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**MAPFRE GROUP COMPENSATION POLICY**

***December 21, 2016***

## TABLE OF CONTENTS

1. DEFINITIONS .....	3
2. SCOPE .....	3
3. GENERAL PRINCIPLES.....	3
4. COMPENSATION OF NON-EXECUTIVE MEMBERS OF GOVERNANCE BODIES .....	4
5. STAFF REMUNERATION.....	4
5.1. REMUNERATION STRUCTURE.....	4
5.2. PROCEDURES FOR SALARY INCREASES.....	7
5.3. SPECIFIC PROVISIONS FOR KEY STAFF .....	8
6. PRINCIPLE OF PROPORTIONALITY .....	11
7. APPOINTMENTS AND REMUNERATION COMMITTEE.....	11
8. APPROVAL, EFFECTIVE DATE AND SUBSEQUENT REVIEWS .....	11

## 1. DEFINITIONS

For the purpose of this policy, the following definitions apply:

- a) MAPFRE, MAPFRE GROUP or GROUP: The business group comprising MAPFRE S.A. as the parent company, and its subsidiaries and controlled companies, in accordance with the provisions of the Stock Exchange Act.
- b) Key staff: for the purposes of this policy, key staff are administrators or members of the administrative, managerial and supervisory governing bodies, general managers and similar – i.e. people with senior management roles who report directly to the administrative body, executive committees or managing directors, – and those people who perform Key Duties or whose professional activity has a significant impact on the risk profile.
- c) Key Duties: duties related to risk management, compliance, actuarial and internal audit duties.

## 2. SCOPE

This policy applies to all MAPFRE GROUP companies.

All Key Staff and employees of the GROUP's companies must be familiar with this policy, and it should therefore be circulated accordingly.

## 3. GENERAL PRINCIPLES

The aim of the Compensation Policy is to set appropriate remuneration levels for each duty/job and its performance, and to serve as a source of satisfaction and motivation for staff, which facilitates in reaching objectives and complying with the corporate strategy.

The Compensation Policy also promotes efficient risk management by discouraging both the acceptance of risks that exceed the company's tolerance limits as well as conflicts of interest.

The general principles of the Compensation Policy are as follows:

- It is based on the **duty/job** and includes measures to avoid any conflicts of interest that may arise.
- It takes into account **merit**, technical knowledge, professional skills and performance.
- **It guarantees equality**, irrespective of gender, race or ideology.

- **It is transparent** in that all parties affected by it are familiar with it.
- **It is flexible** in terms of structure and can therefore be adapted to different groups and market circumstances.
- **It is aligned with the GROUP's strategy** and with its risk profile, objectives, risk management practices and long-term interests.
- **It is competitive** with respect to the market.

#### **4. COMPENSATION OF NON-EXECUTIVE MEMBERS OF THE GOVERNANCE BODIES**

The compensation system must bear reasonable proportion to the importance of the company, its financial situation, and the market standards of comparable companies. It must also aim to promote profitability and long-term sustainability, and must include built-in precautions to prevent the acceptance of excessive risks and rewards for unfavorable results.

The compensation of the members of the governing bodies will consist of fixed amounts for their membership of these bodies and, where applicable, of the delegate bodies, with these amounts possibly being greater than those received by members who hold executive positions in these bodies.

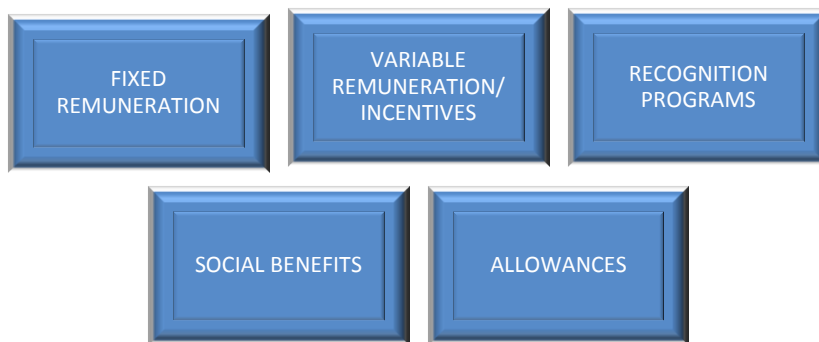
This compensation will be supplemented with other non-monetary compensation measures established for all staff belonging to that entity.

In addition to the aforementioned compensation, members of these bodies will be reimbursed for any expenses incurred in attending meetings or performing their duties.

#### **5. STAFF COMPENSATION**

##### **5.1 Remuneration Structure**

The remuneration structure comprises five items:



#### **a) Fixed remuneration**

The fixed remuneration for staff is set in accordance with their job and professional profile, and is paid in regular installments that are communicated in advance.

All jobs are evaluated using a general, global system, which facilitates establishing their relative importance within the organization, and in line with that value, assigning them a corresponding salary level.

Consequently, every job is assigned, as per its valuation, a salary level that establishes minimum and maximum margins by which the salary level may vary, which is known as a salary range.

Salary ranges are local, i.e. they are specific to each country since they are directly related to the standard of living, labor legislation and economic realities in general, and of the insurance industry in particular.

Salary ranges must be set in accordance with a strict procedure conducted by accredited professionals, either internal or external. In any case, they must comply with the general principles and must be reviewed and updated at least every two years.

#### **b) Variable remuneration / Incentives**

Variable remuneration, or incentives, is an item whose exact amount cannot be determined in advance because its payment is dependent on the execution of specific activities usually connected to the company's objectives, which helps align employees with the entity's strategy and rewards individual effort, productivity and contribution.

There are several types of variable remuneration:

- *Annual objectives (short-term)*: remuneration for achieving previously set objectives directly connected to strategic plans and accomplished during the year. These objectives may be related to a group (company, area or department) or they may be of an individual nature.
- *Multiyear objectives (medium- and long-term)*: similar to short-term annual objectives but with a longer completion period. They are connected to the medium- and long-term corporate strategy and are designed to enhance the loyalty of key employees and executives.
- *Commission*: type of variable remuneration consisting of the payment of an amount or percentage of the production completed.
- *Bonus*: special remuneration awarded at the discretion of the company for an outstanding job/project.

The weight of variable remuneration is determined by the position held within the organization, and by the valuation assigned to the job, being higher at the upper hierarchical levels due to the fact that these personnel are more closely linked to the strategy.

As a general rule, there will be two variable remuneration structures, one for sales-related positions and one for all other positions.

Higher percentages will apply to sales-related positions because of the nature of their duties.

The variable remuneration rates for Key Staff are governed by the specific provisions described in Section 5.3.1.a) of this policy.

### **c) Recognition programs**

The aim of these programs is to formally recognize employees' efforts in implementing the strategy, and to reward value-added contributions, the dissemination of the MAPFRE culture and values, and innovation.

### **d) Social benefits**

Products, services or aid received by employees from the company in the form of remuneration as a result of a collective agreement or an individual agreement with a specific employee.

These benefits are country-specific and their main aim must be to ensure that MAPFRE employees enjoy favorable social and family conditions in their work and personal environments.

#### **e) Allowances**

Allowances refer to financial contributions given to employees as a result of their job (e.g. the use of a vehicle, accommodation, etc.). Such allowances are only valid for as long as the employee remains in the position for which the contributions was granted and the circumstances remain the same. The implementation of these allowances will be determined by the company's priorities and local characteristics.

### **5.2. Procedures for Salary Increases**

Employee remuneration will be updated at the time and in the way stipulated in the local labor legislation and/or the collective bargaining agreements in force.

Discretionary or special salary increases may be granted provided that the company can confirm that its financial situation and forecasts permit and warrant them, bearing in mind the remuneration policy and cost effectiveness criteria.

These increases will be granted once a year, except in the case of promotions that imply a significant modification of the employee's salary conditions. In this latter case, special increases, approved by the entity's most senior management executive, may be granted at any time of year in line with the procedure established by MAPFRE's Corporate Human Resources Area.

Discretionary salary increases will be determined by two interrelated variables that constitute a merit matrix:

- Employee performance / level of output: the higher/greater the employee's output, the higher the salary increase.
- Situation within the salary range: the lower the position within the range, the higher the increase.

## **5.3. Specific Provisions for Key Staff**

### **5.3.1. Variable remuneration: specific mechanisms**

Variable remuneration for Key Staff will be set, applied and maintained in accordance with the company's sales and risk management strategy, its risk profile, objectives, risk management practices, performance and overall short-, medium- and long-term interests, and will include measures to prevent conflicts of interest.

In accordance with these principles, the following specific mechanisms will be used when setting variable compensation components for Key Staff:

#### **a) Proportion between fixed and variable components.**

When the total compensation includes fixed and variable components, these must be balanced in such a way that the fixed component represents a sufficiently high proportion of the total compensation to allow for complete flexibility regarding the variable components, including the option of not paying any such components. Accordingly, to prevent excessive risk-taking, the proportion of the variable component vis-à-vis the fixed compensation for MAPFRE Key Staff should not exceed 150 percent.

#### **b) Variable remuneration criteria.**

When annual variable remuneration is linked to performance, the amount will be determined by a combination of the following factors:

- Individual performance, evaluated as per financial or other criteria.
- Performance of the activity segment/department.
- Overall result of the company and GROUP.

The performance evaluation will include an adjustment for exposure to present and future risks.

The variable part of the remuneration for staff with risk management, compliance, actuarial and internal audit duties will not be affected by the results of the areas under their control.



### **c) Deferred variable remuneration component**

The payment of at least 30 percent of variable remuneration will be deferred for at least three years in line with the nature and timeline of the company's business, risks and specific activities of each member of Key Staff.

This deferred component will be paid on a pro rata basis throughout the years of deferral, calculated according to the number of years in question.

However, in the case of Relevant Personnel who are subject to geographic mobility that involves a change in their country of residence, the annual variable remuneration accrued up to the relocation date may be paid without deferral by the Group company that the person is leaving, as long as the rules of the exit country do not stipulate deferral.

### **d) Ex-post adjustments (penalty and clawback clauses)**

Contracts drawn up with Key Staff must include penalty and clawback clauses affecting up to 100 percent of the total variable compensation.

#### **Penalty clause**

Deferred variable remuneration that has accrued and is pending payment is subject to a partial or total reduction if any of the following circumstances arise before the payment date:

1. Restatement of the annual accounts for reasons other than a change in legislation and provided that the outstanding variable remuneration resulting from the restatement is zero or less than the amount initially accrued as per the variable remuneration model.
2. Provisos contained in the auditor's report that reduce the results of the company subject to the payment of outstanding variable remuneration.
3. The variable remuneration accrued as a direct or indirect consequence of:

- a. Fraudulent action by the Key Staff member.
- b. Circumstances leading to the disciplinary dismissal of the Key Staff member in accordance with the applicable labor legislation.
- c. Actions conducted by the Key Staff member that cause serious damage to the company through his/her fault or negligence.
- d. Actions conducted by the Key Staff member that are a gross or willful breach of the regulations in force.

The reasons for applying the penalty clause may be modified, extended or adapted in line with the regulations that may be introduced by the supervisor at any time or if deemed appropriate by the governing body.

### **Clawback clause**

The variable remuneration already paid to Key Staff members, irrespective of whether it has been deferred or not, will be subject to partial or total recovery if during the three years immediately following its payment it is revealed that said payment was in total or partial breach of the conditions established for its accrual or that it was made on the basis of information that has since been proved to be false or inaccurate.

The governing body's determination that the circumstances leading to the application of this clause have arisen and that a percentage of the variable remuneration must be repaid to the company, plus the procedure by which the company may claim the proportional return of the amount paid or even offset it against other types of compensation owing to the individual concerned, and this individual's obligation to repay part or all of the said amount to the company, must be carried out in accordance with the regulations approved to this effect.

### **5.3.2. Prohibition of coverages**

Key Staff must commit not to use any personal coverage strategy or any insurance related to remuneration and liability that undermines the risk-alignment effects embedded in their remuneration system.

### **5.3.3. Payments for termination of contracts**

Payments for the early termination of contracts must be aligned with performance and not for rewarding poor results, without prejudice to the mandatory payment of any payment(s) to which the Key Staff member concerned may be entitled under the terms of the applicable legislation and their contract of employment.

## **6. PRINCIPLE OF PROPORTIONALITY**

The application of the Compensation Policy will reflect the internal organization of the company as well as the nature, volume and complexity of the risks inherent to its activity.

## **7. APPOINTMENTS AND REMUNERATION COMMITTEE**

MAPFRE S.A., the parent company of the MAPFRE GROUP, has created an Appointments and Remuneration Committee to act as the delegate body of the Board of Directors with the responsibilities described in the Regulations of the MAPFRE S.A. Board of Directors in relation to the company and the GROUP.

The Appointments and Remuneration Committee assists the MAPFRE S.A. Board of Directors in the design and supervision of the Compensation Policy and remuneration practices.

The composition of the Committee ensures a competent and independent opinion on the Compensation Policy, as well as its supervision, thus preventing possible conflicts of interest.

The Committee has access to all the necessary information and data to advise on the design, maintenance and, where appropriate, review of the Compensation Policy.

## **8. APPROVAL, EFFECTIVE DATE AND SUBSEQUENT REVIEWS**

The MAPFRE GROUP Compensation Policy was approved by the MAPFRE S.A. Board of Directors on December 1, 2015, and was effective from January 1, 2016. Subsequently it has been amended by the Board of Directors on December 21, 2016.

It will be reviewed at least once a year and may be modified at any time with the approval of the MAPFRE S.A. Board of Directors in order to adapt it to any significant change affecting its contents.

Prior to January 1, 2016, the Boards of Directors or equivalent governing bodies in each of the MAPFRE GROUP insurance and/or reinsurance companies must adopt this policy, only adapting it where strictly necessary to ensure compliance with local legislation and in any case doing so subject to prior review by the Corporate Human Resources Area and the General Counsel and Corporate Legal Affairs Area.

In any case, for MAPFRE GROUP insurance and/or reinsurance companies located outside the European Economic Area, the requirements set forth in this policy regarding the principle or proportionality may be less stringent.

The regulations set forth in this policy are without prejudice to the application of any others stemming from MAPFRE GROUP internal corporate governance regulations that may be effective at any given time.