

## Notes to the financial statements

# Performance/return

### 10 Earnings per share

	2018 £m	2017 £m	2016 £m			
Profit/(loss) attributable to ordinary equity holders of the parent in respect of continuing and discontinued operations	1,394	(1,922)	1,623			
Tax credit on profit after tax attributable to other equity instrument holders	203	174	128			
<b>Total profit/(loss) attributable to ordinary equity holders of the parent in respect of continuing and discontinued operations</b>	<b>1,597</b>	<b>(1,748)</b>	<b>1,751</b>			
<b>Continuing operations</b>						
Profit attributable to ordinary equity holders of the parent in respect of continuing operations	1,394	413	1,434			
Tax credit on profit after tax attributable to other equity instrument holders	203	174	128			
<b>Profit attributable to equity holders of the parent in respect of continuing operations</b>	<b>1,597</b>	<b>587</b>	<b>1,562</b>			
<b>Discontinued operation</b>						
(Loss)/profit attributable to ordinary equity holders of the parent in respect of discontinued operations	–	(2,335)	189			
Dilutive impact of convertible options in respect of discontinued operations	–	–	(1)			
<b>(Loss)/profit attributable to equity holders of the parent in respect of discontinued operations including dilutive impact of convertible options</b>	<b>–</b>	<b>(2,335)</b>	<b>188</b>			
<b>Profit/(loss) attributable to equity holders of the parent in respect of continuing and discontinued operations including dilutive impact of convertible options</b>	<b>1,597</b>	<b>(1,748)</b>	<b>1,750</b>			
	2018 million	2017 million	2016 million			
<b>Basic weighted average number of shares in issue</b>	<b>17,075</b>	<b>16,996</b>	<b>16,860</b>			
Number of potential ordinary shares	308	288	184			
<b>Diluted weighted average number of shares</b>	<b>17,383</b>	<b>17,284</b>	<b>17,044</b>			
	Basic earnings per share		Diluted earnings per share			
	2018	2017	2016	2018	2017	2016
	p	p	p	p	p	p
Earnings/(loss) per ordinary share	9.4	(10.3)	10.4	9.2	(10.1)	10.3
Earnings per ordinary share in respect of continuing operations	9.4	3.5	9.3	9.2	3.4	9.2
(Loss)/earnings per ordinary share in respect of discontinued operation	–	(13.8)	1.1	–	(13.5)	1.1

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent and the basic weighted average number of shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held in respect of Barclays PLC, totalling 308m (2017: 288m) shares. The total number of share options outstanding, under schemes considered to be potentially dilutive, was 544m (2017: 534m). These options have strike prices ranging from £1.20 to £2.27.

Of the total number of employee share options and share awards at 31 December 2018, 43m (2017: 10m) were anti-dilutive.

The 79m (2017: 136m) increase in the basic weighted average number of shares since 31 December 2017 to 17,075m is primarily due to shares issued under employee share schemes and the Scrip Dividend Programme.

### 11 Dividends on ordinary shares

The Directors have approved a total dividend in respect of 2018 of 6.5p per ordinary share of 25p each. The remaining full year dividend for 2018 of 4.0p per ordinary share will be paid on 5 April 2019 to shareholders on the Share Register on 1 March 2019 following the 2.5p half year dividend paid in September. On 31 December 2018, there were 17,133m ordinary shares in issue. The financial statements for the year ended 31 December 2018 does not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2019. The 2018 financial statements include the 2018 half year dividend of £427m (2017: £170m) and a final dividend declared in relation to 2017 of £341m (2017: £339m). Dividends are funded out of distributable reserves.

## Notes to the financial statements

# Assets and liabilities held at fair value

### 15 Financial assets at fair value through other comprehensive income and financial investments

**Accounting for financial assets at fair value through other comprehensive income ('FVOCI') under IFRS 9 effective from 1 January 2018**  
Financial assets that are debt instruments held in a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at FVOCI. They are subsequently re-measured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Interest (calculated using the effective interest method) is recognised in the income statement in net interest income (Note 3). Upon disposal, the cumulative gain or loss recognised in other comprehensive income is included in net investment income.

In determining whether the business model is achieved by both collecting contractual cash flows and selling financial assets, it is determined that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The Barclays Group will consider past sales and expectations about future sales to establish if the business model is achieved.

For equity securities that are not held for trading, the Barclays Group may make an irrevocable election on initial recognition to present subsequent changes in the fair value of the instrument in other comprehensive income (except for dividend income which is recognised in profit or loss). Gains or losses on the de-recognition of these equity securities are not transferred to profit or loss. These assets are also not subject to the impairment requirements and therefore no amounts are recycled to the income statement. Where the Barclays Group has not made the irrevocable election to present subsequent changes in the fair value of the instrument in other comprehensive income, equity securities are measured at fair value through profit or loss.

#### Accounting for financial investments under IAS 39 for 2017 and 2016

Available for sale financial assets are held at fair value with gains and losses being included in other comprehensive income. The Barclays Group uses this classification for assets that are not derivatives and are not held for trading purposes or otherwise designated at fair value through profit or loss, or at amortised cost. Dividends and interest (calculated using the effective interest method) are recognised in the income statement in net interest income or, net investment income. On disposal, the cumulative gain or loss recognised in other comprehensive income is also included in net investment income.

Held to maturity assets are held at amortised cost. The Barclays Group uses this classification when there is an intent and ability to hold the asset to maturity. Interest on the investments are recognised in the income statement within net interest income.

	2018 £m	2017 £m
Debt securities and other eligible bills at fair value through other comprehensive income	51,026	–
Equity securities at fair value through other comprehensive income	1,122	–
Loans and advances at fair value through other comprehensive income	668	–
Available for sale debt securities and other eligible bills	–	52,020
Available for sale equity securities	–	1,786
Held to maturity debt securities	–	5,109
<b>Financial assets at fair value through other comprehensive income/Financial investments</b>	<b>52,816</b>	<b>58,915</b>

### 16 Financial liabilities designated at fair value

#### Accounting for liabilities designated at fair value through profit and loss

In accordance with IFRS 9, financial liabilities may be designated at fair value, with gains and losses taken to the income statement within net trading income (Note 5) and net investment income (Note 6). Movements in own credit are reported through other comprehensive income. On derecognition of the financial liability no amount relating to own credit risk are recycled to the income statement. The Barclays Group has the ability to make the fair value designation when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), or is managed by the Barclays Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 14).

The details on how the fair value amounts are arrived for financial liabilities designated at fair value are described in Note 17.

	2018		2017	
	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m
Debt securities	46,649	54,159	42,563	46,920
Deposits	31,682	32,029	4,448	4,414
Repurchase agreements and other similar secured borrowing	138,484	138,724	126,691	126,822
Other financial liabilities	19	19	16	16
<b>Financial liabilities designated at fair value</b>	<b>216,834</b>	<b>224,931</b>	<b>173,718</b>	<b>178,172</b>

The cumulative own credit net loss recognised is £121m (2017: £179m loss).

## 17 Fair value of financial instruments

### Accounting for financial assets and liabilities – fair values

Financial instruments that are held for trading are recognised at fair value through profit or loss. In addition, financial assets are held at fair value through profit or loss if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI, or if the financial asset is not held in a business model that is either (i) a business model to collect the contractual cash flows or (ii) a business model that is achieved by both collecting contractual cash flows and selling. Subsequent changes in fair value for these instruments are recognised in the income statement in net investment income, except if reporting it in trading income reduces an accounting mismatch.

All financial instruments are initially recognised at fair value on the date of initial recognition (including transaction costs, other than financial instruments held at fair value through profit or loss) and, depending on the classification of the asset or liability, may continue to be held at fair value either through profit or loss or other comprehensive income. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of the Barclays Group's financial assets and liabilities, especially derivatives, quoted prices are not available and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market inputs including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data such as in primary issuance and redemption activity for structured notes.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets, then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of unobservable inputs, the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either: on a straight-line basis over the term of the transaction; or over the period until all model inputs will become observable where appropriate; or released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

The sensitivity of valuations used in the financial statements to possible changes in significant unobservable inputs is shown on page 300.

### Critical accounting estimates and judgements

The valuation of financial instruments often involves a significant degree of judgement and complexity, in particular where valuation models make use of unobservable inputs ('Level 3' assets and liabilities). This note provides information on these instruments, including the related unrealised gains and losses recognised in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

### Valuation

IFRS 13 *Fair value measurement* requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

#### Quoted market prices – Level 1

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

#### Valuation technique using observable inputs – Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable either directly or indirectly. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

#### Valuation technique using significant unobservable inputs – Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

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