

# Primary Financial Statements

Accounting Standards Advisory Forum meeting  
December 2018

ASAF agenda paper 1

Please note that we recommend the appendix section of these slides be printed in colour.

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

# Purpose of the session

- The purpose of this session is to provide ASAF members with an **updated overview** of the project as a whole and **seek feedback** on the proposals.
- We are seeking feedback on whether members expect the proposals in their jurisdiction to:

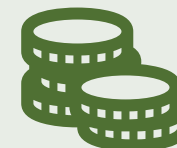
Result in better  
**economic  
decision-making**  
by investors



result in **change  
in current  
practice**



be **costly** to  
implement



# Before the session

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- Please review the slides in advance of the meeting, in particular the illustration on slide 17
- Please consider the effect the proposals would have on the analysis of financial statements of entities in your jurisdiction
- If you have time, please complete the effects analysis matrix on slide 5 and send to the team **before the meeting**
- During the session, we will focus the discussion on the reasons for your responses to the effects analysis

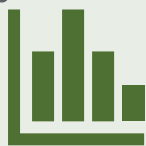
# Questions to ASAF members

- Please refer to the proposals relating to:
  - Presenting subtotals in the statement of profit or loss;
  - Disclosures of management performance measure(s); and
  - Improving disaggregation.

- Which of the Board's tentative proposals do you think will:

## Question 1

result in better  
**economic**  
**decision-making**  
by investors?



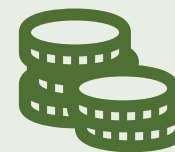
## Question 2

result in **change**  
**in current**  
**practice**



## Question 3

be **costly** to  
implement



# Before the session – effects analysis matrix

Key proposals	economic decision-making by investors	change in practice	costs of implementation
Subtotals	Better/No impact/Worse/Don't know	Change/no change/not applicable	Costly/not costly/Not applicable
Operating profit			
Operating profit and share of integral JVs and associates			
Profit before financing and income tax			
Management performance measures			
Inclusion of management performance measures in the financial statements			
Reconciliation to closest IFRS-defined subtotal			
Tax and NCI for each adjustment			
Explanation of why measure is useful and how it has been calculated			
Disaggregation			
Disaggregation of expenses in business profit by function or by nature			
Disclosure of unusual or infrequent items			
Disaggregation principles and factors to consider			

# Agenda

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Appendix—Illustration of scope of subtotals

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# Project background & overview

# Central theme of the Board's work

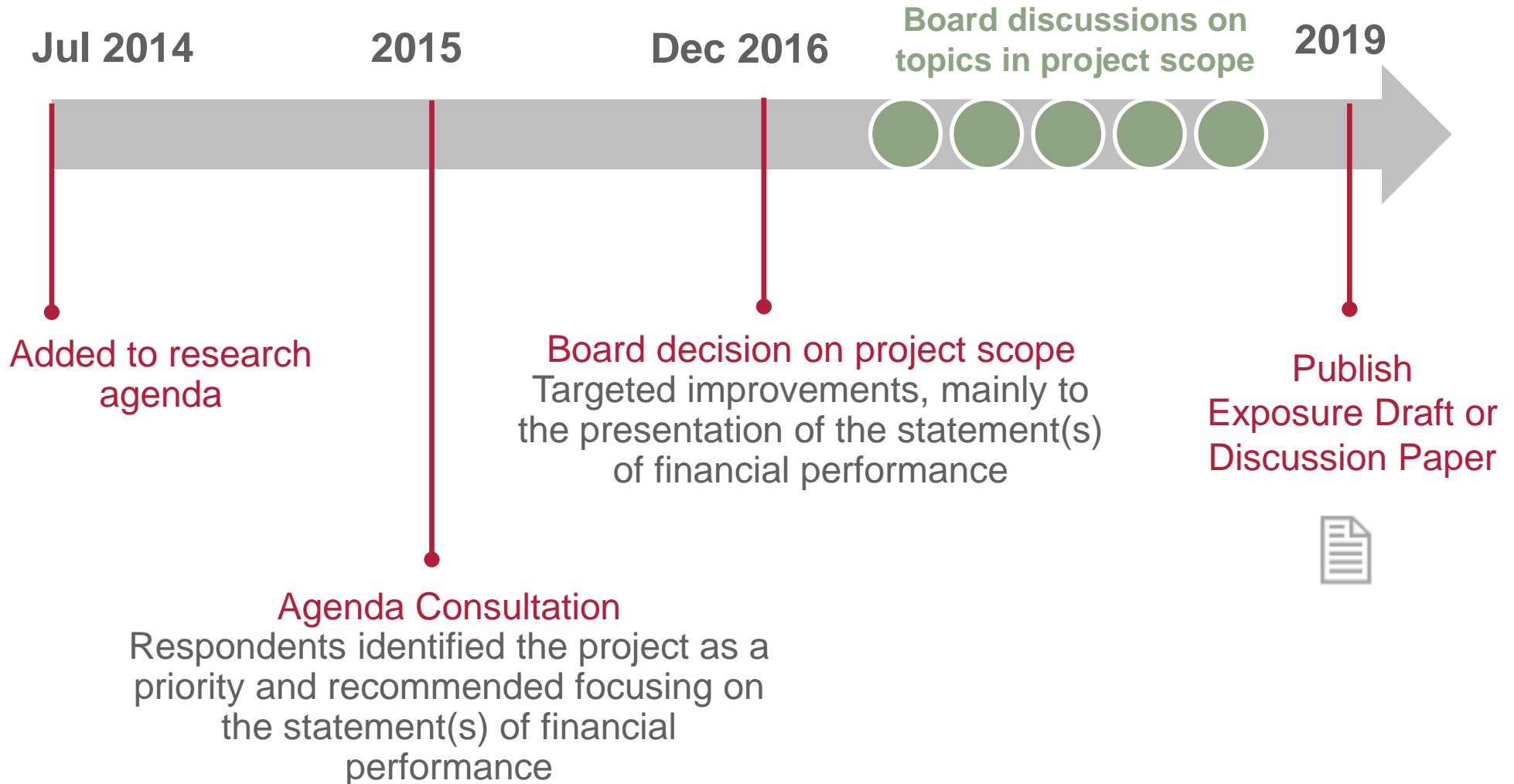
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## Better Communication in Financial Reporting





# Project timeline





## Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



### Primary Financial Statements

Statement(s)  
of financial  
performance

Statement  
of financial  
position

Statement  
of cash  
flows

Statement  
of changes  
in equity

# Stakeholder feedback and key project proposals

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Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance



Non-GAAP measures can provide useful information, but transparency needs to be improved

Proposals on **Management Performance Measures**



I need flexibility to tell my company's story

Proposals to **improve disaggregation**



There is insufficient disaggregation in financial statements

# Full scope of the project

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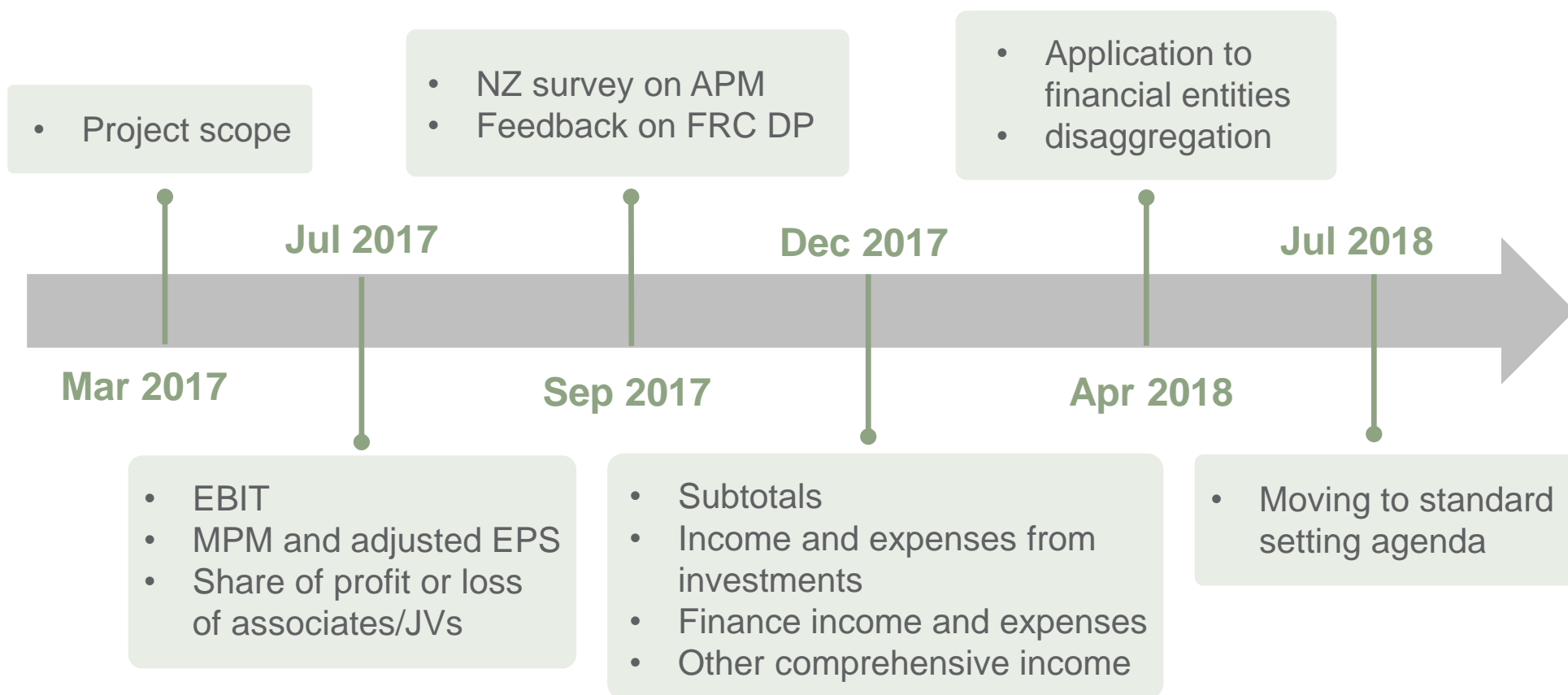
Statement(s) of financial performance	Statement of cash flows
Subtotals & categories facilitating comparisons between entities: <ul style="list-style-type: none"><li>• Operating, investing and financing categories</li><li>• Presentation of associates/JVs</li></ul>	Eliminating classification options (interest/dividends)
Management performance measures	Consistent starting point for the indirect method
Better ways to communicate OCI	Cash flows related to associates/JVs

## Improving disaggregation in financial statements

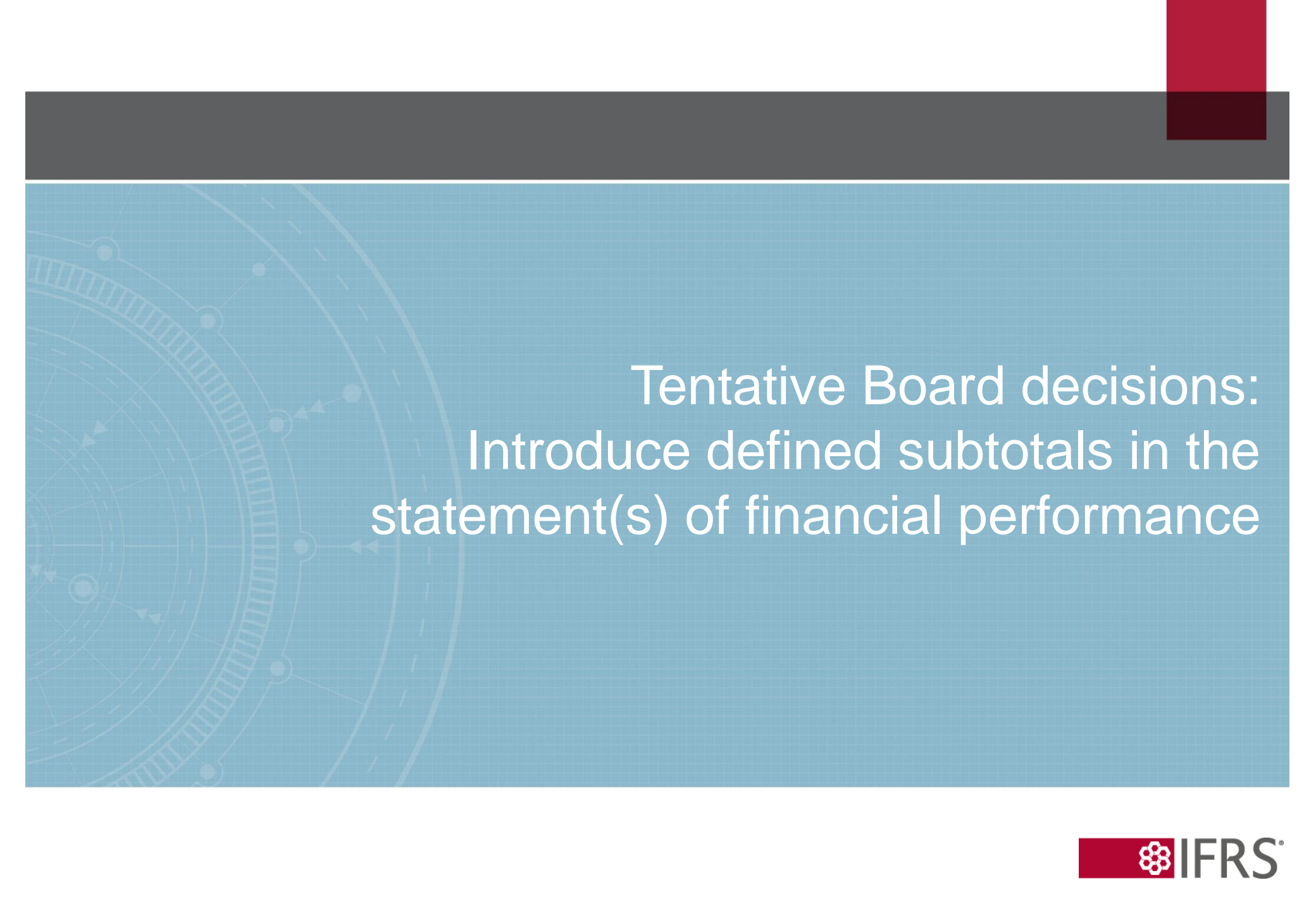
Principles of disaggregation in financial statements
Disaggregation by nature and by function in the statement(s) of financial performance
Disclosure of unusual or infrequent items
Minimum line items in the primary financial statements
Illustrative examples of primary financial statements for a small number of industries

# Previous ASAF meetings

We discussed the project with ASAF on several occasions



Slides 33–39 provide a summary of feedback from these meetings



Tentative Board decisions:  
Introduce defined subtotals in the  
statement(s) of financial performance

# Three defined subtotals in the statement of profit or loss

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1

Operating profit

Excludes share of profit from **all** joint ventures and associates

2

Operating profit and share of profit of integral associates and joint ventures

- Excludes **income/expenses from investments**, which are defined as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'
- Excludes share of profit from **non-integral** joint ventures and associates

3

Profit before financing and income tax

Excludes:

- Income/expenses arising from financing activities
- Income/expenses related to cash and cash equivalents
- Unwinding of discount on other liabilities

Defined bottom-up

# Presentation of associates and JVs

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Preparer A

My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.



User B

## Tentative Board decisions

Requirement to separately present 'integral' and 'non-integral' associates and joint ventures in statements of financial performance and cash flows.

Use definition of income/expenses from investments to determine classification: generate returns largely independently of other resources.

Definition supplemented with indicators for determining whether a joint venture or associate is 'integral' or 'non-integral'.



# Defined subtotals

## —illustration for general corporates

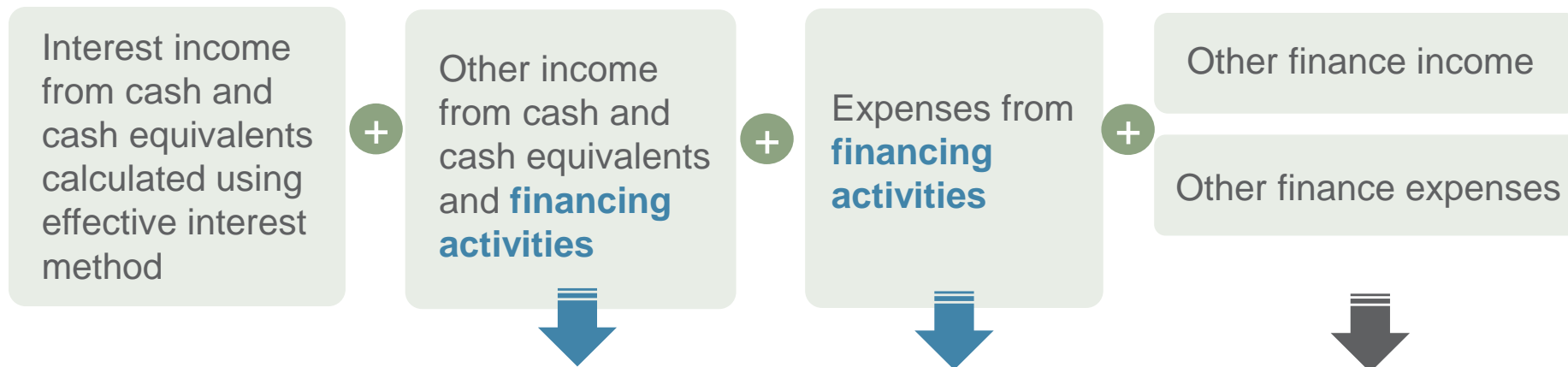
17

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs	-3,000
<b>Operating profit</b>	<b>3,000</b>
Share of profit of <b>integral</b> joint ventures and associates	500
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>3,500</b>
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of <b>non-integral</b> joint ventures and associates	100
<b>Profit before financing and income tax</b>	<b>3,900</b>
Interest income from cash and cash equivalents	100
Expenses from financing activities	-1000
Unwinding of discount	-100
Profit before tax	2,900

# Profit before financing and income tax

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## Items excluded from profit before financing and income tax



### Financing activities (proposed clarification to IAS 7 definition)

- receipt or use of a resource from a provider of finance (or provision of credit)
- expectation: resource returned to provider of finance
- expectation: provider of finance appropriately compensated through finance charge (dependent on amount/duration of credit)

Includes specified items such as unwinding of the discount on liabilities that do not arise from financing activities

# Scope of subtotals (see illustrations in appendix)

	Operating profit Includes...		Operating profit and share of associates/JVs	Profit before financing and income tax
General corporates	✓	no income or expenses relating to financing or investing activities	✓	✓
Entities whose main business activity is providing financing to customers (eg traditional banks)	✓	all income/expenses from financing activities and cash and cash equivalents	✓	✗
Entities who invest in the course of their main business activity (eg investment property companies)	✓	income/expenses from investments made in the course of their main business activity	✗	✓
Entities whose main business activities are <u>both</u> investing* and provision of financing to customers	✓	<ul style="list-style-type: none"> <li>income/expenses from financing activities and cash and cash equivalents</li> <li>income/expenses from investments made in the course of main business activity</li> </ul>	✗	✗
Entities with more than one main business activity incl. investing <u>and/or</u> provision of financing to customers	✓	<ul style="list-style-type: none"> <li>income/expenses from financing activities and cash and cash equivalents related to the provision of financing to customers</li> <li>income/expenses from investments made in the course of their main business activity</li> </ul>	✓	✓



# Tentative Board decisions: Proposals on Management Performance Measures

# Management performance measures (1)

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Preparers

I need flexibility to tell my company's story

**Tentative  
Board  
decisions**

Entities are **required** to identify a measure (or measures) of profit that, in management's view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a **management performance measure (MPM)** that complements those subtotals or totals.

If entities identify management performance measures, information about those MPMs is **required** to be disclosed in the **notes**.

**No specific constraints** on the calculation of MPMs.

# Management performance measures (2)

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Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative  
Board  
decisions

Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

Disclose the **effect of tax and non-controlling interests** separately for each reconciling item

Explain any **differences** between MPMs and **segment** measures

**Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**

**Label** MPMs in a **clear** and **understandable** way

# Management performance measures (3)

## Example of reconciliation

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The management performance measure is presented in a **separate reconciliation in the notes:**

### Management performance measure reconciliation (extract from notes)

Management performance measure	4,900	Tax impact	NCI impact
Restructuring expenses for the closure of Factory A	(1,000)	200	50
Litigation settlement related to court case B	(400)	80	
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>3,500</b>		



# Tentative Board decisions: improving disaggregation





Users

There is insufficient disaggregation in financial statements

Principles of disaggregation  
in the financial statements

Proposals to improve  
disaggregation of expenses  
by nature / by function

Guidance on unusual or  
infrequent items

Consider expanding the list of  
required minimum line items in  
the primary financial statements

Consider illustrative examples for  
the primary financial statements  
for a small number of industries

# Unusual or infrequent items

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Information about unusual or infrequent items is useful but transparency needs to be improved.

## Tentative Board decisions

Requirement for all entities to disclose information about unusual or infrequent items in the notes irrespective of whether an entity discloses an MPM.

Note disclosure required to attribute unusual or infrequent items to line items in the statement(s) of financial performance.

Proposals to develop principles-based guidance for identifying unusual or infrequent items.



# Tentative Board decisions: statement of cash flows

# Statement of cash flows

- Eliminating **classification options** (interest/dividends):

Cash flows	Classification
Interest incurred on financing activities	Financing cash flows
Interest paid that is capitalised as part of the cost of an asset	Financing cash flows
Dividends paid	Financing cash flows
Dividends received	Investing cash flows
Interest received	Investing cash flows

- **Consistent starting point** for **indirect method** for reporting operating cash flows: 'operating profit'
- **Separate presentation** of cash flows from integral and non-integral **associates and JVs** within investing cash flows

# Statement of cash flows – illustration (indirect method)

Operating profit*	X
Adjustments for:	
Depreciation	X
[...]	
Income taxes paid	(X)
<b><u>Net cash from operating activities</u></b>	<b><u>X</u></b>
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[...]	
<b><u>Net cash used in investing activities</u></b>	<b><u>(X)</u></b>
[...]	
<b><u>Net cash used in financing activities</u></b>	<b><u>(X)</u></b>
<b><u>Net increase in cash and cash equivalents</u></b>	<b><u>X</u></b>

Consistent starting point for indirect method for operating cash flows

Separate presentation of cash flows from integral and non-integral associates and joint ventures within investing cash flows

\*The Board has tentatively decided to require 'operating profit and share of profit or loss of integral associates and joint ventures' as the starting point, but the staff are planning to bring an updated proposal to the Board, suggesting 'operating profit' as the starting point.



# Remaining topics for Board discussion

# For discussion at November Board meeting

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## Topic

## Staff recommendation

EBITDA

Do not require. Can be identified as MPM but label must faithfully represent measure.

Minimum line items

Align with decisions on subtotals. Apply regardless of function/nature method

Templates or illustrative examples

Develop illustrative examples

# For discussion at future Board meetings

32

## Not discussed yet

First due process document—  
Discussion Paper or  
Exposure Draft?

## Further discussion of outstanding issues on:

Application of project proposals  
to financial entities

Disaggregation of information

Unusual or infrequent items





# Feedback from previous ASAF meetings

## Project scope

- Members generally supported the direction and the scope of the project.
- Some members suggested that the Board:
  - should not eliminate some presentation options;
  - should provide illustrative examples instead of mandatory templates;
  - could address the presentation of non-recurring items

# Feedback from July 2017 ASAF meeting

<p>Earnings before finance income/expenses and tax (EBIT)</p>	<ul style="list-style-type: none"><li>• Many members supported including an EBIT subtotal in the statement(s) of financial performance.</li><li>• Some members said defining EBIT would be challenging, and others questioned the proposed definition for EBIT.</li><li>• Other members expressed general concerns about defining and requiring an EBIT subtotal.</li></ul>
<p>Management performance measures (MPMs) and adjusted earnings per share (EPS)</p>	<ul style="list-style-type: none"><li>• Members expressed concerns about introducing an MPM in the statement(s) of financial performance.</li><li>• Few comments were made about an adjusted EPS.</li></ul>
<p>Share of profit or loss of associates and joint ventures (JVs)</p>	<ul style="list-style-type: none"><li>• Most members supported the Board considering whether the location should depend on whether the associate or JV is integral to the entity's operations. A few members supported a single location for the presentation of the share of profit or loss of all associates and all JVs.</li></ul>

# Feedback from September 2017 ASAF meeting

<p>Alternative Performance Measures (APMs): A New Zealand user-needs survey</p>	<ul style="list-style-type: none"><li>• The NZASB/AASB member summarised the findings of a survey conducted in New Zealand. Users think APMs are useful but many of them say that APMs must be accompanied by a reconciliation to GAAP measures and by other explanatory information.</li><li>• Some members supported some suggestions by the survey respondents, such as standardised definitions for some performance measures and non-recurring items. Others said the Board should carefully consider the feasibility of these suggestions.</li></ul>
<p>Feedback on the FRC Discussion Paper</p>	<ul style="list-style-type: none"><li>• An FRC staff member presented the feedback on UK Financial Reporting Council's Discussion Paper <i>Improving the Statement of Cash Flows</i> (FRC DP).</li><li>• Some members said that the FRC DP and the feedback to it provides useful input for the project.</li><li>• Members provided comments on the Board's targeted improvements to the statement of cash flows, including the importance and difficulty of defining an operating performance measure in the statement(s) of financial performance.</li></ul>

# Feedback from December 2017 ASAF meeting

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Subtotals	<ul style="list-style-type: none"><li>• Most members were generally supportive of introducing additional defined subtotals in the statement(s) of financial performance.</li></ul>
Income and expenses from investments	<ul style="list-style-type: none"><li>• Some members supported introducing this category. Others expressed concerns that its relation to the ‘investing’ category in the statement of cash flows is unclear.</li><li>• Some members encouraged the Board to label the subtotal above this category as ‘operating profit’. Others preferred different labels, or ‘operating profit’ to be defined directly.</li><li>• Members had mixed views on the presentation of the share of profit or loss of associates and joint ventures.</li></ul>
Finance income and expenses	<ul style="list-style-type: none"><li>• Members provided observations and suggestions of the proposed definition of ‘finance income and expenses’.</li></ul>
Other comprehensive income (OCI)	<ul style="list-style-type: none"><li>• Most members did not support relabelling the two categories of OCI or introducing a new subtotal between the two categories.</li></ul>

# Feedback from April 2018 ASAF meeting

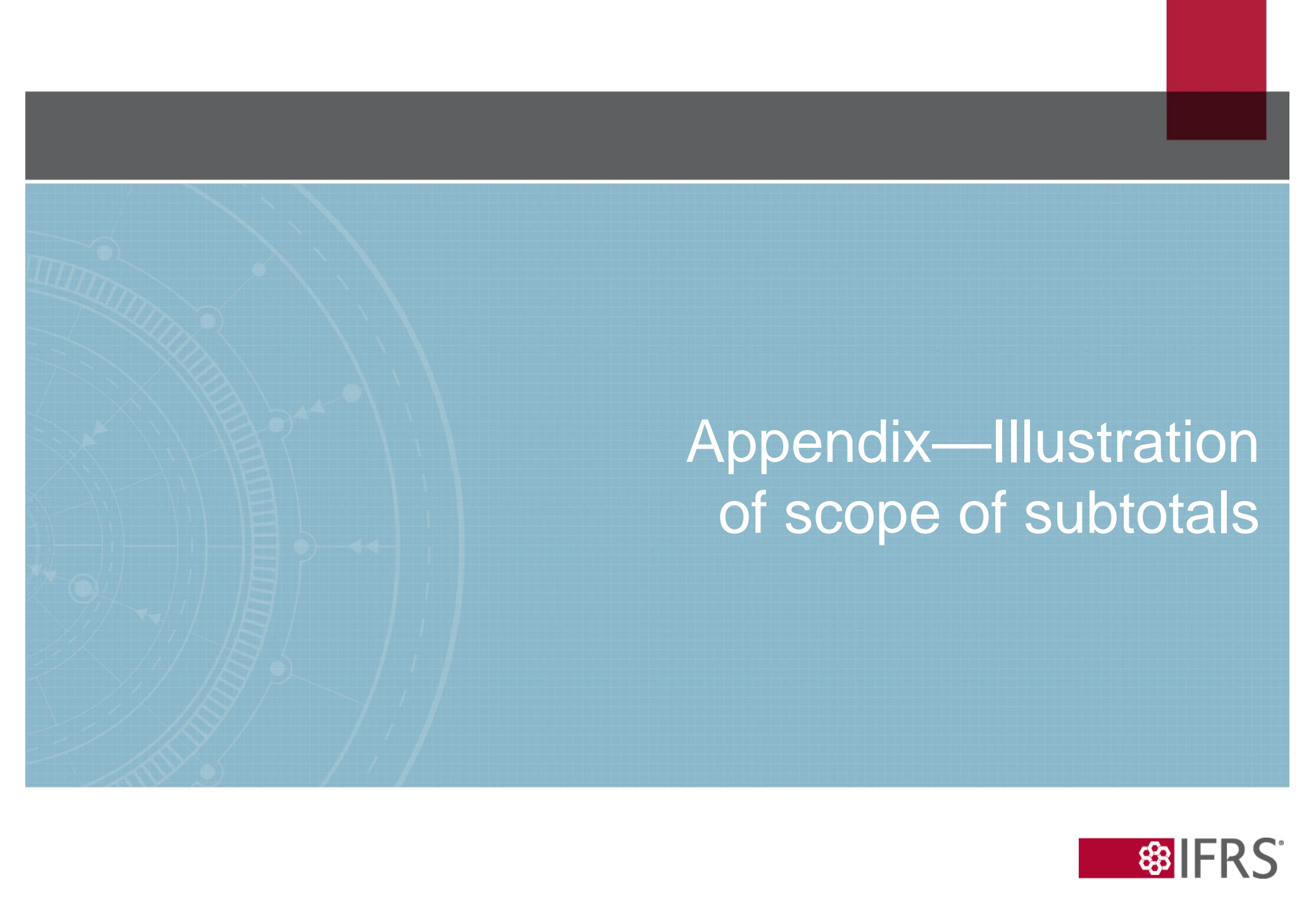
Application to financial entities	<ul style="list-style-type: none"><li>• Many members said that ‘profit before investing, financing and income tax’ and ‘profit before financing and income tax’ (EBIT) would not provide useful information for financial entities.</li><li>• A few members suggested that the Board could allow financial entities not to present the proposed subtotals, or could explore alternative subtotals for them.</li></ul>
Disaggregation	<ul style="list-style-type: none"><li>• Some members supported the proposed criteria to determine whether a by-function or by-nature presentation provides the most useful information, and others suggested alternative approaches.</li><li>• Members expressed mixed views on introducing quantitative thresholds to promote more disaggregation.</li></ul>

# Feedback from July 2018 ASAF meeting

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Moving to standard setting agenda

- Many members supported moving the project to the standard setting agenda.



# Appendix—Illustration of scope of subtotals



The slides provide the following illustrations for different types of entities:

Types of entities		Illustrations provided
1	Investment property companies	For each of these, we have prepared an illustration of: <ul style="list-style-type: none"><li>• a typical P&amp;L today;</li><li>• a P&amp;L applying tentative Board decisions for <b>non</b>-financial entities—which would result in presentation that is not useful; and</li><li>• a P&amp;L applying tentative Board decisions (exemptions) for financial entities.</li></ul>
2	Insurers	
3	Traditional banks (no material investing activities)	
4	Entities with more than one main business activity incl. <u>both</u> investing and financing: A. A bank with investing & customer financing activities B. A bank-insurer	A P&L applying tentative Board decisions (exemptions) for financial entities
5	Entities with more than one main business activity, incl. investing <u>or</u> financing: manufacturer that provides financing to customers	

# 1 Investment property company

## Typical P&L today

Extract from statement(s) of financial performance	
Gross rental income	X
Property operating expenses	(X)
<b>Net rental income</b>	<b>X</b>
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
Share of profit from associates and joint ventures*	X
<b>Profit from operating activities</b>	<b>X</b>
Finance income	X
Finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

\* Is presented below profit from operating activities by some entities.

Presentation of an **EBIT-type subtotal** is common (though often labelled differently); however:

- EBIT is not widely used in analysis—investors prefer measures that are adjusted for fair value changes
- Most entities do not use EBIT as a key measure to communicate their performance outside their financial statements

Separate presentation of **finance expenses** towards the bottom of the statement is common

# 1 Investment property company

## Applying tentative decisions for non-financial entities

### Extract from statement(s) of financial performance

Property operating expenses	(X)
Administrative expenses	(X)
<b>Operating profit</b>	<b>(X)</b>
Share of profit of integral associates and joint ventures	X
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>X</b>
Gross rental income	X
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
Share of profit of non-integral associates and joint ventures	X
<b>Profit before financing and income tax</b>	<b>X</b>
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Based on investor discussions, we understand this presentation is

**not useful.**

Rental income, changes in fair value and gains/losses on investment properties arise from the entity's main business activities.

Not a significant change from current practice, profit before financing and income tax could apply in the same way as for non-financial entities

# 1 Investment property company

## Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Gross rental income	X
Property operating expenses	(X)
Net rental income	X
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
<b>Profit before financing and income tax</b>	<b>X</b>
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

Presentation of rental income, changes in fair value and gains/losses on investment properties **in operating profit** (although we expect entities to disclose management performance measures that exclude changes in fair value)

We think separate presentation of results from associates/JVs outside operating profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity's main business activities would be presented outside operating profit (assumed to be immaterial in this illustration).

## 2 Insurer

### Expected format post IFRS 17

Extract from statement(s) of financial performance*	
Insurance revenue	X
Insurance service expenses	(X)
<b>Insurance service result</b>	<b>X</b>
Investment income**	X
Impairment of investments	(X)
Insurance finance expenses	(X)
<b>Net financial result</b>	<b>X</b>
Share of profit of associates and joint ventures	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Required line item	Arising from contracts in scope of <b>IFRS 17</b>
Required line item	
	Mostly arising from financial instruments in scope of <b>IFRS 9</b>
Required line item	Arising from contracts in scope of <b>IFRS 17</b>
	Margin between investment return and insurance finance expenses is a key measure of performance (see IFRS 17, para.110)
Required line item	Finance expenses not arising from insurance contracts are expected to be presented separately, and not as part of a key performance metric
Required line item	

\* See illustrative examples in IFRS 17 [Effects Analysis](#)

\*\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 2 Insurer

### Applying tentative decisions for non-financial entities

Extract from statement(s) of financial performance	
Insurance revenue	X
Insurance service expenses	(X)
Operating profit (= insurance service result)	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit or loss of integral associates and joint ventures	X
Investment income*	X
Impairment of investments	(X)
Share of profit of non-integral associates and joint ventures	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses—Insurance finance expenses	(X)
Other finance expenses—Unwinding of discount on other liabilities	(X)
Profit before tax	X

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

\*\* Though 'financing' may not be material

This presentation is

**not useful:**

- investment returns and insurance finance expenses arise from the entity's main business activities.
- presentation of a margin between investment returns and insurance finance expenses is not possible (inconsistent with IFRS 17 para. 110).

Profit before financing and income tax could apply in the same way as for non-financial entities\*\*

## 2 Insurer

### Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income*	X
Impairment of investments	(X)
Insurance finance expenses	(X)
Net financial result	X
Operating profit	X
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

Presentation of investment returns and insurance finance expenses in operating profit

We think separate presentation of results from associates/JVs outside operating profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity's main business activities would be presented outside operating profit (assumed to be immaterial in this illustration).

We assume this entity does not provide financing to customers in the course of its main business activities and therefore it presents a profit before financing and income tax subtotal.

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

### 3 Traditional bank

#### Typical P&L today (Pre IFRS 9 *Financial Instruments*)

Extract from statement(s) of financial performance	
Interest income	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit/loss of associates/JVs	X
<b>Profit before tax</b>	<b>X</b>

The margin between interest income and interest expense is **net interest income**, which is a key performance metric

Net interest on net defined benefit liability is commonly included in employee benefit expenses

**No evidence EBIT-type measures** are commonly presented by banks or used in analysis of banks today

We assume that this entity only has one main activity (ie providing financing) and does not have significant investing activities.



### 3 Traditional bank

## Applying tentative decisions for non-financial entities

Extract from statement(s) of financial performance	
Interest income (on loans to customers)	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
<b>Profit before financing and income tax</b>	<b>X</b>
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities—including interest expense on customer deposits and other debt	(X)
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Income from loans to customers considered not to meet the definition of ‘income from investments’.

Definition of financing activities hard to interpret—customer deposits could be considered to meet the definition which would not result in useful presentation.

Would include net interest on net defined benefit liability and unwinding of discount on other liabilities. Separate presentation outside operating profit could be useful.

We assume that all associates and joint ventures are considered ‘integral’ and that the entity does not have any material investing activities. For that reason, the entity does not present an ‘income/expenses from investments’ category or a Operating profit and share of profit or loss of integral associates and joint ventures subtotal.

### 3 Traditional bank

#### Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Interest expense is incurred in the course of the entity's main business activities, so should be presented **in operating profit**. This allows the presentation of **net interest income** as a subtotal.

We think separate presentation of results from associates/JVs outside operating profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity's main business activities would be presented outside operating profit (assumed to be immaterial in this illustration).

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 4 More than one main business activity

### Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	(X)
<b>Net fee and commission income</b>	<b>X</b>
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

**Example A:** A bank with investing and customer financing activities

Interest income, interest expense, net trading income and net investment income are earned (incurred) in the course of the entity's main business activities, so should be presented **in operating profit**

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 4 More than one main business activity

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### Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
<b>Net interest income from banking activities</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	(X)
<b>Net fee and commission income</b>	<b>X</b>
Net trading income	X
Net investment income (non-insurance)	X
Credit impairment losses	(X)
Insurance revenue	X
Insurance service expenses	(X)
<b>Insurance service result</b>	<b>X</b>
Interest income from assets backing insurance contracts*	X
Other investment income related to from assets backing insurance contracts	X
Impairment of investments backing insurance contracts	(X)
Insurance finance expenses	(X)
<b>Net insurance financial result</b>	<b>X</b>
Other operating expenses	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

- **Example B:**  
A bank-insurer

Banking

Insurance

Banking +  
Insurance

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 5 More than one main business activity

### Applying tentative decisions for financial entities

Extract from statement(s) of financial performance	
Revenue from sale of goods	X
Cost of goods sold	(X)
<b>Gross profit from sale of goods</b>	<b>X</b>
Interest income from customer financing (calculated using effective interest method)	X
Interest expense related to customer financing business	(X)
<b>Gross profit from customer financing business</b>	<b>X</b>
Selling, general and admin expenses (SG&A)	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>X</b>
Share of profit of non-integral associates and joint ventures	X
Other income (expenses) from investments	X
<b>Profit before financing and income tax</b>	<b>X</b>
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

- Example:**

An entity that sells goods and has a customer financing business

Sale of goods

Customer financing

Sale of goods +  
customer financing

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