

## TSB – Slaughter and May Review

### Terms of Reference

#### 1. Introduction

- 1.1 The board of TSB Bank plc (“**TSB**”) has asked Slaughter and May to undertake an independent review of the issues following the migration of TSB’s customer data from systems hosted by Lloyds Banking Group plc (“**LBG**”) to a new IT platform developed by Sabadell Information Systems, S.A.U. and Sabadell Information Systems Limited (together “**Sabis**”). TSB and Sabis are companies that belong to the Banco de Sabadell, S.A. group (“**Sabadell**”), (the “**Review**”).
- 1.2 Slaughter and May will provide the board of TSB with a report on the Review (the “**Report**”).
- 1.3 The Prudential Regulation Authority (the “**PRA**”) and the Financial Conduct Authority (the “**FCA**”) have been provided with an opportunity to comment upon these Terms of Reference.

#### 2. Background

- 2.1 Following a meeting of the whole board of TSB on 18 April 2018, the board of TSB approved the commencement of the migration of TSB’s customer data to the new IT platform developed by Sabis, to commence on Friday 20 April 2018. In order to migrate the customer data, TSB suspended public access to its banking systems at approximately 16:00 on Friday 20 April 2018. The withdrawal of service covered all TSB banking systems, including branch-based, telephone and online banking systems. Public access was restored on the evening of Sunday 22 April 2018, following approval of a sub-committee of the board of TSB of the completion of the migration process.
- 2.2 Shortly afterwards, a number of issues were identified by TSB and reported by customers in relation to TSB’s banking systems.
- 2.3 On or around 26 April 2018, TSB appointed IBM as support to identify the causes of the IT issues and to resolve them as quickly and comprehensively as possible. This appointment (along with the appointment of Slaughter and May to carry out the Review) was reported to the Treasury Select Committee on 2 May 2018.
- 2.4 There continued to be issues with TSB’s banking systems in the weeks following the migration.
- 2.5 The content of this background section will be expanded and verified as part of the Review.

#### 3. Scope of the Review

- 3.1 Slaughter and May will review the following matters:
  - (A) The background and events associated with the decision to migrate TSB’s customer data to the new platform developed by Sabis.

- (B) On the basis of third party expert assistance and input, the circumstances of the IT issues, the implementation and oversight of the migration project, including the planning, testing and risk assessment, and the response to the IT issues.
  - (C) How any concerns and issues which were raised in respect of the migration project were escalated and addressed, and the consideration given to such concerns.
  - (D) TSB's developing awareness of these issues and the actions taken by it in response following the issues arising. This will include an examination of TSB's response, including its communications of the issues to its customers and relevant regulators and any public statements made.
  - (E) Decision-making and governance procedures across TSB in relation to each of the above matters, including the procedures followed by key functions, Senior Management and the board. As part of this, Slaughter and May will consider TSB's policies, procedures and practices and consider decisions taken by TSB. This will include: (i) consideration of the information made available to key decision-makers, (ii) an assessment of relevant governance processes and how they were complied with, (iii) consideration of whether engagements with third parties were appropriately managed, and (iv) TSB's response to any issues raised by the FCA or PRA in relation to the migration.
  - (F) The interaction with Sabadell, Sabis, LBG, IBM and, where relevant, other suppliers in respect of the above matters.
  - (G) The impact of financial drivers on decisions made in respect of the migration project, including as to its timing.
- 3.2 The Review will examine the issues listed in section 3.1 above in respect of the period up to the end of the week commencing 4 June 2018. At present, Slaughter and May considers that this is the appropriate time period for the Review. However, Slaughter and May may (with the agreement of the Committee (as defined in paragraph 4.7 below)) examine TSB's ongoing response after this initial period.
- 3.3 Slaughter and May's review will be limited to the matters identified at section 3.1 above. It will not otherwise consider the adequacy of the new platform developed by Sabis. It will also not otherwise consider TSB's general governance and compliance frameworks, its policies or procedures, or any other legal or regulatory issues. The Review will not include any assessment as to breaches of policies or regulatory requirements by individuals which shall be dealt with, if appropriate, under internal policies and procedures.
- 3.4 Following review of the issues described in section 3.1 above, Slaughter and May will make findings of fact in relation to those issues, together with any recommendations or lessons learned for consideration by the board of TSB. Slaughter and May's findings of fact will be sufficiently detailed to allow a determination of whether and what further action TSB should take. As noted in 3.3 above, Slaughter and May will not determine whether individuals have breached any bank policies or regulatory obligations.

- 3.5 In order to consider the above matters, Slaughter and May will require access to, and cooperation from, any third party technical experts, consultants or contractors engaged by TSB or Sabis (or its suppliers) in respect of the migration project and subsequent IT issues, including (but not limited to) IBM.
- 3.6 Slaughter and May will also require cooperation and information from the following advisers:
- (A) Herbert Smith Freehills, who are engaged by TSB in respect of the situation more generally.
  - (B) A third party expert or experts, in order to understand the processes and preparation undertaken by TSB in anticipation of the migration project, the IT issues and the technical steps taken to resolve them. Slaughter and May may ask IBM and/or a third party expert or experts to prepare a report on these matters.
  - (C) Deloitte, who have been engaged by TSB to advise in respect of the customer redress programme.
  - (D) Any other external advisers or experts who Slaughter and May consider it necessary, with the prior approval of TSB, to consult with during the course of the Review.

#### **4. The Report**

- 4.1 Slaughter and May will provide the Report to the board of TSB.
- 4.2 It is envisaged that the Report will be structured so as to include the following sections: (i) Introduction and Purpose of the Report, (ii) Executive Summary/Key Findings, (iii) Factual Background, (iv) Findings, (v) any Recommendations, and (vi) Conclusions.
- 4.3 The Review will include interviews. Notes of each interview will be prepared and will be made available to:
- (A) TSB (and Sabis where the Interviewees are Sabis officers or employees), unless Slaughter and May determines that this would be inappropriate (with Slaughter and May to outline in general terms the basis for that determination); and
  - (B) the FCA/PRA.
- 4.4 Slaughter and May, TSB and Sabis will agree written protocols with respect to data handling (including the treatment of privileged information) and interviews, such protocols also to address liability for breach in respect of such data handling. The PRA and FCA will be given an opportunity to comment upon these protocols in relation to the conduct of interviews.
- 4.5 The Report will append a list of the categories of source materials which Slaughter and May has had sight of during the course of the Review. The draft report will be verified to ensure factual accuracy.

- 4.6 Slaughter and May will seek to provide the board of TSB with the Report as quickly as reasonably practicable and will provide an indicative timeframe for completion of the Review and the preparation of the final Report once it has completed its initial scoping of the Review.
- 4.7 The board of TSB has authorised the formation of an independent sub-committee (the “**Committee**”) for the purpose of the Review. Slaughter and May will provide the Committee with updates on: the progress of the Review, the feasibility of the anticipated timings for its completion and any material factual issues that have come to its attention, on a monthly basis and as otherwise required.
- 4.8 If Slaughter and May determines that it requires access to any data or individuals which is not anticipated by these Terms of Reference or the data handling and interviews protocols, it will raise this issue with the Committee.
- 4.9 At the request of TSB, Slaughter and May will redact the Report in order to protect from disclosure commercially sensitive information of TSB (and/or Sabadell). Slaughter and May, TSB and Sabadell will agree a redaction protocol to govern requested redactions in relation to Sabadell’s commercially sensitive information. If relevant, Slaughter and May will discuss with the Committee the extent to which it may also be necessary to redact the Report in respect of privileged information.
- 4.10 Slaughter and May understands that the board of TSB will share a complete version of the Report with the boards of Sabadell and Sabis, and that the boards of TSB, Sabadell and Sabis may choose to share, on a non-reliance basis, a redacted version of the Report and/or the Key Findings section of the Report with: (i) TSB, Sabadell and/or Sabis’ employees; and (ii) third parties including, external advisers, auditors, the FCA, the PRA, the Treasury Select Committee, HM Treasury, the ECB, the Banco de España, and/or any other relevant regulatory body, and that the Report and/or the Key Findings section of the Report may also be published, and consents to any such disclosure.
- 4.11 Unless otherwise agreed in writing between Slaughter and May, TSB and Sabis, Slaughter and May shall have no liability in relation to the Review or its Report other than to TSB, such liability to be subject to Slaughter and May’s Terms and Conditions of Business.

## **5. Access to People and Data**

- 5.1 Slaughter and May shall have unfettered access to TSB and Sabis’ data (except where it is protected by legal privilege, in accordance with the protocol referred to in paragraph 4.4 above). , board members, employees and officers, to the extent that Slaughter and May reasonably determines such access is necessary for it to review the issues set out at section 3.1 and to prepare the Report.
- 5.2 TSB and Sabis will, at Slaughter and May’s request, require relevant board members, employees and officers, and those over whom it otherwise has control, to attend interviews with Slaughter and May, and/or respond to any inquiries made by Slaughter and May.