

RHB ISLAMIC BANK BERHAD (680329 – V)
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
ASSETS			
Cash and short-term funds		2,933,589	3,331,680
Deposits and placements with banks and other financial institutions		750,559	704,325
Financial assets held-for-trading	9	169,171	793,559
Financial investments available-for-sale	10	2,399,136	2,379,701
Financial investments held-to-maturity	11	2,802,627	2,586,660
Financing and advances	12	21,189,066	18,436,792
Other assets	13	106,098	48,131
Derivative assets		27,053	23,457
Statutory deposits with Bank Negara Malaysia		833,654	790,000
Deferred tax assets		12,849	12,146
Property, plant and equipment		13,482	13,923
Intangible assets		7,375	10,715
TOTAL ASSETS		31,244,659	29,131,089
LIABILITIES AND EQUITY			
Deposits from customers	14	20,514,568	21,034,100
Deposits and placements of banks and other financial institutions	15	6,201,249	4,427,634
Bills and acceptances payable		11,789	15,092
Derivative liabilities		6,352	7,240
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')		1,228,530	1,308,332
Other liabilities	16	636,815	297,760
Provision for tax and zakat		22,890	13,799
Subordinated obligations		503,187	-
TOTAL LIABILITIES		29,125,380	27,103,957
Share capital		1,173,424	1,173,424
Reserves		945,855	853,708
TOTAL EQUITY		2,119,279	2,027,132
TOTAL LIABILITIES AND EQUITY		31,244,659	29,131,089
COMMITMENTS AND CONTINGENCIES	21	11,283,765	8,839,469

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2013.

RHB ISLAMIC BANK BERHAD (680329 – V)
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
		<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
		<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Income derived from investment of depositors' funds	17	309,014	271,072	592,087	534,623
Income derived from investment of shareholders' funds	18	35,929	26,278	60,961	51,293
Allowance for impairment on financing and advances	19	(13,555)	(21,698)	(12,403)	(30,800)
Impairment losses made/(written back) on other assets		(481)	(701)	142	(701)
Total distributable income		330,907	274,951	640,787	554,415
Income attributable to depositors	20	(209,278)	(175,363)	(393,971)	(352,871)
		121,629	99,588	246,816	201,544
Personnel expenses		(17,178)	(20,287)	(38,274)	(38,284)
Other overheads and expenditures		(43,984)	(38,511)	(82,026)	(69,432)
Profit before taxation		60,467	40,790	126,516	93,828
Taxation		(15,415)	(10,240)	(31,357)	(23,579)
Net profit for the financial period		45,052	30,550	95,159	70,249
Basic earnings per share (sen)		3.84	2.60	8.11	6.46

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2013.

RHB ISLAMIC BANK BERHAD (680329 – V)
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INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Net profit for the financial period	<u>45,052</u>	30,550	<u>95,159</u>	70,249
Other comprehensive income/(loss):				
Items that will be reclassified subsequently to profit or loss				
Financial investments available-for-sale				
-Unrealised net (loss)/gain on revaluation	989	(13,347)	(6,517)	(12,224)
-Net transfer to income statement on disposal or impairment	145	(5,101)	2,501	(7,433)
Income tax relating to components of other comprehensive loss/(income)	<u>(285)</u>	4,612	<u>1,004</u>	4,914
Other comprehensive (loss)/income, net of tax, for the financial period	<u>849</u>	(13,836)	<u>(3,012)</u>	(14,743)
Total comprehensive income for the financial period	<u><u>45,901</u></u>	<u>16,714</u>	<u><u>92,147</u></u>	<u>55,506</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 2013.

RHB ISLAMIC BANK BERHAD (680329 – V)
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INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Share capital RM'000	Non distributable		Distributable	Total RM'000
		Statutory reserve RM'000	AFS reserves RM'000	Retained profits RM'000	
Balance as at 1 January 2014	1,173,424	441,609	(29,302)	441,401	2,027,132
Net profit for the financial period	-	-	-	95,159	95,159
Other comprehensive income/(loss):					
Financial investments available-for-sale					
- Unrealised net loss on revaluation	-	-	(6,517)	-	(6,517)
- Net transfer to income statement on disposal or impairment	-	-	2,501	-	2,501
Income tax relating to components of other comprehensive loss	-	-	1,004	-	1,004
Other comprehensive loss for the financial period	-	-	(3,012)	-	(3,012)
Total comprehensive income/(loss) for the financial period	-	-	(3,012)	95,159	92,147
Transfer to statutory reserves	-	47,579	-	(47,579)	-
Balance as at 30 June 2014	1,173,424	489,188	(32,314)	488,981	2,119,279

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RHB ISLAMIC BANK BERHAD (680329 – V)
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INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Share capital	Non distributable		Distributable	Total
		Statutory reserve	AFS reserves	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2013	973,424	358,359	3,739	358,151	1,693,673
Issuance of shares	200,000	-	-	-	200,000
Net profit for the financial period	-	-	-	70,249	70,249
Other comprehensive income/(loss):					
Financial investments available-for-sale					
- Unrealised net loss on revaluation	-	-	(12,224)	-	(12,224)
- Net transfer to income statement on disposal or impairment	-	-	(7,433)	-	(7,433)
Income tax relating to components of other comprehensive loss	-	-	4,914	-	4,914
Other comprehensive loss for the financial period	-	-	(14,743)	-	(14,743)
Total comprehensive income/(loss) for the financial period	-	-	(14,743)	70,249	55,506
Balance as at 30 June 2013	1,173,424	358,359	(11,004)	428,400	1,949,179

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2013.

RHB ISLAMIC BANK BERHAD (680329 – V)
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30 June 2014	30 June 2013
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	126,516	93,828
Adjustments for non-cash items:		
Operating profit before changes in working capital	<u>(61,666)</u>	<u>(52,761)</u>
Changes in working capital:		
Net changes in operating assets	(2,293,669)	(1,276,741)
Net changes in operating liabilities	<u>1,503,567</u>	<u>1,148,658</u>
Taxation paid	<u>(725,252)</u>	<u>(87,016)</u>
Net cash used in operating activities	<u>(747,217)</u>	<u>(107,764)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,557)	(1,136)
Purchase of intangible assets	(476)	(1,308)
Proceeds from disposal of property, plant and equipment	-	16
Net purchase of financial investments available-for-sale	(27,975)	(1,156,238)
Net redemption of financial investments held-to-maturity	(206,206)	(364,237)
Income received from financial investments available-for-sale	44,455	27,347
Income received from financial investments held-to-maturity	<u>40,885</u>	<u>34,758</u>
Net cash used in investing activities	<u>(150,874)</u>	<u>(1,460,798)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	200,000
Proceeds from issuance of subordinated sukuk	<u>500,000</u>	<u>-</u>
Net cash generated from financing activities	<u>500,000</u>	<u>200,000</u>
Net decrease in cash and cash equivalents	(398,091)	(1,368,562)
Cash and cash equivalents:		
- at the beginning of the financial period	<u>3,331,680</u>	<u>2,881,135</u>
- at the end of the financial period	<u>2,933,589</u>	<u>1,512,573</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	<u>2,933,589</u>	<u>1,512,573</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 2013.

RHB ISLAMIC BANK BERHAD (680329 – V)
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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

1 BASIS OF PREPARATION

The interim financial statements are unaudited and has been prepared in compliance with Malaysian Financial Reporting Standard ('MFRS') 134, 'Interim Financial Reporting' issued by Malaysian Accounting Standards Boards ('MASB') and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013.

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 2013, except for the adoption of the following relevant accounting standards, amendments to published accounting standards and interpretations to existing accounting standards which are effective from 1 January 2014:

Amendments to MFRS 10,12, and 127	Investment Entities
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

The adoption of the above accounting standards, amendments to published accounting standards and interpretations to existing accounting standards does not give rise to any material financial impact to the Bank.

2 AUDITORS' REPORT

The auditors' report for the financial year ended 31 December 2013 was not subject to any qualification.

3 SEASONAL OR CYCLICAL ITEMS

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 unusual items for the six months ended 30 June 2014.

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 six months ended 30 June 2014.

6 CHANGES IN DEBT AND EQUITY SECURITIES

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah under a RM1.0 billion Subordinated Sukuk Programme. The Subordinated Sukuk Murabahah, rated AA3 by RAM Rating Services Berhad, are issued for a tenure of 10 non-callable 5 years with a fixed profit rate of 4.95% per annum, payable semi-annually in arrears throughout the entire tenure. The Subordinated Sukuk Murabahah will qualify as Tier 2 capital of the Bank subject to compliance with the requirements as specified in the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by BNM on 28 November 2012.

Other than the above, there were no other issuances and repayments 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 has been paid during the six months ended 30 June 2014.

8 RESTRICTED PROFIT SHARING INVESTMENT ACCOUNTS (RPSIA)

These deposits are used to fund specific financing and follow the principle of Mudharabah which state that profits will be shared with the Bank as mudharib and losses borne by depositors.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

9 FINANCIAL ASSETS HELD-FOR-TRADING

	<u>As at 30 June 2014</u>	<u>As at 31 December 2013</u>
	RM'000	RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	123,572	23,077
Bank Negara Malaysia ('BNM') Monetary Notes	-	546,351
Negotiable Islamic Debt Certificates	-	198,686
Sukuk Perumahan Kerajaan	40,625	-
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Private debt securities	4,974	25,445
	<u>169,171</u>	<u>793,559</u>

10 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<u>As at 30 June 2014</u>	<u>As at 31 December 2013</u>
	RM'000	RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	512,913	524,168
Negotiable Islamic Debt Certificates	-	99,488
Wakala Global Sukuk	10,785	28,159
Khazanah Bonds	8,055	15,929
Cagamas Bonds	59,771	59,958
<u>Quoted securities:</u>		
<u>In Malaysia</u>		
Shares and warrants	-	701
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Private debt securities	1,606,450	1,450,104
Perpetual sukuk	200,587	200,619
	<u>2,398,561</u>	<u>2,379,126</u>
At cost		
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	575	575
	<u>2,399,136</u>	<u>2,379,701</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

11 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	747,181	843,915
Cagamas bonds	208,547	223,901
Khazanah bonds	27,862	8,981
Sukuk Perumahan Kerajaan	9,937	9,932
Islamic accepted bills	-	33,634
Negotiable Islamic Debts Certificates	797,640	645,860
 <u>Unquoted securities:</u>		
 <u>In Malaysia</u>		
Private debt securities	1,011,460	820,437
	2,802,627	2,586,660

RHB ISLAMIC BANK BERHAD (680329 – V)
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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

12 FINANCING AND ADVANCES

(i) By type

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
At amortised cost		
Cashline	214,385	173,544
Term financing:		
- housing financing	5,430,825	4,555,440
- syndicated term financing	220,680	439,831
- hire purchase receivables	5,266,507	4,921,395
- other term financing	7,942,634	6,254,242
Bills receivables	921,525	667,633
Trust receipts	24,932	36,094
Staff financing	5,519	5,717
Credit/charge cards receivables	217,184	199,631
Revolving financing	1,231,087	1,467,691
Gross financing and advances	21,475,278	18,721,218
Fair value changes arising from fair value hedge	(27,439)	(26,954)
Allowance for impaired financing and advances:		
- individual impairment allowance	(93,128)	(111,703)
- collective impairment allowance	(165,645)	(145,769)
Net financing and advances	21,189,066	18,436,792

- (a) Included in financing and advances are Restricted Profit Sharing Investment Accounts (RPSIA), as part of arrangement between the Bank and RHB Bank Berhad ('RHB Bank'). RHB Bank is exposed to risks and rewards on RPSIA financing and will account for all the allowances for impairment losses for impaired financing and advances arising thereon.

As at 30 June 2014, the gross RPSIA financing are RM2,950 million (31 December 2013: RM1,800 million) and the portfolio impairment allowance relating to this RPSIA amounting to RM24.5 million (31 December 2013: RM11.7 million) is recognised in the financial statements of RHB Bank. There was no individual impairment provided in this RPSIA financing.

- (b) Included in term financing are hire purchase receivable and other term financing sold to Cagamas amounting to RM1,222 million (31 December 2013: RM1,301 million).

(ii) By type of customer

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
Domestic non-bank financial institutions:		
- Others	897,701	1,328,956
Domestic business enterprise:		
- Small medium enterprise	840,020	742,141
- Others	4,310,914	2,598,087
Government and statutory bodies	3,315,673	3,316,244
Individuals	11,763,260	10,389,160
Other domestic entities	113,037	114,954
Foreign entities	234,673	231,676
Gross financing and advances	21,475,278	18,721,218

RHB ISLAMIC BANK BERHAD (680329 – V)
(Incorporated in Malaysia)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

12 FINANCING AND ADVANCES (CONTINUED)

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
(iii) By type of contract		
Bai' Bithaman Ajil ('BBA')	751,901	827,574
Ijarah	6,043,257	5,818,859
Murabahah	6,370,571	4,654,690
Musyarakah	4,703,867	3,761,123
Istisna'	19,950	19,950
Bai'Inah	3,317,962	3,318,452
Others	267,770	320,570
Gross financing and advances	<u>21,475,278</u>	<u>18,721,218</u>
(iv) By profit rate sensitivity		
Fixed rate:		
- Housing financing	723,507	790,063
- Hire-purchase receivables	5,266,507	4,921,395
- Other fixed rate financing	5,812,471	6,325,235
Variable rate:		
- BFR-plus	8,726,336	5,980,798
- Cost-plus	946,457	703,727
Gross financing and advances	<u>21,475,278</u>	<u>18,721,218</u>
(v) By purpose		
Purchase of transport vehicles	5,237,472	4,895,270
Purchase of landed property:		
- Residential	5,209,535	4,369,790
- Non-residential	871,145	557,030
Purchase of property, plant and equipment other than land and building	354,406	378,810
Personal use	1,215,332	1,087,020
Credit card	217,184	199,631
Purchase of consumer durables	8	10
Construction	71,905	166,600
Working capital	3,537,592	2,767,620
Other purposes	4,760,699	4,299,437
Gross financing and advances	<u>21,475,278</u>	<u>18,721,218</u>

Included in other purposes are financing to the Government of Malaysia ('GoM') and its related agency for the purpose of education and government's staff housing financing.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

12 FINANCING AND ADVANCES (CONTINUED)

	As at	As at
	30 June 2014	31 December 2013
	RM'000	RM'000
(vi) The remaining contractual maturities		
Maturing within one year	2,937,432	2,877,518
One to three years	1,500,050	1,187,452
Three to five years	2,761,239	3,115,704
Over five years	14,276,557	11,540,544
Gross financing and advances	<u>21,475,278</u>	<u>18,721,218</u>
(vii) Impaired financing and advances		
(a) Movement in gross impaired financing and advances are as follows:		
Balance as at the beginning of the financial period/year	431,267	409,064
Classified as impaired during the financial period/year	207,190	474,197
Amount recovered	(34,847)	(85,391)
Amount written off	(22,720)	(58,371)
Reclassified as non-impaired	(170,109)	(308,232)
Exchange differences	(1,481)	-
Balance as at the end of the financial period/year	<u>409,300</u>	<u>431,267</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

12 FINANCING AND ADVANCES (CONTINUED)

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
(vii) Impaired financing and advances (continued)		
(b) By purpose		
Purchase of transport vehicles	57,249	44,201
Purchase of landed property:		
- Residential	121,366	124,804
- Non-residential	18,923	27,295
Purchase of property, plant and equipment other than land and building	8,457	8,373
Personal use	3,482	2,843
Credit card	6,941	4,778
Construction	561	963
Working capital	128,515	154,027
Other purposes	63,806	63,983
Gross impaired financing and advances	<u>409,300</u>	<u>431,267</u>
(c) Movement in allowance for impaired financing and advances		
<u>Individual impairment allowance</u>		
Balance as at the beginning of the financial period/year	111,703	89,013
Net allowance (recovered)/made during the financial period/year	(15,090)	24,677
Amount written off	-	(6,637)
Transfer (to)/from collective impairment allowance	(3,485)	4,650
Balance as at the end of the financial period/year	<u>93,128</u>	<u>111,703</u>
<u>Collective impairment allowance</u>		
Balance as at the beginning of the financial period/year	145,769	177,774
Net allowance made during the financial period/year	29,935	6,522
Amount written off	(13,544)	(33,877)
Transfer from/(to) individual impairment allowance	3,485	(4,650)
Balance as at the end of the financial period/year	<u>165,645</u>	<u>145,769</u>
Collective impairment allowance (inclusive of regulatory reserve) as % of gross financing and advances (excluding RPSIA financing) less individual impairment allowance	<u>0.90%</u>	<u>0.87%</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

13 OTHER ASSETS

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
Prepayments	2,102	1,005
Deposits	1,218	1,213
Other debtors	102,778	45,913
	106,098	48,131

14 DEPOSITS FROM CUSTOMERS

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
<u>Non-Mudharabah Funds:</u>		
Demand deposits	2,946,441	2,090,486
Savings deposits	1,046,735	779,844
Commodity Murabahah	4,839,936	3,835,078
Wakalah Money Market Deposits	-	3,867
	8,833,112	6,709,275
<u>Mudharabah Funds:</u>		
Demand deposits	19,613	537,782
Savings deposits	-	156,497
General investment accounts	798,855	896,771
Special investment accounts	10,862,988	12,733,775
	20,514,568	21,034,100

- (a) The maturity structure of investment accounts, Commodity Murabahah, and Wakalah Money Market Deposits are as follows:

Due within six months	14,351,089	16,123,680
Six months to one year	2,127,316	1,327,556
One year to three years	19,284	9,328
Three years to five years	3,234	8,927
Over five years	857	-
	16,501,779	17,469,491

- (b) The deposits are sourced from the following classes of customers:

Government and statutory bodies	4,515,183	5,153,207
Business enterprises	12,250,709	12,930,945
Individuals	3,253,169	2,534,266
Others	495,507	415,682
	20,514,568	21,034,100

RHB ISLAMIC BANK BERHAD (680329 – V)
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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
<u>Non-Mudharabah Funds:</u>		
Licensed Islamic banks	205,035	349,464
Licensed banks	926,232	1,307,594
Licensed investment banks	198,677	-
Bank Negara Malaysia	709	604
	1,330,654	1,657,662
<u>Mudharabah Funds:</u>		
Licensed Islamic banks	-	260,150
Licensed banks	4,256,609	1,895,835
Other financial institutions	613,986	613,987
	6,201,249	4,427,634

16 OTHER LIABILITIES

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
Sundry creditors	13,314	8,665
Amount due to ultimate holding company	126	99
Amount due to immediate holding company	496,998	204,944
Short term employee benefits	7,506	13,090
Accrual for operational expenses	18,045	16,338
Other accruals and payables	100,826	54,624
	636,815	297,760

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17 INCOME DERIVED FROM INVESTMENTS OF DEPOSITORS' FUNDS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Income derived from investment of:				
(i) General investment deposit	12,338	11,275	23,144	20,989
(ii) Other deposits	296,676	259,797	568,943	513,634
	309,014	271,072	592,087	534,623
(i) Income derived from investment of general investments deposits:				
<u>Finance income and hibah</u>				
Financing and advances	9,330	8,663	17,703	15,607
Financial assets held-for-trading	76	134	98	234
Financial investments available-for-sale	830	694	1,579	1,230
Financial investments held-to-maturity	976	841	1,884	1,551
Money at call and deposits with banks and other financial institutions	1,022	686	1,717	1,818
Total finance income and hibah	12,234	11,018	22,981	20,440
Other operating income (note a to c)	104	257	163	549
	12,338	11,275	23,144	20,989
Of which:				
Financing income earned on impaired financing	144	356	286	362
Other operating income comprise of:				
(a) Fee income:				
- Commission	40	42	82	97
- Guarantee fees	25	17	39	28
	65	59	121	125
(b) Net gain/(loss) on disposal of financial assets held-for-trading	46	(3)	136	141
(c) Net (loss)/gain on disposal of financial investments available-for-sale	(7)	201	(94)	283
	104	257	163	549

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17 INCOME DERIVED FROM INVESTMENTS OF DEPOSITORS' FUNDS (CONTINUED)

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
	RM'000	RM'000	RM'000	RM'000
(ii) Income derived from investment of other deposits:				
<u>Finance income and hibah</u>				
Financing and advances	224,221	199,602	435,195	381,058
Financial assets held-for-trading	1,846	3,091	2,404	5,704
Financial investments available-for-sale	19,935	15,988	38,806	29,992
Financial investments held-to-maturity	23,442	19,386	46,320	37,951
Money at call and deposits with banks and other financial institutions	24,677	15,802	42,199	45,373
Total finance income and hibah	<u>294,121</u>	253,869	<u>564,924</u>	500,078
Other operating income (note a to c)	2,555	5,928	4,019	13,556
	<u>296,676</u>	<u>259,797</u>	<u>568,943</u>	<u>513,634</u>
Of which:				
Financing income earned on impaired financing	<u>3,448</u>	8,201	<u>7,024</u>	<u>15,886</u>
Other operating income comprise of:				
(a) Fee income:				
- Commission	981	970	2,027	2,397
- Guarantee fees	612	389	958	688
	<u>1,593</u>	1,359	<u>2,985</u>	<u>3,085</u>
(b) Net gain/(loss) on disposal of financial assets held-for-trading	1,087	(69)	3,352	3,685
(c) Net (loss)/gain on disposal of financial investments available-for-sale	(125)	4,638	(2,318)	6,786
	<u>962</u>	4,569	<u>1,034</u>	<u>3,685</u>
	<u>2,555</u>	<u>5,928</u>	<u>4,019</u>	<u>13,556</u>

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18 INCOME DERIVED FROM INVESTMENTS OF SHAREHOLDERS' FUNDS

	2nd Quarter Ended		Six Months Ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah</u>				
Financing and advances	12,252	11,260	22,944	19,840
Financial assets held-for-trading	99	174	127	298
Financial investments available-for-sale	1,090	902	2,046	1,564
Financial investments held-to-maturity	1,283	1,094	2,442	1,972
Money at call and deposits with banks and other financial institutions	1,337	891	2,225	2,289
Total finance income and hibah	16,061	14,321	29,784	25,963
Other operating income (note a to f)	19,868	11,957	31,177	25,330
	35,929	26,278	60,961	51,293
Of which:				
Financing income earned on impaired financing	189	463	370	470
Other operating income comprise of:				
(a) Fee income:				
- Commission	1,756	2,413	3,584	4,130
- Service charges and fees	15,080	10,096	24,074	20,870
- Guarantee and underwriting fees	703	557	1,096	895
	17,539	13,066	28,754	25,895
(b) Net gain/(loss) on financial assets held-for-trading	62	(4)	176	173
(c) Net loss on revaluation of derivatives	(1,263)	(2,101)	(5,169)	(4,615)
(d) Net gain on fair value hedges	641	480	2,166	2,063
(e) Net (loss)/gain on disposal of financial investments available-for-sale	(11)	262	(122)	364
(f) Other income				
- Foreign exchange gain	2,817	252	5,289	1,448
- Gain on disposal of property, plant and equipment	83	2	83	2
	2,900	254	5,372	1,450
	19,868	11,957	31,177	25,330

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19 ALLOWANCES FOR IMPAIRMENT ON FINANCING AND ADVANCES

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment on financing and advances:				
- Individual assessment allowance	(12,229)	1,212	(15,090)	798
- Collective assessment allowance	29,951	4,246	29,935	10,137
- Impaired financing recovered	(6,085)	(2,141)	(11,784)	(3,775)
- Impaired financing written off	1,918	18,381	9,342	23,640
	<u>13,555</u>	<u>21,698</u>	<u>12,403</u>	<u>30,800</u>

20 INCOME ATTRIBUTABLE TO DEPOSITORS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2014</u>	30 June 2013	<u>30 June 2014</u>	30 June 2013
	RM'000	RM'000	RM'000	RM'000
Deposits from customers:				
- Mudharabah funds	67,239	91,230	169,033	187,846
- Non-mudharabah funds	75,751	30,351	112,371	58,159
Deposits and placements of banks and financial institutions:				
- Mudharabah funds	42,810	27,476	63,751	54,482
- Non-mudharabah funds	7,783	8,292	16,954	15,822
Recourse obligation on financing sold to Cagamas	15,695	18,014	31,862	36,562
	<u>209,278</u>	<u>175,363</u>	<u>393,971</u>	<u>352,871</u>

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21 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its 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:

	As at 30 June 2014			As at 31 December 2013		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Transaction-related contingent items	100,288	50,144	37,229	102,870	51,435	34,486
Short term self-liquidating trade-related contingencies	91,697	18,339	18,318	103,292	20,658	20,472
Obligations under underwriting agreements	76,000	38,000	38,000	76,000	38,000	38,000
Irrevocable commitments to extend credit						
- maturity more than one year	4,573,368	2,151,088	1,807,594	2,784,786	1,271,522	987,619
- maturity less than one year	1,919,963	383,993	361,402	1,685,436	337,087	317,112
Foreign exchange related contracts:						
- less than one year	497,449	11,735	8,160	662,085	3,165	2,041
Profit rate related contracts:						
- less than one year	600,000	600	300	-	-	-
- one year to less than five years	3,125,000	103,403	46,499	3,425,000	105,607	52,803
- more than five years	300,000	18,279	9,140	-	-	-
Total	11,283,765	2,775,581	2,326,642	8,839,469	1,827,474	1,452,533

The credit equivalent and Risk Weighted Assets ('RWA') 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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22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank analyses its financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>30 June 2014</u>				
<u>Financial assets</u>				
Financial assets held-for-trading	-	169,171	-	169,171
- money market instruments	-	164,197	-	164,197
- unquoted securities	-	4,974	-	4,974
Financial investments available-for-sale	-	2,197,974	201,162	2,399,136
- money market instruments	-	591,524	-	591,524
- unquoted securities	-	1,606,450	201,162	1,807,612
Derivative assets				
- money market instruments	-	27,053	-	27,053
	-	2,394,198	201,162	2,595,360
<u>Financial liabilities</u>				
Derivative liabilities				
- money market instruments	-	6,352	-	6,352
<u>31 December 2013</u>				
<u>Financial assets</u>				
Financial assets held-for-trading	-	793,559	-	793,559
- money market instruments	-	768,114	-	768,114
- unquoted securities	-	25,445	-	25,445
Financial investments available-for-sale	701	2,177,806	201,194	2,379,701
- money market instruments	-	727,702	-	727,702
- quoted securities	701	-	-	701
- unquoted securities	-	1,450,104	201,194	1,651,298
Derivative assets				
- money market instruments	-	23,457	-	23,457
	701	2,994,822	201,194	3,196,717
<u>Financial liabilities</u>				
Derivative liabilities				
- money market instruments	-	7,240	-	7,240

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Valuation techniques and sensitivity analysis

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This would include quoted securities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons, non-transferable and non-tradable perpetual sukuk and impaired securities.

(ii) Reconciliation of movements in Level 3 financial instruments:

The following represents the changes in Level 3 instruments for the financial period/year ended 30 June 2014 and 31 December 2013 for the Bank.

Financial investments available-for-sale

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
Balance as at the beginning of the financial period/year	201,194	575
Purchases	5,902	200,619
Settlements	(5,934)	-
Balance as at the end of the financial period/year	201,162	201,194

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23 CAPITAL ADEQUACY

BNM guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

The capital adequacy ratios of the Bank are as follows:

	As at <u>30 June 2014</u> RM'000	As at <u>31 December 2013</u> RM'000
<u>Common Equity Tier-1 Capital (CET-1)/Tier 1 Capital</u>		
Paid-up ordinary share capital	1,173,424	1,173,424
Retained profits	488,981	441,401
Statutory reserve	489,188	441,609
Unrealised losses on AFS financial instruments	<u>(32,314)</u>	<u>(29,302)</u>
	2,119,279	2,027,132
Less:		
Deferred tax assets	(17,693)	(17,281)
Other intangibles	(2,529)	(5,580)
Ageing Reserves and Liquidity Reserve	(2)	(92)
Total CET-1/ Tier 1 Capital	<u>2,099,055</u>	<u>2,004,179</u>
<u>Tier II Capital</u>		
Subordinated obligations*	500,000	-
Collective impairment allowance [^]	<u>92,984</u>	<u>81,059</u>
Total Tier II Capital	<u>592,984</u>	<u>81,059</u>
Total Capital	<u>2,692,039</u>	<u>2,085,238</u>

* Qualify as Tier II capital as specified in the BNM's Capital Adequacy Framework for Islamic Banks (Capital Components).

[^] Excludes collective impairment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing".

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23 CAPITAL ADEQUACY (CONTINUED)

	As at 30 June 2014	As at 31 December 2013
	RM'000	RM'000
<u>Capital Ratios</u>		
CET 1 Capital Ratio	12.681%	13.864%
Tier 1 Capital Ratio	12.681%	13.864%
Total capital ratio (inclusive of market risk)	16.264%	14.425%
Risk-weighted assets by each major risk category are as follows:		
Credit risk-weighted assets	18,536,668	14,818,230
Credit risk-weighted assets absorbed by PSIA	(2,942,101)	(1,307,029)
Market risk-weighted assets	121,258	160,838
Operational risk-weighted assets	836,179	783,884
Total risk-weighted assets	16,552,004	14,455,923

In accordance with BNM's "Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts (RPSIA) which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 30 June 2014, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM2,942 million (31 December 2013:RM1,307 million).

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24 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

25 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There are no material events subsequent to the balance sheet date that have not been reflected in the financial statements.

26 CHANGES IN THE COMPOSITION OF THE BANK

There are no significant changes in the composition of the Bank for the six months ended 30 June 2014.

27 CHANGES IN PROFIT FOR THE QUARTER

The Bank reported a pre-tax profit of RM60.4 million for the current quarter, 8.6% lower as compared to the preceding quarter ended 31 March 2014. The lower profit is mainly attributed to higher allowances provided for impaired financing and advances by RM14.8 million, higher overhead expenses by RM2.0 million and higher impairment losses on other assets by RM1.1 million. These are offset with higher non funding income by RM9.7 million and higher net funding income by RM2.5 million.

28 PERFORMANCE REVIEW

For the six months ended 30 June 2014, the Bank recorded a pre-tax profit of RM126.5 million, 34.8% higher than previous year corresponding period of RM93.8 million. This was as a result of higher net funding income by RM30.1 million, lower impaired financing and advances by RM18.4 million and recovered impairment losses on other assets by RM0.8 million. These are offset against higher overhead expenses by RM12.6 million and lower non funding income by RM4.0 million.

29 PROSPECTS FOR 2014

After a soft patch in Q1 2014, the global economy has returned to its recovery path resulting in enhanced economic activities and global trade. This should support growth for an open economy like Malaysia. The Malaysian economy expanded by 6.3% in first half of 2014 underpinned by higher external trades and continued strength in private domestic demand. Private investment activities in Malaysia are expected to stay robust, driven by the implementation of large infrastructure related projects under the Economic Transformation Programme.

Monetary policy also remains accommodative despite Bank Negara Malaysia raising the Overnight Policy Rates recently. Malaysia's economy is expected to be on a firm and steady growth path and the official Gross Domestic Product is forecasted to expand by 4.5%-5.5% in 2014.

The RHB Banking Group has successfully launched several initiatives under the IGNITE 2017 transformation programme during 2014. This provides a strong foundation for the positive momentum of the transformation programme which aims to grow the RHB Banking Group into a leading multinational financial services group by 2020.

Barring unforeseen circumstances, the Bank expects 2014 performance to be better than 2013.