

Annual Review 2015

Nationwide Pension Fund



On your side

Chairman's message

Welcome to this year's Annual Review where you will find an update on the Fund's financial position as well as the latest pension news.

You may recall that last year we reported the results of the Actuarial Valuation which was carried out on 31 March 2013, and which revealed a deficit of £580m in the Nationwide Section and a surplus of £13.3m in the Cheshire & Derbyshire Section.

The Society has continued to pay deficit contributions, however in common with other defined benefit schemes, the economic climate, in particular the low interest rates, means that the Fund's liabilities have continued to increase.

The annual funding review shows that the Fund is broadly in the same position as at the 2013 Actuarial Valuation and you can find full detail in the Summary Funding Statement on page 12.

While reporting no real change in the funding position is not the news I would wish to convey, the Trustee is reassured by the current strong financial position of the Society and its covenant. For those who are not familiar with the principle of the covenant, a summary is outlined in the blue box on the next page. The Trustee and the Society work closely together to monitor the funding and will continue to do so as we head towards the next formal valuation as at 31 March 2016.

Following the recent Member Nominated Trustee election, I'm pleased to welcome back Rob Goldspink, who has been elected for a further five year term. I'm looking forward to working with John Wrighthouse who will join the Board from January 2016 when sadly Mark Willis has decided to step down. I'd also like to welcome Ann Brown, HR Divisional Director to the Board, after she replaced Graham Pilkington in July. On behalf of the Board, I would like to extend our thanks to Graham and Mark for their contribution as Trustees. Full details of the results of the ballot can be found on the Fund website (see page 19 for details).

Finally, next year's online version of the Annual Report will be more interactive to improve the member experience, help reduce costs and reduce paper copies. I would encourage you to register your email address with us, so that you can receive all communications electronically.

Peter Wilkin
Chairman of the Nationwide Pension Fund
Trustee Board



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What is a Covenant?

The covenant is an employer's legal obligation and its ability to fund a scheme now and in the future. As scheme sponsor, the employer underwrites the risks to which the scheme is exposed, including underfunding, longevity, investment and inflation.

All trustee boards should have a framework for assessing and reviewing employer covenant to include regular monitoring. Trustees should regard this as just as important to the security of a scheme as monitoring fund performance.



Meet the Board

The Nationwide Pension Fund (the Fund) is managed by a trustee company. The Trustee is responsible for ensuring the Fund is run in line with the rules of the Fund, legislation and best practice requirements. There are eight Trustee Directors:



Employer Nominated Directors



Peter Wilkin
Chairman of the Board,
member of the Investment &
Funding Committee and the
Governance Committee



Andy Townsend
Chair of the Governance
Committee and member
of the Investment & Funding
Committee



Phillip Whittome
Chair of the Investment &
Funding Committee



Graham Pilkington
Resigned 1 July 2015



Ann Brown
Appointed from 1 July 2015,
member of the Operations
Committee

Member Nominated Directors



Arthur Amos
Deputy Chairman of the Board,
member of the Investment &
Funding Committee and the
Operations Committee



Rob Goldspink
Chair of the Operations
Committee and member of
the Governance Committee –
re-elected 25 June 2015



Mark Willis
Member of the Investment
& Funding Committee



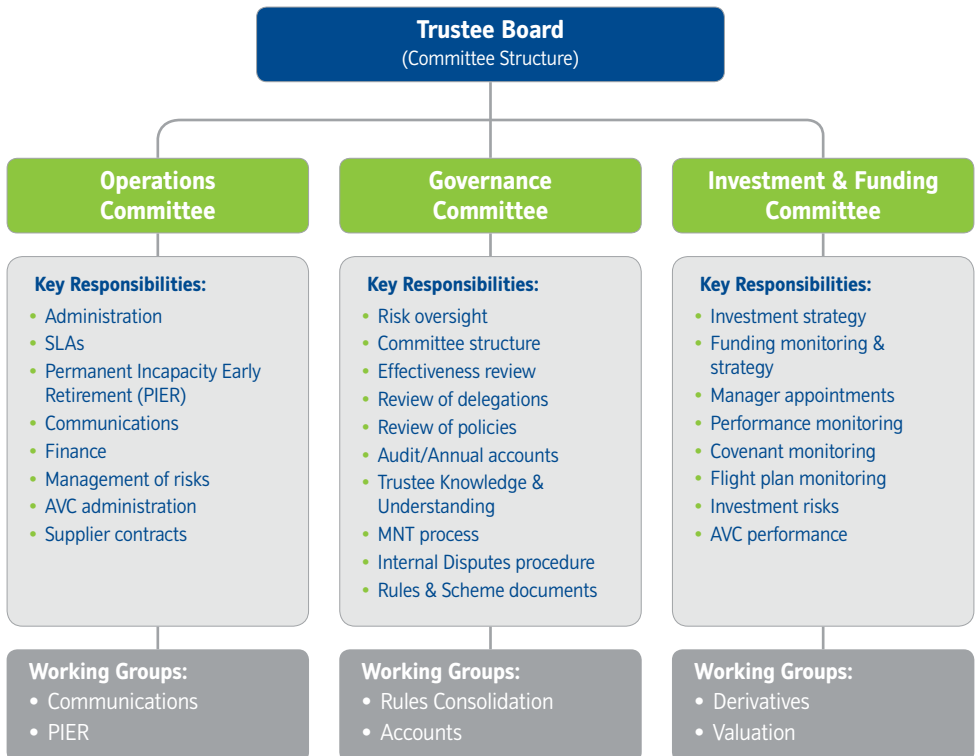
Bill Partis
Member of the Operations
Committee

Managing the Fund

We told you last year that there would be a review of the Fund’s Governance and risk management. Since then, an independent review has been carried out focusing on governance and as a result, the Trustee agreed a Strategic Plan and a new Committee Structure effective from June 2015.

The Strategic Plan covering 2015-2020 will be available on the Fund website from early October (see back page for details) and the new Committee Structure is:

- **Investment & Funding Committee** - meets quarterly (formerly Investment Sub Committee)
- **Operations Committee** - meets quarterly (formerly the Administration Sub Committee)
- **Governance Committee** – meets twice yearly



Fund Finances

Each year the Trustee produces a report and set of accounts for the period from 1 April to 31 March. A full copy can be found on our website and a summary of the money paid in and out of the Fund is shown opposite.



Fund assets

between March 2014
and March 2015

**increased
by 21%**

from **£3,614m** to **£4,375m**

Nationwide Section

| | £m |
|--------------------------------------|--------------|
| Total assets at 1 April 2014 | 3,394.3 |
| Money paid in | + |
| Employer contributions | 147.6 |
| Member contributions* | 0.3 |
| Member additional contributions | 1.4 |
| Return on investments | 662.2 |
| Total Income | 811.5 |
| Money paid out | - |
| Pension payments | 60.8 |
| Lump sums on retirement | 15.0 |
| Lump sum death benefits | 0.8 |
| Leavers | 8.0 |
| Administration & investment expenses | 22.7 |
| Total outgoings | 107.3 |
| Total assets at 31 March 2015 | 4,098.5 |

Cheshire & Derbyshire Section

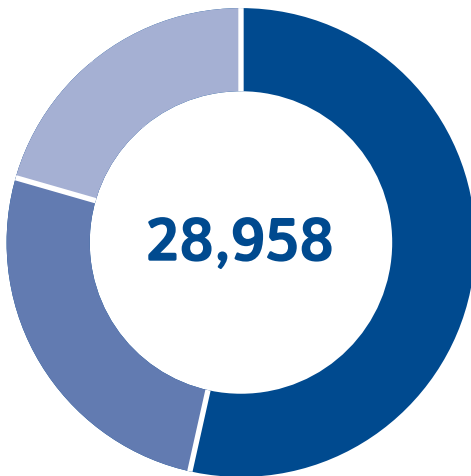
| | £m |
|--------------------------------------|-------------|
| Total assets at 1 April 2014 | 219.8 |
| Money paid in | + |
| Employer contributions | 0 |
| Member contributions | 0 |
| Member additional contributions | 0 |
| Return on investments | 62.8 |
| Total Income | 62.8 |
| Money paid out | - |
| Pension payments | 4.3 |
| Lump sums on retirement | 1.1 |
| Lump sum death benefits | - |
| Leavers | 0.1 |
| Administration & investment expenses | 0.4 |
| Total outgoings | 5.9 |
| Total assets at 31 March 2015 | 276.7 |

*Excludes salary sacrifice contributions of £13.2m (included in employer contributions)

Our Members

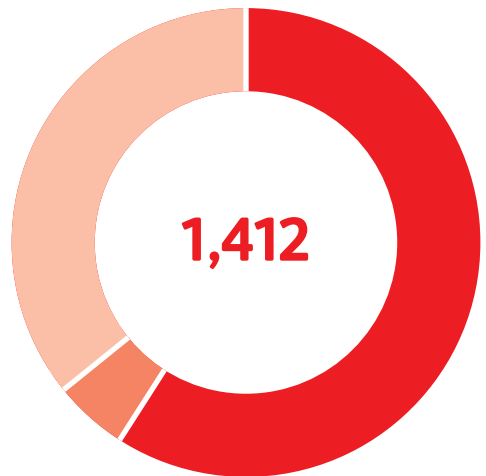
The Fund may be closed to new members but the Trustee remains responsible for over 30,000 members. The reported membership figures are shown below:

Nationwide Section as at 31 March 2015



| | |
|------------------------------------|--------|
| Left scheme not yet taken pension: | 16,009 |
| Current employees: | 6,529 |
| Pensioners: | 6,420 |

Cheshire & Derbyshire Section as at 31 March 2015



| | |
|------------------------------------|-----|
| Left scheme not yet taken pension: | 824 |
| Current employees: | 20 |
| Pensioners: | 568 |

Investment Summary

The management of the investment strategy is overseen by the Trustee Investment and Funding Committee ('IFC') within a framework of objectives and policies. The committee is supported by the Chief Investment Officer, Mark Hedges and his team, who are responsible for the day to day monitoring and management of the fund's investments.

Mark Hedges – Chief Investment Officer



Market Commentary

The global equity markets set new record highs during 2014-15 following a sharp downturn in September 2014 when there was uncertainty about Europe and US interest rates. Since then equities have climbed and in March the FTSE100 set a new high.

The interest rate environment saw UK long-term rates decline steadily from June through to December followed by some modest increase. The UK 20 year rate opened the year at 3.372% and closed at 2.103%. Falling oil prices (\$100 a barrel in September 2014 but fell to just under \$52 a barrel in January 2015) have clearly had an impact and lower energy prices should be positive for growth. In the UK, the recovery still faces the challenge that some 50% of the Government's austerity measures are yet to come which may mean interest rate rises are likely to be gradual.

Risk reduction remains a key feature of the investment strategy and consequently was a key part of the investment activity undertaken throughout 2014-15.

Investment Strategy Overview

The aim of the Trustee is ultimately to move to a position where it has a very low risk portfolio and can meet all its pension obligations, and is therefore unlikely to be dependent on the Society for any deficit contributions.

As progress is made towards this objective, the funding level between assets and liabilities improves and the level of risk taken by the Fund can then be reduced. This approach applies equally to both the Nationwide Section and the C&D Section of the Fund. The C&D Section is much closer to this objective than the Nationwide Section.

The Fund's combined investment assets as at 31 March 2015 were £4.38bn. Over the year, falling rates increased asset values as this led to higher bond prices; unfortunately it also impacted liabilities meaning the funding deficit in the Nationwide Section increased from £307m to £669m.

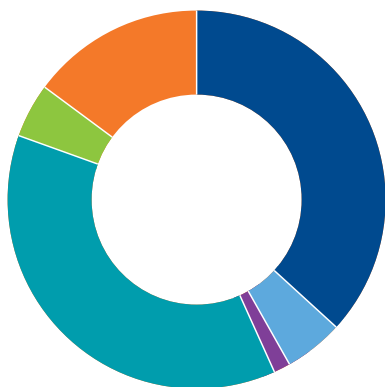
The total Fund returns can be found in the Report & Accounts on the website.

Investment Allocation

Nationwide Section

The following chart highlights the current gross allocation of £4.1bn.

Gross Assets March 2015



| | |
|-----------------------------|------------|
| Government Bonds | 37% |
| Corporate Bonds | 5% |
| Alternative Matching Assets | 1% |
| Equities | 37% |
| Credit | 5% |
| Private Markets | 15% |
| Cash and Others | 0% |

Actual asset returns are measured quarterly against the market return. A summary of the actual returns, compared to benchmark for one and three years, is as follows:

| Nationwide Section Performance Analysis | | | | |
|-----------------------------------------|----------|-------------|------------|-------------|
| Asset Class | One Year | | Three Year | |
| | Actual % | Benchmark % | Actual % | Benchmark % |
| Government Bonds | 27.0 | 27.3 | 11.8 | 10.7 |
| Corporate Bonds | 18.7 | 19.6 | 12.3 | 11.4 |
| Alternative Matching Assets | 8.3 | 3.9 | N/A | N/A |
| Equities | 16.0 | 18.8 | 11.8 | 12.7 |
| Credit | 6.9 | 9.0 | N/A | N/A |
| Private Markets* | 15.2 | 5.9 | 10.6 | 7.3 |
| Total Return | 19.0 | 18.7 | 12.3 | 10.7 |

*Private Markets includes real estate, private equity and infrastructure equity

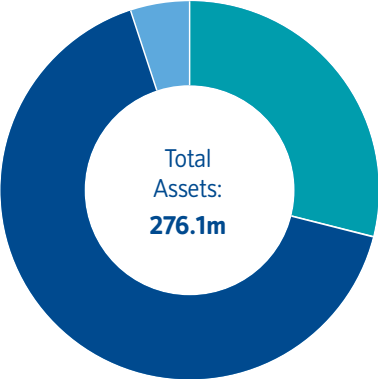
Over performance compared to benchmark has primarily been due to the private markets portfolio.

Investment Allocation

Cheshire & Derbyshire Section

This portfolio is entirely placed within funds managed by Legal and General and given its strong funding position, it has 70.8% of its assets investments in bonds. The values are as follows.

Gross Assets 31 March 2015



| | |
|----------------------|--------|
| Equities | 80.5m |
| Government Bonds | 181.8m |
| Non-Government Bonds | 13.8m |

The total return for the year was 28.9% compared to a benchmark of 24.9%.



Summary Funding Statement 2015

One of the main responsibilities of the Trustee Board is to monitor the finances of the Fund to ensure there is enough money to pay all of the benefits promised to members, both now and in the future.

This is achieved through a review of the funding position. A comprehensive review (known as a full Actuarial Valuation) is completed every three years by a qualified and independent Actuary. The next full Actuarial Valuation of the Fund is due on 31 March 2016. In between these full valuations, annual interim funding reviews are carried out.

This Summary Funding Statement updates you on the financial health of the Fund and provides important information regarding the security of your pension. It summarises the interim Actuarial Valuations of the Nationwide and Cheshire & Derbyshire sections as at 31 March 2015.

The Actuarial Valuation

The aim of the valuation is to assess the funding position of the Fund. To do this the Actuary has to determine:

- **how much money each section needs to cover the benefits members have built up**
If the Fund has more invested money (assets) than money needed to pay promised benefits (liabilities), it has a “surplus”.

If the Fund has more liabilities than assets it has a “shortfall”.

Where a shortfall exists at a full valuation, it is up to the Trustee Board and Nationwide to agree how this will be cleared and over what timescale.

- **what contributions need to be paid to cover the cost of providing future benefits**

Nationwide’s contributions are worked out by deducting contributions made by active members from the estimated amount needed to pay future benefits promised.

These contributions are then paid until the next full valuation is carried out.

How the funding position is calculated

The funding position is a “snapshot” of the Fund on one day. However, in practice the liabilities are not all due to be paid out that day but instead need to be met as they fall due. For many members this will be in 30 or 40 years’ time. Several factors can affect the funding position, including life expectancy, investment performance, interest rates and inflation levels. Assets are invested over the long-term, and therefore variation in funding levels is to be expected.

The funding position is calculated on an ongoing basis and on a solvency basis:

- **the ongoing basis** assumes that Nationwide will continue to support the Fund. Certain assumptions are made by the Actuary about future economic and financial conditions and the Fund’s membership. While the assumptions cannot be guaranteed as being accurate, they are agreed by the Trustee and Nationwide as being suitable.
- **the solvency basis** assumes that the Fund is ended (wound up) on the valuation date and looks at whether there is enough money in each section of the Fund to buy individual pensions for every member.

The interim funding position at 31 March 2015

The interim funding position is not a formal valuation; it's an estimate of the financial health of the Fund using the 2013 valuation assumptions updated for changes in market conditions between 31 March 2013 and 31 March 2015. You should be aware that the funding level of both sections will vary over time and the Trustee will continue to regularly monitor the funding positions.

Nationwide Section

| | |
|---------------|---------|
| Assets | £4,088m |
| Liabilities | £4,757m |
| Deficit | £669m |
| Surplus | N/A |
| Funding level | 86% |

Cheshire & Derbyshire Section

| | |
|---------------|---------|
| Assets | £276.5m |
| Liabilities | £247.5m |
| Deficit | N/A |
| Surplus | £29.0m |
| Funding level | 112% |

The Nationwide Section's deficit increased from £301m at 31 March 2014 to £669m at 31 March 2015. The main reason for the decline in the Nationwide Section's funding position since 31 March 2014 is a significant decrease in long-term interest rates which increased the liabilities. This was only partially offset by:

- the payment of an additional contribution of £90 million by Nationwide as part of the agreed plan to clear the Nationwide Section's deficit, and
- a higher than assumed rate of investment return.

The Cheshire & Derbyshire Section's surplus increased from £19.9m at 31 March 2014 to £29.0m at 31 March 2015. This was mainly due to a higher rate of investment return than expected. However, this was partially offset by a decrease in long-term interest rates, which increased the Cheshire & Derbyshire Section's liabilities.

Summary Funding Statement 2015 (cont.)

Nationwide Section deficit recovery plan

Following negotiations between Nationwide and the Trustee Board, a plan has been agreed to clear the deficit revealed at the 31 March 2013 valuation by Nationwide paying additional lump sum contributions as follows:

- £60m paid in March 2014
- £90m paid in July 2014
- £49m paid in July 2015
- £49m to be paid in each July between July 2016 and July 2020 inclusive

The amount due by 31 July 2016 will only be paid if the Nationwide Section still has a funding shortfall in early 2016. Further details are set out in the Nationwide Section's recovery plan, a copy of which is available on request.

Reason for Nationwide Section deficit and Cheshire & Derbyshire Section surplus

This has been the case since the Cheshire & Derbyshire Section was first created in 2010, following the merger of the previous Cheshire and Derbyshire pension schemes. Additional contributions are being paid in to the Nationwide Section in order to help close the gap, as described above.

Contributions to cover the cost of providing future benefits

As part of a full Actuarial Valuation the Actuary estimates how much money needs to be paid into the Fund to meet the cost of future benefits being built up by active members. This cost is expressed as a percentage of active members' pensionable salaries.

Following the 2013 valuation, the Society increased its ongoing contribution rate from 15.9% to 22.1% of pensionable salaries with effect from 1 July 2014. Active members continue to contribute at 7%.

Pensions paid if the Fund is wound up

Part of the full Actuarial Valuation requires the Actuary to work out what would have happened if the Fund had been wound up on 31 March 2013. This is known as a solvency valuation and the Actuary estimates if there is enough money to buy individual insurance policies to provide full pensions for every member.

The table on page 15 shows the solvency positions of both sections of the Fund at 31 March 2013 and 31 March 2015, with the shortfall figure representing the money that would be required from the Society as at that date.

Nationwide Section

| | 31 Mar 2013 | 31 Mar 2015 |
|----------------------|-------------|-------------|
| Assets | £3,233m | £4,088m |
| Solvency Liabilities | £6,424m | £7,841m |
| Deficit | £3,191m | £3,753m |
| Funding level | 50% | 52% |

The funding level on a 'solvency basis' is always lower than the 'ongoing basis' as the cost of providing all members' benefits straight away through insurance policies is much higher than paying for them over the future life of the Fund.

Insurance companies are required by law to take a very cautious approach to pricing pension annuities, which includes setting aside extra capital and reserves. In addition, their prices will include their costs and a profit margin.

In the unlikely event that Nationwide was unable to pay any further money into the Fund, for example because it became insolvent, additional security is provided through the Pension Protection Fund (PPF), set up by the Government to assist schemes in such circumstances. The PPF would normally take over the Fund and pay compensation to members. More information is available on their website at www.pensionprotectionfund.org.uk

Cheshire & Derbyshire Section

| | 31 Mar 2013 | 31 Mar 2015 |
|----------------------|-------------|-------------|
| Assets | £224.4m | £276.5m |
| Solvency Liabilities | £320.1m | £369.9m |
| Deficit | £95.7m | £93.4m |
| Funding level | 70% | 75% |

Note: Including solvency information within the Summary Funding Statement is a legal requirement and does not mean Nationwide is considering winding up the Fund.

Other information required by legislation

The legislation requires the Trustee to say whether any surplus funds have been paid to Nationwide from the Fund in the period since the last Summary Funding Statement was issued. The Trustee can confirm that there has not been any such payment over the period. The Trustee can also confirm that the Fund has not been modified by the Pensions Regulator, or had any directions or Schedule of Contributions imposed by it.

Letting the Trustee know your wishes

Have you completed an Expression of Wish form?

This tells the Trustee who you would like them to consider to be the recipient of a lump sum, or even a dependant's pension, in the event of your death. Benefits from the Fund are paid at the discretion of the Trustee and therefore do not form part of your estate. It's important that the Trustee understands what you would like to happen when you die.

Circumstances naturally change over time, therefore a form that you completed when you joined the Fund may not reflect your current situation, so it is important to review this periodically.

Below is a short case study* that illustrates why an up to date Expression of Wish form is important.

Sarah completed an Expression of Wish form when she joined the Fund ten years ago, in favour of her husband.

When Sarah passed away her father advised that she had been divorced for over two years, there was no will, no children and she had been dating Jim for 3 months but they did not live together. Sarah's father and mother were the next of kin.

As Sarah died whilst in service there is a lump sum payment to be made. Who would you pay the benefits to? The ex-husband, the father, the mother or the boyfriend?

The decision was made to split the lump sum between Sarah's father and mother, as her next of kin. The Expression of Wish form was considered to be out of date as Sarah had divorced since its completion and there was no dependency with the boyfriend as they had separate houses and finances.

You can find an Expression of Wish form in the document library on the NPF website and also on the Employee Pensions intranet pages – see last page for details.

*For illustration purposes only

Changes to National Insurance Contributions payable by active members from April 2016

The current State Pension is made up of two parts: the basic State Pension and the additional State Pension (the additional State Pension is sometimes called State Second Pension or SERPS).

The Nationwide Pension Fund is currently 'contracted-out' of the additional State Pension. This means you pay National Insurance contributions at a lower rate and build up pension in the Fund rather than the additional State Pension.

What is changing:

From 6 April 2016, there will be a new State Pension for people reaching State Pension age on or after this date. When the new State Pension is introduced it will replace the existing basic and additional State Pension. It will also end contracting-out (of the additional State Pension) and the lower National Insurance contributions rate you currently pay.

What this means for you:

From 6 April 2016 the rate of National Insurance contributions you pay will increase from 10.4% to the standard rate of 12%. Although you will pay more in National Insurance contributions, you're likely to get a bigger State Pension as a result of the changes.



How to find more information:

To find out more about the new State Pension, go to www.gov.uk/new-state-pension

You can also find more details on how your take home pay may be affected by the increase in National Insurance on the Employee Pensions intranet site.

Celebrate Our Success

The Nationwide Pension Fund Investment team wins the Best Investor in Alternative Assets Award whilst the Employee Pensions team scoops up an award for Best Administration.

It's always great to receive external recognition for the work we know we do well at Nationwide.

In April, the Nationwide Pension Fund was recognised at the Portfolio Institutional Awards when it was awarded the prestigious Best Investor in Alternative Asset Classes.

The Pension Investment team based in London have worked hard to develop and deliver the asset diversification strategy of the Fund to invest in private equity, infrastructure, real estate and more recently liability matching assets such as ground rents and long lease property.

It is this strategy that the judges recognised as deserving of the award. This reflects the hard work of not just the team but the support it has from the Treasury team, the Trustee of the Pension Fund, the Employee Pensions team in Swindon, the Capital Management team and the Fund's investment consultants Aon Hewitt.



The Pension Scheme of the Year Awards, now in their 15th year, celebrate excellence within UK workplace pension funds and aim to recognise the country's best schemes and managers. And in July, our Employee Pensions team based in Swindon impressed the judging panel after demonstrating their outstanding efficiency in data quality, member engagement and performance results against Service Level Agreements. So much so, that they beat the rest of the 2015 category finalists and won Best Pensions Administration for the Nationwide Pension Fund.

The team pride themselves on delivering a first class service to the circa 30,000 Fund members, who include employees, deferred pensioners and pensioners.

Nationwide was up against some tough competition including Zurich Insurance Group, The Pensions Trust, Royal Mail Pension Plan and Admiral Group amongst others.

The Trustee has always appreciated the work of the Pension Fund Investment team and the Employee Pensions team but it is all the more satisfying to see this recognised by the wider financial community.

Useful Contacts & Information

Please remember to visit our website where you can find useful contacts, details of helpful websites and you can also find a number of Fund documents which you may find informative.

www.nationwidepensionfund.co.uk



Employee Pensions team

The Employee Pensions team are responsible for the day to day administration of the Fund; such as dealing with queries from members, providing quotes and processing pensions for payment. You can contact them by:

Email: pensions.team@nationwide.co.uk

Telephone: 01793 655131

Post: Employee Pensions
Nationwide Building Society
Nationwide House, Pipers Way
Swindon SN38 2GN

Contact the Payroll Team

If you are a pensioner and have a query on the payment of your pension, you can telephone ASK HR 01793 556808 and select 'option 1'

Advisors to the Fund

The Trustee is responsible for the efficient running of the Fund. Some of their day to day responsibilities are delegated, and where necessary they take advice from independent professional advisors when making decisions.

Actuary Jeremy Ball, Aon Hewitt Ltd

Auditors Crowe Clark Whitehill LLP

Legal Advisors Sacker & Partners LLP

Investment Consultant Aon Hewitt Ltd

A full list of Investment Managers can be found in the report and account on the Pension Fund website.

Please remember to visit our website where you can find useful contacts, details of helpful websites and you can also find a number of Fund documents which you may find informative.

www.nationwidepensionfund.co.uk



On your side