Hong Kong Institute of Certified Public Accountants
香港會計師公會

# HKFRS 18 NAVIGATOR
# *INSIGHTS FOR FINANCIAL INSTITUTIONS*

JUNE 2026 ISSUE 5

Building on the previous HKFRS 18 Navigator issues, which introduced the key changes to the statement of profit or loss under HKFRS 18 *Presentation and Disclosure in Financial Statements*, this issue focuses on how HKFRS 18 applies to financial institutions (FIs), including banks and insurers, given their distinct business models and extensive use of financial instruments.

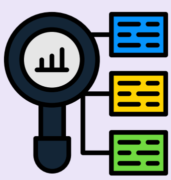
## HOW DOES THE NEW STRUCTURE OF THE STATEMENT OF PROFIT OR LOSS AFFECT FIs?

### SPECIFIED MAIN BUSINESS ACTIVITY (SMBA)

In addition to the general requirements of HKFRS 18, the concept of SMBA is particularly important for FIs, whose business models often involve a combination of financing, investing and treasury activities. Entities with an SMBA are required to classify certain income and expenses in the operating category which would otherwise be classified in the investing or financing categories. Further guidance on determining whether an entity has an SMBA and the impact on the classification is provided in HKFRS 18 Navigator Issue 3.

### TOTALS AND SUBTOTALS

HKFRS 18 requires entities to present specified totals and subtotals, such as operating profit or loss, while allowing additional line items and subtotals when they provide a useful structured summary of the entity's financial performance. As FIs often present industry-specific line items and subtotals, such as net interest income, they should assess whether these presentations continue to comply with HKFRS 18 and whether any changes are needed.



### CLASSIFICATION FOR SPECIFIC INCOME AND EXPENSES

HKFRS 18 includes specific requirements for the classification of foreign exchange differences, gains and losses on derivatives and hedging instruments, and income and expenses from hybrid contracts with a host liability. Given the extensive use of derivatives and other complex financial instruments by FIs, these requirements are particularly relevant and warrant close attention. Further discussion will be provided in the next issue.

## BANKS

Illustrative statement of profit or loss for a bank with SMBA of investing in financial assets and providing financing to customers

| | | |
|---|---|---|
| | Interest revenue | Operating |
| | Interest expense | Operating |
| | **Net interest income** | Operating |
| | Fee and commission income | Operating |
| | Fee and commission expenses | Operating |
| | **Net fee and commission income** | Operating |
| | Net trading income | Operating |
| | Net investment income | Operating |
| | Credit impairment losses | Operating |
| | Employee benefits | Operating |
| | Depreciation and amortisation | Operating |
| | Other operating expenses | Operating |
| New required subtotal | **Operating profit** | |
| | Share of profit or loss of associates and joint ventures | Investing |
| New required subtotal | **Profit before financing and income taxes** | |
| | Interest expenses on borrowings that are not part of main business activity | Financing |
| | Interest expenses on pension and lease liabilities | Financing |
| | **Profit before income taxes** | |
| | Income tax expense | |
| | **Profit** | |

### *Potential impacts*

- Banks generally have an SMBA of providing financing to customers. However, not all banks will automatically have an SMBA of investing in assets. Whether investing in assets is a main business activity requires a fact-specific assessment, and affects the classification of income and expenses from cash and cash equivalents and other assets.
- Most banks currently present all interest income and expenses within the net interest income subtotal. Under HKFRS 18, this will change, as interest relating to liabilities that arise from transactions that do not involve only the raising of finance (e.g. lease liabilities) will be classified in the financing category rather than the operating category.
- If the bank applies the accounting policy choice in paragraph 65(a)(ii) of HKFRS 18 to classify income and expenses from all liabilities that arise from transactions that involve only the raising of finance, including those that are not part of its main business activities, in the operating category:
  - it does not present the subtotal of profit before financing and income taxes; and
  - the accounting policy choice may affect how it classifies income and expenses arising from hybrid contracts with host liabilities, foreign exchange differences and derivatives (These topics will be explored in the next issue).

## INSURERS

Illustrative statement of profit or loss for an insurer with an SMBA of investing in financial assets

| | |
|---|---|
| Insurance revenue | Operating |
| Insurance service expenses | Operating |
| **Insurance service result** | Operating |
| Investment income | Operating |
| Credit impairment losses | Operating |
| Insurance finance expenses | Operating |
| **Net financial result** | Operating |
| Other operating expenses | Operating |
| **Operating profit** (New required subtotal) | |
| Share of profit or loss of associates and joint ventures | Investing |
| **Profit before financing and income taxes** (New required subtotal) | |
| Interest expenses on borrowings and pension liabilities | Financing |
| **Profit before income taxes** | |
| Income tax expense | |
| **Profit** | |

### *Potential impacts*

- HKFRS 18 specifies that insurance finance income and expenses recognized under HKFRS 17 *Insurance Contracts*, and income and expenses from issued investment contracts with participation features recognized applying HKFRS 9 *Financial Instruments*, are included in the operating category.
- Some insurers invest in associates and joint ventures as part of the assets that back their insurance liabilities, and these investments are considered as part of the insurers' main business activities. Presenting the results from such investments outside the operating category would create a classification mismatch. HKFRS 18 provides a transition provision for entities eligible to apply paragraph 18 of HKAS 28 *Investment in Associates and Joint Ventures*[1] to change their election from measuring investments in associates or joint ventures using the equity method to measuring them at fair value through profit or loss (FVTPL) in accordance with HKFRS 9. For such investments, changing from the equity method to FVTPL would enable the related income and expenses to be classified in the operating category, thereby avoiding a classification mismatch.

(1) On 26 June 2026, the IASB issued targeted amendments to IAS 28 to clarify that entities whose main business activity is investing in particular types of assets (as defined in IFRS 18) are eligible to elect the fair value option to account for investments in associates and joint ventures.

## MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMS)

Another key change introduced by HKFRS 18 is the new concept of MPMs, which is discussed in HKFRS 18 Navigator Issue 4. This change is particularly relevant to FIs, which commonly use financial measures in annual reports and investor communications. These measures often include balance sheet metrics, performance ratios, subtotals of income and/or expenses, and regulatory measures. FIs will therefore need to assess whether any of these measures meet the definition of an MPM and, if so, comply with the related disclosure requirements, which are subject to audit.

### Illustrative financial measures reported by FIs

The following examples are illustrative only. Whether a measure is an MPM depends on the specific facts and circumstances and whether the measure meets all aspects of the definition of an MPM in HKFRS 18.

| Financial measures | Could be an MPM? | Explanations |
|---|---|---|
| **BANKS** | | |
| Adjusted net interest income | Likely | It is an adjusted subtotal of interest income and interest expenses. |
| Return on equity | Depends | The ratio itself is excluded by HKFRS 18.B116(c) and is not an MPM. However, the numerator may be an MPM if it is an adjusted profit measure that meets all aspects of the definition of an MPM. |
| Net interest margin | No | The ratio itself is excluded by HKFRS 18.B116(c) and is not an MPM. Its numerator is usually ‘net interest income’, which is a subtotal similar to gross profit and is specifically excluded by HKFRS 18.118(a) and B123(a). |
| **INSURERS** | | |
| Underwriting result | Depends | Whether it is an MPM depends on how the measure is defined and whether it represents an adjusted subtotal of income and expenses that communicates management’s view of financial performance and is used in public communciation. |
| Insurance service result | No | It is a subtotal comprising insurance revenue and insurance services expenses. Similar to gross profit, it is specifically excluded by HKFRS 18.118(a) and B123(c). |
| Contractual service margin | No | It is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides insurance contract services in the future. It is not a subtotal of income and expenses. |

## LOOKING AHEAD: WHAT'S NEXT IN OUR SERIES

In the next issue, we will explore the classification of specific income and expenses and discuss how financial information should be grouped in financial statements.

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**Q3**

6. A deep-dive into income, expenses & information grouping
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