

Director selection policy at **Lar España Real Estate SOCIMI, S.A.**



Prepared by	Date	Approved by	Date
Corporate Management	28 December 2015	Appointments and Remuneration Committee	20 January, 2016
		Board of Directors	20 January, 2016

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1. Foreword

The structure and composition of the board of directors is a crucial element of strong corporate governance as it shapes its effectiveness and influences the decision-making quality and the ability to effectively champion the company's interests.

The Board of Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter, Lar España) is tasked with ensuring that its director selection procedures foster diversity in terms of gender, professional backgrounds and skills and are unbiased so as to prevent discrimination on any grounds; in particular, it must work to facilitate the selection of female directors.

2. Purpose

The purpose of this policy is to establish the internal requirements and procedures needed to ensure the selection of the best directors for Lar España by means of pursuit of the following specific objectives:

- a. Provision of tangible and verifiable guidance.
- b. Assurance that resolutions to appoint or re-elect directors are underpinned by prior analysis of the Board's needs.
- c. Due fostering of diversity in terms of skills, backgrounds and gender.
- d. A concerted effort to ensure that by 2020 at least 30% of all members of the Board of Directors are female.

3. Director aptitudes

Directors must at all times present the following aptitudes: they must (i) be persons of good repute and professional standing; (ii) have adequate expertise and experience to carry out their duties; and (iii) be in a position to govern the company well.

3.1. Good repute and standing

A person is deemed to be of good repute and professional standing to the extent that he or she has consistently demonstrated personal and professional conduct that casts no doubts about his or her ability to manage the company healthily and wisely.

On the other hand, a candidate shall be understood to lack these attributes when:

- i. They have been declared bankrupt or are party to an insolvency agreement, whether in Spain or abroad, without have been discharged or the terms of the agreement fully complied with;
- ii. They are being prosecuted or, in the case of the proceedings referred to in titles II and III of book IV of Spain's Criminal Prosecution Act, have been indicted;
- iii. They have a criminal record for any of the following crimes: fraud, tax evasion, criminal bankruptcy, disloyal custody of documents, theft of trade secrets, money laundering, embezzlement of public funds, the discovery and disclosure of trade secrets, property-related crime; or
- iv. They have been banned or suspended, under criminal or administrative law, from holding public office or from administering or managing financial institutions.

In the case of legal-person directors, the above requirements must be met by both the natural person representing the latter and the legal-person director itself.

3.2. Adequate expertise and experience

The Board of Directors of Lar España must comprise professionals with adequate expertise and experience. However, it is not necessary for all directors to possess the same level of expertise and experience so long as the Board of Directors as a whole has the right combination of both.

Adequate expertise is defined as follows:

- i. The candidate holds a bachelor's or equivalent undergraduate degree, preferably in any area of expertise related to the economy, business administration or finance; or
- ii. The candidate, who must hold a diploma or equivalent undergraduate qualification, can accredit specialist training in the form of master's programs, post-graduate studies or training programs provided by officially recognized specialist centers in any of the above areas of expertise; or
- iii. The candidate, who must hold a diploma or equivalent undergraduate qualification, has discharged management duties at one or more companies with professional recognition, preferably in the real estate sector, for a period of at least five years.

Adequate experience is defined as follows:

- i. The candidate has provided his or her services at any entity pursuing an activity that is fully or partially subject to oversight by Spain's Securities Exchange Commission, hereinafter the CNMV for its acronym in Spanish, for at least three years; or
- ii. The candidate has performed governance or senior management duties or duties of comparable complexity to those required at the company, at any entity, whether Spanish or foreign, with professional recognition, preferably in the real estate sector, for at least three years.

Notwithstanding the foregoing descriptions, the Board of Directors and the Appointments and Remuneration Committee would be able to evaluate any other candidate which may be of interest to the Company.

3.3. Position to govern the company well

The directors must be in a position to discharge their duties and comply with their legally-imposed and bylaw-stipulated duties with due diligence, bearing in mind the nature of the position and the duties associated with each. To this end:

- i. Directors must devote sufficient time to the company and adopt appropriate measures for ensuring the company's correct management and control.
- ii. In carrying out their duties, the directors are duty-bound to demand and are entitled to get from the company the level of information they need to correctly fulfil their obligations.
- iii. Directors must devote sufficient time to becoming informed, to familiarizing themselves with the company's paradigm and business performance and to participating in the meetings of the Board of Directors and any of the committees on which they sit.
- iv. The directors must inform the other members of the Board of Directors of any direct or indirect conflicts they or their related parties may have vis-à-vis the company's interests.

4. Selection and appointment procedure

4.1. Proposals

The Appointments and Remuneration Committee will first analyze the Board of Director's needs, setting out its findings in an explanatory report which it will publish on the occasion of the call to the Annual General Meeting at which the shareholders will be asked to ratify the appointment or re-election of each director, to which end:

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors. Against this backdrop, it will define the duties and aptitudes required of the candidates to fill each vacancy and assess the time and dedication needed so that they can duly perform their remit.
- ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

4.2. Candidacy presentation

Candidates must present the information itemized below at Lar España's head office. The documents must be either original or certified copies and the information package should be addressed to the Appointments and Remuneration Committee.

- i. **Natural persons:** a photocopy of their national identity card or passport and information about their effective place of residence, e-mail address and contact telephone number(s).
- ii. **Legal persons:** a photocopy of the corresponding deeds of incorporation, the consolidated text of the prevailing bylaws, e-mail address and contact telephone number(s).
- iii. Certification of familiarity with the company's bylaws and other internal rules and regulations and acceptance of their terms and conditions using the form attached as Appendix I.
- iv. Certification of possession of adequate expertise and experience using the form attached as Appendix I.
- v. Certification of readiness and ability to govern the company well using the form attached as Appendix I.
- vi. Certification of the reputation and professional standing required in this policy using the form attached as Appendix II.

4.3. Evaluation of the candidacy

Having verified the documentation received and once the seven working day period for correcting or clarifying the information furnished has elapsed, if required, the Appointments and Remuneration Committee has seven working days at most to issue its explanatory report, to which end it will use the form attached as Appendix III and follow the procedure described next:

- i. In the event that the Appointments and Remuneration Committee believes that the candidate presents the required aptitudes, it will submit a proposal for his/her appointment/re-election accompanied by a copy of the information received to the Board of Directors.
- ii. If the Appointments and Remuneration Committee: (a) has reasonable doubts about whether the proposed candidate meets all of the requirements envisaged in this policy or in applicable legislation; (b) feels that the appointment of the proposed candidate could imply substantial impairment of the expertise and experience of the members of

the Board of Directors appraised as a whole; or (c) believes that the proposed candidate does not meet one or more of the requirements established in this policy or applicable legislation for qualification as apt for the post, it shall send the Board of Directors a report substantiating the circumstances which in its opinion cast doubt over the candidate's suitability or give rise to its negative assessment, accompanied by a copy of the information received.

4.4. Appointment

The Board of Directors then has 30 working days to analyze the director appointment proposals made by the Appointments and Remuneration Committee after which it must submit the corresponding resolutions to the shareholders for approval in general meeting.

In the event of a new director's appointment by means of co-option, the procedure to be followed is the one described in the previous sections. The appointment will have to be ratified subsequently at the Annual General Meeting, which motion must similarly be accompanied by an explanatory report issued by the Appointments and Remuneration Committee when the General Meeting is called.

4.5. Ongoing assessment

Ongoing assessment shall take two forms:

i. Annual assessment of director qualifications

Every year, in the month of January, the Appointments and Remuneration Committee will send all the directors the questionnaire attached as Appendix IV, the purpose of which is to verify that they continue to meet the aptitudes required of the post. The directors have 15 calendar days to fill out, sign and return the form.

The Appointments and Remuneration Committee will then analyze the answers received and proceed as follows in the event it detects an incident in this respect.

ii. Ad-hoc assessment in the event of special circumstances

Each director is individually responsible for notifying the Appointments and Remuneration Committee immediately, in writing and in detail of any event or circumstances that could have a significant impact on the assessment of his or her suitability for the post in terms of the aptitude requirements defined in this policy and in prevailing legislation. The directors are liable for any damages to the company caused by any failure to report or delay in reporting any circumstances affecting his or her suitability.

Whenever the Appointments and Remuneration Committee is notified of circumstances which adversely affect a director's suitability assessment or it learns of their existence as part of an annual review, it will decide whether or not it is necessary to temporarily or permanently suspend the affected party.

Appendix I: Statement by the director candidate

In ***, on *** ** 20**

I, Mr./Ms.**, with national identity card/passport/tax identification number ***, in my capacity as candidate for a directorship at Lar España Real Estate, SOCIMI, S.A. (“**Lar España**”), solemnly

DECLARE

1. That I have received a full copy of the bylaws and internal rules and regulations, which I have read and fully accept; I am, furthermore, familiar with the rights and obligations deriving therefrom and from prevailing legislation in the event I am appointed director.

2. That I have the professional standing required under prevailing legislation and Lar España's director selection policy and meet the guidelines laid down therein.

{In the event that you have been processed for an offence not itemized in Lar España's director selection policy, please state the reason for the fine or offence and a summary of the case, attaching a copy of the sentence, and how the issue was resolved}

3. That I have completed the following studies or training, itemizing the corresponding undergraduate or post-graduate degree, academic institution and the date on which the degree was obtained.

4. That I have the expertise and experience required under prevailing legislation and Lar España's director selection policy.

5. That I am in a position to govern Lar España in such a way as to oversee and uphold the company's business performance and avoid conflicts of interest that could harm the common good.

{To this end, this declaration must itemize the personal, professional and/or business relations between the candidate and his/her related parties on the one hand and the other members of the Board of Directors, on the other, along with a list of the entities in which he or she holds or has held a directorship or similar position}

Lastly, I declare that all the information presented here is accurate and complete and that I have not omitted any information that would cast it in a different light.

In witness whereof and so that it may be included in the file pertaining to my candidacy as director of Lar España, I hereby sign this declaration in the place and on the date first indicated above.

Signed:

Appendix II: Questionnaire designed to determine the professional standing of director candidates

ENTITY

Registered name of the collective investment scheme:

.....

1. To be filled out by directors, managing directors and professionals in equivalent posts:

Data identifying the director, managing director or professional holding an equivalent position (for natural persons and the representatives of legal-person directors):

First and last name:

National identity card/Passport/Residence permit number:

Address:

Telephone number:

Fax number:

E-mail address:

Legal person represented, if appropriate:

Data identifying the director (for legal persons):

Registered name:

Tax ID no. (CIF in Spain or equivalent number for non-Spanish legal persons):

Registered address:

Telephone number:

Internet website:

Represented by:

First and last name:

National identity card/Passport/Residence permit number:

Address:

Telephone number:

Fax number:

E-mail address:

Position held at or relationship with the acquiring company:

Instructions for filling out the form

This questionnaire should be filled out by the directors, managing directors or equivalent on record in the collective investment scheme's inscription in the corresponding CNMV Register and on the occasion of appointments, subsequent to the entity's inscription in the CNMV Register, of new directors, managing directors and professionals holding equivalent positions and on the occasion of the designation of the natural person representing a legal-person director.

Moreover, an updated questionnaire must be submitted when, in the course of registering the entity or of appointing directors, managing directors or equivalent professionals, circumstances arise modifying any of the originally-provided answers or as required by the CNMV for any reason.

The questions relate to business activities carried on in Spain and abroad and to circumstances, events and situations that, in keeping with corresponding national law, are, or have been, analogous to those contemplated in this questionnaire in relation to Spain and Spanish law.

All pages of the questionnaire must be signed. Answers must be marked with an "X" and in the event of affirmative and/or blank responses must be accompanied by the corresponding explanation on the enclosed sheet, similarly witnessed, which may be supported by whatever documentation is deemed necessary.

If the response to questions (2), (3) or (14) is affirmative, please state the authority to have performed the corresponding assessment and provide the related supporting documentation.

If the response to questions (7), (8), (9), (11), (12) or (13) is affirmative, you must state whether the penalty or sentence is final. If, as warranted, or additionally, the company assessed was one you run or control, or the penalty was imposed on such a company, you must answer yes to the above-listed questions, additionally indicating the corresponding company or companies. In the event that a senior executive of a company you run or control has been sentenced or penalized, you must answer yes to questions (7), (8), (9), (10), (11), (12) and (13), indicating such circumstances and identifying the party sentenced or penalized and the name of the company at which he or she is a senior executive.

1. Are you a shareholder, member of the board of directors or an equivalent governing body or managing director or equivalent of a financial institution?

YES ☐

NO ☐

2. Has any financial sector supervisory authority ever negatively assessed your professional and business standing?

YES ☐

NO ☐

3. Have you ever been negatively assessed, in your capacity as potential acquirer of a non-financial corporate, by any non-financial sector authority or has any such authority negatively assessed your professional and business standing?

YES ☐

NO ☐

4. Has any permit or license to pursue a financial profession or business activity ever been denied, withdrawn or revoked or have you ever been expelled by any governing or regulatory body in the financial arena or of a professional nature?

YES ☐

NO ☐

5. Have you ever been fired, discontinued or asked to step down as employee, governor, director or manager of a financial institution or investment vehicle?

YES ☐

NO ☐

6. Have you ever been subject to any intervention or substitution measures under application of financial system regulatory provisions?

YES ☐

NO ☐

7. Are you banned from holding public office or from administering or managing financial institutions?

YES ☐

NO ☐

8. Have you ever been the subject of a serious and/or very serious administrative penalty in connection with any of the following matters:

Banking and finance ordinance	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Tax matters	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Social security	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Employment law	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Corporate law	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Unfair competition or market abuse	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Cross-border capital flows and financial transactions	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Money laundering or terrorist financing	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Consumer protection	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Data protection	YES <input type="checkbox"/>	NO <input type="checkbox"/>

9. Have you ever been penalized or are you currently subject to any disciplinary action for breach of the code of conduct, internal rules of conduct or equivalent code to which you were bound?

YES ☐ NO ☐

10. Have you a criminal record for any crime committed with gross negligence or intent?

YES ☐ NO ☐

11. Have you ever been subject to court penalties in bankruptcy matters, whether (i) due to professional disqualification under the prevailing Spanish Bankruptcy Act (Law 22/2003 of 9 July 2003) during the disqualification period established in the bankruptcy ruling; or (ii) due to your status as undischarged bankrupt or party to an insolvency agreement in the case of bankruptcy proceedings processed prior to effectiveness of the above-mentioned Act; or (iii) due to analogous situations in keeping with the national law of other countries?

YES ☐ NO ☐

12. Are you party to any manner of court, bankruptcy or administrative disciplinary proceedings related to the matters itemized in questions (8) and (9) above?

YES ☐ NO ☐

13. Are you being prosecuted or, in the case of the proceedings referred to in titles II and III of book IV of Spain's Criminal Prosecution Act, have you been indicted?

YES ☐ NO ☐

14. Has any other remedial or disciplinary measure been handed down against you by a financial institution supervisory authority or in the field of money laundering or terrorist financing or is any such measure currently being processed?

YES ☐ NO ☐

15. In the event that you are a national of a country that is not a European Union member state, have you been negatively assessed by any body with authority in your country over anti-money laundering and counter-terrorist financing regulations or by an international organism responsible for application of such regulations?

YES ☐ NO ☐

A free translation from the original in Spanish. In the event of discrepancy, the Spanish version prevails.

An explanation to the affirmative and/or blank responses is attached in accompanying sheet(s) ☐

An additional explanation is provided in accompanying sheets to enable an adequate assessment of my suitability ☐

I SOLEMNLY DECLARE that the statements made in this questionnaire are accurate and I authorize the CNMV to consult as many public records as are necessary to certify this fact.

I also hereby DECLARE that, as of ...{DATE}....., I have been duly empowered to sign this document (legal-person representatives).

In, on 20.....

Signed:

Appendix III: Report of the Appointments and Remuneration Committee on the director candidate

I, Mr./Ms. ***, Secretary of the Appointments and Remuneration Committee of Lar España Real Estate SOCIMI, S.A. (“**Lar España**”), hereby certify:

1. That the Appointments and Remuneration Committee met on *date*, in ***, as called by its Chairman in keeping with the internal rules of operation of the Board of Directors and the director selection policy established by Lar España.
2. That such meeting took place having received the director candidate's candidacy information package and suitability declaration, which determines that the candidate [is / is not] suitable for the post.
3. That the meeting of the Appointments and Remuneration Committee was attended by *** of its *** members. Members *** justified their absence on the grounds of ***.
4. Following due debate, the Appointments and Remuneration Committee, with *** members (*state their names*) voting in favor, *** members (*state their names*) voting against and *** members abstaining from voting (*state their names and the reason for abstaining*), ratified the following resolution:

Alternative 1: favorable resolution

First.- To positively assess the suitability of the candidate for appointment as director of the company on the terms established in the director selection policy.

In this respect, it was deemed that the proposed candidate: (i) presents a track record of good professional and business standing such as to dispel any doubt as to his/her ability to manage Lar España healthily and wisely; (ii) has adequate expertise and experience; and (iii) is in a position to govern Lar España well; further we did not detect any factors indicating the existence of conflict of interests with the company or the inability to devote sufficient time to his/her duties.

Second.- To notify all implicated members of the Board of Directors of the new addition to the Lar España endeavor.

Third.- To notify the candidate for information purposes only.

Alternative 2: unfavorable resolution

First.- To find against the suitability of Mr./Ms. *** as director of Lar España under the terms established in prevailing legislation on the following grounds:

[Stipulate the reasons]

Second.- To notify Mr./Ms. *** of this ruling, notifying him/her of his/her right to contest it during the seven working days following the notification, as provided for in the director selection policy and without prejudice to any other legal action to which he or she may be legally entitled.

To certify this resolution for the record, I hereby issue this report in *** on *** ** 20*** with the approval of the Chairman of the Appointments and Remuneration Committee.

Mr./Ms. ***

Chairman of the Appointments and
Remuneration Committee

Mr./Ms. ***

Secretary of the Appointments and
Remuneration Committee

Appendix IV: Questionnaire for assessing ongoing director suitability

In ***, on *** ** 20**

I, Mr./Ms. ***, with national identity card/ tax identification number ***, under the scope of the annual review of the continued fulfilment of the director suitability prerequisites of Lar España Real Estate, SOCIMI, S.A. (“**Lar España**”), hereby solemnly

DECLARE

Question	Yes ¹	No
Do you remain in good professional and business standing?		
Have you been handed down any sentence or ruling in any criminal or administrative proceeding that was at the discovery or initial stages at the time of the last review?		
Has any criminal action been initiated against you for alleged crimes or offences?		
Has any disciplinary action been initiated against you for any of the offences itemized in the suitability requirement rules?		
Have you initiated personal, business or professional relations with other directors that could adversely affect the company's governance?		
Has the number of companies or entities at which you are director or equivalent increased since the last review?		
Has the average number of meetings held each year by the governing bodies of the above companies or entities increased with respect to that last declared by you?		
Has your professional activity changed in any way?		

In witness whereof and so that it may be included in the file pertaining to my directorship at Lar España and accessed as required under the procedure contemplated in the company's director selection policy, I hereby sign this declaration in the place and on the date first indicated above.

Signed:

¹ As warranted, in the event of an affirmative response, state the change arising and briefly explain its impact