

## REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF NATIONAL FINANCE COMPANY SAOG

### Report on the financial statements

We have audited the financial statements of National Finance Company SAOG ("the Company") set out on pages 2 to 31, which comprise the statement of financial position as at 31 December 2010, and the related statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Finance Company SAOG as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on other Legal and Regulatory Requirements

In our opinion the financial statements of the Company as at and for the year ended 31 December 2010, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

26 January 2011



Michael G. W. Armstrong

**NATIONAL FINANCE COMPANY SAOG**  
**Statement of Comprehensive Income**  
**Year Ended 31 December**

	Note	2010 Rials '000	2009 Rials '000
<b>Revenue</b>			
Income from financing activities		<b>8,005</b>	7,974
Finance cost		<b>(3,005)</b>	( 3,806)
<b>Net finance income</b>		<b>5,000</b>	4,168
Other income	6	<b>575</b>	565
<b>Operating income</b>		<b>5,575</b>	4,733
Income from sale of property		-	491
<b>Total income</b>		<b>5,575</b>	5,224
<b>Operating expenses</b>			
General and administrative expenses	7	<b>(2,016)</b>	( 1,936)
Depreciation on property and equipment	15	<b>(123)</b>	( 114)
<b>Profit before provisions</b>		<b>3,436</b>	3,174
Provision for impairment of lease receivables	12	<b>(910)</b>	(520)
Bad debts written back / (off)		<b>125</b>	( 9)
<b>Profit before taxation</b>		<b>2,651</b>	2,645
Taxation	8	<b>(320)</b>	( 324)
<b>Profit for the year</b>		<b>2,331</b>	2,321
		=====	=====
<b>Other comprehensive income</b>			
Revaluation of land & building		<b>27</b>	26
		=====	=====
<b>Total comprehensive income for the year</b>		<b>2,358</b>	2,347
		=====	=====
<b>Earnings per share (Rials)</b>	9	<b>0.015</b>	0.015
		=====	=====

The notes on pages 6 to 31 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

**NATIONAL FINANCE COMPANY SAOG**  
**Statement of Financial Position**  
**As At 31 December**

	Note	2010 Rials '000	2009 Rials '000
<b>Assets</b>			
Cash and bank balances	10	1,805	292
Statutory deposit	11	50	50
Net investment in finance leases	12	80,076	69,172
Working capital finance		477	-
Advances and prepayments		876	924
Property pending sale	13	124	28
Deferred tax asset	14	544	484
Property and equipment	15	1,116	1,200
<b>Total assets</b>		<b>85,068</b>	<b>72,150</b>
		=====	=====
<b>Equity</b>			
Share capital	16	15,133	12,611
Revaluation reserve		734	761
Legal reserve	17	1,791	1,558
Foreign currency reserve	18	153	153
Retained earnings		3,304	3,701
<b>Total equity</b>		<b>21,115</b>	<b>18,784</b>
		=====	=====
<b>Liabilities</b>			
Creditors and accruals	19	4,622	3,076
Staff terminal benefits	20	304	257
Provision for income tax		587	240
Bank borrowings	21	42,778	42,380
Fixed deposits	22	15,480	7,229
Deferred tax liability	14	182	184
<b>Total liabilities</b>		<b>63,953</b>	<b>53,366</b>
		=====	=====
<b>Total equity and liabilities</b>		<b>85,068</b>	<b>72,150</b>
		=====	=====
<b>Net assets per share (Rials)</b>	9	<b>0.140</b>	<b>0.124</b>
		=====	=====

These audited financial statements were approved and authorised for issue in accordance with a resolution of the Directors on January 26, 2011 and signed on their behalf by:

**TAYA BIN JANDAL BIN ALI**  
**CHAIRMAN**

**ROBERT PANCRA**  
**CHIEF EXECUTIVE OFFICER**

The notes on pages 6 to 31 form an integral part of these financial statements.

The audit report is set forth on page 1.

**NATIONAL FINANCE COMPANY SAOG**  
**Statement of Changes in Equity**  
**Year Ended 31 December**

	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
<i>Total comprehensive income for the period</i>	-----	-----	-----	-----	-----	-----	-----
Profit for the period	-	-	-	-	-	2,331	2,331
<i>Other Comprehensive Income for the period</i>							
Transfer to retained earnings	-	-	(27)	-	-	27	-
<i>Total comprehensive income</i>	-----	-----	-----	-----	-----	-----	-----
	-	-	(27)	-	-	2,358	2,331
Transfer to Legal Reserve	-	-	-	233	-	(233)	-
<i>Transaction with shareholders recorded directly in equity</i>							
Issue of Bonus Shares	2,522	-	-	-	-	(2,522)	-
31 December 2010	15,133	-	734	1,791	153	3,304	21,115

	Share capital Rials '000	Share Premium Rials '000	Revaluation reserve Rials '000	Legal reserve Rials '000	Foreign currency reserve Rials '000	Retained earnings (Restated) Rials '000	Total Rials '000
1 January 2009	11,465	937	787	1,326	153	2,942	17,610
<i>Total comprehensive income for the period</i>	-----	-----	-----	-----	-----	-----	-----
Profit for the year	-	-	-	-	-	2,321	2,321
<i>Other Comprehensive Income for the period</i>							
Transfer to retained earnings	-	-	(26)	-	-	26	-
<i>Total comprehensive income for the period</i>	-----	-----	-----	-----	-----	-----	-----
	-	-	(26)	-	-	2,347	2,321
Transfer to legal reserve	-	-	-	232	-	(232)	-
<i>Transaction with shareholders recorded directly in equity</i>							
Dividend paid	-	-	-	-	-	(1,147)	(1,147)
Issue of Bonus Shares	1,146	(937)	-	-	-	(209)	-
31 December 2009	12,611	-	761	1,558	153	3,701	18,784

The notes on pages 6 to 31 form an integral part of these financial statements.

The audit report is set forth on page 1.

**NATIONAL FINANCE COMPANY SAOG**  
**Statement of Cash flows**  
**Year Ended 31 December**

	Note	2010 Rials '000	2009 Rials '000
<b>Operating activities</b>			
<b>Profit before taxation</b>		<b>2,651</b>	2,645
Adjustments for:			
Depreciation		123	114
Provision for end of service benefits		77	97
Provision for impairment of lease receivables		910	520
Profit on sale of property pending for sale		-	(486)
Profit on sale of fixed asset		-	(5)
Bad debts written off / back		(125)	9
Interest expense		3,005	3,806
		-----	-----
<b>Operating profit before working capital changes and payment of end of service benefits</b>		<b>6,641</b>	6,700
End of service benefits paid		(30)	(24)
<b>Changes in operating assets and liabilities</b>			
Investment in finance leases		(11,690)	6,015
Working capital finance		(477)	-
Advances and prepayments		48	760
Creditors and accruals		1,546	(306)
Interest paid		(2,958)	(3,898)
Income tax paid		(35)	(441)
		-----	-----
<b>Net cashflow used in operating activities (A)</b>		<b>(6,955)</b>	9,359
		-----	-----
<b>Investing activities</b>			
Purchase of property and equipment		(38)	(72)
Purchase of collateral asset		(96)	(28)
Proceeds from sale of fixed asset		-	5
Proceeds from sale of property pending for sale		-	652
		-----	-----
<b>Net cashflow from investing activities (B)</b>		<b>(134)</b>	557
		-----	-----
<b>Financing activities</b>			
Bank borrowings		911	(5,996)
Fixed deposits		8,251	(2,951)
Dividend paid		-	(1,147)
		-----	-----
<b>Net cashflow used in financing activities (C)</b>		<b>9,162</b>	(10,094)
		-----	-----
<b>Net change in cash and cash equivalents (A+B+C)</b>		<b>2,073</b>	(178)
Cash and cash equivalents at the beginning of the year		(268)	(90)
		-----	-----
<b>Cash and cash equivalents at the end of the year</b>	23	<b>1,805</b>	(268)
		=====	=====

The notes on pages 6 to 31 form an integral part of these financial statements.

The audit 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 financing operations within the Sultanate of Oman.

#### 2 Summary of significant accounting policies

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

##### 2.1 Basis of preparation

###### a. Statement of compliance

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and comply with the disclosure requirements set out in the “Rules and Guidelines on Disclosure by issuers of Securities and Insider Trading” issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

###### b. Use of estimates and judgements

The financial statements have been prepared on the historical cost basis except for certain land and buildings that are shown at revalued amount. The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected.

###### c. Functional and presentational currency

The financial statements have been presented in Rials, which is the Company’s functional currency.

###### d. Changes in accounting policies.

The policies have been consistently applied in dealing with items that are considered material in relation to the Company's financial statements to all the years presented.

##### 2.2 Leases and lease income

Assets owned by the Company but subject to a finance lease, are included in the financial statements as net investment in finance leases. The present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease, is recognised as a receivable and the difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs include amounts such as commissions, legal fees and internal costs that are directly attributable to negotiating and arranging a lease. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return, unless collectability is in doubt.

## NATIONAL FINANCE COMPANY SAOG

### Notes

*(forming part of the financial statements)*

## 2 Summary of significant accounting policies *(continued)*

### 2.3 Impairment of financial assets

#### *Assets carried at amortised cost*

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) Significant financial difficulty of the borrower;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;
- (iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (v) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

**NATIONAL FINANCE COMPANY SAOG****Notes***(forming part of the financial statements)***2 Summary of significant accounting policies (continued)****2.3 Impairment of financial assets (continued)**

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with the assets and the Company's historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, including peer statistics, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect, and be directionally consistent with, changes in related observable data from period to period (for example, payment status or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company and, if required, revised in order to reflect in loss estimates any changes in actual loss experience.

When a receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off against the related provision for loan impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

**2.4 Property and equipment**

Land and buildings are shown revalued amounts, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.



## NATIONAL FINANCE COMPANY SAOG

### Notes

*(forming part of the financial statements)*

## 2 Summary of significant accounting policies *(continued)*

### 2.4 Property and equipment *(continued)*

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. All other repairs and maintenance expenses are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property and equipment. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10
Furniture, fixtures and equipment	4
Motor vehicles	3

Freehold land and capital work-in-progress are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are recognised in the statement of comprehensive income.

### 2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### 2.6 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the repayment period of the borrowings using the effective interest rate method.

### 2.7 Assets held for sale

Assets held for sale represent collateral acquired in part settlement of amount due from a customer and are initially recognised at cost, being the fair value of the consideration given, and subsequently measured at the lower of cost and net realisable value. Write-downs to adjust the cost to net realisable value are recognised in the statement of comprehensive income in the period in which they arise.

### 2.8 Creditors and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

## NATIONAL FINANCE COMPANY SAOG

### Notes

*(forming part of the financial statements)*

## **2 Summary of significant accounting policies *(continued)***

### **2.9 Employee terminal benefits**

Provision for non-Omani employee terminal benefits, an unfunded defined benefit retirement plan, is made in accordance with Omani Labor Laws and is based on the liability that would arise if the employment of all such employees were terminated at the statement of financial position date. The Company's obligation in respect of non-Omani terminal benefits is the amount of benefits that such employees have earned in return for their service in the current and prior periods. Employees' entitlements to annual leave are recognized when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognized as an expense in the statement of comprehensive income as incurred.

### **2.10 Foreign currency transactions**

#### *(a) Functional and presentation currency*

Items included in the Company's financial statements are measured using Rials which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rials, rounded to the nearest thousand.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

### **2.11 Taxation**

Income tax on the result for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts for financial reporting purposes and the tax bases. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

## NATIONAL FINANCE COMPANY SAOG

### Notes

*(forming part of the financial statements)*

## **2 Summary of significant accounting policies (continued)**

### **2.11 Taxation (continued)**

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **2.12 Dividend distribution**

The Company's dividend distribution policy encompasses the following factors:

- (a) provide shareholders a reasonable return commensurate with the size of their investment in the Company; and
- (b) build reserves to achieve a strong capital base.

After due consideration of the above factors the Company's management proposes the amount of dividend to the Board and shareholders at the Annual General Meeting subject to the approval of the Central Bank of Oman.

Dividends are recognised as liability in the period declared.

### **2.13 Directors' remuneration**

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after transfers to the legal reserve and the optional reserve, and after distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

### **2.14 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### **2.15 Standards not yet effective**

#### **Adoption of new and revised International Financial Reporting Standards ("IFRS")**

A number of new standards, amendments to standards and interpretations are not yet applicable to the Company. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of its impact is still being determined by Management

## NATIONAL FINANCE COMPANY SAOG

### Notes

*(forming part of the financial statements)*

### 3 Financial risk management

The Company believes that sound risk management practices are imperative in ensuring that strong results can be delivered to stakeholders. The Company aims to ensure that its risk management structure provides the infrastructure for it to be able to implement best practices according to the size of its operations.

The Company aims to follow a strategy of minimising risk in order to reduce its vulnerability to adverse market conditions and this is reflected in the risk appetite set by the Board of Directors and implemented by Management. The low assumption of risk is mainly achieved through diversification of the asset portfolio.

Risk management functions are carried out by the Risk Manager. The Company has independent policies and procedures which address credit risk, liquidity risk and interest rate risk, which arise from the Company's business.

#### 3.1 Credit risk

As the Company's core business is lease financing, credit risk forms the major risk to which the Company is exposed. Credit risk is the risk that a counterparty will cause financial loss to the Company by failing to discharge an obligation. The Company does not consider credit risk with respect to balances placed with banks to be significant in view of (a) the materiality of such amounts; and (b) these counterparties are reputable financial institutions in the Sultanate of Oman with good credit standing.

The Company employs a range of policies and practices to manage, limit and control concentration of credit risk to individual counter parties, groups and industries with respect to its lease receivables.

The level of credit risk in relation to each individual counterparty and its associates is structured by placing a maximum ceiling on exposure levels for each grade. Such risks are monitored on a regular basis and review reports are placed before the Board of Directors.

##### 3.1.1 Credit risk measurement

The Company's credit policy aims to ensure that the target portfolio credit loss will be less than 1% of the portfolio for the current size and structure of the portfolio and the macro economic situation. The Board of Directors reviews this loss norm annually along with the management.

In case of the portfolio of exposure to small and medium size enterprises (SMEs), the credit risk for individual counterparties are assessed at inception of the lease through a grading methodology tailored to various categories of counterparties. These have been developed internally and the customers are rated on certain predefined financial and non-financial parameters. The grading takes into account factors including the customers experience in similar business, management quality, net worth, availability of audited financials, key performance indicators and ratios, trade references, the industry in which the customer operates and its vulnerability to economic downturn, as well as the customer's past track record with the Company (in case of existing clients). The grading parameters are reviewed annually and amended as considered appropriate in line with the Company's assessment of market risk trends.

Credit risk in the case of the retail portfolio is assessed at the inception of the lease on the basis of the net disposable income of the counterparty, stability of employment in case of salaried clients and income levels from business /other sources for other categories of customers.

## NATIONAL FINANCE COMPANY SAOG

### Notes

*(Forming part of the financial statements)*

### 3 Financial risk management *(continued)*

#### 3.1.2 Credit risk control and mitigation policies

The Company's portfolio comprises leases of vehicles and equipment wherein the lending is collateralised by the assets financed. The Company holds collaterals in respect of lease receivable exposures in the form of joint title to the vehicles and equipment financed. The values against these collaterals are written down on a yearly basis based on the estimated useful life of these assets and considering guidelines issued by the Central Bank of Oman. In addition to these collaterals, the Company also holds additional security in the form of property collaterals for certain leases in order to strengthen its risk position.

In order to minimise credit loss, wherever deemed necessary, additional credit enhancements such as charges on immovable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of the parent company in case of group exposures, key man life insurance and assignment of contract proceeds are obtained.

The Company's credit policy identifies certain categories of customers as "negative customers" and they are not considered for financial assistance. These include known defaulters, customers with poor market standing and other categories based upon statistics published by the Central Bank of Oman.

The repayments are primarily through post dated cheques. Dishonoured cheques are monitored closely and follow up is ensured.

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonour of cheques
- inability to reach the customer over phone or in person
- lack of response to written communications
- utilised limits in excess of authorised limits as disclosed by BCSB data
- inability to obtain current financials
- adverse market feedback

#### 3.1.3 Impairment and provisioning policies

The Company's lease receivable impairment policy is as set out in note 2.3. The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its lease portfolio. The main component of this allowance is specific loss as determined under CBO guidelines that relates to individual customer exposures. A collective loan loss allowance is established by using available historical experience, management judgment and peer statistics for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans.

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 3 Financial risk management (continued)

#### 3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2010 Rials '000	31 December 2009 Rials '000
<b>Exposure</b>		
Bank balances	1,805	292
Statutory deposit	50	50
Net investment in finance leases	80,076	69,172
Working capital finance	477	-
Advances	876	924
<b>Credit risk exposure relating to off balance sheet items</b>		
Bank guarantees	33	33
Approved lease commitments at 31 December	3,427	2,213
<b>Total exposure</b>	<b>86,744</b>	<b>72,684</b>

The above table represents a worse case scenario of credit risk exposure of the Company at 31 December 2010 and 2009 without taking into account of any collateral held.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Company resulting from both its net investment in finance leases and advances.

#### 3.1.5 Finance lease receivables

As at the year end the details of gross exposure (net of unearned lease income) are set out below:

	31 December 2010 Rials '000	31 December 2009 Rials '000
Neither past due nor impaired	65,287	55,259
Past due not impaired	13,844	13,192
Impaired	5,898	5,094

#### (a) Finance lease receivables neither past due nor impaired

77% of the portfolio at 31 December 2010 represents this category as per the Company's grading set out above (2009 – 75%).

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

### 3 Financial risk management (continued)

#### 3.1.5 Finance lease receivables (continued)

##### (b) Finance lease receivable past due but not impaired

	31 December 2010 Rials '000	31 December 2009 Rials '000
Past due up to 30 days	7,225	6,324
Past due 30 to 60 days	4,386	5,088
Past due 60 to 90 days	<u>2,233</u>	<u>1,780</u>
Total	<u>13,844</u>	<u>13,192</u>
Fair value of Collaterals	<u>20,261</u>	<u>17,548</u>

The Company evaluates its collateral value by applying a fixed annual reduction in the value of equipment and vehicles held as collateral. Value of property held as collateral is obtained from external valuations held. The lower of 50% of appraised values and forced sale value is considered.

##### (c) Finance lease receivables individually impaired

	31 December 2010 Rials '000	31 December 2009 Rials '000
Past due individually impaired	5,898	5,094
Fair value of Collaterals	2,348	3,801

#### 3.1.6 Repossessed collaterals

The Company does not hold any repossessed collateral at 31 December 2010 and 31 December 2009 other than land and buildings shown as property pending sale as set out in note 13.

#### 3.1.7 Concentration of risks

##### (a) Customer concentration of net investment in finance leases and working capital finance by type of customer

	31 December 2010 Rials '000	31 December 2009 Rials '000
Individuals	43,529	38,652
Corporate	<u>37,024</u>	<u>30,520</u>
	<u>80,553</u>	<u>69,172</u>

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

### 3 Financial risk management (continued)

#### (b) Geographical concentration

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from a foreign bank from a GCC state, to the extent of Rials 0.52 million (2009 – Rials 2.24 million) denominated in US Dollars.

#### (c) Economic sector concentration of net investment in finance leases and working capital finance

	31 December 2010 Rials '000	31 December 2009 Rials '000
Trading, contracting and services	35,806	29,847
Manufacturing	1,218	673
Individuals	<u>43,529</u>	<u>38,652</u>
	<u>80,553</u>	<u>69,172</u>

### 3.2 Market risk

#### 3.2.1 Cash flow and fair value interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period.

As the Company has significant interest-bearing financial assets and liabilities, the Company's income and operating cash flows are substantially dependent on changes in market interest rates. The Company's finance lease receivables and deposits from corporate entities carry fixed interest rates which expose the Company to fair value interest rate risk. The Company's bank borrowings carry variable interest rates which expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis.

Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of Rials 404 K (2009 - Rials 377K).

The Company does not hedge against its cash flow and fair value interest rate risk.

#### 3.2.2 Foreign currency risk

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company's foreign currency transactions are restricted to certain long-term borrowings amounting to Rials 0.5 million (2009 – Rials 2.24 million) which are denominated in US Dollar. The functional currency is effectively fixed to the US Dollar and accordingly foreign exchange risk is considered minimal. The Company has the option to enter into forward exchange contracts, where necessary, to hedge any significant risks arising from foreign currency transactions



## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

### 3 Financial risk management (continued)

#### 3.3 Liquidity risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations on the due dates and to replace funds when they are withdrawn or facilities expire.

##### 3.3.1 Liquidity risk management process

The Company's liquidity is managed by the Finance Department on a day to day basis. The Company has a liquidity risk policy and contingency funding plan approved by the Board of Directors. The liquidity position is currently monitored by the ALCO on a monthly basis, including: (i) day to day funding to ensure that daily requirements are met; (ii) monitoring liquidity gaps and ratios as per the documented liquidity risk policy guidelines; and (iii) monitoring, reviewing and reporting liquidity position in line with the Company's contingency funding plan. Management monitors to ensure availability of funds to meet the Company's credit commitments.

##### 3.3.2 Funding approach

Sources of funding are regularly reviewed by the ALCO to maintain diversification through measures such as using both long-term and short-term borrowings, increasing the number of lenders, developing additional products like corporate deposits and seeking fixed interest rates for longer tenure. Ongoing discussions with bankers, depositors and potential depositors indicate that sufficient liquidity will be in place for the foreseeable future to enable the Company to meet its financial obligations as they fall due.

##### 3.3.3 Cash flows

The table below exhibits the cash flows payable by the Company under financial liabilities by remaining contractual maturity. The amounts show gross undiscounted cash flows.

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
Bank borrowings & deposits	9,656	36,371	12,231	-	58,258
Creditors and accruals	4,622	-	-	304	4,926
<b>Total liabilities</b>	<b><u>14,278</u></b>	<b><u>36,371</u></b>	<b><u>12,231</u></b>	<b><u>304</u></b>	<b><u>63,184</u></b>
<b>Total assets</b>	<b><u>5,760</u></b>	<b><u>27,308</u></b>	<b><u>50,290</u></b>	<b><u>1,710</u></b>	<b><u>85,068</u></b>

  

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
Bank borrowings & deposits	11,133	22,991	15,485	-	49,609
Creditors and accruals	3,076	-	-	-	3,076
<b>Total liabilities</b>	<b><u>14,209</u></b>	<b><u>22,991</u></b>	<b><u>15,485</u></b>	<b><u>-</u></b>	<b><u>52,685</u></b>
<b>Total assets</b>	<b><u>3,023</u></b>	<b><u>23,630</u></b>	<b><u>43,764</u></b>	<b><u>1,734</u></b>	<b><u>72,150</u></b>

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

### 3 Financial risk management (continued)

#### 3.3.4 Off balance sheet items

	31 December 2010 Rials '000	31 December 2009 Rials '000
Approved lease commitments at 31 December (Note 25)	3,427	2,213
Operating leases commitments (Note 25)	18	23
Bank guarantee (Note 26)	33	33
	-----	-----
Total exposure	<u>3,478</u>	<u>2,269</u>

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2009 - 3 months) of the statement of financial position date.

### 3.4 Fair values

The carrying amounts, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of long-term bank borrowings is considered to approximate to their carrying amounts as these either carry variable interest rates in line with current market rates or interest rates linked to LIBOR. The fair value of fixed deposits is not considered to be materially different from their carrying amount in view of the duration of these deposits which does not exceed 2 years.

None of the Company's financial instruments are carried in the statement of financial position at fair value: the Company's financial assets and financial liabilities are carried in the statement of financial position at amortised cost.

### 3.5 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Company also has the objective with respect to capital of meeting the requirements of the Central Bank of Oman, the Regulatory Authority. The Company had a bonus share issue in 2010 and, accordingly, increased its paid up share capital to RO 15.13 million. The Company is further required to increase its issued share capital to RO 20 million before 30 June 2012.

The Company has established a foreign currency reserve in accordance with the requirements of the Central Bank of Oman. Additionally, in accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's paid-up share capital.

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

#### 3 Financial risk management (continued)

The Company monitors its gearing ratio in order to maintain it within the limits prescribed by the Regulatory Authority.

#### 4 Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### *Impairment losses on lease receivables*

The Company reviews its lease receivable portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of lease receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, peer statistics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 5 Segment analysis

The Company is engaged in leasing activities, all of which are carried out in Oman. Although the Company has individual and corporate customers, the entire lease portfolio is managed internally as one business segment. All the Company's funding and costs are common and are not shared between these two portfolios.

#### 6 Other income

	2010 Rials '000	2009 Rials '000
Penal charges received	128	131
Income from pre-closed leases	257	261
Miscellaneous income	<u>190</u>	<u>173</u>
	<u>575</u>	<u>565</u>

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 7 General and administrative expenses

	2010 Rials '000	2009 Rials '000
Employee related expenses	1,529	1,439
Occupancy costs	46	36
Communication costs	57	58
Professional fees and subscriptions	58	58
Advertising and sales promotion	46	38
Directors' sitting fees	11	13
Directors' remuneration	58	50
Other office expenses	211	244
	<u>2,016</u>	<u>1,936</u>

Total employee related expenses included under general and administrative expenses comprise:

	2010 Rials '000	2009 Rials '000
Salaries and Allowances	1,245	1,131
Other benefits	161	166
Social security costs	34	27
Staff terminal benefits	58	72
Other incentives	31	43
	<u>1,529</u>	<u>1,439</u>

The total number of employees as at 31 December 2010 is 104. (2009: 99).

### 8 Income tax

#### Components of taxation for the year

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 RO 30,000. The reconciliation between the tax expense and the profit before taxation is as follows:

#### (a) Reconciliation of income tax

	31 December 2010 Rials '000	31 December 2009 Rials '000
Profit before taxation	2,651	2,645
<i>Current tax</i>		
- current year	380	122
<i>Deferred tax asset</i>		
- current year	(60)	221
<i>Deferred tax liability</i>		
- current year	-	(19)
Taxation charge for the year	<u>320</u>	<u>324</u>

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

#### 8 Income tax (continued)

##### (b) Status of tax assessments

Tax assessment up to year 2005 are complete. Assessment for tax years 2006, 2007, 2008 and 2009 are subject to agreement with the Oman Taxation Authorities. The Directors are of the opinion that the additional taxes assessed, if any, would not be material to the Company's financial position as at 31 December 2010.

#### 9 Earnings per share and net assets per share

The calculation of earnings per share is as follows:

	31 December 2010 Rials '000	31 December 2009 Rials '000
Profit for the year attributable to the ordinary shareholders	<u>2,331</u>	<u>2,321</u>
Net assets	<u>21,115</u>	<u>18,784</u>
Weighted average number of shares (refer note 16)	<u>151,332</u>	<u>151,332</u>
Earnings per share (Rial)	<u>0.015</u>	<u>0.015</u>
Net assets per share (Rial)	<u>0.140</u>	<u>0.124</u>

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. For 2009, comparative earnings per share have been restated based upon the increased number of shares following the issue of bonus shares during 2010 for no consideration. Net assets per share are calculated by dividing net assets by the number of shares in issue at 31 December 2010 of 151,331,626 shares.

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

#### 10 Cash and bank balances

	31 December 2010 Rials '000	31 December 2009 Rials '000
Bank current accounts	1,804	291
Cash in hand	<u>1</u>	<u>1</u>
	<u>1,805</u>	<u>292</u>

#### 11 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%).

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 12 Net investment in finance leases

	31 December 2010 Rials '000	31 December 2009 Rials '000
Gross investment in finance leases	99,303	85,811
Unearned lease income	<u>(14,274)</u>	<u>(12,266)</u>
	85,029	73,545
Provision for impairment of lease receivable	(4,449)	(3,949)
Unrecognised contractual income	<u>(504)</u>	<u>(424)</u>
Net investment in finance leases	<u>80,076</u>	<u>69,172</u>

- (a) 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 December 2010, investment in leases where contractual income has not been recognised was Rials 5.9 M (2009: Rials 5.09 M). As at 31 December 2010, the provision for impairment and unrecognised contractual income were Rials 4.95 M (2009: Rials 4.37 M).

- (b) Net investment in rescheduled finance leases was as below:

	31 December 2010 Rials '000	31 December 2009 Rials '000
Net investment in rescheduled finance leases	1,231	968

- (c) Lease repayments due more than one year from the statement of financial position date amount to Rials 50.29 million (2009: Rials 43.76 million).

- (d) Unearned lease income

	2010 Rials '000	2009 Rials '000
1 January	12,266	15,024
Additions during the year	10,013	5,216
Recognised during the year	<u>(8,005)</u>	<u>(7,974)</u>
31 December	<u>14,274</u>	<u>12,266</u>

- (e) Provision for impairment of lease receivables

	2010 Rials '000	2009 Rials '000
1 January	3,949	5,789
Provided during the year	1,272	950
Released during the year	(362)	(430)
Write offs during the year	<u>(410)</u>	<u>(2,360)</u>
31 December	<u>4,449</u>	<u>3,949</u>

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

#### 12 Net investment in finance leases (continued)

##### (f) Unrecognised contractual income

	2010 Rials '000	2009 Rials '000
1 January	424	717
Unrecognised during the year	230	214
Recognised during the year	(150)	(507)
31 December	<u>504</u>	<u>424</u>

#### 13 Property pending sale

Property pending sale represents land acquired by the Company in part settlement of amounts due by borrowers following the conclusion of all credit recovery procedures available to the Company.

#### 14 Deferred tax

##### (a) Deferred tax asset

Deferred tax asset arises in respect of provision for impairment of lease receivables. The deferred tax asset recognised in the balance sheet and the movements during the year are as follows:

	2010 Rials '000	2009 Rials '000
1 January	484	705
Recognised in the statement of comprehensive income	60	(221)
31 December	<u>544</u>	<u>484</u>

##### (b) Deferred tax liability

Deferred tax liability arises in respect of unamortised initial direct costs and revaluation of land and buildings. The deferred tax liability recognised in the balance sheet and the movements during the year are as follows:

	2010 Rials '000	2009 Rials '000
1 January	184	207
Recognised in the statement of comprehensive income	(2)	(19)
Recognised in equity	-	(4)
	-----	-----
31 December	<u>182</u>	<u>184</u>
	=====	=====

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 15 Property and equipment

	Freehold land Rials'000	Buildings Rials'000	Furniture, fixtures and equipment Rials'000	Motor vehicles Rials'000	Total Rials'000
<b>Cost or valuation</b>					
1 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>511</u>	<u>25</u>	<u>1,732</u>
<b>Depreciation</b>					
1 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>
<b>Net book value</b>	<u>800</u>	<u>226</u>	<u>75</u>	<u>15</u>	<u>1,116</u>
<b>31 December 2010</b>					

	Freehold land Rials'000	Buildings Rials'000	Furniture, fixtures and equipment Rials'000	Motor vehicles Rials'000	Total Rials'000
<b>Cost or valuation</b>					
1 January 2009	800	395	481	14	1,690
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>
<b>Depreciation</b>					
1 January 2009	-	56	377	14	447
Charge for the year	-	56	56	2	113
Released on disposals	-	-	-	(14)	(14)
31 December 2009	<u>-</u>	<u>112</u>	<u>433</u>	<u>2</u>	<u>548</u>
<b>Net book value</b>	<u>800</u>	<u>283</u>	<u>95</u>	<u>23</u>	<u>1,200</u>
<b>31 December 2009</b>					



# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 16 Share capital

The authorised share capital of the Company comprises 300,000,000 ordinary shares of Baizas 100 each (2009: 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 151,331,626 ordinary shares of Baizas 100 each (2009: 126,109,688 ordinary shares of Baizas 100 each).

Shareholders who own 10% or more of the Company's share capital are:

	<u>2010</u>		<u>2009</u>	
	Number of shares held	%	Number of shares held	%
Al Hilal Investment Co. LLC	<b>59,604,800</b>	<b>39.4</b>	49,670,668	39.4
Oman International Development and Investment Company SAOG	<b>35,923,141</b>	<b>23.7</b>	29,935,951	23.7

### 17 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's share capital. This reserve is not available for distribution.

### 18 Foreign currency reserve

The foreign currency reserve has been created as per the directives of the Central Bank of Oman for un-hedged long-term foreign currency loans. This reserve is not available for distribution.

### 19 Creditors and accruals

	<b>31 December 2010 Rials '000</b>	31 December 2009 Rials '000
Creditors	<b>3,883</b>	2,097
Accruals and other liabilities	<b><u>739</u></b>	<u>979</u>
	<b><u>4,622</u></b>	<u>3,076</u>

**NATIONAL FINANCE COMPANY SAOG****Notes***(forming part of the financial statements)***20 Staff terminal benefits**

The movement in staff terminal benefits during the year is as follows:

	<b>2010</b> <b>Rials '000</b>	<b>2009</b> <b>Rials '000</b>
1 January	257	184
Provision during the year	77	97
Payments during the year	<u>(30)</u>	<u>(24)</u>
31 December	<u>304</u>	<u>257</u>

**21 Bank borrowings**

	<b>31 December</b> <b>2010</b> <b>Rials '000</b>	<b>31 December</b> <b>2009</b> <b>Rials '000</b>
Overdrafts	-	560
Short-term loans	34,614	27,334
Long-term loans	<u>8,164</u>	<u>14,486</u>
	<u>42,778</u>	<u>42,380</u>

- (a) During the year interest was charged on the above borrowings at rates ranging between 2.25% and 7.50% per annum (2009 – 3.75% and 7.75% per annum).
- (b) At the statement of financial position date all outstanding borrowings were secured by a first priority pari-passu floating charge on the trade name and tangible and intangible assets of the Company, including but not limited to the Company's receivables from its customers.
- (c) During 2010 and 2009 the Company has complied with the various loan covenants with respect to its bank borrowings.

**22 Fixed deposits**

As at 31 December 2010, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rials 15.480 million (2009 – Rials 7.2 M), with tenors ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 5.0% and 6.5% per annum. The carrying amount includes interest accrued till the end of the year.

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

#### 23 Cash and cash equivalents

	2010 Rials '000	2009 Rials '000
Cash and bank balances	1,805	292
Bank overdraft	-	(560)
	<u>1,805</u>	<u>(268)</u>

#### 24 Dividends

The Board of Directors at the forthcoming Annual General Meeting propose a stock dividend of 16% amounting to Rials 2,421,306 and cash dividend of 5% amounting to Rials 756,658 for 2010 (2009 – 20% Stock Dividend : Rials 2,522,194). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

#### 25 Commitments

	2010 Rials '000	2009 Rials '000
Approved lease commitments	3,427	2,213
	<u>      </u>	<u>      </u>

Approved lease commitments will be paid within 30 days from the date of lease creation.

At 31 December 2010 the Company had operating lease commitments of Rials 18 K (2009 - RO 23 K) due as follows:

	2010 Rials '000	2009 Rials '000
Due within one year	18	23
Due after one year but within five years	-	-
	<u>18</u>	<u>23</u>
	<u>      </u>	<u>      </u>

The Company has entered into a one year operating lease contract for vehicles used by the Company's staff for performing official visits to dealers, client locations etc. The commitment represents rentals to be paid for these vehicles for the total lease period. The Company has the right to terminate the contract with 2 months notice after 12 months and 1 month notice after 24 months.

#### 26 Contingencies

In its ordinary course of business the Company has arranged for the following in favour of its customers from banks in Oman.

	2010 Rials '000	2009 Rials '000
Bank Guarantee	33	33
	<u>      </u>	<u>      </u>

## NATIONAL FINANCE COMPANY SAOG

### Notes

(forming part of the financial statements)

#### 27 Related party transactions

During the year, 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 year ended 31 December 2010 were as follows:

	2010 Rials '000	2009 Rials '000
General and administrative expenses	3	2
Lease rentals paid for vehicles taken on operating lease	32	33
Sales incentive paid	2	70
<b>Directors' fees and remuneration</b>		
Sitting fees	11	13
Proposed remuneration	58	50
<b>Year end balances arising on the above</b>		
Net investment in finance lease (Sweets of Oman)	138	208
Proposed remuneration to directors *	57	59
<b>Remuneration &amp; period end balances to key members of Management during the period</b>		
Salaries and other benefits	370	330
Net investment in finance lease & advances	27	29

\*Directors remuneration of 2009 paid in 2010 RO 60K

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 28 Maturity analysis of significant assets and liabilities

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
<b>Assets</b>					
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	-	-	-	1,116	1,116
<b>Total assets</b>	<b><u>5,760</u></b>	<b><u>27,308</u></b>	<b><u>50,290</u></b>	<b><u>1,710</u></b>	<b><u>85,068</u></b>
<b>Equity</b>					
Equity	-	-	-	21,115	21,115
<b>Liabilities</b>					
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	-	-	-	182	182
<b>Total equity and liabilities</b>	<b><u>14,278</u></b>	<b><u>36,958</u></b>	<b><u>12,231</u></b>	<b><u>21,601</u></b>	<b><u>85,068</u></b>
<b>Liquidity gap</b>	<b><u>(8,518)</u></b>	<b><u>(9,650)</u></b>	<b><u>38,059</u></b>	<b><u>(19,891)</u></b>	
<b>Cumulative liquidity gap</b>	<b><u>(8,518)</u></b>	<b><u>(18,168)</u></b>	<b><u>19,891</u></b>		

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
<b>Assets</b>					
Cash and bank balances	292	-	-	-	292
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,169	23,240	43,763	-	69,172
Advances and prepayments	924	-	-	-	924
Property pending sale	-	28	-	-	28
Deferred tax asset	-	-	-	484	484
Property and equipment	-	-	-	1,200	1,200
<b>Total assets</b>	<b><u>3,385</u></b>	<b><u>23,268</u></b>	<b><u>43,763</u></b>	<b><u>1,734</u></b>	<b><u>72,150</u></b>
<b>Equity</b>					
Equity	-	-	-	18,784	18,784
<b>Liabilities</b>					
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	-	-	-	184	184
<b>Total equity and liabilities</b>	<b><u>14,209</u></b>	<b><u>23,231</u></b>	<b><u>15,485</u></b>	<b><u>19,225</u></b>	<b><u>72,150</u></b>
<b>Liquidity gap</b>	<b><u>(10,824)</u></b>	<b><u>37</u></b>	<b><u>28,278</u></b>	<b><u>(17,491)</u></b>	
<b>Cumulative liquidity gap</b>	<b><u>(10,824)</u></b>	<b><u>(10,787)</u></b>	<b><u>17,491</u></b>		

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 29 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2010	0% - less than 5%	5% - less than 10%	10% - less than 15%	15% and above	Total
	Rials '000	Rials '000	Rials '000	Rials '000	Rials '000
<b>Assets</b>					
Cash and bank balances	1,805	-	-	-	1,805
Statutory deposit	50	-	-	-	50
Net investment in finance leases	696	22,831	55,838	711	80,076
Working Capital Finance	-	-	477	-	477
<b>Total</b>	<b>2,551</b>	<b>22,831</b>	<b>56,315</b>	<b>711</b>	<b>82,408</b>
<b>Liabilities</b>					
Bank borrowings and fixed deposit	25,515	32,743	-	-	58,258
Creditors and accruals	4,622	-	-	-	4,622
<b>Total</b>	<b>30,137</b>	<b>32,743</b>	<b>-</b>	<b>-</b>	<b>62,880</b>

At 31 December 2009	0% - less than 5%	5% - less than 10%	10% - less than 15%	15% and above	Total
	Rials '000	Rials '000	Rials '000	Rials '000	Rials '000
<b>Assets</b>					
Cash and bank balances	292	-	-	-	292
Statutory deposit	50	-	-	-	50
Net investment in finance leases	1,135	16,333	49,890	1,815	69,172
<b>Total</b>	<b>1,477</b>	<b>16,333</b>	<b>49,890</b>	<b>1,815</b>	<b>69,514</b>
<b>Liabilities</b>					
Bank borrowings and fixed deposit	1,025	48,584	-	-	49,609
Creditors and accruals	3,076	-	-	-	3,076
<b>Total</b>	<b>4,101</b>	<b>48,584</b>	<b>-</b>	<b>-</b>	<b>52,685</b>

# NATIONAL FINANCE COMPANY SAOG

## Notes

(forming part of the financial statements)

### 30 Effective interest rate analysis of financial assets and financial liabilities (continued)

#### Interest rate sensitivity analysis

The Company's interest rate sensitivity position, based on the contractual repricing or maturity dates is set out below:

At 31 December 2010	Effective interest rate %	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	Non- interest bearing Rials '000	Total Rials '000
<b>Assets</b>							
Cash and bank balances	-	-	-	-	-	1,805	1,805
Statutory deposit	2.0%				50	-	50
Net investment in finance leases	0% to 18%	2,602	27,184	50,290	-	-	80,076
Working Capital Finance	8% to 11%	477	-	-	-	-	477
<b>Total assets</b>		<u>3,079</u>	<u>27,184</u>	<u>50,290</u>	<u>50</u>	<u>1,805</u>	<u>82,408</u>
<b>Equity</b>							
Equity	-	-	-	-	-	21,115	21,115
<b>Liabilities</b>							
Bank borrowings and fixed deposit	2.25% to 7.75%	9,656	36,371	12,231	-	-	58,258
Creditors and accruals	-	-	-	-	-	4,926	4,926
<b>Total equity and liabilities</b>		<u>9,656</u>	<u>36,371</u>	<u>12,231</u>	<u>-</u>	<u>26,041</u>	<u>84,299</u>
<b>Interest rate sensitivity gap</b>		<u>(6,577)</u>	<u>(9,186)</u>	<u>38,059</u>	<u>50</u>	(24,236)	1,890
<b>Cumulative interest rate sensitivity gap</b>		<u>(6,577)</u>	<u>(15,763)</u>	<u>22,296</u>	<u>22,346</u>	1,890	
At 31 December 2009	Effective interest rate %	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	Non-interest bearing Rials '000	Total Rials '000
<b>Assets</b>							
Cash and bank balances	-	-	-	-	-	292	292
Statutory deposit	2.0%				50	-	50
Net investment in finance leases	0% to 18%	2,169	23,240	43,763	-	-	69,172
<b>Total assets</b>		<u>2,169</u>	<u>23,240</u>	<u>43,763</u>	<u>50</u>	<u>292</u>	<u>69,514</u>
<b>Equity</b>							
Equity	-	-	-	-	-	18,784	18,784
<b>Liabilities</b>							
Bank borrowings and fixed deposit	4.8% to 8%	11,133	22,991	15,485	-	-	49,609
Creditors and accruals	-	-	-	-	-	3,333	3,333
<b>Total equity and liabilities</b>		<u>11,133</u>	<u>22,991</u>	<u>15,485</u>	<u>-</u>	<u>22,117</u>	<u>71,726</u>
<b>Interest rate sensitivity gap</b>		<u>(8,964)</u>	<u>249</u>	<u>28,278</u>	<u>50</u>	(21,825)	(2,212)
<b>Cumulative interest rate sensitivity gap</b>		<u>(8,964)</u>	<u>(8,715)</u>	<u>19,563</u>	<u>19,613</u>	(2,212)	