Nationwide Pension Fund
Nationwide Section

Statement of Funding Principles (SFP)

Nationwide
Building Society

Nationwide Pension Fund – The Nationwide Section
Statement of Funding Principles (*SFP*)

Introduction

This statement sets out the Trustee's policy for securing that the statutory funding objective (*SFO*) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

Technical Provisions

The technical provisions are the amount that will be needed to pay the Fund benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Nationwide Section, with a modest allowance for the future potential outperformance over gilts from continued partial investment in more risky asset sectors such as equities and property. There is an underlying assumption that the Nationwide Section will continue with benefits being met from the Nationwide Section as they fall due.

The method and assumptions used to calculate the technical provisions at the 31 March 2016 valuation date are summarised in Appendices A and B. These are subject to revision at future valuations by reference to both circumstances and industry practice.

Society contributions

Contributions from Nationwide Building Society ("the Society") to the Nationwide Section are assessed by calculating the cost of future benefit accrual using the same assumptions as for the technical provisions:

reduced by

- the contributions made by members; and
- an allowance for the assumed out-performance of the Nationwide Section's assets compared to the discount rate used for the technical provisions

adjusted by

- the amounts needed to eliminate any shortfall or surplus relative to the technical provisions and cover the estimated amount of future expenses.

The allowance made for the assumed out-performance of the Nationwide Section's assets compared to the discount rate is detailed in Appendix A.

Dealing with shortfalls

Any shortfall in assets compared with technical provisions identified at an actuarial valuation (next valuation expected 2019) will be eliminated by the payment of additional Society contributions in accordance with the recovery plan agreed between the Trustee and the Society. The additional contributions will consist of single payments or a stream of regular payments made over the recovery period.

In determining the recovery plan at any particular valuation the following non-exhaustive factors will be taken into account:

- the size of the funding shortfall;
- the business plans of the Society;
- the regulatory environment;
- the Trustee's assessment of the financial covenant of the Society; and
- any contingent security offered by the Society.

The assumptions to be used in the shortfall elimination calculations will be the same as those for calculating the technical provisions. In addition, allowance will be made for the assumed out-performance of the Nationwide Section's assets compared to the discount rate, as described in Appendix A.

Dealing with surpluses

Any excess in assets compared with the technical provisions identified at an actuarial valuation (next valuation expected 2019) may be returned to the Society over a reasonable period, to be agreed between the Trustee and the Society, following each valuation, by a reduction in the Society regular contribution rate.

This may include the complete suspension of Society contributions for a period or a reduction to the Society contribution rate for an agreed period. When determining the appropriate course of action, allowance may be made for the assumed outperformance of the Nationwide Section's assets compared to the discount rate, as described in Appendix A.

In addition, the Trustee will only make a request under Rule 3.4(2) once it has considered the current funding level of the Nationwide Section and consulted with the Society, to the intent that a payment request will not be made under Rule 3.4(2) unless the Nationwide Section is in deficit on such basis as the Trustee considers to be appropriate given the circumstances at the time.

Policy on discretionary increases and funding strategy

Under the provisions of the consolidated Trust Deed and Rules, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Nationwide Section.

In particular, under Rule 6.9, the Trustee (with the Society's consent) may provide or increase a member's benefit at a rate higher than provided under the standard Rules, subject to certain conditions. No allowance is made in the technical provisions for such benefits, except as described in the next paragraph.

Following the changes for benefits accrued after 1 April 2011, the Society has discretion to allow members retiring directly from employment to take their benefits unreduced from age 60 (whereas the normal retirement age for benefits accrued after 1 April 2011 is 65). An allowance for the future exercise of this discretion has been included in the technical provisions and in the future service contribution rate, and is described in Appendix B.

If other discretionary increases to benefits are made, the Trustee's current policy is to request immediate additional contributions to meet the cost of such increases. This policy is subject to review from time to time.

Frequency of valuations

The timing of future valuations is determined by the Trustee, in accordance with the trust deed and rules and applicable legislation. Valuations required by Part 3 of the Pensions Act 2004 will normally be carried out every three years, with the next such valuation expected as at 31 March 2019. However, at the Society's written request to the Trustee, the Trustee will bring forward the next such valuation to an earlier month-end date on which the Smoothed Deficit/Surplus (as defined below) is a surplus. This is without prejudice to the Trustee's right to call such a valuation at any other time.

A Smoothed Deficit/Surplus is defined as the average deficit/surplus of the Nationwide Section as at a relevant month-end date and the two immediately preceding month-end dates. The average deficit/surplus at each of these dates will be determined by the Scheme Actuary using Risk Analyzer and in accordance with the method for determining assets and liabilities set out in an Appendix to a Recovery Plan dated on or about the date of this SFP.

The Trustee will obtain regular updates showing the approximate progression of the funding level, usually at quarterly intervals.

The Trustee will also obtain an actuarial report on developments affecting the funding level as at each intermediate anniversary of the valuation date. The actuarial reports will not normally lead to changes in the Society contribution rate unless the Trustee and Society agree upon such changes.

Signatures

This statement has been agreed by the Society and the Trustee.

Signed on behalf of Nationwide Building Society

Signature: [signature] Name: MARK RENNISON

Position: CFO Date: 2/8/17

Signed on behalf of Nationwide Pension Fund Trustee Limited

Signature: [signature] Name: PETER WILKIN

Position: Trustee Director Date: 2 | 8 | 17

Appendix A:
Method and financial assumptions for determining the technical provisions and employer contributions

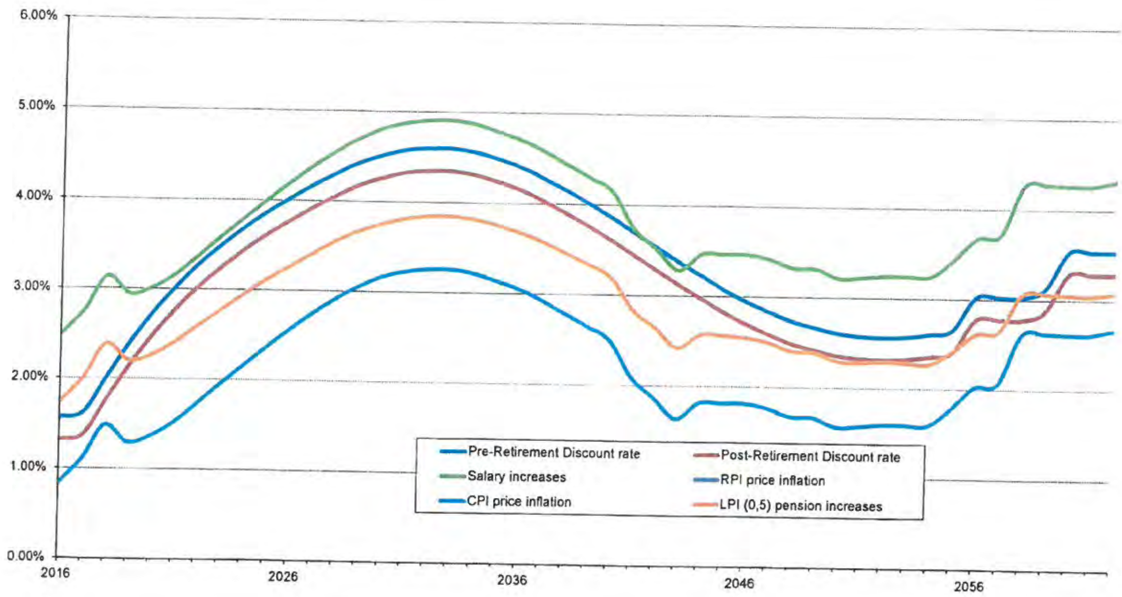
Method	The actuarial method to be used in the calculation of the technical provisions and cost of future benefit accrual is the Projected Unit Method with a five-year Control Period.
Financial assumptions for technical provisions - approach	The approach to be used in determining each of the financial assumptions for calculating the technical provisions and the employer contributions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are "term dependent".
RPI inflation	This has been set as a yield curve structure derived from UK Government gilt yields appropriate to the date of each of the Nationwide Section's expected future cash flows (extrapolated for cash flows beyond the longest available gilts) less an inflation risk premium of 0.1% p.a.
CPI inflation	In the absence of market data, the CPI inflation assumption is constructed relative to the RPI inflation assumption. The difference will vary based on market conditions and future outlook for both indices. As at 31 March 2016, CPI inflation was assumed to be 0.9% lower than RPI inflation at all terms.
Discount rate	This has been set as a yield curve structure derived from the yield on UK Government fixed interest gilts appropriate to the date of each of the Nationwide Section's expected future cash flows (extrapolated for cash flows beyond the longest available gilts). The yield curve has been adjusted to make a prudent allowance for the expected out-performance (above gilt returns) on the Nationwide Section's assets by setting it equal to the gilt curve plus 1.25% p.a. in respect of the pre-retirement discount rate, and equal to the gilt curve plus 1.0% p.a. in respect of the post-retirement discount rate.
Salary increases	Each member's salary is assumed to increase in line with the assumed rate of RPI inflation plus 0.75% p.a. (The Nationwide Section ceased to have any members accruing benefits on a final salary basis beyond 1 April 2011 but this assumption is still required as some members have earlier benefits that continue to be linked to their salary beyond 1 April 2011).
Increases in pensions in payment	Inflation-linked pension increase assumptions are derived from the RPI inflation assumption allowing for any maximum or minimum annual increase that applies, and the fact that inflation varies from year to year.
Revaluations of deferred pensions in excess of GMP	CPI inflation assumption (see above).

Financial Assumptions for Technical Provisions – summary

The table below shows the forward rates for the financial assumptions used as at 31 March 2016.

Term	Pre-Retirement Discount rate (%)	Post-Retirement Discount rate (%)	Salary increases (%)	RPI inflation (%)	CPI inflation (%)	LRPI pension increases* (%)
1	1.57%	1.32%	2.49%	1.74%	0.84%	1.74%
2	1.62%	1.37%	2.76%	2.01%	1.11%	2.01%
3	2.00%	1.75%	3.14%	2.39%	1.49%	2.39%
4	2.39%	2.14%	2.95%	2.20%	1.30%	2.21%
5	2.73%	2.48%	3.02%	2.27%	1.37%	2.27%
6	3.02%	2.77%	3.17%	2.42%	1.52%	2.42%
7	3.28%	3.03%	3.38%	2.63%	1.73%	2.60%
8	3.50%	3.25%	3.60%	2.85%	1.95%	2.78%
9	3.70%	3.45%	3.81%	3.06%	2.16%	2.96%
10	3.88%	3.63%	4.02%	3.27%	2.37%	3.13%
11	4.04%	3.79%	4.22%	3.47%	2.57%	3.28%
12	4.19%	3.94%	4.41%	3.66%	2.76%	3.43%
13	4.32%	4.07%	4.57%	3.82%	2.92%	3.57%
14	4.44%	4.19%	4.71%	3.96%	3.06%	3.68%
15	4.52%	4.27%	4.82%	4.07%	3.17%	3.76%
16	4.58%	4.33%	4.88%	4.13%	3.23%	3.82%
17	4.60%	4.35%	4.91%	4.16%	3.26%	3.85%
18	4.60%	4.35%	4.91%	4.16%	3.26%	3.85%
19	4.56%	4.31%	4.87%	4.12%	3.22%	3.82%
20	4.49%	4.24%	4.79%	4.04%	3.14%	3.76%
21	4.40%	4.15%	4.70%	3.95%	3.05%	3.68%
22	4.28%	4.03%	4.58%	3.83%	2.93%	3.58%
23	4.15%	3.90%	4.44%	3.69%	2.79%	3.46%
24	4.01%	3.76%	4.30%	3.55%	2.65%	3.34%
25	3.86%	3.61%	4.15%	3.40%	2.50%	3.20%
26	3.70%	3.45%	3.74%	2.99%	2.09%	2.84%
27	3.54%	3.29%	3.52%	2.77%	1.87%	2.65%
28	3.38%	3.13%	3.29%	2.54%	1.64%	2.43%
29	3.23%	2.98%	3.47%	2.72%	1.82%	2.58%
30	3.08%	2.83%	3.47%	2.72%	1.82%	2.57%
31	2.95%	2.70%	3.47%	2.72%	1.82%	2.55%
32	2.84%	2.59%	3.42%	2.67%	1.77%	2.50%
33	2.74%	2.49%	3.33%	2.58%	1.68%	2.41%
34	2.67%	2.42%	3.32%	2.57%	1.67%	2.39%
35	2.61%	2.36%	3.22%	2.47%	1.57%	2.30%
36	2.58%	2.33%	3.23%	2.48%	1.58%	2.29%
37	2.57%	2.32%	3.25%	2.50%	1.60%	2.30%
38	2.58%	2.33%	3.25%	2.50%	1.60%	2.29%
39	2.61%	2.36%	3.25%	2.50%	1.60%	2.28%
40	2.66%	2.41%	3.44%	2.69%	1.79%	2.42%
41	3.03%	2.78%	3.68%	2.93%	2.03%	2.62%
42	3.03%	2.78%	3.72%	2.97%	2.07%	2.65%
43	3.03%	2.78%	4.27%	3.52%	2.62%	3.07%
44	3.13%	2.88%	4.28%	3.53%	2.63%	3.07%
45	3.54%	3.29%	4.27%	3.52%	2.62%	3.06%
46	3.54%	3.29%	4.27%	3.52%	2.62%	3.05%
47	3.54%	3.29%	4.32%	3.57%	2.67%	3.08%
48	3.55%	3.30%	4.33%	3.58%	2.68%	3.09%
49	3.54%	3.29%	4.32%	3.57%	2.67%	3.07%
50 and above	3.54%	3.29%	4.32%	3.57%	2.67%	3.07%

* A small number of members are entitled to pensions with guaranteed pension increases not equal to RPI capped at 5%. For these members a suitable modified assumption is used.



Additional assumptions for employer contributions	In determining employer contributions the same assumptions will be used as those for calculating the technical provisions together with the additional financial assumptions described below.
Expected return on assets	A prudent allowance will be made for part of the expected outperformance of the Nationwide Section's assets compared to the discount rate. For the valuation at 31 March 2016 this allowance was set at 1.9% p.a. above the yield on UK Government fixed interest gilts.
Expenses	No reserve is included in the technical provisions for Fund expenses. However, the recovery plan contributions will be adjusted to allow for the expected level of future expenses. At the 31 March 2016 valuation this amount was equal to £3.5M p.a. This allowance includes provision for the PPF and other levies collected by the Pensions Regulator.

Appendix B: Demographic Assumptions

Post-retirement mortality	The post retirement mortality assumptions used are: ▪ The SAPS 'S2 series, all pensions, light amounts' table (S2PxA_L): ▪ With scaling factors for - non-pensioners of 108% for men and 102% for women; - pensioners of 100% for men and 98% for women. and ▪ An allowance for future improvements in line with the CMI_2015 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% p.a. for men and women.
Pre-retirement mortality	*Males:* 70% of Standard table AM92 Ultimate. *Females:* 70% of Standard table AF92 Ultimate. Sample rates are shown below.
Early retirements (normal health)	*Pre-1 April 2011 benefits:* An allowance has been made for members to retire within 5 years of their normal retirement date (i.e. an allowance between ages 55 and 60). An early retirement factor is applied where appropriate. *Post-1 April 2011 benefits:* An allowance has been made for members to retire within 10 years of their normal retirement date (i.e. an allowance between ages 55 and 65). An early retirement factor is assumed to be applied below age 60 only for members retiring directly from employment.
Early retirements (ill-health)	Allowance has been made for members to ill-health retire and these members are assumed to have the same mortality as a non-ill-health retiree who is 10 years older.
Withdrawals	Allowance made for withdrawals from service (see sample rates below).
Family Details	▪ A man is assumed to be three years older than his dependant. ▪ 90% of males and 75% of females are assumed to be married (or, if not, have a dependant) at retirement/on death before retirement respectively. These assumptions include allowance for pensions payable to children or other dependants including civil partners.
Commutation	Each member is assumed to commute 24% of their pension on retirement, assuming future commutation factors are 3% higher than those in force at the valuation date.

Sample rates

The tables below illustrate the allowances made for withdrawals, deaths before retirement and retirements from service at various ages.

Men

Age	Percentage leaving the Fund in the next year as a result of				
	Withdrawal from service	**Death before retirement**	**Ill health retirement**	**Early retirement (normal health, pre-2011 benefits)**	**Early retirement (normal health, post-2011 benefits)**
20-25	7	0.041	0.050	-	-
25-30	7	0.040	0.038	-	-
30-35	6	0.041	0.033	-	-
35-40	5	0.048	0.037	-	-
40-45	4	0.066	0.058	-	-
45-50	3	0.103	0.104	-	-
50-55	2	0.176	0.189	-	-
55-60	-	0.313	0.338	15	15
60-65	-	-	-	100	15
65+	-	-	-	100	100

Women

Age	Percentage leaving the Fund in the next year as a result of				
	Withdrawal from service	**Death before retirement**	**Ill health retirement**	**Early retirement (normal health, pre-2011 benefits)**	**Early retirement (normal health, post-2011 benefits)**
20-25	7	0.014	0.039	-	-
25-30	7	0.017	0.047	-	-
30-35	6	0.024	0.063	-	-
35-40	5	0.034	0.090	-	-
40-45	4	0.052	0.135	-	-
45-50	3	0.082	0.210	-	-
50-55	2	0.132	0.335	-	-
55-60	-	0.215	0.539	15	15
60-65	-	-	-	100	15
65+	-	-	-	100	100

Sample life expectancies

The assumed improvements in life expectancy are illustrated in the table below:

Current age	Male life expectancy on reaching age 60	Female life expectancy on reaching age 60
60	28.5	29.9
45	29.1	30.4

Appendix C: Further information to meet requirement of Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values	The Trustee will ask the Scheme Actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values (CETVs) for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100%, the Trustee will take advice from the Scheme Actuary regarding whether to reduce CETVs and, if appropriate, the extent of such reduction. If at any other time, after obtaining advice from the Scheme Actuary, the Trustee are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the Scheme Actuary regarding whether and, if appropriate, the extent to which CETVs should be reduced.
Payments to the Society	Payments can be made from the Nationwide Section to the Society and any other participating employers only insofar as are permitted by legislation and the Nationwide Section's Rules.
Contributions to the Fund	There are no arrangements currently in place for persons other than the Society or members of the Nationwide Section to contribute to the Nationwide Section.