

Company No.

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RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2010

	Note	<u>Unaudited</u> <u>As at</u> 30.09.2010 RM'000	<u>Audited</u> <u>As at</u> 31.12.2009 RM'000
ASSETS			
Cash and short-term funds		2,118,574	2,562,465
Deposits and placements with banks and other financial institutions		330,000	305,000
Financial assets held-for-trading	8	103,854	30,931
Financial investments available-for-sale	9	1,593,871	1,195,204
Financial investments held-to-maturity	10	1,105,933	1,042,352
Financing and advances	11	6,870,106	5,842,302
Other assets	12	98,324	74,619
Deferred tax assets		18,982	17,046
Tax recoverable		9,427	15,666
Statutory deposits		85,940	69,240
Property, plant and equipment		23,777	23,083
Intangible assets		24,151	27,601
TOTAL ASSETS		<u>12,382,939</u>	<u>11,205,509</u>
LIABILITIES AND EQUITY			
Deposits from customers	13	9,435,096	8,127,782
Deposits and placements of banks and other financial institutions	14	1,630,218	1,831,020
Bills and acceptances payable		15,316	25,228
Other liabilities	15	324,475	326,017
TOTAL LIABILITIES		<u>11,405,105</u>	<u>10,310,047</u>
Ordinary share capital		523,424	523,424
Reserves		454,410	372,038
TOTAL EQUITY		<u>977,834</u>	<u>895,462</u>
TOTAL LIABILITIES AND EQUITY		<u>12,382,939</u>	<u>11,205,509</u>
COMMITMENTS AND CONTINGENCIES	20	<u>2,782,949</u>	<u>2,740,629</u>
CAPITAL ADEQUACY			
Core Capital Ratio		11.79%	12.50%
Risk-Weighted Capital Ratio		13.21%	13.78%

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

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UNAUDITED INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	Note	Current Financial Quarter Ended 30.09.2010 RM'000	Preceding Corresponding Quarter Ended 30.09.2009 RM'000	Current Financial Nine Months Ended 30.09.2010 RM'000	Preceding Corresponding Nine Months Ended 30.09.2009 RM'000
Income derived from investment of depositors' funds	16	132,066	112,043	353,604	322,958
Income derived from investment of shareholder's funds	17	13,624	13,262	43,079	36,182
Allowance for impairment on financing and advances	18	(10,354)	(20,678)	(60,513)	(73,367)
Profit equalisation reserve		(947)	(3,335)	(1,919)	2,401
Total distributable income		134,389	101,292	334,251	288,174
Income attributable to depositors	19	(60,643)	(44,491)	(149,930)	(125,955)
		73,746	56,801	184,321	162,219
Personnel expenses		(13,909)	(14,856)	(44,324)	(42,589)
Other overheads and expenditures		(23,025)	(24,867)	(70,620)	(70,125)
Profit before taxation		36,812	17,078	69,377	49,505
Taxation		(9,226)	(8,987)	(17,367)	(28,405)
Net profit for the financial period		27,586	8,091	52,010	21,100

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

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UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	Current Financial Quarter Ended 30.09.2010 RM'000	Preceding Corresponding Quarter Ended 30.09.2009 RM'000	Current Financial Nine Months Ended 30.09.2010 RM'000	Preceding Corresponding Nine Months Ended 30.09.2009 RM'000
Net profit for the financial period	<u>27,586</u>	<u>8,091</u>	<u>52,010</u>	<u>21,100</u>
Other comprehensive income:				
Financial investments available-for-sale				
- Unrealised net gain/(loss) on revaluation	13,492	3,660	14,684	(4,939)
- Net transfer to income statement on disposal	(1,031)	-	(2,793)	(9,522)
Income tax relating to components of other comprehensive income/(loss)	(3,119)	(918)	(2,984)	3,920
Other comprehensive income for the financial period	<u>9,342</u>	<u>2,742</u>	<u>8,907</u>	<u>(10,541)</u>
Total comprehensive income for the financial period	<u>36,928</u>	<u>10,833</u>	<u>60,917</u>	<u>10,559</u>

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

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UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	<u>Non-distributable</u>			<u>Distributable</u>	<u>Total</u> RM'000
	<u>Share Capital</u> RM'000	<u>Statutory Reserve</u> RM'000	<u>AFS Reserves</u> RM'000	<u>Retained Profits</u> RM'000	
Balance as at 1 January 2010					
- As previously stated	523,424	197,739	7,127	167,172	895,462
- Effect of adoption of FRS 139	-	-	-	21,455	21,455
- As restated	523,424	197,739	7,127	188,627	916,917
Net profit for the financial period	-	-	-	52,010	52,010
Other comprehensive gain for the financial period	-	-	8,907	-	8,907
Total comprehensive income for the financial period	-	-	8,907	52,010	60,917
Balance as at 30 September 2010	523,424	197,739	16,034	240,637	977,834
Balance as at 1 January 2009	523,424	166,005	18,530	135,437	843,396
Net profit for the financial period	-	-	-	21,100	21,100
Other comprehensive loss for the financial period	-	-	(10,541)	-	(10,541)
Total comprehensive income/(loss) for the financial period	-	-	(10,541)	21,100	10,559
Balance as at 30 September 2009	523,424	166,005	7,989	156,537	853,955

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

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UNAUDITED INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENT OF CASH FLOW
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	Current Financial Nine Months Ended <u>30.09.2010</u> RM'000	Preceding Corresponding Nine Months Ended <u>30.09.2009</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	69,377	49,505
Adjustment for non-cash items	<u>(5,771)</u>	3,396
Operating profit before changes in working capital	63,606	52,901
Changes in working capital:		
Net changes in operating assets	(1,202,022)	28,438
Net changes in operating liabilities	<u>1,093,139</u>	1,252,368
Cash (used in)/generated from operations	<u>(45,277)</u>	1,333,707
Taxation paid	<u>(23,201)</u>	(11,077)
Net cash (used in)/generated from operating activities	<u>(68,478)</u>	1,322,630
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,527)	(5,974)
Net purchase of financial investments available-for-sale	(383,983)	(445,997)
Net (purchase)/redemption of financial investments held-to-maturity	(62,960)	129,973
Income received from financial investments available-for-sale	40,223	23,778
Income received from financial investments held-to-maturity	<u>34,834</u>	29,199
Net cash used in investing activities	<u>(375,414)</u>	(269,021)
Net (decrease)/increase in cash and cash equivalents	<u>(443,891)</u>	1,053,609
Cash and cash equivalents at the beginning of the financial period	<u>2,562,465</u>	1,342,901
Cash and cash equivalents at the end of the financial period	<u>2,118,574</u>	2,396,510
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	<u>2,118,574</u>	<u>2,396,510</u>

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

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

1 BASIS OF PREPARATION

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

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

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

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

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

2 AUDIT REPORT

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

3 SEASONAL OR CYCLICAL FACTORS

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

4 EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no exceptional or extraordinary items for the nine months ended 30 September 2010.

5 CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in prior financial years that have a material effect for the nine months ended 30 September 2010.

6 CHANGES IN DEBT AND EQUITY SECURITIES

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

7 DIVIDENDS PAID

No dividend was paid by the Bank during the nine months ended 30 September 2010.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

8 FINANCIAL ASSETS HELD-FOR-TRADING

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	56,300	-
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	<u>47,554</u>	<u>30,931</u>
	<u>103,854</u>	<u>30,931</u>

9 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	1,063,522	728,957
Others	162,178	-
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	367,596	465,672
Shares	<u>575</u>	<u>575</u>
	<u>1,593,871</u>	<u>1,195,204</u>

The carrying value of financial investments available-for-sale as at 30 September 2010, which was transferred from financial assets held-for-trading in previous financial year, for the Bank is RM10.1million (31.12.2009 : RM20.4 million).

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

10 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	628,640	566,570
Cagamas Mudharabah bonds	180,225	175,201
Khazanah bonds	-	34,935
<u>Unquoted securities</u>		
<u>In Malaysia</u>		
Private debt securities	251,824	265,646
Others	45,244	-
	<u>1,105,933</u>	<u>1,042,352</u>

11 FINANCING AND ADVANCES

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
Cashline	130,374	87,557
Term financing		
- house financing	2,228,628	1,872,246
- syndicated term financing	333,590	793,288
- hire purchase receivables	1,788,396	1,215,426
- other term financing	1,851,191	1,297,163
Claims on customers under acceptance credit	568,819	503,119
Trust receipts	22,906	32,787
Staff financing	11,677	12,990
Credit/charge cards receivables	16	-
Revolving financing	522,113	451,209
	<u>7,457,710</u>	<u>6,265,785</u>
Unearned income	(275,028)	(179,697)
Gross financing and advances	<u>7,182,682</u>	<u>6,086,088</u>
Allowance for impaired financing and advances		
- collective assessment allowance	(159,403)	-
- individual assessment allowance	(153,173)	-
- general allowance	-	(88,984)
- specific allowance	-	(154,802)
Net financing and advances	<u>6,870,106</u>	<u>5,842,302</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(i) By type of customer (geographical distribution)	<u>Unaudited</u> <u>As At</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As At</u> <u>31.12.2009</u> RM'000
Domestic non-bank financial institutions		
- Others	6,453	10,486
Domestic business enterprises		
- Small medium enterprises	701,194	664,475
- Others	2,629,372	2,326,103
Government and statutory bodies	7,650	112,186
Individuals	3,549,806	2,669,895
Other domestic entities	513	676
Total customers in Malaysia	<u>6,894,988</u>	<u>5,783,821</u>
Foreign entities outside Malaysia	<u>287,694</u>	<u>302,267</u>
	<u><u>7,182,682</u></u>	<u><u>6,086,088</u></u>
(ii) By contract		
Bai' Bithaman Ajil	1,736,287	1,969,354
Ijarah	2,329,537	1,996,943
Murabahah	1,499,319	1,124,993
Istisna'	534,557	442,502
Musarakah	1,008,034	552,296
Mudharabah	62,071	-
Other Islamic concept financing	12,876	-
	<u>7,182,682</u>	<u>6,086,088</u>
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	1,275,282	1,417,055
- Hire purchase receivables	1,513,368	1,035,729
- Other fixed rate financing	1,508,117	1,610,801
Variable rate		
- Base Financing Rate-plus	2,294,222	1,341,860
- Cost-plus	591,693	680,643
	<u>7,182,682</u>	<u>6,086,088</u>

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RHB ISLAMIC BANK BERHAD
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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(iv) By purpose	<u>Unaudited</u> <u>As At</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As At</u> <u>31.12.2009</u> RM'000
Purchase of securities	12,260	18,430
Purchase of transport vehicles	1,451,460	968,500
Purchase of landed property:		
- Residential	2,279,200	1,848,340
- Non-residential	197,876	183,280
Purchase of property, plant and equipment other than land and building	545,470	477,020
Personal use	14,100	13,778
Credit card	16	-
Purchase of consumer durables	80	110
Construction	503,700	402,450
Working capital	1,476,820	1,731,270
Other purposes	701,700	442,910
	<u>7,182,682</u>	<u>6,086,088</u>
(v) By remaining contractual maturities		
Maturity within one year	1,428,608	1,379,878
One to three years	614,455	279,897
Three to five years	901,803	559,650
Over five years	4,237,816	3,866,663
	<u>7,182,682</u>	<u>6,086,088</u>
(vi) Impaired financing and advances		
(a) Movement in impaired financing and advances		
Balance as at the beginning of financial period/year		
- As previously reported	376,940	267,357
- Effect of adoption of FRS 139	101,472	-
- As restated	<u>478,412</u>	<u>267,357</u>
Classified as impaired during the financial period/year	411,351	424,210
Amount recovered	(33,956)	(40,005)
Amount written off	-	(35,212)
Reclassified as non-impaired during the financial period/year	(239,462)	(239,410)
Balance as at the end of financial period/year	<u>616,345</u>	<u>376,940</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances (continued)

(b) By purpose

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Purchase of transport vehicles	5,150	6,360
Purchase of landed property:		
- Residential	201,170	189,780
- Non-residential	26,844	2,690
Purchase of property, plant and equipment other than land and building	70,540	-
Personal use	1,540	2,210
Construction	1,490	1,140
Working capital	308,844	174,760
Others	767	-
	<u>616,345</u>	<u>376,940</u>

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

Collective assessment allowance

Balance as at the beginning of financial period/year

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

Allowance made

	18,976	-
Balance as at the end of financial period/year	<u>159,403</u>	<u>-</u>

Individual assessment allowance

Balance as at the beginning of financial period/year

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

Allowance made

	56,542	-
Amount recovered	(9,939)	-
Amount written off	(465)	-
Balance as at the end of financial period/year	<u>153,173</u>	<u>-</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances (continued)

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

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
<u>General allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	88,984	97,984
- Effect of adoption of FRS 139	(88,984)	-
- As restated	-	97,984
Allowance made during the financial period/year	-	(9,000)
Balance as at the end of financial period/year	-	88,984
As % of gross financing and advances less specific allowance	-	1.5%
<u>Specific allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	154,802	92,581
- Effect of adoption of FRS 139	(154,802)	-
- As restated	-	92,581
Allowance made	-	123,452
Amount recovered	-	(26,756)
Amount written off	-	(34,475)
Balance as at the end of financial period/year	-	154,802

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

12 OTHER ASSETS

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Income receivable	27,225	28,681
Deposits and prepayments	21,263	22,227
Sundry deposits debtors	26,133	1,352
Other debtors	23,703	22,359
	<u>98,324</u>	<u>74,619</u>

13 DEPOSITS FROM CUSTOMERS

Non-Mudharabah Funds:

Demand deposits	1,596,465	1,607,302
Savings deposits	558,626	563,317
Negotiable Islamic Debt Certificates	4,920	4,754
	<u>2,160,011</u>	<u>2,175,373</u>

Mudharabah Funds:

Demand deposits	365,686	374,513
General investment deposits	1,582,558	1,166,442
Special investment deposits	5,326,842	4,411,454
	<u>9,435,096</u>	<u>8,127,782</u>

(i) By type of customer

Government and statutory bodies	2,058,775	1,771,165
Business enterprises	5,108,698	5,026,432
Individuals	897,325	887,310
Others	1,370,298	442,875
	<u>9,435,096</u>	<u>8,127,782</u>

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

Due within six months	6,326,937	5,098,344
Six months to one year	580,605	467,400
One year to three years	6,000	15,927
Three years to five years	213	736
Over five years	565	243
	<u>6,914,320</u>	<u>5,582,650</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010 (CONTINUED)

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
<u>Non-Mudharabah Fund:</u>		
Licensed Islamic banks	960,000	152,720
Licensed banks	297,218	342,400
Other financial institutions	3,000	-
	<u>1,260,218</u>	<u>495,120</u>
<u>Mudharabah Fund:</u>		
Licensed Islamic banks	170,000	490,000
Licensed banks	200,000	498,000
Licensed investment banks	-	247,900
Other financial institutions	-	100,000
	<u>1,630,218</u>	<u>1,831,020</u>

15 OTHER LIABILITIES

Sundry creditors	46,810	17,303
Profit equalisation reserve	6,245	4,326
Amount due to holding company	184,121	243,495
Other accruals and payables	87,299	60,893
	<u>324,475</u>	<u>326,017</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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16 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	Current Financial Quarter Ended 30.09.2010 RM'000	Preceding Corresponding Quarter Ended 30.09.2009 RM'000	Current Financial Nine Months Ended 30.09.2010 RM'000	Preceding Corresponding Nine Months Ended 30.09.2009 RM'000
Income derived from investment of:				
(i) General investment deposit	14,900	13,357	40,221	50,929
(ii) Other deposits	117,166	98,686	313,383	272,029
	132,066	112,043	353,604	322,958
(i) Income derived from investment of general investment deposits				
<u>Finance income and hibah:</u>				
Financing and advances	9,811	8,937	26,795	33,427
Financial assets held-for-trading	243	60	376	988
Financial investments available-for-sale	1,627	1,104	4,366	3,954
Financial investments held-to-maturity	1,292	1,482	3,745	5,941
Money at call and deposit with financial institutions	1,589	1,614	3,928	4,854
Total finance income and hibah	14,562	13,197	39,210	49,164
Other operating income (note a to c)	338	160	1,011	1,765
	14,900	13,357	40,221	50,929
Of which:				
Financing income earned on impaired financing	270	-	578	-
Other operating income comprise of:				
a) Fee income :				
Commission	128	129	383	508
Guarantee fees	5	8	30	58
	133	137	413	566
b) Net gain/(loss) on financial assets held-for-trading				
- net gain on disposal	124	2	167	575
- unrealised revaluation gain/(loss)	(30)	21	129	(974)
	94	23	296	(399)
c) Net gain on disposal of financial investments available-for-sale	111	-	302	1,598
	338	160	1,011	1,765

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

	Current Financial Quarter Ended <u>30.09.2010</u> RM'000	Preceding Corresponding Quarter Ended <u>30.09.2009</u> RM'000	Current Financial Nine Month Ended <u>30.09.2010</u> RM'000	Preceding Corresponding Nine Months Ended <u>30.09.2009</u> RM'000
(ii) Income derived from investment of other deposits				
<u>Finance income and hibah:</u>				
Financing and advances	77,146	66,028	208,682	179,014
Financial assets held-for-trading	1,905	442	2,926	4,721
Financial investments available-for-sale	12,791	8,159	34,062	21,308
Financial investments held-to-maturity	10,168	10,954	29,214	31,527
Money at call and deposit with financial institutions	12,497	11,925	30,769	26,873
Total finance income and hibah	<u>114,507</u>	97,508	<u>305,653</u>	263,443
Other operating income (note a to c)	2,659	1,178	7,730	8,586
	<u>117,166</u>	98,686	<u>313,383</u>	272,029
Of which:				
Financing income earned on impaired financing	<u>2,123</u>	-	<u>4,420</u>	-
Other operating income comprise of:				
a) Fee income :				
Commission	1,000	956	2,983	2,706
Guarantee fees	43	57	236	289
	<u>1,043</u>	1,013	<u>3,219</u>	2,995
b) Net gain/(loss) on financial assets held-for-trading:				
- net gain on disposal	972	13	1,290	2,660
- unrealised revaluation gain/(loss)	(228)	152	929	(4,439)
	<u>744</u>	165	<u>2,219</u>	(1,779)
c) Net gain on disposal of financial investments availabls-for-sale				
	872	-	2,292	7,370
	<u>2,659</u>	1,178	<u>7,730</u>	8,586

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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17 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Current Financial Quarter Ended 30.09.2010 RM'000	Preceding Corresponding Quarter Ended 30.09.2009 RM'000	Current Financial Nine Months Ended 30.09.2010 RM'000	Preceding Corresponding Nine Months Ended 30.09.2009 RM'000
<u>Finance income and hibah:</u>				
Financing and advances	4,220	3,948	17,823	12,445
Financial assets held-for-trading	104	28	210	350
Financial investments available-for-sale	700	488	2,895	1,477
Financial investments held-to-maturity	556	655	2,523	2,202
Money at call and deposit with financial institutions	684	713	2,564	1,837
Total finance income and hibah	<u>6,264</u>	<u>5,832</u>	<u>26,015</u>	<u>18,311</u>
Other operating income (note a to c)	<u>7,360</u>	<u>7,430</u>	<u>17,064</u>	<u>17,871</u>
	<u>13,624</u>	<u>13,262</u>	<u>43,079</u>	<u>36,182</u>
Financing income earned on impaired financing	<u>116</u>	-	<u>361</u>	-
Other operating income comprise of:				
a) Fee income :				
Commission	620	612	2,414	1,456
Service charges and fees	6,682	6,352	14,101	14,340
Guarantee and underwriting fees	54	5	173	133
Other fee income	(86)	450	(26)	1,522
	<u>7,270</u>	<u>7,419</u>	<u>16,662</u>	<u>17,451</u>
b) Net gain/(loss) on financial assets held-for-trading :				
- net gain on disposal	54	2	90	202
- net unrealised revaluation gain/(loss)	(12)	9	113	(336)
	<u>42</u>	<u>11</u>	<u>203</u>	<u>(134)</u>
c) Net gain on disposal of financial investments available-for-sale				
	48	-	199	554
	<u>7,360</u>	<u>7,430</u>	<u>17,064</u>	<u>17,871</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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18 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	Current Financial Quarter Ended <u>30.09.2010</u> RM'000	Preceding Corresponding Quarter Ended <u>30.09.2009</u> RM'000	Current Financial Nine Months Ended <u>30.09.2010</u> RM'000	Preceding Corresponding Nine Months Ended <u>30.09.2009</u> RM'000
Allowance for impairment on financing and advances:				
- Individual assessment allowance	8,315	-	46,603	-
- Collective assessment allowance	4,443	-	18,976	-
- Specific allowance	-	26,541	-	80,344
- General allowance	-	(5,100)	-	(4,500)
Impaired financing recovered	(2,404)	(763)	(5,066)	(2,477)
	<u>10,354</u>	<u>20,678</u>	<u>60,513</u>	<u>73,367</u>

19 INCOME ATTRIBUTABLE TO DEPOSITORS

Deposits from customers:				
- Mudharabah funds	48,308	31,471	120,801	93,422
- Non-mudharabah funds	1,986	3,908	6,022	9,817
Deposits and placements of banks and other financial institutions:				
- Mudharabah funds	4,348	8,965	10,816	21,628
- Non-mudharabah funds	6,001	147	12,291	1,088
	<u>60,643</u>	<u>44,491</u>	<u>149,930</u>	<u>125,955</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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20 COMMITMENTS AND CONTINGENCIES

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

Risk weighted exposures of the Bank are as follows:

	<u>Unaudited as at 30.09.2010</u>		
	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>
	<u>Amount</u>	<u>Equivalent</u>	<u>Weighted</u>
	<u>RM'000</u>	<u>Amount *</u>	<u>Amount</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Transaction-related contingent items	147,965	73,982	31,391
Short-term self-liquidating trade-related contingencies	41,738	8,347	8,347
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	394,091	159,700	136,120
- maturity less than one year	2,170,155	326,173	326,173
Total	<u>2,782,949</u>	<u>582,702</u>	<u>516,531</u>
		<u>Audited as at 31.12.2009</u>	
Transaction-related contingent items	184,507	92,254	47,412
Short-term self-liquidating trade-related contingencies	96,206	19,241	19,241
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	384,933	192,466	188,595
- maturity less than one year	2,045,983	409,197	411,982
Total	<u>2,740,629</u>	<u>727,658</u>	<u>681,730</u>

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

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
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21 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk respectively.

The capital component of the Bank are as follows:

	<u>Unaudited</u> <u>As at</u> <u>30.09.2010</u> <u>RM'000</u>	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> <u>RM'000</u>
<u>Tier I Capital</u>		
Paid-up ordinary share capital	523,424	523,424
Retained profits	167,172	167,172
Statutory reserve	197,739	197,739
	<u>888,335</u>	<u>888,335</u>
Less :		
Deferred tax assets	(17,046)	(17,046)
Total Tier I capital	<u>871,289</u>	<u>871,289</u>
<u>Tier II Capital</u>		
Collective assessment allowance	104,831	-
General allowance for bad and doubtful financing	-	88,984
Total Tier II capital	<u>104,831</u>	<u>88,984</u>
Less:		
Other deduction*	(2)	(12)
Total Capital Base	<u>976,118</u>	<u>960,261</u>
The capital ratios of the Bank are as follows:		
Core capital ratio	11.79%	12.50%
Risk-weighted capital ratio	<u>13.21%</u>	<u>13.78%</u>
Risk-weighted assets by each major risk category are as follows:		
Credit risk	6,769,955	6,401,766
Market risk	60,665	9,114
Operational risk	559,466	558,743
	<u>7,390,086</u>	<u>6,969,623</u>

* Pursuant to the Basel II Market Risk para 5.19 and 5.20, Valuation Adjustment/Reverses, the RWCR computation shall account for the ageing, liquidity and holding back adjustments/reserves on its tracking portfolio.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
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22 CHANGES IN ACCOUNTING POLICIES

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

a. Impairment of financing and advances

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

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

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

Financing impairment is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the original effective interest/profit rate ('EIR') of financing and advances. The carrying amount of the financing and advances is reduced through the use of an allowance amount and the amount of the loss is recognised in the income statement.

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

(i) Individually assessed allowance

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

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

(ii) Collectively assessed allowance

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

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22 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

a. Impairment of financing and advances (continued)

(ii) Collectively assessed allowance (continued)

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

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

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

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

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

b. Recognition of profit income

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

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

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

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

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22 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c. Recognition of embedded derivatives

Upon adoption of FRS 139, embedded derivatives are to be separated from the host contract and accounted for as a derivative when the economic characteristics and risks of the embedded derivative are not closely related to the host contract.

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

d. Financial investments AFS

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

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

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

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

23 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

24 MATERIAL EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

25 CHANGES IN PROFIT FOR THE QUARTER

The Bank recorded a profit before taxation of RM36.8 million for the current quarter, an increase of RM7.1 million as compared with the previous corresponding quarter ended 30 June 2010 of RM29.7 million. The increase was mainly due to higher income derived from investment of depositors' and shareholders' funds by RM11.4 million, lower PER charge by RM4.3 million and lower allowance for impairment on financing and advances by RM4.2 million, partially offset by higher income attributable to depositors by RM13.9 million.

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26 PERFORMANCE REVIEW

For the nine months ended 30 September 2010, the Bank recorded a profit before taxation of RM69.4 million, higher by RM19.9 million as compared with the preceding corresponding period ended 30 September 2009 of RM49.5 million. Improved profitability was mainly attributed to higher total distributable income by RM46.1 million, partially offset by higher income attributable to depositors by RM24.0 million and higher overheads by RM2.2 million.

27 PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

The Malaysian economy is expected to grow by 7% for the full year of 2010, having recorded a strong growth of 8.0% in the first nine months of the year. In line with this forecast, the Malaysian banking sector will remain robust underpinned by high capitalisation, stable asset quality and strong liquidity position.

Market demand for Islamic banking products and services is expected to remain strong and active and RHB Islamic will continue to focus on building up its respective market share in its core businesses. In furtherance to the new Islamic Banking business model, RHB Islamic is expected to meet Group's strategic objectives and its vision; via leveraging on Group's available strength and infrastructure in achieving optimum productivity and cost efficiency.

RHB Islamic is confident to achieve a satisfactory performance for 2010.