

DEACONESS HEALTH SYSTEM, INC. GOVERNANCE PRINCIPLES

The following Governance Principles (the “Principles”) have been adopted by the Board of Directors of Deaconess Health System, Inc. (“Health System”), to assist the Board in the exercise of its responsibilities. These Principles reflect the Board’s commitment to monitor the effectiveness of policy and decision-making both at the Board and management level. These Principles are in addition to, and are not intended to change or interpret, any Federal or state law or regulation, including the Indiana Nonprofit Corporation Law, and the organizational documents of Health System. These Principles are subject to modification from time to time by the Board based upon recommendations from the Governance Committee.

Board Composition and Succession Planning

1. Selection of Chairman and CEO

The Board should make this choice any way that seems best for Health System at a given point in time. It is the current intent of the Board that the positions of Chairman and CEO should be separate. It is also the Board’s intent that the Chairman shall meet the independence requirements and shall not be a member of management.

2. Succession Planning for the Board

The Board understands that succession planning for itself is a key responsibility to the ongoing success of Health System and its various entities.

3. Size of the Board

The Board currently has eighteen (18) voting members, and periodically reviews the appropriate size of the Board. Health System’s By-Laws set the maximum number of directors of Health System at thirty (30) and the minimum at five (5) and the Board may fix by resolution the actual number of directors.

4. Mix of Inside and Outside Directors

The Board believes that there should be a majority of independent Directors on the Board. However, the Board is willing to have members of Management as Directors.

5. Board Definition of What Constitutes Independence for Outside Directors

The Board has adopted standards for director independence, which incorporate the definition of “independent” contained in the Nasdaq Stock Exchange listing rules. The standards are as follows:

A director is not independent if he or she:

- Has been employed by Health System or a subsidiary within the past two years;
- Has accepted (or has a non-employee family member who accepted) payments from Health System or any affiliate in excess of \$75,000 during the current year or any of the past two years, other than compensation for board service, compensation paid to a family member who is an employee (but not an executive officer) of Health System or a subsidiary, benefits under a qualified retirement plan, or non-discretionary compensation;
- Is a family member of a person who, in the past two years, was employed as an executive officer of Health System or a subsidiary;
- Is a partner, controlling shareholder or executive officer of an organization (including not-for-profits) that has made or received payments from Health System that exceed the greater of: (1) 5% of the recipient's consolidated gross revenue or (2) \$200,000 in the current year of any of the past two years;
- Has been a partner or employee of the auditor of the Health System or any of its subsidiaries or joint ventures, and worked on any of their audits, within the past two years.

6. Board Membership Criteria

The Governance Committee is responsible for reviewing with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include issues of diversity, time commitment, age, skills such as understanding of health care issues, finance and marketing, and international background - all in the context of an assessment of the perceived needs of the Board at that point in time. Board members are expected to rigorously prepare for, attend, and participate in all Board and applicable Committee meetings. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as an outstanding director.

7. Selection of New Director Candidates

The Governance Committee is responsible for seeking individuals qualified to become Board members for recommendation to the Board. Based on the recommendation of the Governance Committee, the Board shall determine the nominees for election and for filling any vacancies on the Board.

8. Directors Who Change Their Present Job Responsibility

The Board does not believe that directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, via the Governance Committee, to review the continued

appropriateness of Board membership under these circumstances and the ability of such persons to continue to meet the existing criteria for Board membership.

9. Term Limits

The Board has adopted a policy on term limits. This policy should be reviewed every two years for appropriateness. A formal recommendation on this policy should be made to the board after policy review by the committee.

10. Retirement Policy

The Board has adopted a retirement policy for officers and directors. Under the policy, directors shall retire from the Board at the first annual meeting of the Board after he or she reaches the age of 70.

Board Meetings

11. Scheduling and Selection of Agenda Items for Board Meetings

Board meetings are held on the Monday before the third Tuesday of January, February, March, April, May, June, August, September, October, and November of each year in the Hospital Board Room. The Chairman of the Board and the Secretary of Health System shall draft the agenda for each Board meeting and distribute it in advance to the Board. Each Board member is free to suggest the inclusion of items on the agenda.

12. Board Material Distributed in Advance

Information and data that is important to the Board's understanding of the business should be distributed in writing to the Board before the Board meets. As a general rule, materials on specific subjects should 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. Sensitive subject matters may be discussed at the meeting without written materials being distributed in advance or at the meeting.

13. Attendance at Meetings

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. The Board has adopted an attendance policy, and the committee should report to the Board annually on the attendance of directors in keeping with this policy.

Board Committees

14. Number of Committees

The Board will have at all times an Audit and Compliance Committee, a Finance Committee, a Compensation/Benefits/Pension and Insurance Committee, and a Governance

Committee. The purposes and responsibilities of each of these committees are outlined in their respective written committee charters. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate. The Governance Committee shall consist of independent directors.

15. Assignment and Term of Service of Committee Members

The Governance Committee is responsible for making recommendations to the Board with respect to the assignment of directors to various committees and with respect to the Chairs of each committee. After reviewing the Governance Committee's recommendations, the Board shall be responsible for electing the Chairs and members to the committees on an annual basis.

The Governance Committee shall annually review the committee assignments and shall consider the rotation of Chairs and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and the viewpoints of the various directors.

16. Frequency and Length of Committee Meetings and Committee Agenda

The Chairman of the Board, in consultation with the Committee Chairman and appropriate members of Management, will determine the frequency and length of the Committee meetings and develop the Committee's agenda. The agendas and meeting minutes of the Committees will be shared with the full Board, and other Board members are welcome to attend Committee meetings.

17. Confidentiality of Information

In order to facilitate open discussion, the Board believes maintaining confidentiality of information and deliberations is imperative.

Board Oversight

18. Succession Planning and Management Development

There should be an annual report by the Governance Committee to the Board on succession planning for the Chief Executive Officer. The Board should consider and evaluate potential successors to the Chief Executive Officer. There should also be available, on a continuing basis, the Chief Executive Officer's recommendation concerning who should assume that role in the event he or she becomes unable to perform his or her duties.

19. Board Interaction with Press, Patients, Physicians, Etc.

The Board believes that Management speaks for Health System. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with Health System, but it is expected that Board members would do this with the knowledge of Management and, in most instances, at the request of Management.

20. Director Responsibilities

The basic responsibility of the directors of Health System is to exercise their business judgment to act in what they reasonably believe to be the best interests of Health System. In discharging their obligations, directors should be able to rely on the honesty and integrity of senior management and its outside advisors and auditors. The directors should also be entitled to the benefits of indemnification to the fullest extent permitted by law and the organizational documents of Health System.

21. Conflicts of Interest

Directors are expected to avoid any action, position or interest that conflicts with an interest of Health System, or gives the appearance of a conflict. Health System annually solicits information from directors in order to monitor potential conflicts of interest and directors are expected to be mindful of their fiduciary obligations. When faced with a situation involving a potential conflict of interest, directors are encouraged to seek advice from management, or Health System's counsel. Directors shall recuse themselves and not participate in the discussion and voting on any matter presented at a Board meeting if they believe that they have a personal interest or a conflict of interest. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to resign his or her position as a director.

Access and Advisors

22. Board Access to Management and Employees

Directors should have full and free access to Health System's management and employees. Any meetings or contacts with employees other than executive officers or routine communications as part of committee functions that a director wishes to initiate should typically be arranged through the Chief Executive Officer.

23. Independent Advisors

The Board and each standing committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining approval of any officer of Health System in advance except that no committee may retain the Health System's outside auditors unless such engagement has been approved by the Audit Committee or its Chairman.

24. Board Executive Session

The Board should meet after every regular Board meeting, in executive session. The purpose of such meeting is to give the Board members an opportunity to ask each other broader ranging questions than are normally associated with regular Board meetings.

Adopted August 16, 2004
Revised September 30, 2005