

The logo for 'cielo' is displayed in a white, lowercase, sans-serif font. The letter 'i' has a small blue dot above it, and the letter 'o' has a blue ring around its top half. The background is a solid blue sky with white, fluffy clouds on the right side.

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# Emerging Risk Report

2021

# Risk Management



We have a [Corporate Risk Management Policy and Internal Controls](#), which includes guidelines and responsibilities on the integrated management of corporate risks (including those emerging), internal controls and business continuity, in line with applicable regulations and best market practices.

The policy includes guidelines that aim to guide the Company in adoption a structured risk management process compatible with the nature of our activities and size, as well as on seeking protection from the company's business and economic and financial situation. In addition, the document ensures a methodology for identifying and keeping the list of the main corporate risks which we are exposed up-to-date.

# Cielo's risk management process adopts the model of three defense lines:

## 1st DEFENSE LINE - Business & Support Areas

- The business and support areas, that is, all areas other than the Risk, Compliance, Prevention and Safety Department or Internal Audit.
- The 1st line of defense is liable for identifying and managing the risks in products, processes, and systems, implementing actions to mitigate the risks.

## 2nd DEFENSE LINE: Risk, Compliance, Prevention and Security Department

- Works together with the executive areas, providing methodological guidance for risk management, supporting the implementation of effective risk management practices by the executive areas, however, independently, monitoring and certifying the adequacy and effectiveness of internal controls, considering the Company's risk appetite.
- In addition, the 2nd line of defense shall report on the efficient internal controls to the Executive Board, Audit Committee, Risks Committee and Board of Directors.

## 3rd DEFENSE LINE - Internal audit

- The 3rd line of defense, composed by the Company's Internal Audit, provides independent, autonomous, and impartial opinions on the quality and effectiveness of the risk management systems and processes, internal controls, and corporate governance, identifying deviations and appropriate measures, recommending improvements focused on protecting the interests of the Company and of its shareholders.

# Emerging risks



As we operate in a very dynamic, highly regulated and constantly changing sector, we are subject to emerging risks that can threaten the strategy and even the viability of the business. For this reason, in order to mitigate such threats and identify emerging business risks, we carry out three-year strategic planning cycles, which are reviewed annually

To identify the main emerging business risks, we carry out periodic strategic planning cycles every three years, with annual reviews, during which an extensive mapping of the market and strategic risks to the business in the dimensions of competition / business model, technology and regulation is performed. In addition to the formal strategic planning process, we have internal processes focused on monitoring the market and identifying potential risks and opportunities for the business.

Examples of these processes include: surveys with Cielo and market clients, monitoring national and international trends in the payments and technology market and monitoring the regulatory agenda of the Central Bank of Brazil.

The main emerging risks identified by the Company are those that lead to the possible disintermediation of the acquiring products, in the long and medium term, as follows:



# Climate Changes

# Context and Impact

Climate change is a risk that imposes uncertain conditions on climate patterns on various sectors of the economy, such as water regime, heat islands, average temperature, droughts, floods, storms and sea level, among other aspects that can impact or directly make business unfeasible.

Our business is exposed to the potential impacts of climate change, since we operate on the commercial base of multisector of the economy, on which our result is directly dependent.

Extreme weather events, in its turn, can also have a major influence on reducing GDP, as they can reach vast regions, affecting the distribution and service network, directly impacting our operations.

In 2020, Cielo was responsible for transacting 8.38% of Brazil's GDP. Therefore, any events related to climate change that lead to reduced consumption or prolonged interruptions in the Company's operating systems may generate a reduction in financial income.

# Context and Impact

In addition, some of Cielo's suppliers depend on imported inputs to manufacture payment capture equipment (POS – point of sale). The increase in the frequency of natural disasters due to climate change, even if no event has taken place in Brazil, can stop or drastically reduce the delivery of these inputs (raw material), impacting the continuity of our suppliers' supply chain. Consequently, this will impact Cielo's ability to meet the demands of its customers through its payment capture equipment (POS – point of sale).

Likewise, Cielo customers who are dependent on importing products or inputs / raw material from other countries may have adverse impacts on their business if natural disasters happen. As a result, these customers will have a reduction in revenue and, consequently, this will impact the revenue obtained by Cielo.

Thus, we understand that the impact caused by climate change is much more material for the local economy, since the increase in global temperature by a few degrees can trigger a chain of extreme events capable of affecting Cielo's economic and operational future, its suppliers and customers.

We have a Climate Strategy based on four pillars:

- Impact assessment;
- Emission reduction;
- Compensation of Emissions;
- Transparency.

Based on this strategy, we aim to contribute to a low carbon economy and establish contingency plans in the event of extreme events.

In addition, we are dedicating efforts to provide new digital solutions.

**Additionally, with regard to suppliers, Cielo has a business continuity plan to mitigate the interruption in the supply of essential services, minimizing the impact on the Company's operations.**



**Drastic reduction of  
the use of currency  
paper and  
prevalence of  
exclusively digital  
payments**

# Context and Impact

With the popularization of digital media and the growing technological development that allows more people to have access to the internet, payment in currency paper has become increasingly scarce and the subject of discussion in several countries in Europe and in Brazil.

The forecast is that, in the future, global economies will mostly prioritize payments through the use of cards and electronic currency.

At least two of the world's ten largest economies (China and the US) are considering creating a digital version of their currencies. In Brazil, this idea also gained momentum after the success of the PIX electronic payments system, launched by the Central Bank of Brazil (Bacen) in 2020.

As an example of progress on this topic, Sweden started the discussion of the creation of its own cryptocurrency (e-krona).

This fact can also be seen as an opportunity for Cielo to explore new forms of payment, as the use of paper money is one of the major competitors in the payment industry, in which Cielo is a part.

# Context and Impact

The popularization of digital coins issued without backing, regulation and supervision can bring a systemic risk to all market participants. Since Cielo acts as a platform for payment transactions, the possible increase in the use of payments by digital currencies (non-regulated) to replace “traditional” payment methods (regulated currencies) could impact the company's business model.

If the stability and solvency of private institutions that issue and control the issuance of digital coins are not observed and controlled, in case these institutions are unable to honor their obligations (bankruptcy), a global economic crisis may materialize.

Considering that Cielo operates in the commercial base of multisector of the economy, a scenario of economic crisis will potentially generate a retraction of consumption activities and this could have an impact on the company's economic and financial results.

**Additionally, we can mention as a threat to Cielo the use of payment methods that exclude the company from the payment flow.**

**This risk and, at the same time, opportunity, demonstrate that the business model of the entire financial and payment market will need changes in order to be more dynamic, intelligent and secure.**

Cielo carries out annual strategic planning cycles to identify the main business risks and opportunities. These strategic planning cycles are also intended to define the Company's business strategies aiming at the continuity of the business and the creation of value in the long term. The following activities are included within the strategic planning cycle:

- Assessing market trends;
- Assessing regulatory and technological changes
- Mapping the strategic position of Cielo and its competitors
- Reviewing the strategic ambition;
- Identifying priority operating segments;
- Defining strategic initiatives to be developed by the Company;
- Identifying skills needed to implement the strategy

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