



MAPFRE

AUDIT COMMITTEE

STATEMENT OF ACTIVITIES 2011

February 2012





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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 for the governing bodies of the entities belonging thereto.

At the meeting held on 3rd July 2008, the Board of Directors of MAPFRE, S.A. approved the change made to the Code of Good Governance in force until then, in order to bring it into line with the new corporate structure adopted in 2006 and to update its rules, taking into account the recommendations of the Unified Governance Code published that year by the Spanish Securities and Exchange Commission (CNMV).

The regulations governing MAPFRE's Audit Committee, as set forth in the Code of Good Governance, have been widely publicised amongst shareholders and investors since their approval, and they have also been communicated to the Spanish Securities Exchange Commission (CNMV).

The members of the Audit Committee as at 31st December 2011 were as follows:

<u>Name</u>	<u>Type of Director</u>
Mr. Francisco Vallejo Vallejo (Chairman)	Independent
Mr. Filomeno Mira Candel (Vice-Chairman)	Nominee (representing the main shareholder)
Mr. Rafael Marquez Osorio (Member)	Nominee (representing the main shareholder)
Ms. Francisca Martín Tabernero (Member)	Independent
Mr. Jose Antonio Moral Santín (Member)	Nominee (representing the main shareholder)
Mr . Ángel Luis Dávila Bermejo (Secretary)	-----

In MAPFRE's by-laws, Board Regulations and Code of Good Governance, the reference to the existence of the Audit Committee has always been maintained in the terms required by Law as indicated below:



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

“There shall under all circumstances exist an Audit Committee, and the majority of its members, including the Chairman, shall be non-executive directors, who may only be re-elected after one year has elapsed following the expiry of their term of appointment. The Secretary of this Committee will be the Secretary of the Board of Directors. This Committee shall have the following powers:

- 1. To verify that the Annual Accounts, as well as the half-yearly and quarterly financial statements and other economic information that must be submitted to the regulatory or supervisory bodies is true, complete and sufficient; that it has been prepared in accordance with the applicable accounting rules and internal guidelines laid down by MAPFRE’s General Secretariat; and that they are provided on time and with the correct content.*
- 2. To submit proposals to the Board of Directors for submission to the Annual General Meeting regarding the appointment of an External Auditor for the company, and to be given information on his conduct in office and about any matter or circumstance that might affect his/her independence.*
- 3. To supervise the activities of the Internal Audit Department, for which purpose it shall have full access to its action plans, the results of its work, and the follow-up of any recommendations and suggestions of the external and internal auditors.*
- 4. To be acquainted with the company's financial information and internal control process, and to make any observations or recommendations it may deem pertinent for the purposes of improving it.*
- 5. To inform the Annual General Meeting about any matter that falls within its jurisdiction.”*

The Board Regulations expressly adds to the Audit Committee's basic duties listed above the following: “To issue an annual report on its duties and the activities performed during the financial year, for submission to the Annual General Meeting” which is why this document has been issued.



2. STATEMENT OF ACTIVITIES 2011

In 2011 the Audit Committee has been informed of all matters within its remit and has complied with the responsibilities assigned to it by Law, as well as by MAPFRE's By-laws and Good Governance Code.

During 2011, MAPFRE's Audit Committee met on the following dates:

- 1st February
- 3rd May
- 28th June
- 21st July
- 24th October
- 19th December

There follows a summary of the activities of MAPFRE's Audit Committee during 2011, with the activities grouped according to the areas that fall within its remit:

- 2.1. Economic and Financial Information**
- 2.2. External Audit**
- 2.3. Supervision of the Internal Audit Unit**
- 2.4. Internal Control**
- 2.5. Information to the Annual General Meeting**
- 2.6. Risk management**
- 2.7. Other matters**



2.1. Economic and Financial Information

According to MAPFRE's Code of Good Governance, the Audit Committee has the following powers:

“To verify that the Annual Accounts, as well as the half-yearly and quarterly financial statements and other financial information that must be filed with regulatory or supervisory bodies are true, complete and sufficient; that they have been issued according to the accounting rules and criteria in force internally as laid down by the MAPFRE General Secretariat, and that they are provided on time and with the correct content.”

In accordance with these principles, MAPFRE's Audit Committee has verified the following information in 2011:

- The 2010 Management Report and Individual and Consolidated Annual Accounts of MAPFRE S.A. and its subsidiaries. (*Meeting date: 01.02.2011*).
- The report on the limited review of the summarised consolidated interim financial statements of MAPFRE, S.A. for the interim period ended 30th June 2011. (*Meeting date: 21.07.2011*).
- The information submitted quarterly by MAPFRE to the Spanish Securities and Exchange Commission (CNMV). (*Meeting dates: 01.02.2011; 03.05.2011; 21.07.2011 and 24.10.2011*).

This economic and financial information is reviewed in advance 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 as for the Annual Accounts and 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 reviewed and examined by the Audit Department and later by the Audit Committee prior to its release. (*Meeting dates: 01.02.2011; 03.05.2011; 21.07.2010 and 24.10.2011*).



2.2. External Audit

According to MAPFRE's Code of Good Governance, the Audit Committee has the following powers:

“To submit proposals to the Board of Directors for submission to the Annual General Meeting regarding the appointment of an External Auditor for the company, and to be given information on his conduct in office and about any matter or circumstance that might affect his/her independence.”

The Code also states the following with regard to the External Audit:

- *“Relations between MAPFRE and the External Auditors of the Group Companies are channelled through the Audit Committee of MAPFRE S.A., which is responsible for drawing up proposals for the appointment, extension and replacement thereof.*
- *As a general rule, and unless there should exist reasons to the contrary, MAPFRE S.A.'s External Auditor should be responsible for auditing all Group companies.*
- *Those auditing firms that receive or that would receive annual fees from the Group the sum of which, under all headings, exceeds 5% of their total annual revenues shall be excluded.*
- *The annual public documentation shall report on the overall fees that the Group companies have paid to the External Auditors, with a breakdown of those corresponding to the Annual Accounts and those earned for other services, which should comply with the rules in force in order to ensure the independence of the Auditors.*
- *MAPFRE's Board of Directors shall always seek to draw up the Annual Accounts in such a way as to avoid a qualified report by the External Auditors. However, where it considers that its view should prevail, both the Chairman of the Audit Committee and the External Auditors shall publicly explain the content and scope of the discrepancies that have given rise to the said qualified report.*
- *A change to the External Auditor shall be reported to the Spanish Securities and Exchange Commission (CNMV) as a relevant fact, with a fully-transparent explanation of the reasons for this decision, and where pertinent, reporting on any disagreements with the outgoing auditor.”*



In this regard, in 2011 MAPFRE's Audit Committee:

- Resolved to designate the firm Ernst & Young as accounts auditor for the financial year 2011. *(Meeting date: 01.02.2011).*
- Approved the budget for the external auditing of the Individual and Consolidated Annual Accounts of MAPFRE S.A. and its controlled companies for financial year 2011. *(Meeting dates: 24.10.2011 and 19.12.2011).*
- Authorised the hiring of Ernst & Young to issue an independent fairness opinion for the public offering launched for the shares of MIDDLESEA and approved the corresponding fees. *(Meeting date: 21.07.2011).*
- Presented a comparison study of the fees paid by MAPFRE to the external auditor in financial year 2010 and the rest of the IBEX 35 companies, together with the main European Non-life insurance groups. *(Meeting date: 21.07.2011).*
- With the aim of ensuring the independence of the external auditor, the Audit Committee has carried out a quarterly supervision of the fees invoiced by the main auditing firm for services other than the auditing of the Annual Accounts. Likewise, the Audit Committee has supervised the relationship between the fees paid to the auditing firm and its total revenues, a percentage that, according to MAPFRE's Code of Good Governance, should not exceed 5%. For financial year 2011, this percentage was 0.05%. *(Meeting dates: 01.02.2011; 03.05.2011; 21.07.2011; 24.10.2011).*
- Presented the 2011 Half-yearly Review Plan as well as the draft of the limited review report on the summarised consolidated interim financial statements of MAPFRE, S.A. corresponding to the interim period ended 30th June 2011. *(Meeting date: 21.07.2011).*
- Received and examined additional information from the firm Ernst & Young with regard to the preliminary reports on the 2011 Annual Accounts of MAPFRE and its subsidiaries. *(Meeting date: 19.12.2011).*

These preliminary reports are issued by the auditing firm for all MAPFRE subsidiary companies with regard to the 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 on a timely basis and in proper form, it might give rise to a qualified external auditor report.

- Received the External Audit Plan developed by Ernst & Young for the 2011 Annual Accounts *(Meeting date: 24.10.2011).*

Said report provides a general overview of the audit process and details those documents to be prepared and the relevant communication system, as well as the composition of the work team.



- Likewise, it approved the proposal submitted by Ernst & Young to prepare a Model Manual for the control of the investments held by those insurance companies within the MAPFRE Group which are outside of the European Union, as well as the fees corresponding to this work. *(Meeting date: 24.10.2011).*
- The external auditor has attended the meetings of the Audit Committee for those matters relating to the audit of the Annual Accounts, the reports of the limited review as at 30th June 2011 and the preliminary reports of the audit of the Annual Accounts. *(Meeting dates: 01.02.2011; 03.05.2011; 21.07.2011 and 24.11.2011).*
- In addition, the external auditor presented to the Audit Committee a document regarding the European Directive for Solvency 2, which briefly explained the contents of the new regulation and the implications this has for the MAPFRE Group. *(Meeting date: 19.12.2011).*
- With the aim of establishing a common framework for the standardised reporting of the different Corporate Social Responsibility principles and matters, the GLOBAL REPORTING INITIATIVE (GRI) guide came into being in 1997 with the 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 engaged to verify this report. In 2011, the Audit Committee was informed of and verified MAPFRE's Social Responsibility Report for 2010. *(Meeting date: 01.02.2011).*

- Approved the fees proposed by Ernst & Young for issuing the report on the verification of the 2011 Corporate Social Responsibility Report. *(Meeting dates: 24.10.2011 and 19.12.2011).*



2.3. Supervision of the Internal Audit Unit

According to MAPFRE's Code of Good Governance, the Audit Committee has the following powers:

“To supervise the activities of the Internal Audit Department, for which purpose it shall have full access to its action plans, the results of its work and the follow-up of any recommendations and suggestions of the external and internal auditors”.

- The Audit Committee has approved the Annual Internal Audit Plan for financial year 2011 for MAPFRE and its subsidiary companies, which includes the 2010 Annual Report, the 2011 Audit Plan, the structure and budget for the Unit, as well as a training plan for the internal auditors. It also presents a section about audit cost ratios against the total Income and Expenses of MAPFRE, the cost per auditor, number of auditors versus the total number of employees at MAPFRE, the average number of training hours per auditor and the cost per internal audit hour. *(Meeting date: 01.02.2011).*
- The Audit Committee has received, reviewed and approved the Activities Reports of the Internal Audit Unit that the Internal Audit General Management issues every quarter and that place special emphasis on 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 compliance with the objectives of the Annual Internal Audit Plan, follow-up of the recommendations implemented following the proposal of the Audit Services and Units, training of the internal auditors, co-operation with the external auditor and with other areas or departments of the Group companies, and the follow-up of the budget for the Unit. *(Meeting dates: 03.05.2011; 21.07.2011, 24.10.2011).*

Likewise, the Audit Committee has also been informed of the level of compliance with the objectives included in the 2011 Internal Audit Plan as at December 2011. *(Meeting date: 19.12.2011).*

- The Audit Committee has been informed of the progress as at 31st March 2011 of the Remote Auditing Project, which included the report of activities carried out in 2011, the payment of the budget and the distribution of the time employed. *(Meeting date: 03.05.2011).*
- Likewise it was informed of the progress of MAPFRE's new Remote and Forensic Internal Audit Unit, with detailed information of the cost of this unit, its organisational structure and the approval of the Head of this Unit *(Meeting date: 24.10.2011).*



- The Audit Committee has approved the 2012–2014 Internal Audit Strategic Plan, which includes the Unit’s Objectives and Strategies. *(Meeting date: 19.12.2011).*

Likewise, compliance with the Strategic Plan for the 2011–2013 period as at June and December 2011 has been followed up. *(Meeting dates: 21.07.2011; 19.12.2011).*

- The Audit Committee approved the new texts incorporated in the document entitled “Internal Audit Charter of the MAPFRE Group”. The objective is to define the mission, functions, attributes and obligations of the Internal Audit Area, define its structure and working framework and disseminate Internal Audit know-how within the Group.

This update is aimed at adapting the Internal Audit Charter to the new legal framework established by the European Directive for Solvency 2 and the recent structural modifications carried out by MAPFRE. As a result, the Charter incorporates a new working framework for Auditing and reflects its new organisational structure and its current model of Technical Committees. These have been created in order to address the new challenges within MAPFRE which the Internal Audit function faces. *(Meeting date: 24.10.2011).*

- In compliance with one of the objectives of the Internal Audit Strategic Plan, the Audit Committee was informed of the undertaking and the results of the external review of the Internal Audit area within MAPFRE. *(Meeting dates: 03.05.2011 and 28.06.2011).*

The objective of this review is to verify that the activities of the Internal Audit Area within MAPFRE Spain comply with the “International Standards for the Professional Practice of Internal Auditing”, ascertain the perception of this function amongst the Senior Management, Management, Audit Committee members and external auditors and recommend improvements. The results of the review have been very satisfactory, concluding that the Audit Area within MAPFRE meet the standards set out in the International Standards for the Professional Practice of Internal Auditing.



2.4. Internal Control

According to MAPFRE's Code of Good Governance, the Audit Committee has the following powers:

“To be acquainted with the company's financial information and internal control process, and to make any observations or recommendations it may deem pertinent for the purposes of improving it”.

- A report on the level of compliance with the actions related to internal control undertaken in previous years has been presented to the Audit Committee. *(Meeting date: 28.06.2011).*
- The Audit Committee was informed of the documentation related to Internal Control which should be presented to the Boards of Directors of the respective insurance companies of the MAPFRE Group for approval and subsequent submission to the Directorate General for Insurance and Pension Funds, together with the annual accounting and statistical documentation for the financial year 2010. *(Meeting date: 28.06.2011).*
- The latest version of the internal control report has been presented, which highlights the main differences with respect the previous year, as well as the reports related to the various Spanish insurance companies and the MAPFRE Group.

The Audit Committee was informed of the contents and assessment of these reports which, after being approved by the respective Boards of Directors, were submitted to the Directorate General for Insurance and Pension Funds, together with the annual accounting and statistical documentation for the financial year 2011. *(Meeting date: 28.06.2011).*

- The Audit Committee unanimously approved the establishment of a Corporate “Whistle blowing” Channel for Financial and Accounting Irregularities. As a result employees of the MAPFRE Group may contact this Committee, on a confidential basis, any potentially significant financial or accounting irregularities which they detect within the company. In addition the launch of this channel was announced. *(Meeting dates: 03.05.2011 and 28.06.2011).*
- The Audit Committee was informed of the study undertaken among the Group's main companies of their internal control systems for financial information. This concluded that these comply with the “Guide for the preparation of the description of the internal Control System for Financial Information” issued by the Spanish Securities and Exchange Commission (CNMV), and highlighted those areas of the system which could be improved. *(Meeting date: 28.06.2011).*



In addition, information was submitted and approval given for the establishment within the MAPFRE Group of a certification system of the financial information which the subsidiaries (or Business Units in the case of Asistencia) submit for Consolidation. The process includes, in addition to the certification document, a questionnaire entitled “Evaluation of the Internal Control System for Financial Information”. (*Meeting date: 19.12.2011*).

2.5. Information to the Annual General Meeting

According to MAPFRE’s Code of Good Governance, the Audit Committee has the following powers:

“To inform the Annual General Meeting about any matter that falls within its remit”.

The Chairman of the Audit Committee attended the Annual General Meeting held in 2011 (*Annual General Meeting held on 5th March*). The shareholders did not ask any questions on matters within its remit.

2.6. Risk management

- The Audit Committee was informed of the report on the calculation of the economic capital of MAPFRE S.A. by fixed factors for financial year 2010, using consolidated data as at 30th June and 30th September 2011, which includes detailed information referring to the Group’s Divisions and Units. (*Meeting dates: 03.05.2011, 24.10.2011 and 19.12.2011*).
- The Audit committee was presented the Operational Risk Mapping report for 2011. (*Meeting date: 19.12.2011*).
- Additionally the Audit Committee was informed of the tasks which have been or are being developed by the MAPFRE companies, both at an individual and Group level, for the adaptation of the introduction of the European Directive on Solvency 2. (*Meeting date: 19.12.2011*).



2.7. Other matters

In 2011 the Audit Committee has been informed of the following matters:

- MAPFRE's Audit Committee Activities Report for 2010. (*Meeting date: 01.02.2011*).
- The taxation policies which have been followed in 2010, in accordance with the recommendations contained within the Code of Good Tax Practice. (*Meeting date: 01.02.2011*).
- MAPFRE's financial investments as at the end of financial year 2010 and their treatment, based on the market environment at that moment in time. (*Meeting date: 19.12.2011*).
- The main issues addressed and agreements adopted by the Audit Committees at MAPFRE América's and MAPFRE Internacional's subsidiaries. (*Meeting date: 19.12.2011*).



3. POST YEAR END EVENTS

On 7th February 2012, MAPFRE Audit Committee:

- Resolved to propose to the Board of Directors of MAPFRE S.A. that the assessment of Ernst & Young as accounts auditor for financial year 2012 should be included in the Agenda for the 2012 AGM.
- Reviewed and examined the 2011 Individual and Consolidated Annual Accounts, MAPFRE's Individual and Consolidated Management Report and the 2011 Corporate Social Responsibility Report, and gave a favourable opinion to MAPFRE's Board of Directors on the Economic Information for financial year 2011.
- Approved the 2012 Internal Audit Plan, which includes the 2011 Annual Report and Internal Audit Plan, and also the 2012 Budget for the Audit Unit.
- Reviewed and examined the 2011 report of MAPFRE S.A. for the Spanish Securities and Exchange Commission (CNMV).
- Issued a report on the interdependence of accounts auditors pursuant to the 4th 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 Recast Spanish Law on Public Limited Companies approved by Royal Decree 1564/1989, of 22th December, so that it is adapted to Community Law.
- In accordance with the provisions of the Code of Good Tax Practices, it received information from the person responsible for tax issues about the policies followed during the year.
- Authorised the hiring of the firm Audelco to carry out the audit of the Safety at Work Systems within MAPFRE's companies, which must be undertaken during 2012.

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