June 2025

Point of View

IFRS 18 – Practical considerations for Banking institutions in the Middle East

FOREWORD

IFRS 18 – Presentation and Disclosure in Financial Statements, is a new accounting standard designed to enhance financial reporting practices across the globe and sets out standardized categories for income and expenses (operating, investing and financing), along with improved disclosures and refinements for how financial information should be presented. The standard achieves this by requiring entities to specify their main business activities, disclose management-defined performance measures, aggregate and / or disaggregate the information presented in their financial statements. These changes would need careful assessment for Banks and financial institutions whose main business activity would be to provide finance to customers and invest in assets.

Determining the main or specified main business activity is foundational under IFRS 18 — it governs how key income and expense items are classified in the statement of profit or loss. For banks and banking groups, this classification directly influences how financing income, returns to depositors, investment gains, and fee-based revenues are split between Operating, Investing, and Financing activities. Banking institutions need to carefully assess their main business activity and accordingly present their income statement into the categories prescribed by IFRS 18. Banks hold investments for trading as well as non-trading purposes. Surplus cash is invested in short term liquid investments to manage liquidity. It becomes very relevant for Banks to determine the basis for making an investment, whether is it in the course of its main business activity or otherwise. Further, income and expenses from Sukuks and other Islamic financing products will also need to be assessed and appropriately presented in the income statement.

Banking institutions usually have subsidiaries which do not have the same business activity as its parent. Subsidiaries may individually qualify as having a specified main business activity (e.g., brokerage, wealth / asset management), while the group as a whole does not. This divergence impacts how Financial Statement line items like financing income, gains on investments, or operating expenses are classified at the consolidated level.

To comply with IFRS 18 disclosure and presentation requirements, organizations must take a proactive and structured approach to chart of accounts, data management, internal controls & governance and training and change management. This publication is designed to guide Banking institutions through the key provisions of IFRS 18, providing insights into its impact on financial statement presentation, disclosure requirements, consolidation and internal financial reporting governance. We sincerely hope you find this publication informative. We will be happy to take part in any discussions required to clarify our views, which are enclosed in the attached publication. We look forward to hearing from you.

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EXECUTIVE SUMMARY

IFRS 18, Presentation and Disclosure in Financial Statements, issued by the IASB, substantially changes the structure and presentation of financial statements. It brings a renewed focus on amanagement-relevant metrics and investor-aligned disclosures. The key concepts introduced under IFRS 18 are:

Categories in the Statement of Income

- Classify income and expenses into five categories – **Operating, Investing, Financing, Taxes, and Discontinued Operations.**
- FX gains/losses should be presented with the related income/expense category.
- Derivatives gains/losses are presented based on their function or purpose within the business.

Disclosure of Management-defined Performance Measures

- Performance measures shared publicly must now be formally included in financial statements and audited.
- Performance measures that represent **subtotals of income and expenses will be included.**
- Management-defined Performance Measures (MPMs) must be defined, disclosed, and reconciled with the nearest IFRS-compliant figures.

Enhanced guidance on aggregation and disaggregation

- Provides comprehensive guidance on the grouping (aggregation and disaggregation) of information to be included in 'primary' financial statements and on the information to be disclosed in the notes.
- Provides option to disclose summary of expenses, either nature-wise or function-wise, or both.

What does this mean for banks in the region?

- **P&L Reclassification:** Reclassifying items such as exchange income, non-trading gains, dividend income, etc., into Operating, Investing, or Financing categories alters key metrics such as Operating Profit, requiring clear stakeholder communication.
- **Chart of Accounts (CoA) Redesign:** CoA structures must be reengineered to support IFRS 18 categorization logic, especially for banking groups with mixed-activity subsidiaries, where consistent mapping is key for consolidation.
- **Transparency in MPMs:** Mandatory disclosure and audit of MPMs (e.g., adjusted Net Commission Margin, adjusted return for computing return on average assets (ROAA)) enhance investor trust but increase governance and system configurations to support such MPMs' reconciliations with reported figures in the income statement.
- **Regulatory Alignment Challenges:** Aligning IFRS 18's classifications with SAMA, Basel III, FINREP, and COREP frameworks creates dual reporting burdens, necessitating regulatory collaboration.
- **Reporting Process Overhaul:** Enhanced disaggregation and MPM requirements demand system upgrades, data granularity, and staff training to ensure compliance by 2027.

CLASSIFICATION OF INCOME AND EXPENSES

Steps: **Assess main business activity** → **Classify income/ expenses** → **Categorize (Operating | Investing | Financing)**

For example, If the specific main business activity is to 'invest in assets' and 'provide financing to customers', the resulting income and expenses must generally be reported in the operating result.

Retail & corporate banks primarily tend to engage in providing financing to customers. Accordingly, the indicative categorization of results/net income would look as follows:

Operating

- Income and expenses from financing to customers* - e.g. Gross financing and investment income (including expenses from borrowing of funds), Fees from banking services, etc.
- Income and expenses from investments in financial assets like fair value changes, profit/ loss on sale of investments.

Investing

- Result from associates and JV accounted for using the equity method.
- Income and expenses from investment property like rental income, impairment loss relating to the investment property, profit/ loss on sale of investment property.

Financing

- Interest expenses and effects of changes in interest rates on other liabilities (e.g: interest on lease liabilities).
- Expenses from financing liabilities that do not relate to providing financing to customers*.

**Banks can choose to classify income and expenses as operating for all liabilities that involve only the raising of finance, regardless of whether those liabilities relate to providing financing to customers. IFRS 18 allows this for entities that provide financing to customers as a main business activity.*

STANDALONE V/S CONSOLIDATED CLASSIFICATION

Why this matters

Determining the main or specified main business activity is foundational under IFRS 18, which governs how key income and expense items are classified in the statement of profit or loss. This classification directly influences how financing income, returns to depositors, investment gains, and fee-based revenues are split between Operating, Investing, and Financing activities for banks and banking groups.

Strategic Implications for Banking Groups

One Group, Multiple Realities

Subsidiaries may individually qualify as having a specified main business activity (e.g., leasing, asset management), while the group as a whole does not. This divergence impacts how Financial Statement Line Items like financing income, gains on investments, or operating expenses are classified at the consolidated level.

Consolidation May Shift the Lens

What qualifies as operating at an entity level (e.g., leasing income, asset management fees) may be reclassified as investing or financing at the group level, reshaping reported operating profit and KPIs.

Impact on Systems & Reporting

Requires alignment of the chart of accounts, granular tagging of income/expenses, and flexible reporting infrastructure to support dual views - regulatory (e.g., SAMA) vs. IFRS 18-compliant.

Consistency and Judgment Are Critical

Management must apply classification judgments consistently across entities, document rationale, and prepare for auditable disclosures when reclassifications occur or judgments evolve.

CATEGORIES-WISE MAPPING FOR BANKS (1/2)

Income/ Expense item	Pre-IFRS 18	IFRS 18 Category*
Interest Income	Operating	**Operating** as it relates to providing finance to customers and income from investments in financial assets which is one of the main business activity for a bank
Interest Expense	Operating	**Operating** as it relates to providing finance to customers
Income from Islamic financing products		
> Murabaha	Operating	**Operating** as it relates to Islamic financing to customers
> Ijara	Operating	**Operating** as it relates to Islamic financing to customers
> Others	Operating	**Operating** if relates to providing finance to customers and investing in financial assets otherwise **Investing**
Distribution on Islamic deposits and profit on Sukuks		
> Distribution to depositors	Operating	**Operating** as it relates to providing finance to customers
> Profit on sukuks	Operating	**Operating** as it relates to Islamic financing to customers
Fee and commission income	Operating	**Operating** as it relates to providing finance to customers and investing in financial assets
Fee and commission expense	Operating	**Operating** as it relates to providing finance to customers and investing in financial assets

**Banks usually have a main business activity of providing finance to customer and investing in assets, however these classifications are illustrative and would depend on the assessment of main business activity of each reporting entity*

Note : For entities, where specified main business activity is only providing finance for customers (not investing in assets), they would need to classify income and expenses from cash and cash equivalents as operating (such as cash and cash equivalents held for related regulatory requirements).

In addition, entities can make an accounting policy choice to classify income and expenses from cash and cash equivalents as operating or investing that do not relate to providing financing to customers. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from liabilities.

CATEGORIES-WISE MAPPING FOR BANKS (2/2)

Income/ Expense item	Pre-IFRS 18	IFRS 18 Category *
Exchange Income	Operating	FX income/expense must be recorded within the same category as the original income or expense item.
Investment and dividend income	Operating	**Operating** as it relates to income from investment in financial assets which is one of the main business activity
Net Gain on trading securities	Operating	**Operating** as it relates to income from investment in financial assets which is one of the main business activity
Rental Income / Gain on sale of investment property	Operating	**Investing** as it relates to investment in non financial assets which is not the main business activity of a bank
Credit impairment losses	Operating	Depends on whether the results from financial assets / non financial assets are classified under **operating** or **investing** activities.
Derivatives	Held for trading – recorded as trading income (under operating category) Hedged i.e. Non-trading gains / losses (part of operating category as the host contract was not bifurcated between operating, investing or financing)	Held for trading – **Operating** Hedged – based on the classification of the host contract i.e. could be **operating** or **investing**
Depreciation / Amortisation of intangibles	Operating	**Operating**
Staff cost	Operating	**Operating**

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ILLUSTRATIVE INCOME STATEMENT PRE V/S POST IFRS 18

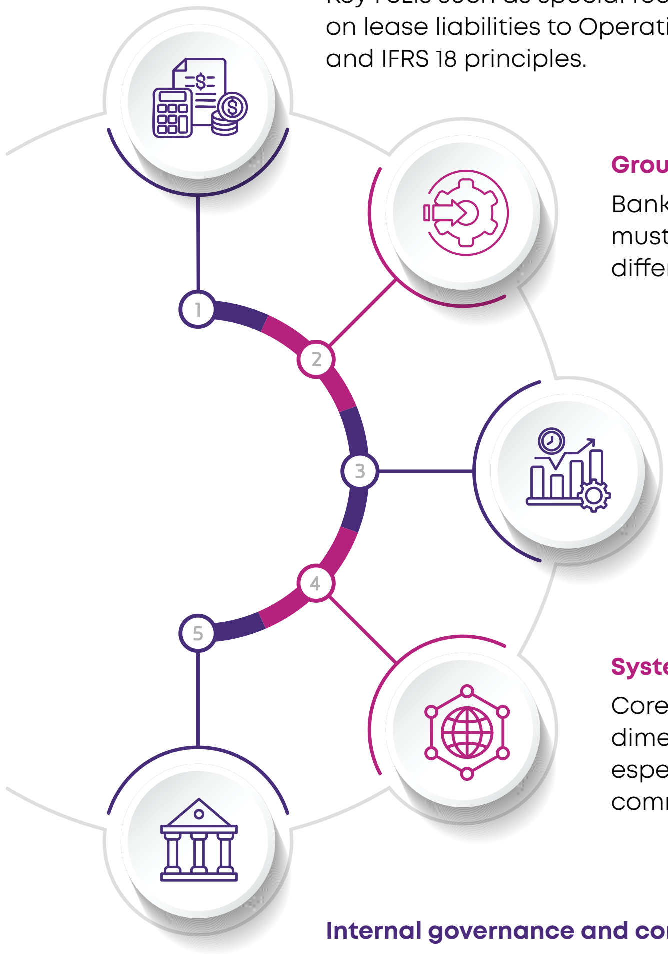
Pre IFRS 18	
Description	**20XX**
Interest Income	XXX
Interest Expense	XXX
Net interest income	**XXX**
Income from Islamic financing and investment products	XXX
Distribution on Islamic deposits and profit paid on Sukuk	XXX
Net income from Islamic financing products	**XXX**
Net interest income and net income from Islamic financing products	**XXX**
Fee and commission income	XXX
Fee and commission expense	XXX
Net fee and commission income	**XXX**
Exchange Income	XXX
Net gain on trading securities	XXX
Other operating income	**XXX**
Total income	**XXX**
Salaries and employee related expenses	XXX
Depreciation and amortization	XXX
Other administrative expenses	XXX
Expected credit losses (ECL) and other impairment charges	XXX
Net income before Zakat and income tax	**XXX**
Zakat	XXX
Income tax	XXX
Net income	**XXX**

★ For a bank, the main business activities are both providing finance to customers and investing in assets. Hence the investments in financial assets related income/ expenses have been classified under Operating category.

* Same as 'Profit or loss before financing and income tax' because there is no line item under financing income in this illustrative example.

Post IFRS 18		
Description	**20XX**	
Interest Income	XXX	Operating
Interest Expense	XXX	Operating
Net interest income	**XXX**	Operating
Income from Islamic financing and investment products	XXX	Operating
Distribution on Islamic deposits and profit paid on Sukuk	XXX	Operating
Net income from Islamic financing products	**XXX**	Operating
Net interest income and net income from Islamic financing products	**XXX**	Operating
Fee and commission income	XXX	Operating
Fee and commission expense	XXX	Operating
Net fee and commission income	**XXX**	Operating
Exchange Income	XXX	Operating
Net gain on trading securities	XXX	Operating
Other operating income	**XXX**	Operating
Total income	**XXX**	Operating
Salaries and employee related expenses	XXX	Operating
Depreciation and amortization	XXX	Operating
Other administrative expenses	XXX	Operating
Expected credit losses (ECL) and other impairment charges	XXX	Operating
Operating Profit	**XXX**	Operating
Rental Income	**XXX**	Investing
Gains on sale of investment properties	**XXX**	Investing
Expected credit losses (ECL) and other impairment charges on non-financial asset	XXX	Investing
Net income* before Zakat and income tax	**XXX**	
Zakat	XXX	
Income tax	XXX	
Net income	**XXX**	

IMPACT ON CHART OF ACCOUNTS (COA) FOR BANKS



Re-mapping income and expense accounts:

Key FSLIs such as special fee and commission income, gains/losses on non-trading investments, interest expense on lease liabilities to Operating, Investing, or Financing categories, based on the group's main business activity and IFRS 18 principles.

Group-wide standardization:

Banking groups with subsidiaries in asset management, investment banking, or leasing must introduce CoA logic that accommodates entity-level vs. group-level classification differences, especially during consolidation.

Dual-tagging for flexibility:

Many banks will need to introduce dual tagging or categorization flags in their CoA, one for regulatory/management reporting (e.g., SAMA) and one for IFRS 18 presentation, to avoid duplication and maintain traceability.

System enablement and flexibility:

Core banking and ERP systems must support flexible account mapping, allowing for multi-dimensional classification (e.g., one dimension for regulatory codes, one for IFRS category), especially for recurring items like financing income, returns to depositors, and fee & commission income.

Internal governance and controls:

Provides a competitive edge by demonstrating a proactive approach to managing risks and ensuring continuity of operations.

MANAGEMENT-DEFINED PERFORMANCE MEASURES (1/2)

Non-GAAP performance measures are a subtotal of income and expenses included in press releases, management commentaries, and investor presentations.

Is the measure used in public communication outside the financial statements? e.g. in management commentary, press releases and investor presentation

Yes

Does the measure communicate management's view of an aspect of the entity's overall financial performance?

Yes

Is the performance measure a non-GAAP subtotal (i.e. not required by any IFRS or not a required subtotal in IFRS 18)?

Yes

Disclosure requirements for MPMs are applied to that measure

Measures which are not a MPM

- Measures pertaining to assets, liabilities, equity, and cash flow.
- Regulatory metrics like leverage ratios, CET 1 ratios, liquidity coverage ratio, etc.
- Financial ratios (e.g., return on assets, net interest margin) are not MPMs — however, any subtotal of income and expenses used within the ratio may be an MPM (e.g., adjusted return used in adjusted return on equity).
- Subtotals that depict the difference between a type of revenue and directly related expense, e.g., Net special commission income, Gross profit or loss.
- A measure used internally and not referred to for public communications.

MANAGEMENT-DEFINED PERFORMANCE MEASURES (2/2)

Our view on some common non-GAAP metrics of banks and whether it is covered under IFRS 18?

Measure	Covered in IFRS 18?
Net Interest Margin (NIM)	No, as the numerator in NIM is an IFRS defined sub-total. However, the numerator in Adjusted NIM could be an MPM in the scope of IFRS 18 For example: Adjusted Net Interest Income (excluding one-off interest income/expense items).
Pre-Provision Operating Profit (PPOP)	It may be a MPM as the measure is a subtotals of income and expense.
Return on Average Assets (ROAA)	A financial ratio is not an MPM. However, if such return/profit used for computed ROAA is adjusted, such adjusted return is an MPM.
Cost-to-income ratio (CIE)	No but, if the numerator or denominator is a custom subtotal of income/expenses (not required by IFRS and presented as reflecting management's view), then that component would be considered an MPM.
Return on Equity (ROE)	The numerator in this ratio may be an MPM if it is 'Adjusted Return' i.e. excluding non-recurring items.

Sample illustrative reconciliation:

Particulars	For the year ended 31 December 20XX
Pre-provision Operating Profit	XX
Add: Expected credit losses	XX
Operating Profit (required subtotal)	XX

AGGREGATION AND DISAGGREGATION

The disaggregation guidance requires entities to present income and expenses in sufficient detail to provide useful information, avoiding overly aggregated line items. This also involves breaking down P&L items (e.g., fee income, interest income, impairment losses) by nature, type, function or other relevant characteristics.

Current Disclosures

- Interest and similar income / expenses is disaggregated into different source of these income / expenses.
- Income from Islamic Financing and distribution on Islamic Deposits is disaggregated into various products.
- Fee and commission income / expenses is disaggregated based on nature of businesses.
- Other operating income is disaggregated into rental income, asset disposal and Dividend and Foreign Exchange Income (Illustrative).
- Forex exchange gain or loss is not disaggregated.
- ECL is presented separately for classes of assets like loans and advances, other financial assets and commitments and contingencies.
- No disaggregation of other general and administrative expenses is provided.

IFRS 18 impact

- Analysis to determine if further disaggregation of fee and commission by nature is required under IFRS 18.
- Dividend and Gain on sale of investments shall be classified into operating category for a bank and further disaggregated by nature of investments for each category.
- Other operating income shall be disaggregated into income source and classified based on operating or investing nature
- Forex gain or loss shall be disaggregated by the type of items that led to the gain or loss like trading activity, hedging instrument, etc and shall be classified appropriately.
- ECL losses shall be classified based on operating or investing nature of underlying asset and further disaggregated by nature.
- Other general and administrative expenses shall be disaggregated into further items by nature.

Operational Implications

IT systems must capture and report granular data for disaggregated P&L items.

Increased data granularity to support disaggregation and MPM reconciliations.

Strengthened controls to validate disaggregated data and MPMs for audit compliance.

Comprehensive training on IFRS 18 disaggregation rules.

IFRS 18 IMPLEMENTATION TIMELINE

Q2 – Q3 2025

- Assess existing processes and systems against IFRS 18 requirements.
- Analyze P&L item classifications for the parent entity and subsidiaries to ensure group-wide consistency.

Q4 2025 – Q1 2026

- Define, develop, validate, and benchmark MPMs against industry benchmarks.
- Update the chart of accounts.

Q2 – Q3 2026

- Implement IT enhancements for classification, disaggregation, and MPM reconciliation.
- Run pilot P&L statements to validate reclassifications and reporting processes.

Q3 – Q4 2026

- Finalize policies, train teams, and prepare systems for live implementation in 2027.
- Achieve IFRS 18 compliance by January 1, 2027, with restated comparatives.

KEY CHANGES REQUIRED

To comply with the IFRS 18 disclosure and presentation requirements, organizations must take a proactive and structured approach to the chart of accounts, data management, Internal controls & governance, and training and change management. Below are key steps:

Chart of accounts update

Requirement:

The chart of accounts must support new classification categories, disaggregation rules, and MPM reconciliations.

Illustrative changes required:

- Update reporting system to tag P&L items (e.g., deposit expenses as Operating, trading gains as Investing).
- Enhance systems to disaggregate fee income by nature (e.g., advisory vs. transaction fees).

Data Management & Tech Enhancements

Requirement:

Increased data granularity to meet disaggregation and MPM disclosure needs.

Illustrative changes required:

- Capture detailed data on P&L items (e.g., fee income sources/ nature or trading gain components into operating/investing depending on the nature of investments).
- Implement real-time data feeds for dynamic P&L reporting.

Internal Controls and Governance

Requirement:

Strengthened controls to validate reclassifications and MPMs for audit compliance.

Illustrative changes required:

- Establish audit trails for reclassified items (e.g., deposit expenses) and MPMs (e.g., adjusted NIM).
- Create governance frameworks to ensure consistency in classification decisions.

Financial Close & Accounting Policies

Requirement:

Ensure IFRS 18 classifications and disclosures are embedded in close processes and governance documentation.

Illustrative changes required:

- Align FSCP timelines to accommodate new classification validations and MPM disclosures.
- Update accounting policy manuals to reflect revised definitions of operating, investing, and financing categories.
- Embed review checkpoints for classification judgments during monthly/quarterly closes.

Also refer to our recent thought leadership on IFRS 18 for a general overview of the requirements for all industries.

A TEAM YOU CAN TRUST TO DELIVER

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