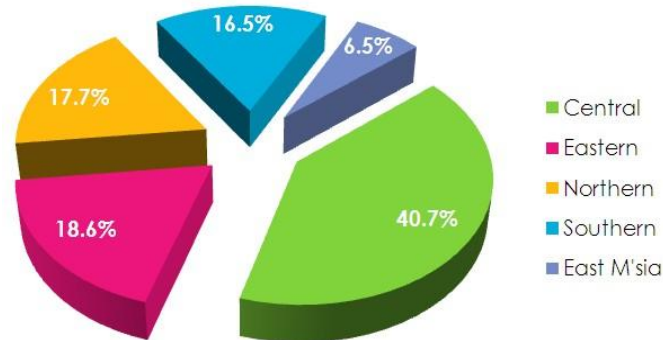
Note:

- The Return on Investment (ROI) for Wafiyah Investment Account is based on the 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.

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

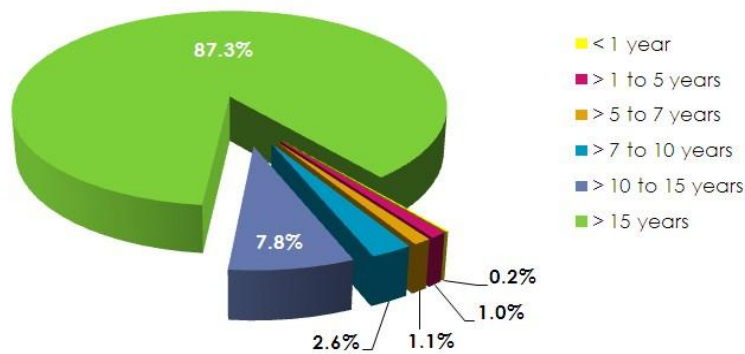
4.2 House and Fixed Asset Financing Portfolio Review as at 30 September 2016

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



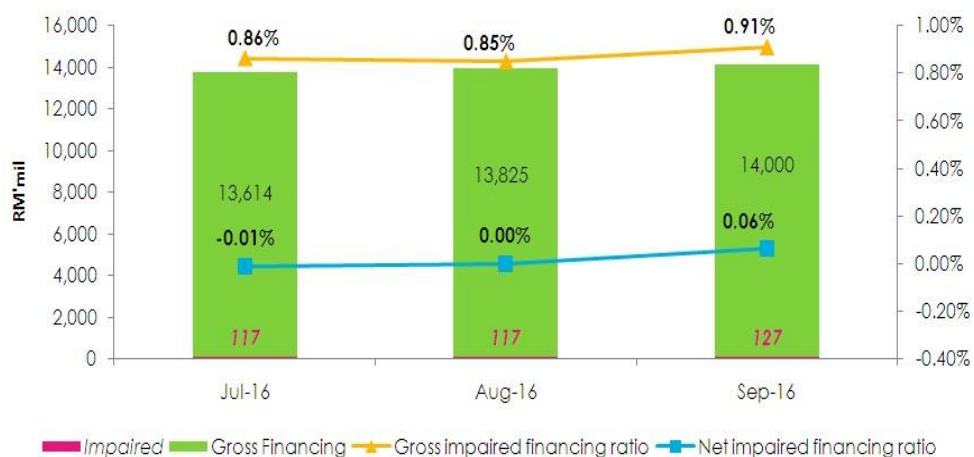
A total of 40.7% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration to developed areas such as the Klang Valley.

House and Fixed Asset Financing Portfolio by Remaining Maturity of Facilities



The bulk 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 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 September 2016

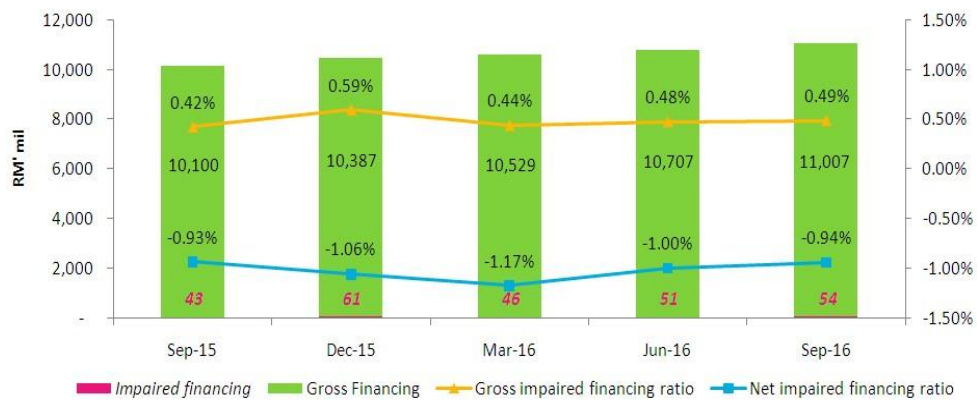
Personal Financing Portfolio Growth in Bank Islam – in RM million



The Personal Financing Portfolio grows at a rate of 7.7% per annum.

Asset Allocation for Wafiyah is 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

Global economy remains highly uncertain premised on the recent forecast revision by the International Monetary Fund (IMF) in October. Based on the latest forecast, the US economy is projected to grow by 1.6% in 2016. This represents 0.8% points decline compared to the April's projection. The reason for the revision was due to weaknesses in the private investment growth whereby it continues to contract for three consecutive quarters. However, the US Federal Reserve is on the verge of normalising its policy rate in December as labour market continues to improve amidst progressive gains in wage growth. In addition, risks arising from UK Brexit appear to be fairly contained at this juncture and the policy makers have indicated that it will invoke the Article 50 of Lisbon Treaty in the first quarter of 2017 in order to begin formal discussion on the eventual exit from the European Union (EU). There was also talks the European Central Bank (ECB) would begin its Quantitative Easing (QE) tapering in 2017, a sign that the economy is gaining more traction, and all that appears to be supportive to Malaysia's external demand. As it is, Malaysia's export grew by 1.5% in August after declining by 5.5% in the prior month led by exports to major economies such as the US, the EU and ASEAN. Similarly, the Industrial Production Index (IPI) posted 4.9% gain in August underpinned by production by export-oriented industries such as Electrical & Electronic (E&E) and chemical related products. A solid gain in consumer spending has improved, based on the rise in private consumption growth to 6.3% in the 2Q'2016. The recent reduction in the Overnight Policy Rate (OPR) by 25 basis points in July should also help to spur domestic spending particularly among businesses in view of lower cost of borrowings. Apart from that, the implementation of infrastructure projects will spearhead activities in the construction, manufacturing and service sectors as more contracts were awarded during the year. Against such backdrop, the economy is poised to grow between 4 and 4.5% in 2016 contributed by both domestic and external demand.

6.0 Property Market Outlook

The downtrend of the residential property market in 2015 which continued into 1H'2016 is expected to remain for the rest of 2016. Based on the data from National Property Information Centre (NAPIC), softer market in 1H'2016 recorded double digit declines against 2H'2015, both in term of volume as well as value of transactions. During 1H'2016, there were only 101,777 residential property transactions taking place with a combined value of RM32.98 billion compared to 116,521 transactions with a combined value of RM37.01 billion during 2H'2015. This represents a decline of 12.65% in volume and 10.88% in value of transaction. In the present uncertain economic conditions, the overall residential market activity is anticipated to be further toned down. However, the residential sector will continue to dominate the market segment, with "affordable housing"-a house unit priced up to a maximum of RM300, 000- taking the limelight. Price adjustments and consolidation can be expected as more supply of affordable housing by both public and private sectors entering the market. Properties located in the Klang Valley are expected to experience stability with some moderate growth due to the net impact of the on-going infrastructure projects which increases the mobility and connectivity of the population.

7.0 Personal Financing Outlook

Based on the recent Bank Negara Malaysia (BNM) statistic report, the financing asset (Islamic banking) recorded slow growth by only 3.84% or RM1.05 billion from the total of RM28.34 billion in August 2016 if compared to the total of RM27.29 billion in December 2015. Oil and Gas sector remains as the main concern for all financial institutions in Malaysia. It does not seem to be turned around in the short term according to the most analysts. Even though, the Petroleum Exporting Countries (OPEC) Organisation in its recent meeting in Algeria has agreed to reduce the oil production from 240,000 to 700,000 barrels of oil per day, this indicator has not sufficient enough to improve the local oil and gas service players' earnings and to change the current fundamental of oil and gas industry. Focusing more towards a steady and reliable target market like Government sectors and Professionals become the core element in selecting the right customers for the financial institutions. Arrangement for special packages or offers such as salary deduction or salary transfer for these groups is likely to be the best pro-active action to minimize the unsecured credit risk faces by most financial institutions. Due to unstable economic conditions, Volunteer Separation Scheme (VSS) / Mandatory Separation Scheme (MSS) might be the best solution taken by the employers. Downsizing manpower will indirectly reduce the overhead cost and will keep the companies survive to move forward. Financial institutions need to be alert at all time on any news of the VSS/MSS exercise by the companies and the customers that might be affected by the action. Robust mitigation plan has been initiated to handle the situation. On top of that, it is important to protect and recover back the financial institutions' financing asset in such situation. The impact of recent reduction of Overnight Profit Rate (OPR) by BNM has caused several financial institutions to reassess its profitability and market offers to balance up the funding cost and remains competitive in the struggling economy situation. The reduction of Base Rate and increased of deposits cost has created a major impact on the financial institutions to retain its budgeted earnings. This has been presumed to be the main reason for the financial institutions to increase the current financing profit rate offers to the market. BNM has been monitoring very closely on the household debt trend in Malaysia. According to BNM's Governor, the risks of destabilising financial imbalances have withdrawn. Various macro prudential measures and strengthened supervisory oversight introduced by BNM, have resulted in more prudent financing standards. The debt service ratio has improved drastically, averaging at 40% compared to 60-70% before for the more vulnerable borrowers. The ratio of net impaired financing to net total financing stood at below than 2% level based on recent statistic report (August 2016) issued by BNM. This indicates that the impaired financing and impairment percentage amongst the financial institutions is well managed and it was contributed by close monitoring and prudent standards established by BNM.

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