Applying IFRS

A closer look at IFRS 18

Appendix — Additional considerations for banks

December 2025

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Overview

This publication contains an illustrative statement of profit or loss for a retail and investment banking group under IFRS 18 *Presentation and Disclosure in Financial Statements* and addresses frequently asked questions about the application of IFRS 18 which have arisen in the banking sector.

How to use this publication

This publication is issued as an appendix to Applying IFRS: A closer look at IFRS 18 (Updated July 2025)[1] and should be read in conjunction with International GAAP® 2026, Chapter 4,[2] which includes the most up to date EY perspectives on IFRS 18 as of September 2025. All references to sections other than those of this publication are to International GAAP® 2026, Chapter 4, unless stated otherwise.

D.1 Introduction

As discussed in section 3.1.1, IFRS 18 requires all entities to classify their income and expenses included in profit or loss into one of five specified categories, namely: operating, investing, financing, income taxes and discontinued operations. If banks had to apply the general requirements of the standard, some of their income and expenses from their main business activities would have been classified in categories other than the operating category.

To address this, IFRS 18 introduces a new concept of a 'specified main business activity', which provides entities that have identified either or both of the specified activities with exceptions to the general requirements, to classify some of their income and expenses in the operating category that would otherwise have been included in the investing or financing categories. *[IFRS 18.50]*

The two types of main business activities specified by IFRS 18 are:

- Investing in particular types of assets, referred thereafter as investing in assets (refer to section D.3 below); and
- Providing financing to customers

Entities need to determine if they have either or both of these activities as a main business activity. Banks would typically have a main business activity of providing financing to customers and may also have a main business activity of investing in assets. Determining whether a bank will have one or both of the specified main business activities is a matter of fact, based on evidence, rather than merely an assertion and may require significant judgement.

In applying IFRS 18, banks, therefore, have to follow the general requirements applicable to entities in all industries, explained in section 3.2, and also the specific requirements applicable to entities with either or both of the business activities specified by the standard, explained in section 3.3.

[1] Available on ey.com/IFRS.
[2] Available on ey.com/IFRS.

D.2 Illustrative statement of profit or loss

The consolidated statement of profit or loss illustrated below is based on Illustrative Example II-4 within IFRS 18 and is for a retail and investment banking group that has identified both main business activities of investing in financial assets and providing financing to customers at the reporting entity level.

For the below illustrative consolidated statement of profit or loss, we have assumed that the bank has two specified main business activities, i.e., providing financing to customers and investing in financial assets. The bank classifies its income and expenses using the general requirements of IFRS 18 and applies the classification exceptions for each specified main business activity as appropriate. See section 3.3.1 for guidance in determining main business activities.

The aggregation and disaggregation of income and expenses in this example is for illustrative purposes only. In practice, any conclusion on this area may require judgement, consideration of materiality and must be based on the specific facts or circumstances of the reporting entity. See section 2.2 for more guidance on aggregation and disaggregation requirements under IFRS 18.

The allocation of profit or loss for the year attributable to non-controlling interests and owners of the parent, as required by IFRS 18.76, and the presentation of earnings per share, as required by IAS 33.66, are not illustrated in the example below.

Figure D-1: Example presentation of the statement of profit or loss for a retail and investment bank

Consolidated statement of profit or loss for the year ended 31 December 202X	Category	Note	Reference
Interest revenue calculated using the effective interest method	Operating	(1)	*IFRS 18.75(b)(i); IFRS 18.56(a); IFRS 18.B49(b); IFRS 7.20(b)*
Interest income on financial assets at fair value through profit or loss		(1)	*IFRS 18.24*
Interest expense calculated using the effective interest method		(2)	*IFRS 18.65(a); IFRS 18.66; IFRS 7.20(b)*
Interest expense on financial liabilities at fair value through profit or loss		(2)	*IFRS 18.24*
Net interest income		(3)	*IFRS 18.2;, IFRS 18.B123*
Fee and commission income		(3)	*IFRS 18.24; IFRS 7.20(c)(i)*
Fee and commission expense		(3)	*IFRS 18.24; IFRS 7.20(c)(i)*
Net fee and commission income		(3)	*IFRS 18.24; IFRS 18.B123*
Credit impairment losses		(4)	*IFRS 18.75(b)(ii); IFRS 18.B49(d)*
Net trading income		(5)	*IFRS 18.24; IFRS 18.58*
Net gains/(losses) on financial assets at fair value through profit or loss		(5)	*IFRS 18.58; IFRS 7.20(a)(i)*
Net gains/(losses) on financial liabilities at fair value through profit or loss		(5)	*IFRS 18.65(a)(ii); IFRS 7.20(a)(i)*
Net gains/(losses) on derecognition of financial assets measured at amortised cost		(5)	*IFRS 18.58; IFRS 18.75(b)(iii); IFRS 7.20(a)(vi)*
Other individually immaterial operating income		(6)	
Impairment of goodwill		(7)	*IFRS 18.B49(d)*
Employee benefits		(7)	
Depreciation and amortisation		(7)	*IFRS 18. B49(c)*
Other individually immaterial operating expenses		(6)	
Operating profit			*IFRS 18.69*

Share of profit or loss of equity-accounted associates and joint ventures	Investing	(8)	IFRS 18.75(a)(iii); IFRS18.53(a); IFRS 18.55(a)
Gains on disposals of equity-accounted associates and joint ventures		(8)	
Interest expense on provisions for litigation	Financing	(9)	IFRS 18.61(b); IFRS 18.B54(e)
Interest expense on pension liabilities and lease liabilities		(10)	IFRS 18.65(b)(i); IFRS 18.B54(c); IFRS 18.B54(d)
Profit before income tax			
Income tax expense	Income taxes	(11)	IFRS 18.75(a)(iv)
Profit from continuing operations			
Loss from discontinued operations	Discontinued operations	(11)	IFRS 18.75(a)(v)
Profit for the year			IFRS 18.69

Key:

(yellow outline)	New items
(grey shading)	Required items

Commentary

(1) Interest income from loans to customers is classified in the operating category as the bank provides financing to customers as a main business activity. *[IFRS 18.B48(c); IFRS 18.B49(b)]*.

As the bank invests in financial assets as a main business activity, income and expense from all its cash and cash equivalents are classified in the operating category. Therefore, the bank is not required to distinguish between cash and cash equivalents that relate to providing financing to customers and those that do not. Refer to section D.4 below for more guidance on the classification of income and expenses from cash and cash equivalents.

'Interest income on financial assets at fair value through profit or loss' includes interest income from economic hedges and other financial assets measured at fair value through profit or loss. The bank determined, taking into account the disaggregation requirements in IFRS 18, and considering the guidance in IAS 8 regarding accounting policies in the absence of specific requirements , that presenting a line item for 'Interest income on financial assets at fair value through profit or loss', separately from "Net gains/(losses) on financial assets at fair value through profit or loss", is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

The bank has also determined that presenting 'Interest income on financial assets at fair value through profit or loss', in addition to the line item specified in IFRS 18.75(b)(i) for 'Interest revenue calculated using the effective interest method', is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses. Determining which line items to present, including the aggregation, disaggregation and presentation of additional line items, is a matter of judgement, hence different entities may come to different conclusions based on individual facts and circumstances. See section 3.4 for more information on specified line items and section 2.1.1.B for more information on additional line items.

(2) As the bank provides financing to customers as a main business activity, income and expenses from liabilities that arise only from the

raising of finance ('Type 1 liabilities'), that relate to providing financing to customers, are classified in the operating category. *[IFRS 18.65(a)(i)].*

The bank also chooses to classify the income and expense from all other Type 1 liabilities that do not relate to providing financing to customers in the operating category. *[IFRS 18.65(a)(ii)].*

The bank's central treasury function issued a general-purpose liability for which it is unable to identify whether or not the liability solely relates to the provision of financing to customers. The bank is required to classify the income and expense from this liability in the operating category. *[IFRS 18.66].*

'Interest expense on financial liabilities at fair value through profit or loss' includes interest expenses from economic hedges and other financial liabilities measured at fair value through profit or loss. The bank determined, taking into account the disaggregation requirements in IFRS 18 and considering the guidance in IAS 8 mentioned above, that presenting a line item for 'Interest expense calculated using the effective interest method' separately from "Net gains/(losses) on financial liabilities at fair value through profit or loss" is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

The bank has also determined that presenting separate line items for 'Interest expense calculated using the effective interest method' and 'Interest expense on financial liabilities at fair value through profit or loss' is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses. As explained above, judgement is required to determine the aggregation, disaggregation and presentation of additional line items. See section 2.2 for more information on aggregation and disaggregation.

Refer to section D.5 below for more guidance on the classification of income and expenses from liabilities.

(3) The bank presents additional line items and subtotals such as 'net interest income' and 'net fee and commission income' to provide a useful structured summary of the bank's income and expenses.

(4) The credit loss expense on financial assets relates to the bank's loans to customers and is, therefore, classified in the operating category. Refer to Question D9 in section D.9 below for more information.

(5) As the bank has a main business activity of investing in financial assets, all income and expenses from those assets that it invests in as a main business activity must be classified in the operating category rather than the investing category (see section 3.2.1. and 3.3.2 for more information). For all Type 1 liabilities not related to providing financing to customers, the bank has applied the accounting policy choice to classify the related income and expenses in the operating category. This choice would not have been available to the bank if it did not provide financing to customers as a main business activity.

As the bank has chosen to classify interest expense from all Type 1 liabilities unrelated to providing financing to customers in the operating category it is not permitted to present the subtotal '*Profit or loss before financing and income taxes*'. *[IFRS 18.73].* The bank could add an additional subtotal if required to provide a useful structured summary of its income and expenses, but cannot use '*profit before financing*' as a line label, as that would not be an accurate description, given that operating profit includes income and expenses from all liabilities that arise only from the raising of finance.

(6) The bank aggregates individually immaterial operating income and aggregates individually immaterial operating expenses in two separate line items and describes these line items as ‘other individually immaterial operating income’ and ‘other individually immaterial operating expenses’, respectively, as these labels are considered, by the bank, as explanatory in that the key aspect of these items is explicitly conveyed, i.e., they are all individually immaterial. Entities can only use labels such as ‘other income’ or ‘other expenses’ if they cannot find a more informative label. Section 2.3.1 contains more guidance on the use of the label ‘other’.

(7) Operating expenses must be presented applying the characteristics of either the nature or the function of expenses within the bank, although a mixed presentation is permitted. However, an individual line item can only be aggregated on the basis of one of those characteristics (see section 3.4.2). Most banks present expenses by nature rather than by function. However, if a bank assesses that presentation by function would provide a more a useful structured summary, the bank must still disclose an analysis of each functional line item by nature in the notes to the financial statements (see section 3.4.2.B). Operating expenses must be classified and presented consistently from one reporting period to another, unless the conditions in IFRS 18.30 apply.

(8) All entities must classify their share of profit or loss and other income and expenses (such as impairment losses) from equity-accounted investments in associates, joint ventures, or unconsolidated subsidiaries in the investing category, regardless of whether investing in such assets is a main business activity. *[IFRS 18.53(a); IFRS 18.55(a)]*. Refer to Question D6 in section D.6 below for more information on the options available to an entity that considers its equity accounted investments to be part of its operations.

(9) The bank has provisions for litigation which are Type 2 liabilities. The interest income or expense from a change in the discounted amount of long-term provisions or the income or expense from the change in discount rates used to measure these provisions are classified in the financing category, while the income or expense from all other changes in the carrying amount of the liability, such as changes in estimates, are classified in the operating category. *[IFRS 18.BC166]*.

(10) Interest income and expenses and income and expenses arising from changes in interest rates, related to Type 2 liabilities and identified for the purpose of applying other IFRS accounting standards, are classified in the financing category for all entities, irrespective of their main business activities. Refer to Question D5 in section D.5 below for more information.

(11) Income and expenses classified in either the income taxes or discontinued operations categories are not subject to the requirements for classifying income and expenses in the operating, investing and financing categories. *[IFRS 18.B29]*. See sections 3.2.4 and 3.2.5 for more information.

D.3 Main business activity of investing in assets

Normally, a bank would be expected to identify ‘providing financing to customers’ as a main business activity, although it may not always be the case (e.g., certain types of investment banks). It may be less straightforward to determine whether it (also) identifies ‘investing in assets’ as a main business activity. *[IFRS 18.B32]*. Banks must determine whether they invest in financial assets and/or non-financial assets that generate returns individually

Determining whether the entity invests in financial assets as a main business activity is only relevant for investments other than cash and cash equivalents and equity accounted investments.

and largely independently of the entity's other resources (see section 3.3.2.B) as a main business activity. It should be noted that determining whether the entity invests in financial assets as a main business activity is only relevant for investments other than cash and cash equivalents and equity accounted investments, as the classification of the income and expenses from those financial assets does not change whether they are invested in as a main business activity or not. *[IFRS 18.B38; IFRS 18.B39]*. Income and expenses from equity accounted investments are classified in the investing category, and the classification of income and expenses from cash and cash equivalents is discussed in section D.4 below.

The standard provides two indicators entities can use to determine whether or not an entity has either or both of the above specified main business activities:

- If the entity uses a particular type of subtotal, similar to gross profit, as an important indicator of operating performance, and that subtotal includes income and expenses that would have been classified in the investing or financing categories, if the entity did not have one or both of the above specified main business activities. *[IFRS 18.B34]*. For example, investment returns are an important indicator of operating performance, if investing in assets is an entity's main business activity. *[IFRS 18.BC145]*.
- If the entity applies IFRS 8 *Operating Segments*, and:
  - A reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity. *[IFRS 18.B36(a)]*.
  - An operating segment comprises a single business activity, and the performance of the operating segment is an important indicator of the entity's operating performance (as described in IFRS 18.B34), this indicates that business activity of the operating segment might be a main business activity of the entity. *[IFRS 18.B36(b)]*.

Refer to section 3.3.1 for more information on the indicators and evidence entities can use in their assessment of specified main business activities.

The identification of a main business activity is a relatively high bar and judgement is required.

The identification of a main business activity is a relatively high bar and judgement is required. Not all activities which an entity conducts on a regular basis are necessarily 'main' business activities, as some may constitute ancillary activities. Although the standard provides the two above-mentioned indicators for when an activity is a 'main business activity', other factors could also be relevant, depending on an entity's specific circumstances.

The main business activity assessment for investing in assets is performed by individual asset or groups of assets with shared characteristics. *[IFRS 18. B38; IFRS 18.B40]*. When the assessment is performed for a group of investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method, and the entity prepares separate financial statements, it must group those assets according to the categories used in choosing the measurement basis for the investments applying IAS 27.10; see International GAAP®, Chapter 9 at section 2 for a discussion on identifying these categories. *[IFRS 18.B38, IFRS 18.BC147]*. When the assessment is performed for a group of other financial assets, the groups must be consistent with the classes of financial instruments used for disclosure by class under IFRS 7. *[IFRS 18.B40, IFRS 18.BC147]*. Entities are not precluded from identifying a main business activity of investing in certain types of financial assets as well as a main business activity of investing in certain types of non-financial assets.

How we see it

Identifying the types of assets that an entity invests in as a main business activity requires judgement, especially for a reporting entity that is a consolidated group. Disclosure of the types of assets that the entity invests in as a main business activity, along with the disclosure required by IFRS 18.51(a) of the fact that the entity invests in assets as a main business activity, would help users to better understand the structure of the entity's statement of profit or loss. *[IFRS 18.BC100]*.

D.4 Income and expenses from cash and cash equivalents

Income and expenses from cash and cash equivalents is classified in the investing category by default, unless the entity has a main business activity of investing in *financial* assets within the scope of IFRS 18.53(c) (i.e., financial assets other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries, that generate a return individually and largely independently of the entity's other resources), or of providing financing to customers, as explained in the following question: *[IFRS 18.B39]*.

Frequently asked questions

Question D1: How would banks classify income and expenses from cash and cash equivalents?

Banks are likely to invest as a main business activity in financial assets (other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries) which generate a return individually and largely independently of the entity's other resources. They are required to classify the income and expenses from all their cash and cash equivalents in the operating category. *[IFRS 18.56(a); IFRS 18.BC137; IFRS 18.BC138]*.

If a bank does not invest in financial assets as a main business activity but provides financing to customers as a main business activity:

- Income and expenses from cash and cash equivalents that relate to providing financing to customers (for example, cash held for regulatory purposes), are classified in the operating category. *[IFRS 18.56(b)(i)]*.
- Income and expenses from cash and cash equivalents that do not relate to providing financing to customers are classified either in the operating or investing categories as an accounting policy choice. This choice must be consistent with the similar accounting policy choice (discussed in section D.5 below) that exists for income and expenses arising from Type 1 liabilities that do not relate to providing financing to customers. *[IFRS 18.56(b)(ii); IFRS 18.65(a)(ii)]*.
- If the bank cannot distinguish between income and expenses from cash and cash equivalents related to providing finance to customers and those which are unrelated, it is required to classify income and expenses from all its cash and cash equivalents in the operating category. *[IFRS 18.57; IFRS 18.BC141]*.

For further guidance, refer to section 3.3.4.

D.5 Income and expenses from liabilities

The classification of income and expenses from liabilities depend on whether the liabilities arise from transactions that involve only the raising of finance (referred to as 'Type 1 liabilities') or from other transactions (referred to as 'Type 2 liabilities').

Income and expenses from Type 1 liabilities that do not relate to the main business activity of providing financing to customers can be classified, as an accounting policy choice, either in the operating or the financing category.

For Type 1 liabilities, the classification of income and expenses depends on whether the entity has a specified main business activity of providing financing to customers (refer to section 3.3.3 for more information). If that is the case, the related income and expenses are classified, as follows:

- Income and expenses that relate to the main business activity of providing financing to customers are classified in the operating category. *[IFRS 18.65(a)(i)]*.
- Income and expenses that do not relate to the main business activity of providing financing to customers can be classified, as an accounting policy choice, either in the operating or the financing category. *[IFRS 18.65(a)(ii)]*. This accounting policy choice must be consistent with the one made for income and expenses from cash and cash equivalents (discussed in section D.4 above).

For Type 1 liabilities, all income and expenses of an entity that does not have a specified main business activity of providing financing to customers, are always classified in the financing category. *[IFRS 18.60]*.

The accounting policy choice in IFRS 18.65(a)(ii) applies to *all* Type 1 liabilities that the entity can distinguish as unrelated to providing financing to customers, given that the entity is only permitted to classify the income and expenses in either the operating or the financing categories and not in both, and given the requirement for this choice to be consistent with the choice in IFRS 18.56(b)(ii), discussed in Question D1 above. Therefore, the entity is not permitted to classify the income and expenses from some Type 1 liabilities unrelated to providing financing to customers in the operating category, while it classifies the income and expenses from other Type 1 liabilities, also unrelated to providing financing to customers, in the financing category.

How we see it

The policy choices available to entities whose main business activity is providing financing to customers provide a practical option for preparers who are unable to distinguish easily between income and expenses that relate to the provision of finance to customers.

However, the availability of an accounting policy choice may create diversity in practice among banks, which will result in some loss of comparability between similar entities.

If the entity is unable to determine whether certain Type 1 liabilities relate to providing financing to customers, it is required to classify the income and expenses from these liabilities in the operating category. *[IFRS 18.66]*. For example, entities with a central treasury function, might not be able to identify, in a non-arbitrary way, income and expenses from liabilities that relate to providing financing to customers. *[IFRS 18.BC182]*.

How we see it

We believe the requirement in IFRS 18.66 is an exception and applies only to those Type 1 liabilities where an entity is unable to distinguish whether they relate to its main business activity of providing financing to customers. It does not override the election made by an entity for Type 1 liabilities where it is clear they are unrelated to providing financing to customers.

The requirements for entities with a main business activity of providing financing to customers are needed because the difference between the interest revenue from that main business activity and the interest expense incurred to finance that activity is an important measure of such entity's operating performance. Without the requirements, the interest expense would be classified in the financing category, thus preventing presentation of that measure. *[IFRS 18.BC180]*.

As explained in section 3.3.3.A, if any income and expenses from Type 1 liabilities that do not relate to providing financing to customers is classified in the operating category, the entity is not permitted to present the subtotal 'profit or loss before financing and income tax', because the subtotal already includes financing costs. However, if the operating category does not contain income or expenses from Type 1 liabilities that do not relate to providing financing to customers, the entity is required to present this subtotal. *[IFRS 18.73]*.

For Type 2 liabilities, regardless of an entity's main business activities, only the interest income and expenses identified for the purposes of applying other IFRS accounting standards are classified in the financing category.

For Type 2 liabilities, regardless of an entity's main business activities, only the interest income and expenses (including those arising from changes in interest rates) identified for the purposes of applying other IFRS accounting standards (i.e., interest income and expenses are required to be separately recognised from other changes in the carrying amount of the liability) are classified in the financing category. *[IFRS 18.61; IFRS 18.B54]*. All other income and expenses from Type 2 liabilities are classified in the operating category. *[IFRS 18.B55]*. Refer to section 3.2.2 for more information.

Illustration 3-7 in section 3.3.3 explains the classification of income and expenses arising from a range of liabilities (Type 1 and Type 2) for an entity with a main business activity of providing financing to customers.

Frequently asked questions

Question D2: How would a bank classify the interest expenses on its borrowings?

A bank needs to first determine whether the financial instrument is classified as a financial liability or equity applying IAS 32 *Financial Instruments: Presentation*. Only financial liabilities, or the financial liability portion of a compound instrument, will result in interest expense being recognised in the statement of profit or loss. Thereafter, a bank will need to determine whether its financial liabilities are Type 1 or Type 2 liabilities, to determine the classification of the income and expenses from these liabilities for the purposes of applying IFRS 18.

Generally, banks' financial liability borrowings are expected to be Type 1 liabilities, as they typically relate only to the raising of finance. Therefore, the income and expenses from these liabilities are classified in the operating category if they relate to the main business activity of providing financing to customers, or if they do not relate to providing financing to customers, but the bank has elected as its accounting policy, to classify the related income and expenses in the operating category. If the bank cannot distinguish, in a non-arbitrary way, whether or not the liabilities relate to providing financing to customers, the bank is required to classify the income and expenses from these liabilities in the operating category. As mentioned above, this requirement in IFRS 18.66 does not override the bank's policy election for Type 1 liabilities that it can identify as unrelated to providing financing to customers if the bank has elected to classify income and expense from *all* such liabilities in the financing category.

Illustration D1: Determining which Type 1 liabilities are in the scope of the accounting policy choice in IFRS 18.65

Bank A, with a main business activity of providing financing to customers, entered into three Type 1 liabilities in the current period:

- Liability 1 - Entered into specifically to on-lend that financing to customers
- Liability 2 - Taken out to fund the bank's own operations (e.g., to finance a business acquisition) as opposed to providing financing to customers
- Liability 3 - A general purpose fixed rate liability entered into by the central treasury function of the bank. These funds have been intermingled with the bank's own excess cash and can be used by any part of the bank's business, including the lending operations. As a result, the bank cannot identify whether the liability solely relates to the provision of financing to customers

The bank applies the accounting policy choice in IFRS 18.65 to Liability 2 only. This is because the accounting policy only applies to liabilities unrelated to providing financing to customers. *[IFRS 18.BC184]*.

The income and expenses from Liability 1 and Liability 3 must be classified in the operating category by Bank B since:

- Income and expenses from liabilities that relate to a main business activity of providing financing to customers (i.e., Liability 1) are always classified in the operating category

  And

- When an entity cannot identify whether the liability relates solely to providing financing to customers (i.e., Liability 3), income and expenses from the liability are classified in the operating category

Therefore, there is no optionality for these two liabilities.

Question D3: How does the classification of income and expenses under IFRS 18 differ for liabilities measured at amortised cost from those measured at fair value through profit or loss?

The classification of income and expenses from liabilities depends firstly on whether the liability is a Type 1 or Type 2 liability (see section 3.2.2), and secondly on whether or not the entity has a main business activity of providing financing to customers. The IFRS 9 measurement category can only impact the classification of income and expenses from Type 2 liabilities.

For Type 1 liabilities, the IFRS 9 measurement category does not impact the classification of its income or expenses. For example, both the interest expense on issued bonds measured at amortised cost and the fair value change on issued credit linked notes measured at fair value through profit or loss are classified in either the operating or financing category, as explained above.

For Type 2 liabilities, only if IFRS accounting standards require the disaggregation of income and expenses arising from changes in the carrying amount of a Type 2 liability into separate amounts for interest income and expenses and other types of income and expenses, does the IFRS 9 measurement category impact the classification of the income or expenses. *[IFRS 18.61; IFRS 18.BC168].* For example, the fair value changes on contingent consideration payable measured at FVTPL under IFRS 9, are classified in the operating category, but the interest expense on a trade payable with a significant financing component, measured at amortised cost under IFRS 9, is classified in the financing category.

Question D4: For an entity that has both main business activities of providing financing to customers and investing in assets, does the accounting policy choice in IFRS 18.65(a)(ii), need to be consistent with the classification of income and expenses from cash and cash equivalents?

Yes, the accounting policy choices for income and expenses from cash and cash equivalents and Type 1 liabilities, unrelated to providing financing to customers, have to be consistent, i.e., classifying the income and expenses from both in the operating category, or in the investing and financing categories, respectively. *[IFRS 18.56(b)(ii); IFRS 18.65(a)(ii)].* However, if the entity invests, as a main business activity, in *financial* assets (other than investments in associates, joint ventures and unconsolidated subsidiaries and cash and cash equivalents) that generate a return individually and largely independently of the entity's other resources, the entity does not have an accounting policy choice and must classify the income and expenses from all cash and cash equivalents in the operating category. *[IFRS 18.56(a)]*. Therefore, since no accounting policy choice in IFRS 18.56(b) has been made, the entity can exercise its accounting policy choice in IFRS 18.65(a)(ii) and classify the income and expenses from Type 1 liabilities, which are not related to providing financing to customers in the operating or financing category, irrespective of the classification of income and expenses from its cash and cash equivalents.

If the investments are *non-financial* assets, the entity does have an accounting policy choice in the classification of income and expense from its cash and cash equivalents, and this choice is required to be consistent with the entity's choice for classifying the income and expense from its Type 1 liabilities that are unrelated to providing financing to customers. *[IFRS 18.56(b)(ii)]*. Refer to sections 3.3.3 and 3.3.4 for detailed guidance.

Question D5: How are income and expenses from liabilities that arise from transactions that do *not* involve only the raising of finance (e.g., lease liabilities and defined benefit obligations) classified under IFRS 18?

Income and expenses from Type 2 liabilities are classified in the financing or the operating category, as explained above, regardless of the entity's main business activity. There is no accounting policy choice available to entities with a specified main business activity to classify these income and expenses in the operating category.

This will change existing practice for some banks that currently classify interest expenses on lease liabilities or defined benefit obligations in net interest income. Such banks will be required to classify interest expenses from Type 2 liabilities in the financing category under IFRS 18. The requirement to classify these specific income and expenses in the financing category is to ensure consistent presentation for all entities. *[IFRS 18.BC188]*.

D.6 Income or expenses from investments in associates, joint ventures and unconsolidated subsidiaries

Section 3.2.1.A explains that the specified income and expenses from investments in associates, joint ventures or unconsolidated subsidiaries that are equity accounted, are classified in the investing category, irrespective of whether the reporting entity invests in these assets as a main business activity. This is because the reporting entity does not control the activities of these investees, and many users analyse the income and expenses from equity accounted investees separately from the income and expenses of the reporting entity's operations. *[IFRS 18.BC114]*. Where these investments are not accounted for using the equity method, the specified income and expenses from them are classified in the investing category, unless the reporting entity invests in these assets as a main business activity, in which case the specified income and expenses are classified in the operating category.

Frequently asked questions

Question D6: What are the options available to an entity that considers its equity accounted investments to be part of its operations?

The specified income and expenses from equity accounted investments are classified in the investing category for all entities, irrespective of their main business activity. *[IFRS 18.53(a), IFRS 18.55(a)]*. However, the transition rules in IFRS 18 and the rules on the presentation of additional subtotals and management-defined performance measures (MPMs), create the following options:

Option 1: The transition rules in IFRS 18.C7 permit entities eligible to apply IAS 28.18 to change their election from measuring investments in associates and joint ventures using the equity method to measuring these investments at FVTPL. Eligible entities are "venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds", or other entities that hold their investments in associates and joint ventures through these entities. *[IAS 28.18]*.

Option 2: Present an additional subtotal within the investing category to show the results of operating profit, plus the results of the equity accounted investments which relate closely to the entity's main business activity. Refer to Question 3-27, where this is illustrated; as noted in the question, such an additional subtotal would meet the definition of an MPM, unless it includes the income and expenses from *all* equity accounted associates and joint ventures. *[IFRS 18.BC367]*. Refer to section 4 for detailed guidance on MPMs.

Option 3: If the entity does not use either of the above options, it can, unless regulatory requirements in the relevant jurisdiction restricts the use of such an alternative performance measure, use a non-IFRS measure such as operating profit plus the results of investments in *certain* associates, joint ventures and unconsolidated subsidiaries as a measure to communicate the financial performance of the entity outside the financial statements.

This measure would meet the definition of an MPM, unless the income and expenses from all equity accounted associates and joint ventures are included in this performance measure. *[IFRS 18.118]*. Refer to section 4 for detailed guidance on MPMs.

D.7 Foreign exchange differences

As explained in section 3.2.7, foreign exchange differences are classified in the category in which the related income and expenses from the item giving rise to the foreign exchange difference have been classified, unless doing so would involve undue cost or effort. When that is the case, the foreign exchange differences are classified in the operating category. *[IFRS 18.B68]*. As explained in section 3.2.7, the disaggregation of foreign exchange differences arising on a Type 2 liability into more than one category is prohibited and an entity has to use judgement to determine in which category the foreign exchange difference as a whole is classified. This assessment is made on a case-by-case basis and must be consistent for Type 2 liabilities of a similar nature.

Banks will need to consider the aggregation and disaggregation requirements, materiality guidance and the requirement for the statement of profit or loss to present a useful structured summary of the entity's income and expenses in determining whether it is appropriate to present foreign exchange differences in the same line item as the transaction which gave rise to those differences. Refer to Question 2-2 in section 2.2.2 for more information.

Frequently asked questions

Question D7: What does 'undue cost or effort' mean in the context of IFRS 18.B68?

'Undue cost or effort' is not defined in IFRS 18 nor in other IFRS accounting standards. Although not directly applicable, it is worth noting that IFRS 9 (see International GAAP® 2026, Chapter 47 section 5.9.1) and IFRS for SMEs use the same wording:

- IFRS 9.B5.5.49 states that "information that is available for financial reporting purposes is considered to be available without undue cost or effort". This includes data from risk management systems.
- Under a different framework and, therefore, not direct guidance, section 2.14B of IFRS for SMEs also states that what constitutes 'undue cost or effort' depends on the entity's specific circumstances and management's judgement of the costs and the benefits from applying the requirement. This section and paragraph BC232 of IFRS for SMEs further states that what constitutes 'undue cost or effort' is not intended to be a low hurdle and would be higher for a publicly accountable entity compared to an entity without public stakeholders.

What is available without 'undue cost or effort' would be an area subject to management judgement in assessing the costs of obtaining the information and the associated benefits it provides to users of the financial statements. The type of information that is subject to the 'undue cost or effort' assessment and its importance to users of the financial statements, is relevant in determining its benefit. The more important the information, the higher the hurdle of cost or effort that is required to justify it being undue. Banks, therefore, have to exercise judgement in determining how important it is to their users to have foreign exchange differences classified in the different categories of the income statement.

This assessment is performed for each item that gives rise to a foreign exchange difference, or for items with the same facts and circumstances, and the exemption taken only for those items that are assessed to involve undue cost or effort. *[IFRS 18.B68]*.

D.8 Gains and losses on derivatives

IFRS 18 contains specific requirements for the classification of gains or losses on derivative financial instruments, which are explained in section 3.2.8. For derivatives used to manage exposures to identified risks, the principle is that gains or losses on both derivatives designated as hedging instruments and those that are not, are classified in the same category as the income and expenses affected by the risk the derivative is used to manage. However, if applying this principle leads to grossing up the gains or losses in different categories, all the gains or losses on those derivatives are classified in the operating category. *[IFRS 18.B70]*. Additionally for derivatives not designated as hedging instruments, but used to manage exposure to identified risks, if applying the above principle involves undue cost or effort, all gains or losses on those derivatives are classified in the operating category. *[IFRS 18.B72]*.

Refer to section 3.3.3.C for guidance on the classification of income and expenses from derivatives not used to manage exposures to identified risks.

Banks will need to consider the aggregation and disaggregation requirements, materiality guidance and the requirement for the statement of profit or loss to present a useful structured summary of the entity's income and expenses, when determining whether it is appropriate to present gains and losses on derivatives in the same line item as the transaction which gives rise to those differences.

D.9 Other classification questions

In addition to the questions above, banks may also have the following questions relating to the classification of income and expenses that the standard does not specifically address.

Frequently asked questions

Question D8: How are income and expenses from origination fees received for loan commitments classified?

Commitment fees received by a bank with a main business activity of providing financing to customers, are classified in the operating category. Where the fee (or pro-rata portion of the fee) is included in the effective interest rate of loans to customers, it is part of interest income, and where the fee (or pro-rata portion of the fee) is not included in the effective interest rate of loans to customers, it is part of other fee income under IFRS 15. *[IFRS 18.B48(c); IFRS 18.B49; IFRS 9.B5.4.2(b); IFRS 9.B5.4.3(b)]*.

Question D9: Can the expenses related to expected credit losses (or income related to reversals of losses) under IFRS 9 be presented outside the operating category of a bank?

It depends on which assets the expected credit losses arise, and whether those assets are part of the bank's main business activities. Therefore, entities might need to present impairment losses (or reversals of impairment losses) in more than one category within the statement of profit or loss, as explained below. *[IFRS 18.B77]*.

Entities with a main business activity of providing financing to customers:

For banks that provide financing to customers as a main business activity, impairment losses (or reversals of impairment losses) from loans to customers must be classified in the operating category. *[IFRS 18.B48; IFRS 18.B49]*. The classification of impairment losses (or reversals of impairment losses) on other financial assets, depends on whether they are invested in as a main business activity, as explained below.

Entities with a main business activity of investing in financial assets:

Financial assets that generate a return individually and largely independently of the entity's other resources in the scope of IFRS 18.53(c) (i.e., financial assets other than cash and cash equivalents, associates, joint ventures or unconsolidated subsidiaries) typically include debt or equity investments. *[IFRS 18.B46].* Income and expenses from such assets include impairment losses (or reversals of impairment losses). *[IFRS 18.54; IFRS 18.B47].* Where these assets are invested in as a main business activity, impairment losses (or reversals of impairment losses) must be classified in the operating category. *[IFRS 18.58]*

Entities without a specified main business activity:

Impairment losses could arise on receivables for goods and services, as well as on financial assets that generate a return individually and largely independently of the entity's other resources. Such impairment losses (or reversals of impairment losses) recognised by an entity without a specified main business activity would be classified in the operating and investing categories, respectively. *[IFRS 18.B48(b); IFRS 18.B46; IFRS 18.B77]*.

Question D10: How does the classification of income and expense in the statement of profit or loss impact the classification of the related cash flows in the statement of cash flows?

The statement of profit or loss and the statement of cash flows have different objectives and the IASB did not seek alignment of the categories between the two statements. *[IFRS 18.BC86]*. For entities with a specified main business activity, the classification of cash flows from dividends received, interest paid and interest received follows the classification of the related income and expenses in the statement of profit or loss. *[IAS 7(2027).34B]*. Where the income and expenses are classified into more than one category in the statement of profit or loss, the entity must apply a 'single category' approach in the statement of cash flows. The entity makes an accounting policy choice to classify the total related cash flows in one of the associated activities in the statement of cash flows. *[IAS 7(2027).34D]*. Dividends received, interest received and interest paid are assessed separately and the total of each respectively is classified in one, but not necessarily the same, category in the statement of cash flows. Cash flows from dividends paid must be included in financing activities, irrespective of whether or not the entity has a specified main business activity. *[IAS 7(2027).33A; IAS 7(2027).BC49]*.

The definition of an MPM is limited to subtotals of income and expenses in order not to go beyond the scope of reporting of financial performance in the statement of profit or loss or the notes.

D.10 Management-defined performance measures

Many entities disclose in their financial communications, financial measures outside the financial statements, that are not required or defined by IFRS accounting standards. To improve the transparency of these management-defined measures, IFRS 18 introduces disclosure requirements for 'management-defined *performance* measures' (MPMs). *[IFRS 18.BC326]*. These disclosures include information about the MPMs' purpose and their relationship to totals and subtotals defined by IFRS accounting standards must be disclosed.

An MPM is defined as a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate to users management's view of an aspect of the financial performance of the entity as a whole (see section 4.2). Subtotals specifically required by IFRS accounting standards (including IFRS 18) (see section 4.2.4.A) and subtotals listed in IFRS 18.118, which are well understood by users of financial statements (see section 4.2.4.B), are excluded from the definition of an MPM. The definition of an MPM is limited to subtotals of income and expenses, in order not to go beyond the scope of reporting of financial performance in the statement of profit or loss or the notes. *[IFRS 18.BC333]*. Therefore, measures of assets, liabilities, equity, liquidity or cash flows are not MPMs. Financial ratios are also not MPMs, however, a subtotal of income and expenses that is the numerator or denominator of a financial ratio could be an MPM if it met the definition of an MPM, had the subtotal not been part of a ratio. *[IFRS 18.B117]*. Such numerators or denominators are subject to the MPM disclosure requirements.

Frequently asked questions

Question D11: Which non-IFRS measures often used by banks could meet the definition of an MPM?

The following non-IFRS measures often used by banks could meet the 'subtotal of income and expenses' requirement and would be an MPM if the other requirements of the definition of an MPM, mentioned above, are met:

- 'Return on tangible equity' or 'return on average ordinary shareholders' equity': although the ratio and denominator are not MPMs, as they are not subtotals of income and expenses, but the numerator may be an MPM, if it is an adjusted return.
- 'Underlying profit' or 'profit before impairment': is not a subtotal required by IFRS accounting standards and is not an excluded subtotal per IFRS 18.118, and could, therefore, be an MPM.
- 'Basic earnings per share, excluding certain items': the ratio is not an MPM, but the numerator may be, if it is an adjusted subtotal of income and expenses.

The following non-IFRS measures often used by banks would not typically meet the 'subtotal of income and expenses' element as they are: 1) financial ratios; and 2) their numerators or denominators are not subtotals of income *and* expenses, or are specifically excluded by IFRS 18.118:

- 'Net interest margin': the 'Net interest income' numerator is a subtotal of income and expenses that is specifically excluded by IFRS 18.118(a).
- 'Cost to income' ratio: the numerator and denominator is usually a subtotal of *only* expenses or *only* income.

- ‘Cost of risk’ ratio (also referred to as the ‘loan loss rate’): the numerator is usually a subtotal of *only* expenses.
- ‘Loan to deposit’ ratio: the numerator is a subtotal of assets and the denominator is a subtotal of liabilities.
- ‘Net asset value per ordinary share’: the numerator is a subtotal of assets and liabilities and the denominator is a non-financial measure (number of shares).

Capital, liquidity, asset and funding ratios do not typically include a subtotal of income and expenses as a numerator or denominator. Therefore, these measures are not likely to be captured by the disclosure requirements of IFRS 18.

Another element of the definition of an MPM is that the measure must be ‘an aspect of the financial performance of the entity as a whole’. Section 4.2.3.B contains more guidance on this element, and we explain in Question 4-4 that segmental measures appear unlikely to provide information about the reporting entity as a whole, but in certain circumstances, they could.

IFRS 18 requires an entity to disclose information about all its MPMs in a single note to the financial statements and requires that this note includes a statement that MPMs provide management’s view and are not necessarily comparable with measures provided by other entities that have a similar label or description. *[IFRS 18.122]*.

How we see it

MPMs, as defined in IFRS 18, are a subset of alternative performance measures. Many entities currently use alternative performance measures, which do not constitute MPMs, in their communications with capital markets *outside* the financial statements. Entities that plan to include alternative performance measures that are not also MPMs *within* the notes to the financial statements must consider whether this is appropriate. This assessment will require significant judgement, and such inclusion might not be appropriate in many instances since all information included within the financial statements needs to meet the overall ‘fair presentation’ requirement set out in IAS 8.6A. *[IAS 8(2027).6A]*.

Many regulators have restrictive guidance relating to alternative performance measures and some do not accept their inclusion within the financial statements. Therefore, entities will also need to consider local laws and the views of their local regulators before including any alternative performance measures, that are not also MPMs, within the financial statements.

Entities are not prohibited from presenting MPMs on the face of the statement(s) of financial performance (the new term used in IFRS 18 to refer to the single statement of profit or loss and other comprehensive income or the separate statement of profit or loss and separate statement of comprehensive income (see section 1.2)). However, in doing so, the additional line items or subtotals need to be necessary for the statement to provide a useful structured summary and they must comply with the requirements in IFRS 18.24. The entity that presents an MPM in the statement(s) of financial performance would also need to disclose all the information required for MPMs in a single note, even if this results in duplication. *[IFRS 18.BC375]*. See sections 4.3 and 4.4 for detailed guidance on the disclosure and presentation requirements of MPMs.

D.11 Consequential amendments to other IFRS accounting standards

See section 5 for guidance on the effect of consequential amendments on other IFRS accounting standards. Two consequential amendments to highlight for banks are the amendments to IAS 7 *Statement of Cash Flows* and IAS 33 *Earnings per share*. The amendments to IAS 7 are discussed in section 5.1 and the impact on the classification of cash flows from dividends and interest, for an entity with a specified main business activity, is discussed in Question D10 above. The amendments to IAS 33 limits the additional amounts per share, using a measure of performance as a numerator, an entity can disclose to:

- A total or subtotal required by IFRS 18.69 or IFRS 18.86, commonly understood subtotals listed in IFRS 18.11;

  Or

- An MPM. *[IAS 33(2027).73B].*

The additional amounts per share can only be disclosed in the notes, rather than presented in the income statement. Basic and diluted amounts per share, if disclosed, must be disclosed with equal prominence. *[IAS 33(2027).73C].*

D.12 Index of Frequently asked questions

Classification:

Management-defined performance measures:

The following frequently asked questions, are answered in International GAAP® 2026, Chapter 4,[3] and may also be relevant to banks:

Presentation:

[3] Available on ey.com/IFRS.

Question 3-5:	Can an entity present gains or losses on disposal of an equity accounted investment in the same line item as the share of profit or loss from an equity accounted investment?

Classification:

Question 3-6:	How are transaction costs incurred in acquiring investments in other entities classified in profit or loss?
Question 3-9:	Is it acceptable to disaggregate the 'time value' element from the remeasurement of a Type 2 liability for the purpose of determining the appropriate category?
Question 3-12:	Where are gains and losses arising from the remeasurement of contingent consideration in a business combination classified?
Question 3-16:	How are foreign exchange differences on intercompany loans, eliminated on consolidation, classified in profit or loss?
Question 3-17:	In separate financial statements, where does a parent classify the income and expenses from its investments in subsidiaries accounted for at cost?
Question 3-21:	How are transaction costs incurred in acquiring an equity investment (without control, joint control or significant influence) in other entities classified in profit or loss?
Question 3-27:	Can an entity present an additional subtotal for the income of only some equity accounted investments within the investing category?

Management-defined performance measures:

Question 4-1:	Can the numerator of a ratio be an MPM, even if the numerator is never communicated by itself outside the financial statements?
Question 4-3:	Can a 'what if' income and expense based alternative performance measure be an MPM?
Question 4-4:	When would a reportable segment profit measure represent 'an aspect of the financial performance of the entity as a whole'?
Question 4-5:	Can additional subtotals included in in profit or loss applying IFRS 18.24, meet the definition of an MPM?
Question 5-1:	Can an entity disclose an additional earnings per share measure based on a numerator that does not comply with IAS 33.73B?
Question 5-2:	Can an IFRS 18.B117 MPM be the basis for an additional earnings per share measure?

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