

IBM Finans Norge AS
Condensed Interim Financial Statements
31 March 2017

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For the Quarter Ended 31 March 2017

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IBM Finans Norge AS

Condensed Interim Statement of Comprehensive Income

For the Quarter Ended 31 March 2017

	Notes	Three months ended		Year ended
		31 March 2017 NOK'000	31 March 2016 NOK'000	31 December 2016 NOK'000
		Unaudited		Audited
Finance income	2	32 379	1 995	27 145
Finance cost	3	(17 321)	(141)	(12 816)
Net finance income		15 058	1 854	14 329
Other expense and income				
Other expense	4	(4 447)	(502)	(4 888)
Total expense and other income		(4 447)	(502)	(4 888)
Profit before income tax		10 611	1 352	9 441
Income tax expense		(2 654)	(339)	(2 360)
Profit for the period		7 957	1 013	7 081
Other comprehensive income / (loss)				
<i>Items that will not be reclassified subsequently to profit and loss:</i>				
Actuarial gain / (loss) on defined benefit scheme		-	-	940
Deferred tax in respect of defined benefit scheme		-	-	(216)
Other comprehensive income / (loss) for the period, net of income tax		-	-	724
Total comprehensive income / (loss) for the period		7 957	1 013	7 805

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 2017

		31 March 2017	31 December 2016	31 March 2016
		NOK'000	NOK'000	NOK'000
	Notes	Unaudited	Audited	Unaudited
Current assets				
Cash and cash equivalents	12	28 318	1 116	-
Receivables from related parties	12	387	867	54
Finance receivables	6	398 578	553 745	163 631
Prepayments and other current assets		23	9 758	-
		427 306	565 486	163 685
Non-current assets				
Finance receivables	6	791 104	676 113	-
Property, plant and equipment	11	31 818	30 941	-
Deferred tax assets		-	-	89
		822 922	707 054	89
Total assets		1 250 228	1 272 540	163 774
Current liabilities				
Loans and borrowings	7, 12	334 941	232 126	58 133
Payables to related parties	12,13	11 258	200 971	9 473
Tax payables		4 065	1 413	2 845
Trade and other payables	8	10 604	53 651	13 708
Deferred income		2 172	2 308	-
Other liabilities (employees)		809	743	-
		363 849	491 212	84 159
Non-current liabilities				
Deferred tax liability		1 118	1 118	-
Retirement benefit obligation		2 187	2 143	-
Loans and borrowings	7, 12	739 373	642 323	-
		742 678	645 584	-
Total liabilities		1 106 527	1 136 796	84 159
Net assets		143 701	135 744	79 615
Issued capital and reserves				
Share capital		45 000	45 000	45 000
Retained profits		98 701	90 744	34 615
Total equity		143 701	135 744	79 615

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 2017

	Issued capital	Other paid-in capital	Retained earnings	Total equity
	NOK'000	NOK'000	NOK'000	NOK'000
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 2016	45 000	14 880	18 722	78 602
Profit for the period / Total comprehensive income	-	-	1 013	1 013
At 31 March 2016 (unaudited)	<u>45 000</u>	<u>14 880</u>	<u>19 735</u>	<u>79 615</u>
At 1 January 2016	45 000	14 880	18 722	78 602
Profit for the period	-	-	7 081	7 081
Other comprehensive income	-	-	724	724
Total group contribution to owners of the company	-	(6 663)	-	(6 663)
Total capital contribution by owners of the company		56 000		56 000
At 31 December 2016 (audited)	<u>45 000</u>	<u>64 217</u>	<u>26 527</u>	<u>135 744</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 2017

	Three months ended		Year ended
	31 March 2017	31 March 2016	31 December 2016
	NOK'000	NOK'000	NOK'000
	Unaudited		Audited
Profit for the period	7 958	1 014	7 081
Adjustments for			
Income tax	2 653	338	2 360
Depreciation	11 4 063	-	2 584
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution	44	-	3 083
Income tax paid	-	-	-
Income tax transfer	-	-	(2 464)
Decrease / (Increase) in receivables from related parties	12 480	92	(720)
Decrease/ (Increase) in finance receivables	6 40 176	71 779	(994 446)
Decrease/ / (Increase) in payables to related parties	12 (189 713)	(53 694)	137 803
(Decrease) / Increase in trade and other payables	8 (43 047)	9 754	49 697
Increase / (Decrease) in other liabilities	(72)	-	3 052
Decrease / (Increase) in prepayments	9 736	-	(9 759)
Net cash flow from operating activities	(167 722)	29 283	(801 729)
Cash flows from investing activities			
Purchase of property, plant and equipment	11 (5 643)	-	(35 034)
Proceeds from sale of property, plant and Equipment	11 702	-	1 150
Cash flows from investing activities	(4 941)	-	(33 524)
Cash flow from financing activities			
Capital increase	-	-	56 000
(Decrease) / Increase in borrowing	199 865	(29 283)	787 032
Group contribution	-	-	(6 663)
Net cash flow from financing activities	199 865	(29 283)	836 369
Net increase in cash and cash equivalents	27 202	-	1 116
Cash and cash equivalents at beginning of year	1 116	-	-
Cash and cash equivalents at end of the period	28 318	-	1 116

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

IBM Finans Norge AS

Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2017

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 Corporation ('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 2017 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 2016, 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 2016, 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 2017

2. Finance income

	Three months ended		Year ended
	31 March 2017	31 March 2016	31 December 2016
	NOK'000	NOK'000	NOK'000
Factoring income	3 174	1 983	10 761
Operating lease income	4 726	-	3 182
Capital lease income	23 813	-	11 783
Interest income	3	12	236
Other operating income	663	-	1 183
	<u>32 379</u>	<u>1 995</u>	<u>27 145</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.

3. Finance costs

	Three months ended		Year ended
	31 March 2017	31 March 2016	31 December 2016
	NOK'000	NOK'000	NOK'000
Costs of operating leases	4 373	-	3 020
Cost of capital leases	8 672	-	6 108
Interest expense	3 732	141	2 456
Costs of other operating income	544	-	1 232
	<u>17 321</u>	<u>141</u>	<u>12 816</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.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2017

4. Other expenses

	Three months ended		Year ended
	31 March 2017	31 March 2016	31 December 2016
	NOK'000	NOK'000	NOK'000
Employee expenses	3 363	-	2 141
Other expenses	1 084	502	2 716
Audit services (excl. VAT)- Statutory audit	-	-	31
	<u>4 447</u>	<u>502</u>	<u>4 888</u>

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 2016 is 25% (the estimated tax rate for the three months ended 31 March 2016 was 25 %).

6. Finance receivables

	31 March 2017	31 December 2016	31 March 2016
	NOK'000	NOK'000	NOK'000
Factored receivables	170 754	296 202	163 813
Lease receivables	64 656	56 341	-
Customer loans	958 495	879 126	-
Less: provision for impairment of receivables	(4 223)	(1 811)	(182)
	<u>1 189 682</u>	<u>1 229 858</u>	<u>163 631</u>
Current	398 578	553 745	163 631
Non-current	791 104	676 113	-
	<u>1 189 682</u>	<u>1 229 858</u>	<u>163 631</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.

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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

	31 March 2017 NOK'000	31 December 2016 NOK'000	31 March 2016 NOK'000
Loans due to related parties (note 12)	<u>1 074 314</u>	<u>874 449</u>	<u>58 133</u>

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

8. Trade and other payables

	31 March 2017 NOK'000	31 December 2016 NOK'000	31 March 2016 NOK'000
Trade payables	9 128	52 940	13 311
Social security and other taxes	1 152	708	-
Other payables	324	3	397
	<u>10 604</u>	<u>53 651</u>	<u>13 708</u>

9. Contingencies

In 2017, the company had contingent liability in respect of bank guarantees in amount of NOK 30 000 000 (31 December 2016: NOK 30 000 000) with joint liability of IBM group companies in Norway.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 31 March 2017

10. Events after balance sheet date

There were no material events after balance sheet date.

11. Property, plant and equipment

	Buildings and equipment	Plant and Fixtures and equipment	fittings	Lease assets	Total
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Cost					
As at 1 January 2016	-	-	-	-	-
Additions	-	52	-	34 982	35 034
Disposals	-	-	-	(1 157)	(1 157)
Other, reclassifications, transfers	-	-	-	(4 110)	(4 110)
As at 31 December 2016	-	52	-	29 715	29 767
Additions	-	109	-	5 534	5 643
Disposals	-	-	-	(1 797)	(1 797)
Other, reclassifications, transfers	-	-	-	(1 888)	(1 888)
As at 31 March 2017	-	161	-	31 564	31 725
Accumulated depreciation					
As at 1 January 2016	-	-	-	-	-
Additions	-	-	-	(2 584)	(2 584)
Disposals	-	-	-	967	967
Other, reclassifications, transfers	-	-	-	2 791	2 791
As at 31 December 2016	-	-	-	1 174	1 174
Additions	-	(8)	-	(4 055)	(4 063)
Disposals	-	-	-	1 528	1 528
Other, reclassifications, transfers	-	(114)	-	1 568	1 454
As at 31 March 2017	-	(122)	-	215	93
Net book value					
At 31 March 2017	-	39	-	31 779	31 818
At 31 December 2016	-	52	-	30 889	30 941

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 2016. 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 2017

12. Financial instruments (continued)

Categories of financial instruments

	31 March 2017	31 December 2016	31 March 2016
	NOK'000	NOK'000	NOK'000
Financial assets			
<i>Loans and receivables</i>			
Cash and cash equivalents	28 318	1 116	-
Finance receivables	1 189 683	1 229 858	163 631
Receivables from related parties	387	867	54
	<u>1 218 388</u>	<u>1 231 841</u>	<u>163 685</u>
Financial liabilities			
<i>Amortised costs</i>			
Borrowing	1 074 314	874 449	58 133
Payables to related parties	11 258	200 971	9 473
Trade and other payables	9 128	52 940	13 708
	<u>1 094 700</u>	<u>1 128 360</u>	<u>81 314</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 2017

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 2017	31 March 2016	31 December 2016
		NOK'000	NOK'000	NOK'000
Other related undertakings	Sales	2 268	518	3 534
	Purchases	(290)	-	(1 058)
	Other expenses	-	-	-
	Interest paid	(291)	(141)	(2 455)
	Interest received	3	8	165
Immediate parent	Sales	-	463	1 906
	Purchases	-	-	-
	Other expenses	-	(409)	(1 365)
	Interest paid	-	-	-
	Interest received	-	4	71
	Group contribution paid	-	-	(6 663)
	Capital contribution received	-	-	56 000

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 2017	31 December 2016	31 March 2016
		NOK'000	NOK'000	NOK'000
Other related undertakings	Cash equivalents	-	-	-
	Receivables due from related parties	387	189	-
	Loans due to related parties	1 074 314	874 449	58 133
	Payable to related parties	11 258	183 747	9 511
Immediate parent	Deposits held with related party	-	678	54
	Borrowing from related parties	-	-	-
	Loans due to related parties	-	-	-
	Payable to related parties	-	17 224	38

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 2017

14. Capital coverage

	31/03/17	31/12/16
	NOK'000	NOK'000
100 % weighted: Finance receivables	341 916	450 718
50 % weighted: Finance receivables	418 965	375 958
20 % weighted: Finance receivables	65 493	50 734
Base for 8% credit risk	826 374	877 410
Responsible capital	135 744	135 744
Credit risk	66 109	70 192
Operational risk	1 823	1 547
Coverage of responsible capital	67 812	64 005
Buffer:		
Preservebuffer	20 659	21 935
Countercyclical capital buffer	12 395	13 161
Systemriskbuffer	24 791	26 322
	57 845	61 418
Coverage less requirement after the buffer requirement	9 967	2 587