

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

**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

	Note	As at <b>30 June 2019</b> RM'000	As at 31 December 2018 RM'000
<b>ASSETS</b>			
Cash and short-term funds		7,104,949	3,463,278
Securities purchased under resale agreements	9	2,160,155	926,125
Deposits and placements with banks and other financial institutions		166,575	-
Financial assets at fair value through profit or loss ('FVTPL')	10	-	274,226
Financial assets at fair value through other comprehensive income ('FVOCI')	11	5,066,875	4,150,325
Financial investments at amortised cost	12	2,908,592	2,856,789
Financing and advances	13	55,747,086	51,813,230
Other assets	14	313,366	477,535
Derivative assets		93,065	204,543
Statutory deposits with Bank Negara Malaysia		1,709,000	1,420,450
Deferred tax assets		-	23,241
Right of use assets		4,111	-
Property, plant and equipment		4,106	4,251
Intangible assets		4,116	4,529
<b>TOTAL ASSETS</b>		<b>75,281,996</b>	<b>65,618,522</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from customers	15	54,265,139	45,732,352
Deposits and placements of banks and other financial institutions	16	3,865,124	4,403,721
Investment account due to designated financial institutions	17	8,212,992	7,898,611
Bills and acceptances payable		10,677	9,515
Other liabilities	18	1,313,265	281,558
Derivative liabilities		135,155	211,555
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')		2,270,092	2,270,239
Provision for tax and zakat		35,282	8,376
Deferred tax liabilities		7,669	-
Lease liabilities		4,246	-
Subordinated obligations		754,532	755,326
<b>TOTAL LIABILITIES</b>		<b>70,874,173</b>	<b>61,571,253</b>
Share capital		1,673,424	1,673,424
Reserves		2,734,399	2,373,845
<b>TOTAL EQUITY</b>		<b>4,407,823</b>	<b>4,047,269</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>75,281,996</b>	<b>65,618,522</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	25	<b>31,259,654</b>	<b>23,133,354</b>

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2018.

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

**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Note	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
		<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Income derived from investment of depositors' funds	19	<b>694,602</b>	577,708	<b>1,363,860</b>	1,126,410
Income derived from investment account funds	20	<b>107,692</b>	106,242	<b>214,888</b>	210,086
Income derived from investment of shareholders' funds	21	<b>57,942</b>	46,928	<b>103,017</b>	104,289
Allowance for credit losses	22	<b>12,477</b>	(33,654)	<b>8,175</b>	(55,752)
Total distributable income		<b>872,713</b>	697,224	<b>1,689,940</b>	1,385,033
Income attributable to depositors	23	<b>(489,294)</b>	(392,414)	<b>(956,274)</b>	(745,640)
Profit distributed to investment account holders		<b>(84,555)</b>	(87,511)	<b>(169,702)</b>	(173,253)
		<b>298,864</b>	217,299	<b>563,964</b>	466,140
Personnel expenses		<b>(7,775)</b>	(7,383)	<b>(16,758)</b>	(16,264)
Other overheads and expenditures		<b>(87,074)</b>	(83,972)	<b>(187,966)</b>	(175,074)
Profit before taxation and zakat		<b>204,015</b>	125,944	<b>359,240</b>	274,802
Taxation and zakat		<b>(49,688)</b>	(30,813)	<b>(87,067)</b>	(66,173)
Net profit for the financial period		<b>154,327</b>	95,131	<b>272,173</b>	208,629
Basic earnings per share (sen)	24	<b>9.22</b>	5.68	<b>16.26</b>	13.66

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2018.

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

**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	30 June 2018	<u>30 June 2019</u>	30 June 2018
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Net profit for the financial period	<u>154,327</u>	95,131	<u>272,173</u>	208,629
Other comprehensive income/(loss) in respect of:				
Items that will be reclassified subsequently to profit or loss:				
(a) Debt instruments measured at FVOCI:				
- Unrealised net gain/(loss)	50,313	(22,596)	123,224	(15,785)
- Net transfer to income statement on disposal	(1,880)	(566)	(5,303)	(653)
- Changes in expected credit losses	(563)	(633)	(1,132)	(512)
Income tax relating to components of other comprehensive (income)/loss	(11,624)	5,559	(28,301)	3,945
Other comprehensive income/(loss), net of tax, for the financial period	<u>36,246</u>	(18,236)	<u>88,488</u>	(13,005)
Total comprehensive income for the financial period	<u>190,573</u>	76,895	<u>360,661</u>	195,624

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2018.

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

**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Note	Share capital RM'000	Non distributable		Distributable	Total RM'000
		FVOCI reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
<b>Balance as at 1 January 2019</b>					
- As previously reported	1,673,424	1,898	358,054	2,013,893	4,047,269
- Effect of adoption of MFRS 16	-	-	-	(107)	(107)
- As restated	1,673,424	1,898	358,054	2,013,786	4,047,162
Net profit for the financial period	-	-	-	272,173	272,173
Other comprehensive income/(loss):					
Debt instruments:					
- Unrealised net gain	-	123,224	-	-	123,224
- Net transfer to income statement on disposal	-	(5,303)	-	-	(5,303)
- Changes in expected credit losses	-	(1,132)	-	-	(1,132)
Income tax relating to components of other comprehensive income	-	(28,301)	-	-	(28,301)
Other comprehensive income, net of tax, for the financial period	-	88,488	-	-	88,488
Total comprehensive income for the financial period	-	88,488	-	272,173	360,661
Transfer to regulatory reserve	-	-	71,977	(71,977)	-
<b>Balance as at 30 June 2019</b>	<b>1,673,424</b>	<b>90,386</b>	<b>430,031</b>	<b>2,213,982</b>	<b>4,407,823</b>

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2018.

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

**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Note	Share capital RM'000	Non distributable		Distributable	Total RM'000
		FVOCI reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
<b>Balance as at 1 January 2018</b>	1,273,424	(10,750)	321,442	1,615,672	3,199,788
Net profit for the financial period	-	-	-	208,629	208,629
Other comprehensive income/(loss):					
Debt instruments:					
- Unrealised net loss	-	(15,785)	-	-	(15,785)
- Net transfer to income statement on disposal	-	(653)	-	-	(653)
- Changes in expected credit losses		(512)			(512)
Income tax relating to components of other comprehensive loss	-	3,945	-	-	3,945
Other comprehensive loss, net of tax, for the financial period	-	(13,005)	-	-	(13,005)
Total comprehensive income/(loss) for the financial period	-	(13,005)	-	208,629	195,624
Issuance of shares	400,000	-	-	-	400,000
Transfer to regulatory reserve	-	-	14,957	(14,957)	-
<b>Balance as at 30 June 2018</b>	<b>1,673,424</b>	<b>(23,755)</b>	<b>336,399</b>	<b>1,809,344</b>	<b>3,795,412</b>

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2018.

**RHB ISLAMIC BANK BERHAD (680329 – V)**  
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**INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Six months ended	
	30 June 2019	30 June 2018
	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	359,240	274,802
Adjustments for non-cash items	<u>(163,316)</u>	<u>(53,981)</u>
Operating profit before changes in working capital	195,924	220,821
Changes in working capital:		
Net changes in operating assets	(5,163,622)	(1,972,483)
Net changes in operating liabilities	<u>9,373,128</u>	<u>2,772,993</u>
Cash generated from operations	4,405,430	1,021,331
Profit paid	(18,485)	-
Zakat paid	(2,045)	(250)
Tax paid	<u>(55,472)</u>	<u>(52,292)</u>
Net cash generated from operating activities	<u>4,329,428</u>	<u>968,789</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(636)	(325)
Purchase of intangible assets	(298)	(312)
Net purchase of financial assets at FVOCI	(785,976)	(53,639)
Net (purchase)/redemption of financial investments at amortised cost	(49,518)	456,830
Income received from financial assets at FVOCI	79,260	70,638
Income received from financial investments at amortised cost	<u>71,200</u>	<u>53,078</u>
Net cash (used in)/generated from investing activities	<u>(685,968)</u>	<u>526,270</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	-	400,000
Issuance of subordinated sukuk	500,000	-
Redemption of subordinated sukuk	(500,000)	-
Principal lease payment	<u>(1,789)</u>	<u>-</u>
Net cash (used in)/generated from financing activities	<u>(1,789)</u>	<u>400,000</u>
Net increase in cash and cash equivalents	3,641,671	1,895,059
Cash and cash equivalents at the beginning of the financial period	<u>3,463,278</u>	<u>2,029,638</u>
Cash and cash equivalents at the end of the financial period	<u>7,104,949</u>	<u>3,924,697</u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Cash and short-term funds	<u>7,104,949</u>	<u>3,924,697</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 2018.

**RHB ISLAMIC BANK BERHAD (680329 – V)**  
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

**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 Board ('MASB') and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

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 2018, except for the adoption of the following:

- (a) Accounting standards, annual improvements and amendments to MFRS which are effective for annual periods beginning on or after 1 January 2019:
- MFRS 16 'Leases'
  - Annual Improvements to MFRS 2015-2017 Cycle:
    - Amendments to MFRS 112 'Income Taxes'
    - Amendments to MFRS 123 'Borrowing Costs'
  - Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
  - IC Interpretation 23 'Uncertainty over Income Tax Treatments'

The adoption of the above accounting standards, annual improvements and amendments do not give rise to any material financial impact to the Bank other than the effects and change in accounting policy arising from the adoption of MFRS 16 as disclosed in Note 36.

**2 AUDITORS' REPORT**

The auditors' report for the financial year ended 31 December 2018 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 2019.

**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 2019.

**6 CHANGES IN DEBT AND EQUITY SECURITIES**

The Bank had on 15 May 2019, fully redeemed RM500 million in nominal value of Subordinated Sukuk Murabahah issued in 2014 ('Redeemed Subordinated Sukuk').

In addition, the Bank had on 21 May 2019 issued Subordinated Sukuk Murabahah ('Subordinated Sukuk Murabahah') of RM500 million in nominal value to replenish the Redeemed Subordinated Sukuk. The Subordinated Sukuk Murabahah is issued for a tenure of 10 non-callable 5 years with a fixed profit rate of 4.32% per annum, payable semi-annually in arrears throughout the entire tenure.

Other than as disclosed 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 six months ended 30 June 2019.

**7 DIVIDENDS PAID**

No dividend has been paid during the six months ended 30 June 2019.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

8 INVESTMENT ACCOUNT ('IA')

IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act 2013, the priority payment for IA upon liquidation of Islamic Financial Institution ('IFI') is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders. IA is further categorised to Restricted Investment Account ('RIA') and Unrestricted Investment Account ('URIA').

RIA refers to a type of investment account where the Investment Account Holder ('IAH') provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment while URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

IA are contracts based on the Shariah concept below:

- Mudharabah between two parties, customer and the Bank, to finance a business venture where the customer provides capital and the business venture is managed solely by the Bank. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by customers.
- Details of the IA are as disclosed in Note 17.

9 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	As at 30 June 2019 RM'000	As at 31 December 2018 RM'000
<b>At amortised cost</b>		
Malaysian Government Investment Issues	2,160,155	926,125

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')

	As at 30 June 2019 RM'000	As at 31 December 2018 RM'000
<b>At fair value</b>		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	-	274,226

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	As at 30 June 2019 RM'000	As at 31 December 2018 RM'000
<b>At fair value</b>		
Debt instruments	5,066,875	4,150,325
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	1,591,103	1,032,474
Khazanah bonds	-	9,762
Cagamas bonds	10,207	10,144
Negotiable Islamic debt certificates	346,968	198,834
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Corporate sukuk	3,092,984	2,873,629
<u>Outside Malaysia</u>		
Corporate sukuk	25,613	25,482
	5,066,875	4,150,325



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI') (CONTINUED)

(a) Movement in allowance for credit losses recognised in FVOCI reserve

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
<b>30 June 2019</b>				
Balance as at the beginning of the financial period	5,090	307	-	5,397
Allowance written back during the financial period	(825)	(307)	-	(1,132)
Balance as at the end of the financial period	<u>4,265</u>	<u>-</u>	<u>-</u>	<u>4,265</u>
<b>31 December 2018</b>				
Balance as at the beginning of the financial year	5,179	-	-	5,179
Allowance made/(written back) during the financial year	(89)	307	-	218
Balance as at the end of the financial year	<u>5,090</u>	<u>307</u>	<u>-</u>	<u>5,397</u>

12 FINANCIAL INVESTMENTS AT AMORTISED COST

	As at 30 June 2019 RM'000	As at 31 December 2018 RM'000
<b>At amortised cost</b>		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	187,787	188,059
Sukuk Perumahan Kerajaan	10,005	10,000
Khazanah bonds	23,266	22,770
Cagamas bonds	112,468	218,325
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Corporate sukuk	2,578,417	2,423,785
	<u>2,911,943</u>	<u>2,862,939</u>
Allowance for credit losses	(3,351)	(6,150)
	<u>2,908,592</u>	<u>2,856,789</u>

Included in financial investments at amortised cost are securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank Berhad ('RHB Bank'), its holding company. Gross exposure to RIA financing as at 30 June 2019 was RM753,775,000 (31 December 2018: RM693,775,000).

(a) Movement in allowance for credit losses

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
<b>30 June 2019</b>				
Balance as at the beginning of the financial period	3,897	2,253	-	6,150
Allowance written back during the financial period	(1,012)	(1,787)	-	(2,799)
Balance as at the end of the financial period	<u>2,885</u>	<u>466</u>	<u>-</u>	<u>3,351</u>
<b>31 December 2018</b>				
Balance as at the beginning of the financial year	1,708	1,318	-	3,026
Allowance made during the financial year	2,189	935	-	3,124
Balance as at the end of the financial year	<u>3,897</u>	<u>2,253</u>	<u>-</u>	<u>6,150</u>

**RHB ISLAMIC BANK BERHAD (680329 – V)**  
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

13 FINANCING AND ADVANCES

<b>30 June 2019</b>	<b>Bai' Bithaman Ajil ('BBA')</b>	<b>Ijarah</b>	<b>Murabahah</b>	<b>Musyarakah</b>	<b>Bai'Inah</b>	<b>Others</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>							
Cashline	-	-	702,445	-	-	28,753	731,198
Term financing:							
- Housing financing	362,227	-	4,030,542	12,634,991	-	658	17,028,418
- Syndicated term financing	-	64,183	1,889,430	-	-	19,166	1,972,779
- Hire purchase receivables	-	7,530,478	-	-	-	57,076	7,587,554
- Other term financing	744	166,979	21,508,368	-	1,509,906	2,605	23,188,602
Bills receivables	-	-	974,908	-	-	298	975,206
Trust receipts	-	-	26,633	-	-	-	26,633
Staff financing	2,179	-	-	-	-	-	2,179
Credit/charge card receivables	-	-	-	-	-	281,561	281,561
Revolving financing	-	-	4,303,830	-	-	-	4,303,830
Gross financing and advances	<b>365,150</b>	<b>7,761,640</b>	<b>33,436,156</b>	<b>12,634,991</b>	<b>1,509,906</b>	<b>390,117</b>	<b>56,097,960</b>
Fair value changes arising from fair value hedge							<b>5,813</b>
							<b>56,103,773</b>
Allowance for credit losses on financing and advances							<b>(356,687)</b>
Net financing and advances							<b>55,747,086</b>

**RHB ISLAMIC BANK BERHAD (680329 – V)**  
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

13 FINANCING AND ADVANCES (CONTINUED)

<b>31 December 2018</b>	<b>Bai' Bithaman Ajil ('BBA')</b>	<b>Ijarah</b>	<b>Murabahah</b>	<b>Musyarakah</b>	<b>Bai'Inah</b>	<b>Others</b>	<b>Total</b>
<b>At amortised cost</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cashline	-	-	642,459	-	-	46,474	688,933
Term financing:							
- Housing financing	389,062	-	2,734,472	12,223,037	-	470	15,347,041
- Syndicated term financing	-	69,044	2,042,604	-	-	18,551	2,130,199
- Hire purchase receivables	-	7,192,178	-	-	-	53,901	7,246,079
- Other term financing	782	187,024	19,734,078	-	1,509,993	3,572	21,435,449
Bills receivables	-	-	1,037,358	-	-	3,056	1,040,414
Trust receipts	-	-	22,368	-	-	254	22,622
Staff financing	2,291	-	-	-	-	-	2,291
Credit/charge card receivables	-	-	-	-	-	284,170	284,170
Revolving financing	-	-	4,056,999	-	-	-	4,056,999
Gross financing and advances	392,135	7,448,246	30,270,338	12,223,037	1,509,993	410,448	52,254,197
Fair value changes arising from fair value hedge							(17,879)
							52,236,318
Allowance for credit losses on financing and advances							(423,088)
Net financing and advances							<u>51,813,230</u>

**RHB ISLAMIC BANK BERHAD (680329 – V)**  
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

13 FINANCING AND ADVANCES (CONTINUED)

- (a) Included in financing and advances are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank.

As at 30 June 2019, the gross exposure to RIA financing is RM7,367,722,000 (31 December 2018: RM7,122,927,000) and the portfolio expected credit losses for financing and advances relating to RIA amounting to RM126,468,000 (31 December 2018: RM143,813,000) is recognised in the financial statements of RHB Bank. There is no Stage 3 expected credit losses being made for such RIA financing.

- (b) Included in term financing are housing financing sold to Cagamas amounting to RM2,161,274,000 (31 December 2018: RM2,203,000,000).

(i) By type of customer	As at 30 June 2019 RM'000	As at 31 December 2018 RM'000
Domestic non-bank financial institutions:		
- Others	2,338,482	2,244,410
Domestic business enterprises:		
- Small medium enterprises	4,830,064	4,177,511
- Others	12,033,649	12,365,324
Government and statutory bodies	5,075,410	5,024,919
Individuals	31,315,808	27,963,814
Other domestic entities	126,306	129,993
Foreign entities	378,241	348,226
	<b>56,097,960</b>	<b>52,254,197</b>

- (ii) By profit rate sensitivity

Fixed rate:		
- Housing financing	362,352	389,190
- Hire-purchase receivables	2,736,558	3,269,651
- Other fixed rate financing	5,380,946	6,968,025
Variable rate:		
- Base financing rate-plus	45,179,830	39,100,659
- Cost-plus	2,438,274	2,526,672
	<b>56,097,960</b>	<b>52,254,197</b>

- (iii) By economic sector

Agriculture, hunting, forestry and fishing	955,165	1,073,247
Mining and quarrying	115,324	243,067
Manufacturing	1,348,877	1,281,161
Electricity, gas and water	172,354	173,961
Construction	4,177,747	4,091,139
Wholesale and retail trade and restaurant and hotel	1,604,551	1,516,641
Transport, storage and communication	4,491,395	4,715,600
Real estate	1,281,438	992,581
Finance, insurance and business services	4,756,752	4,444,028
Government and government agencies	3,514,414	3,514,858
Education, health and others	1,933,717	1,935,475
Household sector	31,499,164	28,084,205
Others	247,062	188,234
	<b>56,097,960</b>	<b>52,254,197</b>

- (iv) By purpose

Purchase of securities	3,983,372	2,884,807
Purchase of transport vehicles	7,556,992	7,217,259
Purchase of landed property:		
- Residential	16,034,615	14,489,096
- Non-residential	3,752,541	3,587,570
Purchase of property, plant and equipment other than land and building	497,075	521,325
Personal use	3,834,825	3,540,743
Credit card	281,561	284,170
Construction	1,355,391	1,240,741
Working capital	11,608,152	11,763,783
Merger and acquisition	1,252,383	1,252,698
Other purposes	5,941,053	5,472,005
	<b>56,097,960</b>	<b>52,254,197</b>

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13 FINANCING AND ADVANCES (CONTINUED)

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	<u>RM'000</u>	<u>RM'000</u>
(v) By geographical distribution		
In Malaysia	<u><b>56,097,960</b></u>	<u>52,254,197</u>
(vi) By remaining contractual maturities		
Maturing within one year	<b>6,641,839</b>	6,519,750
One to three years	<b>3,805,059</b>	3,717,980
Three to five years	<b>8,089,031</b>	5,912,468
Over five years	<u><b>37,562,031</b></u>	<u>36,103,999</u>
	<u><b>56,097,960</b></u>	<u>52,254,197</u>
(vii) Impaired financing and advances		
(a) Movement in impaired financing and advances		
Balance as at the beginning of the financial period/year	<b>509,183</b>	464,974
Transfer to 12-month ECL (Stage 1)	<b>(18,010)</b>	(53,484)
Transfer to Lifetime ECL not credit impaired (Stage 2)	<b>(37,607)</b>	(35,399)
Transfer to Lifetime ECL credit impaired (Stage 3)	<b>166,592</b>	204,163
Purchases and origination	<b>17,144</b>	54,516
Derecognition	<b>(105,182)</b>	(57,374)
Amount written off	<b>(69,766)</b>	(68,213)
Balance as at the end of the financial period/year	<u><b>462,354</b></u>	<u>509,183</u>
(b) By economic sector		
Agriculture, hunting, forestry and fishing	<b>357</b>	356
Mining and quarrying	<b>1,275</b>	1,588
Manufacturing	<b>26,446</b>	31,550
Electricity, gas and water	<b>57,699</b>	57,120
Construction	<b>43,865</b>	83,903
Wholesale and retail trade and restaurant and hotel	<b>36,577</b>	63,362
Transport, storage and communication	<b>13,082</b>	9,799
Real estate	<b>6,679</b>	6,693
Finance, insurance and business services	<b>24,033</b>	20,336
Education, health and others	<b>6,743</b>	8,452
Household sector	<u><b>245,598</b></u>	<u>226,024</u>
	<u><b>462,354</b></u>	<u>509,183</u>
(c) By geographical distribution		
In Malaysia	<u><b>462,354</b></u>	<u>509,183</u>

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13 FINANCING AND ADVANCES (CONTINUED)

(vii) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
<b>30 June 2019</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at the beginning of the financial period	73,615	116,254	233,219	423,088
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	23,896	(18,208)	(5,688)	-
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(9,825)	22,277	(12,452)	-
- Transferred to Lifetime ECL credit impaired (Stage 3)	(327)	(3,498)	3,825	-
	<b>13,744</b>	<b>571</b>	<b>(14,315)</b>	<b>-</b>
Allowance (written back)/made during the financial period	(11,701)	5,252	31,631	25,182
Bad debts written off	-	-	(59,927)	(59,927)
Derecognised during the financial period	(3,265)	(13,024)	(15,367)	(31,656)
Balance as at the end of the financial period	<b>72,393</b>	<b>109,053</b>	<b>175,241</b>	<b>356,687</b>

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13 FINANCING AND ADVANCES (CONTINUED)

(vii) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

	<b>12-month ECL (Stage 1)</b>	<b>Lifetime ECL not credit impaired (Stage 2)</b>	<b>Lifetime ECL credit impaired (Stage 3)</b>	<b>Total</b>
<b>31 December 2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at the beginning of the financial year	53,225	105,450	217,603	376,278
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	34,882	(22,784)	(12,098)	-
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(13,222)	20,844	(7,622)	-
- Transferred to Lifetime ECL credit impaired (Stage 3)	(679)	(5,966)	6,645	-
	20,981	(7,906)	(13,075)	-
Allowance made during the financial year	10,513	31,760	122,537	164,810
Bad debts written off	-	-	(59,852)	(59,852)
Derecognised during the financial year	(11,104)	(13,050)	(33,994)	(58,148)
Balance as at the end of the financial year	<u>73,615</u>	<u>116,254</u>	<u>233,219</u>	<u>423,088</u>

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14 OTHER ASSETS

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	RM'000	RM'000
Prepayments	26,819	23,288
Deposits	1,550	1,591
Other receivables	284,997	452,656
	<u>313,366</u>	<u>477,535</u>

15 DEPOSITS FROM CUSTOMERS

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	RM'000	RM'000
<u>Savings Deposits</u>		
Wadiah	1,543,825	1,451,012
<u>Demand Deposits</u>		
Wadiah	8,178,362	5,161,736
Commodity Murabahah	-	231,130
<u>Term Deposits</u>		
Commodity Murabahah	37,620,862	29,045,477
<u>Specific Investment Account</u>		
Commodity Murabahah	6,816,417	9,730,411
<u>General Investment Account</u>		
Mudharabah	105,673	112,586
	<u>54,265,139</u>	<u>45,732,352</u>

(a) The maturity structure of investment accounts and term deposits are as follows:

Due within six months	30,779,729	28,151,327
Six months to one year	10,087,551	10,463,407
One year to three years	3,192,830	182,817
Three years to five years	482,842	90,923
	<u>44,542,952</u>	<u>38,888,474</u>

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

Government and statutory bodies	10,564,317	6,451,380
Business enterprises	27,365,444	26,158,852
Individuals	15,949,632	12,717,486
Others	385,746	404,634
	<u>54,265,139</u>	<u>45,732,352</u>



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16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	<u>RM'000</u>	<u>RM'000</u>
<u>Non-Mudharabah Funds:</u>		
Licensed Islamic banks	1,971,656	1,598,865
Licensed banks	1,396,345	2,764,399
Licensed investment banks	99,136	-
Bank Negara Malaysia	47,324	40,457
	<u>3,514,461</u>	<u>4,403,721</u>
<u>Mudharabah Funds:</u>		
Other financial institutions	350,663	-
	<u>3,865,124</u>	<u>4,403,721</u>

17 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	<u>RM'000</u>	<u>RM'000</u>
<u>Restricted Investment Account:</u>		
Mudharabah	<u>8,212,992</u>	<u>7,898,611</u>
<u>By type of counterparty:</u>		
Licensed banks	<u>8,212,992</u>	<u>7,898,611</u>
<u>Investment asset (principal):</u>		
Personal financing	1,000,000	700,000
Other term financing	6,367,722	6,422,927
Unquoted securities (Note 12)	753,775	693,775
	<u>8,121,497</u>	<u>7,816,702</u>

The entire restricted investment account is placed by the holding company, RHB Bank.

18 OTHER LIABILITIES

	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
	<u>RM'000</u>	<u>RM'000</u>
Sundry creditors	7,427	4,996
Amount due to holding company	440,287	205,700
Amount due to other related companies	259	111
Deferred income	13,286	19,418
Short term employee benefits	3,510	5,830
Accrual for operational expenses	10,042	11,476
Other accruals and payables	838,454	34,027
	<u>1,313,265</u>	<u>281,558</u>

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19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Income derived from investment of:				
(i) General investment deposits	<b>1,396</b>	1,667	<b>2,839</b>	3,335
(ii) Other deposits	<b>693,206</b>	576,041	<b>1,361,021</b>	1,123,075
	<b>694,602</b>	577,708	<b>1,363,860</b>	1,126,410
(i) Income derived from investment of general investment deposits:				
Financing and advances	<b>1,166</b>	1,395	<b>2,355</b>	2,764
Securities purchased under resale agreements	<b>18</b>	1	<b>39</b>	27
Financial assets at FVTPL	<b>3</b>	4	<b>8</b>	6
Financial assets at FVOCI	<b>104</b>	99	<b>208</b>	202
Financial investments at amortised cost	<b>48</b>	59	<b>97</b>	137
Money at call and deposits with banks and other financial institutions	<b>44</b>	101	<b>94</b>	179
Total finance income and hibah	<b>1,383</b>	1,659	<b>2,801</b>	3,315
Other operating income (Note a)	<b>13</b>	8	<b>38</b>	20
	<b>1,396</b>	1,667	<b>2,839</b>	3,335
Of which:				
Financing income earned on impaired financing	<b>3</b>	8	<b>10</b>	16
(a) Other operating income comprise of:				
Fee income:				
- Commission	<b>4</b>	5	<b>9</b>	12
- Guarantee fees	<b>2</b>	3	<b>4</b>	7
	<b>6</b>	8	<b>13</b>	19
Net loss on revaluation of financial assets at FVTPL	<b>(3)</b>	(3)	<b>(1)</b>	(1)
Net gain on disposal of financial assets at FVTPL	<b>7</b>	1	<b>15</b>	-
Net gain on disposal of financial assets at FVOCI	<b>3</b>	2	<b>11</b>	2
	<b>13</b>	8	<b>38</b>	20

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

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	30 June 2018	<u>30 June 2019</u>	30 June 2018
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
(ii) Income derived from investment of other deposits:				
Financing and advances	578,849	481,709	1,128,697	930,219
Securities purchased under resale agreements	8,975	802	18,863	9,372
Financial assets at FVTPL	1,511	1,165	3,978	1,868
Financial assets at FVOCI	51,469	34,379	99,607	68,131
Financial investments at amortised cost	24,167	20,564	46,690	46,235
Money at call and deposits with banks and other financial institutions	21,661	34,678	44,979	60,286
Total finance income and hibah	<u>686,632</u>	573,297	<u>1,342,814</u>	1,116,111
Other operating income (Note a)	<u>6,574</u>	2,744	<u>18,207</u>	6,964
	<u><b>693,206</b></u>	<u>576,041</u>	<u><b>1,361,021</b></u>	<u>1,123,075</u>
Of which:				
Financing income earned on impaired financing	<u>1,645</u>	2,887	<u>4,930</u>	5,313
(a) Other operating income comprise of:				
Fee income:				
- Commission	1,864	1,889	4,246	4,174
- Guarantee fees	955	985	1,741	2,238
	<u>2,819</u>	2,874	<u>5,987</u>	6,412
Net loss on revaluation of financial assets at FVTPL	(1,746)	(678)	(301)	(4)
Net gain/(loss) on disposal of financial assets at FVTPL	3,682	-	7,395	(76)
Net gain on disposal of financial assets at FVOCI	1,819	548	5,126	632
	<u>6,574</u>	2,744	<u>18,207</u>	6,964

20 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	30 June 2018	<u>30 June 2019</u>	30 June 2018
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Financing and advances	96,437	92,070	192,504	182,611
Financial investments at amortised cost	11,255	14,172	22,384	27,474
Money at call and deposits with banks and other financial institutions	-	-	-	1
Total finance income and hibah	<u>107,692</u>	106,242	<u>214,888</u>	210,086

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21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	30 June 2018	<u>30 June 2019</u>	30 June 2018
	<u>RM'000</u>	RM'000	<u>RM'000</u>	RM'000
Financing and advances	18,432	14,069	36,650	28,430
Securities purchased under resale agreements	285	12	613	286
Financial assets at FVTPL	47	35	129	57
Financial assets at FVOCI	1,639	1,002	3,234	2,083
Financial investments at amortised cost	770	591	1,516	1,413
Money at call and deposits with banks and other financial institutions	688	1,023	1,461	1,843
Total finance income and hibah	<u>21,861</u>	16,732	<u>43,603</u>	34,112
Other operating income (Note a)	<u>36,081</u>	30,196	<u>59,414</u>	70,177
	<u><b>57,942</b></u>	<u>46,928</u>	<u><b>103,017</b></u>	<u>104,289</u>
Of which:				
Financing income earned on impaired financing	<u>51</u>	85	<u>160</u>	78
(a) Other operating income comprise of:				
Fee income:				
- Commission	11,093	9,080	20,489	16,944
- Guarantee and underwriting fees	31	28	57	68
- Service charges and fees	25,299	17,628	39,897	30,350
	<u>36,423</u>	26,736	<u>60,443</u>	47,362
Net loss on revaluation of financial assets at FVTPL	(58)	(22)	(10)	-
Net gain/(loss) on disposal of financial assets at FVTPL	117	-	240	(2)
Net gain on disposal of financial investments at FVOCI	56	16	166	19
Net loss on revaluation of derivatives	(1,360)	(444)	(3,243)	(958)
Net loss on fair value hedges	(2,174)	(4,777)	(3,433)	(10,855)
Other income:				
- Foreign exchange gain	2,595	8,247	4,356	33,553
- Other non-operating income	482	440	895	1,058
	<u>36,081</u>	30,196	<u>59,414</u>	70,177

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22 ALLOWANCE FOR CREDIT LOSSES

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Charge/(Writeback)</u>				
Financing and advances:				
- Net charge/(writeback)	(11,624)	32,661	(6,474)	54,194
- Bad debts recovered	(3,287)	(3,408)	(7,542)	(6,374)
- Bad debts written off	3,042	3,972	9,940	8,042
	<u>(11,869)</u>	<u>33,225</u>	<u>(4,076)</u>	<u>55,862</u>
Financial assets at FVOCI	(563)	(633)	(1,132)	(512)
Financial investments at amortised cost	87	999	(2,799)	507
Other financial assets	(132)	63	(168)	(105)
	<u><u>(12,477)</u></u>	<u><u>33,654</u></u>	<u><u>(8,175)</u></u>	<u><u>55,752</u></u>

23 INCOME ATTRIBUTABLE TO DEPOSITORS

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Deposits from customers:				
- Mudharabah funds	1,428	14,537	2,718	21,784
- Non-Mudharabah funds	427,082	333,055	821,876	641,699
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah funds	27,918	24,715	65,437	52,197
Others:				
- Subordinated obligations	8,451	9,212	17,562	18,323
- Recourse obligation on financing sold to Cagamas	24,357	10,895	48,553	11,254
- Obligations on securities sold under repurchase agreements	-	-	-	383
- Others	58	-	128	-
	<u><u>489,294</u></u>	<u><u>392,414</u></u>	<u><u>956,274</u></u>	<u><u>745,640</u></u>

24 EARNINGS PER SHARE

	<u>2nd Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
Net profit for the financial period (RM'000)	<u><u>154,327</u></u>	<u><u>95,131</u></u>	<u><u>272,173</u></u>	<u><u>208,629</u></u>
Weighted average number of ordinary shares in issue ('000)	<u><u>1,673,424</u></u>	<u><u>1,673,424</u></u>	<u><u>1,673,424</u></u>	<u><u>1,527,568</u></u>
Basic earnings per share (sen)	<u><u>9.22</u></u>	<u><u>5.68</u></u>	<u><u>16.26</u></u>	<u><u>13.66</u></u>

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25 COMMITMENTS AND CONTINGENCIES

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

	<b>As at 30 June 2019</b>	<b>As at 31 December 2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Transaction-related contingent items	<b>224,107</b>	212,768
Short term self-liquidating trade-related contingencies	<b>53,009</b>	65,253
Irrevocable commitments to extend credit:		
- maturity less than one year	-	11,659
- maturity more than one year	<b>7,704,056</b>	6,567,847
Foreign exchange related contracts <sup>^</sup> :		
- less than one year	<b>12,159,727</b>	8,926,427
- one year to less than five years	<b>1,730,418</b>	1,398,451
- more than five years	<b>1,959,043</b>	959,044
Profit rate related contracts <sup>^</sup> :		
- less than one year	<b>5,061,969</b>	1,265,000
- one year to less than five years	<b>154,136</b>	939,596
- more than five years	-	685,000
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	<b>2,213,189</b>	2,102,309
	<b>31,259,654</b>	23,133,354

<sup>^</sup> These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statement and statement of financial position as derivative assets or derivative liabilities.

26 CAPITAL COMMITMENTS

	<b>As at 30 June 2019</b>	<b>As at 31 December 2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	<b>1,259</b>	577

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27 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>
	RM'000	RM'000	RM'000	RM'000
<b><u>30 June 2019</u></b>				
<b><u>Financial assets</u></b>				
Financial assets at FVTPL:				
- money market instruments	-	-	-	-
Financial assets at FVOCI:				
- money market instruments	-	<b>5,066,875</b>	-	<b>5,066,875</b>
- unquoted securities	-	<b>1,948,278</b>	-	<b>1,948,278</b>
	-	<b>3,118,597</b>	-	<b>3,118,597</b>
Derivative assets	-	<b>93,065</b>	-	<b>93,065</b>
	-	<b>5,159,940</b>	-	<b>5,159,940</b>
<b><u>Financial liabilities</u></b>				
Derivative liabilities	-	<b>135,155</b>	-	<b>135,155</b>
<b><u>31 December 2018</u></b>				
<b><u>Financial assets</u></b>				
Financial assets at FVTPL:				
- money market instruments	-	274,226	-	274,226
Financial assets at FVOCI:				
- money market instruments	-	4,150,325	-	4,150,325
- unquoted securities	-	1,251,214	-	1,251,214
	-	2,899,111	-	2,899,111
Derivative assets	-	204,543	-	204,543
	-	4,629,094	-	4,629,094
<b><u>Financial liabilities</u></b>				
Derivative liabilities	-	211,555	-	211,555

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27 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 Bank then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. 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 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 Bank:

**Financial assets at FVOCI**

	<b>As at</b> <b>30 June 2019</b>	<b>As at</b> <b>31 December 2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance as at the beginning of the financial period/year	-	200,620
Profit recognised	-	9,455
Payment received	-	(10,075)
Disposal	-	(200,000)
Balance as at the end of the financial period/year	-	-



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28 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:

	<b>As at 30 June 2019</b>	As at 31 December 2018
	<b>RM'000</b>	RM'000
<b><u>Common Equity Tier-I ('CET-I') Capital /Tier I Capital</u></b>		
Share capital	<b>1,673,424</b>	1,673,424
Retained profits	<b>2,213,982</b>	2,013,893
FVOCI reserve	<b>86,121</b>	(3,499)
	<b>3,973,527</b>	3,683,818
Less:		
Deferred tax assets	-	(23,499)
Intangible assets (include associated deferred tax liabilities)	<b>(3,461)</b>	(4,271)
55% of cumulative gains of financial assets at FVOCI	<b>(47,367)</b>	-
Other deductions*	<b>(2,184)</b>	(4,849)
Total CET-I/Total Tier I Capital	<b>3,920,515</b>	3,651,199
<b><u>Tier II Capital</u></b>		
Subordinated obligations	<b>750,000</b>	750,000
Surplus eligible provisions over expected losses	<b>100,145</b>	94,333
General provisions <sup>^</sup>	<b>50,161</b>	54,330
Total Tier II Capital	<b>900,306</b>	898,663
Total Capital	<b>4,820,821</b>	4,549,862
<b><u>Capital Ratios</u></b>		
CET-I Capital Ratio	<b>13.338%</b>	13.222%
Tier-I Capital Ratio	<b>13.338%</b>	13.222%
Total Capital Ratio	<b>16.401%</b>	16.476%

\* Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II - Risk Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

<sup>^</sup> Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'; and regulatory reserve, to the extent they are ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk.

Includes the qualifying regulatory reserve of the Bank of RM39,253,000 (31 December 2018: RM42,756,000).

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28 CAPITAL ADEQUACY (CONTINUED)

The breakdown of risk-weighted assets ('RWA') in the various categories of risk-weights are as follows:

	<b>As at 30 June 2019</b>	As at 31 December 2018
	<b>RM'000</b>	RM'000
Credit risk	<b>26,677,134</b>	25,943,117
Credit risk absorbed by PSIA <sup>+</sup>	<b>(5,973,488)</b>	(5,874,587)
Market risk	<b>141,597</b>	268,130
Operational risk	<b>1,805,373</b>	1,679,551
Additional RWA due to capital floor	<b>6,742,211</b>	5,599,323
Total risk-weighted assets	<b><u>29,392,827</u></b>	<u>27,615,534</u>

The total risk-weighted assets of Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Internal Ratings Based Approach for Credit and Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

<sup>+</sup> 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 account ('RPSIA') which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation.

As at 30 June 2019, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM5,973,488,000 (31 December 2018: RM5,874,587,000).

29 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

	<b>As at 30 June 2018</b>	As at 31 December 2018
Outstanding credit exposures with connected parties (RM'000)	<b><u>2,625,553</u></b>	<u>3,125,715</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	<b><u>4.25</u></b>	<u>5.43</u>
Percentage of outstanding credit exposures with connected parties which is impaired or in default (%)	<b><u>0.47</u></b>	<u>0.39</u>

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective from 1 January 2008.

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**30 VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

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

**31 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.

**32 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 2019.

**33 CHANGES IN PROFIT FOR THE QUARTER**

The Bank reported a pre-tax profit of RM204.0 million for the current quarter, 31.4% higher as compared to the preceding quarter ended 31 March 2019 of RM155.2 million. The higher profit was mainly attributed to lower allowance for credit losses by RM16.8 million, lower overhead expenses by RM15.0 million, higher net funding income by RM9.3 million and higher non funding income by RM7.7 million.

**34 PERFORMANCE REVIEW**

For the six months ended 30 June 2019, the Bank recorded a pre-tax profit of RM359.2 million, 30.7% higher than previous year corresponding period of RM274.8 million. The higher profit was mainly due to lower allowance for credit losses by RM63.9 million, higher net funding income by RM33.4 million and higher non funding income by RM0.5 million, partially offset by higher overhead expenses by RM13.4 million.

**35 PROSPECTS FOR 2019**

Malaysia is expected to register a GDP growth of 4.5% in 2019, against 4.7% recorded in 2018 as US-China trade tensions continue to weigh on Malaysia's external trade, further affecting the growth outlook.

Banking industry loans are projected to grow at mid-single digit for the year supported by resilient household sector. OPR is expected to remain at 3.0% for 2019, although there is a risk of further reduction.

As the operating environment continues to be challenging, we remain cautious, placing emphasis on growing our assets responsibly, and managing cost and asset quality as we build our momentum of strengthening our business fundamentals. Our 5-year strategy, FIT22 is progressing well, with a focus on improving business performance and enterprise wide capabilities through digital technology and the implementation of the AGILE way of working to boost efficiency and productivity.

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36 CHANGE IN ACCOUNTING POLICIES

The Bank has adopted MFRS 16 ‘Leases’ issued by the MASB with its mandatory adoption date of 1 January 2019. MFRS 16 supersedes MFRS 117 ‘Leases’ and the related interpretations. As permitted by MFRS 16, the Bank has adopted the simplified transitional approach and will not restate comparative amounts for the year prior to first adoption.

Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On adoption of MFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of MFRS 117 ‘Leases’. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank’s borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 for the Bank was at 4.93%.

Summarised below are the effects upon adoption of MFRS 16 as at 1 January 2019:

	<b>As previously reported</b>	<b>Effect of adoption of MFRS 16</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deferred tax assets	23,241	34	23,275
Right of use assets	-	5,893	5,893
Lease liabilities	-	6,035	6,035
Reserves	2,373,845	(107)	2,373,738

The reconciliation on operating lease commitments under MFRS 117 to MFRS 16 are as follows:

	<b>RM'000</b>
Operating lease commitments as at 31 December 2018	6,344
Discounted using the incremental borrowing rate	<u>(309)</u>
Lease liability recognised as at 1 January 2019	<u><u>6,035</u></u>

The recognised right-of-use assets relate to the following type of assets:

Properties	<u>5,893</u>
	<u><u>5,893</u></u>