

Nationwide Pension Fund Report & Accounts

31 March 2017

NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2017

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NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS

Trustee	Nationwide Pension Fund Trustee Limited
Trustee Directors	
Society Appointed	Peter Wilkin (Chairman) Ann Brown (resigned 30 September 2016) Andy Townsend Philip Whittome (for Steeple Professional Services Ltd) Muir Mathieson (appointed 1 November 2016)
Member Nominated	Arthur Amos Rob Goldspink Bill Partis (resigned 27 April 2017) John Wrighthouse Sarah Garrett (appointed 1 May 2017)
Head of Pensions	Ian Baines
Chief Investment Officer	Mark Hedges
Administrator and Secretary	Vanessa Roberts
Accountant	Philip Illott
Actuary	Jeremy Ball, Aon Hewitt Ltd (resigned 30 July 2016) Keith Poulson, Aon Hewitt Ltd (appointed 31 July 2016)
Auditors (External) (Internal)	Crowe Clark Whitehill LLP Deloitte LLP (appointed 6 March 2017)
Legal Advisers	Sacker & Partners LLP
Property Valuers	Knight Frank LLP
Investment Consultant	Aon Hewitt Ltd
Implementation Manager	Russell Implementation Services Ltd

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS - continued

Investment Managers: Nationwide Section

Matching Assets Aviva Investors Jersey Unit Trusts Management Ltd
Fidelity Pensions Management
Insight Investment Management (Global) Ltd
Legal & General Investment Management Ltd

Return Seeking Assets

Equities: Harding Loevner LP (appointed July 2016)
Legal & General Investment Management Ltd
Neuberger Berman Europe Ltd
Oaktree Capital Management (UK) LLP
Russell Implementation Services Ltd
UBS Asset Management (UK) Ltd
Vontobel Asset Management Inc (ceased May 2016)

Credit: Barings LLC
Bluebay Asset Management LLP
Falcon Bridge Capital II, LLC
GSO Capital Partners (appointed July 2016)
Kreos Capital V (Expert Fund) LP
M&G Alternatives Investment Management Ltd
TwentyFour Asset Management LLP (ceased March 2017)

Infrastructure: Alinda Capital Partners LLC
Equis Funds Group
IFM Investors Pty Ltd
Innisfree Ltd
Macquarie Investment Management (UK) Ltd
Star Capital Partners Ltd
SteelRiver Infrastructure Fund North America LP

Private Equity: Arsenal Capital Management LP
BV Investment Partners
Dunedin Capital Partners
The Energy and Minerals Group

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS – continued

Private Equity:	L Capital Asia Advisors Mount Kellett Capital Partners (Cayman) LP NB Alternatives Advisers LLC Parcom Capital Management BV (appointed June 2016) Permira V G.P. Ltd Platinum Equity Advisors LLC Thompson Street Capital Manager LLC Trilantic Capital Management LLC
Real Estate:	Ares European Real Estate Management IV, LP CBRE Ltd DRC Capital LLP Genesta Property Nordic AB Goldman, Sachs & Co. Grasscourt (GP) Ltd (appointed December 2016) Honeycourt (GP) Ltd (appointed June 2017) LaSalle Investment Management Legal & General Investment Management Ltd PAG Holdings Ltd (appointed June 2016) Revcap Advisors Ltd Silverpeak Real Estate Partners

Investment Managers: C&D Section

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 2017

I am pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2017.

Overview

The number of active members of the Fund is now 5,834. The number of pensioners has reached 7,666 and the biggest group of members is the 16,480 deferred members, who comprise approximately 55% of the membership.

The value of the Fund's assets is now £5,475 million, up 23% from £4,465 million at the previous year end. More commentary about the investments is included in the Trustee Report.

Funding

The economic market has seen some volatility through 2016-17 in the UK driven by the fall in sterling resulting from the UK referendum result. The long term fundamental impacts on the economy of a changed relationship with Europe, which represents over 40% of UK trade, may have some negative impact on the wider economy; the extent will not however be determined for some years to come. The outlook remains one of low rates and low growth which is challenging for investment returns, particularly as equity market values are at high levels. The investment strategy will mitigate some of the risks to the assets, however if rates rise more slowly than markets predict this will continue to adversely impact the liabilities and the funding level.

The 31 March 2016 valuation for the Nationwide section which has recently been finalised shows the deficit has increased to £605m from the £580m of the March 2013 valuation (measured on a technical provisions basis). To help reduce the deficit, the Society has provided further funding of £100m in April 2017 and £49m in July 2017, and has agreed to provide £37m in August 2017 and £61m each July from July 2018 to July 2021, as well as increasing normal contributions from 22.1% to 31.5% from September 2017 to cover the cost of future accrual of benefits. The surplus of the C&D section has fallen from £13.3m to £3.0m. More details are given in the Report on Actuarial Liabilities on page 12.

The funding position of both sections is monitored regularly by the Trustee and its advisors and will naturally vary over time.

Governance & Operations

During the year, Trustee Directors took the opportunity to consider a number of governance matters, one of which was the appointment of an Internal Auditor to the Pension Fund. Whilst the Fund has had adhoc internal audits over the last few years, there has not been a holistic plan. With the continuing focus on governance and risk matters the Trustee Directors concluded that the Fund should have its own internal audit capability. After a comprehensive tender process, I am pleased to advise that Deloitte were appointed in March 2017 to act as Internal Auditor to the Fund. In 2017 the audit focus will be on investment strategy, risk appetite and overall governance strategy, oversight of asset managers and adherence to performance/investment guidelines.

Whilst there is no DC section in the Fund, DC Additional Voluntary Contributions ('AVCs') are offered by the Trustee. The Trustee Directors have taken professional advice from their investment adviser and decided to transfer a very small number of AVCs out of legacy unit-linked funds to the current provider, Fidelity. There were several advantages for this and the Trustee believed it was in those members' best interests to transfer the funds to reduce the charges taken from their funds and that the current offering remains appropriate for members.

The Trustee published its Strategic Plan for 2015-2020 back in October 2015. This is seen as a living document and the Trustee Directors have taken the opportunity to reflect where they are on the journey to delivering their aims. The Strategic Plan sets out the Trustee Mission and Vision Statement as well as our aims and objectives over the five year period. A copy can be found on the website.

NATIONWIDE PENSION FUND

CHAIRMAN'S STATEMENT – continued

The Trustee Directors have been looking at the way we communicate with members and last year we launched a new website that is mobile device friendly, as well as a more interactive Annual Review. We endeavour to have regular general pension focus news updates and would encourage you to visit the website periodically.

Last year I mentioned the quality of our Employee Pension and Investment teams and expanded on the numerous accolades that had been achieved in our new style Annual Review. I would like to reiterate our congratulations to the Employee Pensions team, who in a joint submission with Internal Communications, won Team of the Year at the Nationwide Annual PRIDE Awards in 2016.

As ever, I would like to thank both teams for their hard work and its great service to both the Trustee and members.

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 and group training and a trustee strategy & development day.

There were some changes to the Board of Directors during the year with Muir Mathieson joining the Board in November 2016. During the year we also commenced our Member Nominated Trustee Director process, which has recently concluded with Arthur Amos and Sarah Garrett being successful. I would like to thank everyone who was involved in the process, especially the nominees.

Finally, I would like to acknowledge the efforts of all the Trustee Directors, including Ann Brown and Bill Partis, who recently retired from the Board, and I am also grateful for the support received from our professional advisers.

Peter Wilkin
Chairman of the Trustee Board

NATIONWIDE PENSION FUND

TRUSTEE REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Trustee of the Fund presents its Annual Report, together with the actuarial certificates and financial statements for the year ended 31 March 2017. 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 Revalued 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, now part of the Aviva Group, 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 Cheshire and Derbyshire Schemes ('C&D Section'). Separate financial disclosures for these two sections are provided in this report.

The Fund was 'contracted out' of the additional components of the State pension until 6 April 2016, when legislation came into effect which ended contracting out.

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, together with subsequent amendments.

The Board of Nationwide Building Society ('the Society') has the power to appoint four Trustee Directors (and change them from time to time). All four MNT positions are 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 membership 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 four times a year, with an additional strategy & development day. 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 2017 there were four Board meetings and one formal strategy & development day. Attendance of the meetings falling in each of the Directors' period of office was as follows:

Peter Wilkin	5 of 5	Arthur Amos	4 of 5
Ann Brown	2 of 2	Rob Goldspink	4 of 5
Andy Townsend	4 of 5	John Wriighthouse	4 of 5
Philip Whittome	5 of 5	Bill Partis	4 of 5
Muir Mathieson	2 of 2		

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

- The Investment & Funding Committee meets at least quarterly with further meetings as required.
- The Operations Committee also meets on a quarterly basis with further meetings as required.
- The Governance Committee meets twice a year with further meetings as required.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Review of the Financial Development of the Fund

Aon Hewitt Ltd performed the most recent actuarial valuation as at 31 March 2016. The valuation showed a deficit of £605m for the Nationwide Section at that date. A deficit recovery plan for the Nationwide Section has been agreed between the Trustee and the Society under which an initial lump sum payment of £49m was paid by the Society in July 2016, £100m was paid in April 2017 and a further £49m payment was made in July 2017. Whilst a deficit remains the Society has agreed to make further lump sums of £37m in August 2017 and £61m each year from July 2018 until July 2021. The valuation also indicated a surplus of £3m for the C&D Section at that date.

It was also agreed to increase the employer's contribution rate, to cover the cost of future accrual of benefits, from 22.1% to 31.5% of pensionable salaries from 1 September 2017. The Trustee routinely monitors the Fund's funding position and the next valuation is due to be carried out as at 31 March 2019.

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 31 March 2016 valuation is on page 40. A report on actuarial liabilities is on page 12.

The administrative expenses and benefits due for the year ended 31 March 2017 exceeded contributions and income by £18.8m (2015: £2.8m surplus). The net effect of returns on investments has been to increase the value of the Fund by £1,028.5m (2015: £86.8m).

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 2017.

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 Deed of Amendment for the cessation of Contracting Out was effected on 4 April 2016.

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		6,161	18	
Active members added during the year		2	-	
Members leaving prior to pensionable age		(245)	-	
Deaths in service		(3)	-	
Members retiring		(99)	-	
		<u>5,816</u>	<u>18</u>	5,834
<u>Deferred Members</u>				
Deferred members at the beginning of the year		15,932	787	
Deferred members added during the year		245	-	
Deferred members transferring out		(108)	(7)	
Deferred members retiring		(318)	(31)	
Deaths in deferment		(10)	(3)	
Merged records	(a)	(5)	(1)	
Pension commencements backdated	(b)	(1)	-	
		<u>15,735</u>	<u>745</u>	16,480
<u>Pensioners</u>				
Pensioners at the beginning of the year		6,719	580	
Active members retiring		99	-	
Deferred members retiring		318	31	
Spouses and dependants		66	3	
Commutations of trivial pensions		(13)	(1)	
Deaths in retirement		(123)	(3)	
Merged records	(a)	(7)	-	
Pension commencements backdated	(b)	2	-	
Contingent widows liability	(c)	(1)	-	
Cessation of pension entitlements		(4)	-	
		<u>7,056</u>	<u>610</u>	7,666
TOTAL MEMBERSHIP AT 31 MARCH 2017		<u>28,607</u>	<u>1,373</u>	29,980

(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 pension is in payment, however there is expected to be a death payment.

The figures for pensioners do not include approximately 35 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

TRUSTEE REPORT – continued

Investment Objectives and Strategy

The Trustee aims to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided. The long term objective of the Fund is to be fully funded on a Low Dependency basis. The Trustee believes this is best achieved by having both an investment strategy and a journey (or de-risking) plan.

The Trustee monitors the funding level of the Fund on both a Technical Provisions basis and a Low Dependency basis. There is a strong (but not perfect) link between the Technical Provisions, Low Dependency and Buy-out funding levels and the Trustee recognises that over time the relationship between these three measurements of liabilities will change. The overall plan is that the Fund will de-risk towards its Journey Plan Target, as calculated on a Low Dependency basis. It is intended that the eventual target of the de-risking process will be a Destination Portfolio which largely matches the characteristics of the Fund's liabilities and allows for a margin to cover risk factors such as benefit caps and collars and longevity risk. The protocol for monitoring and implementing the Fund's dynamic de-risking strategy is outlined in the Fund's Statement of De-Risking Protocols. As part of this process, the Society will be consulted on this document and upon any proposed de-risking.

The parties expected to be involved in the monitoring and implementation process are as follows:

- the Investment and Funding Committee ('IFC') on behalf of the Trustee
- the Society's Pension Risk Management team
- the Chief Investment Officer team ('CIO team')
- the Investment Consultant to the Trustee
- the Actuarial Adviser to the Trustee
- the Transition Manager to the Trustee
- the Liability Matching Investment ('LMI') Manager.

The Fund's investment strategy and strategic asset allocation are reviewed periodically to ensure that they are appropriate for the circumstances and objectives of the Fund.

The Trustee will monitor the actual asset allocation versus the target weight and the ranges.

For the Nationwide Section the permitted ranges allow the Trustee to deviate tactically from the strategic asset allocation within the specified limits to avoid the need for constant rebalancing. The current strategic asset allocation strategy as at 31 March 2017 chosen to meet the objectives of the Nationwide Section is set out in the table below.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Asset Class	Target Weighting %	Range %
Matching Assets	50-60	45-65
Government and Supranational Bonds	40-50	30-50
Corporate Bonds	10	8-12
Alternative Matching Assets (AMA)	3-10	3-10
<i>Long Lease Property</i>	-	0-5
<i>Ground Rent Property</i>	-	0-5
<i>Other AMAs</i>	-	0-3
Return Seeking Assets	50	45-55
Equities	15	12.5-22.5
Credit	15	10-20
Illiquid portfolio – private markets	20	15-25
<i>Capital Appreciation</i>		10-15
<i>Income Yielding</i>		5-10
Cash	0	0-2
Leverage/Derivatives		
Repo	10	0-12
Additional Inflation Hedging as a % of the inflation risk of the liabilities	8-13	0-13
Additional Interest Rate Hedging as a % of the interest rate risk of the liabilities	0-25	0-25

The C&D Section’s strategic asset allocation is:-

Asset Class	Target Weighting %
Global equities	5-10
Matching Portfolio	90-95
Cash	0-2

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 latest Nationwide Section SIP and C&D Section SIP were approved by the Trustee’s Investment and Funding Committee on 14 March 2017 to take account of changes agreed over the year and the planned future investment strategies.

Review of Investment Performance

The Fund’s combined investment assets as at 31 March 2017 were £5,473.3m. This includes an additional contribution of £49m from the Society received in July 2016.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

The total returns for the Fund were as follows:-

Asset Class	One Year		Three Year	
	Actual %	Benchmark %	Actual %	Benchmark %

Nationwide Pension Fund Performance				
Total Return	22.9	22.1	14.2	13.6

Nationwide Section Performance Analysis				
Core Matching Assets ¹	24.9	23.6	17.8	16.0
Alternative Matching Assets	1.9	5.8	4.6	4.7
Equities	21.6	25.6	10.0	12.1
Credit	11.5	2.8	7.1	5.0
Private Markets ²	22.5	8.2	16.6	6.9
Total Return	23.0	22.1	14.0	13.4

- 1 Core Matching Assets comprises bonds, including government bonds, corporate bonds and index linked gilts.
- 2 Private Markets comprises real estate, private equity, infrastructure and private and property debt.

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

C&D Section Performance Analysis				
Core Matching Assets ¹	22.1		19.6	
Equities	32.9		16.5	
Total Return	22.0	21.4	17.8	16.2

- 1 Core Matching Assets comprises bonds, including government bonds and corporate bonds.

The C&D Section has outperformed the benchmark over the period of review. No detailed benchmarking is required due to the passive nature of the investments.

The benchmarks for both sections of the Fund are composite benchmarks which take into account their strategic asset allocations.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits the members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The latest full valuations of the Fund were carried out as at 31 March 2016 and showed the funding position to be as follows:

	Nationwide Section	C&D Section
Value of the Technical Provisions	£4,780m	£277m
Value of the assets at that date	£4,175m	£280m
Shortfall/Surplus	(£605m)	£3m
Funding level	87%	101%

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Update on the Funding Position

The information noted above relates to the last formal valuation of the liabilities which was undertaken as at 31 March 2016. The Trustee receives regular updates on the funding position of both sections.

The latest formal annual update for the Nationwide section showed the funding level to have increased to 90% at 31 March 2017, with the deficit reducing to £593m. The improvement in funding position since the 31 March 2016 valuation is primarily a result of the deficit contributions made by the Society together with higher than expected returns on the assets.

The C&D section has also seen an improvement in funding over the past year and remains in surplus.

Actuarial Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

The significant actuarial assumptions adopted for the Nationwide section are set out below:

- Discount rates:
Pre-retirement: fixed interest gilt yield curve plus 1.25% p.a.
Post-retirement: fixed interest gilt yield curve plus 1% p.a.
- Rate of pay increases:
Retail Price Index ('RPI') inflation plus 0.75% p.a.
- Rate of RPI price inflation:
Bank of England breakeven RPI curve less 0.1% p.a.
- Rate of Consumer Price Index ('CPI') price inflation:
RPI inflation less 0.9% p.a.
- Post-retirement mortality:
The SAPS S2 Series 'Light' table with scaling factors of:
 - for pensioners 100% for men and 98% for women.
 - for non-pensioners 108% p.a. for men and 102% for women.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.

The C&D section adopted the same assumptions as above with the exception of the discount rates and CMI mortality projection model (where the CMI 2014 projection model was adopted). The C&D Section adopted lower discount rates to reflect its lower risk investment strategy. The discount rates for the C&D section were set as:

Pre-retirement: fixed interest gilt yield curve plus 1.0% p.a.
Post-retirement: fixed interest gilt yield curve plus 0.5% p.a.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Compliance Information

Tax and Contracting Out Status of the Fund

Nationwide Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004 and was contracted out of the State Second Pension as a Contracted-out Salary Related Scheme up to 5 April 2016 under a certificate issued by the Contributions Agency. In line with legislation the Fund ceased Contracting Out on 5 April 2016.

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.

Pension Increases on Pensions in Payment

Pensions are reviewed annually on 1 April and, except where indicated below, were increased by 2.0% on 1 April 2017 (1 April 2016: 0.8%) in line with the RPI for the year ended 30 September 2016.

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 per annum:

Lambeth scheme: 8.5% or 5%.

Portman scheme: 5%.

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

Derbyshire scheme: 3% (increase is RPI min. 3% max 5%, and provided each 1st July)

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. Meetings are held at which voting policy is 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 & Funding Committee reviews this position annually. Confirmation has been published on the websites of the Fund and the Financial Reporting Council.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

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 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 (2015)'.

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.

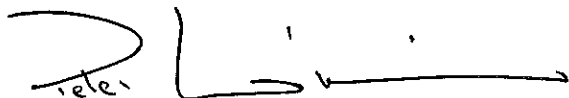
The Trustee is responsible, under pensions legislation, for ensuring that there is prepared, maintained, and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates 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

Enquiries about the Fund or an individual's entitlement should be sent to Vanessa Roberts, Scheme Administrator, Employee Pensions, Nationwide Building Society, Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 2GN.

The Trustee Report was approved by the Trustee on 3 August 2017 and signed on its behalf by:



Trustee Director



Trustee Director

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 2017, which comprise the Fund Account, the Statement of Net Assets 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 and the Actuarial Certificates, 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 2017, 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 and 3A of 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 August 2017

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Contributions and benefits			
Additions			
Contributions receivable	3	106.4	106.8
Other income	4	0.2	0.2
		<u>106.6</u>	<u>107.0</u>
Withdrawals			
Benefits payable	5	(91.6)	(89.3)
Payments to and on account of leavers	6	(30.3)	(11.4)
Administrative expenses	7	(3.5)	(3.5)
		<u>(125.4)</u>	<u>(104.2)</u>
Net (withdrawals)/additions from dealings with members		<u>(18.8)</u>	<u>2.8</u>
Returns on investments			
Investment income	8	40.1	41.0
Change in market value of investments	11	1,015.1	65.7
Investment management expenses	9	(26.7)	(19.9)
Net returns on investments		<u>1,028.5</u>	<u>86.8</u>
Net increase in the Fund during the year		1,009.7	89.6
Net assets of the Fund			
At the beginning of the year		4,464.8	4,375.2
At the end of the year		<u>5,474.5</u>	<u>4,464.8</u>

The Notes on pages 19 to 37 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

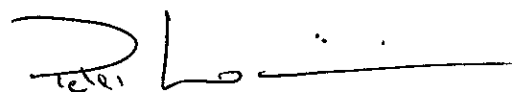
Statement of Net Assets as at 31 March 2017

	Note	2017 £m	2016 £m
Investment assets and liabilities	10,11,20		
Assets			
Fixed interest securities		467.1	441.0
Index linked securities		2,130.3	1,685.4
Pooled investment vehicles	13	2,772.0	2,344.9
Derivatives	14	24.8	14.5
Property	15	224.9	184.8
Annuity investments	16	1.0	1.1
Cash deposits		66.8	131.4
Other investment balances	17	5.3	41.6
AVC & Bonus Saver investments	18	11.2	10.1
		<u>5,703.4</u>	<u>4,854.8</u>
Liabilities			
Derivatives	14	(21.4)	(32.5)
Securities under repurchase agreements	19	(206.6)	(356.6)
Other investment balances	17	(2.1)	(2.6)
		<u>(230.1)</u>	<u>(391.7)</u>
		<u>5,473.3</u>	<u>4,463.1</u>
Current assets and liabilities			
Current assets	21	3.4	3.2
Current liabilities	21	(2.2)	(1.5)
		<u>1.2</u>	<u>1.7</u>
Net Assets of the Fund at 31 March		<u>5,474.5</u>	<u>4,464.8</u>

The Notes on pages 19 to 37 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 Report on Actuarial Liabilities on page 12 of this Annual Report, and these financial statements should be read in conjunction with this report.

The financial statements on pages 17 to 37 were approved by the Trustee on 3 August 2017 and signed on its behalf by:



Trustee Director



Trustee Director

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (2015) (“the SORP”). This is the first year that FRS102 and the revised SORP have applied to the Fund’s financial statements.

The Trustee has early adopted the amendments to the basis of the valuation hierarchy in FRS 102 that will be applicable for periods beginning on or after 1 January 2017 in these financial statements.

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’. Rental income is accounted for in accordance with the terms of the lease. Income from pooled investment vehicles is accounted for when declared by the fund manager.

(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 by Aon Hewitt, the Fund's actuarial advisers, 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	2017 £m	2016 £m
Employer contributions:			
Normal		40.5	41.6
Smart	(a)	12.4	12.7
Deficit	(b)	49.0	49.0
Redundancy waivers/augmentations	(c)	2.1	1.0
Bonus Saver (additional benefits)	(d)	0.4	0.5
Bonus Saver (money purchase)	(d)	0.1	0.1
		104.5	104.9
Member contributions:			
Normal		0.2	0.3
AVCs (additional benefits)	(d)	1.3	1.3
AVCs (money purchase)	(d)	0.4	0.3
		1.9	1.9
		106.4	106.8

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. In addition, a lump sum of £100m was received in April 2017 and £49m was received in July 2017. Further lump sums of £37m in August 2017 and £61m each July from July 2018 to July 2021 are due.
- (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 18. Alternatively, Bonus Savers or AVCs can be used to secure additional benefits in the form of added years or pension credits.

4. Other income

	2017 £m	2016 £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

	2017 £m	2016 £m
On or during retirement		
Pensions	72.9	69.1
Commutations	18.4	19.4
	<u>91.3</u>	<u>88.5</u>
Death benefits		
Death in service, deferment & retirement benefits	0.3	0.8
	<u>91.6</u>	<u>89.3</u>

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

6. Payments to and on account of leavers

	2017 £m	2016 £m
Individual transfers to other schemes	<u>30.3</u>	<u>11.4</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

7. Administrative expenses

	2017	2016
	£m	£m
Administration & processing costs	1.6	1.5
Actuarial fees	0.2	0.2
Audit fees	0.1	0.1
Pension levies	1.4	1.6
Legal and other professional fees	0.2	0.1
	<u>3.5</u>	<u>3.5</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 £0.06m (2016: £0.05m).

Trustee Directors are able to receive remuneration for their services. Trustee fees of £0.15m (2016: £0.14m) 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

	2017	2016
	£m	£m
Interest on fixed interest securities	14.8	13.5
Interest on index-linked securities	4.7	4.8
Dividends	0.3	-
Income from pooled investment vehicles	13.0	15.5
Interest on swaps	0.5	1.4
Rental income	6.8	5.8
Interest on cash deposits	-	-
	<u>40.1</u>	<u>41.0</u>

Interest on index-linked securities is stated net of £2.4m (2016: £2.0m) paid under the repurchase agreements relating to those assets.

9. Investment management expenses

	2017	2016
	£m	£m
Administration, management and custody	25.3	18.6
Investment consultancy fees	0.9	0.9
Investment services provided by the Society	0.5	0.4
	<u>26.7</u>	<u>19.9</u>

Investment management expenses include fees of £21.3m (2016: £14.7m) that have been deducted directly from investment holdings, as described in Note 11.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. Fair value determination

The investments have been analysed according to the following valuation hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date. Cash and gilts fall in this level.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. This applies to pooled funds, which are open ended, priced frequently and have no significant redemption restriction under normal business conditions, and bonds which are valued on an average of broker quotes.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. This applies to closed ended pooled arrangements, for example the private market investments.

The Fund's investments have been analysed using the above hierarchy levels as follows:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2017				
Fixed interest securities	60.0	407.1	-	467.1
Index linked securities	2,031.0	99.3	-	2,130.3
Pooled investment vehicles	-	1,815.0	957.0	2,772.0
Derivatives	0.5	2.9	-	3.4
Property	-	-	224.9	224.9
Annuity investments	-	-	1.0	1.0
AVC/Bonus Saver investments	-	-	11.2	11.2
Cash deposits	66.8	-	-	66.8
Securities under repurchase agreements	-	(206.6)	-	(206.6)
Other investment balances	0.1	4.3	(1.2)	3.2
	<u>2,158.4</u>	<u>2,122.0</u>	<u>1,192.9</u>	<u>5,473.3</u>
At 31 March 2016				
Fixed interest securities	62.3	378.7	-	441.0
Index linked securities	1,602.3	83.1	-	1,685.4
Pooled investment vehicles	-	1,621.1	723.8	2,344.9
Derivatives	0.2	(18.2)	-	(18.0)
Property	-	-	184.8	184.8
Annuity investments	-	-	1.1	1.1
AVC/Bonus Saver investments	-	-	10.1	10.1
Cash deposits	131.4	-	-	131.4
Securities under repurchase agreements	-	(356.6)	-	(356.6)
Other investment balances	36.8	4.9	(2.7)	39.0
	<u>1,833.0</u>	<u>1,713.0</u>	<u>917.1</u>	<u>4,463.1</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

11. Investment movements

Movements in total net investments during the year were:

	Value at 31 March 2016 £m	Cost of Purchases £m	Sales Proceeds £m	Change in Market Value £m	Value at 31 March 2017 £m
Fixed interest securities	441.0	154.2	(188.9)	60.8	467.1
Index linked securities	1,685.4	-	-	444.9	2,130.3
Pooled investment vehicles	2,344.9	1,237.8	(1,300.9)	490.2	2,772.0
Derivatives	(18.0)	2.0	(12.8)	32.2	3.4
Property	184.8	46.0	-	(5.9)	224.9
Annuity investments	1.1	-	-	(0.1)	1.0
AVC/Bonus Saver investments	10.1	0.6	(1.3)	1.8	11.2
	<u>4,649.3</u>	<u>1,440.6</u>	<u>(1,503.9)</u>	<u>1,023.9</u>	<u>5,609.9</u>
Cash deposits and other	(186.2)			(8.8)	(136.6)
	<u>4,463.1</u>			<u>1,015.1</u>	<u>5,473.3</u>
				<i>As per Fund Account</i>	

Transitions

Most of the purchases and sales reflected a focus on diversifying return seeking risk out of equities and into other return seeking investments through the year. There was a £200m move out of equity funds into a multi asset credit fund and continued investment into private equity, private credit and property funds.

Further disposals of equities were also made before the year end to ensure funding was available for new investment strategies agreed by the Trustee including £125m for insurance linked securities. This has led to a higher cash exposure in the interim whilst appropriate due diligence is undertaken on the insurance linked securities manager.

The deficit funding of £49m received in July 2016 was used to fund the pension fund's increased holdings of alternative matching assets.

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 £21.3m during the year from holdings of pooled investment vehicles. Those fees have been charged as investment management expenses (Note 9) 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.

Capital commitments

As at 31 March 2017 the Fund was committed to provide further investment funding totalling approximately £529m (2016: £272m) if called upon to do so.

NOTES TO THE FINANCIAL STATEMENTS – continued

12. 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 analysed by main asset class and type of cost are as follows:

	Commission	Levies, stamp duty and taxes	Total
	£m	£m	£m
2017			
Pooled investment vehicles	0.9	0.3	1.2
Property	-	1.7	1.7
	<u>0.9</u>	<u>2.0</u>	<u>2.9</u>
2016			
Fixed interest securities	0.3	-	0.3
Pooled investment vehicles	0.1	-	0.1
Property	-	7.6	7.6
	<u>0.4</u>	<u>7.6</u>	<u>8.0</u>

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges are made within those vehicles.

13. Pooled investment vehicles

As at 31 March 2017 the Fund's investment in pooled investment vehicles comprised:

	2017	2016
	£m	£m
Bond funds	720.4	221.9
Equity funds	801.5	1,310.9
Property funds	248.0	189.8
Private market funds	808.8	621.3
Cash funds	193.3	1.0
	<u>2,772.0</u>	<u>2,344.9</u>

Of the above investments, £2,439.6m (2016: £2,065.5m) was held in the Nationwide Section and £332.4m (2016: £279.4m) in the C&D Section.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

14. Derivatives

	2017		2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Futures	0.7	(0.2)	0.3	(0.1)
Swaps	20.9	(21.2)	12.3	(32.0)
Forward foreign exchange	3.2	-	1.9	(0.4)
	<u>24.8</u>	<u>(21.4)</u>	<u>14.5</u>	<u>(32.5)</u>

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	38.4	-	0.6	-
Overseas bonds	Less than 1 year	23.7	(53.5)	0.1	(0.2)
	At 31 March 2017	<u>62.1</u>	<u>(53.5)</u>	<u>0.7</u>	<u>(0.2)</u>
	At 31 March 2016	<u>44.5</u>	<u>(47.2)</u>	<u>0.3</u>	<u>(0.1)</u>

Futures are exchange traded derivatives and are used to obtain better exposure to underlying bonds, enhance investment returns and manage risk. The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements.

Swaps

Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Interest rate swaps	Less than 5 years	6.0	-	-
	Between 10 and 20 years	9.0	2.0	(0.2)
		<u>15.0</u>	<u>2.0</u>	<u>(0.2)</u>
Inflation rate swaps	Less than 1 years	101.0	-	(5.3)
	Between 5 and 10 years	217.9	6.0	(5.8)
	Between 10 and 20 years	232.4	10.1	(9.9)
	Between 40 and 50 years	8.7	2.8	-
		<u>560.0</u>	<u>18.9</u>	<u>(21.0)</u>
	At 31 March 2017	<u>575.0</u>	<u>20.9</u>	<u>(21.2)</u>
	At 31 March 2016	<u>363.2</u>	<u>12.3</u>	<u>(32.0)</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

Inflation swaps and credit default swaps are used to manage risk and match the Fund's long term liabilities, especially in relation to their sensitivities to movements in inflation. The notional principal of the swap is the amount used to determine the value of the swapped 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)	£1.6m
Collateral pledged to third parties	£2.2m

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency sold	US Dollar	178.8	3.2	-
	Euro	17.9	-	-
	At 31 March 2017	<u>196.7</u>	<u>3.2</u>	<u>-</u>
	At 31 March 2016	<u>162.8</u>	<u>1.9</u>	<u>(0.4)</u>
Currency bought	At 31 March 2017	<u>(3.6)</u>	-	-
	At 31 March 2016	<u>-</u>	-	-

All forward foreign exchange contracts held at the year-end were contracted to be settled within three months of the year end. Russell Investments operates a hedge against the currency exposures arising from the Babson and Falcon Bridge credit mandates. Further details have been provided in Note 20.

15. Property

	2017 £m	2016 £m
Freehold property	212.1	184.8
Leasehold property	12.8	-
	<u>224.9</u>	<u>184.8</u>

The Fund holds a number of interests in UK properties. There are no restrictions on the realisation of the properties, the remittance of income or disposal proceeds. The properties are illiquid as they would take between three and twelve months to find a suitable buyer.

All properties are currently let. The leaseholders are responsible for repairs and maintenance and dilapidations.

The properties are valued annually on 31 December at fair value by Knight Frank LLP, a member of the Royal Institute of Chartered Surveyors, in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards UK PS1.1 Valuation for Financial Statements. The principal assumptions on which the valuation was based were rental income, the remaining terms of the leases and the rents for those properties.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

16. Annuity investments

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

17. Other investment balances

	2017 £m	2016 £m
Unsettled assets	-	38.1
Accrued income	5.3	3.5
	<u>5.3</u>	<u>41.6</u>
Unsettled liabilities	1.1	1.4
Accrued expenses	1.0	1.2
	<u>2.1</u>	<u>2.6</u>

18. AVC and Bonus Saver investments

Aggregate amounts of AVC and Bonus Saver investments were:

		2017 £m	2016 £m
AVCs	Aviva	0.1	0.1
	Equitable Life Assurance Society	0.2	0.3
	Fidelity Pensions Management	7.0	5.7
	Legal and General	0.1	0.1
	Prudential Assurance Company	1.8	1.9
	Standard Life Assurance Company	0.1	0.3
	Zurich Assurance Ltd	0.1	0.1
		<u>9.4</u>	<u>8.5</u>
Bonus Savers	Fidelity Pensions Management	1.7	1.5
	Prudential Assurance Company	0.1	0.1
		<u>1.8</u>	<u>1.6</u>
		<u>11.2</u>	<u>10.1</u>

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 unitised investments securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions, and these assets do not form part of the common pool of assets available for members generally. Members participating in these arrangements each receive annual statements confirming the amounts held to their account and the movements in the year.

NOTES TO THE FINANCIAL STATEMENTS - continued

19. 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 2017 the market value of securities sold under repurchase agreements was £209.8m (2016: £328.1m).

Cash received from counterparties in respect of the securities that have been sold has been used by the Fund to increase its matching assets portfolio, although the repurchase arrangements are fungible and are not linked to specific assets. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2017 this amounted to £207.0m (2016: £321.6m) including £0.4m accrued interest.

At 31 March 2017 there was collateral held of £1.4m (2016: £3.8m) against the difference in valuation between the underlying securities and the repurchase agreements.

20. Investment risks

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Market risk includes currency risk, interest rate risk and other price risk, as explained below:

- Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from the investment consultant. The Fund has exposure to these risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Fund's investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers, reviewed by the CIO team and monitored by the IFC by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include annuity policies or AVC or Bonus Saver investments as these are not considered significant in relation to the overall investments of the Fund.

The investment objective of both sections of the Fund is set out under Investment Objectives and Strategy on page 10.

The Nationwide Section

For the Nationwide Section investment strategy, 50%-60% of investments are made in matching assets that will broadly move in line with the long term liabilities of the Section. These comprise UK government and corporate bonds, inflation

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

swaps, long lease property and ground rents. The purpose of holding these assets is to hedge against the impact of interest rate and inflation movements on long-term liabilities.

In addition, 50% of the assets are invested in return seeking investments comprising global equities, equity futures, investment property, credit and debt investments, private equity and infrastructure investments. Both matching and return seeking assets which total £5,256.1 (2016: £4,511.7) are supported by using repurchase agreements to provide cash that can acquire additional matching assets, which along with other cash and derivatives decrease net assets to £5,129.7 (2016: £4,173.6).

The Trustee considers the asset classes and investment risks in matching and return seeking terms. The investment strategy is best explained in this context.

An analysis of the investments held in the Nationwide Section by the different strategies is provided below:

Asset Class	Segregated £m	Pooled £m	2017 Total £m	2016 Total £m
Matching Assets				
Government and Supranational Bonds ¹	2,103.2	222.9	2,326.1	1,671.1
Corporate Bonds ¹	321.5	-	321.5	260.6
Alternative Matching Assets:				
Long Lease Property	47.2	93.2	140.4	133.6
Ground Rent Property	94.2	-	94.2	54.0
Cash	9.3	130.7	140.0	57.9
Derivatives	0.2	-	0.2	(19.5)
Other assets/liabilities	4.7	-	4.7	38.3
Total Matching Assets	2,580.3	446.8	3,027.1	2,196.0
Return Seeking Assets				
Equities ¹	-	774.3	774.3	1,261.9
Corporate Bonds	172.7	208.3	381.0	194.7
Private Markets				
Infrastructure	-	421.4	421.4	352.2
Property	83.5	90.4	173.9	127.6
Private & Property Debt	-	102.3	102.3	59.4
Private Equity	-	349.5	349.5	260.6
Cash	25.7	-	25.7	56.8
Derivatives	1.3	-	1.3	0.7
Other assets/liabilities	(0.4)	-	(0.4)	1.8
Total Return Seeking Assets	282.8	1,946.2	2,229.0	2,315.7
Cash and Leverage/Derivatives				
Cash	31.7	46.6	78.3	17.7
Other Derivatives	1.9	-	1.9	0.8
Repurchase Agreements	(206.6)	-	(206.6)	(356.6)
Total Other Assets and Liabilities	(173.0)	46.6	(126.4)	(338.1)
Total Net Assets (excluding AVCs)	2,690.1	2,439.6	5,129.7	4,173.6

¹ The value of bonds in Matching Assets has increased and equities in Return Seeking Assets fallen largely because of purchases and sales made to progress the de-risking strategy.

NOTES TO THE FINANCIAL STATEMENTS - continued

Matching Assets

The Trustee has set an allocation target for total investment in matching assets of between 50%-60% of the total investment portfolio as part of the matching asset investment strategy. As at 31 March 2017 the matching asset portfolio of £3,027.1m (2016: £2,196.0m) represented 59% of the total investment portfolio (2016: 53%). This is slightly below the ranges set for the portfolio and will vary depending on normal market/interest rate movements. The SIP does allow the Trustee to make short term allocations that move beyond these ranges and in this instance the Trustee sold out of equities ahead of investing in insurance linked securities with the cash raised being used to temporarily reduce repo and save some associated repo costs.

Interest Rate Risk

The Nationwide Section is subject to interest rate risk through its investments in bonds, long lease property, ground rents and cash, either as segregated investments or as pooled funds and derivative contracts, as set out in the table above. However, these assets are held as part of the matching assets strategy to mitigate liability risk because of their sensitivity to interest rates, so if interest rates fall the value of the matching assets will rise to help match the resulting increase in actuarial liabilities. Similarly, if interest rates rise the matching asset investments will fall in value as will the actuarial liabilities.

Inflation Risk

The Nationwide Section is subject to inflation risk through its investments in the segregated index linked bonds (as per Note 11), long lease property and ground rents, either as segregated investments or as pooled funds, as shown in the table above, and inflation swaps (as per Note 14). The long lease property assets and ground rent investments are only partial hedges for inflation as the income streams they generate are uplifted at set periods and not annually. However, these assets are held as part of the matching assets strategy to mitigate liability risk because of their sensitivity to inflation. If inflation rises the value of the matching assets will rise to help match the increase in actuarial liabilities. Similarly, if inflation falls the matching asset investments will also fall in value as will the actuarial liabilities.

Return Seeking Assets

The year-end allocation to return seeking assets of £2,229.0m (2016: £2,315.7m) was 43% (2016: 55%), slightly below the acceptable range set under the strategic asset allocation. The allocation will vary depending on normal market movements and the SIP allows for the Trustee to make short term allocations that move beyond these ranges. Subsequent strategic decisions have taken the allocation back within the target range.

Interest Rate Risk

In the Return Seeking Assets, the segregated bonds and cash and a proportion of the private & property debt and private equity funds as shown in the table above are also exposed to interest rate risk. The investment managers will consider the risk and expected reward when determining which investments to invest in.

All Nationwide Section Assets

Currency Risk

The Nationwide Section operates a global investment strategy and therefore is subject to currency risk across a broad range of investments. The Trustee manages this in a variety of ways.

- Developed market equity investments are held in pooled funds representing 79% (2016: 74%) of the total equity funds as shown in the table above and have a target currency hedge of 70%, with a range of 65%-75%. This is provided by holding the hedged element in a sterling share class with the fund manager hedging the position. Hedging beyond this level is considered to be inefficient with the costs of hedging outweighing the benefits. This was the case at the current and preceding year end.
- Exposure to emerging markets equities representing 21% (2016: 26%) of the total equity funds as shown in the table above is not hedged as return from these investments is derived from both equity and currency performance.

NOTES TO THE FINANCIAL STATEMENTS - continued

- Non-UK segregated bonds representing 6% (2016: 6%) of the segregated bond portfolio in Matching Assets as shown in the table above are hedged 100% for currency purposes through the implementation of a currency overlay provided by Russell Implementation Services (see Note 14).
- Currency hedging is not undertaken for overseas private equity, infrastructure, and property investments as the cost would be prohibitive due to the timing and quantity of the realisation of these very illiquid investments being unknown.

Other price risk

The Nationwide Section is subject to other price risk principally in relation to its return-seeking portfolio which includes equity and private market funds, as shown in the table above, and futures (Note 14). It is also subject to other price risk in matching assets, principally in relation to its investments in properties, whether as segregated investments or through pooled arrangements, as shown in the table above.

Other price risk varies depending on the particular market. In addition the Trustee uses repurchase arrangements as part of its investment strategy, which has some re-pricing risk.

The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets it accesses.

Credit risk

The Nationwide Section is subject to credit risk because it directly invests in bonds and over the counter ('OTC') derivatives, has cash balances and enters into repurchase agreements. It also invests in pooled investment vehicles, in which it is directly exposed to credit risk, and is indirectly exposed to credit risks arising on the financial instruments held by the private debt and property debt funds.

Credit risk arising on bonds and loans held directly is mitigated by investing in government and supranational bonds where the credit risk is minimal. Credit risk arising on bonds or loans held indirectly through segregated or pooled accounts is mitigated by:

- corporate bonds which are rated at least investment grade, and
- by investment mandates that specify the type of bonds that can be held; these mandates have been subject to due diligence of the fund manager before any investment was made to ensure that the expected return of the investments was commensurate with their expected credit risk. Investments in this category include a multi-asset credit fund (which holds a range of different bonds and loans across a variety of credit classes and a range of credit ratings), residential mortgage backed securities and collateralised loan obligations, and
- investment in unrated loans that are secured either on commercial real estate or on the assets of a business and the expected return from these loans is commensurate with the expected credit risk.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Section is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see Note 14). Credit risk also arises on forward foreign currency contracts. There are currently no collateral arrangements for these contracts but all counterparties are required to be at least investment grade. This was the position at the current and preceding year end, however there will be a change in January 2018 when forward foreign currency contracts will require collateral.

Cash is held within financial institutions which are at least investment grade credit rated.

Credit risk on repurchase agreements is mitigated through use of a range of collateral arrangements as disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS - continued

Pooled Funds

Pooled funds are generally unrated due to the nature of the investment. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

Pooled investment arrangements used by the Scheme comprise £1,488.4m (2016: £1,347.2m) unit-linked insurance contracts and £951.2m (2016: £718.3m) limited partnership arrangements.

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles. This includes bonds and secured loan arrangements.

C&D Section

For the C&D Section the investment strategy currently seeks to invest:-

- 90%-95% of its investments into Matching Assets that will broadly move in line with the long term liabilities of the Section. These comprise UK government and corporate bonds. The purpose of holding these assets is to hedge against the impact of interest rate and inflation movements on long-term liabilities. As at 31 March 2017 the bond funds represented 92% (2016: 79%) of the total investment portfolio based on the fair value of the investments. This variance from the target asset allocation is within the target range and will vary depending on normal market/interest rate movements.
- In addition the Section has set a target asset allocation of 5%-10% of investments being held in global equities. As at the year end the allocation to return seeking assets was 8%. This is within the target range and will vary depending on normal market/interest rate movements

Asset Class	2017 Total £m	2016 Total £m
Matching Assets		
Bond funds	305.2	221.9
Return Seeking Assets		
World equity fund	27.2	57.5
Total Net Assets (excluding AVCs)	332.4	279.4

Credit Risk and Pooled Funds

The C&D Section is subject to credit risk because it invests in pooled investment vehicles, in which it is directly exposed to credit risk, and is indirectly exposed to credit risks arising on the financial instruments held by the vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors any changes to the

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

operating environment of Legal & General on an ongoing basis, with the assistance of its investment advisors.

Pooled investment arrangements used by the Section comprise unit-linked insurance contracts.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles as shown in the table above. This is mitigated by only investing in bonds that are at least investment grade. This was the position at the current and preceding year end.

Currency Risk

The C&D Section is only exposed to currency risk through the world equity fund exposure, as shown in the table above. However this is mitigated by investment in a sterling share class where the fund manager hedges the underlying currency risk.

Interest and Inflation Rate Risk

The C&D Section is subject to interest and inflation rate risk because of its investments in bonds, through pooled bond funds, as shown above. However, these assets are held because of their sensitivity to interest and inflation rates in order to mitigate liability risk.

Other price risk

For the C&D Section, other price risk arises principally in relation to the world equity fund, as shown above.

21. Current assets and liabilities

	2017	2016
	£m	£m
Current assets		
Cash balances	3.4	3.2
	<hr/>	<hr/>
Current liabilities		
Unpaid benefits	(0.8)	(0.5)
Accrued expenses	(0.7)	(0.5)
Amounts outstanding with the Society	(0.7)	(0.5)
	<hr/>	<hr/>
	(2.2)	(1.5)

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

22. Related party transactions

Reimbursements to the Society of pensions payments are disclosed in Note 5, and the amount outstanding with the Society at the end of the financial year in Note 21.

Included in administrative expenses and investment management expenses are fees charged to the Fund from the Society, as disclosed in Notes 7 and 9 respectively.

Arthur Amos and Bill Partis, Trustee Directors, were 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

23. Nationwide Section:
Fund Account for the year ended 31 March 2017

	2017 £m	2016 £m
Contributions and benefits		
Additions		
Contributions receivable	106.4	106.8
Other income	0.2	0.2
	<u>106.6</u>	<u>107.0</u>
Withdrawals		
Benefits payable	(85.3)	(83.1)
Payments to and on account of leavers	(29.4)	(10.6)
Administrative expenses	(3.3)	(3.4)
	<u>(118.0)</u>	<u>(97.1)</u>
Net (withdrawals)/additions from dealings with members	<u>(11.4)</u>	<u>9.9</u>
Returns on investments		
Investment income	40.1	42.3
Change in market value of investments	954.4	53.7
Investment management expenses	(26.4)	(19.6)
Net returns on investments	<u>968.1</u>	<u>76.4</u>
Net increase in the Section during the year	956.7	86.3
Net assets of the Section		
At the beginning of the year	4,184.8	4,098.5
At the end of the year	<u>5,141.5</u>	<u>4,184.8</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

24. Nationwide Section:

Statement of Net Assets as at 31 March 2017

	2017 £m	2016 £m
Investment assets and liabilities		
Assets		
Fixed interest securities	467.1	441.0
Index linked securities	2,130.3	1,685.4
Pooled investment vehicles	2,439.6	2,065.5
Derivatives	24.8	14.5
Property	224.9	184.8
Annuity investments	1.0	1.1
Cash deposits	66.8	131.4
Other investment balances	5.3	40.2
AVC & Bonus Saver investments	11.1	10.0
	<u>5,370.9</u>	<u>4,573.9</u>
Liabilities		
Derivatives	(21.4)	(32.5)
Securities under repurchase agreements	(206.6)	(356.6)
Other investment balances	(2.1)	(1.2)
	<u>(230.1)</u>	<u>(390.3)</u>
	<u>5,140.8</u>	<u>4,183.6</u>
Current assets and liabilities		
Current assets	2.8	2.7
Current liabilities	(2.1)	(1.5)
	<u>0.7</u>	<u>1.2</u>
Net Assets of the Section at 31 March	<u>5,141.5</u>	<u>4,184.8</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

25. C&D Section: Fund Account for the year ended 31 March 2017

	2017 £m	2016 £m
Contributions and benefits		
Withdrawals		
Benefits payable	(6.3)	(6.2)
Payments to and on account of leavers	(0.9)	(0.8)
Administrative expenses	(0.2)	(0.1)
	<u>(7.4)</u>	<u>(7.1)</u>
Net withdrawals from dealings with members	<u>(7.4)</u>	<u>(7.1)</u>
Returns on investments		
Change in market value of investments	60.7	10.7
Investment management expenses	(0.3)	(0.3)
Net returns on investments	<u>60.4</u>	<u>10.4</u>
Net increase in the Section during the year	53.0	3.3
Net assets of the Section		
At the beginning of the year	280.0	276.7
At the end of the year	<u>333.0</u>	<u>280.0</u>

26. C&D Section: Statement of Net Assets as at 31 March 2017

	2017 £m	2016 £m
Investment assets		
Pooled investment vehicles	332.4	279.4
AVC investments	0.1	0.1
	<u>332.5</u>	<u>279.5</u>
Current assets and liabilities		
Current assets	0.6	0.5
Current liabilities	(0.1)	-
	<u>0.5</u>	<u>0.5</u>
Net Assets of the Section at 31 March	<u>333.0</u>	<u>280.0</u>

NATIONWIDE PENSION FUND

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

We have examined the Summary of Contributions payable to the Nationwide Pension Fund, for the Fund year ended 31 March 2017, 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 about 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. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedule of Contributions.

Statement about contributions payable under the Schedules of Contributions

In our opinion contributions for the Fund year ended 31 March 2017 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 18 July 2014 for both the Nationwide Section and the C&D Section.

Crowe Clark Whitehill LLP

Crowe Clark Whitehill LLP
Statutory Auditor
London

21 August 2017

NATIONWIDE PENSION FUND

Certificate 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 could have been expected on 31 March 2016 to be met by the end of the period specified in the Recovery Plan dated 2 August 2017.

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 2 August 2017.

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: 2 August 2017	
Name: Keith Poulson		Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Verulam Point, Station Way, St Albans, AL1 5HE	Name of employer:	Aon Hewitt Limited

Certification of schedule of contributions

Nationwide Pension Fund – Cheshire and Derbyshire Section

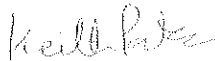
Adequacy of rates of contributions

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 2016 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 29 June 2017.

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: 29 June 2017

Name: Keith Poulson Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Verulam Point Station Road St Albans AL1 5HE Name of employer: Aon Hewitt Limited