

Company No.

680329	V
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RHB ISLAMIC BANK BERHAD

(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
ASSETS			
Cash and short-term funds		1,792,662	2,562,465
Deposits and placements with banks and other financial institutions		220,000	305,000
Financial assets held-for-trading	8	216,158	30,931
Financial investments available-for-sale	9	1,404,566	1,195,204
Financial investments held-to-maturity	10	1,074,790	1,042,352
Financing and advances	11	6,501,848	5,842,302
Other assets	12	215,298	74,619
Deferred tax assets		21,033	17,046
Tax recoverable		12,436	15,666
Statutory deposits		81,240	69,240
Property, plant and equipment		21,634	23,083
Intangible assets		27,601	27,601
TOTAL ASSETS		<u>11,589,266</u>	<u>11,205,509</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	13	8,470,182	8,127,782
Deposits and placements of banks and other financial institutions	14	1,967,925	1,831,020
Bills and acceptances payable		21,737	25,228
Other liabilities	15	188,516	326,017
TOTAL LIABILITIES		<u>10,648,360</u>	<u>10,310,047</u>
Ordinary share capital		523,424	523,424
Reserves		417,482	372,038
TOTAL EQUITY		<u>940,906</u>	<u>895,462</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>11,589,266</u>	<u>11,205,509</u>
COMMITMENTS AND CONTINGENCIES	20	<u>1,865,190</u>	<u>2,740,629</u>
CAPITAL ADEQUACY			
Core Capital Ratio		12.13%	12.50%
Risk-Weighted Capital Ratio		13.51%	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 SIX MONTHS ENDED 30 JUNE 2010

	Note	Current Financial Quarter Ended 30.06.2010 RM'000	Preceding Corresponding Financial Quarter Ended 30.06.2009 RM'000	Current Financial Half Year Ended 30.06.2010 RM'000	Preceding Corresponding Financial Half Year Ended 30.06.2009 RM'000
Income derived from investment of depositors' funds	16	118,535	102,395	221,538	210,915
Income derived from investment of shareholder's funds	17	15,824	11,278	29,455	22,920
Allowance for impairment on financing and advances	18	(14,483)	(40,517)	(50,159)	(52,689)
Profit equalisation reserve		(5,298)	22,651	(972)	5,736
Total distributable income		114,578	95,807	199,862	186,882
Income attributable to depositors	19	(46,728)	(36,945)	(89,287)	(81,464)
		67,850	58,862	110,575	105,418
Personnel expenses		(14,487)	(13,951)	(30,415)	(27,733)
Other overheads and expenditures		(23,629)	(22,536)	(47,595)	(45,258)
Profit before taxation		29,734	22,375	32,565	32,427
Taxation		(7,434)	(16,801)	(8,141)	(19,418)
Net profit for the financial period		22,300	5,574	24,424	13,009
Basic earnings per share (sen)		4.26	1.06	4.67	2.49

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 SIX MONTHS ENDED 30 JUNE 2010

	Current Financial Quarter Ended 30.6.2010 RM'000	Preceding Corresponding Financial Quarter Ended 30.6.2009 RM'000	Current Financial Half Year Ended 30.6.2010 RM'000	Preceding Corresponding Financial Half Year Ended 30.6.2009 RM'000
Net profit for the financial period	<u>22,300</u>	<u>5,574</u>	<u>24,424</u>	<u>13,009</u>
Other comprehensive income/(loss):				
Financial investments available-for-sale				
- Unrealised net gain/(loss) on revaluation	2,036	(7,622)	1,192	(8,598)
- Net transfer to income statement on disposal	(1,762)	(1)	(1,762)	(9,522)
Income tax relating to components of other comprehensive income	(72)	7,774	135	4,838
Other comprehensive income/(loss) for the financial period	<u>202</u>	<u>151</u>	<u>(435)</u>	<u>(13,282)</u>
Total comprehensive income/(loss) for the financial period	<u><u>22,502</u></u>	<u><u>5,725</u></u>	<u><u>23,989</u></u>	<u><u>(273)</u></u>

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

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UNAUDITED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<u>Non-distributable</u>			<u>Distributable</u>	
	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	Total RM'000
Balance as at 1 January 2010					
- As previously stated	523,424	197,739	7,127	167,172	895,462
- Effect of adoption of FRS 139	-	-	-	21,455	21,455
- As restated	523,424	197,739	7,127	188,627	916,917
Net profit for the financial period	-	-	-	24,424	24,424
Other comprehensive loss for the financial period	-	-	(435)	-	(435)
Total comprehensive income/(loss) for the financial period	-	-	(435)	24,424	23,989
Balance as at 30 June 2010	523,424	197,739	6,692	213,051	940,906
Balance as at 1 January 2009	523,424	166,005	18,530	135,437	843,396
Net profit for the financial period	-	-	-	13,009	13,009
Other comprehensive loss for the financial period	-	-	(13,282)	-	(13,282)
Total comprehensive (loss)/income for the financial period	-	-	(13,282)	13,009	(273)
Balance as at 30 June 2009	523,424	166,005	5,248	148,446	843,123

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 SIX MONTHS ENDED 30 JUNE 2010

	Current Financial Half Year Ended 30.06.2010 RM'000	Preceding Corresponding Financial Half Year Ended 30.06.2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	32,565	32,427
Adjustment for non-cash items	<u>(100,570)</u>	965
Operating (loss)/profit before changes in working capital	(68,005)	33,392
Changes in working capital:		
Net changes in operating assets	(828,863)	120,719
Net changes in operating liabilities	<u>337,340</u>	1,558,877
Cash (used in)/generated from operations	(559,528)	1,679,596
Taxation paid	<u>(15,916)</u>	(5,368)
Net cash (used in)/generated from operating activities	<u>(575,444)</u>	1,707,620
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,704)	(3,861)
Net purchase of financial investments available-for-sale	(208,170)	(160,169)
Net purchase of financial investments held-to-maturity	(32,001)	(88,343)
Income received from financial investments available-for-sale	27,423	15,920
Income received from financial investments held-to-maturity	<u>21,093</u>	18,738
Net cash used in investing activities	<u>(194,359)</u>	(217,715)
Net (decrease)/increase in cash and cash equivalents	(769,803)	1,489,905
Cash and cash equivalents at the beginning of the financial period	<u>2,562,465</u>	1,342,901
Cash and cash equivalents at the end of the financial period	<u>1,792,662</u>	2,832,806
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	<u>1,792,662</u>	2,832,806

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 SIX MONTHS ENDED 30 JUNE 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 23.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2010.

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

8 FINANCIAL ASSETS HELD-FOR-TRADING

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</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	50,703	-
Bank Negara Malaysia monetary notes	49,012	-
Bankers' acceptances and Islamic accepted bills	47,349	-
<u>Unquoted securities</u>		
<u>In Malaysia</u>		
Private debt securities	69,094	30,931
	<u>216,158</u>	<u>30,931</u>

9 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</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	938,491	728,957
<u>Unquoted securities</u>		
<u>In Malaysia</u>		
Private debt securities	465,500	465,672
Shares	575	575
	<u>1,404,566</u>	<u>1,195,204</u>

The carrying value of financial investments available-for-sale as at 30 June 2010, which was transferred from financial assets held-for-trading in previous financial year, for the Bank is RM20.3 million (31.12.2009 : RM20.4 million).

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

10 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
<u>Money market instruments:</u>		
Cagamas Mudharabah bonds	180,258	175,201
Khazanah bonds	-	34,935
Malaysian Government Investment Issues	597,795	566,570
<u>Unquoted securities</u> <u>In Malaysia</u>		
Private debt securities	<u>296,737</u>	<u>265,646</u>
	<u>1,074,790</u>	<u>1,042,352</u>

11 FINANCING AND ADVANCES

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
At amortised cost		
Cashline	128,742	87,557
Term financing		
- house financing	2,136,678	1,872,246
- syndicated term financing	494,940	793,288
- hire purchase receivables	1,509,408	1,215,426
- other term financing	1,831,477	1,297,163
Claims on customers under acceptance credit	513,683	503,119
Trust receipts	29,674	32,787
Staff financing	11,910	12,990
Revolving financing	<u>370,957</u>	<u>451,209</u>
	<u>7,027,469</u>	<u>6,265,785</u>
Less: Unearned income	<u>(225,338)</u>	<u>(179,697)</u>
Gross financing and advances	<u>6,802,131</u>	<u>6,086,088</u>
Less: Allowance for impaired financing and advances		
- collective assessment allowance	(154,959)	-
- individual assessment allowance	(145,324)	-
- general allowance	-	(88,984)
- specific allowance	-	(154,802)
Net financing and advances	<u>6,501,848</u>	<u>5,842,302</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(i) By type of customer	<u>Unaudited</u>	<u>Audited</u>
	<u>As At</u>	<u>As At</u>
	<u>30.06.2010</u>	<u>31.12.2009</u>
	<u>RM'000</u>	<u>RM'000</u>
Domestic non-bank financial institutions		
- Others	5,460	10,486
Domestic business enterprises		
- Small medium enterprises	703,615	664,475
- Others	2,478,594	2,326,103
Government and statutory bodies	109,827	112,186
Individuals	3,206,212	2,669,895
Other domestic entities	557	676
In Malaysia	<u>6,504,265</u>	<u>5,783,821</u>
Outside Malaysia	<u>297,866</u>	<u>302,267</u>
	<u>6,802,131</u>	<u>6,086,088</u>
 (ii) By contract		
Bai' Bithaman Ajil	1,789,279	1,969,354
Ijarah	2,472,547	1,996,943
Murabahah	1,258,511	1,124,993
Istisna'	352,840	442,502
Others	928,954	552,296
	<u>6,802,131</u>	<u>6,086,088</u>
 (iii) By profit rate sensitivity		
Fixed rate		
- House financing	1,313,946	1,417,055
- Hire purchase receivables	1,284,070	1,035,729
- Other fixed rate financing	1,443,448	1,610,801
Variable rate		
- BFR-plus	2,077,738	1,341,860
- Cost-plus	682,929	680,643
	<u>6,802,131</u>	<u>6,086,088</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(iv) By purpose	Unaudited	Audited
	As At	As At
	30.06.2010	31.12.2009
	RM'000	RM'000
Purchase of securities	12,470	18,430
Purchase of transport vehicles	1,221,870	968,500
Purchase of landed property:		
- Residential	2,148,940	1,848,340
- Non-residential	170,371	183,280
Purchase of property, plant and equipment other than land and building	554,600	477,020
Personal use	14,850	13,778
Purchase of consumer durables	90	110
Construction	501,730	402,450
Working capital	1,500,290	1,731,270
Other purposes	676,920	442,910
	6,802,131	6,086,088
(v) By remaining contractual maturity		
Maturity within one year	1,427,090	1,379,878
One to three years	315,611	279,897
Three to five years	623,991	559,650
Over five years	4,435,439	3,866,663
	6,802,131	6,086,088
(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	478,412	267,357
Classified as impaired during the financial period/year	322,213	424,210
Amount recovered	(19,147)	(40,005)
Amount written off	-	(35,212)
Reclassified as non-impaired during the financial period/year	(179,601)	(239,410)
Balance as at the end of financial period/year	601,877	376,940

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

11 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances (continued)

(b) By purpose

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Purchase of transport vehicles	4,910	6,360
Purchase of landed property:		
- Residential	192,150	189,780
- Non-residential	23,705	2,690
Purchase of property, plant and equipment other than land and building	64,030	-
- Personal use	771	2,210
- Construction	1,220	1,140
- Working capital	314,927	174,760
- Others	164	-
	<u>601,877</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

14,532

Amount recovered

-

Balance as at the end of financial period/year

154,959

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

62,583

Amount recovered

(24,294)

Amount written off

-

Balance as at the end of financial period/year

145,324

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 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>30.06.2010</u> <u>RM'000</u>	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> <u>RM'000</u>
<u>General allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	88,984	97,984
- Effect of adoption of FRS 139	(88,984)	-
- As restated	-	97,984
Allowance made during the financial period/year	-	(9,000)
Balance as at the end of financial period/year	-	88,984
As % of gross financing and advances less specific allowance	-	1.5%
<u>Specific allowance</u>		
Balance as at the beginning of financial period/year		
- As previously stated	154,802	92,581
- Effect of adoption of FRS 139	(154,802)	-
- As restated	-	92,581
Allowance made	-	123,452
Amount recovered	-	(26,756)
Amount written off	-	(34,475)
Balance as at the end of financial period/year	-	154,802

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

12 OTHER ASSETS

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Income receivable	26,454	28,681
Deposits and prepayments	20,911	22,227
Sundry deposits debtors	29,126	1,352
Other debtors	138,807	22,359
	<u>215,298</u>	<u>74,619</u>

13 DEPOSITS FROM CUSTOMERS

Non-Mudharabah Funds:

Demand deposits	1,505,182	1,607,302
Savings deposits	556,339	563,317
Negotiable Islamic Debt Certificates	4,864	4,754
	<u>2,066,385</u>	<u>2,175,373</u>

Mudharabah Funds:

Demand deposits	410,019	374,513
General investment deposits	1,131,646	1,166,442
Special investment deposits	4,862,132	4,411,454
	<u>8,470,182</u>	<u>8,127,782</u>

(i) By type of customer

Government and statutory bodies	1,398,453	1,771,165
Business enterprises	5,061,498	5,026,432
Individuals	896,428	887,310
Others	1,113,803	442,875
	<u>8,470,182</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	5,199,830	5,098,344
Six months to one year	792,467	467,400
One year to three years	5,627	15,927
Three years to five years	718	736
Over five years	-	243
	<u>5,998,642</u>	<u>5,582,650</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</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	705,000	152,720
Licensed banks	330,225	342,400
	<u>1,035,225</u>	<u>495,120</u>
<u>Mudharabah Fund:</u>		
Licensed Islamic banks	732,700	490,000
Licensed banks	200,000	498,000
Licensed investment banks	-	247,900
Other financial institutions	-	100,000
	<u>1,967,925</u>	<u>1,831,020</u>

15 OTHER LIABILITIES

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
Sundry creditors	34,455	17,303
Profit equalisation reserve	5,298	4,326
Amount due to holding company	81,903	243,495
Other accruals and payables	66,860	60,893
	<u>188,516</u>	<u>326,017</u>

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FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

16 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	Current Financial Quarter Ended 30.06.2010 RM'000	Preceding Corresponding Financial Quarter Ended 30.06.2009 RM'000	Current Financial Half Year Ended 30.06.2010 RM'000	Preceding Corresponding Financial Half Year Ended 30.06.2009 RM'000
Income derived from investment of:				
(i) General investment deposit	14,044	17,066	25,321	37,572
(ii) Other deposits	104,491	85,329	196,217	173,343
	118,535	102,395	221,538	210,915
(i) Income derived from investment of general investment deposits				
<u>Finance income and hibah:</u>				
Financing and advances	9,525	11,417	16,984	24,490
Financial assets held for trading	91	270	133	928
Financial investments available-for-sale	1,446	1,438	2,739	2,850
Financial investments held-to-maturity	1,316	2,153	2,453	4,459
Money at call and deposit with financial institutions	1,099	1,721	2,339	3,240
Total finance income and hibah	13,477	16,999	24,648	35,967
Other operating income (note a to c)	567	67	673	1,605
	14,044	17,066	25,321	37,572
Of which:				
Financing income earned on impaired financing	308	-	356	-
Other operating income comprise of:				
a) Fee income :				
Commission	128	186	255	379
Guarantee fees	6	4	25	50
	134	190	280	429
b) Net gain/(loss) on financial assets held-for-trading				
- net gain/(loss) on disposal	44	(25)	43	573
- unrealised revaluation gain/(loss)	198	(98)	159	(995)
	242	(123)	202	(422)
c) Net gain on disposal of financial investments AFS	191	-	191	1,598
	567	67	673	1,605

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

	Current Financial Quarter Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Quarter Ended <u>30.06.2009</u> RM'000	Current Financial Half Year Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Half Year Ended <u>30.06.2009</u> RM'000
(i) Income derived from investment of other deposits				
<u>Finance income and hibah:</u>				
Financing and advances	70,870	57,074	131,536	112,986
Financial assets held for trading	680	1,348	1,021	4,279
Financial investments available-for-sale	10,757	7,189	21,271	13,149
Financial investments held-to-maturity	9,793	10,774	19,046	20,573
Money at call and deposit with financial institutions	8,180	8,604	18,272	14,948
Total finance income and hibah	100,280	84,989	191,146	165,935
Other operating income (note a to c)	4,211	340	5,071	7,408
	104,491	85,329	196,217	173,343
Of which:				
Financing income earned on impaired financing	2,297	-	2,687	-
Other operating income comprise of:				
a) Fee income :				
Commission	952	930	1,983	1,750
Guarantee fees	41	20	193	232
	993	950	2,176	1,982
b) Net gain/(loss) on financial assets held-for-trading:				
- net gain/(loss) on disposal	325	(120)	318	2,647
- unrealised revaluation gain/(loss)	1,473	(490)	1,157	(4,591)
	1,798	(610)	1,475	(1,944)
c) Net gain on disposal of financial investments AFS				
	1,420	-	1,420	7,370
	4,211	340	5,071	7,408

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FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

17 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Current Financial Quarter Ended 30.06.2010 RM'000	Preceding Corresponding Financial Quarter Ended 30.06.2009 RM'000	Current Financial Half Year Ended 30.06.2010 RM'000	Preceding Corresponding Financial Half Year Ended 30.06.2009 RM'000
<u>Finance income and hibah:</u>				
Financing and advances	7,526	4,014	13,603	8,497
Financial assets held for trading	72	95	106	322
Financial investments available-for-sale	1,142	506	2,195	989
Financial investments held-to-maturity	1,040	757	1,967	1,547
Money at call and deposit with financial institutions	869	605	1,880	1,124
Total finance income and hibah	<u>10,649</u>	<u>5,977</u>	<u>19,751</u>	<u>12,479</u>
Other operating income (note a to c)	<u>5,175</u>	<u>5,301</u>	<u>9,704</u>	<u>10,441</u>
	<u>15,824</u>	<u>11,278</u>	<u>29,455</u>	<u>22,920</u>
Financing income earned on to impaired financing	<u>245</u>	<u>-</u>	<u>283</u>	<u>-</u>
Other operating income comprise of:				
a) Fee income :				
Commission	855	524	1,794	844
Service charges and fees	3,697	4,309	7,419	7,988
Guarantee and underwriting fees	104	107	119	128
Other fee income	176	402	60	1,072
	<u>4,832</u>	<u>5,342</u>	<u>9,392</u>	<u>10,032</u>
b) Net gain/(loss) on financial assets held-for-trading :				
- net gain/(loss) on disposal	36	(7)	36	200
- net unrealised revaluation gain/(loss)	156	(34)	125	(345)
	<u>192</u>	<u>(41)</u>	<u>161</u>	<u>(145)</u>
c) Net gain on disposal of financial investments AFS				
	<u>151</u>	<u>-</u>	<u>151</u>	<u>554</u>
	<u>5,175</u>	<u>5,301</u>	<u>9,704</u>	<u>10,441</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

18 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	Current Financial Quarter Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Quarter Ended <u>30.06.2009</u> RM'000	Current Financial Half Year Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Half Year Ended <u>30.06.2009</u> RM'000
Allowance for impairment on financing and advances:				
- Individual assessment allowance	5,961	-	38,289	-
- Collective assessment allowance	9,394	-	14,532	-
- Specific allowance	-	36,964	-	53,803
- General allowance	-	4,900	-	600
Impaired financing recovered	(872)	(1,347)	(2,662)	(1,714)
	<u>14,483</u>	<u>40,517</u>	<u>50,159</u>	<u>52,689</u>

19 INCOME ATTRIBUTABLE TO DEPOSITORS

	Current Financial Quarter Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Quarter Ended <u>30.06.2009</u> RM'000	Current Financial Half Year Ended <u>30.06.2010</u> RM'000	Preceding Corresponding Financial Half Year Ended <u>30.06.2009</u> RM'000
Deposits from customers:				
- Mudharabah funds	37,677	27,543	72,493	61,951
- Non-mudharabah funds	1,975	2,854	4,036	5,909
Deposits and placements of banks and other financial institutions:				
- Mudharabah funds	3,707	6,176	6,468	13,081
- Non-mudharabah funds	3,369	372	6,290	523
	<u>46,728</u>	<u>36,945</u>	<u>89,287</u>	<u>81,464</u>

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

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 30.06.2010</u>		
	<u>Principal Amount RM'000</u>	<u>Credit Equivalent Amount * RM'000</u>	<u>Risk Weighted Amount RM'000</u>
Transaction-related contingent items	169,963	84,982	42,391
Short-term self-liquidating trade-related contingencies	41,612	8,322	8,322
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	173,640	86,820	80,758
- maturity less than one year	1,450,975	290,195	290,159
Total	<u>1,865,190</u>	<u>484,819</u>	<u>436,130</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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FOR THE SIX MONTHS ENDED 30 JUNE 2010 (CONTINUED)

21 CAPITAL ADEQUACY

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

	<u>Unaudited</u> <u>As at</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As at</u> <u>31.12.2009</u> RM'000
<u>Tier I Capital</u>		
Paid-up ordinary share capital	523,424	523,424
Retained profits	167,172	167,172
Statutory reserve	197,739	197,739
	<u>888,335</u>	<u>888,335</u>
Less :		
Deferred tax assets	(17,046)	(17,046)
Total Tier I capital	<u>871,289</u>	<u>871,289</u>
<u>Tier II Capital</u>		
Collective assessment allowance	99,314	-
General allowance for bad and doubtful financing	-	88,984
Total Tier II capital	<u>99,314</u>	<u>88,984</u>
<u>Less:</u>		
Other deduction*	(13)	(12)
Total capital base	<u>970,590</u>	<u>960,261</u>
<u>Capital ratios</u>		
Core capital ratio (inclusive of market risk)	12.13%	12.50%
Risk-weighted capital ratio (inclusive of market risk)	<u>13.51%</u>	<u>13.78%</u>
Risk-weighted assets by each major risk category are as follows:		
Credit risk	6,583,477	6,401,766
Market risk	57,780	9,114
Operational risk	544,090	558,743
	<u>7,185,347</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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22 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	<u>Unaudited</u> <u>As At</u> <u>30.06.2010</u> RM'000	<u>Audited</u> <u>As At</u> <u>31.12.2009</u> RM'000
Outstanding credit exposures with connected parties	<u>491,716</u>	<u>584,265</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	<u>3.96%</u>	<u>4.82%</u>
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	<u>-</u>	<u>-</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 on 1 January 2008.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
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23 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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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2010 (CONTINUED)

23 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.

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.

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23 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

d. Financial investments AFS

Upon adoption of FRS 139, all unquoted equity securities are now measured at fair value, with the changes in fair value recognised directly to AFS 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 RM'000	Effect of adoption of FRS 139 RM'000	Adjusted balance as at 1 January 2010, as restated RM'000
Retained profits	<u>167,172</u>	<u>21,455</u>	<u>188,627</u>

24 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

25 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.

26 CHANGES IN PROFIT FOR THE QUARTER

The Bank recorded a profit before taxation of RM29.7 million for the current quarter, an increase of RM26.9 million as compared with the previous corresponding quarter ended 31 March 2010 of RM2.8 million. The increase was mainly due to lower allowance for impairment on financing and advances by RM21.2 million and higher income derived from investment of depositors' and shareholder's funds by RM17.7 million, partially offset by higher PER charge by RM9.6 million and higher income attributable to depositors by RM4.2 million.

27 PERFORMANCE REVIEW

For the six months ended 30 June 2010, the Bank recorded profit before taxation of RM32.6 million, higher by RM0.2 million as compared with the preceding corresponding period ended 30 June 2009 of RM32.4 million. Improved profitability was mainly attributed due to higher total distributable income by RM13.0 million, partially offset by higher income attributable to depositors by RM7.8 million and higher overheads by RM5.0 million.

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28 PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

The Malaysian economy is expected to grow over 6% in 2010, extending the positive momentum from the first quarter 2010 growth of 9.5% year on year, the strongest in a decade. The 10th Malaysian Plan is expected to provide a fresh impetus for the country to enhance and create a sustainable long term economic growth.

On the back of a resilient domestic economy and positive outlook for global recovery, the Malaysian banking sector is expected to remain healthy with ample growth opportunity. RHB Islamic is optimistic of a stronger market demand for syariah compliant banking products and services. This will be supported by the expansion of the Group's branch network and alternate channels such as the Easy by RHB outlets (RHB's simple, fast and paperless community banking initiatives) and renewed Internet Banking platform.

The Islamic Bank expects to achieve a satisfactory performance in 2010.