



REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE TO THE MAPFRE S.A. BOARD OF DIRECTORS REGARDING ITS COMPOSITION AND FUNCTIONS IN 2017

The Audit and Compliance Committee is the delegate body of the MAPFRE S.A. Board of Directors for undertaking, among other things, supervisory functions relating to the integrity of finance information and the effectiveness of internal control, internal auditing and risk management.

Its regulation is contained in article 22 of the Corporate Statutes and in article 10 of the Board of Directors Regulations.

1. Composition

The Audit and Compliance Committee must consist of at least three but not more than five Directors, all of whom shall be non-executive, and at least the majority of whom must be Independent Directors, and one of whom will be designated in view of his or her knowledge and experience in matters of accounting, auditing or both. Its Chairman should be an Independent Director and must be substituted in this position every four years, only being able to be reelected to the post one year after leaving that position. The Secretary will be that of the Board of Directors.

As of December 31, 2017 the Audit and Compliance Committee was composed of the following Directors:

Chairperson: Mr. José Antonio Colomer Guiu (Independent).

Members: Ms. Adriana Casademont i Ruhí (Independent).¹
Ms. Catalina Miñarro Brugarolas (Independent).
Mr. Rafael Márquez Osorio (Nominee)
Mr. Antonio Miguel-Romero de Olano (Nominee).

¹ By a resolution adopted by the Board of Directors on December 21, 2017 Ms. Ana Isabel Fernández Álvarez (Independent) was appointed to the Board, effective January 1, 2018 to fill the position opened by the resignation of Ms. Casademont.

2. Responsibilities

The Audit and Compliance Committee has the following responsibilities assigned in accordance with article 10 of the Regulations for the Board of Directors:

- a) To apprise the Annual General Meeting of matters that are the responsibility of the Committee and, in particular, regarding the results of the audit, explaining how the committee has contributed to the integrity of the financial information and role that the Committee had in that process.
- b) To supervise the efficacy of internal controls at the company, internal audits and risk management systems, including fiscal systems, as well as discussing with the External Auditor any significant weaknesses identified in the internal control system in the course of audits, without compromising its independence. For such purposes, and where applicable, the Committee may present recommendations or proposals to the Board of Directors and the corresponding term for the monitoring thereof.
- c) To supervise the process of drawing up and presenting the mandatory financial information, and to present recommendations or proposals to the Board of Directors with a view to safeguarding its integrity.
- d) To bring before the Board of Directors the proposals for the selection, appointment, re-election and substitution of the External Auditor, being accountable for the selection process as contemplated in the corresponding legislation currently in force, as well as the conditions of his/her hiring and regularly gathering from him information relating to the audit plan and its execution, as well as remaining independent in the performance of his or her functions.
- e) To establish appropriate relationships with the External Auditor in order to receive information concerning those issues which may jeopardize their independence, so that they may be examined by the Committee, and any other issues relating to the accounts auditing process, and where appropriate, authorizations for services other than those prohibited in the terms contemplated in the corresponding legislation currently in force for auditing accounts, for the regime of independence, as well as other communications envisaged in account audit legislation and auditing standards. In any case, the Committee should receive

annual written confirmation from the External Auditor of their independence from the company or companies directly or indirectly linked to it, as well as detailed and individualized information concerning the additional services of any type rendered and those professional fees received corresponding to these companies by said External Auditor, or by the people or companies linked to them in accordance with the provisions of the accounts auditing legislation currently in force.

- f) To issue a yearly report, prior to the publication of the accounts audit report, expressing an opinion concerning whether the independence of the External Auditor has been compromised. This report, in any case, must contain the reasoned evaluation of the provision of each and every one of the additional services to which the above letter makes reference, individually considered and jointly, apart from those concerning legal audits and in relation to the independent status or with the regulatory statutes for account auditing activity.
- g) To ensure that, as far as possible, the external auditor of the Group takes responsibility for auditing all the companies belonging to it.
- h) To ensure the independence and efficacy of the internal audit; to propose the selection, appointment, reappointment and removal of its most senior management, as well as its annual budget; to receive regular information on its activities; and to check that senior management takes the conclusions and recommendations of its reports into account.
- i) To give prior notification to the Board of Directors of all matters stipulated by Law, in the Corporate Statutes or this Regulation, specifically with regard to:
 - Financial information that the company must make public periodically.
 - Creation of or acquisition of shareholdings in special purpose companies or registered in countries or territories considered to be tax havens.
 - Operations with related parties.

- j) To establish and supervise a mechanism that enables employees to communicate confidentially irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.
- k) To verify the application of the established good governance regulations at all times.
- l) To supervise compliance with internal and external regulations, especially with internal codes of conduct, regulations and procedures for the prevention of money laundering and financing terrorism, as well as making proposals for their improvement.
- m) To supervise the adoption of actions and measures resulting from inspection reports or actions taken by administrative supervision and control authorities.

3. Operational framework

As laid down in the Board of Directors Regulations, the Audit and Compliance Committee usually meets every six months, as well as holding ordinary or extraordinary meetings whenever required, attended by the Group's General Manager for Internal Audit.

During the 2017 financial year, the Committee met 11 times, when the main topics addressed were as follows:

- **Information for the Annual General Meeting:**

The Chairman of the Audit and Compliance Committee, together with the other members of the Committee, attended the Annual General Meeting held on March 10, 2017. The shareholders did not raise any issues which were within the Committee's remit.

- **Internal control and risk management:**

The internal control evaluation reports on MAPFRE Group insurance and reinsurance companies relating to 2016 and prepared by the Corporate Internal Audit Area were presented to the Audit and Compliance Committee.

With regard to the Internal Financial Information Control System (SCIIF), the Audit and Compliance Committee received an Audit Report from KPMG entitled "Information relating to the System for the Internal Control over Finance Information" corresponding to 2016, which summarized the internal control procedures established by MAPFRE S.A. with regard to annual finance information.

The Committee was also provided with the Own Risk and Solvency Assessment (ORSA), the Regular Supervisory Report (RSR) and the Quantitative Reporting Templates (QRTs).

Furthermore, with regard to the review of Risk Management and Solvency II, the Committee was informed of the most important aspects undertaken by Internal Audit within its functions as supervisor of the risk management system, which include audits relating to Solvency II and internal control, an audit plan based on risk, a review of the information to be presented to the Risk Committee and coordination with other insurance functions.

- **Internal Audit Supervision**

The Audit and Compliance Committee approved the Annual Internal Audit Plan for the 2017 financial year for MAPFRE and its subsidiaries, which includes the Annual Report for 2016, the Audit Plan for 2017, the structure and budget for the Unit and the training plan for internal auditors.

The Audit and Compliance Committee also received, reviewed and approved the Internal Audit Unit Activity Reports which are issued quarterly by the Corporate Internal Audit Area and which place special emphasis on significant issues arising during the quarter relating to the internal audit reports and internal control. These reports also include monitoring of compliance with the objectives of the Audit Plans, the implementation of the recommendations, information on auditor training and collaboration with the external auditor and other areas within the company. Detailed information was presented to the Committee on the monitoring and progress of the recommendations at the close of each quarter.

The general directives for the 2018 Internal Audit Plan were also presented and the Committee was notified of the different management appointments in the Services and Internal Audit Units during 2017, as well as the new Internal Audit structure for 2018.

In addition, the Committee was informed of the expected budget for the Internal Audit Unit for the 2017 and 2018 financial years and the forecast for 2019 and 2020.

Finally, the Audit and Compliance Committee and the Board of Directors of MAPFRE S.A. approved the update of the Statutes and the Internal Audit Policy.

- **Economic / financial information**

In accordance with its assigned responsibilities, in 2017 the MAPFRE Audit and Compliance Committee verified the following documentation:

- Management Report and Individual and Consolidated Annual Accounts of MAPFRE S.A. and its dependent companies for 2016.
- Report on the Financial Situation and Solvency of MAPFRE Group and the subsidiaries residing in Spain that carry out insurance and reinsurance activities.
- The Integrated Report for 2016, which follows the guidelines and recommendations of the International Integrated Report Reporting Framework.
- Report on the limited review of intermediate, summarized, consolidated financial statements of MAPFRE S.A. corresponding to the intermediate period ending on June 30 2017.
- Information prepared by MAPFRE S.A. for investors and analysts, which is reviewed and analyzed firstly by the Corporate Audit Area and subsequently by the Audit and Compliance Committee before publication

- **External auditing**

The Audit and Compliance Committee approved the budget for the external audit of the Individual and Consolidated Annual Accounts of MAPFRE S.A. and its dependent companies for the 2017 financial year,

together with the payment of extraordinary fees to KPMG as a result of the deviation in hours employed in the auditing of the annual accounts corresponding to the 2016 financial year for a number of MAPFRE companies. In the same way, the Committee authorized additional services provided by KPMG in a number of MAPFRE companies and the total amount for the fees to be received for the same.

KPMG presented the 2017 annual Accounts Audit Plan to the Audit and Compliance Committee, which included the work schedule, the scope of the Group Audit, the members of the work team, preliminary assessment of risks and the accounting and regulatory changes affecting the review period. KPMG also presented a Preliminary Memorandum for the 2017 Annual Accounts Audit to the Committee. These preliminary reports are issued by the audit company for all MAPFRE's subsidiary companies on the company's Intermediate Financial Statements as of September 30.

Furthermore, and with the aim of guaranteeing the independence of the external auditor, the Audit and Compliance Committee undertook quarterly monitoring of the fees invoiced by the main audit company for services other than auditing Annual Accounts and supervised the relation between the fees paid to the audit company and the total revenue for the former, which according to MAPFRE S.A. Board of Directors Regulations should not exceed 5 percent.

The external auditor KPMG has attended the meetings of the Audit and Compliance Committee when discussing matters relating to the audit of the annual accounts, the limited review report at June 30, 2017 and the preliminary reports prior to the audit of the accounts, as well as matters concerning the limited review process involving the financial situation and solvency of MAPFRE Group and the subsidiaries residing in Spain that engage in insurance and reinsurance activities.

Furthermore, and with the aim of verifying the information and contributing to the principle of transparency in matters of Corporate Social Responsibility, the external auditor, KPMG, was responsible for verifying the Annual Report on MAPFRE's Social Responsibility corresponding to the 2016 financial year, this report was verified by the Committee. In the same way, the Committee approved the fees proposed by KPMG for issuing the report verifying the 2017 Annual Report on Corporate Social Responsibility.

- **Information to the Board of Directors**

The Audit and Compliance Committee gave a favorable report to the Board of Directors on the information that MAPFRE sends to the Spanish National Securities and Exchange Commission (the “CNMV”) every quarter. This economic-financial information is previously reviewed by the Corporate Internal Audit Area which issues a report in which it is emphasized that the MAPFRE Intermediate Financial Statements were prepared by applying the same criteria as that applied to Annual Accounts and that these criteria are reasonable, objective and verifiable, with the principle of prudence taking precedence over any other.

- **Supervision of a mechanism for notifying irregularities**

The Audit and Compliance Committee was notified of the activities undertaken in 2016 by the Financial and Accounting Whistleblower Channel and approved the amendment to the Operating Regulations for this channel.

- **Related-party operations**

The Audit and Compliance Committee published a report on related-party operations in 2016, to be made available to shareholders at the General Meeting.

The Committee also analyzed related-party operations carried out between MAPFRE Group companies and large shareholders and senior representative or management positions at MAPFRE. In all cases the Committee prepared the relevant report that was provided to the Board of Directors for its approval, if appropriate, of the related-party operations.

- **Regulatory Compliance**

The proposal for a Criminal Risk Prevention Model at MAPFRE was analyzed by the Audit and Compliance Committee and sent to the Board of Directors.

The Committee was provided with a report on 2016 regulatory compliance actions and the verification plan for 2017 was approved.

Similarly, the Committee was informed of the degree of compliance by MAPFRE Group of the policies adopted as a result of the regulatory framework established by Solvency II.

- **Other matters**

In addition to those previously described, the Audit and Compliance Committee also addressed the following matters during 2017:

- Fiscal Policies applied in 2016, in compliance with the recommendations contained in the Tributary Good Practice Code.
- Main issues addressed and agreements reached by the Audit Committees for MAPFRE subsidiaries.
- Assessment of the composition and functioning of the Committee during the 2016 financial year in accordance with that established in recommendation no. 36 of the Good Governance Code for listed companies in the Spanish National Securities and Exchange Commission (the “CNMV”), with unanimous agreement on the qualification of its composition and functioning this year as very satisfactory.
- Treasury stock operations undertaken in the 2017 financial year.
- Technical guide regarding Audit Committees at entities classified as of public interest by the CNMV.

Therefore, the Audit and Compliance Committee has unanimously agreed to submit this report to the MAPFRE S.A. Board of Directors for them to evaluate the functioning of the Committee during the 2017 financial year based on its content.

Madrid, February 6, 2018
Committee Secretary

Ángel L. Dávila Bermejo