

IBM Finans Norge AS

Financial Statements

31 December 2017

IBM Finans Norge AS

Financial Statements

As at 31 December 2017

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IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2017

The Nature and Location of the Operations

IBM Finans Norge AS was established October 27, 2009 and is a fully owned subsidiary of IBM Global Financing Investments II B.V. located in Netherland. The company is located in Lakkegata 53, 0187 Oslo, Norway.

IBM Finans Norge AS' objective is to finance invoices (factoring) and inventory for IBM and IBM Business Partners and from Nov 1, 2016 also to finance IT solutions to end users (not private persons) with lease and loans both from IBM and from 3rd parties.

The nature of the business requires concession from Norwegian Credit Authorities (no: Finanstilsynet).

All necessary concessions from authorities are in place and IBM Finans Norge AS has also obtained exception from capitalization for large engagements from "Finanstilsynet" and the Norwegian Ministry of Finance.

The general capitalization requirements apply.

The company has 8 employees at YE 2017:

All infrastructure support is in the IBM CoE Budapest and Bratislava including credit and accounting.

Working Environment

The working environment is good, and no occupational accidents have occurred in 2017.

The work force consists of 4 full time female employee and 4 full time male employee.

The total sick leave in 2017 was less than 1.0%.

Diversity and Equality

The company practices an equal opportunity policy. There is currently a good balance of female/male employees in the company, and the company is in compliance with all gender equality requirements.

External Environment

IBM Finans Norge AS does not cause any harm to the environment or health.

2017 results and future prospects

The Financial Statement for 2017 covers the total calendar year of 2017.

IBM Finans Norge AS had a total credit engagement YE 2017 of 735.520 KNOK including unused but committed credits.

Equity was MNOK 105,2 which is within the general capitalization requirement.

EBT was MNOK 32,3. A dividend of MNOK 55 was paid to IBM Global Financing Investments II B.V. in 2017

The company experienced a very profitable year, however the loan contracts of BNOK 1 with Evry Norge AS was terminated in June 2017. The revenue effect was 109,6M NOK incl termination charges in 1st half and no revenue in 2nd half. The corresponding finance cost is 76M NOK in 2017. We do not expect any revenue from Evry in 2018, which will lead to a significant lower revenue level of 40-50M NOK in 2018. The profit still expects to be positive in 2018.

The services part of IBM AS, has no new significant signings relevant for IBM Finans Norge AS until late 2018. This might generate revenue in 2019 if IBM wins these contracts. We depend heavily on HW and SW contracts both IBM and OEM for 2018.

There is usually considerable uncertainty associated with assessments of future conditions.

The capital for the company is covered good within the minimum requirements.

IBM Finans Norge AS is not giving any guarantees. A large part of the loans is covered by credit-insurance.

During 2017 there has been minimal losses and we expect that this will continue in 2018.

IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2017

Financial Risk

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.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company carries out credit checks on potential customers before contracts are entered into.

The credit risk for our factoring business, 76% of total, is significantly reduced as 90% of the portfolio is covered by credit insurance and parent guaranties. The remaining client financing business has a low risk profile based on the strict credit evaluation process.

The company is funded by the IBM Treasury Centre in Ireland and IBM Global Financing Investments II B.V. As the company invests or borrows cash balances, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

IBM's corporate treasury function provides funding and risk management services to the company. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the company through internal risk reports addressing credit risk, liquidity risk and cash flow interest rate risk.

Historically there have been minimal losses in Norway and the company funding is done 100% from IBM GF International Treasury Company Designated Activity Company (IBM IGF TC), Ireland.

Liquidity risk management

The company is funded internally by the IBM Treasury Centre in Ireland. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the Treasury Centre.

Cash Flow Analysis

The net cash flow of operational activities for the company was MNOK 536, for investment activities MNOK 18, and for financing activities MNOK 516.

Net cash from operating activities: Due to termination of all financing contracts with EVERY, the finance receivables significantly decreased year over year (502 MNOK).

Net cash from financing activities: Due to termination of the loan contracts with Evry the need of borrowing has decreased considerably, with MNOK 461. Also due to this termination the need of capital coverage was reduced and dividend of MNOK 55 was paid.

IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2017

Continued Operations

The Board has no knowledge of issues of importance to the annual accounts that do not appear in the annual accounts or the Report from the Board of Directors. No issues have occurred after end of the accounting period which impact on the assessment of the company's result or position. The accounts have therefore been submitted under the going concern assumption.

The Board proposes the following allocation of the result this year:

Transfer to other equity MNOK 24,412

Total allocation MNOK 24,412

Oslo, March 22, 2018

Board of Directors of IBM Finans Norge AS



Christer Renlund
(Chairman of the board)



Asbjørn Søgstad
(CEO)



Emil Stampe
(Member of the board)



Mats Eliasson
(Member of the board)



Otto Pedersen
(Member of the board)



Jessica De Maie
(CFO)
(Member of the board)



To the General Meeting of IBM Finans Norge AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of IBM Finans Norge AS which comprise the balance sheet as at 31 December 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the



audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Other Matters

The Company has failed to deposit employees' tax deductions in accordance with the Norwegian Tax Payment Act section 5-12 in 2017. We have obtained evidence that the Company has established an arrangement in accordance with the requirement in the Norwegian Tax Payment Act from 28 February 2018.

Oslo, 22 March 2018

PricewaterhouseCoopers AS

A handwritten signature in blue ink, appearing to read 'Stig Arild Lund', is written over the printed name and title.

Stig Arild Lund
State Authorised Public Accountant

IBM Finans Norge AS

Independent Auditors' Report

For the Year Ended 31 December 2017

IBM Finans Norge AS

Independent Auditors' Report

For the Year Ended 31 December 2017

IBM Finans Norge AS

Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Notes	2017 NOK'000	2016 NOK'000
Finance income	3	153,362	27,145
Finance cost	4	(95,407)	(12,816)
Net finance income		57,955	14,329
Other expense and income			
Other expense	5	(25,761)	(4,888)
Total other expense and income		(25,761)	(4,888)
Profit before income tax		32,194	9,441
Income tax expense	6	(7,722)	(2,360)
Profit for the year		24,472	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	17	(78)	940
Deferred tax in respect of defined benefit scheme	8	18	(216)
Other comprehensive income / (loss) for the year, net of income tax		(60)	724
Total comprehensive income / (loss) for the year		24,412	7,805

All operations are classified as continuing.

The notes on pages 12 to 36 form part of these financial statements.

IBM Finans Norge AS

Statement of Financial Position

As at 31 December 2017

	Notes	31/12/17 NOK'000	31/12/16 NOK'000
Current assets			
Cash and cash equivalents	14	2,620	1,116
Receivables from related parties	15	365	867
Finance receivables	7	583,840	553,745
Prepayments and Other current assets		3,505	9,758
		<u>590,330</u>	<u>565,486</u>
Non-current assets			
Finance receivables	7	72,531	676,113
Property, plant and equipment	18	33,111	30,941
Deferred tax assets	8	-	-
		<u>105,642</u>	<u>707,054</u>
Total assets		695,972	1,272,540
Current liabilities			
Loans and Borrowings	9	413,141	232,126
Payables to related parties	15	131,767	200,971
Tax payables	6	8,809	1,413
Trade and other payables	10	30,292	53,651
Deferred income		2,592	2,308
Other liabilities (Employees)		1,682	743
		<u>588,283</u>	<u>491,212</u>
Non-Current liabilities			
Deferred tax liability	8	13	1,118
Retirement benefit obligation	17	2,520	2,143
Loans and Borrowings	9	-	642,323
		<u>2,533</u>	<u>645,584</u>
Total liabilities		590,816	1,136,796
Net assets		<u>105,156</u>	<u>135,744</u>

The notes on pages 12 to 36 form part of these financial statements.

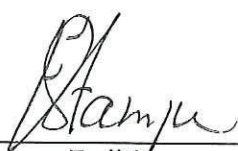
IBM Finans Norge AS

Statement of Financial Position

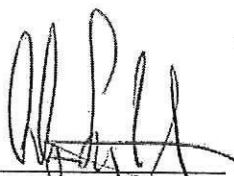
As at 31 December 2017

Issued capital and reserves			
Share capital	11	45,000	45,000
Retained profits		<u>60,156</u>	<u>90,744</u>
Total equity		<u>105,156</u>	<u>135,744</u>

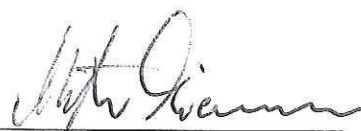
The financial statements were approved by the directors and authorised for issue on 22. March 2018.



Emil Stampe
(Member of the board)



Asbjørn Sjøgsfød
(CEO)



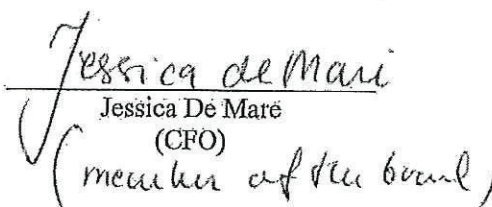
Mats Eliasson
(Member of the board)



Otto Pedersen
(Member of the board)



Christer Renlund
(Chairman of the board)



Jessica De Mari
(CFO)

(member of the board)

The notes on pages 12 to 36 form part of these financial statements.

IBM Finans Norge AS

Statement of Changes in Equity

For the Year Ended 31 December 2017

		Issued capital NOK'000	Other paid-in capital NOK'000	Retained earnings NOK'000	Total equity NOK'000
At 1 January 2016		45,000	14,880	18,722	78,602
Profit for the financial year		-	-	7,081	7,081
Other comprehensive income	17			724	724
Total group contribution to owners of the company		-	(6,663)	-	(6,663)
Total contribution by (and distribution to) owners of the company		-	56,000	-	56,000
At 31 December 2016		45,000	64,217	26,527	135,744
Profit for the financial year		-	-	24,472	24,472
Other comprehensive income	17			(60)	(60)
Dividends distribution		-	-	(55,000)	(55,000)
Total group contribution to owners of the company		-	-	-	-
Total contribution by (and distribution to) owners of the company		-	-	-	-
At 31 December 2017		45,000	64,217	(4,061)	105,156

The notes on pages 12 to 36 form part of these financial statements.

IBM Finans Norge AS

Statement of Cash Flows

For the Year Ended 31 December 2017

	Notes	2017 NOK'000	2016 NOK'000
Profit for the period		24,472	7,081
Adjustments for			
Income tax		7,722	2,360
Depreciation	18	15,759	2,584
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution		300	3,083
Income tax paid	6	(1,413)	-
Income tax transfer	6	-	(2,464)
Decrease / (Increase) in receivables from related parties	15	502	(720)
Decrease / (Increase) in finance receivables	7	573,487	(994,446)
(Decrease) / Increase in payables to related parties	15	(69,204)	137,803
(Decrease) / Increase in other payables	10	(23,359)	49,697
Increase/ (Decrease) in other liabilities		1,223	3,052
(Increase)/Decrease in prepayments		6,252	(9,759)
Net cash flow from operating activities		535,741	(801,729)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(23,004)	(35,034)
Proceeds from sale of property, plant and equipment		5,075	1,510
Net cash flow from investing activities		(17,929)	(33,524)
Cash flows from financing activities			
Capital increase		-	56,000
Group contribution		-	(6,663)
(Decrease) / Increase in borrowing	9	(461,308)	787,032
Payment of dividends		(55,000)	-
Net cash flow from financing activities		(516,308)	836,369
Net increase in cash and cash equivalents		1,504	1,116
Cash and cash equivalents at beginning of the period		1,116	-
Cash and cash equivalents at end of the period	14	2,620	1,116

The notes on pages 12 to 36 form part of these financial statements.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies

General information

IBM Finans Norge AS (the 'company') is a limited company incorporated in Norway. The company's immediate parent entity was International Business Machines AS, a company incorporated in Norway and the company's ultimate parent entity was International Business Machines Corporation ('IBM Corporation'), a company registered in the United States of America. Since March 2017, the ownership was transferred to IBM Global Financing Investments II B.V10

Basis of preparation

These financial statements have been prepared on a historical cost basis, and 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').

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to all years presented, unless otherwise stated. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in the notes to these financial statements.

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

New and amended standards and interpretations

The following new standards and interpretations became effective for the company from 1 January 2017:

- Amendments to IAS 7 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017);
- Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017);

The following new standards and their amendments have not yet been endorsed by the European Union:

- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014 - 2016 Cycle (effective from 1 January 2017).

The new or amended standards did not have a material impact on the company.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the company has not early adopted.

- IFRS 9 Financial Instruments (effective from 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018);
- IFRS 16 Lease (effective from 1 January 2019);

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

The following new standards and their amendments have not yet been endorsed by the European Union:

- IFRS 17 Insurance contracts (effective from 1 January 2021);
- IFRIC 22 Foreign currency transactions and advance consideration (effective from 1 January 2018);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019);
- Amendments to IFRS 2 Share-based Payment (effective from 1 January 2018);
- Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018);
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation (effective from 1 January 2019);
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019).

The company is currently assessing the impact of the new and amended standards on its financial statements.

IFRS 9

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The standard must be applied for financial years commencing on or after 1 January 2018. The company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

The company has reviewed its financial assets and liabilities and does not expect the new guidance to affect the classification and measurement of these assets and liabilities. The company's financial assets are currently measured at amortized costs and will continue to be measured on the same basis under IFRS 9. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The guidance requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. Based on the assessments undertaken to date, the company does not expect material impact of the new impairment model.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

IFRS 15

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption and it is mandatory for financial years commencing on or after 1 January 2018. The company will adopt the standard using the modified retrospective approach.

The company expects revenue recognition for its portfolio to remain largely unchanged. However, the guidance is expected to change the timing of revenue recognition in certain areas. These impacts are not expected to be material.

IFRS 16

In January 2016, the IASB issued guidance which changes the accounting for leases. The guidance requires lessees to recognize right-of-use assets and lease liabilities for most leases in the Consolidated Statement of Financial Position. The new standard uses a single model for lessee accounting, eliminating the distinction between operating and finance leases. For lessors, IFRS 16 retains most of the requirements in IAS 17. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently. The guidance also requires qualitative and quantitative disclosures to assess the effect that lease have on the financial statement. The guidance is effective January 1, 2019 and early adoption is permitted. The company will adopt the guidance as of the effective date.

A cross-functional implementation team has been established at the parent level which is evaluating the lease portfolio, system, process and policy change requirements. The company has made progress in gathering the necessary data elements for the lease population and a system provider has been selected. The company is currently evaluating the impact of the new guidance on its consolidated financial results. The company continues to assess the potential effects of the guidance, including normal ongoing business dynamics or potential changes in contracting terms.

Revenue Recognition

The company recognises revenue only if probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The primary source of revenue for the company is finance income.

Finance income represents interest and fee income on factored, lease and other receivables, cash and deposits and is recognised on an accruals basis using the effective interest rate method.

Other expenses

Other expenses are recognised in the income statement as incurred. Other expenses include selling expenses, salaries, office supplies, non-income taxes, insurance and office rental.

Finance costs

Finance costs represent costs on leasing, interest on bank overdrafts and short-term borrowings.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

Foreign currencies

The financial statements of the company are presented in Norwegian Krone which is the functional currency of the company.

Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date. Foreign exchange differences are recognised in the income statement in the year on settlement of these items.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting foreign exchange differences are recognised in the income statement for the year.

Taxation

Income tax expense represents the current tax calculated on taxable profits for the year, any adjustments in respect of prior periods and any deferred tax charge or credit for the year.

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted and that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

Financial instruments

Categories of financial instruments

The company has the following categories of financial assets and liabilities: loans and receivables and financial liabilities at amortised cost.

Financial assets and financial liabilities are recognised initially at fair value, plus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

Loans and receivables

Loans and receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables include 'cash and cash equivalents', 'finance receivables' and 'receivables from related parties' in the balance sheet (notes 7 and 14).

Cash and cash equivalents comprise cash on hand and demand deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

An allowance for impairment of loans and receivables is recorded based on a combination of write-off history, ageing analysis, and any specific, known impairment losses. Below are the methodologies the company uses to calculate its impairment reserves, which are applied consistently to its different portfolios.

The company reviews all loans and receivables on a regular basis. The review consists primarily of an analysis based upon current information available about clients, such as financial statements, news reports and published credit ratings, as well as the current economic environment, collateral net of repossession cost and prior history. Additionally, analysis is performed on its different collectively assessed portfolios, based upon credit ratings, probability of default, term, asset characteristics, and loss history to determine if there is objective evidence of impairment.

Objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or
 - default or delinquency in interest or principal payments; or
 - it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.
-

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

Financial instruments (continued)

If there is objective evidence that loans and receivables are impaired, the company calculates an impairment loss by comparing the asset's carrying amount and the present value of the expected future cash flows. Any resulting impairment loss is recognised in the income statement. The carrying amount of the impaired receivable is reduced through the use of a specific allowance account.

Losses incurred on trade and other receivables are charged against the allowance when management believes the uncollectibility of the receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities at amortised cost

Financial liabilities are recognised when the company becomes obliged to make future payments resulting from the purchase of goods or services.

Amounts are unsecured and usually settled on standard commercial trade terms.

Financial liabilities recognised at amortised cost include 'loans and borrowings', 'payables to related parties' and 'trade and other payables' (note 9 and 14).

Trade and other payables, and borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. Accounting policies (continued)

Employee benefits

Provision is made for benefits accruing to employees in respect of wages, salaries and other benefits when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Defined contribution plans

Contributions to defined contribution retirement plans are recognised as an expense when the employees have rendered services entitling them to the contributions.

Defined benefit and other post retirement benefit plans

For defined benefit retirement plans and other post retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date.

Actuarial gains and losses are recognised in full in the period in which they occur, outside of the income statement, and presented in other comprehensive income. Past service cost is recognised immediately to the extent that benefits are already vested, or amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, less the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of benefits accruing to the company available in the form of refunds and reductions in future contributions to the plan.

Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses.

The depreciable amount of an asset is determined after deducting its residual value. The residual value of an asset is the estimated amount that the company would obtain from the disposal of the asset, after deducting the estimated cost of disposal.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation and amortisation are as follows:

Buildings	-	5-50 years
Plant and machinery	-	1.5-7 years
Fixtures and fittings	-	5-15 years
Lease assets	-	1.5-5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the period.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Significant accounting estimates and assumptions

The application of accounting standards and policies requires the company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the company considers to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the company's financial condition or operating performance.

Revenue recognition

Application of the accounting principles in IFRS related to the measurement and recognition of revenue requires that the company make judgements and estimates.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

3. Finance income

	2017	2016
	NOK'000	NOK'000
Operating lease income	18,691	3,182
Factoring income	14,050	10,761
Capital lease income	115,472	11,783
Interest income	197	236
Other operating income	4,952	1,183
	<u>153,362</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.

The loan contracts of BNOK 1 with Evry Norge AS was terminated in June 2017. The revenue effect was 109,6M NOK including termination charges in 1st half and no revenue in 2nd half. The corresponding finance cost (note 4) is 76M NOK in 2017.

4. Finance costs

	2017	2016
	NOK'000	NOK'000
Costs of operating leases	17,824	3,020
Costs of capital leases	61,579	6,108
Interest expense	12,279	2,456
Costs of other operating income	3,725	1,232
	<u>95,407</u>	<u>12,816</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%.

5. Other expenses

	2017	2016
	NOK'000	NOK'000
Employee expenses	8,855	2,141
Royalties	3,783	-
Other expenses	13,056	2,716
Audit services (excl. VAT) - Statutory audit	67	31
	<u>25,761</u>	<u>4,888</u>

The employees at IBM Finans Norge AS have employment agreement with IBM Finans Norge AS. The average number of man-year employed in 2017 was 9 (2016: 8 man-year).

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

6. Income tax expense

(a) Analysis of charge / (credit) in the year

In respect of the period:	2017	2016
	NOK'000	NOK'000
Current tax	8,809	1,413
Deferred tax (note 8)	(1,087)	947
Income tax expense /(credit)	<u>7,722</u>	<u>2,360</u>

(b) Factors affecting tax charge / (credit)

	2017	2016
	NOK'000	NOK'000
Profit before income tax	<u>32,194</u>	<u>9,441</u>
Tax at the domestic income tax rate of 24%	7,727	2,360
Movement of deferred tax in respect of change in tax rate in 2017	(1)	-
Other	(4)	-
Total income tax expense (note 6(a))	<u>7,722</u>	<u>2,360</u>

(c) Analysis of tax payable

	2017	2016
	NOK'000	NOK'000
At 1 January	1,413	2,464
Payment to tax authorities	(1,413)	-
Charged / (credited) to income statement	8,809	1,413
Group contribution	-	(2,464)
At 31 December	<u>8,809</u>	<u>1,413</u>

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

7. Finance receivables	31/12/17	31/12/16
	NOK'000	NOK'000
Factored receivables	497,734	296,202
Finance lease receivables	51,651	56,341
Customer loans	110,108	879,126
	<u>659,493</u>	<u>1,231,669</u>
Less:		
Provision for impairment of receivables	(3,122)	(1,811)
	<u>656,371</u>	<u>1,229,858</u>
Analysed as		
Current	583,840	553,745
Non-current	72,531	676,113
	<u>656,371</u>	<u>1,229,858</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.

(i) Past due but not impaired finance receivables

Included in finance receivables balance are receivables with a carrying amount of NOK 18 948 000 (2016: 36 388 000 NOK) respectively which are past due at the reporting date but not impaired. The company considers that the amounts are still fully recoverable.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

7. Finance receivables (continued)

Aging of past due but not impaired receivables	2017 NOK'000	2016 NOK'000
0-90 days	18,916	36,388
91- 180 days	31	-
181- 365 days	1	-
Provision for impairment	2017	2016
	NOK'000	NOK'000
At 1. January	1,811	181
Impairment losses recognized	1,885	1,630
Amounts written off	-	-
Release of impairment	(573)	-
At 31 December	3,123	1,811

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.

8. Deferred tax

Movement in the deferred tax asset / (liability)

	Retirement benefit NOK'000	Tax loss NOK'000	Other NOK'000	Total NOK'000
At 1 January 2016	-	-	45	45
(Charged) / credited to I&E	536	-	(1,483)	(947)
(Charged) / Credited to other comprehensive income	(216)	-	-	(216)
At 31 December 2016	320	-	(1,438)	(1,118)
(Charged) / credited to I&E	43	-	1,044	1,087
(Charged) / Credited to other comprehensive income	18	-	-	18
At 31 December 2017	381	-	(394)	(13)

The recognition of deferred tax assets is determined by reference to the company's estimate of recoverability based on models to forecast future taxable profits.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

9. Loans and borrowings	31/12/17	31/12/16
	NOK'000	NOK'000
Loans due to related companies (note 15)	413,141	874,449
	<u>413,141</u>	<u>874,449</u>

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

10. Trade and other payables

	31/12/17	31/12/16
	NOK'000	NOK'000
Trade payables	29,230	52,940
Social Security and Other taxes	740	708
Other Payables	322	3
	<u>30,292</u>	<u>53,651</u>

11. Share capital and shareholder information

	2017	2016
	NOK'000	NOK'000
Authorised, issued and fully paid shares		
45 000 ordinary shares of par value 1 000.01 NOK each	45 000	45 000

All shares have equal rights.

Shareholder information

IBM Finans Norge AS is a 100% owned subsidiary of IBM Global Financing Investments II B.V. Investments II B.V. located in Netherland. The company is located in Lakkegata 53, 0187 Oslo, Norway.

12. Contingencies

At 31 December 2017, the company had no contingent liability in respect of bank guarantees (2016: NOK 30 000 000) as the company stopped the cash pooling process in November 2017.

13. Events after balance sheet date

There were no other material events after balance sheet date.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

14. 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.

Capital risk management

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of debt to related parties disclosed in note 15, and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in the statement of changes in equity.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	Weighted average effective interest rate	31/12/17 NOK'000	Weighted average effective interest rate	31/12/16 NOK'000
Financial assets				
<i>Loans and receivables</i>				
<i>Interest bearing</i>				
Cash and cash equivalents		2,620		1,116
Receivables from related parties	0.53	365	0.63	867
<i>Non-interest bearing</i>				
Finance receivables		656,371		1,229,858
		<u>659,356</u>		<u>1,231,841</u>
Financial liabilities				
<i>Amortised costs</i>				
<i>Interest bearing</i>				
Loans and Borrowings	0.87	413,141	1.07	874,449
<i>Non-interest bearing</i>				
Payables to related parties		131,767		200,971
Trade and other payables		29,553		52,940
		<u>574,461</u>		<u>1,128,360</u>

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

14. Financial instruments (continued)

Financial risk management objectives

IBM's corporate treasury function provides funding and risk management services to the company. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the company through internal risk reports addressing market risk (including currency risk and interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk. This includes performing sensitivity analysis on market risks to determine the effect of changes in foreign exchange and currency rates on the company's financial performance and position.

Foreign currency risk

The company does not undertake any material transactions denominated in foreign currencies, hence no considerable exposure to exchange rate fluctuations arise.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company carries out credit checks on potential customers before contracts are entered into. This information is supplied by independent rating agencies where available and, if not available, the company uses other publicly available financial information and its own trading records to rate the major customers. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management team annually. Cash balances held with the IBM Treasury Centre IBM Global Financing Investments II B.V, which the directors assess as having high credit ratings. Financial assets consist of a large number of balances with customers and related parties, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The company has significant concentration of credit risk. The top five debtors represent 64 % (2016: 72 %) of the company's total loans and receivables. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk.

Interest rate risk management

The company is funded by the IBM Treasury Centre in Ireland and IBM Global Financing Investments II B.V. As the company invests or borrows cash balances, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

The company's exposures to interest rates on financial assets and financial liabilities are detailed in Categories of financial instruments table in this note.

The company performs sensitivity analysis to determine the effects from exposure to interest rates risk. For financial assets and liabilities exposed to interest rate risk, the analysis is prepared assuming the balances at the reporting date were outstanding for the whole year.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

14. Financial instruments (continued)

Interest rate risk management (continued)

At the reporting date, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the company's net profit would decrease/increase by NOK 1 251 000 (2016: increase/decrease by NOK 1 780 000). This is mainly attributable to the company's exposure to interest rates on borrowings and cash deposits.

Liquidity risk management

The company is funded internally by the IBM Treasury Centre in Ireland. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the Treasury Centre.

The company holds financial liabilities with contractual maturity within one year. The contractual maturity is based on the earliest date on which the company may be required to pay, however the function of the treasury centre is to continuously support the operation and to secure that IBM Finans AS meet their obligations as they fall due. The table below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities including principal cash flows.

Liquidity table

2017	> 1 year	1-5 years	< 5 years	Total
<i>Interest bearing</i>				
Loans and Borrowings	413,141	-	-	413,141
<i>Non-interest bearing</i>				
Payables to related parties	131,767	-	-	131,767
Trade and other payables	29,553	-	-	29,553
	574,461			574,461
2016				
<i>Interest bearing</i>				
Loans and Borrowings	232,126	-	642,323	874,449
<i>Non-interest bearing</i>				
Payables to related parties	200,971	-	-	200,971
Trade and other payables	52,940	-	-	52,940
	486,037		642,323	1,128,360

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 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.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

15. Related party transactions

Related parties include parent companies, entities under common control ('group undertakings'), subsidiaries and key management personnel. The company enters into transactions with related parties in the ordinary course of business for the purchase or sale of services provided to and from related parties, purchase of investment from related parties, in relation to group funding arrangements with related parties and in relation to the factoring of trade receivables with related parties.

The company's immediate parent undertaking is IBM Global Financing investments II B.V which holds 100% of the shares and is registered in Netherlands

The company's ultimate parent undertaking and controlling party is International Business Machines Corporation which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of this undertaking may be obtained from IBM Corporate Headquarters, 1 New Orchard Road, M/D 325, Armonk, New York 10504.

The following transactions were carried out with related parties:

Class of related party	Transaction type	2017	2016
		NOK'000	NOK'000
Other related undertakings	Sales	7,786	3,534
	Royalties	3,783	-
	Purchases	(1,268)	(1,058)
	Other expenses	12	-
	Interest paid	(12,280)	(2,455)
	Interest received	189	165
Immediate parent	Sales	-	1,906
	Purchases	-	-
	Other expenses	-	(1,365)
	Interest received	-	71
	Group contribution distributed	-	(6,663)
	Capital contribution received	-	56,000
	Dividends paid	(55 000)	0

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

Cash equivalents

	2017	2016
	NOK'000	NOK'000
Other related undertakings	-	-

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

15. Related party transactions (continued)

Deposits held with immediate parent

	2017	2016
	NOK'000	NOK'000
At 1 January	678	147
Deposited/(Withdrawn) during the year	(678)	531
At 31 December	<u>-</u>	<u>678</u>

Receivable from related parties

	31/12/17	31/12/16
	NOK'000	NOK'000
Other related parties	<u>365</u>	<u>189</u>

Payable to related parties

	31/12/17	31/12/16
	NOK'000	NOK'000
Immediate parent	-	17,224
Other related parties	<u>131,767</u>	<u>183,747</u>
	<u>131,767</u>	<u>200,971</u>

Loans due to related parties

	31/12/17	31/12/16
	NOK'000	NOK'000
Other IBM group undertaking	<u>413,141</u>	<u>874,449</u>
	<u>413,141</u>	<u>874,449</u>

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.

Key management compensation

The total remuneration of members of key management in respect of services to the company was as follows:

	2017
	NOK'000
Short term employee benefits	1 881
Share based options	-
	<u>1 881</u>

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

15. Related party transactions (continued)

Remuneration of CEO and Board of Directors' members was as follows:

	2017	
	CEO NOK '000	Board of Directors NOK '000
Short term employee benefits	1 881	-
Pension cost	90	-
	<u>1 971</u>	<u>-</u>

The split between CEO's fixed salary and variable pay is as follows:

	2017 NOK '000
Variable pay	714
Fixed salary	1 242
Vacation pay	42
Deduction for vacation	<u>(117)</u>
	<u>1 881</u>

The CEOs variable pay is calculated twice a year from the value of new client financing contracts signed within 1st half and 2nd half of the year. Car allowance is NOK 6000 per month. The fixed part is 55% of the on-target salary. The same model also applies to sellers in the company. The CEO has no termination benefits.

16. Capital coverage

	31/12/17 NOK'000	31/12/16 NOK'000
100 % weighted: Finance receivables	188 071	450 718
50 % weighted: Finance receivables	230 850	375 958
20 % weighted: Finance receivables	9 872	50 734
Base for 8% credit risk	428 793	877 410
Responsible capital	104 462	135 744
Credit risk	34 303	70 192
Operational risk	4 169	1 547
Coverage of responsible capital	65 990	64 005
Buffer:		
Preservebuffer	10 719	21 935
Countercyclical capital buffer	8 575	13 161
Systemriskbuffer	12 863	26 322
	<u>32 157</u>	<u>61 418</u>
Coverage less requirement after the buffer requirement	33 833	2 587

The capital for the company is covered good within the minimum requirements. BM Finans Norge AS is not giving any guarantees. A large part of the loans is covered by credit-insurance. During 2017 there has been minimal losses and we expect that this will continue in 2018.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations

Defined benefit plans

The amounts recognised in the statement of financial position are determined as follows:

	31/12/17 NOK'000	31/12/16 NOK'000
Present value of funded defined benefit obligation	(10 590)	(9 657)
Fair value of plan assets	8 070	7 514
Deficit / (Surplus) of funded plan	(2 520)	(2 143)
Impact of minimum funding requirement /asset ceiling	-	-
Net liability arising from defined benefit obligations	(2 520)	(2 143)

The company operates a defined benefit pension plan, under which employees are entitled to defined benefits covering old age pension, disability pension, spouse pension and child pension for employees. Retirement is 67. The company's pension scheme meets the requirements of the law on compulsory occupational pension (Lov om obligatorisk tjenstepensjon).

The plan provides for pension benefits outlined above on pensionable earnings capped at twelve times the Social Security base amount. The plan is funded in IBM Konsern pensjonskasse, and is closed to new participants.

The present value of the defined benefit obligations, the related current service cost, and past service cost are measured using the projected unit credit method.

Regulatory Framework

IBM Konsern pensjonskasse operates in accordance with the law on occupational defined benefit pension (Lov om foretakspensjon) and is licensed by and operates under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

Governance

IBM Konsern pensjonskasse is legally separated from the company. The legal board of IBM Konsern pensjonskasse comprises four representatives appointed by International Business Machines AS, of which one independent representative and two representatives elected among the members. The legal board of the pension fund is fully responsible for operating the fund in compliance with applicable laws and regulations.

International Business Machines AS has established an investment board that gives guidance to the legal board on the management of the fund assets.

The fundamental objective of the defined benefit fund is the preservation of capital with sufficient growth to assure adequate resources to meet future obligations for the payment of benefits. Defined benefit funds are prudently managed and broadly diversified to achieve a reasonable rate of return with an acceptable level of risk.

IBM Finans Norge AS

Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations (continued)

General risks

The company's obligations under defined benefit plans which include direct payments to beneficiaries and statutory minimum funding requirements may significantly vary depending on number of market, economic, and demographic conditions, such as yields on government and corporate debt, return on plan assets invested in debt and equity securities as well as pooled funds, employee turnover and retiree mortality rates.

These risk factors may affect the Company's future cash outflows to fund its obligations, amounts of periodic benefit costs used in calculating net profit and re-measurement charges reported in other comprehensive income.

Asset volatility

The plan liabilities are calculated using a discount rate set based on covered corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

The pension obligations are not directly linked to inflation, but higher inflation may lead to higher liabilities as a result of higher salary increases. The majority of the plan assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation may also increase the deficit.

Life expectancy

The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

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Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year is as follows:

	2017	2016
	NOK'000	NOK'000
Present value of defined benefit obligation		
At 1 January (1 November in 2016)	(9 657)	(10 657)
Current service cost	(246)	
Interest (expense) / income	(251)	()
Remeasurement:		
Actuarial gain / (loss) – experience	(114)	
Actuarial gain / (loss) – financial assumptions	(323)	
Actuarial gain / (loss) – demographic assumptions	-	
Past service cost and gain / (loss) on settlements	-	-
Benefits paid		
Employer	-	
Trust	-	
Plan participants' contributions	-	-
Exchange differences	-	-
Acquired in business combination	-	
Termination benefits	-	-
Other	-	-
At 31 December	<u>(10 591)</u>	<u>(9 657)</u>
Fair value of plan asset		
At 1 January (1 November in 2016)	7 514	7
Interest (expense) / income	195	21
Remeasurement:		
Return on plan assets (excluding amounts included in interest (expense)/income)	360	(12)
Contribution:		
Employer	-	-
Plan participants	-	-
Benefits paid	-	-
Settlements	-	-
Exchange differences	-	-
Acquired in business combination	-	
Other	-	-
At 31 December	<u>8 069</u>	<u>7</u>

Plan Amendments, Curtailments and Settlements

No plan amendments, curtailments or non-routine settlements have been incurred in 2017.

Amounts recognized in the income statement:

	2017	2016
	NOK'000	NOK'000
Current service cost	246	
Net interest cost on net liability (asset)	251	
	<u>497</u>	<u>2</u>

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Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations (continued)

Amounts recognized in other comprehensive income:

	2017	2016
	NOK'000	NOK'000
Remeasurement (gains) / losses on plan assets	(8)	
Remeasurement (gains) / losses on plan liabilities	4	(108)
Recognised during the year	<u>4</u>	<u>(108)</u>

IBM Konsern pensjonskasse invests plan assets in a prudent manner, with the target mix of 40% equities and 60% fixed income. Approximately 80% of investments are actively managed.

The table below analyses plan assets carried at fair value, by valuation method.

The fair value and the composition of plan assets are as follows:

	2017				2016			
	Level 1	Level 2	Level 0	Total	Level 1	Level 2	Level 0	Total
Equity								
Equity securities	879			879	820			820
Equity pooled funds			2 000	2 000			2 208	2 208
Fixed income								
Government securities		2 641		2 641		1 929		1 929
Corporate bonds		2 073		2 073		2 099		2 099
Insurance contracts								
Cash and cash equivalents	29	0	198	227	52	(9)	203	246
Hedge funds			262	262			225	225
Derivatives								
Forwards						(13)		(13)
Futures		(13)		(13)				
Accruals				<u>8 069</u>				<u>7 514</u>

There are no plan assets measured at Level 3 fair value.

The company does not hold any of its own transferable financial instruments, property occupied by or other assets used by it as plan assets.

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Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations (continued)

Significant Actuarial Assumptions

	2017	2016
	%	%
Discount rate	2.40	2.60
Inflation assumption	2.50	2.50
Expected rate of salary increase / salary inflation rate	2.50	2.50
Expected future pension increases	2.00	2.00
Increase in social security base amount	2.50	2.50

The actuarial valuation incorporates mortality assumptions in line with the local experience of this and similar plans.

Amount, Timing and Uncertainty of Future Cash Flow

Sensitivities

The sensitivity analyses below have been determined based on reasonably possible changes in actuarial assumptions at the end of the reporting period while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The following table demonstrates increase (decrease) in defined benefit obligation and net liability resulting from a change in each actuarial assumption with all other variables held constant at the end of the reporting period.

	2017	2016
	NOK'000	NOK'000
Discount rate - 0.25% assumed:		
0.25% decrease	428	415
0.25% increase	(407)	(394)
Mortality:		
1 year increase in lifetime of participants	462	421
1 year decrease in lifetime of participants	(420)	(385)

Reasonably possible changes in other actuarial assumptions would not have material effect on the amount of defined benefit obligation and net liability.

Expected Contributions

The funding of the pension fund is based on the minimum cash contribution required to be in compliance with the requirements of the Law on occupational defined benefit pensions (Lov om foretakspensjon). The pension fund may be partly funded by excess return on fund assets, but is otherwise funded from cash generated by the company's operation.

The expected contributions to pension funds and direct payments to retirees in 2018 are as follows:

	NOK'000
Contributions to pension funds	-
Direct payments for retirees	-
Expected employee cash outflow	-

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Notes to the Financial Statements

For the Year Ended 31 December 2017

17. Retirement benefit obligations (continued)

Maturity Profile

The durations of defined benefit pension obligations at the end of the reporting period on 31 December 2017 was 14.23.

The expected maturity analysis of undiscounted defined benefit payments are as follows:

	31/12/17 NOK'000	31/12/16 NOK'000
Not later than one year	-	-
Later than one year and not later than five years	1 732	1 246
Later than five years	8 547	8 146
	<u>10 279</u>	<u>9 392</u>

18. Property, plant and equipment

	Equipment NOK'000	Leased Equipment NOK'000	Total NOK'000
Cost			
At 1 January 2016	-	-	-
Additions	52	34,982	35,034
Disposals	-	(1,157)	(1,157)
Reclassification, transfers, other	-	(4,110)	(4,110)
At 31 December 2016	<u>52</u>	<u>29,715</u>	<u>29,767</u>
Additions	109	22,895	23,004
Disposals	-	(12,724)	(12,724)
Reclassification, transfers, other	-	(14,549)	(14,549)
At 31 December 2017	<u>161</u>	<u>25,337</u>	<u>25,498</u>
Accumulated depreciation			
At 1 January 2016	-	-	-
Additions	-	(2,584)	(2,584)
Disposals	-	967	967
Reclassification, transfers, other	-	2,791	2,791
At 31 December 2016	<u>-</u>	<u>1,174</u>	<u>1,174</u>
Additions	(31)	(15,728)	(15,759)
Disposals	-	9,862	9,862
Reclassification, transfers, other	(114)	12,450	12,336
At 31 December 2017	<u>(145)</u>	<u>7,758</u>	<u>7,613</u>
Net book value			
At 31 December 2017	<u>16</u>	<u>33,095</u>	<u>33,111</u>
At 31 December 2016	<u>52</u>	<u>30,889</u>	<u>30,941</u>

