Capital resources

The following table analyses the Group's regulatory capital resources at 31 December:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Capital base					
Tier 1 capital	44,364	30,041	28,218	22,694	19,399
Tier 2 capital	33,693	27,491	22,437	20,229	16,439
Tier 3 capital	200	—	—	—	—
	78,257	57,532	50,655	42,923	35,838
Less: investments in insurance subsidiaries, associated undertakings and other supervisory deductions	(10,283)	(10,583)	(7,282)	(5,165)	(4,618)
Total capital	67,974	46,949	43,373	37,758	31,220
Risk-weighted assets					
Banking book:					
On-balance sheet	480,200	318,600	303,300	261,800	214,400
Off-balance sheet	84,600	59,400	51,500	44,900	36,400
Trading book	44,200	22,300	16,200	17,100	12,900
	609,000	400,300	371,000	323,800	263,700

Risk asset ratios	%	%	%	%	%
Tier 1	7.3	7.5	7.6	7.0	7.4
Total	11.2	11.7	11.7	11.7	11.8

Note: The comparative data for 2003 and 2004 in the table above are under UK GAAP as previously published and regulated. As from 1 January 2005, the Group is regulated on an IFRS basis.

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Financial Services Authority ("FSA"). The FSA uses Risk Asset Ratio ("RAR") as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the RAR should be not less than 8% with a tier 1 component of not less than 4%. At 31 December 2007, the Group's total RAR was 11.2% (2006 – 11.7%) and the tier 1 RAR was 7.3% (2006 – 7.5%).