

**The Internal Control Policy and
Corresponding Operational Guidelines of
MAPFRE Insular Insurance Corporation**

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INTRODUCTION

This document defines the main actions that should be developed in the establishment of MAPFRE Insular's Internal Control System. These actions are in consonance and aligned with the framework of the Internal Control Policy of the MAPFRE Group as approved by the Board of Directors of MAPFRE S.A. in February of 2010 (a document that brings the Internal Control Plan approved in July 2008 by the Group's governing bodies up to date).

Accordingly, the implementation of the Internal Control System at MAPFRE Insular is based, as with the MAPFRE Group's, on a broad and comprehensive application of the COSO Standards (Committee of Sponsoring Organizations of the Treadway Commission) with the following definition being adopted for Internal Control:

A Series of processes designed to provide reasonable assurance, within the framework of the principles and values set forth in MAPFRE Insular's Code of Good Governance, regarding the achievement of the MAPFRE Group objectives in effectiveness and efficiency of operations, reliability of financial and accounting information and compliance with external and internal rules and regulations.

Under the COSO model, there is a direct relationship between the objectives that the Company strives to achieve and the risk management components.

The Internal Control System at MAPFRE Insular shall be governed by the following principles:

- Responsibility across the organization, from the Board of Directors and the Senior Management, to all other staff of the Company.
- Promote control over potential risks that may affect the achievement of the strategic objectives.
- Improve internal operations.
- Ongoing system review and enhancement over time.

The person to be appointed as responsible for Internal Control must ensure compliance with the aforementioned principles and with the elements established by the COSO model.

The main actions that must be developed under the Internal Control System including the persons responsible for the said System, which comprise the make up of the Governance Model of the Company's Internal Control System, are detailed below for each COSO element:

1. CONTROL ENVIRONMENT

This encompasses the tone of an Organization as well as its control sensitivity and culture, including ethical values, corporate governance, risk management philosophy and style, organizational structure or professional competence.

Responsible Areas:	Management – Promote HR - Communicate
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Actions:

<< Management must raise awareness of the governance model and the main rules, procedures and guidelines that must be in place at the Company with regard to Internal Control. It shall likewise promote and enhance the existing Internal Control System of the Company. >

Endorsement of the *Internal Control Policy* by the Company's Board of Directors and dissemination thereof across the Company. To this end, the Company's intranet, MIIX or any subsequent facility that may replace it, could be used to disseminate this policy.

- 1.1. With the collaboration of Human Resources Department, promote training and conduct information dissemination activities on internal control, fraud prevention, and money laundering or conduct other initiatives that may improve the control environment.

At the very least, the following specific actions to disseminate the internal control system should be undertaken:

- Enrolment in the "Internal Control Rules" course, which provides basic information on Internal Control, its purpose and its components. This course can be found in the *Training catalogue* through e-learning (Spanish and English) of the MAPFRE Group.
- Participation in the survey "Control Environment" to assess the internal control environment existent at the various levels of responsibility.

- 1.2. Endorsement by the Company's Management Bodies of the Company's *Code of Good Governance* and *Code of Ethics and Conduct*.

Both codes, which are consonant with those of the MAPFRE Group, reflect the corporate values and the basic principles that must guide the performance of the Company and of the persons belonging to it. They must be part of the company's culture and everyday work of all its employees, and therefore they must be disseminated across the organization.

2. STRATEGIC PLANS

Setting of objectives in the short, medium and long term, as well as the actions necessary in order to achieve them; the objectives must exist before management can identify potential events affecting their achievement.

Responsible Areas: Management – Promote

Actions:

<< The Management must establish a process to set objectives that support the entity's mission and are in line and consistent with the risk accepted. >>

- 2.1. Turn strategic planning into an ongoing work method throughout the year, the compliance of which is a task shared by all the members across the organization.
- 2.2. Set on a yearly basis the short, medium and long-term objectives of the Company as well as the corresponding strategic plans to achieve them with the structure and methodology consistent with those formulated by the MAPFRE Group. Accordingly, the strategic plans and triennial budgets shall be developed and drawn up by the Company in accordance with the model and schedule determined by the Group.

2.3. Coordinate and monitor the execution of the practical actions and activities required to attain the objectives set out in the Strategic Plans.

At least twice a year, compliance with the Strategic Plans of the Company must be monitored, both referring to the objectives and to the actions established in the previous Strategic Plan, bearing in mind the deadline set for their respective completion.

3. RISK MANAGEMENT

Identification, assessment and management of the relevant risks affecting the achievement of the Company's strategic objectives to ensure the identification of any internal or external events that may affect the achievement of the Company's objectives.

Responsible Areas: Management – Promote
Risk Area - Manage

Actions:

<< The Management must have in place an effective risk management system that comprises the strategies, processes and reporting processes required to identify, measure, control, manage and report permanently the risks to which the Company are or might be exposed to. To this end, the Company shall adopt the MAPFRE Group's Risk Management System (RMS). >>

3.1. Identify the risks which the Company may be exposed to and their relation with the strategic processes and objectives.

The Company shall be guided by MAPFRE's RMS that groups the various types of risks into four areas or categories, as follows:

Insurance Activity Risks	Groups, separately for Life and Non-Life, risks arising from: <ul style="list-style-type: none">▪ Inadequacy of reserves▪ Adequacy of technical reserves▪ Reinsurance▪
Financial Risks	Includes risks concerning: <ul style="list-style-type: none">▪ Interest rate▪ Liquidity▪ Exchange rate▪ Market▪ Credit
Operational Risks	Covers the risks arising from failures or inadequacies of systems, people, internal processes or external events
Strategic and Emerging Risks	Includes risks concerning: <ul style="list-style-type: none">▪ Corporate and good governance ethics▪ Organizational structure▪ Alliances, mergers and acquisitions arising from the regulatory environment▪ Competition

3.2. Assess and measure the risks to which the Company is exposed as well as

its solvency requirements, taking account of its risk profile.

The Company shall be guided by MAPFRE's RMS that defines the following risk management methodologies by category:

Risk	Methodology
Insurance Activity Risks	Process: Quantification Tool: Fixed factor capital model/ Partial Internal Model
Financial Risks	
Operational Risks	Process: Assessment (comprises the assessment of risks, the identification of internal controls, the evaluation of the degree of effectiveness of controls and the establishment of corrective measures). Tool: Riskm@p
Strategic and Emerging Risks	Process: Identification, mitigation and evaluation of impact

- 3.3. Establish the tolerance ranges by types of risks to allow the Management to respond to the main risks and achieve the objectives set.

The Management should develop response actions against risk (avoid, accept, reduce or share risks) to align the risk accepted with the tolerances approved.

4. CONTROL ACTIVITIES

Control policies, procedures and mechanisms that help achieve the Company's strategic objectives.

Responsible Areas: *Management – Promote
Risk Area – Define / specify
Business Managers - Manage
Organisation and process area – Support*

Actions:

<< Policies and procedures are established and implemented to help attain the objectives and to ensure that risk responses are effectively carried out. >>

- 4.1. Identify the risk management policies approved by the Company, with special emphasis on the control mechanisms established with respect to the setting up of limits or tolerance ranges in the assumption of risks or the adherence thereto.
- 4.2. Update or draw up process manuals linked to the Company's critical processes and sub-processes in order to facilitate the identification and knowledge of the internal controls established within the organization and their relation with potential risks that may affect the achievement of the Company's objectives.

The control activities will be managed through Riskm@p, a software application with the following control-related functionalities:

- It is a repository of the manuals referring to the Company's internal processes and controls, which allows the persons responsible for

them to update them permanently.

- It lists all the risk-related controls, providing a series of graphs that allow to know the number and percentage of existing controls for each of the processes and sub-processes.
- It allows to manage the recurring assessment concerning the efficiency of the controls implemented for each process.

(Further information on the management of process and internal control manuals using Riskm@p and the codes that must be used in the documentation to clearly identify the risks and internal controls established across the organization, can be obtained from documents "201009 Riskm@p – Handbook Management" and "201009 Process and internal control manuals" available at Riskm@p (query/download) in Menu << Document Management System / Manuals>>.)

4.3. Develop and draw up a Business Continuity Plan (BCP) following the model developed by the Security and Environment Division of MAPFRE (DISMA) that shall contain the appropriate procedures, actions, and infrastructures, both physical and managerial, geared towards mitigating the impact of the occurrence or materialization of certain risks on the Company's business processes.

5. REPORTING AND COMMUNICATION

Relevant and adequate flow of information that is timely and in the form that support effective decision making process, security, and confidentiality of information.

Responsible Areas: Management – Promote
HR - Communicate

Actions:

<< Relevant information must be identified, captured and communicated in a form and timeframe that enable the employees to carry out their responsibilities. Effective communication should occur in a broader sense, flowing down, across and up within the Company. >>

- 5.1. Increase the use of communication channels to facilitate employees' access to the information required to carry out their work/responsibilities with respect to policies, rules and procedures of the Company and of the Group.

6. SUPERVISION

Mechanisms that ensure the effective and continuous operation of the Internal Control System. Internal Audit is responsible for the complete evaluation process and for specific verifications.

Responsible areas: Internal Audit – Supervise

Actions:

<< The Company should monitor and assess its enterprise risk management in its entirety. Monitoring and assessment should be accomplished through ongoing management activities, independent evaluations or the combination of both actions. >>

- 6.1. In the MAPFRE Group, the Internal Audit General Management is responsible for evaluating the effectiveness and proper functioning of the Internal Control System and their components, in keeping with the Internal Audit Charter. The Company shall adopt the same.

The Company's Internal Audit, through its field work and under the added-value concept, shall evaluate periodically and systematically the existence and quality of each of the aforementioned components in the Internal Control structure as well as their interrelation, including the verification of compliance with external and internal rules, and thus shall provide Management with recommendations on issues for improvement.

When reviewing the quality of the Company's Internal Control System, Internal Audit shall determine whether it is functioning properly, mainly with regard to the existence of potential weaknesses that may hinder the achievement of established business objectives.