

REPORT OF THE BOARD OF DIRECTORS ON THE PROPOSED AMENDMENT TO THE COMPANY BYLAWS WITH REGARD TO: NEW WORDING OF ARTICLES 3, 4, 7, 9, 11, 13 TO 18, 20, 23, 24, 26, 27, 31, 33 AND 35, ELIMINATION OF CHAPTERS 3 AND 5 IN TITLE III AND ARTICLES 22, 29, 30 AND 34, RENUMBERING OF ARTICLES 20, 21, 23 TO 28, 31, 32, 33, 33 BIS, 35 AND 36 AND CHAPTER 6 IN TITLE III, AND INCLUSION OF ARTICLES 23 AND 24 AND SECTIONS 1, 2, 3 AND 4 INTO CHAPTER 6 IN TITLE III

Madrid, 10th February 2015

I. BACKGROUND AND JUSTIFICATION OF PROPOSAL

Law 31/2014, of 3rd December, which amends the Spanish Companies Act with the aim of improving corporate governance, introduced several provisions referring to the functioning of the General Meeting and the Board of Directors. Consequently, some articles of the Company Bylaws of MAPFRE, S.A. (“**MAPFRE**” or the “**Company**”) had become obsolete with respect to certain amendments introduced by the current legislation.

Moreover, it was deemed advisable to adapt the wording of some articles in the Company Bylaws in order to adapt them to MAPFRE’s current situation.

In this context and in compliance with article 286 of the Spanish Companies Act, MAPFRE’s Board of Directors issues this report in which, without prejudice to minor wording changes or adaptations, the following is proposed:

- Amend articles 3 and 31 in order to eliminate any references to the date of start of operations and first financial year.
- Amend article 4 in order to eliminate the statutory mention to the territorial scope and powers of the Board of Directors to open, close and relocate branches.
- Amend article 7 in order to include an express mention to the regime governing the transfer of shares by book entries.
- Amend articles 9 and 13 in order to include an express mention to the Regulations of the General Meeting and the Regulations of the Board of Directors as the rule applicable, respectively, to the General Meeting and the Board of Directors.
- Amend article 11 in order to adapt the majority systems and the minimum number of shares required to attend the General Meeting to the provisions of articles 201 and 521 bis, respectively, of the Spanish Companies Act, following its amendment by Law 31/2014.
- Amend article 14 in order to reduce the maximum number of Directors – seeking to progressively meet the recommendations on corporate governance –, and adapt the regime governing conflicts of interest to the provisions of article 229 of the Spanish Companies Act, following its amendment by Law 31/2014.
- Amend article 15 in order to adapt the provisions governing the posts on the Board of Directors to articles 529 sexies and 529 octies of the Spanish Companies Act, and include the post of Coordinating Director envisaged in article 529 septies of said Act, following its amendment by Law 31/2014.

- Amend article 16 in order to adapt the co-optation system to the provisions of article 529 decies of the Spanish Companies Act, following its amendment by Law 31/2014, and establish the obligation of Directors to formalise the corresponding resignation when they reach the age of 70.
- Amend article 17 in order to adapt the Directors' remuneration system to the provisions of articles 217, 529 sexdecies, octodecies and novodecies of the Spanish Companies Act, following its amendment by Law 31/2014. Likewise, it was deemed advisable to modify the current remuneration system, which entitles External Directors who are members of the Committee and Sub-Committees to receive allowances for attending meetings, replacing it with a fixed amount due to their membership of said bodies.
- Amend article 18 in order to modify the minimum frequency of Board meetings and include the power of the Coordinating Director to call a Board meeting in accordance with article 529 septies of the Spanish Companies Act, following its amendment by Law 31/2014.
- Amend article 20 in order to reduce the maximum number of members of the Steering Committee to ten.
- Amend article 23 in order to eliminate the reference to the functioning of the Committees and Sub-Committees, as it is considered that this issue is already covered by the Regulations of the Board of Directors, where it is regulated in detail.
- Amend article 24 in order to reduce the maximum number of members of the Audit Committee to five, as well as to adapt their powers to the provisions of article 529 quaterdecies of the Spanish Companies Act, following its amendment by Law 31/2014.
- Include a new article 23 in order to govern the functioning of the Appointments and Remuneration Committee as laid down in article 529 quindecies of the Spanish Companies Act, following its amendment by Law 31/2014.
- Include a new article 24 in order to establish a Risks and Compliance Committee and regulate its functioning and powers.
- Amend article 26 in order to modify the limits applied to the number of shares which can be owned by Directors and executives in listed companies in which the Company holds a substantial economic participation, eliminating the limit referring to their par value, as well as the reference to the publication of details thereof in the annual report, since it is considered that the current reporting obligations envisaged by corporate regulations, regarding stock markets and financial and accounting information, render it unnecessary to make reference thereto in the



Company Bylaws, without prejudice that certain situations may be subject to detailed regulation in the Internal Code of Conduct relating to the Listed Securities issued by MAPFRE.

- Amend articles 27 and 33 in order to eliminate the references to article 34, whose deletion is proposed.
- Amend article 35 in order to eliminate the reference to the regulations regarding the supervision of private insurance.
- Eliminate article 22 referring to Senior Officers, while including its content in article 15 of the Company Bylaws.
- Eliminate article 29 referring to the retirement system applied to the company's personnel in order to adapt it to current legislation and also as it is considered that their provisions should not be subject to statutory regulation.
- Eliminate article 30 referring to the power of the Board of Directors to authorise the disposal of participations in subsidiary companies since it is considered that said power, as it covers all subsidiary companies regardless of their value, may impede that decisions are made regarding the normal management, such as the sale of the lowly valued companies. Furthermore, article 160 of the Spanish Companies Act, following its amendment by Law 31/2014, establishes – as a non-delegable power of the General Meeting – the acquisition, delivery or disposal of key assets, under the premise that it is not necessary to establish supplementary measures in the Bylaws.
- Eliminate article 34 referring to the donations to Fundación MAPFRE since its current financial position does no longer require this type of contribution.
- Renumber articles 20, 21, 23 to 28, 31, 32, 33, 33 bis, 35 and 36, as well as Chapter 6 (Delegated Committees) in Title III, and include sections 1, 2, 3 and 4 in Chapter 6 in Title III.

I. PROPOSED RESOLUTIONS

- Amend article 3 of the Company Bylaws, which shall read as follows:

The company has been incorporated for an indefinite period.

- Amend article 4 of the Company Bylaws in order to eliminate the second paragraph. It shall read as follows:

Its registered office is located in Majadahonda (Madrid), at Carretera de Pozuelo, 52. The Board of Directors is authorised to relocate the registered address within the same town. Any move outside this town shall require the agreement of the General Meeting.

- Amend article 7 of the Company Bylaws in order to include a second sentence. It shall read as follows:

*Shares shall be represented by means of book entries, which shall be governed by the Securities Market regulations and all other applicable provisions. **The transfer of shares, which will be free, shall take place by book transfer. The registration of the transfer in the Accounting Register in favour of the acquirer shall have the same effects as the delivery of securities.** The company shall acknowledge the status of shareholder to anyone who is duly registered with an entry in the Accounting Register, in which all successive transfers of shares and the establishment of rights in rem thereto shall be recorded.*

- Amend article 9 of the Company Bylaws, which shall read as follows:

*It is the supreme governing body of the Company **and is governed according to the Law, the Company Bylaws and the Regulations of the General Meeting.** The resolutions it passes in accordance with **the aforementioned provisions** shall be binding on all shareholders, including those who are absent or dissent.*

- Amend article 11 of the Company Bylaws, which shall read as follows:

*The holders of **1,000** shares which are registered in the Accounts Register five days prior to the meeting date shall be entitled to attend the General Meeting. Resolutions shall be approved by a **simple majority of votes of the shareholders in attendance or represented at the meeting, and a resolution shall be deemed to be approved when it receives more votes in favour than against, save in those cases in which a qualified vote in favour is required by Law or the Company Bylaws.** Each share entitles its holder to one vote.*

- Amend article 13 of the Company Bylaws, which shall read as follows:

*The Board of Directors is the body entrusted with the management, administration and representation of the Company **and it is governed by Law, the Company Bylaws and its own Regulations.** It has full power of representation, disposal and management, and its actions bind the Company without any limitation other than those which are expressly reserved to the Annual General Meeting pursuant to the Law and these Bylaws. In particular, it has authority to decide whether the Company takes part in the promotion and incorporation of any other firm, in Spain or*

abroad, whatever its corporate purpose may be, and its shareholding therein.

*It may set up **Committees and Sub-Committees** in order to improve the performance of its functions, and it may delegate all or some of its powers to its members and grant powers of attorney to anyone deemed necessary, subject to the restrictions and limits laid down by Law.*

*It shall issue the rules for the functioning of the **Committees and Sub-Committees**, as well as of the Executive Committee, and it shall set their powers and freely appoint and replace their members, unless they are ex-officio members due to the office they hold.*

- Amend article 14 of the Company Bylaws, which shall read as follows:

*It is composed of a minimum of five and a maximum of **twenty** Directors. The total number of Directors shall be determined by the General Meeting, **either directly or indirectly.***

The persons who hold the office of director should have a renowned reputation in their professional and commercial activity, and should hold the necessary professional qualifications or experience, in the same terms as those required by Law for financial or insurance companies subject to the supervision of the Public Authorities.

Persons who hold substantial shareholdings in, or provide professional services to, competitors of the Company or of any Group company, or are employees, executives or administrators thereof are not entitled to hold the office of Director, unless they are expressly authorised by the Board of Directors.

The Company shall take out a Third Party Liability insurance policy for Directors, according to market standards which, where required, will be adapted to the Company's circumstances.

- Amend article 15 of the Company Bylaws, which shall read as follows:

The Board shall, from amongst its members, elect a Chairman and it may likewise appoint one or more Vice-Chairmen, as well as one or more Managing Directors. It shall also appoint a Secretary and it may appoint a Vice-Secretary, for which positions it will not be necessary to be a Director.

*The Chairman shall represent the Company, and call, **chair** and coordinate the meetings of the Board of Directors, exercising all other functions conferred by **Law, the Company Bylaws, the Regulations of the General Meeting and the Regulations of the Board of Directors.***

The Vice-Chairmen, in the order established in their appointment, shall stand in for the Chairman in the event that he or she is absent, ill, or

following an express delegation made by the latter. In default of this, they shall be replaced by the eldest Director.

*The Secretary shall, on behalf of the Chairman, sign calls to General Meetings and Board meetings, draw up the minutes of the meetings, keep the minutes books at the registered address, issue certificates as necessary **and exercise all other functions conferred by Law, the Company Bylaws, the Regulations of the General Meeting and the Regulations of the Board of Directors.** If absent, the Secretary shall be replaced by the Vice-Secretary and, failing that, by the youngest Director in attendance.*

The Board of Directors shall determine in every moment which of the above-mentioned positions will perform executive functions, as well as their reporting line when there is more than one.

Notwithstanding the foregoing, the Board shall appoint one or several Managing Directors who, reporting to the person determined in each case, shall be responsible for the management of the Company within the operational scope assigned to each of them.

Every person who performs the executive functions referred to in this article should provide their services to the Company on an exclusive basis, although they may also discharge functions in other Group companies and in the foundations linked thereto.

The Board of Directors, with the abstention of the Executive Directors, shall appoint a Coordinating Director from among Independent Directors. This person will be especially empowered to request that a meeting of the Board of Directors is called or that new items are included in the agenda of a Board meeting already called, coordinating and convening non-executive Directors and overseeing, where required, the periodic evaluation of the Chairman of the Board of Directors.

- Amend the first and second paragraph of article 16 of the Company Bylaws, which shall read as follows:

The appointment and dismissal of Directors may be undertaken by the General Meeting at any time. The Board may temporarily cover any foreseen vacancies that may arise on the said Board by co-optation, in accordance with the legal provisions.

Directors shall hold office for a term of four years. They may be re-elected up to the age of 70 years when they must formalise the corresponding resignation.

- Amend article 17 of the Company Bylaws, which shall read as follows:

The position of Director is remunerated.

The remuneration of Directors, in their capacity as such, shall consist of a fixed sum as members of the Board of Directors and, where appropriate, as members of the Committee and Sub-Committees. This sum may be higher for those Directors sitting on the Board or who chair the Committee and Sub-Committees. This remuneration may be supplemented with other non-cash benefits (life or healthcare insurance, discounts on products sold by MAPFRE Group companies) that are generally provided to the Company's personnel.

The maximum annual remuneration of Directors, in their capacity as such, shall be set by the General Meeting and it shall be distributed in the manner agreed by the Board of Directors, taking account of the criteria mentioned in the previous paragraph.

Directors who perform executive functions in the Company or in the Group will be excluded from the remuneration system established in the previous paragraphs and shall be entitled to receive remuneration only for the performance of said executive functions. Said remuneration shall be set by the Board of Directors, providing details of every item in the corresponding contract entered into by the Company and the Executive Directors, which must be approved by the Board of Directors.

The remuneration of the Directors who perform executive functions may include the distribution of shares, share options or sums linked to the share price, subject to the legal requirements in force in every moment.

Regardless of the remuneration established in the preceding paragraphs, all Directors shall be paid for their travel, mobility and other expenses incurred to attend the meetings of the Company or for the performance of their functions.

In all cases, the remuneration of Directors shall adhere to the provisions of the Directors' remuneration policy approved by the General Meeting, in accordance with the Law.

- Amend the first and second paragraph of article 18 of the Company Bylaws, which shall read as follows:

*As many meetings as may be necessary shall be held in order to decide any matters within its remit, as well as those issues that are submitted for its consideration by the Chairman, other governing bodies of the Company or by any Director; and be informed about, and where required authorise, the main issues addressed and resolutions approved by the **Committees and Sub-Committees.***

*It shall be called by the Chairman, or by whoever replaces him or her in accordance with the provisions contained in these Bylaws, on his or her own initiative or at the request of **the Coordinating Director or three Directors**. The call may be made by letter, e-mail, **fax or any other means that ensure that it is received** at least **three** days in advance, except where, in the opinion of the Chairman, there exist reasons of urgency, in which case it may be called with a minimum notice of twenty-four hours. It shall be deemed to be quorate when the meeting is attended, either in person or by proxy, by one half plus one of its members. Meetings shall also be quorate although they are not called in advance provided that all members of the Board are in attendance, and there is unanimous agreement to hold the meeting.*

- Amend the first and second paragraph of article 20 of the Company Bylaws, which shall read as follows:

*It is the delegated body of the Board of Directors for the high-level **management** and permanent supervision of the running of the Company and its subsidiaries in strategic and operational matters, and for the adoption of the decisions that may be necessary for the proper functioning thereof, all of which in accordance with the powers that the Board of Directors may delegate to it at any given time.*

*It shall be composed of a maximum of **ten** members, all of whom shall sit on the Board of Directors. Its Chairman, First and Second Vice-Chairmen and Secretary shall be ex-officio those who hold the same office on the said Board, which shall appoint the other members up to a maximum of **ten**, and may also appoint a Vice-Secretary who shall not be entitled to vote.*

- Amend article 23 of the Company Bylaws in order to eliminate the second paragraph. It shall read as follows:

*Pursuant to the provisions of article 13 of these Bylaws, the Board of Directors may set up **Committees and Sub-Committees**, with such powers **and operational rules** as it considers appropriate in each case.*

- Amend article 24 of the Company Bylaws, which shall read as follows:

The Audit Committee shall be composed of a minimum of three and a maximum of five members, all of whom shall be non-executive members. Two of its members, at least, shall be Independent Directors, and one of them shall be appointed taking into account his or her knowledge and experience on accounting, auditing or both issues. Its Chairman shall be an Independent Director, who shall be replaced every four years and may be re-elected after one year has elapsed since he or she stepped down. Its Secretary shall be the

Secretary of the Board of Directors, who does not need to be a Director.

This Committee shall have the following functions:

- a) To report to the Annual General Meeting with regard to issues raised about any matter within its remit.**
- b) To oversee the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, as well as to discuss with the External Auditor any significant weaknesses detected in the internal control system in the course of an audit.**
- c) To supervise the preparation and reporting of regulated financial information.**
- d) To submit proposals to the Board of Directors, for subsequent approval by the Annual General Meeting, for the selection, appointment, re-election and replacement of the External Auditor, as well as with regard to its contractual conditions, and regularly receive information from the External Auditor regarding the audit plan and its execution, while preserving its independence in the exercise of its duties.**
- e) To build the necessary relationships with the External Auditor to receive information on those issues that may compromise its 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 audit rules. Under all circumstances, it shall receive from the External Auditor on a yearly basis a written confirmation of its independence from the entity or entities linked thereto, both directly or indirectly, as well as information on any additional services of whatever nature provided or the corresponding fees received from the said entities by the aforementioned External Auditor, or by the persons or entities linked thereto in accordance with the legislation in force on accounts audits.**
- f) To draw up an annual report –before the accounts audit report is issued– delivering an opinion on the independence of the External Auditor. This report shall contain, in any case, an assessment of the provision of the additional services referred to in the previous section, considered both individually and in aggregate, other than those referring to legal audits and related to the independence of the External Auditor or to the regulations governing the audit system.**

g) To inform the Board of Directors in advance of all issues provided for by Law, the Company Bylaws and the Regulations of the Board of Directors, and in particular with respect to the financial information that the Company must disclose on a periodic basis, the creation or acquisition of interests in special purpose vehicles or in entities registered in countries or territories regarded tax havens, and operations with stakeholders.

- Amend article 26 of the Company Bylaws, which shall read as follows:

The members of the governing bodies and the executives of the Company and its subsidiaries may only be shareholders of those companies or entities in which the Company directly or indirectly holds a substantial economic participation with the express authorisation of the Board of Directors or the body designated by the Board of Directors for this purpose, and in accordance with the limits and rules approved for this purpose by the Annual General Meeting. In the case of companies listed on the Stock Exchange, the said authorisation will not be required but the following rules must be observed:

- *No Director or Executive shall hold, whether directly or indirectly, shares **in excess of one thousandth of the outstanding shares.** However, if a company is to be listed on the Stock Exchange, the Directors or Managers who hold shares in excess of the aforementioned limit at that time may retain them on an exceptional basis, but they cannot buy further shares until their shareholding meets the limits laid down in this article.*
- *The Directors or Executives who hold shares must give notice, within seven days, to the body designated by the Board of Directors for this purpose of any purchase or sale transactions carried out.*

The provisions of this article shall not be deemed to be infringed by the directors of a Company who have been appointed precisely because of their status as shareholders of the said Company.

- Amend article 27 of the Company Bylaws in order to eliminate the reference to article 34. It shall read as follows:

*The Board of Directors shall take special care to ensure that, under no circumstances, any funds or property forming part of the assets of the Company and its subsidiaries are used directly or indirectly for ideological or political purposes, or for other purposes different from its corporate objects and objectives; **with the sole exception of the limited sums which are contributed to good causes, charity or social needs in accordance with the Group's business size.***

- Amend article 31 of the Company Bylaws in order to eliminate the second sentence. It shall read as follows:

The financial year shall commence on 1st January and end on 31st December of each year.

- Amend article 33 of the Company Bylaws in order to eliminate the reference to article 34. It shall read as follows:

Any attributable profits shall be allocated first to the allowance of the statutory reserves, and thereafter shareholders shall be given a dividend as may be decided upon. Any surplus shall be allocated to a new account or to the allowance of voluntary reserves.

- Amend article 35 of the Company Bylaws in order to eliminate the last sentence. It shall read as follows:

*The Company shall be dissolved in those cases provided by law and whenever the Annual General Meeting so decides. The General Meeting itself shall decide upon how to proceed with the liquidation by appointing for this purpose one or more Liquidators whose number must always be odd. This appointment shall terminate the powers of the Board of Directors. **In the liquidation of the Company, the provisions of the legislation in force concerning limited companies, as well as all other applicable provisions shall be considered.***

- Eliminate Chapters 3 (Steering Committee) and 5 (Senior Executive Officers), as well as articles 22, 29, 30 and 34 of the Company Bylaws.

- Renumber articles 20, 21, 23, 24, 25, 26, 27, 28, 31, 32, 33, 33 bis, 35 and 36 of the Company Bylaws, which will now be articles 21, 25, 20, 22, 26, 27, 28, 29, 30, 31, 32, 33, 34 and 35, respectively, while Chapter 6 (Delegated Committees) in Title III will be renamed Chapter 3 (Committees and Sub-Committees).

- Introduce four new sections in the new Chapter 3 (Committees and Sub-Committees) in Title III of the Company Bylaws under titles “Section 1. Steering Committee”, “Section 2. Audit Committee”, “Section 3. Appointments and Remuneration Committee” and “Section 4. Risks and Compliance Committee”, which will now be the new articles 21, 22, 23 and 24, respectively.

- Introduce a new article 23 in the Company Bylaws, which shall read as follows:

The Appointments and Remuneration Committee shall be composed of a minimum of three and a maximum of five members, all of whom shall be non-executive members and two of whom, at least, shall be

Independent Directors. Its Chairman shall be an Independent Director. Its Secretary shall be the Secretary of the Board of Directors and a Vice-Secretary may also be appointed, for which positions it will not be necessary to be a Director.

This Committee shall have the following functions:

- a) Evaluate the skills, knowledge and experience required at the Board of Directors, defining the functions and aptitudes expected from the candidates who will fill each vacancy and assessing the time and dedication needed to properly discharge their responsibilities.***
- b) Set a representation target for the under-represented sex at the Board of Directors and provide guidance on how to attain said target.***
- c) Submit to the Board of Directors the proposals for the appointment of Independent Directors to be designated by co-optation or to be approved by the Annual General Meeting, as well as the proposals for their re-election or dismissal by the latter, providing information in those cases in which the proposals may affect all other Directors.***
- d) Provide information on the proposals for the appointment and dismissal of senior managers and their basic contractual conditions.***
- e) Examine and organise the succession of the Chairman of the Board of Directors and, where required, make the necessary proposals to the Board so that such succession takes place in an orderly and controlled manner.***
- f) Propose to the Board of Directors the remuneration policy to be applied to Directors and General Managers or to persons who perform senior management functions directly reporting to the Board, the Steering Committee or the Managing Directors, as well as the individual remuneration and all other contractual conditions of Executive Directors, ensuring that they are duly observed.***
- g) Propose to the Board of Directors the candidates to be appointed as Trustees of FUNDACIÓN MAPFRE whose designation corresponds to the Company.***
- h) Authorise the appointment of the External Directors of the remaining Group companies.***

- Introduce a new article 24 in the Company Bylaws, which shall read as follows:

The Risks and Compliance Committee shall be composed of a minimum of three and a maximum of five members, all of whom shall be non-executive members. The Board of Directors shall appoint its Chairman, as well as its Secretary and, where required, a Vice-Secretary, for which positions it will not be necessary to be a Director.

This Committee shall have the following functions:

- a) Support and advise the Board of Directors in defining and assessing the Group's risk policies and in determining the risk appetite and strategy.***
- b) Help the Board of Directors supervise the application of the risk strategy.***
- c) Determine and assess the risk management methods and tools, monitoring the results and validation of the models applied.***
- d) Monitor the application of the corporate governance rules in force at each moment.***
- e) Oversee the compliance with internal and external regulations and, in particular, with the internal codes of conduct and the rules and procedures for the prevention of money laundering and terrorist financing, making the necessary proposals for their improvement.***
- f) Supervise the adoption of actions and measures resulting from reports or inspections by the administrative supervisory and control bodies.***