

[Table of Contents](#)

40

Management Discussion

International Business Machines Corporation and Subsidiary Companies

plans were well funded and the required contributions related to these plans and multi-employer plans are expected to be approximately \$300 million in both 2021 and 2022. In 2020, the return on the U.S. Personal Pension Plan assets was 12.2 percent and the plan was 108 percent funded at December 31, 2020. Overall, global asset returns were 9.6 percent and the qualified defined benefit plans worldwide were 102 percent funded at December 31, 2020.

Global Financing Financial Position Key Metrics

(\$ in millions)		
At December 31:	2020	2019
Cash and cash equivalents	\$ 1,862	\$ 1,697
Net investment in sales-type and direct financing leases ⁽¹⁾	4,092	6,224
Equipment under operating leases—external clients ⁽²⁾	104	238
Client loans	11,498	12,884
Total client financing assets	15,694	19,346
Commercial financing receivables	2,411	3,820
Intercompany financing receivables ⁽³⁾ ⁽⁴⁾	3,959	3,870
Total assets	\$25,075	\$29,568
Debt	21,167	24,727
Total equity	\$ 2,352	\$ 2,749

⁽¹⁾ Includes deferred initial direct costs which are expensed in IBM's consolidated results.

⁽²⁾ Includes intercompany mark-up, priced on an arm's-length basis, on products purchased from the company's product divisions which is eliminated in IBM's consolidated results.

⁽³⁾ Entire amount eliminated for purposes of IBM's consolidated results and therefore does not appear in the Consolidated Balance Sheet.

⁽⁴⁾ These assets, along with all other financing assets in this table, are leveraged at the value in the table using Global Financing debt.

At December 31, 2020, approximately 61 percent of the total external portfolio was with investment-grade clients with no direct exposure to consumers, a decrease of 4 points year to year and an increase of 4 points compared to September 30, 2020. The reduction in investment grade year to year was driven primarily by credit rating changes within the existing portfolio of clients, partially offset by the wind down of OEM IT commercial financing operations. We continue to apply our rigorous credit policies, particularly in industries and countries disrupted by COVID-19, as it relates to the origination of new business. This investment grade percentage is based on the credit ratings of the companies in the portfolio and reflects mitigating credit enhancement actions taken by the client to reduce the risk to IBM.

We have a long-standing practice of taking mitigation actions, in certain circumstances, to transfer credit risk to third parties, with enhanced focus in this unprecedented environment of the COVID-19 pandemic. These actions may include credit insurance, financial guarantees, nonrecourse borrowings, transfers of receivables recorded as true sales in accordance with accounting guidance or sales of equipment under operating lease. Sales of receivables arrangements are also utilized in the normal course of business as part of the company's cash and liquidity management.

During the year ended December 31, 2020, the company sold \$2,562 million of client financing receivables, consisting of loan and lease receivables of \$1,410 million and \$1,152 million, respectively.

On December 24, 2020, the company entered into an agreement with a third-party investor to sell up to \$3,000 million of IBM short-term commercial financing receivables, at any one time, on a revolving basis. The company sold \$515 million of commercial financing receivables under the agreement in the fourth quarter of 2020. In addition, the company included \$383 million of commercial financing receivables classified as held for sale at December 31, 2020 in short-term financing receivables in the Consolidated Balance Sheet.

The reduction of financing receivables due to these sales resulted in a benefit to cash flows from operating activities, however had no impact to free cash flow. The impact to the Consolidated Income Statement, including fees and net gain or loss associated with the transfer of these receivables for the