



Wafiyah Investment Account

Fund Performance Report
for the Quarter Ended 30 June 2017

BANK ISLAM



Wafiyah Investment Account

Fund Performance Report for the Quarter Ended 30 June 2017

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 (for Corporate customers) and September 2016 (for Retail customers) 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 2017.

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 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 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 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 Investment Account Holders' (IAH) funds in an existing House & Fixed Asset Financing and Personal Financing Portfolio that generates 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 Asset

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 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 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. 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 2017

Position	Fund Size RM'000	Return on Assets (ROA) %	Return on Investment (ROI)* %			Distribution Period
			1 month	3 months	6 months	
April	2,330,857	5.10	3.50	3.60	3.70	16 May 17 - 15 Jun 17
May	3,847,769	5.13	3.50	3.60	3.70	16 Jun 17 - 15 Jul 17
June	3,510,402	5.07	3.50	3.60	3.70	16 Jul 17 - 15 Aug 17

* 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 Portfolio

4.0 Profit Payout

4.1 Profit & Loss Statement

WAFIYAH INVESTMENT 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	10,620	14,142	17,604
Direct expenses*	-	-	-
Allowance for impairment on financing	(663)	(822)	(1,235)
Total Profit	9,957	13,320	16,369
Return on Asset	5.10%	5.13%	5.07%
Return on Investment	Based on the mutually agreed expected return upon placement of fund, subject to Terms & Conditions		

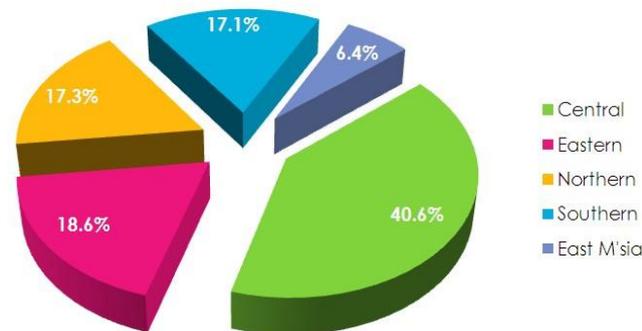
Note:

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

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

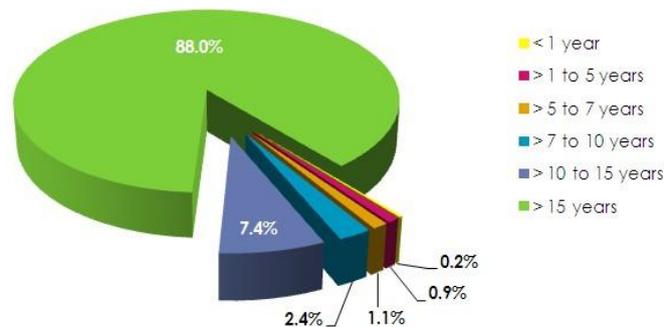
4.2 House and Fixed Asset Financing Portfolio Review as at 30 June 2017

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



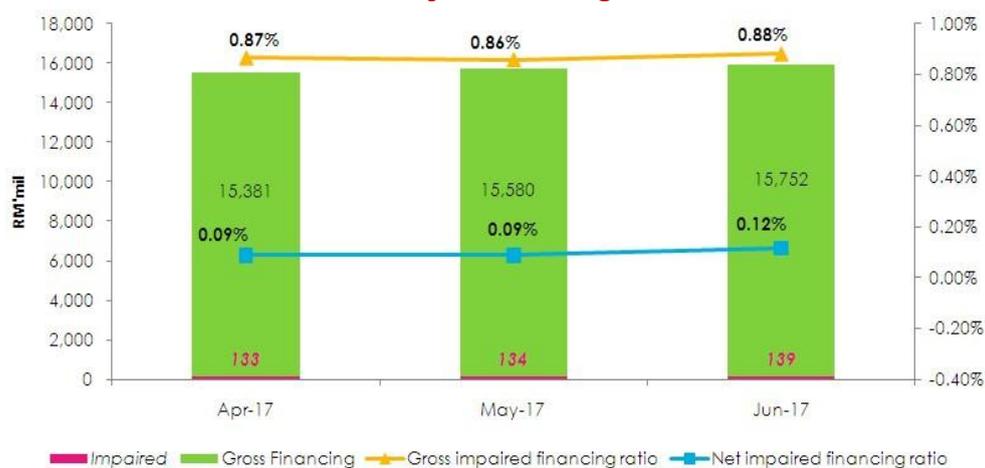
A total of 40.6% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration to developed areas such as the Klang Valley.

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

Asset Quality for Housing Portfolio



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

4.3 Personal Financing Portfolio Review as at 30 June 2017

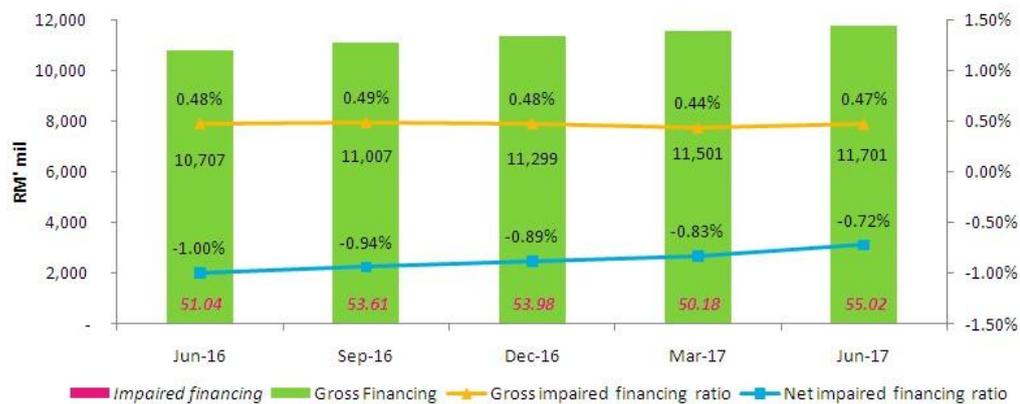
Personal Financing Portfolio Growth in Bank Islam



The Personal Financing Portfolio has grown at a rate of 9.29% per annum.

Asset Allocation for Wafiyah only comprises Personal Financing customers employed 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 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).

6.0 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.

7.0 Personal Financing Outlook

Financing activities in the household sector continued to remain stable with outstanding financing growing by 5.1% as of May 2017 compared with 5.3% at the end of December 2016. Key components such as financing for residential property recorded a moderate growth of 8.6% while vehicle financing persistently contracted for 11 months consecutively. However, financing for Personal Use and Credit Cards posted a slight improvement with growth for the outstanding amount standing at 4.2% and 2.6% respectively in May. Similarly, the gross impairment ratio for household financing remained steady at 1.07% as of May as financial institutions increasingly became more prudent in their underwriting standards. As for Bank Islam, growth in the outstanding Personal Financing portfolio stood at 9.29% as of June 2017. This is higher compared with the industry growth for Personal Use financing of 4.2% as of May. However, Bank Islam maintains prudent underwriting standards to safeguard its asset quality. As such, the gross impairment for Personal Financing remained low at 0.47% as of June 2017 compared with the industry's impairment ratio of 2.22% in May 2017. After taking into account the financing loss provision, the net impairment ratio for Personal Financing stood at -0.72% as of June 2017 signalling Bank Islam's conservative stand in assessing the credit risks. Going forward, Personal Financing is expected to grow in tandem with the improving economic outlook along with stable labour market and income growth among the Malaysian households.

Prepared by:

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