



**MAPFRE**

## **AUDIT COMMITTEE**

### **STATEMENT OF ACTIVITIES 2008**

February 2009



# CONTENTS

|  |           |
|--|-----------|
| <b>1. AUDIT COMMITTEE</b>              | <b>3</b>  |
| <b>2. STATEMENT OF ACTIVITIES 2008</b> | <b>5</b>  |
| <b>3. POST YEAR END EVENTS</b>         | <b>15</b> |

## 1. AUDIT COMMITTEE

MAPFRE has had an Audit Committee since 2000, and its powers and governing regulations are contained in the MAPFRE 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 that form a part of the Group.

At the meeting held on 3<sup>rd</sup> 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 Code of Governance published that year by the Spanish Securities and Exchange Commission.

The regulations governing the MAPFRE Audit Committee, set out 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.

The members of the Audit Committee as at 31<sup>st</sup> December 2008 were as follows:

| <u>Name</u>                                       | <u>Type of Director</u>                     |
|---|---|
| Mr. Luis Iturbe Sanz de Madrid (Chairman)         | Independent                                 |
| Mr. Rafael Beca Borrego (member)                  | Independent                                 |
| Mr. Sebastián Homet Duprá (member)                | Nominee (representing the main shareholder) |
| Mr. Manuel Jesus Lagares Calvo (member)           | Independent                                 |
| Mr. Antonio Miguel-Romero de Olano (member)       | Nominee (representing the main shareholder) |
| Mr. José Manuel González Porro (Member-Secretary) | Executive                                   |
| Mr. Angel Luis Dávila Bermejo (Vice-Secretary)    | -----                                       |

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

#### **Article 24<sup>o</sup> 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 to 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 the MAPFRE 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.”*

Article 17 of the new Board Regulations, approved on 20<sup>th</sup> July 2008, expressly adds the following duty to the Audit Committee's duties listed above: *“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**

During 2008, the Audit Committee has been informed of all matters within its remit and has complied with the responsibilities assigned to it by Law, the By-laws, and the MAPFRE Code of Good Governance.

During 2008, the MAPFRE Audit Committee met on the following dates:

- 5<sup>th</sup> February
- 23<sup>rd</sup> April
- 17<sup>th</sup> June
- 21<sup>st</sup> July
- 28<sup>th</sup> October
- 18<sup>th</sup> December

There follows a summary of the activities of the MAPFRE Audit Committee during 2008, with the activities grouped around 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 Other matters**

## 2.1. Economic and Financial Information

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

*“To verify that the Annual Accounts, and 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, the MAPFRE Audit Committee has verified the following information in 2008:

- The 2007 Management Report and Individual and Consolidated Annual Accounts for MAPFRE and its subsidiary companies. *(Meeting date: 05.02.2008).*
- The information submitted quarterly by MAPFRE to the Spanish Securities and Exchange Commission (CNMV). *(Meeting dates: 05.02.2008; 23.04.2008; 21.07.2008 and 28.10.2008).*

This economic and financial information is reviewed in advance by the Internal Audit Department, which issues a report highlighting the fact that MAPFRE's Intermediate 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. Furthermore, any financial transactions between Group companies are examined, where appropriate.

- The information drawn up by MAPFRE for investors and analysts, which is reviewed and examined by the Audit Committee prior to its release. *(meeting date: 05.02.2008; 23.04.2008; 21.07.2008 and 28.10.2008).*

## 2.2. External Audit

According to the MAPFRE 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 MAPFRE S.A. Audit Committee, 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, the MAPFRE S.A. External Auditor should be responsible for the auditing of 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 break-down 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.*
- *The MAPFRE 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 Market Commission (CNMV) as a significant event, with a fully-transparent explanation of the reasons this has occurred, and where pertinent, reporting on any disagreements with the outgoing auditor.”*

In this regard, during 2008 the MAPFRE Audit Committee:

- Resolved to propose to the MAPFRE Board of Directors that the re-election of Ernst & Young as accounts auditor for financial year 2008 should be included on the Agenda for the 2008 AGM. (*Meeting date: 05.02.2008*).
- Approved the budget for the external auditing of the Individual and Consolidated Annual Accounts of MAPFRE SA and its controlled companies for financial year 2008. (*Meeting date: 28.10.2008 and 18.12.2008*).
- 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 firm of auditors 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, which percentage, according to the MAPFRE Code of Good Governance, should not exceed 5%. For financial year 2008, this percentage was 0.04%. (*Meeting date: 5.02.2008; 23.04.2008; 21.07.2008; 28.10.2008*).
- Received information on the work to be performed in the process for the external auditing of the 2008 consolidated annual accounts for MAPFRE S.A., which includes the individual auditing of over 65 national and 94 foreign entities, in addition to the auditing of approximately 47 pension funds and 32 mutual funds managed by MAPFRE entities. (*Meeting date: 28.10.2008*).

The report offers an overview of the auditing process, and describes the documents to be prepared and the appropriate communication system, as well as the members of the audit team.

- Received, examined, and requested additional information from the firm Ernst & Young with regard to the preliminary reports on the 2008 Annual Accounts for MAPFRE and its subsidiary companies. (*Meeting date: 18.12.2008*).

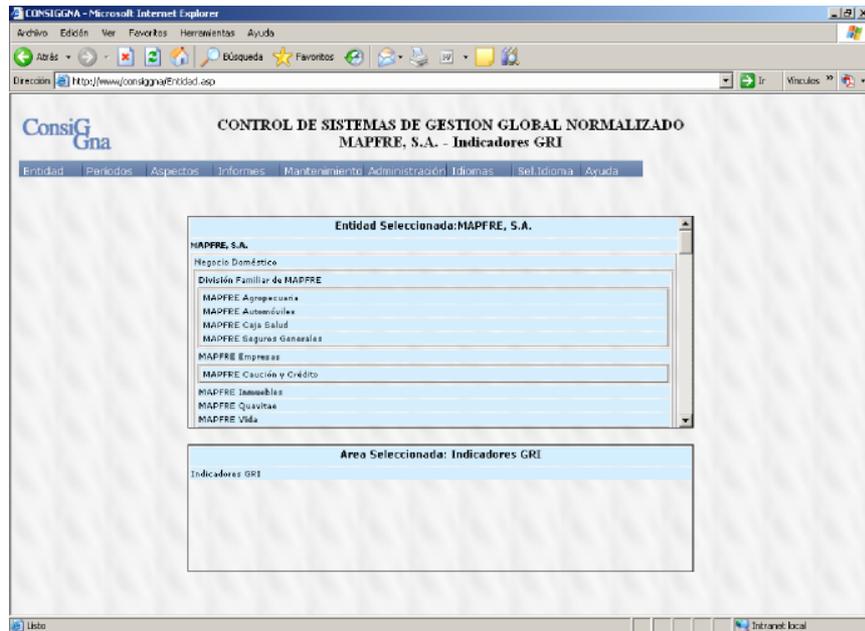
These preliminary reports are issued by the auditors for all MAPFRE subsidiary companies with regard to the Intermediate Financial Statements of the company as at 30 September and their purpose is to detect sufficiently in advance any matter that, were it not to be settled satisfactorily on a timely basis and in proper form, might give rise to a qualified external auditor report.

- Approved the proposed fees for the limited review of the consolidated summarised intermediate financial statements of MAPFRE, S.A. for the intermediate period ended 30th June 2008 and has received information about the tasks to be performed during the review and about its conclusions. (*Meeting date: 21.07.2008*).
- The external auditor has attended the meetings of the Audit Committee for those matters relating to the audit of the Annual Accounts and preliminary reports on the audit of the Annual Accounts. (*Meeting date: 05.02.2008, 21.07.2008, 28.10.2008 and 18.12.2008*).
- Received and considered the Satisfaction Survey on the Services provided by the External Auditor. This survey has been carried out for the seventh year running among people from the various companies that underwent a full audit of their Annual Accounts in 2007. The information analysed has been as follows: global analysis and evolution of services rendered, and action plans to improve the quality of services. (*Meeting date: 28.10.2008*).

- 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 different organisations

For the fourth year running, and as an integral part of its annual documentation, MAPFRE has published the 2007 Social Responsibility Report, according to version G3 of the GRI guidelines. In 2007, MAPFRE implemented its “Consigna” IT

management tool for handling its corporate Social Responsibility indicators, and which provides enough data to guarantee the quality and materiality of 90% of the indicators required by Global Reporting Initiative. Starting this year, the MAPFRE Social Responsibility Report will not only include the insurance



business indicators for Spain, but also for Argentina, Brazil, Colombia and Mexico.

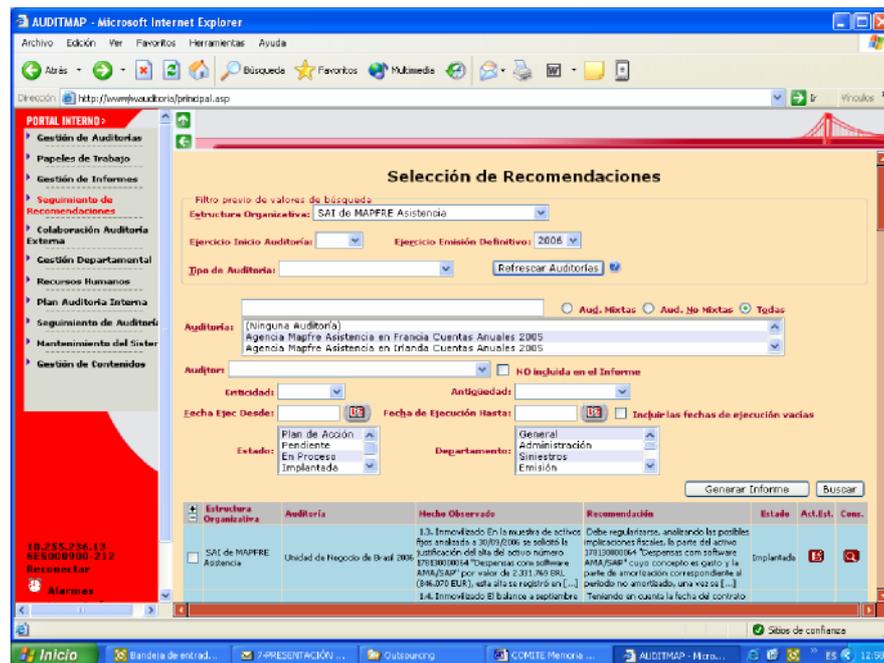
In order to verify the information and contribute to the principle of transparency, Ernst & Young has been engaged to verify this report. In 2008, the Audit Committee was informed of and verified the MAPFRE Social Responsibility Report for 2007. It was also informed of the corresponding report on recommendations and areas for improvement. (Meeting date: 05.02.2008 and 23.04.2008).

- Has approved the fees proposed by Ernst & Young for issuing the report on the verification of the 2008 Social Responsibility Report. (Meeting date: 28.10.2008 and 18.12.2008).

## 2.3. Supervision of the Internal Audit Unit

According to the MAPFRE 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 Internal Audit Unit has its own integrated and common computer program for all internal auditors, called [Auditm@p](#), which is furthermore used to provide on-line information to the Audit Committee. As from June 2004, the [Auditm@p](#) application has featured a special module with relevant information for the Audit Committee. In 2007, the company approved both the project to migrate this platform to a Java environment and the project to build an upgraded version with new functionalities. During 2008, the Audit Committee was informed of the progress in this project and of its technical and financial aspects. (Meeting date: 18.12.2008).

- The Audit Committee has authorised the Annual Internal Audit Plan for financial year 2008 for MAPFRE and its subsidiary companies, which includes the 2007 Annual Report, the 2008 Audit Plan, the structure and budget for the Unit, and a training plan for the internal auditors. It also includes a section on Systems Auditing, which lists the tasks scheduled for 2008, and indicates that some of them will be carried out by way of outsourcing with the firms PriceWaterhouse Coopers, KPMG. *(Meeting date: 05.02.2008).*
- The Audit Committee has received, reviewed, and approved the Internal Audit Unit's Activity Reports which the Internal Audit Department issues every quarter and that place special emphasis on material issues matters 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 Annual Internal Audit Plan targets, follow-up of implementation of recommendations proposed by 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 date: 23.04.2008; 21.07.2008, 28.10.2008 and 18.12.2008).*
- The Audit Committee has approved the Internal Audit Strategic Plan for the 2009 – 2011 period, which document includes the Unit's Targets and Strategies. *(Meeting date: 18.12.2008).*

Likewise, compliance with the Strategic Plan for the 2008 – 2010 period has been followed up on two separate occasions. *(Meeting date: 21.07.2008 and 18.12.2008).*

- The Audit Committee has received information on the internal audits conducted at the Banking Distribution Branches (ODB) by the Caja Madrid Audit Unit. These branches, which are dedicated to the distribution of Caja Madrid Group banking products, form a part of the overall agreements between the Caja Madrid Group and MAPFRE. *(Meeting date: 05.02.2008, 23.04.2008, 21.07.2008 and 28.10.2008).*
- The Audit Committee approved the change of the name of the overseas Audit Units to ensure that they respond to their real scope, which is not only the Direct Insurance companies but also the Reinsurance, Assistance and other companies. *(Meeting date: 18.12.2008).*
- The Audit Committee has been informed of the project to implement Remote Auditing and Automated Testing in MAPFRE. This project aims to reinforce internal audit throughout the GROUP through broader and better use of cutting-edge technology and to foster remote auditing. It has also been informed of the main premises, scheduled implementation activities and estimated investment and costs. *(Meeting date: 23.04.2008).*

## 2.4. Internal Control

According to the MAPFRE 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”.*

- In 2008, MAPFRE S.A. drafted a report on the MAPFRE GROUP's Internal Control System, in order to assess the effectiveness of the internal control procedures in place, in the framework of the annual plan approved by MAPFRE S.A.'s Board of Directors and the Audit Committee. The report also addresses the internal control procedures necessary to ensure the availability and appropriate submission of any information that is required to prepare and complete the Group's consolidated economic and financial information.

Reports have been issued for each of the Spanish insurance companies controlled by the MAPFRE GROUP (MAPFRE AUTOMÓVILES, MAPFRE SEGUROS GENERALES, MAPFRE CAJA SALUD, MAPFRE AGROPECUARIA, MAPFRE GUANARTEME, MAPFRE EMPRESAS, MAPFRE CAUCIÓN Y CRÉDITO, MAPFRE ASISTENCIA and MAPFRE RE). These reports focus on any procedures or controls that do not work properly, their implications and, where necessary, put forward the measures deemed appropriate for correcting them. The Audit Committee was informed in 2008 of the contents 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 2007. (Meeting date: 17.06.2008 and 21.07.2008).



- In 2008, the Audit Committee examined the “Internal Control Plan” in place in MAPFRE. This document lays down the internal control rules, procedures and general guidelines that must be followed throughout the MAPFRE GROUP, and formally defines the guidelines of the Governance Model required to maintain the best possible internal control system. (Meeting date: 21.07.2008).

- The Audit Committee has been updated on the “Internal Control and Audit in America” project that it approved in 2007. The Committee was given a general description of the project, the working schedule, information from the Internal Audit Units (IUA´s), the estimated and actual investment, the next scheduled actions and the conclusions to date. *(Meeting date: 28.10.2008).*

## **2.5. Information to the Annual General Meeting**

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

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

The Chairman of the Audit Committee attended the Annual General Meeting held during 2008 *(Annual General Meeting held on 8th March)*. The shareholders did not ask any questions on matters within its remit.

## **2.6. Other matters**

During 2008 the Audit Committee has been informed of the following matters:

- MAPFRE Audit Committee Activities Report for 2007. *(Meeting date: 05.02.2008).*
- Matters dealt with and resolutions approved by the Audit Committees of MAPFRE’s subsidiaries in Peru, Puerto Rico, El Salvador, Colombia, Mexico, Brazil, Chile, Venezuela, the Philippines and the Dominican Republic. *(Meeting date: 05.02.2008 and 18.12.2008).*

- In 2008 the Audit Committee received the report on the calculation of MAPFRE S.A.'s economic capital in 2007 by fixed factors, as well as the detailed information for the Group's Divisions and Units. It also received the 2007 operational risk report, which provides information about the activities performed during the financial year, the risk maps plotted in Spain and overseas, the criticality index by companies and risk areas, the types of risk by area and the activities scheduled for 2008 and 2009. *(Meeting date: 23.04.2008 and 28.10.2008).*
- The Audit Committee has been informed of the outcome of the compulsory compliance audit with the data protection security measure regulations scheduled for 2007 and 2008, in the MAPFRE Group's Spanish companies. These audits were conducted by the specialised firms SATEC and ITURRIAGA CONSULTORES. Following a proposal from the Internal Audit Department, the Committee approved the renewal of the two firms' contracts to perform the same audits for the next two years, 2009 and 2010, as well as authorising the respective fee proposals. *(Meeting date: 21.0 7.2008 and 18.12.2008).*

### 3. POST YEAR END EVENTS

On 3<sup>rd</sup> February 2009, the MAPFRE Audit Committee:

- Resolved to propose to the MAPFRE Board of Directors that the re-election of Ernst & Young as accounts auditor for financial year 2009 should be included In the Agenda for the 2008 AGM.
- Reviewed and examined the Individual and Consolidated Annual Accounts for 2008, the MAPFRE Individual and Consolidated Management Report, and the 2008 Corporate Social Responsibility Report, and gave a favourable opinion to the MAPFRE Board of Directors on the Economic Information for financial year 2008.
- Approved the 2009 Internal Auditing Plan, which includes the 2008 Annual Report and Internal Auditing Plan and also the 2009 Budget for the Auditing Unit.
- Reviewed and examined the 2008 MAPFRE S.A. report for the Spanish Securities and Exchange Commission.

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