

EMPLOYEE PENSIONS

Nationwide Pension Fund Report & Accounts

31 March 2015

NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2015

INDEX

	Page
Trustee and Advisers	2
Chairman's Statement	5
Trustee Report	7
Statement of Trustee Responsibilities	11
Investment Report	12
Actuarial Certificates	18
Auditor's Report	20
Financial Statements	21
Notes to the Financial Statements	23
Update on the Funding Position	37
Auditor's Statement about Contributions	38
Summary of Contributions	39
Compliance Statement	40

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS

Trustee	Nationwide Pension Fund Trustee Limited
Trustee Directors	
Society Appointed	Peter Wilkin (Chairman) Ann Brown (appointed July 2015) Graham Pilkington (resigned July 2015) Andy Townsend Philip Whittome
Staff Member Nominated	Arthur Amos Rob Goldspink Mark Willis
Pensioner Member Nominated	Bill Partis
Head of Pensions	Ian Baines
Chief Investment Officer	Mark Hedges
Administrator and Secretary	Vanessa Roberts
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:

Highline Capital Management LLP (ceased April 2014)
Legal & General Investment Management Ltd
Neuberger Berman (appointed May 2014)
Oaktree Capital Management (UK) LLP (appointed April 2014)
Russell Implementation Services Ltd
Triam Partners, Ltd (ceased June 2015)
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
Star Capital Partners Ltd
SteelRiver Infrastructure Fund North America LP

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS – continued

Private Equity:	Arsenal Capital Management LP BV Investment Partners 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 Thompson Street Capital Manager LLC Trilantic Capital Management LLC
Real Estate:	Ares European Real Estate Management IV, LP (appointed December 2014) CBRE Ltd (appointed January 2015) Duet Private Equity Ltd Genesta Property Nordic AB (appointed June 2015) Goldman, Sachs & Co. (appointed April 2014) LaSalle Investment Management Legal & General Investment Management Ltd Real Estate Capital Partners LLP (appointed February 2015) 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 2015

I am pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2015.

Overview

The number of active members of the Fund is now 6,549. The number of pensioners has reached 6,988 and the biggest group of members is the 16,833 deferred members, who comprise more than 50% of the membership.

The value of the Fund's assets is now £4,375 million, up 21% from £3,614 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 current economic market whilst improving in general terms has been challenging for pension funds and has had a mixed impact on the two sections of the Fund. The 31 March 2013 valuation results showed a deficit (measured on a technical basis) of £580m for the Nationwide Section and a small surplus of £13.3m in the C&D Section. The estimated valuation as at 31 March 2015 showed a deficit of £669m in the Nationwide section and a small surplus of £29m in the C&D scheme. The next valuation will be carried out on 31 March 2016. The funding of the Fund is monitored regularly by the Trustee and its advisors and will naturally vary over time. The current economic climate continues to be difficult and will remain so whilst low interest rates continue, as these increase the value of the liabilities of the Fund.

Governance

We always strive to run the Fund in accordance with best practice. Over the last year the Trustee Board has focused on governance, with an independent review being carried out of how the Trustee and the Fund were doing. This has been a very positive and useful exercise. The review has given clearer focus to the Trustee Board's strategy and as a result the Trustee Directors took the opportunity to review how it does its business. The Trustee Board has agreed a new committee structure from June 2015 and will move to three committees: Operations, Investment & Funding and Governance. These three committees will report back to the Board on a quarterly basis.

Recently our commitment to best practice and the quality of our teams has been recognised by two industry awards. The in-house investment team won the "Best Investor in Alternative Assets" category at the Portfolio Institutional Awards. Furthermore the in-house pensions administration won the "Best Administration" category at the annual Professional Pensions awards.

In December 2013 the Pensions Regulator introduced a code of practice setting out 31 quality features for Defined Contribution trust based pension schemes. Whilst there is no DC section in the Fund, DC Additional Voluntary Contributions ('AVCs') are offered by the Trustee. Following a review there are a small number of areas where the Trustee considers that improvement could be made to ensure best practice and these will be looked at during the second half of 2015.

NATIONWIDE PENSION FUND

CHAIRMAN'S STATEMENT – continued

Trustee Board

Trustee Directors continue to meet with their advisers on a regular basis, both at committee and main Board meetings. There remains a focus on maintaining and developing knowledge and understanding, with individual training and group training.

You will have received the recent communications in regard to the Member Nominated Trustee Director elections. I am pleased to confirm that Rob Goldspink has been re-elected and will commence his five year term in June 2015. I am also pleased to be welcoming John Wriighthouse to the Board from January 2016. I would like to take the opportunity to thank Mark Willis, who will be standing down in January 2016, for all his contributions as a Trustee Director.

Finally I would like to acknowledge the efforts of all the Trustee Directors and 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 2015

The Trustee of the Fund presents its annual report, together with the investment report, actuarial certificates and financial statements for the year ended 31 March 2015. 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. All benefits for service after 1 April 2011 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.

The 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). The Board reviewed its arrangements for appointing Member Nominated Directors (MNT) during 2014. All four MNT positions will in future be filled from the membership as a whole and have a term of office of five years. Any Trustee Director may, in exceptional circumstances, be removed from office by the unanimous decision of the other Trustee Directors, provided that 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. In the year to 31 March 2015 there were five Board meetings and one formal Training & Strategy day. Attendance was as follows:

Peter Wilkin	6	Arthur Amos	5
Graham Pilkington	5	Rob Goldspink	6
Andy Townsend	6	Mark Willis	5
Philip Whittome	6	Bill Partis	5

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. This will be replaced with the Investment & Funding Committee from September 2015 and will continue to meet quarterly.
- The Administration Sub-Committee has also been meeting on a quarterly basis. This has been replaced with the Operations Committee from June 2015 and will continue to meet quarterly.
- The Derivatives Sub-Committee meets as required. Responsibility for derivatives will move to the Investment & Funding Committee.
- The Permanent Incapacity Early Retirement Sub-Committee (PIER) meets as required, usually four to six times a year. Responsibility for the PIER Sub-Committee has moved to the Operations Committee.
- The Accounts Approval Sub-Committee meets at least once a year, to consider the draft accounts. Responsibility for the accounts process will move to the Governance Committee from September 2015.
- The Trustee's Internal Disputes Resolution Sub-Committee meets as required and responsibility for the process now sits with the Operations Committee.

Review of the Financial Development of the Fund

Aon Hewitt Ltd performed the most recent actuarial valuation 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 was agreed between the Trustee and the Society under which an initial lump sum payment of £60m was paid by the Society in March 2014, £90m was paid in July 2014 and a further £49m has been paid in July 2015. Further annual lump sums of £49m are due from July 2016 until July 2020, the first of which is conditional on the funding position as at March 2016. 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 increased from 15.9% to 22.1%. 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 18. An actuarial statement certifying the calculation of the valuation's technical provisions is on page 19. An update on the funding position is on page 37.

The contributions and income received for the year ended 31 March 2015 exceeded benefits due by £55.4m (2014: £27.3m). The net effect of returns on investments has been to increase the value of the Fund by £705.7m (2014: £119.2m).

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 2015.

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 asset managers across a range of asset classes, including specialist asset managers for certain 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.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

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.

Revised Statements of Investment Principles ('SIP's) were adopted by the Trustee in March 2015 to reflect the Trustee's decision to seek further reductions in the exposure to return seeking assets and to increase exposure to matching assets over the forthcoming year. As at 31 March 2015 the Nationwide Section was underweight compared to its targets for private markets and alternative matching assets, 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.

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 13 February 2015 which covered the appointment and removal of Trustee Directors, commutations, liens and family leave.

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

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

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		7,125	69	
Active members added during the year		3		
Members leaving prior to pensionable age		(487)	(44)	
Deaths in service		(6)	-	
Members Retiring		(105)	(5)	
Merged Record		(1)		
		<u>6,529</u>	<u>20</u>	6,549
<u>Deferred Members</u>				
Deferred members at the beginning of the year		15,872	811	
Deferred members instructed by HMRC		1	-	
Deferred members added during the year		486	44	
Deferred members transferring out		(61)	-	
Deferred members retiring		(267)	(31)	
Deaths in deferment		(13)	-	
Merged records	(a)	(2)	-	
Cessation of pension entitlements		(5)	-	
Pension commencements backdated	(b)	(2)	-	
		<u>16,009</u>	<u>824</u>	16,833
<u>Pensioners</u>				
Pensioners at the beginning of the year		6,328	539	
Active members retiring		105	5	
Deferred members retiring		267	31	
Spouses and dependants		57	2	
Commutations of trivial pensions		(230)	(1)	
Deaths in retirement		(93)	(5)	
Merged records	(a)	(14)	(3)	
Pension commencements backdated	(b)	2	-	
Contingent Widows Liability	(c)	(2)	-	
		<u>6,420</u>	<u>568</u>	6,988
TOTAL MEMBERSHIP AT 31 MARCH 2015		<u>28,958</u>	<u>1,412</u>	<u>30,370</u>

- (a) Merged records relate to members who previously had two separate periods of membership.
 (b) The pension commencements of these members were backdated to the date of their leaving following Permanent Incapacity Early Retirement (PIER) review by the Trustee.
 (c) No pensions are in payment for these, however there are expected to be death payments.
 (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.

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.

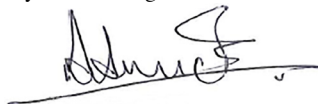
Further Information

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 Vanessa Roberts, Scheme Administrator, Pensions Department, Nationwide Building Society, Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 2GN.

The Trustee Report was approved by the Trustee on 21 July 2015 and signed on its behalf by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2015

Overview

The Investment Report sets out a summary of the investment strategy and the implementation undertaken during the year. It highlights the changes in allocation and the performance over the year. The management of the investment strategy, previously overseen by the Investment Sub-Committee, has from June 2015 been overseen by the Investment and Funding Committee ('IFC') 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, where it is unlikely to be 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 C&D Section of the Fund. The C&D Section is much closer to this objective than the Nationwide Section.

The Fund's combined investment assets as at 31 March 2015 were £4.38bn. This includes an additional contribution of £90m from the Society which was the second instalment in a deficit recovery plan for the Nationwide Section that was agreed with the Society in June 2014. Over the year falling rates increased asset values as this led to higher bond prices, unfortunately it also impacted liabilities meaning the funding deficit in the Nationwide Section increased from £307m to £669m. The total Fund returns for the Fund were as follows:-

	1 year		3 year	
	Actual	Benchmark	Actual	Benchmark
Fund	19.6%	19.1%	11.8%	11.7%

The benchmarks for both sections of the Fund are composite benchmarks which take into account their strategic asset allocations. 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 2015 to take account of changes agreed over the year and the planned future investment strategies.

Market Commentary

The global equity markets set new record highs during 2014-15 following a sharp downturn in September 2014 when there was uncertainty about Europe and US interest rates. Since then equities have climbed and in March the FTSE 100 set a new high.

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

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

Nationwide Section

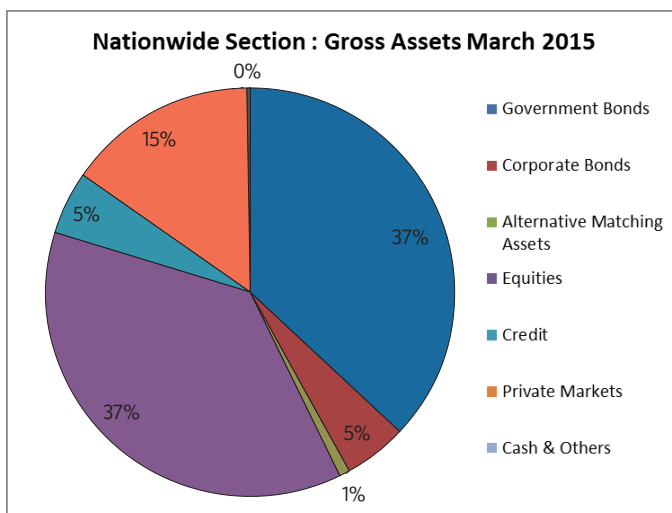
Risk reduction remains a key feature of the investment strategy and consequently was a key part of the investment activity undertaken throughout 2014-15, although this activity was not as dramatic as in the previous year. The alternative matching assets portfolio saw agreements reached to invest £100m in long lease property through LaSalle and £100m in commercial ground rents with CBRE. These two commitments will take time to be fully invested as properties have to be sourced. They will have a degree of long term inflation linkage, are generally low risk and obtain a premium over gilts to compensate for being less liquid. The long term cash flow characteristics of the assets will be a reasonable match to the long term liabilities of the Fund.

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 permits, the long term plan is to further de-risk into assets that match the liabilities by reducing return seeking assets. In the previous year following a review of 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 passive equity only. A small residual position remained with one manager, Trian, whose notice period ended in June 2015. Since this time, all developed market equities have been held on a passive basis.

The Fund continues to pursue investment in alternative assets such as private equity and real estate although it changed its approach to portfolio management in the year. Rather than having specific allocations to each individual asset class the exposure is aggregated so that the Fund can continue seeking to source the best opportunities available at any particular time.

Investment Allocation

The following chart highlights the current gross allocation of the Nationwide Section of the Fund's investments of £4.1bn., including the leverage from the reinvestment of the cash raised from repurchase agreements.



NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

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. These figures represent the aggregate holdings of the individual managers within individual asset classes and thus the figures will differ slightly from those reported in the accounts. 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 activity may, for example, be corporate bonds.

Nationwide Section Asset Allocation				
	31 March 2015		31 March 2014	
	Val (£m)	% of net assets	Val (£m)	% of net assets
Matching Assets				
Government & Supranational Bonds	1,612.2	39.4	1,169.5	34.6
Corporate Bonds	214.6	5.3	181.0	5.4
Alternative Matching Assets	61.8	1.5	47.6	1.4
Total Matching Assets	1,888.6	46.2	1,398.1	41.4
Return Seeking Assets				
Equities	1,620.2	39.6	1,373.5	40.6
Credit	211.6	5.2	214.2	6.4
Private Markets	644.0	15.7	557.9	16.5
Total Return Seeking Assets	2,475.8	60.5	2,145.6	63.5
Cash	39.1	1.0	136.3	4.0
Other	(28.5)	(0.7)	1.2	0.0
Total Gross Assets	4,375.0	107.0	3,681.2	108.9
Less Repo	(287.0)	(7.0)	(299.7)	(8.9)
Total Investments	4,088.0*	100.0	3,381.5	100.0

* The £4,100.1m investment assets reported in the Nationwide Section's Net Asset Statement (Note 15 to the Financial Statements) is after the inclusion of £10.6m AVCs/Bonus Savers, £0.2m AVC debtors and £1.3m annuity value.

The equities allocation includes the residual long/short equity hedge fund which has been exited in June 2015.

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

A number of investments are held in pooled investment vehicles and are reported in the asset classes of the underlying assets.

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

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 compared to benchmark for one and three years is as follows.

Nationwide Section Performance Analysis				
Asset Class	One Year		Three Year	
	Actual %	Benchmark %	Actual %	Benchmark %
Government Bonds	27.0	27.3	11.8	10.7
Corporate Bonds	18.7	19.6	12.3	11.4
Alternative Matching Assets	8.3	3.9	N/A	N/A
Equities	16.0	18.8	11.8	12.7
Credit	6.9	9.0	N/A	N/A
Private Markets ¹	15.2	5.9	10.6	7.3
Total Return	19.0	18.7	12.3	10.7

¹ Private Markets includes real estate, private equity and infrastructure equity.

Overperformance compared to benchmark has primarily been due to the private markets portfolio, which has seen a steady flow of distributions from managers throughout the year.

Foreign Exchange (FX) Overlay

Towards the end of the year the Trustee agreed to increase the foreign exchange hedge that it uses to manage the currency exposure to developed market equities. Through the year Russell Investments operated a 20% FX hedge against the Fund's major currency exposures (USD/EUR/YEN) from its equity investments. In the 12 months to 31 March 2015 the hedge realised a loss of £20.3m. This has now changed and in future 70% of developed market equities will be hedged through investment in a sterling share class where the manager, UBS Asset Management, undertakes the hedging within its pooled fund.

The long/short equity manager, exited in June 2015, was hedged 100% as are the currency exposures arising from the Babson and Falcon Bridge credit mandates.

Derivative Contracts

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 Liability Driven Investment ('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.

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

Largest Exposures

The ten largest individual exposures of the Nationwide Section are

Nationwide Section Top 10 Largest Exposures as at 31 March 2015	
Exposure	Value £m
UK Government 1.125% I/L Stock 2037	271.3
UK Government 0.625% I/L Stock 2042	181.0
UK Government 0.750% I/L Stock 2047	178.4
UK Government 1.250% I/L Stock 2055	145.5
UK Government 0.625% I/L Stock 2040	123.1
UK Government 0.750% I/L Stock 2034	111.8
UK Government 0.125% I/L Stock 2044	107.1
UK Government 0.500% I/L Stock 2050	95.1
UK Government 0.125% I/L Stock 2068	78.8
UK Government 0.125% I/L Stock 2058	60.5

All of these stocks represent exposure to the UK Government and in total the exposure to the UK Government is 39.5% of the Fund. Whilst substantial, this exposure matches liabilities and reduces both interest rate and inflation risk. In respect of non-UK government exposure, no individual exposure within any of the funds invested in represents more than 5% of the total Fund value.

Cheshire & Derbyshire Section

This portfolio is entirely placed within funds managed by Legal and General and given its strong funding position it has 70.7% of its investments in matching assets. The values compared to last year are as follows.

Cheshire & Derbyshire Section Asset Allocation				
Assets	31 March 2015		31 March 2014	
	Val (£m)	% of net assets	Val (£m)	% of net assets
Equities	80.5	29.2	65.3	29.8
Government Bonds	181.8	65.8	126.7	57.7
Non-Government Bonds	13.8	5.0	27.4	12.5
Total Assets	276.1	100.0	219.4	100.0

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

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.

NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

AVC & Bonus Saver Investments

The Trustee holds assets invested separately from the main portfolio, which secure benefits from members' AVCs and members' Bonus Savers, as follows:

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

Bonus Savers have previously been referred to as 'Bonus Waivers'.

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 2015, 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

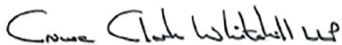
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies 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 2015, 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

21 July 2015

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2015

	Note	2015 £m	2014 £m
Contributions and benefits			
Additions			
Contributions receivable	3	149.3	112.0
Other income	4	0.2	0.2
		<u>149.5</u>	<u>112.2</u>
Withdrawals			
Benefits payable	5	(82.0)	(74.5)
Payments to and on account of leavers	6	(8.1)	(6.8)
Administrative expenses	7	(4.0)	(3.6)
		<u>(94.1)</u>	<u>(84.9)</u>
Net additions from dealings with members		<u>55.4</u>	<u>27.3</u>
Returns on investments			
Investment income	8	40.4	40.2
Change in market value of investments	9	684.6	97.9
Investment management expenses	10	(19.3)	(18.9)
Net returns on investments		<u>705.7</u>	<u>119.2</u>
Net increase in the Fund during the year		761.1	146.5
Net assets of the Fund			
At the beginning of the year		3,614.1	3,467.6
At the end of the year		<u>4,375.2</u>	<u>3,614.1</u>

The Notes on pages 23 to 36 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Net Assets Statement as at 31 March 2015

	Note	2015 £m	2014 £m
Investment assets and liabilities			
Assets			
Fixed interest securities		448.0	413.3
Index linked securities		1,568.3	1,137.0
Pooled investment vehicles		2,538.7	2,117.8
Derivatives		11.5	10.7
Property		73.3	55.8
Annuity investments		1.3	1.4
Cash deposits		40.0	176.8
Other investment balances		5.3	5.2
AVC & Bonus Saver investments		10.8	10.4
		4,697.2	3,928.4
Liabilities			
Derivatives		(29.6)	(3.6)
Securities under repurchase agreements		(287.0)	(299.7)
Other investment balances		(4.2)	(12.4)
		(320.8)	(315.7)
	9	4,376.4	3,612.7
Current assets and liabilities			
Current assets	11	1.8	4.0
Current liabilities	11	(3.0)	(2.6)
		(1.2)	1.4
Net Assets of the Fund at 31 March		4,375.2	3,614.1

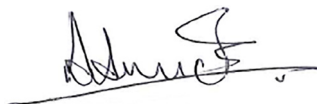
The Notes on pages 23 to 36 form part of these financial statements.

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 18 to 19 of this Annual Report, and these financial statements should be read in conjunction with them.

The financial statements on pages 21 to 36 were approved by the Trustee on 21 July 2015 and signed on its behalf by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015

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.

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	2015 £m	2014 £m
Employer contributions:			
Normal		40.2	32.6
Smart	(a)	13.2	14.5
Deficit	(b)	90.0	60.0
Redundancy waivers/augmentations	(c)	3.5	2.5
Bonus Saver (additional benefits)	(d)	0.6	0.7
Bonus Saver (money purchase)	(d)	0.1	0.1
		147.6	110.4
Member contributions:			
Normal		0.3	0.3
AVCs (additional benefits)	(d)	1.0	0.9
AVCs (money purchase)	(d)	0.4	0.4
		1.7	1.6
		149.3	112.0

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

3. Contributions receivable - continued

- (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. Further lump sums of £49m are due each year until July 2020, although the payment due in 2016-17 is still conditional on the Fund's circumstances.
- (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 Savers 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 Savers and AVCs are invested with the companies listed in Note 9. Alternatively, Bonus Savers or AVCs can be used to secure additional benefits in the form of added years or pension credits.

4. Other income

	2015 £m	2014 £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 to provide part of the pensions for these individuals.

5. Benefits payable

	2015 £m	2014 £m
On or during retirement		
Pensions	65.1	61.2
Commutations	<u>16.1</u>	<u>12.8</u>
	81.2	74.0
Death benefits		
Death in service, deferment & retirement benefits	<u>0.8</u>	<u>0.5</u>
	82.0	74.5

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

	2015 £m	2014 £m
Individual transfers to other schemes	8.1	6.8

7. Administrative expenses

	2015 £m	2014 £m
Administration & processing costs	1.4	1.2
Actuarial fees	0.4	0.6
Audit fees	0.1	0.1
Pension levies	1.9	1.6
Legal and other professional fees	0.2	0.1
	<u>4.0</u>	<u>3.6</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 (2014: £0.07m).

Trustee Directors are able to receive remuneration for their services. Trustee fees of £0.14m (2014: £0.12m) relating to the scheme year are included in the total for administration and processing costs. No Trustee Director who received remuneration was an employee of the Society during the period to which their fees related.

8. Investment income

	2015 £m	2014 £m
Interest on fixed interest securities	13.1	11.5
Interest on index-linked securities	5.8	5.6
Dividends	0.1	7.9
Income from pooled investment vehicles	15.3	9.5
Interest on swaps	1.4	1.3
Rental income	4.7	4.4
	<u>40.4</u>	<u>40.2</u>

Interest on index-linked securities is stated net of £1.7m (2014: £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

	2015		2014	
	£m	£m	£m	£m
Investment assets				
Fixed interest securities				
UK public sector quoted	38.7		31.1	
UK asset-backed securities	37.1		48.8	
UK other	78.4		72.9	
Overseas public sector	11.7		7.5	
Overseas asset-backed securities	178.0		169.0	
Overseas other	<u>104.1</u>	448.0	<u>84.0</u>	413.3
UK index linked securities				
UK public sector		1,568.3		1,137.0
Pooled investment vehicles				
UK index-linked funds	83.2		66.6	
UK life and other managed funds	112.3		87.5	
UK property funds	65.7		60.7	
Overseas/UK life and other managed equity funds	1,657.4		1,293.7	
Overseas property funds	48.9		57.2	
Infrastructure funds	276.6		235.8	
Private equity funds	239.6		195.1	
Hedge funds	43.2		72.3	
Liquidity funds	<u>11.8</u>	2,538.7	<u>48.9</u>	2,117.8
Derivatives				
Futures	0.2		3.9	
Swaps	11.3		5.1	
Forward foreign exchange contracts	<u>-</u>	11.5	<u>1.7</u>	10.7
Property		73.3		55.8
Annuity investments		1.3		1.4
Cash deposits		40.0		176.8
Other investment balances				
Unsettled transactions	0.7		0.5	
Accrued income/tax reclaimable	<u>4.6</u>	5.3	<u>4.7</u>	5.2
AVC & Bonus Saver investments		10.8		10.4
		<u>4,697.2</u>		<u>3,928.4</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

	2015		2014	
	£m	£m	£m	£m
Investment assets		<u>4,697.2</u>		<u>3,928.4</u>
Investment liabilities				
Derivatives				
Futures		(0.7)		(0.4)
Swaps		(24.5)		(3.2)
Forward exchange contracts		<u>(4.4)</u>		<u>-</u>
		(29.6)		(3.6)
Securities under repurchase agreements		(287.0)		(299.7)
Other investment balances				
Unsettled transactions		(4.2)		(12.4)
		<u>(320.8)</u>		<u>(315.7)</u>
Total assets and liabilities		<u>4,376.4</u>		<u>3,612.7</u>
Derivative assets and liabilities				
Derivative assets		11.5		10.7
Derivative liabilities		<u>(29.6)</u>		<u>(3.6)</u>
		<u>(18.1)</u>		<u>7.1</u>
Cash deposits and others				
Cash deposits		40.0		176.8
Unsettled assets		0.7		0.5
Unsettled liabilities		(4.2)		(12.4)
Accrued income		4.6		4.7
Securities under repurchase agreements		<u>(287.0)</u>		<u>(299.7)</u>
		<u>(245.9)</u>		<u>(130.1)</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 2014 £m	Cost of Purchases £m	Sales Proceeds £m	Change in Market Value £m	Value at 31 March 2015 £m
Fixed interest securities	413.3	100.1	(106.5)	41.1	448.0
Index linked securities	1,137.0	108.2	-	323.1	1,568.3
Pooled investment vehicles	2,117.8	420.1	(357.8)	358.6	2,538.7
Derivatives	7.1	0.8	(1.0)	(25.0)	(18.1)
Property	55.8	14.6	(2.6)	5.5	73.3
Annuity investments	1.4	-	-	(0.1)	1.3
AVC/Bonus Saver investments	10.4	0.6	(1.0)	0.8	10.8
	<u>3,742.8</u>	<u>644.4</u>	<u>(468.9)</u>	<u>704.0</u>	<u>4,622.3</u>
Cash deposits and other	(130.1)			(19.4)	(245.9)
	<u>3,612.7</u>			<u>684.6</u>	<u>4,376.4</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 £0.6m (2014: £2.6m). 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.

Following the decision last year to invest the majority of the Fund's global equities in passively managed rather than actively managed equities, a further £184m was realised from two developed equity managers. This was reinvested in two new emerging market equity funds, Oaktree and Neuberger Berman, and one existing emerging market manager, along with £61m from cash reserves. The emerging markets future entered into last year was closed down early in the financial year.

Additional investments of £113m were made in private equity funds, infrastructure funds and illiquid real estate funds. These were largely funded by capital distributions of £86m realised from those categories of funds.

The deficit funding of £90m received in July 2014 was used to augment the pension fund's holdings of UK index linked securities.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS – continued

9. Investments - continued

Two new managers of direct property portfolios were appointed in the year, however by the year end only one property purchase, of approximately £10m, had completed.

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 £14.4m 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 £750.2m as at 31 March 2015 were operated by companies that were not registered in the UK. All others were 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
UK bonds	Less than 1 year	15.9	-	0.2	-
Overseas bonds	Less than 1 year	4.3	42.8	-	(0.7)
	At 31 March 2015	20.2	42.8	0.2	(0.7)
	At 31 March 2014	88.6	(31.0)	3.9	(0.4)

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	101.0	-	(4.9)
	Between 5 and 10 years	103.0	-	(7.3)
	Between 10 and 20 years	142.3	9.8	(12.3)
	Between 20 and 30 years	6.0	1.3	-
		<u>352.3</u>	<u>11.1</u>	<u>(24.5)</u>
Credit default swaps	Less than 1 year	0.5	-	-
	Between 1 and 5 years	8.5	0.2	-
		<u>9.0</u>	<u>0.2</u>	<u>-</u>
	At 31 March 2015	<u>361.3</u>	<u>11.3</u>	<u>(24.5)</u>
	At 31 March 2014	<u>364.4</u>	<u>5.1</u>	<u>(3.2)</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 the form of gilts, in place at the year end in respect of swaps was as follows:

Collateral held (pledged by third parties)	£10.5m
Collateral pledged to third parties	£22.8m

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency sold	US Dollar	313.0	-	(2.8)
	Euro	47.6	-	(1.1)
	Japanese Yen	22.1	-	(0.5)
	At 31 March 2015	<u>382.7</u>	<u>-</u>	<u>(4.4)</u>
	At 31 March 2014	<u>367.6</u>	<u>1.7</u>	<u>-</u>
Currency bought	US Dollar	(2.5)	-	-
	At 31 March 2015	<u>(2.5)</u>	<u>-</u>	<u>-</u>
	At 31 March 2014	<u>(36.4)</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 part of the value of the Fund's foreign currency denominated investments against changes in market value arising on their translation. Further details are given in the Investment Report.

NATIONWIDE PENSION FUND

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 2015 the market value of securities sold under repurchase agreements was £312.9m (2014: £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 2015 this amounted to £287.6m (2014: £300.4m) including accrued interest.

At 31 March 2015 there was collateral held of £29.0m (2014: £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 Saver investments

Aggregate amounts of AVC and Bonus Saver investments were:

		2015	2014
		£m	£m
AVCs	Aviva	0.1	0.1
	Equitable Life Assurance Society	0.3	0.3
	Fidelity Pensions Management	6.3	5.8
	Legal and General	0.1	0.1
	Prudential Assurance Company	2.1	2.3
	Standard Life Assurance Company	0.2	0.2
	Zurich Assurance Ltd	0.1	0.1
		<hr/>	<hr/>
		9.2	8.9
Bonus Savers	Fidelity Pensions Management	1.5	1.3
	Prudential Assurance Company	0.1	0.2
		<hr/>	<hr/>
		1.6	1.5
		<hr/>	<hr/>
		10.8	10.4

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

The Trustee holds AVC and Bonus Saver assets invested separately from the main fund in the form of individual building society accounts, insurance policies and other unutilised 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

	2015	2014
	£m	£m
Administration, management and custody	17.7	17.3
Investment consultancy fees	1.2	1.1
Investment services provided by the Society	0.4	0.5
	<u>19.3</u>	<u>18.9</u>

Investment management expenses include fees of £14.4m (2014: £12.9m) that have been deducted directly from investment holdings, as described in Note 9.

11. Current assets and liabilities

	2015	2014
	£m	£m
Current assets		
Cash balances	<u>1.8</u>	<u>4.0</u>
Current liabilities		
Unpaid benefits	(0.8)	(0.1)
Accrued expenses	(1.6)	(1.9)
Amounts outstanding with Society	(0.6)	(0.6)
	<u>(3.0)</u>	<u>(2.6)</u>

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 2015.

At that date, the Fund was committed to provide further investment funding totalling approximately £344m (2014: £236.5m) if called upon to do so.

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 2015

	2015 £m	2014 £m
Contributions and benefits		
Additions		
Contributions receivable	149.3	112.0
Other income	0.2	0.2
	<u>149.5</u>	<u>112.2</u>
Withdrawals		
Benefits payable	(76.6)	(69.2)
Payments to and on account of leavers	(8.0)	(6.7)
Administrative expenses	(3.8)	(3.4)
	<u>(88.4)</u>	<u>(79.3)</u>
Net additions from dealings with members	<u>61.1</u>	<u>32.9</u>
Returns on investments		
Investment income	40.4	40.2
Change in market value of investments	621.8	96.8
Investment management expenses	(19.1)	(18.7)
Net returns on investments	<u>643.1</u>	<u>118.3</u>
Net increase in the Section during the year	704.2	151.2
Net assets of the Section		
At the beginning of the year	3,394.3	3,243.1
At the end of the year	<u>4,098.5</u>	<u>3,394.3</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

15. Nationwide Section:**Net Assets Statement as at 31 March 2015**

	2015 £m	2014 £m
Investment assets and liabilities		
Assets		
Fixed interest securities	448.0	413.3
Index linked securities	1,568.3	1,137.0
Pooled investment vehicles	2,262.6	1,898.4
Derivatives	11.5	10.7
Property	73.3	55.8
Annuity investments	1.3	1.4
Cash deposits	40.0	176.8
Other investment balances	5.3	5.2
AVC & Bonus Saver investments	10.6	10.2
	<u>4,420.9</u>	<u>3,708.8</u>
Liabilities		
Derivatives	(29.6)	(3.6)
Securities under repurchase agreements	(287.0)	(299.7)
Other investment balances	(4.2)	(12.4)
	<u>(320.8)</u>	<u>(315.7)</u>
	<u>4,100.1</u>	<u>3,393.1</u>
Current assets and liabilities		
Current assets	1.2	3.7
Current liabilities	(2.8)	(2.5)
	<u>(1.6)</u>	<u>1.2</u>
Net Assets of the Section at 31 March	<u>4,098.5</u>	<u>3,394.3</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

16. C & D Section: Fund Account for the year ended 31 March 2015

	2015	2014
	£m	£m
Contributions and benefits		
Withdrawals		
Benefits payable	(5.4)	(5.3)
Payments to and on account of leavers	(0.1)	(0.1)
Administrative expenses	(0.2)	(0.2)
	<u>(5.7)</u>	<u>(5.6)</u>
Net reductions from dealings with members	<u>(5.7)</u>	<u>(5.6)</u>
Returns on investments		
Change in market value of investments	62.8	1.1
Investment management expenses	(0.2)	(0.2)
Net returns on investments	<u>62.6</u>	<u>0.9</u>
Net increase/(decrease) in the Section during the year	56.9	(4.7)
Net assets of the Section		
At the beginning of the year	219.8	224.5
At the end of the year	<u>276.7</u>	<u>219.8</u>

17. C & D Section: Net Assets Statement as at 31 March 2015

	2015	2014
	£m	£m
Investment assets		
Pooled investment vehicles	276.1	219.4
AVC investments	0.2	0.2
	<u>276.3</u>	<u>219.6</u>
Current assets and liabilities		
Current assets	0.6	0.3
Current liabilities	(0.2)	(0.1)
	<u>0.4</u>	<u>0.2</u>
Net Assets of the Section at 31 March	<u>276.7</u>	<u>219.8</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%

As agreed at the time of these valuations, the Society paid an extra £60m into the Fund in March 2014 and £90m in July 2014. A further £49m which had been conditional on the funding position as at March 2015 is now due to be paid in July 2015. Additional annual contributions of £49m are also to be paid each July from July 2016 until July 2020, with the first payment conditional on the funding position as at March 2016.

Society contribution rates on pensionable salaries for the Nationwide Section were increased from 15.9% to 22.1% from 1 July 2014. Member contribution rates were 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.

The estimated valuation as at 31 March 2015 showed a shortfall of £669m in the Nationwide section and a small surplus of £29m in the C&D scheme. The next valuation will be carried out on 31 March 2016.

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 2015, 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.

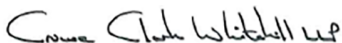
It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

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 2015 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 Schedule of Contributions certified by the Fund actuary on 16 June 2011 for both the Nationwide Section and the C&D Section for the period 1 April 2014 to 30 June 2014 and in accordance with the Schedule of Contributions certified by the Fund actuary on 18 July 2014 for both the Nationwide Section and the C&D Section for the period 1 July 2014 to 31 March 2015.



Crowe Clark Whitehill LLP
Statutory Auditor
London

21 July 2015

NATIONWIDE PENSION FUND

**SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE SCHEME YEAR ENDED
31 MARCH 2015**

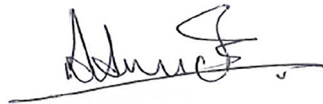
Contributions payable to the scheme by the employer under the schedule of contributions in respect of the year ended 31 March 2015 were as follows:

	£m
Employer normal contributions	40.2
Employer additional contributions	17.4
Employee normal contributions	0.3
Total contributions received in accordance with the schedule	57.9
Additional employer contributions received not covered by the schedule	90.0
Additional employee contributions received not covered by the schedule	1.4
Total contributions as per the financial statements on page 21	149.3

Signed on behalf of the Trustee on 21 July 2015 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 2.3% on 1 April 2015 (1 April 2014: 3.2%) in line with the retail price index (RPI) for the year ended 30 September 2014.

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 signed 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.



On your side

Nationwide

PENSION FUND

Nationwide Building Society. Head Office: Nationwide House, Pipers Way, Swindon, Wiltshire SN38 2GN.

G902 (September 2015)