

DRAFT

GUIDELINES - P&C INSURANCE COMPANY, INC. - ARMS-LENGTH RELATIONSHIPS

The following are certain guidelines which should be utilized to maintain arms-length relationships between P&C Insurance Company, Inc. and its Parent and Corporate Affiliates:

1. Written communications should be on appropriate letterhead and signed by the proper parties, including pertinent position titles (e.g., any correspondence concerning business matters of P&C Insurance Company, Inc. must be on P&C letterheads and signed by the Captive Manager or by an Officer or Director of the corporation.)
2. P&C should not invest any of its funds in any subsidiary of the Parent, nor in any entity in which the Parent or any subsidiary has a substantial financial interest. Primary communications, financial reporting, etc., must be between P&C and the investment firms.
3. In situations where P&C is involved in litigation, bankruptcy proceedings, or negotiations with third parties (e.g., John Mullen & Co.), it must be made abundantly clear to the third party that P&C itself is in control of the negotiations and litigation and not KSBE or Pauahi Holdings Corporation (PHC), and that all correspondence and communications from the third party should be directed to P&C rather than to KSBE or any subsidiary.
4. All financing provided by PHC to P&C should be on terms similar with the market.
5. Any services provided to P&C by KSBE or PHC personnel should be charged back to P&C.
6. The majority of the directors and majority of officers of P&C should be persons who are not Trustees or employees of KSBE or PHC.
7. The Chief Executive Officer of P&C should not be a Trustee or an employee of KSBE or PHC.
8. The directors and officers of P&C should not be dominated by or subject to the control of individuals who are Trustees, officers or directors of KSBE or PHC.
9. To the extent that KSBE or PHC staff is called upon or needed to assist in the management of a P&C project, a Consulting Agreement should be entered into and P&C should reimburse KSBE or PHC for the consulting services provided by their staff. As an alternative, if such management consulting services is expected to consume an inordinate amount of KSBE's staff's time, then transfer

of such staff employee from KSBE to the subsidiary should be considered. (P&C should be careful not to allow consulting agreements with KSBE or PHC to proliferate to the point that KSBE or PHC is essentially managing P&C's day-to-day operations.)

10. A Compensation Policy should be established so that P&C's Directors and Officers are compensated appropriately by P&C in order to demonstrate the separateness between P&C and KSBE and PHC. The shareholder(s) of P&C should establish this compensation.
11. The employment practices of P&C (e.g., hiring, determination of wage scales, employee benefits, pension plans, disciplinary actions, etc.) should not be controlled or managed by KSBE or PHC. (Any indication of control or management by KSBE or PHC of P&C's employment practices would be pivotal in the determination of an arms-length relationship.)
12. P&C must comply with all state regulatory requirements, including but not limited to sufficient capitalization and appointment of a qualified, licensed agent to manage the operations of the captive insurance company.
13. Management of the daily operations of P&C, including claims administration and investing of P&C's capital, should be largely free of influence or control by KSBE's (or PHC's) Trustees and staff.
14. In general, P&C should not reinsure its risks with any reinsurer on whose boards of directors KSBE (or its subsidiaries) has representation. (In the event this should occur, however, KSBE's representative on the board should recuse himself from voting on any matter which may come before the reinsurer's board concerning the captive insurance company.)

Since P&C Insurance Company, Inc. is an affiliate of KSBE and PHC, it is important that both KSBE and PHC maintain arms-length relationships with P&C at all times. (As reflected by the HIG/HEI insurance case, failure by KSBE or PHC to maintain an arms-length relationship may render KSBE and/or PHC liable for claims against, and debts of, the captive subsidiary.) The foregoing policies should operate to establish and maintain the appropriate arms-length relationships.

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