

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED JUNE 30, 2010

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Chairman's Report

Dear Shareholders,

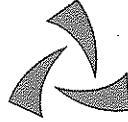
I am glad to share with you the results achieved by the Bank during the six months period ending 30 June 2010. The key business lines of the Bank recorded encouraging performance during the period in question.

Having weathered the global downturn comparatively well in the region, the Sultanate's economy is poised to record real GDP growth of 4 – 5 per cent this year. With expansionary financial, economic and monetary policies on track, the push for diversification is providing a sustained catalyst for development in Oman.

Financial Overview

The Bank achieved a net profit of RO 47 million for the six months ended 30 June 2010 compared to RO 60.4 million reported during the same period in 2009. Net profit for H1'09 included RO 53.2 million of post-tax gain on sale of HDFC Bank investment, RO 9.4 million losses on available-for-sale investment portfolio and RO 25 million of credit losses towards Saudi branch exposures. Excluding these one-off items, the adjusted net profit for H1'09 was RO 41.6 million. Thus, on a like to like comparison, the net profit for H1'10 showed an increase of 13 per cent over H1'09.

Net interest income increased by 6 per cent to RO 88.1 million during the six months period ended 30 June 2010 from RO 83.3 million reported during the corresponding period in 2009. Non-interest income was higher by 8 per cent compared to H1'09, excluding the gain on HDFC Bank investment and realised losses on Available-for-Sale investment. Operating expenses for H1'10 at RO 49.4 million increased by 16.5 per cent as compared to the same period in 2009.



The increase in operating expenses is attributable to the long-term vision and strategy to develop the banking infrastructure to provide better service and maintain the leadership position.

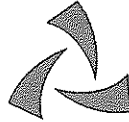
Impairment for credit losses for the six-month period in 2010 was RO 20.7 million as against RO 51.5 million in H1'09. Recoveries from impairment for credit losses was RO 6.7 million during H1'10 as against RO 4.9 million in H1'09. Share of loss from associates was RO 3.4 million in H1'10 as against RO 4.7 million in H1'09. Share of loss of RO 3.4 million was mainly due to BMI Bank net loss in the 2nd quarter due to higher credit losses which included both specific and collective provisions.

Gross loans and advances increased marginally by 2 per cent to RO 4,058 million as against RO 3,988 million as at June 30, 2009. Customer deposits, including CDs, increased by 11 per cent to RO 3,560 million as against RO 3,214 million as at June 30, 2009. Savings deposits witnessed a growth of 8 per cent from RO 767 million as at 30 June 2009 to RO 831 million as at 30 June 2010. Whereas the current and call account grew by 25 per cent from RO 928 million as at 30 June 2009 to RO 1,164 million as at 30 June 2010. The Bank continued to focus on savings and demand deposits to improve the net interest margin.

Strategic initiatives

The Bank successfully closed a series of Certificate of Deposit (CD) auction, accepting a total amount of RO 222.50 million of bids against the subscription of RO 444.90 million till the 14th CD auction. The excitement of al Mazyona Savings Scheme touched new highs as the Bank picked the first jackpot prize winner of RO 400,000.

The Business Continuity Planning (BCP) committee put in place all necessary precautionary plans before, during and after the Cyclone Phet, mitigating adverse effects of the cyclone on the Bank's operations. The Bank also participated in national efforts aimed at mitigating the effect of the cyclone on families in affected areas.



The Strongest Bank in Oman Award and the prestigious Asian Banker Leadership Achievement Award were conferred on the Bank, which also achieved a rare distinction, becoming the first and only corporate entity from Oman to be listed in 'The Forbes Global 2000' featuring the biggest and most powerful listed companies of the world.

In conclusion

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, for the confidence reposed in the Bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the Bank to record encouraging results.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity.

AbdulMalik bin Abdullah Al Khalili

Summary of unaudited consolidated results as at 30 June 2010

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Loans and advances net of provisions and reserved interest	3,826,340	3,811,057
Customer Deposits and Bonds	3,629,898	3,284,177
Net assets	735,872	686,772
Net assets per share *	0.547	0.638
	6 months ended 30 Jun 2010	6 months ended 30 Jun 2009
Net interest income	88,086	83,369
Net profit before tax for the period	55,017	72,262
Net profit after tax for the period	47,026	60,438
Basic earnings per share (for the period) **	0.035	0.056
Diluted earnings per share (for the period) **	0.035	0.056
Capital adequacy ratio ***	14.54%	15.03%

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 30 June 2010 by 1,346 million number of ordinary shares. (2009 : 1,077 million ordinary shares)

** Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33. These pertain to the reported period only and are not annualized for the full year.

*** Capital adequacy ratio has been calculated in accordance with the Basle II guidelines.

Unaudited Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2010

	Notes	6 months ended 30 June 2010	6 months ended 30 June 2009	3 months ended 30 June 2010	3 months ended 30 June 2009
		RO' 000	RO' 000	RO' 000	RO' 000
Interest income	1	134,796	139,020	67,086	68,734
Interest expense	2	(39,812)	(51,038)	(19,915)	(21,886)
		<u>94,984</u>	<u>87,982</u>	<u>47,171</u>	<u>46,848</u>
Interest expense on tier II capital		(6,898)	(4,613)	(3,453)	(3,097)
Net interest income		<u>88,086</u>	<u>83,369</u>	<u>43,718</u>	<u>43,751</u>
Other operating income	3	33,840	84,757	16,521	35,358
OPERATING INCOME		<u>121,926</u>	<u>168,126</u>	<u>60,239</u>	<u>79,109</u>
OPERATING EXPENSES					
Other operating expenses		(45,386)	(39,383)	(22,641)	(19,569)
Depreciation		(3,984)	(2,980)	(2,087)	(1,539)
		<u>(49,370)</u>	<u>(42,363)</u>	<u>(24,727)</u>	<u>(21,108)</u>
Impairment for credit losses	5	(20,744)	(51,477)	(8,948)	(40,290)
Impairment for investments		(296)	(2,205)	(219)	(485)
Recoveries from impairment for credit losses	5	6,724	4,871	3,934	3,734
Recoveries from impairment for investments		284	-	222	-
Recoveries from impairment for placements		84	-	-	-
Share of profit / (loss) from associates	8a	(3,590)	(4,690)	(4,307)	(4,365)
		<u>(66,909)</u>	<u>(95,864)</u>	<u>(34,046)</u>	<u>(62,514)</u>
PROFIT BEFORE TAXATION		<u>55,017</u>	<u>72,262</u>	<u>26,193</u>	<u>16,595</u>
Tax expense		(7,991)	(11,824)	(3,643)	(4,574)
PROFIT FOR THE PERIOD		<u>47,026</u>	<u>60,438</u>	<u>22,551</u>	<u>12,021</u>
OTHER COMPREHENSIVE INCOME					
Profit / (loss) from foreign currency translation of investments in associates, before tax		(21)	(747)	(374)	366
Change in fair value of investments available for sale, before tax		(906)	(66,127)	(1,746)	(10,022)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>(927)</u>	<u>(66,874)</u>	<u>(2,120)</u>	<u>(9,656)</u>
Profit attributable to:					
Equity holders of the parent company		47,062	60,438	22,568	12,021
Non-controlling interests		(36)	-	(17)	-
		<u>47,026</u>	<u>60,438</u>	<u>22,551</u>	<u>12,021</u>

*Unaudited Consolidated Balance sheet
As at 30 June 2010*

	Notes	30-Jun-10 RO' 000	30-Jun-09 RO' 000
ASSETS			
Cash and balances with Central Banks		954,133	537,916
Placements with banks		938,857	898,902
Loans and advances	4 & 5	3,826,340	3,811,057
Investments	8b & c	146,196	154,326
Investment in associates	8a	63,568	87,773
Property and equipment		29,006	22,521
Other assets		189,605	215,713
		<u>6,147,706</u>	<u>5,728,208</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		1,279,295	1,265,963
Customers' deposits	6	3,382,195	3,117,624
Certificates of deposit		177,500	96,350
Unsecured bonds		54,803	54,803
Floating rate notes		15,400	15,400
Other liabilities		295,248	281,642
Taxation		23,894	21,154
Subordinated liabilities		183,500	188,500
		<u>5,411,834</u>	<u>5,041,436</u>
EQUITY			
Capital and reserves attributable to equity holders of the parent company			
Share capital		134,642	107,713
Share premium		301,505	301,505
Mandatory Convertible bonds		32,314	32,314
General reserve		56,308	56,308
Legal reserve		35,905	35,905
Revaluation reserve		3,957	3,957
Subordinated loan reserve		48,400	24,200
Foreign exchange translation reserve		(906)	(10,217)
Cumulative changes in fair value	8a&8b	3,917	3,149
Retained profit		119,653	131,938
		<u>735,696</u>	<u>686,772</u>
Non-controlling interests in equity		176	-
Total Equity		<u>735,872</u>	<u>686,772</u>
TOTAL LIABILITIES AND EQUITY		<u>6,147,706</u>	<u>5,728,208</u>
Contingent liabilities	11	<u>1,092,968</u>	<u>943,973</u>
Related party information			
Due from related parties	9	49,685	52,978
Due to related parties		58,856	29,557

*Unaudited Consolidated Statement of cash flow
For the six months ended 30 June 2010*

	6 months ended 30 Jun 2010	6 months ended 30 Jun 2009
	RO' 000	RO' 000
Cash flow from operating activities		
Net profit for the period before taxation	55,017	72,262
Adjustments for :		
Depreciation	3,984	2,980
Investment income	(1,155)	(54,416)
Operating profit before working capital changes	<u>57,846</u>	<u>20,826</u>
Change in operating assets*	(103,266)	(71,129)
Change in operating liabilities**	420,128	(299,198)
Net cash (used in) / from operating activities	<u>374,708</u>	<u>(349,501)</u>
Net cash (used in) / from financing activities	(26,543)	53,458
Net cash (used in) / from investing activities	(10,428)	110,113
Net increase / (decrease) in cash and cash equivalents	<u>337,737</u>	<u>(185,930)</u>
Cash and cash equivalents brought forward	367,289	410,385
Cash and cash equivalents carried forward	<u><u>705,026</u></u>	<u><u>224,455</u></u>

* Operating assets includes deposits with central banks, bank placements, loans and advances and other assets.

** Operating liabilities includes customer deposits, deposits from banks and other liabilities.

Unaudited Consolidated Statement of Changes in Equity
Period ended 30 June 2010

	Share capital	Share premium	Convertible Bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained Earnings	Total before Non-controlling interest	Non-controlling interest	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Balance at 31 December 2008	107,713	301,505	-	56,308	35,905	3,957	24,200	69,276	(9,471)	125,357	714,750	-	714,750
Comprehensive income													
Profit for the year										73,763	73,763	(45)	73,718
Other comprehensive income													
Loss on translation of net investments in associates									(1,040)		(1,040)		(1,040)
Transfer to comprehensive income statement on derecognition of associate									9,627		9,627		9,627
Change in fair value of investments available for sale								(64,453)			(64,453)		(64,453)
Total other comprehensive income	-	-	-	-	-	-	-	(64,453)	8,587	-	(55,866)	-	(55,866)
Transactions with owners													
Dividends paid 2008										(21,543)	(21,543)		(21,543)
Issue of convertible bonds			32,314							(32,314)	-		-
Transfer to Subordinated loan reserve							24,200			(24,200)	-		-
Total contributions by and distributions to owners	-	-	32,314	-	-	-	24,200	-	-	(78,057)	(21,543)	-	(21,543)
Non-controlling interest												257	257
Total transactions with owners	-	-	32,314	-	-	-	24,200	-	-	(78,057)	(21,543)	257	(21,286)
Balance at 31 December 2009	107,713	301,505	32,314	56,308	35,905	3,957	48,400	4,823	(884)	121,063	711,104	212	711,316
	Share capital	Share premium	Mandatory Convertible Bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained Earnings	Total before Non-controlling interest	Non-controlling interest	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Balance at 31 December 2009	107,713	301,505	32,314	56,308	35,905	3,957	48,400	4,823	(884)	121,063	711,104	212	711,316
Comprehensive income													
Profit for the year										47,062	47,062	(36)	47,026
Other comprehensive income													
Loss on translation of net investments in associates									(21)		(21)		(21)
Change in fair value of investments available for sale								(906)			(906)		(906)
Total other comprehensive income	-	-	-	-	-	-	-	(906)	(21)	-	(927)	-	(927)
Transactions with owners													
Dividends paid 2009										(21,543)	(21,543)		(21,543)
Issue of bonus shares 2009	26,929									(26,929)	-		-
Total contributions by and distributions to owners	26,929	-	-	-	-	-	-	-	-	(48,472)	(21,543)	-	(21,543)
Non-controlling interest												-	-
Total transactions with owners	26,929	-	-	-	-	-	-	-	-	(48,472)	(21,543)	-	(21,543)
Balance at 30 June 2010	134,642	301,505	32,314	56,308	35,905	3,957	48,400	3,917	(905)	119,653	735,695	176	735,871

Notes to the Financial Statements as at 30 June 2010

1. Interest Income

Interest bearing assets earned interest at an overall rate of 4.92% for the three months ended 30 June 2010. (June 2009 : 5.64%).

2. Interest expense

For the six months ended 30 June 2010 the average overall cost of funds was 1.91%. (June 09 : 2.53%).

3. Other operating income

	For the six months ended		For the three months ended	
	30-Jun-10	30-Jun-09	30-Jun-10	30-Jun-09
	RO' 000	RO' 000	RO' 000	RO' 000
Foreign Exchange	5,737	3,967	2,995	1,752
Commission and fees (net)	26,452	26,376	12,758	14,501
Dividend income	990	785	144	118
Profit/(loss) on sale of investment securities	164	53,325	136	18,965
Other income	497	304	488	22
	<u>33,840</u>	<u>84,757</u>	<u>16,521</u>	<u>35,358</u>

The commission and fees shown above is net off commission and fees paid of RO 366 K. (2009 : RO 290 K.)

4. Loans and advances

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Loans and advances is analysed as follows:		
Corporate and Other Loans	2,458,948	2,465,170
Personal and Housing loans	<u>1,599,083</u>	<u>1,523,165</u>
Gross loans and advances	<u>4,058,031</u>	<u>3,988,335</u>
Less : Provisions and reserved interest	<u>231,691</u>	<u>177,278</u>
Net loans and advances	<u>3,826,340</u>	<u>3,811,057</u>

The maturity of these is analysed as follows:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Less than 1 year	1,073,944	1,126,497
1 to 3 years	759,716	651,290
3 to 5 years	424,113	453,847
Over 5 years	<u>1,800,258</u>	<u>1,756,701</u>
	<u>4,058,031</u>	<u>3,988,335</u>

The interest rate band of these are as follows:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
0-5%	1,039,236	1,027,523
5-7%	611,955	677,126
7-9%	2,172,365	2,050,782
9-11%	158,738	180,928
11-13%	49,281	28,702
more than 13%	<u>26,456</u>	<u>23,274</u>
	<u>4,058,031</u>	<u>3,988,335</u>

Notes to the Financial Statements as at 30 June 2010
5. Provisions and reserved interest

The movement on the provision for possible credit losses and reserved interest for the period is analysed as follows:

	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2010	184,190	29,655
Provided during the period	20,744	
Released/recovered during the period	(5,825)	
Written off during the period	(767)	(753)
Transfer to memorandum account		
Interest reserved during the period		7,636
Reserved interest recovered		(3,189)
At 31 June 2010	<u>198,342</u>	<u>33,349</u>
	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2009	99,597	25,977
Provided during the period	51,477	
Released/recovered during the period	(4,323)	
Written off during the period	(315)	(310)
Transferred during the period	-	-
Interest reserved during the period	-	6,739
Reserved interest recovered	-	(1,564)
At 31 June 2009	<u>146,436</u>	<u>30,842</u>

Recoveries of RO 6,724 K (Mar 2009: 4,871 K) reported in the income statement includes RO 899 K (2009: 548 K) recovered from loans written off earlier.

Interest is reserved on loans and advances which are impaired.

At 30 June 2010 loans and advances on which interest had been reserved amounted to RO 216.88 Million (2009 : RO. 189.65 Million). This includes off balance sheet exposure.

* *Specific provisions are established after considering security on a case by case basis in respect of specific loans and advances where recovery appears doubtful.*

** *General Provisions are established to meet the credit risks inherent within the loans and advances portfolio.*

Notes to the Financial Statements as at 30 June 2010
6. Deposits

Deposits are analysed as follows:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Current accounts	889,008	715,233
Call accounts	275,477	213,010
Savings accounts	830,924	766,519
Time deposits	1,369,338	1,407,927
Other	17,449	14,935
Customer Deposits	3,382,195	3,117,624
CD's / Unsecured Bonds / FRN's	247,703	166,553
Total Deposits	3,629,898	3,284,177

The maturities of deposits are as follows

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Less than 1 year	1,731,219	2,087,784
1 to 3 years	714,179	408,344
3 to 5 years	471,547	262,940
Over 5 years	712,953	525,109
	3,629,898	3,284,177

The interest rate bands of deposits are as follows:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
0%	1,452,836	1,343,403
0-2%	942,840	756,363
2-4%	399,605	316,425
4-6%	768,896	848,129
more than 6%	65,721	19,857
	3,629,898	3,284,177

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	30-Jun-10			30-Jun-09		
	Assets	Liabilities	Mismatch	Assets	Liabilities	Mismatch
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Less than 1 year	2,903,615	3,207,240	(303,625)	2,500,031	3,298,859	(798,828)
1 to 3 years	865,488	836,670	28,818	763,975	595,716	168,259
3 to 5 years	455,160	528,867	(73,707)	534,137	446,037	88,100
Over 5 years	1,923,443	1,574,929	348,514	1,930,065	1,387,596	542,469
	6,147,706	6,147,706	-	5,728,208	5,728,208	-

The mismatch represents the difference between assets and liabilities for each maturity band. Share capital is included within liabilities.

Notes to the Financial Statements as at 30 June 2010
8. Non Trading Investments
8.a. Investment in associates
1 Investment in Bank Muscat International (BMI), Bahrain

As at June 30, 2010 the carrying value of the investment in BMI was as follows:

	30-Jun-10	30-Jun-09
	RO. 000's	RO. 000's
Carrying value of the investment at January 1	57,328	65,668
Share of profit for the period	(3,955)	(2,804)
Carrying value of the Investment at June 31	<u><u>53,373</u></u>	<u><u>62,864</u></u>

2 Investment in Mangal Keshav Holdings Private Limited (MKH), India

As at June 30, 2010 the carrying value of the investment in MKH was as follows:

	30-Jun-10	30-Jun-09
	RO. 000's	RO. 000's
Carrying value of the Investment at January 1	9,844	9,355
Share of profit for the period Oct08 to Mar09		(79)
Share of profit for the period Oct09 to Mar10	373	-
Profit / (loss) on translation of foreign currency investments	(21)	128
Carrying value of the Investment at June 30	<u><u>10,195</u></u>	<u><u>9,404</u></u>

3 Investment in Silk Bank Limited (SBL) (formerly Saudi Pak Commercial Bank Limited).

In December 2009, SBL announced a rights issue of Pakistani Rupee (PKR) 7 billion through issuance of 2.8 billion right shares at the rate of PKR 2.5 per share for every one share held in order to meet the minimum capital requirement of the local regulator.

As disclosed in the annual financial statements of December 2009, the Bank has decided non participation in rights issue and to dilute its stake in SBL. As a result of non-participation in the rights issue, the Bank's stake in SBL is expected to be diluted to around 8.5% based on the proposed rights issue terms.

As it was certain that the Bank is not participating in the rights issue and thereby substantially diluting its stake from an associate status to non-strategic investment, the SBL investment has been classified from Associate Investment to Available-for-sale investment from 31 December 2009.

As at June 30, 2009 carrying value of investment in SBL was RO 15,505 K. As mentioned above these investments were reclassified as available for sale securities in Dec 2009 with a carrying value of RO 3,870 K. As at June 30, 2010, carrying value of the same is RO 3,809 K.

Notes to the Financial Statements as at 30 June 2010

8. Non Trading Investments (continued)
8.b. Available For Sale

	Fair Value 30-Jun-10 RO' 000	Fair Value 30-Jun-09 RO' 000
<i>Quoted Investments</i>		
Industrial sector	4,940	2,984
Financial services sector	4,181	4,410
Other services sector	15,156	6,234
Foreign securities	28,163	19,215
Corporate Bonds	4,696	7,746
Investment fund units	9,474	8,400
Government bonds	45,864	48,210
Total	<u>112,474</u>	<u>97,199</u>
<i>Unquoted investments</i>		
Unquoted local securities	8,692	6,341
Unquoted foreign securities	12,060	8,013
Investment fund units	50	49
Total	<u>20,802</u>	<u>14,403</u>
Impairment losses	(5,674)	(5,252)
Total available for sale	<u>127,602</u>	<u>106,350</u>
8.c. Held To Maturity		
Treasury Bills	17,294	38,006
Government Bonds	1,301	9,970
	<u>18,595</u>	<u>47,976</u>

Notes to the Financial Statements as at 30 June 2010
9. Related Party Transactions

The balances of directors and their related concerns were as follows:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Loans and advances	49,685	52,978
Current, deposit and other accounts	58,856	29,557
Customers' liabilities under documentary credits, guarantees and other commitments	5,985	5,212

The income and expenses in respect of related parties are as follows:

	6 months	6 months
	ended 30 Jun	ended 30
	2010	Jun 2009
	RO' 000	RO' 000
Interest income	675	716
Interest expenditure	207	248
Commission and other income	17	11

10. Shareholders

Shareholders of the bank who hold 10% or more of the bank's shares are given below:

	30-Jun-10	30-Jun-09
	RO' 000	RO' 000
Royal Court Affairs	33,442	26,754
Dubai Financial Group LLC	20,196	16,157
	<u>53,638</u>	<u>42,911</u>

11. Contingent liabilities

Letters of Credit	361,054	329,511
Guarantees	731,915	614,462
	<u>1,092,968</u>	<u>943,973</u>

12. Forwards and options
Forwards

- Sales	1,845,294	1,445,049
- Purchases	1,845,401	1,463,802

Options

- Sales	101,663	12,922
- Purchases	101,663	20,225

13. Comparative Figures

The corresponding figures for 2009 included for comparative purposes have been reclassified to conform with the presentation in the current year.