



# MAPFRE



## AUDIT COMMITTEE

### STATEMENT OF ACTIVITIES 2014

February 2015



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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 2014 is as follows:

<u>Name</u>	<u>Type of Director</u>
Mr. Luis Iturbe Sanz de madrid (Chairman)	Independent
Mr. Andrés Jiménez Herradón (Member)	Nominee
Ms. Catalina Miñarro Brugarolas (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 2014

In 2014, 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 2014, MAPFRE's Audit Committee met on the following dates:

- 10th February
- 27th March
- 9th April
- 10th April
- 29th April
- 24th June
- 23rd July
- 28th October
- 16th December

There follows a summary of the activities of MAPFRE's Audit Committee during 2014, 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 2014 (*Ordinary Annual General Meeting held on 14th March*). The shareholders raised no questions about any matter within its remit.

In accordance with these principles, MAPFRE's Audit Committee has verified the following information in 2014:

- The 2013 Management Report and Individual and Consolidated Annual Financial Statements of MAPFRE, S.A. and its subsidiaries. (*Meeting date: 10.02.2014*).
- The report on the limited review of the summarised consolidated interim financial statements of MAPFRE, S.A. for the interim period ended 30th June 2014. (*Meeting date: 23.07.2014*).



- The information submitted quarterly by MAPFRE to the Spanish Securities and Exchange Commission (CNMV). (*Meeting dates: 10.02.2014; 29.04.2014; 23.07.2014 and 28.10.2014*)

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: 10.02.2014; 29.04.2014; 23.07.2014 and 28.10.2014*)

### 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 2014 Annual Internal Audit Plan for MAPFRE and its subsidiary companies, which includes the 2013 Annual Report, the 2014 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: 10.02.2014*).
- 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: 29.04.2014; 23.07.2014; 28.10.2014)*

- The Committee was informed of the various appointments undertaken during the course of 2014 in the various units of the Internal Audit Area *(Meeting dates: 10.02.2014; 23.07.2014; 28.10.2014)*
- 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 the USA and TURKEY. *(Meeting date: 24.04.2014; 23.07.2014).*

The purpose of this evaluation, as was the case for the evaluation carried out in preceding years at MAPFRE's Internal Audit area in PERU and COLOMBIA, is to verify whether MAPFRE's Internal Audit Activities in the USA and TURKEY conform 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 in both cases, concluding that MAPFRE's Audit Area in these countries “Generally meets” with the International Standards for the Professional Practice of Internal Auditing, which is the highest score awarded.

- As regards the budgets of the Internal Audit Unit, the Committee received the forecast for 2014, the Budget for 2015 as well as the forecasts for 2016 and 2017. *(Meeting date: 28.10.2014; 16.12.2014).*
- The Global Audit Information Network 2014, 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: 23.07.2014)*
- The Audit Committee was informed about the development of the Continuous Audit in BUSINESS INTELLIGENCE, with a review of the methodologies applied and follow ups on the work undertaken. *(Meeting date: 28.10.2014).*
- The Committee approved the new Career Plan for Auditors of TI. *(Meeting date: 16.12.2014).*





## 2.4. Internal Control and Risk Management

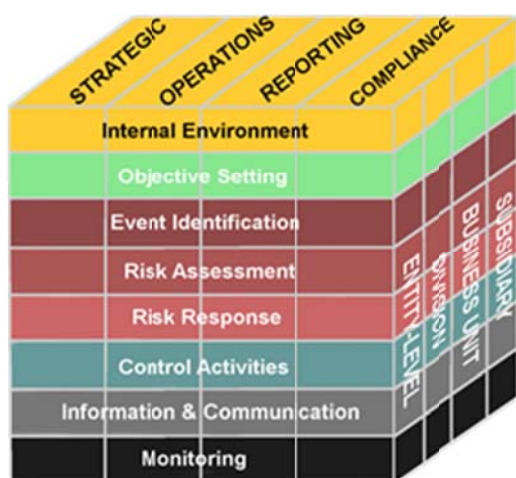
The Regulations of the Board of Directors of MAPFRE, S.A. and its Delegated Bodies set out the powers of the Audit Committee with regard to Internal Control and Risk Management, which are as follows:

*“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: 24.06.2014).*
- 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 2013. 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: 24.06.2014).*
- With respect to the Internal Control System for 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 2013, which summarises the internal control procedures established by MAPFRE, S.A. in relation to the annual financial information. *(Meeting date: 10.02.2014).*

With regard to the review of the Risk Management System:



- The Audit Committee was submitted the detailed 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.

In addition the it was presented with the results obtained of the solvency capital calculations applying the Standard formula to the MAPFRE Group with data as at years ended 2012 and 2013. This information was complimented with data regarding the Stress Test carried out for year ended 2013. *(Meeting date: 23.07.2014).*

- The Committee was presented with the methodology and results of the work carried out by the Internal Control Area regarding the valuation of operational risk and business processes for the Group and the Global Corporate areas, in addition to the controls and action plans. *(Meeting date: 28.10.2014).*
- The Committee was presented with the report which describes the results of the Forward Looking Assesment of Own Risks (FLAOR) for MAPFRE S.A. This document falls within the requirements established by the DGSFP relating to the temporary measures of adaption to the Solvency 2 Directive. *(Meeting date: 16.12.2014).*

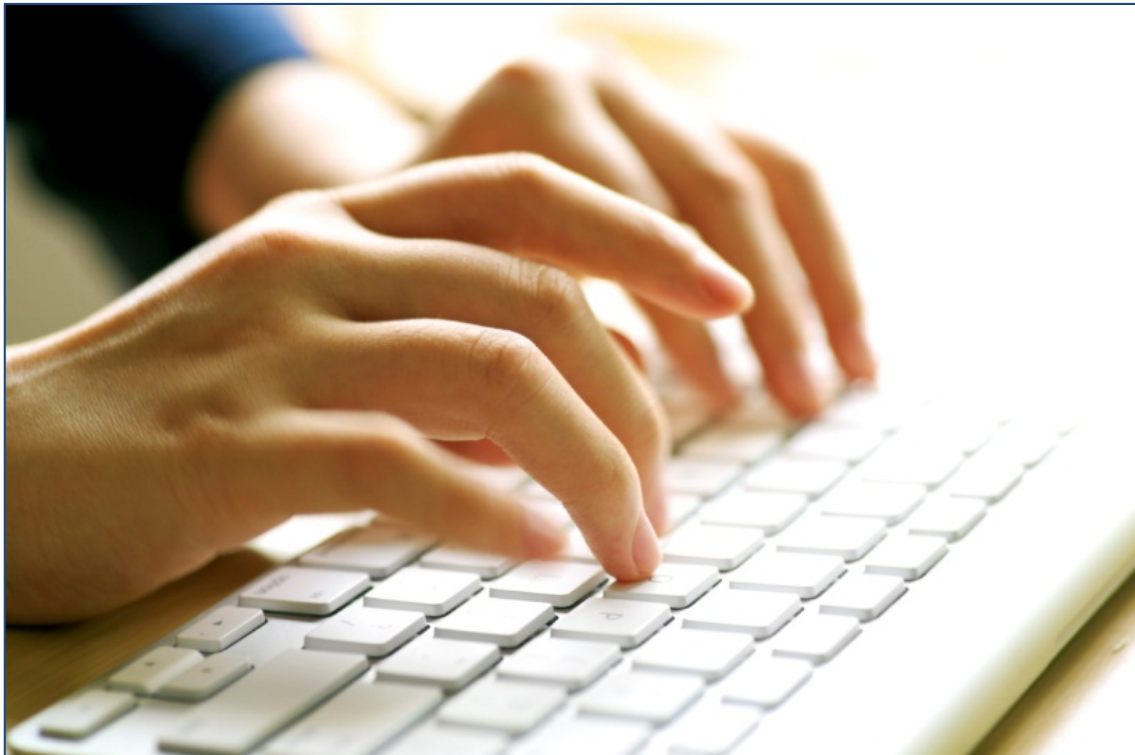


## 2.5. Supervision of a mechanism for reporting irregularities

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 2013. (Meeting date: 10.02.2014).





## 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.



To this effect during 2014 MAPFRE's Audit Committee:

- Agreed to designate Ernst & Young as the Accounts Auditor for financial year 2014. *(Meeting date: 10.02.2014)*
- Was presented, at three specific meetings, all the information related to the the licitation process for designating the External Auditor of MAPFRE's Accounts for financial years 2015-2017. Included in the information presented and commented were the terms and conditions, the criteria used to value the offers, a summary of the fees and other aspects related to the licitation process, such as the fees charged for other services and presented to the external audit firms KPMG, E&Y, Deloitte and PWC.

Representatives from KPMG, E&Y, Deloitte and PWC assisted as candidates, with each firm presenting to the Committee individually their proposals to carry out MAPFRE's external audit during the period 2015-2017. *(Meeting dates: 27.03.2014; 09.04.2014; 10.04.2014)*

- Having valued the proposals presented by the four firms, the Committee proposed to MAPFRE S.A.'s Board of Directors, at its meeting held on 2nd May 2014, to include in the Agenda of the 2015 General Meeting of Shareholders, the naming of KPMG as MAPFRE's accounts auditor for the period 2015-2017. *(Meeting date: 29.04.2014)*
- 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 2014. *(Meeting date: 28.10.2014 and 16.12.2014)*
- 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: 24.06.2014)*
- 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 2014, this percentage stood at 0.05%. *(Meeting date: 10.02.2014; 29.04.2014; 23.07.2014 and 28.10.2014)*
- The 2014 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 2014 were presented to the Audit Committee. *(Meeting date: 23.07.2014)*



- Received and examined additional information from Ernst & Young with regard to the preliminary reports on the 2014 Annual Financial Statements of MAPFRE and its subsidiary companies (*Meeting date: 16.12.2014*)

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 2014 Annual Financial Statements. (*Meeting date: 28.10.2014*)

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 2014 and the preliminary reports of the audit of the Annual Financial Statements. (*Meeting date: 10.02.2014; 29.04.2014; 23.07.2014 and 28.10.2014*)
- 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 2014, the Audit Committee was informed of, and verified, MAPFRE's 2013 Social Responsibility Report. (*Meeting date: 10.02.2014*)

- Approved the fees proposed by Ernst & Young for issuing the report on the verification of the 2014 Corporate Social Responsibility Report. (*Meeting date: 28.10.2014 and 16.12.2014*)



## 2.7. Other matters

In 2014, the Audit Committee was informed of the following matters:

- MAPFRE's Audit Committee Activities Report for 2013. *(Meeting date: 10.02.2014)*
- The taxation policies followed in 2013, in accordance with the recommendations contained in the Code of Good Tax Practice. *(Meeting date: 10.02.2014).*
- Circular 1/2014 of 26<sup>th</sup> February, published by the CNMV, regarding the requirements of internal organisation and the control functions for companies which carry out investment services, establishes that, among other things, the organisational structure include an internal audit function. For this purpose, a request was made to the Committee to approve that the internal audit functions of those investment companies that comprise the MAPFRE Group should be carried out by MAPFRE's Internal Audit Area in the terms established by said Circular. *(Meeting date: 29.04.2014)*
- 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: 10.02.2014; 23.07.2014).*



### 3. POST YEAR END EVENTS

On 9th February 2015, MAPFRE's Audit Committee:

- Reviewed and examined the 2014 Individual and Consolidated Annual Financial Statements, MAPFRE's Individual and Consolidated Management Report and the 2014 Corporate Social Responsibility Report, and gave a favourable opinion to MAPFRE's Board of Directors on the Economic Information for financial year 2014.
- Likewise, reviewed the document on the Internal Control System for Financial Reporting (ICSFR) that is part of the 2014 Corporate Governance Report, together with the report by E&Y referring to the review thereof.
- Approved the 2015 Internal Audit Plan, which includes the 2014 Annual Report and Internal Audit Plan, as well as the 2015 Budget of the Audit Unit.
- Reviewed and examined the 2014 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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