

**Notes to Consolidated Financial Statements**

International Business Machines Corporation and Subsidiary Companies

The following table presents the company's defined benefit pension plans' asset classes and their associated fair value at December 31, 2018. The U.S. Plan consists of the Qualified PPP and the non-U.S. Plans consist of all plans sponsored by the company's subsidiaries.

(\$ in millions)

	U.S. Plan				Non-U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Equity</b>								
Equity securities <sup>(1)</sup>	\$1,538	\$ —	\$ —	\$ 1,538	\$2,333	\$ —	\$ 0	\$ 2,333
Equity mutual funds <sup>(2)</sup>	65	—	—	65	18	5	—	23
<b>Fixed income</b>								
Government and related <sup>(3)</sup>	—	19,661	—	19,661	20	8,951	2	8,973
Corporate bonds <sup>(4)</sup>	—	15,849	359	16,208	—	1,865	0	1,865
Mortgage and asset-backed securities	—	635	4	640	—	6	—	6
Fixed income mutual funds <sup>(5)</sup>	421	—	—	421	11	—	—	11
Insurance contracts	—	—	—	—	—	1,308	—	1,308
Cash and short-term investments <sup>(6)</sup>	55	1,020	—	1,075	322	431	—	753
Real estate	—	—	—	—	—	—	339	339
Derivatives <sup>(7)</sup>	3	(1)	—	2	24	606	—	630
Other mutual funds <sup>(8)</sup>	—	—	—	—	24	—	—	24
Subtotal	2,081	37,164	363	39,608	2,753	13,172	341	16,266
Investments measured at net asset value using the NAV practical expedient <sup>(9)</sup>	—	—	—	8,835	—	—	—	20,525
Other <sup>(10)</sup>	—	—	—	(230)	—	—	—	(32)
<b>Fair value of plan assets</b>	<b>\$2,081</b>	<b>\$37,164</b>	<b>\$363</b>	<b>\$48,213</b>	<b>\$2,753</b>	<b>\$13,172</b>	<b>\$341</b>	<b>\$36,758</b>

<sup>(1)</sup> Represents U.S. and international securities. The U.S. Plan includes IBM common stock of \$2 million, representing 0.004 percent of the U.S. Plan assets. Non-U.S. Plans include IBM common stock of \$10 million, representing 0.03 percent of the non-U.S. Plans assets.

<sup>(2)</sup> Invests in predominantly equity securities.

<sup>(3)</sup> Includes debt issued by national, state and local governments and agencies.

<sup>(4)</sup> The U.S. Plan does not include any IBM corporate bonds. Non-U.S. Plans include IBM corporate bonds of \$3 million, representing 0.007 percent of the non-U.S. Plans assets.

<sup>(5)</sup> Invests in predominantly fixed-income securities.

<sup>(6)</sup> Includes cash and cash equivalents and short-term marketable securities.

<sup>(7)</sup> Includes interest rate derivatives, forwards, exchange traded and other over-the-counter derivatives.

<sup>(8)</sup> Invests in both equity and fixed-income securities.

<sup>(9)</sup> Investments measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient, including commingled funds, hedge funds, private equity and real estate partnerships.

<sup>(10)</sup> Represents net unsettled transactions, relating primarily to purchases and sales of plan assets.

The U.S. nonpension postretirement benefit plan assets of \$29 million were invested in cash equivalents, categorized as Level 1 in the fair value hierarchy. The non-U.S. nonpension postretirement benefit plan assets of \$65 million, primarily in

Brazil, and, to a lesser extent, in Mexico and South Africa, were invested primarily in government and related fixed-income securities and corporate bonds, categorized as Level 2 in the fair value hierarchy.