



# MAPFRE



## AUDIT COMMITTEE

### STATEMENT OF ACTIVITIES 2013

February 2014



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## 1. AUDIT COMMITTEE

MAPFRE has had an Audit Committee since 2000, and its powers and governing regulations are contained in MAPFRE's Code of Good Governance, which extensively develops the Group's institutional and corporate principles, as well as all the regulations of the governing bodies of the entities belonging thereto.

The composition of the Audit Committee as at 31st December 2013 is as follows:

<u>Name</u>	<u>Type of Director</u>
Mr. Luis Iturbe Sanz de madrid (Chairman)	Independent
Mr. Filomeno Mira Candel (Vice-Chairman)	Nominee
Mr. Rafael Márquez Osorio (Member)	Nominee
Ms. Francisca Martín Tabernero (Member)	Independent
Mr. Ángel Luis Dávila Bermejo (Secretary)	-----

The text included in the Bylaws of MAPFRE, S.A. with respect to the functions of the Audit Committee is detailed below:



### **Article 24 of the Bylaws of MAPFRE, S.A.**

*“In any case there will be an Audit Committee, the majority of whose members, including the Chairman, shall be non-executive members of the Board, who shall only be re-elected after one year has elapsed following the expiry of their term of appointment. The Secretary of this Committee shall be the Secretary of the Board of Directors. This Committee shall have the following powers:*

- 1. To report to the Annual General Meeting with regard to questions raised about any matter within its remit.*
- 2. To oversee the effectiveness of the company’s internal control, internal audit and risk management systems, as well as to discuss with the accounts auditors or audit firms any significant weaknesses detected in the internal control system in the course of an audit.*
- 3. To supervise the preparation and reporting of regulated financial information.*
- 4. To propose to the Board of Directors, for approval by the Annual General Meeting, the appointment of the accounts auditors or audit firms, in keeping with the rules applicable to the company.*
- 5. To build the necessary relationships with the accounts auditors or audit firms to receive information on those issues that may compromise their independence, for their consideration by the Committee, and any other relationships referring to the development of an accounts audit, as well as those communications envisaged by law with regard to accounts audits and by audit rules. Under all circumstances, it shall always receive on an annual basis from the accounts auditors or audit firms a written confirmation of their Independence from the entity or entities linked thereto, both directly or indirectly, as well as information on any additional services of whatever nature provided to the said entities by the aforementioned auditors or firms, or by the persons or entities linked to them in accordance with the legislation in force on accounts audits.*
- 6. To draw up an annual report –before the report on the accounts audit is issued– delivering an opinion on the independence of the accounts auditors or audit firms. This report shall address, in any case, the provision of the additional services referred to in the previous section.*



## 2. STATEMENT OF ACTIVITIES 2013

In 2013, the Audit Committee was informed of all matters within its remit and fulfilled the responsibilities assigned to it by Law, as well as by the Corporate Bylaws and the Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies.

In 2013, MAPFRE's Audit Committee met on the following dates:

- 5th February
- 2nd May
- 25th June
- 24th July
- 26th September
- 29th October
- 17th December

There follows a summary of the activities of MAPFRE's Audit Committee during 2013, with the activities grouped according to the areas that fall within its remit:

- 2.1. Information reported to the Annual General Meeting**
- 2.2. Economic and Financial Information**
- 2.3. Supervision of the Internal Audit Unit**
- 2.4. Internal Control and Risk Management**
- 2.5. Supervision of a mechanism for reporting irregularities**
- 2.6. External Audit**
- 2.7. Other matters**



## 2.1. Information reported to the Annual General Meeting

According to the Corporate Bylaws of MAPFRE, S.A., the Audit Committee has the following power:

*“To report to the Annual General Meeting with regard to questions raised about any matter within its remit”.*

The Chairman of the Audit Committee attended the Annual General Meeting held in 2013 (*Ordinary Annual General Meeting held on 9th March*). The shareholders raised no questions about any matter within its remit.

## 2.2. Economic and Financial Information

According to the Corporate Bylaws of MAPFRE, S.A., the Audit Committee has the following powers:

*“To supervise the preparation and reporting of regulated financial information.”*

The Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies provide more details about this power of the Committee:

*“To supervise the drafting process and the integrity of the financial information relating to the Company and the Group, reviewing the compliance with the applicable regulations, the proper delimitation of the consolidation perimeter, and the proper application of the accounting criteria”.*

In accordance with these principles, MAPFRE’s Audit Committee has verified the following information in 2013:

- The 2012 Management Report and Individual and Consolidated Annual Financial Statements of MAPFRE, S.A. and its subsidiaries. (*Meeting date: 05.02.2013*).
- The report on the limited review of the summarised consolidated interim financial statements of MAPFRE, S.A. for the interim period ended 30th June 2013. (*Meeting date: 24.07.2013*).



- The information submitted quarterly by MAPFRE to the Spanish Securities and Exchange Commission (CNMV). (Meeting dates: 05.02.2013; 02.05.2013; 24.07.2013 and 29.10.2013).

This economic and financial information is reviewed by the Internal Audit Department, which issues a report highlighting the fact that MAPFRE's Interim Financial Statements are drawn up in accordance with the same criteria applied to the Annual Financial Statements, that they are reasonable, objective and verifiable, and that the principle of prudence always prevails over any other.

- The information drawn up by MAPFRE for investors and analysts, which is previously reviewed and examined by the Audit Department and later by the Audit Committee prior to its release.  
(Meeting dates: 05.02.2013; 02.05.2013; 24.07.2013 and 29.10.2013).

### 2.3. Supervision of the Internal Audit Unit

Both the Corporate Bylaws and the Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies, in greater detail, establish the following power of the Audit Committee:

*“To ensure the independence and efficiency of the Internal Audit function; to propose the selection, appointment, re-election and dismissal of the person in charge, as well as its annual budget; to receive periodical information on its activities; and to verify that the Senior Management takes into account the conclusions and recommendations of its reports.”*

- The Audit Committee has approved the 2013 Annual Internal Audit Plan for MAPFRE and its subsidiary companies, which includes the 2012 Annual Report, the 2013 Audit Plan, the structure and budget of the Unit, as well as the training plan for internal auditors. It also includes a section about audit cost ratios against MAPFRE's total Income and Expenses, the cost per auditor, number of auditors with respect to the total number of employees at MAPFRE, the average number of training hours per auditor and the cost per internal audit hour. (Meeting date: 05.02.2013).
- The Audit Committee has received, reviewed and approved the Activities Reports of the Internal Audit Unit, which the Internal Audit General Management issues every quarter and which place special emphasis on those material issues that have occurred during the quarter relating to the internal audit

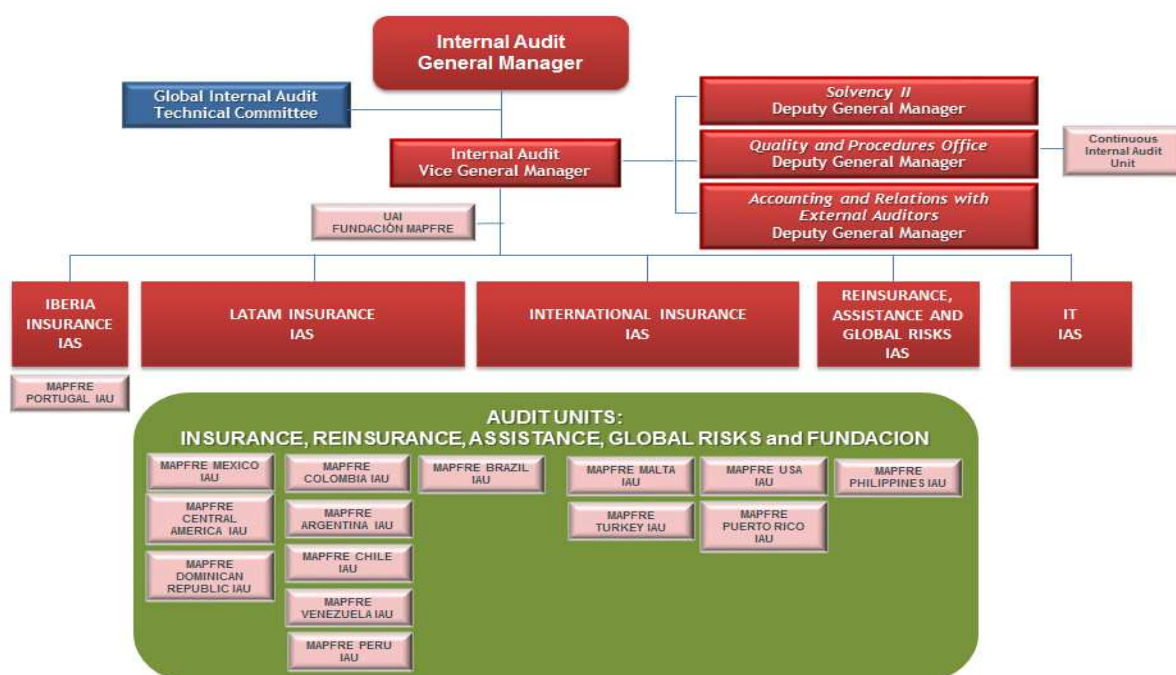






reports and internal control. It has also received, reviewed and approved the fulfilment of the objectives established in the Annual Internal Audit Plan, follow-up of the recommendations implemented following the proposals of the Audit Services and Units, training of the internal auditors, co-operation with the external auditor and with other areas or departments of Group companies, and monitoring of the Unit's budget. (Meeting dates: 02.05.2013; 24.07.2013; 29.10.2013)

- The Audit Committee was informed about the follow-up of the 2013–2015 Internal Audit Strategic Plan as at June. (Meeting date: 24.07.2013).
- The Audit Committee authorised the proposed changes to the Internal Audit structure, based on an internal reorganisation aimed at adapting it to MAPFRE's needs and those affecting the IT and Global Businesses Internal Audit Services, as well as the Remote and Forensic Audit Unit. These changes were aimed at improving the quality of the services provided by Internal Audit to its clients (Meeting dates: 29.10.2013; 17.12.2013).



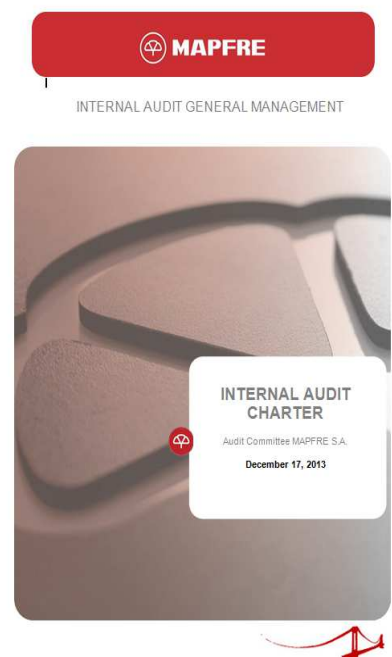
- In accordance with one of the objectives in the Internal Audit Strategic Plan, which requires the performance of a “Quality Assurance” review in its Audit Services and Units, the Audit Committee was informed of the preparation and outcomes of the review carried out by the Global Institute of Internal Auditors, together with that in Spain, regarding MAPFRE's Internal Audit area in COLOMBIA. (Meeting date: 29.10.2013).





The purpose of this evaluation, as was the case for the evaluation carried out in the preceding year in MAPFRE's Internal Audit area in PERU, is to verify whether MAPFRE's Internal Audit Activity in COLOMBIA conforms to the "International Standards for the Professional Practice of Internal Auditing", ascertain the perception of this Activity amongst the Senior Management, Management, members of the Audit Committee and External Auditors, and recommend improvements. The results of the evaluation have been very satisfactory, concluding that MAPFRE's Audit Area in COLOMBIA "Generally meets" with the International Standards for the Professional Practice of Internal Auditing, which is the highest score awarded.

- Likewise, it approved the revision of the Internal Audit Charter and Internal Audit Policy in order to adapt these documents to the structural changes and to the latest amendments to the SII regulations. With regard to the requirements of the System of Governance set out in this Directive, Internal Audit, as stated in its Charter, recommends to follow the Three Lines of Defence Model. (Meeting date: 17.12.2013).
- As regards the budgets of the Internal Audit Unit, the Committee received the forecast for 2013, the Budget for 2014 as well as the forecast for 2015 and 2016. (Meeting date: 29.10.2013).
- The Global Audit Information Network 2013, a market research on the internal audit function in which MAPFRE's Internal Audit General Management participated once again, was submitted to the Committee. (Meeting date: 24.07.2013)



## 2.4. Internal Control and Risk Management

The Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies set out the powers of the Audit Committee with regard to Internal Control and Risk Management, which are as follows:

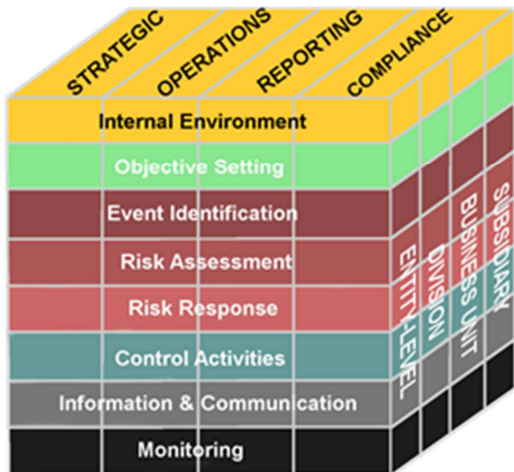
*"To periodically review the internal control and risk management systems, so that the main risks can be properly identified, managed and reported."*



With regard to the review of the Internal Control System:

- A report on the level of compliance with the internal control-related actions undertaken in previous years has been presented to the Audit Committee. *(Meeting date: 25.06.2013).*
- The Audit Committee was informed of the content and assessment of the internal control reports that, once approved by their respective Boards of Directors, were submitted to the Directorate General for Insurance and Pension Funds, together with the annual accounting and statistical documentation for financial year 2012. In this presentation, the methodology used to assess the internal control system, as well as the differences introduced with respect to the previous year, have been reported. *(Meeting date: 25.06.2013).*
- With respect to the Internal Control System over Financial Information (ICSFR), the Audit Committee received from E&Y the Auditor's Report "Information referring to the Internal Control System over Financial Reporting" corresponding to 2012, which summarises the internal control procedures established by MAPFRE, S.A. in relation to the annual financial information. *(Meeting date: 05.02.2013).*

With regard to the review of the Risk Management System:



- The Audit Committee was submitted the report on the calculation of MAPFRE, S.A.'s economic capital by fixed factors with consolidated data as at 31st March 2013, which includes detailed information referring to the GROUP's Divisions and Units. *(Meeting date: 24.07.2013).*

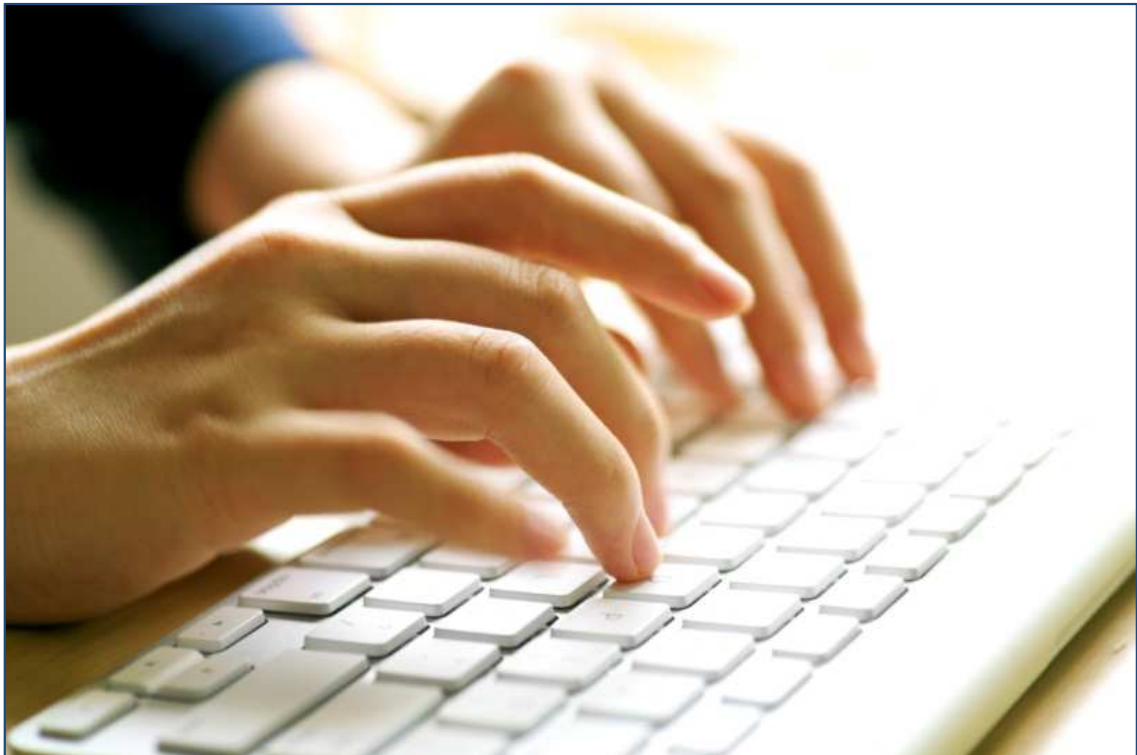


## 2.5. Supervision of a mechanism for reporting irregularities

The Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies establishes the following power of the Audit Committee:

*“To establish and supervise a mechanism that allows employees to report in confidence any potentially significant irregularities, especially of a financial and accounting nature, which they may detect within the company”*

- The Audit Committee was informed of the activity of the Channel for Reporting Financial and Accounting Complaints in 2012. (Meeting date: 05.02.2013).





## 2.6. External Audit

According to the Bylaws of MAPFRE, S.A. the following are basic functions of the Audit Committee:

4. *“To propose to the Board of Directors, for approval by the General Shareholders’ Meeting, the appointment of the accounts auditors or audit firms, in keeping with the rules applicable to the Company.*
5. *To build the necessary relationships with the accounts auditors or audit firms to receive information on those issues that may compromise their independence, for their consideration by the Committee, and any other relationships referring to the development of an accounts audit, as well as those communications envisaged by law with regard to accounts audits and by audit rules. Under all circumstances, it shall always receive on an annual basis from the accounts auditors or audit firms a written confirmation of their independence from the entity or entities linked thereto, both directly or indirectly, as well as information on any additional services of whatever nature provided to the said entities by the aforementioned auditors or firms, or by the persons or entities linked to them in accordance with the legislation in force on accounts audits.*
6. *To draw up an annual report –before the report on the accounts audit is issued– delivering an opinion on the independence of the accounts auditors or audit firms. This report shall address, in any case, the provision of the additional services referred to in the previous section.”*

Likewise, in relation to External Audit, the Regulations of the Board of Directors and Delegated Bodies of MAPFRE, S.A. also envisage the following:

- a) To submit proposals to the Board of Directors for the selection, appointment, re-election, and replacement of the External Auditor, as well as with regard to its contractual conditions.
- b) To receive information on the Audit Plan and on the results of the execution thereof on a regular basis from the External Auditor, and to verify that the Senior Management takes its recommendations into account.
- c) To ensure the independence of the External Auditor, and for this purpose, VERIFY:
  - That the Company communicates a change of External Auditor as a significant event to the Spanish Securities Market Commission (CNMV), and that this should be accompanied by a declaration with regard to the existence of any possible disagreements with the outgoing auditor, and the content thereof.
  - That the Company and the External Auditor should abide by the rules in force on the provision of services other than those of auditing, the limits on the concentration of the Auditor’s business, and in general the rules laid down in order to ensure the independence of the auditors.
  - That in the event the External Auditor should resign, the Committee should receive sufficient information in order to examine the circumstances that have led to this.
- d) To ensure that, as far as possible, the External Auditor of the Group assumes responsibility for auditing all the companies of which it is composed.



- Approved the budget for the external audit of the Individual and Consolidated Annual Financial Statements of MAPFRE, S.A. and its controlled companies for financial year 2013. *(Meeting date: 29.10.2013 and 17.12.2013).*
- Was presented a comparative study of the fees paid to the external auditor in 2012 by MAPFRE and all other IBEX 35 companies, as well as by the main Non-Life European insurance groups. *(Meeting date: 25.06.2013).*
- With the aim of ensuring the independence of the external auditor, the Audit Committee carried out a quarterly supervision of the fees invoiced by the main audit firm for services other than the audit of the Annual Financial Statements. Likewise, the Audit Committee has supervised the relationship between the fees paid to the audit firm and its total revenues, a percentage that, according to MAPFRE's Code of Good Governance, should not exceed 5%. For financial year 2013, this percentage stood at 0.05%. *(Meeting date: 05.02.2013; 02.05.2013; 24.07.2013; 29.10.2013).*
- The 2013 Half-yearly Review Plan as well as the draft limited review report on the summarised consolidated interim financial statements of MAPFRE, S.A. corresponding to the interim period ended 30th June 2013 were presented to the Audit Committee. *(Meeting date: 24.07.2013).*
- Received and examined additional information from Ernst & Young with regard to the preliminary reports on the 2013 Annual Financial Statements of MAPFRE and its subsidiary companies *(Meeting date: 17.12.2013).*

These preliminary reports are issued by the audit firm for all MAPFRE subsidiary companies with regard to their corporate Interim Financial Statements as at 30th September, and they are aimed at detecting sufficiently in advance any matter that, should it not to be settled satisfactorily in due time and form, may give rise to a qualified external auditor report.

- Received the External Audit Plan prepared by Ernst & Young for the 2013 Annual Financial Statements. *(Meeting date: 29.10.2013).*

Said report provides an overview of the audit process and details those documents to be prepared and the relevant reporting system, as well as the composition of the task force.

- The external auditor has attended the meetings of the Audit Committee for those matters relating to the audit of the Annual Financial Statements, the reports of the limited review as at 30th June 2012 and the preliminary reports of the audit of the Annual Financial Statements. *(Meeting date: 05.02.2013; 02.05.2013; 24.07.2013; 29.10.2013).*
- With the aim of establishing a common framework for the standardised reporting of the various Corporate Social Responsibility principles and matters, the GLOBAL REPORTING INITIATIVE (GRI) guide came into being in 1997 in collaboration of the UNEP (United Nations Environment Programme) and CERES



(Coalition of Socially Responsible Economies). This guide is currently the most widespread and acknowledged methodology amongst the various organisations.

In order to verify the information and contribute to the principle of transparency, Ernst & Young has been commissioned to verify this report. In 2013, the Audit Committee was informed of, and verified, MAPFRE's 2012 Social Responsibility Report. *(Meeting date: 05.02.2013).*

- Approved the fees proposed by Ernst & Young for issuing the report on the verification of the 2013 Corporate Social Responsibility Report. *(Meeting date: 29.10.2013 and 17.12.2013).*

## 2.7. Other matters

In 2013, the Audit Committee was informed of the following matters:

- MAPFRE's Audit Committee Activities Report for 2012. *(Meeting date: 05.02.2013).*
- The taxation policies followed in 2012, in accordance with the recommendations contained in the Code of Good Tax Practice. *(Meeting date: 05.02.2013).*
- The recent regulatory changes related to corporate governance and how they can affect the operation of the Committee. *(Meeting date: 25.06.2013).*
- The document that contains the outcome of the Gap analysis and the roadmap to adapt the Audit Committees in place to the "Regulatory Principles for the Audit Committees of the subsidiary companies of MAPFRE, S.A.", as well as the main issues addressed and agreements adopted by the Audit Committees of the subsidiaries of MAPFRE AMÉRICA and MAPFRE INTERNACIONAL. *(Meeting date: 24.07.2013).*





### 3. POST YEAR END EVENTS

On 11th February 2014, MAPFRE's Audit Committee:

- Resolved to propose to the Board of Directors of MAPFRE, S.A. the inclusion of the assessment of Ernst & Young as accounts auditor for financial year 2014 in the Agenda of the 2014 AGM.
- Reviewed and examined the 2013 Individual and Consolidated Annual Financial Statements, MAPFRE's Individual and Consolidated Management Report and the 2013 Corporate Social Responsibility Report, and gave a favourable opinion to MAPFRE's Board of Directors on the Economic Information for financial year 2013.
- Likewise, reviewed the document on the Internal Control System over Financial Reporting (ICSFR) that is part of the 2013 Corporate Governance Report, together with the report by E&Y referring to the review thereof.
- Approved the 2014 Internal Audit Plan, which includes the 2013 Annual Report and Internal Audit Plan, as well as the 2014 Budget of the Audit Unit.
- Reviewed and examined the 2013 MAPFRE, S.A. Report for the Spanish Securities and Exchange Commission (CNMV).
- Issued a report on the Independence of the accounts auditors pursuant to: the 4<sup>th</sup> Final Provision, section two, of Law 12/2010, of 30th June, which amends Law 19/1988, of 12th July, of Accounts Auditing; Law 24/1988, of 28th July, of the Stock Exchange; and the Recast Spanish Law on Public Limited Companies approved by Royal Decree 1564/1989, of 22th December, so that it is adapted to Community Law.
- The external auditor (E&Y) has issued a document in which it confirms its independence from any MAPFRE companies or entities directly or indirectly linked thereto, informing of any additional services of whatever nature provided to these companies by them or by people linked to E&Y in keeping with the legislation in force on accounts audits.
- In accordance with the provisions of the Code of Good Tax Practices, it received information from the individual responsible for tax issues about the policies followed during the year.

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