

Hawaii Pacific Health Compensation Committee Charter

I. PURPOSE

Article VII of the Bylaws of Hawaii Pacific Health ("HPH") provide for the establishment and operation of a Compensation Committee. Pursuant to these bylaws and to those of HPH's Affiliates (corporations herein sometimes collectively referred to as the "Health System") the Compensation Committee is delegated by the HPH Board, and which is duly acknowledged by respective bylaws and the boards of directors of the Health System, the responsibility and authority to act on behalf of the HPH Board to set the compensation and benefits levels of certain employees of the Health System who are considered to be "disqualified persons" within the meaning of Section 4958 of the Internal Revenue Code of 1986, as amended, and the related Treasury Regulations (the "Intermediate Sanctions Rules"). The process to be followed by the Compensation Committee in carrying out this responsibility is summarized below. This process is intended to be consistent with the Health System's mission and compensation philosophy and principles, as well as with the Intermediate Sanctions Rules, and to provide the Compensation Committee with information that will allow it to establish compensation for disqualified persons in a manner that will fall within the requirements for creating a rebuttable presumption of reasonableness as set forth in the Intermediate Sanctions Rules.

II. COMPOSITION

The composition of the Compensation Committee shall be as set forth in the HPH Bylaws, which provides that the Compensation Committee shall be composed of a minimum of three (3) and not more than all of the community members of the HPH Board (the "Board"). No person shall be a member of the Compensation Committee who is an employee of the Health System or who otherwise has an economic relationship with the Health System that would create a conflict of interest as provided in the Intermediate Sanctions Rules and/or the Health System policies on conflicts of interest.

The Board shall appoint Compensation Committee members to serve for one (1) year. In appointing members to the Compensation Committee, the Board shall consider whether the resulting Compensation Committee composition will be such that at least half of the Compensation Committee members have had some past direct or indirect experience in establishing or evaluating compensation.

III. MEETINGS

The Compensation Committee shall meet at least annually, and may meet more frequently as necessary. Compensation Committee members shall treat the proceedings of the Compensation Committee as confidential. The annual Compensation Committee meeting will include an executive session its members only and the Committee may meet in executive session at such other times as desired. The Compensation Committee shall keep minutes of its meetings and report its activities to the HPH Board of Directors. The Chair of the Compensation Committee shall establish such rules as may from time to time be necessary or appropriate for the conduct of the business of the Compensation Committee.

IV. RESPONSIBILITIES

The principal responsibilities and functions of the Compensation Committee shall be the determination of all compensation paid to the Chief Executive Officer of the Corporation and to the Chief Executive Officer's direct reports and to physicians employed by the Health System; provided, however, that the Compensation Committee shall consider the recommendations of the Physicians Advisory Group, the executive responsible for Human Resources for HPH, and periodically engaged independent compensation consultants in determining the compensation paid to physicians employed by Straub Clinic and Hospital. The responsibilities of the Committee shall further include:

- With the assistance of such experts as it deems necessary, annually review the current compensation and benefits levels of the disqualified persons and any contemplated adjustments to such compensation for the ensuing year. This review will encompass all elements of each individual's compensation package, including without limitation, base salary, incentive compensation, employee benefits and perquisites (collectively referred to herein as "total compensation").
- Obtain the data and other information necessary to set reasonable total compensation packages for each disqualified person, consistent with the Health System's compensation philosophy and principles.
- Annually review the performance evaluation of the Chief Executive Officer, which is conducted by the Chairman of the Board.
- Review and approve compensation of physicians employed by the Health System and the methodology by which individual physician compensation is determined.
- Report on the compensation packages so approved to the Health System's boards of directors.

V. GENERAL PROCESS TO BE FOLLOWED IN DEVELOPING AND APPROVING EXECUTIVE COMPENSATION

A. Review of Executive Goals

The Committee approves annual goals and performance criteria which are developed by the Chief Executive Officer and Chairman of the Board and used in determining merit increases and variable compensation opportunities for the Health System President/Chief Executive Officer. Subject to approval by the Committee, the Chief Executive Officer similarly develops individual annual goals with each of the Chief Executive Officer's direct reports. In addition, management prepares and the Committee approves "overall system goals" which are derived from the Board approved budgets. Prior to consideration by the Committee, the Finance Committee reviews and recommends the overall system goals to the Committee. Performance against these individual and overall system goals is evaluated by the Committee at the conclusion of review period.

B. Engage Compensation Consultant(s)

The Compensation Committee will select and engage a qualified compensation consultant to review and analyze the total compensation and benefits packages of the disqualified persons in consultation with the Health System Chief Executive Officer. Items of total compensation to be analyzed include all forms of cash and noncash compensation including salary, fees, bonuses, and severance payments; all deferred compensation attributed to the year in which services are performed; the amount of any premiums paid for liability and other insurance coverage; all other benefits, whether or not included in income for tax purposes, such as medical, dental, life insurance and disability benefits; and foregone interest on loans. The consultant may be engaged to provide such written opinions regarding reasonableness of compensation as the Compensation Committee determines to be advisable. At least every five (5) years, the Compensation Committee will engage in a performance review of its compensation consultant and, based on such review, will either renew the engagement or select and engage a new consultant.

C. Obtain Compensation Surveys and Reports

The Compensation Committee will, as part of its analysis, ask the compensation consultant to gather appropriate comparability data (*e.g.*, either published or specially conducted compensation surveys) that would include total compensation paid by similarly situated for-profit and nonprofit health care organizations for positions that are functionally comparable to each of the disqualified persons. The compensation surveys should cover employees with comparable responsibilities at a significant number of similar organizations, should be sorted by a number of different variables, including the size of the organization and the nature of the services provided, the level of experience and specific responsibilities of the employees surveyed, and the composition of the compensation packages offered to employees at those organizations. Survey results (*e.g.*, in summary form) should be provided to the Compensation Committee, as well as a written analysis comparing the compensation of each disqualified person at issue to the compensation of individuals covered by the surveys. Working with the independent consultant, the Committee shall determine a compensation philosophy which sets forth where the Committee decides to position compensation in order to achieve its objectives with regard to recruitment, retention, and recognition of performance.

D. Develop Compensation Recommendations

With respect to those disqualified persons below the level of Chief Executive Officer, the Compensation Committee will request that the Health System Chief Executive Officer work with the compensation consultants to formulate a compensation recommendation for each such disqualified person, consistent with the Health System's compensation philosophy and principles. In formulating recommendations, the parties should consider the comparability data obtained by the compensation consultants. Recommendations, along with the supporting performance data, comparability data, and the analysis of the compensation consultants will be presented to the Compensation Committee at a Compensation Committee meeting. The Compensation Committee will review performance of the Chief Executive Officer, which is prepared by the Chairman of the Board, at least annually. The Compensation Committee Chair will work with the compensation consultants to develop a recommendation with respect to the Chief Executive Officer, taking into account the performance review findings.

E. Review and Analyze Comparability Data

The Compensation Committee will consider the significant terms of the arrangement with each disqualified person, including the total compensation to be paid and the employee's duties and responsibilities. For those disqualified persons below the level of Chief Executive Officer, the Compensation Committee will also consider the Chief Executive Officer's recommendations. The Compensation Committee will thoroughly review and discuss the comparability data gathered by the compensation consultants to determine whether the total compensation for each of the disqualified persons is reasonable, taking into consideration the job duties of each position and the performance of each disqualified person. If applicable, the Compensation Committee will also consider any opinions from compensation consultants concerning reasonableness of disqualified person compensation and any opinions obtained from legal or other consultants in areas of their respective expertise.

F. Approve Reasonable Total Compensation Packages

Consistent with the Health System's compensation philosophy and principles, the Compensation Committee will approve total compensation packages for each of the disqualified persons that are, based on all of the information presented to the Compensation Committee, reasonable and in the best interest of the Health System. The Compensation Committee may, if it chooses to do so, approve a range of compensation for one or more of the individuals below the level of Chief Executive Officer and delegate to the Chief Executive Officer the authority to set compensation within the approved range, to the extent the Compensation Committee determines such delegation to be advisable. Prior to any such delegation, the Compensation Committee will evaluate whether the delegation has any effect on reasonableness opinions that may have been requested of the compensation consultant.

G. Document Concurrently

The Compensation Committee's decisions regarding compensation for each disqualified person will be documented in written resolutions and minutes of the Compensation Committee. The documentation will include:

- The significant terms of the arrangement and the date it was approved;
- The members of the Compensation Committee who were present during debate on the compensation arrangement that was approved and those who voted on it;
- all materials reviewed at the meeting, including the comparability data obtained and relied on by the Compensation Committee and how the data was obtained;
- the actions taken with respect to consideration of the arrangement by anyone who is otherwise a member of the Compensation Committee, but who had a conflict of interest with respect to the arrangement; and
- the specific reasons for any determination by the Compensation Committee that reasonable compensation for a particular arrangement should be higher than the range indicated by the comparability data obtained.

Written documentation of the Compensation Committee's decision should be prepared by the later of the next meeting of the Compensation Committee or sixty (60) days after the Compensation Committee's approval of compensation.

H. Report to Board

The Compensation Committee shall promptly report its actions to the Board, which reports should be reflected in the Board's minutes.

I. Access to Legal Counsel

In performing its duties and in addition to the access to the HPH General Counsel, the Compensation Committee will have access to outside legal counsel with experience in providing legal advice on executive compensation matters to tax-exempt health care providers. Periodically, the Compensation Committee will review, in consultation with legal counsel, the list of employees of the Health System who would qualify as "disqualified persons" within the meaning of the Intermediate Sanctions Rules.

VI. GENERAL PROCESS TO BE FOLLOWED IN DEVELOPING AND APPROVING PHYSICIAN COMPENSATION

A. Obtain Report from Physician Compensation Committee

Annually, the Compensation Committee will obtain objective and subjective survey information for each physician employed by the Health System (other than the disqualified persons) (the "Physicians"). Generally, the information used to set Physicians' compensation will include external market and benchmarking data and will take into account salary as a percentage of net professional revenues, professional activities, group effort, teaching, administrative and leadership duties.

B. Approve Physician Compensation Methodology and Physician Compensation Caps

The Compensation Committee will thoroughly review and discuss the data presented to determine whether the methodology (or methodologies) will result in reasonable compensation being paid to the Physicians. Consistent with the Health System's compensation philosophy and principles, the Compensation Committee will approve a compensation methodology (or methodologies) with respect to physician compensation that, based on all of the information presented to the Compensation Committee, is reasonable and in the best interest of the Health System and results in reasonable compensation being paid to the Physicians. Based on the approved compensation methodology (or methodologies), the Compensation Committee also shall approve the range and maximum compensation for each practice group of Physicians.

C. Documentation

The Compensation Committee's decisions regarding the methodology (or methodologies) used to determine Physician compensation, the range and the maximum compensation of the Physicians will be documented in written resolutions and minutes of the Compensation Committee and its actions

will be promptly reported to the Board.

VII. REVIEW OF COMPENSATION COMMITTEE PERFORMANCE

Working in conjunction with the Board Chair, the Compensation Committee will develop and implement a process for periodically reviewing and evaluating the Compensation Committee's performance.

VIII. MANAGEMENT SUCCESSION PLANNING

Consistent with its role in reviewing disqualified person performance and compensation, the Compensation Committee is charged with the responsibility for ensuring that the Board has in place a current, active plan for succession in senior executive positions at the Health System.

IX. GENERAL

The Committee may establish and delegate authority to subcommittees consisting of two or more of its members, when the Committee in its sole discretion deems it appropriate to do so in order to carry out its responsibilities. Each such delegation shall be reflected in the Committee's minutes. In addition, the Committee shall make regular reports to the Board concerning areas of the Committee's responsibility.

In carrying out its responsibilities, the Committee shall be entitled to rely upon advice and information that it receives in its discussions and communications with management and such experts, advisors and professionals with whom the Committee may consult. The Committee shall have the authority to request that any officer or employee of the Health System, the Health System's outside legal counsel, the Health System's independent auditor or any other professional retained by the Health System to render advice to the Health System, attend a meeting of the Committee or meet with any members of or advisors to the Committee. The Committee shall also have the authority to engage legal, accounting or other advisors to provide it with advice and information in connection with carrying out its responsibilities. The Committee may perform such other functions as may be requested by the Board from time to time.