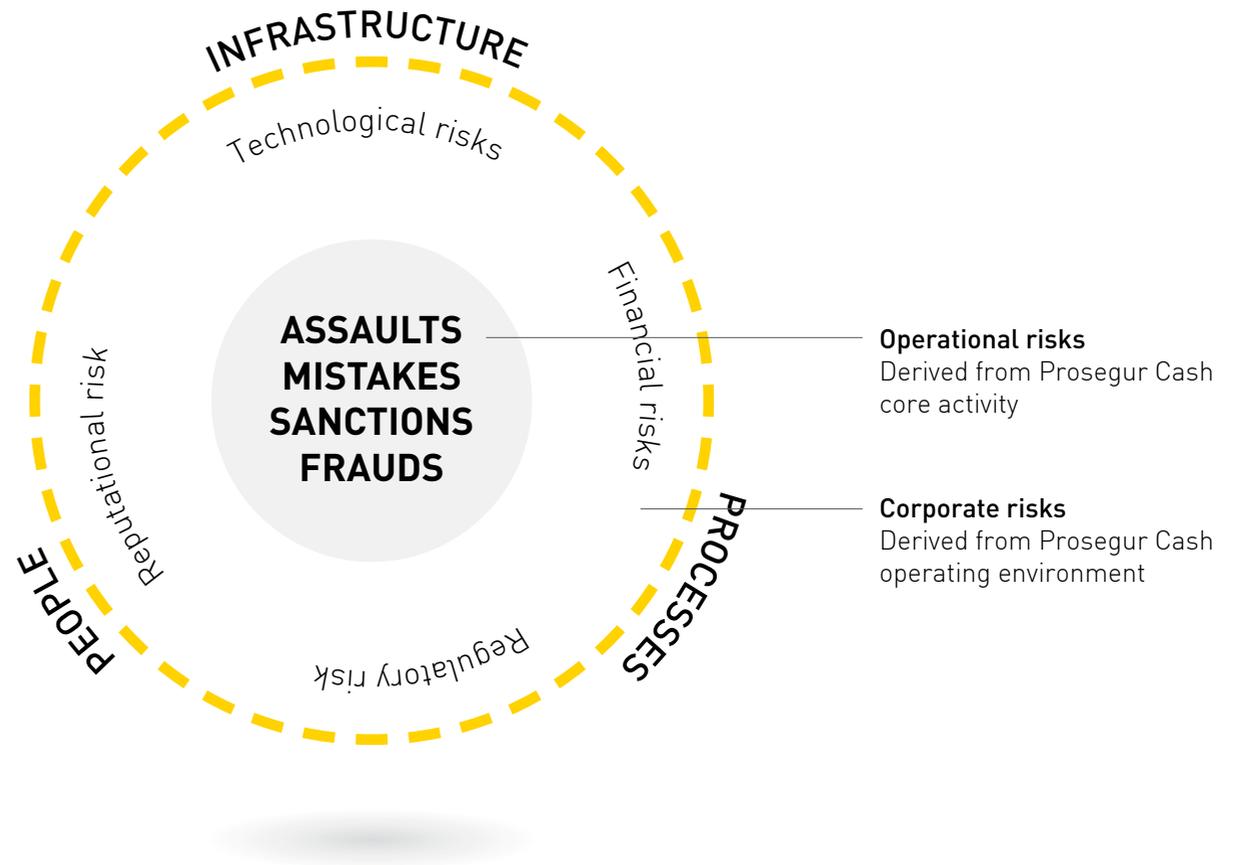


2.2. Risk management

Prosegur Cash's risk management is double-edged: on one side, managing the risks and uncertainties arising from the environment itself which affect the company's activity and, on the other, managing the risk in the operations resulting from its main activity, which is the nucleus of its business model. The most notable components of Prosegur Cash's risk management are the infrastructure, people and processes involved in the activity. In addition to representing the sources from where the identified operational risks may materialise, they are also the main barrier from which that materialisation can be contained.



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Prosegur Cash's business model is to accept and manage the risks from the activities involved in moving its customers' cash. Therefore, the area responsible for risk management is extremely important in the feasibility study of the services requested by customers.

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The Risk Control and Management System is based on procedures and methodologies that enable the identification and assessment of risks in order to achieve the main objectives of Prosegur Cash. It is largely based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) system and is complemented by other standards applied by most of our customers in the financial sector such as the Basel III rules and the ISO 31000 standard. The basic risk management principles of Prosegur Cash are:



- › Continuous identification, assessment and prioritisation of critical risks based on their possible impact on Prosegur Cash's main objectives.
- › The risk assessment and evaluation procedure is carried out in accordance with pre-established tolerance levels so that the assessment constitutes the basis to determine how to manage each risk. A series of key indicators will be selected on the basis that they can be controlled, assessed and monitored over time.
- › Periodic follow-up on assessment results and the effectiveness of measures implemented by Prosegur Cash's management so as to prevent, mitigate, compensate for or correct the effects of the materialisation of any of the managed risks.
- › The Corporate Risk Committee periodically reviews and analyses risk management and control results and reports its findings to the Audit Committee which is responsible for overseeing the system.

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The maximum responsibility for risk management and control falls on the Board of Directors. The Audit Committee has, among its basic responsibilities, that of supervising the effectiveness of internal control and risk management systems, checking their appropriateness and completeness, and reviewing the appointment and substitution their managers.

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Risk management cycle

01. INFORMATION

Inform and communicate risk exposures and conduct an annual assessment of riskd.

04. MONITORING

Supervise and follow-up compliance with policies, standards, procedures, information systems through internal control to ascertain whether exposure is acceptable. Continuous remote and on-site monitoring.



02. RISK IDENTIFICATION

Identify business risks or foresee risk scenarios, measure and analyse their impact on the company.

03. CONTROL

Propose new policies or reassess existing policies. In addition, propose necessary corrective measures based on cost-effectiveness criteria to minimize identified risks.



The main risks identified for Prosegur Cash include:

RISKS IDENTIFIED	
REGULATORY RISKS	<ul style="list-style-type: none"> › Regulatory non-compliance, including employment and social security regulations, tax regulations, arms control or prevention of money laundering applicable in each market and/or as a whole. Unfavourable changes in regulatory conditions, including as tax legislation or restrictions on how to obtain or renew permits and licences.
	<ul style="list-style-type: none"> › Prosegur Cash devotes the greatest part of its efforts to regulatory compliance and the management of operational risks due to their impact on the commitments undertaken with stakeholders and, specifically, with customers.
	<ul style="list-style-type: none"> › Regulatory risks are mitigated by identifying them at an operational level, regularly assessing the control environment and via the implementation of programmes to constantly monitor the proper operation of controls implemented.
	<ul style="list-style-type: none"> › Prosegur Cash set up an Anti-Money Laundering Unit in 2018.
OPERATIONAL RISKS	<ul style="list-style-type: none"> › Operational risks are those related to burglaries and robberies, errors in operations, legal penalties and, as a result thereof, business continuity risk. In particular the risks due to incidents involving assets under custody or lost cash, operations in markets with temporary reductions in demand and operations in highly competitive markets. There are formal programmes and policies that help to control this type of risk.
	<ul style="list-style-type: none"> › One task that should be highlighted is the monitoring task of the control and traceability of operations in the transport, handling and storage of cash. Furthermore, additional assistance is provided for claims or discrepancies in the cash management activity, helping to identify best practices and designing procedures to minimise the risk of losses.

RISKS IDENTIFIED	
REPUTATIONAL RISKS	<ul style="list-style-type: none">› Negative publicity about the company. Loss of trust.
FINANCIAL RISKS	<ul style="list-style-type: none">› Including the risk of fluctuations in interest rates or exchange rates, and counterparty and tax risks. In addition, the deterioration in cash flow generation or cash flow management.
TECHNOLOGICAL RISKS	<ul style="list-style-type: none">› Failures or incidents in the IT infrastructure. Loss or theft of own or customers' confidential information. Cyberattacks and computer and security failures.





2.2.1. Operating risk management

The Global Risk Management Department is the area of the company responsible for improving the efficiency of risk management. The structure and organisation of this department, in itself, represents a competitive advantage compared to other companies in the sector. This department provides Prosegur Cash with the necessary tools to efficiently manage the risks associated with the

security of operations and provides the necessary tools to ensure that the standards and procedures defined by the company are upheld and to ensure compliance with national regulations.

The corporate structure, located in Madrid (Spain) comprises three departments with regional and national representation: Security, Intervention and

Insurance. The integration of these three departments into a single Global Directorate maximises the efficiency of operations at the lowest cost thanks to the in-house specialists that share common procedures.



Global Risks Management Division

Security Department

SUPPORT AREA

- > Security of bases and facilities
- > International Tactical Recruitment Team
- > Intelligence
- > Information security

Countries

Investment Department

- > Europe & Asia-Pacific
- > Latin America
- > Brazil

Insurance Department

- > Operational Structure

Countries

The Security Department manages the risks and legal policies concerning security and acts as the organisation's second line of defence, taking an active role in the development and implementation of business operations in security matters. The department has a large number of employees distributed across four global support areas: Intelligence, Information Security, Security at Operational Sites and Facilities, and International Tactical Training Team. In 2018, work has taken place on improving the protection of operational sites, in strengthening of the Remote Control Centres and in modernisation of tracking equipment in armoured units.

The Intervention Department is comprised of 188 individuals organised into two units: Intervention and Loss Control (LCU). These two units conduct on-site reviews of business operations (audits of valuables in custody, operational controls, security in operations, security of facilities and compliance with legal policies), with remote monitoring of daily accounting closures at all delegations, helping to minimise operating losses for the Prosegur Cash business.

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Operational risks are of key importance in the management of the business in so far as their control is the main tool in improving efficiency: the minimisation of operating risks increases the profitability of projects. These risks are mainly due to errors in daily activity (operational differences), under-excess claims covered it by the captive (robberies and frauds) and the reinsurance cost. The sum of all these deviations is known as Cost of Risk, which is mitigated by a policy to cover these losses, underwritten by a “captive” reinsurance company. The low level of claims by Prosegur Cash ensures that the cost of this policy also remains very low. This is because the efficient management of the business, risk containment and the very low operational differences, ultimately reduce the cost of insuring the business.

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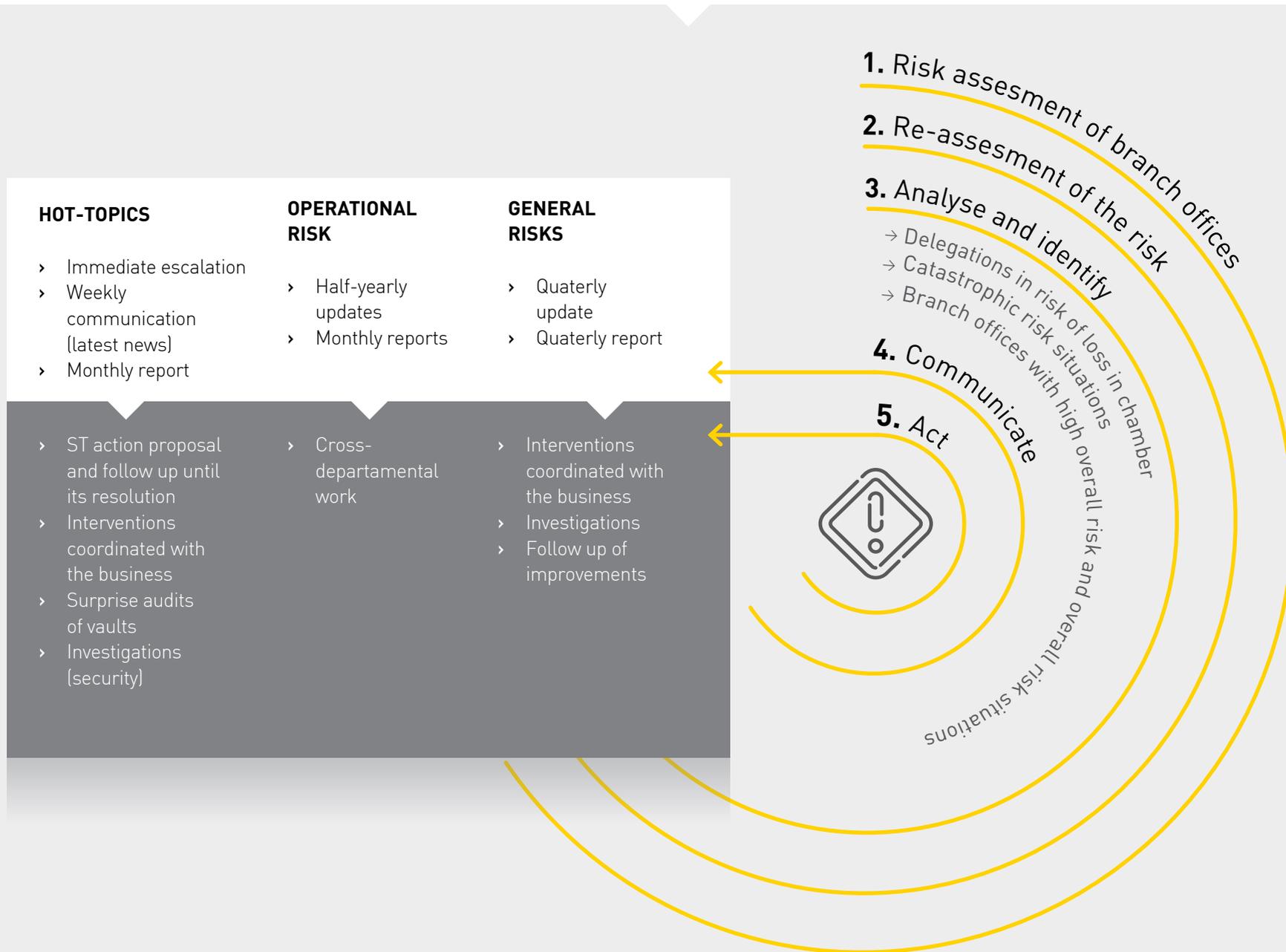
Operational risk management and control model for the intervention unit

During 2018 the Department conducted 325 operational reviews and 334 vault audits in the Prosegur Cash business, and 11 transversal audits for support processes across all businesses.

During 2018 the Loss Control Unit launched a new application intended to provide daily control over vault closures. The deployment began in Brazil and is set to be rolled out to the remaining countries in 2019. This application features improved functionalities and capabilities compared to its predecessor.



Operational risk management and control model



The Insurance Department identifies and controls operational risks and establishes the basis for risk insurance and management, guaranteeing the minimum impact on the income statement. The department has established insurance programs and takes out insurance policies at corporate and local level with leading insurance companies, providing cover for a wide range of risks: employee risks, direct and indirect risks arising from Prosegur Cash's activity and risks affecting items of property, plant and equipment. In 2018, the Insurance Department added cover for cyber risks while also extending professional civil liability coverage to the entire group.

The strict control of the three areas of infrastructure, processes and people, along with analysis of the impact and probability of these major operational risks, determines the risk management approach according to whether the mitigation occurs internally (through an intervention of the teams) or externally (applying the insurance cover contracted):

Risk management approach

