OPERATIONAL RISK INDEX METHODOLOGY

Please note: BMI is enhancing its risk analysis with a new scoring system following acquisition of GeoQuant, a market-leading provider of political risk data. From March 27 2024, risk scores are inverted: zero now represents the lowest risk and 100 the highest, for clearer, industry-standard assessments. This methodology document has been updated accordingly.

BMI's Operational Risk Index quantitatively compares the challenges of operating in 200+ countries and territories globally. The index scores each country or territory on a scale of 0-100, with 100 being the highest risk. The entire index consists of sub-index scores based on individual surveys and datasets, which all contribute to the headline score.

Each country or territory has a headline Operational Risk Index score, which is made up of four categories of analysis, each further broken down into three sub-sectors. The individual categories and sub-categories are also scored out of 100, with 0 the best.

The index focuses on four main risk areas: labour market, trade and investment, logistics, and crime and security.

- **Labour Market:** evaluation of the risks surrounding employing workers, including the education levels of the labour force, availability of suitable workers, and employment costs.
- **Trade and Investment:** evaluation of the openness of an economy, the level of banking sophistication and taxation, and the effective functioning of the legal and bureaucratic systems.
- **Logistics:** evaluation of the quality and coverage of the utilities, transport and trade infrastructure, including the costs and potential obstacles to business activities.
- **Crime and Security:** evaluation of potential security risks stemming from terrorism, political violence, war and criminal activities, weighed against government capacity to provide protection from these threats.

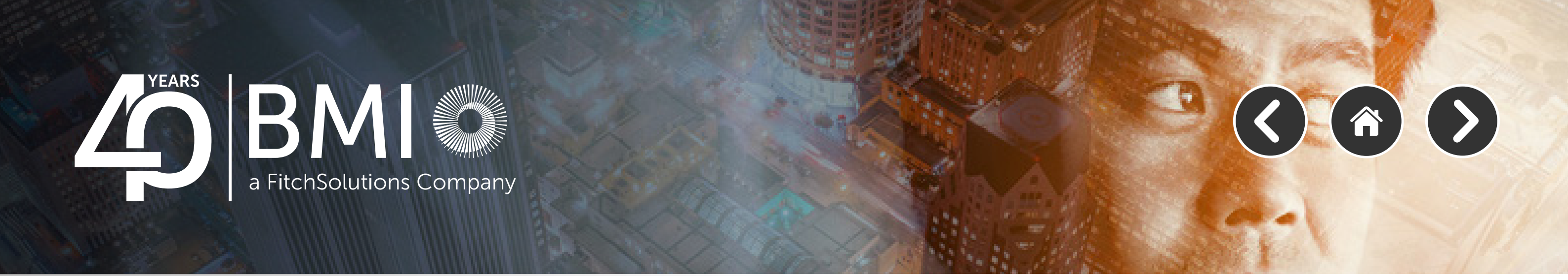
OPERATIONAL RISK INDEX

The four main Operational Risk categories are equally weighted to form the overall Operational Risk score for each country or territory as shown in the below table.

Operational Risk Pillars

Indicator	Weighting(%)
Labour market risk	**25%**
Trade and investment risk	**25%**
Logistics risk	**25%**
Crime and security risk	**25%**

Source: BMI



OPERATIONAL RISK BREAKDOWN

Operational Risk Index (100%)

- **Labour Market (25%)**
  - Skills
  - Availability of Labour
  - Labour Costs
- **Logistics (25%)**
  - Transport Network
  - Trade Procedures and Governance
  - Utilities Network
- **Trade & Investment (25%)**
  - Economic Openess
  - Legal
  - Government Intervention
- **Security (25%)**
  - Conflict Risk
  - Vulnerability to Crime
  - Business Crime

Unpacking The Four Main Pillars

The overall Labour Market Risk score is calculated from the average of the Availability of Labour, Skills and Labour Cost sub-component scores.

Skills: The skills sub-component assesses the levels of basic skills and advanced skills among the population. Scores are based on enrolment rates at each level of skills, literacy rates, digital skills among the population and the uptake of technical fields of study at higher skills levels. This gives an indication of the talent pool available and emphasises higher value technical skills.

Availability of Labour: The availability of labour score considers the size of the workforce, the quality, age and health of the labour pool and its composition with regards to the diversity and occupational status of workers.

Labour Cost: This sub-component assesses the flexibility of labour laws and the cost of hiring in a particular country/territory. It includes factors such as the minimum wage, severance pay and regulations surrounding hiring and firing practices. The scores are calculated to reward the countries with the lowest hiring costs and most flexible legislation.

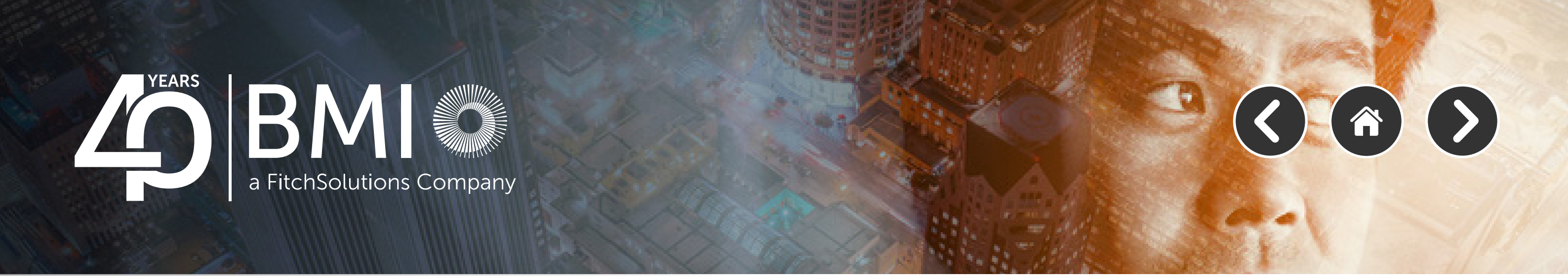
Logistics Risk

The Logistics Risk component is calculated using the average of the Transport Network, Trade Procedures and Governance and Market Size and Utilities scores.

Transport Network: This indicator assesses the extent and quality of road, rail, port and air transport networks within a country, which indicate capacity to meet businesses supply chain needs.

Trade Procedures and Governance: This indicator assesses the ease of exporting and importing goods in a given country/territory based on the available connections to international supply chains and the impact of bureaucracy and customs procedures on trade times and costs.

Utilities Network: This indicator assesses both the cost and availability of four key utilities: electricity, fuel, water and internet services, with countries offering cheaper and more reliable supplies scoring highly.



Trade And Investment Risk

The overall Trade and Investment Risk Index score is calculated using the average of the Economic Openness, Government intervention and Legal sub-component scores.

Economic Openness: Analyses the level of openness to foreign investment and international trade. This is generated from indicators such as import, export and foreign direct investment (FDI) values as a percentage of GDP, which are used as a barometer of openness. A state that is more open to private and foreign businesses will achieve a higher score for this indicator.

Government Intervention: This score is composed of information on taxation and the availability of financing. The scoring system favours countries which offer lower taxation and open, sophisticated financial markets with easy access to loans.

Legal Environment: This score reviews the strength, transparency and efficiency of the legal system and the burden of bureaucracy. It measures the extent to which the rule of law is upheld, the prevalence of corruption, and the delays and costs involved with the bureaucratic procedures required to set up a business.

Crime And Security Risk

The Crime and Security Risk Index score is the average of the Conflict Risk, Vulnerability To Crime and Business Crime scores.

Conflict Risk: This indicator assesses the risk of interstate and internal conflict. We examine possible triggers for military confrontation and the threat of terrorism and political violence, balanced against the strength of the military and counter-terrorism forces.

Vulnerability To Crime: This indicator assesses the risk of crimes to the person and to property, from both a violent and petty crime perspective. It also examines the capability and integrity of the police force.

Business Crime: Analyses 'white-collar' crimes that specifically target businesses rather than individuals, including organised crime, financial crime and cybercrime. It also analyses the corporate governance culture and highlights potential reputational risks to businesses from corruption and money laundering, and the level of due diligence required for higher-risk jurisdictions.

Weighting of Indicators (%)

	Weighting
LABOUR MARKET RISK	**25 of which**
Skills	**33 of which**
Basic Skills	50
Advanced Skills	50
Availability of Labour	**33 of which**
Size of Labour Force	50
Composition of Labour	50
Labour Cost	**33 of which**
Costs of Employment	50
Flexibility of Workforce	50

Weighting of Indicators (%)

	Weighting
LOGISTICS RISK	**25 of which**
Utilities Network	**33 of which**
Cost of Utilities	50
Availability of Utilities	50
Transport Network	**33 of which**
Quality of Transport Network	50
Extent of Transport Network	50
Trade Procedures and Governance	**33 of which**
Ease of Trading	50
Connectivity	50

Weighting of Indicators (%)

	Weighting
TRADE AND INVESTMENT RISK	**25 of which**
Economic Openness	**33 of which**
Trade Openness	50
Investment Openness	50
Government Intervention	**33 of which**
Taxation	50
Financial Barriers	50
Legal	**33 of which**
Regulatory And Bureaucratic Environment	50
Legal Environment	50

Weighting of Indicators (%)

	Weighting
CRIME AND SECURITY RISK	**25 of which**
Conflict Risk	**33 of which**
Terrorism and Political Violence	50
Interstate Conflict Risk	50
Vulnerability To Crime	**33 of which**
Violent and Petty Crime	50
Capability of the Police Force	50
Business Crime	**33 of which**
Financial and Cyber Crime	50
Corporate Governance	50

Methodology, also available from the **BMI's Operational Risk page**. Source: BMI

Sources

The BMI Operational Risk team collects data from supranational bodies such as the UN, WHO, WEF, WIPO, The Basel Institute, Transparency International, The Institute for Economics and Peace, the CIA World Factbook, the World Bank and the World Resource Institute in addition to governmental bodies such as national statistical institutes and relevant ministry websites. **Please note that no indicators from the World Bank's discontinued Doing Business service are included in the BMI operational risk index.**

Data Governance

The index is updated once every quarter. Updates are made available in the last week of each quarter (i.e. at the end of March; June; September; December of each year) The planning and data work starts in the last week of the second last month of each quarter (i.e. end of February; May; August; November) – where all relevant stakeholders are notified of the update process.
No strategic changes can be made without approval from the Content Review Committee (CRC). Furthermore, the CRC will factor in the potential impact on clients and other relevant stakeholders.
If changes are made, clients are notified of the process.

What Qualifies As A Strategic Change?

A strategic change includes any major change that materially changes the methodology. This covers but not limited to: a change of index/ sub-index input. In addition, replacing a data source that no longer exists also requires additional sign off. Reweighting of the index would also qualify as a major strategic change.

Independence

The index and methodology are PUBLISHED BY BMI - A FITCH SOLUTIONS COMPANY An entity that is separate from Fitch Ratings' Credit Ratings. Any comments or data included in the index and reports are solely derived from BMI and independent sources. Fitch Ratings analysts do not share data or information with BMI. To learn more visit **www.fitchsolutions.com/bmi**

About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries.

For 40 years, we have provided impartial and transparent analytics, data and research across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at **fitchsolutions.com/bmi**

Client Services

A dedicated team of client services professionals based in New York, London, Hong Kong, Singapore and Tokyo provide client support.

LONDON
+44 20 3530 2400
emeaclientservices@fitchsolutions.com

NEW YORK
+1 212 908 0800
usaclientservices@fitchsolutions.com

HONG KONG
+852 2263 9999
asiaclient.services@fitchsolutions.com

SINGAPORE
+65 6796 7231
asiaclient.services@fitchsolutions.com

TOKYO
+81 3 6897 8986
asiaclient.services@fitchsolutions.com