



HSBC Modern Slavery and Human Trafficking Statement 2017

Date: 20 April 2018

About HSBC

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC employs approximately 229,000 people to serve around 38 million customers worldwide from approximately 3,900 offices in 67 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of \$2,522bn at 31 December 2017, HSBC is one of the world's largest banking and financial services organisations. 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 2017 which was published on 20 February 2018 and is available on the Group [website](#).

Context

This statement is issued by HSBC Holdings plc and covers the policies and procedures that are applied across the HSBC Group, 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*, as amended in 2017.

We report on the steps HSBC takes to ensure that Modern Slavery does not take place through its lending or project financing. Further, this statement examines some of the ways in which HSBC works with the wider financial community and law enforcement agencies to act against Modern Slavery.

This is our second report under the Act. We acknowledge that companies in our own and other sectors still have much to learn. We are committed to improvement, including the further development of management information and other key performance indicators that will allow us to confirm the effectiveness of our policies and procedures. We remain open to and welcome constructive feedback from our stakeholders.

Approach

How we do business is as important as what we do: We want 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 follows 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, including freedom of association.

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.

HSBC views slavery and human trafficking as egregious examples of human rights abuses, and considers them very seriously in its overall approach to wider human rights issues. In line with the UN Guiding Principles on Business and Human Rights' *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 said 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 2017, we had meetings or exchanged correspondence with six civil society groups where human rights abuses were alleged, none of which were related to modern slavery or human trafficking; we continued to work within the UK’s Joint Money Laundering Intelligence Taskforce (‘JMLIT’, see below) on issues including modern slavery and human trafficking; we attended the United Nations’ Business and Human Rights Forum in Geneva; and we joined the UN Global Compact’s UK Modern Slavery Working Group (see below).

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 national laws and regulations conflict with HSBC’s policies contained in this statement or elsewhere, 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.

What we did during 2017

During 2017, HSBC joined the UN Global Compact (UK) Modern Slavery Act Working Group, participating in a series of meetings between companies operating in different sectors to share best practice in reporting under the Act. This included peer review of companies’ MSA statements, highlighting areas for improvement.

In October 2017, then Chief Executive Stuart Gulliver was pleased to be invited to and attend the inaugural meeting of the Business Against Slavery Forum, co-chaired by UK Home Secretary, Rt Hon Amber Rudd MP. HSBC has participated in follow-up meetings covering, inter alia, support for victims, public awareness and mapping the financial footprint of modern slavery.

Employees

HSBC treats 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 inappropriate conduct that is not consistent with our Values . During 2017 no referrals concerning modern slavery were made through HSBC Confidential.

Minimum wage

We continue to apply the legal minimum wage in all countries and territories where one exists. 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, 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.

Although we had no direct knowledge during 2017 of modern slavery taking place within these outsourced services, we are aware that certain geographies have a heightened risk of such practices. During 2018 HSBC will conduct an enhanced audit of our major suppliers in sectors or geographies where there is material inherent risk, as identified by the International Labour Organisation. We are finalising the suppliers to be audited, with a particular focus on subcontractors.

HSBC has traditionally not audited suppliers on this topic, relying only on self-assessment and disclosure – this will be a pilot to test new processes and any findings will be shared with the wider HSBC Group stakeholders for a potential global roll out, focusing on areas where we perceive the risk to be greatest.

HSBC has had an [Ethical and Environmental Code of Conduct for Suppliers](#) since 2005. As articulated in this code, updated with further amendments in 2016 to take account of revised legislation on disability rights, Modern Slavery and human rights, HSBC requires suppliers, including those who then further outsource, 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.

At 31 December 2017, over 4,000 (31 December 2016: 3,400) suppliers had signed up to the Code, or provided their own at least equivalent statement of conduct.

Procurement

In our 2016 statement we said that, wherever possible, we would include in contracts with suppliers an obligation to comply with the Ethical and Environmental Code of Conduct for Suppliers, and that we would update our standard terms of purchase to reflect this. This is an ongoing process; for example, contractual clauses to allow HSBC to seek an undertaking from suppliers that they do not purchase any goods and/or services that have been sourced from suppliers, producers or manufacturers using forced labour in their operations, and that they will notify HSBC of any breach of that undertaking, have been prepared but not yet incorporated as they go through legal review. For significant relationships, we may 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 Procurement in 2017 developed processes to ensure all new suppliers are risk assessed against our Ethical and Environmental Code of Conduct for Suppliers prior to entering into a contractual relationship and, where appropriate, continued compliance is a contractual requirement. Towards the end of 2017, HSBC's Procurement function introduced a single process / tool to ensure a consistent and consolidated approach is used across the entire HSBC Group.

In all contracts, HSBC includes clauses relating to the right to conduct an audit and the right to terminate a contract. In contract negotiations, we may also use the Vendor's own terms and conditions where they are at least equivalent to our own. We will be exercising this right on a trial basis, as outlined above, in 2018, specifically looking for 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, including that workers, whether local or migrant, have the right and the ability to leave employment when they choose.

Last year, we reported that HSBC had worked with the specialist consultancy to risk assess its largest 300 suppliers - responsible for 50 per cent of supplier spend. This assessment has now reached over 530 suppliers. All new suppliers where contracts are valued at US\$500,000 or above are routinely assessed. We continued to work with the specialist consultancy to assess in more detail those suppliers identified as presenting the greatest risk, and this remains our focus. 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, in line with UN and other guidance related to relationships where no reasonable alternative service exists.

During 2017 we continued to review supplier and other third party relationships, assessing risks and concentrating on those markets and economic sectors where it considers the risk to be greatest. A new Third Party Risk Management Framework was introduced during the year, covering modern slavery as well as other financial crime risks.

Financial services providers often share the same suppliers. During 2017 we partnered with three other banks to develop a common platform for risk assessment; this is expected to be operational in 2018 and we will report more fully in next year's Statement.

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 sustainability risk 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. This can be evidenced in the figures we have released relating to clients in the palm oil sector, where we have ended relationships with a number of companies unable or unwilling to meet our agricultural products policy, which includes provisions in relation to human rights such as: harmful or exploitative child labour or forced labour; the violation of the rights of local communities, such as the principle of free prior and informed consent; and operations where there is significant social conflict." Our engagement with customers has resulted in an additional 12 palm oil clients introducing and publishing NDPE (no deforestation, no peat and no exploitation) policies.

We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. They are raised directly with the client company by the relationship manager and, if necessary, escalated to senior management both within HSBC and at the client company, up to CEO level. Where required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case by case basis. These reviews 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.

As reported last year, 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 was used in 2017 to inform the development of a new human rights policy, which is expected to be made public in 2018.

In the ESG Update published on 6 November 2017, HSBC outlined its approach to supporting its customers in the development of sustainable supply chains. The update said:

“Companies face social and environmental challenges within their supply chains, an increased demand for sustainability criteria by consumers to aid their purchasing decisions, and technology aiding transparency and traceability in their supply chains. We aim to support clients by collaborating to develop sustainable solutions. For example, we have taken steps to engage with NGOs and corporate partners to promote sustainability in the palm oil industry... We have committed funding for the Apparel Impact Institute of the Sustainable Apparel Coalition, established to improve the environmental and social impacts of the apparel and footwear industry.”

We will be incorporating human rights issues, including modern slavery and human trafficking, as we address the social challenges in these two sectors, and will report more fully in 2019.

Protecting the financial system

HSBC has a fundamental responsibility to help protect the integrity of the financial system on which we all depend. Modern slavery and human trafficking are crimes and those responsible will seek to launder the proceeds in the financial system to legitimise them. That's why, as well as seeking to identify modern slavery and human trafficking in our own operations and supply chains, we have significantly stepped up our efforts to keep financial crime out of banking.

Tackling financial crime

HSBC's industry-leading Financial Crime Threat Mitigation capability, one of eight specialist capabilities within our Financial Crime Risk function, leverages intelligence, investigations, analytics, technology and public-private partnerships to tackle financial crime.

This enables us proactively or reactively to identify existing or emerging risk issues and financial crime quickly and effectively, to ensure that we are focused on how financial criminals seek to exploit our services. In particular, we are analysing the types of activities that are likely to be a focus for, or a sign of, human trafficking and modern slavery, and in doing so we will develop automated monitoring systems proactively to identify them and make frontline employees aware of what to watch for.

Working in partnership

HSBC is a strong proponent of public private partnerships and information sharing initiatives. We play an active or founding member role in partnerships in six countries and, where permissible by law, work 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 a leading member of the Joint Money Laundering Intelligence Taskforce ('JMLIT'). One of JMLIT's key operational priorities is "understanding and disrupting the funding flows linked to organised immigration crime and human trafficking". Further information and reporting on JMLIT's work is available on the UK's National Crime Agency [website](#). HSBC's work with JMLIT has led to successes including enabling the UK Police to prosecute a criminal trafficking gang (see below).

HSBC is involved in other collaborative efforts to identify modern slavery and human trafficking related offences, notably taking a lead role with the Thomson Reuters Foundation as part of the European Bankers' Alliance to produce a practical guide for banks on tackling human trafficking. Designed especially for European financial institutions, the guide was published in July 2017 and includes case studies and examples of suspicious financial patterns that can be warning signs of criminal behaviour. The guide was endorsed by the Wolfsberg Group and is now being progressed in North America and Asia too. Further information is available at: <http://www.wolfsberg-principles.com/>

Public engagement and awareness-raising

In October 2017, HSBC was invited to the Business Against Slavery Forum – chaired by the UK Home Secretary. The event was attended by the then Group CEO, Stuart Gulliver, who together with seven other business leaders in the UK, committed to joining pioneering industry action to eradicate modern slavery from supply chains.

We work collaboratively with NGOs and think tanks and, in Europe, focus on pan-European committees which are concerned with identifying and policing human trafficking risks. Attendance and delivery of presentations at conferences helps us better understand typologies and different organisations' approaches. Throughout 2017, HSBC has participated in joint law enforcement and civil society conferences.

We have raised awareness of human trafficking externally by publishing the *Fighting financial crime* film [on hsbc.com](https://www.hsbc.com) and YouTube and promoting it via social media and through allies like the Salvation Army.

HSBC has joined the Thun Group of banks, an informal group with the primary purposes of i) furthering understanding of the UN Guiding Principles and Business and Human Rights within the context of banks, and ii) considering how they may be applied across the range of different banking activities. The Thun Group was pleased to welcome UN Special Representative on Business and Human rights, Prof. John G. Ruggie, the UN Working Group on Business and Human Rights, the OECD and civil society representatives to its meeting in June 2017. HSBC was pleased to learn from and contribute to this process.

Support for victims

HSBC is working with the University of Nottingham Slave Free initiative to identify areas where we could more easily facilitate victims' inclusion in society rather than their continuing to experience the current state, which is usually exclusion from the financial system based on immigration offences.

Training and education

HSBC is committed to raising awareness of the issues of modern slavery and human trafficking with employees. During 2017 we created two videos on the subject, available to all employees:

Fighting financial crime: How criminals are using the banking system to make money from human trafficking victims. This first film included interviews with a victim of trafficking in the UK and with a convicted trafficker from central Europe.

Joining forces to prevent human trafficking: How we worked with the Joint Money Laundering Intelligence Taskforce to tackle a criminal gang. This second film highlighted how HSBC cooperated with law enforcement through JMLIT to assist police in breaking up a human trafficking gang.

The films have been used, in particular, in training sessions with retail branch staff in the UK and worldwide, supported with advice on spotting the signs of human trafficking. They are available on the HSBC website.

In our April 2017 ESG Update, we included a section specifically on human trafficking, including training:

HSBC branch employees are being trained to help law enforcement agencies combat crimes such as human trafficking.

Cashiers are taught to look for warning signs that may indicate a person is being used for sexual or labour exploitation. These include customers not being in possession of original copies of their own identification, with companions – or translators – presenting them on their behalf. Other red flags include shared address, telephone number of employment information, as well as bruises or other signs of physical abuse.

Staff are particularly vigilant where customers come from areas known for human trafficking, with any suspicious behaviour being reported to the relevant local authorities. The bank is also using advanced analytics to scan large amounts of data to help detect illegal activity, according to Jennifer Calvery, Global Head of Financial Crime Threat Mitigation.

"HSBC is committed to doing its part to address human trafficking, including sharing information that informs law enforcement and security services," she told an event on tackling the issue, hosted by UK think-tank

The Royal United Services Institute. The bank also wants to play its part in deepening cooperation between private and public sectors around the world, with robust sharing of information to tackle crime.

“We all benefit from sharing ideas and techniques that help us best achieve this important objective,” she added.

Governance

A working group under Group Corporate Sustainability, drawing on resources from all functions, businesses and geographies, developed HSBC’s approach to reporting under the Modern Slavery Act. The recommendations of the working group were considered and accepted by the HSBC Holdings plc’s ESG Steering Committee and Disclosure Committee, and approved by the HSBC Holdings plc 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 Chief Executive John Flint, 20 April 2018.