

IFRS 18: What it means for banks and building societies

A focus on presentation in the Income Statement

IFRS 18 Presentation and Disclosure of Financial Statements (“IFRS 18”), effective for periods beginning on or after 1 January 2027, introduces a new structure for the income statement.

Banks and building societies will be required to present their income statement using the new mandatory operating, investing, financing, income tax and discontinued operation categories, together with new subtotals such as operating profit.

Specified Main Business Activities

IFRS 18 requires entities to assess whether they engage in either or both of the following specified main business activities:

- ▶ Providing finance to customers; and / or
- ▶ Investing in assets

An entity may have more than one specified main business activity. For groups, this assessment is made at the consolidated level, reflecting the overall business model rather than individual subsidiaries. Certain banks may have both a main business activity of providing financing to customers and investing in assets.

This is not just a technical classification; it directly affects how performance is reported. Where an entity has a specified main business activity, IFRS 18 requires related income and expenses to be presented within the operating category, rather than in investing or financing as would otherwise be required.

Providing finance to customers as a specified main business activity

Retail banks and building societies will typically have a main business activity of providing finance to customers, as they lend directly to individuals and businesses.

A key part of this assessment is identifying who the ‘customer’ is. Customers may include:

- ▶ The general public, for example, retail and commercial borrowers, or
- ▶ Other financial institutions, for example, interbank lending or wholesale counterparties.

Not all transactions with other banks or market participants necessarily indicate a customer relationship. Activities such as trading, market-making or short-term liquidity management may not, in substance, represent providing finance to customers.

For investment banks and wholesale banks, the position is often less clear and requires careful judgement. While these entities may provide financing, for example, through lending, margin financing or structured finance, this is often only one part of a broader business model that includes trading and advisory services. As a result, it is necessary to assess whether providing finance to customers is a core and significant activity, rather than incidental to other operations.

This assessment is based on facts and evidence, not simply management assertion. It often requires careful judgement, considering the entity’s specific circumstances.



Investing in assets as a specified main business activity

Determining whether investing in assets is a main business activity requires judgement. The key consideration is whether the entity invests in financial and/or non-financial assets that generate returns individually and largely independently of its other resources and whether this activity is core to the business model.

IFRS 18 identifies indicators that may support this assessment, focusing in particular on how performance is measured and reported. One such indicator is the use of a subtotal, similar in nature to gross profit, as an important measure of operating performance. Where investing in assets is a main business activity, this subtotal would include income and expenses that would otherwise be classified within the investing category under the standard's general requirements. The relevance of this indicator is strongest where the subtotal is used either in external communications or as part of internal performance monitoring.

Segment reporting under IFRS 8 Operating Segments may also provide useful evidence. For example, a reportable segment that comprises a single business activity suggests that the performance of that activity is an important indicator of the entity's overall operating performance and therefore that it may represent a main business activity. Similarly, an operating segment comprising a single business activity may point in the same direction where its performance is a key focus for management.

These indicators are not determinative, and other factors may be relevant depending on the bank or building society's facts and circumstances.

The assessment is performed at the level of the reporting entity as a whole, meaning conclusions may differ between individual entities and consolidated groups. For investing activities, the analysis is undertaken by reference to individual assets or to groups of assets with shared characteristics.

Investing in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method

For investments not accounted for using the equity method, entities should assess whether these investments form part of a main business activity, either individually or by grouping assets with shared characteristics.

Where separate financial statements are prepared, any grouping should be consistent with the categories used for measurement under IAS 27 Separate Financial Statements.

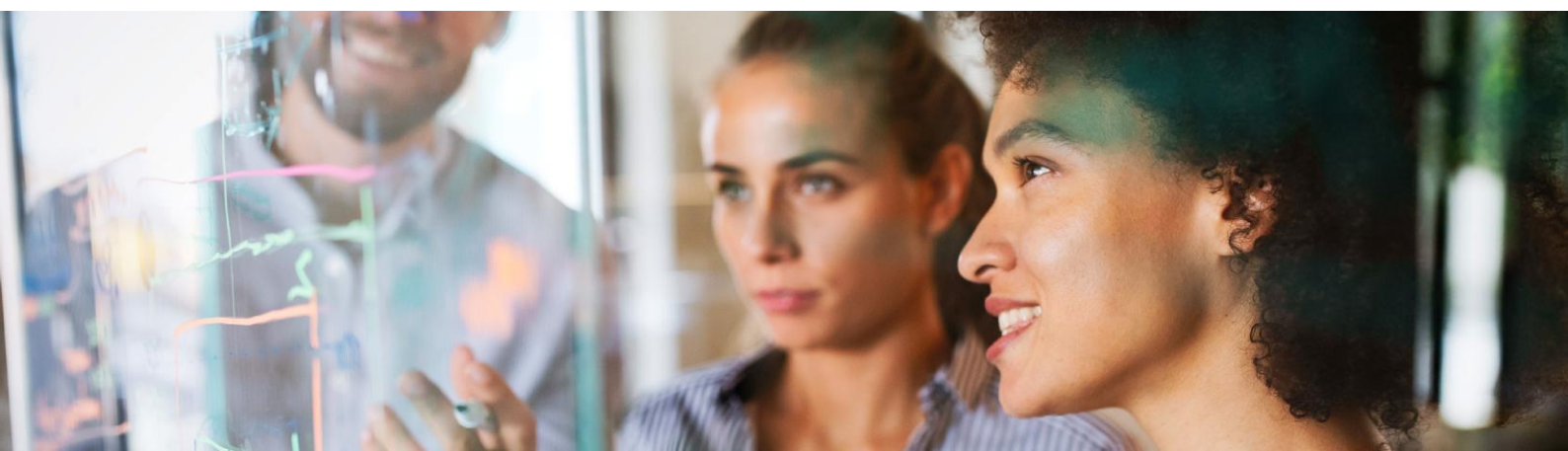
Proposed amendments to IAS 28 Investments in Associates and Joint Ventures may, if finalised, result in more entities electing to measure such investments at fair value through profit or loss. This could increase the volume of income and expenses recognised in profit or loss, making the assessment of whether these investments form part of a specified main business activity under IFRS 18 more significant for presentation purposes.

Cash and cash equivalents

A bank or building society is not required to assess whether investing in cash and cash equivalents constitutes a main business activity. Instead, IFRS 18 requires income and expenses arising from cash and cash equivalents to be presented within the investing category, unless specific exceptions apply - see Common Income Statement items section below.

Other assets that generate a return individually and largely independently of the entity's other resources

The same assessment principles apply for other assets that generate returns individually and largely independently of the entity's other resources. Banks and building societies should determine whether such investments represent a main business activity either on an individual basis or by grouping assets with similar characteristics. When grouping financial assets, those groupings should align with the classes of financial assets identified under IFRS 7 Financial Instrument Disclosure, reflecting the nature and characteristics of those assets.



Common Income Statement items

The guidance below sets out the expected classification of common income and expense items for a bank or building society with a specified main business activity of providing finance to customers under IFRS 18.

Interest and fee income from customers

Interest income from loans to customers is classified in the operating category, reflecting lending as a main business activity.

Origination and commitment fees are also classified in operating results. Where fees are included in the effective interest rate, they are presented as interest income under IFRS 9 Financial Instruments (“IFRS 9”); otherwise, they are presented as fee income under IFRS 15 Revenue from Contracts with Customers.

Cash and cash equivalents

Income and expenses arising from cash and cash equivalents are, by default, classified in the investing category under IFRS 18.

This default does not apply where a bank or building society has a specified main business activity of providing finance to customers or investing in assets. In these cases, classification depends on the extent to which cash and cash equivalents are connected to those activities.

The related income and expenses are classified in the operating category where balances are held to support customer lending.

Where such linkage does not exist and investing in assets is not a main business activity, classification may be in either the operating or investing category as an accounting policy choice, applied consistently with the treatment of similar Type 1 liabilities (see next section). Where it is not possible to distinguish the nature of balances, classification defaults to the operating category.

For entities with a main business activity of investing in assets, income and expenses from all their cash and cash equivalents are classified in the operating category rather than the default investing category treatment. This conclusion remains unchanged even if an entity has an additional business activity of providing finance to customers, that is, it has more than a single specified main business activity.

In all cases, judgement is required to assess the nature of the balances and ensure classification reflects the substance of the entity’s activities.

Income and expenses from liabilities

The classification of income and expenses arising from liabilities depends on whether they arise from transactions that involve only the raising of finance (Type 1 liabilities) or from other transactions (Type 2 liabilities).

For Type 1 liabilities, classification reflects the entity’s specified main business activities under IFRS 18. Where amounts relate to providing finance to customers, they are presented in the operating category, reflecting their link to core lending activities.

Type 1 liabilities that do not relate to providing finance to customers may be presented in either the operating or financing category as an accounting policy choice, which must be applied consistently across similar liabilities and must also be aligned with the accounting treatment for cash and cash equivalents. However, an entity with main business activities of investing in assets and providing finance to customers, which is required to classify all income and expenses from all cash and cash equivalents in the operating category, could present Type 1 liabilities that do not relate to providing finance to customers in the operating or financing category, irrespective of the classification of income and expense from its cash and cash equivalents. Where it is not possible to determine the nature of the amounts, classification defaults to the operating category.

Where such non-lending-related amounts are included in operating results, an entity is not permitted to present a subtotal of ‘profit or loss before financing and income tax’. Where they are excluded, presentation of this subtotal is required.

Conversely, where the operating category excludes such amounts, the bank or building society is required to present the subtotal of ‘profit or loss before financing and income tax’.

For Type 2 liabilities, classification is not driven by specified main business activities. Interest income and expenses, including those arising from changes in interest rates, are classified in the financing category, while all other amounts are generally presented in the operating category, reflecting their contribution to operating performance.



Type 1 Liability examples

▶ **Liability entered into specifically to on-lend to customers**

All related income and expenses are classified in the operating category, as they directly relate to the specified main business activity of providing finance to customers under IFRS 18.

▶ **Liability raised to fund a lease premium on head office premises**

Income and expenses are classified using an accounting policy choice and may be presented in either the operating or financing category, which must be applied consistently.

▶ **General-purpose funding facility (pooled use of proceeds)**

Where it is not possible to determine whether the liability relates to providing finance to customers, all related income and expenses are classified in the operating category.

Type 2 liability examples

▶ **Payable for goods or services that will be settled in cash**

The interest expense on payables arising from the purchase of goods or services, applying IFRS 9 *Financial Instruments* will be classified in the financing category.

▶ **Lease liability**

The interest expense on a lease liability, applying IFRS 16 *Leases*, will be classified in the financing category.

▶ **Provision relating to motor finance claims**

The increase in the discounted amount of the provision arising from the passage of time and the effect of any change in the discount rate, applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, will be classified in the financing category; however, it is to be noted the initial recognition expense and changes in the measurement of the provision for a revision of the best estimate of the amount required to settle the provision would be presented within the operating category.

Impairment losses

The presentation of impairment losses under IFRS 18 depends on the nature of the underlying assets and whether those assets form part of the entity's specified main business activities. As a result, impairment losses (and reversals) may be presented in more than one category within the statement of profit or loss.

Impairment losses on loans to customers are presented in the operating category, reflecting their direct link to the specified main business activity of providing finance to customers.

Where the entity also has a specified main business activity of investing in assets, impairment losses on financial assets held within that activity are also presented in the operating category.

For financial assets that are not part of a specified main business activity, impairment losses are classified based on the nature of the underlying assets. This may result in losses being presented in either the operating or investing category, depending on how those assets are classified.

Income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries that are equity accounted

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.

Foreign exchange differences

Foreign exchange differences are classified in the same category as the income and expenses of the underlying items to which they relate, unless this would involve undue cost or effort.

For foreign exchange differences arising on Type 2 liabilities, disaggregation across categories is not permitted. Instead, judgement is applied to determine the single category in which the foreign exchange differences are presented.

This assessment is performed on a case-by-case basis and applied consistently to Type 2 liabilities of a similar nature.

Gains and losses on derivatives

Derivatives may be designated as hedging instruments in a qualifying hedge accounting relationship or they may not be designated for hedge accounting purposes.

Where derivatives are used to manage identified risks, gains and losses recognised in profit or loss are generally classified in the same category as the income and expenses affected by those risks. This includes both the effective and ineffective portions of hedge results. Classification in the same category is not required if doing so would result in grossing up of gains and losses, in such a case all gains and losses are classified in the operating category.

However, where hedge accounting is not applied, classification in the same category is not required if doing so would result in grossing up across categories or would involve undue cost or effort. In such cases, all gains and losses are classified in the operating category.

Where derivatives are not used to manage identified risks, gains and losses are typically classified in the operating category, unless they relate to financing activities, in which case classification in the financing category may be appropriate.

Subtotals

IFRS 18 requires the presentation of specified subtotals within the statement of profit or loss, including:

- ▶ Operating profit or loss, comprising all income and expenses classified in the operating category;
- ▶ Profit or loss before financing and income taxes, comprising operating profit or loss plus all income and expenses classified in the investing category; and
- ▶ Profit or loss, representing the total of all income and expenses recognised in the statement of profit or loss, excluding items presented in other comprehensive income.

A bank or building society is not permitted to present profit or loss before financing and income taxes where it has a specified main business activity of providing finance to customers and classifies all income and expenses from liabilities that involve raising finance within the operating category, regardless of whether they relate to providing finance to customers.

IFRS 18 also requires entities to present additional line items and subtotals where necessary to provide a useful structured summary of performance. Any such items must be:

- a) based on amounts recognised and measured under IFRS Accounting Standards;
- b) consistent with the structure of the statement of profit or loss;
- c) applied consistently from period to period; and
- d) presented no more prominently than required subtotals.

Entities will therefore need to reassess existing subtotals to determine whether they comply with IFRS 18 and whether changes to presentation are required.

Preparing for implementation

IFRS 18 is effective for periods beginning on or after **1 January 2027**, with comparatives needing to be restated.

Entities preparing condensed interim financial statements under IAS 34 Interim Financial Reporting will need to present each heading expected under IFRS 18, together with the required subtotals, in interim periods beginning on or after 1 January 2027. Comparatives will also need to be restated. Reconciliations will be required to explain the transition from IAS 1 presentation to IFRS 18 presentation.

Given the fundamental changes to performance reporting, banks and building societies should begin assessing the impact early. This includes mapping existing income statement line items to the new categories, identifying areas requiring judgement and considering the impact of new subtotals on KPIs, internal reporting and investor communications.

Early planning will support a smoother transition and help ensure the first IFRS 18-compliant results provide a clear and consistent view of performance.

Find out more on our dedicated [IFRS 18 webpage](#).



Example income statement for a bank or building society with specified main business activities of providing finance to customers and investing in assets

Line item		Classification	
Interest revenue calculated using effective interest rate method	XXX		
Interest income on financial assets at fair value through profit or loss	XXX		
Interest expense calculated using the effective interest method	(XXX)		
Interest expense on financial liabilities at fair value through profit or loss	(XXX)		
Net interest income	XXX		
Fee and commission income	XXX		
Fee and commission expense	(XXX)		
Net fee and commission income	XXX		
Net trading income	XXX	Operating category	
Net gains/(losses) on financial assets at fair value through profit or loss	XXX		
Net gains/(losses) on financial liabilities at fair value through profit or loss	(XXX)		
Dividend income	XXX		
Credit impairment losses	(XXX)		
Employee benefits expense			
Depreciation and amortisation expense	(XXX)		
Other operating expenses	(XXX)		
Operating Profit	XXX		Mandatory sub-total
Share of profit of associates and joint ventures accounted for using the equity method	XXX		Investing category
Interest expense on pension and lease liabilities	(XXX)	Financing category	
Profit before income taxes	XXX	Mandatory sub-total	
Income tax expense	XXX	Income taxes category	
Profit from continuing operations	XXX	Additional sub-total	
Loss from discontinued operations	XXX	Discontinued operations category	
Profit	XXX	Mandatory total	

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