

United Nations Environment Programme Finance Initiative (UNEP FI)

Principles for Sustainable Insurance (PSI)

HSBC Progress Report 2015

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A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative

UNEP FI Principles for Sustainable Insurance (PSI) Progress Report 2015

This document outlines our commitments and progress in 2015 towards implementing the Principles for Sustainable Insurance, highlights issues of importance to Insurance and our future aspirations. Our report articulates what sustainability means to HSBC and how we manage it, both in terms of incorporating aspects of sustainability throughout our business and how our sustainability commitments shape the way we do business.

Overview

Headquartered in London, HSBC is one of the world's largest banking and financial services organizations, with over 6,100 offices in both established and faster-growing markets. We serve roughly 48 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 72 countries and territories in five geographical regions: Europe, Asia, Middle East and North Africa, North America and Latin America. Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings Plc are held by about 213,000 shareholders in 131 countries and territories.

Our aim is to be acknowledged as the world's leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

HSBC provides a broad range of insurance products and services to individuals and organizations worldwide with valuable protection against risks and ways to build future wealth. These insurance products are either underwritten by HSBC's own insurance manufacturing businesses or sourced from selected specialist insurance partners, and are available through banking and insurance subsidiaries through a variety of channels, including the internet, telephone and face-to-face. Insurance is an important business for HSBC, with products positioned to help customers achieve their financial aspirations.

We have life insurance manufacturing countries which include UK, France, Mexico, Argentina, Hong Kong, Singapore and Malta. We have also joint ventures in China, Malaysia, India and Saudi Arabia. In non-life insurance and where we lack risk appetite and scale to manufacture life insurance, we have entered into long-term exclusive distribution agreements with industry leaders in North and Latin America, Middle East, Europe and Asia.

Sustainability at HSBC

At HSBC, how we do business is important as what we do. For us sustainability means building our business for the long term by balancing social, environmental and economic considerations. This enables us to help businesses to thrive and contribute to the growth and resilience of communities.

Success for HSBC means providing our customers with the products and services they need and want, understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve. These measures help us to carry out our work in a way that is both commercially astute and ethically sound.

For further information on HSBC Holdings Plc's sustainability policies, activities and performance, visit:
Hsbc.com/citizenship/sustainability

UNEP FI Principles for Sustainable Insurance (PSI)

HSBC was involved in the original drafting and development of the PSI Initiative between 2009 and 2011 which was launched at the UN Conference on Sustainable Development (Rio+20) in 2012. The Principles represent a significant opportunity for our insurance business to take a further step toward meeting the expectations of our customers, shareholders, employees and other stakeholders globally.

Our expectation is that the PSI Initiative will become the global framework and standard by which the insurance industry can be measured on its contribution towards sustainable development. With this aspiration HSBC Insurance Holdings became a signatory to the PSI with the support of Group Chairman, Douglas Flint, on 23 April 2013. This was stated in HSBC's Annual Sustainability Report 2012 and progress updates on the initiative have been provided in the Strategic Report 2015 and on the HSBC.com/citizenship/sustainability site. We continue to align and develop similar initiatives in line with our stated sustainability programs and consequently we feel the PSI initiative is aligned with our values and that it should be a core principle of our insurance business.

Our management team and Insurance Executive Committee are committed to this initiative and to progressively integrate environmental, social and governance (ESG) issues across our processes and geographies. We are also committed to disclose our progress in implementing the Principles on an annual and public basis.

Progress in 2015

Below is a summary of the four principles and examples of progress HSBC has made against each principle in 2015.

Principle 1 – *We will embed in our decision making environmental (E), social (S) and governance (G) issues relevant to our insurance business*

1.1 Diversity and Inclusion (D&I)

HSBC is committed to a diverse and inclusive culture where employees can be confident their views are encouraged, their concerns are attended to, they work in an environment where bias, discrimination and harassment on any matter (including gender, age, ethnicity, religion, sexuality and disability) are not tolerated, and advancement is based on merit. Our diversity helps us support our increasingly diverse customer base and acquire, develop and retain a secure supply of skilled and committed employees.

We believe that diversity brings only benefits for our customers, our business and our people. The more different perspectives we have, the better equipped we'll be to meet the demands of our hugely diverse global customer base – whether they are starting a business for the first time, exporting to new markets, planning for their retirement, or looking for financial products compliant with their religious beliefs.

HSBC's focus is an inside out approach to include our employees and culture, (addressing bias, attract and retain a diverse workforce, and leveraging our employee resource groups) with the outputs from this extended to how we make better products and services that reflect the diverse society and diverse needs of customers. In 2014 Group Insurance commenced a project to develop a global framework and principles for the products we offer to our customers. The objective is to ensure the products and services offered to customers do not unnecessarily discriminate against any person due to age, gender, sexual orientation or gender identity, ethnicity, disability, religious beliefs, background or any other aspect of personal difference.

During 2015 we have piloted and refined the framework which includes product literature, information collection and insurance coverage. Countries have commenced reviewing their existing products against the framework whilst working within their legal and regulatory environment. Product changes have been identified and will be implemented throughout 2016 and 2017. The D&I requirements will also be built into new product developments during 2016.

1.2 Protection Gap and Needs Analysis

As highlighted by the research from Swiss Re, the global protection gap exists for general insurance and mortality protection gap (income needed to maintain standard of living). HSBC Insurance has commenced a series of initiatives to improve the discussions we have with our customers regarding their protection needs:

Protection Campaign: We have now commenced a study in 12 markets to gather insights around protection which can be used in a new global campaign which will incorporate media messaging, staff messaging and sales aids, and customer messaging oriented to protection. This will be further developed in 2016.

Staff advocacy: To support the work ongoing to diversify the business and increase protection, we have undertaken some research with a range of colleagues from multiple countries within our business to understand to what extent they are advocates for insurance and understand what inhibitors exist. The objective is to ensure there is a consistent positive positioning of protection and a sales process that makes it easy for customers to buy.

Proposition: We are starting to increase discussions around insurance needs and HSBC's Insurance solutions in the customer on-boarding and upgrading journeys and this will progress into 2016.

Needs Analysis: HSBC recognizes its responsibility to educate customers to understand their insurance needs. In 2014 we wanted to focus on needs analysis and educational tools to provide customers with simplified research and education tools by developing user friendly insurance content and by incorporating relevant "protection" needs analysis and quotation tools. This is to ensure customers are getting the best information and tools to enable them

to self-educate, assess their needs and research potential solutions to fulfill those needs. The new tool was piloted in Hong Kong at the end of 2015. This will provide customers an easy tool to understand their insurance needs and provide high level product recommendations to fill any gaps.

As per the UNEP FI PSI strategy paper and macro insurance industry trends “advancing technology and international connectedness will continue to change customer expectations of product and service providers in demanding interaction ‘anywhere, anyhow’ with an increased focus on the ESG share value that is created by organizations they choose to do business with”. In order to focus on customer needs, treat customers fairly and improve customer experience, HSBC will continue to roll out an updated version of its wealth platform to allow Relationship Managers to have a full view of the customer’s circumstances. Relationship Managers will also be provided with tablets to access global financial planning platform and manage customer conversations at the convenience of the customer for protection, legacy, retirement, education and wealth planning purposes. Roll out has already started and will continue throughout 2016.

1.3 Customer Care Commitment (S)

As reported in 2014, this project commenced due to focus on being a responsible lender and acknowledging the importance of mortgage customers having the right protection in place. The scope of the project focuses on making sure that mortgage customers are considering their ability to cope should unforeseen events affect the property, their possessions within the property or their ability to cover their financial commitments. In 2015 insurance has been promoted alongside our recent UK mortgage marketing campaign and this approach is being considered for other countries.

It is of great importance that we provide our customers with the opportunity to protect themselves against events that may jeopardise their ability to maintain their mortgage payments. All mortgage customers will be informed of the risks associated with property ownership and potential home related insurance needs. Countries are ensuring customers are considering the cost of appropriate insurance when reviewing the overall affordability of the mortgage.

Discussing a customer's protection needs within the mortgage process is now firmly embedded across the organisation and senior management continue to stress the importance that we lend responsibly and ensure that our customers' financial goals and plans are adequately protected. There is no requirement for the customer to purchase the insurance from HSBC, the primary objective is to educate the customer on this matter, making them aware of the risks and their available options to meet their protection need. In 2016 we will continue to work across all sites to ensure that we meet more of our customers protection needs when they take home loans, to evidence our continuing duty of care.

1.4 Customer Insight and Incentive Schemes

The second highest ranking ESG issue as identified in the survey commissioned by the PSI board was ‘*mis-selling and treating customers unfairly*’. Aligned to this issue in 2014, our Retail Banking and Wealth Management business completed extensive customer research to understand how best to engage with customers based on the segment they fall into and the appropriate products available to meet their needs. In 2015 we have utilised these insights to commence work on defining product and servicing principles and target differentiation for specific customer segments. Work will continue in 2016 and this will form the basis of guidance which will help inform future product enhancement and development.

During 2013 our Retail Banking and Wealth Management business commenced the implementation of a new incentive framework that is aligned with our aim of putting the customer at the centre of everything we do, and build deep, long-lasting and mutually beneficial relationships with them. Implementation has continued in 2015 to ensure we have removed all formulaic links to sales volumes and instead applied discretionary pay and a global sales process which is focusing on meeting our customers’ needs for all markets. These changes are further strengthening alignment to HSBC’s values including the following:

- We will treat all customers fairly
- We will meet, or exceed, all local and international laws, regulations and codes of practice
- We will apply HSBC’s values and business principles in all our dealings with customers
- We will deliver services to customers in a way that provides speed, ease, certainty and empathy

Our Commercial Banking business has a series of similar work streams in place. A global set of sales principles has been developed and implemented across all markets. These principles have been designed to ensure that customers receive appropriate advice (if relevant to market), and product to suit their identified needs. Additional work streams are running in parallel to implement effective monitoring and quality assurance programmes, so that consistent adherence can be evidenced, and actions taken where required.

1.5 Fair Value Exchange (G)

In a survey commissioned by the PSI board, PSI signatory companies and supporting institutions were asked for their views on ESG issues that they consider most important for the insurance industry to address. The third highest ranking ESG issue as identified in this survey was *'insurance access and affordability'*. Aligned to this issue, this governance initiative ensures that HSBC takes a globally consistent approach to assessing its insurance products' prices to the benefit of both the customer and the business. This approach underpins the work HSBC is undertaking to build a position of trust with customers by making the right decisions in product pricing, design and development.

Fair Value Exchange work has continued throughout 2015 following the review of over 350 products across life and non-life insurance during 2013 and 2014. An embedded set of guiding principles and product frameworks is fully integrated into our product development and product approval processes throughout the whole organization (this includes both third party and manufactured products). Enhancements to improve customer value of on-shelf products were finalised during 2014 and will continue to be implemented during 2016 for specialist life insurance products.

As a result of our Fair Value Exchange work, we have modified a number of aspects of our product range which in some cases has substantially differentiated us from local market practice.

1.6 Sustainable Finance, Operations and Communities (ESG)

HSBC's insurance businesses participate in Group initiatives concerning our environmental footprint and the sustainability of our operations, management of sustainability risk as well as our community investment, supporting the three pillars of sustainability in HSBC:

1. *Sustainable Finance*: We anticipate and manage the risks and opportunities associated with a changing climate, environment and economy.
2. *Sustainable Operations*: We work together with our suppliers to find new ways to reduce the impact of our operations on the environment. We are purchasing renewable energy, designing and operating our buildings and data centres more efficiently and reducing waste. We have committed to cut our carbon emissions from 3.5 to 2.5 tons per employee per year by 2020.
3. *Sustainable Communities*: We provide financial contributions to community projects and thousands of employees across the world get involved by volunteering their time and sharing their skills.

To mark 150 years of HSBC, in July we announced we will donate USD150 million to chosen causes. HSBC has depended on the support of its customers, shareholders and employees throughout its history and on our 150th anniversary, we want to say 'thank you' by giving back to the community, the USD150 million fund will be available for local projects and charities.

<http://www.hsbc.com/citizenship/sustainability/communities/hsbc-150-community-fund>

A number of key initiatives carried out in several markets can be found below. This is not the exhaustive list of the activities but it presents several best practices currently in place.

HSBC Insurance Hong Kong staff had contributed a total of 1,300+ Corporate Sustainability hours to the bank-wide volunteer activities in 2015. One of the self-initiated programs, 'SWITCH' Volunteer Service Program, had been organized for the second consecutive year in 2015. With the aim of enhancing students' English-speaking proficiency, HSBC Insurance partnered with two NGOs, The Hong Kong Family Welfare Society and The Conservancy Association Centre for Heritage, this year to organize a two-day educational program for junior form students from Nam Wah Catholic Secondary School. The program included a series of interesting games, historical site visit together with one-to-one mentoring practice to encourage interaction and build up student's confidence. Over 40 volunteers actively participated in the program.

In the UK the Wealth Insurance team organised a community day to support the Hampshire and Isle of Wight Wildlife Trust. 23 members of the team cleared a huge stretch of the Cadnam riverbank of Himalayan Balsam (a non-native invasive plant). The activity of the team made a real difference which will allow native wildlife to once again flourish,

In 2015, HSBC Assurances in France pursued in its real estate investment policy an environmental quality approach: acquisition of real estate properties compliant with high quality environmental standards, restructuring of vacant buildings to improve their quality (especially applying for label "Low Consumption Building" – BBC), encouraging tenants to a responsible use of facilities through the signature of a "green annex" to the lease agreement. This annex includes a number of engagements, consistent with the policy pursued by HSBC Assurances.

HSBC Assurance in France also took a 10% stake, through its Euro Fund, in Tera Neva Green Bonds issuance, representing a € 50 million investment. This commitment shows HSBC Assurances' willingness to actively contribute to the financing of the energy transition, particularly through the investment projects developed by the EIB, thanks to the issuance of a Green Bond indexed on a new index. This new Ethical Europe Climate Care Index, issued from the STOXX® Europe 600, is composed of 30 constituents with criteria selecting companies with high ESG norms and strong energy transition strategies.

In an effort to promote teamwork and give back to the local community, once a year HSBC Insurance Mexico organise a 'green' running race to benefit Mexico City's main park (Chapultepec Park). Over 3,000 entrants, 1,000 of which were HSBC Mexico staff members raising USD 67,000 in support of the upkeep and preservation of the park. HSBC Insurance Mexico's relationship with the park started in 2011 and since then volunteers have planted more than 25,000 trees and plants and donated thousands of volunteer hours to this project. HSBC Insurance Mexico is also supporting the rehabilitation of other parks through a larger project called 'HSBC Insurance's Green Project' which is fundraised with a percentage of the customers' premiums. The business is working in collaboration with local non-governmental organizations to protect and restore several different urban parks.

HSBC Argentina invests in programs to help children and young people to reach their potential accessing and developing new skills. In 2015 they continued to support "Junior Achievement" and "Partners for a Day" aimed at children and teenagers in public primary and secondary schools joining forces to prevent dropouts and increase understanding of children about the importance of education for their future, help develop the skills to enter the workforce and show young people how the world of work works through hands-on experience in the business. Forty two volunteers received the Science Leaders Earthwatch training and are monitoring the water quality of rivers of the province of Buenos Aires.

The Actors Social Change program (Protagonistas del cambio social) is aimed at employees of HSBC Argentina and facilitated by Ashoka Social Entrepreneurs. Its aim is to financially support projects presented by employees who are aimed at schools, community centres, health centres and / social organizations where volunteers are themselves active in the institution. This program builds on the success of Solidarity Employees, which was born in 2003 with the aim of channelling and financially support the increased involvement of our employees in community activities Projects. Through this program, volunteer work was supported that employees carry on in schools, homes and civil society organizations aimed at protecting children.

In 2012, HSBC Group pledged an additional USD 15 million to Future First taking HSBC's total commitment to USD 40 million over 10 years from 2006 to 2015. This additional investment means Future First is now supporting local projects in 62 countries, taking the total number of young people supported by the partnership to over 900,000.

For fuller details of HSBC Holdings Plc's sustainability programmes and performance in 2015, visit Hsbc.com/citizenship/sustainability

1.7 UN Principles for Responsible Investment (PRI)* (ESG)

Within HSBC Global Asset Management (AMG) we integrate ESG issues into our investment decision making process and our voting and engagement activities. We are supporting the implementation of the PRI for the funds that AMG manages on behalf of HSBC Insurance and its customers.

For more details of Group Initiatives carried out throughout the year, visit HSBC Global Asset Management's Responsible Investment Transparency Report 2014/2015 which is available on the UN PRI website.

* The United Nations-supported Principles for Responsible Investment (PRI) Initiative is a framework for the institutional investment industry, which spans insurance and non-insurance institutions (e.g. insurance companies, pension funds, government reserve funds, foundations, endowments, depository organisations, investment management companies). Accordingly their scope is only on investment management, which they address more comprehensively. HSBC Global Asset Management is a signatory to the UN PRI initiative.

Principle 2 - *We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions*

2.1 Partner Collaboration

Within HSBC we work with a number of key strategic partners some of whom are existing signatories. During 2015, discussions have continued with partners to progress activity in this area. The priority area has been for support

with the Diversity and Inclusion (D&I) project outlined in point 2.2. Other initiatives have been identified and will progress during 2016.

Meetings have been held with non-signatories to understand the benefits of becoming a signatory which have involved insight and support from, Butch Baccani Programme Leader, UNEP FI Principles for Sustainable Insurance Initiative.

We have included all of our insurance products (third party and manufactured products) in scope for both of our strategic projects, Fair Value Exchange and Insurance Range Review, as detailed in Progress section for Principle 1. We have also received commitment from our exclusive partners to develop products in line with our Fair Value Exchange principles.

2.2 Partners and D&I

As HSBC Insurance does not manufacture all the insurance products we distribute to customers the objectives and deliverables of the D&I project outlined in section 1.1 are reliant on us working in collaboration with our strategic partners to review many of the products we currently offer. Implementation of the principles is reliant on endorsement, support and capacity of our partners which is already underway. Collaboration with our partners to review existing products and development of new products will continue throughout 2016 and 2017.

In support of the D&I project, in December HSBC invited Axa to attend an Out Leadership summit that was being held in Hong Kong. Out Leadership connects senior LGBT and Ally executives from major financial services firms to discuss crucial innovations at the intersection of business and LGBT, create business opportunity, cultivate talent, and drive equality forward. Its premise is that LGBT inclusion drives positive business results. Convening at three annual summits in New York, Hong Kong and London, Out Leadership collectively set a forward-looking agenda for the global financial services industry. HSBC hosted the event in December with Axa's Hong Kong CFO attending along with a Senior Executive from HSBC Group Insurance. A link regarding Out Leadership and video footage of the summit are below.

<http://outleadership.com/event/out-leadership-asia-2015/>

<https://www.youtube.com/watch?v=PiL--uQyRyo>

Principle 3 - *We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues*

3.1 Group Sustainability

HSBC's insurance businesses are providing support, where required and relevant, to Group Sustainability initiatives interacting with governments, regulators and other stakeholders. The Group Corporate Sustainability team is our key point of contact with regard to upholding this Principle.

For fuller details of HSBC Holdings Plc's sustainability programmes and performance in 2015, visit Hsbc.com/citizenship/sustainability

3.2 The Future of Retirement

As per the UNEP FI PSI strategy paper and macro insurance industry trends, ageing populations and pressure to reduce social spending are key areas of focus. The latest report, *Choices for later life*, the eleventh in the FoR series, was published in April 2015. This report explores the expectations of people working towards their retirement and of those who have already reached this stage in their lives.

In the report, we see that the concept of retirement is changing. Retirement was often seen as a 'full stop' to a working life, but in today's world, the process is often more of a gradual transition, with many opting for a move into semi-retirement first. For some, later life offers choices: to continue to work in a career they enjoy, to work fewer hours, or to change jobs for an alternative occupation. Others, however, may be obliged to keep working long after they had hoped to retire.

The report generated 526 pieces of news coverage worldwide in the first month after publication.

Each publication includes a global report and separate country reports. Since the FoR study began in 2005, more than 141,000 people have been surveyed worldwide and a new survey is currently underway with two reports planned for 2016.

During 2015 we have enhanced existing products or launched new products in various countries in order to support our customers with this need. This product development will continue throughout 2016.

3.3 The Value of Education

An independent global consumer research study, The Value of Education was launched in 2014. Now in its second year, it represents the views of 5,550 parents in 16 countries, and explores the hopes and aspirations that parents around the world have of education. The second report, *Learning for life*, was published in July 2015, and together with further desk research, generated 724 articles across 21 countries. The report covered the ambitions parents have for their children's future and how they think a university education can help them achieve their life goals.

Of the 5,550 parents who took part in the study, more than 77 per cent said they would consider sending their child abroad for an undergraduate or post-graduate education. Recognising that an international education comes with higher costs, 45 per cent would consider paying at least a quarter more for a university education abroad than for a domestic one.

The report reveals that 79 per cent of parents consider university a 'must have' for their children, with 50 per cent saying a postgraduate degree is the minimum qualification required for their child to meet their life goals. Ninety five per cent of parents are willing to contribute towards the costs of their child's university tuition fees, with 29 percent expecting to borrow money to cover these costs.

The report also revealed that parents are underprepared to finance this important investment, with 22% who haven't started saving towards their child's university education. The report provided some practical steps that parents can take to help them plan their children's education. A third survey and report are planned for 2016.

In Mexico there was a campaign on Mother's day focused on educational needs. The idea was to celebrate the first birth on this date with an educational gift to the first baby born on that day. The reward was an educational insurance policy that will guarantee that the child will have the resources to study. The campaign was selected as one of the top 8 campaigns in Mexico by Expansion, Mexico's best regarded business magazine. HSBC was the only financial services company that was selected.

3.5 UNEP FI Engagement & Support

We believe that we can promote the adoption and implementation of the Principles through participation in relevant working groups and organizations. Jim Costello HSBC Insurance CEO, China was appointed to the PSI board in May and attended the UN consultation meeting with the Chinese insurance industry on insurance regulation and sustainable development. Our Global Programme Manager, Sustainable Insurance attended the UNEP FI Annual Meetings in 2015 and as a signatory to the PSI, HSBC has also executed its right to vote on the UNEP FI Annual General Meeting.

Principle 4 - *We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles*

This is our third report since becoming a signatory on 23 April 2013 and demonstrates our continuing commitment to communicating our progress in implementing the PSI in a transparent manner. We are participating in relevant disclosure and reporting frameworks including regular updates in the Group's sustainability reporting.

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