

# Remuneration Report of the Board

This report sets out the remuneration policy and principles under which the directors and senior managers are remunerated and details the remuneration and share interests of each director for the year ended 31 December 2007. Shareholders will be invited to approve this report at the AGM on 22 May 2008.

## REMUNERATION POLICY

The remuneration policy aims to achieve a structured and balanced remuneration package, with an emphasis on linking rewards to corporate and individual performance and with an appropriate balance between short-term and long-term elements. In designing performance-related remuneration schemes and in preparing this report, the Board and the Remuneration Committee (the Committee) have complied with the provisions of the Companies Act 1985, the Combined Code and the FSA Listing Rules.

The elements of directors' remuneration which are performance-related are annual bonuses and long-term incentives. Base salary is determined by reference to the market and individual performance, and other major benefits are directly related to base salary. The performance-related elements of the executive directors' remuneration for 2007 would, for on-target performance, represent around 125% of base salary and for above-target performance represent around 155% of base salary which in both cases represents the monetary amount of the bonus and the value of long-term incentives. The chart opposite shows the proportions of salary, benefits, annual performance-related bonus earned during 2007 and the estimated value of long-term incentives granted during 2007 to individual directors. Alain Grisay is a director of the Company, but as the Chief Executive of F&C Asset Management plc, a separately listed, 52% owned subsidiary company, (F&C), is remunerated entirely by F&C in accordance with its remuneration policy. This report includes only those disclosures required of the Company in respect of Alain Grisay as full disclosures are made by F&C in its report and accounts for the year ended 31 December 2007.

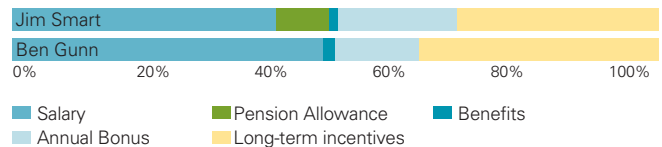
The current remuneration package of the executive directors includes the following elements but this will be reviewed during 2008:

Element	Purpose	Methodology
<b>Base salary</b>	To attract and retain	Role and contribution
<b>Pension and benefits</b>	Competitive fixed benefits to provide security and protection, and to retain	Benefits linked to service and base salary at retirement date
<b>Annual bonus scheme</b>	To motivate and reward for annual performance	In 2007, a proportion based on (parts of) Achieved Operating Profit and the balance on key performance targets agreed by the Committee. The balance varies for each director. For 2008, targets reflecting critical success factors including:
<ul style="list-style-type: none"> <li>Normal policy is maximum opportunity of 80% of salary and target of 50% of salary</li> <li>In 2008, to recognise the transitional year and following dialogue with major shareholders, the maximum bonus opportunity for the current executive directors will be 100% of salary payable entirely in cash</li> </ul>	Drive change, support retention and align with shareholder interests	<ul style="list-style-type: none"> <li>cost reduction;</li> <li>IFRS profit;</li> <li>profitable new business;</li> <li>customer service metrics; and</li> <li>by performance targets for each director</li> </ul>
<b>Share incentive schemes</b>	To motivate and ensure alignment with long-term strategy and with the interests of shareholders	<ul style="list-style-type: none"> <li>Total Shareholder Return (TSR)</li> <li>Excess Profit</li> </ul> (The basis of measuring TSR and financial performance to be reviewed during 2008)
<b>Executive Long-Term Incentive Plan (LTIP)</b> <ul style="list-style-type: none"> <li>Maximum grant level of 200% of salary</li> <li>Maximum award in 2007 was 150% of salary</li> </ul>		
<b>Executive Share Option Scheme (ESOS)</b> <ul style="list-style-type: none"> <li>Used in exceptional circumstances</li> <li>Maximum grant level of three times salary, reduced proportionately for any LTIP grants</li> </ul>	Primarily to support recruitment	Not used in 2007

Further details of these elements are set out overleaf.

Accordingly, throughout this report on remuneration, references to executive directors do not include Alain Grisay unless specifically mentioning him by name.

## 2007 Executive Director Remuneration



## REVIEW OF REMUNERATION

In response to the recent strategic review of the Company's operations and the appointment of a new Group Chief Executive, the Committee has committed to carry out a thorough review of executive remuneration arrangements during 2008 to ensure that executive remuneration remains aligned with the on-going needs of the business; continues to support the delivery of strong performance for shareholders; and that the total remuneration package is suitably positioned in the markets in which Friends Provident competes for talent. The outcome of the remuneration review will be detailed in the 2008 remuneration report.

An important part of the review will be to ensure that the performance targets used under the executive incentive plans in 2008 support the short and long-term objectives of the Company following the strategic review. For example, it is expected that the range and nature of targets under the annual bonus plan will be broadened to recognise the critical success factors required during this year of transition to build sustainable profitability for the future. These may include cost reduction, International Financial Reporting Standards (IFRS) profit, profitable new business and customer service targets.

In line with the strategic review, the targets under the Executive Long-Term Incentive Plan (LTIP) are likely to be amended to rebalance the measurement of long-term financial performance from a European Embedded Value (EEV) basis towards IFRS. A significant proportion of the LTIP awards will continue to be subject to Total Shareholder Return (TSR) performance, measured against a broad based comparator group. The precise targets will be calibrated on completion of the final business plan, and will be detailed in the 2008 remuneration report.

#### Base salary

The Company operates a market-led pay strategy and sets salaries by reference to the levels of pay of:

- the Financial Services Sector Comparator Group being those financial services companies within the FTSE 100, having regard to market capitalisation; and
- the 30 companies closest to Friends Provident in the FTSE 100 based on market capitalisation.

Individual salaries are then set at the appropriate point within the salary range.

#### Performance-related annual bonus scheme: 2008

Following dialogue with major shareholders, the maximum annual bonus opportunity payable entirely in cash for both Jim Smart and Ben Gunn in 2008 will be set at 100% of base salary. This is to reflect Jim Smart's role in leading and implementing the strategic review, and the additional responsibilities placed on Ben Gunn during the transition.

Targets for 2008 will include a basket of KPIs to recognise the success factors that are critical to building sustainable long-term profitability (e.g. including cost reduction, IFRS profit, profitable new business as well as maintaining high standards of customer service and FSA compliance through the transition).

The annual bonus policy, in terms of quantum and the framework of targets, will be reviewed as part of the wider remuneration review during 2008.

#### Performance-related annual bonus scheme: 2007

The normal maximum bonus level under the annual bonus scheme has been 80% of salary although the Committee has the flexibility to set a maximum bonus level of 100% of base salary after consultation with major shareholders. For 2007, the maximum level of award under the scheme for executive directors was 80% of salary and the target level was 50% of salary.

Under the current policy, when the maximum bonus is in excess of 80% of base salary, the portion of any bonus award in excess of 60% of salary is payable in the form of an award of shares, deferred for three years with no matching element and forfeitable on resignation.

The 2007 award was based on those elements of underlying Achieved Operating Profit within the directors' control and individual KPIs such as service-related initiatives, implementation of Group strategy including risk management and efficient use of capital, embedding cultural change and the earnings per share of F&C.

It is the policy of the Committee not to award transaction bonuses.

#### Share incentive schemes

The LTIP is the main long-term incentive programme within the Company and comprises a grant of options at 10p per share. Awards of up to twice base salary may be made in any one year under the plan (measured as the face value of shares placed under award at the date of grant). In practice, awards made under the plan have been significantly below this maximum grant level. In 2007, the maximum award granted was to the value of 150% of base salary.

The ESOS has been retained primarily to assist, as appropriate, in the recruitment of senior individuals. In the event that the ESOS is used, the options would be subject to performance conditions and there would be no re-testing for any options granted. There would be an absolute cap of three times base salary on such option grants. No grants were made under the ESOS in 2007.

The Committee considers that long-term incentive plan performance conditions should strike a balance between achieving alignment with ultimate shareholder returns and reward for delivery of strong underlying financial performance, the latter being more directly within the control of senior management.

#### Performance targets: 2008

As described above, performance targets for LTIP grants to be made in 2008 are being reviewed in the context of the strategic review, and are likely to rebalance the basis of measuring financial performance from EEV towards IFRS. A significant proportion of the award will continue to be subject to TSR performance measured relative to a broad-based comparator group, as the Committee continues to consider TSR to be an important measure of the delivery of long-term shareholder returns. The detailed targets will be described in the 2008 remuneration report.

#### Performance targets: 2007

Vesting of LTIP grants made in 2007 is determined by two performance measures:

- TSR relative to that of other companies in the FTSE 100 Index at the date of each grant for 50% of the award; and
- Excess Profit of the Life & Pensions business relative to pre-defined targets for 50% of the award.

TSR is the percentage return in a given period to a purchaser of an ordinary share in the Company arising from share price appreciation and re-investment of dividends. The Company's TSR over a three-year performance period is ranked against the TSR of other members of the FTSE 100 Index (as at the date of each grant) and vesting is in line with the following scale:

TSR relative to FTSE 100 TSR Index	Percentage of TSR element of award vesting
Less than median	0%
At median	25%
Performance above median but below top quartile	Straight-line vesting between 25% and 100%
Top quartile performance	100%

Excess Profit is the underlying life and pensions profit less expected returns on both existing business and shareholder net assets less corporate costs. Each year's Excess Profit (net of tax) divided by the embedded value at the start of the year determines the Excess Return for that year. In essence, Excess Return is a measure of the extent to which the Company's return on capital has exceeded its cost of capital, thereby generating value for shareholders.

The average Excess Return over the performance period is compared against targets set by the Committee at the start of the period. The Committee, with the aid of independent actuarial advice, sets targets for each plan cycle that are appropriately demanding and challenging in the context of market expectations of the Company's future profits.

The targets for awards made in 2007 were set so that vesting of the Excess Return element of the award will be as follows:

Average Excess Return (per annum)	Percentage of Excess Profit element of award vesting
Less than 3%	0%
3%	25%
More than 3% but less than 6%	Straight-line vesting between 25% and 100%
6% or more	100%

The measurement basis excludes items driven by overall market movements. This means the measure is more closely aligned with factors that are within the control of senior management.

The Committee retains limited discretion to vary vesting by up to 10% of the overall award. Furthermore, the Committee has the discretion to adjust the targets in a fair and reasonable manner to take account of corporate activity such as acquisitions, regulatory impacts and changes to accounting rules or reserving requirements. The Committee will communicate the rationale for any material adjustments to shareholders.

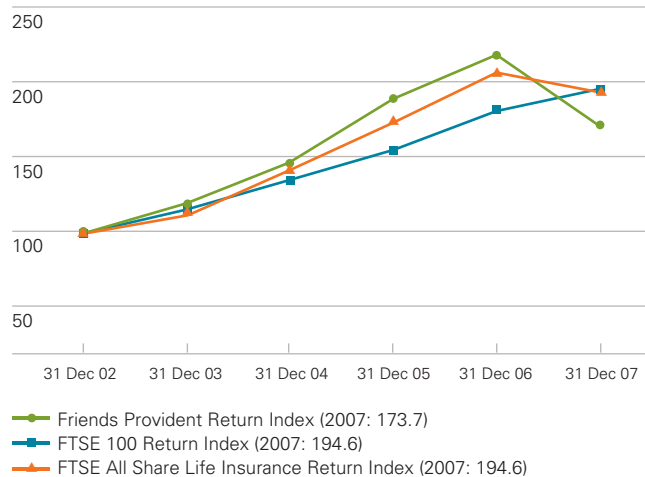
Since 2006, the Company has reported its results on an EEV basis. The average Excess Return component for the 2006 and 2007 awards uses an EEV basis and the 2005 award has accordingly been recalibrated to ensure it is measured consistently going forward.

#### Performance graph

The graph below demonstrates the performance of the Company based on TSR compared with the FTSE 100 TSR Index and the FTSE All Share Life Insurance Sector TSR Index. The graph shows performance for the Company's five reporting periods since 31 December 2002.

Over the whole period, the Company's TSR has underperformed both the FTSE 100 Index and the FTSE All Share Life Insurance Index by 10.8%. For the year to 31 December 2007, Friends Provident's TSR movement was ranked 80th (58th in 2006) when compared with the constituents of the FTSE 100 at the beginning of the year.

**Total shareholder return indices – Friends Provident, FTSE 100 and FTSE All Share Life Insurance**



#### Benefits and pensions

In common with many financial services organisations, the Company provides a range of benefits to its staff, some benefits being dependent upon seniority. The benefits disclosed for executive directors comprise the taxable value of a company car and private medical care.

Details of the pension arrangements for executive directors are set out in detail later in this report.

The contractual retirement age for employees in the UK Life & Pensions business is 65 and maximum pensionable service is 45 years of service for all staff.

The Friends Provident Pension Scheme, a defined benefit scheme, has been closed to new members from 1 July 2007 and new employees in the UK Life & Pensions business have been offered a good quality defined contribution package of benefits in order to stabilise the cost and risks of overall pension provision. The Company has reserved the right, in exceptional circumstances, to provide final salary benefits in respect of employees who were not members of the pension scheme prior to 1 July 2007. It is intended that this provision will only be used where there is a need to recruit or retain specific skills.

#### Appointment of new Group Chief Executive

On 29 January 2008, the Company announced the appointment of a new Group Chief Executive. It is anticipated that Trevor Matthews will commence employment during 2008 following a period of garden leave with his previous employer. Details of his remuneration will be disclosed at the time he commences his employment, with full disclosure provided in the 2008 remuneration report.

### Other senior executives, management and all-employee schemes

There are a number of senior executives within the Group's Life & Pensions business who, in addition to the executive directors, have a significant influence over the ability of the Life & Pensions business to meet its strategic goals. The Committee has regard to the remuneration of this senior executive group whose total remuneration including salary, bonus and benefits, but excluding pension and share scheme participation is summarised below.

Total remuneration 2007 £000	Number in band (2006 in brackets)	
126–150	4	(-)
151–175	6	(7)
176–200	3	(5)
201–225	2	(2)
226–250	2	(2)
251–275	2	(2)
276–300	0	(0)
301–325	0	(1)

The Committee also has general oversight of policy in relation to the granting of discretionary equity-based incentives throughout the Company. As in 2006, the Company made awards of shares under the Deferred Share Plan, subject to certain performance criteria, to all employees other than the senior executive group. It is proposed that similar arrangements will continue to apply in 2008 and subsequent years. In 2007, 3,459 employees received an award and details are given below:

Share award as percentage of salary	Number of staff receiving an award	(2006)
Less than or equal to 3.00%	1,798	(1,601)
3.01% – 4.00%	823	(992)
4.01% – 6.00%	384	(244)
6.01% – 8.00%	276	(165)
8.01% – 10.00%	108	(67)
10.01% – 15.00%	60	(31)
15.01% – 23.00%	10	(2)
Total	3,459	(3,102)

All employees and executive directors may participate in two HM Revenue & Customs approved all-employee share schemes: the ShareSave Scheme, a savings-related share option scheme, and the partnership share element of the Share Incentive Plan (SIP), which facilitates the investment by staff of up to £1,500 per annum in shares.

### EXTERNAL APPOINTMENTS

It is the Company's policy to permit executive directors to accept up to two external appointments. However, all fees received in respect of external appointments are paid to the Company not to the individual director.

### EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND TERMINATION

In line with Group policy, the current executive directors have service contracts that expire at the normal retirement age for all staff at age 65. The executive directors are subject to the same redundancy provisions as all staff within the Company's Life & Pensions business. Current executive directors' rolling contracts do not otherwise include compensation for severance as a result of change of control of the Company. Redundancy terms provide for payment of a lump sum that depends on service, salary level and, to some extent, age, up to a maximum of 105 weeks' salary based on the last 20 years service and, for those over 50 (55 from 2010) who joined the Company before 1 December 2006, an immediate pension calculated on service to the date of termination but without actuarial reduction. Departing directors are required to mitigate loss. In the case of Alain Grisay, the information set out below relates to his service contract with F&C.

Philip Moore ceased to be an executive director of the Company with effect from 13 November 2007. Under the terms of his service contract Philip Moore is entitled to 12 months' notice or twelve months' base salary and pension contributions in respect of his notice period. Payments are made in monthly instalments in order to mitigate the risk to the Company, as payments will be reduced as appropriate should Philip Moore obtain alternative employment during the notice period. Philip Moore received £141,209 relating to 2007 annual bonus earned in respect of the period to 13 November 2007, but no further bonus payments are due.

Name of executive director (with age at 18 March 2008)	Date of service contract	Last (re-)elected	Next due for (re-) election	Number of months' notice	
				Company	Director
Alain Grisay (53)	11 October 2004	AGM 2006	AGM 2008	12	6
Ben Gunn (57)	25 April 2001	AGM 2006	AGM 2008	12	6
Philip Moore (48)	1 July 2003	AGM 2007	Left office 13 November 2007	12	6
Keith Satchell (56)	25 April 2001	AGM 2004	Retired 31 January 2007	12	6
Jim Smart (48)	10 October 2006	AGM 2007	AGM 2010	12	6

**Amount of each director's emoluments and compensation in the relevant financial year (audited)**

The remuneration of each director in 2007 (with 2006 comparison) comprised:

	Salary and fees £000	Pension allowance £000	Benefits £000	Annual bonus (2007 accrued) £000	Compensation for loss of office £000	Total reported 2007 £000	Total reported 2006 £000
<b>Executive</b>							
Alain Grisay	325	-	11	1,161	-	1,497	1,689
Ben Gunn	347	-	8	91	-	446	544
Philip Moore (left office 13.11.07)	510	81	9	141	-	741	636
Keith Satchell (retired 31.01.07)	44	-	-	-	-	44	929
Jim Smart	400	80	13	181	-	674	67
<b>Non-executive</b>							
Alison Carnwath	70	-	-	-	-	70	71
Christopher Jemmett (retired 24.05.07)	50	-	-	-	-	50	131
Lady Judge	90	-	-	-	-	90	88
Ray King	69	-	-	-	-	69	58
Lord MacGregor (retired 24.05.07)	25	-	-	-	-	25	61
Sir Adrian Montague	273	-	-	-	-	273	235
Sir Mervyn Pedelty	59	-	-	-	-	59	13
Gerhard Roggemann (appointed 19.06.07)	47	-	-	-	-	47	-

**Explanatory notes:**

1. Pension allowance: This allowance represents cash payment in lieu of pension benefits (see note 3(a) and note 4 on pages 70 and 71).
2. Benefits: All elements in the table represent cash compensation apart from the figures shown in the Benefits column. These include the taxable value of a car and private medical care.
3. Annual bonus (2007 accrued): These are payments under the annual bonus scheme that have been paid in March 2008. Jim Smart's bonus was based on a 13.5 month period from his starting date, 13 November 2006, to 31 December 2007. Keith Satchell's bonus for January 2007 was paid in last year's annual bonus scheme.
4. Alain Grisay also received £633,333 deferred over three years in Compulsory Purchased Equity under the terms of the Purchased Equity Plan, details of which are shown in the F&C remuneration report.
5. Adrian Montague's fees include an additional £23,493 in payment for his additional responsibilities as Executive Chairman for the period 13 November to 31 December 2007.
6. Alison Carnwath received £10,417 (2006: £12,500) for chairing the With-Profits Committees (WPCs) of Friends Provident's three FSA-regulated wholly-owned life and pensions operating companies up until 31 October 2007.
7. Christopher Jemmett's fees include £19,811 (2006: £55,000) paid by F&C for his role as the senior independent director and deputy chairman of F&C and chairman of its audit and compliance committee up until 10 May 2007 when he retired from the F&C board.
8. Gerhard Roggemann's fees include £16,000 paid by F&C in relation to his services as a non-executive director of that company from 19 June 2007.
9. The amount of £90,000 (2006: £87,500) for Lady Judge was paid to BT Consulting in relation to her services as a director and is subject to VAT (not included in the table).
10. Sir Mervyn Pedelty's fees include £1,019 for chairing the Nomination Committee from 13 November 2007 and £2,083 for chairing the WPCs from 1 November 2007.

**SHARE OPTIONS (AUDITED)**

Details of directors' interests in options over ordinary shares of 10p each in the capital of the Company are given in the table below. The market price of these shares at 31 December 2007 was 163.4p. The highest and lowest share price during 2007 was 227.0p and 148.6p respectively. The market value of the shares at the time of the LTIP grant in March 2007 was 193.25p.

The mid-market price of shares at close of business on 18 March 2008 was 119.6p per share (19 March 2007: 202.0p per share). None of the terms and conditions of the options listed below varied during the year. The price paid by each executive director for the options under the ShareSave is identified in the notes to the table.

**Directors' interests in share options**

	Options at 01.01.07	Granted during the year	Exercised during year	Lapsed during year	Options at 31.12.07	Exercise price (pence)	Earliest exercise date	Latest exercise date
<b>Ben Gunn</b>								
ShareSave 2002	15,358		(15,358)			107.76	01.10.07	01.04.08
ShareSave 2007		6,792			6,792	141.34	01.11.10	01.05.11
ESOS 12.08.2004	311,949			(196,008)	115,941	127.00	12.08.07	12.08.14
LTIP 29.03.2005	210,674				210,674	10.00	29.03.08	29.03.15
LTIP 24.03.2006	229,166				229,166	10.00	24.03.09	24.03.16
LTIP 22.03.2007		266,538			266,538	10.00	22.03.10	22.03.17
<b>Total</b>	<b>767,147</b>	<b>273,330</b>	<b>(15,358)</b>	<b>(196,008)</b>	<b>829,111</b>			
<b>Keith Satchell</b>								
ShareSave 2002	15,358		(12,828)	(2,530)		107.76	01.10.07	01.04.08
ESOS 12.08.2004	524,884		(377,042)	(147,842)		127.00	12.08.07	12.08.14
LTIP 29.03.2005	344,102		(69,992)	(274,110)		10.00	29.03.08	29.03.15
LTIP 24.03.2006	364,583		(52,062)	(312,521)		10.00	24.03.09	24.03.16
<b>Total</b>	<b>1,248,927</b>	<b>-</b>	<b>(511,924)</b>	<b>(737,003)</b>				
<b>Philip Moore</b>								
ShareSave 2006	11,083				11,083	147.74	01.11.11	01.05.12
ESOS 06.08.2003	73,989				73,989	136.00	06.08.06	06.08.13
ESOS 12.08.2004	298,233			(187,390)	110,843	127.00	12.08.07	12.08.14
LTIP 29.03.2005	210,674				210,674	10.00	29.03.08	29.03.15
LTIP 24.03.2006	243,056				243,056	10.00	24.03.09	24.03.16
LTIP 22.03.2007		392,307			392,307	10.00	22.03.10	22.03.17
<b>Total</b>	<b>837,035</b>	<b>392,307</b>	<b>-</b>	<b>(187,390)</b>	<b>1,041,952</b>			
<b>Jim Smart</b>								
LTIP 13.11.2006	283,020				283,020	10.00	13.11.09	13.11.16
LTIP 22.03.2007		307,693			307,693	10.00	22.03.10	22.03.17
<b>Total</b>	<b>283,020</b>	<b>307,693</b>	<b>-</b>	<b>-</b>	<b>590,713</b>			

**Notes to the table:**

1. ShareSave Scheme (SAYE) 2002: Options held at an exercise price of 107.76p by saving £250 per month for five years (15,358).
2. ShareSave Scheme (SAYE) 2006: Options held at an exercise price of 147.74p by saving £250 per month for five years (11,083).
3. ShareSave Scheme (SAYE) 2007: Options held at an exercise price of 141.34p by saving £250 per month for three years (6,792).
4. The performance conditions for 2004 ESOS grant, which used a performance condition based on TSR over a three-year performance period when ranked against that of other companies which formed the FTSE 100 at the start of each performance period, are detailed in the remuneration report of the Board in the Company's previous report and accounts.

Net gains made by executive directors on share options exercised during the year are set out below:-

		Market price of share on exercise date	Gross proceeds	Income tax & NICs deductions	Net proceeds
Ben Gunn	ShareSave 2002	171.20p (01.10.07)	£11,293	-	£11,293
Keith Satchell	ShareSave 2002	219.75p (06.02.07)	£15,190	-	£15,190
	ESOS 2004	194.38p (26.03.07)	£254,051	£83,796*	£170,255
	LTIP 2005	194.38p (26.03.07)	£129,051	£42,566*	£86,485
	LTIP 2006	194.38p (26.03.07)	£95,992	£31,662*	£64,330

\* Income tax deducted at the basic rate with remainder to be paid via self-assessment. This is the standard procedure for leavers.

### DIRECTORS' SHAREHOLDINGS

Directors' personal shareholdings that are not related to their remuneration are disclosed in the notes to the financial statements. The executive directors are expected to build up their shareholding in the Company over time. To support this, awards in and after 2005 under the LTIP have been made with the expectation that the recipient will retain shares up to the value at exercise of 75% of the net proceeds.

### PENSIONS (AUDITED)

No element of executive directors' remuneration other than base salary is pensionable.

Ben Gunn is the only executive director who is a member of the Friends Provident Pension Scheme. Following the abolition of the HM Revenue & Customs earnings cap on approved pension benefits, the Pension Scheme was amended during 2006 to ensure the continuation of a scheme specific earnings cap (the Pension Scheme Cap) to maintain the benefit at the previous level and therefore control the costs of the Pension Scheme. Those members of the Pension Scheme who are subject to and whose base salary exceeds

the Pension Scheme Cap are paid a salary supplement amounting to, currently, 20% of the difference between their base salary and the Pension Scheme Cap with the exception of Ben Gunn whose pension provision is through an unfunded unapproved pension arrangement (see note 3(a) below).

The Pension Scheme also provides a spouse's pension equal to two-thirds of the member's pension upon death after retirement. On death in service, the Pension Scheme provides a spouse's pension equal to two-thirds of the member's prospective pension plus a lump sum death in service benefit.

F&C contributes to a money purchase arrangement for Alain Grisay. In January 2006, F&C made a contribution of £2,000,000 equivalent to £666,666 per annum for three years, into Alain Grisay's pension fund. The payment represented F&C's commitment to Alain Grisay on assuming the role of Chief Executive to provide him with an appropriate pension at age 60. This commitment is contingent on Alain Grisay serving as F&C's Chief Executive for a minimum of three years and not resigning or being dismissed for cause during this three-year period.

Name of director	Transfer value of accrued benefits at 1 Jan 2007 £000	Increase in accrued benefits during year before inflation £000	Increase in accrued benefits during year after inflation £000	Transfer value of accrued benefits during year after inflation £000	Increase in transfer value during year £000	Accumulated total accrued benefits at 31 Dec 2007 £000	Transfer value of total accrued benefits at 31 Dec 2007 £000
Ben Gunn	2,739	17	11	246	378	168	3,116
Philip Moore	234	35	34	460	480	52	714
Keith Satchell (retired 31.1.07)	5,469	-	-	-	-	312	5,469

#### Notes to the above table:

- Keith Satchell retired on 1 January 2007. The transfer value of £5,469,000 is an increase to the £5,451,000 reported last year, due to the use in this year's disclosures of the actual rate of pension in payment at commencement.
- Before 2007, Philip Moore purchased an extra 1 year 9 months and 8 months of service in the Pension Scheme through transfers in 2005 and 2006 respectively. In 2007, an additional 11 years service relating to transfers received (£352,619.59) and an extra 9 years 11 months were purchased via personal contributions made by Philip Moore in 2007 (£324,669.80).
- The Pension Scheme Cap affects Ben Gunn and Philip Moore as described below:
  - Ben Gunn has an unfunded unapproved pension arrangement under which, on his retirement from the service of the Company at age 60, he will receive pension benefits that, when added to any pension benefits he receives from the Pension Scheme on that date, equate to the pension benefits he would have received if he were a member of the Pension Scheme and not subject to the Pension Scheme Cap. The figures in the table above include the value of the arrangement. It has been agreed that if he retires on or after 30 June 2007, he will receive his scheme and unfunded benefits based on service to his date of early retirement and with no actuarial reduction save for the element of his pension purchased by funds from former employment which would be reduced for early payment.
  - In respect of his 12 month notice period, Philip Moore receives a monthly amount in addition to his base salary of the difference between 20% of his monthly base salary and one twelfth of the Pension Scheme Cap to give him the opportunity to make further pension provision. During 2007, Philip Moore received £80,550 in this respect.

**Notes to the table:** continued

4. Jim Smart is subject to the lifetime allowance on approved pension benefits introduced in April 2006 as part of the HM Revenue & Customs pension simplification changes. As a result, on appointment, it was agreed that in lieu of benefits under the Pension Scheme, Jim Smart would be paid a salary supplement of 20% of base salary, reviewable in each calendar year, to give him the opportunity to make further retirement provision. During 2007, Jim Smart received £80,000.40 in this respect.
5. During 2007, each executive director apart from Jim Smart and Alain Grisay, in common with all staff, contributed 3% of his pensionable salary for the first half of 2007 and 4% for the last six months to the Pension Scheme.
6. F&C made contributions of £225,000 to money purchase pension schemes in respect of Alain Grisay.
7. No excess retirement benefits have been paid to directors or past directors.
8. The transfer values shown in the table have been calculated in accordance with Actuarial Guidance Note 12b (6 April 1997) issued by the Faculty and Institute of Actuaries. The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the appropriate fund.

**NON-EXECUTIVE DIRECTORS**

Details of current individual non-executive directors' contracts for services are given in the table below. These directors are not part of any pension, bonus or share incentive scheme of the Company or the Group. Directors are subject to re-election at least every three years.

None of the non-executive directors has a service contract and none is entitled to compensation on leaving the Board save that, if requested to resign, the Chairman and each non-executive director is entitled to prior notice or fees in lieu as set out in the table below.

Name of director (with age at 18 March 2008)	Date of latest letter of appointment (and date first elected)	AGM at which last (re-)elected	Next due for (re-)election	Required notice from Company (in months)
Sir Adrian Montague (60)	8 March 2005 (26 May 2005)	May 2007	AGM 2010	6
Lady Judge* (61)	30 May 2001 (25 May 1994)	May 2007	AGM 2008	3
Alison Carnwath (55)	18 November 2002 (8 May 2003)	May 2005	To retire at close of AGM 2008	3
Ray King (54)	6 January 2004 (20 May 2004)	May 2007	AGM 2008	1
Sir Mervyn Pedelty (59)	1 October 2006 (24 May 2007)	May 2007	AGM 2010	1
Gerhard Roggemann (60)	19 June 2007	-	Due for election in 2008	1

\* Lady Judge is subject to annual re-election.

Apart from the Chairman and Deputy Chairman, non-executive directors are paid a basic fee, currently £47,500 per annum, for their role on the Board and separately remunerated for services on Board Committees. All fees are reviewed annually and the fees were last increased with effect from July 2006. In order to recognise his significant input into the strategic review, Sir Mervyn Pedelty is to receive an additional £12,000 in March 2008. The Deputy Chairman of the Board, who chairs the Remuneration Committee, receives an annual all-inclusive fee, currently £90,000, exclusive of VAT.

The Remuneration Committee sets the Chairman's annual remuneration. As non-executive Chairman Sir Adrian Montague receives an annual fee of £250,000. Following the departure of Philip

Moore on 13 November 2007, Sir Adrian Montague was appointed Executive Chairman for the interim period prior to the appointment of a new Group Chief Executive. Whilst he remains in this role, an additional annualised fee of £175,000 is paid to reflect the increased responsibilities of time and commitment of this role.

	Member's fee (£)	Chairman's fee (£)
Audit and Compliance	7,000	20,000
Nomination	3,500	7,750
Remuneration	5,000	10,000
Investment	4,500	7,000

### SUMS PAID TO THIRD PARTIES IN RESPECT OF EXECUTIVE DIRECTORS' SERVICES (AUDITED)

No sums were paid to third parties in respect of any executive director's services.

### THE REMUNERATION COMMITTEE

#### a) Purpose and terms of reference of the Committee

The Committee:

- recommends to the Board the broad policy in respect of senior executive remuneration;
- ensures that the levels of remuneration for the executive directors and senior executives are sufficient to attract, retain and motivate directors of the quality required by the Company;
- structures executive directors' remuneration so as to link rewards to corporate and individual performance; and
- sets the remuneration for all executive directors and the Chairman.

The fees of non-executive directors are a matter for the consideration of the Board as a whole.

The Committee's full terms of reference are published on the Company's website at [www.friendsprovident.com](http://www.friendsprovident.com) and can be obtained on written request to the Company Secretary at the Company's registered office.

**b) Membership:** The members of the Committee are Lady Judge (Chair), Alison Carnwath, Sir Adrian Montague and Sir Mervyn Pedelty.

**Advisers:** The Committee appointed Deloitte and Touche LLP as advisers to the Committee, effective from 2 April 2007, replacing Pricewaterhouse Cooper LLP to provide independent advice on remuneration matters. Towers Perrin advised the Committee during the year in respect of pension matters. The Committee also consulted with Philip Moore, former Group Chief Executive, and Mike Hampton, the Group HR Director, to ensure policy was appropriate.

### ADDITIONAL DISCLOSURES IN RESPECT OF ALAIN GRISAY (AUDITED)

The remuneration of the executive directors of F&C is fully disclosed in the remuneration report of the board of F&C. Alain Grisay is remunerated entirely by F&C in accordance with its remuneration policy. Accordingly, this report includes only those disclosures required of the Company in respect of Alain Grisay. It is the Company's policy to allow the board of F&C and its remuneration committee to determine the remuneration policy and packages for the executive directors of F&C.

#### Share options

During the year, Alain Grisay participated in the Long Term Remuneration Plan (LTRP) which is the primary long-term incentive arrangement of F&C and the Executive Director Remuneration Plan (EDRP), participation in which is restricted to F&C's executive directors.

Under the LTRP, contingent awards of shares are made under the Deferred Awards and the Restricted Awards. Under the rules of the LTRP, Alain Grisay is not eligible to receive an award of Deferred Shares.

The vesting of Restricted Awards under the LTRP is determined over three years and depends on F&C's TSR compared with FTSE 250 companies and on Earnings Per Share (EPS) performance, and is subject to continuing service. TSR and EPS performance measures are each applied to 50% of every award. For TSR performance, no options will vest for below median TSR performance; for TSR performance between the 125th and 63rd places, awards will vest on a straight-line basis with 35% vesting for 125th place and 100% vesting for 63rd place and above.

No Restricted Awards were made to Alain Grisay during the year. Following adoption of the EDRP in May 2007, the restricted share award of 956,937 made under the LTRP in 2006 to Alain Grisay was waived. On 15 November 2007, Alain Grisay exercised 104,167 awards and 104,167 awards lapsed. There are no awards outstanding under the LTRP to Alain Grisay as at 31 December 2007.

Under the EDRP, contingent awards of shares are made under the Deferred Awards and the Restricted Awards.

The vesting of Deferred Awards under the EDRP is contingent solely on the continued employment of the relevant participant over a three-year period. An award of 1,300,000 shares was made to Alain Grisay during the year.

The vesting of Restricted Awards under the EDRP is determined over three years and depends on F&C's EPS performance, and is subject to continuing service. An award of 2,500,000 shares was made to Alain Grisay during the year.

Alain Grisay also participated in the Re-investment Plan (RP) which was a one-off plan linked to the merger of F&C Group (Holdings) Limited and ISIS Asset Management plc on 11 October 2004. On 11 October 2007, 1,195,638 Matching Shares were allocated to Alain Grisay in accordance with the rules of the plan.

Full details of the LTRP, EDRP and RP are set out in the F&C remuneration report.

The market price of F&C shares at 31 December 2007 was 192.5p. The highest and lowest F&C share price during 2007 was 222.0p and 161.25p respectively. The mid-market price of F&C shares at close of business on 18 March 2008 was 180.0p per share.

On behalf of the Board

**Lady Judge**  
Chairman, Remuneration Committee  
18 March 2008