

INTERNAL AUDIT GENERAL MANAGEMENT



INTERNAL AUDIT CHARTER

Audit Committee, MAPFRE S.A.

October 24, 2011





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I. INTRODUCTION

On July 19, 1991, in a voluntary move, MAPFRE MUTUALIDAD's Board of Directors adopted the first Internal Audit Charter, with a view to providing clear guidelines for regulating the Internal Audit function at MAPFRE.

That first charter developed MAPFRE's Internal Audit structure and, in an equally voluntary step, established the Audit Committee.

Subsequently, a series of organizational changes have been introduced in the MAPFRE GROUP, and various Strategic Plans have been implemented, several editions of MAPFRE's Good Governance Code have been published and MAPFRE's Governing Bodies have been adapted to conform to Spanish Law 44/2002, of November 22, on Reform Measures for the Financial System. In particular, January 2007 witnessed the corporate reorganization of MAPFRE, with its transformation into a public limited company.

In November 2009, the European Parliament and the European Council approved the Solvency II Directive (Directive 2009/138/EC), which must be applied in EU Member States and will begin to be implemented progressively –according to different provisional dates for the various Solvency II requirements– as of 2013.

In October 2010, the Board of Directors of MAPFRE S.A. approved a series of amendments which affected the Corporate and Management Structure of MAPFRE S.A. and its subsidiaries.

These new frameworks require that the Internal Audit Charter is adapted so that:

- ✓ On the one hand, it includes new Audit scopes and/or specifies in further detail some scopes already within its remit and the environment in which MAPFRE S.A. and its subsidiaries operate; and
- ✓ On the other hand, it reflects the new Internal Audit organizational structure as well as its new model of Technical Committees, both aimed at responding to the new challenges to be faced by MAPFRE's Internal Audit function.



II. PURPOSE

The purpose of this Internal Audit Charter is as follows:

- ✓ Establish the mission, duties, powers and obligations of the Internal Audit Area within the MAPFRE Group.
- ✓ Define the structure of the Internal Audit Area of the MAPFRE Group.
- ✓ Establish the framework of relations between the Internal Audit Area of the MAPFRE Group and the Audit Committee, the Chairman, Senior Management and Directorates (of Divisions, Operating Units, Companies and Corporate Areas) and the external auditors.
- ✓ Disseminate information about the Internal Audit function across the MAPFRE Group.

III. REFERENCES

The Internal Audit activity is based on several key references, namely:

- ✓ The MAPFRE Group's *"Good Governance Code"*, which outlines the institutional and corporate principles of action and the basic internal rules that regulate the Corporate Governance of MAPFRE S.A. and other entities that go to make up the MAPFRE Group.
- ✓ *Article 24 of MAPFRE, S.A. Bylaws* approved by its Board of Directors, in accordance with the provisions of Article 47 "Audit Committee" of Spanish Law 44/2002, of November 22, on Reform Measures for the Financial System, which determines that an Audit Committee shall be in place in any case and establishes its duties.
- ✓ *Rules promulgated by the Regulatory and Supervisory Bodies* in Spain and in those countries in which the MAPFRE Group is present, on matters relating to the field of Internal Auditing.
- ✓ Article 47 of Solvency II Directive, as well as its subsequent transposition into the Spanish Act on the Regulation and Supervision of Private Insurance,





refers to Internal Audit as one of the key functions in the System of Governance of the insurance undertakings and, more precisely, confers it responsibility for ensuring the adequacy and efficacy of the Internal Control System and other elements of the System of Governance.

- ✓ The *Overall Goals for Action and the Strategic Plans* currently in force, developed by the Internal Audit Area in order to comply with, and develop in a coordinated manner, the current Goals and Strategic Plans of the MAPFRE Group.
- ✓ The “*Code of Ethics*” of the *Institute of Internal Auditors* of Spain. MAPFRE Group’s Internal Audit Area is a member of the Spanish chapter of the IIA (*The Institute of Internal Auditors*) and carries out its work in accordance with generally accepted auditing standards, duly assuming the Code of Ethics of the Institute of Internal Auditors as the behavioural guideline for members of the organization.
- ✓ The “*Code of Ethics and Conduct*” of the MAPFRE Group, which is inspired by the institutional and corporate principles set forth in the Good Governance Code and is aimed at reflecting the corporate values and basic principles that shall guide the performance of MAPFRE and of the persons that belong to the Group.

IV. SCOPE

The scope of application of this Internal Audit Charter is as follows:

- ✓ MAPFRE Group, comprising MAPFRE S.A., Subsidiary Companies, Divisions, Operating Units and the Corporate Areas thereof.
- ✓ Companies in which MAPFRE S.A. has a majority stake.
- ✓ Affiliated companies where the executive control or the governance and management thereof correspond to MAPFRE, S.A. or any of its Subsidiaries.

All the officers and employees of the MAPFRE Group must be aware of and comply with this Charter and, accordingly, the Internal Audit General Management must ensure it is adequately disseminated.





V. STRUCTURE OF THE INTERNAL AUDIT AREA

The Internal Audit Area is an integral part of the current organizational structure of the MAPFRE Group and is designed to respond to the needs of the present Strategic Plans and to the major challenges MAPFRE will have to face in the coming years.

On October 27, 2010 the Board of Directors of MAPFRE S.A. approved the renewal of the Operating and Management Structures of the MAPFRE GROUP effective as of January 1, 2011. Among other changes, the creation of the Direct Insurance Spain, International Direct Insurance and Global Businesses Divisions was approved. Accordingly, on December 22, 2010 the Audit General Management presented to the Audit Committee the new structure of the Area, which is principally aimed at adapting it to the reorganization approved by the Board of Directors.

The underlying principles of the Internal Audit Structure are the following:

- ✓ **Decentralization of the audit function**, locating the Internal Audit teams as close as possible to the business areas. This decentralization process aims to help all the members of the Organization to fulfill their responsibilities and remain in permanent contact with the Senior Management of the Divisions, Operating Units and Companies to which they provide this service.

In Spain there is an Internal Audit Service in each of the existing Divisions (Direct Insurance Spain, Global Businesses and International Direct Insurance), as well as Internal Audit Units in those Operating Units where it is deemed advisable on size grounds (Mapfre Vida, Empresas and Familiar). Internal Audit Units (IAU) also exist in subsidiaries abroad in those countries with higher business volumes.

New Audit Services and/or Units can be created or merged according to any structural and strategic changes that may be introduced in the MAPFRE Group in the future, always striving to maintain the simplest possible internal audit structure within the Group's organizational structure.

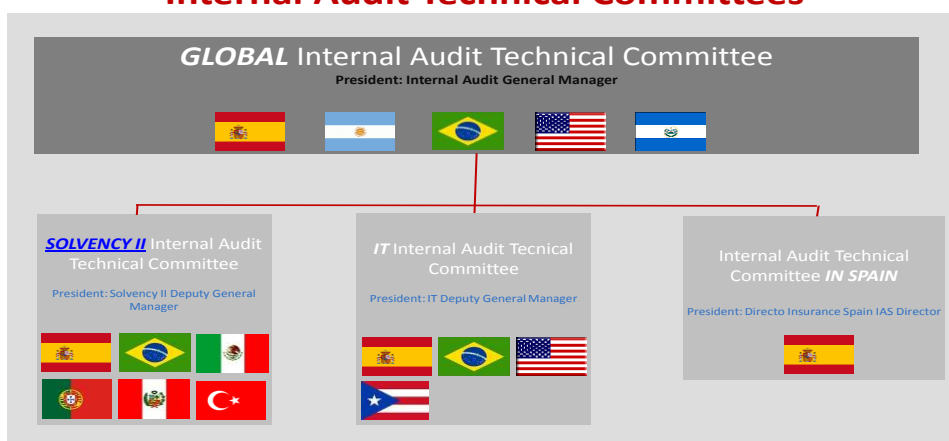
- ✓ **Reporting to the Board of Directors** of MAPFRE S.A. through the Audit Committee (Delegated Body of the Board) **and the Executive Chairman** of the MAPFRE Group.

The Directors of the Internal Audit Services and Units report to the Internal Audit General Manager.

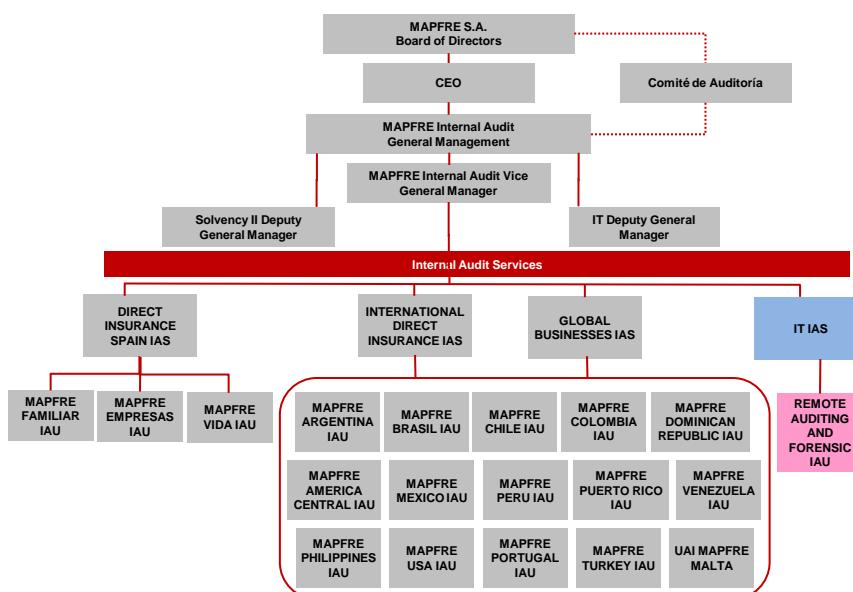


- ✓ **Coordinated action** of all the Internal Audit Services and Units following the guidelines established by the Internal Audit Global Technical Committee that is held, at least, bimonthly, and which is made up of the Internal Audit General Management and an adequate representation of the management teams of the various Internal Audit Services and Units. The other three Internal Audit Technical Committees (IT, Solvency II and Spain) report to this Committee.

Internal Audit Technical Committees



The current organization chart of the Internal Audit Area is as follows:





Currently, the Internal Audit General Management comprises a Deputy General Management, a Deputy General Manager responsible for Solvency II issues and a Deputy General Manager in charge of IT-related issues, as well as the following Internal Audit Services (IAS):

- ✓ DIRECT INSURANCE SPAIN IAS. This IAS performs its functions in Mapfre Familiar, Vida and Empresas Operating Units, coordinating the Internal Audit Units (IAU) corresponding to said Operating Units, which are included in the Direct Insurance Spain Division.
- ✓ INTERNATIONAL DIRECT INSURANCE IAS. Performs its functions in the International Direct Insurance Division (MAPFRE AMÉRICA and MAPFRE INTERNACIONAL), coordinating all MAPFRE's Internal Audit Units (IAU) abroad with respect to the direct insurance business.
- ✓ GLOBAL BUSINESS IAS. Performs its functions in the REINSURANCE, ASSISTANCE and GLOBAL RISKS Operating Units, coordinating all MAPFRE's Internal Audit Units (IAU) abroad with regard to Reinsurance, Assistance, Global Risks as well as Credit and Surety issues.
- ✓ INFORMATION TECHNOLOGY (IT) IAS. Performs its functions within the Technologies and Procedures Division, while providing service to all the Group companies transversally, both in Spain and abroad, in collaboration with the various Audit Services and Units, in coordination with the various Audit Services and Units. The Remote and Forensic Internal Audit Unit will depend on the IT IAS and will also have a global scope.

VI. MISSION OF THE INTERNAL AUDIT AREA

Internal Auditing is an independent, objective assurance and consultancy activity¹, designed to add value and enhance the operations of the MAPFRE Group. It assists the Organization in fulfilling its objectives by providing a systematic, disciplined approach to assess and improve the effectiveness of the risk management, internal control and corporate governance processes.

In general terms, the Internal Audit Area has the following functions:

¹ Assurance is taken to mean all those tasks that produce an independent evaluation of the processes related to risk management, control and governance of the organization, e.g. financial, performance, compliance, systems security and due diligence issues. Consultancy is taken to mean all those advice activities and related services, whose nature and scope are agreed with the members of the organization, aimed at providing added value and enhancing the business processes. Given their nature, those consultations related to accounting criteria and principles or involving fiscal and legal issues are duly excluded, as these matters correspond to MAPFRE's General Secretariat.



- ✓ Supervise the adequacy and effectiveness of the [Internal Control System](#) and other elements of the System of Governance (*for further details see appendixes I and II*), namely:
 - Evaluate the adequacy, sufficiency and effectiveness of the elements of the Internal Control System.
 - Evaluate the Risk Management System (RMS), based on the integrated management of each and every of the business processes and on the adequacy of the risk level to the strategic objectives of the MAPFRE Group, by reviewing, at least, the qualification and quantification processes for the types of risks envisaged in the Solvency II Directive. In this sense, the review of the Own Risk and Solvency Assessment (ORSA), which should be conducted by each insurance company or group of insurance companies, will be one of the key issues of the work to be done.
 - Evaluate the adequacy and performance of the Governance Functions included in the System of Governance as envisaged in the Solvency II Directive.
 - Contribute towards achieving good Corporate Governance through the verification of compliance with the rules set forth in MAPFRE's Good Governance Code.
- ✓ Comply with the [Annual Internal Audit Plan](#), informing in each report on any deficiencies detected and recommending the way to remedy these. Keep track of the progress of the action plans based on said recommendations.
- ✓ Assess the [reliability and integrity of the individual and consolidated accounting and financial information](#) and other information of an economic nature (Budgets, Projections, Capital Models, Embedded Value, etc.) prepared by MAPFRE S.A., the Operating Units and/or Divisions, Subsidiary Companies and Corporate Areas; as well as the validity, sufficiency and application of the accounting and legal principles and regulations.
- ✓ Effectively coordinate the [communication of information](#) between the Board of Directors, through the Audit Committee, and the internal and external auditors.
- ✓ Continuously monitor and arrange on-site Internal Audit activities in relation to [acquisitions, new businesses and activities in progress](#), as key risk elements of the Strategic Plan.
- ✓ [Support the Organization](#) in the fulfillment of its objectives, providing professionals in fields that may require an independent opinion or



development support (internal control, risk management, organization, analysis of financial statements, investment analysis, etc.).

- ✓ Coordinate the work of the [External Auditors](#) and the analysis of their conclusions before these are ratified.
- ✓ Gather whatever information proves necessary to [support the Audit Committee of MAPFRE S.A.](#) – and other Audit Committees set up in the subsidiaries pursuant to legal requirements or on a voluntary basis – [and the Executive Chairman](#) of the MAPFRE Group.

VII. FRAMEWORK OF RELATIONS

The framework of relations between the Internal Audit Area and the Organization of the MAPFRE Group is as follows:

- a) [Audit Committee](#): delegated body of the Board of Directors of MAPFRE S.A. that, among its basic duties, ensures the independence and effectiveness of the Internal Audit function and supervises its performance; to this end, it shall have full access to its action plans, the results of its works and the follow-up of the recommendations delivered in its reports.

Subject to the foregoing:

- ✓ The Internal Audit General Manager regularly informs the Audit Committee on the works carried out in the different areas of the audit activity.
- ✓ The Audit Committee assists and oversees the Internal Audit Area, authorizing its budget, its Internal Audit Plan, its Strategic Plan and the Unit's resources necessary to perform its functions, and monitoring the development thereof.
- ✓ The Internal Audit Area is the habitual channel of communication between the Audit Committee and the rest of the Organization of the MAPFRE Group, being responsible for preparing the information required in sessions, with the Internal Audit General Manager of the MAPFRE Group attending the same as a speaker – albeit with no voting rights.



b) **Executive Chairman, Senior Management and Directorates:**

- ✓ The Internal Audit Area provides support to the Executive Chairman, Senior Management and Directorates of the Divisions, Operating Units, Subsidiary Companies and Corporate Areas of the MAPFRE Group in the fulfillment of their responsibilities.
- ✓ The Internal Audit Area aligns its Audit Plan with the relevant risks and performance goals of the Strategic Plan in force at any given time for the Group's Executive Chairman, Divisions, Operating Units, Subsidiary Companies and Corporate Areas, incorporating the guidelines of each Executive Management and the approval thereof. Each Internal Audit Service and each Internal Audit Unit is under the obligation to report on the progress of the Audit Plan, its results and the degree of implementation of the recommendations

c) **External Auditors:**

- ✓ The relations of the Audit Committee with the external auditors are channeled through the Internal Audit General Management.

The main duties of the Internal Audit General Management in this regard are the following:

- Inform the Audit Committee about the main conclusions of the financial statements audit of the companies that make up the MAPFRE Group.
- Approve the budget for the financial statements audit of all the companies included into the audit scope, as well as all other works not linked to the financial statements audit the provider of which is the external auditor.
- Select the external auditor.





VIII. RIGHTS AND OBLIGATIONS

The MAPFRE Group's Internal Audit Area has the following rights and obligations in the performance of its functions:

- **Rights:**

- ✓ Internal Auditing shall access any kind of documentation, information and/or information system it deems necessary for the fulfillment of its duties.
- ✓ Internal Auditing shall have access to management, budget and financial-equity information, dossiers from the Boards of Directors and Executive Committees, etc. prepared with whatever frequency by the Divisions, Operating Units and Subsidiary Companies of the MAPFRE Group.
- ✓ Internal Auditing shall call on the collaboration of any officer or employee of the MAPFRE Group in order to perform its duties.
- ✓ The Internal Audit Area shall turn to outsourcing in order to commission others to perform those audit-related tasks they feel are necessary.

- **Obligations:**

- ✓ Internal auditors must comply with the "Good Governance Code" of the MAPFRE Group, the "Code of Ethics of the Institute of Internal Auditors", "MAPFRE's Code of Ethics and Conduct", the "Stock Market Internal Regulations of Conduct" and any other ethical rule that binds MAPFRE employees, whether in Spain or abroad.
- ✓ The Internal Audit General Management and the Directors of the Audit Services and Units must provide assistance and advice, within the framework of their duties, to the Audit Committee and to the Executive Chairman of the MAPFRE Group, as well as to the Boards, Executive Committees and Audit Committees of the subsidiary companies within the MAPFRE Group.
- ✓ Internal auditors must comply with both internal and external operational rules in those countries in which the MAPFRE Group is present.





- ✓ The criteria and actions of the internal auditors must be independent with respect to the rest of the Organization.
- ✓ Internal auditors must perform their work with due diligence and professional competence.
- ✓ Internal auditors must maintain the utmost confidentiality with respect to the information they deal with and the conclusions of their work.

IX. CODE OF ETHICS FOR THE INTERNAL AUDITORS OF THE MAPFRE GROUP

The Rules of Conduct of the Code of Ethics of the Institute of Internal Auditors, duly assumed by the Internal Audit Area, are:

- **Integrity**

Internal auditors:

- ✓ Shall perform their work with honesty, diligence and responsibility.
- ✓ Shall observe the law and make disclosures expected by law and the profession.
- ✓ Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Organization.
- ✓ Shall respect and contribute to the legitimate and ethical objectives of the Organization.

- **Objectivity**

Internal auditors:

- ✓ Shall not participate in any activity or relationship that may impair, or be presumed to impair, their unbiased assessment. This participation





includes those activities or relationships that may be in conflict with the interests of the Organization.

- ✓ Shall refrain from undertaking any audit that may entail a conflict of interests for them.
- ✓ Shall not accept anything that may impair, or be presumed to impair, their professional judgment.
- ✓ Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

- **Confidentiality**

Internal auditors:

- ✓ Shall ensure strict care in the use and protection of information acquired in the course of their duties.
- ✓ Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Organization.

- **Competency**

Internal auditors:

- ✓ Shall engage only in those services for which they have the necessary knowledge, skills and experience, and may outsource those services that require more specific knowledge.
- ✓ Shall perform internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

They shall continually improve their proficiency and the effectiveness and quality of the services they provide.



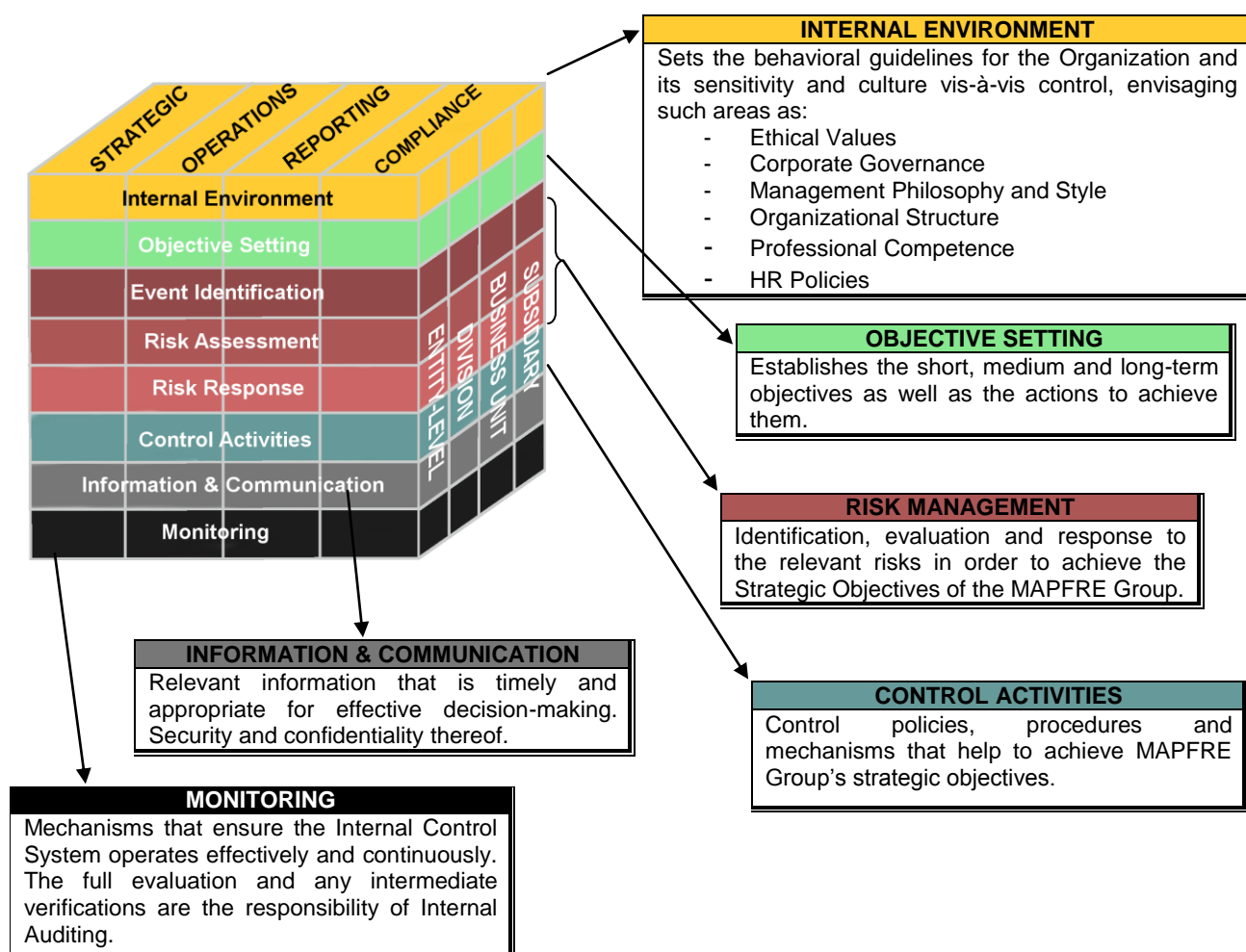


APPENDIX I: INTERNAL CONTROL AND RISK MANAGEMENT

For the purposes of performing this function, the MAPFRE Group and the Internal Audit Area adopt the concept of an Internal Control System as promoted by COSO (*Committee of Sponsoring Organizations of the Treadway Commission*), which envisages a series of integrated elements that go to make up the Internal Control System.

According to COSO, there exists a direct relationship between the objectives the entity wishes to achieve and the components of corporate risk management. The relationship is represented by a three-dimensional matrix in the form of a cube.

The four categories of objectives (strategy, operations, information and compliance) are represented by vertical columns, the eight components by the horizontal rows and the entity's units by the third dimension of the cube:





This Internal Control System is governed by a series of basic principles:

- ✓ All members of the MAPFRE Group are responsible for Internal Control issues.
- ✓ Encourages anticipating control issues, focusing control activities on relevant risks, in keeping with the strategic objectives of the MAPFRE Group.
- ✓ Integrated Management System.
- ✓ Its ultimate objective is to enhance the internal functioning of the MAPFRE Group, increasing its capacity for managing diverse internal and external situations that might arise, as well as identifying possible errors or significant deficiencies in the processes and structure of the MAPFRE Group.

As a result, the Internal Control System is a full set of processes, continuous over time-length of responsibility of the Board of Directors, Senior Management and the rest of the MAPFRE Group staff, and is designed with a view to providing reasonable security regarding the achievement of the objectives established by MAPFRE.



APPENDIX II – SOLVENCY II AND GOVERNANCE FUNCTIONS

In order to develop this function, Internal Auditing adopts the framework contained in the Solvency II Directive approved by the European Parliament and the European Council, which envisages, besides a financial perspective based on risks, the elements that should make up an effective System of Governance to ensure a prudent management of the insurance and reinsurance activity, as well as the role of the key functions deemed as relevant to said System of Governance.

Calculation of the solvency capital requirement and internal models.

The starting point for the adequacy of the quantitative aspects of risks is the solvency capital requirement which, in principle, is derived using a standard formula.

Within the framework of Solvency II, the solvency capital requirement is calculated for expected losses over a one-year time horizon and with a confidence level of 99.5%.

However, the standard formula might not properly reflect the risk profile of a company, and therefore it should be possible, under specific circumstances, to use full or partial internal models to calculate this requirement, the documentation and parameters of which should be previously authorized by the supervisory authorities.

The solvency capital requirement shall be calculated based on the business continuity principle and calibrated in order to ensure that all the quantifiable risks to which the undertaking is exposed are considered. It shall also cover all the activities already existing or those which are expected to be undertaken in the short term.

The solvency capital requirement shall cover, at least, the following risks:

- ✓ Underwriting and technical reserving
- ✓ Market
- ✓ Credit
- ✓ Liquidity and concentration
- ✓ Operational / Legal

To ensure that undertakings comply with the solvency capital requirement, they should calculate the solvency capital requirement at least once a year and monitor





it on an ongoing basis, as well as recalculate it whenever the risk profile changes significantly.

Undertakings shall have a regular cycle for validating their internal model, which includes monitoring its performance, reviewing the continuous appropriateness of its specifications with respect to potential changes, both external and internal, and testing its results against experience.

Technical Reserves shall be calculated using the information provided by financial markets, as well as generally available data on insurance and reinsurance technical risks. Technical Reserves shall be calculated in a prudent, reliable and objective manner.

System of Governance

The System of Governance shall at least include:

- ✓ An adequate transparent organizational structure, with a clear allocation and appropriate segregation of responsibilities; and
- ✓ An effective system for ensuring the transmission of information.

The System of Governance, in addition to the Internal Audit function, also includes the following Governance Functions:

- ✓ *Risk management* – Comprises the strategies, processes and reporting procedures required to identify, measure, monitor, manage and report on a continuous basis the risks at individual and aggregate level, to which the organization is or may be exposed, as well as their interdependencies.

Moreover, with regards to the use of internal models for calculating the solvency capital, the Risk Management Function shall draw up, apply, test, validate and document the internal models, as well as to inform the Management about its performance and propose actions to remedy any deficiencies which may arise.

The risk management system shall conduct an internal and regular assessment of the risks and solvency (ORSA), which shall be an integral part of the business strategy and the decision-making process. The results of each assessment will be reported to the supervisory authority.

- ✓ *Actuarial* – To effectively apply the risk management system, especially with regard to the establishment of the risk model on which the calculation of the capital requirements and its assessment is based. Likewise, it shall coordinate the calculation of the technical reserves, ensure the appropriateness of the methodologies, assumptions considered and calculation models, assess the sufficiency and quality of the data used, and deliver an opinion on the general



underwriting policy and the reinsurance agreements.

- ✓ *Compliance* – To ensure compliance of businesses and activities with the laws, regulations and administrative provisions and to assess the possible impact of any changes in the legal environment on the operations of the undertaking, as well as to identify and assess compliance risk. This function shall be part of the effective internal control system that all undertakings should have in place.

The undertaking can freely decide how to organize the Governance Functions in practice according to the proportionality principle. Except insofar as the Internal Audit function is concerned, it is possible to entrust several Governance Functions to a single organizational unit or to a single person.

The System of Governance shall be subject to an internal regular review.

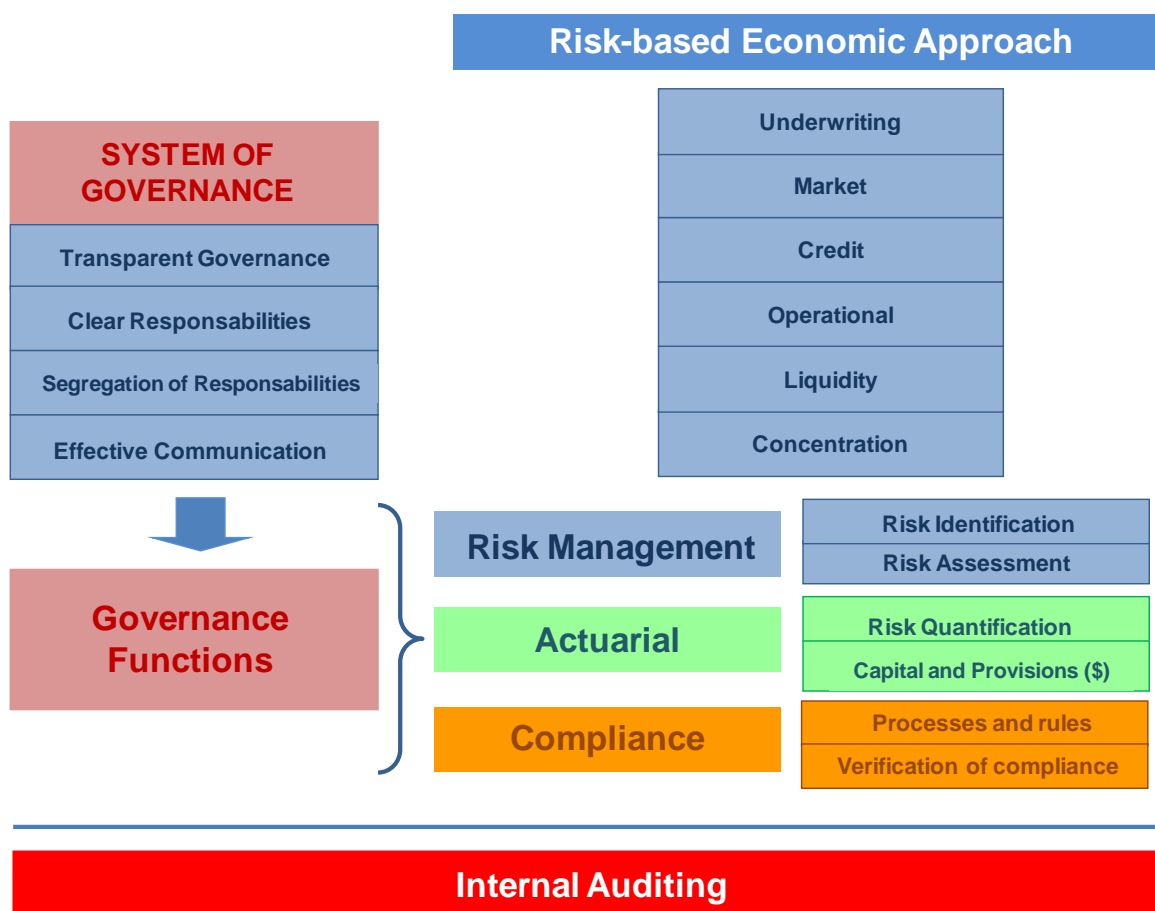
Undertakings shall have written policies in relation to, at least, risk management, internal control, internal audit and, where relevant, outsourcing. They shall ensure that those policies –which shall be subject to prior approval by Management and be adapted in view of any significant change in the system or area concerned– are implemented and reviewed at least annually.

Internal Audit Function

Insurance and reinsurance undertakings shall provide for an effective internal audit function. The internal audit function shall be objective and independent from the operational functions.

Internal Audit shall evaluate the sufficiency, adequacy and effectiveness of the Internal Control System and other elements of the System of Governance.

The supervisory role of the Internal Audit function, in accordance with the aforementioned Solvency II guidelines, can be summarized as follows:



Note: The Compliance function is an integral part of the internal control system that all undertakings shall have in place.

