

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 2011.

Economy and Business Environment

The global economic landscape has returned to turbulence with the recent earthquake and tsunami in Japan, ongoing turmoil in the gulf region, increasing oil price, increasing inflation and erratic currency movements Oman is not untouched by these developments.

Immediate actions taken by the authorities in Oman in terms of creation of jobs, increase in minimum wages, increase in government and private sectors salaries and other structural changes have stabilized the situation here. With continuing high crude price realisation giving the Government some flexibility, we believe Oman's economy is reasonably poised for growth in the short to medium term.

Operating performance

Net investment in finance leases increased as on 31 March 2011 to Rials 87 M (Rials 80.5 M as on 31 December 2010).

Overall, the Company's net profit is Rials 640 K for the first three months ended 31 March 2011 (RO 418 K for the same period in 2010).

Future outlook

We seen some pick up in business during the first quarter and expect that this will continue for the next few months. 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 31 March 2011 the Omanisation level stood at 71% 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
19 April 2011

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Quarter ended 31 March 2011 Rials '000	Quarter ended 31 March 2010 Rials '000
Revenue			
Income from financing activities		2,244	1,919
Interest expense		(722)	(777)
Net finance income		<u>1,522</u>	<u>1,142</u>
Other income	3	<u>186</u>	<u>168</u>
Net operating income		<u>1,708</u>	<u>1,310</u>
Expenses			
General and administrative expenses	4	(618)	(562)
Depreciation on property and equipment	11	(28)	(32)
Profit before provisions		<u>1,062</u>	<u>716</u>
Provision for impairment of lease receivables – net	9	(377)	(251)
Bad debts written back		<u>50</u>	<u>10</u>
Profit before taxation		<u>735</u>	<u>475</u>
Taxation	5	(94)	(57)
Profit for the period		<u>641</u>	<u>418</u>
Revaluation of land & building		<u>7</u>	<u>7</u>
Total comprehensive income for the period		<u><u>648</u></u>	<u><u>425</u></u>
Earnings per share (Rials)	6	<u><u>0.004</u></u>	<u><u>0.002</u></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 STATEMENT OF FINANCIAL POSITION AS AT

	Note	31 March 2011 Rials'000	31 March 2010 Rials'000	31 December 2010 Rials'000
Assets				
Cash and bank balances	7	676	320	1,805
Statutory deposit	8	50	50	50
Net investment in finance leases	9	86,133	69,640	80,076
Working capital finance		848	-	477
Advances and prepayments		898	960	876
Property pending sale	10	159	28	124
Deferred tax asset		589	514	544
Property and equipment	11	1,095	1,171	1,116
Total asset		90,448	72,683	85,068
Equity				
Share capital	12	17,555	15,133	15,133
Revaluation reserve		727	754	734
Legal reserve		1,791	1,558	1,791
Foreign currency reserve		153	153	153
Retained earnings		773	1,604	3,304
Total equity		20,999	19,202	21,115
Liabilities				
Creditors and accruals	13	4,672	4,094	4,622
Staff terminal benefits		329	282	304
Provision for income tax		491	295	587
Bank borrowings	14	53,099	36,413	42,778
Fixed deposits	15	10,677	12,212	15,480
Deferred tax liability		181	185	182
Total liabilities		69,449	53,481	63,953
Total equity and liabilities		90,448	72,683	85,068
Net Assets per share		0.120	0.109	0.120

These unaudited condensed interim financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 19 April 2011 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 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	-	-	-	-	-	641	641
Transfer to retained earnings	-	-	(7)	-	-	7	-
	-	-	(7)	-	-	648	641
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of bonus shares	2,422	-	-	-	-	(2,422)	-
Cash dividend	-	-	-	-	-	(757)	(757)
March 31, 2011	17,555	-	727	1,791	153	773	20,999
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	-	-	-	-	-	418	418
Transfer to retained earnings	-	-	(7)	-	-	7	-
	-	-	(7)	-	-	425	418
<i>Transaction with shareholders recorded directly in equity</i>							
Dividend paid	-	-	-	-	-	-	-
Issue of bonus shares	2,522	-	-	-	-	(2,522)	-
March 31, 2010	15,133	-	754	1,558	153	1,604	19,202
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>							
Dividend paid	-	-	-	-	-	-	-
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

	Three months ended 31 March 2011 Rials '000	Three months ending 31 March 2010 Rials '000
Operating activities		
Profit before taxation	735	475
Adjustments for:		
Depreciation	28	32
Provision for end of service benefits	33	26
Profit on sale of property pending sale	-	-
Provision for impairment of lease receivables	377	282
Bad debts written off /(back)	(50)	(10)
Interest expense	722	777
Operating profit before working capital changes and payment of end of service benefits	1,845	1,582
End of service benefits paid	(8)	(1)
Changes in operating assets and liabilities		
Investment in finance leases	(6,384)	(377)
Working capital finance	(371)	-
Advances and prepayments	(22)	(398)
Creditors and accruals	50	1,017
Interest paid	(788)	(777)
Income tax paid	(236)	(32)
Net cash flow used in operating activities	(5,914)	1,014
Cash flows from investing activities		
Purchase of property and equipment	(7)	(2)
Purchase of collateral asset	(35)	-
Net cash flow used in investing activities	(42)	(2)
Cash flows from financing activities		
Bank borrowings	8,848	(6,190)
Fixed deposits	(4,803)	4,983
Dividend paid	(757)	-
Net cash flow from financing activities	3,288	(1,207)
Net change in cash and cash equivalents	(2,668)	(195)
Cash and cash equivalents at the beginning of the period	1,805	(268)
Cash and cash equivalents at the end of the period (note 7)	(863)	(463)

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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 31 March 2011 Rials '000	Quarter ended 31 March 2010 Rials '000
Penal interest	38	49
Income from pre-closed leases	89	73
Miscellaneous income	59	46
	186	168

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

	Quarter ended 31 March 2011 Rials '000	Quarter ended 31 March 2010 Rials '000
Employee related expenses	463	418
Occupancy costs	11	10
Communication costs	15	14
Professional fees	13	13
Advertising and sales promotion	25	19
Directors' sitting fees	4	4
Directors' remuneration	19	15
Other office expenses	68	69
	<u>618</u>	<u>562</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 2011 Rials '000	Quarter ended 31 March 2010 Rials '000
Profit before taxation	735	475
<i>Current tax</i>		
- current period	139	87
<i>Deferred tax asset</i>		
- current period	(45)	(30)
Taxation charge for the period	<u>94</u>	<u>57</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:

Earnings per share	Quarter ended 31 March 2011	Quarter ended 31 March 2010
Profit for the period attributable to ordinary shareholders (Rials'000)	641	418
Number of shares (Nos '000)	175,545	175,545
Earnings per share (Rial)	0.004	0.002

Net assets per share and earnings per share at and for the quarter ended 31 March 2011 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the quarter ended 31 March 2011 and 31 March 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

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Cash and bank balance	676	320	1,805
Overdraft	(1,539)	(783)	-
	(863)	(463)	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

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Net investment in finance leases			
Gross investment in finance leases	107,252	86,596	99,303
Unearned lease income	(15,757)	(12,312)	(14,274)
	91,495	74,284	85,029
Provision for impairment of lease receivable	(4,823)	(4,200)	(4,449)
Unrecognised contractual income	(539)	(444)	(504)
Net investment in finance leases	86,133	69,640	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 31 March 2011, investment in leases where contractual income has not been recognised was Rials 5.93 M (31 March 2010 Rials 4.96 M, 31 December 2010: Rials 5.90 M).

(a) Unearned lease income

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Opening balance	14,274	12,266	12,266
Additions during the period	3,727	1,965	10,013
Recognised during the period	<u>(2,244)</u>	<u>(1,919)</u>	<u>(8,005)</u>
Closing balance	<u><u>15,757</u></u>	<u><u>12,312</u></u>	<u><u>14,274</u></u>

(b) Provision for impairment of lease receivables

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Opening balance	4,449	3,949	3,949
Provided during the period	613	443	1,272
Released during the period	(236)	(192)	(362)
Write offs during the period	<u>(3)</u>	<u>-</u>	<u>(410)</u>
Closing balance	<u><u>4,823</u></u>	<u><u>4,200</u></u>	<u><u>4,449</u></u>

(c) Unrecognised contractual income

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Opening balance	504	424	424
Unrecognised during the period	98	74	230
Recognised during the period	<u>(63)</u>	<u>(54)</u>	<u>(150)</u>
Closing balance	<u><u>539</u></u>	<u><u>444</u></u>	<u><u>504</u></u>

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***10 Property Pending sale**

Property pending sale represents land and buildings acquired by the Company in part settlement of amounts due by borrowers 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

<i>At 31 March 2011</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	-	-	7	-	7
31 March 2011	800	395	519	25	1,739
Accumulated depreciation					
01 January 2011	-	169	437	10	616
Charge for the period	-	14	12	2	28
31 March 2011	-	183	449	12	644
Net book value 31 March 2011	800	212	70	13	1,095
<i>At 31 March 2010</i>					
01 January 2010	800	395	528	25	1,748
Additions	-	-	2	-	2
31 March 2010	800	395	530	25	1,750
Accumulated depreciation					
01 January 2010	-	112	434	2	548
Charge for the period	-	14	15	2	32
31 March 2010	-	126	449	4	580
Net book value 31 March 10	800	269	81	21	1,171
<i>At 31 December 2010</i>					
Cost or valuation					
01 January 2010	800	395	528	25	1,748
Additions	-	-	38	-	38
Released on disposals	-	-	(54)	-	(54)
31 December 2010	800	395	512	25	1,732
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	-	169	437	10	616
Net book value 31 December 2010	800	226	75	15	1,116

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

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Creditors	4,075	3,493	3,883
Accruals and other liabilities	597	601	739
	4,672	4,094	4,622

14 Bank borrowings

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000	Year ended 31 December 2010 Rials'000
Overdrafts	1,539	783	-
Short-term loans	38,936	24,221	34,614
Long-term loans	12,624	11,409	8,164
	53,099	36,413	42,778

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of RO 10.7 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 6.5% 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 three months ended 31 March 2011 were as follows:

	Quarter ended 31 March 2011 Rials'000	Quarter ended 31 March 2010 Rials'000
Lease rentals paid for vehicles taken on operating lease	8	5
<i>Payments to Directors</i>		
Sitting fees	2	3
Proposed remuneration	19	13
Directors remuneration for previous year paid in current period	57	60
<i>Period end balances</i>		
Net investment in finance lease	124	192
<i>Remuneration to key members of management during the period</i>		
Salaries and other benefits (Top 5)	198	181
Advances & net investment in leases	22	22

18 Maturity analysis of significant assets and liabilities

At 31 March 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	676	-	-	-	676
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,755	28,558	54,820	-	86,133
Working capital finance	-	848	-	-	848
Advances and prepayments	898	-	-	-	898
Property pending sale	-	159	-	-	159
Deferred tax asset	-	-	-	589	589
Property and equipment	-	-	-	1,095	1,095
Total assets	<u>4,329</u>	<u>29,565</u>	<u>54,820</u>	<u>1,734</u>	<u>90,448</u>
Equity					
Equity	-	-	-	20,999	20,999
Liabilities					
Bank borrowings and fixed deposit	11,711	35,319	16,746	-	63,776
Creditors and accruals	4,672	-	-	329	5,001
Provision for income tax	-	491	-	-	491
Deferred tax liability	-	-	-	181	181
Total equity and liabilities	<u>16,383</u>	<u>35,810</u>	<u>16,746</u>	<u>21,509</u>	<u>90,448</u>
Liquidity gap	<u>(12,054)</u>	<u>(6,245)</u>	<u>38,074</u>	<u>(19,775)</u>	
Cumulative liquidity gap	<u>(12,054)</u>	<u>(18,299)</u>	<u>19,775</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>		