

BANK ISLAM



Al Awfar Account

Fund Performance Report
for the Quarter Ended 30 June 2017



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1.0 Key Fund Information

Dear Valued Customer,

Congratulations on becoming Bank Islam's Al Awfar Account holder, an investment account (IA) that is the first of its kind under the Mudarabah contract, designed to offer multiple opportunities to win prizes that are sponsored by the Bank while generating profit. Al Awfar was introduced to the Malaysian market in June 2015 in line with the implementation of the Islamic Financial Services Act (IFSA 2013).

We are pleased to present the following Fund Performance Report of Al Awfar Account for the Quarter Ended 30 June 2017.

1.1 Product Name

Al Awfar Account (Mudarabah-based IA)

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 offer the account holder multiple opportunities to win over RM9,000,000 prizes via monthly, quarterly, and regional draws and at the same time generates profit.

1.4 Fund Investment Strategies

Invest in secured retail financial assets. Currently, the Bank invests in an existing House and Fixed Asset Financing Portfolio aimed at protecting the investment.

1.5 Nature of Investment Account

On demand, where Investment Account Holders (IAH) are able to withdraw at any point of time.

1.6 Investment Asset Allocation

The Bank will allocate IAHs' funds in an existing House and Fixed Asset Financing Portfolio that generates stable profits.

1.7 Investor Profile

- Category of investors:
 - Individuals (Residents and Non-Residents)
 - Non-Individuals (Business/Other entities)
- Investors with low risk tolerance
- **Investors who desire to win prizes**

- Investors with either a short or medium term investment horizon
- Investors who require a portfolio of Shariah-compliant investments

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 asset including, but not limited to, the quality of asset (i.e. impairment) and movement of Effective Profit Rate (EPR) in relation to financing asset that are priced based on floating rate methods etc. 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 are ranked ahead of depositors.

1.9 Distribution Policy

Profit to be distributed on a monthly basis, but will be calculated on a daily basis. The profit is based on the performance of the House and Fixed Asset Financing Portfolio.

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 Prize Structure

Based on the given investment objective, IAH will be entitled to participate in the monthly, quarterly, and regional prize draws. As such, they are able to enjoy multiple opportunities to win valuable cash prizes as stated below:

3.1 Prize Structure

Monthly Draws:

Prize	Cash Prizes (RM)	No. of Winners
1	100,000	1
2	10,000	1
3	1,000	20

Quarterly Draws:

Prize	Cash Prizes (RM)	No. of Winners
1	1,000,000	1
2	10,000	20

Regional Monthly Draws:

Prize	Cash Prizes (RM)	No. of Winners
1	50,000	5

Note: All cash prizes are provided by the Bank and subject to change from time to time.

3.2 Eligibility Units

Every RM100 worth of investment shall be entitled to one (1) eligibility unit for the draw. However, the Bank has the discretion to review the number of eligibility unit(s) from time to time.

3.3 Draw Committee Members

Internal Committee Members	External Committee Members
Shariah Division	Jabatan Kemajuan Islam Malaysia (JAKIM)
Risk Management Division	Persatuan Pengguna Islam Malaysia (PPIM)

3.4 Winners of Al Awfar Prize Draw for the Quarter Ended 30 June 2017

Monthly Draws:

Month	Prize	Cash Prize (RM)	Winners
April	1	100,000	Nazrul Hafiz Bin Ahmad Misman
	2	10,000	Mohamad Hisham Bin Hamzah
	3	1,000	20 winners*
May	1	100,000	Zanariah Binti Zakaria
	2	10,000	Muhammad Nur Azizi Bin Abdul Aziz
	3	1,000	20 winners*
June	1	100,000	Nur Shaqirah Binti Mohd Afizudin
	2	10,000	Alisha Maisara Binti Azidi
	3	1,000	20 winners*

Quarterly Draw:

Prize	Cash Prize (RM)	Winners
1	1,000,000	AB Razak Bin Musa
2	10,000	20 winners*

Regional Monthly Draws:

Month	Prize	Cash Prize (RM)	Winners
April	1	50,000	<ul style="list-style-type: none"> • Mohd Lokhman Bin Isa • Nor Hafizah Binti Zakaria • Arba'iah Binti Khairi • Deraman Bin Awang Lah • Mohd Sanusi Bin Mahli
May	1	50,000	<ul style="list-style-type: none"> • Mohd Arifin Bin Zainul Abidin • Zulqarnain Bin Abu Bakar • Norazlinda Binti Abd Kader • Wan Mohd Zaid Bin Wan Ibrahim • Siti Nazah Binti Padu
June	1	50,000	<ul style="list-style-type: none"> • Wan Harman Bin Wan Nuh • Ahmad Ridzuan Bin Abd Malik • Rahayu Binti Mohd Sehat • Anuar Bin Muhamad • Ramlah Binti Pani

From April until June 2017, Al Awfar has awarded cash prizes to 102 winners.

*For a complete list of winners, please refer to the corporate website

4.0 Fund Performance

4.1 Performance for the Quarter Ended 30 June 2017

Position 2017	Fund Size RM'000	Return on Asset (ROA) %	Profit Sharing Ratio (Customer: Bank)	Return on Investment (ROI) %	Distribution Period
April	1,670,148	5.50	2 : 98	0.11	16 May 17 - 15 Jun 17
May	1,701,661	5.45	2 : 98	0.11	16 Jun 17 - 15 Jul 17
June	1,758,673	5.26	2 : 98	0.11	16 Jul 17 - 15 Aug 17

4.2 Asset Allocation

House and Fixed Asset Financing Portfolio.

5.0 Profit Payout

5.1 Profit & Loss Statement (P&L)

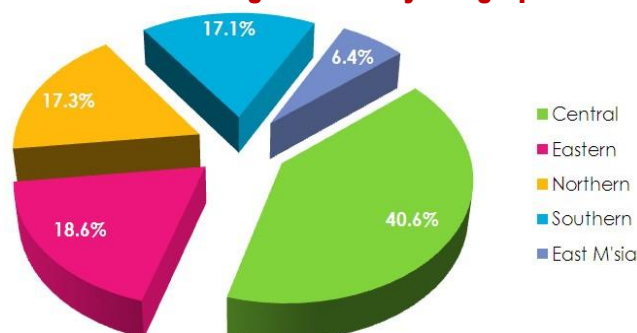
AL AWFAR ACCOUNT			
Profit & Loss Statement for the Quarter ended 30 June 2017			
	April 2017	May 2017	June 2017
	RM'000	RM'000	RM'000
Profit from financing	7,573	7,808	7,726
Direct expenses*	-	-	-
Allowance for impairment on financing	(207)	(219)	(233)
Total Profit	7,366	7,589	7,493
Return on Asset	5.50%	5.45%	5.26%
Return on Investment	0.11%	0.11%	0.11%

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

Note: The profit is based on the performance of the House and Fixed Asset Financing Portfolio.

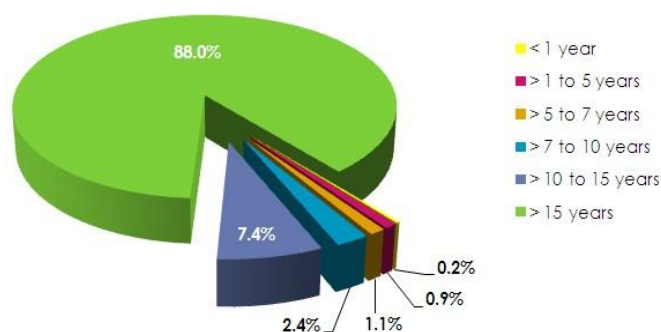
5.2 House and Fixed Asset Financing Portfolio Review as at 30 June 2017

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



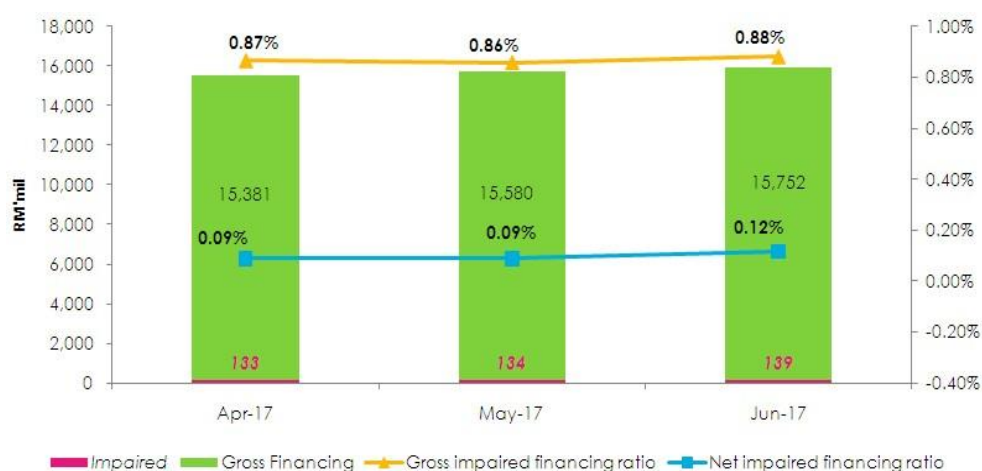
A total of 40.6% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration to developed areas such as the Klang Valley.

House and Fixed Asset Financing Portfolio by Remaining Maturity of Facilities



The 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 benefit the investment return profile especially for long-term IAH.

Asset Quality



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

6.0 Economic Review and Prospects

The global economy continued to improve further during the first half of the year. Persistent decline in the unemployment rate amidst better confidence among households and businesses have led the US central bank to normalise its policy rates. The US Federal Reserve raised their interest rate by 25 basis points on 14 June to 1.25%. Similarly, the European Central Bank (ECB) has also indicated their intention to remove monetary policy accommodation should growth prospect continue to accelerate further. Nonetheless, the ECB has remained at status quo with regards to their policy stand while benchmark rate has been maintained at zero percent. With such dynamics, Malaysia's external sector is anticipated to be supportive of growth particularly the export-oriented industries. Between January and May this year, total exports have been growing at double digit pace with an average growth of 23.4% compared with 1.9% in the same corresponding period last year. The unemployment rate has also declined slightly to 3.4% as of May this year after remaining at 3.5% between December 2016 and February 2017. Premised on this, the economic activities as reflected in the 1Q2017 figures have been robust with GDP growth accelerating to 5.6% from 4.5% in the preceding quarter. Nonetheless, consumers will continue to be cautious as cost of living remains elevated. The federal government is also expected to be mindful with their spending plans in order to maintain a budget deficit of 3% of GDP in 2017. All in all, the economy is expected grow to between 4.3% and 4.8% in 2017 as projected by the Bank Negara Malaysia (BNM).

7.0 Property Market Outlook

It was reported in the "Property Market Report 2016" launched by the Valuation And Property Services Department, Ministry of Finance in April 2017, that the property market continued to slowdown in line with the drop of GDP from 5% (2015) to 4.2% (2016) and also the decline in the annual growth of the House Price Index from 7.2% (2015) to 5.5% (2016). Property transaction volume fell 11.5% to 320,462 transactions whilst transaction value declined by 7.5% to RM145.5 billion Y-o-Y. With regard to residential property, there appeared to be further softening as indicated by a new low Absorption Rate of 3% against a 10 year average of 4.5%. There was also a notable shift in transaction types where 80% of the transactions came from the secondary market and the remaining 20% from the primary market; versus 60% and 40% respectively during the previous year - indicating a lower take up rate from new launches. Furthermore, 65% of the residential transactions were for property below RM300,000. Overhang grew to 14,792 residential units worth an estimated RM8.56 billion on the back of an increase of 43.8% in volume and 70.7% in value compared with 2015. New starts declined by 15.4% to approximately 121,000 units compared with 143,000 units in 2015. Data from National Property Information Center (NAPIC) indicated a continuous declining trend. In terms of volume of transactions, the overall property market contracted by 4.8% Q-on-Q (Q1:2017~76,163: Q1:2016~80,008) whilst residential transaction volume contracted by 5.4% (Q1:2017~46,934: Q1:2016~49,608). As for Q1:2017 against Q4:2016, analysis also showed a declining trend of 5.4% (Q1:2017~76,163: Q4:2016~80,509) and 8.7% (Q1:2017~46,934: Q4:2016~51,393) respectively. In terms of value of residential transactions, there was a slight change of +0.9% for Q1; 2017 against Q1:2016 (Q1:2017~RM16.40 billion: Q1:2016~RM16.25 billion). However, there was a change of -3.8% for the period of Q1:2017 against Q4:2016 (Q1:2017~RM16.40 billion: Q4:2016~RM17.04 billion). The general softening of the residential property market is also expected to continue due to affordability issues faced by first time house buyers. As a result, the public and private sector developers are now focusing on residential unit costing less than RM300,000 per unit developed under the Transit-Oriented-Development schemes in addressing the affordability as well as travelling issues. In this regard 630,000 affordable homes will be constructed under the 11th Malaysia Plan by PR1MA, PPA1M, RUMAWIP and the various state governments' agencies. In the case of residential properties in the Klang Valley, capital value as well as rental value has remained fairly stable, particularly for those located in the areas served by the Sungai Buloh-Kajang MRT Line, the LRT Lines and the major highways. Nevertheless, it is expected that some price adjustments and consolidation would likely take place to reflect the continuous softening of the market.

For Bank Islam in particular, there was a slight uptick in House and Fixed Assets (HFA)'s Gross Impaired Ratio (GIR) to 0.88% in June from 0.86% in the preceding month. Nevertheless, the asset impairment was well below the industry's average of 1.12% as of June this year. Furthermore, the rise in GIR was in tandem with the property industry development as the sector has not recorded full recovery yet. Property overhang and moderate house price appreciation may have hindered new launches while at the same time consumers continued to remain wary in their spending decisions in view of higher cost of living. Against such background, Bank Islam remained vigilant on the emerging impairment risks by constantly monitoring the existing customers as well as adhering to strict credit underwriting standards. Be that as it may, the 1H2017 GDP growth of 5.7% suggests that the economy is gaining further momentum as a result of better exports growth amidst stability in domestic demand. This would result in more job creation and subsequently growth in household income. These factors are expected to translate into further demand for residential properties and in turn help Bank Islam's HFA portfolio to grow going forward.

Prepared by:

BANK ISLAM MALAYSIA BERHAD

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