

Modern Slavery and Human Trafficking Statement 2016

HSBC Holdings plc ('HSBC'), the parent company of the HSBC Group, is making this statement under the provisions of the Modern Slavery Act 2015 (the 'Act') and with reference to the guidelines issued by the Home Office, *Transparency in Supply Chains - A practical guide*. The Act requires HSBC to state what actions it has taken during the financial year ending 31 December 2016 to ensure that neither slavery nor human trafficking (together, 'Modern Slavery') was taking place in its operations or supply chains. Although not expressly required under the Act, this statement also considers the steps HSBC takes to ensure that Modern Slavery does not take place through its lending or project financing. Further, this statement also examines some of the ways in which HSBC works with the wider financial community and law enforcement agencies to act against Modern Slavery.

About HSBC

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group is one of the world's largest banking and financial services organisations; it employs approximately 235,000 people to serve over 37 million customers worldwide from around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. The Group has four global businesses – Retail Banking and Wealth Management ('RBWM'); Commercial Banking ('CMB'); Global Banking and Markets ('GB&M'); and Global Private Banking ('GPB') – supported by 11 global functions. Further detail on the structure and performance of the Group can be found in the Strategic Report section of the Annual Report and Accounts 2016 which is published today and is available on the Group [website](#).

Approach

How we do business is as important as what we do. We want to build trusting and lasting relationships with our many stakeholders to generate value in society and deliver long-term shareholder returns. Part of that trust stems from our duty of confidentiality to our clients and customers, subject only to regulatory or legal obligations.

HSBC views slavery and human trafficking as egregious examples of human rights abuses, and considers them in its overall approach to wider human rights issues. In line with the UN Guiding Principles' *Protect, Respect and Remedy* framework, HSBC recognises the duty of states to protect human rights and the role played by business in respecting them. In our *Statement on Human Rights* published in September 2015 we also recognised 'that human rights issues are complex and that the roles and responsibilities of business and other stakeholders are the subject of a continuing international dialogue. We are open and willing to engage in this dialogue where appropriate and constructive.'

During 2016 we had meetings or exchanged correspondence with six civil society groups where human rights abuses were alleged; and we continued to work within the Joint Money Laundering Intelligence Taskforce ('JMLIT', see below) on issues including modern slavery and human trafficking.

HSBC is guided by the International Bill of Human Rights and supports the UN Universal Declaration of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. HSBC is a signatory to or has expressed public support for:

- The Global Sullivan Principles;
- The OECD Guidelines for Multinational Enterprises;
- The UN Global Compact;
- The UN Principles for Responsible Investment; and
- The UN Principles for Sustainable Insurance.

Slavery and human trafficking are crimes. The criminals responsible will seek to hide the proceeds in the financial system to legitimise them – effectively, money laundering – and banks have a responsibility to deter, detect and prevent illicit use of the financial system by criminals.

The sections below cover how we approach the issues of slavery and human trafficking in this wider human rights context and as part of our commitment to implement the most effective financial crime controls everywhere we operate.

The commitments and policies referenced in this statement apply to all employees in HSBC's businesses and operations where we have management control and where permitted by national laws and regulations. In countries where local

legislation conflicts with HSBC's policies contained in this statement, we will comply with the law but seek, within our spheres of influence, to raise awareness of human rights and act as an example of good practice through our own business conduct.

This first report is issued by HSBC Holdings plc and covers the policies and procedures that are applied across the HSBC Group.

At HSBC

Employees

HSBC applies human rights considerations directly as they affect all employees; treating all employees with dignity and respect in an environment that is free from discrimination and harassment. HSBC's commitment to respect human rights in the workplace is manifested in our [HSBC Values](#) and human resources policies and practices; all of which promote a safe, diverse and inclusive workplace.

HSBC employees are made aware of their employment rights through a variety of channels including written employment contracts, employee handbooks and staff websites and these are articulated in the HSBC Global Standards Manual and HSBC Values. Employees receive training on a variety of human rights related issues, including but not limited to diversity, money laundering, supplier management and bribery and corruption.

Employees can be confident that their views are encouraged, their concerns are attended to and advancement is based on merit. HSBC operates *HSBC Confidential*, a global compliance disclosure line (online portal, telephone, post and email), which is available to allow employees to make disclosures when the normal channels for airing grievances or concerns are inappropriate. Concerns are resolved fairly and without retaliation, with conduct that does not conform to HSBC standards treated as a serious violation of our values and policies. Appropriate disciplinary action, which may include termination, is taken against those who engage in poor conduct.

Minimum wage

In all countries and territories where one exists HSBC operates the legal minimum wage. In countries and territories where there is no legal minimum wage, HSBC negotiates with the individual in line with market rates. In 2014, HSBC in the UK was formally accredited by the Living Wage Foundation since having adopted the 'Living Wage' and the 'London Living Wage'.

Outsourcing

The most salient risk of encountering modern slavery for HSBC lies where HSBC does not have direct management control. In particular, this may include suppliers who provide support staff in, for example, catering, cleaning or security posts.

HSBC has had an [Ethical and Environmental Code of Conduct for Suppliers](#) since 2005. As articulated in this code, HSBC requires suppliers to respect the human rights of their employees and the communities in which they operate as well as to comply with all relevant legislation, regulations and directives in the countries and communities in which they operate. Suppliers must prohibit the use of forced labour and child labour and respect labour rights including non-discrimination and the right to freedom of association, and give workers, whether local or migrant, the right and the ability to leave employment when they choose, to the extent possible under local law.

HSBC updated the Ethical and Environmental Code of Conduct for Suppliers with further amendments in 2016 to take account of revised legislation on disability rights, Modern Slavery and human rights and, in addition, over 240 of HSBC's largest suppliers have already accepted this Ethical and Environmental Code of Conduct retrospectively. Suppliers have to respect the code's employment requirements for all staff employed or sub-contracted across all HSBC's offices and branches in all countries we operate in.

Procurement

HSBC Procurement is developing processes to ensure future suppliers are risk assessed against the Ethical and Environmental Code of Conduct for Suppliers prior to entering into a contractual relationship and, where appropriate, continued compliance is a contractual requirement.

This will give HSBC the right to audit its supply chain and exit relationships without penalty if there are any indicators of the use of forced or child labour or any lack of respect for labour rights including non-discrimination and the right to freedom of association, and give workers, whether local or migrant, the right and the ability to leave employment when they choose.

In 2015 we partnered with a specialist consultancy to pilot this process by assessing more than 200 suppliers of promotional and branded items for risks in their business practices, and stopped working with one as a result.

Following this experience, HSBC has also worked with the specialist consultancy to risk assess its largest 300 suppliers - responsible for 50 per cent of supplier spend - and we are now working with the specialist consultancy to assess in more detail those suppliers identified by the consultancy as presenting the greatest risk. No adverse results have been identified to date.

We prefer to engage with suppliers who are on a credible path to meeting our standards, including those relating to modern slavery and human trafficking, but where a supplier is unable or unwilling to do so we will end the relationship as soon as contractually possible.

During 2017 HSBC will continue to review its supplier and other third party relationships, assessing risks and concentrating on those markets and economic sectors where it considers the risk to be greatest.

Wherever possible, we will include in contracts with suppliers an obligation to comply with the Ethical and Environmental Code of Conduct for Suppliers, and we are updating our standard terms of purchase to reflect this. Where we have an ongoing relationship with a supplier, we will also seek an undertaking that it will not purchase any goods and/or services that have been sourced from suppliers, producers or manufacturers using forced labour in their operations, and that it will notify HSBC of any breach of that undertaking. For significant relationships, we will require an annual slavery and human trafficking report, setting out the steps taken to ensure that slavery and human trafficking is not taking place in any of the supplier's supply chains or in any part of its business.

HSBC recognises that experience in this sphere is in its infancy and is committed to improvement, including the development of management information and other key performance indicators that will allow us to confirm the effectiveness of our policies and procedures. We are open to and welcome constructive feedback from our stakeholders.

Customers and clients

HSBC's Statement on Human Rights outlines the principal ways in which human rights considerations are addressed in our lending or project financing. HSBC has, since 2002, developed sustainability risk policies incorporating specific standards to be met by business customers operating in those sectors which present the highest social and environmental risks. Social risks refer to unacceptable impacts on people and therefore include abuses of human rights such as slavery.

The policies apply to the main financing products HSBC provides, such as loans, trade finance and debt and equity capital market services. HSBC's sustainability risk policies on agricultural commodities, energy, forestry, freshwater infrastructure, mining and metals and project finance all make specific reference to human rights considerations. These include – either directly or via their underlying standards - issues such as forced labour, harmful or exploitative child labour, trafficking, land rights, the rights of indigenous people such as “free prior and informed consent”, workers' rights and the health and safety of communities. Project finance is subject to the Equator Principles, which utilises the International Finance Corporations' Performance Standards on issues such as forced labour, child labour and trafficking.

When necessary, we engage with customers to support them in moving towards good practice, which is the most significant contribution we can make to implementing change. However, we close banking relationships with customers where their activities in these sectors are and are likely to remain non-compliant with our risk policies.

We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. If required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case by case basis. These may decide to restrict or end a customer relationship where it is unwilling or unable to meet HSBC's standards, including those relating to modern slavery and human trafficking.

Risk management and due diligence

HSBC employs risk officers, based within the global businesses and/or specific regions or countries. Additionally, there is a Sustainability Risk function, responsible for adherence to and implementation of our sector-specific policies.

During 2016 the risk function at HSBC undertook a formal project on the wider human rights risks, including modern slavery, faced by HSBC. This analysis was presented to the Global Risk Management Board, which provides strategic direction for the Global Risk function, sets priorities and oversees the consistent approach to accountability for, and mitigation of, risk. The analysis forms the basis of the continuous improvement in the management of human rights risks which HSBC will undertake.

Protecting the financial system

HSBC has a commitment to implement the most effective financial crime controls everywhere we operate. As stated above, slavery and human trafficking are crimes and those responsible will seek to hide the proceeds in the financial system to legitimise them – effectively, money laundering. As well as seeking to identify modern slavery and human trafficking in our own operations and supply chains, banks have a responsibility to deter, detect and prevent illicit use of the financial system by criminals.

Intelligence and investigations related to human trafficking

HSBC's investigations and intelligence infrastructure, including the Financial Intelligence Unit ('FIU'), as well as Anti-Money Laundering Investigations ('AMLi') and Financial Crime and Compliance Investigations ('FCCI'), focus on and cover cases that could involve human trafficking as part of their overall mission to protect the bank and the financial sector from misuse by criminal actors. The FIU uses primarily bank data to profile and identify patterns of illicit behaviour and identify indicators of financial crime risk, including human trafficking. This work is centrally coordinated across multiple regions to ensure a consistent approach to finding and reporting on any identified exposure across the bank. Identification of live HSBC exposure to human trafficking via FIU referral or other investigative mechanism will result in action by AMLi or FCCI to investigate for filing purposes and account closure. This referral mechanism ensures the appropriate mitigation of risk within the bank and, more importantly, assists law enforcement in taking action against the criminals.

Cooperation in the financial system

In addition to investigations, and where permissible by law, for example data protection legislation, HSBC works cooperatively with other participants in the global financial system to share information in order to tackle financial crime, including that related to modern slavery and human trafficking.

In the UK, HSBC is an active participant in the Joint Money Laundering Intelligence Taskforce ('JMLIT'). One of JMLIT's four key operational priorities is "understanding and disrupting the funding flows linked to organised immigration crime and human trafficking" and further information and reporting on JMLIT's work is available on the UK's National Crime Agency [website](#).

A number of the published "red flags" that indicate a customer is engaged in human trafficking or slavery are generic to other crime types. Many of these are routinely looked for and where considered "suspicious" reported to the relevant Law Enforcement authorities (subject to local Regulations) as part of the wider financial crime agenda.

HSBC is involved in other joint efforts, notably in north America and Europe and would welcome the development of such public/private initiatives in other geographies.

HSBC's FIU and investigative functions, together with other staff as required, are also actively engaged with NGOs, think tanks and pan-European committees which are focused on the risk of human trafficking. Attendance and delivery of presentations at conferences acts a force multiplier in understanding typologies and different organisations' approach to this financial crime risk.

Training and education

HSBC will use its internal communications vehicles to raise awareness of the issues of modern slavery and human trafficking. HSBC Now (the global intranet) will run, as part of its financial crime series, specific video material on human trafficking, together with supporting articles, throughout 2017; and e-learning materials around human rights, modern slavery and human trafficking will be introduced to HSBC's training programmes.

Governance

A working group under Group External Affairs, drawing on resources from all functions, businesses and geographies, developed HSBC's approach to reporting under the Modern Slavery Act, reporting to the Group Reputational Risk Policy Committee ('GRRPC'). The recommendations of the working group were considered and accepted by the GRRPC and then further endorsed by the HSBC Holdings plc's Conduct & Values Committee, which oversees the development of HSBC's human rights commitments and policies, and by the Group Board. Executive responsibility rests with the Group Management Board which has primary accountability for the businesses and functions relevant to particular human rights issues.

This Statement is signed on behalf of the Board of Directors of HSBC Holdings plc by Group Chairman Douglas J Flint, 21 February 2017.