

**Corporación MAPFRE**

Audit Committee

**REPORT OF ACTIVITIES 2004**

**February 2005**

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## 1. AUDIT COMMITTEE

CORPORACIÓN MAPFRE has had an Audit Committee since 2000, and its powers and terms of reference are set out in the SISTEMA MAPFRE Code of Good Governance. This code provides an ample account of the institutional and business principles in force in the group of which CORPORACIÓN MAPFRE, S.A. is a part, as well as all the regulations of the governing bodies of the entities that form a part of the said group.

In compliance with Article 47 of the Financial System Reform Measures Act 44/2002 dated November 22<sup>nd</sup>, the Company, by way of a resolution of the Board of Directors dated March 12<sup>th</sup> 2003, amended the make-up of its Committee in order to comply with the new legal requirement that it should be presided over by a non-executive director, and at this time the independent director Mr. Manuel Jesús Lagares Calvo was appointed as chairman, in lieu of Mr. Domingo Sugranyes Bickel. All members of the Audit Committee of CORPORACIÓN MAPFRE, S.A. are external directors, with the exception of the Secretary, who is also the Secretary of the Board of Directors. The current make-up of the Audit Committee is as follows:

Name:	Type of Director:
Mr. Manuel Jesús Lagares Calvo (Chairman)	Independent
Mr. Carlos Alvarez-Jiménez (First Vice Chairman)	Shareholder
Mr. Francisco Ruiz Ruisueño (Second Vice Chairman)	Shareholder (independent in the parent company)
Mr. Luis Hernando de Larramendi Martínez	Shareholder (independent in the parent company)
Mr. Antonio Miguel-Romero de Olano	Shareholder (independent in the parent company)
Mr. Alfonso Rebuelta Badías	Shareholder (independent in the parent company)
Mr. José Manuel González Porro (Secretary and Member)	Executive

The Code of Conduct of the Audit Committee of CORPORACIÓN MAPFRE, S.A., as contained in the SISTEMA MAPFRE Code of Good Governance, has been widely distributed amongst shareholders and investors following its approval, and it has likewise been notified to the Spanish National Securities Market Commission.

At the General Shareholders' Meeting, held on March 6<sup>th</sup> 2004, the amendment to the company bylaws was approved so that the Audit Committee Code of Conduct may be contained in the bylaws, in the following terms:

Audit Committee

### **Article 23-bis**

The Board of Directors shall, from amongst its members, appoint an Audit Committee, which shall comprise a minimum of three and a maximum of seven members, the majority of whom shall be non-executive directors. The Chairman of the Committee shall be appointed from amongst the non-executive directors. The Chairman's tenure shall be for a maximum of four years, and he/she may be re-elected after a period of one year has elapsed from the time that he/she left office. The Secretary of the Board of Directors shall be the Secretary of the Audit Committee.

The Committee shall have the following responsibilities:

1. To verify that the annual financial statements, as well as the half-yearly and quarterly financial statements, and all other financial information that is required to be filed with the regulatory or supervisory bodies, is true, complete, and adequate, and that it has been drawn up in accordance with the applicable accounting regulations and the criteria laid down on an internal basis by the General Secretary of SISTEMA MAPFRE, and that these are supplied within the proper time limit and with the correct content.
2. To propose to the Board of Directors, for approval by the Shareholders Meeting, the appointment of the Company's External Auditor, as well as to receive information regarding the activities of the said External Auditor and regarding any event or circumstance which may compromise his/her independence.
3. To supervise the activities of the Internal Auditing Service, for which purpose it shall have complete access to information regarding its action plans, the results of its work, and the monitoring of the recommendations and suggestions of the external and internal auditors.
4. To be informed of the financial reporting and internal control process of the Company, and to formulate such observations or recommendations as it may deem necessary for improvements to be made.
5. To inform the Shareholders Meeting in relation to such questions as may arise regarding those matters within its powers.

#### **Article 23-ter**

The Audit Committee shall meet on an ordinary basis quarterly, and any time it may be necessary in extraordinary session.

Meetings shall be convened by the Secretary or by whoever may act in his place by order of the Chairman, at his own initiative or upon a request made by no less than two members who, should a meeting not be convened within a period of time of ten days, may directly convene the meeting themselves by way of notarial means. A call to a meeting may be made by letter, electronic mail, telex or telegramme giving no less than seventy-two hours notice.

A meeting will be validly held whenever more than half the number of members of the Committee is in attendance either personally or by way of a proxy, and the Chairman or the Vice-Chairman is in attendance or, the former has expressly given his consent. A meeting will also be validly held without a prior call having been made if all of the members of the Committee are in attendance and it is unanimously agreed to hold the same. The Committee will pass its resolutions on an absolute majority vote of the members present at the meeting and whoever presides over the meeting shall have a casting vote.

If the Chairman and Vice-Chairman is absent or ill or the office is vacant, the meeting shall be presided over by the eldest of the members in attendance; if the Secretary is

absent or ill or the office is vacant, he shall be substituted by the youngest of the members in attendance.

If, in the Chairman's opinion, there is an urgent need or requirement, the Committee may, provided none of its members object, take any decision on a specific proposal or proposals submitted to it by the Chairman without a formal meeting being held. In this regard, the Secretary shall, by post, electronic mail, courier, telegramme, telefax or any other proper means, send all pertinent proposals and documents to the Committee members who must notify the Secretary if they are in agreement or otherwise with the same by the same means no later than forty-eight hours following upon the reception of such documents, and it shall be deemed that any proposal is passed if it is approved by a majority of the members of the Committee.

Minutes shall be drawn up relating to every meeting. The Minutes may be approved by the Committee at the end of each meeting or at a later meeting or by the Chairman of the meeting plus one member of the Committee authorised by the former for the purpose. The Minutes shall be signed by the Secretary of the Committee or the meeting secretary, by whoever may have acted as its Chairman and, if pertinent, by the member of the Committee who has approved them under delegated authority.

All significant matters and resolutions passed by the Committee must be notified to the Board of Directors of the company."

## **2. Activities Report 2004**

The Audit Committee of CORPORACIÓN MAPFRE has met on the following dates in 2004:

- February 16<sup>th</sup>
- April 26<sup>th</sup>
- July 19<sup>th</sup>
- October 25<sup>th</sup>
- December 21<sup>st</sup>

In order to provide a better understanding of the activities carried out during fiscal year 2004 by the Audit Committee of CORPORACIÓN MAPFRE, these have been grouped under four main headings in relation to:

2.1 Economic and Financial Information

2.2 External Auditing

2.3 Supervision of the Internal Auditing Unit

2.4 Risk management, Internal Control, International Reporting Financial Standards and other matters dealt with by the Audit Committee.

## 2.1 Economic and Financial Information

The SISTEMA MAPFRE Code of Good Governance establishes that the Board of Directors of CORPORACIÓN MAPFRE shall approve the necessary measures in order to ensure that the half-yearly, quarterly, and any other financial information which prudence may require to be made available to the markets is prepared in accordance with the same principles, criteria, and professional practices as those used for the annual financial statements, and that they may be relied upon in the same way. To this effect, the said information shall be reviewed by the CORPORACIÓN MAPFRE Audit Committee.

In accordance with these principles, the Audit Committee of CORPORACIÓN MAPFRE has verified the following information during 2004:

- Management Report and Individual and Consolidated 2003 Financial Statements for CORPORACIÓN MAPFRE and its subsidiary companies. (Date of meeting: 16.02).
- The information which CORPORACIÓN MAPFRE supplies to the Spanish National Securities Market Commission (CNMV) every quarter. (Date of meetings: 16.02; 26.04; 19.07; 25.10).

This financial and economic information is reviewed in advance by the Internal Auditing Directorate-General which then issues a report highlighting the fact that the Intermediate Financial Statements of the Corporation have been drawn up applying the same standards as for the Annual Financial Statements, and that these are reasonable, objective, and verifiable, and the Principle of Prudence shall always prevail over any other consideration. Furthermore, economic transactions between companies of the same Group are examined, should there be any.

The Quarterly, Half-yearly, and Annual Reports, as well as the Relevant Facts reported to the Spanish National Securities Market Commission, are available on the corporate website: [www.mapfre.com](http://www.mapfre.com).

- Likewise, the information prepared by CORPORACIÓN MAPFRE for Investors and Analysts is reviewed and examined by the Audit Committee prior to being published.

As with the Quarterly, Half-yearly, and Annual Reports which are supplied to the Spanish National Securities Market Commission (CNMV), the Company's presentations for Investors and Analysts, the Corporate Governance Annual Report, the Audit Committee's Report of Activities, Relevant Facts and other communication to the CNMV are available on the corporate website: [www.mapfre.com](http://www.mapfre.com).

## 2.2 External Auditing

The relationship between the Board of Directors of CORPORACIÓN MAPFRE and the External Auditors of the Company shall be channelled through the Audit Committee.

The External Auditor of CORPORACIÓN MAPFRE and its subsidiaries is the firm Ernst & Young except for its subsidiaries in El Salvador whose auditor is PriceWaterhouseCoopers.

To this effect, the CORPORACIÓN MAPFRE Audit Committee:

- Has approved the Budget of: 1,856 thousand euros for the External Audit of the Individual and Consolidated Annual Financial Statements for the fiscal year 2004; 610 thousand euros for services related to the audit of the annual financial statements; and 209 thousand euros for other complimentary services rendered, it is deemed these latter two figures do not compromise the independence of the auditors (Date of meeting: 25.10).
- In addition, and with the purpose of ensuring the independence of the External Audit, the Audit Committee supervises the list of the fees paid to the auditing firm and the total revenue of the said firm, which percentage should not exceed 5% in accordance with the MAPFRE Code of Good Governance. In fiscal year 2004 this percentage stood at 0.022%.
- Has received, examined, and requested additional information from Ernst & Young in relation to the Preliminary Reports of the 2004 Annual Financial Statements for CORPORACIÓN MAPFRE and its subsidiary companies. (Date of meeting: 21.12)

These Preliminary Reports are issued by the auditing firm for all subsidiary companies of CORPORACIÓN MAPFRE regarding the Intermediate Financial Statements of the Company as at September 30<sup>th</sup> and their purpose is to pick up in advance on any matters which, if they were not to be resolved in due time and manner, could be set aside in the External Audit Report.

- Has received and analysed the Preliminary Reports regarding the Balance Sheet and Profit and Loss account as at September 30<sup>th</sup> issued by Deloitte of the Companies of the Group: Caja Madrid, Banco de Servicios Financieros Caja Madrid-Mapfre, S.A., Caja Madrid Bolsa,S.V. S.A., Gesmadrid SGIIC, S.A. and Caja Madrid Pensiones, S.A., Entidad Gestora de Fondos de Pensiones and companies in which CORPORACIÓN MAPFRE has a significant holding. (Date of meeting: 21.12)
- The External Auditor attends meetings of the Audit Committee for those matters related to the auditing of Annual Financial Statements and Preliminary Reports on the auditing of Annual Financial Statements (Dates of meetings: 16.02 and 25.10).
- Has prepared the quarterly follow-up of the General Guidelines to be followed in relation to the External Auditor approved by the Audit Committee of

CORPORACIÓN MAPFRE at its July 19<sup>th</sup> meeting, which are in synthesis as follows:

Both the various Annual Financial Statements Reports and the Audit Committee Report of CORPORACIÓN MAPFRE shall give detailed information regarding the fees invoiced by the auditors, distinguishing between:

- ✓ The services corresponding to the auditing of the Annual Financial Statements.
- ✓ The services relating to the auditing of the Annual Financial Statements.
- ✓ Other services.

For the purposes of the above, services corresponding to the auditing of the Annual Financial Statements shall be understood to mean all recurring services which have the aim of providing third parties with reliability regarding the Annual Financial Statements drawn up by the Company.

The services relating to the auditing, in contrast to the above, are characterized by being one-off (non-recurring) and take the form of a certificate, a specific opinion, or a report concerning an investigation.

The heading of “other services” includes all consulting services which are not expressly prohibited.

Any doubts over which category a service requested of the External Auditor falls into out of the three above categories shall be addressed to the Internal Auditing Directorate-General. (Dates of meetings: 16.02; 26.04; 19.07 and 25.10).

- As part of the auditing of the Annual Financial Statements corresponding to fiscal year 2003, the external auditors reviewed and evaluated the Internal Control System and identified areas which need improvement in their corresponding recommendations. The Audit Committee of CORPORACIÓN MAPFRE has examined and evaluated the Internal Control reports of all the subsidiary companies, in Spain as well as abroad, and has been informed of the implementation of the recommendations of the auditor via the Internal Auditing Directorate-General. (Date of meeting: 19.07)
- The Audit Committee of CORPORACIÓN MAPFRE received and analysed the Survey of Satisfaction in regard to the services provided by the External Auditor. This is the third consecutive year where this survey has been carried out amongst persons from different companies who had a complete audit of their Annual Financial Statements in 2003. The data analysed was the following: Global analysis and developments in services provided and Action Plans for improving the quality of service. (Date of meeting: 19.07).

### 2.3 Supervision of the Internal Auditing Unit

The Internal Auditing Unit of the SISTEMA MAPFRE and of CORPORACIÓN MAPFRE is made up of a Directorate-General and eight Auditing Services in Spain and ten Internal Auditing Units in the main South American countries and Asia.

The Internal Auditing Unit has its own integrated application which is common for all internal auditors, known as Auditm@p, which is also used for providing on-line information to the Audit Committee. Since June 2004, the Auditm@p application provides a special module with relevant information for the Audit Committee.

In relation to the supervision of the Internal Auditing Unit, the Audit Committee of CORPORACIÓN MAPFRE:

- Has authorized the Annual Internal Auditing Plan for fiscal year 2004 for CORPORACIÓN MAPFRE and its subsidiaries, which includes the 2003 Report, the Auditing Plan for 2004, the structure and budget for the Unit, and the Training Plan for the internal auditors (Date of meeting: 18.02).
- Has seen, reviewed, and approved the Activities Reports of the Internal Auditing Unit which are issued every quarter by the Directorate-General of Internal Auditing and which place special emphasis on those relevant issues which arise in the quarter related to the internal audit and internal control reports as well as the attainment of objectives from the Annual Internal Auditing Plan, the monitoring of the implementation of the recommendations which have been proposed by the Audit Services and Units, training of internal auditors, collaboration with the External Auditor and other areas or departments of the companies of the Group and monitoring the budget of the Unit. (Dates of meetings: 26.04; 19.07; 25.10 and 21.12).
- Has received information from the internal auditors prepared for the Offices of Banking Distribution (Oficinas de Distribucion Bancaria) by the Audit Unit of Caja Madrid. These offices dedicated to the distribution of banking products of Grupo Caja Madrid, form part of an agreement between Grupo Caja Madrid and MAPFRE. (Dates of meetings: 19.07 and 25.10).
- Has seen and evaluated the results of Benchmarking, known as GAIN, Global Auditing International Network, a study promoted by the Institute of Internal Auditors, with its headquarters in New York ([www.theiia.org](http://www.theiia.org)), which measures the strengths and weaknesses of Internal Audit Departments. (Date of meeting: 19.07).
- Has approved the First Internal Systems Audit Plan for 2004 prepared by the Auditing Directorate-General and produced under the outsourcing method with PriceWaterhouseCoopers and KPMG. (date of meeting: 26.04)

## 2.4. Risk management, Internal Control, International Financial Reporting Standards (IFRS) and other matters undertaken by the Audit Committee

### 2.4.1 Risk Management

- The Audit Committee of CORPORACIÓN MAPFRE requested the Internal Auditing Directorate-General to commence the necessary works to set up a Formal Risk Evaluation System and to prepare the corresponding Risk Maps. In the 2003 report of the Audit Committee of CORPORACIÓN MAPFRE, information is provided in regard to the Risk Maps for MAPFRE VIDA, MAPFRE SEGUROS GENERALES, and Grupo MAPFRE VERA CRUZ in Brazil.

During 2004 the Risk Maps of the main companies of CORPORACIÓN MAPFRE in Colombia, Venezuela, Argentina and Puerto Rico and the second Map of MAPFRE Group in Brazil. In keeping with this objective, the second version of the application, Riskm@p, was used internally. (Date of meeting: 18.02; 26.04 and 19.07)

- The Audit Committee of CORPORACIÓN MAPFRE authorized a training seminar on risk which was held in May in Cartagena de las Indias, Colombia for the internal auditors of the Audit Units of MAPFRE in the U.S., Colombia, Argentina, La Seguridad and Brazil. (Date of meeting: 26.04).
- Have been advised by the Directorate-General of Auditing of the work performed by the Reinsurance Unit in order to adapt to the risk requirements established by the Financial Services Authority (FSA) in the United Kingdom. (Date of meeting: 19.07).
- The Audit Committee of CORPORACIÓN MAPFRE has analysed the Risk Standards which are in force in Latin American countries in which CORPORACIÓN MAPFRE specifically has subsidiaries. (Date of meeting: 19.07).

Country	Standards regarding:
<b>Mexico</b>	Integrated Risk Management
<b>Puerto Rico</b>	Risk Based Capital
<b>Colombia</b>	Special Rules on Risk Management
<b>Peru</b>	<ul style="list-style-type: none"> <li>✓ IT Risks</li> <li>✓ Management of Operational Risk</li> </ul>
<b>Chile</b>	General Management Policies
<b>Brazil</b>	Risks and Implementation of Internal Controls
<b>El Salvador</b>	Regulation of Internal Audit Unit

- Likewise, the Committee has examined and reviewed in detail the Capital Models adjusted to Risks of CORPORACIÓN MAPFRE for 2003 which are required by the Rating Agencies Standard & Poor's and A.M. Best. (Dates of meetings: 26.04 and 19.07).
- Due to the constant concern of the Board of Directors of CORPORACIÓN MAPFRE and its Audit Committee for the continuous improvement of Internal

Control, the Audit Committee has paid special attention to the document “*Enterprise Risk Management – Integrated Framework*” known as COSO II report (The Committee of Sponsoring Organizations of the Treadway Commission). This document precisely defines company risk management and Internal Control. (Date of meeting: 25.10).

#### **2.4.2. International Financial Reporting Standards**

- With the goal to safeguard the quality of the financial information, the Audit Committee of CORPORACIÓN MAPFRE, shall monitor the entire implementation process of the International Financial Reporting Standards in CORPORACIÓN MAPFRE paying close attention to the accounting as well as non accounting impacts which the new standard could have on CORPORACIÓN MAPFRE.

#### **2.4.3. Other matters undertaken by the Audit Committee**

- Report of Activities of The Audit Committee of CORPORACIÓN MAPFRE corresponding to financial year 2003. (Date of meeting: 18.02).
- Matters undertaken and agreements by the Audit Committees of the subsidiaries of CORPORACIÓN MAPFRE in Peru, Puerto Rico, El Salvador, Colombia, Mexico, and Brazil. (Dates of meetings: 19.07 and 25.10).

### **3. Subsequent Events**

- On February 7<sup>th</sup> 2005, the Audit Committee of CORPORACIÓN MAPFRE reviewed and examined the 2004 Annual Financial Statements (individual and consolidated) and the CORPORACIÓN MAPFRE Individual and Consolidated Management Report, and provided a favourable report to the Board of Directors of CORPORACIÓN MAPFRE regarding the Economic Information for fiscal year 2004.
- At the same meeting the Audit Committee approved:
  - ✓ The 2005 Internal Auditing Plan which includes the fiscal year 2004 Report, the Internal Auditing Plan and the 2005 budget for the Audit Unit.
  - ✓ The update of the Career Plan for Internal Auditors of MAPFRE.
  - ✓ The Internal Audit Objectives and Strategies Book for 2005 – 2007.

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