



An Independent Licensee of the Blue Cross and Blue Shield Association

BLUE CROSS BLUE SHIELD OF ARIZONA, INC CORPORATE GOVERNANCE GUIDELINES

The following Corporate Governance Guidelines (Guidelines) have been adopted by the Board of Directors (Board) of Blue Cross Blue Shield of Arizona, Inc. (Company) 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 at the Board and management level. These Guidelines are in addition to and are not intended to change or interpret any federal or state law or regulation, or Articles of Incorporation or Bylaws of the Company. The Guidelines are subject to modification annually by the Board.

General Responsibilities

Under Arizona law, "All corporate powers shall be exercised by or under the authority of and the affairs of the Corporation shall be managed under the direction of its Board of Directors" (A.R.S. §10-3801).

Directors' Responsibilities: Due Care – Attention and Investigation

The Board fulfills its mission by:

1. Providing advice and counsel to the Chief Executive Officer (CEO) and senior executives;
2. Selecting, regularly evaluating, fixing the compensation of, and, where appropriate, replacing the CEO;
3. Overseeing the conduct of the Company's business and strategic plans to evaluate whether the business is being properly managed;
4. Reviewing and approving the Company's financial objectives, annual budget and major corporate plans and actions;
5. Reviewing and approving major changes in applicable auditing and accounting principles and practices;
6. Providing oversight of internal and external audit processes and financial reporting;

7. Providing oversight of risk assessment and protection processes and adopting a code of conduct and compliance program designed to detect and prevent violations of law;
8. Reviewing and approving an annual compensation program for employees and senior management;
9. Appointing a compliance officer or officers to conduct an on-going compliance program including establishing policies and procedures for reporting violations, investigating and resolving violations and receiving suggestions to update the Code of Conduct and compliance program;
10. Establishing policies to detect and prevent conflicts of interest; and
11. Performing such other functions as are required under the Articles of Incorporation, Bylaws or prescribed by law.

To carry out these responsibilities, BCBSAZ Directors recognize that they have fiduciary obligations, individually and collectively as the Board, to pay careful attention and be fully informed of all relevant facts and information on a particular matter prior to making a decision as a Board.

Directors' Responsibilities: Loyalty – Candor and Avoidance of Conflicts

BCBSAZ Directors recognize that candor and the avoidance of conflicts interest are an essential part of a Director's duty of loyalty. Accordingly, members of the Board will not use their corporate positions for personal profit, gain or other personal advantage, and must recuse themselves from voting or participating in deliberations on matters in which a potential conflict of interest may arise. Nevertheless, after full disclosure of the circumstances giving rise to the potential conflict the disinterested Board Members may, at their option, ask questions, or seek input from the conflicted Director. In order to affect full disclosure of all potential or actual conflicts of interest, members of the Board shall complete on a yearly basis a Conflict of Interest Questionnaire and update such questionnaire as changes occur. If the CEO or a Board Member believes a conflict of interest may exist which has not been disclosed or addressed, the potential conflict shall be referred to the Nominating and Governance Committee for review and recommendation of appropriate action to the Board.

Independent Directors

A majority of the Directors shall be Independent Directors. The Board shall affirmatively determine the independent status of each Director annually. The following individuals shall not be deemed an "Independent" Director of the Company:

1. A Director who receives or whose Personal Relationship receives more than \$100,000 per year in direct compensation from the Company (other than Director or Committee fees, 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;
2. A Director who is affiliated with or employed by, or whose Personal Relationship is affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Company until five years after the end of either the affiliation or auditing relationship;
3. A Director who is employed or whose Personal Relationship is employed as an executive officer of another Company where any of the Company's present executives serve on that Company's Human Resources and Compensation Committee until five years after the end of such service or employment relationship;
4. A Director who is an executive officer or an employee, or whose Personal Relationship is an executive officer of another Company: (A) that accounts for at least 2% or \$1,000,000, whichever is greater, of the Company's consolidated gross revenues, or (B) for which the Company 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;
5. A Director who is a "Nonpublic" member as defined by the Blue Cross Blue Shield Association who has a contract with the Company.

Nonpublic shall mean:

- i. Is engaged or has engaged at any time in the practice of a health care profession (other than an employee of the Plan);
- ii. Is a director, partner or employee of an organization that primarily sells health care services (other than the Plan or an organization controlled by the Plan);
- iii. Is a director, officer, partner or employee of an organization of health care providers;
- iv. 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;

6. A Director who is affiliated¹ with a tax-exempt entity that has received significant contributions from the Company or its subsidiaries at the request of the Director until five years after the last contribution.

An "Personal Relationship" means spouse, parent, child, sibling, grandparents, grandchildren, in-laws (mother, father, brother, sister, daughter or son), stepchild, stepparent, domestic partner, other individuals living in the same household.

Board Member Criteria

Director Qualifications:

The Nominating and Governance Committee is responsible for (i) identifying and recommending to the Corporate Membership² qualified Directors, (ii) identifying and recommending to the Board Members to service as Board officers (Chairman, Vice Chairman, and Secretary), (iii) identifying and recommending Committee Members for all Board Committees except the Executive Committee, Nominating and Governance Committee and certain Members of the Human Resources and Compensation Committee. In nominating candidates to be a Member of the Board, the Committee shall take into consideration such factors as it deems appropriate, and consult with the CEO. These factors may include judgment, skill, diversity, knowledge of the health benefits industry, experience with businesses and other organizations of comparable size, conformity with any requirements of the Blue Cross and Blue Shield Association and state law, the interplay of the candidate's experience with the experience of other Board Members, financial expertise, and the extent to which the candidate would be a desirable addition to the Board and any Committees of the Board.

Responsibilities of Individual Directors:

1. General. Each Director is expected to individually contribute to the Board's satisfaction of its principal responsibilities.
2. Attendance. Any Director who fails to attend two meetings of the Board in any year of office forfeits the office of Director unless within 30 days of notification of the notice of forfeiture the Director sends a written request for reconsideration to the Nominating and Governance Committee. Upon consideration of such request, the Nominating and Governance Committee may excuse the absence if it determines that the absences were the result of just cause and that further absence is not likely to occur.

¹ Affiliated shall mean a Director who is an officer, director or employee of or whose Immediate Family Member is an officer, director or employee of a tax-exempt entity.

² The Corporate Membership is the body specified in the Articles of Incorporation, Article VI, that are charged with the authority to elect Directors to the Board and to amend the Articles of Incorporation. Currently the Directors of BCBSAZ serve as the Corporate Membership.

3. Commitment of sufficient time. Each Director is expected to spend the necessary time to properly discharge his or her responsibilities as a Director, including reviewing any written materials provided to the Board or Committee in advance of Board or Committee meetings.

Chairman as CEO

The Chairman of the Board shall be an Independent member of the Board so the positions of Chairman and CEO shall not be joined.

Formal Evaluation of the CEO

The Human Resources and Compensation Committee shall undertake an annual evaluation of the CEO and report their findings and recommendations to the Board. The Chairman of the Human Resources and Compensation Committee shall communicate the Board's conclusions to the CEO. The evaluation shall be used by the Human Resources and Compensation Committee in formulating for Board approval the CEO's compensation.

Succession Planning and Management Development

The CEO shall report annually to the Board on succession planning and management development.

CEO Succession Planning

The Board shall establish and annually review a CEO succession plan based upon the recommendations of the Human Resources and Compensation Committee.

Commitment and Limits on Other Activities

Directors shall limit the number of other Boards on which they serve so as to ensure that they have adequate time to devote to the performance of their duties as Directors of the Company. No Member of the Company's Audit and Compliance Committee may simultaneously serve on the Audit and Compliance Committee of more than three public companies.

Change of Position by a Director

Directors who retire or change their position shall resign from the Board within 30 days of any such change in position including retirement. The Director shall provide written notice of resignation to the CEO, Chairman of the Board, and Chairman of the Nominating and Governance Committee. The resignation will become effective 60 days following the change in position or retirement unless the Nominating and Governance

Committee determines that the change in position does not impact the qualifications for Board service and requests the Director to continue his or her term.

Regular Executive Sessions of Directors

The Directors of the Board shall have the opportunity to meet in executive session at each regular meeting of the Board. Executive sessions shall be chaired by the Chairman of the Board. The format of these meetings shall include a discussion with the CEO and an opportunity for discussion without the CEO and other employees of the Company.

Annual Board and Committee Evaluations

The Nominating and Governance Committee shall undertake annually an evaluation of the Board and its standing Committees' performance and report the results to the full Board for discussion. These evaluations shall include consideration of the Board's contribution as a whole and areas in which the Board and/or the management believe improvement could be had. A Director self-evaluation shall be conducted annually and submitted to the Chairman of the Board for review.

Prior to nomination to a successive Board term, each Director shall meet with the Nominating and Governance Committee to discuss his/her contributions, interests, concerns and participation on the Board. In addition, the Board Chairman will use best efforts to meet individually with each Director annually to discuss the Director's participation and contributions to the Board. The Board Chairman has discretion to conduct these meetings in person or telephonically. At the Board Chairman's discretion, the Chairman of the Nominating and Governance Committee, CEO and other Board members may be invited to participate in an individual Director's meeting.

Corporate Governance Guidelines

The Nominating and Governance Committee shall review these Guidelines annually and recommend amendment to the Board as necessary. These Guidelines shall be communicated to the public on the Company website.

Board Compensation

The Board shall request management to report periodically to the Human Resources and Compensation Committee the status of Board compensation in relation to comparable Blue Cross and Blue Shield Plans and/or U.S. companies. Changes in Board compensation, if any, shall be made at the recommendation of the Human Resources and Compensation Committee for discussion with, and approval by, the full

Board. An employed officer of the Company shall not receive additional compensation for service on the Board.

The Company shall not engage in any business transaction with any current Director of its Board (except provider contracts with Directors that are licensed health care providers or employed by a licensed health care provider) nor shall it employ for compensation the services of any current Director of its Board for any purpose which is not directly in furtherance of the Director's performance of duties as a Director. This does not prohibit the President's service on the Board of Directors as provided by the Bylaws. It also does not prohibit the purchase of insurance or insurance services from the Company.

Board Meeting Materials and Presentations

Discussion during Board meetings will be encouraged. Presentations on specific subjects should generally be sent to the Board Members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material.

Board Access to Senior Managers

Directors shall have access to management. It is assumed that Directors will use good judgment to ensure that this contact is not distracting to the business operation of the Company and that such contact, if in writing, generally will be copied to the CEO except in those unusual occasions where the Director deems this to be inappropriate.

Board Interaction with Press

Management, and, in particular, the CEO speaks for the Company. Individual Board Members may, from time to time at the specific request of the CEO, meet or otherwise communicate with the press on behalf of the Company.

Number, Structure and Independence of Board Committees

At a minimum the Company will maintain the following three standing Committees composed of Independent members: Audit and Compliance Committee, Human Resources and Compensation Committee and Nominating and Governance Committee. Each of these Committees will maintain a charter describing the Committee's responsibilities. These charters will be posted on the Company's website. Other Board standing Committees including the Finance Committee, Executive Committee and Quality Committee may include Board Members that are not classified as Independent. All Committees will maintain accurate minutes and report their activities to the full Board on a regular basis.

Director Orientation and Continuing Education

All new Directors will participate in the Company's orientation program, which will be conducted shortly after a new Director is elected or appointed. Continuing education shall be available to Directors in areas related to their service on the Board.