



Wafiyah Investment Account

Fund Performance Report
for the Quarter Ended 30 September 2017

BANK ISLAM



Wafiyah Investment Account

Fund Performance Report for the Quarter Ended 30 September 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 (IFSA 2013).

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

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 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	
July	2,774,513	5.14	3.50	3.60	3.70	16 Aug 17 - 15 Sep 17
August	2,497,903	5.20	3.50	3.60	3.70	16 Sep 17 - 15 Oct 17
September	2,408,888	5.24	3.50	3.60	3.70	16 Oct 17 - 15 Nov 17

* 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 30 September 2017			
	July 2017	August 2017	September 2017
	RM'000	RM'000	RM'000
Profit from financing	15,082	12,790	11,817
Direct expenses*	-	-	-
Allowance for impairment on financing	(866)	(651)	(527)
Total Profit	14,216	12,139	11,290
Return on Asset (p.a.)	5.14%	5.20%	5.24%
Return on Investment (p.a.)	Based on the mutually agreed expected return upon placement of fund, subject to Terms & Conditions		

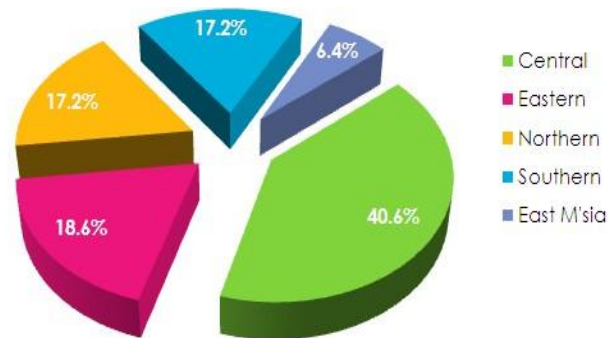
* Expenses are identifiable, measurable and must be incurred in order to complete a specific investment activity (including financing).

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.

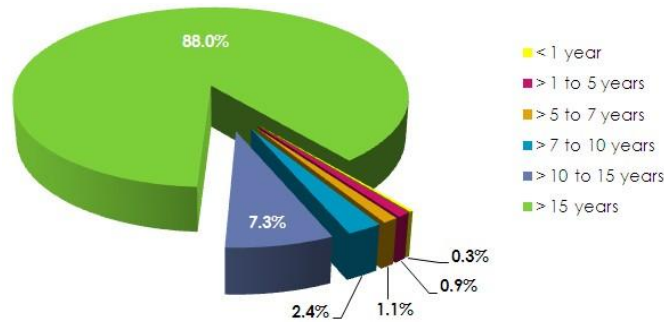
4.2 House and Fixed Asset Financing Portfolio Review as at 30 September 2017

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



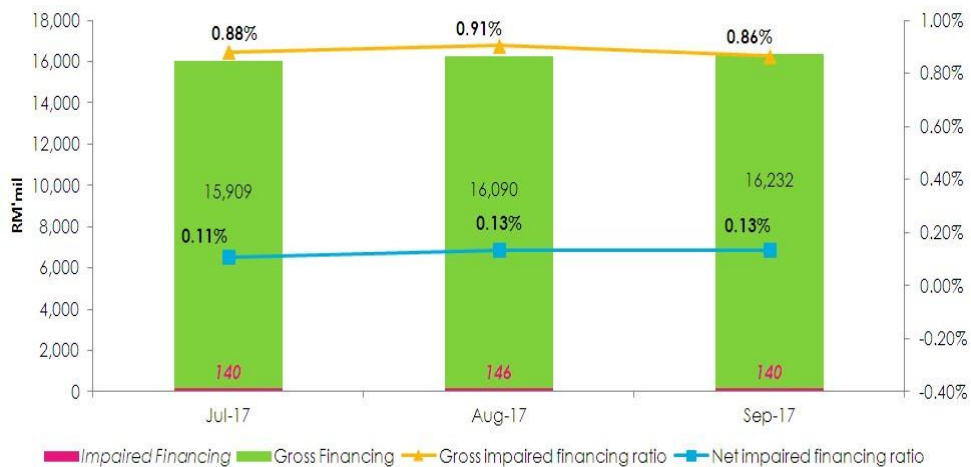
A total of 40.6% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration on developed areas such as the Klang Valley.

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.

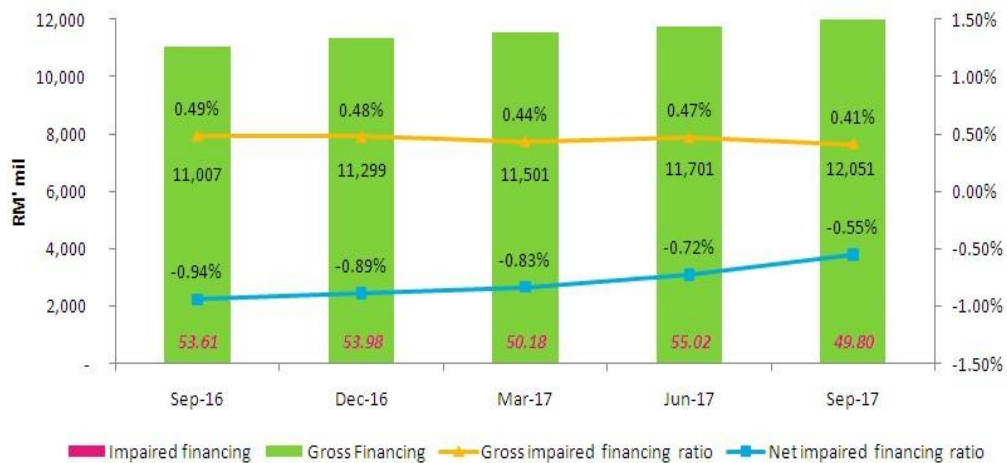
4.3 Personal Financing Portfolio Review as at 30 September 2017

Personal Financing Portfolio Growth in Bank Islam



The Personal Financing (PF) portfolio has grown at a rate of 9.48% 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

Current statistics suggest that the Malaysian economy is on the right track to achieve better growth in 2017. This was premised on improving outlook for global demand which has translated into strong export demand. For the month of July, total exports grew by 30.9% mainly underpinned by higher exports to the major advanced economies. Exports to the United States and the European Union both accelerated to 14.4% and 34.1% respectively from 1.8% and 10.0% in the preceding month. Similarly, export growth to Singapore and China rose at a faster clip of 32.3% and 28.8% from 9.2% and 27.3% respectively. As demand from abroad improved, production activities were also on a higher gear. The Industrial Production Index (IPI) during the month of July posted 6.1% growth from 4.0% previously. This was largely due to significant increase in manufacturing output growth of 8.0% from 4.7% in the previous month. Food, Beverages & Tobacco and Electrical & Electronics were the main drivers for IPI growth with both industries recording 19.1% and 10.5% expansion during the month of July. Consequently, demand for labour in the manufacturing sector in July increased with total employment rising by 2.9% from the same month last year to 1.05 million people while total salaries and wages paid to the industries increased by 11.3% to RM3.52 billion. Crude Palm Oil (CPO) prices were also higher during the third quarter as demand continued to be healthy. CPO production also improved from last year when the Fresh Fruit Bunches yield was severely affected by the weather conditions. As of September, CPO prices stood at RM2,866.5 per metric tonne from RM2,600.5 per metric tonne at the end of 2Q2017. Higher commodity prices would benefit the rural income folks which could translate into household spending. In a nutshell, the Malaysian economy is on firmer footing given the improvements in the external sector and stability in domestic demand. BNM has also indicated in their Monetary Policy Statement (MPS) on September 8 that the overall growth in 2017 will likely be higher than anticipated. At the current juncture, the official GDP forecast for 2017 stands between 4.3% and 4.8%.

6.0 Property Market Outlook

National Property Information Centre (NAPIC) has yet to publish the official data pertaining to property market for Q2 2017 and Q3 2017. Based on economic data, the economy grew by 5.8% y-o-y in the Q2 2017 compared with 5.6% in the preceding quarter. Nevertheless, the residential property market continued to remain weak with deteriorating absorption rate. The situation was further aggravated by the oversupply of high-end properties. With regard to Klang Valley area, landed property located in prominent and established areas continued to record capital appreciation. Similarly, apartments and condominiums built under prominent schemes also witnessed capital appreciation especially those along the Mass Rapid Transit (MRT) Line. It is expected that affordable houses will take the limelight in the property market sector. Based on Annual Report 2016 BNM, the shortage of affordable houses in 2014 was estimated to be 960,000 units and set to increase to more than one million units by 2020. There are multiple programmes by the private sector, federal and state government to supply affordable housing since the current level of house-building is not sufficient to meet the demand. Key drivers to a positive year are expected to come from infrastructural developments such as High Speed Rail (HSR), MRT and Light Rail Transit (LRT) additional lines and stations, new highways and expressways. Johor and Negeri Sembilan are expected to gain from the “spillover” effects. Areas such as Selangor Vision City, Nilai, Pajam, Semenyih, Kajang, Putrajaya, Cyberjaya, Rawang, Ijok, Kuang, Sungai Buloh and Kuala Selangor specifically, would greatly benefit from these developments. Bank Islam’s House and Fixed Assets (HFA) portfolio continued to expand to RM16.2 billion in September versus RM15.9 billion during the month of July. This represents an increase of 2% between the two periods. The central region accounted for the largest share of HFA’s portfolio at 40.6% while most of the maturity profile lies in 15 years and above. This signals stability in repayment capacity and lowers the risk of early redemption. In addition, the asset quality continued to exhibit favourable trend with Gross Impaired Financing Ratio (GIFR) improving from 0.91% in July to 0.86% in September. Strict adherence to Bank Islam’s Risks Acceptance Criteria (RAC) and effective monitoring system are the key factors in containing impairment risks. Going forward, the Bank’s HFA portfolio is expected to perform positively in tandem with the improving outlook in affordable residential property market. This was premised on higher financing approval rates for the residential property industry during the year.

7.0 Personal Financing (PF) Outlook

Bank Islam's PF portfolio expanded at a rate of 3% between September and June this year. At the same time, Gross Impaired Financing Ratio (GIFR) improved to 0.41% in September from 0.47% in June. Such performance is in tandem with the improving general economy in particular the labour market and household income. In addition, the improvement in government finances also suggests prospect of better income growth among the civil servants which could translate into positive repayment capacity. Going forward, the PF portfolio is anticipated to grow further as the economy is expected to perform favorably in view of improving international trade and sustainable domestic demand.

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