



A person in a black suit is walking on a modern building's exterior walkway. The walkway has a white railing and a grey tiled floor. A large red circular graphic is overlaid on the right side of the image. The text "CORPORATE GOVERNANCE REPORT" is written in white, uppercase letters inside the red circle.

*CORPORATE
GOVERNANCE
REPORT*

MAPFRE MUTUALIDAD AND SISTEMA MAPFRE

MAPFRE Mutualidad de Seguros y Reaseguros a Prima Fija (hereinafter MAPFRE MUTUALIDAD or the Mutual Society) is a private insurance entity whose objects are to provide cover for its partners or members, private individuals or legal persons against insured risks at a fixed premium payable at the commencement of the risk period. A member must also be the holder of an insurance policy. Thus, all members who are up to date with their duties have the same rights and duties.

The entity is governed by its corporate by-laws, the Regulation and Supervision of Private Insurance Act 30/1995, and its implementing provisions, where the basic regulations due to its special legal nature are set forth. The Limited Liability Companies Act is applicable in a manner subsidiary to Act 30/1995 and to its by-laws in regard to all that which does not conflict with its nature as a mutual society.

MAPFRE MUTUALIDAD, which operates in a specialised manner in the Motor Insurance Market in Spain, is the parent company of SISTEMA MAPFRE. SISTEMA MAPFRE is an independent Spanish business group that undertakes insurance, re-insurance, financial, real estate, and service activities in Spain and another thirty-seven countries.

MANAGEMENT STRUCTURE OF THE ORGANISATION

1) BOARD OF DIRECTORS

As at 31 December 2005, the Board of Directors was comprised as follows:

EXECUTIVE DIRECTORS

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	Chairman
Mr. FILOMENO MIRA CANDEL	First Vice-Chairman
Mr. ALBERTO MANZANO MARTOS	Third Vice-Chairman
Mr. SANTIAGO GAYARRE BERMEJO	Managing Director
Mr. SEBASTIÁN HOMET DUPRÁ	Member
Mr. ANDRÉS JIMÉNEZ HERRADÓN	Member
Mr. DOMINGO SUGRANYES BICKEL	Member
Mr. PRIMITIVO DE VEGA ZAMORA	Member
Mr. LUIS LEGUINA CEBREIROS	Member

INDEPENDENT EXTERNAL DIRECTORS

Mr. FRANCISCO RUIZ RISUEÑO	Second Vice Chairman
Mr. RAFAEL BECA BORREGO	Member
Mr. JUAN FERNÁNDEZ-LAYOS RUBIO	Member
Mr. RAFAEL FONTOIRA SURIS	Member
Mr. RAFAEL GALARRAGA SOLORES	Member
Mr. LUIS HERNANDO DE LARRAMENDI MARTÍNEZ	Member
Mr. RAFAEL MÁRQUEZ OSORIO	Member
Ms. FRANCISCA MARTÍN TABERNO	Member
Mr. ANTONIO MIGUEL-ROMERO DE OLANO	Member
Mr. ALFONSO REBUELTA BADÍAS	Member
Mr. AGUSTÍN RODRÍGUEZ GARCÍA	Member
Mr. MATÍAS SALVÁ BENNASAR	Member
Mr. FRANCISCO VALLEJO VALLEJO	Member

NON-EXECUTIVE INTERNAL DIRECTORS

Mr. EDUARDO FERNÁNDEZ DE LA FUENTE	Member
Ms. M ^a CARMEN MERILLAS ZARZUELO	Member

NON-DIRECTOR SECRETARY

Mr. JOSÉ MANUEL GONZÁLEZ PORRO	Secretary
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2) POWERS OF THE BOARD OF DIRECTORS

According to the provisions contained in the law and the by-laws, the Board of Directors is the main representative, governing and managing body of the Mutual Society.

Thus, it holds all powers of representation, disposal and management that do not rest with the General Assembly or any other corporate body according to law and the by-laws.

It acts as the main supervisory and decision-making body of the Mutual Society and as the supervisory body of SISTEMA MAPFRE as a whole, whereas the management is undertaken by the management and executive bodies of the Mutual Society, and by the competent corporate bodies of the subsidiary companies.

It may delegate such authority as it may deem pertinent, save those powers that cannot be delegated according to law or the by-laws and any powers that are necessary in order to responsibly carry out its general supervisory function.

3) REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In Accordance with the provisions of Article 26 of the corporate by-laws, the directors are remunerated as follows:

- The basic remuneration for non-executive directors consists of a fixed annual sum for occupying a seat on the Board of Directors in the amount of 30,000 euros during the year 2005. This amount is increased by 35 % for anyone who holds an office on the Board of Directors or who chairs a Committee or Delegated Committee. No accumulation of increments is allowed

for anyone who holds more than one of the said offices. Further, directors are entitled to a life insurance policy to cover death with an insured capital of 150,253.03 euros and enjoy certain benefits granted to employees, such as health insurance.

Non-executive directors who are members of Committees or Delegated Committees are paid an additional allowance for attendance at meetings in the amount, for 2005, of 3,000 euros.

Anyone who holds the chair of a Regional Council is paid a fixed allowance in the amount, for 2005, of 20,000 euros per annum. However, such persons are not allowed to receive any allowances for attending its meetings.

- Executive directors are paid whatever remuneration had been agreed in their contracts such as fixed salary, performance-based variable incentives, life and disability insurance and other benefits generally provided for personnel of SISTEMA MAPFRE. In addition, they have the right to certain retirement pension supplements that were externalised through a life insurance policy. The aforementioned is in accordance with the remuneration policy laid down by SISTEMA MAPFRE for its Senior Management, whether or not they are directors.

Executive directors are not, on the other hand, paid remuneration received by external directors save, in the case of a fixed amount for chairing a Regional Council, and allowances for attending meetings of SISTEMA MAPFRE's Steering Committee.

The basic remuneration paid to external directors is approved by the General Assembly on a proposal from the Board of Directors and following a report from the Appointments and Remuneration Committee of SISTEMA MAPFRE. The remuneration paid to executive directors, attendance allowances for meetings of the Committees and Delegated Committees and the fixed allowance for chairing a Regional Council are approved by the Board of Directors following a report from the said Committee.

In accordance with the provisions contained in Article 6 of the corporate by-laws, in the event of dissolution or corporate restructuring, the Directors, Managers and Employees have no right to obtain any shareholding or special rights over the Mutual Society's tangible or intangible assets, without prejudice to any rights they may have as a member of the Mutual Society.

Point 5.23 of the explanatory notes on the Annual Accounts provides pertinent information on the amount of remuneration referred to in the foregoing paragraphs that was paid during the 2005 financial year to the members of the Board of Directors.

4) APPOINTMENT, RE-ELECTION AND REMOVAL PROCEDURES OF DIRECTORS

Anyone who is offered the post of director of MAPFRE MUTUALIDAD or of any subsidiary company must submit a full and true Prior Statement relating to his/her pertinent personal, family, professional or business circumstances and special mention must be made of anything that might amount to a disqualification according to law, the bylaws and the provisions of the Code of Good Governance or a conflict of interest. The said statement must be set out on the standard form model provided by SISTEMA MAPFRE for this purpose and, include an express acceptance of the regulations contained in the chapter of said Code relating to directors' rights and duties.

Before the Board of Directors can submit candidates to the General Assembly and before the latter can make a decision about directors appointments, the Appointments and Remuneration Committee of SISTEMA MAPFRE must first submit its proposals.

Proposals to re-elect directors are subject to a process that necessarily includes a report containing an evaluation of the quality of the work undertaken and the dedication to the office during the preceding term of the director who it is proposed to re-elect. In the event of the re-election

of a director who holds an office (Chairman, Vice-Chairman or Secretary) on the Board, the said report shall include an evaluation of how such office has been undertaken to assist the Board to decide whether to continue with it.

If the Board of Directors should decide not to follow the Committee's proposals it must give reasons for its decision and they must be recorded in the Minutes.

5) CIRCUMSTANCES UNDER WHICH BOARD MEMBERS ARE UNDER A DUTY TO RESIGN

According to the provisions contained in the Corporate Bylaws and in the Code of Good Governance of SISTEMA MAPFRE, all of the members of the Board of Directors must retire on reaching 70 years of age. Senior Executive Managers shall retire on reaching 65 years of age or, on such earlier date provided for in their contracts, but they may continue as a Board member without any executive functions.

The Directors must place all of their posts, both as director and those held on Committees and Delegated Committees, at the disposal of the Board of Directors and tender their resignations should the Board deem it to be necessary, in the following cases:

- When they cease to hold an executive position associated with their appointment as member of the said management bodies.
- Should they fall within any disqualification or prohibition laid down at law.
- If they are prosecuted for any alleged crime or become subject to disciplinary proceedings taken by any supervisory authority because of any serious or very serious offence.
- If they are seriously reprimanded by the Compliance Committee because of a breach of their duties as directors.
- If their remaining on the said management bodies might place the Company's interests at risk.
- If the reasons, for which they were appointed cease to apply provided they are expressly stated.

6) MAXIMUM AND MINIMUM NUMBER OF DIRECTORS PROVIDED FOR IN THE BY-LAWS

The maximum number of directors is 30 and the minimum number is 10.

7) REQUIREMENTS IN ORDER TO BE APPOINTED AS A DIRECTOR

7.1. Legal and company by-laws requirements

A) PROFESSIONAL QUALIFICATION.

- A university degree, or five years' experience in senior administration, management, control, or advisory functions with financial institutions subject to solvency regulation and supervision by the Public Authorities, or functions with similar responsibilities at other public or private institutions of a similar size and requirements to those of the Company.

B) PERSONAL AND PROFESSIONAL AND INTEGRITY

- No previous convictions for crimes involving dishonesty, breach of confidentiality, disclosure and leaking of secrets against the Public Tax Authorities or the Social Security, misappropriation of public funds, or any other crimes against property.
- Personal career showing respect for business legislation and other laws regulating economic and business activities, as well as proper commercial, financial, and insurance practice.

- Not to be disqualified from holding public office, or administrative or managerial positions at financial, insurance, or insurance brokerage institutions.
- Not to be an un-discharged bankrupt, except where, subject to a judicially-approved agreement, such person is permitted to conduct business.

C) CAPACITY AND COMPATIBILITY

- Not to be subject to any disqualification, prohibition, or incompatibility pursuant to the laws in force.

D) CONFLICTS OF INTERESTS

- Not to have any interest or perform any activity which gives rise to a conflict of interests. (Insurance Mutual Societies).

E) AGE

- Not to have reached the age of 70

F) OTHER

- To be a member.
- For his appointment to be compatible with a balanced representation of the geographical areas corresponding to the various General Regional Head Offices into which RED MAPFRE is structured.
- Not to be related by kin or affinity up to the second degree, with board members, directors, or employees of SISTEMA MAPFRE.

7.2. Requirements laid down in the Code of Good Governance of the SISTEMA MAPFRE

A) FOR ALL BOARD MEMBERS

- To be of renowned solvency, propriety, competence, and experience.
- Not to have incurred in circumstances which may give rise to his participation on the Board amounting to a risk for the interests of the company.
- To have made a prior truthful and complete statement of his personal, family, professional, or business circumstances and in particular regarding anything which may give rise to incompatibility in accordance with the law, the company by-laws, and the provisions of the Code of Good Governance, or any conflict of interest.
- Not to have significant interests in insurance institutions or institutions belonging to financial groups unrelated to SISTEMA MAPFRE, or to be a board member, manager, or employee of any such institution, except where the appointment as board member is in representation of financial institutions which have a holding which entitles them to such appointment.

Notwithstanding, board members may be excused from this requirement in the event that their candidature has been proposed by the Board itself; however, the number of board members to which this circumstance applies may not exceed 15% of the Board of Directors as a whole.

- To accept the Code of Good Governance of SISTEMA MAPFRE and to undertake to abide by the rules therein in the performance of his/her position.

B) FOR INDEPENDENT BOARD MEMBERS

- Not to hold, or to have held within the last two years, any managerial position within SISTEMA MAPFRE.

- Not to be related by kin or affinity up to the second degree with board members or directors of SISTEMA MAPFRE.
- Not to have made or received any significant payments from the company which may directly or indirectly affect their independence.
- Not to have other contractual, professional, or business relations with the company which, by reason of their significance, may restrict their independence to act as boards members.

For the purposes of the two preceding sections, payments or relationships which involve the receipt of amounts which represent more than 5% of the person's – or, when applicable, of the legal entity's – total income, as the case may be, shall be deemed to be significant.

8) APPROVAL OF RESOLUTIONS

The Board of Directors shall be quorate on first call when those in attendance, either in person or by proxy, represent one half plus one of its members thereof, and the Chairman or one of the Vice Chairmen is in attendance, or the Chairman has given his express consent; and on second call one hour thereafter, irrespective of the number of members in attendance. Resolutions are approved by way of a simple majority of votes cast, and the person chairing the meeting shall have a casting vote.

COMMITTEES OF THE BOARD OF DIRECTORS

1) COMPOSITION OF THE DELEGATED COMMITTEES OF THE BOARD OF DIRECTORS

MANAGEMENT COMMITTEE

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	Chairman
Mr. FILOMENO MIRA CANDEL	First Vice-Chairman
Mr. FRANCISCO RUIZ RISUEÑO	Second Vice-Chairman
Mr. ALBERTO MANZANO MARTOS	Third Vice-Chairman
Mr. SANTIAGO GAYARRE BERMEJO	Member
Mr. LUIS HERNANDO DE LARRAMENDI M.	Member
Mr. SEBASTIÁN HOMET DUPRÁ	Member
Mr. ANDRÉS JIMÉNEZ HERRADÓN	Member
Mr. DOMINGO SUGRANYES BICKEL	Member
Mr. PRIMITIVO DE VEGA ZAMORA	Member

INSTITUTIONAL AUDIT AND CONTROL COMMITTEE

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	Chairman
Mr. FILOMENO MIRA CANDEL	First Vice-Chairman
Mr. FRANCISCO RUIZ RISUEÑO	Second Vice-Chairman
Mr. ALBERTO MANZANO MARTOS	Third Vice-Chairman
Mr. JUAN FERNÁNDEZ-LAYOS RUBIO	Member
Mr. LUIS HERNANDO DE LARRAMENDI M.	Member
Mr. RAFAEL MÁRQUEZ OSORIO	Member
Mr. ANTONIO MIGUEL-ROMERO DE OLANO	Member
Mr. ALFONSO REBUELTA BADÍAS	Member
Mr. AGUSTÍN RODRÍGUEZ GARCÍA	Member

APPOINTMENTS AND REMUNERATION COMMITTEE

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	Chairman
Mr. FRANCISCO RUIZ RISUEÑO	Vice-Chairman
Mr. LUIS HERNANDO DE LARRAMENDI M.	Member
Mr. ALFONSO REBUELTA BADÍAS	Member
Mr. MATÍAS SALVÁ BENASSAR	Member
Mr. FRANCISCO VALLEJO VALLEJO	Member
Mr. ALBERTO MANZANO MARTOS	Member-Secretary

COMPLIANCE COMMITTEE

Mr. FRANCISCO RUIZ RISUEÑO	Chairman
Mr. LUIS HERNANDO DE LARRAMENDI M.	Member
Ms. FRANCISCA MARTÍN TABERNERO	Member
Mr. ALFONSO REBUELTA BADÍAS	Member
Mr. AGUSTÍN RODRÍGUEZ GARCÍA	Member

2) ORGANISATIONAL AND OPERATIONAL RULES

The basic functions, powers, composition, meetings schedule, and procedure for approving resolutions of the delegated bodies of the Board of Directors are regulated by the by-laws and the Code of Good Governance of SISTEMA MAPFRE, which may be consulted, in addition to the official public registries, at the company website www.mapfre.com.

GENERAL MEMBERS' ASSEMBLY

1) STATUS

Pursuant to the provisions of the company by-laws, the General Assembly is the supreme body for the expression of the will of the Mutual Society. It comprises all those members who attend each meeting, whether in person or duly represented by proxy. The Chairman and Secretary of the General Assembly are the same as for the Board of Directors, even where this position is held on a temporary basis.

2) REQUIREMENTS FOR ATTENDING THE GENERAL ASSEMBLY

In order to attend the General Assembly, the right to participate must be proven and the appropriate attendance card must be obtained, which shall be made available by the Board of Directors to all members who request it, up to five days before the General Assembly is held.

Those members who have given evidence of their right to attend in the manner set forth in the previous paragraph may be represented by proxy at the General Assembly by anyone who holds a valid policy and resides in the same province. The proxy must be expressly set forth in writing before each General Assembly, on the reverse of the corresponding attendance card and it must be recorded at the registered office of the Mutual Society at least forty-eight hours in advance of when the General Assembly is to be held.

A proxy shall not be conferred upon anyone who is in the paid service of the Mutual Society nor anyone who has been its Delegate or Agent in the preceding three years, nor anyone who has acted as intermediary in the subscription of the principal's policy of insurance, nor to other insurance or financial institutions or those that belong to business groups unrelated to SISTEMA MAPFRE, nor the board members or managers of said institutions nor persons who act at their service or on their behalf. No member may accumulate more than one hundred proxy votes.

3) QUORUM

The General Assembly shall be quorate on first call when more than one half of the members with the right to participate at the meeting are in attendance either in person or by proxy. If this requirement is not met, the General Assembly shall be quorate on a second call in the same place, one hour later, irrespective of the number of members in attendance.

4) APPROVAL OF RESOLUTIONS

All members who are in full compliance with their obligations with the Mutual Society have the right to one vote. Resolutions are approved by simple majority and the Chairman shall have a casting vote in the event of a tie. By way of exception, resolutions on amendments to by-laws, mergers, demergers, transformations or dissolutions of the Mutual Society must be approved with the votes in favour of at least two-thirds of the policyholders in attendance, whether in person or by proxy.

5) MATTERS RESERVED FOR THE EXTRAORDINARY GENERAL ASSEMBLY

The Extraordinary General Assembly has the power to deliberate and decide on the matters set forth in the call for the meeting, and the exclusive non-transferable power to resolve on the following:

- The transfer of the registered office to another location outside the present municipal area.
- The refund of contributions to the Mutual Fund.
- The removal of Board Members before the expiry of the terms for which they were appointed.
- The claiming of liabilities against the members of the Board of Directors.
- The amendment of the by-laws.
- The merger, demerger, or temporary association of the Mutual Society with any other institution.

- o The sale or transfer in any way of the business or of the portfolio of one or more insurance lines.
- o The dissolution of the Mutual Society or the transformation of its legal status.

6) RESOLUTIONS APPROVED AT GENERAL ASSEMBLIES HELD IN 2005

At the Extraordinary and General Assemblies held on 26 February 2005, the following resolutions were unanimously approved:

- o To approve the Management Report and the Annual Accounts of the Mutual Society relating to fiscal year 2004, as well as the distribution of profits proposed by the Board of Directors.
- o To approve the 2004 Management Report and Consolidated Annual Accounts for MAPFRE MUTUALIDAD and its subsidiaries and affiliates.
- o To approve the management of the Board of Directors in 2004.
- o To make the following donations, set forth in the proposal for the distribution of profits, to the Foundations sponsored by MAPFRE:

To FUNDACIÓN MAPFRE:

- | | |
|---|-----------------|
| - earmarked for foundation activities | 7,350,000 euros |
| - earmarked for increasing the foundation provision | 8,000,000 euros |

To FUNDACIÓN MAPFRE ESTUDIOS 1,750,000 euros

To FUNDACIÓN MAPFRE MEDICINA 1,800,000 euros

To FUNDACIÓN CULTURAL MAPFRE VIDA 400,000 euros

To FUNDACIÓN HISTÓRICA TAVERA 950,000 euros

To FUNDACION MAPFRE GUANARTEME 750,000 euros

- o To elect Ms. María del Carmen Merillas Zarzuelo as a new Board Member for a term of four years, as a replacement for Ms. María Teresa Mutiloa Lecumberri.
- o To re-elect for a period of four years the following Board Members: Mr. Francisco Ruiz Risueño, Mr. Rafael Beca Borrego, Mr. Juan Fernández-Layos Rubio, Mr. Andrés Jiménez Herradón, Mr. Luis Leguina Cebreiros, and Mr. Rafael Márquez Osorio.

All proposed appointments and re-elections are backed by a favourable report from the Appointments and Remunerations Committee.

- o To amend current articles 5, 6, 7, 8, 13, 21, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36 and 39 of the company by-laws, which shall have the wording as set forth in the Board of Directors Report, the text of which shall be included as an annex to the minutes of the General Assembly; to amend the name and the content of the following chapters of Title II: Chapter III, which shall be renamed EXECUTIVE COMMITTEE and the content of which shall be Article 28; and Chapter IV, which shall be renamed AUDIT AND INSTITUTIONAL CONTROL COMMITTEE and the content of which shall be Article 29; and to add a Temporary Provision with the text included in the aforementioned Report.
- o To set the amount of the fixed allowance in favour of the non-executive directors for occupying a seat on the Board of Directors at 30,000 euros gross, with effect as from 1 January 2005. The said amount shall be applicable throughout 2005, and shall be updated for successive years in the same percentage as established for the general pay adjustment for the compa-

ny's staff. This allowance shall be increased by 35% for those persons holding the chairmanship or vice-chairmanship of the Board of Directors, or the chairmanship of a Committee or Delegated Committee. No accumulation of increments is allowed for anyone who holds more than one of the said positions.

Remuneration of the members of the Committees and Delegated Committees shall consist in an allowance for attendance at the meetings, which amount in 2005 is set at 3,000 euros gross, which shall be updated in the manner described in the foregoing paragraph. Where joint meetings are held of two or more bodies, only one allowance shall be payable.

- To extend the appointment of Ernst & Young S.L. as the Mutual Society's Auditors both for the individual Annual Accounts as well as for the Consolidated Accounts for a further period of one year, i.e. for fiscal year 2005, although the said appointment may be revoked by the General Assembly prior to the expiry of the said period with just cause.
- To delegate the fullest of powers of attorney to the Chairman of the Board of Directors, Mr. José Manuel Martínez Martínez, the first Vice Chairman, Mr. Filomeno Mira Candel, the Third Vice-Chairman, Mr. Alberto Manzano Martos, and the Secretary, Mr. José Manuel González Porro, so that any of them may execute the above resolutions and formalise them in a public deed where necessary, and to make any necessary amendments following observations by the Commercial Registry which ought to be accepted in the opinion of the agents.
- To thank the Members, Agents, Managers, and Employees for their loyal support in this 72nd year of the Mutual Society.

RISK MANAGEMENT

1) RISK MANAGEMENT SYSTEM

In keeping with present management trends for insurance and financial institutions and the new solvency regulations that are due to be implemented in the near future, MAPFRE has continued to develop a Risk Management System (hereinafter RMS) for which the most representative aims are as follows:

- To have a suitable tool to identify and assess the risks that arise in the procedures, processes, and transactions carried out by SISTEMA MAPFRE, in each one of its companies and at a consolidated level.
- To improve the internal monitoring and business management processes of the Operating Units, by way of continuous assessment of the controls that have been implemented.
- To be aware at all times of the global risk exposure, and of the tolerance levels available on the minimum required solvency levels.
- To provide criteria for the efficient distribution of capital amongst the Operating Units, based on the principle of profitability versus risk, which increases value creation for the members and shareholders of the entities of SISTEMA MAPFRE.

The methodology for the implementation of the RMS is based on the following stages:

- a) Identification of the types of risk and prioritisation of tasks.
- b) Drawing up of an Operational Risk management model (risk map).

- c) Implementation of a risk-quantification model based on standard factors and estimation of optimum economic capital in all the units of SISTEMA MAPFRE, on the basis of a methodology similar to that used by the rating agencies. The model quantifies the insurance and financial risks (interest rate, market, liquidity, and credit), and determines the optimum capital and the risk-adjusted return on capital (RAROC methodology).
- d) Introduction of "own" stochastic models for the quantification of risks and the estimation of economic capital in the most representative units of SISTEMA MAPFRE in order to finally obtain a capital model for the whole of SISTEMA MAPFRE.

Stages a) and b) were mainly developed in 2003 and 2004. Throughout 2005, activities were carried out as scheduled, and the following deserve to be mentioned:

- o Implementation of the operational risk model (risk map) in all SISTEMA MAPFRE entities.
- o Creation of the Risk Management Department of SISTEMA MAPFRE, within the framework of the Financial and Management Control Department, and appointment of risk co-ordinators in the Units.
- o Quarterly calculation of the risks and economic capital model by standard factors.
- o Completion of the internal MAPFRE RE risk and economic capital calculation model. Approval and simplification of the model with a view to implementing it in direct insurance companies (MAPFRE EMPRESAS at the start of 2006).

2) TYPES OF RISK AND METHODOLOGY

The RMS is based on integrated risk management in each and every one of the business processes of the company, and on the alignment of the risk level with the strategic objectives that have been set. The different types of risk have been grouped into four areas or categories as set forth below:

Operational Risks	This covers 22 types of risks grouped under the following risk areas: actuarial, legal, technology, staff, associates, procedures, information, fraud, market, and material assets.
Financial Risks	Includes interest rate, liquidity, exchange rate, investment, and credit risks.
Insurance Activity Risks	This groups together, separately for Life and Non-Life, the risks of premium insufficiency, the sufficiency of technical provisions and re-insurance risk.
Strategic and Corporate-Governance Risks	Includes corporate ethics and good governance, organisational structure, alliances, Mergers and Acquisitions, regulatory, and finally, market and competition risks.

3) CENTRALIZATION OF THE RISK MANAGEMENT SYSTEM

The structure of SISTEMA MAPFRE is based on Operating Units and Companies which have a high degree of autonomy in their management. The Management Bodies of SISTEMA MAPFRE approve the lines of activity of the Units and Companies with regard to risk management, and they continuously supervise the Units' exposure to risks by way of indicators and ratios. Furthermore, there are general procedure instructions in order to mitigate the said exposure, such as maximum levels of investments in equities, or the credit rating of re-insurers.

The Risk Management Department of SISTEMA MAPFRE co-ordinates the processes for the implementation of capital models in the various Units, and is responsible for the application of a uniform methodology for the quantification of risks, in co-operation with the Risks Co-ordinator for each Unit.

In general terms, corporate decisions concerning the assumption or mitigation of risks conform to the following management set-up:

- The subscription of insurable risks, setting of tariffs, and contracting of re-insurance coverage are highly de-centralised at the Units.
- The investments of the companies that operate in Spain are managed centrally by the Investments Department of SISTEMA MAPFRE, which also supervises the investments of the subsidiaries of the America Unit that have their own Investments Committees.
- Those aspects related to operational risk are overseen centrally, although their implementation and monitoring is delegated to the Units.
- The management of strategic and corporate governance risks is highly centralised.

The RMS is envisaged as a multi-institution methodology, which allows both the input of data in order to obtain the levels of risks and solvency for MAPFRE, and the compilation of individual information about each institution. This allows and facilitates comparison among institutions and the establishment of common improvement plans for reducing exposure to risk in similar processes for different institutions of the Group. The addition of risks is envisaged in a pyramid form, starting from the Operating Units and Companies, in order to obtain the exposure to risks of SISTEMA MAPFRE as a whole through the sub-groups existing in its structure. The centralisation of the risk-management process also allows the management bodies of MAPFRE to be the priority recipients of this information, in order to oversee the solvency levels of SISTEMA MAPFRE.

4) OPERATIONAL RISKS

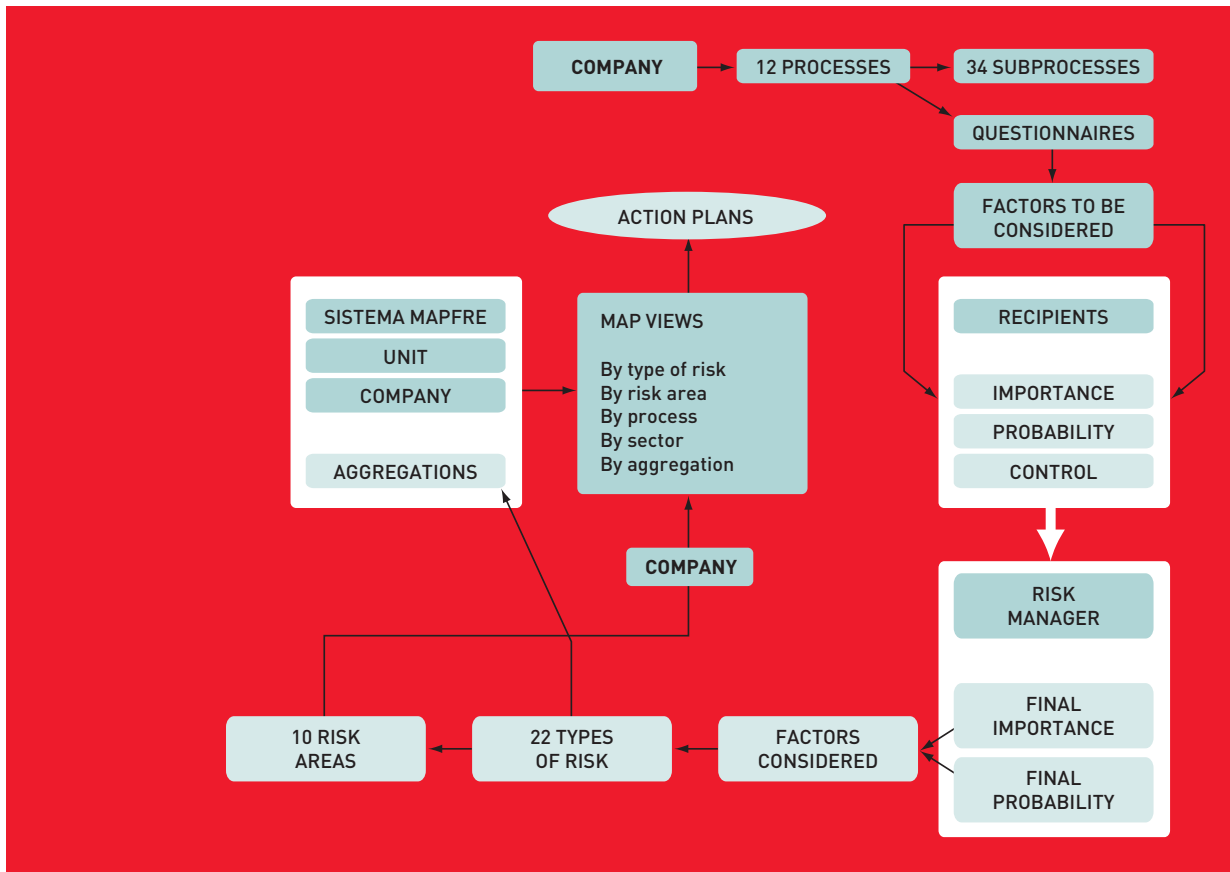
The identification, evaluation, and quantification of Operational Risks is carried out by way of the Riskm@p software application, developed at MAPFRE, which is used to draw up Risk Maps for the entities.

Riskm@p is based on a dynamic analysis by processes, such that the heads of each area or department periodically identify and assess the potential risks affecting each one of the following processes:

- Product development
- Issuance
- Claims / Payments
- Administrative management
- Commercial activities

- Human resources
- Fees
- Co-insurance/Re-insurance
- Technical reserves
- Investments
- Information technology
- Customer care

RISK MAP

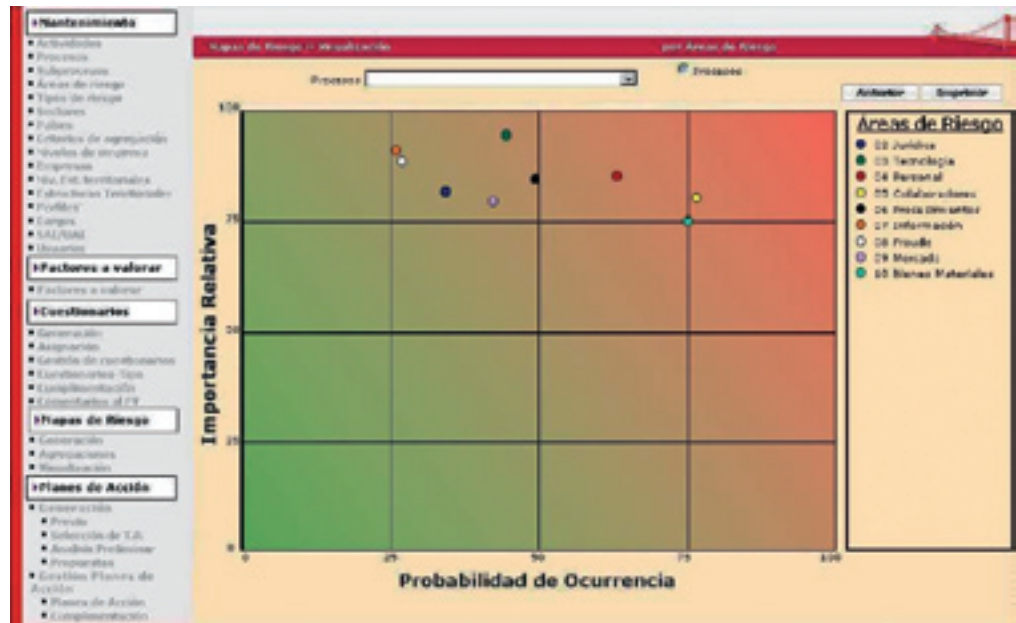


All processes feature two or more sub-processes (whereby business processes are broken down in order to facilitate their analysis and risk management), for which a questionnaire has been defined to identify and assess which contains the risk factors.

These factors are assessed on a regular basis by different recipients (who have direct responsibility for the risk factors), and their analysis is reviewed by the Risk Manager who established the final assessment. This assessment serves as the basis for the calculation of the importance and probability of the occurrence of the different types of risk.

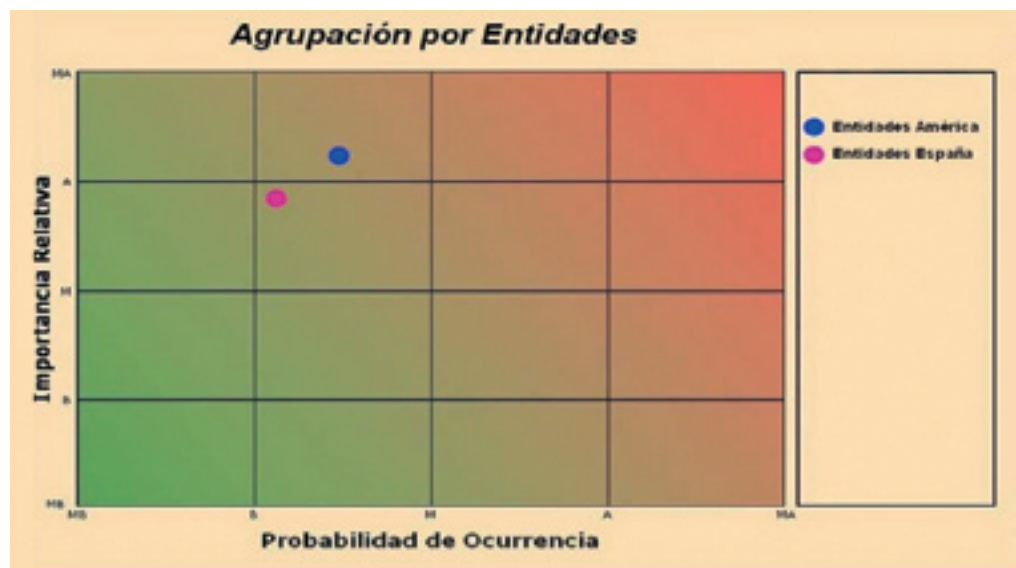
Once the risk maps have been created, a decision is taken on the types of risks and the processes over which action plans will be set up with the aim of mitigating or reducing the risks.

RISKMAP PROGRAM: VIEW OF A MAP BY RISK AREAS



The operational risk model (risk map) has been implemented in all SISTEMA MAPFRE entities, except at MAPFRE ASISTENCIA where it is currently being implemented. Thus, the entities that currently have Risk Maps are MAPFRE MUTUALIDAD, MAPFRE VIDA, MAPFRE SEGUROS GENERALES, GRUPO MAPFRE VERACRUZ (Brazil), MAPFRE ARGENTINA, MAPFRE LA SEGURIDAD (Venezuela), MAPFRE COLOMBIA, MAPFRE PUERTO RICO, MAPFRE USA, MAPFRE REASEGURO, MAPFRE CHILE, MAPFRE LA CENTRO AMERICANA (El Salvador), MAPFRE MEXICO, MAPFRE PARAGUAY, MAPFRE PERU and MAPFRE URUGUAY.

By grouping together the results obtained at the said entities, and differentiating between entities in Spain and entities in America, the result is the following map. The conclusion is that the probability of operational errors arising is low, although their relative importance is high.



5) FINANCIAL RISKS

Financial investments

With regard to financial investments, the guideline for mitigating exposure to this kind of risks has been based on a prudent investment policy, which concentrates the majority of the securities portfolio into fixed-income instruments. Likewise, and with regard to life and savings insurance, the investments policy that has been applied in preference over others consists in matching the profitability and maturity of investments with the liabilities undertaken in insurance contracts, with the aim of mitigating exposure to risk. Notwithstanding the foregoing and for the purposes of the classification of investments in accordance with IFRS, fixed-income instruments are assigned preferentially to the available for sale portfolio, in order to be in a position to sell such securities, should that be needed on a date prior to maturity.

The breakdown of financial investments, together with their percentage distribution, is shown below:

Financial investments	Millions of euros		% distribution	
	2004	2005	2004	2005
Equities	510.3	551.5	2.7%	2.5%
Fixed income	16,576.3	19,834.5	86.2%	90.4%
Mutual funds	1,016.1	1,161.6	5.3%	5.3%
Other investments	1,124.2	401.4	5.8%	1.8%
TOTAL	19,226.9	21,949.0	100.0%	100.0%

Likewise, it is MAPFRE's policy for its investment portfolio to be denominated mainly in euros and U.S. dollars. This policy extends to the subsidiaries of the America Operating Unit, which, in accordance with applicable regulations for each country and the expected economic environment, diversify their investments across assets denominated in local currencies and in dollars in order to be protected against possible devaluations. The following table shows the breakdown of financial investments in accordance with the currency in which they are denominated, together with their percentage distribution:

Financial investments by currency	Millions of euros		% distribution	
	2004	2005	2004	2005
Euro	17,587.3	19,698.3	91.5%	89.7%
U.S. dollar	871.7	1,126.6	4.5%	5.1%
Brazilian real	215.4	390.6	1.1%	1.8%
Mexican peso	202.1	22.0	1.1%	1.0%
Other currencies	350.4	511.5	1.8%	2.3%
TOTAL	19,226.9	21,949.0	100.0%	100.0%

With regard to the credit risk, MAPFRE's policy has been based on prudence (the solvency of the issuer) and on the diversification of fixed-income investments. Thus, the reference fixed-income portfolio at the close of 2005 consisted in 60 per cent of public debt, agencies, and supra-national entities, and 40 per cent of bonds issued by corporates with a high credit rating. The following table shows the breakdown of fixed-income investments in accordance with the rating of the issuer, together with the percentage distribution:

Credit rating of fixed-income securities issuers	Millions of euros		% distribution	
	2004	2005	2004	2005
AAA	7,388.6	7,930.3	44.6%	40.0%
AA	7,041.6	9,220.8	42.5%	46.5%
A	1,692.0	2,115.9	10.2%	10.7%
BBB	112.8	123.4	0.7%	0.6%
BB or lower	187.4	335.4	1.1%	1.7%
Not rated	153.9	108.6	0.9%	0.5%
TOTAL	16,576.3	19,834.4	100.0%	100.0%

One of the indicators used by MAPFRE in order to assess the volatility of fixed-income investments is their modified duration, which represents the percentage variation in the market price when faced with a change in the interest rate of 100 base points. The following table shows the breakdown by companies of the fixed-income portfolio in Spain, excluding the matched life portfolio, and its comparison with the percentage profitability:

	Modified duration		% profitability	
	2004	2005	2004	2005
MAPFRE MUTUALIDAD	8.5	4.0	4.9%	3.4%
MAPFRE AGROPECUARIA	2.7	2.8	2.9%	3.0%
MAPFRE VIDA	9.0	10.6	5.4%	5.7%
MAPFRE SEGUROS GENERALES	8.2	4.2	5.3%	4.0%
MAPFRE GUANARTEME	6.7	4.5	5.1%	4.3%
MAPFRE EMPRESAS	6.4	4.0	4.9%	4.0%
MAPFRE CAUCIÓN Y CRÉDITO	4.0	3.8	5.5%	5.5%
MAPFRE CAJA SALUD	5.2	4.0	4.6%	4.3%
AVERAGE VALUES	8.6	7.2	5.3%	4.6%

Real-estate investments

Likewise, MAPFRE has real estate assets which represent approximately 5% of all investments and cash, of which approximately 54% are used for own offices. The said investment portfolio has the double function of being both an administrative and sales support, as well as generating financial revenues and diversifying investments. This policy with regard to real estate investments has allowed MAPFRE to obtain capital gains on those occasions where market conditions have made this advisable, as well as unrealised capital gains, which may be used in the future to offset adverse risk situations for SISTEMA MAPFRE. Its breakdown is set forth in the following table:

	Book value		Market value	
	2004	2005	2004	2005
Real estate investments	566.7	625.5	908.8	1,180.6
Real estate for own use	634.5	739.8	712.8	907.4
TOTAL	1,201.2	1,365.3	1,621.6	2,088.0

Millions of euros

Overseas subsidiaries

Given MAPFRE's international orientation and its expansion into Latin-American markets, there does exist a permanent exposure to exchange-rate risk. This risk factor is mitigated in part by the diversification of businesses across different countries and the concentration of the most profitable operations with the highest capital requirements in countries where the currency is the U.S. dollar or whose national currency is strongly correlated with the dollar (e.g. the Mexican peso).

6) RISKS OF THE INSURANCE ACTIVITY

MAPFRE's Operating Units and Companies enjoy a high level of management autonomy in the insurance activity. MAPFRE's organisation, based on Units and Companies specialising in the different types of business, requires that they should have autonomy in their needs for capital and solvency, as well as certain profitability requirements. This organisation across lines and products requires a high degree of specialisation in the technical aspects of the Insurance, especially when underwriting risks and setting tariffs, as well as the compensation or provision of services in the event of a claim. The adequacy of premiums is an element of special importance, and it is determined with the aid of independent experts' reports at those units or in those circumstances where this is advisable.

The handling of claim payments and the sufficiency of reserves are basic principles in insurance management. Technical reserves are assessed by the actuarial teams of the various Units and Companies, and their sufficiency is ratified by independent experts' reports at those institutions where this is required. The preponderance of the retail property business at MAPFRE, with claims being paid at a very fast rate, as well as the scarce importance of insured risks with lengthy development periods, such as asbestos or professional liability, are mitigating elements for this type of risk.

The presence of MAPFRE in countries with a higher chance of catastrophes occurring (earthquakes, hurricanes, etc....) requires a specific underwriting for these types of risk which, given their frequency and intensity, may give rise to volatility in the results or the requirement for additional capital. The Units and Companies that operate in these types of risks, mainly MAPFRE AMÉRICA and MAPFRE RE, receive ad-hoc reports on exposure to catastrophes, generally drawn up by independent experts, which estimate the impact on the insured assets should a catastrophic event occur. This information allows catastrophic events to be underwritten in accordance with the financial capacity of each institution, and where necessary, the securement of re-insurance coverage to limit the impact on the net worth. In this regard, it is important to highlight the contribution of MAPFRE RE, which provides its long experience in the catastrophic risks market to the management of SISTEMA MAPFRE.

With regard to re-insurance risk, MAPFRE's policy is to assign business to re-insurers with proven financial capacity (Standard & Poor's credit rating of no less than A).

7) STRATEGIC AND CORPORATE GOVERNANCE RISKS

The application of ethical principles to business management is a distinctive feature of MAPFRE, and forms a part of its by-laws and its day-to-day business. In order to regulate this business culture and to comply with the legal requirements concerning governance and management transparency, in 2005 MAPFRE's Governing Bodies approved the revised version of the Code of Good Governance, which had been in force since 2000. The strict application of the principles of Good Corporate Governance is considered by MAPFRE as the most effective action for mitigating these types of risk.

DEGREE OF FOLLOW-UP OF GOOD GOVERNANCE RECOMMENDATIONS

As previously mentioned, the Governance of MAPFRE MUTUALIDAD and all of its units and subsidiaries is regulated –in addition to the by-laws of each Society in particular– by the SISTEMA MAPFRE Code of Good Governance, the first edition of which was approved by the Board of Directors of MAPFRE MUTUALIDAD at their meeting held on 20 March 2000 and adopted by the Boards of Directors and by the board members and senior managers of all the institutions of SISTEMA MAPFRE since then. On 29 June 2005, the said Board of Directors has approved the new text of the SISTEMA MAPFRE Code of Good Governance, which updates and amends substantial aspects of the previous Code.

The said code amounts to a mandatory reference framework for all the entities of the SISTEMA MAPFRE and its governing bodies. It contains a compilation of all the RULES that regulate its management structure and operating PRINCIPLES of the governing bodies of the entities that it is composed of, whilst taking into account the progressive complexity of its corporate structure and the incomplete legal regulation of groups of companies, thereby ensuring it acts in a transparent and co-ordinated way.

The current version of the Code of Good Governance of the SISTEMA MAPFRE has been drawn up by a Working Group, created for this purpose following the publication of the “Aldama Report” on 8 January 2003, and of the Finance Act 44/2002 of 22 November and the Transparency Act 26/2003 of 17 July, made up of the Chairman, the Vice-Chairmen, and the Secretary of the Board of Directors of MAPFRE MUTUALIDAD and the Chairmen of the Compliance Committees of SISTEMA MAPFRE, with the aim of carrying out a profound review and update of the Code, bearing in mind both the said recommendations and provisions, as well as MAPFRE’s own experience in the application of the Code, expressly seeking to increase the co-ordination of the activities of the SISTEMA MAPFRE as a whole, as well as to simplify and facilitate decision-making processes.

Even though the recommendations contained in the various reports on corporate governance and the rules which have been promulgated in this regard are directed at large companies listed on the Stock Exchange, the management bodies of SISTEMA MAPFRE realised right from 2000 that it was not appropriate for the said recommendations to be adopted in an isolated manner by CORPORACIÓN MAPFRE (the listed company of SISTEMA MAPFRE) but rather a profound review and update of the entire management structure of SISTEMA MAPFRE should be carried out in the light of the said recommendations.

In accordance with the said Code, it is possible to highlight compliance with the following corporate-governance recommendations:

- The Boards of Directors of the various companies undertake as their main non-delegable mission the general function of supervision, and they have an established catalogue of matters which they have the exclusive right to be informed about, whilst the ordinary management of the company is carried out by its Executive Committee.

The high supervision and general co-ordination of SISTEMA MAPFRE as a whole rests with the Board of Directors of MAPFRE MUTUALIDAD and with two delegated committees: the Executive Committee of SISTEMA MAPFRE and the Audit and Institutional Control Committee.

- At the date of this report, the Board of Directors of MAPFRE MUTUALIDAD is made up of twenty-four board members of which thirteen are independent external board members, two are internal non-executive board members, and the remaining nine are the chief executives of Units and Companies of SISTEMA MAPFRE. This size is in accordance with what the Code considers to be desirable in order to ensure adequate representation of external, executive and staff board members, and a balanced representative presence thereon from a territorial point of view (between twenty and twenty-five members).

The Executive Committee of SISTEMA MAPFRE, which is responsible for the high supervision of SISTEMA MAPFRE with regard to its operational and management aspects, is made up of seven executive board members and two independent board members. The Audit and Institutional Control Committee which is responsible for the high supervision of SISTEMA MAPFRE with regard to compliance with institutional and ethical principles, is composed of seven external board members and three executive board members. This distribution ensures a proper balance between external and executive board members.

On the Boards of Directors of the main subsidiaries there is generally a majority of external board members (those appointed in representation of shareholder interests and independents).

- The Chairman of the parent company, MAPFRE MUTUALIDAD, is the chief executive of SISTEMA MAPFRE and chairs the Committees and Delegated Committees of the Board of Directors, except for the Compliance Committee. Normally, the office of Chairman of the main companies is held by the chief executive. However, no risk of excessive concentration of power is considered to exist due to the essentially collegiate nature of the decisions of the Board of Directors and its Delegated Committees.

On the boards of directors of the main companies of SISTEMA MAPFRE, including MAPFRE MUTUALIDAD, the office of Second Vice-Chairman is held as a rule by an external board member, who chairs the Compliance Committee.

At MAPFRE MUTUALIDAD the position of Secretary of the Board is held by the General Vice-Secretary of SISTEMA MAPFRE who has the position and the necessary means to adequately carry out his duty of ensuring the formal and material legality of the Board's actions.

- Both in the parent entity and in its main subsidiary (CORPORACIÓN MAPFRE, the shares of which are listed on the Stock Exchange) there are Appointments and Remuneration, Audit and Compliance Committees. At the main subsidiaries there is a Compliance Committee which is responsible for supervising the proper application of the rules of the Code of Good Governance.

The Compliance Committees are made up exclusively of external board members who also constitute an ample majority on the Audit Committee and the Appointments and Remuneration Committee.

- Directors receive in advance documents that have been specifically drawn up concerning the main points included on the agenda, and they have powers to obtain any information they consider to be necessary for the proper performance of their duties.

The Board of Directors of the Mutual Society normally holds five or six meetings a year, and the Executive Committee of SISTEMA MAPFRE normally holds one ordinary meeting per month, without prejudice to any extraordinary meetings that may be necessary; The Audit and Institutional Control Committee holds one ordinary meeting every quarter, in addition to any extraordinary meetings necessary; the schedule of meetings for the Delegated Committees relates to the needs arising from the matters that are within their powers.

At the subsidiary companies, the number of meetings of the Board of Directors and of the Committees and Delegated Committees varies in accordance with the needs of each company, although in accordance with the Code of Good Governance, in general terms, the main companies ought to hold, as a whole, at least eight meetings a year, taking into account both the meetings of the Board and the Executive Committee.

- The periodic information that is released to the markets and media and the Annual Accounts are produced following the same criteria, and are verified by the Audit and Institutional Control Committee, or as the case may be, by the Audit Committee of CORPORACIÓN MAPFRE.

The said Committees likewise receive regular information with regard to the relations with External Auditors and are informed of all the reports and recommendations that they produce. Likewise, they are also informed of the reports issued by the Internal Audit Department and the degree of compliance with their recommendations.

In accordance with the provisions of the Code of Good Governance of SISTEMA MAPFRE, the Annual Accounts which are submitted to the Board of Directors to be drawn up are previously certified with regard to their accuracy and integrity by the chief executive of the company or of the consolidated group, as the case may be, by the corresponding Manager of the Internal Auditing Services, and by the manager who is responsible for the drawing-up of the said accounts.

The remuneration accrued by the External Auditors and owed to them by the MAPFRE MUTUALIDAD Group in 2005 for the services corresponding to the auditing of the annual accounts amount to 3,497,306 euros, of which 3,477,386 correspond to the main auditor. The main auditor has also accrued 468,896 euros for services relating to the auditing of accounts, and 449,820 euros for other complementary services rendered, which figures are considered not to compromise the independence of the auditors.

The company has never presented accounts subject to reservations in the audit report. SISTEMA MAPFRE has Internal Auditing Services and a Legal Department which supervise the different aspects of the annual accounts, as well as the Audit and Institutional Control Committee and the Audit Committee of CORPORACIÓN MAPFRE, set up for that purpose as delegated bodies of the respective boards of directors and with powers of supervision in this regard.

- Both MAPFRE MUTUALIDAD –with respect to its members– and CORPORACIÓN MAPFRE –with respect to its shareholders and institutional investors– provide ample information related to their business and results and those of their subsidiaries. CORPORACIÓN MAPFRE, in its condition as a listed company, carries out a wide range of communication activities with its shareholders, institutional investors, and market operators, as is set forth in the management report.

In compliance with the rules laid down in the Code of Good Governance, every year the Compliance Committees of the main companies of SISTEMA MAPFRE evaluate compliance with the Code within the said companies and submit their corresponding reports to their respective Boards of Directors and to the Audit and Institutional Control Committee of SISTEMA MAPFRE, which in turn submits a report on compliance with the Code throughout SISTEMA MAPFRE to the Board of Directors of MAPFRE MUTUALIDAD.

In all reports corresponding to the assessment of previous years, the level of compliance has been very positively rated, and the high level of ethical behaviour at the entities has been highlighted in all aspects assessed, along with the effective supervision and control task that has been carried out by the Boards of Directors, whilst some areas where improvements could be made were pointed out, and recommendations were drawn up to this effect.

Likewise, all the Boards of Directors of the main companies of the SISTEMA MAPFRE carry out each year an assessment of the quality and efficiency of their work, by way of a detailed questionnaire completed by all members sufficiently in advance, and the comments and suggestions made are examined by each Board, so as to adopt the appropriate measures in order to improve the quality and effectiveness of its meetings.

Aspects concerning corporate governance may be found on the company's website (www.mapfre.com). The route is: SISTEMA MAPFRE MAPFRE / Corporate Information.