



Wafiyah Investment Account

Fund Performance Report for the Quarter
Ended 31 December 2016

BANK ISLAM



Wafiyah Investment Account

Fund Performance Report for the Quarter Ended 31 December 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 (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 31 December 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. For retail customers the tenure offered are 1 month, 3 months or 6 months. For corporate customer the minimum tenure is 1 day to a maximum of 10 years or as specified by the Bank on case to case basis.

1.6 Investment Asset Allocation

The Bank will allocate investors' funds in an existing House & Fixed Asset Financing and Personal Financing Portfolio that generates stable profit.

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 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 are 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 31 December 2016

| Position | Fund Size RM'000 Retail | | Return on Assets (ROA) % | Return on Investment (ROI)* % | | | Distribution Period |
|----------|-------------------------------|-----------|-----------------------------------|-------------------------------------|----------|----------|-----------------------|
| | Corporate | Retail | | 1 month | 3 months | 6 months | |
| October | 1,464,641 | 533,661 | 4.95 | 3.60 | 3.90 | 3.80 | 16 Nov 16 - 15 Dec 16 |
| November | 572,351 | 1,630,882 | 4.96 | 3.60 | 3.90 | 3.80 | 16 Dec 16 – 15 Jan 17 |
| December | 852,560 | 1,397,325 | 4.95 | 3.60 | 3.90 | 3.80 | 16 Jan 17 – 15 Feb 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 31 December 2016 | | | | | | |
| | October 2016 | | November 2016 | | December 2016 | |
| | RM'000 | | RM'000 | | RM'000 | |
| | Corporate | Retail | Corporate | Retail | Corporate | Retail |
| Profit from financing | 6,563 | 1,473 | 3,839 | 6,209 | 2,804 | 6,670 |
| Direct expenses* | - | - | - | - | - | - |
| Allowance for impairment on Financing | (551) | (123) | (324) | (524) | (238) | (567) |
| Total profit | 6,012 | 1,350 | 3,515 | 5,685 | 2,566 | 6,103 |
| Return on Asset | 4.95% | | 4.96% | | 4.95% | |
| Return on Investment | Based on the mutually agreed expected return upon placement of fund, subject to Terms & Conditions | | | | | |

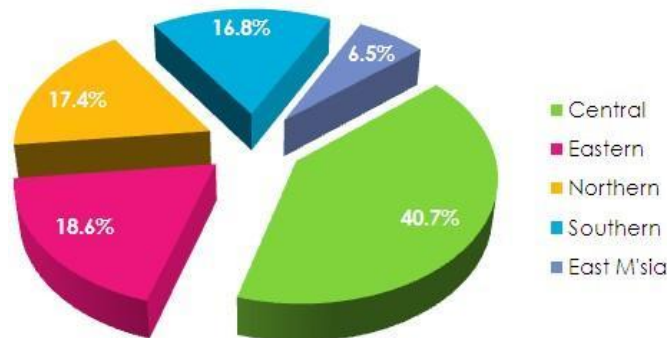
Note:

- 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).

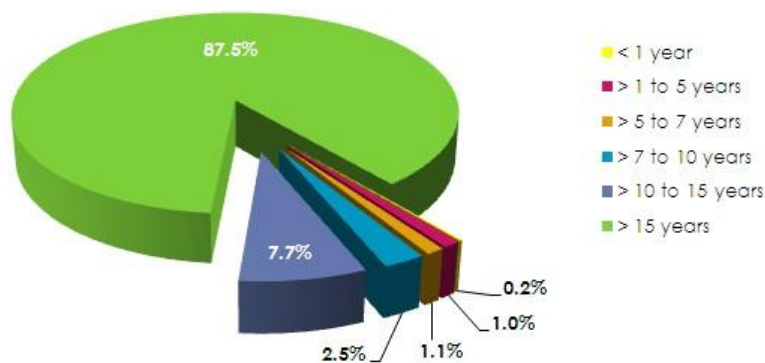
4.2 House and Fixed Asset Financing Portfolio Review as at 31 December 2016

House and Fixed Asset Financing Portfolio by Geographical Location in Malaysia



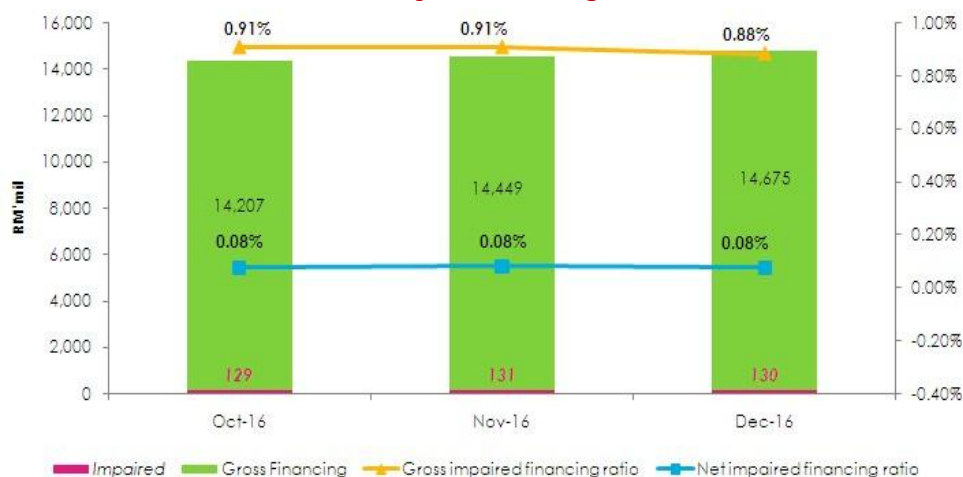
A total of 40.7% from the total House and Fixed Asset Financing Portfolio originates from the Central region. This reflects our concentration to developed areas such as the Klang Valley.

House and Fixed Asset Financing Portfolio by Remaining Maturity of Facilities



The 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 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.

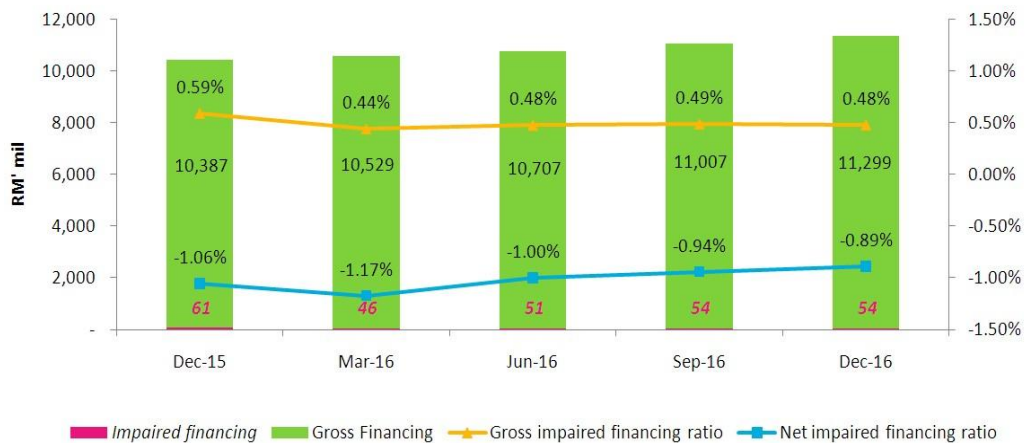
4.3 Personal Financing Portfolio Review as at 31 December 2016

Personal Financing Portfolio Growth in Bank Islam



The Personal Financing Portfolio grows at a rate of 8.78% 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

The global economy remains challenging in 2016. The normalisation of US interest rates, economic slowdown in China and the uncertainty of crude oil prices are some of the common denominators. To a large degree the unexpected outcome of the recent US Presidential election had contributed to the volatility of foreign exchange rates and the shifting of global capital in favour of more developed markets. Consequently, most Asian currencies depreciated against the US dollar, whereby Malaysian Ringgit depreciated by 6.8%. In the domestic economy, consumer sentiment was lethargic for the most part of 2016. This is premised on the Consumer Sentiment Index (CSI) which continues to hover below the 100 point threshold for nine consecutive quarters. The rise in general prices as well as weaknesses in the labour market is the main reason for such pessimism. Despite that, consumer spending appears to be normalising with private consumption growing by 6.4% in the 3Q:2016 after a sharp fall of 4.1% in the 3Q:2015 (2Q:2015 6.4%) when the Goods and Service Tax (GST) was introduced in April 2015. As such, the 2017 GDP growth is expected to reach 4.4% from an estimated 4.3% in 2016.

6.0 Property Market Outlook

The residential property market continued to remain soft throughout 2016. According to the National Property Information Centre (NAPIC), 3Q:2016 witnessed a decline of 14% Quarter-on-Quarter in the volume of transactions of residential properties. The value of transactions in 3Q:2016 also indicated a decrease of 12% compared to 3Q:2015 and 6.6% compared to 2Q:2016. Total new launches declined to 10,655 unit in H1:2016 compared to 70,646 units launched in 2015. House prices rose at a slower pace with the House Price Index decelerated to 5.3% year-on-year in 2Q:2016. With regard to Klang Valley Area, the residential market is expected to experience stability in price with minimal growth. The completion and the on-going construction of infrastructure projects in Klang Valley such as the LRT/ MRT and Expressways will enhance the connectivity and the property prices of the surrounding housing areas. These public transport services and the highways will become the catalyst for Transit Oriented Development along their alignments. In general, based on the current economic conditions, weak property market sentiment and the oversupply situation, the overall residential market activity in the near term is expected to slow down. There will also be some price adjustments and consolidation to reflect the continuous softening of the market.

7.0 Personal Financing Outlook

The level of household indebtedness remains elevated although there has been slight improvement last year. According to the Bank Negara Malaysia's (BNM) Annual Report 2016 and BNM Financial Stability and Payment Systems Report 2016, household debt-to-GDP declined to 88.4% in 2016 from 89.1% in the preceding year due to slower growth in lending to households by 5.4%. While elevated, financial institutions remained prudent in their underwriting standards with Debt Service Ratio (DSR) being kept below 60%. As for Bank Islam, more than half of its personal financing portfolio comes with secured source of payment arrangements. Such arrangements facilitate the quality enhancement of Bank Islam's retail exposure. This is evident by the Gross Impaired Financing (GIF) ratio of the Bank's PF portfolio which stood at an impressive rate of 0.59% (as at December 2016) against industry level of 2.1% based on the BNM Financial Stability and Payment Systems Report 2016.

Prepared by:

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