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**Management Discussion**

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International Business Machines Corporation and Subsidiary Companies

Working capital decreased \$1,423 million from the year-end 2019 position. The key changes are described below:

Current assets increased \$745 million (\$40 million adjusted for currency) due to:

- An increase of \$5,265 million (\$5,064 million adjusted for currency) in cash and cash equivalents, restricted cash and marketable securities; and
- An increase of \$536 million (\$446 million adjusted for currency) in total inventory, deferred costs and prepaid expenses and other current assets; partially offset by
- A decline in receivables of \$5,057 million (\$5,469 million adjusted for currency) mainly due to sales of financing receivables, continued focus on collections, including collection of divestiture-related receivables and a decline in revenue.

Current liabilities increased \$2,168 million (\$1,121 million adjusted for currency) as a result of:

- An increase in other accrued expenses and liabilities of \$2,491 million (\$1,922 million adjusted for currency) primarily due to the fourth-quarter workforce rebalancing charge; and
- An increase in deferred income of \$807 million (\$488 million adjusted for currency); and
- An increase in taxes payable of \$462 million (\$448 million adjusted for currency); partially offset by
- A decrease in short-term debt of \$1,615 million (\$1,552 million adjusted for currency) due to maturities of \$9,165 million; partially offset by reclassifications of \$7,998 million from long-term debt to reflect upcoming maturities.

**Receivables and Allowances**
**Roll Forward of Total IBM Receivables Allowance for Credit Losses**

(\$ in millions)

January 1, 2020 *	Additions/			December 31, 2020
	(Releases) **	Write-offs +	Other ++	
\$612	\$108	\$(85)	\$10	\$644

\* Opening balance does not equal the allowance at December 31, 2019 due to the adoption of the guidance on current expected credit losses. Refer to note B, "Accounting Changes," for additional information.

\*\* Additions/(Releases) for Allowance for Credit Losses are recorded in expense.

+ Refer to note A, "Significant Accounting Policies," for additional information regarding Allowance for Credit Losses write-offs.

++ Primarily represents translation adjustments.

The total IBM receivables provision coverage was 2.4 percent at December 31, 2020, an increase of 60 basis points compared to January 1, 2020. The increase was primarily driven by the overall decline in total receivables and an increase in customer specific provisions. The majority of the write-offs during the year related to receivables which had been previously reserved.

**Global Financing Receivables and Allowances**

The following table presents external Global Financing receivables excluding immaterial miscellaneous receivables.

(\$ in millions)

At December 31:	2020	2019
<b>Amortized cost/Recorded investment<sup>(1)(2)</sup></b>	<b>\$18,264</b>	<b>\$22,446</b>
Specific allowance for credit losses	184	177
Unallocated allowance for credit losses	79	45
<b>Total allowance for credit losses</b>	<b>263</b>	<b>221</b>
<b>Net financing receivables</b>	<b>\$18,001</b>	<b>\$22,224</b>
Allowance for credit losses coverage	1.4 %	1.0 %

(1) Prior to the January 1, 2020 adoption of the guidance on current expected credit losses, the presentation was recorded investment, subsequent to adoption the presentation is amortized cost. Both presentations include deferred initial direct costs which are expensed in IBM's consolidated results.

(2) The amortized cost basis of a financial asset represents the original amount of the financing receivable (including residual value) adjusted for unearned income, deferred initial direct costs, cash collected, write-offs and any foreign exchange adjustment. Recorded investment excluded residual value.