



AUDIT COMMITTEE REPORT
TO THE MAPFRE S.A. BOARD OF DIRECTORS IN
RELATION TO ITS COMPOSITION AND FUNCTIONS IN THE 2016 FISCAL
YEAR

The Audit Committee is the delegate body of the MAPFRE S.A. Board of Directors for undertaking 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 Committee should be composed of at least three but not more than five Directors, all of whom shall be non-executive, and at least the majority of whom should be Independent Directors, and one of whom should be designated in view of his or her knowledge and experience in accounting or auditing matters, 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, 2016 the Audit Committee was composed of the following Directors:

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

Members: Ms. Adriana Casademont i Ruhí (Independent).
Mr. Andrés Jiménez Herradón (Nominee).
Ms. Catalina Miñarro Brugarolas (Independent).
Mr. Antonio Miguel-Romero de Olano (Nominee).

2. Responsibilities

The Audit 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 said process.
- b) To supervise the efficiency of the internal control of the company, internal audit and risk management systems, as well as debate the significant weaknesses in the internal control system detected when carrying out audits with the external auditor without compromising the independence thereof. For such purpose, and where applicable, they 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 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, they 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.

3. **Operational framework**

As laid down in the Board of Directors Regulations, the Audit 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 2016 financial year the Committee met 6 times in which the main topics addressed were as follows:

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

The Chairman of the Audit Committee, together with the other members of the Committee, attended the Annual General Meeting held on March 11, 2016. The shareholders did not raise any issues which were within their competence.

- **Internal control and risk management:**

During the 2016 financial year a report was presented to the Audit Committee on the degree of compliance of actions relating to internal control which had been undertaken in previous years. In this regard, the Committee had access to the content and assessment of the internal control reports of Spanish insurance companies which, with the prior approval of their respective Boards of Directors, were presented to the General Insurance and Pension Fund Division together with the annual statistical and accounts documentation for the 2015 financial year.

With regard to the Internal Financial Information Control System (SCIIF), the Audit Committee received an Audit Report from KPMG entitled "Information relating to the System for the Internal Control over Finance Information" corresponding to 2015, which summarized the internal control procedures established by MAPFRE S.A. with regard to annual finance information.

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 and Compliance Committee and coordination with other insurance functions.

- **Internal Audit Supervision**

The Audit Committee approved the Annual Internal Audit Plan for the 2016 financial year for MAPFRE and its subsidiaries, which includes the Annual Report for 2015, the Audit Plan for 2016, the structure and budget for the Unit and the training plan for internal auditors.

The Audit 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 2017 Internal Audit Plan were also presented and the Committee was notified of the different management appointments in the Services and Internal Audit Units during 2016, as well as the new Internal Audit structure for 2017, with the creation for MAPFRE RE of its own Internal Audit Service.

Furthermore, and in compliance with the objectives of the Internal Audit Strategy Plan which envisages undertaking "Quality Assurance" in its Audit Units and Services, the Audit Committee was informed of the completion and results of this review of the Corporate Internal Audit Area conducted by the Global Institute of Internal Auditors together with that of Spain. The objectives of these evaluations are to verify whether the Internal Audit activity matches the "International Framework for the Professional Practice of Internal Auditing", to understand how this Activity is perceived by Senior Management, Managers, members of the Audit Committee and External Auditors and to recommend improvements. The results of these evaluations were very satisfactory, concluding Internal Audit function in MAPFRE "generally complies" with that established in the International Framework for the Professional

Practice of Internal Auditing, where this is the highest rating which can be given.

Additionally, the Committee was informed regarding the following:

- Expected budget for the Internal Audit Unit for the 2016 and 2017 financial years and the forecast for 2018, 2019 and 2020.
- Global Audit Information Network 2016, market study on the internal audit function, in which the MAPFRE Corporate Internal Audit Area has once again taken part.
- Corporate Internal Audit Area 2016-2018 Strategy Plan, which was created in accordance with alignment directives with the MAPFRE S.A. Strategy Plan.

Finally, the Audit Committee and the MAPFRE S.A. Board of Directors approved the update of the Statute and Internal Audit Policy, which has now been merged into a single regulation which includes modifications to the Internal Audit structure and the organization chart among others.

- **Economic / financial information**

In accordance with its assigned responsibilities, in 2016 the MAPFRE Audit Committee verified the following documentation:

- Management Report and Individual and Consolidated Annual Accounts of MAPFRE S.A. and its dependent companies for 2015.
- Report on the limited review of intermediate, summarized, consolidated financial statements of MAPFRE S.A. corresponding to the intermediate period ending on June 30 2016.
- 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 Committee before publication

- **External auditing**

The Audit 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 2015 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 2015 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 2016 annual Accounts Audit Plan to the Audit 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 2016 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 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, attended Audit Committee meetings for matters relating to the Annual Accounts audit, reports on the limited review as of June 30, 2016 and the preliminary reports for the Annual Accounts audit.

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 2015 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 2016 Annual Report on Corporate Social Responsibility.

- **Information to the Board of Directors**

The Audit 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 Committee was notified of the activities undertaken in 2015 by the Financial and Accounting Whistleblower Channel and approved the amendment to the Operating Regulations for this channel.

- **Other issues**

In addition to those previously described, also addressed the following issues during the 2016 financial year:

- Annual Report on the Activities of the MAPFRE Audit Committee corresponding to the 2015 financial year.
- Fiscal Policies applied in 2015, 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 2015 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.
- Operations involving significant shareholders and senior positions with representative and management roles.
- Treasury stock operations undertaken in the 2016 financial year.

Therefore, the Audit 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 2016 financial year based on its contents together with those of the assessment report issued by the external consultant.

Madrid, February 6, 2017
Committee Secretary

Ángel L. Dávila Bermejo