

Blue Cross and Blue Shield of Kansas City

Corporate Governance Guidelines

Amended and Restated April 27, 2016

The Blue Cross and Blue Shield of Kansas City (“BCBSKC”) Board of Directors has adopted the following Corporate Governance Guidelines. These guidelines, along with the BCBSKC Bylaws, Board Committee Charters and Board policies provide the framework for governing BCBSKC.

1. Duties and Responsibilities

- A. The Role of the Board of Directors.** The BCBSKC Board of Directors oversees and guides the company’s business through the exercise of its business judgment in what it reasonably believes to be in the best interests of BCBSKC. Within this framework, the Board also considers the interests of other constituents such as customers, employees, business partners and the communities in which BCBSKC operates. The Board selects the Chief Executive Officer (“CEO”) who in turn selects executives (collectively “Management”) who are charged with the conduct of BCBSKC’s business in a manner that is consistent with the direction provided by the Board and the BCBSKC standards of business conduct. Having selected Management, the Board oversees and monitors their performance.
- B. Duty of Care.** Directors have an obligation to exercise appropriate diligence in making decisions and overseeing Management. As a result, Directors are expected to: (1) acquire an understanding of BCBSKC’s business; (2) keep informed about BCBSKC activities; (3) maintain familiarity with the BCBSKC financial status by reviewing financial statements regularly; (4) prepare for, attend and productively participate in Board and applicable committee meetings; (5) spend time to meet as often as necessary to properly discharge their obligations; (6) review all materials pertinent to a decision to be made by the Board; (7) make inquiry when additional information is needed, or circumstances or events indicate Board attention is appropriate; and (8) act in the best interest of BCBSKC. Directors are entitled to rely (absent knowledge that such reliance is unwarranted) on information, opinions, reports or statements, and other data, prepared or presented by officers or employees, public accountants, legal counsel, Board committees or other persons who are reasonably believed to be competent to prepare or present such matters to the Board.
- C. Duty of Loyalty - Conflicts of Interest.** Directors owe an undivided duty of loyalty to BCBSKC. The Board, when making a business decision, must act in accordance with its fiduciary obligations and on an informed basis. Accordingly, members of the Board must act in good faith in the best interest of BCBSKC and not use their positions for their own interest or in the interest of another person or organization with which the Director is associated. Directors must recuse themselves from voting or participating in deliberations on matters in which a 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.

Directors (as well as all BCBSKC employees) are required to execute an annual statement setting forth any existing or potential conflicts of interest, including any relationships they have as a purchaser or a seller of goods or services to or from BCBSKC. Any material conflicts will be reported to the Board and may require abstention from participation in discussion and in voting by such Director on matters related to the conflict.

2. Board Composition and Qualifications of Directors

A. The size of the Board. As provided by the BCBSKC bylaws, the Board of Directors shall consist of at least ten and no more than seventeen members.

B. Independent Directors. A majority of Board members must be Independent Directors. In addition, all members of the Audit, Compensation and Governance Committees must be Independent Directors. Directors have an affirmative obligation to inform the Chairman of the Board and the Chairman of the Governance Committee of any changes in their circumstances or relationships that may impact their designation as independent.

C. Definition of Independent Director. The term “Independent Director” shall mean a Director whom the Board affirmatively determines has no material relationship with BCBSKC (directly or as a partner, shareholder or officer of an organization that has a material relationship with BCBSKC). In addition, a Director is not Independent if:

1. **BCBSKC Employment:** The Director is, or has been within the last three years, an employee of BCBSKC, or an immediate family member is, or has been within the last three years, an executive officer of BCBSKC.

2. **Direct Compensation:** The Director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from BCBSKC, other than: (a) Director or committee fees; (b) pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); and (c) health plan benefit payments to the Director or their family member. Compensation paid to a Director’s immediate family member for service as a BCBSKC employee (other than an executive officer) shall not be considered under this test.

3. **Audit Firms:**

(a) The Director or an immediate family member is a current partner of a firm that is the company’s internal or external auditor;

(b) the Director is a current employee of such firm;

(c) the Director has an immediate family member who is a current employee of such firm and personally works on the BCBSKC audit; or

(d) the Director or an immediate family member was within the last three years (but is no longer) a partner or employee of such firm and personally worked on the BCBSKC audit within that time.

4. Reciprocal Directorships: The Director or an immediate family member is, or has been within the last three years, employed as an executive officer of another organization where any of BCBSKC's present executives at the same time serves or served on that other organization's Compensation Committee.
5. Customers and Suppliers: The Director is a current officer, or an immediate family member is a current executive officer, of an organization that has made payments to, or received payments from, BCBSKC for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other organization's annual consolidated gross revenues. This test shall apply only to the Director or family member's current employer.

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who share such person's home.

A Director's relationship with a not-for-profit organization that receives support from BCBSKC will be reviewed on a case-by-case basis, taking into account the size of BCBSKC's contributions to the not-for-profit organization and the nature of the Director's relationship to the organization.

References to "BCBSKC" include subsidiaries in a consolidated group with BCBSKC.

- D. Composition of Board.** The Board has adopted guiding principles and requirements for the overall composition of the Board. These principles address residency, diversity, physician representation, conflicts of interest and public members. In addition, the BCBSKC Bylaws provide that the BCBSKC President and CEO may be a member of the Board. The CEO may not be an officer of the Board.
- E. Criteria for Board Membership.** The Governance Committee is responsible for reviewing with the Board the Qualification Standards to be considered in nominating and re-nominating individuals to serve as Directors and to ensure the appropriate skills and characteristics are represented on the Board in the context of the current needs and composition of the Board.
- F. Fitness of Officers and Directors.** BCBSKC is committed to transacting business with integrity, accountability and good ethical conduct. It is the policy of BCBSKC to prohibit unfit individuals from serving on the Board or as Officers of BCBSKC including but not limited to individuals deemed unfit by a court under the Securities Exchange Act. This is accomplished by consideration of the Qualification Standards for nomination and re-nomination of Directors and of the CEO's recommendation of officer appointments. In addition, all Directors shall complete an annual affidavit certifying as to their continued fitness to serve on the Board. Failure of any Director to truthfully complete the affidavit or to inform the Board of any changed circumstances may be grounds for removal from the Board.
- G. Selection of Board Members.** The Governance Committee is responsible for identifying, screening and recommending qualified candidates for election by the Board.

H. Directors Who Change Their Present Job Responsibility or Residency. When a Director's principal occupation or business association changes substantially from the position he or she held when originally invited to join the Board, the Director shall submit a letter of resignation to the Chairman of the Board and the Chairman of the Governance Committee. For purposes of this provision, a change in principal occupation or business association includes, but is not limited to: retirement, termination of employment from the position held when originally elected to the Board, or no longer holding a leadership position in a labor organization. If a Director's Primary Residence changes to a location outside of the 32 county BCBSKC service area, the Director shall submit a letter of resignation to the Chairman of the Board and the Chairman of the Governance Committee. For purposes of this provision a Director may only have one Primary Residence which must be (1) the address where bills and correspondence are sent; (2) listed on a Director's Federal and State tax returns; and (3) the address where the Director is registered to vote. This provision shall not apply to a current Director whose primary residence is outside the service area as of June 1, 2011 or to a Director whose primary residence is outside the service area at the time of his or her election to the Board. In either situation, the Board reserves the right to accept a Director's resignation or to request that the resigning Director continue service on the Board, provided however that at least two-thirds (2/3) of the Directors must reside in the BCBSKC Service Area at all times.

I. Service on Other Boards of Directors. Directors are encouraged to limit the number of other company Boards on which they serve to ensure adequate time and effective service on the BCBSKC Board. Directors should notify in writing the Chairman of the Board in advance of accepting an invitation to serve on the Board of another company which may present a potential conflict of interest with BCBSKC or serving on the audit committee of another Board. On and after May 1, 2016 Directors shall not also serve on the Board of Directors of a health care provider in the BCBSKC service area. Any current Directors serving on a health care provider board on May 1, 2016 may continue to serve on such board with annual review of potential conflicts of interests by the Governance Committee.

J. Term Limits and Retirement Policy. On and after June 1, 2011, new members of the Board of Directors may be elected to a maximum of four (4) consecutive, complete 3-year terms. Partial terms do not count toward the term limit. Following a break-in-service of one year or more, a former Director whose eligibility was limited by the preceding term limit will be eligible for service as a new member. Members of the Board are required to resign upon reaching age 75. Such resignation is effective at the conclusion of the Annual Meeting of the Board occurring during the year of the Director's 75th Birthday.

3. Board Meetings

A. Meetings. The Board will hold regularly scheduled quarterly meetings, including an Annual Meeting, plus special meetings as the need arises.

B. Executive Sessions. All non-Management Directors will meet at regularly scheduled executive sessions without the presence of Management. The Board and any Committee may meet in Executive Session without Management, as the Board or Committee deems appropriate. In addition, there will be at least one executive session each year that only includes the Independent Directors.

- C. Selection of Board Meeting Agenda Items.** The Chairman of the Board and the CEO will establish the agenda for each Board meeting. Each Director is encouraged to suggest the inclusion of item(s) on the agenda.
- D. Board Material Distributed in Advance.** Information and data that is important to the Board's understanding of the matters to be considered will be distributed in writing by Management before the Board meets.
- E. Board Attendance and Participation.** Directors are expected to prepare for, attend, and participate in all Board and applicable committee meetings.
- F. Board Presentations.** As a general rule, presentations on specific subjects should be sent to Board members in advance so that Board meeting time may be conserved and discussion time focused on issues arising from the presentation.
- G. Attendance at Board Meetings by Senior Management.** The Board welcomes regular attendance of senior managers at Board meetings. The Board also encourages the CEO to bring associates into Board meetings from time to time, who: (1) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (2) are associates with future potential that the CEO believes should be given exposure to the Board.
- H. Meeting Minutes and Notes.** Minutes shall be kept of all meetings of the Board and Board Committees. The approved minutes are the official record of Board Meetings and Committee Meetings. Directors who take notes at a Board or Committee Meeting should, as a routine matter, destroy the notes after confirming that the minutes are consistent with their recollection and accurately reflect the actions taken at the meeting. Directors should not retain separate meeting notes after reviewing and approving the formal minutes of a meeting.
- I. Board Materials.** Directors shall keep all Board materials in their possession in a safe and secure place and take all reasonable steps to protect against inadvertent disclosure, loss or theft of the materials. At the end of a Director's service on the Board, the Director shall return all Board materials and documents, in any media, acquired during the Director's term on the Board; or, in the alternative, shred or otherwise safely destroy such materials and provide a written statement certifying the Director has done so.
- J. Confidential Information.** Directors have access to a wide range of documents, data, information and records of a confidential nature. Confidential information relating to BCBSKC includes all information not generally available to the public which is received as a BCBSKC Director including, but not limited to, all materials received for any Board or Committee Meeting. Directors may not disclose, divulge, or make accessible confidential information obtained through their service on the BCBSKC Board of Directors. Directors shall use confidential information solely for the purpose of performing services as a Board member. Directors must exercise good judgment and care at all times to avoid unauthorized or improper disclosures of confidential information.

4. Board Operations

- A. Orientation and Continuing Education.** BCBSKC provides new Directors with detailed background materials and orientation to become knowledgeable about the business of BCBSKC and familiar with the senior Management team. New Directors joining the Board are required to complete training on fiduciary duties and other responsibilities of Board service, and a training program addressing the role and governance standards of the Blue Cross and Blue Shield Association. Thereafter, Directors are provided educational opportunities, including educational programs directly related to Blue Cross and Blue Shield Plan operations and governance, as well as materials, briefings and other educational opportunities.
- B. Committees of the Board.** The Board may create committees for the purpose of performing oversight functions. Each committee will report its recommendations, activities, and work product to the full Board on a regular and continuing basis. The Board currently has the following committees: Audit, Compensation, Executive, Governance, Health Policy and Quality and Investment & Finance. The duties and responsibilities of the committees are set forth in the BCBSKC Bylaws and committee charters. The Board has discretion to form new committees or disband current committees, depending upon the circumstances. The Board may also establish *ad hoc* committees to consider specific, limited issues.
- C. Assignment and Rotation of Committee Members.** The Board believes that there should be periodic rotation of committee membership among Directors. However, there may be reasons at a given point in time to maintain an individual Director's committee membership for a long period.
- D. Frequency and Length of Committee Meetings.** Each committee Chairman, in consultation with the committee members, will determine the frequency and length of meetings of the committee.
- E. Committee Agenda.** Each committee Chairman, in consultation with the members of the committee, the Chairman of the Board, and Management, will develop the committee's agenda.
- F. Annual Board Evaluation.** The BCBSKC Board and each of its committees conduct self-evaluations at least annually, to determine whether the Board and committees are functioning effectively and in accordance with the Bylaws, these guidelines and the Committee Charters.
- G. Access to Management and Independent Advisors.** Directors have complete and open access to Management. Directors are encouraged to contact members of Management and to visit BCBSKC facilities. Directors shall use good judgment to ensure such access and contacts are not distracting to business operations. The Board may select and retain independent outside financial, legal or other advisors as it determines necessary or appropriate in the discharge of its duties and responsibilities.

H. Director Compensation. The Compensation Committee reviews the form and amount of Director compensation. The Committee has the authority to engage compensation advisors and consultants as needed. The Committee makes recommendations on Director compensation, including Directors' fees and perquisites, to the entire Board for action. The entire Board also reviews and approves substantial charitable contributions to organizations in which a Director is affiliated.

5. Leadership Development

A. Formal Evaluation of the CEO. The Board of Directors will perform an annual evaluation of the CEO's performance. The evaluation will be based on objective criteria including performance of the business, accomplishment of long-term strategic and annual objectives, development of Management and other criteria set by the Board designed to measure the CEO's leadership of the Company. The evaluation will be used by the Board when considering the CEO's compensation.

B. Management Development. The CEO shall periodically report to Board on the company's program for Management development.

C. Succession Planning. The CEO shall periodically report to the Board on Management succession planning. The Board is responsible for CEO succession planning. In addition, there will be available, on a continuing basis, recommendations of the CEO and the Chairman of the Board as to a successor should the current CEO be unexpectedly unable to perform the CEO's duties.

6. Standards of Business Conduct and Reporting of Irregularities

A. Extension of Credit. BCBSKC (and its subsidiaries) will not extend or arrange for any personal loan, or any form of credit, to any Director or officer.

B. Code of Business Conduct. BCBSKC has adopted a Code of Business Conduct (the "Code") for employees, officers and Directors. The purpose of the Code is to focus on areas of potential ethical and legal risks; provide guidance in recognizing and dealing with ethical and compliance issues; provide mechanisms to report possible ethical and compliance issues; and, to help foster a culture of honesty and integrity.

C. Reports of Irregularities. BCBSKC allows for anonymous reporting to the Compliance Officer of any suspected abuse, violation of law, or violation of the Code of Business Conduct. BCBSKC provides for independent reporting by the Compliance Officer to the Board Audit Committee. The Board and Management will not allow or tolerate retaliation for reports of potential compliance issues made in good faith. Any reports of concerns regarding accounting, internal accounting controls, auditing matters or other irregularities or concerns, may also be brought to the attention of the Chairman of the Audit Committee. These reports may be anonymous if made using the Board of Directors hotline 1-855-461-2767. The Chairman of the Audit Committee will report periodically to the Board of Directors concerning these matters.

7. Publication of Information

BCBSKC will publish these Corporate Governance Guidelines, its Code of Business Conduct, Committee Charters and a listing of members of the Board of Directors on the BCBSKC website.

These Corporate Governance Guidelines are reviewed periodically by the Governance Committee and may change to reflect the ongoing activities of BCBSKC. Matters of corporate governance and changes to these guidelines will be made by a vote of the Board.

Adopted by the Board on May 12, 2004
Reaffirmed by the Board on May 18, 2005
Reaffirmed by the Board on May 17, 2006
Amended and reaffirmed by the Board on May 16, 2007
Amended and reaffirmed by the Board on May 14, 2008
Amended and reaffirmed by the Board on December 2, 2008
Amended and reaffirmed by the Board on May 12, 2010 (Personnel Committee name changed to Compensation Committee)
Amended and restated May 25, 2011
Amended and restated May 22, 2012
Amended and restated May 22, 2013
Amended and restated May 13, 2014