

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 2010.

Economy and Business Environment

Oman expects to run comfortable budget surpluses and continue to increase spending this year as a result of higher oil prices. Oman's net oil income doubled during the period in comparison to the same period of last year. Government and private investment expenditure in the oil and gas and infrastructure sectors continue to provide support to the economy.

Operating performance

Net investment in finance leases has increased to Rials 71.6M as on 30 June 2010 (Rials 69.5M as on 31 December 2009). This was the result of an increase in disbursements as compared to the same period last year.

The Company achieved a net profit of Rials 913K for the six months period ended 30 June 2010 (Rials 1436K for the same period in 2009, which included post tax profit of Rials 428K towards sale of property held for sale).

Future outlook

Business is moderate and the same trend is expected to continue for the next two quarters. While we expect some pick up in business during the holy month of Ramadhan, we will continue to deal with the increased challenges of increased competition. We continue to focus on delivering high quality service to our customers to differentiate ourselves in a crowded marketplace. We expect that the banking system will retain sufficient liquidity to meet our requirements.

Your company is equipped to face these challenges and is taking appropriate actions to manage the risk arising there from. 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 2010 the Omanisation level stood at 65% 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 in future.

Taya Bin Jandal Bin Ali
Chairman

28 July 2010

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Quarter ended 30 June 2010 Rials '000	Six Months ended 30 June 2010 Rials '000	Quarter ended 30th June 2009 Rials '000	Six Months ended 30 June 2009 Rials '000
Revenue					
Income from financing activities		1,938	3,856	1,940	4,136
Interest expense		(753)	(1,529)	(997)	(1,955)
Net Finance Income		1,185	2,327	943	2,181
Other income	3	148	316	156	278
Operating Income		1,333	2,643	1,099	2,459
Income from sale of fixed asset		-	-	486	486
Net Operating Income		1,333	2,643	1,585	2,945
Expenses					
General and administrative expenses	4	(527)	(1,089)	(483)	(1,032)
Depreciation on property and equipment	11	(31)	(62)	(32)	(59)
Profit before provisions		775	1,492	1,070	1,854
Provision for impairment of lease receivables – net	9	(220)	(472)	(106)	(211)
Bad debts written (off) / back		7	17	(5)	(8)
Profit before taxation		562	1,037	959	1635
Taxation	5	(67)	(124)	(116)	(199)
Profit for the period		495	913	843	1,436
Revaluation of land & building		6	13	6	13
Total Comprehensive income for the period		501	926	849	1,449
Earnings per share (Rials)	6	0.003	0.006	0.006	0.009

The notes on pages 6 to 12 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 2010 Rials'000	30 June 2009 Rials'000	31 December 2009 Rials'000
Assets				
Cash and bank balances		3,963	491	292
Statutory deposit	8	50	50	50
Net investment in finance leases	9	71,543	73,332	69,534
Working Capital Finance		75	-	-
Advances and prepayments		930	1,125	562
Property pending sale	10	28	28	28
Deferred tax asset		540	730	484
Property and equipment	11	1,144	1,218	1,200
Total asset		78,273	76,974	72,150
Equity				
Share capital	12	15,133	12,611	12,611
Revaluation reserve		748	774	761
Legal reserve		1,558	1,326	1,558
Foreign currency reserve		153	153	153
Retained earnings		2,105	3,035	3,701
Total equity		19,697	17,899	18,784
Liabilities				
Creditors and accruals	13	4,093	2,124	3,076
Staff terminal benefits		294	227	257
Provision for income tax		386	346	240
Bank borrowings	14	40,020	47,429	42,380
Fixed deposits	15	13,599	8,748	7,229
Deferred tax liability		184	201	184
Total liabilities		58,576	59,075	53,366
Total equity and liabilities		78,273	76,974	72,150
Net Assets per share		0.130	0.118	0.124

These unaudited condensed interim financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 28 July 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 30 JUNE 2010**

	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, 2010	12,611	-	761	1,558	153	3,701	18,784
Total Comprehensive Income:							
Profit for the period	-	-	-	-	-	913	913
Transfer to Retained Earnings	-	-	(13)	-	-	13	-
Transaction with shareholders:							
Issue of Bonus Shares	2,522	-	-	-	-	(2,522)	-
June 30, 2010	15,133	-	748	1,558	153	2,105	19,697
January 1, 2009	11,465	937	787	1,326	153	2,942	17,610
Total Comprehensive Income:							
Profit for the period	-	-	-	-	-	1,436	1,436
Transfer to Retained Earnings	-	-	(13)	-	-	13	-
Transaction with shareholders:							
Dividend paid	-	-	-	-	-	(1,147)	(1,147)
Issue of Bonus Shares	1,146	(937)	-	-	-	(209)	-
June 30, 2009	12,611	-	774	1,326	153	3,035	17,899
January 1, 2009	11,465	937	787	1,326	153	2,942	17,610
Total Comprehensive Income:							
Profit for the period	-	-	-	-	-	2,321	2,321
Transfer to Retained Earnings	-	-	(26)	-	-	26	-
Transaction with shareholders							
Dividend paid	-	-	-	-	-	(1,147)	(1,147)
Issue of Bonus Shares	1,146	(937)	-	-	-	(209)	-
Transfer to legal reserve	-	-	-	232	-	(232)	-
December 31, 2009	12,611	-	761	1,558	153	3,701	18,784

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NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2010

	Six Months ended 30 June 2010 Rials '000	Six Months ending 30 June 2009 Rials '000
Operating activities		
Profit before taxation	1,037	1,635
Adjustments for:		
Depreciation	62	59
Provision for end of service benefits	52	53
Profit on sale of property pending sale	-	(486)
Provision for impairment of lease receivables	552	179
Bad debts written off /(back)	(17)	8
Interest expense	1,529	1,955
Operating profit before working capital changes and payment of end of service benefits	3,215	3,403
End of service benefits paid	(15)	(10)
Changes in operating assets and liabilities		
Investment in finance leases	(2,544)	3,381
Working capital finance	(75)	-
Advances and prepayments	(368)	304
Creditors and accruals	1,017	(1,257)
Interest paid	(1,529)	(1,955)
Income tax paid	(35)	(441)
Net cash flow used in operating activities	(334)	3,425
Cash flows from investing activities		
Purchase of property and equipment	(5)	(34)
Purchase of collateral asset	-	(28)
Sale of property pending for sale	-	277
Net cash flow used in investing activities	(5)	215
Cash flows from financing activities		
Bank borrowings	(1,800)	(1,053)
Fixed deposits	6,370	(1,458)
Dividend paid	-	(1,146)
Net cash flow from financing activities	4,570	(3,657)
Net change in cash and cash equivalents	4,231	(17)
Cash and cash equivalents at the beginning of the period	(268)	(90)
Cash and cash equivalents at the end of the period	3,963	(107)

The notes on pages 6 to 12 form an integral part of these condensed interim financial statements.
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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 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 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 2010 Rials '000	Six Months ended 30 June 2010 Rials '000	Quarter ended 30 June 2009 Rials '000	Six Months ended 30 June 2009 Rials '000
Penal Interest	35	84	60	90
Income from pre-closed leases	73	146	67	134
Miscellaneous income	40	86	29	54
	<u>148</u>	<u>316</u>	<u>156</u>	<u>278</u>

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

	Quarter ended 30 June 2010 Rials '000	Six Months ended 30 June 2010 Rials '000	Quarter ended 30 June 2009 Rials '000	Six Months ended 30 June 2009 Rials '000
Employee related expenses	389	807	338	738
Occupancy costs	12	22	10	20
Communication costs	15	29	11	22
Professional fees	12	25	21	42
Advertising and sales promotion	18	37	19	60
Directors' sitting fees	4	8	4	8
Directors' remuneration	14	29	8	23
Other office expenses	63	132	72	119
	527	1,089	483	1,032

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 2010 Rials '000	Six months ended 30 June 2010 Rials '000	Quarter ended 30 June 2009 Rials '000	Six Months ended 30 June 2009 Rials '000
Profit before taxation	562	1,037	960	1,635
<i>Current tax</i>				
- current period	94	181	132	229
<i>Deferred tax asset</i>				
- current period	(27)	(57)	(12)	(25)
<i>Deferred tax liability</i>				
- current period	-	-	(4)	(5)
Taxation charge for the period	67	124	116	199

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 2010	Six Months ended 30 June 2010	Quarter ended 30 June 2009	Six Months ended 30 June 2009
Earnings per share				
Profit for the period attributable to ordinary shareholders (RO'000)	495	913	843	1,436
Number of shares (Nos '000)	<u>151,332</u>	<u>151,332</u>	<u>151,332</u>	<u>151,332</u>
Earnings per share (Rial)	<u>0.003</u>	<u>0.006</u>	<u>0.006</u>	<u>0.009</u>

Net assets per share and earnings per share at and for the three months ended 30 June 2010 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the quarter ended 30 June 2010 and 30 June 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

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000	Year ended 31 December 2009 Rials'000
Cash and bank balance	3,963	491	292
Overdraft	-	(598)	(560)
	<u>3,963</u>	<u>(107)</u>	<u>(268)</u>

8 Statutory deposit

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

9 Net investment in finance leases

	Six Months ended 30 June 2010 Rials'000	Six Months ended 30 June 2009 Rials'000	Year ended 31 December 2009 Rials'000
Net investment in finance leases			
Gross investment in finance leases	89,035	93,543	86,173
Unearned lease income	<u>(12,584)</u>	<u>(13,519)</u>	<u>(12,266)</u>
	76,451	80,024	73,907
Provision for impairment of lease receivable	<u>(4,416)</u>	<u>(5,868)</u>	<u>(3,949)</u>
Unrecognised contractual income	<u>(492)</u>	<u>(824)</u>	<u>(424)</u>
Net investment in finance leases	<u>71,543</u>	<u>73,332</u>	<u>69,534</u>

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 2010, investment in leases where contractual income has not been recognised was Rials 5.49 M (2009: Rials 6.61M, 31-12-2009: Rials 5.09M).

(a) Unearned lease income

	Six months ended 30 June 2010 Rials '000	Six months ended 30 June 2009 Rials '000	Year Ended 31 December 2009 Rials '000
Opening balance	12,266	15,024	15,024
Additions during the period	4,174	2,631	5,216
Recognised during the period	<u>(3,856)</u>	<u>(4,136)</u>	<u>(7,974)</u>
Closing balance	<u><u>12,584</u></u>	<u><u>13,519</u></u>	<u><u>12,266</u></u>

(b) Provision for impairment of lease receivables

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000	Year Ended 31 December 2009 Rials'000
Opening balance	3,949	5,789	5,789
Provided during the period	802	608	950
Released during the period	(330)	(397)	(430)
Write offs during the period	<u>(5)</u>	<u>(132)</u>	<u>(2,360)</u>
Closing balance	<u><u>4,416</u></u>	<u><u>5,868</u></u>	<u><u>3,949</u></u>

(c) Unrecognised contractual income

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000	Year Ended 31 December 2009 Rials'000
Opening balance	424	717	717
Unrecognised during the period	132	171	214
Recognised during the period	<u>(64)</u>	<u>(64)</u>	<u>(507)</u>
Closing balance	<u><u>492</u></u>	<u><u>824</u></u>	<u><u>424</u></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**

At 30 June 2010	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
Additions	-	-	5	-	5
30 June 2010	<u>800</u>	<u>395</u>	<u>533</u>	<u>25</u>	<u>1,753</u>
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 30 June 2009					
Cost or valuation					
01 January 2009	800	395	481	14	1690
Additions	-	-	34	-	34
30 June-2009	<u>800</u>	<u>395</u>	<u>515</u>	<u>14</u>	<u>1,724</u>
Depreciation					
01 January 2009	-	56	378	14	448
Charge for the period	-	33	26	-	59
30 June 2009	<u>-</u>	<u>89</u>	<u>404</u>	<u>14</u>	<u>506</u>
Net book value 30 June 2009	<u>800</u>	<u>306</u>	<u>112</u>	<u>-</u>	<u>1,218</u>
At 31 December 20009					
Cost or valuation					
01 January 2009	800	395	481	14	1690
Additions	-	-	47	25	72
Released on disposals	-	-	-	(14)	(14)
31 December 2009	<u>800</u>	<u>395</u>	<u>528</u>	<u>25</u>	<u>1,748</u>
Depreciation					
01 January 2009	-	56	378	14	448
Charge for the year	-	56	56	2	114
Released on disposals	-	-	-	(14)	(14)
31 December 2009	<u>-</u>	<u>112</u>	<u>434</u>	<u>2</u>	<u>548</u>
Net book value 31 December 2009	<u>800</u>	<u>283</u>	<u>94</u>	<u>23</u>	<u>1,200</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 (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 March 9, 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

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000	Year Ended 31 December 2009 Rials'000
Creditors	3,377	1,459	2,097
Accruals and other liabilities	716	665	979
	<u>4,093</u>	<u>2,124</u>	<u>3,076</u>

14 Bank borrowings

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000	Year Ended 31 December 2009 Rials'000
Overdrafts	-	598	560
Short-term loans	29,275	32,288	27,334
Long-term loans	10,745	14,543	14,486
	<u>40,020</u>	<u>47,429</u>	<u>42,380</u>

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of RO 13.6 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 5.65% and 7.0% per annum. The carrying amount includes interest accrued till the end of the reporting period.

16 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 2010 were as follows:

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000
General and administrative expenses	1	1
Lease rentals paid for vehicles taken on operating lease	13	11

NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

16 Related party transactions (continued)

	Six months ended 30 June 2010 Rials'000	Six months ended 30 June 2009 Rials'000
<i>Payments to Directors</i>		
Sitting fees	8	5
Proposed remuneration	27	23
Directors remuneration	60	41
<i>Period end balances arising on the above</i>		
Net investment in finance lease	174	241
<i>Remuneration to key members of management during the period</i>		
Salaries and other benefits (Top 5)	244	225
Advances & net investment in leases	22	41

17 Maturity analysis of significant assets and liabilities

At 30 June 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	3,963	-	-	-	3,963
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,307	24,384	44,852	-	71,543
Working Capital Finance	-	75	-	-	75
Advances and prepayments	930	-	-	-	930
Property pending sale	-	28	-	-	28
Deferred tax asset	-	-	-	540	540
Property and equipment	-	-	-	1,144	1,144
Total assets	<u>7,200</u>	<u>24,487</u>	<u>44,852</u>	<u>1,734</u>	<u>78,273</u>
Equity					
Equity	-	-	-	19,697	19,697
Liabilities					
Bank borrowings and fixed deposit	7,362	34,505	11,752	-	53,619
Creditors and accruals	4,387	-	-	-	4,387
Provision for income tax	-	386	-	-	386
Deferred tax liability	-	-	-	184	184
Total equity and liabilities	<u>11,749</u>	<u>34,891</u>	<u>11,752</u>	<u>19,881</u>	<u>78,273</u>
Liquidity gap	<u>(4,549)</u>	<u>(10,404)</u>	<u>33,100</u>	<u>(18,147)</u>	
Cumulative liquidity gap	<u>(4,549)</u>	<u>(14,953)</u>	<u>18,147</u>		

NATIONAL FINANCE COMPANY SAOG**Notes***(forming part of the financial statements)***17 Maturity analysis of significant assets and liabilities**

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>		