

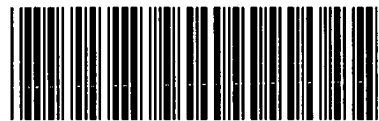
Company Registration Number 01197744

# **IBM United Kingdom Asset Leasing Limited**

## **Annual Report and Financial Statements**

**31 December 2021**

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# **IBM United Kingdom Asset Leasing Limited**

## **Financial Statements**

**For the Year Ended 31 December 2021**

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# **IBM United Kingdom Asset Leasing Limited**

## **Company Information**

**For the Year Ended 31 December 2021**

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<b>Company registration number</b>	01197744
<b>The board of directors</b>	E Robinson E Cook
<b>Company secretary</b>	H Reeve
<b>Registered office</b>	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
<b>Independent auditors</b>	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 2021

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The directors present their strategic report of IBM United Kingdom Asset Leasing Limited ('the company') for the year ended 31 December 2021.

### 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 ('IBM Corporation').

The finance lease asset base decreased by 61% in 2021 compared to 2020 (by 39% in 2020 compared to 2019) and the customer loans asset base decreased by 37% (2020: increased by 9%). The company sold a portion of finance lease and customer loans receivables to a third party. The transfers of these receivables were qualified as true sales and therefore reduced finance lease and other receivables balances. The sale of receivables lowered the company's debt needs. Net assets at 31 December 2021 were £40,759,000 (2020: £27,546,000).

The level of debt write off has remained very low during the year 2021.

The company's profit for the year was £13,213,000 (2020: £5,755,000). The increase in profit is primarily due to a decrease in administrative expenses and increase in other operating income from the sale of receivables.

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-sized organisations. The economic environment continues to demand greater productivity and management of scarce resources, which in turn generates continued demand for IT investments. Across industries, clients see technology as a major source of competitive advantage and are eager to automate as many business tasks as possible. There is tremendous opportunity for IBM to help its clients leverage the power of hybrid cloud and AI.

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

### Principal risks and uncertainties

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 IT systems 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 ongoing conflict between Russia and Ukraine did not have an impact on the level of provision for bad debts. 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 2021

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### 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.

### 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 IBM 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: 21/07/2022



# IBM United Kingdom Asset Leasing Limited

## Directors' Report

For the Year Ended 31 December 2021

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The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2021.

### Future developments

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

### Dividends

No dividend was paid during the year (2020: £nil). Directors have not proposed any dividends during the year.

### 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, IBM 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 International Treasury Services Unlimited Company in Ireland. ('Treasury Centre'). The parent company can take funding from the Treasury Centre to enable it to meet any liquidity shortfall as the Treasury Centre is ultimately funded by IBM 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 Treasury Centre. The financial risk posed by the interest rate on borrowings from the 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 2021

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### *Foreign currency risk*

The IBM Financing 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 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 a result of the company's net current liability position, the company has obtained a letter of confirmation from immediate parent company confirming that they will not enforce the repayment of the current intercompany payable balance within 12 months from the signing date of the financial statement. Based on the assessment, the directors believe that it remains 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. IBM 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 Robinson

E Cook

T Clements

resigned Thursday, February 24, 2022

### **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**

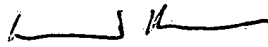
**For the Year Ended 31 December 2021**

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### **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: 21/07/2022



# **IBM United Kingdom Asset Leasing Limited**

## **Statement of Directors' Responsibilities in respect of the financial statements**

**For the Year Ended 31 December 2021**

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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 UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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 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 also 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 2021**

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## **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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021; the statement of comprehensive income and 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**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **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.



# **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 2021**

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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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.



# **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 2021**

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Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Bribery Act 2010, the General Data Protection Regulation and corporate tax compliance, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential for management manipulation to overstate profit and total assets. Audit procedures performed by the engagement team included:

- To address the risk of non-compliance with laws and regulations we have i) discussed with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud; and ii) reviewed the disclosures in the financial statements against the specific legal requirements, for example within the Directors' Report.
- To address the risk of management incentive for fraud and override of controls we have i) challenged significant accounting assumptions and judgements individually and collectively for indications of management bias, ii) designed risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and tested those journals identified (if any); and iii) incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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](http://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 2021

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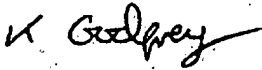
### Other required reporting

#### Companies Act 2006 exception reporting

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

- we have not obtained 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.



Kevin Godfrey (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton

Date: 21 July 2022



# IBM United Kingdom Asset Leasing Limited

## Statement of Comprehensive Income

For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Gross income from operating leases		2,589	1,754
Gross income from finance leases		2,136	4,348
Income from sale of hardware		6,786	3,540
Finance income calculated under the effective interest rate method		4,256	5,664
		<b>15,767</b>	<b>15,306</b>
Cost from sale of hardware		(5,438)	(3,036)
Finance costs		(1,142)	(2,512)
		<b>(6,580)</b>	<b>(5,548)</b>
<b>Gross income</b>	3	<b>9,187</b>	<b>9,758</b>
Administrative expenses		(1,813)	(3,215)
Other operating income		1,242	300
Other operating expense		-	(546)
Impairment reversal / (loss) on financial assets	12	792	(700)
<b>Profit before income tax</b>	4	<b>9,408</b>	<b>5,597</b>
Income tax credit	7	3,805	158
<b>Profit for the year and total comprehensive income</b>		<b>13,213</b>	<b>5,755</b>

All operations are classified as continuing.

The notes on pages 15 to 43 form part of these financial statements.



# IBM United Kingdom Asset Leasing Limited

## Statement of Financial Position

As at 31 December 2021

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	2,966	3,411
Deferred tax assets	9	14,731	8,866
Finance lease and other receivables	10	66,119	125,122
		<b>83,816</b>	<b>137,399</b>
<b>Current assets</b>			
Finance lease and other receivables	10	68,855	118,769
Tax receivables		3,116	1,866
		<b>71,971</b>	<b>120,635</b>
<b>Total assets</b>		<b>155,787</b>	<b>258,034</b>
<b>Non-current liabilities</b>			
<b>Current liabilities</b>			
Payables to related parties	17	(108,360)	(212,666)
Trade and other payables	11	(6,668)	(17,822)
<b>Total liabilities</b>		<b>(115,028)</b>	<b>(230,488)</b>
<b>Net assets</b>		<b>40,759</b>	<b>27,546</b>
<b>Issued capital and reserves</b>			
Share capital	16	1,500	1,500
Retained earnings		39,259	26,046
<b>Total equity</b>		<b>40,759</b>	<b>27,546</b>

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 12 to 43, were approved by the directors and authorised for issue on ~~21/03/2022~~ and are signed on their behalf by:



E Robinson  
Director

Company registration number: 01197744

The notes on pages 15 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 2021

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2020	1,500	20,291	21,791
Profit for the year and total comprehensive income	-	5,755	5,755
At 31 December 2020	1,500	26,046	27,546
Profit for the year and total comprehensive income	-	13,213	13,213
At 31 December 2021	1,500	39,259	40,759

The notes on pages 15 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 2021

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### 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 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 UK-adopted international accounting standards 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, 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. 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 issued and adopted by the company

The company has applied the following amendments for the first-time commencing 1 January 2021. The relevant amended standards listed below did not have a material impact on the company:

- Covid-19-Related Rent Concessions – Amendments to IFRS 16 - early adopted by the company;
- Interest Rate Benchmark (IBOR) Reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

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### 1 Accounting policies (continued)

#### **New standards and amendment to standards and interpretations issued but not yet effective and not early adopted by the company**

Certain new accounting standards and amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 accounting periods and have not been early adopted by the company. The following new amendments which have not been applied in these financial statements, will or may have an effect on the company's future financial statements.

- Proceeds before intended use, Onerous contracts - cost of fulfilling a contract, Reference to the Conceptual Framework - narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41;
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1.

#### **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.

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 2021

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### 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 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.

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.

#### Administrative expenses

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



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

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### 1 Accounting policies (continued)

#### 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.

#### 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.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

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### 1 Accounting policies (continued)

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 range from 2.5 to 5 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.

#### *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.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

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### 1 Accounting policies (continued)

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

- Finance lease receivables and customer loans
- Off balance sheet commitments

For lease receivables, the company applies the simplified approach permitted by IFRS 9, under which the company elected to record lifetime expected losses, eliminating the requirement of a three-stage approach.

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 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, current market-implied credit analysis, as well as collateral net of repossession cost, prior collection history and current and future expected economic conditions. 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 - 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 2021

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### 1 Accounting policies (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 preparation of financial statements in conformity with UK-adopted international accounting standards requires management to make estimates and assumptions that affect amounts that are reported in the financial statements and accompanying disclosures. Judgments and estimates are made for the following, among others: gross earnings, deferred tax. These estimates are based on management's best knowledge of current events, historical experience, actions that the company may undertake in the future and on various other assumptions that are believed to be reasonable.

#### *Gross earnings recognition*

Application of the various accounting principles related to the measurement and recognition of revenue requires the company to make judgements. 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 2021

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### 2 Significant accounting estimates, assumptions 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 2021

### 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.

	2021 £000	2020 £000
Operating lease rentals	4,014	4,175
Cost of capital	(1,425)	(2,421)
	2,589	1,754
Income from finance leases and lease purchase agreements	119,381	128,679
Cost of Capital	(117,245)	(124,331)
	2,136	4,348
Income from sale of hardware	6,786	3,540
Costs from sale of hardware	(5,438)	(3,036)
	1,348	504
Finance income calculated under the effective interest rate method	4,256	5,664
	4,256	5,664
<b>Less finance costs</b>		
Loan interest expense	(1,142)	(2,512)
<b>Gross income</b>	<b>9,187</b>	<b>9,758</b>



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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 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:

	2021	2020
	£000	£000
Loss on disposal of property, plant and equipment	980	779
Depreciation of property, plant and equipment (note 8)	1,367	2,304
(Release) / additions to impairment of receivables (note 12)	(792)	700
Gain on foreign currency differences	(268)	(432)
Intercompany management charge payable	555	679

The auditors' remuneration in respect of the audit of the company's financial statements of £43,000 (2020: £43,000) was borne by a fellow subsidiary undertaking, IBM United Kingdom Limited, and is excluded from the results of the company. 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 2021

### 5 Employee expenses

The average number of employees, excluding directors, during the year was nil (2020: 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:

	2021 £000	2020 £000
Short term employee benefits	376	576
Post-employment benefits	52	42
Share-based payment	33	29

	2021 No.	2020 No.
Number of directors who received shares in respect of qualifying service under a long term incentive scheme	1	2
Number of directors who accrued benefits under defined contribution schemes	2	4

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2020: £nil). Termination benefits were £nil (2020: £nil).

Directors did not exercise share options during 2021 and 2020.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 6 Directors' emoluments (continued)

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

	2021 £000	2020 £000
Short term employee benefits	272	258
Post-employment benefits	30	20
Share-based payment	33	16

The highest paid director has received shares in respect of qualifying services under a long term incentive scheme during 2021 (received during 2020). The highest paid director accrued benefits under defined contribution schemes during 2021 and 2020.

The highest paid director did not exercise share options during 2021 or 2020.

### 7 Income tax credit

#### (a) Analysis of credit in the year

	2021 £000	2020 £000
<b>Current tax:</b>		
UK Corporation tax based on profit for the year at 19.00% (2020: 19.00%)	(3,116)	(1,866)
Adjustments relating to prior years	5,176	-
<b>Total current tax</b>	<b>2,060</b>	<b>(1,866)</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	2,134	1,708
Adjustments relating to prior years	(7,999)	-
<b>Total deferred tax (note 9)</b>	<b>(5,865)</b>	<b>1,708</b>
<b>Income tax credit</b>	<b>(3,805)</b>	<b>(158)</b>



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 7 Income tax credit (continued)

#### (b) Factors affecting tax credit charge

The tax assessed on the profit for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%).

	2021 £000	2020 £000
Profit before income tax	9,408	5,597
Tax at the domestic income tax rate of 19.00% (2020: 19.00%)	1,787	1,063
Effects of:		
Adjustments relating to prior years	(2,823)	-
Adjustment to UK tax rates	(2,769)	(1,221)
<b>Total income tax credit (note 7(a))</b>	<b>(3,805)</b>	<b>(158)</b>

#### (c) Factors that may affect future tax charges

The Finance Act 2021 included legislation to increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The impact of this change has been reflected in any closing deferred tax balances.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 8 Property, plant and equipment

	IT Equipment £000
<b>Cost</b>	
At 1 January 2020	9,663
Additions	2,478
Disposals	(7,883)
At 31 December 2020	4,258
<b>Additions</b>	<b>2,306</b>
<b>Disposals</b>	<b>(3,355)</b>
<b>At 31 December 2021</b>	<b>3,209</b>
<b>Accumulated depreciation</b>	
At 1 January 2020	5,942
Charge for year	2,304
Disposals	(7,399)
At 31 December 2020	847
<b>Charge for year</b>	<b>1,367</b>
<b>Disposals</b>	<b>(1,971)</b>
<b>At 31 December 2021</b>	<b>243</b>
<b>Net book value</b>	
<b>At 31 December 2021</b>	<b>2,966</b>
At 31 December 2020	3,411



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 9 Deferred tax assets

*Movement in the deferred tax asset*

	Accelerated capital allowances £000	Short term temporary differences £000	Total £000
At 1 January 2020	10,570	4	10,574
(Charged) / credited to the statement of comprehensive income	(1,710)	2	(1,708)
<b>At 31 December 2020</b>	<b>8,860</b>	<b>6</b>	<b>8,866</b>
Credited / (charged) to the statement of comprehensive income	<b>5,868</b>	<b>(3)</b>	<b>5,865</b>
<b>At 31 December 2021</b>	<b>14,728</b>	<b>3</b>	<b>14,731</b>

Included in the deferred tax asset is £12,400,000 (2020: £7,900,000) 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 2021

### 10 Finance lease and other receivables

	2021 £000	2020 £000
<b>Non current</b>		
Finance lease receivables	17,442	41,850
Customer loans	49,076	84,156
	66,518	126,006
Less: provision for impairment	(399)	(884)
	66,119	125,122
<b>Current</b>		
Finance lease receivables	14,678	38,169
Customer loans	54,725	81,797
	69,403	119,966
Less: provision for impairment	(943)	(1,243)
	68,460	118,723
Other receivables	395	46
	68,855	118,769

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 0 to 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 £33,666,000 (2020: £39,002,000) which is more than the carrying value of the finance lease receivable - 'over-collateralised assets'.



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 10 Finance lease and other receivables (continued)

The creation and release of provision for impaired receivables has been included in profit before income tax (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 well diversified.

Included in the provision for impairment are specific finance lease and customer loan receivables with a balance of £479,000 (2020: £763,000) which are considered to be fully impaired. The impairment represents the difference between the carrying amount of the specific finance receivables and the present value of the expected future renegotiated lease or loan receipts discounted using the original effective interest rate.

### 11 Trade and other payables

	2021	2020
	£000	£000
Payables to trade suppliers	4,209	4,238
Other payables	2,459	13,584
	6,668	17,822

### 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, IBM 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 2021 the company is not subject to any externally imposed capital requirements (2020: nil).



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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*

	2021 £000 Amortised cost
<b>Financial assets</b>	
Finance lease receivables	31,495
Customer loans	103,084
	<b>134,579</b>
<b>Financial liabilities</b>	
Payables to related parties	108,360
Payables to trade suppliers	4,209
	<b>112,569</b>

	2020 £000 Amortised cost
<b>Financial assets</b>	
Finance lease receivables	79,432
Customer loans	164,413
	<b>243,845</b>
<b>Financial liabilities</b>	
Payables to related parties	212,666
Payables to trade suppliers	4,238
	<b>216,904</b>



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

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### 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, price risk, fair value interest rate risk, credit risk and liquidity risk.

#### *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 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 IBM Financing group level in the UK.

#### *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.

#### *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 Treasury Centre. The 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 2021

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### 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 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 27 % (2020: 20%) of gross monetary assets at any time during the year, which is considered acceptable by management given the credit quality of the receivables.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk 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 year. 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 2021

### 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 2021 £'000	Gross carrying amount 2020 £'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	88,866	172,115
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	47,055	73,857
Specific impairment	Uncollectible	Partially impaired or asset is written off	479	403

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Aaa-Baa3	11,962	47,548	76,904	124,567
Ba1-D	20,158	32,471	26,897	41,386
<b>Gross carrying amount</b>	<b>32,120</b>	<b>80,019</b>	<b>103,801</b>	<b>165,953</b>
Specific impairment	(479)	(27)	-	(376)
Loss allowance for credit losses	(146)	(560)	(717)	(1,164)
<b>Carrying amount</b>	<b>31,495</b>	<b>79,432</b>	<b>103,084</b>	<b>164,413</b>



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 12 Financial instruments (continued)

#### *Client financing receivables*

The following represents the movement in loss allowance for customer loans:

	Lifetime ECL £'000	Impaired £'000	Total £'000
<b>At 1 January 2020</b>	469	459	928
Transfer from collectively evaluated to specific impairment	-	289	289
New loan receivables	695	91	786
Recoveries of impaired amount	-	(463)	(463)
Write-offs	-	-	-
Changes to model assumptions and other	-	-	-
<b>At 31 December 2020</b>	<b>1,164</b>	<b>376</b>	<b>1,540</b>
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	-	-	-
Recoveries of impaired amount	-	(376)	(376)
Write-offs	-	-	-
Changes to model assumptions and other	(447)	-	(447)
<b>At 31 December 2021</b>	<b>717</b>	<b>-</b>	<b>717</b>

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

	Lifetime ECL £'000	Impaired £'000	Total £'000
<b>At 1 January 2020</b>	402	106	508
Transfer from collectively evaluated to specific impairment	-	15	15
New loan receivables	158	6	164
Recoveries of impaired amounts	-	(91)	(91)
Write-offs	-	(9)	(9)
Changes to model assumptions and other	-	-	-
<b>At 31 December 2020</b>	<b>560</b>	<b>27</b>	<b>587</b>
Transfer from collectively evaluated to specific impairment	-	109	109
New loan receivables	-	336	336
Recoveries of impaired amounts	-	-	-
Write-offs	-	7	7
Changes to model assumptions and other	(414)	-	(414)
<b>At 31 December 2021</b>	<b>146</b>	<b>479</b>	<b>625</b>



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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 2021, the lifetime expected losses related to off-balance sheet commitments were £266,000 (2020: £894,000).

#### 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 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 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
<b>2021</b>					
<b>Non-interest bearing:</b>					
Payables to trade suppliers	-	4,209	-	-	4,209
<b>Interest bearing:</b>					
Payables to related parties	1.22	108,360	-	-	108,360
<b>2020</b>					
<b>Non-interest bearing:</b>					
Payables to trade suppliers	-	4,238	-	-	4,238
<b>Interest bearing:</b>					
Payables to related parties	1.42	212,666	-	-	212,666



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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 amounting to £5,645,000 (2020: £12,320,000). 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
<b>2021</b>					
<b>Interest bearing:</b>					
Finance lease receivables	5.27	15,134	17,967	-	33,101
Customer loans	3.37	57,010	50,113	-	107,123
		72,144	68,080	-	140,224
<b>2020</b>					
<b>Interest bearing:</b>					
Finance lease receivables	3.96	40,131	43,394	-	83,525
Customer loans	3.97	85,643	86,997	-	172,640
		125,774	130,391	-	256,165



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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
<b>2021</b>		
<b>Financial assets</b>		
<b>Non-current</b>		
Finance lease receivables	17,337	17,687
Customer loans	48,782	49,272
<b>2020</b>		
<b>Financial assets</b>		
<b>Non-current</b>		
Finance lease receivables	41,557	42,342
Customer loans	83,565	85,153

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 2021

### 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 years 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	
	2021	2020	2021	2020
	£000	£000	£000	£000
Not later than one year	13,780	38,723	12,803	36,466
Later than one year and not later than five years	17,213	39,672	16,583	37,835
	30,993	78,395	29,386	74,301
Less:				
Unearned finance income	(1,607)	(4,094)	-	-
	29,386	74,301	29,386	74,301
Provision for uncollectible minimum lease payments	(625)	(588)	(625)	(588)
Unguaranteed residual value	2,734	5,719	-	-
	31,495	79,432	28,761	73,713

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 5.27% (2020: 3.96%) per annum.

Assets purchased by the company for supply to customers under finance leases totaled £22,163,000 in the year (2020: £30,008,000).



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 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 £4,014,000 (2020: £4,175,000). 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 0.1% (2020: 1.9%) 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:

	2021 £000	2020 £000
Less than one year	2,468	3,153
Later than one year but less than five years	505	44
	2,973	3,197

### 15 Residual value

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

	2021 £000	2020 £000
<b>Finance leases:</b>		
Within 1 year	1,643	1,322
1 - 2 years	-	2,176
2 - 5 years	1,091	2,221
	2,734	5,719
	2021 £000	2020 £000
<b>Operating leases:</b>		
Within 1 year	48	255
1 - 2 years	19	155
	67	410

The provision for residual value exposures as at 31 December 2021 is £ nil (2020: £ nil ).



# IBM United Kingdom Asset Leasing Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2021

### 16 Share capital

*Allotted, called up and fully paid share capital*

	2021 £000	2020 £000
1,500,000 (2020: 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	2021 £000	2020 £000
UK group undertakings	Sale of goods and services	137,281	63,604
	Purchase of goods and services	27,115	103,180
Immediate parent	Interest payable (note 3)	1,142	2,512
	Management charge payable (note 4)	555	679
	Repayment of loan from immediate parent undertaking	104,306	53,226

#### Payables to related parties

	2021 £000	2020 £000
Immediate parent	108,360	212,666

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.



# **IBM United Kingdom Asset Leasing Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2021**

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### **17 Related party transactions (continued)**

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 £160,436,000 (2020: £269,529,000) and short term loans of £77,040,000 (2020: £198,639,000), 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. Short term loans have a variable interest rate based on LIBOR. The average rate for the year was 1.22% (2020: 1.42%). The loans range in length from one to five years.

### **18 Other commitments and contingencies**

At 31 December 2021 the company had unutilised future funding commitments amounting to £126,641,000 (2020: £127,100,000).

### **19 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 IBM 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.

### **20 Events after the balance sheet date**

There were no material events after the balance sheet date.