

Company Registration Number 01197744

IBM United Kingdom Asset Leasing Limited

Annual Report and Financial Statements

31 December 2019

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IBM United Kingdom Asset Leasing Limited

Financial Statements

For the Year Ended 31 December 2019

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IBM United Kingdom Asset Leasing Limited

Company Information

For the Year Ended 31 December 2019

Company registration number	01197744
The board of directors	E Robinson T Clements E Cook
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 SO14 3TJ

IBM United Kingdom Asset Leasing Limited

Strategic Report

For the Year Ended 31 December 2019

The directors present their strategic report of IBM United Kingdom Asset Leasing Limited ('the company') for the year ended 31 December 2019.

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 2019 (2018: very low).

The finance lease asset base decreased by 25% in 2019 comparing to 2018. Sales of IGF lease contracts to an outside investor resulted in a decrease of the net book value of IT equipment and an increase of income from sale of hardware. The decline of leasing hardware assets is line with IBM's strategic shift towards high value software and services content.

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 £5,671,000 (2018: £8,003,000) and net assets at 31 December 2019 were £21,791,000 (2018: £84,120,000).

Principal risks and uncertainties

The key business risks affecting the company are considered to relate to the economic environment and competition. Specifically, in the coming year the key business risks will be about the Covid 19 pandemic and the impact on the economic environment. The pandemic is a rapidly developing situation, which sees us entering uncharted territory, and has an indeterminable length and impact.

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 the company'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. The company 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 2019

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.

The company 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.

Following the general election in December 2019, the UK Parliament ratified the withdrawal agreement, and the UK left the European Union on 31 January 2020. A transition period then commenced and will end on 31 December 2020, since neither side requested an extension by the June 2020 deadline. During the transition period the UK and European Union will seek agreement on their future trading relationship. While the final outcome remains unclear, we believe that the best outcome for business is that the negotiations between the United Kingdom (UK) and European Union (EU) result in future arrangements which will not materially interrupt business. However, we have taken the prudent step of making contingency plans to deal with a scenario in which there is not a comprehensive agreement at the end of the transition period.

Key performance indicators

The company 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 the company 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.

Section 172 Statement

The directors have considered the matters set out in section 172(1) (a) to (f) when performing their duty in respect of the Companies Act. For details of how this is achieved refer to page 3-5 of IBM United Kingdom Financial Services Limited's annual report, with whom this company shares common directorship, management structure and stakeholders.

Signed on behalf of the board



E Robinson
Director

Date: 28th July 2020

IBM United Kingdom Asset Leasing Limited

Directors' Report

For the Year Ended 31 December 2019

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2019.

Future developments

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

Dividends

A dividend of £68,000,000 was paid during the year (2018: £ nil). Directors have not proposed any dividends based on 2019 results.

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. Further information is disclosed in Note 12. 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 immediate 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 2019

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 ultimate parent, IBM Corporation, 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:

E Cook

T Clements

J Stanton

resigned 24 February 2020

E Robinson

appointed 25 February 2020

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 2019

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 Robinson
Director

Date: 28th July 2020

IBM United Kingdom Asset Leasing Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 2019

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 2019

Report on the audit of the financial statement

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 2019 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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

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 2019

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 2019 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 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.

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.

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 2019

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
Date: 29 July 2020

IBM United Kingdom Asset Leasing Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 £000	2018 £000
Gross income from operating leases		2,905	3,682
Gross income from finance leases		4,857	5,992
Income from sale of hardware		22,905	9,814
Finance income calculated under the effective interest rate method		5,132	4,988
		35,799	24,476
Cost from sale of hardware		(22,532)	(8,515)
Finance costs		(3,239)	(3,427)
		(25,771)	(11,942)
Gross income	3	10,028	12,534
Administrative expenses		(3,270)	(1,514)
Other operating income		11	24
Other operating expense		(348)	-
Impairment gain/(loss) on financial assets		541	(955)
Profit before income tax	4	6,962	10,089
Income tax expense	7	(1,291)	(2,086)
Profit for the year and total comprehensive income		5,671	8,003

All operations are classified as continuing.

The notes on pages 14 to 43 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Statement of Financial Position

As at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	8	3,721	21,454
Deferred tax assets	9	10,574	12,888
Finance lease and other receivables	10	165,511	190,139
		179,806	224,481
Current assets			
Finance lease and other receivables	10	114,964	136,501
Tax receivables		1,023	2,044
		115,987	138,545
Total assets		295,793	363,026
Current liabilities			
Payables to related parties	17	(265,892)	(275,156)
Trade and other payables	11	(8,110)	(3,750)
Total liabilities		(274,002)	(278,906)
Net assets		21,791	84,120
Issued capital and reserves			
Share capital	16	1,500	1,500
Retained earnings		20,291	82,620
Total equity		21,791	84,120

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 43, were approved by the directors and authorised for issue on

26/07/2020, and are signed on their behalf by:



E Robinson
Director

Company registration number: 01197744

The notes on pages 14 to 43 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Statement of Changes in Equity

For the Year Ended 31 December 2019

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2018	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
Profit for the year and total comprehensive income	-	5,671	5,671
Dividends paid	-	(68,000)	(68,000)
At 31 December 2019	1,500	20,291	21,791

The notes on pages 14 to 43 form part of these financial statements.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

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 under the historic cost convention 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 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 directors remain focused on the company's liquidity, and expect to manage business operations whilst maintaining adequate liquidity for the foreseeable future. The directors have assessed the financial position of the company as stable and have a reasonable expectation, taking into consideration the estimation of the continued business impacts of Covid 19, that the company will continue to operate and maintain adequate liquidity for the foreseeable future. The company is funded internally by its parent, IBM United Kingdom Financial Services Limited. In addition, the company has obtained a letter of support from the ultimate parent company confirming that they would provide funding support if required. Based on the assessment, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

New and amended standards adopted by the company

The company has applied the following standards and amendments for the first time commencing 1 January 2019:

- IFRS 16 Leases

The new standard uses a single model for lessee accounting, eliminating the distinction between operating and finance leases. The standard also made some changes to lessor accounting and generally aligns with revenue recognition guidance under IFRS 15.

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term interests in Associates and Joint Ventures – Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015-2017 Cycle

These amendments include minor changes to the following standards:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes'
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

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

New standards and amendment to standards and interpretations not yet adopted by the company

The following new standards, interpretations and amendments which have not been applied in these financial statements, will or may have an effect on the company's future financial statements.

The amended standards, which have been endorsed by European Union, but they are not mandatory for the year ended 31 December 2019 and they have not been early adopted:

- Amendments to IAS 1 and IAS 8 on the definition of material
- Amendments to References to the Conceptual Framework in IFRS standards

The amended standards which have not yet been endorsed by the European Union:

- Amendments to IFRS 3 – definition of a business
- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform

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 accrual basis using the effective interest method, which reflects a constant periodic rate of return. 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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

Gross earnings (continued)

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.

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 remarketing 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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

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.

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 year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

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 balance sheet 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 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.

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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

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.

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.

(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).

Impairment of financial assets measured at amortised cost

The first stage of the evaluation requires an assessment of expected credit losses (ECL), which represent the possibility of default over the next 12 months. When a significant increase in credit risk has occurred, the financial asset is transferred to stage 2 and the ECL will be calculated using the possibility of default over the expected life of the financial instrument. When there is objective evidence that a financial asset is impaired, the financial asset will be transferred to stage 3 and lifetime ECL will be calculated.

The company measures ECL for the following categories of financial assets that are measured at amortised cost:

- Finance lease receivables and customer loans
- Future financing commitments

For lease receivables, the company applies the simplified approach permitted by IFRS 9.

For customer loan receivables, the company applies the three-stage approach to measure credit losses. When the financial asset is in stage 3 and there is objective evidence that customer loan receivables are impaired, the company calculates lifetime ECL by comparing the asset's carrying amount and the present

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

Financial instruments (continued)

value of the expected future cash flows. Any resulting impairment loss is recognised in the statement of comprehensive income. The carrying amount of the impaired receivable in stage 3 is reduced through the use of a specific allowance account.

When calculating an allowance for customer loan and lease receivables, the company considers its ability to mitigate a potential loss by repossessing leased equipment and by considering the current fair market value of any other collateral. The value of the equipment is the net realizable value. The allowance for credit losses for finance leases, and customer loans includes an assessment of the entire balance of the receivable, including amounts not yet due.

An allowance for impairment of loan and lease receivables are evaluated on an individual or collective basis. For individually evaluated receivables, the company determines the expected cash flow for the receivable and calculates an estimate of the potential loss and probability of loss. For those accounts in which the loss is probable, the company records a specific reserve which is based on current information available about customers 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. The company considers any receivable with an individually evaluated reserve as an impaired receivable. In addition, the company performs a collectively evaluated reserve that is determined by applying a reserve rate to its different portfolios, excluding accounts that have been specifically reserved. This reserve rate is based upon credit rating, probability of default, term, characteristics (lease/loan), loss history and current economic conditions.

Off balance sheet commitments

The company has the future financing commitments, that are subject to expected credit losses under IFRS9.

For future financing commitments, the company is committed to provide future financing to its customers in connection with customer purchase agreements for the first year of arrangement. The company applies 3 stages approach to measure ECL for these commitments.

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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

Financial instruments (continued)

(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 payables to trade suppliers and payables to related parties (notes 11, 17). Payables to trade suppliers 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.

2 Significant accounting estimates, assumptions 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.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

2 Significant accounting estimates, assumptions and judgements (continued)

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.

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.

The significant accounting estimates and judgements have not changed comparing to previous year.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

3 Gross income

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

	2019 £000	2018 £000
Finance income calculated under the effective interest rate method	5,132	4,988
	5,132	4,988
 Income from finance leases and lease purchase agreements	 124,193	 167,055
Cost of Capital	(119,336)	(161,063)
	4,857	5,992
 Operating lease rentals	 9,630	 12,565
Cost of capital	(6,725)	(8,883)
	2,905	3,682
 Income from sale of hardware	 22,905	 9,814
Costs from sale of hardware	(22,532)	(8,515)
	373	1,299
 Less: finance costs		
Loan interest expense	(3,239)	(3,427)
 Gross income	 10,028	 12,534

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

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:

	2019 £000	2018 £000
Loss/(profit) on disposal of property, plant and equipment	1,389	(255)
Depreciation of property, plant and equipment (note 8)	6,748	8,826
(Release)/addition to impairment of receivables (note 12)	(541)	955
Loss / (gain) on foreign currency differences	816	(60)
Auditors' remuneration - audit of the financial statements	43	43
Intercompany management charge payable	819	755

Auditors remuneration is in respect of audit of these accounts and no other non-audit related services have been performed.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

5 Employee expenses

The average number of employees, excluding directors, during the year was nil (2018: 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 the company 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.

6 Directors' emoluments

The directors 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.

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

	2019 £000	2018 £000
Short term employee benefits	500	513
Post-employment benefits	41	43
Share-based payment	54	18

	2019 £000	2018 £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	-	-
Number of directors who accrued benefits under defined contribution schemes	3	4

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2018: £nil). Termination benefits were £nil (2018: £nil).

Directors did not exercise share options during 2019 and 2018.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

6 Directors' emoluments (continued)

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

	2019 £000	2018 £000
Short term employee benefits	236	260
Post-employment benefits	25	23
Share-based payment	54	18

The highest paid director has received shares in respect of qualifying services under a long term incentivescheme during 2019 (received during 2018).

The highest paid director did not exercise share options during 2019 or 2018.

7 Income tax expense

(a) Analysis of expense in the year

	2019 £000	2018 £000
Current tax:		
UK Corporation tax based on profit for the year at 19.00% (2018: 19.00%)	(1,023)	(2,044)
Adjustments relating to prior years	-	35
Total current tax	(1,023)	(2,009)
Deferred tax:		
Origination and reversal of timing differences	2,314	4,121
Adjustments relating to prior years	-	(26)
Total deferred tax (note 9)	2,314	4,095
Income tax expense	1,291	2,086

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

7 Income tax expense (continued)

(b) Factors affecting tax charge

The tax assessed on the profit for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

	- 2019 £000	2018 £000
Profit before income tax	6,962	10,089
Tax at the domestic income tax rate of 19.00% (2018: 19.00%)	1,323	1,917
Effects of:		
Adjustments relating to prior years	-	9
Non taxable income / expenses not deductible for tax purposes	(171)	-
Adjustment to UK tax rates	139	160
Total income tax expense (note 7(a))	1,291	2,086

(c) Factors that may affect future tax charges

The 2020 Finance Bill removes the reduction of the main rate of corporation tax to 17% which was due to come into effect from 1 April 2020 (as enacted by Finance Act 2016). The tax rate will therefore remain at 19%. As this change was not substantively enacted at the balance sheet date, it is not reflected in any closing deferred tax balances. The impact of the proposed tax rate change is expected to be a £1,200,000 increase to the deferred tax asset

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

8 Property, plant and equipment

	IT Equipment
	£000
Cost	
At 1 January 2018	22,542
Additions	11,685
Disposals	(3,803)
At 31 December 2018	30,424
Additions	684
Disposals	(21,445)
At 31 December 2019	9,663
Accumulated depreciation	
At 1 January 2018	2,992
Charge for year	8,826
Disposals	(2,848)
At 31 December 2018	8,970
Charge for year	6,748
Disposals	(9,776)
At 31 December 2019	5,942
Net book value	
At 31 December 2019	3,721
At 31 December 2018	21,454

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

9 Deferred tax assets

Movement in the deferred tax asset

	Accelerated capital allowances £000	Short term temporary differences £000	Total £000
At 1 January 2018	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
Charged to the statement of comprehensive income	(2,286)	(28)	(2,314)
At 31 December 2019	10,570	4	10,574

Included in the deferred tax asset is £9,500,000 (2018: £11,300,000) 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 2019

10 Finance lease and other receivables

	2019	2018
	£000	£000
Non current		
Finance lease receivables	79,470	110,355
Customer loans	86,555	80,629
	166,025	190,984
Less: provision for impairment	(514)	(845)
	165,511	190,139
Current		
Finance lease receivables	50,822	63,291
Customer loans	65,061	70,302
	115,883	133,593
Less: provision for impairment	(922)	(1,146)
	114,961	132,447
Other receivables	3	4,054
	114,964	136,501

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 reassessed 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 £68,503,000 (2018: £119,591,000) 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 2019

10 Finance lease and other receivables (continued)

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 of finance lease and other receivables.

Included in the provision for impairment are specific finance lease and customer loan receivables with a balance of £564,000 (2018: £347,000) 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.

11 Trade and other payables

	2019	2018
	£000	£000
Payables to trade suppliers	4,566	1,723
Other payables	3,544	2,027
	8,110	3,750

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 and retained earnings as disclosed in the statement of changes in equity. As at 31 December 2019 the company is not subject to any externally imposed capital requirements (2018: nil).

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

12 Financial instruments (continued)

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

	2019 £000 Amortised cost
Financial assets	
Finance lease receivables	129,784
Customer loans	150,688
	280,472
Financial liabilities	
Payables to related parties	265,892
Payables to trade suppliers	4,566
	270,458
	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
Payables to trade suppliers	1,723
	276,879

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

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 2019

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 % (2018: 22%) 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.

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 company considers the probability of default upon the initial recognition of the receivable and whether there has been a significant increase in credit risk at each reporting period. The company does not consider 30 days past due as an indicator for a significant increase in credit risk. The company uses credit quality indicators which are based on rating agency data, publicly available information and information provided by customers and are reviewed periodically based on the relative level of risk. The resulting indicators are used to determine if there is a significant increase in credit risk and include a numerical rating system that maps to Moody's Investor Service credit ratings. The company uses information provided by Moody's, where available, as one of many inputs in its determination of customer credit ratings.

The company does not consider a past due status of 90 days as a sole indicator of default. The company performs a monthly assessment of the financing receivables portfolio based on a number of factors including but not limited to exposure, credit risk, economic stability, disputes and past due status. Based on this review, the company determines when a customer is in default.

A write-off represents a receivable that is deemed uncollectible to the extent that the customer is no longer in operation and/or there is no reasonable expectation of additional collections or repossession. The company's assessments factor in the history of collections and write-offs across the financing receivables portfolios.

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

12 Financial instruments (continued)

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 2019 £'000	Gross carrying amount 2018 £'000
Aaa-Baa3	Customers that are investment grade and have a strong capacity to meet contractual cash flows	The company applies 3 stage approach to loan 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 lease receivables and customer loans	191,807	182,631
Ba1-D	Customers that are non-investment grade	The company applies 3 stage approach to loan 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 lease receivables and customer loans	90,101	141,946
Specific impairment	Uncollectible	Partially impaired or asset is written off	565	347

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

	Finance lease		Customer loans	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Aaa-Baa3	91,161	89,504	100,646	93,127
Ba1-D	39,131	84,142	50,970	57,804
Specific impairment	(106)	(39)	(459)	(308)
Gross carrying amount	130,186	173,607	151,157	150,623
Loss allowance for credit losses	(402)	(834)	(469)	(810)
Carrying amount	129,784	172,773	150,688	149,813

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

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
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	-	-	-
At 31 December 2018	810	308	1,118
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	(341)	151	(190)
Write-offs	-	-	-
Changes to model assumptions and other	-	-	-
At 31 December 2019	469	459	928

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

	Lifetime ECL £'000	Impaired £'000	Total £'000
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	-	-	-
At 31 December 2018	834	39	873
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	(432)	81	(351)
Write-offs	-	(14)	(14)
Changes to model assumptions and other	-	-	-
At 31 December 2019	402	106	508

IBM United Kingdom Asset Leasing Limited

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For the Year Ended 31 December 2019

12 Financial instruments (continued)

(ii) Off balance sheet commitments

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 2019, the lifetime expected losses related to off-balance sheet commitments were £ 348,000 (2018: 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.

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
2019					
Non-interest bearing:					
Payables to trade suppliers	-	4,566	-	-	4,566
Interest bearing:					
Payables to related parties	1.31	267,936	-	-	267,936
2018					
Non-interest bearing:					
Payables to trade suppliers	-	1,723	-	-	1,723
Interest bearing:					
Payables to related parties	0.95	275,156	-	-	275,156

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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 £16,527,000 (2018: £20,461,000). 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
2019					
Interest bearing:					
Finance lease receivables	4.19	54,948	83,149	-	138,097
Customer loans	4.00	68,629	90,274	-	158,903
		123,577	173,423	-	297,000
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

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Notes to the Financial Statements

For the Year Ended 31 December 2019

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
2019		
Financial assets		
Non-current		
Finance lease receivables	79,225	79,850
Customer loans	86,286	87,341
2018		
Financial assets		
Non-current		
Finance lease receivables	109,911	112,594
Customer loans	80,227	84,738

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).

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Notes to the Financial Statements

For the Year Ended 31 December 2019

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.

The following table presents a maturity analysis of the lease payments due to the company on finance leases over the next five years and thereafter, as well as a reconciliation of the undiscounted cash flows to the financing receivables recognised in the Statement of Financial Position as at the reporting date.

Amounts receivable under finance leases:

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	2019	2018
	£000	£000	£000	£000
Not later than one year	53,625	67,694	49,237	61,772
Later than one year and not later than five years	75,019	109,516	71,094	103,390
	128,644	177,210	120,331	165,162
Less:				
Unearned finance income	(8,313)	(12,048)	-	-
	120,331	165,162	120,331	165,162
Provision for uncollectible minimum lease payments	(508)	(873)	(508)	(873)
Unguaranteed residual value	9,961	8,484	-	-
	129,784	172,773	119,823	164,289

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 4.19% (2018: 4.73%) per annum.

Assets purchased by the company for supply to customers under finance leases totaled £40,260,000 in the year (2018: £106,632,000).

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Notes to the Financial Statements

For the Year Ended 31 December 2019

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 £9,630,000 (2018: £12,565,000). 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 1.8% (2018: 1.1%) 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 undiscounted future minimum lease payments under non-cancellable operating leases:

	2019 £000	2018 £000
Less than one year	2,669	11,775
Later than one year but less than five years	122	7,922
	2,791	19,697

15 Residual value

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

	2019 £000	2018 £000
Finance leases:		
Within 1 year	1,586	1,532
1 - 2 years	1,641	1,732
2 - 5 years	6,735	5,234
	9,962	8,498
	2019 £000	2018 £000
Operating leases:		
Within 1 year	1,471	415
1 - 2 years	107	3,183
2 - 5 years	2	1,172
	1,580	4,770

The provision for residual value exposures as at 31 December 2019 is £ nil (2018: £55,621).

IBM United Kingdom Asset Leasing Limited

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For the Year Ended 31 December 2019

16 Share capital

Allotted, called up and fully paid share capital

	2019 £000	2018 £000
1,500,000 (2018: 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	2019 £000	2018 £000
UK group undertakings	Sale of goods and services	64,415	100,700
	Purchase of goods and services	49,792	138,773
Immediate parent	Interest payable (note 3)	3,239	3,427
	Management charge payable (note 4)	819	755
	Dividends paid	68,000	-
	Decrease/(increase) in loan from immediate parent undertaking	9,264	(3,703)

Payables to related parties

	2019 £000	2018 £000
Immediate parent	265,892	275,156

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

IBM United Kingdom Asset Leasing Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

17 Related party transactions (continued)

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 £493,567,000 (2018: £595,660,000) 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 1.31% (2018: 0.95%). 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

Late in 2019, news first emerged from China about the Covid 19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally.

The health and well-being of our employees - and that of our clients and partners - is very important to the company. This is why our IBM Crisis Management Team, with Corporate Health & Safety, are actively monitoring the Covid 19 disease outbreak and its implications. In March 2020 we closed most of our offices and encouraged employees to work from home. Our operations remain fully active and are operating smoothly in the current environment.

The company is working to support the many companies in the United Kingdom that have been forced to make extraordinary changes to the way they conduct their daily business. We have seen IBMers working around the clock to keep the mission-critical systems of our clients running. Furthermore, with this crisis the importance of hybrid cloud and AI remains a top priority and businesses are continuing to transform their operating models.

The company is unable to accurately assess the full impact of Covid 19 on its future financial position and the results of operations. Management will continue to monitor Covid 19 and will act responsibly to avoid unexpected implications for the company. Management has reassessed the outlook, including various scenario analyses, and determined that the company's cash balances, the expected net cash flow from operations and access to funds available within the wider IBM group, will be sufficient to meet its liquidity needs for a period of at least 12 months from the date of approval of these financial statements.

There have been no other significant events affecting the company since the year end.