

IBM Finans Norge AS
Condensed Interim Financial Statements
31 March 2018

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For the Quarter Ended 31 March 2018

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IBM Finans Norge AS

Condensed Interim Statement of Comprehensive Income

For the Quarter Ended 31 March 2018

	Notes	Three months ended		Year ended
		31 March 2018	31 March 2017	31 December 2017
		NOK'000	NOK'000	NOK'000
		Unaudited		Audited
Finance income	2	11 758	32 379	153 362
Finance cost	3	(5 983)	(17 321)	(95 407)
Net finance income		5 775	15 058	57 955
Other expense and income				
Other expense	4	(3 608)	(4 447)	(25 761)
Total expense and other income		(3 608)	(4 447)	(25 761)
Profit before income tax		2 167	10 611	32 194
Income tax expense		(500)	(2 654)	(7 722)
Profit for the period		1 667	7 957	24 472
Other comprehensive income /(loss)				
<i>Items that will not be reclassified subsequently to profit and loss:</i>				
Actuarial gain / (loss) on defined benefit scheme		-	-	(78)
Deferred tax in respect of defined benefit scheme		-	-	18
Other comprehensive income / (loss) for the period, net of income tax		-	-	(60)
Total comprehensive income / (loss) for the period		1 667	7 957	24 412

All operations are classified as continuing.

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 31 March 2018

		31 March 2018	31 December 2017	31 March 2017
		NOK'000	NOK'000	NOK'000
	Notes	Unaudited	Audited	Unaudited
Current assets				
Cash and cash equivalents	12	3 554	2 620	28 318
Receivables from related parties	12	24 352	365	387
Finance receivables	6	478 432	583 840	398 578
Prepayments and other current assets		137	3 505	23
		506 475	590 330	427 306
Non-current assets				
Finance receivables	6	60 666	72 531	791 104
Property, plant and equipment	11	30 467	33 111	31 818
Deferred tax assets		-	-	-
		91 133	105 642	822 922
Total assets		597 608	695 972	1 250 228
Current liabilities				
Loans and borrowings	7, 12	234 836	413 141	334 941
Payables to related parties	12,13	46 075	131 767	11 258
Tax payables		9 309	8 809	4 065
Trade and other payables	8	53 876	30 292	10 604
Deferred income		2 172	2 592	2 172
Other liabilities (employees)		1 250	1 682	809
		347 518	588 283	363 849
Non-current liabilities				
Deferred tax liability		10	13	1 118
Retirement benefit obligation		2 552	2 520	2 187
Loans and borrowings	7, 12	140 705	-	739 373
		143 267	2 533	742 678
Total liabilities		490 785	590 816	1 106 527
Net assets		106 823	105 156	143 701
Issued capital and reserves				
Share capital		45 000	45 000	45 000
Retained profits		61 823	60 156	98 701
Total equity		106 823	105 156	143 701

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 31 March 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 / Total comprehensive income	-	-	1 667	1 667
At 31 March 2018 (unaudited)	<u>45 000</u>	<u>64 217</u>	<u>(2 394)</u>	<u>106 823</u>
At 1 January 2017	45 000	64 217	26 527	135 744
Profit for the period / Total comprehensive income	-	-	7 957	7 957
At 31 March 2017 (unaudited)	<u>45 000</u>	<u>64 217</u>	<u>34 484</u>	<u>143 701</u>
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)	<u>45 000</u>	<u>64 217</u>	<u>(4 061)</u>	<u>105 156</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 31 March 2018

	Three months ended		Year ended
	31 March 2018	31 March 2017	31 December 2017
	NOK'000	NOK'000	NOK'000
	Unaudited		Audited
Profit for the period	1 669	7 958	24 472
Adjustments for			
Income tax	500	2 653	7 722
Depreciation	11 3 720	4 063	15 759
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution	30	44	300
Income tax paid	-	-	(1 413)
Income tax transfer	-	-	-
Decrease / (Increase) in receivables from related parties	12 (23 987)	480	502
Decrease/ (Increase) in finance receivables	6 117 273	40 176	573 487
Decrease/ / (Increase) in payables to related parties	12 (85 692)	(189 713)	(69 204)
(Decrease) / Increase in trade and other payables	8 23 584	(43 047)	(23 359)
Increase / (Decrease) in other liabilities	(856)	(72)	1 223
Decrease / (Increase) in prepayments	3 369	9 736	6 252
Net cash flow from operating activities	39 610	(167 722)	535 741
Cash flows from investing activities			
Purchase of property, plant and equipment	11 (1 713)	(5 643)	(23 004)
Proceeds from sale of property, plant and Equipment	11 637	702	5 075
Cash flows from investing activities	(1 076)	(4 941)	(17 929)
Cash flow from financing activities			
Capital increase	-	-	-
Payment of dividends	-	-	(55 000)
(Decrease) / Increase in borrowing	(37 600)	199 865	(461 308)
Group contribution	-	-	-
Net cash flow from financing activities	(37 600)	199 865	(516 308)
Net increase in cash and cash equivalents	934	27 202	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	12 3 554	28 318	2 620

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 31 March 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 three months ended 31 March 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 31 March 2018

2. Finance income

	Three months ended		Year ended
	31 March 2018	31 March 2017	31 December 2017
	NOK'000	NOK'000	NOK'000
Factoring income	4 464	3 174	14 050
Operating lease income	4 228	4 726	18 691
Capital lease income	1 540	23 813	115 472
Interest income	261	3	197
Other operating income	1 265	663	4 952
	<u>11 758</u>	<u>32 379</u>	<u>153 362</u>

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.

For client Financing, we operate with fixed interest rate.

3. Finance costs

	Three months ended		Year ended
	31 March 2018	31 March 2017	31 December 2017
	NOK'000	NOK'000	NOK'000
Costs of operating leases	3 910	4 373	17 824
Cost of capital leases	-	8 672	61 579
Interest expense	1 037	3 732	12 279
Costs of other operating income	1 036	544	3 725
	<u>5 983</u>	<u>17 321</u>	<u>95 407</u>

All loans IBM Finans Norge AS has are through the IBM Treasury Services Center according to contract with IBM. The interest is according to this contract NIBOR 1MND+0,15%.

4. Other expenses

	Three months ended		Year ended
	31 March 2018	31 March 2017	31 December 2017
	NOK'000	NOK'000	NOK'000
Employee expenses	1 966	3 363	8 855
Royalties	16	6	3 783
Other expenses	1 626	1 078	13 056
Audit services (excl. VAT)- Statutory audit	-	-	67
	<u>3 608</u>	<u>4 447</u>	<u>25 761</u>

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For the Quarter Ended 31 March 2018

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 three months ended 31 March 2017 was 25 %).

6. Finance receivables

	31 March 2018 NOK'000	31 December 2017 NOK'000	31 March 2017 NOK'000
Factored receivables	383 653	497 734	170 754
Finance lease receivables	43 003	51 651	64 656
Customer loans	115 183	110 108	958 495
Less: provision for impairment of receivables	<u>(2 741)</u>	<u>(3 122)</u>	<u>(4 223)</u>
	<u>539 098</u>	<u>656 371</u>	<u>1 189 682</u>
Current	478 432	583 840	398 578
Non-current	<u>60 666</u>	<u>72 531</u>	<u>791 104</u>
	<u>539 098</u>	<u>656 371</u>	<u>1 189 682</u>

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.

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.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2018

6. Finance receivables (continued)

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

	31 March 2018 NOK'000	31 December 2017 NOK'000	31 March 2017 NOK'000
Loans due to related parties (note 12)	<u>375 541</u>	<u>413 141</u>	<u>1 074 314</u>

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

8. Trade and other payables

	31 March 2018 NOK'000	31 December 2017 NOK'000	31 March 2017 NOK'000
Trade payables	50 848	29 230	9 128
Social security and other taxes	2 703	740	1 152
Other payables	<u>325</u>	<u>322</u>	<u>324</u>
	<u>53 876</u>	<u>30 292</u>	<u>10 604</u>

9. Contingencies

In 2018, the company had no contingent liability in respect of bank (31 December 2017: 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.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2018

11. Property, plant and equipment

	Buildings and equipment NOK'000	Plant and equipment NOK'000	Fixtures and fittings NOK'000	Lease assets NOK'000	Total 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	-	-	-	1 713	1 713
Disposals	-	-	-	(2 018)	(2 018)
Other, reclassifications, transfers	-	-	-	(2 208)	(2 208)
As at 31 March 2018	-	161	-	22 824	22 985
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	-	(6)	-	(3 714)	(3 720)
Disposals	-	-	-	1 578	1 578
Other, reclassifications, transfers	-	-	-	2 011	2 011
As at 31 March 2018	-	(151)	-	7 633	7 482
Net book value					
At 31 March 2018	-	10	-	30 457	30 467
At 31 March 2017	-	39	-	31 779	31 818
At 31 December 2017	-	16	-	33 095	33 111

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 2017. There have been no changes in the risk management department since year end or in any risk management policies.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2018

12. Financial instruments (continued)

Categories of financial instruments

	31 March 2018	31 December 2017	31 March 2017
	NOK'000	NOK'000	NOK'000
Financial assets			
<i>Loans and receivables</i>			
Cash and cash equivalents	3 554	2 620	28 318
Finance receivables	539 098	656 371	1 189 683
Receivables from related parties	24 352	365	387
	<u>567 004</u>	<u>659 356</u>	<u>1 218 388</u>
Financial liabilities			
<i>Amortised costs</i>			
Loans and Borrowings	375 541	413 141	1 074 314
Payables to related parties	46 075	131 767	11 258
Trade and other payables	51 173	29 553	9 128
	<u>472 789</u>	<u>574 461</u>	<u>1 094 700</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 31 March 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		Year ended
		31 March 2018	31 March 2017	31 December 2017
		NOK'000	NOK'000	NOK'000
Other related undertakings	Sales	1 723	2 268	7 786
	Royalties	(15)	-	3 783
	Purchases	(312)	(290)	(1 268)
	Other expenses	-	-	12
	Interest paid	(1 036)	(291)	(12 280)
	Interest received	261	3	189
Immediate parent	Sales	-	-	-
	Purchases	-	-	-
	Other expenses	-	-	-
	Interest paid	-	-	-
	Interest received	-	-	-
	Group contribution paid	-	-	-
	Capital contribution received	-	-	-
	Dividends paid	-	-	(55 000)

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

Class of related party	Transaction type	31 March 2018	31 December 2017	31 March 2017
		NOK'000	NOK'000	NOK'000
Other related undertakings	Cash equivalents	-	-	-
	Receivables due from related parties	24 352	365	387
	Loans due to related parties	375 541	413 141	1 074 314
	Payable to related parties	46 075	131 767	11 258
Immediate parent	Deposits held with related party	-	-	-
	Borrowing from related parties	-	-	-
	Loans due to related parties	-	-	-
	Payable to related parties	-	-	-

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 31 March 2018

14. Capital coverage

	31/03/18 NOK'000	31/03/17 NOK'000	31/12/17 NOK'000
100 % weighted: Finance receivables	172 581	341 916	188 071
50 % weighted: Finance receivables	188 895	418 965	230 850
20 % weighted: Finance receivables	11 061	65 493	9 872
Base for 8% credit risk	372 537	826 374	428 793
Responsible capital	104 583	135 744	104 462
Credit risk	29 802	66 109	34 303
Operational risk	4 169	1 823	4 169
Coverage of responsible capital	70 612	67 812	65 990
Buffer:			
Preservebuffer	10 616	20 659	10 719
Countercyclical capital buffer	4 853	12 395	8 575
Systemriskbuffer	12 739	24 791	12 863
	28 208	57 845	32 157
Coverage less requirement after the buffer requirement	42 404	9 967	33 833
- Pilar 2 requirement (0.4 %)	1 698		
- Control buffer (2 %)	8 493		
Coverage after all requirements	32 213		
	Actual pr.31/3/2018	Requirement + Pilar 2	Incl. control buffer
Common Equity Tier 1 (Ren kjernekapital)	24.6 %	12.4 %	14.4 %
Core capital (Kjernekapital)	24.6 %	13.9 %	15.9 %
Responsible capital (Ansvarlig kapital)	24.6 %	15.9 %	17.9 %