



# **Blue Cross Blue Shield of North Carolina Corporate Governance Guidelines**

Over the course of Blue Cross Blue Shield of North Carolina’s (“BCBSNC” or the “Company”) history, the Board of Trustees (the “Board”) has developed corporate governance policies and practices to help it fulfill its corporate obligations. These governance policies are memorialized in these guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations and to make decisions that are independent of the Company's management.

These guidelines may change from time to time to reflect ongoing activities of the Board. They are not meant to supersede or bind the Company in the same fashion that bylaws do, but are instead meant to provide the Board with a set of working tools and to provide our customers with additional information about the manner in which the company is governed.

## **Role of the Board**

Management is responsible for the day-to-day business operations of BCBSNC. The Board oversees and guides the Company's management and its business. The basic responsibility of the Board is to exercise its business judgment to act in what it reasonably believes to be in the best interests of the Company and its customers. Through oversight, review, and counsel, the Board establishes and promotes BCBSNC's business and organizational objectives. The Board oversees the Company's business affairs and integrity, works with management to determine the Company's mission and long-term strategy, performs the annual Chief Executive Officer evaluation, oversees CEO succession planning, establishes internal control over financial reporting, and assesses company risks and strategies for risk mitigation. These obligations arise out of an overarching obligation to assure that the long-term interests of the Company and its customers are being served.

Within this framework, the Board also considers the Company's ethical behavior and may consider the interests of other stakeholders, including the Company's customers, employees and the communities in which it functions. To satisfy these obligations, the Board may employ committees, but such committees are always subject to the ultimate authority of the Board as a whole.

In discharging their obligations, the Trustees are entitled to rely on the honesty and integrity of the Company's executives, and its outside advisors and auditors. The Trustees also shall be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the

Company's Articles of Incorporation and By-Laws, and to exculpation as provided by applicable state law and the Company's Articles of Incorporation.

## **Board Composition and Selection; Independent Trustees**

1. **Board Size.** As provided in Article II, Section 1 of the Company's Bylaws, the Board shall consist of not less than 12 nor more than 16 trustees. The Board periodically evaluates whether a larger or smaller slate of trustees would be preferable.
2. **Selection of Board Members.** The Governance and Nominating Committee is responsible for recommending to the Board trustee candidates for nomination and election. The Governance and Nominating Committee reviews with the Board the applicable skills and characteristics required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Nominating Committee considers, among other things, the qualifications of individual trustee candidates in light of the Board Membership Criteria described below.
3. **Board Membership Criteria.** The Governance and Nominating Committee works with the Board to determine the appropriate characteristics, skills, and experience for the Board as a whole and for its individual members with the objective of having a Board with diverse backgrounds and experience. The criteria weighed in the trustee selection process include: the candidate's integrity, high personal and professional ethics, and sound business judgment; the relevance of the candidate's experience to the business of the Company; enhancing the diversity of the Board; the candidate's independence from conflict or direct economic relationship with the Company; and the ability of the candidate to attend Board meetings regularly and devote an appropriate amount of effort in preparation for those meetings. It is expected that trustees elected to the Board shall be individuals who possess a reputation and hold positions or affiliations befitting a trustee of BCBSNC, and are actively engaged in their occupations or professions or are otherwise regularly involved in the business, professional or academic community. The Board evaluates each individual in the context of the Board as a whole, with the objective of maintaining a group that can best perpetuate the success of the Company's business through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a trustee for re-election, the Governance and Nominating Committee also considers the trustee's past attendance at meetings, participation in and contributions to the activities of the Board, and the results of the most recent Board self-evaluation.
4. **Trustee Independence.** Pursuant to the Board of Trustees Policy on Independence, it is the policy of the Board that a majority of its members be independent, and that each of the Audit Committee, the Personnel and Compensation Committee, and the Governance and Nominating Committee be comprised entirely of independent trustees.
5. **Conflict Reporting.** Annually, trustees (along with all BCBSNC employees) are required to execute a statement acknowledging his or her responsibility to carry out the affairs of the Company in an ethical and lawful manner and setting forth any existing or potential conflicts of interest, including any relationships they have with BCBSNC as a purchaser of goods or services from the Company or as a seller of goods or services to the Company. At a minimum, any conflicts which are revealed require disclosure and

may require abstention from participation in discussion in voting by such director on matters related to the conflict.

6. **Fiduciary Obligation.** The Board, when making a business decision, must act in accordance with its fiduciary obligations and on an informed basis. Accordingly, trustees 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, unless their participation is approved by a majority vote of the disinterested members of the Board after full disclosure of the circumstances giving rise to the potential conflict.
7. **Term Limits.** The Board has adopted a policy that no person may serve more than four years as Board Chair whether such service is cumulative or consecutive. Otherwise, the Board does not believe it should limit the number of terms for which an individual may serve as a trustee. Trustees who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies, and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines. Notwithstanding the fact that the Company does not impose mandatory term limits, Trustees should not expect to be re-nominated at the end of each term until the mandatory retirement age.
8. **Retirement Policy.** Pursuant to Article II, Section 6 of the Company's Bylaws, no trustee shall be elected to a term commencing after such person has reached age 70, and the term of any trustee who reaches age 70 after election shall end at the next annual meeting of the Company.
9. **Trustees with Significant Job Changes.** In accordance with Article II, Section 5 of the Company's Bylaws, the Board believes that any trustee who retires from his or her present employment, or who materially changes his or her position, or who changes his or her state of residence, should offer to resign from the Board. The Board, and specifically the Governance and Nominating Committee, will then evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new occupational status.

## **Board Meetings; Involvement of Senior Management and Independent Advisors**

10. **Board Meetings – Frequency.** The Board will generally hold four regularly scheduled meetings per year and will hold additional special meetings as necessary. In addition, the Board generally has a working retreat each year to review and discuss the Company's business performance, strategy and direction. Each trustee is expected to attend both scheduled and special meetings, except if unusual circumstances make attendance impractical.
11. **Board Meetings – Agenda.** The Chairman of the Board and the CEO will set the agenda for each Board meeting, taking into account suggestions from other members of the Board. The agenda for each Board meeting will be distributed in advance to each trustee.

12. **Advance Distribution of Materials.** All information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members in advance, whenever feasible and appropriate. Each trustee is expected to review this information in advance of the meeting to facilitate the efficient use of meeting time. In preparing this information, management should ensure that the materials distributed are as concise as possible, yet give trustees sufficient information to make informed decisions. The Board recognizes that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate.
13. **Access to Employees.** The Board should have access to Company management and employees to ensure that trustees can ask all questions and glean all information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries. Management is encouraged to invite Company personnel to any Board meeting at which their presence and expertise would help the Board gain a full understanding of matters being considered.
14. **Access to Independent Advisors.** The Board and its committees have the right at any time to retain independent outside auditors and financial, legal, or other advisors. The Company will provide appropriate funding, as determined by the Board or any committee, to compensate those independent outside auditors or advisors, as well as to cover the ordinary administrative expenses incurred by the Board and its committees in carrying out their duties.
15. **Compensation Consultant Independence.** The Personnel and Compensation Committee has sole authority to retain and terminate compensation consultants that advise the Committee, as it deems appropriate, including sole authority to approve the consultants' fees and other retention terms. It is the policy of the Compensation Committee that any compensation consultant retained by the Compensation Committee be independent of Company management.

## **Training; Performance Evaluation; Succession Planning**

16. **Orientation and Continuing Education-** BCBSNC has a training program through which a new director is provided with the core materials and orientation to become knowledgeable about the business of BCBSNC and familiar with the senior management team. Within the first year of service, trustees participate in a training program on the fiduciary duties and other responsibilities of trustees. Trustees are also educated on the Blue Cross Blue Shield Association operations and governance, and are provided with supporting materials, briefings and additional educational opportunities. Board members are also encouraged to visit BCBSNC facilities and meet with BCBSNC employees throughout their tenure. Continuing education programs for Board members may include a combination of internally developed materials and presentations, programs presented by third parties at the Company, and financial and administrative support for attendance at qualifying university or other independent programs. The responsibility for overseeing the fulfillment of these training obligations rests with the Governance & Nominating Committee.
17. **CEO Evaluation.** The Chairman of the Board, in consultation with the Executive Committee, shall take the lead in conducting a review of the performance of the CEO

annually. The evaluation results are reviewed and discussed with the Board and then communicated to the CEO to allow the CEO to offer comments. Thereafter, the results are shared with the Personnel and Compensation Committee for its consideration and development of compensation recommendations to the Board. The Governance and Nominating Committee establishes the evaluation process and contributes to the development of the criteria on which the performance of the CEO is evaluated.

18. **Succession Planning.** As part of the annual senior corporate officer evaluation process, the Executive Committee works with the CEO to plan for CEO succession, as well as to develop plans for interim succession for the CEO in the event of an unexpected occurrence. Succession plans are reviewed by the Board as frequently as the Board deems is warranted.
19. **Board and Committee Self-Evaluation.** The Governance and Nominating Committee is responsible for conducting an annual evaluation of the performance of the Board and each of its committees. Individual trustees are encouraged to consider their own performance as trustees throughout this evaluation process. Evaluation results are reported to the Board. The Governance and Nominating Committee's report should generally include an assessment of the Board's compliance with the principles set forth in these guidelines, as well as identification of areas in which the Board could improve its performance. Each committee's report generally should include an assessment of the committee's compliance with the principles set forth in these guidelines, the committee's charter, and identification of areas in which the committee could improve its performance.

## Committees

20. **Number and Type of Committees.** The Board has six committees: an Audit Committee, a Personnel and Compensation Committee, a Governance and Nominating Committee, a Health, Market and Strategic Initiatives Committee, a Finance and Investments Committee and an Executive Committee. As provided in the Company's Bylaws, the Board may add new committees as it deems advisable in the fulfillment of its responsibilities. Each committee will perform its duties as assigned by the Board in compliance with Company Bylaws and the Committee's charter.
21. **Committee Meetings and Agenda.** The chairperson of each committee is responsible for developing, together with relevant Company officers, the committee's general agenda and objectives and for setting the specific agenda for committee meetings. The chairperson and committee members will determine the frequency and length of committee meetings consistent with the committee's charter.

## Compensation

22. **Board Compensation Review.** Generally, the Board believes that the level of trustee compensation should be based on time spent carrying out Board and committee responsibilities and be competitive with comparable companies. Company management should report to the Board every other year how the Company's trustee compensation practices compare with those of similarly situated corporations with a view toward

attracting and retaining qualified trustees. The Board should make changes in its trustee compensation practices only upon the recommendation of the Personnel and Compensation Committee, and following discussion and concurrence by the Board.

23. **Extension of Credit to Trustees or Executive Management.** Neither BCBSNC nor its subsidiaries will extend to any trustee or executive officer any loan or any form of credit other than travel advances designed to cover nominal travel expenses within the guidelines of BCBSNC for travel expenses.

## Miscellaneous

25. **Reporting Concerns about Abuse, Violations of Law, Violations of the Code of Conduct.** The Code of Conduct adopted by the Board allows for anonymous reporting of any suspected abuse, violation of law, or violation of the Code of Conduct to the Vice President of Compliance and Ethics or the Director of Ethics at 1-888-486-1554, or, for use by employees, through a website allowing for anonymous reporting and feedback. Concerns about violation of employment regulations such as discrimination or occupational safety and health concerns should be reported to the company's Human Resources department. The company provides for independent reporting by the compliance officer to the board audit committee, and persons should feel comfortable that no retaliation for good faith reporting will occur. In the rare circumstance where a person wishing to make such a report simply cannot feel comfortable reporting concerns (other than labor law concerns), through management channels, persons may write directly to chair of the Board's Audit Committee at felix.mcdaniel@bcbsnc.com.
26. **Publication of Information.** BCBSNC will publish these Corporate Governance Guidelines, a listing of members of the Board of Trustees, and its Code of Conduct, on the BCBSNC Web site.
27. **Review of Governance Guidelines.** The policies and practices memorialized in these guidelines have developed over a period of years. The Board expects to review these guidelines every two years, or more frequently as appropriate.

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