

## **BLUE CROSS AND BLUE SHIELD OF ARIZONA** **CORPORATE GOVERNANCE GUIDELINES**

Blue Cross and Blue Shield of Arizona, Inc. (the "Corporation") has adopted these Corporate Governance Guidelines (the "Guidelines"), which, together with the Articles of Incorporation and the Bylaws, provide a framework for governance of the Corporation. The Guidelines are not intended to change or augment the obligations of the Board of Directors, the Corporation or its management under any laws or create new standards for determining whether the Board of Directors, the Corporation or management has fulfilled their respective obligations under applicable law.

### **I. BOARD OF DIRECTORS' ROLE**

The Board of Directors is charged with overseeing the affairs and business of the Corporation. The Chief Executive Officer ("CEO") is responsible for the day to day operation and management of the Corporation

Among other things, the Board approves the Corporation's business objectives, strategy, financial objectives and plans and oversees the investment of the Corporation's assets. Additionally, the Board creates and oversees management of a reserve fund for protecting the interests of subscribers, providers and the purposes of the Corporation. The Board is responsible for reviewing and adopting changes to the Corporation's governing documents, including the Articles of Incorporation, Bylaws and these Guidelines.

To fulfill its responsibility, the Board of Directors, acting directly or through committees, exercises its business judgment in making decisions it reasonably believes are in the best interests of the Corporation, by taking into account, among other things, the interests of the Corporation's subscribers, customers, employees, business partners and the communities the Corporation serves.

### **II. DUTY OF LOYALTY**

The Duty of Loyalty requires Directors to act in good faith for the benefit of the Corporation and not for their own personal interests. The Duty of Loyalty embodies not only an affirmative duty to protect the interests of the Corporation but also an obligation to refrain from conduct that would be detrimental to the Corporation. Directors recuse themselves from voting or participating in deliberations on matters in which a conflict of interest may arise.

### **III. DUTY OF CARE**

The Duty of Care means that in making business decisions the Board of Directors must exercise reasonable care. The Board must act in good faith for the benefit of the Corporation. Acting in good faith means the Board members believe that the actions they are taking are in the Corporation's best interest based on a reasonable investigation of the options available. The Board considers available options within the time and financial constraints presented before it makes a decision or takes a particular action on behalf of the Corporation. Absent knowledge to the contrary, the Board is entitled to rely on information, opinions, reports, statements and other data prepared and/or presented by the Corporation's management, legal counsel, outside advisors, accountants, Board committees or other persons the Board reasonably believes to be competent when making business decisions for the Corporation.

#### **IV. DIRECTORS' STANDARD OF CONDUCT**

##### **A. CONFIDENTIALITY**

Members of the Board of Directors have access to information that is confidential or proprietary to the Corporation or third parties. The Directors are charged with maintaining the confidentiality of this information both during and after their service on the Board of Directors.

##### **B. CODE OF CONDUCT**

The Code of Conduct applies to all Directors, officers, management and employees of the Corporation. Directors are expected to act in accordance with the requirements of the Code of Conduct, which provides guidance in recognizing and managing compliance and related issues. Like the Corporation's employees, Directors report alleged violations of the Code of Conduct to the Corporation's Compliance Officer.

##### **C. CONFLICTS OF INTEREST**

On an annual basis, Directors complete a Conflict of Interest questionnaire and disclose any potential and actual conflicts of interest that may impede the Director's ability to act in the best interests of the Corporation. If a potential or actual conflict of interest arises at any time after the annual disclosure is completed, the Director has an obligation to promptly disclose the matter to the Corporation's Compliance Officer. The Nominating and Governance Committee of the Board of Directors is responsible for reviewing actual and potential conflicts of interest and recommending to the Board of Directors actions to be taken as a result of such actual or potential conflicts.

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

##### **A. DIRECTOR ORIENTATION AND KNOWLEDGE**

The Corporation is committed to providing its Directors with educational opportunities that assist the Directors in fulfilling their obligations to the Corporation and maximizing their effectiveness as Board members. To that end, the Board of Directors has established an orientation program for new Directors.

Within the first year of service on the Board of Directors, new Directors are required to complete:

- Training regarding the fiduciary duties of a Director, including, but not limited to the Duties of Loyalty and Care and the Corporation's policies and procedures; and
- Training that addresses the role and governance structure of the Blue Cross Blue Shield Association (the "Association"), the responsibilities of the Corporation's CEO on the Association's Board of Directors, the responsibility to preserve and protect the Blue Cross and Blue Shield brands and the impact of the Board's decisions on other Blue Cross Blue Shield plans and the brands.

Following the selection of new Directors as described in these Guidelines, the Board will identify specific informational and developmental needs of each new member. Based upon that assessment, a mentor will be assigned by the CEO and Chairman of the Board. Among other things, the mentor serves as a resource for information about the Corporation and the oversight role of the Board.

B. CONTINUING EDUCATION

The Corporation will regularly provide informational materials regarding relevant industry developments and other subject matters to Directors. Appropriate educational topics are included as part of the Board's meeting agendas.

VI. BOARD OF DIRECTORS' RESPONSIBILITIES

A. COMMITTEE STRUCTURE

To facilitate its oversight of the Corporation, the Board of Directors has established a committee structure. The Board delegates certain activities to the following standing committees: (1) Finance and Investment; (2) Compensation; (3) Nominating and Governance; and (4) Audit, Compliance and Risk.

Each committee maintains a written charter, which is reviewed annually by the committee and approved by the Board of Directors, and regularly reports its actions to the Board of Directors. The Corporation's Bylaws and the committee charters set forth the purpose, membership requirements, meeting frequency, and responsibilities of each committee.

B. ELECTION OF COMMITTEE MEMBERS AND DUTIES

Upon recommendation of the Nominating and Governance Committee, the Board of Directors elects members of each committee at the annual Board of Directors meeting. Each committee will have up to six members. Each committee chairman must be Independent and except for the Finance and Investment Committee, all committee members must be Independent. A majority of the members of the Finance and Investment Committee must be Independent.

C. COMPLIANCE PROGRAM AND CONFLICTS OF INTEREST

The Board of Directors regularly reviews and adopts: (1) the Corporation's Code of Conduct; (2) the Corporation's Conflict of Interest policy; and (3) an effective compliance and ethics program designed to detect and prevent violations of the law and promote an organizational culture of ethical conduct and compliance. The Board also exercises reasonable oversight of the compliance and ethics program's effectiveness.

Directors are expected to: (1) complete the Corporation's annual compliance and ethics training; (2) be knowledgeable about the content and operation of the Corporation's compliance and ethics program and Code of Conduct; (3) comply with the Corporation's Conflict of Interest policy; (4) disclose actual or potential conflicts of interest that could impede the Director's ability to act in the best interests of the Corporation; and (5) be familiar with their fiduciary obligations as Board members, including familiarity with the Duty of Loyalty and the Duty of Care.

D. ASSESSMENT OF THE BOARD OF DIRECTORS AND COMMITTEES

The Nominating and Governance Committee facilitates an annual self-evaluation process for the Board of Directors, its standing committees and each individual Director. The Chairman of the Nominating and Governance Committee ensures that the assessment results are reported to the Board of Directors and its committees. Through this process, the Board of Directors is able to assess and improve its overall efficacy and assists the Nominating and Governance Committee in developing recommendations regarding members for reelection to the Board.

E. MANAGEMENT OVERSIGHT AND EVALUATION

The Board of Directors is responsible for appointing, evaluating, compensating and discharging the CEO. The Board provides oversight, advice and direction to the CEO, who is responsible for the day to day operation and management of the Corporation.

F. SUCCESSION PLANNING

The CEO is responsible for development of a succession and development plan for key positions within the Corporation. This plan is updated periodically and presented to the Compensation Committee and the Board for review and approval.

VII. BOARD SIZE, MEMBERSHIP AND RECRUITMENT

A. BOARD SIZE

The Board of Directors consists of up to fifteen (15) members, including the CEO.

B. BOARD OF DIRECTORS MEMBERSHIP CRITERIA

Directors should possess the professional and/or business ability and knowledge deemed desirable by the Board of Directors to meet the needs of the Corporation, which may include but are not limited to knowledge of healthcare, the health insurance industry, finance and investments and other subjects of strategic importance to the Corporation.

A majority of the Board of Directors are required to be: (1) Independent; (2) Public (as defined by the Blue Cross Blue Shield Association); and (3) residents of the State of Arizona. The Nominating and Governance Committee will annually make a determination of which Directors are Independent and Public.

C. DEFINITION OF INDEPENDENT DIRECTOR

An Independent Director is a Director the Board has determined has no material relationship with the Corporation that would interfere with the Director's independent judgment. If a Director has one or more of the following relationships with the Corporation then the Director is presumed not to be Independent unless, upon recommendation from the Nominating and Governance Committee, the Board of Directors determines that the relationship between the Director and the Corporation would not interfere with the Director's exercise of his/her independent judgment:

- A Director who receives or whose immediate family member receives more than \$100,000 per year in direct compensation from the Corporation (other than compensation as a result of the Director's service on the Corporation's Board of Directors, pension or other forms of deferred compensation for prior service, provided such compensation is not contingent in any way on continued service), until five years after he or she ceases to receive more than \$100,000 per year in such compensation;
- A Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Corporation until five years after the end of either the affiliation or auditing relationship;

- A Director who is employed or whose immediate family member is employed as an executive officer of another company where any of the Corporation's present executives serve on that company's executive compensation committee, until five years after the end of such service or employment relationship;
- A Director who is an executive officer or an employee, or whose immediate family member is an executive officer of another company: (A) that accounts for at least 2% or \$1,000,000, whichever is greater, of the Corporation's consolidated gross revenues, or (B) for which the Corporation accounts for at least 2% or \$1,000,000, whichever is greater, of such other company's consolidated gross revenues, until five years after falling below such threshold;
- A Director, or the Director's immediate family member, who is an employee of a tax exempt entity, that has received one or more contributions from the Corporation or its subsidiaries in one year that accounts for the greater of \$200,000 or 2% of the tax exempt organization's annual consolidated gross revenue, until five years after the contribution, provided however that no contribution to such entity may be for the purpose of direct compensation for the benefit of such Director or such Director's immediate family member.

D. DEFINITION OF PUBLIC DIRECTOR

A Public Director excludes any person who:

- Is engaged or has engaged at any time in the practice of a health care profession (other than an employee of the Corporation);
- Is a member of a board of directors, partner or employee of an organization that primarily sells health care services (other than the Corporation or an organization controlled by the Corporation);
- Is a member of a board of directors, officer, partner or employee of an organization of health care providers; or
- Has a direct or indirect beneficial interest of more than five percent of the equity of an organization that sells or delivers health care services.

E. RECRUITMENT AND APPOINTMENT OF DIRECTORS

The Nominating and Governance Committee is responsible for identifying and recommending individuals for membership on the Board. Periodically, the Nominating and Governance Committee will recommend to the Board of Directors individuals to be elected to the Board at its annual meeting, although vacancies on the Board may be filled at any meeting, including regular or special meetings.

Directors generally are elected at each annual meeting of the Board of Directors. Each Director holds office until the annual meeting following his/her election (unless the Director resigns or is removed from office before the annual meeting). Every year at its annual meeting, the Nominating and Governance Committee recommends to the full Board those members to be reelected for another term.

F. ELECTION OF CHAIRMAN OF THE BOARD

The Board of Directors will elect one of its Directors to the position of Chairman of the Board at its annual meeting. The Chairman of the Board must be Independent.

## **VIII. BOARD OF DIRECTORS MEETINGS**

### **A. ATTENDANCE; NON-DIRECTOR ATTENDEES**

Directors are expected to attend annual, regular and special meetings of the Board of Directors and meetings of those committees on which they serve. The Corporation's management also attend Board and committee meetings as necessary.

### **B. SELECTION OF AGENDA ITEMS FOR BOARD OF DIRECTORS MEETINGS**

The Chairman of the Board, in consultation with the CEO, establishes the agenda for each Board of Directors meeting. Other members of the Board of Directors may suggest item(s) for the agenda.

### **C. BOARD OF DIRECTORS MATERIALS DISTRIBUTED IN ADVANCE**

Information, data and agendas for Board and committee meetings will be posted to the Corporation's secure online Board portal in advance of the meetings. Directors are expected to review the materials in advance of Board and committee meetings to facilitate the efficient use of meeting time and appropriate oversight.

### **D. EXECUTIVE SESSIONS**

The Board regularly meets in Executive Session with and without the CEO at its annual, regular or special meetings of the Board. Executive sessions are led by the Chairman of the Board.

## **IX. DIRECTOR COMPENSATION**

The Compensation Committee, in consultation with an independent compensation consultant, periodically reviews Director compensation. Upon recommendation by the Compensation Committee, the Board of Directors fixes compensation for Directors.