

DIRECTORS' REPORT

On behalf of the Board of Directors, I take pleasure in placing before you the results of the Company for the three months period ended 31 March 2010.

Economy and Business Environment

The past year witnessed significant volatility in global markets arising from the uncertainties caused by the global financial crisis. After the major interventions by global governments and central banks, confidence and liquidity have now returned to most financial markets.

In Oman, continued government commitment to invest in infrastructure has compensated for the sharp drop in private investment to some extent. Sales of equipment and vehicles dropped during the last year but appear to have now stabilized and are picking up slowly from the lower levels. Business momentum is expected to improve further from the low levels of 2009.

Operating performance

Net investment in finance leases remained flat as on 31 March 2010 at Rials 69.6 M (Rials 69.5 M as on 31 December 2009).

The collections performance continued to be steady and as a result non-performing loans (NPL) declined by 2.3% compared to 31 December 2009. The company continues to follow a prudent provisioning policy based on its assessment of the risks inherent in its portfolio.

Overall, the Company's net profit decreased by 29.4% to Rials 418 K for the quarter ended 31 March 2010 (RO 592K for the same period in 2009).

Future outlook

While we expect some pick up in business from the second half of 2010, 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 do 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 31 March 2010 the Omanisation level stood at 64% 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 April 2010

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Quarter ended 31 March 2010 Rials '000	Quarter ended 31 March 2009 Rials '000
Revenue			
Income from financing activities		1,919	2,196
Interest expense		(777)	(959)
Net Finance Income		<u>1,142</u>	<u>1,237</u>
Other income	3	<u>168</u>	<u>122</u>
Net Operating Income		<u>1,310</u>	<u>1,359</u>
Expenses			
General and administrative expenses	4	(562)	(549)
Depreciation on property and equipment	11	(32)	(27)
Profit before provisions		<u>716</u>	<u>783</u>
Provision for impairment of lease receivables – net	9	(251)	(105)
Bad debts written off		<u>10</u>	<u>(3)</u>
Profit before taxation		<u>475</u>	<u>675</u>
Taxation	5	(57)	(83)
Profit for the period		<u>418</u>	<u>592</u>
Revaluation of land & building		<u>7</u>	<u>6</u>
Total comprehensive income for the period		<u>425</u>	<u>598</u>
Earnings per share (Rials)	6	<u>0.003</u>	<u>0.004</u>

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 BALANCE SHEET AS AT

		31 March 2010	31 March 2009	31 December 2009
	Note	Rials'000	Rials'000	Rials'000
Assets				
Cash and bank balances		320	1,053	292
Statutory deposit	8	50	50	50
Net investment in finance leases	9	69,640	76,008	69,534
Advances and prepayments		960	807	562
Property pending sale	10	28	196	28
Deferred tax asset		514	718	484
Property and equipment	11	1,171	1,222	1,200
Total asset		72,683	80,054	72,150
Equity				
Share capital	12	15,133	12,611	12,611
Revaluation reserve		754	781	761
Legal reserve		1,558	1,326	1,558
Foreign currency reserve		153	153	153
Retained earnings		1,604	2,185	3,701
Total equity		19,202	17,056	18,784
Liabilities				
Creditors and accruals	13	4,094	2,621	3,076
Staff terminal benefits		282	214	257
Provision for income tax		295	219	240
Bank borrowings	14	36,413	49,507	42,380
Fixed deposits	15	12,212	10,232	7,229
Deferred tax liability		185	205	184
Total liabilities		53,481	62,998	53,366
Total equity and liabilities		72,683	80,054	72,150
Net Asset per share		0.127	0.113	0.124

These unaudited condensed interim financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 26 April 2010 and signed on their behalf by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

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 31 MARCH 2010

	Share capital	Share Premium	Revaluation reserve	Legal reserve	Foreign currency reserve	Retained earnings	Total
	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000
January 1, 2010	12,611	-	761	1,558	153	3,701	18,784
Total Comprehensive Income:							
Profit for the period	-	-	-	-	-	418	418
Transfer to Retained Earnings	-	-	(7)	-	-	7	-
	-	-	(7)	-	-	425	418
Transaction with shareholders:							
Issue of Bonus Shares	2,522	-	-	-	-	(2,522)	-
March 31, 2010	15,133	-	754	1,558	153	1,604	19,202

	Share capital	Share Premium	Revaluation reserve	Legal reserve	Foreign currency reserve	Retained earnings	Total
	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000	Rials'000
January 1, 2009	11,465	937	787	1,326	153	2,942	17,610
Total Comprehensive Income:							
Transfer to Retained Earnings	-	-	(6)	-	-	6	-
Profit for the period	-	-	-	-	-	592	592
	-	-	(6)	-	-	598	592
Transaction with shareholders:							
Dividend paid	-	-	-	-	-	(1,146)	(1,146)
Issue of Bonus Shares	1,146	(937)	-	-	-	(209)	-
March 31, 2009	12,611	-	781	1,326	153	2,185	17,056

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NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2010

	Quarter ended 31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000
Operating activities		
Profit before taxation	475	675
Adjustments for:		
Depreciation	32	27
Provision for end of service benefits	26	17
Provision for impairment of lease receivables	282	(26)
Bad debts written off /(back)	(10)	3
Interest expense	777	959
Operating profit before working capital changes and payment of end of service benefits	1,582	1,655
End of service benefits paid	(1)	(2)
Changes in operating assets and liabilities		
Investment in finance leases	(377)	915
Advances and prepayments	(398)	246
Creditors and accruals	1,017	(745)
Interest paid	(777)	(959)
Income tax paid	(32)	(435)
Net cash flow from operating activities	1,014	675
Cash flows from investing activities		
Purchase of property and equipment	(2)	(7)
Purchase collateral asset	-	(28)
Net cash flow used in investing activities	(2)	(35)
Cash flows from financing activities		
Bank borrowings	(6,190)	1,118
Fixed deposits	4,983	27
Dividend paid	-	(1,146)
Net cash flow used financing activities	(1,207)	(1)
Net change in cash and cash equivalents	(195)	638
Cash and cash equivalents at the beginning of the period	(268)	(90)
Cash and cash equivalents at the end of the period	(463)	548

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

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 2009.

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 2009.

The preparation of financial statements in conformity with IFRS 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 31 March 2010 Rials’000	Quarter ended 31 March 2009 Rials’000
Penal Interest	49	30
Income from pre-closed leases	73	67
Miscellaneous income	46	25
	168	122

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

	Quarter ended 31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000
Employee related expenses	418	400
Occupancy costs	10	10
Communication costs	14	11
Professional fees	13	21
Advertising and sales promotion	19	41
Directors' sitting fees	4	4
Directors' remuneration	15	15
Other office expenses	69	47
	<u>562</u>	<u>549</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 31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000
Profit before taxation	475	675
<i>Current tax</i>		
- current period	87	97
<i>Deferred tax asset</i>		
- current period	(30)	(13)
<i>Deferred tax liability</i>		
- current period	-	(1)
Taxation charge for the period	<u>57</u>	<u>83</u>

6 Earnings per share

The calculation of earnings per share is as follows:

	Quarter ended 31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000
Earnings per share		
Profit for the period attributable to ordinary shareholders (RO'000)	418	592
Number of shares (Nos '000)	<u>151,332</u>	<u>151,332</u>
Earnings per share RO	<u>0.003</u>	<u>0.004</u>

NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

6 Earnings per share (continued)

Net assets per share and earnings per share at and for the three months ended 31 March 2009 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the quarter ended 31 March 2010 and 31 March 2009 were 151,331,626 shares and these include 25,221,938 bonus shares issued for nil consideration during March 2010.

7 Cash and cash equivalents

	31 March 2010	Quarter ended 31 March 2009	31 December 2009
	Rials'000	Rials'000	Rials'000
Cash and bank balance	320	1,053	292
Overdraft	(783)	(505)	(560)
	<u>(463)</u>	<u>548</u>	<u>(268)</u>

8 Statutory deposit

The Company is required to maintain a deposit of Rials 50,000 (2009 – Rials 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 (2009 – 2%).

9 Net investment in finance leases

	31 March 2010	Quarter ended 31 March 2009	31 December 2009
	Rials'000	Rials'000	Rials'000
Net investment in finance leases			
Gross investment in finance leases	86,596	96,903	86,173
Unearned lease income	(12,312)	(14,413)	(12,266)
	<u>74,284</u>	<u>82,490</u>	<u>73,907</u>
Provision for impairment of lease receivable	(4,200)	(5,810)	(3,949)
Unrecognised contractual income	(444)	(672)	(424)
Net investment in finance leases	<u>69,640</u>	<u>76,008</u>	<u>69,534</u>

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 31 March 2010, investment in leases where contractual income has not been recognised was Rials 4.96 M (2009: Rials 5.99, 31-12-2009 : Rials 5.09 M).

(a) Unearned lease income

	31 March 2010	Quarter ended 31 March 2009	31 December 2009
	Rials'000	Rials'000	Rials'000
Opening balance	12,266	15,024	15,024
Additions during the period	1,965	1,586	5,216
Recognised during the period	(1,919)	(2,197)	(7,974)
Closing balance	<u>12,312</u>	<u>14,413</u>	<u>12,266</u>

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***9 Net investment in finance leases (continued)**

b) Provision for impairment of lease receivables

	31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000	31 December 2009 Rials'000
Opening balance	3,949	5,789	5,789
Provided during the period	443	263	950
Released during the period	(192)	(158)	(430)
Write offs during the period	(0)	(84)	(2360)
Closing balance	<u>4,200</u>	<u>5,810</u>	<u>3,949</u>

(c) Unrecognised contractual income

	31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000	31 December 2009 RO'000
Opening balance	424	717	717
Unrecognised during the period	74	26	214
Recognised during the period	(54)	(71)	(507)
Closing balance	<u>444</u>	<u>672</u>	<u>424</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.

11 Property and Equipment

	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 2010	800	395	528	25	1,748
Revaluation Surplus	-	-	-	-	-
Additions	-	-	2	-	2
Released on disposals	-	-	-	-	-
31 March 2010	<u>800</u>	<u>395</u>	<u>530</u>	<u>25</u>	<u>1,750</u>
Depreciation:					
01 January 2010	-	112	434	2	548
Charge for the period	-	14	15	2	32
31 March 2010	<u>-</u>	<u>126</u>	<u>449</u>	<u>4</u>	<u>580</u>
Net book value 31 March 2010	<u>800</u>	<u>269</u>	<u>81</u>	<u>21</u>	<u>1,171</u>

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

	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 2009	800	395	481	14	1,690
Revaluation Surplus	-	-	-	-	-
Additions	-	-	7	-	7
Released on disposals	-	-	-	-	-
31 March 2009	<u>800</u>	<u>395</u>	<u>488</u>	<u>14</u>	<u>1,697</u>
Depreciation					
01 January 2009	-	56	378	14	448
Charge for the period	-	15	12	-	27
31 March 2009	<u>-</u>	<u>71</u>	<u>390</u>	<u>14</u>	<u>475</u>
Net book value 31 March 2009	<u>800</u>	<u>324</u>	<u>98</u>	<u>-</u>	<u>1,222</u>

	Freehold land Rials'000	Buildings Rials'000	Furniture, fixtures and equipment Rials'000	Motor vehicles Rials'000	Total Rials'000
Cost or valuation					
1 January 2009	800	395	481	14	1,690
Additions	-	-	47	25	72
Released on disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14)</u>	<u>(14)</u>
31 December 2009	<u>800</u>	<u>395</u>	<u>528</u>	<u>25</u>	<u>1,748</u>
Depreciation					
1 January 2009	-	56	378	14	448
Charge for the year	-	56	56	2	114
Released on disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14)</u>	<u>(14)</u>
31 December 2009	<u>-</u>	<u>112</u>	<u>434</u>	<u>2</u>	<u>548</u>
Net book value	<u>800</u>	<u>283</u>	<u>94</u>	<u>23</u>	<u>1,200</u>
31 December 2009					

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 (2009: 300,000,000) ordinary shares of 0.100 baizas each. The Company's issued and fully paid-up share capital amounts to 151,331,626 ordinary shares of 0.100 baizas per share (31 December 2009: 126,109,688 ordinary shares of RO 0.100 each). In March 2010, as per resolution passed in the annual general meeting held on 9 March, 2010, the issued and paid up capital was increased to Rials 15,133,162 by issue of 25,221,938 bonus shares.

13 Creditors and accruals

	31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000	31 December 2009 Rials'000
Creditors	3,659	1,854	2,097
Accruals and other liabilities	435	767	979
	4,094	2,621	3,076

14 Bank borrowings

	31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000	31 December 2009 Rials'000
Overdrafts	783	505	560
Short-term loans	24,221	32,735	27,334
Long-term loans	11,409	16,267	14,486
	36,413	49,507	42,380

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of RO 12.2 million, with tenors ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 5.85% and 7.0% 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 for the year 2009 approved a stock dividend of 20% amounting to Rials 2,522,194 for 2009 (2008 – Rials 1,146,452).

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 quarter ending 31 March 2010 were as follows:

NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

17 Related party transactions (continued)

	Quarter ended 31 March 2010 Rials'000	Quarter ended 31 March 2009 Rials'000
Lease rentals paid for vehicles taken on operating lease	5	8
Payments to Directors		
Sitting fees	3	2
Proposed remuneration	13	15
Directors remuneration for 2009 paid in March 2010	60	41
Period end balances arising on the above		
Net investment in finance lease	192	228
Remuneration to key members of management during the period		
Salaries and other benefits (Top 5)	181	173
Advances & net investment in leases	22	43

18 Maturity analysis of significant assets and liabilities

At 31 March 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	320	-	-	-	320
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,235	23,512	43,893	-	69,640
Advances and prepayments	960	-	-	-	960
Property pending sale	-	28	-	-	28
Deferred tax asset	-	-	-	514	514
Property and equipment	-	-	-	1,171	1,171
Total assets	<u>3,515</u>	<u>23,540</u>	<u>43,893</u>	<u>1,735</u>	<u>72,683</u>
Equity					
Equity	-	-	-	19,202	19,202
Liabilities					
Bank borrowings and fixed deposit					
	8,538	26,672	13,415	-	48,625
Creditors and accruals	4,376	-	-	-	4,376
Provision for income tax	-	295	-	-	295
Deferred tax liability	-	-	-	185	185
Total equity and liabilities	<u>12,914</u>	<u>26,967</u>	<u>13,415</u>	<u>19,387</u>	<u>72,683</u>
Liquidity gap	<u>(9,399)</u>	<u>(3,427)</u>	<u>30,478</u>	<u>(17,652)</u>	
Cumulative liquidity gap	<u>(9,399)</u>	<u>(12,826)</u>	<u>17,652</u>		

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

At 31 December 2009	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	292	-	-	-	292
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,169	23,602	43,764	-	69,534
Advances and prepayments	562	-	-	-	562
Property pending sale	-	28	-	-	28
Deferred tax asset	-	-	-	484	484
Property and equipment	-	-	-	<u>1,200</u>	<u>1,200</u>
Total assets	<u>3,023</u>	<u>23,630</u>	<u>43,764</u>	<u>1,734</u>	<u>72,150</u>
Equity					
Equity	-	-	-	18,784	18,784
Liabilities					
Bank borrowings and fixed deposit	11,133	22,991	15,485	-	49,609
Creditors and accruals	3,076	-	-	257	3,333
Provision for income tax	-	240	-	-	240
Deferred tax liability	-	-	-	<u>184</u>	<u>184</u>
Total equity and liabilities	<u>14,209</u>	<u>23,231</u>	<u>15,485</u>	<u>19,225</u>	<u>72,150</u>
Liquidity gap	<u>(11,186)</u>	<u>399</u>	<u>28,279</u>	<u>(17,492)</u>	
Cumulative liquidity gap	<u>(11,186)</u>	<u>(10,787)</u>	<u>17,492</u>		