

Sustainability-Linked Insurance:

REWARDING

Climate Risk Adaptation



Co-publishers



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Marsh

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HKGFA
香港綠色金融協會
Hong Kong Green Finance Association

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FOREWORD

For years, the real estate and insurance sectors have operated in a stable, if imperfect, balance - **asset owners managing risks while delegating a portion to insurers.**

Now, the climate crisis is starting to **rain on that parade.** Literally.

From **Super Typhoon Mangkhut in 2018** to the record-breaking **Black Rainstorms in 2023**, extreme weather events are hitting Hong Kong harder and more often, driving up insured losses and testing the resilience of both industries.

Globally, insurers have responded by **raising premiums, tightening terms, or withdrawing capacity** - creating a vicious cycle of increasing costs and raising the possibility of uninsurable assets.

But it doesn't have to be this way.

Leading asset owners in Hong Kong are already investing in adaptation to **reduce long-term climate risk.** The question now is how insurers will evolve - rewarding proactive resilience rather than only reacting to past losses.

The potential for a win-win is clear.

**Is it time to rethink
the dynamic
between risk and
resilience?**


EXECUTIVE SUMMARY

Real Estate

- As extreme weather events become increasingly severe and frequent, leaders in the Asia Pacific real estate sector have made significant strides in implementing resilience measures and quantifying their Climate Value at Risk (CVaR).
- However, since the majority of Real Estate extreme event losses are covered by insurers, **the real financial climate risk for the real estate industry lies in growing insurance premiums.**

In Hong Kong, one leading asset owner saw its insurance premiums jump by 117% in the aftermath of Super Typhoon Mangkhut in 2018.

117%



- To avoid these generalised insurance premium increases due to extreme events, the real estate sector needs to partner more effectively with insurance companies to **tie their climate resilience efforts with insurance terms.**



11.7%



- With risk comes potential for reward – following its resilience-focused insurance roadshow, **Link Asset Management reduced its insurance premiums by 11.7%** in 2025 compared to 2024. This material cost saving can be critical to driving further resilience building.
- This sustainability-linked insurance approach can also apply to new developments and retrofits that mitigate growing physical climate risks and require insurance coverage.

TO-DO LIST

Four Key Actions for Real Estate Leaders

Step 01

Establish a robust action plan for physical climate risk resilience for assets under operation, including risk assessments, adaptation investment and risk financing optimisation

Step 02

Engage internal teams, insurers and brokers to understand assets' claims history, current insurance programme and risk financing approach

Step 03

Quantify and proactively communicate long-term climate adaptation efforts to the insurance market

Step 04

Leverage insurance brokers to negotiate improved terms, such as lower premiums and deductibles, if certain targets are met over multiple years.

EXECUTIVE SUMMARY

Insurers

- Extreme weather events, driven by climate change, are causing higher and more frequent losses. In 2024, total insured losses from natural disasters reached US\$140 billion¹, marking the third most expensive year since 1980. In Asia-Pacific and Africa, the total insured losses of US\$16 billion is 1.5 times higher than in 2023 - primarily driven by the Noto earthquake in Japan, Typhoon Yagi, and flooding in China.



Total insured losses from natural disasters reached

US\$140 billion

- In the short term, **insurers have responded by raising premiums**, imposing stricter terms, and even reconsidering their deployment of capacity. However, these reactions are unsustainable, **as this ultimately leads to insurance being prohibitive, therefore having a significant detrimental impact on asset values.**
- Corporations in Asia, especially those in real estate, have begun proactively integrating climate resilience into their long-term asset value protection strategies and operational continuity plans.
- In light of these efforts, **the insurance sector should strive to reward these long-term climate resilient initiatives**, which may only pay off in the future as climate risks worsen.
- Partnering with like-minded clients such as Link Asset Management, **AXA looks to create a “Sustainability-Linked Insurance” product, an innovative property insurance solution and first-in-market approach in Asia** which factors in the impact and mitigation related to climate risks while rewarding and further incentivising corporates’ resilience actions.

¹ “Climate change is showing its claws.” Munich Re Nat Cat Service. (2025)

TO-DO LIST

Four Key Actions for Insurers

Step 01

Engage clients to provide detailed information on climate risk assessments and adaptation efforts to provide higher degree of comfort among underwriters.

Step 02

Formally incorporate and incentivise climate adaptation and resilience activities into the underwriting process.

Step 03

Actively refine underwriting methodologies that consider changing weather and climate patterns.

Step 04

Innovate product designs that optimise the combination of coverage, terms, and premiums to help better manage climate-related risks.

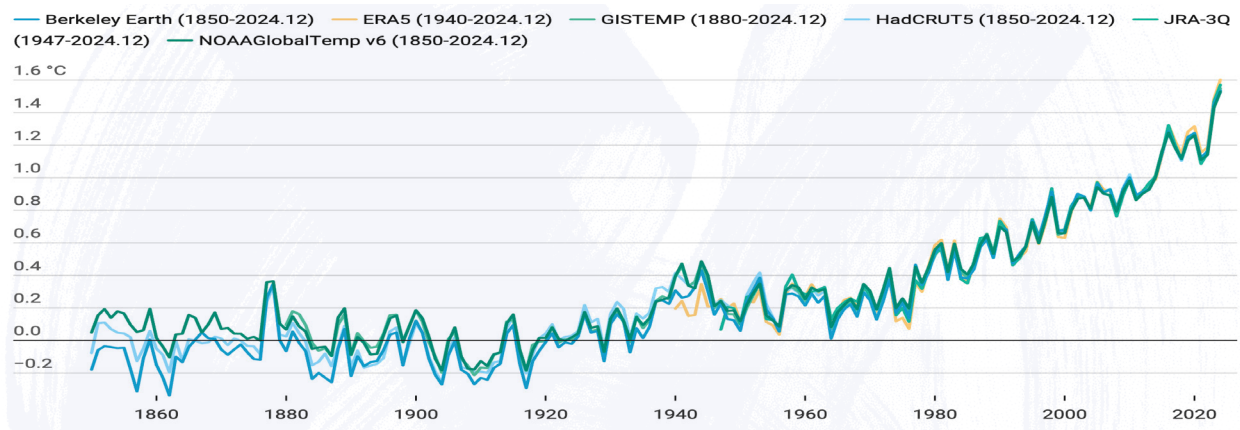
SETTING THE SCENE:

Climate Crisis Leading to Rising Insured Losses and Premiums

Extreme weather events, brought about by climate change, are generating higher and more frequent losses, bringing further scrutiny to insurance capacity and pricing.

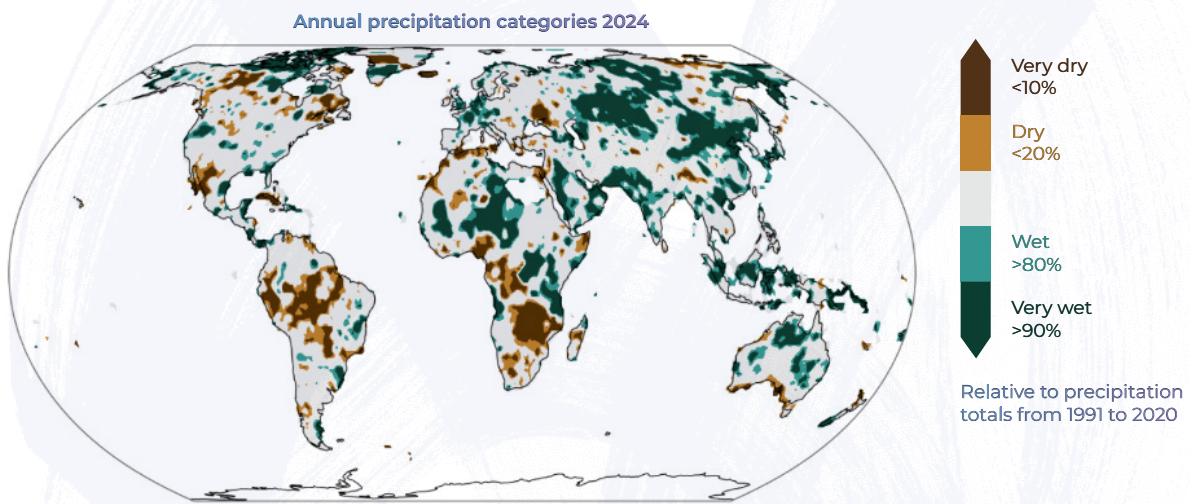
2024 was the hottest year on record, with global mean surface air temperatures hitting 1.55°C above pre-industrial levels¹. This alarming trend is accompanied by a rise in ocean heat content and sea levels, as well as changes in the atmosphere and ecosystems, resulting in more frequent and unpredictable weather extremes across the globe.

Annual Global Mean Temperature Anomalies, relative to 1850-1900.



"Annual Global Mean Temperature Anomalies, Relative to 1850-1900." World Meteorological Organization. (2024)

Total Precipitation (2024 Jan-Sep), relative to 1991 to 2020.



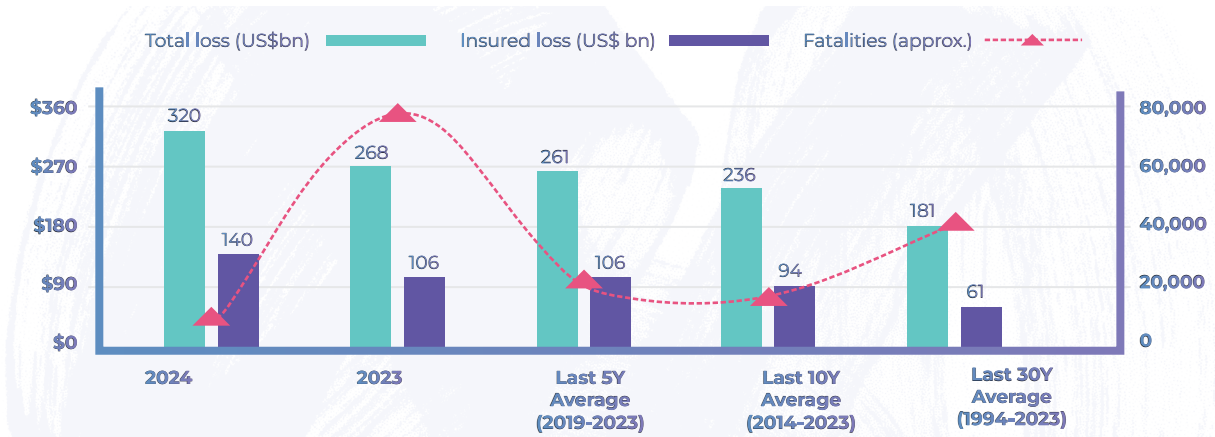
"Total Precipitation (January-September 2024), Relative to 1991-2020." Global Precipitation Climatology Centre. (2024)

In 2024, natural disasters - primarily weather events such as hurricanes, thunderstorms, and floods - resulted in economic losses of US\$320 billion and more than 10,000 victims.

Among the five largest natural disasters, three occurred in Asia.

Last year also marked the third largest annual loss for the insurance industry since 1980, with insured losses totalling US\$140 billion and representing the fifth consecutive year that losses have exceeded US\$100 billion².

Global Total Loss from Natural Disasters.



“Global Total Loss from Natural Disasters.” Munich Re. (2024)

The Five Largest Natural Disasters in 2024, Ranked by Total Loss.

Date	Country/ Region	Event	Fatalities	Overall losses in US\$ bn	Insured losses in US\$ bn
24-27.9.2024	United States, Mexico, Cuba, Honduras	Hurricane Helene	227	56	16
7-10.10.2024	United States, Mexico	Hurricane Milton	27	38	25
1.1.2024	Japan	Earthquake, tsunami	245	15	2.5
1-12.9.2024	China, Vietnam, Thailand, Myan-mar, Philippines, Laos	Typhoon Yagi (Enteng), flood	851	14	1.6
Jun - Jul 2024	China	Flood	77	12	0.4

“The Five Largest Natural Disasters in 2024, Ranked by Total Loss.” Munich Re. (2024)

Given increased losses, insurance premiums against catastrophic losses likely will rise in tandem with diminishing capacity for impacted areas or assets.

There has already been evidence of insurers reducing their capacity in areas such as Florida and California (and this is before the recent LA fires)³.

¹ “ State of the Climate 2024 Update for COP29. ” World Meteorological Organization. (2024)
² “ Climate change is showing its claws. ” Munich Re Nat Cat Service. (2025)
³ “Staying Above Water: A Systemic Response to Rising Flood Risk” Marsh McLennan. (2023)

ADAPTING TO THE CHANGING LANDSCAPE

A Guide for the Real Estate Industry

To better manage these physical climate risks and rising premiums, real estate companies should proactively adopt a holistic approach encompassing risk assessment, adaptation, and risk financing.

The following three-step guide below offers a roadmap:

Step 01

Assessing Extreme Weather Risks and Climate Change Impact

A recent survey conducted by Marsh on corporate risk managers revealed that 48% of companies only assess climate-related risks qualitatively. Similarly, a study by Guy Carpenter showed that only 25% of companies engage in any form of quantitative risk assessment.

Understanding both the qualitative and quantitative impact of extreme weather events and how these effects are poised to evolve over time due to climate change should be an urgent priority. Key elements of the assessment could include:



Model the hazards – including simulating risk events such as floods, and incorporating a forward-looking view to adjust for the impacts of climate change



Estimate potential damages – combine hazard modelling with asset characteristics (e.g. location, nature of the building) to evaluate the potential downtime or extent of damage



Quantify potential financial impact – beyond actual physical damage, companies should also evaluate the financial impact of business interruption



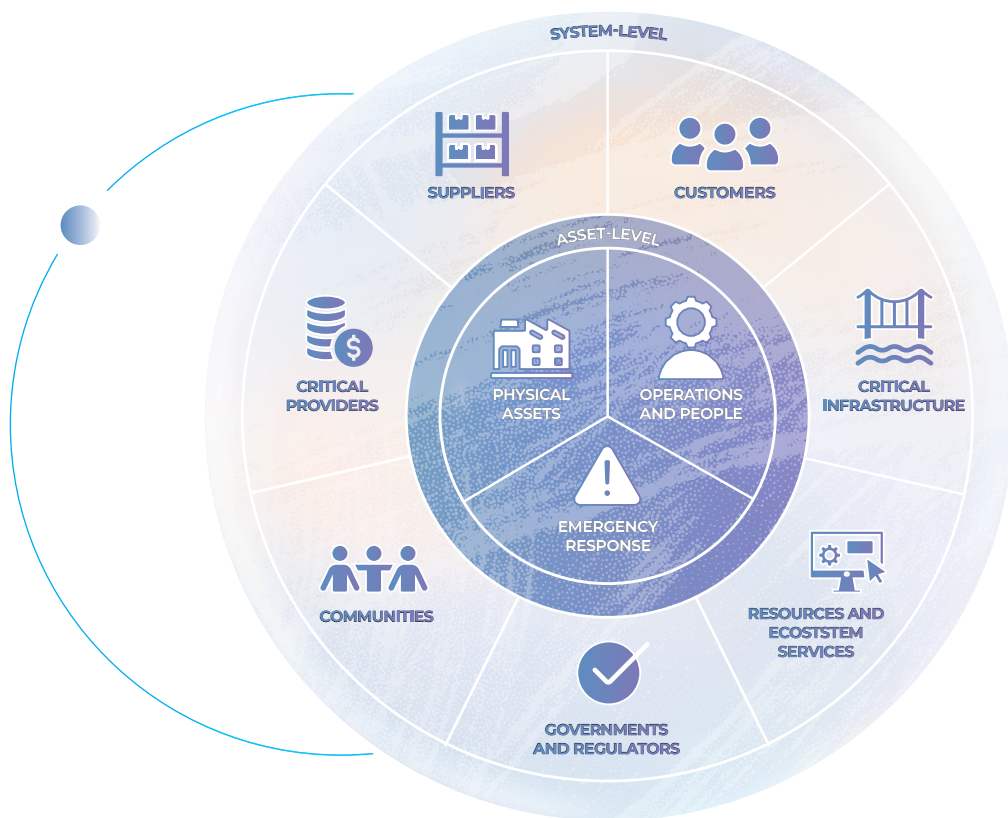
Calculate the probability of the financial loss – such as assessing the likelihood of a US\$1 billion loss resulting from a 100-year flood event. This will serve as the foundation for evaluating required risk tolerance as well as the cost of risk management

Step 02

Implement Adaptation Initiatives to Raise Resilience

Next, investment in adaptation measures is crucial to bring down the overall cost of risks. **Beyond insurance, improved resilience reduces overall losses and facilitates quicker business recovery, potentially influencing non-financial metrics such as brand and investor perception.**

However, in addition to addressing physical risks at the asset level, companies should also consider system level factors that encompass interactions with customers, suppliers and other stakeholders. An example of this perspective is shown by the Marsh Climate Adaptation and Resilience Framework presented below.



“Climate Adaptation and Resilience Framework.” Marsh. (2024)

At the asset level, the initial step involves identifying and building potential interventions to protect the asset, ensure operational continuity, and protect individuals from key perils identified in the assessment phase. For example, addressing flood risk could entail the installation of flood gates, better sensors, and enhanced emergency response protocols.

In addition, **it is critical to consider constraints and opportunities at the system level - supply chain, surrounding infrastructure, and communities.** For example, resources required during a major event, such as emergency medical care and power supply, are often provided and coordinated by local governments or regulators. Therefore, understanding the available resources and potential constraints across the whole ecosystem will impact the design of adaptation measures at the asset level.

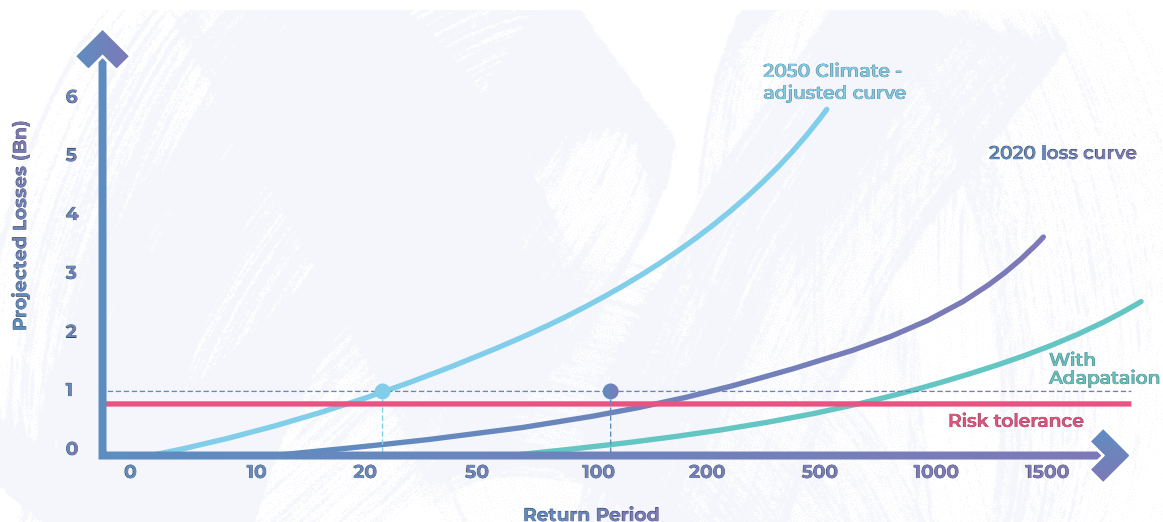
Step 03

Optimise Risk Financing

Lastly, companies should also understand how a changing risk profile and adaptation measures will have significant impact on risk financing i.e. how much risk to retain and how to cost effectively transfer risks to insurers.

Whilst climate change will likely heighten the likelihood of catastrophic or weather-related risks, adaptation measures play a crucial role in mitigating potential losses. The following graph exemplifies how adaptation efforts could reduce potential financial loss.

Relationship Between Return Period and Projected Loss (US\$ in billions) (2024)




With climate change impacting the frequency of extreme events, the configuration of these curves will shift in the future, indicating increased technical premiums and reduced coverage for identical insurance limits (i.e. the dark blue curve shifts up to the light blue curve).

However, adaptation and resilience mechanisms can be designed to “flatten” the curve (the green curve). For instance, a flood defence installed to a 1-in-100-year height will mitigate or reduce losses up to the frequency of 1-in-100-year event.

Consequently, investments in adaptation can impact the cost of risk both in the short and long term. **In the short term, demonstrating adaptation efforts can directly enhance insurer perceptions of the asset's risk profile, leading to increased capacity or more favourable pricing.** Indirectly, insurers and lenders show a preference for companies they consider to be more “risk aware”, and companies that have invested in climate impact assessment and adaptation measures tend to receive more positive evaluations.

In the long term, planning for - and taking action against - climate impact can fundamentally alter the insurability of an asset (e.g. assets lacking adequate adaptation measures may become measurably more difficult to insurable).



One real estate company that has proactively invested in this holistic approach of risk assessment, adaptation, and risk financing is **Link Asset Management (Link)**. As a result of demonstrating resilience measures put in place over the last few years, Link was able to obtain improved outcomes in its insurance renewal with the support of its broker, Marsh Hong Kong.

REWRITING THE PLAYBOOK:

Link's Resilience-Linked Insurance Renewal

For decades, the real estate industry has viewed insurance as a necessary cost of doing business — a safeguard against unforeseen risks, but rarely a tool for creating value.

That paradigm is shifting.

Link Asset Management (Link) has explored how real estate climate resilience efforts can be linked with insurance terms — a model that doesn't just provide protection but actively rewards investment in climate adaptation measures.

By quantifying climate risk and making targeted resilience investments, Link, through its insurance broker Marsh Hong Kong, secured an 11.7% reduction in property insurance premiums in 2025 compared to 2024 — significantly outperforming the industry's ~3% average¹ reduction. Even more importantly, Link negotiated an additional 7.5% premium reduction tied to its loss ratio, creating a direct financial incentive to continue investing in long-term climate preparedness.

This case study isn't just about one company's success. Rather, it highlights **a fundamental shift and real-time opportunity for real estate firms — and insurers — to align incentives and build climate resilience.**

This case study serves three purposes:



As a **reminder** – that extreme weather events are already becoming more severe under climate change, leading to significant financial losses



As a **showcase** – of proactive climate risk adaptation measures



As a **call to action** – to leverage the mutually beneficial relationship between asset managers and insurers for building climate resilience

¹ Marsh Global / Asia Insurance Market Index Q4 (2024)

FROM RISK AWARENESS TO RESILIENCE IN ACTION

Extreme weather events are no longer an anomaly — they are an operational reality. In **September 2023, Hong Kong experienced a “double whammy” of Super Typhoon Saola and record-breaking black rainstorms**, causing widespread property damage. The conventional response across the real estate industry was reactive: filing claims, absorbing losses, and bracing for inevitable premium hikes.

Link chose a different approach. Rather than treating resilience as a cost, it saw an opportunity for investment — one that could be quantified, optimised, and ultimately rewarded.

Link reframed its relationship with insurers from a transactional one to a **partnership in risk management**:

- Worked with Marsh Hong Kong to embed resilience efforts into a **resilience-focused insurance roadshow**, bringing **22 insurers** into early discussions.
- Presented **quantifiable evidence** of risk reduction, showcasing Link's HK\$5 million investment into flood resilience measures.
- Collaborated with AXA on a Sustainability-Linked Insurance Proof-of-Concept, demonstrating how Link's flood resilience measures could lower potential losses by **10-20%** (see more on p.25).
- Negotiated **performance-linked premium reductions**, securing additional cost savings contingent on a low loss ratio and incentivising continued investment in resilience.

By integrating risk identification, targeted mitigation, and transparent insurer engagement, Link **transformed resilience from a defensive measure into a financial advantage.**



Temple Mall North's LG floor, which suffered severe flooding during the black rainstorm alert in September 2023

THE RESILIENCE FRAMEWORK:

Six Pillars of Climate Adaptation

Building a resilience-linked insurance model requires a structured, data-backed approach. Link's framework consists of six interconnected pillars built upon the earlier guide above:



1. Comprehensive Climate Risk Assessments

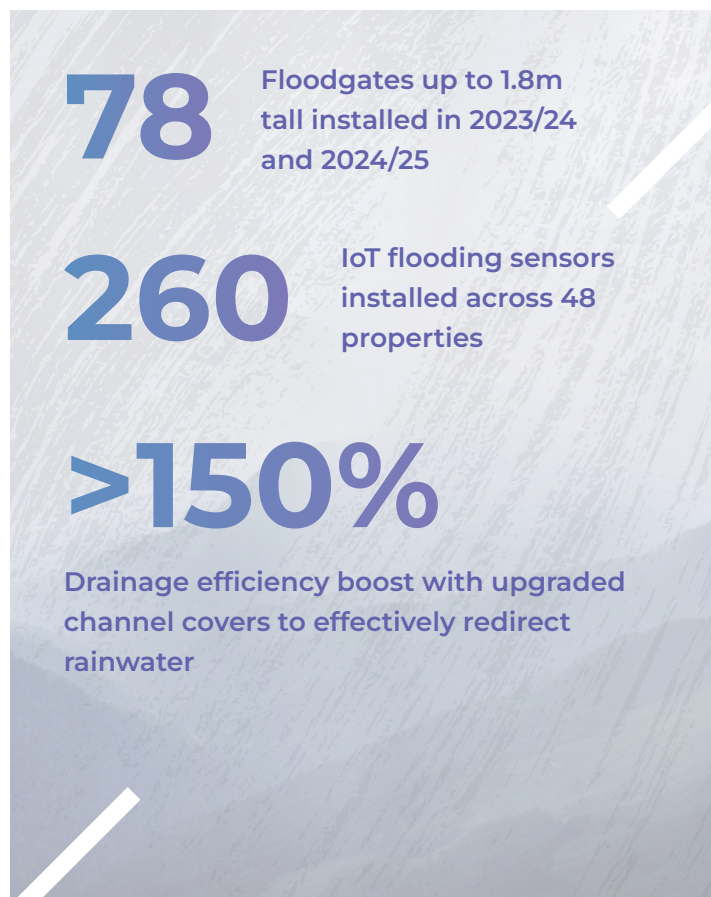
Since 2019/20, Link has conducted multiple **physical climate risk assessments** to systematically evaluate exposure to climate hazards, estimate financial impact, and identify high-risk assets. These assessments include:

- A **Climate Value-at-Risk (CvaR) analysis** to quantify potential losses across the portfolio under various climate scenarios.
- A **coastal threat analysis** focused on properties in the Greater Bay Area, evaluating exposure to sea-level rise and storm surges.
- A **targeted physical risk assessment** of 12 high-income properties in 2023/24, conducted in collaboration with AXA Climate.

Baseline		SSP5-8.5, 2030		SSP5-8.5, 2050		Very high	High	Moderate	Low
Asset Name	City	Tropical cyclone ⁽¹⁾	Flood ⁽²⁾	Heat Wave ⁽³⁾	Heat Stress	Drought	Wildfire		
Wan Tsui Shopping Centre	Hong Kong	Very high	Very high	Low	Low	Low	Low		
TKO Gateway	Hong Kong	Very high	Very high	Low	Low	Low	Low		
T Town	Hong Kong	Very high	Low	Low	Low	Low	Low		
Oibao Vanke Plaza	Shanghai	Very high	Moderate	Low	Low	Low	Low		
Temple Mall North	Hong Kong	Very high	Low	Low	Low	Low	Low		
Jiaxing Warehouse	Zhejiang	Very high	Low	Low	Low	Low	Low		
Dongguan Warehouse	Dongguan	Very high	Low	Low	Low	Low	Low		
Link Square	Shenzhen	Very high	Low	Low	Low	Low	Low		
The Quayside	Shanghai	Very high	Low	Low	Low	Low	Low		
Wan Tsui Shopping Centre	Hong Kong	Very high	Low	Low	Low	Low	Low		
151 Clarence Street	Sydney	Low	Low	Low	Low	Low	Low		
Jurong Point	Singapore	Low	Low	Low	Low	Low	Low		

Findings from these assessments have consistently highlighted **flooding and typhoons** as the most pressing climate risks. Assets such as **Wan Tsui Shopping Centre and TKO Spot** have been identified as critical hotspots due to their location and structural exposure.

Financial modelling estimates that **average annual losses from extreme weather events to remain within Link's risk appetite**, even under a worst-case scenario (SSP8.5). Link also applies these comprehensive assessments in the due diligence process for new acquisitions.



2. Asset-Level Resilience Enhancements

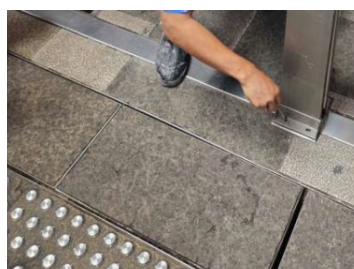
A direct outcome of Link's climate risk assessments has been the implementation of **targeted engineering solutions** to mitigate extreme weather impacts at vulnerable properties. These include:

- **Detachable flood barriers** to protect key entry points from water ingress.
- **Internet-of-Things (IoT) flood sensors** placed near electrical and mechanical facilities to provide real-time alerts in the event of rising water levels.
- **Relocation of sump-pump control rooms** to minimise the risk of flood-induced electrical failures.
- **Drainage pipe diversions and improved surface channel covers** to facilitate better stormwater management.

All enhancement projects underwent **technical feasibility studies** to ensure that **interventions meet industry best practices** and deliver the greatest risk reduction for at-risk assets.



Detachable Flood Barriers



Before

Only Narrow Gaps for Drainage



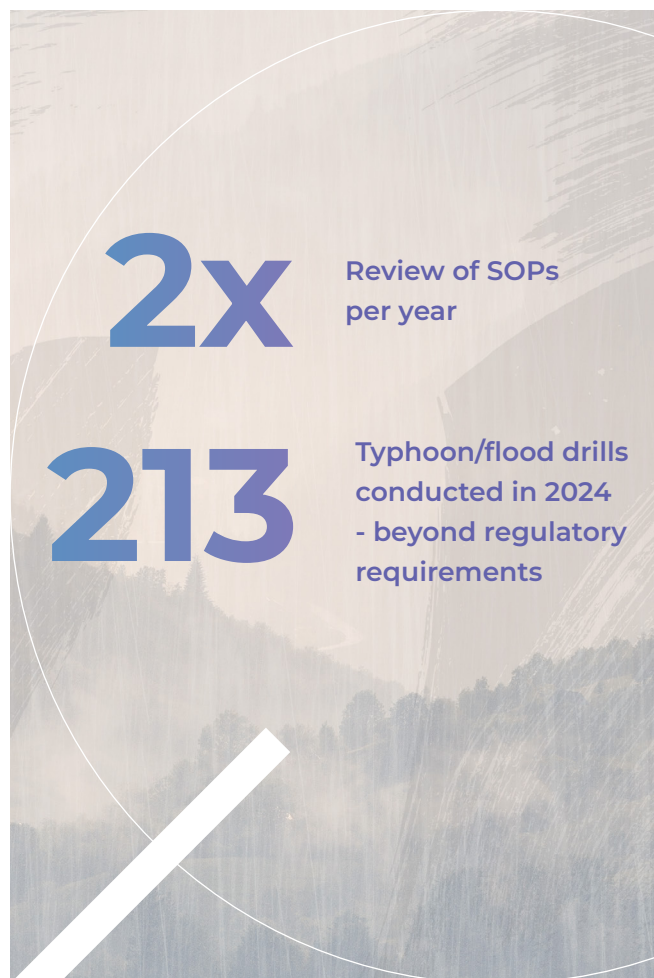
After

Surface Channel Covers with Larger Gaps

3. Standardised Emergency Protocols

While protocols for extreme weather events are common practice among property managers, Link has implemented **a series of measures to ensure continuous improvement and compliance:**

- **Annual training and refresher courses** for new and existing staff on incident handling procedures.
- **Routine emergency drills** to reinforce preparedness and improve response coordination.
- **Integration of SOPs into Property Management System**, allowing real-time tracking, reporting, and routine inspections.
- **Monthly surprise compliance checks** by a dedicated Central Task Force team to ensure procedures are followed.
- **Periodic review** of the content of training materials and/or emergency drills to ensure that new and existing staff are aware of the latest incident handling procedures



4. Preventive Maintenance and Drainage Optimisation

Link prioritises **proactive drainage maintenance** to minimise flood risk across its portfolio. While regular inspections of manholes and storm drains are standard industry practice, Link takes additional measures to **enhance flood resilience:**

- **Quarterly vacuum suction** of sewage systems to prevent clogging.
- **High-pressure jet clearing** of rainwater pipes and key drainage points.
- **Endoscopic borescope inspections** to detect blockages in underground drainage networks.
- **IoT Ultrasonic Water Level Sensors** installed inside soil and waste manholes for real-time flood risk monitoring.
- **Non-return flappers and sensor alarms** to prevent backflow into escalator pits and basement areas.



12

Engagements with district councillors, Drainage Services Department and more in 2023/24

5. Proactive Stakeholder Coordination

Climate resilience is not built in isolation. Recognising that extreme weather events require **system level coordinated action** (as detailed in the last section), Link actively engages and aligns with a wide spectrum of key stakeholders including government agencies, community representatives, tenants, and industry peers to enhance preparedness and response capabilities.

Key stakeholder engagement initiatives include:

- **Pre-emptive SMS alerts** to all tenants ahead of major weather events, such as Pre-Typhoon No. 8 or Red Rainstorm warnings, providing guidance on protective measures.
- **Tailored flood alerts** for tenants in **high-risk locations**, ensuring they have time to implement safeguards for their operations.
- **Emergency preparedness kits** (e.g., Personal Protective Equipment) provided to key response staff, allowing them to respond swiftly in crisis situations.
- **Industry collaboration** to align on best practices for climate risk adaptation, particularly in addressing system-wide vulnerabilities such as drainage infrastructure limitations.

6. Rapid Recovery and Business Continuity Planning

When extreme weather events occur, **rapid recovery is crucial to minimise disruptions** for tenants and customers. Link has established well-defined emergency response protocols, including:

- **Coordinated floodwater pumping**, leveraging contractors and, when necessary, emergency fire services.
- **Debris removal and disposal** by property management teams to restore accessibility quickly.
- **Facility repairs**, prioritising essential infrastructure such as escalators, lifts, and lighting to restore safe operations.



8

Pump trucks deployed to clear out floodwaters from Temple Mall North in 2023

<48

Hours needed to clear out all floodwater and debris from above incident

54

Days needed to reopen the LG/F of Temple Mall North after above incident



Each of these pillars feeds into Link's resilience-linked insurance structure, ensuring **measurable risk reduction, operational stability, and long-term financial savings.**

HK\$ 5 million

Total amount invested into flood mitigation and adaptation measures in 2023/24.

4 Risk Assessments

Conducted since 2019 across our portfolio to quantify our risk exposure and Climate Value at Risk (CVaR).

12 Engagements

With district councillors, DSD and more in 2023/24 to ensure consistent stakeholder dialogue on flooding mitigation and response.

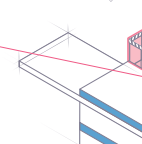
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Typhoon/flood drills conducted in 2023/24 beyond regulatory requirements



78

Flood gates up to 1.8m tall to be installed in 2023/24 and 2024/25



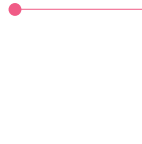
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IoT flooding sensors installed near essential facilities in 48 properties



>150%

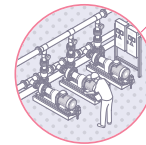
Draining efficiency boost with upgraded channel covers



Sandbags to combat low-level flooding



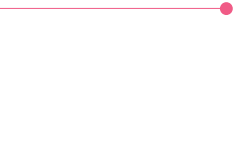
Sump pumps added and relocated above ground for efficiency



SMS alert messages to tenants

84

High jet clearing of last manholes and pipes in 2023/24 – beyond basic filter inspections



FROM RESILIENCE TO COMPETITIVE ADVANTAGE

The results of Link's resilience-first strategy were significant:



11.7%

Premium Reduction

More than triple the industry's average rate of premium decreases.



7.5%

Additional KPI-Linked Discount

Incentivising continued investment in climate adaptation. To meet the 60% loss ratio KPI, Link has invested a further HK\$3 million into flood resilience measures..



2x

Water Damage Sub-Limits

Demonstrating insurer confidence in Link's risk management approach.

Multi-Year

Insurance Agreements

Securing a **two-year commitment** rather than a standard annual renewal.



Greater

Market Interest

More insurers bidding for our coverage, increasing competition and improving policy terms.



By embedding climate resilience into its operational and financial strategy, Link has proven **that climate adaptation isn't just a defensive measure — it's a value creator.**



Setting a New Industry Standard

Real estate is at a crossroads. Rising climate risks will continue to challenge traditional insurance models, but **Link's resilience-linked insurance structure offers a replicable blueprint** for other asset owners.

“

We welcome the efforts made by Link REIT to make their assets more resilient and sustainable, and are pleased to show our support through promising insurance capacity and T&Cs. Extreme weather and climate risk are real issues for real estate and best tackled when all stakeholders work together.

Quoted by one insurer on an anonymous basis

”

What's next?

- **For Real Estate Leaders:** How can you integrate data-driven resilience into your portfolio strategy?
- **For Insurers:** How can underwriting models evolve to incentivise proactive climate adaptation?
- **For Investors:** How does climate resilience factor into long-term asset valuation?

The shift from reactive insurance to proactive risk management has begun — who will follow?

INCENTIVISING CLIMATE ADAPTATION:

An Insurance Perspective

Certain insurers have responded to extreme events by raising premiums, imposing stricter terms, and even reconsidering their deployment of natural catastrophe capacity to restore underwriting profitability and meet shareholder mandates.

However, **these reactions are unsustainable, as this ultimately leads to uninsurable assets** and has significant detrimental impact on asset values and wider economic and social downsides.

As shown in the Link case study, corporations in Asia, especially those in the real estate sector that are highly susceptible to and experiencing the acute risks from climate change, have begun integrating climate resilience into their long-term asset value protection strategies and operational continuity plans.

In the pursuit of fortifying insurance's role as an economic stabiliser and growth facilitator, **insurers should strive to adequately recognise and reward these climate-resilient initiatives that may only pay off in the future.**

By refining their underwriting methodologies to account for evolving weather patterns and climate dynamics, as well as innovating product designs that optimise coverage, terms, and premiums for enhanced climate risk management, insurers can better equip themselves to navigate the challenges posed by climate change.

One insurance company taking concrete action is AXA, who aims to act as a proactive partner to clients in developing climate-resilient designs and promoting sound risk management practices.



With the conviction that clients serve as the first-line defenders and best risk managers, AXA has collaborated closely with Link Asset Management and Marsh Hong Kong to pioneer a forward-thinking, cutting-edge and mutually beneficial Sustainability-Linked Insurance and Risk Management programme.

WHAT IS SUSTAINABILITY-LINKED INSURANCE?

Sustainability-Linked Insurance is an innovative property insurance solution and first-in-market approach in Asia, which factors in the impact and mitigation related to climate risks, and to reward and further incentivise corporates' sustainable actions in both the short and long term.

So how does it work?

After conducting a comprehensive climate and engineering risk assessment, **a set of sustainability-linked KPIs at peril basis will be defined** and aligned between clients and AXA. Based on the level of potential loss mitigation brought by those KPIs, **a preferential treatment in coverage and premiums terms will be granted** to the insured.

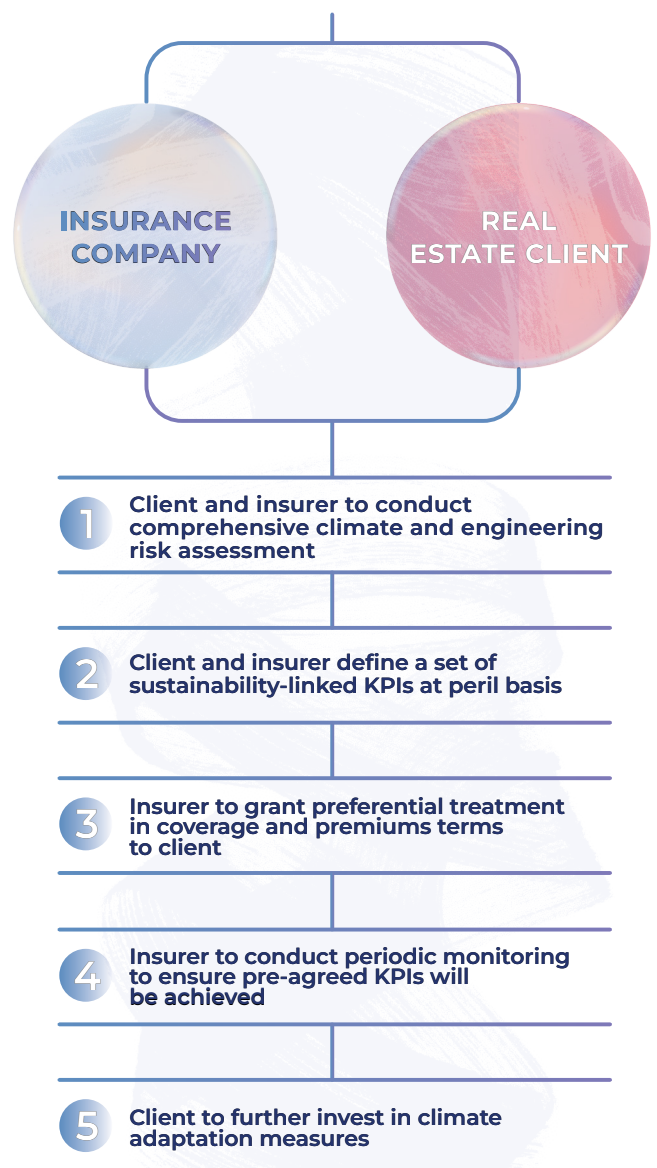
Periodic monitoring will be conducted by AXA to ensure pre-agreed KPIs will be achieved, with adjustments made as necessary.

Meanwhile, by leveraging more comprehensive coverage conditions and cost savings from the insurance programme, clients can further invest in climate adaptation or resilience initiatives to improve the risk profile of their property, ultimately ensuring the successful achievement of sustainability KPIs.

By doing so, clients with proven climate resilient actions could be awarded and further incentivised, while insurers can gain further understanding on how to integrate climate physical risk into underwriting, fostering product innovation with new coverage and terms to enhance profitability.

This type of strategic engagement is centred around a long-term relationship and mutual trust and commitment, deepening the role of insurance within the client's organisation. Collaboratively, both client and insurer can partner together to contribute towards a more sustainable future in the face of evolving climate and environmental challenges.

WIN-WIN SOLUTION

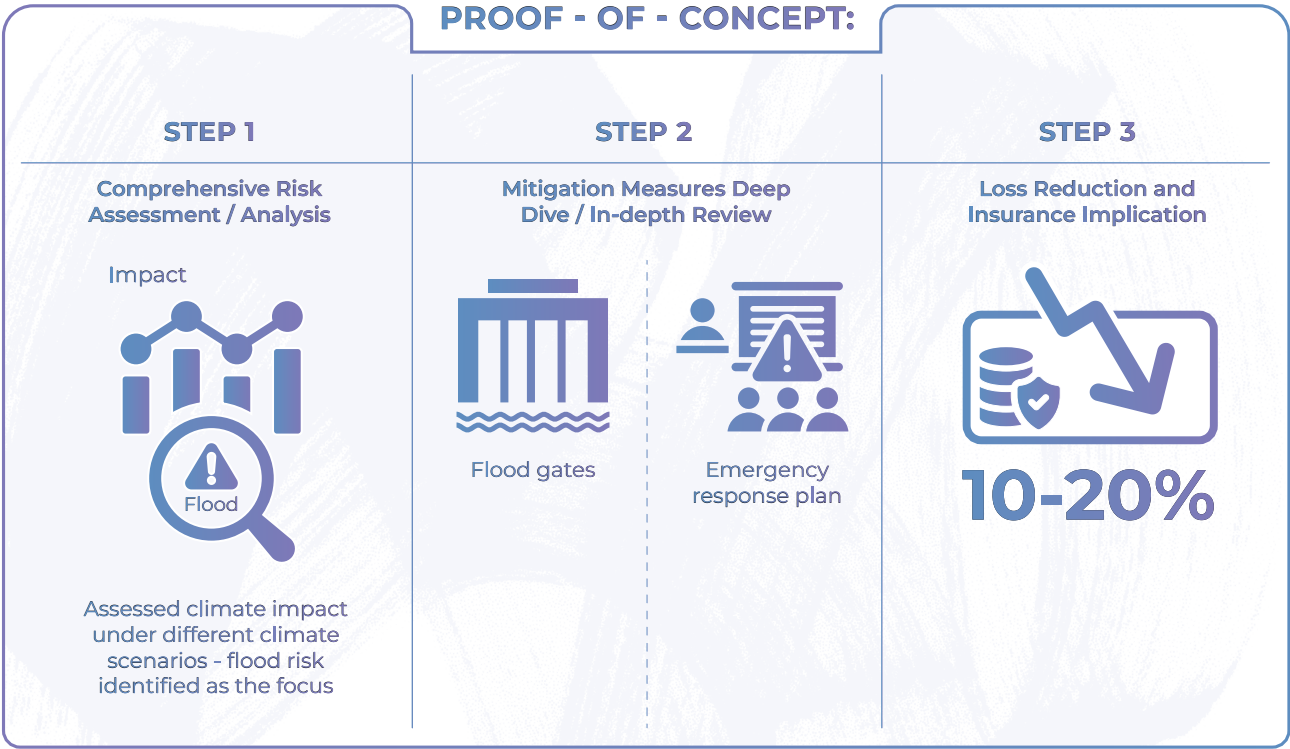


SUSTAINABILITY-LINKED INSURANCE:

A Proof-Of-Concept for Temple Mall North

To develop Sustainability-Linked Insurance into a more mature win-win approach, AXA conducted a proof-of concept study for Sustainability-Linked insurance on Temple Mall North (one of the most severely flooded Link assets in 2023) in November 2024.

Based on this POC analysis and estimated loss mitigation, AXA recommended that Link could consider requesting a reduction in insurance premium of approximately 10% to 20%, reflecting Link’s latest insurance renewal.



✔ Investment in resilience leads to cost savings and greater risk protection.

Step 01

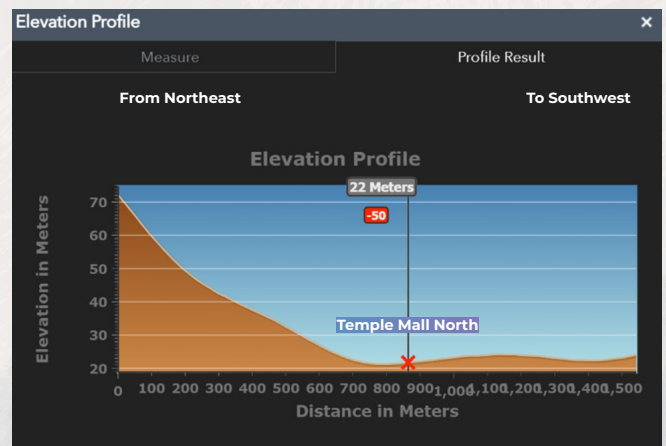
Comprehensive Risk Assessment / Analysis

a. Flood Exposure

The risk exposure to flooding at the location is assessed as Medium based on information derived from terrain, flood maps, past loss experiences, and construction features of the property.

Temple Mall North (TMN) is situated in a hilly area with buildings at varying heights, road connections and passages serving as the main flow paths. Its relatively elevated position helps mitigate minor levels of flooding.

However, it remains susceptible to flooding during heavy precipitation. The terrain slopes from northeast to southwest and then becomes flat at this site, causing water to accumulate in the



“Global Risk Map: Temple Mall North Elevation Profile - Northeast to Southwest.” ESRI. (2024)

northeast first and then spread to the southwest. Consequently, different locations at this site are susceptible to varying levels of flooding risk.

b. Measurement of Flood Depth

Depending on the precipitation pattern, the concentration on a specific location and volume over a specific period are highly unpredictable. However, when an extreme rainfall event happens, the Northeast location of the TMN building is generally foreseen to be most impacted and may be exposed to flood depths beyond six metres, whereas the Southwest location is less impacted but still may experience flood depths ranging between one to four metres due to its specific terrain.

Urbanisation and the surrounding environment can have both positive and negative impact on flood accumulation. For instance, several exits and entrances of the TMN building leading to public areas are not under the control of Link, including adjoining buildings, public roads, subways, tunnels and open areas. The construction structure and measures implemented by these surrounding assets will also impact the flood depth of TMN in a flooding accident.

Step 02

Mitigation Measures Deep Dive / In-depth Review



a. Flood Gates

With three additional detachable flood gates installed at the LG/F entrance and an additional full-height floodgate installed at the facility room, the flood protection capacity for TMN is significantly increased. However, AXA has identified further improvement areas:

- Upgrading to an FM-Approved product could be considered, as it is subject to a more stringent testing conditions, especially for wave-induced hydrodynamic load tests.
- The barrier height could be increased to above historic highest flood level ("A"), plus a 0.6m high freeboard (total barrier height = A+0.6m).
- A feasibility study of both flooding risk exposure and improvement works for the whole premise could be conducted, not just for the LG/F.



b. Emergency Response Plan

The Emergency Response Plan in the Property Management SOP has been updated based on the Black Rain event with a more effective response strategy rooted in real experiences to address any gaps in the existing plan.

Several areas of additional improvement have been identified:

- A detailed timeline for the gradual activation of the Flood and / or Typhoon / Rainstorm Emergency Response Plan could be defined. For instance, it is suggested to set specific time thresholds for assembling flood prevention devices, such as floodgates and other barriers, as well as safeguarding critical equipment and building entrances.
- The frequency of training for the responsible departments or staff could be increased to familiarise them with the operation of flood prevention devices.
- The frequency of drills could also be increased to further equip the emergency team to effectively execute the response plan during a real event.
- It is also recommended to designate a distinct role and responsibility for each outsourced contractor, particularly when they share responsibility for the same tasks.

Step 03

Loss Reduction and Insurance Implication

a. Impact of New Measures

In light of the resilience measures taken, in a replay of the events of Typhoon Haikui and Black Rain of September 2023, the following procedures are likely to take effect.

Once The Hong Kong Observatory announces the probability of an approaching typhoon, the property management team at TMN would follow the most updated emergency response plans and take appropriate preventive measures, including cleaning drain holes and manholes, installing flood gates and barriers, and inspecting sump pumps to ensure functionality, etc.

During the typhoon and rainfall, the following reinforced and planned flood protection measures are assumed to be effective in preventing water intrusion into the indoor areas, such as the LG/F, under the scenarios described below described:

- Flood sensors at LG/F are functioning and provide instant warnings.
- A comprehensive typhoon and flood response plan is well in place.
- Regular drills and trainings for handling flood incidents are well conducted so staff are well prepared for a flooding event.
- New floodgates / barriers at all critical exits and entrance should successfully restrict most of the rainwater from invading the building. However, since a detailed analysis of other exits and entrances leading to outdoor

areas or other potential sources of rainwater invasion is not provided, the sufficiency of the current installation is difficult to assess.

- New designs for covers in the U-channels of the drainage system and an additional stand pump could effectively discharge away the downpour in a timely manner. Portable pumps and manual cleaning can manage any water that seeps into the building through cracks and other minor openings.
- Newly built full-height flood gates in the Air Handling Unit Room and the Main Switch Room on LG/F can effectively protect the devices and ensure the continuity of services.

Promptly after the typhoon and rainfall, nominated contractors were summoned promptly for necessary remedial works, including water extraction / pumping work, water / mud cleaning, lift and escalator maintenance and temporary power supply.

b. Estimation of Loss Mitigation and Insurance Implications

Based on the effective operation of all the above-mentioned measures, typhoon and rainfall events are unlikely to cause a major disruption to business operations (less than one week). This estimation will thus only consider direct flood losses to physical property and indirect financial impacts on business operations in the immediate aftermath.

The loss mitigation is estimated to be at 10% to 20% of the impact of the actual losses suffered in 2023 Typhoon Haikui and Black Rain. This reflects the effectiveness of the investment in flood prevention measures by Link, although uncertainties remain regarding whether all critical exits have been adequately protected and whether those new flood prevention devices can withstand a 1-in-500-year flood event.

CLOSING REMARKS

Responding to climate change is a sizeable challenge and responsibility for all companies.

The increased severity and frequency of extreme climate demands greater attention and resources to tackle the intensifying universal problem. **This escalation has already increased the cost of doing business** and redefines what it means to operate on a “business as usual” basis.

With climate change, business is no longer usual.

Much like a delayed response to medical treatment, the consequences of deferred action on physical risks may result in second-rate outcomes and increased costs. The cost of hesitation, however, can be avoided.

Sustainability-Linked Insurance offers enormous potential to mitigate against the financial and physical burden of a failure to respond adequately to climate change. Moreover, such product innovations support the development of green and sustainable finance by recognising climate resilient actions and investments with tangible, time-appropriate rewards and real-world benefits for both insurers and the insured.

This is a win-win product.

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As one of the most diversified insurers in Hong Kong, we offer integrated solutions across Life, Health and General Insurance. We are the largest General Insurance provider and a major Health and Employee Benefits provider. Our aim is to not only be the insurer to provide comprehensive protection to our customers, but also a holistic partner to the individuals, businesses and community we serve. At the core of our service commitment is continuous product & service innovation and customer experience enrichment, which is achieved through actively listening to our customers' needs and leveraging and investing in technology and digital transformation.

We embrace our responsibility to be a driving force against climate change and a force for good to create shared value for our community. We are proud to be the first to address the importance of mental health through different products and services and thought leading iconic research. Our overall Sustainability Strategy, with emphasis on climate strategy and biodiversity commitment, is developed based on TCFD recommendations. We are committed to integrating environmental, social and governance factors across our business and strive to contribute to a sustainable future through 3 distinct roles - as an investor, insurer and an exemplary company.

About Link Asset Management Limited

Link Asset Management Limited (Link) is a leading, independent, and fully integrated real estate investor and manager focusing on the APAC region. It manages Link Real Estate Investment Trust (Link REIT, Hong Kong stock code: 823), the largest REIT in Asia, and its real estate investment portfolio. Link also aims to leverage its investment management capabilities to serve as a trusted investment manager to capital partners through its business line, Link Real Estate Partners.

Building on its strong track record over almost two decades, Link targets to deliver resilient returns and growth to its unitholders. Link offers a "REIT plus" investment case through its strategic focus on diversifying the Link REIT Portfolio across geographies and asset classes in APAC and expanding its investment management business.

Link aspires to be the trusted partner in APAC real estate sector for unitholders, capital partners, tenants, and the wider communities it serves.

For more information about Link, please visit www.laml.com.

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