

Company Registration Number 01197744

IBM United Kingdom Asset Leasing Limited

Financial Statements

31 December 2018

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IBM United Kingdom Asset Leasing Limited

Financial Statements

For the Year Ended 31 December 2018

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IBM United Kingdom Asset Leasing Limited

Company Information

For the Year Ended 31 December 2018

Company registration number	01197744
The board of directors	E Cook J Stanton T Clements
Company secretary	H Reeve
Registered office	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Savannah House 3 Ocean Way Southampton Hampshire SO14 3TJ

IBM United Kingdom Asset Leasing Limited

Strategic Report

For the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Review of the business and future developments

The principal activity of the company during the year was the leasing of information technology products to UK based customers of International Business Machines Corporation.

The IT financing environment continues to provide significant opportunities, however as the market shifts from traditional customer managed in-house IT estates to external managed services offerings and the Cloud, the directors continue to adjust the company's strategy accordingly.

The focus on availability of credit continues, and remains a challenge, particularly for a number of small and medium organisations. The economic environment continues to demand greater productivity and management of scarce resources, which in turn generates continued demand for IT investments.

The level of debt write off has remained very low during the year (2017: very low).

The finance lease asset base increased by 6 % in 2018 comparing to 2017.

Our focus on risk management, compliance, and business controls remains a fundamental imperative for the organisation.

The company's profit for the year amounted to £8,003,000 (2017: £5,675,000) and net assets at 31 December 2018 were £84,120,000 (2017: £76,117,000).

Principal risks and uncertainties

The key business risks affecting the company are considered to relate to the economic environment and competition.

The company operates in a competitive market but it has an ability to innovate and integrate which is considered to be unique to IBM and sets it apart from its competition.

Given IBM United Kingdom Asset Leasing Limited's primary mission of supporting IBM's hardware and software businesses, originations for the client financing business will be dependent upon the overall demand for IT hardware and software, as well as clients using the finance available through the company to purchase these products.

Interest rates and the overall economic environment will have an effect on gross earnings. The company's interest rate risk management policy should mitigate gross margin erosion due to changes in interest rates.

The economy could impact the credit quality of the receivables portfolio and therefore the level of loss allowance. IBM United Kingdom Asset Leasing Limited will continue to apply rigorous credit policies in both the origination of new business and evaluation of the existing portfolio.

IBM United Kingdom Asset Leasing Limited

Strategic Report

For the Year Ended 31 December 2018

Principal risks and uncertainties (continued)

The economy, and developments in new product technology, could impact the residual value of leased assets. The company manages its residual value risk through initial forecasting and calculation, regular residual asset valuation reviews and monitoring of residual value gains or losses at the end of the lease term. Details of the company's gross unguaranteed residual values are included in note 15 to the financial statements.

IBM United Kingdom Asset Leasing Limited has policies in place to manage each of the key risks involved in financing. These policies, combined with product and client knowledge, should allow for the prudent management of the business going forward, even during periods of uncertainty with respect to the economy.

Key performance indicators

IBM United Kingdom Asset Leasing Limited is managed by its board of directors. The performance and results of this company along with all other IBM UK entities are analysed on a worldwide IBM measurement basis, at a business unit and sector level. For this reason the directors of IBM United Kingdom Asset Leasing Limited believe that analysis using key performance indicators is not appropriate for an understanding of the development, performance or position of the business shown in these financial statements. The development, performance and position of International Business Machines Corporation, which includes the UK entities, is discussed in their annual report, which do not form part of this report.

Signed on behalf of the board



E Cook
Director

19 July 2019

IBM United Kingdom Asset Leasing Limited

Directors' Report

For the Year Ended 31 December 2018

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2018.

Future developments

Future developments of the company's business are covered in the strategic report.

Dividends

The directors have not recommended a dividend during the year (2017: £nil).

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 risks, price risks and foreign currency risk. The company has a strong risk management programme in place aligned to the worldwide programme of the company's ultimate parent company, International Business Machines Corporation.

Liquidity and interest rate risk

IBM United Kingdom Asset Leasing Limited is funded internally by its parent, IBM United Kingdom Financial Services Limited, which in turn is funded by IBM GF International Treasury Company DAC ('GF Treasury Centre') and IBM International Holdings Investment Unlimited Company in Ireland. The parent company can take funding from the GF Treasury Centre to enable it to meet any liquidity shortfall as the GF Treasury Centre is ultimately funded by International Business Machines Corporation.

Credit risk

The company has in place policies that require appropriate credit checks on potential customers before contracts are entered into. Creditworthiness is assessed taking into consideration the obligors most recent financial statements, ownership and group structure, share price, Moody's rating, market capitalisation and other data sources such as Credit Bureau reports from Dun & Bradstreet and Company Watch or reputable external bodies such as Factiva and Financial Times. Credit limits are set on the system and reduced each time new credit requests are submitted and approved to ensure they are not exceeded. The approved credit also has an expiry date, ranging between three months and twelve months depending upon the risk rating. Credit limits for existing customers are all reviewed annually as a minimum.

Price risk

IBM United Kingdom Financial Services Limited, the parent company, recharges interest to the company on its borrowings from the GF Treasury Centre. The financial risk posed by the interest rate on borrowings from the GF Treasury Centre exceeding the interest rate charged to customers for leases and loans is mitigated by two factors. Firstly, the company prices customer contracts using an Internal Rate of Return which factors in the cost of borrowing, expenses and credit ratings to cover risks before reaching the required return on equity. Secondly, the company's borrowings to support its leases and loans are on long term fixed interest rates consistent with the portfolio run out.

The financial risk posed by external vendors is managed and controlled by IBM's central procurement function. Procurement is the only business unit in IBM which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for IBM in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide IBM guidelines.

IBM United Kingdom Asset Leasing Limited

Directors' Report

For the Year Ended 31 December 2018

Foreign currency risk

The IGF Group in the UK has policies to protect against foreign currency risk. When leases and loans are supplied in a foreign currency, the company's parent borrows from the GF Treasury Centre in the same foreign currency to fund the transaction, therefore hedging against any foreign currency risk.

Going concern

The financial statements have been prepared on a going concern basis as the immediate parent, IBM United Kingdom Financial Services Limited, has confirmed its continuing financial support to the company for the foreseeable future and accordingly the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Financial instruments

Details of the company's financial risk management objectives and policies, including the use of financial instruments, are included in note 12 to the financial statements.

Directors' indemnity and insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The company has granted these indemnities in favour of the directors of the company as is permitted by Section 232-235 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. International Business Machines Corporation has also purchased Directors' and Officers' liability insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

Directors

The directors who served the company during the year and up to the date of signing these financial statements were as follows:

P White	resigned on 6 July, 2018
T Clements	
J Stanton	
E Cook	appointed on 6 July 2018

Statement of disclosure of information to auditors

Each of the persons who are directors at the date of approval of this report confirm that:

- there is no relevant audit information of which the company's auditors are unaware, and;
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

IBM United Kingdom Asset Leasing Limited

Directors' Report

For the Year Ended 31 December 2018

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the board;



E Cook
Director
19 July 2019

IBM United Kingdom Asset Leasing Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 2018

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

IBM United Kingdom Asset Leasing Limited

Independent Auditors' Report to the Members of IBM United Kingdom Asset Leasing Limited

For the Year Ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion, IBM United Kingdom Asset Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

IBM United Kingdom Asset Leasing Limited

Independent Auditors' Report to the Members of IBM United Kingdom Asset Leasing Limited

For the Year Ended 31 December 2018

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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, the directors are 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

IBM United Kingdom Asset Leasing Limited

Independent Auditors' Report to the Members of IBM United Kingdom Asset Leasing Limited

For the Year Ended 31 December 2018

Auditors' 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 auditors' 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
19 July, 2019

IBM United Kingdom Asset Leasing Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	2018 £000	2017 £000
Finance income calculated under the effective interest rate method		4,988	6,293
Gross income from operating leases		3,682	2,806
Gross income from finance leases		5,992	5,165
Income from sale of hardware		9,814	24,268
		24,476	38,532
Cost from sale of hardware		(8,515)	(23,601)
Finance costs		(3,427)	(2,283)
		(11,942)	(25,884)
Gross income	3	12,534	12,648
Administrative expenses		(1,514)	(5,797)
Other operating income		24	10
Impairment loss on financial assets		(955)	(518)
Profit before income tax	4	10,089	6,343
Income tax expense	7	(2,086)	(668)
Profit for the year and total comprehensive income		8,003	5,675

All operations are classified as continuing.

The notes on pages 14 to 47 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Statement of Financial Position

As at 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	8	21,454	19,550
Deferred tax assets	9	12,888	16,983
Finance lease and other receivables	10	190,139	152,244
Receivable from related parties	17	-	8,534
		224,481	197,311
Current assets			
Finance lease and other receivables	10	136,501	154,436
Receivables from related parties	17	-	11,291
Tax receivables		2,044	4,716
		138,545	170,443
Total assets		363,026	367,754
Current liabilities			
Payables to related parties	17	(275,156)	(280,715)
Trade and other payables	11	(3,750)	(10,922)
Total liabilities		(278,906)	(291,637)
Net assets		84,120	76,117
Issued capital and reserves			
Share capital	16	1,500	1,500
Retained earnings		82,620	74,617
Total equity		84,120	76,117

A cash flow statement has not been presented as the company does not enter into cash transactions, the basis of preparation paragraph includes further details.

The financial statements, on pages 11 to 47, were approved by the directors and authorised for issue on 19 July, 2019, and are signed on their behalf by:



E Cook
Director

Company registration number: 01197744

The notes on pages 14 to 47 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Statement of Changes in Equity

For the Year Ended 31 December 2018

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2017	1,500	68,942	70,442
Profit for the year and total comprehensive income	-	5,675	5,675
At 31 December 2017	1,500	74,617	76,117
Profit for the year and total comprehensive income	-	8,003	8,003
At 31 December 2018	1,500	82,620	84,120

The notes on pages 14 to 47 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies

Basis of preparation

IBM United Kingdom Asset Leasing Limited (the 'company') is a private company limited by shares and is incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, International Financial Reporting Standards Interpretations Committee interpretations and as applied in accordance with the provisions of the Companies Act 2006, as applicable to companies using IFRS.

The financial statements exclude a statement of cash flows. The company is not able to provide a statement of cash flows because it does not enter into cash flow transactions or have ownership of cash and cash equivalents. Funding and cash activities of the company are administered by the company's immediate parent, IBM United Kingdom Financial Services Limited. The immediate parent manages the collection of the company's receivables and settles the company's payables through the use of an intercompany account. The immediate parent obtains the funding required to finance the company through loans obtained from the IBM GF Treasury Centre, based in Ireland. Although the company does not have cash transactions, the financial statements reflect the company's intercompany payables with its immediate parent and disclose the company's credit risk and liquidity and interest rate risk on intercompany loans, as discussed in note 12.

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 as the immediate parent IBM United Kingdom Financial Services Limited has confirmed its continuing financial support to the company for the foreseeable future and accordingly the directors believe it is appropriate to prepare the financial statements on a going concern basis.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued) **New and amended standards adopted by the company**

The company has applied the following standards and amendments for the first time commencing 1 January 2018:

- IFRS 9 Financial Instruments (effective from 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018);
- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018);

IFRS 9 Financial instruments

On 1 January 2018, the company adopted IFRS 9 'Financial Instruments', which replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities and impairment of financial assets. The company has elected not to restate comparative figures.

The classification and measurement of financial assets is based on the company's business model and the contractual cash flow characteristics.

A new impairment model, an expected credit loss ("ECL") model, was introduced as part of IFRS 9. The ECL model is a change from the IAS 39 model, which was an incurred loss model, and is forward looking by incorporating probability weighted outcomes using all available relevant information including past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. Subsequent changes in expected credit losses will be recognised in profit or loss.

For liabilities, IFRS 9 retains most of the IAS 39 requirements. At 31 December 2018, the company's financial liabilities were carried at amortised cost ("AC").

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

New and amended standards adopted by the company

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9		Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification Mandatory	Remeasurement ECL	
Finance receivables						
Finance lease	L&R	AC	133,694	-	-	133,694
Customer loans	L&R	AC	172,962	-	-	172,962
Receivables from related parties	L&R	AC	19,825			19,825
Total finance receivables			326,481			326,481
Total financial assets			326,481			326,481

Finance receivables

Based on the business model assessment carried out by the company, it was established that all classes of finance receivables should be classified as "Hold to collect" as the company did not sell nor does it intend to sell any of the finance receivables. As a result, finance receivables were reclassified from the "L&R" measurement category under IAS 39 to the amortised cost ("AC") measurement category under IFRS 9 at the adoption date of the standard. The impact of IFRS 9 on expected credit losses (ECLs) for finance receivables was insignificant.

The reclassification of financial instruments on adoption of IFRS 9 did not result in any measurement changes and has no impact on the company's equity on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The company applied IFRS 15 for the first time in the 2018 financial statements with the date of initial application of 1 January 2018 by using the modified retrospective transition method.

Adoption of the new standard did not have any impact on the company.

New standards, interpretations and amendments not yet effective and not early adopted by the company

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the company has not early adopted.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

New and amended standards adopted by the company (continued)

IFRS 16 Leases

In January 2016, the IASB issued guidance which changes the accounting for leases. The guidance requires lessees to recognise right-of-use assets and lease liabilities for most leases in the Statement of Financial Position. The new standard uses a single model for lessee accounting, eliminating the distinction between operating and finance leases. The guidance makes some changes to lessor accounting to align with the new revenue recognition guidance. The guidance also requires qualitative and quantitative disclosures to enable the users of financial statements to assess the impact from leases on the company's financial position, financial performance and cash flows. The guidance was effective January 1, 2019 and early adoption was permitted. The company adopted the guidance on the effective date using the transition option whereby prior comparative periods will not be retrospectively presented in the financial statements. The company elected to apply the practical expedients not to reassess prior conclusions related to contracts containing leases, the use of a single discount rate to portfolios of leases with similar characteristics and impairments right-of-use assets with previously recognised onerous lease provisions.

The company made a policy election to not recognise right-of-use assets and lease liabilities for short-term leases for all asset classes and low value asset leases for certain mobile phone devices.

A cross-functional implementation team evaluated the lease portfolio and implemented system, process, control and policy changes. The company has gathered lease data in order to comply with the requirements in the guidance. As a result of changes to lessee accounting, the new standard does not have a material impact on the Statement of Financial Position as of the effective date.

From a lessor perspective, while the standard made revisions to the definition of a lease and changes to accounting for sublease and sale and leaseback transactions, the company does not anticipate any material impact to its financial results as a result of these changes.

The following new standards and their amendments have been endorsed by the European Union but they are not mandatory for the year ended 31 December 2018 and they have not been early adopted:

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019, endorsed on 23 October 2018);
- Amendments to IAS 19 Employee Benefits (effective from 1 January 2019, endorsed on 13 March 2019);
- Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective from 1 January 2019, endorsed on 14 March 2019);
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation (effective from 1 January 2019, endorsed on 22 March 2018);
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019, endorsed on 8 February 2019).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

New and amended standards adopted by the company (continued)

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

- Amendments to References to the Conceptual Framework in IFRS Standards (effective from 1 January 2020);
- Amendments to IFRS 3 Definition of a Business (effective from 1 January 2020);
- Amendments to IAS 1 and IAS 8 Definition of material (effective from 1 January 2020).

There are no other new standards, interpretations or amendments not yet effective or endorsed by the European Union which are expected to have a material impact on the future financial statements of the company.

Gross earnings

Gross earnings comprise the finance income from finance leases, operating leases, lease purchase contracts and customer loans over the contractual term, representing the difference between the gross investment at the inception of the contract and cost of the underlying asset to the company after taking account of any grants or volume related bonus receivable towards the purchase and any residual value or use of the asset.

Finance income attributable to finance leases, lease purchase contracts and loans is recognised on the accruals basis using the effective interest method. Operating lease income is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiations and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis.

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

Revenue from hardware sales is recognised when control has transferred to the customer which typically occurs when the hardware has been shipped to the customer, risk of loss has transferred to the customer and the company has a present right to payment for the hardware. In limited circumstances when a hardware sale includes customer acceptance provisions, revenue is recognised either when customer acceptance has been obtained, customer acceptance provisions have lapsed, or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognised. Otherwise, the revenue is deferred and recorded as deferred income in the statement of financial position.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company as lessor

Amounts due under finance leases are recorded as finance receivables at the amount of the company's net investment in the leases representing the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance lease income is allocated to accounting year so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

The recorded residual values of the company's lease assets are estimated at the inception of the lease to be the expected fair value of assets at the end of the lease term. The company periodically reassesses the realisable value of its lease residual values. Any anticipated increases in specific future residual values are not recognised before realisation through remarking efforts. Anticipated decreases in specific future residual values that are considered to be other than temporary are recognised immediately upon identification and are recorded as an adjustment to the residual value estimate. For finance leases, this reduction lowers the recorded net investment and is recognised as a loss charged to finance income in the year in which the estimate is changed, as well as an adjustment to unearned income to reduce future period finance income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet.

Leases embedded in the other agreements are separated if (a) fulfilment of arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance costs

Finance costs represent the interest charge payable on the related party loans attributable to the provision of finance leases and loans provided by the company to its customers in the ordinary course of its business.

Finance costs are recognised over the term of the related party loan agreement period.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant accounting period. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset, or where appropriate, a shorter period.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Administrative expenses

Administrative expenses are recognised in the statement of comprehensive income as incurred. Administrative expenses include selling expenses, foreign currency differences and other expenses incurred in connection with performing general and administrative activities.

Foreign currencies

The financial statements of the company are presented in British Pounds Sterling (£) which is the functional currency of the company.

Transactions in currencies other than the functional currency of the company are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary assets and liabilities that are denominated in foreign currencies are carried at fair value at the rates prevailing at the date when the fair value was determined.

Gains and losses arising on retranslation are included in the profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Taxation

Income tax expense or credit represents the current tax calculated on taxable profits or losses for the year, any adjustments in respect of prior periods and the deferred tax charge or credit for the year. Taxable profit or loss differs from profit or losses as reported in the statement of comprehensive income 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 asset or 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 or loss, 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 or loss nor the accounting profit or loss.

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 or substantively 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 statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Taxation (continued)

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.

Property, plant and equipment

Property, plant and equipment represent assets owned by the company which are leased to customers under operating leases.

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Its value as stated in the statement of financial position is its cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged on a straight line basis so as to write off the cost of the assets to their residual value over their useful lives. Useful lives of IT equipment are determined by the relevant lease periods which are no more than 7 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. The carrying value of assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in value is charged to the statement of comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised initially at fair value, plus or minus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Such assets and liabilities are subsequently measured at amortised cost or fair value, depending on the measurement classification. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed. Trade receivables are measured at their transaction price.

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. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), with immediate effect on profit or loss.

Categories of financial instruments

The company has the following categories of financial assets and liabilities: (i) Financial assets measured at amortised cost, and (ii) Financial liabilities at amortised cost.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Financial instruments (continued)

(i) Financial assets at amortised cost

Financial assets at amortised cost are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. 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. These assets are measured at amortised cost if the business model is to hold the assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest.

Financial assets at amortised cost include finance lease receivables and customer loans, recognised in the statement of financial position (Note 10).

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Impairment of financial assets measured at amortised cost

The company on a forward looking basis measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

For financial assets the company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments or repayments, if any ("Lifetime ECL"). Refer to note 12 for a description of how the company determines when a SICR has occurred. If the company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The company's definition of credit impaired assets and definition of default is explained in note 12. Note 12 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the company incorporates forward-looking information in the ECL models.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Financial instruments (continued)

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the company has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The company may write-off financial assets that are still subject to enforcement activity when the company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition

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.

(ii) 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 or on acquisition of financial and other non-current assets. Amounts are unsecured and usually settled on standard commercial trade terms. Financial liabilities recognised at amortised cost include trade and other payables and payables to related parties (notes 11, 17). Trade and other payables and payables to related parties are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Effective interest method

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1 Accounting policies (continued)

Financial instruments (continued)

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.

2 Significant accounting estimates and judgements

The application of accounting standards and policies requires the directors to make estimates and assumptions about future events that directly affect the company's reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the directors consider 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. The directors consider the following to be subject to significant accounting estimates and assumptions.

Significant judgements

Gross earnings recognition

Application of the various accounting principles related to the measurement and recognition of revenue requires the company to make judgements and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine appropriate accounting treatment.

Significant accounting estimates

Residual value

Residual value represents the estimated fair value of equipment under lease as at the end of the lease. Residual value estimates impact the determination of whether a lease is classified as operating or finance lease. The company estimates the future fair value of leased equipment by using historical models, analysing the current market for new and used equipment and obtaining forward-looking product information such as marketing plans and technological innovations. Residual value estimates are periodically reviewed and "other than temporary" declines in estimated future residual values are recognised upon identification. Anticipated increases in future residual values are not recognised until the equipment is remarketed. Factors that could cause actual results to materially differ from the estimates include significant changes in the used-equipment market brought on by unforeseen changes in technology innovations and any resulting changes in the useful lives of used equipment.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Significant accounting estimates and judgements (continued)

Deferred tax assets

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future crystallisation of the underlying temporary differences can be deducted. An assessment of future profits is prepared based on current market and economic conditions, and an estimate of future market and economic conditions as well as anticipation of future tax strategies within the UK tax group. Factors that could result in actual future profits being lower than estimated future profits relate to significant changes in the economy, or a significant change in the economic health of a particular client or industry segment that represents a concentration in the company's client base.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Gross income

Gross income is calculated as finance lease, lease purchase and customer loan rental income, less cost of capital, and less interest costs related to the parent company's long term loans.

	2018 £000	2017 £000
Finance income calculated under the effective interest rate method	4,988	6,293
	4,988	6,293
Income from finance leases and lease purchase agreements	167,055	146,469
Cost of Capital	(161,063)	(141,304)
	5,992	5,165
Operating lease rentals	12,565	11,140
Cost of capital	(8,883)	(8,334)
	3,682	2,806
Income from sale of hardware	9,814	24,268
Costs from sale of hardware	(8,515)	(23,601)
	1,299	667
Less: finance costs		
Loan interest expense	(3,427)	(2,283)
Gross income	12,534	12,648

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Gross income (continued)

All income arises on the provision of leasing information technology products to customers within the United Kingdom, with the exception of insignificant items which have not been disclosed separately.

The company operates predominantly in the finance industry within the United Kingdom.

The principal services of the company include leasing and rental of information processing equipment and associated products. The company's internal management reports do not distinguish between business segments because there are no other distinguishable components that are engaged in providing an individual product or service or a group of related products or services that are subject to risks and returns that are different from those of leasing and rental of information processing equipment. In addition no geographic segments are identified as there are no material operations outside of the United Kingdom.

Interest is charged to the company by its immediate parent company IBM United Kingdom Financial Services Limited. The interest is based upon the interest payable on long term loans held by IBM United Kingdom Financial Services Limited. This interest is apportioned to the group companies based upon the finance receivables held by those companies.

4 Profit before income tax

Profit before income tax is stated after charging/(crediting) the following:

	2018 £000	2017 £000
(Profit) / Loss on disposal of property, plant and equipment	(255)	1,817
Depreciation of property, plant and equipment (note 8)	8,826	7,842
Addition to impairment of receivables (note 10)	955	518
Net foreign currency differences	(60)	20
Auditors' remuneration - audit of the financial statements	43	43
Intercompany management charge payable	755	1,011

5 Employee expenses

The average number of employees, excluding directors, during the year was nil (2017: nil).

The operational and financial activities of the company were carried out by IBM United Kingdom Financial Services Limited. The amount re-charged to the company in respect of these activities is included within administrative expenses. As a consequence IBM United Kingdom Asset Leasing Limited does not operate a pension plan and does not include any pension disclosure in accordance with International Accounting Standard 19 'Employee Benefits'.

IBM United Kingdom Limited operates a number of pension plans, incorporating both defined benefit and contribution sections, for all employees of IBM in the United Kingdom. Details of the group's pension commitments are disclosed in the financial statements of IBM United Kingdom Limited.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

6 Directors' emoluments and key management personnel

The directors and key management personnel who served throughout the year received emoluments in respect of their services to IBM Global Financing UK Company and its subsidiaries, which includes IBM United Kingdom Asset Leasing Limited and its parent company, IBM United Kingdom Financial Services Limited.

It is not practicable to perform any allocation of these total emoluments between the respective companies as such amounts were earned in respect of the directors' services to the group of companies as a whole.

IBM United Kingdom Financial Services Limited discloses the emoluments received by the directors for their services as directors in respect of the management of IBM Global Financing UK Company and its subsidiaries, which includes IBM United Kingdom Asset Leasing Limited.

The directors' aggregate emoluments in respect of qualifying services were:

	2018 £000	2017 £000
Short term employee benefits	513	378
Post-employment benefits	43	19
Share-based payment	18	8

	2018 £000	2017 £000
Number of directors who received shares in respect of qualifying service under a long term incentive scheme	1	1
Number of directors who accrued benefits under defined benefit schemes	-	1
Number of directors who accrued benefits under defined contribution schemes	4	2

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2017: £nil). Termination benefits were £nil (2017: £nil).

Directors did not exercise share options during 2018 and 2017.

The remuneration of directors disclosed above includes the following in respect of the highest paid director:

	2018 £000	2017 £000
Short term employee benefits	260	105
Post-employment benefits	23	9
Share-based payment	18	-

The highest paid director has received shares in respect of qualifying services under a long term incentivescheme during 2018 (not received during 2017).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

6 Directors' emoluments and key management personnel (continued)

The highest paid director did not exercise share options during 2018 or 2017.

7 Income tax expense / (credit)

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

	2018 £000	2017 £000
Current tax:		
UK Corporation tax based on profit for the year at 19.00% (2017: 19.25%)	(2,044)	(4,716)
Adjustments relating to prior years	35	1
Total current tax	(2,009)	(4,715)
Deferred tax:		
Origination and reversal of timing differences	4,121	5,553
Adjustments relating to prior years	(26)	(170)
Total deferred tax (note 9)	4,095	5,383
Income tax expense	2,086	668

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

7 Income tax expense / (credit) (continued)

(b) Factors affecting tax charge

The tax assessed on the profit for the year is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

	2018 £000	2017 £000
Profit before income tax	10,089	6,343
Tax at the domestic income tax rate of 19.00% (2017: 19.25%)	1,917	1,221
Effects of:		
Adjustments relating to prior years	9	(169)
Adjustment to UK tax rates	160	(384)
Total income tax expense (note 7(a))	2,086	668

(c) Factors that may affect future tax charges

Finance Act 2016 included legislation to further reduce the rate from 19% to 17% with effect from 1 April 2020. The impact of these changes is reflected in any closing deferred tax balances.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

8 Property, plant and equipment

	IT Equipment £000
Cost	
At 1 January 2017	38,130
Additions	25,369
Disposals	(40,957)
At 31 December 2017	22,542
Additions	11,685
Disposals	(3,803)
At 31 December 2018	30,424
Accumulated depreciation	
At 1 January 2017	13,850
Charge for year	7,842
Disposals	(18,700)
At 31 December 2017	2,992
Charge for year	8,826
Disposals	(2,848)
At 31 December 2018	8,970
Net book value	
At 31 December 2018	21,454
At 31 December 2017	19,550

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

9 Deferred tax assets

Movement in the deferred tax asset

	Accelerated capital allowances £000	Short term temporary differences £000	Total £000
At 1 January 2017	22,362	4	22,366
Charged / (credited) to the statement of comprehensive income	(5,428)	45	(5,383)
At 31 December 2017	16,934	49	16,983
Charged to the statement of comprehensive income	(4,078)	(17)	(4,095)
At 31 December 2018	12,856	32	12,888

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Included in the deferred tax asset is £11,300,000 (2017: £13,600,000) that is expected to be recovered after more than 12 months.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

10 Finance lease and other receivables

	2018 £000	2017 £000
Non current		
Finance lease receivables	110,355	82,884
Customer loans	80,629	69,879
	190,984	152,763
Less: provision for impairment	(845)	(519)
	190,139	152,244
Current		
Finance lease receivables	63,291	51,176
Customer loans	70,302	103,802
	133,593	154,978
Less: provision for impairment	(1,146)	(566)
	132,447	154,412
Other receivables	4,054	24
	136,501	154,436

Finance lease receivables are for leases that relate principally to the company's equipment and the relevant lease periods are no more than seven years. Customer loan receivables are for loans provided by the company to clients to finance the purchase of IBM's and certain other suppliers software.

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 30 days. Unless specifically negotiated, interest is charged at 8% above base rate per annum, in line with the Late Payment of Commercial Debts (Interest) Act 1998, on the outstanding balance. The company has fully provided for all invoiced amounts aged over 365 days.

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-reviewed if required to be extended. The balances on leases for hardware are usually secured over the leased equipment and the fair value of the collateral held by the company is £119,591,000 (2017: £107,986,000) which is less than the carrying value of the finance lease receivable ("under-collateralised assets").

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

10 Finance lease and other receivables (continued)

As of 31 December 2018, finance lease and customer loan receivables of £3,222,000 (2017: £5,049,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2018 £000	2017 £000
Up to 3 months	2,382	4,797
3 to 6 months	765	197
Over 6 months	75	55
	3,222	5,049

Movement in provision for impairment

	2018 £000	2017 £000
Balance at beginning of the year	1,085	1,014
Impairment losses recognised on receivables	955	623
Amounts written off during the year	(49)	(447)
Unused amounts reversed	-	(105)
Balance at the end of the year	1,991	1,085

The creation and release of provision for impaired receivables has been included in profit before income tax in the statement of comprehensive income (note 4).

In determining the recoverability of the finance lease and customer loan receivables, the company considers any change in the credit quality of the receivables balance 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 well diversified. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment.

Included in the provision for impairment are specific finance lease and customer loan receivables with a balance of £347,000 (2017: £102,000) which are considered to be fully impaired. The terms of these leases are currently in the process of renegotiation with the lessees who are experiencing some financial difficulties. The impairment represents the difference between the carrying amount of the specific finance lease receivables and the present value of the expected future renegotiated lease receipts discounted using the original effective interest rate.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

10 Finance lease and other receivables (continued)

The ageing of these receivables is as follows:

	2018 £000	2017 £000
Up to 3 months	49	94
3 to 6 months	245	4
Over 6 months	53	4
	347	102

11 Trade and other payables

	2018 £000	2017 £000
Payable to trade suppliers	1,723	3,686
Other payables	2,027	7,236
	3,750	10,922

12 Financial instruments

Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management programme in place aligned to the worldwide programme 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 company's overall capital management strategy remains unchanged from the prior year. The capital structure of the company consists of debt to related parties disclosed in note 17, and equity attributable to equity holders of the parent, comprising issued capital, reserves 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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Categories of financial instruments

	2018 £000 Amortised cost
Financial assets	
Finance lease receivables	172,773
Customer loans	149,813
	322,586
Financial liabilities	
Payables to related parties	275,156
Payable to trade suppliers	1,723
	276,879

	2017 £000 Loans and receivables	2017 £000 Amortised cost
Financial assets		
Finance lease receivables	133,694	-
Receivables from related parties	19,825	-
Customer loans	172,962	-
	326,481	-
Financial liabilities		
Payables to related parties	-	280,715
Payable to trade suppliers	-	3,686
	-	284,401

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Financial risk management objectives

IBM's corporate treasury function provides funding and risk management services to the company's immediate parent which in turn funds the company. Funding is provided to the company's parent through a number of fixed rate long term loans. Risk management services are provided by the company's immediate parent through the monitoring and management of financial risks relating to the operations of the company using internal risk reports addressing foreign currency risk, fair value interest rate risk, price risk, credit risk and liquidity risk.

Price risk

The financial risk posed by external vendors is managed and controlled by IBM's central procurement function. Procurement is the only business unit in IBM which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for IBM in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide IBM guidelines.

Foreign currency risk

The company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. When loans and leases are supplied in a foreign currency, the company's immediate parent borrows from the GF Treasury Centre in the same foreign currency to fund the transaction, therefore hedging against foreign currency risk. The foreign currency risk is managed at an IGF group level in the UK.

Interest rate risk management

As mentioned in note 1, the company is funded internally by its immediate parent company, IBM United Kingdom Financial Services Limited, which is funded internally by the GF Treasury Centre. The GF Treasury Centre funds the immediate parent company through long term loans on which interest is recharged to the company. All of the intercompany loans are at fixed interest rates that are determined at the start of the borrowing period based on LIBOR. As such, the company is exposed to fixed interest rate risk.

Interest rate risk is managed at an IBM group level on a consolidated basis. The company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company does not collect cash from its counterparties as all cash is collected by its immediate parent company and settled with the company via intercompany receivable and payable accounts. However, the company retains the risk of loss on these receivables and as such recognises bad debt expense on uncollectible receivables. To manage this risk 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 appropriate 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.

The company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 22 % (2017: 15%) of gross monetary assets at any time during the year.

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 without taking account of the value of any collateral obtained.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an internal risk based approach (GRMG) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Corresponding internal ratings (GRMG)	Corresponding ratings of external international ratings agencies (Moody's)	Corresponding PD internal (12 months)
[1]	Aaa to Aa3	0,003%
[2-3]	A1 to Baa3	0,017% - 0,052%
[4-5]	Ba1 to B1	0,171% - 0,502%
[6]	B2 to B3	1,181%
[7]	Caa to D	5,546%-100%

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Intercompany receivables are from IBM Group counterparties that do not have assigned internal GRMG rating nor external. Moody's credit rating of the company's ultimate parent is A-1, investment grade.

The following types of assets are subject to impairment criteria for expected credit losses:

(i) Finance lease receivables and customer loans

(ii) Off balance sheet commitments which include future financing commitments and open lines of credit

(i) Finance lease receivables and customer loans

The following table represents the assumptions of credit risk rating grades for client financing receivables comprising finance lease receivable and customer loans:

Credit risk rating	Company definition	Bases for recognition of ECL provision	Gross carrying amount 2018 £'000
GRMG [1-3]	Customers that are investment grade and have a strong capacity to meet contractual cash flows	The company applies 3 stage approach to finance receivables. If the difference between Stage 1 12-month ECL and Stage 2 lifetime ECL is significant, a 12-month ECL is recorded, if immaterial a lifetime ECL is recorded Lifetime ECL recorded for finance receivables	182,632
GRMG [4-7]	Customer that are non-investment grade	The company applies 3 stage approach to finance receivables. If the difference between Stage 1 12-month ECL and Stage 2 lifetime ECL is significant, a 12-month ECL is recorded, if immaterial a lifetime ECL is recorded. Lifetime ECL recorded for finance receivables	141,946
Specific impairment	Uncollectible	Partially impaired or asset is written off	347

The following represents the analysis of credit risk exposure for client financing receivables and the expected credit loss recognised. The gross carrying amount also represents the maximum exposure to credit risk for finance receivables.

	31 December 2018	
	Customer loans £'000	Finance lease £'000
GRMG [1-3]	93,127	89,504
GRMG [4-7]	57,804	84,142
Specific impairment	(308)	(39)
Gross carrying amount	150,623	173,607
Loss allowance for credit losses	(810)	(834)
Carrying amount	149,813	172,773

IBM United Kingdom Asset Leasing Limited

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For the Year Ended 31 December 2018

12 Financial instruments (continued)

Client financing receivables

The following represents the movement in loss allowance for loan receivables:

	Lifetime ECL £'000	Impaired £'000	Total £'000
Loss allowance at 1 January 2018	719	77	796
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	91	231	322
Write-offs	-	-	-
Changes to model assumptions and other	-	-	-
Total balance of loss allowance	810	308	1,118

The following represents the movement in loss allowance for lease receivables:

	Lifetime ECL £'000	Impaired £'000	Total £'000
Loss allowance at 1 January 2018	366	25	391
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	468	63	531
Write-offs	-	(49)	(49)
Changes to model assumptions and other	-	-	-
Total balance of loss allowance	834	39	873

(ii) Off balance sheet commitments

The company extends lines of credit to its business partners to support their working capital needs. In addition, the company has committed to provide future financing to its customers in connection with customer purchase agreements. These off-balance sheet commitments are subject to expected credit losses under IFRS 9. At 31 December 2018, the lifetime expected losses related to off-balance sheet commitments were immaterial.

Liquidity risk management

The company's liquidity risk is limited due to the fact that all of the company's operations are funded internally by its immediate parent company, IBM United Kingdom Financial Services Limited, which is in-turn funded internally by the GF Treasury Centre. The immediate parent of the company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the GF Treasury Centre.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Liquidity and interest risk tables

The following table details the company's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities including both interest and principal cash flows. The contractual maturity is based on the earliest date on which the company may be required to pay.

	Weighted average effective interest rate %	Less than 1 year £000	1 - 5 years £000	+ 5 years £000	Total £000
2018					
Non-interest bearing:					
Trade and other payables	-	1,723	-	-	1,723
Interest bearing:					
Payable to related parties	0.95	275,156	-	-	275,156
2017					
Non-interest bearing:					
Trade and other payables	-	3,686	-	-	3,686
Interest bearing:					
Payable to related parties	0.79	280,715	-	-	280,715

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

The following table details the company's expected maturity of its non-derivative financial assets. The table below has been drawn up based upon rental payments over the lease term including the amount of any bargain purchase option, premium and any guaranteed residual value, excluding initial direct costs and unearned income in amount of £20,461,000 (2017: £16,216,000). The inclusion of information on financial assets is necessary in order to understand the company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate %	Less than 1 year £000	1 - 5 years £000	+ 5 years £000	Total £000
2018					
Interest bearing:					
Finance lease receivables	4.73	68,785	116,037	-	184,822
Customer loans	3.65	73,665	84,560	-	158,225
		142,450	200,597	-	343,047
2017					
Non-interest bearing					
Receivables from related parties	-	11,291	8,534	-	19,825
2017					
Interest bearing:					
Finance lease receivables	4.26	55,889	87,992	-	143,881
Customer loans	3.59	107,160	71,832	-	178,992
		163,049	159,824	-	322,873

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Financial instruments (continued)

Fair value of financial instruments

The fair values of financial assets and liabilities must be estimated for recognition and measurement disclosure purposes.

The directors have carried out a review of the fair values of the financial assets and liabilities. The directors consider that the carrying values of financial assets and financial liabilities in the financial statements, except as detailed in the following table, approximate their fair values.

	Carrying amount £000	Fair value £000
2018		
Financial assets		
Non-current		
Finance lease receivables	109,911	112,594
Customer loans	80,227	84,738
2017		
Financial assets		
Non-current		
Finance lease receivables	82,626	80,882
Customer loans	69,618	70,229

The fair value of the financial assets above is determined in accordance with level 2 fair value measurements with pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes or similar instruments.

The financial assets and liabilities are all held on the statement of financial position at amortised cost less any impairment.

For financial instruments that are subsequently measured at fair value, the fair value measurement is grouped into Levels 1 to 3 based on the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

13 Leases

As lessor

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.

Amounts receivable under finance leases:

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	2018	2017
	£000	£000	£000	£000
Not later than one year	67,694	53,812	61,772	48,991
Later than one year and not later than five years	109,516	83,613	103,390	78,247
	177,210	137,425	165,162	127,238
Less:				
Unearned finance income	(12,048)	(10,187)	-	-
	165,162	127,238	165,162	127,238
Provision for uncollectible minimum lease payments	(873)	(366)	(873)	(366)
	164,289	126,872	164,289	126,872

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest contracted is approximately 4.73% (2017: 4.26%) per annum.

Assets purchased by the company for supply to customers under finance leases totaled £106,632,000 in the year (2017: £69,155,000).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

14 Operating lease assets

As lessor

The company rents out plant and equipment under operating leases. Plant and equipment rental income earned during the year was £12,565,000 (2017: £11,140,000). Direct costs associated with managing and negotiating operating leases for a substantial proportion of the company's lease portfolio during the year are being expensed over the lease terms of the relevant assets. Plant and equipment under operating leases are expected to generate yields of 1.1% (2017: 3.1%) for the primary term rental period.

At the statement of financial position date, the company had contracted with lessees of the company for the following future minimum lease payments under non-cancellable operating leases:

	2018 £000	2017 £000
Less than one year	11,775	7,317
Later than one year but less than five years	7,922	10,457
	19,697	17,774

15 Residual value

The gross unguaranteed residual values of the leases which mature in the time frame shown below are as follows:

	2018 £000	2017 £000
Finance leases:		
Within 1 year	1,532	2,213
1 - 2 years	1,732	1,952
2 - 5 years	5,234	2,686
	8,498	6,851
	2018 £000	2017 £000
Operating leases:		
Within 1 year	415	1,385
1 - 2 years	3,183	1,293
2 - 5 years	1,172	3,129
	4,770	5,807

The provision for residual value exposures as at 31 December 2018 is £55,621 (2017: £51,076).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

16 Share capital

Allotted, called up and fully paid share capital

	2018 £000	2017 £000
1,500,000 (2017: 1,500,000) Ordinary shares of £1 each	1,500	1,500

The shares have full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

17 Related party transactions

Related parties include parent companies and entities under common control ('group undertakings') and key management personnel. There are no key management personnel other than the directors. Details of directors' emoluments can be found in note 6. The following transactions were carried out with related parties, and were made on commercial terms and conditions:

Class of related party	Transaction type	2018 £000	2017 £000
UK group undertakings	Sale of goods and services	100,700	124,133
	Purchase of goods and services	138,773	135,146
Immediate parent	Interest payable (note 3)	3,427	2,283
	Management charge payable (note 4)	755	1,011
	Loan payments to immediate parent undertaking	(3,703)	(10,259)

Details of the amounts payable to related parties are set out below:

Receivables from related parties

	2018 £000	2017 £000
UK group undertakings	-	19,825
	-	19,825

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

17 Related party transactions (continued)

Payables to related parties

	2018 £000	2017 £000
UK group undertakings	-	366
Immediate parent	275,156	280,349
	275,156	280,715

As the company does not have a bank account, the immediate parent entity enters into transactions on behalf of the company. The payable is settled when the parent collects the cash received from customers/settles the finance lease receivable.

The amounts outstanding are unsecured and are payable on demand. The amounts will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Interest is charged to the company by its immediate parent company. The interest is based upon the interest payable on long term loans of £595,660,000 (2017: £594,263,000) held by its immediate parent company. This interest is apportioned to the group companies based upon the intercompany balances held by those companies. The long term loans have fixed rates which are set at the start of the borrowing period. The average rate for the year was 0.95% (2017: 0.79%). The loans range in length from two to five years.

18 Ultimate parent company

The company's immediate parent undertaking is IBM United Kingdom Financial Services Limited, registered in England and Wales.

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 these consolidated financial statements may be obtained from IBM Corporate Headquarters, New Orchard Road, Armonk, New York 10504.

19 Post balance sheet events

There were no material events after the balance sheet date.