

IBM Finans Norge AS
Condensed Interim Financial Statements
30 September 2018

IBM Finans Norge AS

Condensed Interim Financial Statements

For the Quarter Ended 30 September 2018

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IBM Finans Norge AS

Condensed Interim Statement of Comprehensive Income

For the Quarter Ended 30 September 2018

	Notes	Three months ended		Nine months ended		Year ended
		30 September 2018 NOK'000	30 September 2017 NOK'000	30 September 2018 NOK'000	30 September 2017 NOK'000	31 December 2017 NOK'000
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
Finance income	2	13 011	11 314	34 821	140 439	153 362
Finance cost	3	(6 723)	(4 023)	(18 030)	(56 559)	(95 407)
Net finance income		6 288	7 291	16 791	83 880	57 955
Other income and expense						
Other income / (expense)	4	(3 846)	(6 189)	(11 944)	(17 456)	(25 761)
Total other income and expense		(3 846)	(6 189)	(11 944)	(17 456)	(25 761)
Profit before income tax		2 442	1 102	4 847	66 424	32 194
Income tax expense		(561)	(264)	(1 115)	(15 941)	(7 722)
Profit for the period / Total comprehensive income		1 881	838	3 732	50 483	24 472
All operations are classified as continuing.						
Other comprehensive income / (loss)						
<i>Items that will not be reclassified subsequently to profit and loss:</i>						
Actuarial gain / (loss) on defined benefit scheme		-	-	-	9	(78)
Deferred tax in respect of defined benefit scheme		-	-	-	(3)	18
Other comprehensive income / (loss) for the period, net of income tax		-	-	-	6	(60)
Total comprehensive income / (loss) for the period		1 881	838	3 732	50 489	24 412

The notes on pages 6 to 13 form part of these financial statements.

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Condensed Interim Statement of Financial Position

As at 30 September 2018

		30	31 December	30
		September	2017	September
		2018	2017	2017
		NOK'000	NOK'000	NOK'000
	Notes	Unaudited	Audited	Unaudited
Current assets				
Cash and cash equivalents	12	2 076	2 620	8 888
Other receivables (VAT)		28 603	-	-
Receivables from related parties	12,13	34 160	365	289
Finance receivables	6	425 014	583 840	329 373
Inventories		39	-	-
Prepayments and other current assets		137	3 505	2 783
		490 029	590 330	341 333
Non-current assets				
Finance receivables	6	137 045	72 531	52 623
Property, plant and equipment	11	26 874	33 111	36 278
Deferred tax assets		643	-	-
		164 562	105 642	88 901
Total assets		654 591	695 972	430 234
Current liabilities				
Loans and borrowing	7,12	450 020	413 141	146 459
Payables to related parties	12,13	31 104	131 767	39 902
Tax payables		7 472	8 809	17 101
Trade and other payables	8	51 090	30 292	33 507
Deferred income		2 446	2 592	2 258
Other liabilities (employees)		958	1 682	1 135
		543 090	588 283	240 362
Non-current liabilities				
Deferred tax liability		-	13	1 375
Retirement benefit obligation		2 613	2 520	2 264
		2 613	2 533	3 639
Total liabilities		545 703	590 816	244 001
Net assets		108 888	105 156	186 233
Issued capital and reserves				
Share capital		45 000	45 000	45 000
Retained profits		63 888	60 156	141 233
Total equity		108 888	105 156	186 233

The notes on pages 6 to 13 form part of these financial statements.

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Condensed Interim Statement of Changes in Equity

As at 30 September 2018

	Issued capital	Other paid-in capital	Retained earnings	Total equity
	NOK'000	NOK'000	NOK'000	NOK'000
At 1 January 2018	45 000	64 217	(4 061)	105 156
Profit for the period	-	-	3 732	3 732
Other comprehensive income	-	-	-	-
Total contribution by and distribution to owners of the company	-	-	-	-
At 30 September 2018 (unaudited)	45 000	64 217	(329)	108 888
At 1 January 2017	45 000	64 217	26 527	135 744
Profit for the period / Total comprehensive income	-	-	50 483	50 483
Other comprehensive income	-	-	6	6
Total contribution by and distribution to owners of the company	-	-	-	-
At 30 September 2017 (unaudited)	45 000	64 217	77 016	186 233
At 1 January 2017	45 000	64 217	26 527	135 744
Profit for the period	-	-	24 472	24 472
Other comprehensive income	-	-	(60)	(60)
Dividends distribution	-	-	(55 000)	(55 000)
Total group contribution to owners of the company	-	-	-	-
Total capital contribution by owners of the company	-	-	-	-
At 31 December 2017 (audited)	45 000	64 217	(4 061)	105 156

The notes on pages 6 to 13 form part of these financial statements.

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Condensed Interim Statement of Cash Flows

For the Quarter Ended 30 September 2018

		Nine months ended		Year ended
		30	30	31 December
		September	September	2017
		2018	2017	2017
		NOK'000	NOK'000	NOK'000
		Unaudited		Audited
Profit for the period		3 732	50 483	24 472
Adjustments for				
Income tax		1 115	15 491	7 722
Depreciation	11	11 019	11 732	15 759
Changes in operating assets and liabilities				
Difference between pension charge and cash contribution		92	131	300
Increase/ (Decrease) in other receivables (VAT)		(28 603)	-	-
Increase/ (Decrease) in prior year income tax liability		(3 105)	-	-
Income tax paid		-	-	(1 413)
Decrease / (Increase) in receivables from related parties	12	(33 795)	579	502
Decrease / (Increase) in finance receivables	6	94 312	847 862	573 487
(Decrease) / Increase in payables to related parties	12	(100 663)	(161 069)	(69 204)
(Decrease) / Increase in trade and other payables	8	20 798	(20 144)	(23 359)
(Decrease) / Increase in other liabilities		(872)	340	1 223
Decrease / (Increase) in prepayments		3 329	6 976	6 252
Net cash flow from operating activities		(32 641)	752 831	535 741
Cash flows from investing activities				
Purchase of property, plant and equipment	11	(6 948)	(19 914)	(23 004)
Proceeds from sale of property, plant and Equipment	11	2 167	2 845	5 075
Cash flows from investing activities		(4 782)	(17 069)	(17 929)
Cash flow from financing activities				
Payment of dividends		-	-	(55 000)
(Decrease) / Increase in borrowing		36 879	(727 990)	(461 308)
Group contribution		-	-	-
Net cash flow from financing activities		36 879	(727 990)	(516 308)
Net increase in cash and cash equivalents		(544)	7 772	1 504
Cash and cash equivalents at beginning of year		2 620	1 116	1 116
Cash and cash equivalents at end of the period		2 076	8 888	2 620

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2018

1. Statement of compliance, basis of preparation, and significant accounting policies

General information

IBM Finans Norge AS (the 'company') is a limited company incorporated in Norway. The ownership of the company was transferred from International Business Machines AS (IBM) to IBM Global Financing investments II B.V. in March 2017. The company's ultimate parent entity is International Business Machines Corporations ('IBM Corporation'), a company registered in the United States of America.

Basis of preparation

These condensed interim financial statements for the quarter ended 30 September 2018 have been prepared on a historical cost basis and in accordance with IAS 34 Interim financial reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

In preparing these condensed interim financial statements, the required significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2017, with the exception of changes in estimates that are required in determining the provision for income taxes.

The condensed interim financial statements have been prepared on a going concern basis.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2018

2. Finance income

	Three months ended		Nine months ended		Year ended
	30	30	30	30	31 December
	September	September	September	September	31 December
	2018	2017	2018	2017	2017
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Factoring income	5 778	4 327	14 349	9 807	14 050
Operating lease income	4 173	4 503	12 604	13 871	18 691
Capital lease income	2 022	1 532	4 552	114 077	115 472
Interest income	264	150	793	199	197
Other operating income	774	802	2 523	2 485	4 952
	13 011	11 314	34 821	140 439	153 362

For commercial financing, the interest for the extended period is fixed above Base rate. Base Rate is the one-month NIBOR rate published by Norges Bank on the first working day of a calendar month, the Base Rate will be changed to NIBOR appearing for the last working day of the previous calendar month. If at any time, NIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following working day. In case of negative Base Rate, a minimum Base Rate of 0 % will be used.

3. Finance costs

	Three months ended		Nine months ended		Year ended
	30	30	30	30	31 December
	September	September	September	September	31 December
	2018	2017	2018	2017	2017
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Costs of operating leases	4 281	4 710	12 090	13 173	17 824
Cost of capital leases	-	(2 092)	-	33 522	61 579
Interest expense	1 811	841	4 035	8 036	12 279
Costs of other operating income	631	564	1 905	1 828	3 725
	6 723	4 023	18 030	56 559	95 407

For commercial financing, the interest for the extended period is fixed above Base rate. Base Rate is the one-month NIBOR rate published by Norges Bank on the first working day of a calendar month, the Base Rate will be changed to NIBOR appearing for the last working day of the previous calendar month. If at any time, NIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following working day. In case of negative Base Rate, a minimum Base Rate of 0 % will be used.

For client Financing, we operate with fixed interest rate.

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4. Other expenses

	Three months ended		Nine months ended		Year ended
	30 September 2018	30 September 2017	30 September 2018	30 September 2017	31 December 2017
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Employee expenses	1 589	1 869	5 902	6 582	8 855
Royalties	-	-	-	-	3 783
Other expenses	2 257	4 320	5 797	10 807	13 056
Audit services (excl. VAT)- Statutory audit	-	-	245	67	67
	3 846	6 189	11 944	17 456	25 761

5. Income tax expense

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2018 is 23% (the estimated tax rate for the nine months ended 30 September 2017 was 24 %).

6. Finance receivables

	30 September 2018	31 December 2017	30 September 2017
	NOK'000	NOK'000	NOK'000
Factored receivables	305 276	497 734	251 332
Lease receivables	70 479	51 651	55 748
Customer loans	188 716	110 108	76 487
Less: provision for impairment of receivables	(2 412)	(3 122)	(1 571)
	562 059	656 371	381 996
Current	425 014	583 840	329 373
Non-current	137 045	72 531	52 623
	562 059	656 371	381 996

Finance lease receivables are for leases that relate principally to the company's equipment and are generally for terms ranging from two to seven years. Customer loans are provided by the company to clients to finance the purchase of IBM's software and services.

Finance lease and customer loan receivables include invoiced amounts not paid at the end of quarter. The average contractual credit period on invoiced amounts is 0 to 30 days. Thereafter, interest is charged at market rates on the outstanding balance.

Before entering into a finance lease arrangement, the company undertakes a credit assessment on the proposed transaction, either through the IBM Credit Team or, for certain transactions of a lower size, a credit scoring system based on external credit agency information, to assess the customer's credit quality and define credit limits by customer.

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6. Finance receivables (continued)

Credit limits for most customers are valid for no more than six months, and are re-assessed if required to be extended. The balances on leases for hardware are usually secured over the leased equipment.

In determining the recoverability of finance receivables, the company considers any change in the credit quality of the receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and diverse. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment of trade receivables.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

The finance lease receivables are effectively collateralized by the leased assets as the right to the asset reverts to the company in case of the counterparty's default. Such finance lease receivables are secured by hardware assets.

7. Loans and borrowings

	30	31 December	30
	September	2017	September
	2018	2017	2017
	NOK'000	NOK'000	NOK'000
<i>Current</i>			
Loans due to related parties (note 12)	450 020	413 141	146 459
Term loans		-	-
	450 020	413 141	146 459
<i>Non-current</i>			
Loans due to related parties (note 12)	-	-	-
Term loans	-	-	-
	-	-	-

8. Trade and other payables

	30	31 December	30
	September	2017	September
	2018	2017	2017
	NOK'000	NOK'000	NOK'000
Trade payables	50 393	29 230	29 882
Social security and other taxes	369	740	3 301
Other payables	328	322	324
	51 090	30 292	33 507

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9. Contingencies

At 30 September 2018, the company had nil contingent liability in respect of bank guarantees (31 December 2017: NOK nil) with joint liability of IBM group companies in Norway.

10. Events after balance sheet date

There were no other material events after balance sheet date.

11. Property, plant and equipment

	Buildings and equipment	Plant and equipment	Fixtures and fittings	Lease assets	Total
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Cost					
As at 1 January 2017		52	-	29 715	29 767
Additions	-	109	-	22 895	23 004
Disposals	-	-	-	(12 724)	(12 724)
Other, reclassifications, transfers	-	-	-	(14 549)	(14 549)
As at 31 December 2017	-	161	-	25 337	25 498
Additions	-			6 948	6 948
Disposals	-			(4 480)	(4 480)
Other, reclassifications, transfers	-	(7)		(6 370)	(6 377)
As at 30 September 2018	-	154		21 435	21 589
Accumulated depreciation					
As at 1 January 2017	-	-	-	1 174	1 174
Additions	-	(31)	-	(15 728)	(15 759)
Disposals	-		-	9 862	9 862
Other, reclassifications, transfers	-	(114)	-	12 450	12 336
As at 31 December 2017	-	(145)	-	7 758	7 613
Additions	-	(16)		(11 003)	(11 019)
Disposals	-			3 438	3 438
Other, reclassifications, transfers	-	7		5 245	5 252
As at 30 September 2018	-	(154)		5 439	5 285
Net book value					
At 30 September 2018	-	-	-	26 874	26 874
At 30 September 2017		24		36 254	36 278
At 31 December 2017	-	16	-	33 095	33 111

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12. Financial instruments

Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management programme in place aligned to the programmes applied within the consolidated group of the company's ultimate parent company, International Business Machines Corporation.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the annual financial statements as at 31 December 2017. There have been no changes in the risk management department since year end or in any risk management policies

Categories of financial instruments

	30 September 2018 NOK'000	31 December 2017 NOK'000	30 September 2017 NOK'000
Financial assets			
<i>Loans and receivables</i>			
Cash and cash equivalents	2 076	2 620	8 888
Finance receivables	562 059	656 371	381 996
Receivables from related parties	34 160	365	289
	<u>598 295</u>	<u>659 356</u>	<u>391 173</u>
Financial liabilities			
<i>Amortised costs</i>			
Borrowing	450 020	413 141	146 459
Payables to related parties	31 104	131 767	39 902
Trade and other liabilities	50 721	29 553	30 206
	<u>531 845</u>	<u>574 461</u>	<u>216 567</u>

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Other financial assets and financial liabilities, excluding derivative financial instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management consider that the carrying amount of financial assets and financial liabilities in the condensed interim financial statements approximate their fair values. There are no financial assets and/or liabilities that were already recognised at fair value through profit and loss.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2018

13. Related party transactions

The following transactions were carried out with related parties, and were made on commercial terms and conditions:

Class of related party/Transaction type	Three months ended		Nine months ended		Year ended
	30 September 2018	30 September 2017	30 September 2018	30 September 2017	31 December 2017
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
<i>Other related undertakings</i>					
Sales	2 658	1 272	5 461	4 826	7 786
Purchases	407	(246)	866	(789)	(1 268)
Other expenses	(7)	-	(17)	-	12
Interest paid	(1 812)	(842)	(4 035)	(8 036)	(12 280)
Royalties	-	946	-	2 839	3 783
Interest received	252	150	772	198	189

Immediate parent

Sales	-	-	-	-	-
Purchases	-	-	-	-	-
Other expenses	-	-	-	-	-
Interest paid	-	-	-	-	-
Interest received	-	-	-	-	-
Group contribution paid	-	-	-	-	-
Capital contribution received	-	-	-	-	-
Dividends paid	-	-	-	-	-

Details of the amounts receivable from, payable to and borrowing from related parties are set out below:

Class of related party	Transaction type	30 September 2018	31 December 2017	30 September 2017
		NOK'000	NOK'000	NOK'000
Other related undertakings	Cash equivalents	-	-	-
	Receivables due from related parties	11 613	365	188
	Deposit held with related parties	22 547	-	101
	Loans due to related parties	450 020	413 141	146 459
	Payable to related parties	31 104	131 767	39 902
Immediate parent	Deposits held with related party	-	-	-
	Borrowing from related party	-	-	-
	Loans due to related parties	-	-	-
	Payable to related parties	-	-	-

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13. Related party transactions (continued)

Interest on amounts owed by fellow subsidiary undertakings are charged at variable rates based on NIBOR. The amounts outstanding on these balances are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

14. Capital coverage

Reporting to the Financial supervisory authority of Norway (no: Finanstilsynet) any asset class is weighted at 100%.

	30/09/18	30/09/17	31/12/17
	NOK'000	NOK'000	NOK'000
100 % weighted: Finance receivables	255 702	159 148	188 071
50 % weighted: Finance receivables	158 974	113 099	230 850
20 % weighted: Finance receivables	12 657	50 665	9 872
Base for 8% credit risk	427 333	322 912	428 793
Responsible capital	104 474	135 744	104 462
Credit risk	34 186	25 833	34 303
Operational risk	4 169	1 823	4 169
Coverage of responsible capital	66 119	108 088	65 990
Buffer:			
Preservebuffer	11 986	8 072	10 719
Countercyclical capital buffer	9 589	4 843	8 575
Systemriskbuffer	14 383	9 687	12 863
	35 958	22 602	32 157
Coverage less requirement after the buffer requirement	30 161	85 486	33 833
- Pilar 2 requirement (0.4 %)	1 917		
- Control buffer (2 %)	9 589		
Coverage after all requirements	18 655		

	Actual pr.30/9/2018	Requirement + Pilar 2	Incl. control buffer
Common Equity Tier 1 (Ren kjernekapital)	21.8 %	12.4 %	14.4 %
Core capital (Kjernekapital)	21.8 %	13.9 %	15.9 %
Responsible capital (Ansvarlig kapital)	21.8 %	15.9 %	17.9 %