



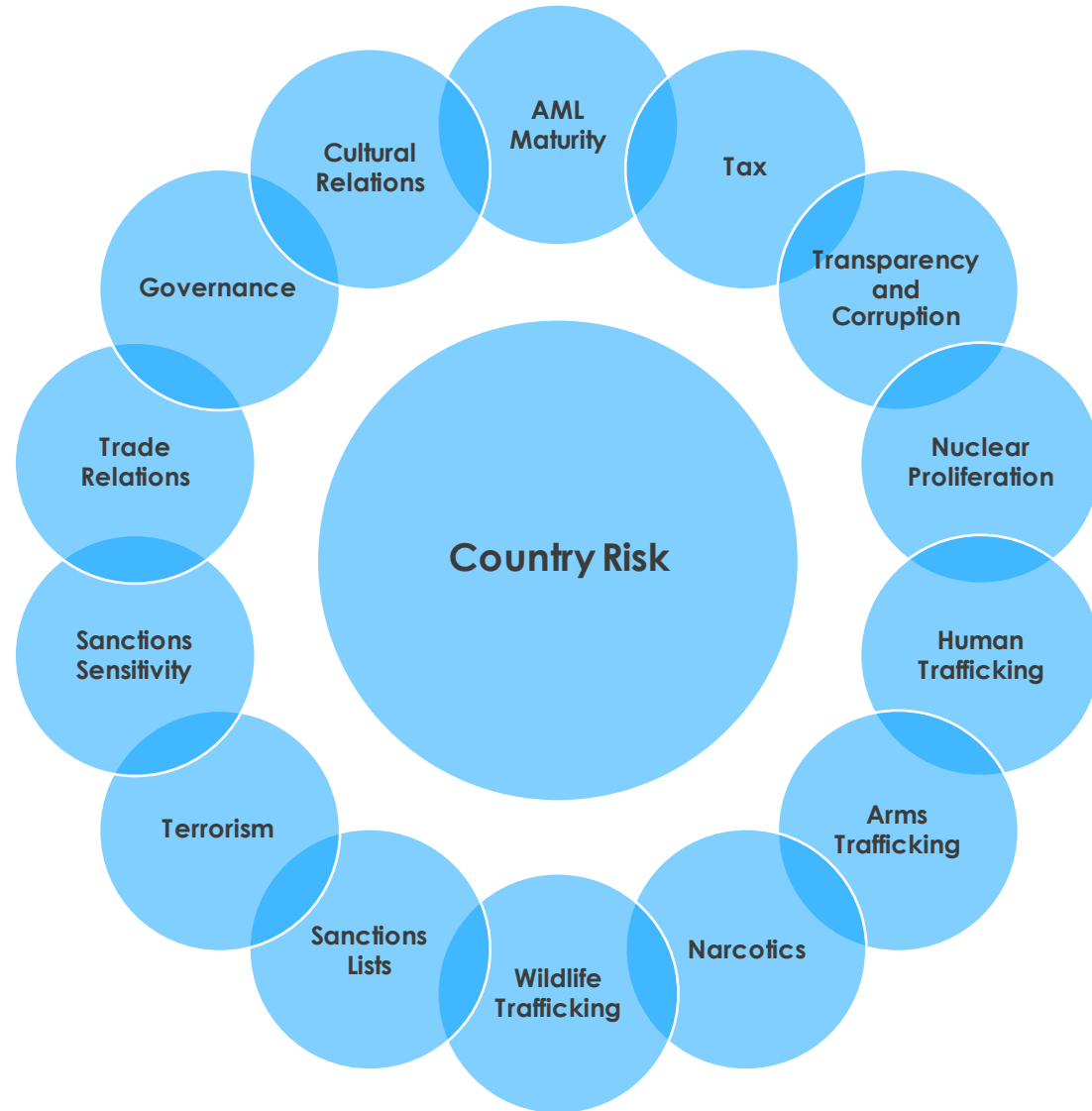
Country Risk Index

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SQA Product Portfolio

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Product Overview

SQA Country Risk Index

Understanding the relative risk of doing business with another country has never been so fundamental to banking. Rather than taking a blanket approach to risk it is now necessary to maintain competitive advantage by tuning your risk assessment to focus where the risk is greatest.

We all have impressions of how risky other countries are, based on anecdotes, news stories, and personal prejudice. However our first impressions are perhaps not the best guide to driving risk assessments, and the world is so diverse and hard to appreciate that we are unlikely to have first hand experience of many countries.

At SQA Consulting we have developed a Country Risk Index for every country in the world[†], which provides the relative risk rating for each country. It can easily be tuned to focus on the type of risk relevant for the task at hand for example, Sanctions risk, AML risk, PEPs, etc.

[†] There are lots of different ways of deciding which is and is not a country. We use the ISO Country Code index which lists 250 countries, this is far more than for example: the members of the UN.

Different country risk ratings for different purposes:

Customer On Boarding

Customer Risk Assessment

PEPs

Ongoing Monitoring

Sanctions Risk

Terrorist Financing

SQA Country Risk Index

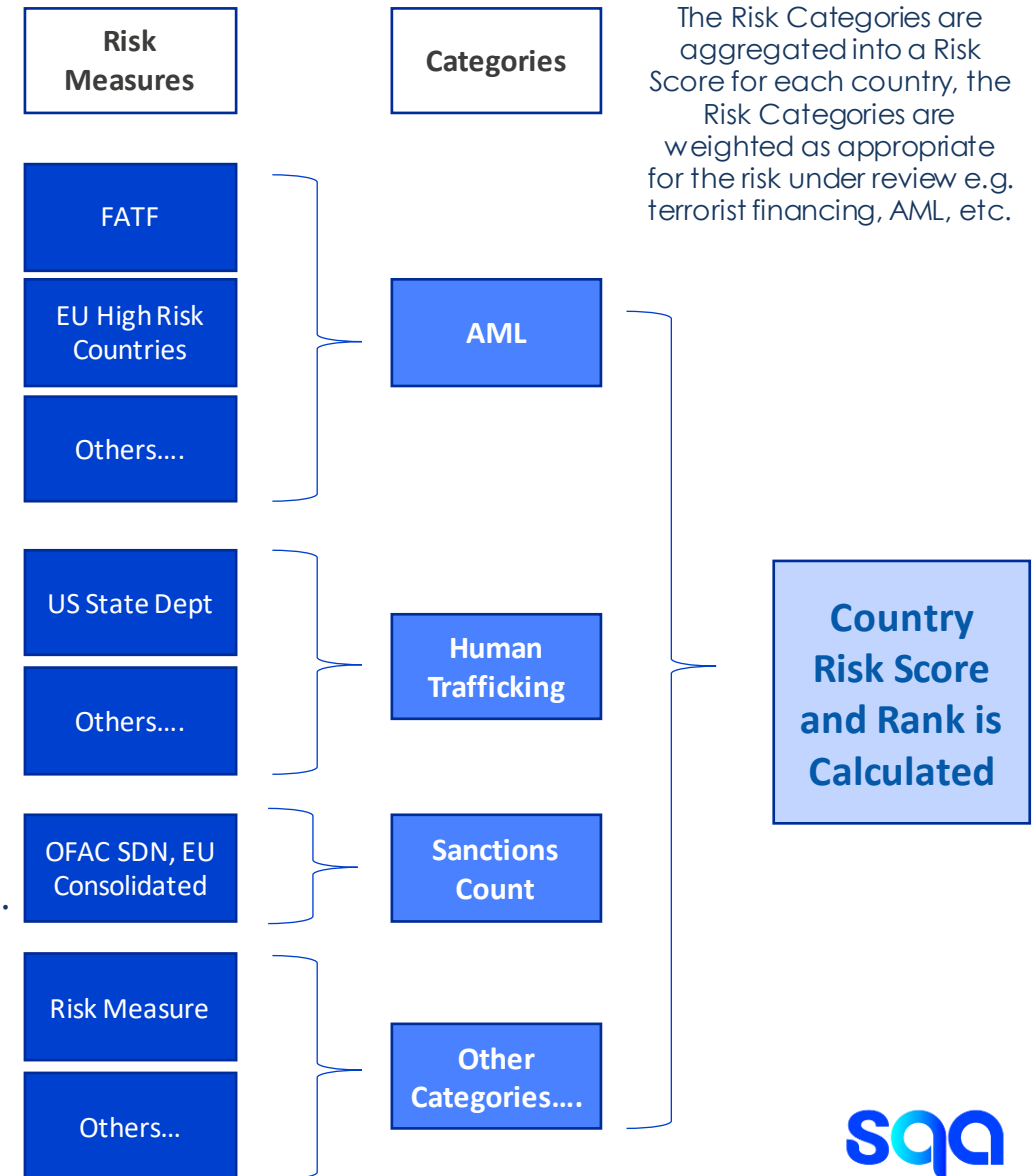
The SQA Country Risk Index is a tool for measuring the relative risk of doing business in each country in the world. It is constructed from different risk related measurements grouped across 16 categories, all taken from many diverse sources, for example:

- The World Bank
- OFAC
- EU Sanctions Lists
- CITES
- US State Department
- United Nations
- FATF
- SQA Consulting Data
- and many more

Over 60 measurements are aggregated into the 16 separate Risk Categories. These 16 Categories are then aggregated using a user customisable weighting system to create a single risk score for each country.

A 17th category is included to capture internal knowledge regarding a country which can be combined with the other category scores.

Each Risk Measure is factored into a Risk Category using weighting defined by SQA.



SQA Country Risk Index – Category Weightings

We do not assume that all organisations fall under the same risk profile, and even in the same organisation different processes such as PEPs Screening and Transaction Monitoring will have different risk influences.

To counter this the 17 risk categories can be tuned by applying different weightings according to type of risk under consideration.

For example:

Sanctions Risk	PEP Risk
Higher weightings on: <ul style="list-style-type: none">• SDN Density• SDN Count• Sanctions Sensitivity and Programmes• Trade Relations to Prohibited Countries• Cultural Relations to Prohibited Countries	Higher weightings on: <ul style="list-style-type: none">• AML Maturity• Tax Transparency• Transparency and Corruption• Governance & Political Stability

SQA provides guidelines and baseline weightings for all categories when using the CRI for different purposes including Sanctions, AML, PEPs, Terrorist Financing and Customer Risk Assessment. By changing the weighting of the various inherent risk categories the rankings and scores of the countries will change according to your risk profile set.

Product Functionality

Risk Categories

The Risk Categories are listed here. Some of the Risk Categories have American and Non-American versions, American versions will include Cuba as a country of sanctions sensitivity, and also have more emphasis on US State Department information than EU Money Laundering Directives. Counts (SDN and Terrorism, are the number of individuals and companies in a country) Density (SDN and Terrorism) are the number of individuals and companies in a country per head of population).

SDN Density

AML Maturity

Tax

User Knowledge

Governance

SDN Count

Trade Relations Prohibited Countries

Human Trafficking

Cultural Relations Prohibited Countries

Transparency and Corruption

Nuclear Proliferation

Arms Trafficking

Drug Proliferation

Terrorism Count

Terrorism Density

Wildlife

Sanctions Sensitivity & Programmes

Updating Process

There are over 60 Risk Measures, and each is updated on a separate cycle:

- Many are based on Annual Reports, and are updated on an annual cycle.
- Some are based on dynamic information, such as how many OFAC SDNs are in a country, and are updated Monthly.
- Some are reactive, such as countries featuring a Sanctions Program, and are updated following a regulatory notification from OFAC or the EU.
- The Country Risk Index can be provided on a regular basis to allow for updates to the data or on a less frequent basis depending on what suits internal business processes.

Anatomy of the Country Risk index

Country Rank

The Country Name

The weighting for each risk category.

Rank	Country Code	Country	Risk Category ref	1	2	3	4	5	6	7	8	9	10	
			Weighting	5	5	10	0	0	0	0	0	0	0	
			Overall Risk Score	AML Maturity	Tax	Transparency and Corruption	Nuclear Proliferation	Human Trafficking	Arms Trafficking	Drug Proliferation	Wildlife	SDN Density	SDN Count	Terror: Density
			Normalised out of 10											
1	SY	SYRIA	100	54	27	85	21	63	100	0	17	21	95	22
2	IR	IRAN	98	100	27	66	36	100	100	0	17	7	100	9
3	LB	LEBANON	96	31	7	66	21	16	0	0	17	13	71	100
4	SO	SOMALIA	94	39	27	96	29	100	100	0	0	4	53	10
5	KP	NORTH KOREA	92	82	27	93	100	88	100	0	35	10	86	0
5	AF	AFGHANISTAN	92	59	27	73	21	31	100	71	17	7	73	18
7	YE	YEMEN	90	54	27	74	21	88	100	0	17	2	55	10
7	PS	PALESTINE	90	20	27	90	29	53	50	0	35	2	45	23
9	EH	WESTERN SAHARA	87	43	27	100	43	53	100	0	35	0	0	0
10	IQ	IRAQ	83	41	23	71	21	31	50	0	17	4	80	9
11	ER	ERITREA	81	39	27	89	29	75	100	0	17	0	22	0
12	VE	VENEZUELA	80	52	27	73	21	63	50	71	17	2	73	1
13	BA	BOSNIA AND HERZEGOVIN	79	59	55	59	21	31	0	0	17	4	43	13
14	PK	PAKISTAN	78	61	7	62	93	41	100	71	17	1	72	5
15	RE	REUNION	77	43	27	85	43	53	100	0	35	0	0	0
15	TT	TRINIDAD AND TOBAGO	77	68	87	55	21	16	0	0	17	2	15	11

The ISO 2 Character Country Code to avoid ambiguity.

The overall relative risk score out of 100.

The score out of 100 for each risk category

Key Benefits of the SQA CRI

- Multiple data sets combined to provide balanced independent country assessment
- Robust and reusable process
- Diverse Use – Multi-purpose Risk Assessment within the one product
 - AML, Transaction Monitoring, Terrorist Financing, Customer Risk Assessment, PEPs
- Transparent Methodology – fully documented and available to clients to satisfy audit and regulator requirements

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