

IBM Finans Norge AS
Condensed Interim Financial Statements
30 September 2019

IBM Finans Norge AS
Condensed Interim Financial Statements
For the Quarter Ended 30 September 2019

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IBM Finans Norge AS

Condensed Interim Statement of Profit or Loss and Other Comprehensive Income

For the Quarter Ended 30 September 2019

	Notes	Three months ended		Nine months ended		Year ended
		30 September 2019 NOK'000	30 September 2018 NOK'000	30 September 2019 NOK'000	30 September 2018 NOK'000	31 December 2018 NOK'000
		Unaudited		Unaudited		Audited
Finance income	2	7 761	13 011	35 014	34 821	45 874
Finance income calculated using the effective interest method	2	198	-	619	-	1 037
Finance cost	3	(4 800)	(6 723)	(17 014)	(18 030)	(24 086)
Net finance income		3 159	6 288	18 619	16 791	22 825
Other income and expense						
Other expense	4	(4 938)	(3 846)	(11 270)	(11 944)	(16 968)
Net impairment losses on financial assets		77	-	(422)	-	1 298
Profit before income tax		(1702)	2 442	6 927	4 847	7 155
Income tax expense	5	374	(561)	(1 524)	(1 115)	(1 664)
Profit for the year		(1 328)	1 881	5 403	3 732	5 491
Other comprehensive income / (loss)						
<i>Items that will not be reclassified subsequently to profit and loss:</i>						
Actuarial gain / (loss) on defined benefit scheme		(3)	-	(9)	-	74
Deferred tax in respect of defined benefit scheme		1	-	2	-	29
Other comprehensive income / (loss) for the period, net of income tax		(2)	-	(7)	-	103
Total comprehensive income / (loss) for the period		(1 330)	1 881	5 396	3 732	5 594

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

IBM Finans Norge AS
Condensed Interim Statement of Financial Position
As at 30 September 2019

		30	30	31 December
		September	September	2018
		2019	2018	2018
		NOK'000	NOK'000	NOK'000
	Notes	Unaudited	Unaudited	Audited
Current assets				
Cash and cash equivalents	12	5 155	2 076	1 039
Other receivables (VAT)		-	28 603	-
Receivables from related parties	12	11 137	34 160	22 551
Finance receivables	6	220 128	425 014	814 071
Inventories		-	39	42
Prepayments and other current assets		143	137	2 272
		236 563	490 029	839 975
Non-current assets				
Receivables from related parties	12	2 583	-	9 504
Finance receivables	6	153 699	137 045	160 312
Property, plant and equipment	11	16 130	26 874	26 866
Deferred tax assets		-	643	150
		172 412	164 562	196 832
Total assets		408 975	654 591	1 036 807
Current liabilities				
Loans and borrowing	7,12	132 797	450 020	651 829
Payables to related parties	12,13	28 637	31 104	128 760
Tax payables		1 180	7 472	1 794
Trade and other payables	8	37 610	51 090	63 669
Deferred income		1 578	2 446	2 060
Other liabilities (employees)		445	958	1 297
		202 247	543 090	849 409
Non-current liabilities				
Deferred tax liability		77	-	-
Retirement benefit obligation		2 675	2 613	2 678
Loans and borrowings	7,12	87 830	-	73 970
		90 582	2 613	76 648
Total liabilities		292 829	545 703	926 057
Net assets		116 146	108 888	110 750
Issued capital and reserves				
Share capital		45 000	45 000	45 000
Retained profits		71 146	63 888	65 750
Total equity		116 146	108 888	110 750

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 2019

	Issued capital	Other paid-in capital	Retained earnings	Total equity
	NOK'000	NOK'000	NOK'000	NOK'000
At 1 January 2019	45 000	64 217	1 533	110 750
Profit for the period	-	-	5 403	5 403
Other comprehensive income	-	-	(7)	(7)
At 30 September 2019 (unaudited)	<u>45 000</u>	<u>64 217</u>	<u>6 929</u>	<u>116 146</u>
At 1 January 2018	45 000	64 217	(4 061)	105 156
Profit for the period / Total comprehensive income	-	-	3 732	3 732
At 30 September 2018 (unaudited)	<u>45 000</u>	<u>64 217</u>	<u>(329)</u>	<u>108 888</u>
At 1 January 2018	45 000	64 217	(4 061)	105 156
Profit for the period	-	-	5 491	5 491
Other comprehensive income	-	-	103	103
Total comprehensive income for the year	-	-	5 594	5 594
At 31 December 2018 (audited)	<u>45 000</u>	<u>64 217</u>	<u>1 533</u>	<u>110 750</u>

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 2019

	Nine months ended		Year ended
	30 Sept	30 Sept	31 December
	2019	2018	2018
	NOK'000	NOK'000	NOK'000
	Unaudited		Audited
Profit for the period	5 402	3 732	5 491
Adjustments for			
Income tax	1 524	1 115	1 664
Depreciation	11 9 063	11 019	14 459
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution	(13)	92	227
(Decrease) in other receivables (VAT)	-	(28 603)	-
Income tax paid	(1 909)	(3 105)	(5 705)
(Decrease) in income tax liability due to group contribution	-	-	(3 104)
Decrease / (Increase) in receivables from related parties	12 18 335	(33 795)	(31 690)
Decrease / (Increase) in finance receivables	6 600 556	94 312	(318 012)
Decrease/(Increase) in inventory	42	-	(42)
(Decrease) / Increase in payables to related parties	12 (100 123)	(100 663)	(3 007)
(Decrease) / Increase in trade and other payables	8 (26 058)	20 798	33 377
(Decrease) / Increase in other liabilities	(1 334)	(872)	(917)
Decrease / (Increase) in prepayments	2 130	3 329	1 233
Net cash flow from operating activities	507 615	(32 641)	(306 026)
Cash flows from investing activities			
Purchase of property, plant and equipment	11 (245)	(6 948)	(11 433)
Proceeds from sale of property, plant and equipment	11 1 918	2 167	3 220
Net cash flows from investing activities	1 673	(4 782)	(8 213)
Cash flow from financing activities			
(Decrease) / Increase in borrowing	(505 172)	36 879	312 658
Net cash flow from financing activities	(505 172)	36 879	312 658
Net increase in cash and cash equivalents	4 116	(544)	(1 581)
Cash and cash equivalents at beginning of year	1 039	2 620	2 620
Cash and cash equivalents at end of the period	5 155	2 076	1 039

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

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2019

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 company's immediate parent entity is IBM Global Financing Investments II B.V., a company incorporated in Netherland and 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 2019 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 2018, 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 2018, 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 2019

2. Finance income

	Three months ended		Nine months ended		Year ended
	30 September 2019 NOK'000	30 September 2018 NOK'000	30 September 2019 NOK'000	30 September 2018 NOK'000	31 December 2018 NOK'000
Factoring income	2 060	5 778	16 760	14 349	19 996
Operating lease income	3 290	4 173	10 753	12 604	16 567
Capital lease income	2 107	2 022	6 106	4 552	5 720
Interest income calculated using effective interest method	198	264	619	793	1 037
Other operating income	304	774	1 395	2 523	3 591
	7 959	13 011	35 633	34 821	46 911

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.

3. Finance costs

	Three months ended		Nine months ended		Year ended
	30 September 2019 NOK'000	30 September 2018 NOK'000	30 September 2019 NOK'000	30 September 2018 NOK'000	31 December 2018 NOK'000
Costs of operating leases	3 156	4 281	9 943	12 090	15 648
Cost of capital leases	-	-	-	-	(369)
Interest expense	1 393	1 811	6 047	4 035	6 030
Costs of other operating income	251	631	1 024	1 905	2 777
	4 800	6 723	17 014	18 030	24 086

IBM Finans Norge AS has loans with IBM GF International Treasury Company Designated Activity Company (hereinafter referred to as "Treasury Center"). The interest for In House Bank account is NIBOR 1MND+0,15% and Customer financing term loans have fixed rate.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2019

4. Other expenses

	Three months ended		Nine months ended		Year ended
	30	30	30	30	31 December
	September	September	September	September	2018
	2019	2018	2019	2018	2018
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Employee expenses	1 387	1 589	3 717	5 902	7 768
Other expenses	3 551	2 257	7 313	5 797	8 955
Audit services (excl. VAT)- Statutory audit	-	-	240	245	245
	4 938	3 846	11 270	11 944	16 968

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 2019 is 22% (the estimated tax rate for the nine months ended 30 September 2018 was 23 %).

6. Finance receivables

	30 Sept	30 Sept	31 December
	2019	2018	2018
	NOK'000	NOK'000	NOK'000
Commercial financing receivables	93 450	305 276	670 121
Lease receivables	82 298	70 479	89 212
Customer loans	200 022	188 716	216 571
Less: Loss allowance	(1 943)	(2 412)	(1 521)
	373 827	562 059	974 383
Current	220 128	425 014	814 071
Non-current	153 699	137 045	160 312
	373 827	562 059	974 383

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 the year. The average contractual credit period on invoiced amounts is 0 to 30 days. Thereafter, interest is charged at market rates on the outstanding balance.

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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.

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 September 2019 NOK'000	30 September 2018 NOK'000	31 December 2018 NOK'000
<i>Current</i>			
Loans due to related parties (note 12)	132 797	450 020	651 829
	<u>132 797</u>	<u>450 020</u>	<u>651 829</u>
<i>Non-current</i>			
Loans due to related parties (note 12)	87 830	-	73 970
	<u>87 830</u>	<u>-</u>	<u>73 970</u>

Interest bearing amounts owed to fellow subsidiary undertakings are charged at variable rates based on NIBOR.

8. Trade and other payables

	30 September 2019 NOK'000	30 September 2018 NOK'000	31 December 2018 NOK'000
Trade payables	36 310	50 393	57 043
Social security and other taxes	859	369	5 573
Other payables	441	328	1 053
	<u>37 610</u>	<u>51 090</u>	<u>63 669</u>

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2019

9. Contingencies

At 30 September 2019, the company had no contingent liability in respect of bank (31 December 2018: nil NOK) with joint liability of IBM group companies in Norway.

10. Events after balance sheet date

There were no material events after balance sheet date.

11. Property, plant and equipment

	Equipment NOK'000	Leased assets NOK'000	Total NOK'000
Cost			
As at 1 January 2018	161	25 337	25 498
Additions	-	11 433	11 433
Disposals	-	(7 752)	(7 752)
Other, reclassifications, transfers	(7)	(7 429)	(7 436)
As at 31 December 2018	154	21 589	21 743
Additions	-	245	245
Disposals	(6)	(5 803)	(5 809)
Other, reclassifications, transfers	(6)	(4 910)	(4 916)
As at 30 September 2019	142	11 121	11 263
Accumulated depreciation			
As at 1 January 2018	(145)	7 758	7 613
Additions	(16)	(14 443)	(14 459)
Disposals	-	5 819	5 819
Other, reclassifications, transfers	7	6 142	6 150
As at 31 December 2018	(154)	5 277	5 123
Additions	-	(9 063)	(9 063)
Disposals	6	4 765	4 771
Other, reclassifications, transfers	6	4 030	4 036
As at 30 September 2019	(142)	5 009	4 867
Net book value			
At 30 September 2019	-	16 130	16 130
At 30 September 2018	-	26 874	26 874
At 31 December 2018	-	26 866	26 866

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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 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 2018. 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 2019	30 September 2018	31 December 2018
	NOK'000	NOK'000	NOK'000
Financial assets			
<i>Loans and receivables</i>			
Cash and cash equivalents	5 155	2 076	1 039
Finance receivables	373 827	562 059	974 383
Receivables from related parties	13 720	34 160	32 055
	<u>392 702</u>	<u>598 295</u>	<u>1 007 477</u>
Financial liabilities			
<i>Amortised costs</i>			
Loans Borrowing	220 627	450 020	725 799
Payables to related parties	28 637	31 104	128 760
Trade and other liabilities	36 751	50 721	58 096
	<u>286 015</u>	<u>531 845</u>	<u>912 655</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 2019

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 2019	30 September 2018	30 September 2019	30 September 2018	31 December 2018
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
<i>Other related undertakings</i>					
Sales	917	2 658	4 414	5 461	7 532
Purchases	(105)	407	(334)	866	(985)
Other expenses	-	(7)	(4)	(17)	17
Interest paid	(1 393)	(1 812)	(6 047)	(4 035)	(6 015)
Interest received	194	252	600	772	1 005

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

Class of related party/ Transaction type	30	30	31 December
	September 2019	September 2018	2018
	NOK'000	NOK'000	NOK'000
<i>Other related undertakings</i>			
Receivables due from related parties	13 719	34 160	32 055
Loans due to related parties	220 627	450 020	725 799
Payable to related parties	28 637	31 104	128 760

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.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2019

14. Capital coverage

	30/09/19 NOK'000	30/09/18 NOK'000	31/12/18 NOK'000
100 % weighted: Finance receivables	199 345	255 702	224 450
50 % weighted: Finance receivables	42 052	158 974	311 875
20 % weighted: Finance receivables	55 213	12 657	35 197
Base for operational risk	59 443	-	59 452
Base for 8% credit risk	356 053	427 333	630 974
Responsible capital	110 750	104 474	110 750
Credit risk	23 729	34 186	45 721
Operational risk	4 756	4 169	4 756
Coverage of responsible capital	82 265	66 119	60 273
Buffer:			
Preservebuffer	8 901	11 986	15 774
Countercyclical capital buffer	7 121	9 589	12 619
Systemriskbuffer	10 682	14 383	18 929
	26 704	35 958	47 323
Coverage less requirement after the buffer requirement	55 561	30 161	12 951
- Pilar 2 requirement 2,6% (2018 0.4 %)	9 257	1 917	2 523
- Control buffer 1% (2018 2%)	3 561	9 589	12 619
Coverage after all requirements	42 743	18 655	(2 191)

	Actual pr.30/9/2019	Requirement + Pilar 2	Incl. control buffer
Common Equity Tier 1 (Ren kjernekapital)	31.1%	14.6 %	15.6 %
Core capital (Kjernekapital)	31.1 %	16.1 %	17.1 %
Responsible capital (Ansvarlig kapital)	31.1 %	18.1 %	19.1 %