

38. Capital structure

At 31 December	Group	
	2007 £m	2006 £m
Tier 1		
Share capital and reserves	1,210.8	1,419.9
Adjustments	81.3	(74.4)
Net pension deficit	(4.0)	50.8
Innovative tier 1	148.8	148.8
Total tier 1 capital	1,436.9	1,545.1
Upper tier 2 capital	580.1	583.8
Lower tier 2 capital	647.0	671.7
Total tier 2 capital	1,227.1	1,255.5
Deductions	(146.7)	(97.2)
Total capital	2,517.3	2,703.4

Innovative tier 1 and tier 2 subordinated liabilities exclude any fair value adjustments arising from the hedging of these instruments that are included in the Balance Sheet.

The primary objectives of the banks capital management are to ensure that the bank complies with externally imposed capital requirements, maintains capital ratios to support development of the business and to cover risks inherent in its activities, to maximise shareholder value and to keep strong credit ratings. The Group defines Equity, Subordinated Liabilities and Other Capital Instruments as capital. The bank manages its capital structure in response to changes in the nature of the banks' activities and economic conditions. The bank may return capital to shareholders, adjust the level of dividend or issue capital securities. During the year the bank commenced a share buy back programme to rebalance the mix of capital by changing the proportions of equity and interest bearing tier 1 capital; this was suspended in the later part of the year due to market conditions.

During the year the Group moved from a Basel I method of assessment to a Basel II Standardised regime. The bank's regulatory capital position is shown above. Tier 1 capital excludes statutory accounting deductions for available-for-sale assets and the cash flow hedge reserve but includes a regulatory deduction for intangible assets. Tier 2 capital reflects amortisation of subordinated debt. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FSA, the UK regulator. The bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FSA. The bank has put in place processes and controls to monitor and manage the bank's capital adequacy and no breaches were reported to the FSA during the year.

The Company capital is represented by the capital and reserves attributable to equity holders and is sufficient to meet the needs of the Company in its operations and in payment of dividends.

39. Financial instruments**(a) Categories of financial assets and financial liabilities: carrying value compared to fair value**

Group At 31 December 2007 Financial assets	Available- for-sale £m	Assets at fair value	Assets at fair value	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
		through profit or loss - on initial recognition £m	through profit or loss - held for trading £m					
Cash and balances at central banks	-	-	-	209.2	-	209.2	209.2	2.1
Treasury bills	185.0	-	-	-	-	185.0	185.0	1.9
Loans and advances to banks	-	-	-	2,392.1	-	2,392.1	2,392.1	23.9
Loans and advances to customers	-	-	-	40,444.5	-	40,444.5	40,407.2	404.1
Fair value adjustments on portfolio hedging	-	-	-	-	(53.8)	(53.8)	-	-
Debt securities	6,778.7	-	-	-	-	6,778.7	6,778.7	67.8
Derivative financial instruments	-	1,175.4	-	-	-	1,175.4	1,175.4	11.8
Other financial assets	2.1	-	-	658.9	-	661.0	661.0	6.6
Total financial assets	6,965.8	1,175.4	-	43,704.7	(53.8)	51,792.1	51,808.6	518.2