

DIRECTORS' REPORT

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

Economy and Business Environment

The local economy was reasonably stable during the 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. 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 though the Omani economy retains a relatively insulated position.

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 September 2011 to Rials 103.0 M (Rials 80.5 M as on 31 December 2010).

Overall, the Company's net profit for the first nine months ended 30 September 2011 grew 64% to Rials 2,480K (Rials 1,512 K for the same period in 2010).

Future outlook

We have seen steady growth in the business during the last three quarter and expect that this will continue. 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 September 2011 the Omanisation level stood at 72.6% 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.

Hani Muhammad Al Zubair
Deputy Chairman

26 October 2011

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Quarter ended 30 September 2011 Rials '000	Nine months ended 30 September 2011 Rials '000	Quarter ended 30 September 2010 Rials '000	Nine months ended 30 September 2010 Rials '000
	Note				
Revenue					
Income from financing activities		2,652	7,382	1,999	5,855
Interest expense		(829)	(2,353)	(758)	(2,287)
Net finance income		1,823	5,029	1,241	3,568
Other income	3	192	605	130	445
Net operating income		2,015	5,634	1,371	4,013
Expenses					
General and administrative expenses	4	(736)	(2,011)	(482)	(1,571)
Depreciation on property and equipment	11	(30)	(87)	(30)	(92)
Profit before provisions		1,249	3,536	859	2,350
Provision for impairment of lease receivables – net	9	(187)	(790)	(277)	(748)
Bad debts written back		16	91	98	115
Profit before taxation		1,078	2,837	680	1,717
Taxation	5	(135)	(357)	(81)	(205)
Profit for the period		943	2,480	599	1,512
Revaluation of land and building		7	20	6	20
Total comprehensive income for the period		950	2,500	605	1,532
Earnings per share (Rials)	6	0.005	0.014	0.003	0.009

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

		30 September 2011	30 September 2010	31 December 2010
	Note	Rials'000	Rials'000	Rials'000
Assets				
Cash and bank balances	7	1,185	491	1,805
Statutory deposit	8	50	50	50
Net investment in finance leases	9	102,171	76,656	80,076
Working capital finance		830	206	477
Advances and prepayments		1,009	928	876
Property pending sale	10	159	124	124
Deferred tax asset		638	573	544
Property and equipment	11	1,147	1,138	1,116
Total asset		107,189	80,166	85,068
Equity				
Share capital	12	17,555	15,133	15,133
Revaluation reserve		714	741	734
Legal reserve		1,791	1,558	1,791
Foreign currency reserve		-	153	153
Retained earnings		2,778	2,711	3,304
Total equity		22,838	20,296	21,115
Liabilities				
Creditors and accruals	13	5,664	6,656	4,622
Staff terminal benefits		384	316	304
Provision for income tax		782	502	587
Bank borrowings	14	64,540	38,597	42,778
Fixed deposits	15	12,801	13,616	15,480
Deferred tax liability		180	183	182
Total liabilities		84,351	59,870	63,953
Total equity and liabilities		107,189	80,166	85,068
Net assets per share		0.130	0.116	0.120

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

HANI MUHAMMAD AL ZUBAIR
DEPUTY 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 SEPTEMBER 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	-	-	-	-	-	2,480	2,480
Revaluation of land and buildings	-	-	(20)	-	-	20	-
Transfer to retained earnings	-	-	-	-	(153)	153	-
	-	-	(20)	-	(153)	2,653	2,480
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of bonus shares	2,422	-	-	-	-	(2,422)	-
Cash dividend	-	-	-	-	-	(757)	(757)
September 30, 2011	17,555	-	714	1,791	-	2,778	22,838
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	-	-	-	-	-	1,512	1,512
Revaluation of land and buildings	-	-	(20)	-	-	20	-
	-	-	(20)	-	-	1,532	1,512
<i>Transaction with shareholders recorded directly in equity</i>							
Dividend paid	-	-	-	-	-	-	-
Issue of bonus shares	2,522	-	-	-	-	(2,522)	-
September 30, 2010	15,133	-	741	1,558	153	2,711	20,296
January 1, 2010	12,611	-	761	1,558	153	3,701	18,784
<i>Total comprehensive income for the year</i>							
Profit for the year	-	-	-	-	-	2,331	2,331
Revaluation of land and buildings	-	-	(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 STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER

	Nine Months ended 30 September 2011 Rials '000	Nine Months ended 30 September 2010 Rials '000
Operating activities		
Profit before taxation	2,837	1,717
Adjustments for:		
Depreciation	87	92
Provision for end of service benefits	108	79
Profit on sale of property pending sale	-	-
Provision for impairment of lease receivables	790	979
Bad debts written off /(back)	(91)	(115)
Interest expense	2,353	2,287
Operating profit before working capital changes and payment of end of service benefits	6,084	5,039
End of service benefits paid	(27)	(20)
Changes in operating assets and liabilities		
Investment in finance leases	(22,794)	(8,347)
Working capital finance	(353)	(206)
Advances and prepayments	(133)	(3)
Creditors and accruals	1,042	3,580
Interest paid	(2,310)	(2,287)
Income tax paid	(260)	(35)
Net cash flow used in operating activities	(18,751)	(2,279)
Cash flows from investing activities		
Purchase of property and equipment	(35)	(30)
Purchase of property pending for sale	(118)	(96)
Net cash flow used in investing activities	(153)	(126)
Cash flows from financing activities		
Bank borrowings	21,720	(3,697)
Fixed deposits	(2,679)	6,387
Dividend paid	(757)	-
Net cash flow from financing activities	18,284	2,690
Net change in cash and cash equivalents	(620)	285
Cash and cash equivalents at the beginning of the period	1,805	(268)
Cash and cash equivalents at the end of the period	1,185	17

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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 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 September 2011 Rials '000	Nine months ended 30 September 2011 Rials '000	Quarter ended 30 September 2010 Rials '000	Nine months ended 30 September 2010 Rials '000
Penal interest	28	100	23	107
Income from pre-closed leases	105	309	56	202
Miscellaneous income	59	196	51	136
	<u>192</u>	<u>605</u>	<u>130</u>	<u>445</u>

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

	Quarter ended 30 September 2011 Rials '000	Nine months ended 30 September 2011 Rials '000	Quarter ended 30 September 2010 Rials '000	Nine months ended 30 September 2010 Rials '000
Employee related expenses	534	1,479	370	1,177
Occupancy costs	12	34	12	34
Communication costs	20	50	14	43
Professional fees	19	45	19	44
Advertising and sales promotion	50	115	(10)	27
Directors' sitting fees	4	13	4	12
Directors' remuneration	18	56	14	43
Other office expenses	79	219	59	191
	<u>736</u>	<u>2,011</u>	<u>482</u>	<u>1,571</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 September 2011 Rials '000	Nine months ended 30 September 2011 Rials '000	Quarter ended 30 September 2010 Rials '000	Nine months ended 30 September 2010 Rials '000
Profit before taxation	1,078	2,837	680	1,717
<i>Current tax</i>				
- current period	157	451	114	295
<i>Deferred tax asset</i>				
- current period	(22)	(94)	(33)	(90)
Taxation charge for the period	<u>135</u>	<u>357</u>	<u>81</u>	<u>205</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 September 2011	Nine months ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2010
Earnings per share				
Profit for the period attributable to ordinary shareholders (RO'000)	943	2,480	599	1,512
Number of shares (Nos '000)	<u>175,545</u>	<u>175,545</u>	<u>175,545</u>	<u>175,545</u>
Earnings per share (Rial)	<u>0.005</u>	<u>0.014</u>	<u>0.003</u>	<u>0.009</u>

Net assets per share and earnings per share at and for the quarter ended 30 September 2011 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the quarter ended 30 September 2011 and 30 September 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

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Cash and bank balance	1,185	491	1,805
Overdraft	-	(474)	-
	<u><u>1,185</u></u>	<u><u>17</u></u>	<u><u>1,805</u></u>

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

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Net investment in finance leases			
Gross investment in finance leases	127,060	95,482	99,303
Unearned lease income	<u>(19,056)</u>	<u>(13,589)</u>	<u>(14,274)</u>
	108,004	81,893	85,029
Provision for impairment of lease receivable	(5,235)	(4,685)	(4,449)
Unrecognised contractual income	<u>(598)</u>	<u>(552)</u>	<u>(504)</u>
Net investment in finance leases	<u><u>102,171</u></u>	<u><u>76,656</u></u>	<u><u>80,076</u></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 September 2011, investment in leases where contractual income has not been recognised was Rials 6.30 M (30 September 2010 Rials 6.37 M, 31 December 2010: Rials 5.90 M).

(a) Unearned lease income

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Opening balance	14,274	12,266	12,266
Additions during the period	12,164	7,178	10,013
Recognised during the period	(7,382)	(5,855)	(8,005)
Closing balance	<u>19,056</u>	<u>13,589</u>	<u>14,274</u>

(b) Provision for impairment of lease receivables

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Opening balance	4,449	3,949	3,949
Provided during the period	1,176	1,106	1,272
Released during the period	(386)	(358)	(362)
Write offs during the period	(4)	(12)	(410)
Closing balance	<u>5,235</u>	<u>4,685</u>	<u>4,449</u>

(c) Unrecognised contractual income

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Opening balance	504	424	424
Unrecognised during the period	186	194	230
Recognised during the period	(93)	(66)	(150)
Closing balance	<u>597</u>	<u>552</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 September 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	-	-	118	-	118
30 September 2011	<u>800</u>	<u>395</u>	<u>630</u>	<u>25</u>	<u>1,850</u>
Accumulated depreciation					
01 January 2011	-	169	437	10	616
Charge for the period	-	42	39	6	87
30 September 2011	<u>-</u>	<u>211</u>	<u>476</u>	<u>16</u>	<u>703</u>
Net book value 30 Sep 2011	<u>800</u>	<u>184</u>	<u>154</u>	<u>9</u>	<u>1,147</u>

At 30 September 2010

Cost or valuation					
01 January 2010	800	395	528	25	1,748
Additions	-	-	30	-	30
Disposals	-	-	(7)	-	(7)
30 Sep 2010	<u>800</u>	<u>395</u>	<u>551</u>	<u>25</u>	<u>1,771</u>
Accumulated Depreciation					
01 January 2010	-	112	434	2	548
Charge for the period	-	42	44	6	92
Released on disposals	-	-	(7)	-	(7)
30 Sep 2010	<u>-</u>	<u>154</u>	<u>470</u>	<u>8</u>	<u>633</u>
Net book value 30 September 2010	<u>800</u>	<u>241</u>	<u>81</u>	<u>17</u>	<u>1,138</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 17,554,469 by issue of 24,213,060 bonus shares.

13 Creditors and accruals

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Creditors	4,806	6,088	3,883
Accruals and other liabilities	858	568	739
	5,664	6,656	4,622

14 Bank borrowings

	30 September 2011 Rials'000	30 September 2010 Rials'000	31 December 2010 Rials'000
Overdrafts	-	474	-
Short-term loans	48,144	28,267	34,614
Long-term loans	16,396	9,856	8,164
	64,540	38,597	42,778

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of Rials 12.8 million, (30 September 2010 was Rials 13.6 million and 31 December 2010 was Rials 15.5 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 4.25% 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 and with senior management. Such transactions are at mutually agreed terms. Significant related party transactions during the nine months ended 30 September 2011 were as follows:

	Nine months ended 30 September 2011 Rials'000	Nine months ended 30 September 2010 Rials'000
General and administration overheads	3	2
Lease rentals paid for vehicles taken on operating lease	25	21
Payments to Directors		
Sitting fees	12	12
Proposed remuneration	56	42
Directors remuneration for previous year paid in current period	57	60
Period end balances		
Net investment in finance lease	80	157
Remuneration to key members of management during the period		
Salaries and other benefits (Top 5)	338	307
Advances and net investment in leases	39	28

18 Maturity analysis of significant assets and liabilities

At 30 September 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	1,185	-	-	-	1,185
Statutory deposit	-	-	-	50	50
Net investment in finance leases	3,310	33,276	65,585	-	102,171
Working capital finance	-	830	-	-	830
Advances and prepayments	1,009	-	-	-	1,009
Property pending sale	-	159	-	-	159
Deferred tax asset	-	-	-	638	638
Property and equipment	-	-	-	1,147	1,147
Total assets	<u>5,504</u>	<u>34,265</u>	<u>65,585</u>	<u>1,835</u>	<u>107,189</u>
Equity					
Equity	-	-	-	22,838	22,838
Liabilities					
Bank borrowings and fixed deposits	11,577	43,644	22,120	-	77,341
Creditors and accruals	5,664	-	-	384	6,048
Provision for income tax	-	782	-	-	782
Deferred tax liability	-	-	-	180	180
Total equity and liabilities	<u>17,241</u>	<u>44,426</u>	<u>22,120</u>	<u>23,402</u>	<u>107,189</u>
Liquidity gap	<u>(11,737)</u>	<u>(10,161)</u>	<u>43,465</u>	<u>(21,567)</u>	<u>-</u>
Cumulative liquidity gap	<u>(11,737)</u>	<u>(21,898)</u>	<u>21,567</u>	<u>-</u>	<u>-</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					
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>	<u>-</u>
Cumulative liquidity gap	<u>(8,518)</u>	<u>(18,168)</u>	<u>19,891</u>	<u>-</u>	<u>-</u>