

Company No.

680329	V
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RHB ISLAMIC BANK BERHAD

(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	<u>Unaudited</u> <u>As at</u> 31.03.2010 RM'000	<u>Audited</u> <u>As at</u> 31.12.2009 RM'000
ASSETS			
Cash and short-term funds		1,809,434	2,562,465
Deposits and placements with banks and other financial institutions		-	305,000
Financial assets held-for-trading	8	307,638	30,931
Financial investments available-for-sale	9	1,288,684	1,195,204
Financial investments held-to-maturity	10	1,068,735	1,042,352
Financing and advances	11	6,155,749	5,842,302
Other assets	12	335,582	74,619
Deferred tax assets		11,579	17,046
Tax recoverable		22,111	15,666
Statutory deposits		77,240	69,240
Property, plant and equipment		22,212	23,083
Intangible assets		27,601	27,601
TOTAL ASSETS		<u>11,126,565</u>	<u>11,205,509</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	13	8,320,001	8,127,782
Deposits and placements of banks and other financial institutions	14	1,551,162	1,831,020
Bills and acceptances payable		27,658	25,228
Other liabilities	15	309,340	326,017
TOTAL LIABILITIES		<u>10,208,161</u>	<u>10,310,047</u>
Ordinary share capital		523,424	523,424
Reserves		394,980	372,038
TOTAL EQUITY		<u>918,404</u>	<u>895,462</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>11,126,565</u>	<u>11,205,509</u>
COMMITMENTS AND CONTINGENCIES	20	<u>2,653,194</u>	<u>2,740,629</u>
CAPITAL ADEQUACY			
Core Capital Ratio		12.67%	12.50%
Risk-Weighted Capital Ratio		14.64%	13.78%

This interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2009.

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UNAUDITED INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE THREE MONTHS ENDED 31 MARCH 2010

		Current Financial Quarter Ended 31.03.2010	Preceding Corresponding Financial Quarter Ended 31.03.2009
	Note	RM'000	RM'000
Income derived from investment of depositors' funds	16	103,003	104,180
Income derived from investment of shareholder's funds	17	13,631	15,984
Allowance for impairment on financing and advances	18	(35,676)	(12,172)
Profit equalisation reserve		4,326	(16,915)
Total distributable income		85,284	91,077
Income attributable to depositors	19	(42,559)	(44,520)
		42,725	46,557
Personnel expenses		(15,928)	(13,783)
Other overheads and expenditures		(23,966)	(22,722)
Profit before taxation		2,831	10,052
Taxation		(707)	(2,617)
Net profit for the financial period		2,124	7,435
Basic earnings per share (sen)		0.41	1.42

This interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2009.

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	Current Financial Quarter Ended 31.03.2010 RM'000	Preceding Corresponding Financial Quarter Ended 31.03.2009 RM'000
Net profit for the financial period	<u>2,124</u>	<u>7,435</u>
Other comprehensive income/(loss):		
Financial investments available-for-sale ('AFS')		
- Unrealised net loss on revaluation	(844)	(976)
- Net transfer to income statement on disposal	-	(9,521)
Income tax relating to components of other comprehensive income	<u>207</u>	<u>(2,936)</u>
Other comprehensive loss for the financial period	<u>(637)</u>	<u>(13,433)</u>
Total comprehensive income/(loss) for the financial period	<u><u>1,487</u></u>	<u><u>(5,998)</u></u>

This interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2009.

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UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	<u>Non-distributable</u>			<u>Distributable</u>	
	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	Total RM'000
Balance as at 1 January 2010					
- As previously stated	523,424	197,739	7,127	167,172	895,462
- Effect of adoption of FRS 139	-	-	-	21,455	21,455
- As restated	523,424	197,739	7,127	188,627	916,917
Net profit for the financial period	-	-	-	2,124	2,124
Other comprehensive loss for the financial period	-	-	(637)	-	(637)
Total comprehensive income /(loss) for the financial period	-	-	(637)	2,124	1,487
Balance as at 31 March 2010	523,424	197,739	6,490	190,751	918,404
Balance as at 1 January 2009	523,424	166,005	18,530	135,437	843,396
Net profit for the financial period	-	-	-	7,435	7,435
Other comprehensive loss	-	-	(13,433)	-	(13,433)
Total comprehensive (loss)/income for the period	-	-	(13,433)	7,435	(5,998)
Balance as at 31 March 2009	523,424	166,005	5,097	142,872	837,398

This interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2009.

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RHB ISLAMIC BANK BERHAD

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UNAUDITED INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENT OF CASH FLOW
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	Current Financial Quarter Ended 31.03.2010 RM'000	Preceding Corresponding Financial Quarter Ended 31.03.2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,831	10,052
Adjustment for non-cash items	<u>(63,445)</u>	4,680
Operating (loss) / profit before changes in working capital	<u>(60,614)</u>	14,732
Changes in working capital:		
Net changes in operating assets	(488,251)	380,515
Net changes in operating liabilities	<u>(97,560)</u>	(364,444)
Cash (used in) / generated from operations	<u>(646,425)</u>	30,803
Taxation paid	<u>(8,631)</u>	(1,632)
Net cash (used in) / generated from operating activities	<u>(655,056)</u>	29,171
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,266)	(871)
Net purchase of financial investments available-for-sale	(94,324)	(105,495)
Net purchase of financial investments held-to-maturity	(26,168)	(162,756)
Income received from financial investments available-for-sale	13,189	6,326
Income received from financial investments held-to-maturity	<u>10,594</u>	8,233
Net cash used in investing activities	<u>(97,975)</u>	(254,563)
Net decrease in cash and cash equivalents	<u>(753,031)</u>	(225,392)
Cash and cash equivalents at the beginning of the financial period	<u>2,562,465</u>	1,342,901
Cash and cash equivalents at the end of the financial period	<u>1,809,434</u>	1,117,509
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	<u>1,809,434</u>	1,117,509

This interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2009.

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**NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2010**

1 BASIS OF PREPARATION

The interim financial statements are unaudited and has been prepared in compliance with the Financial Reporting Standards ('FRS') 134, 'Interim Financial Reporting' issued by the Malaysian Accounting Standards Board ('MASB') and should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2009.

The accounting policies and presentation adopted by the Bank for the interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2009, except for the adoption of the following standards, amendments to published standards and interpretations to existing standards which are effective from 1 January 2010:

FRS 101	Presentation of Financial Statements
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards
FRS 7	Financial Instruments: Disclosure
FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 13	Customer Loyalty Programmes

The adoption of the above standards, amendments to published standards and interpretations does not give rise to any material financial effects to the Bank, other than the effects and change in accounting policies arising from the adoption of FRS 139 as disclosed in Note 22.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

2 AUDIT REPORT

The audit report for the financial year ended 31 December 2009 was not subject to any qualification.

3 SEASONAL OR CYCLICAL FACTORS

The business operations of the Bank have not been affected by any material seasonal or cyclical factors.

4 EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no exceptional or extraordinary items for the three months ended 31 March 2010.

5 CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in prior financial years that have a material effect for the three months ended 31 March 2010.

6 CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the period under review.

7 DIVIDENDS PAID

No dividend was paid by the Bank during the three months ended 31 March 2010.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

8 FINANCIAL ASSETS HELD-FOR-TRADING

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	159,749	-
Bank Negara Malaysia monetary notes	48,682	-
Bankers' acceptances and Islamic accepted bills	66,244	-
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	32,963	30,931
	<u>307,638</u>	<u>30,931</u>

9 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	823,200	728,957
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	464,909	465,672
Shares	575	575
	<u>1,288,684</u>	<u>1,195,204</u>

The carrying value of financial investments available-for-sale, which was transferred from financial assets held-for-trading, for the Bank as at 31 March 2010 is RM20.3 million (31.12.2009 : RM20.4 million)

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

10 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
<u>Money market instruments:</u>		
Cagamas Mudharabah bonds	175,192	175,201
Khazanah bonds	-	34,935
Malaysian Government Investment Issues	587,034	566,570
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	<u>306,509</u>	<u>265,646</u>
	<u>1,068,735</u>	<u>1,042,352</u>

11 FINANCING AND ADVANCES

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
Cashline	91,268	87,557
Term financing		
- house financing	2,011,029	1,872,246
- syndicated term financing	585,020	793,288
- hire purchase receivables	1,320,681	1,215,426
- other term financing	1,587,353	1,297,163
Claims on customers under acceptance credit	565,308	503,119
Trust receipts	31,743	32,787
Staff financing	12,322	12,990
Credit/charge card receivables	2	-
Revolving financing	430,790	451,209
	<u>6,635,516</u>	<u>6,265,785</u>
Less: Unearned income	<u>(194,838)</u>	<u>(179,697)</u>
Gross financing and advances	6,440,678	6,086,088
Less : Allowance for impaired financing and advances		
- collective assessment allowance	(145,566)	-
- individual assessment allowance	(139,363)	-
- general allowance	-	(88,984)
- specific allowance	-	(154,802)
Net financing and advances	<u>6,155,749</u>	<u>5,842,302</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(i) By type of customer	<u>Unaudited</u> <u>As At</u> <u>31.03.2010</u> <u>RM'000</u>	<u>Audited</u> <u>As At</u> <u>31.12.2009</u> <u>RM'000</u>
Domestic non-bank financial institutions		
- Others	2,272	10,486
Domestic business enterprises		
- Small medium enterprises	693,461	664,475
- Others	2,424,249	2,326,103
Government and statutory bodies	109,496	112,186
Individuals	2,909,824	2,669,895
Other domestic entities	612	676
In Malaysia	<u>6,139,914</u>	<u>5,783,821</u>
Outside Malaysia	<u>300,764</u>	<u>302,267</u>
	<u><u>6,440,678</u></u>	<u><u>6,086,088</u></u>
(ii) By contract		
Bai' Bithaman Ajil	1,844,977	1,969,354
Ijarah	2,148,212	1,996,943
Murabahah	1,284,069	1,124,993
Istisna'	397,458	442,502
Others	765,962	552,296
	<u><u>6,440,678</u></u>	<u><u>6,086,088</u></u>
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	1,365,846	1,417,055
- Hire purchase receivables	1,125,843	1,035,729
- Other fixed rate financing	1,520,350	1,610,801
Variable rate		
- BFR-plus	1,688,319	1,341,860
- Cost-plus	740,320	680,643
	<u><u>6,440,678</u></u>	<u><u>6,086,088</u></u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(iv) By purpose	<u>Unaudited</u> <u>As At</u> <u>31.03.2010</u> <u>RM'000</u>	<u>Audited</u> <u>As At</u> <u>31.12.2009</u> <u>RM'000</u>
Purchase of securities	12,762	18,430
Purchase of transport vehicles	1,053,811	968,500
Purchase of landed property:		
- Residential	1,993,067	1,848,340
- Non-residential	177,248	183,280
Purchase of property, plant and equipment other than land and building	422,839	477,020
Personal use	15,879	13,778
Credit card	2	-
Purchase of consumer durables	97	110
Construction	413,799	402,450
Working capital	1,713,569	1,731,270
Other purposes	637,605	442,910
	<u>6,440,678</u>	<u>6,086,088</u>
(v) By remaining contractual maturity		
Maturity within one year	1,157,879	1,379,878
One to three years	424,150	279,897
Three to five years	750,677	559,650
Over five years	4,107,972	3,866,663
	<u>6,440,678</u>	<u>6,086,088</u>
(vi) Impaired financing and advances		
(a) Movement in impaired financing and advances		
Balance as at the beginning of financial period/year		
- As previously reported	376,940	267,357
- Effect of adoption of FRS 139	101,472	-
- As restated	<u>478,412</u>	<u>267,357</u>
Classified as impaired during the financial period/year	140,085	424,210
Amount recovered	(8,736)	(40,005)
Amount written off	-	(35,212)
Reclassified as non-impaired during the financial period/year	(74,162)	(239,410)
Balance as at the end of financial period/year	<u>535,599</u>	<u>376,940</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances (continued)

(b) By purpose

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Purchase of transport vehicles	630	6,360
Purchase of landed property:		
- Residential	173,353	189,780
- Non-residential	21,674	2,690
Purchase of property, plant and equipment other than land and building	782	-
- Personal use	5,985	2,210
- Construction	1,276	1,140
- Working capital	331,791	174,760
Others	108	-
	<u>535,599</u>	<u>376,940</u>

(c) Movement in the allowance for impaired financing and advances

Collective assessment allowance

Balance as at the beginning of financial period/year

- As previously stated	-	-
- Effect of adoption of FRS 139	140,427	-
- As restated	140,427	-

Allowance made

8,319

Amount recovered

(3,180)

Balance as at the end of financial period/year

145,566

Individual assessment allowance

Balance as at the beginning of financial period/year

- As previously stated	-	-
- Effect of adoption of FRS 139	107,035	-
- As restated	107,035	-

Allowance made

57,500

Amount recovered

(25,172)

Amount written off

-

Balance as at the end of financial period/year

139,363

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FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances (continued)

(c) Movement in the allowance for impaired financing and advances

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> <u>RM'000</u>	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> <u>RM'000</u>
<u>General allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	88,984	97,984
- Effect of adoption of FRS 139	(88,984)	-
- As restated	-	97,984
Allowance made during the financial period/year	-	(9,000)
Balance as at the end of financial period/year	-	88,984
As % of gross financing and advances less specific allowance	-	1.5%
<u>Specific allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	154,802	92,581
- Effect of adoption of FRS 139	(154,802)	-
- As restated	-	92,581
Allowance made	-	123,452
Amount recovered	-	(26,756)
Amount written off	-	(34,475)
Balance as at the end of financial period/year	-	154,802

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12 OTHER ASSETS

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Income receivable	25,319	28,681
Deposits and prepayments	18,673	22,227
Sundry deposits debtors	7,195	1,352
Other debtors	284,395	22,359
	<u>335,582</u>	<u>74,619</u>

13 DEPOSITS FROM CUSTOMERS

Non-Mudharabah Funds:

Demand deposits	1,575,570	1,607,302
Savings deposits	563,004	563,317
Negotiable Islamic Debt Certificates	4,809	4,754
	<u>2,143,383</u>	<u>2,175,373</u>

Mudharabah Funds:

Demand deposits	390,556	374,513
General investment deposits	1,113,062	1,166,442
Special investment deposits	4,673,000	4,411,454
	<u>8,320,001</u>	<u>8,127,782</u>

(i) By type of customer

Government and statutory bodies	1,373,117	1,771,165
Business enterprises	5,324,177	5,026,432
Individuals	897,307	887,310
Others	725,400	442,875
	<u>8,320,001</u>	<u>8,127,782</u>

(ii) By maturity structure of Negotiable Islamic Debt Certificates and Mudharabah general and special investment deposits

Due within six months	4,891,827	5,098,344
Six months to one year	886,243	467,400
One year to three years	11,170	15,927
Three years to five years	1,361	736
Over five years	270	243
	<u>5,790,871</u>	<u>5,582,650</u>

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FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
<u>Non-Mudharabah Fund:</u>		
Licensed Islamic banks	310,000	152,720
Licensed banks	329,462	342,400
	<u>639,462</u>	<u>495,120</u>
<u>Mudharabah Fund:</u>		
Licensed Islamic banks	711,700	490,000
Licensed banks	200,000	498,000
Licensed investment banks	-	247,900
Other financial institutions	-	100,000
	<u>1,551,162</u>	<u>1,831,020</u>

15 OTHER LIABILITIES

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Sundry creditors	19,443	17,303
Profit equalisation reserve	-	4,326
Amount due to holding company	231,440	243,495
Other accruals and payables	58,457	60,893
	<u>309,340</u>	<u>326,017</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2010 (CONTINUED)

16 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

Income derived from investment of depositors' funds are as follows:

	Current Financial Quarter Ended 31.03.2010 RM'000	Preceding Corresponding Financial Quarter Ended 31.03.2009 RM'000
Income derived from investment of:		
(i) General investment deposits	11,277	19,890
(ii) Other deposits	<u>91,726</u>	<u>84,290</u>
	<u>103,003</u>	<u>104,180</u>
 (i) Income derived from investment of general investment deposits		
<u>Finance income and hibah:</u>		
Financing and advances	7,459	13,166
Financial assets held-for-trading	42	684
Financial investments available-for-sale	1,293	1,408
Financial investments held-to-maturity	1,137	2,311
Money at call and deposits with financial institutions	<u>1,240</u>	<u>1,502</u>
Total finance income and hibah	11,171	19,071
Other operating income (note a to c)	<u>106</u>	<u>819</u>
	<u>11,277</u>	<u>19,890</u>
 Of which:		
Financing income earned on impaired financing	<u>48</u>	<u>-</u>
 Other operating income comprise of:		
a) Fee income :		
Commission	127	193
Guarantee fees	<u>19</u>	<u>49</u>
	<u>146</u>	<u>242</u>
b) Net gain/(loss) on financial assets held-for-trading		
- net loss on disposal	(1)	(179)
- unrealised revaluation loss	<u>(39)</u>	<u>(951)</u>
	<u>(40)</u>	<u>(1,130)</u>
c) Net gain on disposal of financial investments AFS	-	1,707
	<u>106</u>	<u>819</u>

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16 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

	Current Financial Quarter Ended <u>31.03.2010</u> RM'000	Preceding Corresponding Financial Quarter Ended <u>31.03.2009</u> RM'000
(ii) Income derived from investment of other deposits		
<u>Finance income and hibah:</u>		
Financing and advances	60,666	55,794
Financial assets held-for-trading	341	2,897
Financial investments available-for-sale	10,514	5,966
Financial investments held-to-maturity	9,253	9,792
Money at call and deposits with financial institutions	10,092	6,365
Total finance income and hibah	<u>90,866</u>	<u>80,814</u>
Other operating income (note a to c)	860	3,476
	<u>91,726</u>	<u>84,290</u>
Of which:		
Financing income earned on impaired financing	<u>390</u>	<u>-</u>
Other operating income comprise of:		
a) Fee income :		
Commission	1,031	819
Guarantee fees	152	210
	<u>1,183</u>	<u>1,029</u>
b) Net loss on financial assets held-for-trading:		
- net loss on disposal	(7)	(753)
- unrealised revaluation loss	(316)	(4,031)
	<u>(323)</u>	<u>(4,784)</u>
c) Net gain on disposal of financial investments AFS	-	7,231
	<u>860</u>	<u>3,476</u>

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17 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	Current Financial Quarter Ended <u>31.03.2010</u> RM'000	Preceding Corresponding Financial Quarter Ended <u>31.03.2009</u> RM'000
<u>Finance income and hibah:</u>		
Financing and advances	6,077	4,509
Financial assets held-for-trading	34	234
Financial investments available-for-sale	1,053	482
Financial investments held-to-maturity	927	791
Money at call and deposits with financial institutions	<u>1,011</u>	<u>515</u>
Total finance income and hibah	9,102	6,531
Other operating income (note a to c)	<u>4,529</u>	<u>9,453</u>
	<u>13,631</u>	<u>15,984</u>
Of which:		
Financing income earned on impaired financing	<u>38</u>	<u>-</u>
Other operating income comprise of:		
a) Fee income :		
Commission	939	318
Service charges and fees	3,722	3,679
Guarantee and underwriting fees	15	17
Placement fees	-	5
Other fee income	<u>(116)</u>	<u>671</u>
	<u>4,560</u>	<u>4,690</u>
b) Net (loss)/gain on financial assets held-for-trading :		
- net gain on disposal	-	4,505
- unrealised revaluation loss	<u>(31)</u>	<u>(326)</u>
	<u>(31)</u>	<u>4,179</u>
c) Net gain on disposal of financial investments AFS		
	<u>-</u>	<u>584</u>
	<u>4,529</u>	<u>9,453</u>

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18 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	Current Financial Quarter Ended 31.03.2010 RM'000	Preceding Corresponding Financial Quarter Ended 31.03.2009 RM'000
Allowance for impairment on financing and advances:		
- Individual assessment allowance	32,328	-
- Collective assessment allowance	5,139	-
- Specific allowance	-	16,839
- General allowance	-	(4,300)
Impaired financing recovered	<u>(1,791)</u>	<u>(367)</u>
	<u>35,676</u>	<u>12,172</u>

19 INCOME ATTRIBUTABLE TO DEPOSITORS

Deposits from customers:		
- Mudharabah funds	34,816	34,409
- Non-mudharabah funds	2,061	3,055
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	2,761	6,487
- Non-mudharabah funds	<u>2,921</u>	<u>569</u>
	<u>42,559</u>	<u>44,520</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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20 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers. No material losses are anticipated as a result of this transaction, which needs to be adjusted.

Risk weighted exposures of the Bank are as follows:

	<u>Unaudited as at 31.03.2010</u>		
	<u>Principal Amount RM'000</u>	<u>Credit Equivalent Amount * RM'000</u>	<u>Risk Weighted Amount RM'000</u>
Transaction-related contingent items	194,920	97,460	53,094
Short-term self-liquidating trade-related contingencies	71,076	14,215	14,215
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	324,741	162,370	187,039
- maturity less than one year	2,033,457	406,692	406,692
Total	2,653,194	695,237	675,540
		<u>Audited as at 31.12.2009</u>	
Transaction-related contingent items	184,507	92,254	47,412
Short-term self-liquidating trade-related contingencies	96,206	19,241	19,241
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	384,933	192,466	188,595
- maturity less than one year	2,045,983	409,197	411,982
Total	2,740,629	727,658	681,730

* The credit equivalent amount is arrived at using credit conversion factors as per Bank Negara Malaysia's guidelines. The credit equivalent and risk weighted amount for the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (CAFIB): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II) respectively.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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21 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

	<u>Unaudited</u> <u>As at</u> <u>31.03.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
<u>Tier I Capital</u>		
Paid-up ordinary share capital	523,424	523,424
Retained profits	167,172	167,172
Statutory reserve	197,739	197,739
	<u>888,335</u>	<u>888,335</u>
Less :		
Deferred tax assets	(17,046)	(17,046)
Total Tier I capital	<u>871,289</u>	<u>871,289</u>
<u>Tier II Capital</u>		
Collective assessment allowance	145,566	-
General allowance for bad and doubtful financing	-	88,984
Total Tier II capital	<u>145,566</u>	<u>88,984</u>
Less:		
Other deduction*	(9,558)	(12)
Total capital base	<u>1,007,297</u>	<u>960,261</u>
<u>Capital ratios</u>		
Core capital ratio (inclusive of market risk)	12.67%	12.50%
Risk-weighted capital ratio (inclusive of market risk)	<u>14.64%</u>	<u>13.78%</u>
Risk-weighted assets by each major risk category are as follows:		
Credit risk	6,212,194	6,401,766
Market risk	98,180	9,114
Operational risk	568,469	558,743
	<u>6,878,843</u>	<u>6,969,623</u>

* Pursuant to the Basel II Market Risk para 5.19 and 5.20

- Valuation Adjustment/Reverses, the RWCR computation shall account for the ageing, liquidity and holding back adjustments/reserves on its tracking portfolio.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010 (CONTINUED)

22 CHANGES IN ACCOUNTING POLICIES

Effective 1 January 2005, the Bank has adopted Bank Negara Malaysia's ('BNM') Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8-i'), whereby certain principles in connection with the recognition, derecognition and measurement of financial instruments and hedge accounting are similar to those prescribed by FRS 139. The adoption of FRS 139 has resulted in the following changes in the Bank's accounting policies:

a. Impairment of financing and advances

Prior to 1 January 2010, the Bank's financing loss allowance was determined in accordance with BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3").

Under FRS 139, the Bank assesses at each balance sheet date whether there is objective evidence that financing and advances are impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For financing and advances, the Bank first assesses whether objective evidence of impairment exists individually for financing and advances that are individually significant, and individually or collectively for financing and advances that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financing and advances, whether significant or not, it includes the asset in a group of financing and advances with similar credit risk characteristics and collectively assesses them for impairment.

Financing impairment is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the financing and advances' original effective interest/profit rate ('EIR').

The Bank addresses impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

(i) Individually assessed allowance

The Bank determines the allowance appropriate for each individual significant financing and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the financing and advances and are measured as the difference between the carrying amount of the financing and advances and the present value of the expected future cash flows discounted at EIR of the financing and advances.

All other financing and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

(ii) Collectively assessed allowance

Based on the collective assessment allowance requirement under FRS 139, collective allowance are maintained to reduce the carrying amount of portfolios of similar financing and advances to their estimated recoverable amounts at the balance sheet date. For the purposes of a collective evaluation of impairment, exposures that are assessed collectively are placed into pools of similar financing and advances and financing with similar credit risk.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
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22 **CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

a. Impairment of financing and advances (continued)

(ii) Collectively assessed allowance (continued)

In accordance with the transitional provisions under the Amendments to FRS 139 Financial Instruments: Recognition and Measurement, the financial services sector is granted a transitional period for the purpose of complying with the collective assessment of impairment required under FRS 139. Consequently, BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions for a transitional period.

This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowances under the transitional provisions in the guidelines.

As the date of this report, the Bank has adopted the transitional provisions under the Amendments to FRS 139 Financial Instruments: Recognition and Measurement and the collective assessment impairment allowance of the Bank has been determined based on the transitional arrangement issued by BNM.

As a result of the adoption of loans impairment basis under FRS 139 and the transitional provisions as explained above, the Bank has adjusted the following against retained profits as at 1 January 2010:

- (i) Wrote back general and specific allowance of RM88,984,000 and RM154,802,000 respectively;
- (ii) Recognition of opening collective assessment allowance and individual assessment allowance of RM140,427,000 and RM107,035,000 respectively.

b. Recognition of profit income

- (i) Prior to 1 January 2010, profit on financing and advances were recognised in the income statement at contracted profit rates. FRS 139 requires profit income to be recognised on an EIR basis. The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the financing.

The adoption of the EIR basis has resulted in an adjustment of RM14,565,000 to the opening retained profits of the Bank.

- (ii) Prior to the adoption of FRS 139, where a financing becomes non-performing, profit accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of the income statement and set off against the accrued income receivable account in the balance sheet. Subsequently, the profit earned on the non-performing financing shall be recognised as income on cash basis.

Upon adoption of FRS 139, once a financing has been written down due to impairment loss, financing income is recognised based on the profit rate used to discount the future cash flows for the purpose of measuring impairment loss. Accordingly, all prior years' income-in-suspense of RM12,865,000 has been written back to the opening retained profits of the Bank.

c. Recognition of embedded derivatives

Embedded derivatives are to be separated from the host contract and accounted for as a derivative when the economic characteristics and risks of the embedded derivative are not closely related to the host contract.

There is no effect to the results as the Bank does not have any material embedded derivatives.

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22 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

d. Financial investments AFS

Upon adoption of FRS 139, all unquoted equity securities are now measured at fair value, with the changes in fair value recognised directly to AFS reserve.

There is no material effect to the results of the Bank arising from this change in accounting policy.

The changes of the above accounting policies arising from the initial adoption of FRS 139 have been applied prospectively and have resulted in the following overall adjustments to the opening shareholders' equity of the Bank:

	Balance as at 1 January 2010, as previously reported RM'000	Effect of adoption of FRS 139 RM'000	Adjusted Balance as at 1 January 2010, as restated RM'000
Retained profits	<u>167,172</u>	<u>21,455</u>	<u>188,627</u>

23 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

24 MATERIAL EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There were no material events subsequent to the balance sheet date that has not been reflected in the interim financial statements.

25 CHANGES IN PROFIT FOR THE QUARTER

The Bank recorded a profit before tax of RM2.8 million for the current quarter, a decline RM34.3 million as compared with the previous corresponding quarter ended 31 December 2009 of RM37.1 million. The decrease was mainly due to higher allowance for impairment on financing and advances by RM26.0 million and higher income attributable to depositors by RM3.4 million.

26 PERFORMANCE REVIEW

For the 3 months ended 31 March 2010, the Bank posted lower profit before tax of RM2.8 million as compared with the preceding corresponding period ended 31 March 2009 of RM10.1 million. The decline was largely due to higher allowance for impairment on financing and advances by RM23.5 million during the current quarter. This was partially offset by the positive effect totalling RM21.2 million resulted from the release of Profit Equalisation Reserve (PER) amounting to RM4.3 million during the quarter against a charge of RM16.9 million in previous corresponding quarter.

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27 PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

The Malaysian economy is expected to grow by 4.5% to 5.5% % in 2010, extending the positive momentum from the fourth quarter of 2009. The recent Government's objective in moving Malaysia towards a high income economy is expected to provide a fresh impetus for the country to enhance and create a sustainable long term economic growth.

The strengthening of domestic economy will bolster the Malaysian banking sector, which is expected to remain healthy with ample growth opportunity. RHB Islamic is optimistic of a stronger market demand for banking products and services and capital markets activities is expected to increase going into the second half of 2010. This will be supplemented by the continued enhancement of the Group's branch network and alternate channels to ensure that our customers will find it increasingly convenient to bank with RHB Islamic.