

## **FIVE STAR SENIOR LIVING INC.**

### **GOVERNANCE GUIDELINES**

Adopted March 2, 2017<sup>1</sup>

The following Governance Guidelines (the “Guidelines”) have been adopted by the Board of Directors (the “Board”) of Five Star Senior Living Inc. (the “Company”), with the recommendation of the Nominating and Governance Committee of the Board, to assist the Board in the exercise of its responsibilities. These Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision making both by the Board and by Company management. These Guidelines are in addition to and are not intended to change or interpret any provision of the Company’s Articles of Amendment and Restatement or Bylaws or applicable law. The Guidelines may be modified by the Board from time to time.

#### **I. GENERAL QUALIFICATIONS STANDARDS FOR THE BOARD**

##### Size of the Board

The size and composition of the Board should be appropriate for effective deliberation of issues relevant to the Company’s businesses and related interests, and shall be determined in accordance with the Company’s Articles of Amendment and Restatement and Bylaws and applicable law.

##### Nomination and Selection of Directors

The Board as a whole will be responsible for developing and approving criteria for candidates for Board membership. The Nominating and Governance Committee will be responsible for seeking candidates to become Board members, consistent with criteria approved by the Board, and for recommending candidates to the entire Board for nomination or selection as Board members. The Board as a whole will be responsible for nominating individuals for election to the Board by the stockholders and for filling vacancies on the Board but may not nominate or appoint any individual who has not been recommended by the Nominating and Governance Committee.

The Nominating and Governance Committee will, in its discretion, consider candidates for nominees as Directors of the Company that are recommended by stockholders in accordance with the Charter of the Nominating and Governance Committee.

Nominees for Director will be selected on the basis of, among other criteria the Nominating and Governance Committee and the Board may determine, their integrity, experience, achievements, judgment, intelligence, competence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties and likelihood that they will be able to serve on the Board for a sustained period. In connection with the selection of nominees for Director, due consideration will be given to the Board’s overall balance of diversity of perspectives, backgrounds and experiences.

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<sup>1</sup> Updated on March 3, 2017, to reflect the company’s new name, Five Star Senior Living Inc.

### Independence

The Board will be comprised of a sufficient number of Directors that meet any applicable independence or other qualification requirements of The NASDAQ Stock Market LLC (the “NASDAQ”), the Securities and Exchange Commission (the “SEC”), the Company’s governing documents or any other applicable law or regulation.

The full Board will make affirmative determinations of the independence of each Director. Such determinations shall be made using the standards and processes approved and adopted from time to time by the full Board. Such determinations, as well as the standards and processes applied in making them, may be disclosed to stockholders in accordance with the rules and regulations of the NASDAQ and the SEC.

### Time Commitment

Directors are expected to devote sufficient time to fulfill their responsibilities as Directors of the Company.

### Director Term Limits

The Board does not favor term limits, due to the valuable expertise and knowledge that experienced Board members can bring to the Company, but the Board believes that it is important to monitor overall Board performance.

## **II. DIRECTOR RESPONSIBILITIES**

The Board is responsible for the strategic direction, oversight and control of the Company. In carrying out its responsibilities, the Board will exercise sound, informed and independent business judgment. The Board recognizes that to do so requires individual preparation by each Director and group deliberation by the Board. The Board’s responsibilities include both decision making and oversight.

Among other things, the Board’s decision making responsibilities include:

- review and approval of the Company’s mission, strategies, objectives and policies, as developed by management;
- the selection of nominees for Board membership (upon recommendation of the Nominating and Governance Committee);
- the selection and evaluation of the Chief Executive Officer of the Company (to the extent not overseen by a committee of the Board);
- the approval of material investments or divestitures, strategic transactions, and other significant transactions that are not in the ordinary course of the Company’s business; and
- the evaluation of the performance of the Board and its committees (as overseen by the Nominating and Governance Committee).

Among other things, the Board's oversight responsibilities include monitoring:

- the Company's compliance with legal requirements (including through the Audit Committee of the Board) and ethical standards;
- the performance of the Company;
- the Company's risk management function;
- the development of leaders and sound succession plans;
- the performance and effectiveness of the officers of the Company and of the business management services provider to the Company (the "Manager") (to the extent not overseen by a committee of the Board); and
- the Company's financial reporting and disclosure processes and internal controls (including through the Audit Committee).

Among other things, the Board expects each Director to:

- understand the Company's business;
- regularly attend meetings of the Board and the applicable committees of the Board and the Company's annual meeting of stockholders;
- review and understand the materials provided in advance of meetings and any other materials provided to the Board from time to time;
- actively, objectively and constructively participate in meetings and the strategic decision making process;
- share his or her perspective, background, experience, knowledge and insights as they relate to the matters before the Board and the applicable committees of the Board; and
- be reasonably available when requested to advise management on specific issues not requiring the attention of the full Board but where an individual Director's insights might be helpful to management.

### **III. BOARD MEETINGS AND COMMUNICATIONS**

#### Meetings

The Board generally meets at least four times per year, on dates selected and upon notice as provided by the Company's Bylaws.

## Agenda

The Managing Directors (as defined in the Company's Bylaws), in consultation with the Company's management, shall set the agenda for Board meetings. Committee Chairs shall set the agenda for committee meetings. Any Director may suggest agenda items and raise other matters at meetings. Whenever reasonably possible, agenda and other information and materials that are important to the Board's understanding of the business to be conducted at a meeting of the Board or a committee of the Board should be distributed to the Directors prior to the meeting, in order to provide ample time for review beforehand.

## Executive Sessions

The Independent Directors (as defined in the Company's Bylaws) will have regularly scheduled meetings at which only Independent Directors are present; it is expected that such executive sessions will occur at least twice per year in conjunction with regularly scheduled Board meetings.

## Board and Board Member Communications with Institutional Investors and Other Stakeholders

The Board believes that it is the responsibility of designated senior management and the Managing Directors to speak for the Company and to establish effective communication with the Company's various stakeholder groups, i.e., institutional investors and other stockholders, analysts, customers, labor representatives, suppliers, media, government and business partners.

Absent unusual circumstances and without the prior approval of the Board, Independent Directors should not meet or otherwise communicate with the Company's stakeholders. If held, any such meeting shall be held on such conditions as the Board determines may be appropriate.

Security holders or other Company stakeholders may communicate to the Board, individual Directors, or committees of the Board via submissions through the Company's website, toll-free hotline or written submissions. Any communications addressed to the Board, individual Directors or committees of the Board shall be delivered to the appropriate party or parties promptly following the receipt of such communications, and such communications shall not be screened prior to review by the appropriate party or parties. The Director of Internal Audit shall provide a copy of any written communications to the Audit Committee or the Board, as appropriate. The Board, individual Directors or committees of the Board will respond to such communications if and as appropriate and otherwise in accordance with the foregoing policy.

Directors are subject to the confidentiality provisions of the Company's Code of Business Conduct and Ethics and should maintain the confidentiality of all non-public Company matters and materials.

## **IV. BOARD COMMITTEES**

### Quality of Care, Audit, Compensation and Nominating and Governance Committees

The Board has four standing committees: (i) the Quality of Care Committee; (ii) the Audit Committee; (iii) the Compensation Committee; and (iv) the Nominating and Governance

Committee. The composition, responsibilities and authority of the standing committees shall be as provided in the applicable committee charter, which charters shall be approved by the Board. Each standing committee shall report periodically to the Board on its meetings and activities.

#### Other Committees

The Board may also establish such other committees as it deems appropriate and delegate to those committees any authority permitted to be delegated pursuant to the Company's Bylaws or applicable law as the Board sees fit, other than the responsibilities delegated to the existing committees in their charters or reserved to the full Board. All standing Board committees shall be chaired by an Independent Director. Pricing committees of the Board established in connection with offerings of securities will ordinarily consist of the Managing Directors.

#### Assignment and Rotation of Committee Members

The Board shall be responsible for the assignment of Board members to various standing committees. The Board shall be responsible for appointing the members to the standing committees on an annual basis. The Board may designate the chair for each committee or may delegate the power to make such designation to the committee. The Board shall annually review the responsibilities and membership for each standing committee. Standing committee chairs should be rotated if rotation is likely to increase committee performance or facilitate committee work. In appointing Board members to, designating the chair of or delegating the power to designate the chair of or annually reviewing the responsibilities and membership of, the standing committees, the Board shall consider the recommendations of the Nominating and Governance Committee, if any.

### **V. DIRECTOR ACCESS TO MANAGEMENT AND INDEPENDENT ADVISERS**

#### Access to the Company's Management

Each Director shall have complete access to the Company's management and to the management of the Manager. Each of the Company's management and the management of the Manager will make himself/herself/itself available to answer the Directors' questions about the Company between meetings at reasonable times.

#### Independent Advisers

The Board and any committee of the Board may engage and consult with financial, legal, or other independent advisers as they may deem necessary, at the Company's expense, without consulting or obtaining the approval of any of the officers of the Company in advance.

### **VI. DIRECTOR COMPENSATION AND SHARE OWNERSHIP GUIDELINES**

#### Director Compensation

The Board shall review annually the compensation paid to Directors, and shall determine the amount of cash compensation payable to Directors for Board and Committee membership. The Compensation Committee shall determine the amount of equity based compensation payable to

Directors. Directors who are employees of the Company or any of its subsidiaries or the Manager or any of its affiliates shall not receive any cash compensation for their service as Directors, but shall be eligible to receive equity based compensation as determined by the Compensation Committee.

#### Share Ownership Guidelines

The Board believes it is important to align the interests of Directors with those of the Company's stockholders, and for Directors to hold equity ownership positions in the Company. Accordingly, each Director is expected to retain, whether vested or not, at least 50,000 common shares of the Company within five years of the later of: (a) September 30, 2014 or (b) the annual meeting of stockholders of the Company at which the Director was initially elected or, if earlier, the first annual meeting of stockholders following the initial appointment of the Director to the Board. Compliance with these ownership guidelines will be measured as of the end of each fiscal year. Any Director who is prohibited by law or by applicable regulation of his or her employer from owning equity in the Company shall be exempt from this requirement. The Nominating and Governance Committee may consider whether exceptions should be made for any Director on whom this requirement could impose a financial hardship.

To facilitate this objective, a portion of each Director's compensation should be paid in common shares or other forms of compensation that correlate with the market value of the Company. In determining the amount and composition of the compensation of Directors, the compensation of Directors of other comparable enterprises, both with respect to size and industry, may be considered.

### **VII. DIRECTOR ORIENTATION AND CONTINUING EDUCATION**

#### Director Orientation

Materials and briefings are provided to new Directors, on an individual basis, to permit them to become familiar with the Company's business, industry and governance practices.

#### Continuing Education

Each Director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a Director. The manner by which each Director maintains the necessary level of expertise is left to his or her discretion. To the extent a Director wishes to attend continuing education programs, it is the Company's policy to reimburse the Director for his or her expenses incurred in connection with attendance at that program, which would be limited to the Director's out of pocket costs of attendance, including program enrollment fees, travel and lodging, as appropriate. All such expenditures must be approved in the manner provided in the Charter of the Nominating and Governance Committee.

## **VIII. EXECUTIVE DEVELOPMENT AND SUCCESSION PLANNING**

### Evaluation of Management

The Compensation Committee shall develop and implement an annual process for evaluating the performance of the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, and the Manager. The Compensation Committee shall annually review and approve the compensation of the Chief Executive Officer of the Company and other senior executives of the Company who are also senior executives of the Manager. The Compensation Committee shall also review and consult with the Chief Executive Officer of the Company with respect to his or her recommendation to the Board for approval of the compensation of all other officers of the Company.

### Management Succession Planning

The Nominating and Governance Committee should make an annual report to the Board on succession planning in the event of an emergency or the retirement, resignation or removal of the Chief Executive Officer, the Chief Financial Officer or the Managing Directors of the Company or the Manager. In the event of a succession, the entire Board may work with the Nominating and Governance Committee or the Independent Directors, as applicable, to nominate and evaluate potential successors.

## **IX. RELATED PERSON TRANSACTIONS**

Neither the Company nor any of its subsidiaries shall enter into any transaction in which any Director or executive officer of the Company, any member of the immediate family of any Director or executive officer of the Company or any other related person, has or will have a direct or indirect material interest, unless that transaction has been disclosed or made known to the Board and the Board reviews, authorizes and approves or ratifies the transaction by the affirmative vote of a majority of disinterested Directors, even if the disinterested Directors constitute less than a quorum. If there are no disinterested Directors, the transaction shall be reviewed, authorized and approved or ratified by both (1) the affirmative vote of a majority of the entire Board and (2) the affirmative vote of a majority of the Independent Directors. In determining whether to approve or ratify a transaction, the Board or disinterested Directors or Independent Directors, as the case may be, shall act in accordance with the Company's Articles of Amendment and Restatement, Bylaws and applicable law, and shall consider all of the relevant facts and circumstances, and shall approve only those transactions that are fair and reasonable to the Company.

The compensation of Directors and the executive officers of the Company shall be determined in accordance with the procedures outlined in the Charter of the Compensation Committee.

The Company has an equity ownership in an affiliated insurance company. Without limiting the application of the preceding paragraph, any material transaction between the Company and such insurance company shall be reviewed, authorized and approved or ratified by both (1) the affirmative vote of a majority of the entire Board and (2) the affirmative vote of a majority of the Independent Directors.

The review, amendment or termination of the Company's business management agreement with the Manager, or compensation or expense reimbursement payable by the Company thereunder or requiring Independent Director approval as provided thereunder, shall be performed by the Compensation Committee or such other committee of the Board consisting solely of Independent Directors as may be designated by the Board and in compliance with such agreement.

## **X. ANNUAL PERFORMANCE EVALUATION OF THE BOARD**

### Self-Evaluation by the Board

Each year, the Board will conduct a self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Governance Committee shall be responsible for overseeing the process for such evaluation. The full Board will discuss the evaluation report to determine what, if any, action could improve Board and committee performance.

### Evaluation of the Governance Guidelines

The Board recognizes that these Guidelines must continue to evolve to meet the changing needs of the Company and its stockholders and changing requirements. The Board, upon the recommendations of the Nominating and Governance Committee, after reviewing and reassessing the adequacy of these Guidelines, will determine whether any changes are appropriate.

## **XI. MISCELLANEOUS**

These Guidelines amend in their entirety and replace the governance guidelines as heretofore in effect.