

Corporate Governance Guidelines

These guidelines have been adopted by the Board of Directors of Sierra Health Services, Inc. (the "Company"). The guidelines, together with the charters of the Board committees, provide the framework for the governance of the Company. Recognizing that there is an on-going and energetic debate about corporate governance, the Board and its Nominating and Governance Committee intend to review these guidelines and other aspects of the Company's governance periodically.

1. Role of the Board and Management. The Company's business is conducted by its employees, managers and officers, under the direction of the Chief Executive Officer ("CEO") and the oversight of the Board, to fulfill the Company's mission and enhance the long-term value of the Company for its stockholders. The Board is elected by the stockholders to oversee management and to assure that the long-term interests of the stockholders are being served. Both the Board and management recognize that the long-term interests of stockholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, suppliers, communities served by the Company, government officials and the public at large.

2. Functions of Board. The Board of Directors holds 4 scheduled meetings a year, at which it reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. Directors are expected to attend all scheduled Board and Committee meetings. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

- i. Reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions.
- ii. Ensuring that processes are in place for maintaining the integrity of the Company, including the integrity of the financial statements, compliance with law and ethics, and the integrity of relationships with customers, suppliers, and other stakeholders.
- iii. Assessing major risks facing the Company, and reviewing alternatives to mitigate those risks.
- iv. Selecting, evaluating and compensating the CEO and overseeing CEO succession planning.
- v. Providing counsel and oversight on the selection, evaluation, development and compensation of senior management.

3. Qualifications. Each director should possess the highest personal and professional ethics, integrity and values, and be committed to promoting the long-term interests of the Company and its stockholders. The director must also have an inquisitive and objective mind, practical wisdom and mature judgment. Directors should be selected with a view to having a Board representing diverse experience at policy-making levels in business, government, the medical profession, and technology, and in areas that are relevant to the Company's business activities.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. A director should offer his or her resignation in the event of any significant change in personal circumstances, including any change which could reflect adversely on the reputation of the Company.

The Board does not believe that arbitrary term limits on directors' service are appropriate, nor does it believe that a director should expect to be renominated continuously until reaching the mandatory

retirement age. Effective service to the Company by a director should be a principal determinant of Board tenure. As provided in the Company's Bylaws, directors will not be nominated for election to the Board after their 78th birthday.

4. Independence of Directors. A majority of the directors will be "independent" directors under the New York Stock Exchange ("NYSE") listing standards. The Board intends that in practice a substantial majority of the directors will be independent. However, directors who do not meet the NYSE's independence standards also make valuable contributions to the Board and to the Company by reason of their experience and wisdom, and will continue to be valued members of the Board.

An individual director is "independent" if the Board determines that the director has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. This determination, to be made annually, will help assure the quality of the Board's oversight of management, reduce the possibility of damaging conflicts of interest, and comply with NYSE listing standards.

(1) ***Objective Factors Demonstrating Director Independence.*** Absent unusual circumstances, a director meeting all of the following guidelines will be deemed to be independent (*Note: Subsections (a), (b) and (c) constitute the stated NYSE standards of director "independence"*):

(a) The director:

- Is not and has not been in the preceding three years an employee of the Company or a subsidiary (excluding as an interim Chairman, CEO or other executive officer after such employment ends).
- Is not a current partner or employee of the Company's internal or external auditor or, within the past three years, was a partner or employee of such a firm that worked on the Company's audit within that time.

(b) The director does not have an immediate family member:

- Who is or has been during the preceding three years an executive officer of the Company (excluding as an interim Chairman, CEO or other executive officer after such employment ends).
- Who is a current partner of the Company's internal or external auditor or a current employee of such a firm who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice, or who was within the past three years a partner or employee of such a firm that worked on the Company's audit within that time.

An immediate family member means a spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and anyone (other than a domestic employee) who shares the director's home.

(c) Neither the director nor an immediate family member:

- Currently or in the preceding three years has received more than \$100,000 in any 12-month period in direct compensation from the Company or a subsidiary, other than remuneration for service as a director, pension and other forms of deferred compensation not contingent on continued service, compensation for service as an interim

Chairman, CEO or other executive officer, or (in the case of a family member) compensation for non-executive employment.

- Currently or in the preceding three years is or was employed as an executive officer of another company where any of the Company's current executive officers at the same time serves or served on that company's compensation committee.
- Is a current executive officer or employee of a company that paid to or received payments from the Company for property or services exceeding in any of the last three fiscal years the greater of \$1 million or 2% of the other company's consolidated gross revenues (excluding service by an immediate family member solely as an employee of the other company).

(d) For the current year and the preceding three years, the director and immediate family members:

- Have not had a transaction or relationship with the Company triggering disclosure under Item 404(a) or (b) of Regulation S-K under the Securities Exchange Act of 1934. *Note: A charitable organization that employs the Director will be treated as a business entity and Company contributions to it will be treated as payments in applying Item 404(b)(2).*
- Have not had an "interlocking" relationship of the type required to be disclosed under Item 402(j)(3) of Regulation S-K.

(2) ***Subjective Determination of Director Independence.*** If a director meets the standards of Section 1(a), (b) and (c) but either fails to meet the standard in Section 1(d) above or, in the view of the Nominating and Governance Committee or the General Counsel of the Company, other circumstances should be specifically considered by the Board in determining the director's independence, the Board may make a subjective determination as to whether the director qualifies as independent. The Board should consider the following factors in making this subjective evaluation of director independence:

- (a) Any facts and circumstances that could reasonably be expected to improperly influence the director's exercise of judgment.
- (b) Whether the director would or would not qualify under other standards relating to independence, including as:
 - A "Non-Employee Director" as defined in Rule 16b-3 under the Securities Exchange Act;
 - An "outside director" as defined in regulations under Section 162(m) of the Internal Revenue Code; and
 - Definitions of director independence adopted by other national securities exchanges and standards of independence endorsed by persons and groups addressing corporate governance issues, including institutional investors.
- (c) Countervailing considerations that tend to show that the director would not face any impairment in fulfilling his or her fiduciary duty of loyalty.

(3) ***Audit Committee Member's Independence.*** Directors who serve on the Board's Audit Committee are required to be independent, as determined under these Guidelines, and to meet certain additional requirements under Section 301 of the Sarbanes-Oxley Act of 2002 and rules of the Securities and Exchange Commission ("SEC") and NYSE implementing Section 301. Except as permitted under exemptions as may be adopted by the SEC and NYSE, each director who is member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee:

- (a) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company.
- (b) Be an affiliated person of the Company or any subsidiary.

(4) ***Procedures.*** Determinations of Director independence will be made in accordance with these procedures:

- (a) The Board will make its determinations as to Director independence annually at the Board meeting preceding the expected release of the Company's proxy statement for the Annual Meeting of Stockholders.
- (b) The Nominating and Governance Committee will review the independence of directors with the General Counsel and report its findings to the Board at that Board meeting.
- (c) The Nominating and Governance Committee or the Board may request a written report or documentation from the General Counsel or other appropriate officers collecting and summarizing information relevant to its determination of a director's independence.
- (d) The Board will issue a statement briefly explaining the basis for its determination that a director is independent under Section 2 above, which statement will be disclosed in the proxy statement or as otherwise required under NYSE rules.

(5) ***Effect if Director Not Determined to be Independent.*** In applying these Guidelines, the Board is making an affirmative determination of independence. With respect to any Director as to whom the Board does not make such determination, no inference should be drawn that the Board has concluded that the Director in fact has a conflict of interest or that the Director is in any way impaired in performing the responsibilities of a Director in accordance with his or her fiduciary duty of loyalty, nor shall it prejudice the Board in considering whether the Director is independent at any later time.

These guidelines are intended to provide a workable and understandable process for establishing the independence of directors. Independence will be established if a director meets objective standards that are based on the NYSE's stated independence standards and on information generally accessible to shareholders and potential investors. If a director does not meet all of the objective standards, no further consideration of the issue will be needed if the director has failed to qualify under the objective NYSE standards. If, however, the director meets the NYSE standards but was the subject of a related-party transaction disclosure, the Board may examine the director's circumstances and make a subjective determination as to his or her independence.

5. Size of Board and Selection Process. The Board of Directors is divided into two classes, one of which is elected each year by the stockholders at the Annual Meeting of Stockholders. Stockholders may propose nominees for consideration by the Nominating and Governance Committee by submitting the names and supporting information to: Secretary, Sierra Health Services, Inc., 2724 North Tenaya Way,

Las Vegas, Nevada 89128. The Board proposes a slate of nominees to the stockholders for election to the Board. Between annual stockholder meetings, the Board may elect directors to serve for the remainder of the term of any director who has stepped down. The Bylaws give the Board authority to specify the number of directors, within limits set in the Bylaws. In view of the size of the Company and the need for diversity of Board views, the Board has determined that the size of the Board should be eight directors.

6. Board Committees. The Board has established the following committees to assist it in carrying out its responsibilities: (i) Audit Committee; (ii) Compensation Committee; and (iii) Nominating and Governance Committee. The current charters of these committees are published on the Company website, and will be mailed to a stockholder upon written request. The chair of a committee provides a summary report on committee activities to the full Board following a committee meeting. The committees occasionally hold meetings in conjunction with the full Board.

7. Meetings of Independent Directors. The Board will have at least one regularly scheduled meeting a year for the independent directors without management present. The independent directors will appoint a Presiding Director, who will preside at such meetings. The Presiding Director will also perform such other functions as the Board may direct. The independent directors may meet without management present at such other times as determined by the Presiding Director.

8. Self-Evaluation. As provided in the charters of the Nominating and Governance Committee and the other Board committees, the Board and each of the committees will perform an annual self-evaluation. The directors will be requested to provide their assessments of the effectiveness of the Board and the committees on which they serve. The individual assessments then will be organized and summarized for discussion with the Board and the committees.

9. Setting Board Agenda. The Board shall be responsible for its agenda. Annually, the CEO will propose for the Board's approval key issues of strategy, risk and integrity to be scheduled and discussed during the course of the next year. Before that meeting, the Board will be invited to offer its suggestions. As a result of this process, a schedule of major discussion items for the following year will be established. The CEO and the presiding director, or committee chair as appropriate, shall determine the nature and extent of information that shall be provided regularly to the directors before each scheduled Board or committee meeting. Directors are urged to make suggestions for agenda items, or additional pre-meeting materials, to the CEO, the presiding director, or appropriate committee chair at any time.

10. Ethics and Conflicts of Interest. The Board expects Company directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's Code of Ethics for directors. Only the Board, upon a showing of good reason, may approve any waiver of any ethics policy for any director or executive officer. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the CEO. If a significant conflict exists and cannot be resolved, the director should resign. All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board (including by action of the Audit Committee) shall resolve any conflict of interest question involving the CEO or an executive officer, and the CEO shall resolve any conflict of interest issue involving any other officer of the Company.

11. Reporting of Concerns to Independent Directors or the Audit Committee. Anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the presiding director, to the independent directors, or to the Audit Committee. Such communications may be confidential or anonymous, and may be e-mailed, submitted in writing, or reported by phone to special addresses that shall be published on the Company's website. Concerns relating to accounting, internal controls, auditing or officer conduct shall be sent immediately to the presiding director and to the chair of the Audit Committee. The status of all

outstanding concerns addressed to the independent directors, the presiding director, or the Audit Committee will be reported to the presiding director and the chair of the Audit Committee on a quarterly basis. The presiding director, or the Audit Committee chairman may direct that certain matters be presented to the Audit Committee or the full Board and may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. The Company's Employee Conduct manual prohibits any employee from retaliating or taking any adverse action against anyone for raising or helping to resolve an ethical concern.

12. Compensation of Board. The Compensation Committee shall have the responsibility for recommending to the Board compensation and benefits for non-employee directors. In discharging this duty, the Committee shall be guided by three goals: Compensation should fairly pay directors for work required as a director, taking into account the Company's size and scope of business activities; compensation should align directors' interests with the long-term interests of stockholders; and the structure of the compensation should be transparent and easy for stockholders to understand. The Committee shall review non-employee director compensation and benefits not less frequently than every two years.

13. Succession Plan. The Board shall approve and maintain a succession plan for the CEO and senior executives, based upon recommendations from the Compensation Committee.

14. Annual Compensation Review of Senior Management. The Compensation Committee shall annually approve the goals and objectives for compensating the CEO. That Committee shall evaluate the CEO's performance in light of these goals in setting the CEO's salary, bonus and other incentive and equity compensation. The Committee shall also annually approve the compensation structure for the Company's officers, and shall evaluate the performance of the Company's senior executive officers in approving their salary, bonus and other incentive and equity compensation.

15. Access to Senior Management. Independent directors are permitted and encouraged to contact senior managers of the Company without senior corporate management present.

16. Access to Independent Advisors. The Board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors.

17. Director Orientation. Subject to the directions of the Nominating and Governance Committee, the general counsel and the chief financial officer shall be responsible for providing an orientation for new directors, and for periodically providing materials or briefing sessions for all directors on subjects that would assist them in discharging their duties. Each new director shall, within six months of election to the Board, spend a day at corporate headquarters for personal briefing by senior management on the Company's strategic plans, its financial statements, and its key policies and practices.