



Introduction

The "Principles for Financial Benchmarks" ("**Principles**") were published by the "International Organization of Securities Commissions ("**IOSCO**") on 17 July 2013 to regulate the setting of benchmarks in financial markets. Benchmark administrators should publicly disclose the extent of their compliance with the Principles annually. If implementation deviates from the Principles, then the administrator should explain why it believes that its practices meet the objectives and functions of the Principles, including the extent to which they are relying on a proportionate view of the Principles.

Nationwide Building Society ("**NBS**") is the administrator of the Nationwide House Price Index (the "**NHPI**"). As the NHPI is published for information only without any intended commercial application, NBS considers that NHPI is not a benchmark for the purposes of section 22(6)(c) of the Financial Services and Markets Act 2000, or as defined in the Appendix to the Principles. However, NBS has reviewed its arrangements regarding the publication of the NHPI against the Principles as a matter of good practice and governance.

Compliance with IOSCO Principles

NBS believes that its policies and procedures in relation to the establishment, operation and oversight of the NHPI are in accordance with a proportionate implementation of the Principles. The basis for this conclusion is outlined below. We review our compliance with the principles each year.

Governance

Principle	Summary	Compliance
1. Overall Responsibility of the Administrator	The retention by the Administrator of primary responsibility for all aspects of the Benchmark determination process, such as the development and determination of a Benchmark and establishing credible and transparent governance, oversight and accountability procedures. This Principle makes clear that, regardless of the particular structure for Benchmark determination and administration, there should be an overall entity which is responsible for the integrity of the Benchmark.	<p>Fully Comply. NBS is wholly and directly responsible for the development and production of the NHPI. Director level ownership of the NHPI has been clearly established and NBS has ensured that appropriate governance arrangements are in place to protect the integrity of the benchmark.</p> <p>Governance, oversight and accountability procedures are documented and further details of the governance framework are contained in the Business and Risk Report in the Annual Report & Accounts. The appropriate level of transparency is ensured through the publication of the NHPI Methodology.</p>
2. Oversight of Third Parties	The adoption by the Administrator (and its oversight function) of clearly defined written arrangements setting out the roles and obligations of the parties involved in the Benchmark determination and the monitoring of any third party's compliance with those arrangements. This Principle reflects the concern that any outsourcing of functions should be subject to oversight by the Administrator. This Principle applies only where activities relating to the Benchmark determination process are	Not applicable. The NHPI is determined based on information derived from NBS's retail mortgage business, hence does not rely on submissions from third parties.

undertaken by third parties, for example with respect to collection of inputs, or where a third party acts as the Calculation Agent or Publisher of the Benchmark.

3. Conflicts of Interest for Administrators

The documentation, implementation and enforcement of policies and procedures for the identification, disclosure, management and avoidance of conflicts of interest, including the disclosure of any material conflicts of interest to *Stakeholders* and any relevant Regulatory Authority. This framework should be appropriately tailored to the level of existing or potential conflicts of interest identified by the Administrator and should seek to mitigate existing or potential conflicts of interest created by the ownership or control structure or due to other interests arising from the Administrators' staff or wider group in relation to Benchmark determinations. This Principle is intended to address the vulnerabilities that create incentives for Benchmark manipulation.

Fully Comply. A policy is documented, implemented and enforced, to ensure that any conflicts of interest in relation to the NHPI are identified and managed appropriately.

NBS has a control framework to restrict access to NHPI information prior to publication to further mitigate potential conflicts of interest. Staff with access comprise a small number of people who run the model monthly, and supervisors and senior management who provide sign-off. These individuals are also captured on NBS's insiders list and all (along with all NBS staff) are required to complete Conflicts of Interest, Security and Market Abuse training annually.

4. Control Framework for Administrators

An appropriate control framework at the Administrator for the process of determining and distributing the Benchmark, which should be appropriately tailored to the materiality of the potential or existing conflicts of interest identified, and to the nature of Benchmark inputs and outputs. The control framework should be documented, available to any relevant Regulatory Authority and Published or Made Available to *Stakeholders*. Among other things, a control framework should include an effective whistleblowing mechanism in order to facilitate early awareness of potential misconduct.

Comply on a proportionate basis. As detailed in (3), an appropriate control framework has been established which includes management of conflicts of interest, the integrity and quality of the NHPI, a society-wide whistleblowing procedure, and a process to ensure sufficient expertise to develop and maintain the NHPI.

Continuity for the NHPI has been addressed by ensuring the systems and processes used to generate and publish the NHPI require a relatively standard technical skillset, which can be met by existing NBS staff. Consequently, a specific succession plan is not deemed applicable as there are no critical members of staff required to produce and maintain the NHPI.

NBS's Group Whistleblowing Policy applies to all staff involved in the determination and publication of the NHPI and, with appropriate training, acts to facilitate the early identification of potential misconduct. All staff are authorised to raise their concern internally or externally to our regulators.

5. Internal Oversight

An oversight function to review and provide challenge on all aspects of the Benchmark determination process, which should be appropriate to the Benchmark in question (i.e., including its size, scale and complexity) and provide effective oversight of the Administrator. The oversight function and its composition should include consideration of the features and intended, expected or known usage of the Benchmark and the materiality of existing or potential conflicts of interest identified. A separate committee or other appropriate governance arrangements should carry out the oversight function.

Comply on a proportionate basis. NBS has an internal oversight function in place to manage all aspects of risk, based around the 'Three Lines of Defence' model. This function provides an appropriate level of challenge on all aspects of the NHPI determination and administration. Details of the 'Three lines of defence' model that NBS adopts can be found in the Business and Risk Report in NBS's Annual Report & Accounts and Pillar 3 disclosures. As this defence model calls for the oversight and audit functions to operate independently, the oversight function has no direct responsibility to follow up on audit findings. However, any audit findings are shared with the second line oversight function for consideration.

An oversight committee is in place to oversee the governance process with responsibilities including overseeing changes to the methodology and the exercise of Expert Judgement.

NBS maintains and documents the full remit and processes followed by the independent oversight function and these are available on request by the regulator, however as the NHPI is published for information only without any intended commercial application, these are not published.

The NHPI has no formal *Stakeholders* or *Submitters* (as defined in the IOSCO Glossary of Key Terms), hence NBS does not consult on changes to methodology or guidelines on cessation of the NHPI. This is considered proportionate.

Quality of Benchmark

Principle	Summary	Compliance
6. Benchmark Design	The design of a Benchmark should take into account generic design factors that are intended to result in a reliable representation of the economic realities of the Interest that the Benchmark seeks to measure and to eliminate factors that might result in a distortion of the price, rate, index or value of that Benchmark. The factors presented are generic and non-exclusive illustrations.	Fully comply. Procedures are in place to analyse NBS's share of the UK mortgage market, on which the NHPI is based, the adequacy of the samples used, the appropriateness of sample size and any changes in market dynamics. NBS's market share of the UK gross house purchase market is considered sufficiently large to be representative of the whole UK housing market.
7. Data Sufficiency	The data used to construct a Benchmark should be based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand (i.e., in an active market) and be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the Interest the Benchmark measures. This Principle recognizes that Bona Fide observable transactions in active markets provide a level of confidence that the prices or values used as the basis of the Benchmark are credible. Principle 7 does not mean that every individual Benchmark determination must be constructed solely from transaction data. Provided that an active market exists, conditions in the market on any given day might require the Administrator to rely on different forms of data tied to observable market data as an adjunct or supplement to transactions. Depending upon the Administrator's Methodology, this could result in an individual Benchmark determination based predominantly, or exclusively, on bids and offers or extrapolations from prior transactions.	Fully comply. The NHPI is constructed solely from "arm's length" data based on values anchored by observable transaction data and data available on the open market. NHPI does not use executable bids or offers and for this reason, parts of principle 7 are not applicable to NBS.

8. Hierarchy of Data Inputs	<p>The establishment of clear guidelines regarding the hierarchy of data inputs and the exercise of Expert Judgment used for the determination of Benchmarks. This Principle is intended to make transparent to users the manner in which data and Expert Judgment may be used for the construction of a Benchmark. This Principle is not intended to create a rigid checklist or otherwise restrict an Administrator's flexibility to use inputs consistent with the Administrator's approach to ensuring the quality, integrity, continuity and reliability of its Benchmark determinations, set out in the Benchmark Methodology, provided that the Data Sufficiency Principle is met.</p>	<p>Not applicable. The NHPI is determined based on information derived from NBS's retail mortgage business and does not rely on submissions from third parties or use market data. Therefore, there is no hierarchy of data inputs and no Expert Judgment is exercised in this respect.</p>
9. Transparency of Benchmark Determinations	<p>The publication with each Benchmark determination, to the extent reasonable without delaying the Administrator's publication deadline, of a concise explanation sufficient to facilitate a Subscriber's or Market Authority's ability to understand how the Benchmark determination was developed, as well as a concise explanation of the extent to which and the basis upon which judgment, if any, was used by the Administrator in establishing a benchmark determination. Benchmarks that regularly publish their Methodologies would satisfy principle 9 when derived from data sourced from Regulated Markets or Exchanges with mandatory post-trade transparency requirements.</p>	<p>Comply on a proportionate basis. The NHPI Methodology is published on the NHPI website. Expert Judgment is only applied to remove "atypical" properties, to avoid distortion of the dataset. No other Expert Judgment is applied.</p> <p>The specific dimensions of the data used to construct the benchmark are not disclosed, which is considered appropriate and proportionate given that the NHPI is published for information only without any intended commercial application.</p>
10. Periodic Review	<p>The periodic review by the Administrator of the conditions in the underlying Interest that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology (e.g. the Interest has diminished to the extent that it can no longer function as the basis for a credible Benchmark). In order to facilitate <i>Stakeholders'</i> understanding of the viability of a Benchmark, a summary of such reviews should be Published or Made Available when material revisions have been made to a Benchmark, including the rationale for the revisions.</p>	<p>Comply on a proportionate basis. The NHPI is subject to a periodic review by the first line function and governed by the oversight function as stated in (5). Included as part of this periodic review is an evaluation of the model structure, its inputs, outputs and the underlying market. Given that the NHPI is published for information only without any intended commercial application and that NHPI does not have <i>Stakeholders</i> as defined by IOSCO (see glossary for definition), details of the review are not published, which is considered appropriate and proportionate. Any material changes to the model are communicated as part of the published NHPI Methodology.</p>

Quality of Methodology

Principle	Summary	Compliance
11. Content of the Methodology	<p>The documentation and publication of the Methodology used to make Benchmark determinations, with sufficient detail to allow <i>Stakeholders</i> to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular <i>Stakeholders</i>, and its appropriateness as a reference for financial instruments.</p>	<p>Comply on a proportionate basis. A description of the NHPI Methodology is available and includes a definition of all key terms. NBS has procedures to ensure the appropriateness of the methodology including data selection, control of Expert Judgment, error reports and the frequency of internal reviews. The NHPI is published for information only and is not intended to be used as a</p>

		reference for financial instruments, therefore the level of detail provided is considered proportionate.
12.Changes to the Methodology	The publication of the rationale of any proposed material change in its Methodology, and procedures for making such changes. These procedures should clearly define what constitutes a material change, and the method and timing for consulting or notifying Subscribers (and other <i>Stakeholders</i> where appropriate, taking into account considering the breadth and depth of Benchmark use) of changes.	Comply on a proportionate basis. As detailed in (10) a periodic review of the model, including the evaluation of its definition, purpose, and methodology, takes place and details of material changes to the methodology are provided with the published NHPI Methodology . Methodology changes are governed by an internal review process. NBS does not publish review procedures or consult on changes to its methodology, which is considered appropriate and proportionate as NHPI has no <i>Submitters</i> or <i>Stakeholders</i> (as defined by IOSCO, see glossary for definition) and given that the NHPI is published for information only without any intended commercial application.
13.Transition	Clearly written policies and procedures that address the need for possible cessation of a Benchmark, due to market structure change, product definition changes, or any other condition, which makes the Benchmark no longer representative of its intended function. These policies and procedures should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference a Benchmark and the economic and financial stability impact that might result from the cessation of the Benchmark. The Administrator should take into account the views of <i>Stakeholders</i> and any relevant Regulatory and National Authorities in determining what policies and procedures are appropriate for a particular Benchmark. Administrators should encourage <i>Subscribers</i> and <i>Stakeholders</i> to have robust fall-back provisions in contracts or financial instruments that reference a Benchmark.	Comply on a proportionate basis. NBS has a policy for discontinuing the NHPI and our regulators will be notified prior to cessation of the NHPI in the event of this occurring; however, the policy and procedures are not published, and no alternative benchmark is suggested. This is considered proportionate given the NHPI is not a financial benchmark, is published for information only without any intended commercial application, and as there are other well-known house prices indexes available. NHPI does not have <i>Stakeholders</i> as defined by IOSCO (see glossary for definition), and given that the NHPI is for information only and should not be relied upon for other purposes (as stated above), it is not considered proportionate to the seek views of our regulators on determining policies and procedures for the cessation of the NHPI.
14. Submitter Code of Conduct	The development of guidelines for <i>Submitters</i> (“ <i>Submitter Code of Conduct</i> , which should be available to any relevant Regulatory Authorities and Published or Made Available to <i>Stakeholders</i> .) Note: This Principle is only applicable to a Benchmark based on Submissions.	Not applicable. The NHPI is determined based on information derived from NBS’s retail mortgage business and does not rely on submissions from third parties.
15. Internal Controls over Data Collection	Appropriate internal controls over the Administrator’s data collection and transmission processes – when an Administrator collects data directly from a Regulated Market, Exchange or other data aggregator, which address the process for selecting the source, collecting the data and protecting the integrity and confidentiality of the data.	Comply. Appropriate internal controls and processes are in place around the collection and transmission of NHPI data.

Accountability

Principle	Summary	Compliance
16. Complaints Procedures	The establishment and publication of a written complaints policy by which <i>Stakeholders</i> may submit complaints concerning whether a specific Benchmark determination is representative of the underlying Interest it seeks to measure, application of the Methodology to a specific Benchmark determination and other Administrator decisions in relation to a Benchmark determination. This Principle is intended to promote the reliability of Benchmark determinations through <i>Stakeholder</i> input and alert Market Authorities to possible factors that might affect the reliability of determinations.	<p>Comply on a proportionate basis. NBS has a written complaints procedure policy, but this is not published as the NHPI does not have <i>Submitters</i> or <i>Stakeholders</i> (as defined by IOSCO, see glossary for definition). Persons may submit complaints regarding the NHPI determination here. The complaints process ensures responses are received in a timely manner and are reviewed by personnel independent of the NHPI determination or publication.</p> <p>NBS has a process for republishing or withdrawing the NHPI in the event of an error affecting the determination. NBS does not have a separate process for dealing with disputes that are not complaints, which is considered appropriate and proportionate given that NHPI is intended for information only without any intended commercial application.</p>
17. Audits	The appointment of an independent internal or external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated criteria and the requirements of the Principles. The frequency of audits should be proportionate to the size and complexity of the Administrator's operations. Under certain circumstances (i.e., appropriate to the level of existing or potential conflicts of interest identified by the Administrator) an Administrator should appoint an independent external auditor to periodically review and report on the Administrator's adherence to its stated Methodology criteria. These provisions are intended to promote compliance with the Principles and provide confirmation to relevant Market Authorities and <i>Stakeholders</i> of such compliance.	<p>Comply on a proportionate basis. Governance and control of the NHPI model is subject to periodic audit by NBS Internal Audit (IA), typically every three years, which is considered appropriate for a model that is not a financial benchmark, not used for regulatory purposes and is intended for information only. Audit coverage of the NHPI model including the Principles, will be assessed annually by IA and will be based on assessment of risks associated with the data supporting the model, model design and operation and the usage of model outputs.</p> <p>For the same reasons, NBS considers it appropriate that an external auditor has not been appointed.</p>
18. Audit Trail	The retention of written records by the Administrator for five years, subject to applicable national legal or regulatory requirements. This Principle is intended to safeguard necessary documents for Audits. Additional requirements apply for Benchmarks based on Submissions.	Fully Comply. NBS keeps a written record of all data and information associated with the determination of the NHPI for a minimum of five years.
19. Cooperation with Regulatory Authorities	Relevant documents, Audit Trails and other documents addressed by these Principles shall be made readily available by the relevant parties to the relevant <i>Regulatory Authorities</i> in carrying out their regulatory or supervisory duties and handed over promptly upon request. This is intended to facilitate a Regulatory Authority's ability to access information that might be needed to determine the reliability of a given Benchmark determination or to access information that might be needed to investigate misconduct.	Fully Comply. NBS is regulated by the PRA and FCA and will provide those regulators with relevant documents and information regarding these Principles on request. NBS has a "Regulatory Conduct and Responsibilities Policy" that describes how NBS and all relevant employees adhere to the Senior Management, Certification, and Approved Persons Regimes and the PRA/FCA Conduct Rules. These rules require all employees to be open and cooperative with our regulators.

IOSCO Glossary of Key Terms

Administration: Includes all stages and processes involved in the production and dissemination of a Benchmark, including:

- a) Collecting, analysing and/or processing information or expressions of opinion for the purposes of the determination of a Benchmark;
- b) Determining a Benchmark through the application of a formula or another method of calculating the information or expressions of opinions provided for that purpose; and
- c) Dissemination to users, including any review, adjustment and modification to this process.

Administrator: An organisation or legal person that controls the creation and operation of the Benchmark Administration process, whether or not it owns the intellectual property relating to the Benchmark. In particular, it has responsibility for all stages of the Benchmark Administration process, including:

- a) The calculation of the Benchmark;
- b) Determining and applying the Benchmark Methodology; and
- c) Disseminating the Benchmark.

Arm's-length Transaction: A transaction between two parties that is concluded on terms that are not influenced by a conflict of interest (e.g., conflicts of interest that arise from a relationship such as a transaction between affiliates).

Audit Trail: For the purposes of the Benchmark-setting process, the documentation and retention of all relevant data, Submissions, other information, judgments (including the rationale for any exclusions of data), analyses and identities of Submitters used in the Benchmark-setting process for an appropriate period.

Benchmark: The Benchmarks in scope of this report are prices, estimates, rates, indices or values that are:

- a) Made available to users, whether free of charge or for payment;
- b) Calculated periodically, entirely or partially by the application of a formula or another method of calculation to, or an assessment of, the value of one or more underlying Interests;
- c) Used for reference for purposes that include one or more of the following:
 - determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments;
 - determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument; and/or
 - measuring the performance of a financial instrument.

Benchmark Publisher: A legal entity publishing the Benchmark values, which includes Making Available such values to Subscribers, on the internet or by any other means, whether free of charge or not.

Bona Fide: Refers to data where the parties submitting the data have executed, or are prepared to execute, transactions generating such data and the concluded transactions were executed at Arm's-Length from each other.

Calculation Agent: A legal entity with delegated responsibility for determining a Benchmark through the application of a formula or other method of calculating the information or expressions of opinions provided for that purpose, in accordance with the Methodology set out by the Administrator.

Expert Judgment: Refers to the exercise of discretion by an Administrator or Submitter with respect to the use of data in determining a Benchmark. Expert Judgment includes extrapolating values from prior or related transactions, adjusting values for factors that might influence the quality of data such as market events or impairment of a buyer or seller's credit quality, or weighting firm bids or offers greater than a particular concluded transaction.

Front Office Function: This term means any department, division, group, or personnel of Submitter or any of its affiliates, whether identified as such, that performs, or personnel exercising direct supervisory authority over the performance of, any pricing (excluding price verification for risk management purposes), trading, sales, marketing, advertising, solicitation, structuring, or brokerage activities on behalf of a third party or for proprietary purposes.

Interest: Refers to any physical commodity, currency or other tangible goods, intangibles (such as an equity security, bond, futures contract, swap or option, interest rates, another index, including indexes that track the performance of a rule-based trading strategy or the volatility of a financial instrument or another index), any financial instrument on an Interest, which is intended to be measured by a Benchmark. Depending on the context, it is assumed that the word “Interest” also includes the market for such Interest.

Market Authority: A Regulatory Authority, a Self-Regulatory Organisation, a Regulated Market or Exchange, or a clearing organisation (as the context requires).

Market Participants: Legal entities involved in the production, structuring, use or trading of financial contracts or financial instruments used to inform the Benchmark, or which reference the Benchmark.

Methodology: The written rules and procedures according to which information is collected and the Benchmark is determined.

National Authority: Refers to a relevant governmental authority such as a central bank, which might not be a Market or Regulatory Authority, but which has responsibility for or a governmental interest in Benchmark policies.

Panel: Subset of Market Participants who are Benchmark Submitters.

Publish or Make Available: Refers to the expectation that a party such as an Administrator should provide a document or notice to Stakeholders. How such notice is made should be proportionate to the breadth and depth of Benchmark use by Stakeholders, as determined by the Administrator on a “best efforts” basis. Ordinarily, posting a document or notice on the Administrator’s website will meet this expectation.

Regulated Market or Exchange: A market or exchange that is regulated and/or supervised by a Regulatory Authority.

Regulatory Authority: A governmental or statutory body (not being a Self-Regulatory Organisation) with responsibility for securities and/or commodities and futures regulation.

Self-Regulatory Organisation or “SRO”: An organisation that has been given the power or responsibility to regulate itself, whose rules are subject to meaningful sanctions regarding any part of the securities market or industry. This authority may be derived from a statutory delegation of power to a non-governmental entity or through a contract between an SRO and its members as is authorized or recognized by the governmental regulator. See IOSCO Methodology, Principle 9, p.50. <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD359.pdf>

Stakeholder: Refers to Subscribers and other persons or entities who own contracts or financial instruments that reference a Benchmark.

Submission(s): Prices, estimates, values, rates or other information that is provided by a Submitter to an Administrator for the purposes of determining a Benchmark. This excludes data sourced from Regulated Markets or Exchanges with mandatory post-trade transparency requirements.

Submitter: A legal person providing information to an Administrator or Calculation Agent required in connection with the determination of a Benchmark

Subscriber: A person or entity that purchases Benchmark determination services from an Administrator.