

EMPLOYEE PENSIONS

Nationwide Pension Fund Report & Accounts

31 March 2014

» NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2014

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NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS

Trustee Nationwide Pension Fund Trustee Limited

Trustee Directors

Society Appointed Peter Wilkin (Chairman)

Graham Pilkington

Andy Townsend

Philip Whittome

Staff Member Nominated Arthur Amos

Rob Goldspink

Mark Willis

Pensioner Member Nominated Bill Partis

Head of Pensions Kevin Crossland (Louisa Flaviani interim to 31 March 2014.
Ian Baines interim from 2 June 2014.)

Chief Investment Officer Mark Hedges

Administrator and Secretary David Cook

Accountant Philip Ilott

Actuary Jeremy Ball, Aon Hewitt Ltd

Auditors Crowe Clark Whitehill LLP

Legal Advisers Sacker & Partners LLP

Property Solicitors Simmons & Simmons LLP

Property Valuers Knight Frank LLP

Bankers National Westminster Bank Plc

Investment Consultant Aon Hewitt Ltd

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS - continued

Implementation Manager Russell Implementation Services Ltd

Investment Managers: Nationwide Section

Matching Assets

Aviva Investors Jersey Unit Trusts Management Ltd

Fidelity Pensions Management

Insight Investment Management (Global) Ltd

Return Seeking Assets

Equities:

Axiom International Investors LLC (ceased October 2013)

Edinburgh Partners Ltd (ceased October 2013)

Fisher Investments (ceased October 2013)

Habrok Capital Management LLP (ceased December 2013)

Highline Capital Management LLP (ceased April 2014)

Independent Franchise Partners LLP (ceased October 2013)

Ivory Investment Management LP (ceased January 2014)

Legal & General Investment Management Ltd

Neuberger Berman (appointed May 2014)

Oaktree Capital Management (appointed April 2014)

Odey Asset Management LLP (ceased October 2013)

RCM Asia Pacific Ltd (ceased December 2013)

River and Mercantile Asset Management LLP (ceased October 2013)

Russell Implementation Services Ltd

Southeastern Asset Management, Inc (ceased October 2013)

Trian Partners, Ltd

UBS Global Asset Management Life Ltd

Vontobel Asset Management Inc

Credit:

Babson Capital Management LLC

Falcon Bridge Capital II, LLC

TwentyFour Asset Management LLP

Infrastructure:

Alinda Capital Partners LLC

Equis Funds Group

Innisfree Ltd

Macquarie Investment Management (UK) Ltd

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS – continued

	Star Capital Partners Ltd
	SteelRiver Infrastructure Fund North America LP
Private Equity:	Arsenal Capital Management LP
	BV Investment Partners (appointed December 2013)
	Dunedin Capital Partners
	The Energy and Minerals Group
	L Capital Asia Advisors
	Mount Kellett Capital Partners (Cayman) LP
	NB Alternatives Advisers LLC
	Permira V G.P. Ltd (appointed April 2014)
	Platinum Equity Advisors LLC (appointed July 2013)
	Thompson Street Capital Manager LLC
	Trilantic Capital Management LLC
Real Estate:	Duet Private Equity Ltd
	Goldman, Sachs & Co. (appointed April 2014)
	LaSalle Investment Management
	Legal & General Investment Management Ltd
	Silverpeak Real Estate Partners

Investment Managers: C&D Section

Matching Assets Legal & General Investment Management Ltd

Custodians The Northern Trust Company

Pension Scheme Tax Reference 00271477RZ

Enquiries Employee Pensions
Nationwide Building Society
Nationwide House
Pipers Way
Swindon
SN38 2GN

Tel: 01793 655131

NATIONWIDE PENSION FUND

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2014

I am pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2014.

Overview

The number of active members of the Fund is now 7,194. The number of pensioners has reached 6,867 and the biggest group of members is the 16,683 deferred members, who comprise more than 50% of the membership.

The value of the Fund's assets is now £3,614 million, up 4% from £3,468 million at the previous year end. More commentary about the investments is included in the investment report from Mark Hedges, Chief Investment Officer.

Funding

The 31 March 2013 valuation results indicate a deficit (measured on a technical provisions basis) of £580m for the Nationwide Section of the Fund at that date, with a small surplus of £13.3m in the C&D Section. Before the results as at 31 March 2013 were confirmed an interim cash payment of £60m was received in March 2014 and as part of the agreed valuation recovery plan a further cash payment of £90m is due to be paid before 31 July 2014. Further lump sums of £49m are due in July 2015 and July 2016, but these lumps sums are conditional on the funding position at March 2015 and March 2016 respectively.

Communication

Since the benefit changes for active members effective from 1 April 2011, communication has been a focus for the Trustee Board with roadshows and newsletters for current employees introduced. In the last year a survey of members and additional contributions roadshows were undertaken. We have also launched a newsletter for our pensioner members, and provided a benefits statement to each deferred member – we intend to do this every three years, so members are fully aware of the benefits their Nationwide pension is likely to provide, to help with their financial and retirement planning. In the next year there will be a focus on the design of scheme communications along with improvements in the pensions website (<http://www.nationwidepensionfund.co.uk>).

Trustee Board

Trustee Directors and their advisers meet regularly in a number of committees in addition to the main Board meetings. We always strive to run the Fund in accordance with the very best practice, and a major governance review is currently being undertaken. Training for the Trustee, the internal pensions and investment teams also continues to be a focus with increased time spent on individual training and group training. As well as the efforts of the Trustee Directors, I am also grateful for the support received from our professional advisers and the internal pensions and investment teams.



Peter Wilkin

Chairman of the Trustee Board

NATIONWIDE PENSION FUND

TRUSTEE REPORT FOR THE YEAR ENDED 31 MARCH 2014

The Trustee of Nationwide Pension Fund presents its annual report, together with the investment report, actuarial certificates and financial statements for the year ended 31 March 2014. The Fund is a defined benefit scheme providing benefits based on final salary for members who joined prior to 1 January 2002, and on Career Average Re-valued Earnings ('CARE') for members who joined after that date. From 1 April 2011 all future benefits for service after that date have been provided on a CARE basis, whilst the final salary link has been maintained, where appropriate, for service before that date.

From 1 June 2007 the CARE section was closed to new employees, who became eligible to join the Nationwide Group Personal Pension ('GPP') arrangement. The GPP arrangement is a defined contribution scheme administered by Friends Life and is not part of the Fund.

Following the merger on 30 June 2010 with the Cheshire Building Society Pension and Life Assurance Scheme ('the Cheshire Scheme'), and the Derbyshire Building Society Staff Pension Scheme ('the Derbyshire Scheme'), the Fund became sectionalised with two separate sections – 'The Nationwide Section' and 'The C&D Section' covering the Derbyshire and Cheshire Schemes. Separate financial disclosures for these two sections are provided in this report.

The Fund is 'contracted out' of the additional components of the State pension.

Management of Nationwide Pension Fund

On 1 April 2007 Nationwide Pension Fund Trustee Limited, a corporate body, was appointed as Trustee, and all serving Trustees became Trustee Directors.

Nationwide Pension Fund is governed by a definitive trust deed and rules dated 1 April 2012.

The Board of Nationwide Building Society ('the Society') has the power to appoint four Trustee Directors (and change them from time to time). Three Staff Member Trustee Directors are elected for terms of six years and a Pensioner Member Trustee Director is elected for three years. Any Trustee Director may, in exceptional circumstances, be removed from office by the unanimous decision of the other Trustee Directors, provided that in the case of removal of Staff Member Trustee Directors, or a Pensioner Member Trustee Director, approval is first obtained from the appropriate electoral constituency voting in a postal ballot.

The current Trustee Directors are shown on page 2. Six of them, none of them employees of the Society, received payment for their services in the scheme year, as described in Note 7 to the financial statements.

Trustee meetings are normally held six times a year. Decisions are made generally by consensus, but the rules provide for majority voting when a consensus cannot be reached. Attendance at the six meetings in the year to 31 March 2014 was as follows:

Peter Wilkin	6	Arthur Amos	6
Graham Pilkington	6	Rob Goldspink	6
Andy Townsend	2	Mark Willis	6
Philip Whittome	6	Bill Partis	6

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

There are also a number of sub-committees that meet throughout the year, as set out below:

- The Investment Sub-Committee meets at least quarterly with further meetings as required.
- The Administration Sub-Committee also meets on a quarterly basis.
- The Derivatives Sub-Committee meets as required.
- The Permanent Incapacity Early Retirement Sub-Committee (PIER) meets as required, usually four to six times a year.
- The Accounts Approval Sub-Committee meets at least once a year, to consider the draft accounts.
- The Trustee's Internal Disputes Resolution Sub-committee meets as required.

Review of Financial Development of the Fund

Aon Hewitt Associates Ltd performed the most recent actuarial valuation as at as at 31 March 2013. The valuation indicated a deficit of £580m for the Nationwide Section at that date. A deficit recovery plan for the Nationwide Section has been agreed between the Trustee and the Society under which an initial lump sum payment of £60m was paid by the Society in March 2014 with a further sum of £90m due by the end July 2014. Further annual lump sums of £49m are due from July 2015 until July 2020, although the first two are conditional on the funding position as at March 2015 and March 2016 respectively. The valuation also indicated a surplus of £13.3m for the C&D Section at that date.

The employer's contribution rate applicable from 1 July 2014 is to increase to 22.1% (from 15.9% since 1 April 2014). The Trustee routinely monitors the Fund's funding position and the next valuation is being carried out as at 31 March 2016.

An actuarial statement of the adequacy of the rates of contributions for the purpose of meeting the statutory funding objective at the time of the last actuarial valuation is on page 17. An actuarial statement certifying the calculation of the valuation's technical provisions is on page 18. An update on the funding position is on page 37.

The contributions and income received for the year ended 31 March 2014 exceeded benefits due by £27.3m (2013: shortfall of £26.4m). The net effect of returns on investments has been to increase the value of the Fund by £119.2m (2013: £372.0m).

The financial statements have been prepared and audited in compliance with regulations under sections 41(1) and (6) of the Pensions Act 1995. They cover the year to 31 March 2014.

Investment Strategy

Over the long term, the Trustee's strategy is to diversify investments and match investment returns with the Fund's liabilities as they fall due. Diversification of investment returns requires selection and appointment of specialist asset managers across a range of asset classes. This means the Fund has a wide range of investment managers. The investment performance is considered at the asset allocation level in conjunction with the investment performance of specialist managers. These are targeted and monitored after taking account of fees charged (both ad valorem and performance fees) by managers, acknowledging that specialist manager fees are typically higher than index tracking fund managers. Investment assets are transferred between managers to implement this investment policy, as necessary. Details of asset allocation performance, management fees and movements in investments can be found in the Investment Report and Financial Statements.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Revised Statements of Investment Principles ('SIP's) were adopted by the Trustee in March 2014 to reflect the Trustee's decision to reduce exposure to return seeking assets and increase exposure to matching assets. At 31 March 2014 the Nationwide Section was slightly overweight compared to its targets for bond and credit allocations, however this was within the acceptable ranges set under the SIP.

Sponsoring Employer

The Fund is sponsored by the Nationwide Building Society, whose address is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Membership

The change in the membership of the Fund during the year is given below:

	Note	Nationwide Section	C&D Section	Total
<u>Active Members</u>				
Active members at the beginning of the year		7,662	72	
Members reinstated		1	-	
New members joining	(a)	9	-	
Members leaving prior to pensionable age		(470)	-	
Members retiring		(75)	(3)	
Deaths in service		(2)	-	
		<u>7,125</u>	<u>69</u>	7,194
<u>Deferred Members</u>				
Deferred members at the beginning of the year		15,755	839	
Deferred members reinstated		7	-	
Deferred members added during the year		470	-	
Deferred members transferring out		(62)	(2)	
Deferred members retiring		(276)	(26)	
Deaths in deferment		(17)	-	
Merged records	(b)	(2)	-	
Cessation of pension entitlements		(1)	-	
Pension commencements backdated	(c)	(2)	-	
		<u>15,872</u>	<u>811</u>	16,683
<u>Pensioners</u>				
Pensioners at the beginning of the year		6,024	514	
Members reinstated		1	-	
Active members retiring		75	3	
Deferred members retiring		276	26	
Spouses and dependants		50	-	
Commutations of trivial pensions		(10)	-	
Deaths in retirement		(81)	(1)	
Merged records	(b)	(8)	(1)	
Cessation of pension entitlements		(1)	(2)	
Pension commencements backdated	(c)	2	-	
	(d)	<u>6,328</u>	<u>539</u>	6,867
TOTAL MEMBERSHIP AT 31 MARCH 2014		<u>29,325</u>	<u>1,419</u>	<u>30,744</u>

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

- (a) Existing deferred members returning from an employment break have the right to rejoin the Fund through an additional active account.
- (b) Merged records relate to members who previously had two separate periods of membership.
- (c) The pension commencements of two members were backdated to the date of their leaving following Permanent Incapacity Early Retirement (PIER) review by the Trustee.
- (d) The figures for pensioners do not include approximately 40 members whose pension is paid directly to them by an insurance company in respect of an annuity purchased at the time of their retirement.

Trust Deed and Rule Changes

A consolidated deed of variation was adopted with effect from 1 April 2012 to incorporate all major deeds and deeds of variation.

A deed of variation was adopted on 27 March 2014 that provided for dependants benefits on same sex marriage with effect from 30 March 2014.

There were no other changes during the year to any benefits accrued or to the Rules.

NATIONWIDE PENSION FUND

STATEMENT OF TRUSTEE RESPONSIBILITIES

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- * show a true and fair view of the financial transactions of the Fund during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- * contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes (revised May 2007)'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Fund in the form of an Annual Report.

The Trustee is responsible, under pensions legislation, for ensuring that there is prepared, maintained, and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by law to consider making reports to the Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

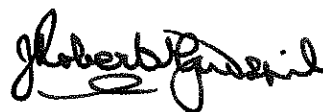
Further Information

Further details of investment performance are included in the Investment Report. Further disclosures required by legislation are included in the Compliance Statement. Enquiries about the Fund or an individual's entitlement should be sent to David Cook, Scheme Administrator, Pensions Department, Nationwide Building Society, Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 2GN.

The Trustee Report was approved by the Trustee on 24 July 2014 and signed on its behalf by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2014

Overview

The investment report sets out a summary of the investment strategy and the investment activity undertaken during the year. It highlights the changes in allocation and the performance over the year. The management of the investment strategy is overseen by the Investment Sub-Committee (ISC) within a framework of objectives and policies set out by the Trustee.

The aim of the Trustee is to ultimately move to a position where it has a very low risk portfolio, is not dependent upon the Society for potential deficit contributions and can meet all of its pension obligations. 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 be reduced. This approach applies equally to both the Nationwide Section and the Cheshire and Derbyshire Section of the Fund. The Cheshire and Derbyshire Section is much closer to this objective than the Nationwide Section.

The Fund's combined assets as at 31 March 2014 were £3.6bn. This includes an additional contribution of £60m from the Society which is the first instalment in a deficit recovery plan for the Nationwide Section that has recently been agreed with the Society.

The total Fund return for the scheme year was 3.26%, this compares to a benchmark return of 4.50%. The average Fund return for the 3 years to 31 March 2014 was 7.82% p.a. This compares to the benchmark of 8.40% p.a. The benchmarks for both sections of the Fund are composite benchmarks which take into account their strategic asset allocations but not management fees.

Each section has its own Statement of Investment Principles (SIP) which details the respective investment strategy. These meet the requirements of section 35 of the Pensions Act 1995 and section 244 of the Pensions Act 2004. The current SIPs were approved by the Trustee Board on 27 March 2014 to take account of changes agreed over the year.

Market Commentary

The global economy showed signs of recovery through the year as challenges lessened but it was not without volatility, particularly on initial announcements by the US Federal Reserve (Fed) that they would be scaling back Quantitative Easing. After the initial concern, developed equity markets rallied and are close to all time highs. The interest rate environment has seen short term rates remain low although longer term rates did rise in the early part of the year following the initial Fed comments. The combination of high equity values and some improvement in long term bond yields enabled the de-risking activity noted below to occur in September 2013. Since then, whilst equities have remained high, long term bonds have seen some tightening in yields.

Recovery in the US has been encouraging but Europe has been significantly slower. Growth is sluggish and many issues still need to be addressed. Challenges also arise from the inevitable slowdown in China's growth, which has had a dampening impact on emerging markets. In the UK the recovery faces the challenge of a potential housing bubble at a time when some austerity measures are still working their way through local government.

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

Nationwide Section

Risk reduction was very much the highlight of the investment activity undertaken through 2013-14. The year saw a substantial increase into assets that more closely match the liabilities of the Fund, rising from 31% of net assets to 41%. In the previous year the Trustee had considered a process for de-risking as the funding level improved. The ISC took the opportunity to implement this process in September 2013, benefiting from the rise in equity values and the fall in bond prices to increase the holdings of index linked gilts to hedge against inflation risk.

This was not the only risk reduction activity. The year also saw the Fund implement the first significant derivative transaction to provide protection against the risk of inflation. Derivatives with a notional value of £314m were put in place to hedge inflation over 5, 10 and 15 years. This arrangement was undertaken through Insight, the Fund's specialist Liability Driven Investment (LDI) fund manager for this type of activity.

In addition the Trustee agreed that over the next two years it would seek to move the strategic asset allocation to a 50/50 split between matching assets and return seeking assets by sourcing alternative matching assets such as long lease property and ground rents. These assets have inflation linkage and generally low risk but obtain a premium over gilts to compensate for being less liquid. This strategy has commenced, with the long-lease property allocation to Aviva rising to £48m. Further investments will be made through 2014-15.

There is still a high allocation to return seeking assets within this section of the Fund. These assets do not behave like the liabilities, so over time as the funding level and the market environment permit the long term plan is to further de-risk by reducing the Section's exposure to return seeking assets, and increasing the proportion of assets that match the liabilities.

The Fund continued to consider additional exposure to private equity and real estate through the year but the principal activity outside of de-risking was a complete overhaul of the equity strategy. Having reviewed the performance of the active equity and long/short equity managers the decision was taken to exit these activities in developed market equities and move to only passive equity in developed markets. The equity allocation was then to be split 75%/25% developed market/emerging market equities, with the emerging market allocation being primarily focussed on active equity managers. This reflected a view that information flow was highly efficient in developed markets making it hard for fund managers to obtain any additional insight over the rest of the market whilst emerging markets still had some inefficiency.

This process was mainly completed during the year with ten managers being liquidated during the year and one closing on 1 April 2014, leaving only one, which will remain until 2015. Two new emerging market managers were selected and the Fund was in the process of engaging these at the financial year end. The extensive transition process required the use of equity futures to ensure that our equity allocation remained appropriately balanced across the 75/25% split throughout. This position will be completely unwound once the documentation engaging the two new managers is completed.

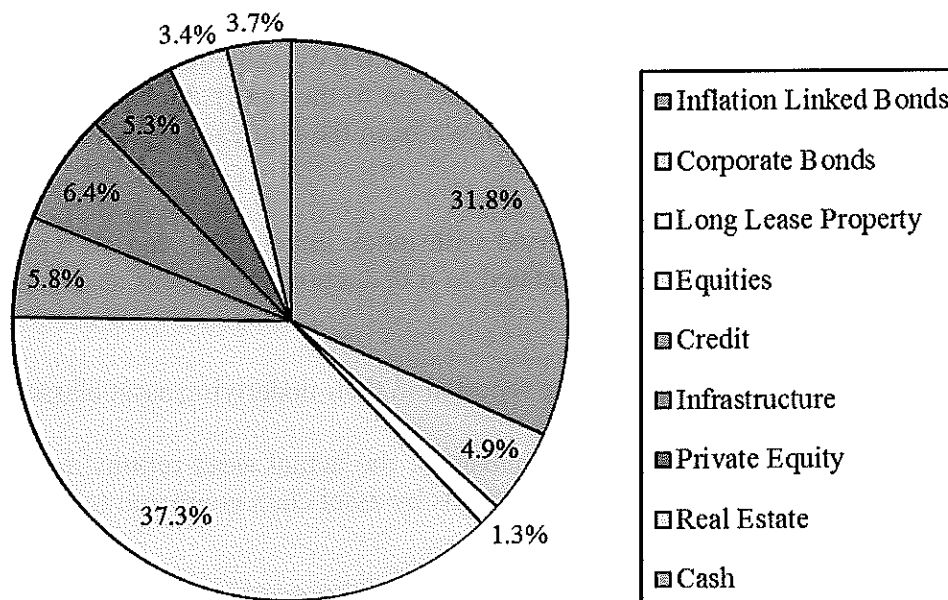
Investment Allocation (Nationwide Section only)

The following chart highlights the current gross allocation, including the leverage from the reinvestment of the cash raised from repurchase agreements, of the Nationwide Section of the Fund's investments of £3,393.1m.

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

March 2014 Nationwide Gross Asset Allocation



The following table highlights the comparative position of the asset classes as compared to the previous financial year end. These figures calculate the asset percentages on a net basis. The reporting of assets reflects the strategy of the Trustee and the focus on de-risking and matching of liabilities. Consequently assets are split between matching assets that seek to hedge the liability profile and the return seeking assets that are held to generate returns, with a view to improving the funding ratio. It should be noted that at any particular time a manager may have a holding of cash or derivatives within its portfolio even though its principal holding may be, for example, corporate bonds.

Nationwide Section				
Matching Assets	2014		2013	
	Val (£m)	% of net assets	Val (£m)	% of net assets
Inflation Linked Bonds	1,169.5	34.6%	839.1	25.9%
Corporate Bonds	181.0	5.4%	176.7	5.5%
Long Lease Property	47.6	1.4%	4.1	0.1%
Total Matching Assets	1,398.1	41.4%	1,019.9	31.5%
Return Seeking Assets				
Equities (incl. hedge funds)	1,373.5	40.6%	1,462.2	45.2%
Credit	214.2	6.4%	251.4	7.8%
Infrastructure	236.3	7.0%	227.7	7.0%
Private Equity	195.1	5.8%	167.9	5.2%
Real Estate	126.5	3.7%	201.0	6.2%
Total Return Seeking Assets	2,145.6	63.5%	2,310.2	71.4%
Cash	136.3	4.0%	6.7	0.2%
Other	1.2	0.0%	8.0	0.2%
Total Gross	3,681.2	108.9%	3,344.8	103.4%
Less Repo	299.7	8.9%	110.0	3.4%
Total Net*	3,381.5	100.0%	3,234.8	100.0%

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

* The £3,393.1m investment assets reported in the Nationwide Section's Net Asset Statement (Note 15 to the Financial Statements) is after the inclusion of £10.2m AVCs/Bonus Waivers and £1.4m annuity value.

The equities allocation includes both a residual long/short equity hedge fund and some equity futures. The equity futures are a short term holding undertaken to maintain the overall equity exposure whilst rebalancing of the physical exposure between managers, to reflect changes to the equity allocation agreed by the Trustee, is completed. Consequently cash holdings are netted down from the figures reported in the accounts to reflect this risk based allocation.

The repurchase arrangements, although collateralised with index linked gilts, can be repaid from any liquid assets should the Trustees choose, and are thus treated as a deduction from gross assets rather than reducing the matching assets.

Investments held in pooled investment vehicles are reported in their underlying asset classes.

In terms of performance monitoring of the fund managers, the actual asset returns are measured quarterly against the market return. A summary of the actual returns by asset class compared to benchmark for one and three years is as follows:-

Asset Class	One Year		Three Year	
	Actual %	Benchmark%	Actual %	Benchmark %
Equities	4.0	8.1	5.9	7.5
Hedge Funds	14.5	11.1	13.3	7.5
Bonds ¹	(1.1)	(3.2)	10.3	10.1
Private Markets ²	4.3	7.7	6.8	6.9

1 Bonds includes both matching and return seeking bonds.

2 Private Markets includes real estate, private equity and infrastructure equity.

Overall the Nationwide Section delivered a total return for the year of 3.45% for the year, compared to a benchmark return of 4.78%. Over the last three years the performance was 7.72% p.a. and the benchmark was 8.33% p.a. The benchmark is a composite benchmark which takes into account strategic asset allocation but not management fees.

The primary factor influencing performance has been the underperformance of active equity managers over the three years and during this year. Trustees therefore took a decision to exit active equities in developed markets and invest in passive equity in those markets. This process was time consuming and further contributed to underperformance during the year. As equities represent the largest allocation within the portfolio this has had a significant impact on the overall returns.

Other factors to note include:-

- (a) The private markets are very long term activity and performance in any one year can be heavily distorted by fees, commitments, drawdowns and distributions. Much of the portfolio is still in its early stages and thus not generating distributions. Over the three year period performance has been close to benchmark. The last year's performance reflects an increased number of commitments made to these markets which incur cost, whilst it may be several years before any returns are made.
- (b) Bond performance takes into account changes in net asset values as required by accounting convention. Whilst not highlighted directly in the table some return seeking bonds have had adverse net asset prices during the year which have impacted their returns. However these assets are high quality with very low credit risk and are held for the margin income they generate; over the life of the

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

asset there will be variances in market value, but on maturity it is expected they will return the capital invested without loss, thus meeting the expected returns.

Foreign Exchange (FX) Overlay (Nationwide Section only)

Russell Investments currently run a 20% FX hedge against the Fund's major currency exposures (USD/EUR/YEN) equity exposures. In the 12 months to 31 March 2014, the hedge realised a gain of £ 43m. Exposure through Legal & General Investment Management (LGIM) to emerging market equity is managed independently. The long/short equity managers, of which only Trian remains, are hedged 100%.

Derivative Contracts (Nationwide Section only)

The Trustee has authorised the use of derivatives to help achieve:-

- the timely implementation of asset reallocation,
- efficient portfolio management, and
- asset and liability management through Insight, its LDI manager.

The LDI manager also operates both the derivative hedging for LDI and the repurchase programme, using index linked gilts as collateral for both obligations. To limit counterparty risk there are limits set to exposure and all derivatives are collateralised on a daily basis.

Largest Exposures (Nationwide Section only)

The ten largest individual exposures of the Nationwide section are;

Security	Market Value £M
UK Government 1.125% Index Linked 22/11/2037	227
UK Government 0.625% Index Linked 22/11/2042	144
UK Government 0.750% Index Linked 22/11/2047	138
UK Government 1.250% Index Linked 22/11/2055	109
UK Government 0.625% Index Linked 22/03/2040	100
UK Government 0.750% Index Linked 22/03/2034	95
UK Government 0.500% Index Linked 22/03/2050	71
UK Government 0.125% Index Linked 22/03/2044	70
UK Government 0.125% Index Linked 22/03/2029	47
UK Government 1.250% Index Linked 22/11/2032	33

Cheshire & Derbyshire Section

This portfolio is entirely managed by the LGIM and given its strong funding position it has 70.3% of its investments in matching assets. The values compared to last year are as follows.

Cheshire & Derbyshire Section				
Asset	2014		2013	
	Val (£m)	% of net assets	Val (£m)	% of net assets
Equities	65.3	29.8%	67.4	30.0%
Government Bonds	126.7	57.7%	129.9	57.9%
Non-Government Bonds	27.4	12.5%	27.2	12.1%
Total	219.4	100.0%	224.5	100.0%

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

The total return for the year was 0.54% compared to a benchmark of 0.43%. Over the last three years the performance was 9.29% p.a. and the benchmark was 8.33% p.a. The benchmark is a composite benchmark which takes into account strategic asset allocation but not management fees.

Valuation and Marketability

Members are referred to the financial statements for details of the method of valuation of the Fund's assets. The Fund's investments in equities, government bonds and non-government bonds are considered to be readily marketable and the investments in property unit trusts can usually be realised within a three-month notice period. The other property funds, the infrastructure funds and the private equity funds are only usually realisable after the funds are fully invested, and the realisation process is specified in the limited partnership agreement that governs each individual fund.

Other than exposure to the UK government via holdings in government bonds there are no directly held investments which represent more than 5% of the total assets of the Fund.

AVC & Bonus Waiver Investments

The Trustee holds assets invested separately from the main portfolio, which secure benefits from members' Additional Voluntary Contributions ('AVCs') and members' bonus waivers, as follows:

- Aviva (formerly Norwich Union) AVCs
- Equitable Life Assurance Society AVCs and bonus waivers
- Fidelity Pensions Management AVCs and bonus waivers
- Legal and General Assurance Company AVCs
- Prudential Assurance Company AVCs and bonus waivers
- Standard Life Assurance Company AVCs
- Zurich Assurance Limited AVCs

Only the Fidelity and Prudential funds are open to further contributions from members.

Custodian Arrangements

Custody services for the underlying assets of the Fund are managed by the Northern Trust Company. Some pooled funds use their own custodian.

UK Stewardship Code

The Trustee recognises the UK Stewardship Code (the "Code") as best practice regarding responsible ownership and seeks to adhere to its principles where possible. Although the Code only applies to UK equity investments, the Trustee is supportive of the spirit and principles of the Code and encourages all its managers to adhere to the principles in the UK and other regions where possible.

Mark S S Hedges
Chief Investment Officer
Nationwide Pension Fund

NATIONWIDE PENSION FUND

ACTUARIAL CERTIFICATES

Certification of schedule of contributions

Nationwide Pension Fund – Nationwide Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 18 July 2014.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 18 July 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature:



Date: 18 July 2014

Name: Jeremy Ball

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Verulam Point
Station Road
St Albans
AL1 5HE

Employer: Aon Hewitt Limited

Certification of schedule of contributions

Nationwide Pension Fund – Cheshire and Derbyshire Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2013 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 18 July 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature:



Date: 18 July 2014

Name: Jeremy Ball

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Verulam Point
Station Road
St Albans
AL1 5HE

Name of employer: Aon Hewitt Limited

Appendix 6: Certificate of technical provisions


Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Nationwide Section of the Nationwide Pension fund

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Nationwide Section's technical provisions as at 31 March 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Fund and set out in the statement of funding principles dated 18 July 2014.

Signature



Date 18 July 2014

Aon Hewitt

Verulam Point, Station Way,

St Albans, Hertfordshire

Jeremy Ball

Fellow of the Institute and Faculty of Actuaries

AL1 5HE

Appendix 6: Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

C&D Section of the Nationwide Pension Fund

Calculation of technical provisions

I certify that, in my opinion, the calculation of the C&D Section's technical provisions as at 31 March 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Fund and set out in the statement of funding principles dated 18 July 2014.

Signature



Date 18 July 2014

Aon Hewitt

Verulam Point, Station Way,

St Albans, Hertfordshire

Jeremy Ball

Fellow of the Institute and Faculty of Actuaries

AL1 5HE

NATIONWIDE PENSION FUND

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE NATIONWIDE PENSION FUND

We have audited the financial statements of the Nationwide Pension Fund ('the Fund') for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related Notes set out therein.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and Auditors

As explained more fully in the Trustee's Responsibilities Statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

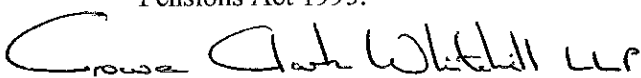
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting made by the Trustee; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report, which comprises the Chairman's Statement, the Trustee Report, the Investment Report, the Actuarial Certificates, the Summary Funding Statement Extract and the Compliance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund for the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Crowe Clark Whitehill LLP
Statutory Auditor
London

24 July 2014

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Contributions and benefits			
Additions			
Contributions receivable	3	112.0	54.8
Other income	4	0.2	0.2
		<u>112.2</u>	<u>55.0</u>
Withdrawals			
Benefits payable	5	(74.5)	(73.5)
Payments to and on account of leavers	6	(6.8)	(4.9)
Administrative expenses	7	(3.6)	(3.0)
		<u>(84.9)</u>	<u>(81.4)</u>
Net additions/(reductions) from dealings with members		<u>27.3</u>	<u>(26.4)</u>
Returns on investments			
Investment income	8	40.2	42.1
Change in market value of investments	9	97.9	350.6
Investment management expenses	10	(18.9)	(20.7)
Net returns on investments		<u>119.2</u>	<u>372.0</u>
Net increase in the Fund during the year		146.5	345.6
Net assets of the Fund			
At the beginning of the year		3,467.6	3,122.0
At the end of the year		<u>3,614.1</u>	<u>3,467.6</u>

The Notes on pages 22 to 36 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Net Assets Statement as at 31 March 2014

	Note	2014 £m	2013 £m
Investment assets and liabilities			
Assets			
Fixed interest securities		413.3	350.0
Index linked securities		1,137.0	834.6
Equities		-	581.3
Pooled investment vehicles		2,117.8	1,630.4
Derivatives		10.7	15.7
Property		55.8	59.3
Annuity investments		1.4	0.5
Cash deposits		176.8	97.4
Other investment balances		5.2	8.8
AVC & bonus waiver investments		10.4	10.2
		<u>3,928.4</u>	<u>3,588.2</u>
Liabilities			
Derivatives		(3.6)	(0.6)
Securities under repurchase agreements		(299.7)	(110.0)
Other investment balances		(12.4)	(7.6)
		<u>(315.7)</u>	<u>(118.2)</u>
	9	<u>3,612.7</u>	<u>3,470.0</u>
Current assets and liabilities			
Current assets	11	4.0	8.1
Current liabilities	11	(2.6)	(10.5)
		<u>1.4</u>	<u>(2.4)</u>
Net Assets of the Fund at 31 March		<u>3,614.1</u>	<u>3,467.6</u>

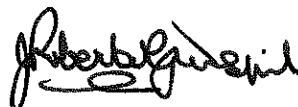
The Notes on pages 22 to 36 form part of these financial statements.

The financial statements summarise the transactions and net assets of the Fund. Liabilities to pay pensions and other benefits that are expected to become payable after the end of the scheme year are not dealt with in the financial statements. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Update on the Funding Position on page 37 of this Annual Report, and the statements by the actuary, on pages 17 to 18 of this Annual Report, and these financial statements should be read in conjunction with them.

The financial statements on pages 20 to 36 were approved by the Trustee on 24 July 2014 and signed on its behalf by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).

2. Accounting policies

The following principal accounting policies have been adopted in the preparation of the financial statements:

(a) Contributions

Normal contributions are accounted for on an accruals basis. Deficit funding costs, redundancy waivers and augmentations are accounted for according to the due dates prescribed by the Schedule of Contributions.

(b) Transfers to and from other schemes

Transfer values are included in the financial statements in accordance with the agreement, which is normally when received and paid. They do not take account of members who have notified the Fund of their intention to transfer.

(c) Income from investments

All income from investments is accounted for on an accruals basis. Dividends from quoted and unquoted investments are accounted for on the date the investment goes 'ex-dividend'.

(d) Expenditure

Benefits payable are accrued from the later of the date of leaving, retirement or death, and the date on which any option is exercised. Management and administration expenses are accounted for when they fall due. Acquisition costs of investments are included in the purchase cost of investments, and disposal costs are deducted from the proceeds of sales of investments.

(e) Valuation of investments

- (i) Listed securities are valued at the bid price at the year end date. Where an up-to-date valuation is not available, the latest market price is used to value the security.
- (ii) Pooled investment vehicles are valued at the bid price quoted by the managers or at a single price if only one price is quoted. Infrastructure and private equity funds are valued by the fund managers or their third party agents, where the underlying investments held within those funds are valued at their fair value.
- (iii) Futures contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.
- (iv) Swap contracts are stated at fair value, which is calculated using pricing models, where inputs are based on market data at the year end date. Interest is accrued monthly on a basis consistent with the terms of the contract. Net receipts or payments on swap contracts are reported within investment income.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

2. Accounting Policies - continued

- (v) Forward foreign exchange contracts are stated at fair value, which is determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.
- (vi) Direct property investments are valued on an open market basis as at 31 December each year, by Knight Frank, an independent firm of Chartered Surveyors, then adjusted for subsequent capital additions and disposals to arrive at a 31 March value.
- (vii) Annuity investments are the value of the insured annuities, calculated using the same actuarial assumptions adopted for ongoing purposes in the triennial valuation of the Fund.
- (viii) Unit-linked AVC assets are valued at the bid price or single price at the end of the accounting period. The with-profits funds held by Equitable Life, Zurich and Standard Life include an element of final bonus which is not guaranteed.

Bonds, mortgage backed securities, property, infrastructure, private equity funds and hedge funds are included at fair values. However, because of the inherent uncertainty associated with the valuation of some of these investments due to the absence of a liquid market, these fair values may differ from their realisable value.

(f) Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end and exchange differences arising are included in realised and unrealised investment gains. Income from foreign securities is expressed in sterling at the exchange rate ruling when received.

(g) Securities under repurchase agreements

Securities sold subject to repurchase agreements are included in the financial statements as assets of the Scheme at their year end market value. Amounts payable under repurchase agreements are included under other investment liabilities.

3. Contributions receivable

	Note	2014 £m	2013 £m
Employer contributions:			
Normal		32.6	35.3
Smart	(a)	14.5	13.9
Deficit	(b)	60.0	-
Redundancy waivers/augmentations	(c)	2.5	3.4
Bonus waiver (additional benefits)	(d)	0.7	0.4
Bonus waiver (money purchase)	(d)	0.1	0.1
		<u>110.4</u>	<u>53.1</u>
Member contributions:			
Normal		0.3	0.4
AVCs (additional benefits)	(d)	0.9	0.9
AVCs (money purchase)	(d)	0.4	0.4
		<u>1.6</u>	<u>1.7</u>
		<u>112.0</u>	<u>54.8</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

3. Contributions receivable - continued

The 2013 comparatives have been restated by the recategorisation of £0.6m contributions as 'normal' rather than 'smart'.

- (a) 'Smart pensions' relate to a salary sacrifice scheme that enables members to sacrifice part of their salary in return for the Society making a pension contribution for them.
- (b) Deficit contributions are made by the Society to help reduce the funding deficit. During the year £60.0m was received in the Nationwide Section in advance of the expected deficit reduction strategy to be agreed following the 31 March 2013 actuarial valuation.
- (c) Redundancy waivers are payments made by the Society to improve the pensions of employees in lieu of a severance payment. Augmentation payments are additional contributions made by the Society to enhance the pensions of and provide life cover for certain employees under the terms of their redundancy agreements with the Society.
- (d) Bonus waivers are payments made by the Society to improve the pensions of employees who have waived all or part of their annual entitlement. Money purchase bonus waivers and AVCs are invested with the companies listed in Note 9. Alternatively, bonus waivers or AVCs can be used to secure additional benefits in the form of added years or pension credits.

4. Other income

	2014 £m	2013 £m
Income from annuities	<u>0.2</u>	<u>0.2</u>

Income from annuities is received from insurance companies in respect of policies purchased on the lives of certain pensioners. The income is used partly to provide pensions for these individuals.

5. Benefits payable

	2014 £m	2013 £m
On or during retirement		
Pensions	61.2	57.6
Commutations	<u>12.8</u>	<u>15.2</u>
	74.0	72.8
Death benefits		
Death in service, deferment & retirement benefits	<u>0.5</u>	<u>0.7</u>
	<u>74.5</u>	<u>73.5</u>

The amounts due for pensions represent reimbursements to the Society of pensions paid.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

6. Payments to and on account of leavers

	2014 £m	2013 £m
Individual transfers to other schemes	<u>6.8</u>	<u>4.9</u>

7. Administrative expenses

	2014 £m	2013 £m
Administration & processing costs	1.2	1.1
Actuarial fees	0.6	0.3
Audit fees	0.1	0.1
Pension levies	1.6	1.4
Legal and other professional fees	0.1	0.1
	<u>3.6</u>	<u>3.0</u>

Administration and management services for the Fund are provided by the Society. Fees payable by the Fund to the Society for services rendered are included in the total for administration and processing costs and totalled £0.07m (2013: £0.08m).

Trustee Directors are able to receive remuneration for their services. Trustee fees of £0.12m (2013: £0.10m) relating to the scheme year are included in the total for administration and processing costs. No Trustee Director was an employee of the Society during the period to which their fees related.

8. Investment income

	2014 £m	2013 £m
Interest on fixed interest securities	11.5	13.1
Interest on index-linked securities	5.6	5.8
Dividends	7.9	12.4
Income from pooled investment vehicles	9.5	5.8
Interest on swaps	1.3	0.9
Rental income	4.4	4.1
	<u>40.2</u>	<u>42.1</u>

Interest on index-linked securities is stated net of £1.3m paid under the repurchase agreements relating to those assets.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investment assets and liabilities

	2014		2013	
	£m	£m	£m	£m
Investment assets				
Fixed interest securities				
UK public sector quoted	31.1		0.7	
UK asset-backed securities	48.8		72.5	
UK other	72.9		77.2	
Overseas public sector	7.5		7.2	
Overseas asset-backed securities	169.0		117.2	
Overseas other	<u>84.0</u>	413.3	<u>75.2</u>	350.0
UK index linked securities				
UK public sector	1,137.0		754.5	
UK other	<u>-</u>	1,137.0	<u>80.1</u>	834.6
Equities				
UK equities	-		50.3	
Overseas equities	<u>-</u>	-	<u>531.0</u>	581.3
Pooled investment vehicles				
UK index-linked funds	66.6		-	
UK life and other managed funds	87.5		487.1	
UK property funds	60.7		92.0	
Overseas fixed interest funds	-		157.1	
Overseas/UK life and other managed equity funds	1,293.7		309.4	
Overseas property funds	57.2		52.0	
Infrastructure funds	235.8		227.4	
Private equity funds	195.1		167.5	
Hedge funds	72.3		137.9	
Liquidity funds	<u>48.9</u>	2,117.8	<u>-</u>	1,630.4
Derivatives				
Futures	3.9		0.2	
Swaps	5.1		7.4	
Forward foreign exchange contracts	<u>1.7</u>	10.7	<u>8.1</u>	15.7
Property		55.8		59.3
Annuity investments		1.4		0.5
Cash deposits		176.8		97.4
Other investment balances				
Unsettled transactions	0.5		0.8	
Accrued income/tax reclaimable	<u>4.7</u>	5.2	<u>8.0</u>	8.8
AVC & Bonus Waiver investments		10.4		10.2
		<u>3,928.4</u>		<u>3,588.2</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

	2014		2013	
	£m	£m	£m	£m
Investment assets		<u>3,928.4</u>		<u>3,588.2</u>
Investment liabilities				
Derivatives				
Futures	(0.4)		(0.3)	
Swaps	(3.2)		(0.2)	
Forward exchange contracts	<u>-</u>	(3.6)	<u>(0.1)</u>	(0.6)
Securities under repurchase agreements		(299.7)		(110.0)
Other investment balances				
Unsettled transactions		(12.4)		(7.6)
		<u>(315.7)</u>		<u>(118.2)</u>
Total assets and liabilities		<u>3,612.7</u>		<u>3,470.0</u>
Derivative assets and liabilities				
Derivative assets		10.7		15.7
Derivative liabilities		<u>(3.6)</u>		<u>(0.6)</u>
		<u>7.1</u>		<u>15.1</u>
Cash deposits and others				
Cash deposits		176.8		97.4
Unsettled assets		0.5		0.8
Unsettled liabilities		(12.4)		(7.6)
Accrued income		4.7		8.0
Securities under repurchase agreements		<u>(299.7)</u>		<u>(110.0)</u>
		<u>(130.1)</u>		<u>(11.4)</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

Movements in total net investments during the year were:

	Value at 31 March 2013 £m	Cost of Purchases £m	Sales Proceeds £m	Change in Market Value £m	Value at 31 March 2014 £m
Fixed interest securities	350.0	149.0	(69.1)	(16.6)	413.3
Index linked securities	834.6	396.1	(76.0)	(17.7)	1,137.0
Equities	581.3	530.0	(1,149.0)	37.7	-
Pooled investment vehicles	1,630.4	706.9	(271.5)	52.0	2,117.8
Derivatives	15.1	9.2	(47.2)	30.0	7.1
Property	59.3	-	(11.6)	8.1	55.8
Annuity investments	0.5	-	-	0.9	1.4
AVC/Bonus Waiver Investments	10.2	0.6	(0.9)	0.5	10.4
	<u>3,481.4</u>	<u>1,791.8</u>	<u>(1,625.3)</u>	<u>94.9</u>	<u>3,742.8</u>
Cash deposits and other	(11.4)			3.0	(130.1)
	<u>3,470.0</u>			<u>97.9</u>	<u>3,612.7</u>

As per Fund Account

Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. They include costs charged directly to the Fund such as fees, commissions and stamp duty. Transaction costs incurred during the year were £2.6m (2013: £0.6m). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Transitions

Most of the purchases and sales in the above table were due to tactical management rather than transitions between investment classes.

As part of the de-risking strategy additional repurchase agreements of £100m were entered into and £143m was switched from equities to bonds. Shortly after this due to the decision to invest the majority of the Fund's global equities in passive rather than active equities, the Fund exited seven active managers, releasing approx. £641m from segregated equity funds and £30m from equities in pooled investment vehicles.

£465m was subsequently invested in a UBS passive global equity tracker fund with £100m of the remaining £206m being used to reduce the repurchase agreement position. The remaining £106m was held as cash within Russell Investments.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS – continued

9. Investments - continued

The Fund also exited three further pooled equity managers during the year, amounting to £87.5m, the proceeds being transferred into the Russell Investments transition account. Using existing cash and the amounts held in the transition account additional investments of £55m, £105m and £75m were made in the passive global equity tracker fund, private equity funds and illiquid real estate funds respectively. As part of this process an emerging markets future was entered into to maintain exposure to that market. The future remained open at the year end.

Change in market value

The change in the market value of investments comprises all increases and decreases in the market value of investments held at any time during the year. Investment managers have deducted management fees of £12.9m during the year from holdings of pooled investment vehicles. Those fees have been charged as investment management expenses (Note 10) and change in market value has been increased accordingly to remove the loss in value associated with the fees, with a compensating increase in investment sale proceeds.

Pooled investment vehicles

Pooled investments with a value of £528.4m as at 31 March 2014 were operated by companies that were not registered in the UK. All others are registered in the UK.

Derivatives

The Trustee allows Fidelity and Russell to enter into derivative contracts as part of their investment strategy. These derivative contracts enable the managers to better control economic exposure to markets, enhance investment returns and manage risk. Details of contracts open at the year end are disclosed below:

Futures Underlying Investment	Expiration	Economic exposure (long) £m	Economic exposure (short) £m	Market value asset £m	Market value liability £m
Overseas equities	Less than 1 year	71.9	-	3.9	-
UK bonds	Less than 1 year	11.0	-	-	-
Overseas bonds	Less than 1 year	5.7	(31.0)	-	(0.4)
	At 31 March 2014	88.6	(31.0)	3.9	(0.4)
	At 31 March 2013	13.5	(17.7)	0.2	(0.3)

These are exchange traded derivatives. The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

Swaps Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Inflation and interest rate swaps	Less than 5 years	105.0	-	(0.7)
	Between 5 and 10 years	103.0	-	(0.7)
	Between 10 and 20 years	138.3	5.0	(1.4)
	Between 20 and 30 years	6.0	-	(0.4)
		<u>352.3</u>	<u>5.0</u>	<u>(3.2)</u>
Credit default swaps	Less than 5 years	2.4	-	-
	Between 5 and 10 years	9.7	0.1	-
		<u>12.1</u>	<u>0.1</u>	<u>-</u>
	At 31 March 2014	<u>364.4</u>	<u>5.1</u>	<u>(3.2)</u>
	At 31 March 2013	<u>43.2</u>	<u>7.4</u>	<u>(0.2)</u>

The notional principal of the swap is the amount used to determine the value of the swapped interest and credit receipts and payments.

Collateral in place at the year end in respect of swaps was as follows:

Collateral held (pledged by third parties)	£4.5m
Collateral pledged to third parties	£3.2m

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency sold	US Dollar	300.1	1.1	-
	Euro	50.1	0.5	-
	Japanese Yen	17.4	0.1	-
	At 31 March 2014	<u>367.6</u>	<u>1.7</u>	<u>-</u>
	At 31 March 2013	<u>442.0</u>	<u>8.1</u>	<u>(0.1)</u>
Currency bought	US Dollar	(36.4)	-	-
	At 31 March 2014	<u>(36.4)</u>	<u>-</u>	<u>-</u>
	At 31 March 2013	<u>(0.5)</u>	<u>-</u>	<u>-</u>

All forward foreign exchange contracts held at the year end were contracted to be settled within three months of the year end. Contracts are held as part of a strategy to hedge 20% of the value of the Fund's foreign currency denominated investments against changes in market value arising on their translation.

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

Securities under repurchase agreements

During the year the Fund has entered into repurchase agreements using its UK government index linked gilts as the underlying security. The Fund retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Fund at their market value. At 31 March 2014 the market value of securities sold under repurchase agreements was £307.1m.

Cash received from counterparties in respect of the securities that have been sold has been used by the Fund to increase its fixed interest portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2014 this amounted to £300.4m including accrued interest.

At 31 March 2014 there was collateral held of £6.0m against the difference in valuation between the underlying securities and the repurchase agreements.

Annuity investments

Annuity investments represent an actuarial valuation of investments providing the annuity income received by the Fund.

AVC and Bonus Waiver investments

Aggregate amounts of AVC and Bonus Waiver investments were:

		2014	2013
		£m	£m
AVCs	Aviva	0.1	0.1
	Equitable Life Assurance Society	0.3	0.4
	Fidelity Pensions Management	5.8	5.4
	Legal and General	0.1	0.1
	Prudential Assurance Company	2.3	2.5
	Standard Life Assurance Company	0.2	0.2
	Zurich Assurance Ltd	0.1	0.1
		<u>8.9</u>	<u>8.8</u>
Bonus Waivers	Fidelity Pensions Management	1.3	1.2
	Prudential Assurance Company	0.2	0.2
		<u>1.5</u>	<u>1.4</u>
	<u>10.4</u>	<u>10.2</u>	

Small Bonus Waiver balances (less than £0.1m) are also held with Equitable Life Assurance Society and Zurich Assurance Ltd.

The Trustee holds AVC and Bonus Waiver assets invested separately from the main fund in the form of individual building society accounts, insurance policies and other unitised investments securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions, and these assets do not form part of the common pool of assets available for members generally. Members participating in these arrangements each receive annual statements confirming the amounts held to their account and the movements in the year.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

10. Investment management expenses

	2014 £m	2013 £m
Administration, management and custody	17.3	19.0
Investment consultancy fees	1.1	1.4
CIO team* support provided by the Society	0.5	0.3
	<u>18.9</u>	<u>20.7</u>

Investment management expenses include fees of £12.9m (2013: £10.3m) that have been deducted directly from investment holdings, as described in Note 9.

*Chief Investment Officer team

11. Current assets and liabilities

	2014 £m	2013 £m
Current assets		
Other debtors	-	0.1
Cash balances	4.0	8.0
	<u>4.0</u>	<u>8.1</u>
Current liabilities		
Unpaid benefits	(0.1)	(1.3)
Accrued expenses	(1.9)	(4.3)
Amounts outstanding with Society	(0.6)	(4.9)
	<u>(2.6)</u>	<u>(10.5)</u>

The 2013 liability for other creditors comprised reimbursements to the Society relating to pensions payments.

There were no employer-related investments during the scheme year.

12. Other liabilities

Other than in respect of future pension benefits, the Fund had no contingent liabilities as at 31 March 2014.

At that date, the Fund was committed to provide further investment funding totalling approximately £236.5m (2013: £224.0m) if called upon to do so.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

13. Related party transactions

Reimbursements to the Society of pensions payments are disclosed in Note 5, and the amount outstanding at the end of the financial year in Note 11.

Included in administrative expenses and investment management expenses are fees charged to the Fund from the Society, as disclosed in Notes 7 and 10 respectively.

Arthur Amos and Bill Partis, Trustee Directors, are in receipt of pensions from the Fund. Details of Trustee Director remuneration are provided in Note 7.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

14. Nationwide Section:

Fund Account for the year ended 31 March 2014

	2014 £m	2013 £m
Contributions and benefits		
Additions		
Contributions receivable	112.0	54.8
Other income	0.2	0.2
	<u>112.2</u>	<u>55.0</u>
Withdrawals		
Benefits payable	(69.2)	(69.1)
Payments to and on account of leavers	(6.7)	(4.5)
Administrative expenses	(3.4)	(2.9)
	<u>(79.3)</u>	<u>(76.5)</u>
Net additions/(reductions) from dealings with members	<u>32.9</u>	<u>(21.5)</u>
Returns on investments		
Investment income	40.2	42.1
Change in market value of investments	96.8	324.8
Investment management expenses	(18.7)	(20.5)
Net returns on investments	<u>118.3</u>	<u>346.4</u>
Net increase in the Section during the year	151.2	324.9
Net assets of the Section		
At the beginning of the year	3,243.1	2,918.2
At the end of the year	<u>3,394.3</u>	<u>3,243.1</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

15. Nationwide Section:

Net Assets Statement as at 31 March 2014

	2014 £m	2013 £m
Investment assets and liabilities		
Assets		
Fixed interest securities	413.3	350.0
Index linked securities	1,137.0	834.6
Equities	-	581.3
Pooled investment vehicles	1,898.4	1,405.9
Derivatives	10.7	15.7
Property	55.8	59.3
Annuity investments	1.4	0.5
Cash deposits	176.8	97.4
Other investment balances	5.2	8.8
AVC & bonus waiver investments	10.2	10.1
	<u>3,708.8</u>	<u>3,363.6</u>
Liabilities		
Derivatives	(3.6)	(0.6)
Securities under repurchase agreements	(299.7)	(110.0)
Other investment balances	(12.4)	(7.6)
	<u>(315.7)</u>	<u>(118.2)</u>
	<u>3,393.1</u>	<u>3,245.4</u>
Current assets and liabilities		
Current assets	3.7	7.8
Current liabilities	(2.5)	(10.1)
	<u>1.2</u>	<u>(2.3)</u>
Net Assets of the Section at 31 March	<u>3,394.3</u>	<u>3,243.1</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

16. C & D Section: Fund Account for the year ended 31 March 2014

	2014 £m	2013 £m
Contributions and benefits		
Withdrawals		
Benefits payable	(5.3)	(4.4)
Payments to and on account of leavers	(0.1)	(0.4)
Administrative expenses	(0.2)	(0.1)
	<u>(5.6)</u>	<u>(4.9)</u>
Net reductions from dealings with members	<u>(5.6)</u>	<u>(4.9)</u>
Returns on investments		
Change in market value of investments	1.1	25.8
Investment management expenses	(0.2)	(0.2)
Net returns on investments	<u>0.9</u>	<u>25.6</u>
Net (decrease)/increase in the Section during the year	(4.7)	20.7
Net assets of the Section		
At the beginning of the year	224.5	203.8
At the end of the year	<u>219.8</u>	<u>224.5</u>

17. C & D Section: Net Assets Statement as at 31 March 2014

	2014 £m	2013 £m
Investment assets		
Pooled investment vehicles	219.4	224.5
AVC investments	0.2	0.1
	<u>219.6</u>	<u>224.6</u>
Current assets and liabilities		
Current assets	0.3	0.3
Current liabilities	(0.1)	(0.4)
	<u>0.2</u>	<u>(0.1)</u>
Net Assets of the Section at 31 March	<u>219.8</u>	<u>224.5</u>

NATIONWIDE PENSION FUND

UPDATE ON THE FUNDING POSITION

The latest formal valuations of the Fund showed that on 31 March 2013 the funding position was as follows:

	Nationwide Section	C&D Section
Assets	£3,233m	£224m
Amount needed to provide benefits (technical provisions)	£3,813m	£211m
Shortfall/Surplus	(£580m)	£13m
Funding level	85%	106%

The Society has agreed to pay an extra £60m into the Fund before 31 March 2014 with a further £90m to be paid by 31 July 2014. Additional annual contributions of £49m are also to be paid each July from July 2015 until July 2020, with the first two payments conditional on the funding position as at March 2015 and March 2016 respectively.

Society contribution rates on pensionable salaries for the Nationwide Section are to be 22.1% from 1 July 2014. Previous rates were: 15% from July 2011 (an average of 16.7% over 2011-12), 16.3% from April 2012, 16.1% from April 2013 and 15.9% from April 2014. Member contribution rates for the Nationwide Section are unchanged at 7%.

As a result of the surplus in the C&D Section at the valuation as at 31 March 2010 a suspension of Society contributions from 1 April 2011 was agreed and member contributions to the C&D Section were ceased, with future service benefits accruing in the Nationwide Section.

NATIONWIDE PENSION FUND

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

under regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Nationwide Pension Fund.

We have examined the Summary of Contributions payable to the Nationwide Pension Fund, for the Fund year ended 31 March 2014, which is set out on page 39.

This report is made solely to the Fund's Trustee in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee for our work, for this report, or for the opinion we have formed.

Respective responsibilities of Trustee and auditors

As explained more fully in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised Schedules of Contributions which set out the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedules of Contributions.

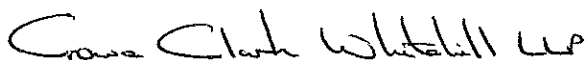
It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

Scope of work on Statement of Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions and to report our opinion to you.

Statement about contributions payable under the Schedules of Contributions

In our opinion contributions for the Fund year ended 31 March 2014 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Fund actuary on 16 June 2011 for both the Nationwide Section and the C&D Section.



Crowe Clark Whitehill LLP
Statutory Auditor
London

..... 24 July 2014

NATIONWIDE PENSION FUND

SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE SCHEME YEAR ENDED 31 MARCH 2014

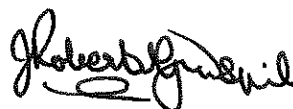
Contributions payable to the scheme by the employer under the schedule of contributions in respect of the year ended 31 March 2014 were as follows:

	£m
Employer normal contributions	32.6
Employer additional contributions	17.8
Employee normal contributions	0.3
Total contributions received in accordance with the schedule	50.7
Additional employer contributions received not covered by the schedule	60.0
Additional employee contributions received not covered by the schedule	1.3
Total contributions as per the financial statements on page 20	112.0

Signed on behalf of the Trustee on 24 July 2014 by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

COMPLIANCE STATEMENT

The purpose of this compliance statement is to disclose some additional information required by law but which is not considered to be of such significance to Fund members that it requires the more prominent disclosure afforded by inclusion in the Trustee Report.

Tax and Contracting Out Status of the Fund

Nationwide Pension Fund is a registered pension scheme and the Trustee knows of no reason why such status should be prejudiced or withdrawn. The Fund is contracted out of the State Second Pension as a Contracted-out Salary Related Scheme under a certificate issued by the Contributions Agency.

The Trustee has written agreements with third parties that detail delegated functions and the provision of services. For sub-committees, individual Trustee Directors and officers of the Fund, the details of delegated powers are recorded in the minutes.

Calculation of Transfer Values

Transfer values paid during the scheme year have been calculated and verified in the manner prescribed by regulations made under Section 97 of the Pension Schemes Act 1993. No transfer values included any discretionary benefits.

The Trustee has directed that no allowance for discretionary benefits should be taken into account in the calculation of the transfer values. A copy of the Actuary's report on allowing for discretionary benefits in transfer value calculations is available on request from the Pensions Department.

Pension Increases on Pensions in Payment

Pensions are reviewed annually on 1 April and, except where indicated below, were increased by 3.2% on 1 April 2014 (1 April 2013: 2.6%) in line with the retail price index (RPI) for the year ended 30 September 2013.

For members who were in a scheme which has since merged with the Fund, that part of their pension which accrued up to a given date may, depending on their membership details, have increased at one of the following fixed rates:

Lambeth scheme: 8.5% p.a. or 5% p.a.

Portman scheme: 5% p.a.

Nationwide Estate Agents, Anglia, Goldhawk and At.Home schemes: 3% p.a.

Corporate Governance

The Fund's policy statement in respect of voting and corporate governance is:

'The Trustee fully recognises the fiduciary issues involved with voting rights, not least that their regular exercise demonstrates shareholder responsibility. The Trustee has advised the Fund's investment managers that votes should normally be cast in favour or against a motion; exceptionally a formal abstention may be registered and subsequently reported to the Trustee together with a justification. Regular review meetings are held at which it is possible for voting policy to be discussed. In all other matters, not the subject of voting, we expect our investment managers to promote good standards of corporate governance.'

In March 2012 the Trustee agreed to sign up to the 'Stewardship Code' and the Investment Sub-Committee reviews this position annually. Confirmation has been published on the websites of the Fund and the FRC.