

Notes to Consolidated Financial Statements

International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

	Gain/(Loss) Recognized in Consolidated Income Statement						
	Consolidated Income Statement Line Item	Recognized on Derivatives			Attributable to Risk Being Hedged ⁽²⁾		
For the year ended December 31:		2019	2018	2017	2019	2018	2017
Derivative instruments in fair value hedges ⁽¹⁾							
Interest rate contracts	Cost of financing	\$ 44	\$ (61)	\$ 1	\$ (32)	\$ 97	\$ 74
	Interest expense	98	(58)	1	(71)	92	69
Derivative instruments not designated as hedging instruments							
Foreign exchange contracts	Other (income) and expense	(53)	(93)	16	N/A	N/A	N/A
Equity contracts	SG&A expense	214	(116)	135	N/A	N/A	N/A
Total		\$302	\$(327)	\$153	\$(103)	\$189	\$144

(\$ in millions)

	Gain/(Loss) Recognized in Consolidated Income Statement and Other Comprehensive Income									
For the year ended December 31:	Recognized in OCI			Consolidated Income Statement Line Item	Reclassified from AOCI			Amounts Excluded from Effectiveness Testing ⁽³⁾		
	2019	2018	2017		2019	2018	2017	2019	2018	2017
Derivative instruments in cash flow hedges										
Interest rate contracts	\$(168)	\$ (35)	\$ —	Cost of financing	\$ (3)	\$ —	\$ —	\$ —	\$ —	\$ —
				Interest expense	(8)	—	—	—	—	—
Foreign exchange contracts	(521)	(101)	(58)	Cost of services	68	30	70	—	—	—
				Cost of sales	51	8	3	—	—	—
				Cost of financing	(86)	(75)	(23)	—	—	—
				SG&A expense	53	0	11	—	—	—
				Other (income) and expense	39	(341)	324	—	—	1
				Interest expense	(190)	(71)	(22)	—	—	—
Instruments in net investment hedges ⁽⁴⁾										
Foreign exchange contracts	(95)	686	(1,607)	Cost of financing	—	—	—	35	33	23
				Interest expense	—	—	—	77	31	21
Total	\$(784)	\$ 549	\$(1,665)		\$ (75)	\$(449)	\$363	\$112	\$64	\$45

Gain or loss amounts and presentation for 2017 are not conformed to the new hedge accounting guidance that the company adopted in 2018. Refer to note B, "Accounting Changes," for further information.

⁽¹⁾ The amount includes changes in clean fair values of the derivative instruments in fair value hedging relationships and the periodic accrual for coupon payments required under these derivative contracts.

⁽²⁾ The amount includes basis adjustments to the carrying value of the hedged item recorded during the period and amortization of basis adjustments recorded on de-designated hedging relationships during the period.

⁽³⁾ The company's policy is to recognize all fair value changes in amounts excluded from effectiveness testing in net income each period.

⁽⁴⁾ Instruments in net investment hedges include derivative and non-derivative instruments.

N/A—Not applicable

For the years ending December 31, 2019, 2018 and 2017, there were no material gains or losses excluded from the assessment of hedge effectiveness (for fair value or cash flow hedges), or

associated with an underlying exposure that did not or was not expected to occur (for cash flow hedges); nor are there any anticipated in the normal course of business.