



## **REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE TO THE MAPFRE S.A. BOARD OF DIRECTORS REGARDING ITS COMPOSITION AND FUNCTIONS IN 2018**

The Audit and Compliance Committee is the delegate body of the MAPFRE S.A. (the "Company") 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 on December 31, 2018 the Audit and Compliance Committee was composed of the following Directors:

Chairman: Mr. Jose Antonio Colomer Guiu (independent).

Members: Ms. Ana Isabel Fernández Álvarez (independent).

Mr. Antonio Miguel-Romero de Olano (nominee).

Ms. María del Pilar Perales Viscasillas (independent).

On December 29, 2018, Mr. Rafael Márquez Osorio stepped down as a director and member of the Audit and Compliance Committee.

## 2. SKILLS

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 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. To this end, where applicable, recommendations or proposals, and the corresponding term for monitoring them, may be presented to the Board of Directors.
- c) To supervise the process for 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 must 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 the 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 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 any 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 on a quarterly basis, as well as holding ordinary or extraordinary meetings whenever required, attended by the Group's General Manager for Internal Audit.

During the 2018 financial year the Committee met 14 times, when the main topics addressed were as follows:

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

The Chairman of the Audit and Compliance Committee, and the other members of the Committee, attended the Annual General Meeting held on March 9, 2018. The shareholders did not raise any questions regarding matters within its remit.

- **Economic / financial information**

In accordance with its assigned responsibilities, in 2018 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 2017.
- 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 2017, 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 2018.

- **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 and financial information is reviewed in advance by the Internal Audit Corporate Area.

- **Internal Audit Supervision**

The Audit and Compliance Committee approved the Annual Internal Audit Plan for the 2018 financial year for MAPFRE and its subsidiaries, which includes the Annual Report for 2017, the Audit Plan for 2018, 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 2019 Internal Audit Plan were also presented and the Committee was notified of the different management appointments in the Services and Internal Audit Units during 2018, as well as the new Internal Audit structure for 2019.

In addition, the Committee was informed of the expected budget for the Internal Audit Unit for the 2018 and 2019 financial years and the forecast for 2020 and 2021.

Finally, the Audit and Compliance Committee submitted the update of the Bylaw and the Internal Audit Policy to the Board of Directors.

- **Appointment of the General Manager for Internal Audit**

The Audit and Compliance Committee proposed the appointment of Ms. Maria Luisa Gordillo Gutierrez as General Manager of the Internal Audit Corporate Area, with effect from January 1, 2019, to replace Mr. José Manuel Muries Navarro, following his retirement on December 31, 2018, which received the approval of the Company's Board of Directors.

- **Internal control and risk management:**

The internal control evaluation reports on MAPFRE Group insurance and reinsurance companies relating to 2017 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 2017, 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 Solvency and Financial Condition Report (FCR) and the Quantitative Reporting Templates (QRTs).

Moreover, in relation to the revision of Risk Management and Solvency II, the Committee was informed of the most important aspects implemented by Internal Audit as part of its supervisory functions of the risk management system, such as the audits on Solvency II and internal control and the risk-based audit plan.

- **External auditing**

The Audit and Compliance Committee proposed the re-election of KPMG as auditors of the Company and its subsidiary companies for the period 2018-2020, for the purposes of their submission by the Board of Directors of these companies to their respective Annual General Meetings. In particular, this proposal was approved by the Company's General Meeting on March 9, 2018.

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 2018 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 2017 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 2018 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. Moreover, KPMG presented to the Committee the Preliminary Memorandum of the Audit of the Annual Accounts for fiscal year 2018. These preliminary reports are issued by the audit firm for all subsidiaries of MAPFRE on the Interim Financial Statements of the company as on 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, 2018 and the preliminary reports prior to the audit of the accounts, as well as matters concerning the limited review process of the Solvency and Financial

Condition Report of the 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 non-financial information in MAPFRE's Integrated Report corresponding to the 2017 fiscal year; this report was verified by the Committee. In addition, the Committee approved the fees proposed by KPMG for issuance of the report verifying the non-financial information in the 2018 Integrated Report.

- **Related-party operations**

The Audit and Compliance Committee published a report on related-party operations in 2017, to be made available to shareholders at the General Meeting.

The Committee also analyzed related-party operations carried out in 2018 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.

- **Reply to the request from the Spanish National Securities and Exchange Commission (the "CNMV") Audit and Compliance Committee**

The Audit Committee analyzed and approved the Company's written reply to the request received from the Spanish National Securities and Exchange Commission (the "CNMV") in relation to specific information on fulfillment of the obligations arising from the Third Additional Provision of Law 22/2015, of July 20, on account auditing.

- **Regulatory and legal compliance**

The Committee was provided with a report on 2018 regulatory compliance actions in 2017 and the verification plan for 2018 was approved.

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



Moreover, the Committee was provided with information on the degree of compliance and development of the Penal Prevention Model.

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

The Audit and Compliance Committee was informed of the activities carried out in 2017 by the Financial and Accounting Complaints Channel.

- **Other issues**

In addition to those previously described, the Audit and Compliance Committee also addressed the following matters during 2018:

- Fiscal Policies applied in 2017, 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 2017 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 2018 financial year.
- Technical guide regarding Audit Committees at companies classified as of public interest by the CNMV.

#### **4. 2018 assessment**

The result of the Audit and Compliance Committee composition and functions self-assessment was very positive, giving rise to the following observation:

- Analyze in detail the specific knowledge and experience required by the Committee when a new member joins.

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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 2018 financial year based on its content.

Madrid, February 5, 2019  
Committee Secretary

Ángel L. Dávila Bermejo