

DIRECTORS' REPORT

On behalf of the Board of Directors, I take pleasure in placing before you the results of the Company for the six months period ended 30 June 2011.

Economy and Business Environment

The local economy was reasonably stable after the turbulence witnessed in the first quarter. Increased employment creation, increases in salaries, continuing higher oil prices and the return to peaceful and stable conditions lead us to conclude that the Omani economy will see growth over the short to medium term.

The global economic landscape still faces significant risks arising out of global imbalances in production and consumption and significant risk of insolvency of large financial institutions and even some countries in the developed economies. The possibility of disorderly loss of faith in currencies or higher inflation in large developed economies means that we need to remain wary of collateral impact.

Operating performance

The company saw good demand for its products in both the SME/Corporate and Retail segments of its business. As a result of the higher level of lease disbursements, Net investment in finance leases increased as on 30 June 2011 to Rials 95 M (Rials 80.5 M as on 31 December 2010).

Overall, the Company's net profit for the first six months ended 30 June 2011 grew 68.4% to Rials 1537K (Rials 913 K for the same period in 2010).

Future outlook

We have seen pick up in business during the first half of the year and expect that this will continue during the second half. On the other hand, we will continue to deal with the increased challenges of competition as well as the customers who have been adversely impacted by the existing economic slowdown. We expect that the banking system will retain sufficient liquidity.

Your company is equipped to face these challenges and is taking appropriate actions to manage the risk arising therefrom. The well-defined policies and procedures, strong channels of communication and customer relationships, experienced and result oriented management and staff will enable the company to deal with the challenges of a rapidly changing global and local economy.

Other Matters

The company continued its training efforts for its personnel. As of 30 June 2011 the Omanisation level stood at 71.9% which continued to be higher than the minimum prescribed for leasing companies. The company continues to remain committed to providing increased exposure and training to Omani staff to prepare them for higher responsibilities.

Taya Bin Jandal Bin Ali
Chairman
26 July 2011

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Quarter ended 30 June 2011 Rials '000	Six Months ended 30 June 2011 Rials '000	Quarter ended 30 June 2010 Rials '000	Six Months ended 30 June 2010 Rials '000
Revenue					
Income from financing activities		2,486	4,730	1,938	3,856
Interest expense		(802)	(1,524)	(753)	(1,529)
Net finance income		1,684	3,206	1,185	2,327
Other income	3	227	413	148	316
Net operating income		1,911	3,619	1,333	2,643
Expenses					
General and administrative expenses	4	(657)	(1,275)	(527)	(1,089)
Depreciation on property and equipment	11	(29)	(57)	(31)	(62)
Profit before provisions		1,225	2,287	775	1,492
Provision for impairment of lease receivables – net	9	(226)	(603)	(220)	(472)
Bad debts written (off) / back		25	75	7	17
Profit before taxation		1,024	1,759	562	1,037
Taxation	5	(128)	(222)	(67)	(124)
Profit for the period		896	1,537	495	913
Revaluation of land and building		6	13	6	13
Total comprehensive income for the period		902	1,550	501	926
Earnings per share (Rials)	6	0.005	0.009	0.003	0.005

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.

The review report is set forth on page 1.

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT

	Note	30 June 2011 Rials'000	30 June 2010 Rials'000	31 December 2010 Rials'000
Assets				
Cash and bank balances	7	622	3,963	1,805
Statutory deposit	8	50	50	50
Net investment in finance leases	9	94,517	71,543	80,076
Working capital finance		819	75	477
Advances and prepayments		937	930	876
Property pending sale	10	159	28	124
Deferred tax asset		616	540	544
Property and equipment	11	1,078	1,144	1,116
Total asset		98,798	78,273	85,068
Equity				
Share capital	12	17,555	15,133	15,133
Revaluation reserve		721	748	734
Legal reserve		1,791	1,558	1,791
Foreign currency reserve		-	153	153
Retained earnings		1,828	2,105	3,304
Total equity		21,895	19,697	21,115
Liabilities				
Creditors and accruals	13	5,226	4,093	4,622
Staff terminal benefits		349	294	304
Provision for income tax		624	386	587
Bank borrowings	14	59,426	40,020	42,778
Fixed deposits	15	11,097	13,599	15,480
Deferred tax liability		181	184	182
Total liabilities		76,903	58,576	63,953
Total equity and liabilities		98,798	78,273	85,068
Net assets per share		0.125	0.112	0.120

These unaudited condensed interim financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 26 July 2011 and signed on their behalf by:

A SAID ZAKI
DIRECTOR

ROBERT PANCRAS
CHIEF EXECUTIVE OFFICER

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NATIONAL FINANCE COMPANY SAOG
UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE
PERIOD ENDED 30 JUNE 2011

	Share capital Rials'000	Share Premium Rials'000	Revaluation reserve Rials'000	Legal reserve Rials'000	Foreign currency reserve Rials'000	Retained earnings Rials'000	Total Rials'000
January 1, 2011	15,133	-	734	1,791	153	3,304	21,115
<i>Total comprehensive income for the period</i>							
Profit for the period	-	-	-	-	-	1,537	1,537
Transfer to retained earnings	-	-	(13)	-	(153)	166	-
	-	-	(13)	-	(153)	1,703	1,537
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of bonus shares	2,422	-	-	-	-	(2,422)	-
Cash dividend	-	-	-	-	-	(757)	(757)
June 30, 2011	17,555	-	721	1,791	-	1,828	21,895
January 1, 2010	12,611	-	761	1,558	153	3,701	18,784
<i>Total comprehensive income for the period</i>							
Profit for the period	-	-	-	-	-	913	913
Transfer to retained earnings	-	-	(13)	-	-	13	-
	-	-	(13)	-	-	926	913
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of bonus shares	2,522	-	-	-	-	(2,522)	-
June 30, 2010	15,133	-	748	1,558	153	2,105	19,697
January 1, 2010	12,611	-	761	1,558	153	3,701	18,784
<i>Total comprehensive income for the period</i>							
Profit for the period	-	-	-	-	-	2,331	2,331
Transfer to retained earnings	-	-	(27)	-	-	27	-
	-	-	(27)	-	-	2,358	2,331
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of bonus shares	2,522	-	-	-	-	(2,522)	-
Transfer to legal reserve	-	-	-	233	-	(233)	-
December 31, 2010	15,133	-	734	1,791	153	3,304	21,115

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NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2011

	Six Months ended 30 June 2011 Rials '000	Six Months ended 30 June 2010 Rials '000
Operating activities		
Profit before taxation	1,759	1,037
Adjustments for:		
Depreciation	57	62
Provision for end of service benefits	66	52
Provision for impairment of lease receivables	603	552
Bad debts written off /(back)	(75)	(17)
Interest expense	1,524	1,529
Operating profit before working capital changes and payment of end of service benefits	3,934	3,215
End of service benefits paid	(20)	(15)
Changes in operating assets and liabilities		
Investment in finance leases	(14,968)	(2,544)
Working capital finance	(342)	(75)
Advances and prepayments	(61)	(368)
Creditors and accruals	604	1,017
Interest paid	(1,656)	(1,529)
Income tax paid	(260)	(35)
Net cash flow used in operating activities	(12,769)	(334)
Cash flows from investing activities		
Purchase of property and equipment	(19)	(5)
Purchase of property pending for sale	(35)	-
Net cash flow used in investing activities	(54)	(5)
Cash flows from financing activities		
Bank borrowings	16,646	(1,800)
Fixed deposits	(4,383)	6,370
Dividend paid	(757)	-
Net cash flow from financing activities	11,506	4,570
Net change in cash and cash equivalents	(1,317)	4,231
Cash and cash equivalents at the beginning of the period	1,805	(268)
Cash and cash equivalents at the end of the period	488	3,963

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NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

1 Legal status and principal activities

National Finance Company SAOG (the Company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and has a primary listing on the Muscat Security Market. The principal activity of the Company is leasing business. The Company derives all of its income from leasing operations within the Sultanate of Oman.

2 Summary of significant accounting policies

The principal accounting policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

These unaudited condensed interim financial statements are prepared on the historical cost basis, as modified by the revaluation of land and buildings and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the "Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading" issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

These unaudited condensed interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the full audited financial statements of the Company as at and for the year ended 31 December 2010.

The accounting policies applied by the Company in these condensed interim financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2010.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

3 Other income

	Quarter ended 30 June 2011 Rials '000	Six Months ended 30 June 2011 Rials '000	Quarter ended 30 June 2010 Rials '000	Six Months ended 30 June 2010 Rials '000
Penal Interest	34	72	35	84
Income from pre-closed leases	115	204	73	146
Miscellaneous income	78	137	40	86
	<u>227</u>	<u>413</u>	<u>148</u>	<u>316</u>

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***4 General and administrative expenses**

	Quarter ended 30 June 2011 Rials '000	Six Months ended 30 June 2011 Rials '000	Quarter ended 30 June 2010 Rials '000	Six Months ended 30 June 2010 Rials '000
Employee related expenses	482	945	389	807
Occupancy costs	11	22	12	22
Communication costs	15	30	15	29
Professional fees	13	26	12	25
Advertising and sales promotion	40	65	18	37
Directors' sitting fees	5	9	4	8
Directors' remuneration	19	38	14	29
Other office expenses	72	140	63	132
	<u>657</u>	<u>1,275</u>	<u>527</u>	<u>1,089</u>

5 Income tax**Components of taxation for the period**

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on the taxable profits in excess of Rials 30,000. The reconciliation between the tax expense and the profit before taxation is as follows:

	Quarter ended 30 June 2011 Rials '000	Six months ended 30 June 2011 Rials '000	Quarter ended 30 June 2010 Rials '000	Six months ended 30 June 2010 Rials '000
Profit before taxation	1,024	1,759	562	1,037
<i>Current tax</i>				
- current period	155	294	94	181
<i>Deferred tax asset</i>				
- current period	(27)	(72)	(27)	(57)
Taxation charge for the period	<u>128</u>	<u>222</u>	<u>67</u>	<u>124</u>

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***6 Earnings per share**

The calculation of earnings per share is as follows:

	Quarter ended 30 June 2011	Six Months ended 30 June 2011	Quarter ended 30 June 2010	Six Months ended 30 June 2010
Earnings per share				
Profit for the period attributable to ordinary shareholders (RO'000)	896	1,537	495	913
Number of shares (Nos '000)	175,545	175,545	175,545	175,545
Earnings per share (Rial)	0.005	0.009	0.003	0.005

Net assets per share and earnings per share at and for the quarter ended 30 June 2011 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the quarter ended 30 June 2011 and 30 June 2010 were 175,544,686 shares and these include 24,213,060 bonus shares issued for nil consideration during March 2011.

7 Cash and cash equivalents

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Cash and bank balance	622	3,963	1,805
Overdraft	(134)	-	-
	488	3,963	1,805

8 Statutory deposit

The Company is required to maintain a deposit of RO 50,000 (2010 – RO 50,000) with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the period the deposit earned interest at the rate of 2% per annum (2010 – 2%).

9 Net investment in finance leases

	Six Months ended 30 June 2011 Rials'000	Six Months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Net investment in finance leases			
Gross investment in finance leases	117,436	89,035	99,303
Unearned lease income	(17,314)	(12,584)	(14,274)
	100,122	76,451	85,029
Provision for impairment of lease receivable	(5,048)	(4,416)	(4,449)
Unrecognised contractual income	(557)	(492)	(504)
Net investment in finance leases	94,517	71,543	80,076

NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

9 Net investment in finance leases (continued)

Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. As at 30 June 2011, investment in leases where contractual income has not been recognised was Rials 5.8 M (30 June 2010 Rials 5.49 M, 31 December 2010: Rials 5.90 M).

(a) Unearned lease income

	Six months ended 30 June 2011 Rials '000	Six months ended 30 June 2010 Rials '000	Year ended 31 December 2010 Rials'000
Opening balance	14,274	12,266	12,266
Additions during the period	7,770	4,174	10,013
Recognised during the period	(4,730)	(3,856)	(8,005)
Closing balance	<u>17,314</u>	<u>12,584</u>	<u>14,274</u>

(b) Provision for impairment of lease receivables

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Opening balance	4,449	3,949	3,949
Provided during the period	902	802	1,272
Released during the period	(299)	(330)	(362)
Write offs during the period	(4)	(5)	(410)
Closing balance	<u>5,048</u>	<u>4,416</u>	<u>4,449</u>

(c) Unrecognised contractual income

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Opening balance	504	424	424
Unrecognised during the period	131	132	230
Recognised during the period	(78)	(64)	(150)
Closing balance	<u>557</u>	<u>492</u>	<u>504</u>

10 Property Pending sale

Property pending sale represents land and buildings acquired by the Company in part settlement of amounts due by borrower following the conclusion of all credit recovery procedures available to the Company. The property pending sale is shown at lower of cost and net realisable value.

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***11 Property and Equipment**

<i>At 30 June 2010</i>	Freehold land Rials'000	Buildings Rials'000	Furniture, fixtures and equipment Rials'000	Motor vehicles Rials'000	Total Rials'000
Cost or valuation					
01 January 2011	800	395	512	25	1,732
Additions	-	-	19	-	19
30 June 2011	<u>800</u>	<u>395</u>	<u>531</u>	<u>25</u>	<u>1,751</u>
Accumulated depreciation					
01 January 2011	-	169	437	10	616
Charge for the period	-	28	25	4	57
30 June 2011	<u>-</u>	<u>197</u>	<u>462</u>	<u>14</u>	<u>673</u>
Net book value 30 June 2011	<u>800</u>	<u>198</u>	<u>69</u>	<u>11</u>	<u>1,078</u>

At 30 June 2010

Cost or valuation					
01 January 2010	800	395	528	25	1,748
Additions	-	-	5	-	5
30 June 2010	<u>800</u>	<u>395</u>	<u>533</u>	<u>25</u>	<u>1,753</u>
Accumulated Depreciation					
01 January 2010	-	112	434	2	548
Charge for the period	-	28	30	4	62
30 June 2010	<u>-</u>	<u>140</u>	<u>464</u>	<u>6</u>	<u>610</u>
Net book value 30 June 2010	<u>800</u>	<u>255</u>	<u>69</u>	<u>19</u>	<u>1,144</u>

At 31 December 2010

Cost or valuation					
01 January 2010	800	395	528	25	1,748
Additions	-	-	38	-	38
Released on disposals	-	-	(54)	-	(54)
31 December 2010	<u>800</u>	<u>395</u>	<u>512</u>	<u>25</u>	<u>1,732</u>
Accumulated depreciation					
01 January 2010	-	112	433	2	547
Charge for the year	-	57	58	8	123
Released on disposals	-	-	(54)	-	(54)
31 December 2010	<u>-</u>	<u>169</u>	<u>437</u>	<u>10</u>	<u>616</u>
Net book value 31 December 2010	<u>800</u>	<u>226</u>	<u>75</u>	<u>15</u>	<u>1,116</u>

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***12 Share capital**

The authorised share capital of the Company comprises 300,000,000 ordinary shares of baizas 100 each (2010: 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 175,544,686 ordinary shares of baizas 100 each (2010: 151,331,626 ordinary shares of baizas 100 each). In March 2011, as per resolution passed in the annual general meeting held on 8 March 2011, the issued and paid up capital was increased to Rials 17,554,686 by issue of 24,213,060 bonus shares.

13 Creditors and accruals

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Creditors	4,368	3,377	3,883
Accruals and other liabilities	858	716	739
	5,226	4,093	4,622

14 Bank borrowings

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000	Year ended 31 December 2010 Rials'000
Overdrafts	134	-	-
Short-term loans	42,118	29,275	34,614
Long-term loans	17,174	10,745	8,164
	59,426	40,020	42,778

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of RO 11.1 million, with tenures ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 5% and 6.25% per annum. The carrying amount includes interest accrued till the end of the reporting period.

16 Dividends

The Board of Directors at the Annual General Meeting held on 8 March 2011 approved a stock dividend of 16% amounting to Rials 2,421,306 and cash dividend of 5% amounting to Rials 756,658 for 2010. (2009 – Stock dividend Rials 2,522,194).

NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

17 Related party transactions

The Company entered into transactions with entities over which certain Directors are able to exert significant influence. Such transactions are at mutually agreed terms. Significant related party transactions during the six months ended 30 June 2011 were as follows:

	Six months ended 30 June 2011 Rials'000	Six months ended 30 June 2010 Rials'000
General and administration expenses	1	1
Lease rentals paid for vehicles taken on operating lease	13	13
Payments to Directors		
Sitting fees	9	8
Proposed remuneration	38	27
Directors remuneration for previous year paid in current period	57	60
Period end balances		
Net investment in finance lease	103	174
Remuneration to key members of management during the period		
Salaries and other benefits (Top 5)	267	244
Advances and net investment in leases	19	22

18 Maturity analysis of significant assets and liabilities

At 30 June 2011	Up to 1 month Rials'000	> 1 month to 1 year Rials'000	> 1 year to 5 years Rials'000	Non-fixed maturity Rials'000	Total Rials'000
Assets					
Cash and bank balances	622	-	-	-	622
Statutory deposit	-	-	-	50	50
Net investment in finance leases	3,129	30,975	60,413	-	94,517
Working capital finance	-	819	-	-	819
Advances and prepayments	937	-	-	-	937
Property pending sale	-	159	-	-	159
Deferred tax asset	-	-	-	616	616
Property and equipment	-	-	-	1,078	1,078
Total assets	<u>4,688</u>	<u>31,953</u>	<u>60,413</u>	<u>1,744</u>	<u>98,798</u>
Equity					
Equity	-	-	-	21,895	21,895
Liabilities					
Bank borrowings and fixed deposits	12,512	34,724	23,287	-	70,523
Creditors and accruals	5,226	-	-	349	5,575
Provision for income tax	-	624	-	-	624
Deferred tax liability	-	-	-	181	181
Total equity and liabilities	<u>17,738</u>	<u>35,348</u>	<u>23,287</u>	<u>22,425</u>	<u>98,798</u>
Liquidity gap	<u>(13,050)</u>	<u>(3,395)</u>	<u>37,126</u>	<u>(20,681)</u>	-
Cumulative liquidity gap	<u>(13,050)</u>	<u>(16,445)</u>	<u>20,681</u>	-	-

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***18 Maturity analysis of significant assets and liabilities** *(continued)*

At 31 December 2010	Up to 1 month Rials'000	> 1 month to 1 year Rials'000	> 1 year to 5 years Rials'000	Non-fixed maturity Rials'000	Total Rials'000
Assets					
Cash and bank balances	1,805	-	-	-	1,805
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,602	27,184	50,290	-	80,076
Working capital finance	477				477
Advances and prepayments	876	-	-	-	876
Property pending sale	-	124	-	-	124
Deferred tax asset	-	-	-	544	544
Property and equipment	-	-	-	<u>1,116</u>	<u>1,116</u>
Total assets	<u>5,760</u>	<u>27,308</u>	<u>50,290</u>	<u>1,710</u>	<u>85,068</u>
Equity					
Equity	-	-	-	21,115	21,115
Liabilities					
Bank borrowings and fixed deposit	9,656	36,371	12,231	-	58,258
Creditors and accruals	4,622	-	-	304	4,926
Provision for income tax	-	587	-	-	587
Deferred tax liability	-	-	-	<u>182</u>	<u>182</u>
Total equity and liabilities	<u>14,278</u>	<u>36,958</u>	<u>12,231</u>	<u>21,601</u>	<u>85,068</u>
Liquidity gap	<u>(8,518)</u>	<u>(9,650)</u>	<u>38,059</u>	<u>(19,891)</u>	-
Cumulative liquidity gap	<u>(8,518)</u>	<u>(18,168)</u>	<u>19,891</u>	-	-