HAWAIIAN ELECTRIC CO INC
Form 10-K
February 18, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-8503	**HAWAIIAN ELECTRIC INDUSTRIES, INC.,** a Hawaii corporation 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-5662	99-0208097
1-4955	**HAWAIIAN ELECTRIC COMPANY, INC.,** a Hawaii corporation 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-7771	99-0040500

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered

Hawaiian Electric Industries, Inc.	Common Stock, Without Par Value	New York Stock Exchange
Hawaiian Electric Company, Inc.	Guarantee with respect to 6.50% Cumulative Quarterly Income Preferred Securities Series 2004 (QUIPSSM) of HECO Capital Trust III	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Hawaiian Electric Industries, Inc.	None
Hawaiian Electric Company, Inc.	Cumulative Preferred Stock

Indicate by check mark if Registrant Hawaiian Electric Industries, Inc. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if Registrant Hawaiian Electric Company, Inc. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if Registrant Hawaiian Electric Industries, Inc. is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark if Registrant Hawaiian Electric Company, Inc. is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2010	**Number of shares of common stock outstanding of the registrants as of**	
		June 30, 2010	**February 10, 2011**
Hawaiian Electric Industries, Inc. (HEI)	$2,132,661,527	93,619,909 (Without par value)	94,867,765 (Without par value)
Hawaiian Electric Company, Inc. (HECO)	None	13,786,959 ($6 2/3 par value)	13,830,823 ($6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

HECO s Exhibit 99.2, consisting of:

HECO s Consolidated Selected Financial Data Part II

HECO s Management s Discussion and Analysis of Financial Condition and Results of Operations Parts I and II

HECO s Quantitative and Qualitative Disclosures about Market Risk Parts I and II

HECO s Consolidated 2010 Financial Statements Parts I, II, III and IV

Selected sections of Proxy Statement of HEI for the 2011 Annual Meeting of Shareholders to be filed Part III

This combined Form 10-K represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own behalf. HECO makes no representations as to any information not relating to itself.

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms	Definitions
2005 Act	Public Utility Holding Company Act of 2005
AES Hawaii	AES Hawaii, Inc.
AFUDC	allowance for funds used during construction
AOCI	accumulated other comprehensive income
AOS	adequacy of supply
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc. Former subsidiaries of ASB (other than former subsidiaries dissolved prior to 2006) include AdCommunications, Inc. (dissolved in May 2007) and American Savings Investment Services Corp. (and its subsidiary, Bishop Insurance Agency of Hawaii, Inc.) (dissolved in October 2010).
ASHI	American Savings Holdings, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
BIF	Bank Insurance Fund
Btu	British thermal unit
CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CESP	Clean Energy Scenario Planning
Chevron	Chevron Products Company, a fuel oil supplier
CHP	Combined heat and power
CIS	Customer Information System
Company	When used in Hawaiian Electric Industries, Inc. sections, the Company refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B. and its subsidiaries (listed under ASB); Pacific Energy Conservation Services, Inc.; HEI Properties, Inc.; HEI Investments, Inc. (dissolved in 2008); Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). Former subsidiaries of HEI (other than former subsidiaries of HECO and ASB and former subsidiaries of HEI sold or dissolved prior to 2006) include Hycap Management, Inc. (dissolved in 2007) and HEI Power Corp. (discontinued operations, dissolved in 2006) and its dissolved subsidiaries. When used in Hawaiian Electric Company, Inc. sections, the Company refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
D&O	Decision and order
DG	Distributed generation
DOD	Department of Defense federal
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clauses
EIP	2010 Executive Incentive Plan, as amended
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries

	committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
EOTP	East Oahu Transmission Project
EPA	Environmental Protection Agency - federal
ERISA	Employee Retirement Income Security Act of 1974, as amended

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Terms	Definitions
ERL	Environmental Response Law of the State of Hawaii
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
FNMA	Federal National Mortgage Association
GAAP	U. S. generally accepted accounting principles
GDP	gross domestic product
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
Gramm Act	Gramm-Leach-Bliley Act of 1999
HCEI	Hawaii Clean Energy Initiative
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
HECO	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HECO s Consolidated Financial Statements	Hawaiian Electric Company, Inc. s Consolidated Financial Statements, which are incorporated into Parts I, II, III and IV of this Form 10-K by reference to HECO Exhibit 99.2
HECO s MD&A	Hawaiian Electric Company, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated into Part I, Item 1 and Part II, Item 7 of this Form 10-K by reference to HECO Exhibit 99.2
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., Pacific Energy Conservation Services, Inc., HEI Properties, Inc., HEI Investments, Inc. (dissolved in 2008), Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). Former subsidiaries (other than those sold or dissolved prior to 2006) are listed under Company.
HEI 2011 Proxy Statement	Selected sections of Hawaiian Electric Industries, Inc. s 2011 Proxy Statement to be filed, which are incorporated into this Form 10-K by reference
HEI s Consolidated Financial Statements	Hawaiian Electric Industries, Inc. s Consolidated Financial Statements, including notes, in Item 8 of this Form 10-K
HEI s MD&A	Hawaiian Electric Industries, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEIII	HEI Investments, Inc. (formerly HEI Investment Corp.) (dissolved in 2008), a direct subsidiary of Hawaiian Electric Industries, Inc. since January 2007 and formerly a wholly-owned subsidiary of HEI Power Corp.
HEIPI	HEI Properties, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HEP	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HITI	Hawaiian Interisland Towing, Inc.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
IPP	Independent power producer
IRP	Integrated resource plan
Kalaeloa	Kalaeloa Partners, L.P.
kV	kilovolt
KWH	Kilowatthour
LSFO	Low sulfur fuel oil

LTIP	Long-term incentive plan

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Terms	Definitions
MBtu	Million British thermal unit
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
Moody s	Moody s Investors Service s
MSFO	Medium sulfur fuel oil
MW	Megawatt/s (as applicable)
NA	Not applicable
NAAQS	National Ambient Air Quality Standard
NM	Not meaningful
NQSO	nonqualified stock options
O&M	operation and maintenance
OCC	Office of the Comptroller of the Currency
OPA	Federal Oil Pollution Act of 1990
OPEB	postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
OTTI	other-than-temporary impairment
PBO	projected benefit obligation
PCB	Polychlorinated biphenyls
PECS	Pacific Energy Conservation Services, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PSD	Prevention of Significant Deterioration
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act of 1978
QTL	Qualified Thrift Lender
RCRA	Resource Conservation and Recovery Act of 1976
REG	Renewable Energy Group Marketing & Logistics Group LLC
Registrant	Each of Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc.
RHI	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
S&P	Standard & Poor s
SAIF	Savings Association Insurance Fund
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference to HECO Exhibit 99.2 as if fully set forth herein (or means refer to the referenced section in this document or the referenced document)
SOIP	1987 Stock Option and Incentive Plan, as amended
ST	Steam turbine
state	State of Hawaii
Tesoro	Tesoro Hawaii Corporation dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
UBC	Uluwehiokama Biofuels Corp., a non-regulated subsidiary of Hawaiian Electric Company, Inc.
UST	Underground storage tank
VIE	variable interest entity

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Forward-Looking Statements

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (HECO) and their subsidiaries contain forward-looking statements, which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as expects, anticipates, intends, plans, believes, predicts, estimates or similar expressions. I addition, any statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. **These forward-looking statements are not guarantees of future performance.**

Risks, uncertainties and other important factors that could cause actual results to differ materially from those in forward-looking statements and from historical results include, but are not limited to, the following:

- international, national and local economic conditions, including the state of the Hawaii tourism and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, and the implications and potential impacts of current capital and credit market conditions and federal and state responses to those conditions;

- weather and natural disasters, such as hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming (such as more severe storms and rising sea levels);

- global developments, including terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan, potential conflict or crisis with North Korea or in the Middle East;

- the timing and extent of changes in interest rates and the shape of the yield curve;

- the ability of the Company to access credit markets to obtain commercial paper and other short-term and long-term debt financing (including lines of credit) and to access capital markets to issue HEI common stock under volatile and challenging market conditions, and the cost of such financings, if available;

- the risks inherent in changes in the value of pension and other retirement plan assets and securities available for sale;

- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated over the next several months;

- increasing competition in the electric utility and banking industries (e.g., increased self-generation of electricity may have an adverse impact on HECO s revenues and increased price competition for deposits, or an outflow of deposits to alternative investments, may have an adverse impact on ASB s cost of funds);

- the implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement) setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), revenue decoupling and the fulfillment by the utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC s potential delay in considering HCEI-related costs; reliance by the Company on outside parties like the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, the proposed undersea cable (to bring power to Oahu from Lanai and/or Molokai), biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);

- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), combined heat and power (CHP) or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;

- the risk to generation reliability when generation peak reserve margins on Oahu are strained;

- fuel oil price changes, performance by suppliers of their fuel oil delivery obligations and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);

- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the utilities;

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- the risks associated with increasing reliance on renewable energy, as contemplated under the Energy Agreement, including the availability and cost of non-fossil fuel supplies for renewable generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;

- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);

- the ability of the electric utilities to negotiate, periodically, favorable fuel supply and collective bargaining agreements;

- new technological developments that could affect the operations and prospects of HEI and its subsidiaries (including HECO and its subsidiaries and ASB) or their competitors;

- federal, state, county and international governmental and regulatory actions, such as changes in laws, rules and regulations applicable to HEI, HECO, ASB and their subsidiaries (including changes in taxation, increases in capital requirements, regulatory changes resulting from the HCEI, environmental laws and regulations, the regulation of greenhouse gas emissions (GHG), healthcare reform, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon cap and trade legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);

- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs);

- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions and restrictions and penalties that may arise, such as with respect to environmental conditions or renewable portfolio standards (RPS));

- potential enforcement actions by the Office of Thrift Supervision (OTS) (or its regulatory successors, the Office of the Comptroller of the Currency and the Federal Reserve Board) and other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);

- ability to recover and earn on increasing costs and capital investments not covered by revenue adjustment mechanisms;

- the risks associated with the geographic concentration of HEI s businesses and ASB s loans, ASB s concentration in a single product type (first mortgages) and ASB s significant credit relationships (i.e., concentrations of large loans and/or credit lines with certain customers);

- changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards or new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;

- changes by securities rating agencies in their ratings of the securities of HEI and HECO and the results of financing efforts;

- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage servicing assets of ASB;

- changes in ASB s loan portfolio credit profile and asset quality which may increase or decrease the required level of allowance for loan losses and charge-offs;

- changes in ASB s deposit cost or mix which may have an adverse impact on ASB s cost of funds;

- the final outcome of tax positions taken by HEI, HECO, ASB and their subsidiaries;

- the risks of suffering losses and incurring liabilities that are uninsured or underinsured; and

- other risks or uncertainties described elsewhere in this report (e.g., Item 1A. Risk Factors) and in other reports previously and subsequently filed by HEI and/or HECO with the Securities and Exchange Commission (SEC).

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made. Except to the extent required by the federal securities laws, HEI, HECO, ASB and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. BUSINESS

HEI Consolidated

HEI and subsidiaries and lines of business. HEI was incorporated in 1981 under the laws of the State of Hawaii and is a holding company with its principal subsidiaries engaged in electric utility and banking businesses operating primarily in the State of Hawaii. HEI s predecessor, HECO, was incorporated under the laws of the Kingdom of Hawaii (now the State of Hawaii) on October 13, 1891. As a result of a 1983 corporate reorganization, HECO became an HEI subsidiary and common shareholders of HECO became common shareholders of HEI.

HECO and its operating utility subsidiaries, Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO), are regulated electric public utilities. HECO also owns all the common securities of HECO Capital Trust III (a Delaware statutory trust), which was formed to effect the issuance of $50 million of cumulative quarterly income preferred securities in 2004, for the benefit of HECO, HELCO and MECO. In December 2002, HECO formed a subsidiary, Renewable Hawaii, Inc., to invest in renewable energy projects, but has made no investments and has been inactive recently. In September 2007, HECO formed another subsidiary, Uluwehiokama Biofuels Corp. (UBC), to invest in a biodiesel refining plant to be built on the island of Maui, which project has been terminated.

Besides HECO and its subsidiaries, HEI also currently owns directly or indirectly the following subsidiaries: American Savings Holdings, Inc. (ASHI) (a holding company) and its subsidiary, ASB; Pacific Energy Conservation Services, Inc. (PECS); HEI Properties, Inc. (HEIPI); HEI Investments, Inc.; Hawaiian Electric Industries Capital Trusts II and III (formed in 1997 to be available for trust securities financings); and The Old Oahu Tug Service, Inc. (TOOTS).

ASB, acquired by HEI in 1988, is one of the largest financial institutions in the State of Hawaii with assets of $4.8 billion as of December 31, 2010.

HEIPI, whose predecessor company was formed in February 1998, holds venture capital investments (in companies based in Hawaii and on the U.S. mainland) with a carrying value of $1.3 million as of December 31, 2010.

PECS was formed in 1994 and was a contract services company providing windfarm operational and maintenance services to an affiliated electric utility that ceased such services when the windfarm was dismantled in 2010. The Company expects to dissolve PECS in 2011.

In November 1999, Hawaiian Tug & Barge Corp. (HTB) sold substantially all of its operating assets and the stock of Young Brothers, Limited (YB) for a nominal gain, changed its name to TOOTS and ceased maritime freight transportation operations. TOOTS currently administers

certain employee and retiree-related benefits programs and monitors matters related to its former operations and the operations of its former subsidiary.

For additional information about the Company required by this item, see HEI s Management s Discussion and Analysis of Financial Condition and Results of Operations (HEI s MD&A), HEI s Quantitative and Qualitative Disclosures about Market Risk and HEI s Consolidated Financial Statements (including Note 2, Segment financial information), and also see HECO s Management s Discussion and Analysis of Financial Condition and Results of Operations (HECO s MD&A) and HECO s Consolidated Financial Statements and HECO s Quantitative and Qualitative Disclosures About Market Risk, which are incorporated by reference to HECO Exhibit 99.2.

The Company s website address iswww.hei.com. The information on the Company s website is not incorporated by reference in this annual report on Form 10-K unless, and except to the extent, specifically incorporated herein by reference. HEI and HECO currently make available free of charge through this website their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports (since 1994) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. HEI and HECO intend to continue to use HEI s website as a means of disclosing additional information. Such disclosures will be included on HEI s website under the

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headings Company Overview and News & Events in the Investor Relations section. Accordingly, investors should routinely monitor such portions of HEI s website, in addition to following HEI s, HECO s and ASB s press releases, SEC filings and public conference calls and webcasts. Investors may also wish to refer to the PUC website at dms.puc.hawaii.gov/dms in order to review documents filed with and issued by the PUC. No information at the PUC website is incorporated herein by reference.

Commitments and contingencies. See HEI Consolidated Liquidity and capital resources Selected contractual obligations and commitments in HEI s MD&A and HECO s Commitments and contingencies below.

Regulation. HEI and HECO are each holding companies within the meaning of the Public Utility Holding Company Act of 2005 and implementing regulations (2005 Act) and filed a required notification of that status on February 21, 2006. The 2005 Act requires holding companies and their subsidiaries to grant the Federal Energy Regulatory Commission (FERC) access to books and records relating to FERC s jurisdictional rates. FERC has granted HEI and HECO a waiver from its record retention, accounting and reporting requirements, effective **May 2006.**

HEI is subject to an agreement entered into with the PUC (the PUC Agreement) which, among other things, requires HEI to provide the PUC with periodic financial information and other reports concerning intercompany transactions and other matters. It also prohibits the electric utilities from loaning funds to HEI or its nonutility subsidiaries and from redeeming common stock of the electric utility subsidiaries without PUC approval. Further, the PUC could limit the ability of the electric utility subsidiaries to pay dividends on their common stock. See Restrictions on dividends and other distributions and Electric utility Regulation below.

As a result of the acquisition of ASB, HEI and ASHI are subject to OTS registration, supervision and reporting requirements as savings and loan holding companies. In the event the OTS has reasonable cause to believe that any activity of HEI or ASHI constitutes a serious risk to the financial safety, soundness or stability of ASB, the OTS is authorized under the Home Owners Loan Act of 1933, as amended, to impose certain restrictions on HEI, ASHI and/or any of their subsidiaries. Possible restrictions include precluding or limiting: (i) the payment of dividends by ASB; (ii) transactions between ASB, HEI or ASHI, and their subsidiaries or affiliates; and (iii) the activities of ASB that might expose ASB to the liabilities of HEI and/or ASHI and their other affiliates. See Restrictions on dividends and other distributions below.

OTS regulations generally prohibit savings and loan holding companies and their nonthrift subsidiaries from engaging in activities other than those which are specifically enumerated in the regulations. However, the OTS regulations provide for an exemption which is available to HEI and ASHI if ASB satisfies the qualified thrift lender (QTL) test discussed under Bank Regulation Qualified thrift lender test. ASB met the QTL test at all times during 2010; however, the failure of ASB to satisfy the QTL test in the future could result in a need for HEI to divest ASB. As a result of the enactment of the Dodd-Frank Act, supervision and regulation of HEI, as a thrift holding company, will move to the Federal Reserve, and supervision and regulation of ASB, as a federally chartered savings bank, will move to the Office of the Comptroller of the Currency (OCC) in July 2011 (unless the date is extended). HEI is also affected by provisions of the Dodd-Frank Act relating to corporate governance and executive compensation, including provisions requiring shareholder say on pay and say on pay frequency votes, mandating additional disclosures concerning executive compensation and compensation consultants and advisors, further restricting proxy voting by brokers in the absence of instructions and permitting the SEC to adopt rules in its discretion requiring public companies under specified conditions to include shareholder nominees in management s proxy solicitation materials. See Bank Legislation and regulation in HEI s MD&A for a discussion of the effects of the Dodd-Frank Act on HEI and ASB.

Restrictions on dividends and other distributions. HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, HEI s principal sources of funds are dividends or other distributions from its operating subsidiaries, borrowings and sales of equity. The rights of HEI and, consequently, its creditors and shareholders, to participate in any distribution of the assets of any of its subsidiaries are subject to the prior claims of the creditors and preferred shareholders of such subsidiary, except to the extent that claims of HEI in its capacity as a creditor are recognized as primary.

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The abilities of certain of HEI s subsidiaries to pay dividends or make other distributions to HEI are subject to contractual and regulatory restrictions. Under the PUC Agreement, in the event that the consolidated common stock equity of the electric utility subsidiaries falls below 35% of the total capitalization of the electric utilities (including the current maturities of long-term debt, but excluding short-term borrowings), the electric utility subsidiaries would, absent PUC approval, be restricted in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed as relinquishing any right the PUC may have to review the dividend policies of the electric utility subsidiaries. As of December 31, 2010, the consolidated common stock equity of HEI s electric utility subsidiaries was 55% of their total capitalization (as calculated for purposes of the PUC Agreement). As of December 31, 2010, HECO and its subsidiaries had common stock equity of $1.3 billion of which approximately $588 million was not available for transfer to HEI without regulatory approval.

The ability of ASB to make capital distributions to HEI and other affiliates is restricted under federal law. Subject to a limited exception for stock redemptions that do not result in any decrease in ASB s capital and would improve ASB s financial condition, ASB is prohibited from declaring any dividends, making any other capital distributions, or paying a management fee to a controlling person if, following the distribution or payment, ASB would be deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized. See Bank Regulation Prompt corrective action. All capital distributions are subject to a prior indication of no objection by the OTS (and by the OCC from July 2011, unless the date is extended). Also see Note 13 to HEI s Consolidated Financial Statements.

HEI and its subsidiaries are also subject to debt covenants, preferred stock resolutions and the terms of guarantees that could limit their respective abilities to pay dividends. The Company does not expect that the regulatory and contractual restrictions applicable to HEI and/or its subsidiaries will significantly affect the operations of HEI or its ability to pay dividends on its common stock.

Environmental regulation. HEI and its subsidiaries are subject to federal and state statutes and governmental regulations pertaining to water quality, air quality and other environmental factors. See the Environmental regulation discussions in the Electric utility and Bank sections below.

Securities ratings. See the Standard & Poor s (S&P) and Moody s Investors Service s (Moody s) ratings of HEI s and HECO s securities and discussion under Liquidity and capital resources (both HEI Consolidated and Electric utility) in HEI s MD&A. These ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency from whom an explanation of the significance of such ratings may be obtained. There is no assurance that any such credit rating will remain in effect for any given period of time or that such rating will not be lowered, suspended or withdrawn entirely by the applicable rating agency if, in such rating agency s judgment, circumstances so warrant. Any such lowering, suspension or withdrawal of any rating may have an adverse effect on the market price or marketability of HEI s and/or HECO s securities, which could increase the cost of capital of HEI and HECO. Neither HEI nor HECO management can predict future rating agency actions or their effects on the future cost of capital of HEI or HECO.

Revenue bonds are issued by the Department of Budget and Finance of the State of Hawaii for the benefit of HECO and its subsidiaries, but the source of their repayment are the unsecured obligations of HECO and its subsidiaries under loan agreements and notes issued to the Department, including HECO s guarantees of its subsidiaries obligations. The payment of principal and interest due on revenue bonds currently outstanding and issued prior to 2009 are insured - see the discussion of the downgrades of the ratings of the insurers under Electric Utility Liquidity and capital resources in HEI s MD&A.

Employees. The Company had full-time employees as follows:

December 31	2010	2009	2008	2007	2006
HEI	34	34	41	42	41
HECO and its subsidiaries	2,318	2,297	2,203	2,145	2,085
ASB and its subsidiaries	1,075	1,117	1,313	1,330	1,318
Other subsidiaries		3	3	3	3
	3,427	3,451	3,560	3,520	3,447

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The employees of HEI and its direct and indirect subsidiaries, other than the electric utilities, are not covered by any collective bargaining agreement. A substantial number of employees of HECO and its subsidiaries are covered by collective bargaining agreements, which have been recently renegotiated, but are subject to ratification by the union employees. See Collective bargaining agreements in Note 3 to HEI s Consolidated Financial Statements.

Properties. HEI leases office space from nonaffiliated lessors in downtown Honolulu under leases that expire in March 2016. HEI also subleases office space in a downtown Honolulu building leased by HECO under a lease that expires in November 2021, with an option to extend to November 2024. See the discussions under Electric Utility and Bank below for a description of properties owned by HEI subsidiaries.

Electric utility

HECO and subsidiaries and service areas. HECO, HELCO and MECO are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Hawaii; and Maui, Lanai and Molokai, respectively. HECO acquired MECO in 1968 and HELCO in 1970. In 2010, the electric utilities revenues and net income amounted to approximately 89% and 67%, respectively, of HEI s consolidated revenues and net income, compared to approximately 88% and 96% in 2009 and approximately 89% and 102% in 2008, respectively.

The islands of Oahu, Hawaii, Maui, Lanai and Molokai have a combined population estimated at 1.2 million, or approximately 95% of the Hawaii population, and comprise a service area of 5,766 square miles. The principal communities served include Honolulu (on Oahu), Hilo and Kona (on Hawaii) and Wailuku and Kahului (on Maui). The service areas also include numerous suburban communities, resorts, U.S. Armed Forces installations and agricultural operations. The state has granted HECO, HELCO and MECO nonexclusive franchises, which authorize the utilities to construct, operate and maintain facilities over and under public streets and sidewalks. Each of these franchises will continue in effect for an indefinite period of time until forfeited, altered, amended or repealed.

For additional information about HECO, see HECO s MD&A, HECO s Quantitative and Qualitative Disclosures about Market Risk and HECO s Consolidated Financial Statements.

Sales of electricity. The following table sets forth the number of electric customer accounts as of December 31, 2010, 2009 and 2008 and electric sales revenues by company for each of the years then ended:

	2010		2009		2008	
Years ended December 31 (dollars in thousands)	**Customer accounts***	**Electric sales revenues**	**Customer accounts***	**Electric sales revenues**	**Customer accounts***	**Electric sales revenues**
HECO	296,422	$ 1,645,328	295,282	$ 1,379,208	293,740	$ 1,948,243
HELCO	80,695	371,746	79,813	342,982	79,606	445,214
MECO	67,739	343,562	67,489	296,433	67,065	451,042
	444,856	$ 2,360,636	442,584	$ 2,018,623	440,411	$ 2,844,499

* As of December 31.

Seasonality. Kilowatthour (KWH) sales of HECO and its subsidiaries follow a seasonal pattern, but they do not experience the extreme seasonal variation due to extreme weather variations like some electric utilities on the U.S. mainland. KWH sales in Hawaii tend to increase in the warmer, more humid months, probably as a result of increased demand for air conditioning.

Significant customers. HECO and its subsidiaries derived approximately 10% in 2010, 2009 and 2008 of their operating revenues from the sale of electricity to various federal government agencies.

Under a Basic Ordering Agreement (BOA) with the federal Department of Defense (DOD) entered into in 2007, which expires in 2012, and earlier BOAs and other agreements, HECO has completed energy conservation and other projects for federal agencies over the years. The Navy Facilities Engineering Command Pacific developed a Hawaii Navy Energy Program which establishes energy goals for meeting energy reduction standards set forth in the Energy Independence and Security Act of 2007 which required agencies to reduce energy consumption by 3% a year, or 30% by the end of 2015, beginning in 2006. The Navy must also meet renewable energy requirements set forth in the National Defense Authorization Act of

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2007 (by 2025, 25% of the energy consumed at an installation must be produced or procured from renewable energy sources).

The Energy Policy Act of 2005 mandated that federal buildings reduce energy consumption by up to 20% by fiscal year 2015 relative to base fiscal year 2003 consumption to the extent that these measures are cost effective. The Act also establishes energy conservation goals at the state level for federally funded programs, stricter conservation measures for a variety of large energy-consuming products and tax credits for energy efficient homes, solar energy, fuel cells and microturbine power plants; and includes other energy-related provisions. Executive Order 13514, adopted in 2009, expanded upon energy reduction and environmental performance requirements set forth in Executive Orders 13123, 13149 and 13423. The Order sets the framework for sustainability goals for Federal agencies including making improvements in environmental, energy, and economic performance. The Order requires agencies to set agency-defined targets for the reduction of greenhouse gas emissions, as well as measure and manage steps to meet those targets. HECO continues to work with various federal agencies to implement measures that will help them achieve their energy reduction objectives.

Energy Agreement, energy efficiency and decoupling. On October 20, 2008, the Governor, the Hawaii Department of Business Economic Development and Tourism, the Consumer Advocate and the utilities entered into an Energy Agreement pursuant to which they agreed to undertake a number of initiatives to help accomplish the objectives of the Hawaii Clean Energy Initiative (HCEI) established under a memorandum of understanding between the State of Hawaii and U.S. Department of Energy. The primary objective of the HCEI and Energy Agreement is to reduce Hawaii s dependence on imported fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. See Note 3 of HEI s Consolidated Financial Statements.

One of the initiatives under the Energy Agreement was advanced when, in 2009, the state legislature enacted Act 155, which gave the PUC the authority to establish an Energy Efficiency Portfolio Standard (EEPS) goal of saving 4,300 GWH of electricity use reductions by 2030. The PUC opened an EEPS docket, which is on-going. Another of the initiatives was advanced when, on December 29, 2010, the PUC approved the implementation of revenue decoupling for HECO under which HECO is allowed to recover PUC-approved revenue requirements without being dependent on the amount of electricity sold. See Decoupling proceeding under Electric utility in HEI s MD&A. Both the establishment of an EEPS and the implementation of revenue decoupling could have an impact on sales. However, neither HEI nor HECO management can predict with certainty the impact of these or other governmental mandates, the HCEI or the Energy Agreement on HEI s or HECO s future financial condition, results of operations or cash flows.

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Selected consolidated electric utility operating statistics.

Years ended December 31	2010	2009	2008	2007	2006
KWH sales (millions)					
Residential	2,830.0	2,893.3	2,924.7	3,035.5	3,022.2
Commercial	3,185.0	3,221.7	3,326.3	3,340.6	3,313.3
Large light and power	3,512.8	3,524.5	3,632.9	3,690.2	3,728.8
Other	50.8	50.2	52.3	51.8	51.5
	9,578.6	9,689.7	9,936.2	10,118.1	10,115.8
KWH net generated and purchased (millions)					
Net generated	6,053.6	6,117.6	6,261.8	6,478.6	6,610.8
Purchased	4,062.8	4,119.8	4,248.2	4,228.0	4,094.4
	10,116.4	10,237.4	10,510.0	10,706.6	10,705.2
Losses and system uses (%)	5.1	5.1	5.2	5.3	5.3
Energy supply (December 31)					
Net generating capability MW (1)	1,785	1,815	1,687	1,685	1,669
Firm purchased capability MW	540	532	540	538	535
	2,325	2,347	2,227	2,223	2,204
Net peak demand MW (2)	1,562	1,618	1,590	1,635	1,685
Btu per net KWH generated	10,617	10,753	10,700	10,807	10,848
Average fuel oil cost per Mbtu (cents)	1,404.8	1,026.4	1,840.0	1,108.2	1,094.1
Customer accounts (December 31)					
Residential	388,307	385,886	383,042	381,964	376,783
Commercial	54,374	54,527	55,243	55,869	55,493
Large light and power	548	558	543	554	567
Other	1,627	1,613	1,583	1,510	1,499
	444,856	442,584	440,411	439,897	434,342
Electric revenues (thousands)					
Residential	$ 781,467	$ 690,656	$ 935,061	$ 713,241	$ 690,425
Commercial	814,109	694,087	973,048	714,218	695,247
Large light and power	752,056	623,159	921,321	652,298	648,066
Other	13,004	10,721	15,069	10,791	10,530
	$ 2,360,636	$ 2,018,623	$ 2,844,499	$ 2,090,548	$ 2,044,268
Average revenue per KWH sold (cents)	24.65	20.83	28.63	20.66	20.21
Residential	27.61	23.87	31.97	23.50	22.85
Commercial	25.56	21.54	29.25	21.38	20.98
Large light and power	21.41	17.68	25.36	17.68	17.38
Other	25.63	21.36	28.81	20.81	20.44
Residential statistics					
Average annual use per customer account (KWH)	7,317	7,523	7,640	7,996	8,056
Average annual revenue per customer account	$ 2,021	$ 1,796	$ 2,443	$ 1,879	$ 1,840
Average number of customer accounts	386,767	384,600	382,821	379,621	375,143

(1) The reduction in net generating capability in 2010 was attributable to the removal of distributed generation units at substations.

(2) Sum of the net peak demands on all islands served, noncoincident and nonintegrated.

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Generation statistics. The following table contains certain generation statistics as of, and for the year ended, December 31, 2010. The net generating and firm purchased capability available for operation at any given time may be more or less than shown because of capability restrictions or temporary outages for inspection, maintenance, repairs or unforeseen circumstances.

	Island of Oahu- HECO	Island of Hawaii- HELCO	Island of Maui- MECO	Island of Lanai- MECO	Island of Molokai- MECO	Total
Net generating and firm purchased capability (MW) as of December 31, 2010(1)						
Conventional oil-fired steam units	1,106.8	62.2	35.9			1,204.9
Diesel		30.8	96.8	10.1	9.6	147.3
Combustion turbines (peaking units)	101.8					101.8
Other combustion turbines	113.0	46.3			2.2	161.5
Combined-cycle unit		56.2	113.6			169.8
Firm contract power(2)	434.0	90.0	16.0			540.0
	1,755.6	285.5	262.3	10.1	11.8	2,325.3
Net peak demand (MW)	1,162.0	190.6	199.4	4.8	5.6	1,562.4(3)
Reserve margin	52.9%	49.8%	31.5%	110.8%	111.5%	52.6%
Annual load factor	75.2%	71.5%	69.0%	62.4%	70.4%	73.9%
KWH net generated and purchased (millions)	7,657.0	1,194.2	1,204.4	26.3	34.5	10,116.4

(1) HECO units at normal ratings; MECO and HELCO units at reserve ratings.

(2) Nonutility generators HECO: 208 MW (Kalaeloa Partners, L.P., oil-fired), 180 MW (AES Hawaii, Inc., coal-fired) and 46 MW (HPower, refuse-fired); HELCO: 30 MW (Puna Geothermal Venture, geothermal) and 60 MW (Hamakua Energy Partners, L.P., oil-fired); MECO: 16 MW (Hawaiian Commercial & Sugar Company, primarily bagasse-fired).

(3) Noncoincident and nonintegrated.

Generating reliability and reserve margin. HECO serves the island of Oahu and HELCO serves the island of Hawaii. MECO has three separate electrical systems one each on the islands of Maui, Molokai and Lanai. HECO, HELCO and MECO have isolated electrical systems that are not currently interconnected to each other or to any other electrical grid and, thus, each maintains a higher level of reserve generation than is typically carried by interconnected mainland U.S. utilities, which are able to share reserve capacity. These higher levels of reserve margins are required to meet peak electric demands, to provide for scheduled maintenance of generating units (including the units operated by IPPs relied upon for firm capacity) and to allow for the forced outage of the largest generating unit in the system.

See Adequacy of supply in HEI s MD&A under Electric utility.

Nonutility generation. The Company has supported state and federal energy policies which encourage the development of renewable energy sources that reduce the use of fuel oil. The Company s renewable energy sources and potential sources range from wind, solar, photovoltaic,

geothermal, wave and hydroelectric power to energy produced by the burning of bagasse (sugarcane waste), municipal waste and other biofuels.

HECO PPAs. HECO currently has three major PPAs. In March 1988, HECO entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based, indirect subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended, provides that, for a period of 30 years beginning September 1992, HECO will purchase 180 megawatts (MW) of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant utilizes a clean coal technology and is designed to sell sufficient steam to be a Qualifying Facility (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA).

In October 1988, HECO entered into an agreement with Kalaeloa Partners, L.P. (Kalaeloa), a limited partnership, which, through affiliates, contracted to design, build, operate and maintain a QF. The agreement with Kalaeloa, as amended, provided that HECO would purchase 180 MW of firm capacity for a period of 25 years beginning in May 1991. The Kalaeloa facility is a combined-cycle operation, consisting of two oil-fired combustion turbines burning low sulfur fuel oil (LSFO) and a steam turbine that utilizes waste heat from the combustion turbines, and is designed to sell sufficient steam to be a QF. Following two additional amendments, effective in 2005, Kalaeloa currently supplies HECO with 208 MW of firm capacity.

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HECO also entered into a PPA in March 1986 and a firm capacity amendment in April 1991 with the City and County of Honolulu with respect to a refuse-fired plant (HPower). The HPower facility currently supplies HECO with 46 MW of firm capacity. Under the amendment, HECO will purchase firm capacity until mid-2015. HPOWER is proceeding with its plan to expand its facility in order to provide an additional 27 MW net to HECO beginning in 2012.

HECO purchases energy on an as-available basis from three nonutility generators, two of which are qualifying cogeneration facilities at two oil refineries, Chevron USA, Inc. (10 MW) and Tesoro Hawaii Corporation (19 MW). These two contracts continue unless a party elects to terminate upon 90 days notice. The third nonutility generator, Kahuku Wind Power (30 MW), is a wind facility classified as an eligible resource under Hawaii s RPS Law and as a QF under PURPA. The contract with Kahuku Wind Power is for a period of 20 years following the commercial operations date, which is expected to be in the first quarter of 2011.

The PUC has allowed rate recovery for the purchased energy costs related to HECO s as-available energy PPAs and for the firm capacity and purchased energy costs related to HECO s three major PPAs that provide a total of 434 MW of firm capacity, representing 25% of HECO s total net generating and firm purchased capacity on Oahu as of December 31, 2010.

HELCO and MECO PPAs. As of December 31, 2010, HELCO has PPAs for 90 MW and MECO has PPAs for 16 MW (includes 4 MW of system protection) of firm capacity, which PPAs have been approved by the PUC.

HELCO has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility, which will expire on December 31, 2027. Since April 2009, PGV s output had been reduced due to problems with two of its production wells, but its output was restored to 30 MW in June 2010. In February 2011, HELCO and PGV amended the current PPA for the pricing on a portion of the energy payments and entered into a new PPA for HELCO to acquire an additional 8 MW of firm capacity from the facility. Both the amendment and the new PPA are subject to PUC approval.

In October 1997, HELCO entered into an agreement with Encogen, which has been succeeded by Hamakua Energy Partners, L. P. (HEP). The agreement requires HELCO to purchase up to 60 MW (net) of firm capacity for a period of 30 years, expiring on December 31, 2030. The dual-train combined-cycle DTCC facility, which primarily burns naphtha, consists of two oil-fired combustion turbines and a steam turbine that utilizes waste heat from the combustion turbines.

MECO has a PPA with Hawaiian Commercial & Sugar Company (HC&S) for 16 MW of firm capacity. The HC&S generating units primarily burn bagasse (sugar cane waste) along with secondary fuels of diesel oil or coal. The PPA runs through December 31, 2014, and from year to year thereafter, subject to termination on or after December 31, 2014 on not less than two years prior written notice by either party.

HELCO and MECO purchase energy on an as-available basis from a number of nonutility generators, including hydroelectric facilities, windfarms and photovoltaic systems. The PUC has allowed rate recovery for the firm capacity and purchased energy costs for HELCO s and MECO s approved firm capacity and as-available energy PPAs.

Fuel oil usage and supply. The rate schedules of the Company s electric utility subsidiaries include ECACs under which electric rates (and consequently the revenues of the electric utility subsidiaries generally) are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. See discussion of rates and issues relating to the ECAC below under Rates, and Electric utility Certain factors that may affect future results and financial condition Regulation of electric utility rates and Electric utility Material estimates and critical accounting policies Revenues in HEI s MD&A.

HECO s steam generating units burn LSFO. HECO s combustion turbine peaking units burn diesel fuel (diesel) and B99 grade biodiesel (biodiesel) and diesel engine generating units burn diesel. HECO s new CIP CT-1 is being operated exclusively on biodiesel. A HECO steam unit is currently employed in a co-firing project to test burn mixtures of LSFO and crude palm oil purchased under a PUC-approved spot contract with Sime Darby Biodiesel Sdn. Bhd. (Sime Darby) dated June 3, 2009 and physically received in December 2010.

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MECO s and HELCO s steam generating units burn medium sulfur fuel oil (MSFO) and their combustion turbine and diesel engine generating units burn diesel and biodiesel. A MECO combustion turbine generating unit is being prepared to test fire biodiesel for an assessment of the longer-term impact on unit performance. This biodiesel is expected to be supplied to MECO in early 2011 by Sime Darby under the terms of a spot contract dated June 26, 2009.

The diesel supplies acquired by the Lanai Division of MECO are purchased under the provisions of a contract with a local petroleum wholesaler, Lanai Oil Co., Inc., which provides for automatic one-year term extensions unless terminated by either party with 180 days notice. On May 26, 2010, MECO and Lanai Oil amended the fuel supply contract to provide for the supply of the Ultra Low Sulfur grade of diesel, which was to be consumed in the new Manele Bay combined heat and power (CHP) facility and other of Lanai Division s generating units, in accordance with State and federal regulations applicable October 1, 2010. In October 2010, the PUC approved this amendment.

See the fuel oil commitments information set forth in the Fuel contracts section in Note 3 to HEI s Consolidated Financial Statements, including discussions of contracts with Chevron Products Company, a division of Chevron USA, Inc. (Chevron), Tesoro Hawaii Corporation (Tesoro), Renewable Energy Group Marketing & Logistics Group LLC (REG) and Aina Koa Pono-Ka u LLC.

The following table sets forth the average cost of fuel oil used by HECO, HELCO and MECO to generate electricity in the years 2010, 2009 and 2008:

	HECO		HELCO		MECO		Consolidated	
	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu
2010	85.49	1,352.1	89.33	1,460.4	95.17	1,595.8	87.62	1,404.8
2009	60.90	966.5	68.28	1,109.0	73.54	1,231.9	63.91	1,026.4
2008	110.89	1,763.0	108.89	1,758.8	132.25	2,216.2	114.50	1,840.0

The average per-unit cost of fuel oil consumed to generate electricity for HECO, HELCO and MECO reflects a different volume mix of fuel types and grades as follows:

	HECO		HELCO		MECO	
	LSFO	Diesel/Biodiesel	MSFO	Diesel	MSFO	Diesel/Biodiesel
2010	99%	1%	58%	42%	24%	76%
2009	98	2	67	33	25	75
2008	99	1	75	25	24	76

In general, MSFO is the least costly fuel, biodiesel and diesel are the most expensive fuels and the price of LSFO falls in-between on a per-barrel basis. During 2010, the prices of LSFO and diesel trended higher through the first half of 2010 and then weakened in the fall months before rising at year-end. The prices of these fuels rose approximately by 30% and 15%, respectively, over the course of the year. MSFO and biodiesel prices exhibited a less pronounced volatility during 2010 as the per unit prices of each increased steadily, if gradually, such that their prices ended the period about 6% above their respective starting places.

In December 2000, HELCO and MECO executed contracts of private carriage with Hawaiian Interisland Towing, Inc. (HITI) for the employment of a double-hull tank barge for the shipment of MSFO and diesel supplies from their fuel suppliers facilities on Oahu to storage locations on the islands of Hawaii and Maui, respectively, commencing January 1, 2002. The contracts were extended for a second 5-year term commencing January 1, 2007 and contain options for two additional 5-year extensions. On August 14, 2007 the equity interest of Smith Maritime, Ltd., the parent company of HITI, was acquired by a subsidiary of K-Sea Transportation Partners L.P. (K-Sea), which provides refined petroleum products marine transportation, distribution and logistics services in the U.S. domestic marine transportation industry.

K-Sea never takes title to the fuel oil or diesel fuel, but does have custody and control while the fuel is in transit from Oahu. If there were an oil spill in transit, K-Sea is generally contractually obligated to indemnify HELCO and/or MECO for resulting clean-up costs, fines and damages. K-Sea has liability insurance coverage for oil spill related damage in excess of $1 billion. State law provides a cap of $700 million on liability for

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releases of heavy fuel oil transported interisland by tank barge. In the event of a release, HELCO and/or MECO may be responsible for any clean-up, damages, and/or fines that K-Sea or its insurance carrier does not cover.

The prices that HECO, HELCO and MECO pay for purchased energy from nonutility generators are generally linked to the price of oil. The AES Hawaii energy prices vary primarily with an inflation index. The energy prices for Kalaeloa, which purchases LSFO from Tesoro, vary primarily with world LSFO prices. The HPower, HC&S and PGV energy prices are based on the electric utilities respective PUC-filed short-run avoided energy cost rates (which vary with their respective composite fuel costs), subject to minimum floor rates specified in their approved PPAs. HEP energy prices vary primarily with HELCO s diesel costs.

The utilities estimate that 75% of the net energy they will generate and purchase in 2011 will be generated from the burning of fossil fuel oil. HECO generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. HELCO and MECO generally maintain an average system fuel inventory level equivalent to approximately one month s supply of both MSFO and diesel. The PPAs with AES Hawaii and HEP require that they maintain certain minimum fuel inventory levels.

Rates. HECO, HELCO and MECO are subject to the regulatory jurisdiction of the PUC with respect to rates, issuance of securities, accounting and certain other matters. See Regulation below.

All rate schedules of HECO and its subsidiaries contain ECACs as described previously. Under current law and practices, specific and separate PUC approval is not required for each rate change pursuant to automatic rate adjustment clauses previously approved by the PUC. All other rate increases require the prior approval of the PUC after public and contested case hearings. PURPA requires the PUC to periodically review the ECACs of electric and gas utilities in the state, and such clauses, as well as the rates charged by the utilities generally, are subject to change.

See Electric utility Most recent rate requests, Electric utility Decoupling proceeding, Electric utility Certain factors that may affect future results and financial condition Regulation of electric utility rates and Electric utility Material estimates and critical accounting policies Revenues in HEI s MD&A and Interim increases and Major projects Campbell Industrial Park combustion turbine No. 1 and transmission line under Commitments and contingencies in Note 3 to HEI s Consolidated Financial Statements.

Public Utilities Commission and Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs of the State of Hawaii. On February 3, 2011, the Governor of the State of Hawaii announced the appointment of State Representative Hermina Morita as the Chairman of the PUC (for a term that expires in June 2014), subject to confirmation by the State Senate. The other commissioners are Carlito P. Caliboso (for a term that expires in June 2016), an attorney previously in private practice, and John E. Cole (for a term that expires in June 2012), who previously served as the Executive Director of the Division of Consumer Advocacy.

Since January 2011, the Executive Director of the Division of Consumer Advocacy has been Jeffrey T. Ono, an attorney previously in private practice.

Competition. See Electric utility Certain factors that may affect future results and financial condition Competition in HEI s MD&A.

Electric and magnetic fields. The generation, transmission and use of electricity produces low-frequency (50Hz-60Hz) electrical and magnetic fields (EMF). While EMF has been classified as a possible human carcinogen by more than one public health organization and remains the subject of ongoing studies and evaluations, no definite causal relationship between EMF and health risks has been clearly demonstrated to date and there are no federal standards in the U.S. limiting occupational or residential exposure to 50Hz-60Hz EMF. HECO and its subsidiaries are continuing to monitor the ongoing research and continue to participate in utility industry funded studies on EMF and, where technically feasible and economically reasonable, continue to pursue a policy of prudent avoidance in the design and installation of new transmission and distribution facilities. Management cannot predict the impact, if any, the EMF issue may have on HECO, HELCO and MECO in the future.

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Global climate change and greenhouse gas emissions reduction. The Company shares the concerns of many regarding the potential effects of global warming and the human contributions to this phenomenon, including burning of fossil fuels for electricity production, transportation, manufacturing and agricultural activities, as well as deforestation. Recognizing that effectively addressing global warming requires commitment by the private sector, all levels of government, and the public, the Company is committed to taking direct action to mitigate greenhouse gas emissions from its operations. See Environmental regulation Global climate change and greenhouse gas emissions reduction under Commitments and contingencies in Note 3 to HEI s Consolidated Financial Statements.

Legislation. See Electric utility Legislation and regulation in HEI s MD&A.

Commitments and contingencies. See Selected contractual obligations and commitments in HECO s MD&A and Electric utility Certain factors that may affect future results and financial condition Other regulatory and permitting contingencies in HEI s MD&A, Item 1A. Risk Factors, and Note 3 to HEI s Consolidated Financial Statements for a discussion of important commitments and contingencies.

Regulation. The PUC regulates the rates, issuance of securities, accounting and certain other aspects of the operations of HECO and its electric utility subsidiaries. See the previous discussion under Rates and the discussions under Electric utility Results of operations Most recent rate requests and Electric utility Certain factors that may affect future results and financial condition Regulation of electric utility rates in HEI s MD&A.

Any adverse decision or policy made or adopted by the PUC, or any prolonged delay in rendering a decision, could have a material adverse effect on consolidated HECO s and the Company s financial condition, results of operations or cash flows.

On October 20, 2008, HECO signed an Energy Agreement (see Hawaii Clean Energy Initiative under Commitments and contingencies in Note 3 to HEI s Consolidated Financial Statements) setting forth goals, objectives and actions with the purpose of decreasing Hawaii s dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. As a result of the Energy Agreement, numerous PUC proceedings have been initiated, many of which have been completed, as described elsewhere in this report. One of the proceedings has resulted in the adoption of a new framework that will substantially change the manner in which the utilities obtain rate relief. See Decoupling in HEI s MD&A.

In 2009, the State Legislature amended Hawaii s RPS law to require electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. Energy savings resulting from energy efficiency programs will not count toward the RPS after 2014 (only electrical generation using renewable energy as a source will count). The amended RPS law is consistent with the commitment in the Energy Agreement.

Certain transactions between HEI s electric public utility subsidiaries (HECO, HELCO and MECO) and HEI and affiliated interests are subject to regulation by the PUC. An affiliated interest is defined by statute and includes officers and directors of a public utility, every person owning or holding, directly or indirectly, 10% or more of the voting securities of a public utility, and corporations which have in common with a public utility more than one-third of the directors of that public utility. All contracts (including summaries of unwritten agreements) made on or after July 1, 1988 of $300,000 or more in a calendar year for management, supervisory, construction, engineering, accounting, legal, financial and similar services and for the sale, lease or transfer of property between a public utility and affiliated interests must be filed with the PUC to be

effective, and the PUC may issue cease and desist orders if such contracts are not filed. All such affiliated contracts for capital expenditures (except for real property) must be accompanied by comparative price quotations from two nonaffiliates, unless the quotations cannot be obtained without substantial expense. Moreover, all transfers of $300,000 or more of real property between a public utility and affiliated interests require the prior approval of the PUC and proof that the transfer is in the best interest of the public utility and its customers. If the PUC, in its discretion, determines that an affiliated contract is unreasonable or otherwise contrary to the public interest, the utility must either revise the contract or risk disallowance of the payments for rate-making purposes. In rate-making proceedings, a utility must also prove the reasonableness of payments made to affiliated interests under any affiliated contract of $300,000 or more by clear and convincing evidence.

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In December 1996, the PUC issued an order in a docket that had been opened to review the relationship between HEI and HECO and the effects of that relationship on the operations of HECO. The order adopted the report of the consultant the PUC had retained and ordered HECO to continue to provide the PUC with periodic status reports on its compliance with the PUC Agreement (pursuant to which HEI became the holding company of HECO). HECO files such status reports annually. In the order, the PUC also required HECO, HELCO and MECO to present a comprehensive analysis of the impact that the holding company structure and investments in nonutility subsidiaries have on a case-by-case basis on the cost of capital to each utility in future rate cases and remove any such effects from the cost of capital. The PUC has not disputed, in subsequent rate cases, the presentations made by HECO, HELCO and MECO that there was no evidence that would modify the PUC s finding that HECO s access to capital did not suffer as a result of HEI s involvement in nonutility activities and that HEI s diversification did not permanently raise or lower the cost of capital incorporated into the rates paid by HECO s utility customers.

HECO and its electric utility subsidiaries are not subject to regulation by the Federal Energy Regulatory Commission under the Federal Power Act, except under Sections 210 through 212 (added by Title II of PURPA and amended by the Energy Policy Act of 1992), which permit the Federal Energy Regulatory Commission to order electric utilities to interconnect with qualifying cogenerators and small power producers, and to wheel power to other electric utilities. Title I of PURPA, which relates to retail regulatory policies for electric utilities, and Title VII of the Energy Policy Act of 1992, which addresses transmission access, also apply to HECO and its electric utility subsidiaries. HECO and its electric utility subsidiaries are also required to file various operational reports with the Federal Energy Regulatory Commission. The Company cannot predict the extent to which cogeneration or transmission access will reduce its electrical loads, reduce its current and future generating and transmission capability requirements or affect its financial condition, results of operations or cash flows.

Because they are located in the State of Hawaii, HECO and its subsidiaries are exempt by statute from limitations set forth in the Powerplant and Industrial Fuel Use Act of 1978 on the use of petroleum as a primary energy source.

See also HEI Regulation above.

Environmental regulation. HECO, HELCO and MECO, like other utilities, are subject to periodic inspections by federal, state and, in some cases, local environmental regulatory agencies, including agencies responsible for the regulation of water quality, air quality, hazardous and other waste, and hazardous materials. These inspections may result in the identification of items needing corrective or other action. When the corrective or other necessary action is taken, no further regulatory action is expected. Except as otherwise disclosed in this report (see Certain factors that may affect future results and financial condition Environmental matters for HEI Consolidated, the Electric utility and the Bank sections in HEI s MD&A and Note 3 to HEI s Consolidated Financial Statements, which are incorporated herein by reference), the Company believes that each subsidiary has appropriately responded to environmental conditions requiring action and that, as a result of such actions, such environmental conditions will not have a material adverse effect on the Company or HECO.

Water quality controls. The generating stations, substations and other utility facilities operate under federal and state water quality regulations and permits, including but not limited to the Clean Water Act National Pollution Discharge Elimination System (governing point source discharges, including wastewater and storm water discharges), Underground Injection Control (regulating disposal of wastewater into the subsurface), the Spill Prevention, Control and Countermeasure (SPCC) program, the Oil Pollution Act of 1990 (OPA), and other regulations associated with discharges of oil and other substances to surface water**.**

OPA governs actual or threatened oil releases and establishes strict and joint and several liability for responsible parties for (1) oil removal costs incurred by the federal government or the state, and (2) damages to natural resources and real or personal property, as well as compensation for certain economic damages. Responsible parties include vessel owners and operators of on-shore facilities. OPA imposes fines and jail terms

ranging in severity depending on how the release was caused.

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In 2010 and 2011 to date, HECO, HELCO and MECO did not experience any significant petroleum releases. See the discussion concerning the ongoing Honolulu Harbor investigation under Environmental regulation in Note 3 to HEI s Consolidated Financial Statements. Except as otherwise disclosed, the Company believes that each subsidiary s costs of responding to petroleum releases to date will not have a material adverse effect on the respective subsidiary or the Company.

EPA regulations under OPA also require certain facilities that use or store petroleum to prepare and implement SPCC Plans in order to prevent releases of petroleum to navigable waters of the U.S. Certain of the facilities of HECO, HELCO and MECO subject to the SPCC program (including power plants and certain baseyards) are in compliance with these requirements. The utilities expect to complete and implement their SPCC Plans for other facilities subject to these requirements (principally their substations) by the current compliance deadline of November 10, 2011.

As required by section 316(b) of the Clean Water Act, proposed regulations governing protection of aquatic organisms in cooling water intake structures at three of HECO s power plants are expected in 2011. Depending on the ultimate regulations adopted by the EPA, the cost of compliance could be significant.

Air quality controls. The generating stations of the utility subsidiaries operate under air pollution control permits issued by the Department of Health of the State of Hawaii (DOH) and, in a limited number of cases, by the EPA. The entire electric utility industry has been affected by the 1990 amendments to the Clean Air Act (CAA), changes to the National Ambient Air Quality Standard (NAAQS) for ozone, adoption of a NAAQS for fine particulate matter, and the EPA s 1-hour NAAQS for nitrogen dioxide and sulfur dioxide (adopted in 2010). Regulations are expected to be issued in 2011 proposing Maximum Available Control Technology (MACT) standards for hazardous air pollutants (HAPs) emitted by electrical steam generating units (EGUs) that may be applicable to all HECO steam units. Depending on the HAPs covered by the final regulations and the MACT standards adopted for those HAPs, the cost of compliance for HECO could be significant. By the terms of a federal court consent decree, the EPA is required to issue proposed EGU MACT regulations in March 2011 and final regulations in November 2011. The EPA has also required HELCO (for its Hill Power Plant) and MECO (for its Kahului Power Plant) to develop evaluations of emission controls for units at those plants that the EPA believes contribute to Regional Haze. Depending on final Regional Haze rules that the EPA will issue for Hawaii, the cost of compliance for HELCO and MECO could be significant.

The CAA amendments of 1990, among other things, established a federal operating permits program (in Hawaii known as the Covered Source Permit program) and greatly expanded the hazardous air pollutant program. The more stringent NAAQS will affect new or modified units requiring a permit to construct under the PSD program and the controls necessary to meet the NAAQS.

CAA operating permits (Title V permits) have been issued for all affected generating units.

Hazardous waste and toxic substances controls. The operations of the electric utility and former freight transportation subsidiaries of HEI are subject to EPA regulations that implement provisions of the Resource Conservation and Recovery Act (RCRA), the Superfund Amendments and Reauthorization Act (SARA) and the Toxic Substances Control Act (TSCA).

RCRA underground storage tank (UST) regulations require all facilities with USTs used for storing petroleum products to comply with leak detection, spill prevention and new tank standard retrofit requirements. All HECO, HELCO and MECO USTs currently meet these standards.

The Emergency Planning and Community Right-to-Know Act under SARA Title III requires HECO, HELCO and MECO to report potentially hazardous chemicals present in their facilities in order to provide the public with information so that emergency procedures can be established to protect the public in the event of hazardous chemical releases. All HECO, HELCO and MECO facilities are in compliance with applicable annual reporting requirements to the State Emergency Planning Commission, the Local Emergency Planning Committee and local fire departments. Since January 1, 1998, the steam electric industry category has been subject to Toxics Release Inventory (TRI) reporting requirements. All HECO, HELCO and MECO facilities are in compliance with TRI reporting requirements.

The TSCA regulations specify procedures for the handling and disposal of polychlorinated biphenyls (PCB), a compound found in some transformer and capacitor dielectric fluids. The TSCA regulations also

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apply to responses to releases of PCB to the environment. HECO, HELCO and MECO have instituted procedures to monitor compliance with these regulations and have implemented a program to identify and replace PCB transformers and capacitors in their systems. Management believes that all HECO, HELCO and MECO facilities are currently in compliance with PCB regulations. In April 2010, the EPA issued an Advance Notice of Proposed Rule Making announcing its intent to reassess PCB regulations.

Hawaii s Environmental Response Law, as amended (ERL), governs releases of hazardous substances, including oil, to the environment in areas within the state s jurisdiction. Responsible parties under the ERL are jointly, severally and strictly liable for a release of a hazardous substance. Responsible parties include owners or operators of a facility where a hazardous substance comes to be located and any person who at the time of disposal of the hazardous substance owned or operated any facility at which such hazardous substance was disposed.

HECO, HELCO and MECO periodically identify leaking petroleum-containing equipment such as USTs, piping and transformers. In a few instances, small amounts of PCBs have been identified in the leaking equipment. Each subsidiary reports releases from such equipment when and as required by applicable law and addresses impacts due to the releases in compliance with applicable regulatory requirements.

Research and development. HECO and its subsidiaries expensed approximately $4.0 million, $4.4 million and $4.0 million in 2010, 2009 and 2008, respectively, for research and development (R&D). In 2010, 2009 and 2008, the electric utilities contributions to the Electric Power Research Institute accounted for approximately half of the R&D expenses. There were also utility expenditures in 2010, 2009 and 2008 related to new technologies, energy efficiency and conservation, demand response, customer use and pricing (e.g., peak pricing and tiered rates based on usage), biofuels, energy storage, electric and hybrid plug in vehicles and other renewables (e.g., wind and solar power integration and solar resource evaluation).

Properties.

HECO owns and operates four generating plants on the island of Oahu at Honolulu, Waiau, Kahe and Campbell Industrial Park. These plants have an aggregate net generating capability of 1,321.6 MW as of December 31, 2010. The four plants are situated on HECO-owned land having a combined area of 535 acres and one 3.5-acre parcel of land under a lease expiring December 31, 2018. In addition, HECO owns a total of 132 acres of land on which substations, transformer vaults, distribution baseyards and the Kalaeloa cogeneration facility are located.

HECO owns overhead transmission lines, overhead distribution lines, underground cables, poles (fully owned or jointly owned) and steel or aluminum high voltage transmission towers. The transmission system operates at 46 kilovolt (kV) and 138 kV.

HECO owns buildings and approximately 11.6 acres of land located in Honolulu which houses its operating, engineering and information services departments and a warehousing center. It also leases an office building and certain office spaces in Honolulu. The lease for the office building expires in November 2021, with an option to extend through November 2024. The leases for certain office spaces expire on various dates from December 31, 2011 through November 30, 2017 with options to extend to various dates through July 31, 2021.

HECO owns land at Campbell Industrial Park (CIP) used to situate central fuel storage facilities adjacent to its CIP CT-1 generating unit facility with an aggregate usable capacity of 786,632 barrels of fuel, which land is included in the power plant acreage above. HECO also has fuel storage facilities at each of its plant sites with a combined usable capacity of 869,093 barrels, as well as underground fuel pipelines that transport fuel from HECO s central fuel storage at CIP to fuel storage facilities at HECO s generating stations at Waiau and Kahe. HECO also owns a fuel storage facility at Iwilei, which receives fuel trucked from the central storage facility, with a combined usable capacity of 76,735 barrels, and an under-ground pipeline that transports fuel from that site to its Honolulu generating station.

HELCO owns and operates five generating plants on the island of Hawaii, two at Hilo and one at each of Waimea, Keahole and Puna, along with distributed generators at substation sites. These plants have an aggregate net generating capability of 195.5 MW as of December 31, 2010 (excluding several small run-of-river hydro units and a small windfarm). The plants are situated on HELCO-owned land having a combined

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area of approximately 44 acres. The distributed generators are located within HELCO-owned substation sites having a combined area of approximately 4 acres. HELCO also owns fuel storage facilities at these sites with a total maximum usable capacity of 66,387 barrels of bunker oil, and 83,819 barrels of diesel. There are an additional 30,341 barrels of diesel and 22,770 barrels of bunker oil storage capacity for HELCO-owned fuel off-site at Chevron-owned terminalling facilities. HELCO pays a storage fee to Chevron and has no other interest in the property, tanks or other infrastructure situated on Chevron s property. HELCO also owns 6 acres of land in Kona, which is used for a baseyard, and one acre of land in Hilo, which houses its accounting, customer services and administrative offices. HELCO also leases 3.7 acres of land for its baseyard in Hilo under a lease expiring in 2030. In addition, HELCO owns a total of approximately 100 acres of land, and leases a total of approximately 8.5 acres of land, on which hydro facilities, substations and switching stations, microwave facilities, and transmission lines are located. The deeds to the sites located in Hilo contain certain restrictions, but the restrictions do not materially interfere with the use of the sites for public utility purposes.

MECO owns and operates two generating plants on the island of Maui, at Kahului and Maalaea, with an aggregate net generating capability of 246.3 MW as of December 31, 2010. The plants are situated on MECO-owned land having a combined area of 28.6 acres. MECO also owns fuel oil storage facilities at these sites with a total maximum usable capacity of 176,355 barrels of fuel. MECO owns two 1 MW stand-by diesel generators and a 6,000 gallon fuel storage tank located in Hana. MECO owns 65.7 acres of undeveloped land at Waena. Most of this Waena land is used for agricultural purposes by the former landowner under an amended license agreement, which is effective on a month-to-month basis, but terminable by either party upon 30 days written notice until the area is required for development by MECO for utility purposes (e.g., proposed biofuel plant), or until December 31, 2011, whichever occurs first.

MECO s administrative offices and engineering and distribution departments are located on 9.1 acres of MECO-owned land in Kahului.

MECO also owns and operates smaller distribution systems, generation systems (with an aggregate net capability of 21.9 MW as of December 31, 2010) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by MECO.

Other properties. The utilities own transmission lines, distribution lines, underground cables, poles (some jointly) and towers. Electric lines are located over or under public and nonpublic properties. Lines are added when needed to serve increased loads and/or for reliability reasons. In some design districts on Oahu, lines must be placed underground. Under Hawaii law, the PUC generally must determine whether new 46 kV, 69 kV or 138 kV lines can be constructed overhead or must be placed underground.

See HECO and subsidiaries and service areas above for a discussion of the nonexclusive franchises of HECO and subsidiaries. Most of the leases, easements and licenses for HECO s, HELCO s and MECO s lines have been recorded.

See Generation statistics above and Limited insurance in HEI s MD&A for a further discussion of some of the electric utility properties.

Bank

General. ASB was granted a federal savings bank charter in January 1987. Prior to that time, ASB had operated since 1925 as the Hawaii division of American Savings & Loan Association of Salt Lake City, Utah. As of December 31, 2010, ASB was one of the largest financial institutions in the State of Hawaii based on total assets of $4.8 billion and deposits of $4.0 billion. In 2010, ASB s revenues and net income amounted to approximately 11% and 51% of HEI s consolidated revenues and net income, respectively, compared to approximately 12% and 26% in 2009 and approximately 11% and 20% in 2008, respectively.

At the time of HEI s acquisition of ASB in 1988, HEI agreed with the OTS predecessor regulatory agency that ASB s regulatory capital would be maintained at a level of at least 6% of ASB s total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI s obligation to contribute additional capital to ensure that ASB would have the capital level required by the OTS was limited to a maximum aggregate amount of approximately $65.1 million. As of December 31, 2010, as a result of certain HEI contributions of capital to ASB, HEI s maximum obligation to contribute additional capital has been

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reduced to approximately $28.3 million. ASB is subject to OTS regulations on dividends and other distributions and ASB must receive a letter of non-objection from the OTS before it can declare and pay a dividend to HEI.

ASB s earnings depend primarily on its net interest income the difference between the interest income earned on earning assets (loans receivable and investment and mortgage-related securities) and the interest expense incurred on costing liabilities (deposit liabilities and other borrowings, including advances from the Federal Home Loan Bank (FHLB) of Seattle and securities sold under agreements to repurchase). Other factors affecting ASB s operating results include its provision for loan losses, fee income, other noninterest income (including gains and losses on sales of loans, securities and notes and other-than-temporary impairments of securities) and noninterest expenses (including losses resulting from the early extinguishment of debt such as the loss resulting from a balance sheet restructuring in June 2008).

For additional information about ASB, see the sections under Bank in HEI s MD&A, HEI s Quantitative and Qualitative Disclosures about Market Risk and Note 4 to HEI s Consolidated Financial Statements.

The following table sets forth selected data for ASB for the years indicated (average balances calculated using the average daily balances):

Years ended December 31	**2010**	**2009**	**2008**
Common equity to assets ratio			
Average common equity divided by average total assets	10.34%	9.38%	9.20%
Return on assets			
Net income for common stock divided by average total assets	1.20	0.43	0.29
Return on common equity			
Net income for common stock divided by average common equity	11.62	4.54	3.17
Tangible efficiency ratio			
Total noninterest expense, less amortization of intangibles, divided by net interest income and noninterest income	56	72	85

All of the foregoing ratios and returns for 2009 were adversely affected by ASB s sale of its private-issue mortgage-related securities portfolio. All of the foregoing ratios and returns for 2008 were adversely affected by ASB s restructuring of its balance sheet in June 2008.

ASB s tangible efficiency ratio the cost of earning $1 of revenue decreased from 72% in 2009 to 56% in 2010, primarily due to losses related to the sale of the private-issue mortgage-related securities portfolio and other-than-temporary impairment (OTTI) charges on ASB s securities portfolio in 2009 and lower noninterest expenses in 2010 due to the performance improvement project. The increase in tangible efficiency ratio for 2008 compared to 2009 was due to charges to noninterest income and noninterest expenses as a result of the restructuring of its balance sheet.

Consolidated average balance sheet. See Bank Results of operations Average balance sheet and net interest margin in HEI s MD&A.

Asset/liability management. See HEI s Quantitative and Qualitative Disclosures about Market Risk.

Interest income and interest expense. See Bank Results of operations Average balance sheet and net interest margin in HEI s MD&A for a table of average balances, interest and dividend income, interest expense and weighted-average yields earned and rates paid for certain categories of earning assets and costing liabilities for the years ended December 31, 2010, 2009 and 2008.

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The following table shows for the periods indicated the effect on net interest income of (1) changes in interest rates (change in weighted-average interest rate multiplied by prior year average balance) and (2) changes in volume (change in average balance multiplied by prior period weighted-average interest rate). Any remaining change is allocated to the above two categories on a prorata basis.

(in thousands)	2010 vs. 2009			2009 vs. 2008		
Increase (decrease) due to	Rate	Volume	Total	Rate	Volume	Total
Income from earning assets						
Investment and mortgage-related securities	$ (9,847)	$ (2,184)	$ (12,031)	$ (4,895)	$ (33,336)	$ (38,231)
Loans receivable, net	(1,700)	(20,946)	(22,646)	(15,431)	(13,941)	(29,372)
	(11,547)	(23,130)	(34,677)	(20,326)	(47,277)	(67,603)
Expense from costing liabilities						
Deposit liabilities	12,588	6,762	19,350	18,309	9,128	27,437
Other borrowings	(1,113)	4,957	3,844	8,128	26,316	34,444
	11,475	11,719	23,194	26,437	35,444	61,881
Net interest income	$ (72)	$ (11,411)	$ (11,483)	$ 6,111	$ (11,833)	$ (5,722)

See Bank Results of operations in HEI s MD&A for an explanation of significant changes in earning assets and costing liabilities.

Noninterest income. In addition to net interest income, ASB has various sources of noninterest income, including fee income from credit and debit cards and fee income from deposit liabilities and other financial products and services. See Bank Results of operations in HEI s MD&A for an explanation of significant changes in noninterest income.

Lending activities.

General. Loans of $3.5 billion represented 72.8% of total assets as of December 31, 2010, compared to $3.6 billion, or 73.8%, and $4.2 billion, or 76.7%, as of December 31, 2009 and 2008, respectively. The decrease in the loans receivable balance in 2010 was primarily due to ASB s decision to sell substantially all of its residential loan production in 2009 and the first nine months of 2010. The increase in loans receivable in 2008 was primarily due to growth in home equity lines of credit and commercial markets loans. ASB s loan portfolio consists primarily of residential 1-4 family mortgage loans.

The following table sets forth the composition of ASB s loan portfolio as of the dates indicated:

December 31	2010		2009		2008		2007		2006	
(dollars in thousands)	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total
Real estate loans: (1)										
Residential 1-4 family	$ 2,087,813	58.9	$ 2,332,763	62.9	$ 2,812,177	66.5	$ 2,901,420	70.1	$ 2,544,650	66.5
Commercial real estate	300,689	8.5	255,716	6.9	243,109	5.8	252,831	6.1	239,459	6.3
Home equity line of credit	416,453	11.7	326,896	8.8	271,780	6.4	194,549	4.7	186,209	4.9
Residential land	65,599	1.8	96,515	2.6	126,963	3.0	159,114	3.8	152,771	4.0

Commercial construction	38,079	1.1	68,174	1.9	71,579	1.7	34,184	0.8	110,517	2.9
Residential construction	5,602	0.2	16,705	0.5	34,768	0.8	55,867	1.4	58,259	1.5
Total real estate loans, net	2,914,235	82.2	3,096,769	83.6	3,560,376	84.2	3,597,965	86.9	3,291,865	86.1
Commercial loans	551,683	15.5	545,622	14.7	597,234	14.1	471,576	11.4	453,151	11.9
Consumer loans	80,138	2.3	64,360	1.7	72,524	1.7	71,440	1.7	78,196	2.0
	3,546,056	100.0	3,706,751	100.0	4,230,134	100.0	4,140,981	100.0	3,823,212	100.0
Less: Deferred fees and discounts	(15,530)		(19,494)		(24,631)		(26,192)		(22,033)	
Allowance for loan losses	(40,646)		(41,679)		(35,798)		(30,211)		(31,228)	
Total loans, net	$ 3,489,880		$ 3,645,578		$ 4,169,705		$ 4,084,578		$ 3,769,951	

(1) Includes renegotiated loans.

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The following table summarizes ASB s loan portfolio as of December 31, 2010 and 2009, excluding loans held for sale and including undisbursed commercial real estate construction and development loan funds, based upon contractually scheduled principal payments and expected prepayments allocated to the indicated maturity categories:

	2010				2009			
December 31 Due (in millions)	In 1 year or less	After 1 year through 5 years	After 5 years	Total	In 1 year or less	After 1 year through 5 years	After 5 years	Total
Residential loans - Fixed	$ 486	$ 981	$ 540	$ 2,007	$ 560	$ 1,088	$ 597	$ 2,245
Residential loans - Adjustable	37	38	5	80	42	39	7	88
	523	1,019	545	2,087	602	1,127	604	2,333
Commercial real estate loans-Fixed	9	56	24	89	13	60	55	128
Commercial real estate loans-Adjustable	46	115	89	250	62	104	30	196
	55	171	113	339	75	164	85	324
Consumer loans Fixed`	52	70	3	125	72	47	21	140
Consumer loans Adjustable	44	92	309	445	44	99	227	370
	96	162	312	570	116	146	248	510
Commercial loans Fixed	33	71	14	118	94	178	35	307
Commercial loans Adjustable	207	193	34	434	157	71	11	239
	240	264	48	552	251	249	46	546
Total loans - Fixed	580	1,178	581	2,339	739	1,373	708	2,820
Total loans - Adjustable	334	438	437	1,209	305	313	275	893
	$ 914	$ 1,616	$ 1,018	$ 3,548	$ 1,044	$ 1,686	$ 983	$ 3,713

The decrease in fixed rate residential loans was due to repayments in the portfolio and the sale of fixed rate loans in the secondary market.

Origination, purchase and sale of loans. Generally, residential and commercial real estate loans originated by ASB are secured by real estate located in Hawaii. For additional information, including information concerning the geographic distribution of ASB s mortgage-related securities portfolio and the geographic concentration of credit risk, see Note 14 to HEI s Consolidated Financial Statements. The demand for loans is primarily dependent on the Hawaii real estate market, business conditions, interest rates and loan refinancing activity.

Residential mortgage lending. ASB s general policy is to require private mortgage insurance when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For nonowner-occupied residential properties, the loan-to-value ratio may not exceed 80% of the lower of the appraised value or purchase price at origination.

Construction and development lending. ASB provides both fixed- and adjustable-rate loans for the construction of one-to-four unit residential and commercial properties. Construction loan projects are typically short term in nature. Construction and development financing generally involves a higher degree of credit risk than long-term financing on improved, occupied real estate. Accordingly, construction and development loans are generally priced higher than loans secured by completed structures. ASB s underwriting, monitoring and disbursement practices with respect to construction and development financing are designed to ensure sufficient funds are available to complete construction projects. See Loan portfolio risk elements and Multifamily residential and commercial real estate lending below.

Multifamily residential and commercial real estate lending. ASB provides permanent financing and construction and development financing secured by multifamily residential properties (including apartment buildings) and secured by commercial and industrial properties (including office buildings, shopping centers and warehouses) for its own portfolio as well as for participation with other lenders. Commercial real estate lending typically involves long lead times to originate and fund. As a result, production results can vary significantly from period to period.

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Consumer lending. ASB offers a variety of secured and unsecured consumer loans. Loans secured by deposits are limited to 90% of the available account balance. ASB offers home equity lines of credit, secured and unsecured VISA cards, checking account overdraft protection and other general purpose consumer loans.

Commercial lending. ASB provides both secured and unsecured commercial loans to business entities. This lending activity is part of ASB s strategic transformation to a full-service community bank and is designed to diversify ASB s asset structure, shorten maturities, improve rate sensitivity of the loan portfolio and attract commercial checking deposits.

Loan origination fee and servicing income. In addition to interest earned on loans, ASB receives income from servicing loans, for late payments and from other related services. Servicing fees are received on loans originated and subsequently sold by ASB where ASB acts as collection agent on behalf of third-party purchasers.

ASB generally charges the borrower at loan settlement a loan origination fee of 1% of the amount borrowed. See Loans receivable in Note 1 to HEI s Consolidated Financial Statements.

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of secured loans. In a foreclosure action, the property securing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold. As of December 31, 2010, December 31, 2009 and December 31, 2008, ASB had $4.3 million, $4.0 million and $1.5 million, respectively, of real estate acquired in settlement of loans.

In addition to delinquent loans, other significant lending risk elements include: (1) loans which accrue interest and are 90 days or more past due as to principal or interest, (2) loans accounted for on a nonaccrual basis (nonaccrual loans), and (3) loans on which various concessions are made with respect to interest rate, maturity, or other terms due to the inability of the borrower to service the obligation under the original terms of the agreement (renegotiated loans). ASB loans that were 90 days or more past due on which interest was being accrued as of December 31, 2010, 2009, 2008, 2007 and 2006 were immaterial or nil. The following table sets forth certain information with respect to nonaccrual and renegotiated loans as of the dates indicated:

December 31 (dollars in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Nonaccrual loans					
Real estate					
Residential 1-4 family	$ 36,420	$ 31,848	$ 7,468	$ 1,027	$ 413
Commercial real estate		344			
Home equity line of credit	1,659	2,755	759	464	130
Residential land	15,479	25,164	7,652	89	495
Residential construction		326	326		
Total real estate loans	53,558	60,437	16,205	1,580	1,038
Consumer loans	341	715	523	342	215
Commercial loans	4,956	4,171	2,766	1,273	1,144

Total nonaccrual loans	$ 58,855	$ 65,323	$ 19,494	$ 3,195	$ 2,397
Nonaccrual loans to end of period loans	1.7%	1.8%	0.5%	0.1%	0.1%
Renegotiated loans not included above					
Real estate					
Residential 1-4 family	$ 5,150	$ 1,986	$ 1,913	$ 2,536	$ 2,540
Commercial real estate	1,963	513			3,274
Residential land	27,689	15,665	2,125		
Total real estate loans	34,802	18,164	4,038	2,536	5,814
Commercial loans	4,035	2,904	4,612	571	467
Total renegotiated loans	$ 38,837	$ 21,068	$ 8,650	$ 3,107	$ 6,281
Nonaccrual and renegotiated loans to end of period loans	2.8%	2.3%	0.7%	0.2%	0.2%

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ASB realized $3.6 million, $2.0 million and $1.0 million of interest income on nonaccrual and renegotiated loans in 2010, 2009 and 2008, respectively. If these loans would have earned interest in accordance with their original contractual terms ASB would have realized $3.8 million, $2.9 million and $0.7 million in 2010, 2009 and 2008, respectively.

In 2007, nonaccrual loans increased by $0.8 million when compared to 2006 due to higher delinquencies in the residential and consumer loan portfolios. In 2008, nonaccrual loans increased by $16.3 million due to higher residential loan delinquencies and the reclassification of certain commercial loans due to their weakening credit quality. In 2009, nonaccrual loans increased by $45.8 million primarily due to an increase in residential 1-4 family and residential land loans 90+ days delinquent. In 2010, nonaccrual loans decreased by $6.5 million due to a decrease in residential land loans that were 90+ days delinquent and the renegotiation of certain residential land loans that had been on nonaccrual status.

Allowance for loan losses. See Allowance for loan losses in Note 1 to HEI s Consolidated Financial Statements.

The following table presents the changes in the allowance for loan losses for the years indicated:

(dollars in thousands)	2010	2009	2008	2007	2006
Allowance for loan losses, January 1	$ 41,679	$ 35,798	$ 30,211	$ 31,228	$ 30,595
Provision for loan losses	20,894	32,000	10,334	5,700	1,400
Charge-offs					
Residential 1-4 family	6,142	3,129	51		
Home equity line of credit	2,517	2,331	21	89	
Residential land	6,487	4,217	282		
Total real estate loans	15,146	9,677	354	89	
Commercial loans	6,261	14,853	3,447	6,301	766
Consumer loans	3,408	2,436	1,825	1,334	1,119
Total charge-offs	24,815	26,966	5,626	7,724	1,885
Recoveries					
Residential 1-4 family	744	151	46	68	200
Home equity line of credit	63			4	3
Residential land	63				
Total real estate loans	870	151	46	72	203
Commercial loans	1,537	404	548	623	482
Consumer loans	481	292	285	312	433
Total recoveries	2,888	847	879	1,007	1,118
Allowance for loan losses, December 31	$ 40,646	$ 41,679	$ 35,798	$ 30,211	$ 31,228
Ratio of allowance for loan losses, December 31, to end of period loans	1.15%	1.12%	0.84%	0.73%	0.82%
Ratio of provision for loan losses during the year to average loans outstanding	0.58%	0.81%	0.25%	0.15%	0.04%
	0.61%	0.66%	0.11%	0.17%	0.02%

Ratio of net charge-offs during the year to average loans outstanding	

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The following table sets forth the allocation of ASB s allowance for loan losses and the percentage of loans in each category to total loans as of the dates indicated:

December 31 (dollars in thousands)	2010 Balance	2010 % of total	2009 Balance	2009 % of total	2008 Balance	2008 % of total	2007 Balance	2007 % of total	2006 Balance	2006 % of total
Real estate										
Residential 1-4 family	$ 6,497	58.9	$ 5,522	62.5	$ 4,024	66.2	$ 3,906	69.8	$ 5,092	66.2
Commercial real estate	1,474	8.5	861	6.9	2,229	5.7	2,760	6.1	4,289	6.3
Home equity line of credit	4,269	11.7	4,679	8.8	548	6.4	412	4.7	1,287	4.9
Residential land	6,411	1.8	4,252	2.6	1,953	3.0	256	3.9	466	4.0
Commercial construction	1,714	1.1	3,068	1.8	1,748	1.7	1,483	0.8	3,633	2.9
Residential construction	7	0.2	19	0.5	88	0.8	68	1.3	101	1.5
Total real estate loans, net	20,372	82.2	18,401	83.1	10,590	83.8	8,885	86.6	14,868	85.8
Commercial loans	16,015	15.5	19,498	14.6	22,294	14.0	18,820	11.4	13,936	11.9
Consumer loans	3,325	2.3	2,590	2.3	2,190	2.2	2,167	2.0	2,224	2.3
	39,712	100.0	40,489	100.0	35,074	100.0	29,872	100.0	31,028	100.0
Unallocated	934		1,190		724		339		200	
Total allowance for loan losses	$ 40,646		$ 41,679		$ 35,798		$ 30,211		$ 31,228	

In 2010, ASB s allowance for loan losses decreased by $1.0 million from 2009 due to lower residential, commercial and commercial construction average loan balances, partly offset by increases in the historical loss ratios for residential first mortgage and land loans. Although ASB s loan quality improved in 2010, there are still signs of financial stress in the Hawaii and mainland markets. The slowdown in the economy, both nationally and locally, has resulted in ASB experiencing higher levels of loan delinquencies and losses, which were concentrated in the vacant land portfolio and on the neighbor islands. ASB s 2010 provision for loan losses was $20.9 million. While a mild recovery began in 2010 as the global economic recovery began to take hold, many challenges remain and the outlook for the Hawaii economy is for a slow, steady recovery. Consumers and businesses are expected to recover slowly in 2011 as gradual improvement in measures such as job growth, unemployment and real personal income are expected.

In 2009, ASB s allowance for loan losses increased by $5.9 million from 2008 as a result of higher residential 1-4 family, residential land and home equity lines of credit delinquencies and increases in the historical loss ratios for these loan types. ASB s loan quality weakened in 2009, although not to the same level of decline in loan quality seen in many mainland U.S. markets. The slowdown in the economy, both nationally and locally, had caused increased levels of financial stress on the part of ASB s customers, resulting in higher levels of loan delinquencies and losses. ASB s 2009 provision for loan losses was $32 million, which included a provision for loan loss on a commercial loan that was subsequently sold.

In 2008, ASB s allowance for loan losses increased by $5.6 million from 2007 as a result of higher residential loan delinquencies, the reclassification of certain commercial loans due to their weakening credit quality and an increase in the loan portfolio. ASB had good credit quality in 2008 despite the weakening economy and slowing real estate market. Although new home purchase and home resale transaction volumes in Hawaii had fallen off, the Hawaii real estate market had not experienced as steep a decline in values as seen in many U.S. mainland markets. However, the slowdown in the economy, both nationally and locally, caused increased levels of financial stress on ASB s customers, resulting in higher levels of loan delinquencies and losses. As a result, ASB s 2008 provision for loan losses was $10.3 million, following several years of historically low loan losses and loan loss allowances.

In 2007, ASB s allowance for loan losses decreased by $1.0 million when compared to 2006, primarily due to the charge-off of loans to one commercial borrower. ASB s asset quality remained high due to the strength of the Hawaii economy and stability of the Hawaii real estate market, resulting in lower historical loss ratios and release of reserves for residential real estate and consumer loans. The decrease in allowance for loan losses for commercial real estate loans was due to the release of reserves on construction loans that had been repaid. The increase in allowance for loan losses for commercial loans was due to loan growth and the reclassification of certain commercial loans. A provision for loan losses of

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$5.7 million was recorded in 2007, primarily due to specific reserves for the one commercial borrower and the reclassified commercial loans that continued to be current on loan payments but had identified weaknesses.

Investment activities. Currently, ASB s investment portfolio consists of mortgage-related securities, stock of the FHLB of Seattle, federal agency obligations and municipal bonds. ASB owns mortgage-related securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) and federal agency obligations issued by the FNMA and FHLMC. See Balance sheet restructure and Investment and mortgage-related securities in Note 4 to HEI s Consolidated Financial Statements for a discussion of mortgage-related security sales. The weighted-average yield on investments during 2010, 2009 and 2008 was 2.18%, 3.67% and 4.24%, respectively. ASB did not maintain a portfolio of securities held for trading during 2010, 2009 and 2008.

As of December 31 in each of 2010, 2009 and 2008, ASB s investment in stock of FHLB of Seattle amounted to $97.8 million. The amount that ASB is required to invest in FHLB stock is determined by regulatory requirements and ASB s investment is in excess of that requirement. See FHLB of Seattle stock in HEI s MD&A for a discussion of dividends on ASB s investment in FHLB of Seattle Stock and recent events that have adversely affected those dividends. Also, see Regulation Federal Home Loan Bank System below.

With the sale of the private-issue mortgage-related securities in 2009, ASB does not have any exposure to securities backed by subprime mortgages. See Investment and mortgage-related securities in Note 4 to HEI s Consolidated Financial Statements for a discussion of other-than-temporarily impaired securities.

The following table summarizes ASB s investment portfolio (excluding stock of the FHLB of Seattle, which has no contractual maturity), as of December 31, 2010, based upon contractually scheduled principal payments and expected prepayments allocated to the indicated maturity categories:

Due (dollars in millions)	In 1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Federal agency obligations	$ 260	$ 48	$ 10	$	$ 318
Mortgage-related securities - FNMA, FHLMC and GNMA	90	170	38	8	306
Municipal bonds	1	9	29	2	41
	$ 351	$ 227	$ 77	$ 10	$ 665
Weighted average yield	1.86%	2.92%	3.34%	3.29%	

Deposits and other sources of funds.

General. Deposits traditionally have been the principal source of ASB s funds for use in lending, meeting liquidity requirements and making investments. ASB also derives funds from the receipt of interest and principal on outstanding loans receivable and mortgage-related securities, borrowings from the FHLB of Seattle, securities sold under agreements to repurchase and other sources. ASB borrows on a short-term basis to compensate for seasonal or other reductions in deposit flows. ASB also may borrow on a longer-term basis to support expanded lending or

investment activities. Advances from the FHLB and securities sold under agreements to repurchase continue to be a source of funds, but they are a higher cost of funds than deposits.

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Deposits. ASB s deposits are obtained primarily from residents of Hawaii. Net deposit inflow or outflow, measured as the year-over-year difference in year-end deposits, was an outflow of $83 million in 2010 compared to outflows of $121 million in 2009 and $167 million in 2008.

The following table illustrates the distribution of ASB s average deposits and average daily rates by type of deposit for the years indicated. Average balances have been calculated using the average daily balances.

Years ended December 31 (dollars in thousands)	2010 Average balance	2010 % of total deposits	2010 Weighted average rate %	2009 Average balance	2009 % of total deposits	2009 Weighted average rate %	2008 Average balance	2008 % of total deposits	2008 Weighted average rate %
Savings	$ 1,608,650	40.2%	0.14%	$ 1,504,758	36.5%	0.33%	$ 1,415,588	33.2%	0.61%
Checking	1,392,698	34.8	0.02	1,292,516	31.4	0.06	1,196,555	28.1	0.13
Money market	232,809	5.8	0.38	180,967	4.4	0.49	168,518	4.0	1.06
Certificate	768,991	19.2	1.46	1,140,997	27.7	2.40	1,478,624	34.7	3.35
Total deposits	$ 4,003,148	100.0%	0.37%	$ 4,119,238	100.0%	0.83%	$ 4,259,285	100.0%	1.44%

As of December 31, 2010, ASB had $152.5 million in certificate accounts of $100,000 or more, maturing as follows:

(in thousands)	Amount
Three months or less	$ 41,104
Greater than three months through six months	23,613
Greater than six months through twelve months	38,237
Greater than twelve months	49,565
	$ 152,519

This compares with $208 million in such certificate accounts in 2009.

Deposit-insurance premiums and regulatory developments. On February 8, 2006, the Federal Deposit Insurance Reform Act of 2005 (the Reform Act) became law. One of the provisions of the Reform Act was to merge the Savings Association Insurance Fund (SAIF) and the Bank Insurance Fund (BIF) into a new fund, the Deposit Insurance Fund. This change was made effective March 31, 2006. The Financing Corporation (FICO) will continue to impose an assessment on deposits.

For a discussion of recent changes to the deposit insurance system, premiums and FICO assessments, see Regulation Deposit insurance coverage below.

Other borrowings. ASB may obtain advances from the FHLB of Seattle provided that certain standards related to creditworthiness have been met. Advances are secured by a blanket pledge of certain notes held by ASB and the mortgages securing them. To the extent that advances exceed the amount of mortgage loan collateral pledged to the FHLB of Seattle, the excess must be covered by qualified marketable securities held under the control of and at the FHLB of Seattle or at an approved third-party custodian. FHLB advances generally are available to meet

seasonal and other withdrawals of deposit accounts, to expand lending and to assist in the effort to improve asset and liability management. FHLB advances are made pursuant to several different credit programs offered from time to time by the FHLB of Seattle. See Other borrowings Advances from Federal Home Loan Bank in Note 4 to HEI s Consolidated Financial Statements.

As of December 31, 2010, 2009 and 2008, advances from the FHLB amounted to $0.1 billion, $0.1 billion and $0.4 billion, respectively. The weighted-average rates on the advances from the FHLB outstanding as of December 31, 2010, 2009 and 2008 were 3.90%, 3.90% and 2.52%, respectively. The maximum amount of advances outstanding at any month-end during 2010, 2009 and 2008 was $0.1 billion, $0.4 billion and $1.0 billion, respectively. Advances from the FHLB averaged $0.1 billion during 2010, $0.2 billion during 2009 and $0.7 billion during 2008 and the approximate weighted-average rate on the advances was 3.95%, 3.05% and 4.28%, respectively.

See Other borrowings Securities sold under agreements to repurchase in Note 4 to HEI s Consolidated Financial Statements.

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The following table sets forth information concerning ASB s advances from the FHLB and securities sold under agreements to repurchase as of the dates indicated:

December 31 (dollars in thousands)	2010	2009	2008
Advances from the FHLB	$ 65,000	$ 65,000	$ 439,550
Securities sold under agreements to repurchase	172,319	232,628	241,423
Total other borrowings	$ 237,319	$ 297,628	$ 680,973
Weighted-average rate	2.31%	1.93%	2.29%

The decrease in other borrowings in 2010 compared to 2009 was primarily due to a decrease in retail repurchase agreements. The decrease in total other borrowings in 2009 compared to 2008 was primarily due to the payoff of maturing advances from the FHLB with excess liquidity.

Competition. See Bank Executive overview and strategy and Bank Certain factors that may affect future results and financial condition Competition in HEI s MD&A.

Competition for deposits comes primarily from other savings institutions, commercial banks, credit unions, money market and mutual funds and other investment alternatives. As of December 31, 2010, there were 9 financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), of which 2 were thrifts and 7 were commercial banks, and numerous credit unions in Hawaii. Additional competition for deposits comes from various types of corporate and government borrowers, including insurance companies. Competition for origination of first mortgage loans comes primarily from mortgage banking and brokerage firms, commercial banks, other savings institutions, insurance companies and real estate investment trusts.

Regulation. ASB, a federally chartered savings bank, and its holding companies have been subject to the regulatory supervision of the OTS, which regulatory jurisdiction will be transferred to the OCC in July 2011 (unless the date is extended), and, in certain respects, the FDIC. See HEI Regulation above and Bank Certain factors that may affect future results and financial condition Regulation in HEI s MD&A. In addition, ASB must comply with Federal Reserve Board (FRB) reserve requirements.

Deposit insurance coverage. The Federal Deposit Insurance Act, as amended, and regulations promulgated by the FDIC, govern insurance coverage of deposit accounts. In July 2010, the Dodd-Frank Act permanently raised the current standard maximum deposit insurance amount to $250,000. Previously, the standard maximum deposit insurance amount of $100,000 had been temporarily raised to $250,000 through December 31, 2013. Generally, the amount of all deposits held by a depositor in the same capacity (even if held in separate accounts) is aggregated for purposes of applying the insurance limit.

Among the major reforms in the last few years to the deposit insurance system were the merger of the BIF and the SAIF; indexing the deposit insurance to inflation beginning in 2010 and every five years thereafter; and authorizing the FDIC to assess risk-based premiums. Under the FDIC rules assessing risk-based premiums, which became effective on January 1, 2007, ASB is classified in Risk Category I, the lowest risk group. Based upon its component ratings under the Uniform Financial Institutions Ratings System (i.e., the CAMELS rating system) and five financial ratios specified in the new FDIC rules, ASB s assessment rate for 2010 was 14 basis points, which resulted in an assessment amount of

approximately $5.7 million, compared to an assessment rate of 14 basis points and an assessment amount of $5.8 million in 2009. See Federal Deposit Insurance Corporation (FDIC) restoration plan in Note 4 to HEI s Consolidated Financial Statements for a discussion of FDIC deposit insurance assessment rates, the prepayment of estimated assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 and proposed changes to the assessment rates and base. FICO will continue to impose an assessment on deposits to service the interest on FICO bond obligations. ASB s annual FICO assessment is 1.02 cents per $100 of deposits as of December 31, 2010.

Federal thrift charter. See Bank Certain factors that may affect future results and financial condition Regulation Unitary savings and loan holding company in HEI s MD&A, including the discussion of previously proposed legislation that would abolish the charter.

Recent legislation and issuances. See Bank Legislation and regulation in HEI s MD&A.

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Capital requirements. The OTS has set three capital standards for thrifts, each of which must be no less stringent than those applicable to national banks. As of December 31, 2010, ASB was in compliance with all of the minimum standards with a core capital ratio of 9.2% (compared to a 4.0% requirement), a tangible capital ratio of 9.2% (compared to a 1.5% requirement) and total risk-based capital ratio of 13.9% (based on risk-based capital of $474.1 million, $200.3 million in excess of the 8.0% requirement).

The OTS requires that thrifts with a composite rating of 1 under the Uniform Financial Institution Rating System (i.e., CAMELS rating system) must maintain core capital in an amount equal to at least 3% of adjusted total assets. All other institutions must maintain a minimum core capital of 4% of adjusted total assets, and higher capital ratios may be required if warranted by particular circumstances. As of December 31, 2010, ASB met the applicable minimum core capital requirement.

Other capital standards based on an international framework have been adopted for institutions that are much larger in size than ASB or that have substantial foreign exposures. ASB is not currently required to be, and has elected not to be, governed by these other standards.

Affiliate transactions. Significant restrictions apply to certain transactions between ASB and its affiliates, including HEI and its direct and indirect subsidiaries. For example, ASB is prohibited from making any loan or other extension of credit to an entity affiliated with ASB unless the affiliate is engaged exclusively in activities which the FRB has determined to be permissible for bank holding companies. There are also various other restrictions which apply to certain transactions between ASB and certain executive officers, directors and insiders of ASB. ASB is also barred from making a purchase of or any investment in securities issued by an affiliate, other than with respect to shares of a subsidiary of ASB.

Financial Derivatives and Interest Rate Risk. ASB is subject to OTS rules relating to derivatives activities, such as interest rate swaps. Currently ASB does not use interest rate swaps to manage interest rate risk, but may do so in the future. Generally speaking, the OTS rules permit thrifts to engage in transactions involving financial derivatives to the extent these transactions are otherwise authorized under applicable law and are safe and sound. The rules require ASB to have certain internal procedures for handling financial derivative transactions, including involvement of the ASB Board of Directors.

OTS Thrift Bulletin 13a (TB 13a) provides guidance on the management of interest rate risks, investment securities and derivatives activities. TB 13a also describes the guidelines OTS examiners use in assigning the Sensitivity to Market Risk component rating under the Uniform Financial Institutions Rating System (i.e., the CAMELS rating system). TB 13a updated the OTS minimum standards for thrift institutions interest rate risk management practices and also contains guidance on thrifts investment and derivatives activities by describing the types of analysis institutions should perform prior to purchasing securities or financial derivatives.

Liquidity. OTS regulations require ASB to maintain sufficient liquidity to ensure safe and sound operations. ASB s principal sources of liquidity are customer deposits, borrowings, the maturity and repayment of portfolio loans and securities and the sale of loans into secondary market channels. ASB s principal sources of borrowings are advances from the FHLB of Seattle and securities sold under agreements to repurchase from broker/dealers. ASB is approved by the FHLB of Seattle to borrow an amount of up to 35% of assets to the extent it provides qualifying collateral and holds sufficient FHLB of Seattle stock. As of December 31, 2010, ASB s unused FHLB of Seattle borrowing capacity was approximately $1.3 billion. ASB utilizes growth in deposits, advances from the FHLB of Seattle and securities sold under agreements to repurchase to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and make investments. As of December 31, 2010, ASB had loan commitments, undisbursed loan funds and unused lines and letters of credit of $1.2 billion. Management believes ASB s current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

Supervision. Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA), the federal banking agencies promulgated regulations which apply to the operations of ASB and its holding companies. Such regulations address, for example, standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates and loans to insiders.

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Prompt corrective action. The FDICIA establishes a statutory framework that is triggered by the capital level of a savings association and subjects it to progressively more stringent restrictions and supervision as capital levels decline. The OTS rules implement the system of prompt corrective action. In particular, the rules define the relevant capital measures for the categories of well capitalized , adequately capitalized , undercapitalized , significantly undercapitalized and critically undercapitalized.

A savings association that is undercapitalized or significantly undercapitalized is subject to additional mandatory supervisory actions and a number of discretionary actions if the OTS determines that any of the actions is necessary to resolve the problems of the association at the least possible long-term cost to the Deposit Insurance Fund. A savings association that is critically undercapitalized must be placed in conservatorship or receivership within 90 days, unless the OTS and the FDIC concur that other action would be more appropriate. As of December 31, 2010, ASB was well-capitalized.

Interest rates. FDIC regulations restrict the ability of financial institutions that are undercapitalized to offer interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2010, ASB was well capitalized and thus not subject to these interest rate restrictions.

Qualified thrift lender test. In order to satisfy the QTL test, a thrift must maintain 65% of its assets in qualified thrift investments on a monthly average basis in 9 out of the previous 12 months. Failure to satisfy the QTL test would subject ASB to various penalties, including limitations on its activities, and would also bring into operation restrictions on the activities that may be engaged in by HEI, ASHI and their other subsidiaries, which could effectively result in the required divestiture of ASB. At all times during 2010, ASB was in compliance with the QTL test. As of December 31, 2010, 80% of ASB s portfolio assets were qualified thrift investments. See HEI Consolidated Regulation.

Federal Home Loan Bank System. ASB is a member of the FHLB System, which consists of 12 regional FHLBs, and ASB s regional bank is the FHLB of Seattle. The FHLB System provides a central credit facility for member institutions. Historically, the FHLBs have served as the central liquidity facilities for savings associations and sources of long-term funds for financing housing. At such time as an advance is made to ASB or renewed, it must be secured by collateral from one of the following categories: (1) fully disbursed, whole first mortgages on improved residential property, or securities representing a whole interest in such mortgages; (2) securities issued, insured or guaranteed by the U.S. Government or any agency thereof; (3) FHLB deposits; and (4) other real estate-related collateral that has a readily ascertainable value and with respect to which a security interest can be perfected. The aggregate amount of outstanding advances secured by such other real estate-related collateral may not exceed 30% of ASB s capital.

As mandated by the Gramm-Leach-Bliley Act of 1999 (Gramm Act), the Federal Housing Finance Board (Board) regulations require each FHLB to maintain a minimum total capital leverage ratio of 5% of total assets and include risk-based capital standards requiring each FHLB to maintain permanent capital in an amount sufficient to meet credit risk and market risk. In June 2001, the FHLB of Seattle formulated a capital plan to meet these new minimum capital standards, which plan was approved by the Board. The capital plan requires ASB to own capital stock in the FHLB of Seattle in an amount equal to the total of 4% of the FHLB of Seattle s advances to ASB plus the greater of (i) 5% of the outstanding balance of loans sold to the FHLB of Seattle by ASB or (ii) 0.5% of ASB s mortgage loans and pass through securities. As of December 31, 2010, ASB was required under the capital plan to own capital stock in the FHLB of Seattle in the amount of $15 million and owned capital stock in the amount of $98 million, or $83 million in excess of the requirement. Under the capital plan, stock in the FHLB of Seattle can be required to be redeemed at the option of ASB, but the FHLB of Seattle may require up to a 5-year notice of redemption. This 5-year notice period has an adverse but immaterial effect on ASB s liquidity. See FHLB of Seattle stock in HEI s MD&A section for recent developments regarding the FHLB of Seattle.

Community Reinvestment. The Community Reinvestment Act (CRA) requires banks and thrifts to help meet the credit needs of their communities, including low- and moderate-income areas, consistent with safe and sound lending practices. The OTS will consider ASB s CRA record in evaluating an application for a new

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deposit facility, including the establishment of a branch, the relocation of a branch or office, or the acquisition of an interest in another bank or thrift. ASB currently holds an outstanding CRA rating.

Other laws. ASB is subject to federal and state consumer protection laws which affect lending activities, such as the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act and several federal and state financial privacy acts intended to protect consumers personal information and prevent identity theft, such as the Gramm Act and the Fair and Accurate Transactions Act. ASB is also subject to federal laws regulating certain of its lending practices, such as the Flood Disaster Protection Act, and laws requiring reports to regulators of certain customer transactions, such as the Currency and Foreign Transactions Reporting Act and the International Money Laundering Abatement and Anti-Terrorist Financing Act. ASB s relationship with UVEST Financial Services is also governed by regulations adopted by the Federal Reserve Board under the Gramm Act, which regulate networking relationships under which a financial institution refers customers to a broker-dealer for securities services and employees of the financial institution are permitted to receive a nominal fee for the referrals. These laws may provide for substantial penalties in the event of noncompliance. ASB believes that it currently is in compliance with these laws and regulations in all material respects.

Proposed legislation. See the discussion of proposed legislation in Bank Legislation and regulation in HEI s MD&A. There is additional proposed legislation pending in Congress that relates to regulatory reform; ASB s management will continue to monitor its progress.

Environmental regulation. ASB may be subject to the provisions of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Hawaii Environmental Response Law (ERL) and regulations promulgated thereunder, which impose liability for environmental cleanup costs on certain categories of responsible parties. CERCLA and ERL exempt persons whose ownership in a facility is held primarily to protect a security interest, provided that they do not participate in the management of the facility. Although there may be some risk of liability for ASB for environmental cleanup costs in the event ASB forecloses on, and becomes the owner of, property with environmental problems, the Company believes the risk is not as great for ASB as it may be for other depository institutions that have a larger portfolio of commercial loans.

Properties. ASB owns or leases several office buildings in downtown Honolulu and owns land and an operations center in the Mililani Technology Park on the island of Oahu.

The following table sets forth the number of bank branches owned and leased by ASB by island:

	Number of branches		
December 31, 2010	**Owned**	**Leased**	**Total**
Oahu	7	32	39
Maui	3	4	7
Kauai	2	2	4
Hawaii	2	4	6
Molokai		1	1
	14	43	57

As of December 31, 2010, the net book value of branches and office facilities is approximately $44 million. Of this amount, $31 million represents the net book value of the land and improvements for the branches and office facilities owned by ASB and $13 million represents the

net book value of ASB s leasehold improvements. The leases expire on various dates through July 2033, but many of the leases have extension provisions.

As of December 31, 2010, ASB owned 138 automated teller machines.

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ITEM 1A. RISK FACTORS

For additional information for certain risk factors enumerated below and other risks of the Company and its operations, see Forward-Looking Statements above and HEI s MD&A, HEI s Quantitative and Qualitative Disclosures about Market Risk in Item 7A, HEI s Consolidated Financial Statements, HECO s MD&A, HECO s Quantitative and Qualitative Disclosures About Market Risk in Exhibit 99.2 and HECO s Consolidated Financial Statements.

Holding Company and Company-Wide Risks.

HEI is a holding company that derives its income from its operating subsidiaries and depends on the ability of those subsidiaries to pay dividends or make other distributions to HEI and on its own ability to raise capital. HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, HEI s cash flows and consequent ability to service its obligations and pay dividends on its common stock is dependent upon its receipt of dividends or other distributions from its operating subsidiaries and its ability to issue common stock or other equity securities and to incur additional debt. The ability of HEI s subsidiaries to pay dividends or make other distributions to HEI, in turn, is subject to the risks associated with their operations and to contractual and regulatory restrictions, including:

- the provisions of an HEI agreement with the PUC, which could limit the ability of HEI s principal electric public utility subsidiary, HECO, to pay dividends to HEI in the event that the consolidated common stock equity of the electric public utility subsidiaries falls below 35% of total capitalization of the electric utilities;

- the provisions of an HEI agreement entered into with federal bank regulators in connection with its acquisition of its bank subsidiary, ASB, which require HEI to contribute additional capital to ASB (up to a maximum amount of additional capital of $28.3 million as of December 31, 2010) upon request of the regulators in order to maintain ASB s regulatory capital at the level required by regulation;

- the minimum capital and capital distribution regulations of the OTS that are applicable to ASB;

- the receipt of a letter from the OTS stating it has no objection to the payment of any dividend ASB proposes to declare and pay to HEI; and

- the provisions of preferred stock resolutions and debt instruments of HEI and its subsidiaries.

The Company is subject to risks associated with the Hawaii economy (in the aggregate and on an individual island basis), volatile U.S. capital markets and changes in the interest rate and credit market environment that have and/or could result in higher retirement benefit plan funding requirements, declines in electric utility KWH sales, declines in ASB s interest rate margins and investment values, higher delinquencies and charge-offs in ASB s loan portfolio and restrictions on the ability of HEI or its subsidiaries to borrow money or issue securities. The two largest components of Hawaii s economy are tourism and the federal government (including the military). Because the core businesses of HEI s subsidiaries are providing local public electric utility services (through HECO and its subsidiaries) and banking services (through ASB and its subsidiaries) in Hawaii, the Company s operating results are significantly influenced by Hawaii s economy, which in turn is influenced by economic conditions in the mainland U.S. (particularly California) and Asia (particularly Japan) as a result of the impact of those conditions on tourism, by the impact of interest rates on the construction and real estate industries and by the impact of world conditions (e.g., U.S. presence in Afghanistan) on federal government spending in Hawaii.

The turmoil in the financial markets and declines in the national and global economies had a negative effect on the Hawaii economy in 2009. In 2009, declines in the Hawaii, U.S. and Asian economies, led to declines in KWH sales (which continued into 2010), an increase in uncollected billings of HECO and its subsidiaries, higher delinquencies in ASB s loan portfolio and other adverse effects on HEI s businesses. Both the U. S. and Hawaii economies, however, experienced growth in 2010. The utilities 2011 KWH sales are currently expected to increase by 2.4% from 2010. If S&P or Moody s were to downgrade HEI s or HECO s long-term debt ratings because of past adverse effects, or if future events were to adversely affect the availability of capital to the Company, HEI s and HECO s ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase with resulting reductions in HEI s consolidated net income in future periods. Further,

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if HEI s or HECO s commercial paper ratings were to be further downgraded, HEI and HECO might not be able to sell commercial paper and might be required to draw on more expensive bank lines of credit or to defer capital or other expenditures.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust maintained for pension plans, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The electric utilities pension tracking mechanisms help moderate pension expense; however, the significant decline in 2008 in the value of the Company s defined benefit pension plan assets resulted in a substantial gap between the projected benefit obligations under the plans and the value of plan assets, resulting in increases in funding requirements.

Because the earnings of ASB depend primarily on net interest income, interest rate risk is a significant risk of ASB s operations. HEI and its electric utility subsidiaries are also exposed to interest rate risk primarily due to their periodic borrowing requirements, the discount rate used to determine pension funding requirements and the possible effect of interest rates on the electric utilities rates of return. Interest rates are sensitive to many factors, including general economic conditions and the policies of government and regulatory authorities. HEI cannot predict future changes in interest rates, nor be certain that interest rate risk management strategies it or its subsidiaries have implemented will be successful in managing interest rate risk.

Interest rate risk also represents a market risk factor affecting the fair value of ASB s investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. In 2008 and 2009, the credit markets experienced significant disruptions, liquidity on many financial instruments declined and residential mortgage delinquencies and defaults increased. These disruptions negatively impacted the fair value of ASB s investment portfolio and led ASB, in the fourth quarter of 2009, to sell all private-issue mortgage-related securities in its investment portfolio in order to further improve its credit risk profile and reduce the potential volatility of future earnings.

HEI and HECO and their subsidiaries may incur higher retirement benefits expenses and have and will likely continue to recognize substantial liabilities for retirement benefits. Retirement benefits expenses and cash funding requirements could increase in future years depending on numerous factors, including the performance of the U.S. equity markets, trends in interest rates and health care costs, plan amendments, new laws relating to pension funding and changes in accounting principles. For the electric utilities, however, retirement benefits expenses, as adjusted by the pension and OPEB tracking mechanisms, have been an allowable expense for rate-making purposes.

The Company is subject to the risks associated with the geographic concentration of its businesses and current lack of interconnections that could result in service interruptions at the electric utilities or higher default rates on loans held by ASB. The business of HECO and its electric utility subsidiaries is concentrated on the individual islands they serve in the State of Hawaii. Their operations are more vulnerable to service interruptions than are many U.S. mainland utilities because none of the systems of HECO and its subsidiaries are interconnected with the systems on the other islands they serve. Because of this lack of interconnections, it is necessary to maintain higher generation reserve margins than are typical for U.S. mainland utilities to help ensure reliable service. Service interruptions, including in particular extended interruptions that could result from a natural disaster or terrorist activity, could adversely impact the KWH sales of some or all of the electric utility subsidiaries. For example, in December 2008, an island-wide outage (likely the result of a severe lightning storm) occurred on the island of Oahu that resulted in a loss of electric service to HECO customers ranging from approximately 7 to 20 hours.

Substantially all of ASB s consumer loan customers are Hawaii residents. A significant portion of the commercial loan customers are located in Hawaii. While a majority of customers are on Oahu, ASB also has customers on the neighbor islands (whose economies have been weaker than Oahu during the recent economic downturn). Substantially all of the real estate underlying ASB s residential and commercial real estate loans are located in Hawaii. These assets may be subject to a greater risk of default than other comparable assets held by financial institutions with other geographic concentrations in the event of adverse economic, political or business developments or natural disasters affecting Hawaii and the ability of ASB s customers to make payments of principal and interest on their loans.

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Increasing competition and technological advances could cause HEI s businesses to lose customers or render their operations obsolete. The banking industry in Hawaii, and certain aspects of the electric utility industry, are competitive. The success of HEI s subsidiaries in meeting competition will continue to have a direct impact on HEI s consolidated financial performance. For example:

- ASB, one of the largest financial institutions in the state, is in direct competition for deposits and loans not only with two larger institutions that have substantial capital, technology and marketing resources, but also with smaller Hawaii institutions and other U.S. institutions, including credit unions, mutual funds, mortgage brokers, finance companies and investment banking firms. Larger financial institutions may have greater access to capital at lower costs, which could impair ASB s ability to compete effectively. Significant advances in technology could render the operations of ASB less competitive or obsolete.

- HECO and its subsidiaries face competition from IPPs and customer self-generation, with or without cogeneration. The PUC issued a decision in its investigative proceeding on competitive bidding as a mechanism for acquiring or building new electric generating capacity. With the exception of certain identified projects, the utilities are now required to use competitive bidding to acquire a future generation resource unless the PUC finds competitive bidding to be unsuitable. The PUC also issued a decision in its DG investigative proceeding, in which it set policies for DG interconnection agreements and standby rates, and established conditions under which electric utilities can provide DG services on customer-owned sites as a regulated service. The electric utilities cannot predict the ultimate effect of the PUC s decisions in the competitive bidding and DG proceedings, the impact they will have on competition from IPPs and customer self-generation, or the rate at which technological developments facilitating non-utility generation of electricity will occur.

- New technological developments, such as the commercial development of fuel cells, may render the operations of HEI s electric utility subsidiaries less competitive or outdated.

HEI s businesses could suffer losses that are uninsured due to a lack of affordable insurance coverage, unavailability of insurance coverage or limitations on the insurance coverage the Company does have. In the ordinary course of business, HEI and its subsidiaries purchase insurance coverages (e.g., property and liability coverages) to protect against loss of, or damage to, their properties and against claims made by third parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. Certain of the insurance has substantial deductibles or has limits on the maximum amounts that may be recovered. For example, the electric utilities overhead and underground transmission and distribution systems (with the exception of substation buildings and contents) have a replacement value roughly estimated at $5 billion and are not insured against loss or damage because the amount of transmission and distribution system insurance available is limited and the premiums are cost prohibitive. Similarly, the electric utilities have no business interruption insurance as the premiums for such insurance would be cost prohibitive, particularly since the utilities are not interconnected to other systems. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the affected electric utilities to recover from ratepayers restoration costs and revenues lost from business interruption, the lost revenues and repair expenses could result in a significant decrease in HEI s consolidated net income or in significant net losses for the affected periods.

ASB generally does not obtain credit enhancements, such as mortgagor bankruptcy insurance, but does require standard hazard and hurricane insurance and may require flood insurance for certain properties. ASB is subject to the risks of borrower defaults and bankruptcies, special hazard losses not covered by the required insurance and the insurance company s inability to pay claims on existing policies.

Increased federal and state environmental regulation will require an increasing commitment of resources and funds and could result in construction delays or penalties and fines for non-compliance. HEI and its subsidiaries are subject to federal and state environmental laws and regulations relating to air quality, water quality, waste management, natural resources and health and safety, which regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous

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waste and toxic substances. Compliance with these legal requirements requires HEI s utility subsidiaries to commit significant resources and funds toward environmental monitoring, installation of pollution control equipment and payment of emission fees. These laws and regulations, among other things, require that certain environmental permits be obtained in order to construct or operate certain facilities, and obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance. For example, emission and/or discharge limits may be tightened, more extensive permitting requirements may be imposed and additional substances may become regulated. In addition, significant regulatory uncertainty exists regarding the impact of federal or state greenhouse gas emission limits and reductions.

If HEI or its subsidiaries fail to comply with environmental laws and regulations, even if caused by factors beyond their control, that failure may result in civil or criminal penalties and fines. At the present time, HECO is a named party in an ongoing environmental matter that includes an investigation to determine the nature and extent of actual or potential release of hazardous substances, oil, pollutants or contaminants at or near Honolulu Harbor and their remediation where applicable. Management cannot predict the ultimate cost or outcome of that investigation and the accompanying remedial efforts.

Adverse tax rulings or developments could result in significant increases in tax payments and/or expense. Governmental taxing authorities could challenge a tax return position taken by HEI or its subsidiaries and, if the taxing authorities prevail, HEI s consolidated tax payments and/or expense, including applicable penalties and interest, could increase significantly.

The Company could be subject to the risk of uninsured losses in excess of its accruals for litigation matters. HEI and its subsidiaries are involved in routine litigation in the ordinary course of their businesses, most of which is covered by insurance (subject to policy limits and deductibles). However, other litigation may arise that is not routine or involves claims that may not be covered by insurance. Because of the uncertainties associated with litigation, there is a risk that litigation against HEI or its subsidiaries, even if vigorously defended, could result in costs of defense and judgment or settlement amounts not covered by insurance and in excess of reserves established in HEI s consolidated financial statements.

Changes in accounting principles and estimates could affect the reported amounts of the Company s assets and liabilities or revenues and expenses. HEI s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. Changes in these principles, or changes in the Company s application of existing accounting principles, could materially affect HEI s or the electric utilities consolidated financial position and/or results of operations. Further, in preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the amounts reported for investment and mortgage-related securities; property, plant and equipment; pension and other postretirement benefit obligations; contingencies and litigation; income taxes; regulatory assets and liabilities; electric utility revenues; and allowance for loan losses.

HECO and its subsidiaries financial statements reflect assets and costs based on cost-based rate-making regulations. Continued accounting in this manner requires that certain criteria relating to the recoverability of such costs through rates be met. If events or circumstances should change so that the criteria are no longer satisfied, the electric utilities regulatory assets (amounting to $478 million as of December 31, 2010) may need to be charged to expense, which could result in significant reductions in the electric utilities net income, and the electric utilities regulatory liabilities (amounting to $297 million as of December 31, 2010) may need to be refunded to ratepayers immediately.

Changes in accounting principles can also impact HEI s consolidated financial statements. For example, if management determines that a PPA requires the consolidation of the IPP in HECO s consolidated financial statements, the consolidation could have a material effect on HECO s consolidated financial statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. Also, if management

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determines that a PPA requires the classification of the agreement as a capital lease, a material effect on HEI s consolidated balance sheet may result, including the recognition of significant capital assets and lease obligations.

Electric Utility Risks.

Actions of the PUC are outside the control of the electric utility subsidiaries and could result in inadequate or untimely rate relief, in rate reductions or refunds or in unanticipated delays, expenses or writedowns in connection with the construction of new projects. The rates the electric utilities are allowed to charge for their services and the timeliness of permitted rate increases are among the most important items influencing the electric utilities financial condition, results of operations and cash flows. The PUC has broad discretion over the rates that the electric utilities charge their customers. The electric utilities currently have rate cases pending before the PUC. Further, the trend of increased O&M expenses, which management expects will continue, increased plant-in-service and other factors are likely to result in the electric utilities continuing to seek rate relief frequently. Also, as part of the decoupling mechanism that the electric utilities will be implementing, each of the electric utilities will alternately file a rate case once every three years. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts that may be included in rate base, the returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding, could have a material adverse effect on HECO s consolidated financial condition, results of operations and cash flows.

To improve the timing and certainty of the recovery of their costs, the electric utilities have proposed and received approval of various cost recovery mechanisms including an ECAC, and more recently a decoupling mechanism, a purchased power adjustment clause, and a renewable energy infrastructure program surcharge.

The electric utilities could be required to refund to their customers, with interest, revenues that have been or may be received under interim rate orders in their rate case proceedings, IRP cost recovery dockets and other proceedings, if and to the extent they exceed the amounts allowed in final orders. As of December 31, 2010, the electric utilities had recognized an aggregate of $4 million of such revenues with respect to interim orders.

Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits, or any adverse decision or policy made or adopted, or any prolonged delay in rendering a decision, by an agency with respect to such approvals and permits, can result in significantly increased project costs or even cancellation of projects. For example, two major capital improvement projects HECO s East Oahu Transmission Project and the expansion of HELCO s Keahole generating plant encountered substantial opposition and consequent delay and increased cost. In the event a project does not proceed, or if the PUC disallows cost recovery for all or part of the project, project costs may need to be written off in amounts that could result in significant reductions in HECO s consolidated net income.

Energy cost adjustment clauses. The rate schedules of each of HEI s electric utilities include ECACs under which electric rates charged to customers are automatically adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power.

The Energy Agreement confirms the intent of the parties that the existing ECACs will continue, but subject to periodic review by the PUC. The Energy Agreement also provides that as part of the review, the PUC may examine whether there are renewable energy projects from which the utilities should have, but did not, purchase energy or whether alternative fuel purchase strategies were appropriately used or not used.

In the recent rate cases, the PUC has allowed the current ECAC to continue. However, a change in, or the elimination of, the ECAC could have a material adverse affect on the electric utilities.

Electric utility operations are significantly influenced by weather conditions. The electric utilities results of operations can be affected by changes in the weather. Weather conditions, particularly temperature and humidity, directly influence the demand for electricity. In addition, severe weather and natural disasters, such as hurricanes, earthquakes, tsunamis and lightning storms, which may become more severe or frequent as a

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result of global warming, can cause outages and property damage and require the utilities to incur significant additional expenses that may not be recoverable.

Electric utility operations depend heavily on third-party suppliers of fuel and purchased power. The electric utilities rely on fuel oil suppliers and shippers and IPPs to deliver fuel oil and power, respectively, in accordance with contractual agreements. Approximately 76% of the net energy generated or purchased by the electric utilities in 2010 was generated from the burning of fossil fuel oil, and purchases of power by the electric utilities provided about 40% of their total net energy generated and purchased for the same period. Failure or delay by oil suppliers and shippers to provide fuel pursuant to existing contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could disrupt the ability of the electric utilities to deliver electricity and require the electric utilities to incur additional expenses to meet the needs of their customers that may not be recoverable. In addition, as these contractual agreements end, the electric utilities may not be able to purchase fuel and power on terms equivalent to the current contractual agreements. Further, as the use of biofuels in generating units increases, the same risks will exist with suppliers of biofuels.

Electric utility generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated and/or increased operation and maintenance expenses and increased power purchase costs. Operation of electric generating facilities involves certain risks which can adversely affect energy output and efficiency levels. Included among these risks are facility shutdowns or power interruptions due to insufficient generation or a breakdown or failure of equipment or processes or interruptions in fuel supply, inability to negotiate satisfactory collective bargaining agreements when existing agreements expire or other labor disputes, inability to comply with regulatory or permit requirements, disruptions in delivery of electricity, operator error and catastrophic events such as earthquakes, tsunamis, hurricanes, fires, explosions, floods or other similar occurrences affecting the electric utilities generating facilities or transmission and distribution systems. Global warming may result in rising sea levels, which could pose a threat to facilities of the utilities, particularly those located in coastal or other low-lying areas. The utilities have taken a number of steps to mitigate the risk of outages, including securing additional purchased power, adding new utility generation, adding distributed generation and encouraging energy conservation. The costs of supplying energy to meet high demand and maintenance costs required to sustain high availability of aging generation units have been increasing and the trend of cost increases is not likely to ease, putting pressure on earnings to the extent timely rate relief is not achieved.

The electric utilities may be adversely affected by new legislation. Congress and the Hawaii Legislature periodically consider legislation that could have positive or negative effects on the electric utilities and their customers. In addition to the ECAC provisions of Act 162 discussed above, the Hawaii Legislature adopted a number of measures that may affect the electric utilities, as described below.

Renewable Portfolio Standards law. In 2009, Hawaii s Renewable Portfolio Standards (RPS) law was amended to require electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. Energy savings resulting from energy efficiency programs will not count toward the RPS after 2014. The utilities are committed to achieving these goals and expect to meet the 2010 RPS; however, due to the exclusion of energy savings in calculating RPS after 2014 and risks such as potential delays in IPPs being able to deliver contracted renewable energy, it is possible the electric utilities may not attain the required renewable percentages in the future, and management cannot predict the future consequences of failure to do so (including potential penalties to be assessed by the PUC). On December 19, 2008, the PUC approved a penalty of $20 for every MWh that an electric utility is deficient under Hawaii s RPS law. The PUC noted, however, that this penalty may be reduced, in the PUC s discretion, due to events or circumstances that are outside an electric utility s reasonable control, to the extent the event or circumstance could not be reasonably foreseen and ameliorated, as described in the RPS law and in an RPS framework. In addition, the PUC ordered that the utilities will be prohibited from recovering any RPS penalty costs through rates.

Net energy metering. Hawaii has a net energy metering law, which requires that electric utilities offer net energy metering to eligible customer generators (i.e., a customer generator may be a net user or supplier

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of energy and will make payment to or receive credit from the electric utility accordingly). In the Energy Agreement, the parties agreed to seek to remove system-wide caps on net energy metering. Instead, they planned to seek to limit DG interconnections on a per-circuit basis and eventually to replace net energy metering with an appropriate feed-in tariff. The PUC recently indicated they plan to retain NEM even with feed-in tariffs. In January 2011, the PUC approved the replacement of the system-wide net metering caps with a 15% per circuit distribution threshold for DG penetration.

Renewable energy. In 2007, a measure was passed by the Hawaii legislature stating that the PUC may consider the need for increased renewable energy in rendering decisions on utility matters. Due to this measure, it is possible that, if energy from a renewable source were more expensive than energy from fossil fuel, the PUC may still approve the purchase of energy from the renewable source.

In 2008, a law was enacted to promote and encourage the use of solar thermal energy. This measure will require the installation of solar thermal water heaters in residences constructed after January 1, 2010, but allow for limited variances in cases where installation of solar water heating is deemed inappropriate. Also in 2008, a law was enacted that is intended to facilitate the permitting of larger (200 MW or greater) renewable energy projects. The Energy Agreement includes several undertakings by the utilities to integrate solar energy into their electric grid.

In 2009, a Hawaii law (Act 185) was enacted authorizing preferential rates to agricultural energy producers selling electricity to utilities. This will help support the long-term development of locally grown biofuel crops, cultivating potential local renewable fuel sources for the utilities. In addition, pursuant to Act 50 (also adopted in 2009), avoided cost is no longer the primary consideration in determining a just and reasonable rate for non-fossil fuel generated electricity. This will allow the utilities to negotiate purchased power prices for renewable energy that have the potential to be more stable and less costly than current pricing tied to avoided cost.

Global climate change and greenhouse gas emissions reduction. National and international concern about climate change and the contribution of greenhouse gas (GHG) emissions to global warming have led to action by the state of Hawaii and federal legislative and regulatory proposals to reduce GHG emissions.

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii.

In recent years, several approaches to GHG emission reduction (including cap and trade) have been either introduced or discussed in Congress; however, no legislation has yet been enacted.

In response to the 2007 U.S. Supreme Court decision in Massachusetts v. EPA, which ruled that the EPA has the authority to regulate GHG emissions from motor vehicles under the CAA, the EPA has accelerated rulemaking addressing GHG emissions from both mobile and stationary sources. On September 22, 2009, the EPA issued the Final Mandatory Reporting of Greenhouse Gases Rule. The rule, which applies to HECO, HELCO and MECO, requires that sources above certain threshold levels monitor GHG emissions beginning in 2010. The first reports on these emissions, which the Company is currently preparing, are due to the EPA by March 31, 2011.

On June 3, 2010, the EPA s final Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas (GHG) Tailoring Rule (GHG Tailoring Rule) was published. It creates a new emissions threshold for GHG emissions from new and existing facilities. The utilities are evaluating the impact of the GHG Tailoring Rule and a three-year permit deferral for biomass-fired and other biogenic sources on the utilities operations.

Biofuels. In 2007, a Hawaii law was enacted with the stated purpose of encouraging further production and use of biofuels in Hawaii. It established that biofuel processing facilities in Hawaii are a permitted use in designated agricultural districts and established a program with the Hawaii Department of Agriculture to encourage the production in Hawaii of energy feedstock (i.e., raw materials for biofuels).

In 2008, a law was enacted that encourages the development of biofuels by authorizing the Hawaii Board of Land and Natural Resources to lease public lands to growers or producers of plant and animal material used for the production of biofuels.

At this time, it is not possible to predict with certainty the impact on the utilities of the foregoing legislation or legislation that now is, or may in the future be, proposed.

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The electric utilities may be subject to increased operational challenges and their results of operations, financial condition and cash flows may be adversely impacted in meeting the commitments and objectives of the HCEI Energy Agreement. On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State of Hawaii Department of Commerce and Consumer Affairs and the electric utilities (collectively, the parties), signed an Energy Agreement setting forth the goals and objectives of the HCEI and the related commitments of the parties. The Energy Agreement requires the parties to pursue a wide range of actions with the purpose of decreasing the State of Hawaii s dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation.

The far-reaching nature of the Energy Agreement, including the extent of renewable energy commitments and the implementation of a new regulatory model which decouples revenues from sales, present new increased risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the utilities achievement of its commitments under the Energy Agreement and/or the utilities ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and cash flows of the utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the utilities depending on their design and implementation. Programs include, but are not limited to, decoupling revenues from sales; implementing feed-in tariffs to encourage development of renewable energy; removing the system-wide caps on net energy metering (but studying distributed generation interconnections on a per-circuit basis); and developing an Energy Efficiency Portfolio Standard. Management cannot predict the ultimate impact or outcome of the implementation of these or other HCEI programs on the results of operations, financial condition and cash flows of the electric utilities.

Bank Risks.

Fluctuations in interest rates could result in lower net interest income, impair ASB s ability to originate new loans or impair the ability of ASB s adjustable-rate borrowers to make increased payments. Interest rate risk is a significant risk of ASB s operations. ASB s net interest income consists primarily of interest income received on fixed-rate and adjustable-rate loans, mortgage-related securities and investments and interest expense consisting primarily of interest paid on deposits and other borrowings. Interest rate risk arises when earning assets mature or when their interest rates change in a time frame different from that of the costing liabilities. Changes in market interest rates, including changes in the relationship between short-term and long-term market interest rates or between different interest rate indices, can impact ASB s net interest margin.

Although ASB pursues an asset-liability management strategy designed to mitigate its risk from changes in market interest rates, unfavorable movements in interest rates could result in lower net interest income. Residential 1-4 family fixed-rate mortgage loans comprised about 54% of ASB s loan portfolio as of December 31, 2010 and do not re-price with movements in interest rates. ASB continues to face a challenging interest rate environment. The weak global, national and local economic environments have resulted in a persistent, low level of interest rates, weak loan demand, and excess liquidity in the financial system. In addition, expectations are increasing that interest rates will rise rapidly once there are strong signs that the economic recovery is taking hold. ASB s decision to sell substantially all of its fixed rate mortgage production throughout 2009 and the first nine months of 2010 and challenges in finding investments with adequate risk-adjusted returns resulted in declining loan balances and an increase in ASB s liquidity position, which had a negative impact on ASB s asset yields and net interest margin. The potential for compression of ASB s margin when interest rates rise is an ongoing concern.

Increases in market interest rates could have an adverse impact on ASB s cost of funds. Higher market interest rates could lead to higher interest rates paid on deposits and other borrowings. Significant increases in

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market interest rates, or the perception that an increase may occur, could adversely affect ASB s ability to originate new loans and grow. An increase in market interest rates, especially a sudden increase, could also adversely affect the ability of ASB s adjustable-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge-offs. Conversely, a decrease in interest rates or a mismatching of maturities of interest sensitive financial instruments could result in an acceleration in the prepayment of loans and mortgage-related securities and impact ASB s ability to reinvest its liquidity in similar yielding assets. Historically low interest rates in 2008, 2009 and 2010 resulted in high refinancings, which reduced the level of future interest income.

ASB s operations are affected by many disparate factors, some of which are beyond its control, that could result in lower net interest income or decreased demand for its products and services. ASB s results of operations depend primarily on the level of interest income generated by ASB s earning assets in excess of the interest expense on its costing liabilities and the supply of and demand for its products and services (i.e., loans and deposits). ASB s net income may also be adversely affected by various other factors, such as:

- local and other economic and political conditions that could result in declines in employment and real estate values, which in turn could adversely affect the ability of borrowers to make loan payments and the ability of ASB to recover the full amounts owing to it under defaulted loans;
- the ability of borrowers to obtain insurance and the ability of ASB to place insurance where borrowers fail to do so, particularly in the event of catastrophic damage to collateral securing loans made by ASB;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage servicing assets of ASB;
- changes in ASB s loan portfolio credit profiles and asset quality, which may increase or decrease the required level of allowance for loan losses;
- technological disruptions affecting ASB s operations or financial or operational difficulties experienced by any outside vendor on whom ASB relies to provide key components of its business operations, such as business processing, network access or internet connections;
- the impact of potential legislative and regulatory changes increasing oversight of, and reporting by, banks in response to the recent financial crisis and federal bailout of financial institutions;
- legislative changes regulating the assessment of overdraft, interchange and credit card fees, which will have a negative impact on noninterest income;
- public opinion about ASB and financial institutions in general, which, if negative, could impact the public s trust and confidence in ASB and adversely affect ASB s ability to attract and retain customers and expose ASB to adverse legal and regulatory consequences;
- increases in operating costs, inflation and other factors, that exceed increases in ASB s net interest, fee and other income; and
- the ability of ASB to maintain or increase the level of deposits, ASB s lowest costing funds.

Banking and related regulations could result in significant restrictions being imposed on ASB s business or in a requirement that HEI divest ASB. ASB is subject to examination and comprehensive regulation by the Department of Treasury, the OTS and the Federal Deposit Insurance Corporation, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. As a result of the

Dodd-Frank Act, the OTS will be abolished and the OCC will become ASB s primary regulator in July 2011 (unless the date is extended). In addition, the Federal Reserve will be made responsible for regulating ASB s holding company, HEI. The regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies to address not only ASB s compliance with applicable banking laws and regulations, but also capital adequacy, asset quality, management ability and performance, earnings, liquidity and various other factors.

Under certain circumstances, including any determination that ASB s relationship with HEI results in an unsafe and unsound banking practice, these regulatory authorities have the authority to restrict the ability of ASB to transfer assets and to make distributions to its shareholders (including payment of dividends to HEI), or they could seek to require HEI to sever its relationship with or divest its ownership of ASB. Payment by ASB of

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dividends to HEI may also be restricted by the OTS under its prompt corrective action regulations or its capital distribution regulations if ASB s capital position deteriorates. In order to maintain its status as a QTL, ASB is required to maintain at least 65% of its assets in qualified thrift investments. Savings associations that fail to maintain QTL status are subject to various penalties, including limitations on their activities. In ASB s case, the activities of HEI and HEI s other subsidiaries would also be subject to restrictions, and a failure or inability to comply with those restrictions could effectively result in the required divestiture of ASB. There is also proposed federal legislation that could result in a required divestiture of ASB. In the event of a required divestiture, federal law substantially limits the types of entities that could potentially acquire ASB.

Recent legislative and regulatory initiatives could have an adverse affect on ASB s business. The Dodd-Frank Act, which became law in July 2010, is expected to have a substantial impact on the financial services industry. The Dodd-Frank Act establishes a framework through which regulatory reform will be written and changes to statutes, regulations or regulatory policies could affect ASB in substantial and unpredictable ways. A major component of the Dodd-Frank Act is the creation of the Consumer Financial Protection Bureau that will have the responsibility for setting and enforcing clear, consistent rules relating to consumer financial products and services and will have the authority to prohibit practices it finds to be unfair, deceptive or abusive. Compliance with any such directives could have adverse effects on ASB s revenues or operating costs. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on ASB s business, financial condition, results of operations and cash flows.

A large percentage of ASB s loans and securities are collateralized by real estate, and adverse changes in the real estate market and/or general economic conditions may result in loan losses and adversely affect the Company s profitability. As of December 31, 2010 approximately 82% of ASB s loan portfolio was comprised of loans primarily collateralized by real estate, most of which was concentrated in the State of Hawaii. ASB s financial results may be adversely affected by changes in prevailing economic conditions, either nationally or in the state of Hawaii, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. A deterioration of the economic environment in Hawaii, including a material decline in the real estate market, further declines in home resales, or a material external shock, may significantly impair the value of ASB s collateral and ASB s ability to sell the collateral upon foreclosure. In the event of a default, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest. Adverse changes in the economy may also have a negative effect on the ability of borrowers to make timely repayments of their loans. In addition, if poor economic conditions result in decreased demand for real estate loans, ASB s profits may decrease if alternative investments earn less income than real estate loans.

ASB s strategy to expand its commercial and commercial real estate lending activities may result in higher service costs and greater credit risk than residential lending activities due to the unique characteristics of these markets. ASB has been aggressively pursuing a strategy that includes expanding its commercial and commercial real estate lines of business. These types of loans generally entail higher underwriting and other service costs and present greater credit risks than traditional residential mortgages.

Generally, both commercial and commercial real estate loans have shorter terms to maturity and earn higher spreads than residential mortgage loans. Only the assets of the business typically secure commercial loans. In such cases, upon default, any collateral repossessed may not be sufficient to repay the outstanding loan balance. In addition, loan collections are dependent on the borrower s continuing financial stability and, thus, are more likely to be affected by current economic conditions and adverse business developments.

Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. Commercial real estate loans may not be fully amortizing, meaning that they may have a significant principal balance or balloon payment due at maturity. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than noncommercial properties and to the corresponding burdens and costs of compliance with environmental laws and regulations. Also, there

may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties. For

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example, a tenant may seek the protection of bankruptcy laws, which could result in termination of the tenant s lease.

In addition to the inherent risks of commercial and commercial real estate lending described above, the expansion of these new lines of business present execution risks, including the ability of ASB to attract personnel experienced in underwriting such loans and the ability of ASB to appropriately evaluate credit risk associated with such loans in determining the adequacy of its allowance for loan losses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

HEI: None.

ITEM 2. PROPERTIES

HEI and HECO: See the Properties sections under HEI, Electric utility and Bank in Item 1. Business above.

ITEM 3. LEGAL PROCEEDINGS

HEI and HECO: See the descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in Item 1. Business, in HEI s MD&A and in the notes to HEI s Consolidated Financial Statements. Certain HEI subsidiaries (including HECO and its subsidiaries and ASB) are also involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

EXECUTIVE OFFICERS OF THE REGISTRANT (HEI)

The executive officers of HEI are listed below. Messrs. Rosenblum and Wacker are officers of HEI subsidiaries rather than of HEI, but are deemed to be executive officers of HEI under SEC Rule 3b-7 promulgated under the 1934 Exchange Act. HEI executive officers serve from the date of their initial appointment until the annual meeting of the HEI Board (or applicable HEI subsidiary board of directors) at which officers are appointed, and thereafter are appointed for one-year terms or until their successors have been duly appointed and qualified or until their earlier resignation or removal. HEI executive officers may also hold offices with HEI subsidiaries and affiliates in connection with their current positions listed below.

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Name	Age	Business experience for last 5 years and prior positions with the Company
Constance H. Lau	58	HEI President and Chief Executive Officer since 5/06 HEI Director, 6/01 to 12/04 and since 5/06 HECO Chairman of the Board since 5/06 ASB Chairman of the Board since 5/06 • ASB Chairman of the Board, 11/10 to present • ASB Chairman of the Board and Chief Executive Officer, 2/08 to 11/10 • ASB Chairman of the Board, President and Chief Executive Officer, 5/06 to 1/08 • ASB President and Chief Executive Officer and Director, 6/01 to 5/06 • ASB Senior Executive Vice President and Chief Operating Officer and Director, 12/99 to 5/01 • HEI Treasurer, 4/89 to 10/99 • HEI Power Corp. Financial Vice President and Treasurer, 5/97 to 8/99 • HECO Treasurer and HEI Assistant Treasurer, 12/87 to 4/89 • HECO Assistant Corporate Counsel, 9/84 to 12/87
James A. Ajello	57	HEI Senior Financial Vice President, Treasurer and Chief Financial Officer since 1/09 • Prior to joining the Company: Reliant Energy, Inc. Senior Vice President-Business Development, 8/06 to 1/09, and Reliant Energy, Inc. Senior Vice President and General Manager of Commercial & Industrial Marketing, 1/04 to 8/06
Chester A. Richardson	62	HEI Senior Vice President, General Counsel, Secretary and Chief Administrative Officer since 9/09 • HEI Senior Vice President, General Counsel and Chief Administrative Officer, 12/08 to 9/09 • HEI Vice President, General Counsel, 8/07 to 12/08 • Prior to joining the Company: Alliant Energy Corp. Deputy General Counsel, 9/03 to 7/07
Richard M. Rosenblum	60	HECO President and Chief Executive Officer since 1/09 HECO Director since 2/09

		• Prior to joining the Company: Southern California Edison Company Senior Vice President of Generation and Chief Nuclear Officer, 11/05 until his retirement in 5/08
Richard F. Wacker	48	ASB President and Chief Executive Officer since 11/10 ASB Director since 11/10 • Prior to joining the Company: Korea Exchange Bank, Chairman, 4/09 to 11/10; Korea Exchange Bank, Chairman and Chief Executive Officer, 4/07 to 3/09; and Korea Exchange Bank, Chief Executive Officer, 1/05 to 3/07

There are no family relationships between any HEI executive officer and any other HEI executive officer or any HEI director or director nominee. There are no arrangements or understandings between any HEI executive officer and any other person pursuant to which such executive officer was selected.

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PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

HEI:

Certain of the information required by this item is incorporated herein by reference to Note 13, Regulatory restrictions on net assets and Note 16, Quarterly information (unaudited) to HEI s Consolidated Financial Statements and Item 6 Selected Financial Data and Item 12. Equity compensation plan information of this Form 10-K. Certain restrictions on dividends and other distributions of HEI are described in this report under Item 1. Business HEI Regulation Restrictions on dividends and other distributions and that description is incorporated herein by reference. HEI s common stock is traded on the New York Stock Exchange and the total number of holders of record of HEI common stock as of February 10, 2011, was 9,839.

In 2010, HEI issued an aggregate of 28,000 shares of unregistered common stock pursuant to the HEI 1990 Nonemployee Director Stock Plan, as amended and restated effective May 6, 2008 (the HEI Nonemployee Director Plan). Under the HEI Nonemployee Director Plan, each HEI nonemployee director receives, in addition to an annual cash retainer, an annual stock grant of 1,800 shares of HEI common stock (2,000 shares for the first time grant to a new HEI director) and each nonemployee subsidiary director who is not also an HEI nonemployee director receives an annual stock grant of 1,000 shares of HEI common stock (1,000 shares for the first time grant to a new subsidiary director). The HEI Nonemployee Director Plan is currently the only plan for nonemployee directors and provides for annual stock grants and annual cash retainers for nonemployee directors of HEI and its subsidiaries.

In 2009 and 2008, HEI issued an aggregate of 29,800 and 31,600 shares, respectively, of unregistered common stock pursuant to the HEI Nonemployee Director Plan.

HEI elected not to register the shares issued under the HEI Nonemployee Director Plan since their issuance did not involve a sale as defined under Section 2(3) of the Securities Act of 1933, as amended. Participation by nonemployee directors of HEI and subsidiaries in the director stock plan is mandatory and thus does not involve an investment decision.

HECO:

Since a corporate restructuring on July 1, 1983, all the common stock of HECO has been held solely by its parent, HEI, and is not publicly traded. Accordingly, information required with respect to Market information and holders is not applicable to HECO.

The dividends declared and paid on HECO s common stock for the quarters of 2010 and 2009 were as follows:

Quarters ended	2010	2009
March 31	$ 15,149,485	$ 10,536,000
June 30	11,738,025	10,599,225
September 30	11,472,370	11,621,079
December 31	10,409,120	22,243,696

Also, see Liquidity and capital resources in HEI s MD&A.

See the discussion of regulatory and other restrictions on dividends or other distributions in Restrictions on dividends and other distributions under HEI Regulation in Item 1. Business and in Note 13 to HEI s Consolidated Financial Statements.

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ITEM 6. SELECTED FINANCIAL DATA

HEI:

Hawaiian Electric Industries, Inc. and Subsidiaries **Years ended December 31** **(dollars in thousands, except per share amounts)**	**2010**	**2009**	**2008**	**2007**	**2006**
Results of operations					
Revenues	$ 2,664,982	$ 2,309,590	$ 3,218,920	$ 2,536,418	$ 2,460,904
Net income for common stock	$ 113,535	$ 83,011	$ 90,278	$ 84,779	$ 108,001
Basic earnings per common share	$ 1.22	$ 0.91	$ 1.07	$ 1.03	$ 1.33
Diluted earnings per common share	$ 1.21	$ 0.91	$ 1.07	$ 1.03	$ 1.33
Return on average common equity	7.8%	5.9%	6.8%	7.2%	9.3%
Financial position *					
Total assets	$ 9,085,344	$ 8,925,002	$ 9,295,082	$ 10,293,916	$ 9,891,209
Deposit liabilities	3,975,372	4,058,760	4,180,175	4,347,260	4,575,548
Other bank borrowings	237,319	297,628	680,973	1,810,669	1,568,585
Long-term debt, net	1,364,942	1,364,815	1,211,501	1,242,099	1,133,185
Preferred stock of subsidiaries not subject to mandatory redemption	34,293	34,293	34,293	34,293	34,293
Common stock equity	1,483,637	1,441,648	1,389,454	1,275,427	1,095,240
Common stock					
Book value per common share *	$ 15.70	$ 15.58	$ 15.35	$ 15.29	$ 13.44
Market price per common share					
High	24.99	22.73	29.75	27.49	28.94
Low	18.63	12.09	20.95	20.25	25.69
December 31	22.79	20.90	22.14	22.77	27.15
Dividends per common share	1.24	1.24	1.24	1.24	1.24
Dividend payout ratio	102%	137%	116%	120%	93%
Market price to book value per common share *	145%	134%	144%	149%	202%
Price earnings ratio **	18.7x	23.0x	20.7x	22.1x	20.4x
Common shares outstanding (thousands) *	94,691	92,521	90,516	83,432	81,461
Weighted-average	93,421	91,396	84,631	82,215	81,145
Shareholders ***	32,624	33,302	33,588	34,281	35,021
Employees *	3,427	3,453	3,560	3,520	3,447

* At December 31.

** Calculated using December 31 market price per common share divided by basic earnings per common share. The principal trading market for HEI s common stock is the New York Stock Exchange (NYSE).

*** At December 31. Registered shareholders plus participants in the HEI Dividend Reinvestment and Stock Purchase Plan who are not registered shareholders. As of February 10, 2011, HEI had 32,542 registered shareholders and participants.

See Commitments and contingencies in Note 3 and Balance sheet restructure and Private-issue mortgage-related securities in Note 4 of HEI s Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations for discussions of certain contingencies that could adversely affect future results of operations and factors that affected reported results of operations.

On December 8, 2008, HEI completed the issuance and sale of 5 million shares of HEI s common stock (without par value) under an omnibus shelf registration statement. The net proceeds from the sale amounted to approximately $110 million and were primarily used to repay HEI s outstanding short-term debt and to make loans to HECO (principally to permit HECO to repay its short-term debt).

For 2010, 2009, 2008, 2007 and 2006, under the two-class method of computing basic earnings per share, distributed earnings were $1.24 per share each year and undistributed earnings (loss) were $(0.02), $(0.33), $(0.17), $(0.21) and $0.09 per share, respectively, for both unvested restricted stock awards and unrestricted common stock. For 2010, 2009, 2008, 2007 and 2006, under the two-class method of computing diluted earnings per share, distributed earnings were $1.24 per share each year and undistributed earnings (loss) were $(0.03), $(0.33), $(0.17), $(0.21) and $0.09 per share, respectively, for both unvested restricted stock awards and unrestricted common stock.

HECO:

The information required by this item is incorporated herein by reference to Selected Financial Data on page 4 of HECO Exhibit 99.2.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HEI:

The following discussion should be read in conjunction with Hawaiian Electric Industries, Inc. s (HEI s) consolidated financial statements and accompanying notes. The general discussion of HEI s consolidated results should be read in conjunction with the segment discussions of the electric utilities and the bank that follow.

HEI Consolidated

Executive overview and strategy. HEI is a holding company that operates subsidiaries (collectively, the Company), principally in Hawaii s electric utility and banking sectors. HEI s strategy is to build fundamental earnings and profitability of its operating companies (the electric utilities and the bank) in a controlled risk manner to support its current dividend and improve operating and capital efficiency in order to build shareholder value.

HEI, through its electric utility subsidiary, Hawaiian Electric Company, Inc. (HECO), and HECO s electric utility subsidiaries, Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO), provides the only electric public utility service to approximately 95% of Hawaii s population. HEI also provides a wide array of banking and other financial services to consumers and businesses through its bank subsidiary, American Savings Bank, F.S.B. (ASB), one of Hawaii s largest financial institutions based on total assets.

In 2010, net income for HEI common stock was $114 million, compared to $83 million in 2009. Basic earnings per share were $1.22 per share in 2010, up 34% from $0.91 per share in 2009 due to higher earnings for the bank segment, partly offset by slightly lower earnings at the electric utility segment and higher losses for the other segment and the effects of the higher weighted average number of shares outstanding.

Electric utility net income for common stock in 2010 of $76.6 million decreased 4% from the prior year due primarily to lower kilowatthour (KWH) sales and higher other operation and maintenance (O&M) and depreciation expenses, partly offset by higher rate relief and interest income due to a federal tax settlement. Key to results for 2011 will be the impacts of actions taken under the Hawaii Clean Energy Initiative (HCEI) and Energy Agreement, including the steps taken toward the integration of approximately 1,100 megawatts (MW) of new generation from a variety of renewable energy sources into the utility systems and implementing a new regulatory rate-making model that decouples revenues from KWH sales.

ASB s earnings in 2010 of $58.5 million increased $36.7 million over prior year net income and included a $12.6 million net charge for provision for loan losses. Net income for 2009 reflected a $19.3 million after-tax charge related to the sale of ASB s private issue mortgage-related securities portfolio, a $9.3 million net charge for other-than-temporary impairment (OTTI) of securities and a $19.3 million net charge for provision for loan losses. 2008 earnings included a $35.6 million net charge related to ASB s balance sheet restructuring, a $4.7 million net charge for OTTI of securities and a $6.2 million net charge for provision for loan losses. In 2010, management focused on increasing revenues and reducing costs through ASB s performance improvement project, which has been completed. ASB s future financial results will continue to be impacted by the interest rate environment, the quality of ASB s loan portfolio, and the ongoing results of the performance improvement project.

HEI s other segment had a net loss in 2010 of $21.5 million, compared to a net loss of $18.2 million in 2009. HEI s consolidated effective tax rate was 37% in 2010 compared to 34% in 2009. In 2010, HEI recognized $2 million in tax expense for the write-off of a deferred tax asset due to the expiration of capital loss carryforwards.

Shareholder dividends are declared and paid quarterly by HEI at the discretion of HEI s Board of Directors. HEI and its predecessor company, HECO, have paid dividends continuously since 1901. The dividend has been stable at $1.24 per share annually since 1998. The indicated dividend yield as of December 31, 2010 was 5.4%. The dividend payout ratios based on net income for common stock for 2010,

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2009 and 2008 were 102%, 137% and 116%, respectively. The HEI Board of Directors considers many factors in determining the dividend quarterly, including but not limited to the Company s results of operations, the long-term prospects for the Company, and current and expected future economic conditions.

HEI s subsidiaries from time to time consider various strategies designed to enhance their competitive positions and to maximize shareholder value. These strategies may include the formation of new subsidiaries or the acquisition or disposition of businesses. The Company may from time to time be engaged in preliminary discussions, either internally or with third parties, regarding potential transactions. Management cannot predict whether any of these strategies or transactions will be carried out or, if so, whether they will be successfully implemented.

See the discussions below of the Electric Utility and Bank segments for their respective executive overviews and strategies.

Economic conditions.

Note: The statistical data in this section is from public third-party sources (e.g., Department of Business, Economic Development and Tourism; University of Hawaii Economic Research Organization (UHERO); U.S. Bureau of Labor Statistics; Blue Chip Economic Indicators; Blue Chip Financial Forecasts; Hawaii Tourism Authority; Honolulu Board of REALTORS®; and national and local newspapers).

The U.S. economy, as measured by gross domestic product (GDP), grew 2.6% in the third quarter of 2010, with the advance estimate of fourth quarter growth at 3.2%. According to the February 2011 Blue Chip Economic Indicators, GDP growth is estimated to be 3.5% in the first quarter of 2011. 2010 annual growth was 2.9%, an improvement over the 2.6% contraction in 2009. The outlook for 2011 has improved, with growth now projected at 3.2% in 2011 compared to 2.6% growth in the December 2010 Blue Chip consensus forecast. The more positive outlook reflects increased consumer spending and gains in the manufacturing and service sectors, which suggest that the economy may be starting a transition from recovery to expansion.

Economic growth has not yet translated into job growth. The U.S. unemployment rate was 9.4% in December 2010, down from 9.8% in November 2010. Since December 2009, total payroll employment has increased by 1.1 million, averaging a very low 94,000 jobs per month. Although 2010 was the best year for job growth since 2007, the growth remains small relative to the 8.5 million jobs lost since the Great Recession began. The February 2011 Blue Chip consensus is for the unemployment rate to average 9.3% in 2011.

Japan s economic growth was a strong 3.1% in 2010, but is forecast to decline to 1.5% in 2011 according to the government. Slower growth is expected due to the end of government stimulus measures and a decline in exports. Deflation is also expected to continue in 2011, but consumer prices should fall at a lower rate than in 2009 and 2010.

In 2010, the Hawaii economy benefited from economic growth in both the U.S. and Japan. UHERO projects that following a 0.1% contraction in 2009, Hawaii s economy (real GDP) grew by 1.1% in 2010 and will continue to expand by 2.7% in 2011.

The visitor industry has provided a much needed boost to Hawaii s economy. In 2010, total visitor arrivals were up 8.7% over 2009. Total visitor expenditures rose 16.2% in 2010 due to the increase in visitor arrivals as well as higher average daily visitor spending. In 2011, UHERO projects further growth with arrivals up 3.8%, with the growth moderated by challenging global economic conditions.

Hawaii s construction industry continued to struggle in 2010, but UHERO economists believe we are at the cycle s bottom. For the first eleven months of 2010, the value of total private building permits in the State of Hawaii declined by 0.8% from the same period in 2009 (permits for new residential construction and additions and alterations declined, but commercial and industrial permit values increased). Statewide, construction jobs were down 5.5% year-to-date in November 2010 compared to 2009, however, for the last two months there has been year-over-year growth. UHERO is forecasting that construction jobs will increase by 0.9% in 2011.

Hawaii s resale housing market in 2010 improved based on number of sales, but has struggled in terms of price. For the year 2010, Oahu single-family home resales were up 13.4% compared to 2009, with condominium resales up 10.3%. The median sales price for single-family homes was up 3.1% year-over-year, while the median sales price for condominiums remained flat. Similarly on Maui, Kauai and the island of Hawaii, residential and condominium sales volumes were up by double digit percentages in 2010 compared to 2009. However, median sale prices were down on all three islands with the exception of residential sales on

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Kauai. The neighbor island markets have been affected by the downturn more than Oahu due to a higher proportion of vacation home development and purchases during the last real estate boom.

In 2010, the Hawaii job market had not yet benefited from the positive trends in the visitor industry. Although job losses slowed from the 4.4% decline experienced in 2009, UHERO projects total payroll jobs will end 2010 down 0.5%, followed by an increase of 1.3% in 2011. Furloughs for county employees in all four counties were implemented for the fiscal year beginning July 1, 2010 and state employee furloughs, with the exception of teachers, continued. Hawaii s preliminary seasonally adjusted unemployment rate in December 2010 was 6.4%, which remains well below the national unemployment rate of 9.4% and is seventh lowest in the nation, but is much higher than the 4.1% rate experienced just two years ago. There is some reason for optimism, according to UHERO economists, Gradual progress in the transition to a jobs recovery is confirmed by lower initial unemployment insurance claims in recent months.

Real personal income (which includes unemployment compensation) growth in Hawaii in 2010 is expected to be 0.3% according to UHERO s estimate, following two consecutive years of decline. The expectation is for growth of 2.3% in 2011 as the recovery in the visitor industry and resumption of job growth start to have an impact.

The price of a barrel of West Texas Intermediate crude oil averaged $79 in 2010 and $85 in the fourth quarter of 2010 according to the U.S. Energy Information Administration January 2011 Short-Term Energy Outlook. The forecast for 2011 is an average of $93 per barrel.

Interest rates during 2011 are expected to remain low, putting downward pressure on yields of loans and investments. Although still at historical lows, long-term rates increased during the fourth quarter of 2010, dampening the momentum gained in the housing market during previous quarters. Based on comments from the Federal Open Market Committee, the Fed will continue to support the current low rate environment until a broader recovery in the labor market and overall economy is realized, as long as core inflation levels remain reasonable.

With the recession over, Hawaii showed signs of positive economic activity in 2010, while one of the key indicators, job growth, continued to lag behind. The outlook for 2011 is for continued improvement and for the recovery to spread beyond just the visitor industry.

Major tax legislation in 2010. Congress enacted several bills in 2010 dealing with health care reform, job creation and economic stimulus. Two bills enacted in the latter half of the year contained major tax provisions directly affecting the Company. The first was the Small Business Jobs Act of 2010, which included the extension of 50% bonus depreciation for all businesses retroactive to January 1, 2010. The second was the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. This legislation included the extension of the lower individual income tax rates on income, dividends and capital gains; the increase in the estate and gift tax exemption amounts; and a 2% reduction in Social Security tax on employees and self-employed individuals. Also, businesses received an extension of 50% bonus depreciation for property placed into service before January 1, 2013 and 100% bonus depreciation for property acquired between September 8, 2010 and January 1, 2012. For the Company, the bonus depreciation provisions resulted in an increase in federal tax depreciation of approximately $75 million for 2010, primarily attributable to HECO and its subsidiaries. The Company is still evaluating the impact of this additional bonus depreciation for 2011 since the transition rules related to the definition of property qualified for 100% bonus depreciation are still unclear. A number of energy-related tax breaks were also extended, including the biodiesel credit through 2012 and the grants in lieu of the electricity production credit through 2011.

The Company will continue to analyze these 2010 Acts for their impacts on results of operations, financial condition and cash flows and for the opportunities they present.

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Results of operations.

(dollars in millions, except per share amounts)	2010	% change	2009	% change	2008
Revenues	$ 2,665	15	$ 2,310	(28)	$ 3,219
Operating income	256	37	188	(8)	204
Net income for common stock	114	37	83	(8)	90
Electric utility	$ 77	(4)	$ 79	(14)	$ 92
Bank	58	169	22	22	18
Other	(21)	NM	(18)	NM	(20)
Net income for common stock	$ 114	37	$ 83	(8)	$ 90
Basic earnings per share	$ 1.22	34	$ 0.91	(15)	$ 1.07
Diluted earnings per share	$ 1.21	33	$ 0.91	(15)	$ 1.07
Dividends per share	$ 1.24		$ 1.24		$ 1.24
Weighted-average number of common shares outstanding (millions)	93.4	2	91.4	8	84.6
Dividend payout ratio	102%		137%		116%

NM Not meaningful.

See Executive overview and strategy above for a discussion of the HEI consolidated results of operations. Also, see Other segment, Electric utility and Bank sections below for discussions of those segments.

Retirement benefits. The Company s reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions about future experience. For example, retirement benefits costs are impacted by actual employee demographics (including age and compensation levels), the level of contributions to the plans, plus earnings and realized and unrealized gains and losses on plan assets, and changes made to the provisions of the plans. During 2011, changes to the early retirement reduction factors are being phased in with regard to new retirement benefit accruals. The change is expected to decrease ongoing cost through a reduction in service cost. (See Note 9 of HEI s Notes to Consolidated Financial Statements for a listing of plans that have been frozen in prior years. No other changes were made to the retirement benefit plans provisions in 2010, 2009 and 2008 that have had a significant impact on costs.) Costs may also be significantly affected by changes in key actuarial assumptions, including the expected return on plan assets and the discount rate. The Company s accounting for retirement benefits is adjusted to account for the impact of decisions by the Public Utilities Commission of the State of Hawaii (PUC). Changes in obligations associated with the factors noted above may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants.

The assumptions used by management in making benefit and funding calculations are based on current economic conditions. Changes in economic conditions will impact the underlying assumptions in determining retirement benefits costs on a prospective basis.

For 2010, the Company s retirement benefit plans assets generated a gain, net of investment management fees, of 16.6%, resulting in net earnings and unrealized gains of $145 million, compared to net earnings and unrealized gains of $186 million for 2009 and net losses and unrealized losses of $287 million for 2008. The market value of the retirement benefit plans assets as of December 31, 2010 was $983 million. See

Liquidity and Capital Resources below for the Company s cash contributions to the retirement benefit plans.

The Company expects that the minimum required contribution to the qualified retirement plans calculated in accordance with the Pension Protection Act of 2006 and the expected timing of the cash requirement based on the value of plan assets as of December 31, 2010 will be as set forth below for plan years 2011 and 2012. The minimum required contribution may differ from the cash funding for each plan year because the rules under the Internal Revenue Code allow the Company to make its last installment contribution as late as September of the following year. In addition, the Company is allowed to elect to apply any credit balance against the minimum required contribution. Further, pension tracking mechanisms

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generally require the electric utilities to fund only the minimum level required under the law until the existing pension assets are reduced to zero, at which time the electric utilities would make contributions to the pension trust in the amount of the actuarially calculated net periodic pension costs, except when limited by the Employee Retirement Income Security Act of 1974, as amended (ERISA), minimum contribution requirements or the maximum contribution limitation on deductible contributions imposed by the Internal Revenue Code. As of December 31, 2010, HECO s prepaid pension asset was $3 million, HELCO s was $2 million and MECO s had been eliminated. The Cash funding requirement in the following table considers the utilities funding commitment (based on various assumptions described in Note 9 of HEI s Notes to Consolidated Financial Statements).

(in millions)	2011	2012
Pension Protection Act minimum required contribution:		
(net of applied credit balances)		
Based on plan assets as of December 31, 2010		
Consolidated HECO	$ 85	$ 79
Consolidated HEI	$ 86	$ 80
Cash funding to satisfy the Pension Protection Act minimum required contribution:		
Based on plan assets as of December 31, 2010		
Consolidated HECO	$ 46	$ 116
Consolidated HEI	$ 47	$ 117

See Note 9 of HEI s Notes to Consolidated Financial Statements for factors which could cause changes to the required contribution levels.

Based on various assumptions in Note 9 of HEI s Notes to Consolidated Financial Statements and assuming no further changes in retirement benefit plan provisions, consolidated HEI s, consolidated HECO s and ASB s (i) accumulated other comprehensive income (AOCI) balance, net of tax benefits, related to the liability for retirement benefits, (ii) retirement benefits expense, net of income tax benefits and (iii) retirement benefits paid and plan expenses were, or are estimated to be, as follows as of the dates or for the periods indicated:

	AOCI balance, net of tax benefits, related to retirement benefits liability December 31		Retirement benefits expense, net of tax benefits Years ended December 31				Retirement benefits paid and plan expenses Years ended December 31		
(in millions)	2010	2009	(Estimated) 2011 (1)	2010	2009	2008	2010	2009	2008
Consolidated HEI	$ (15)	$ (12)	$ 24	$ 24	$ 21	$ 17	64	$ 61	$ 59
Consolidated HECO	1	2	23	24	19	17	60	57	55
ASB	(10)	(10)		(1)		(1)	3	3	2

(1) Forward-looking statements subject to risks and uncertainties, including the impact of plan changes during the year, if any, and the impact of actual information when received (e.g., actual participant demographics as of January 1, 2011).

The following table reflects the sensitivities of the projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO) as of December 31, 2010, associated with a change in certain actuarial assumptions by the indicated basis points and constitute forward-looking statements. Each sensitivity below reflects the impact of a change in that assumption.

Actuarial assumption (dollars in millions)	Change in assumption in basis points	Impact on PBO or APBO
Pension benefits		
Discount rate	+/ 50	$(72)/$80
Other benefits		
Discount rate	+/ 50	(10)/12
Health care cost trend rate	+/ 100	3/(3)

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Baseline assumptions: 5.68% discount rate for pension benefits; 5.60% discount rate for other benefits; 8% asset return rate; 9% medical trend rate for 2011, grading down to 5% for 2019 and thereafter; 5% dental trend rate; and 4% vision trend rate.

The impact on 2011 net income for common stock for changes in actuarial assumptions should be immaterial based on the adoption by the electric utilities of pension and postretirement benefits other than pensions (OPEB) tracking mechanisms approved by the PUC. See Note 9 of HEI s Notes to Consolidated Financial Statements for further retirement benefits information.

Other segment.

(dollars in millions)	2010	% change	2009	% change	2008
Revenues (1)	$	NM	$	NM	$
Operating income (loss)	(15)	NM	(14)	NM	(14)
Net loss	(22)	NM	(18)	NM	(20)

(1) Including writedowns of and net gains and losses from investments.

NM Not meaningful.

The other business segment includes results of the stand-alone corporate operations of HEI and American Savings Holdings, Inc. (ASHI), both holding companies; HEI Investments, Inc. (HEIII), a company previously holding investments in leveraged leases but whose wind-down was substantially completed during 2009; Pacific Energy Conservation Services, Inc. (PECS), a contract services company which provided windfarm operational and maintenance services to an affiliated electric utility until the windfarm was dismantled in the fourth quarter of 2010; HEI Properties, Inc. (HEIPI), a company holding passive, venture capital investments (venture capital investments valued at $1.3 million as of December 31, 2010); and The Old Oahu Tug Service, Inc. (TOOTS), a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions.

HEI corporate-level operating, general and administrative expenses were $13.3 million in 2010 compared to $12.7 million in each of 2009 and 2008. In 2010, expenses increased primarily due to higher compensation expense, partly offset by lower retirement benefit expense and an accrual in 2009 to dismantle a windfarm in 2010. In 2009, expenses decreased slightly from 2008 due to not funding the HEI Charitable Foundation and lower consulting fees, partly offset by the accrual to dismantle a windfarm.

The other segment s interest expenses were $20.0 million in 2010, $18.4 million in 2009 and $21.4 million in 2008. In 2010, financing costs were higher due to the higher level of borrowings and the recognition of the ineffective portion of the change in fair value of the forward starting swaps in 2010. In 2009, financing costs were lower than in 2008 due to lower levels of short-term borrowings after HEI s common stock sale in December 2008.

Effects of inflation. U.S. inflation, as measured by the U.S. Consumer Price Index (CPI), averaged 1.6% in 2010, (0.4%) in 2009 and 3.8% in 2008. Hawaii inflation, as measured by the Honolulu CPI, was 0.5% in 2009 and 4.3% in 2008. The Department of Business, Economic Development and Tourism estimates average Honolulu CPI to have been 2.2% in 2010 and forecasts it to be 2.2% for 2011.

Inflation continues to have an impact on HEI s operations. Inflation increases operating costs and the replacement cost of assets. Subsidiaries with significant physical assets, such as the electric utilities, replace assets at much higher costs and must request and obtain rate increases to maintain adequate earnings. In the past, the PUC has granted rate increases in part to cover increases in construction costs and operating expenses due to inflation.

Recent accounting pronouncements. See Recent accounting pronouncements and interpretations in Note 1 of HEI s Notes to Consolidated Financial Statements.

Legislation. On March 23, 2010, the Affordable Care Act became law and mandated that employers provide medical coverage to all their employees. The Company provides health insurance benefits to their employees under the provisions of the Hawaii Prepaid Health Care Act. Thus, the financial impact of the Affordable Care Act is not expected to be significant to the Company. In January 2011, a bill was introduced, which, if implemented as written, would repeal the Affordable Care Act.

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Liquidity and capital resources.

Selected contractual obligations and commitments. The following tables present information about total payments due during the indicated periods under the specified contractual obligations and commercial commitments:

December 31, 2010 (in millions)	Total	Payments due by period Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Deposit liabilities(1)	$ 3,975	$ 3,745	$ 115	$ 100	$ 15
Other bank borrowings	237	137			100
Long-term debt	1,366	150	115	111	990
Interest on certificates of deposit, other bank borrowings and long-term debt	1,089	83	143	124	739
Operating leases, service bureau contract and maintenance agreements	108	20	33	24	31
Open purchase order obligations (2)	110	69	40	1	
Fuel oil purchase obligations (estimate based on December 31, 2010 fuel oil prices)	3,335	967	1,715	653	
Power purchase obligations minimum fixed capacity charges	1,249	118	234	232	665
Liabilities for uncertain tax positions	12		10	2	
Total (estimated)	$ 11,481	$ 5,289	$ 2,405	$ 1,247	$ 2,540

(1) Deposits that have no maturity are included in the Less than 1 year column, however, they may have a duration longer than one year.

(2) Includes contractual obligations and commitments for capital expenditures and expense amounts.

December 31, 2010 (in millions)	Total
Other commercial commitments to ASB customers	
Loan commitments (primarily expiring in 2011)	$ 22
Loans in process	56
Unused lines and letters of credit	1,136
Total	$ 1,214

The tables above do not include other categories of obligations and commitments, such as deferred taxes, trade payables, amounts that will become payable in future periods under collective bargaining and other employment agreements and employee benefit plans, obligations that may arise under indemnities provided to purchasers of discontinued operations and potential refunds of amounts collected under interim D&Os of the PUC. As of December 31, 2010, the fair value of the assets held in trusts to satisfy the obligations of the Company s retirement benefit

plans did not exceed the retirement benefit plans benefit obligation. Minimum funding requirements for retirement benefit plans have not been included in the tables above; however, see Retirement benefits above for estimated minimum required contributions for 2011 and 2012.

See Note 3 of HEI s Notes to Consolidated Financial Statements for a discussion of fuel and power purchase commitments.

The Company believes that its ability to generate cash, both internally from electric utility and banking operations and externally from issuances of equity and debt securities, commercial paper and bank borrowings, is adequate to maintain sufficient liquidity to fund its contractual obligations and commercial commitments, its forecasted capital expenditures and investments, its expected retirement benefit plan contributions and other cash requirements in the foreseeable future.

The Company s total assets were $9.1 billion as of December 31, 2010 and $8.9 billion as of December 31, 2009.

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The consolidated capital structure of HEI (excluding deposit liabilities and other bank borrowings) was as follows as of the dates indicated:

December 31 (dollars in millions)	2010		2009	
Short-term borrowings other than bank	$ 25	1%	$ 42	2%
Long-term debt, net other than bank	1,365	47	1,365	47
Preferred stock of subsidiaries	34	1	34	1
Common stock equity	1,484	51	1,442	50
	$ 2,908	100%	$ 2,883	100%

HEI s short-term borrowings and HEI s line of credit facility were as follows for the period and as of the dates indicated:

(in millions)	Year ended December 31, 2010 Average balance	End-of-period balance	December 31, 2009
Short-term borrowings (1)			
HEI commercial paper	$ 34	$ 25	$ 42
HEI line of credit draws			
	$ 34	$ 25	$ 42
Line of credit facility (expiring May 7, 2013)		$ 125	$ 100
Undrawn capacity under HEI s line of credit facility		125	100

(1) This table does not include HECO s separate commercial paper issuances and line of credit facilities and draws, which are discussed below under Electric utility Financial Condition Liquidity and capital resources. At February 10, 2011, HEI s outstanding commercial paper balance was $26 million and its line of credit facility was undrawn. The maximum amount of HEI s short-term borrowings in 2010 was $50 million.

HEI utilizes short-term debt, typically commercial paper, to support normal operations, to refinance commercial paper, to retire long-term debt, to pay dividends and for other temporary requirements. HEI also periodically makes short-term loans to HECO to meet HECO s cash requirements, including the funding of loans by HECO to HELCO and MECO, but no such short-term loans to HECO were outstanding as of December 31, 2010. HEI periodically utilizes long-term debt, historically consisting of medium-term notes and other unsecured indebtedness, to fund investments in and loans to its subsidiaries to support their capital improvement or other requirements, to repay long-term and short-term indebtedness and for other corporate purposes.

Effective May 7, 2010, HEI entered into a revolving noncollateralized credit agreement establishing a line of credit facility of $125 million, with a letter of credit sub-facility, expiring on May 7, 2013, with a syndicate of eight financial institutions. See Note 7 of HEI s Notes to Consolidated Financial Statements.

The agreement contains provisions for revised pricing in the event of a ratings change. For example, a ratings downgrade of HEI s Issuer Rating (e.g., from BBB/Baa2 to BBB-/Baa3 by Standard & Poor s (S&P) and Moody s Investors Service (Moody s), respectively) would result in a commitment fee increase of 5 basis points and an interest rate increase of 25 basis points on any drawn amounts. On the other hand, a ratings upgrade (e.g., from BBB/Baa2 to BBB+/Baa1 by S&P or Moody s, respectively) would result in a commitment fee decrease of 10 basis points and an interest rate decrease of 25 basis points on any drawn amounts. The agreement contains customary conditions which must be met in order to draw on it, including compliance with its covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI). In addition to customary defaults, HEI s failure to maintain its financial ratios, as defined in its agreement, or meet other requirements may result in an event of default. For example, under its agreement, it is an event of default if HEI fails to maintain a nonconsolidated Capitalization Ratio (funded debt) of 50% or less (actual ratio of 18% as of December 31, 2010, as calculated under the agreement) and Consolidated Net Worth of at least $975 million (actual Net Worth of $1.5 billion as of December 31, 2010, as calculated under the agreement).

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In addition to their impact on pricing under HEI s credit agreement, the rating of HEI s commercial paper and debt securities could significantly impact the ability of HEI to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (i.e., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of HEI securities. On July 30, 2010, Moody s changed HEI s rating outlook to stable from negative and affirmed HEI s long-term and short-term (commercial paper) ratings, indicating that the ratings affirmation and outlook change reflects the progress being made by the company and various stakeholders to transform the regulatory framework for HEI s electric utilities to a decoupling structure that will reduce sales volume risk and produce more timely recovery of invested capital and operations and maintenance (O&M) costs. Moody s indicated that the rating could be downgraded if the PUC does not follow through with the regulatory transformation contemplated under the HCEI, including all elements of the decoupling mechanism, or if HEI s cash flow to debt declined to below 15% and its cash flow coverage of interest fell below 3.3 times on a sustainable basis. On November 15, 2010, S&P issued an update in which it lowered its long-term ratings for HEI to BBB- from BBB, and indicated the outlook as stable. In addition, S&P affirmed its A-3 short-term rating on HEI and revised HEI s financial profile to aggressive from significant. S&P indicated the rating downgrade reflects an aggressive financial profile combined with weak cash flow generation at HEI s electric utilities, delays in implementing new utility rate recovery mechanisms, the growing risks of regulatory disallowances in future rate cases, and a protracted recession.

As of February 10, 2011, the S&P and Moody s ratings of HEI securities were as follows:

	S&P	Moody s
Commercial paper	A-3	P-2
Senior unsecured debt	BBB-	Baa2

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

Management believes that, if HEI s commercial paper ratings were to be downgraded, or if credit markets for commercial paper with HEI s ratings or in general were to tighten, it would be difficult and expensive for HEI to sell commercial paper or HEI might not be able to sell commercial paper in the future. Such limitations could cause HEI to draw on its syndicated credit facility instead, and the costs of such borrowings could increase under the terms of the credit agreement as a result of any such ratings downgrades. Similarly, if HEI s long-term debt ratings were to be downgraded, it would be difficult and more expensive for HEI to issue long-term debt. Such limitations and/or increased costs could materially adversely affect the results of operations, financial condition and cash flows of HEI and its subsidiaries.

See the electric utilities and bank s respective Liquidity and capital resources sections below for the ratings of HECO and ASB.

In November 2008, HEI filed an omnibus registration statement to register an indeterminate amount of debt, equity and hybrid securities. Under Securities and Exchange Commission (SEC) regulations, this registration statement expires on November 4, 2011. On December 2, 2008, HEI offered and priced under the registration a public offering of 5,000,000 shares of its common stock at $23 per share for net proceeds of approximately $110 million, which were used in part to repay its outstanding short-term indebtedness and to make loans to HECO.

Issuances of common stock through the Hawaiian Electric Industries, Inc. Dividend Reinvestment and Stock Purchase Plan (DRIP), Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan have been important sources of capital for HEI. Issuances of common stock through DRIP, HEIRSP and the ASB 401(k) Plan (which was split off from HEIRSP in 2009) provided new capital of $43 million (approximately 1.9 million shares) in 2010 and $43 million (approximately 1.8 million shares) in 2008. From January 1, 2009 through April 15, 2009, issuances of common stock through these plans increased significantly, with HEI raising $14 million of new capital through the issuance of approximately

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1.0 million shares for these plans during this period. HEI ceased new issuances of stock through DRIP and HEIRSP effective April 16, 2009 and began satisfying the HEI common stock requirements of DRIP and HEIRSP (and the ASB 401(k) Plan upon its inception on May 7, 2009) through open market purchases. On September 4, 2009, HEI resumed satisfying the HEI common stock requirements of DRIP, HEIRSP and the ASB 401(k) Plan through new issuances of common stock and raised $18 million of new capital through the issuance of approximately 1.0 million shares to these plans from September 4 to December 31, 2009.

Operating activities provided net cash of $341 million in 2010, $284 million in 2009 and $260 million in 2008. Investing activities provided (used) net cash of $(279) million in 2010, $442 million in 2009 and $1.1 billion in 2008. In 2010, net cash used in investing activities was primarily due to purchases of investment and mortgage-related securities and HECO s consolidated capital expenditures (net of contributions in aid of construction), partly offset by repayments of investment and mortgage-related securities and a net decrease in loans held for investment. Financing activities used net cash of $235 million in 2010, $406 million in 2009, and $1.4 billion in 2008. In 2010, net cash used in financing activities included net decreases in short-term borrowings, other bank borrowings and deposits and the payment of common and preferred stock dividends, partly offset by proceeds from the issuance of common stock under HEI plans.

A portion of the net assets of HECO and ASB is not available for transfer to HEI in the form of dividends, loans or advances without regulatory approval. One of the conditions to the PUC s approval of the merger and corporate restructuring of HECO and HEI requires that HECO maintain a consolidated common equity to total capitalization ratio of not less than 35% (actual ratio of 55% at December 31, 2010), and restricts HECO from making distributions to HEI to the extent it would result in that ratio being less than 35%. In the absence of an unexpected material adverse change in the financial condition of the electric utilities or ASB, such restrictions are not expected to significantly affect the operations of HEI, its ability to pay dividends on its common stock or its ability to meet its debt or other cash obligations. See Note 13 of HEI s Notes to Consolidated Financial Statements.

Forecasted HEI consolidated net cash used in investing activities (excluding investing cash flows from ASB) for 2011 through 2013 consists primarily of the net capital expenditures of HECO and its subsidiaries. In addition to the funds required for the electric utilities construction programs (see Electric utility Liquidity and capital resources), approximately $207 million will be required during 2011 through 2013 to repay maturing HEI medium-term notes, which are expected to be repaid with the proceeds from the issuance of commercial paper, bank borrowings, other medium- or long-term debt, common stock issued under Company plans, and/or dividends from subsidiaries. In addition, $57.5 million of HECO special purpose revenue bonds will be maturing in 2012, which bonds are expected to be repaid with proceeds from issuances of long-term debt. Additional debt and/or equity financing may be utilized to pay down commercial paper or other short-term borrowings or may be required to fund unanticipated expenditures not included in the 2011 through 2013 forecast, such as increases in the costs of or an acceleration of the construction of capital projects of the utilities, unanticipated utility capital expenditures that may be required by the HCEI or new environmental laws and regulations, unbudgeted acquisitions or investments in new businesses, significant increases in retirement benefit funding requirements and higher tax payments that would result if certain tax positions taken by the Company do not prevail or if taxes are increased by federal or state legislation. In addition, existing debt may be refinanced prior to maturity (potentially at more favorable rates) with additional debt or equity financing (or both).

As further explained in Retirement benefits above and Notes 1 and 9 of HEI s Notes to Consolidated Financial Statements, the Company maintains pension and other postretirement benefit plans. The Company was required to make contributions of $19.1 million for 2010, but was not required to make any contributions for 2009 and 2008 to the qualified pension plans to meet minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006. The Company made voluntary contributions in 2010, 2009 and 2008. Contributions to the retirement benefit plans totaled $32 million in 2010 (comprised of $31 million by the utilities, $1 million by HEI and nil by ASB), $25 million in 2009 and $15 million in 2008 and are expected to total $64 million in 2011 ($63 million by the utilities, $1 million by HEI and nil by ASB). In addition, the Company paid directly $2 million of benefits in 2010 and

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$1 million of benefits in each of 2009 and 2008 and expects to pay $2 million of benefits in 2011. Depending on the performance of the assets held in the plans trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The Company believes it will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Off-balance sheet arrangements. Although the Company has off-balance sheet arrangements, management has determined that it has no off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, including the following types of off-balance sheet arrangements:

(1) obligations under guarantee contracts,

(2) retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements that serves as credit, liquidity or market risk support to that entity for such assets,

(3) obligations under derivative instruments, and

(4) obligations under a material variable interest held by the Company in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

Certain factors that may affect future results and financial condition. The Company s results of operations and financial condition can be affected by numerous factors, many of which are beyond its control and could cause future results of operations to differ materially from historical results. The following is a discussion of certain of these factors. Also see Forward-Looking Statements above and Certain factors that may affect future results and financial condition in each of the electric utility and bank segment discussions below.

Economic conditions, U.S. capital markets and credit and interest rate environment. Because the core businesses of HEI s subsidiaries are providing local electric public utility services and banking services in Hawaii, the Company s operating results are significantly influenced by Hawaii s economy, which in turn is influenced by economic conditions in the mainland U.S. (particularly California) and Asia (particularly Japan) as a result of the impact of those conditions on tourism, by the impact of interest rates, particularly on the construction and real estate industries, and by the impact of world conditions (e.g., Afghanistan war) on federal government spending in Hawaii. The two largest components of Hawaii s economy are tourism and the federal government (including the military).

Declines in the Hawaii, U.S. and Asian economies in recent years led to declines in KWH sales, delinquencies in ASB s loan portfolio and other adverse effects on HEI s businesses. GDP declined by 2.6% in 2009, but grew by 2.9% in 2010.

If S&P or Moody s were to further downgrade HEI s or HECO s debt ratings, or if future events were to adversely affect the availability of capital to the Company, HEI s and HECO s ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements, as further explained in Retirement benefits above and Notes 1 and 9 of HEI s Notes to Consolidated Financial Statements, are affected by the market performance of the assets in the master pension trust maintained for pension plans, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The electric utilities pension tracking mechanisms help moderate pension expense; however, a decline in the value of the Company s defined benefit pension plan assets may increase the unfunded status of the Company s pension plans and result in increases in future funding requirements.

Because the earnings of ASB depend primarily on net interest income, interest rate risk is a significant risk of ASB s operations. HEI and its electric utility subsidiaries are also exposed to interest rate risk primarily due to their periodic borrowing requirements, the discount rate used to determine pension funding requirements and the possible effect of interest rates on the electric utilities rates of return and overall economic activity. Interest rates are sensitive to many factors, including general economic conditions and

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the policies of government and regulatory authorities. HEI cannot predict future changes in interest rates, nor be certain that interest rate risk management strategies it or its subsidiaries have implemented will be successful in managing interest rate risk.

Changes in interest rates and credit spreads also affect the fair value of ASB s investment securities. In 2009, the credit markets experienced significant disruptions, liquidity on many financial instruments declined and residential mortgage delinquencies and defaults increased. These disruptions negatively impacted the fair value of ASB s investment portfolio in 2009. However, with the fourth quarter 2009 sale of ASB s remaining private-issue mortgage-related securities portfolio and substantial residential loan production in 2009 and 2010, the Company s exposure to credit and interest rate risks have been reduced.

Limited insurance. In the ordinary course of business, the Company purchases insurance coverages (e.g., property and liability coverages) to protect itself against loss of or damage to its properties and against claims made by third-parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, the Company has no coverage. HECO, HELCO and MECO s transmission and distribution systems (excluding substation buildings and contents) have a replacement value roughly estimated at $5 billion and are uninsured. Similarly, HECO, HELCO and MECO have no business interruption insurance. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the utilities to recover from ratepayers restoration costs and revenues lost from business interruption, their results of operations, financial condition and cash flows could be materially adversely impacted. Certain of the Company s insurance has substantial deductibles or has limits on the maximum amounts that may be recovered. Insurers also have exclusions or limitations of coverage for claims related to certain perils including, but not limited to, mold and terrorism. If a series of losses occurred, such as from a series of lawsuits in the ordinary course of business each of which were subject to an insurance deductible amount, or if the maximum limit of the available insurance were substantially exceeded, the Company could incur uninsured losses in amounts that would have a material adverse effect on the Company s results of operations, financial condition and cash flows.

Environmental matters. HEI and its subsidiaries are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances. These laws and regulations, among other things, may require that certain environmental permits be obtained and maintained as a condition to constructing or operating certain facilities. Obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance.

Material estimates and critical accounting policies. In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change include the amounts reported for investment and mortgage-related securities; property, plant and equipment; pension and other postretirement benefit obligations; contingencies and litigation; income taxes; regulatory assets and liabilities; electric utility revenues; and allowance for loan losses. Management considers an accounting estimate to be material if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the assumptions selected could have a material impact on the estimate and on the Company s results of operations or financial condition.

In accordance with SEC Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, management has identified accounting policies it believes to be the most critical to the Company s financial statements that is, management believes that the policies discussed below are both the most important to the portrayal of the Company s financial condition and results of operations, and

currently require management s most difficult, subjective or complex judgments. The policies affecting both of the Company s two principal segments are discussed below and the policies affecting just one segment

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are discussed in the respective segment s section of Material estimates and critical accounting policies. Management has reviewed the material estimates and critical accounting policies with the HEI Audit Committee and, as applicable, the HECO Audit Committee.

For additional discussion of the Company s accounting policies, see Note 1 of HEI s Notes to Consolidated Financial Statements and for additional discussion of material estimates and critical accounting policies, see the electric utility and bank segment discussions below under the same heading.

Pension and other postretirement benefits obligations. For a discussion of material estimates related to pension and other postretirement benefits (collectively, retirement benefits), including costs, major assumptions, plan assets, other factors affecting costs, AOCI charges and sensitivity analyses, see Retirement benefits in Consolidated Results of operations above and Notes 1 and 9 of HEI s Notes to Consolidated Financial Statements.

Contingencies and litigation. The Company is subject to proceedings, lawsuits and other claims. Management assesses the likelihood of any adverse judgments in or outcomes of these matters as well as potential ranges of probable losses, including costs of investigation. A determination of the amount of reserves required, if any, for these contingencies is based on an analysis of each individual case or proceeding often with the assistance of outside counsel. The required reserves may change in the future due to new developments in each matter or changes in approach in dealing with these matters, such as a change in settlement strategy.

In general, environmental contamination treatment costs are charged to expense, unless it is probable that the PUC would allow such costs to be recovered through future rates, in which case such costs would be capitalized as regulatory assets. Also, environmental costs are capitalized if the costs extend the life, increase the capacity, or improve the safety or efficiency of property; the costs mitigate or prevent future environmental contamination; or the costs are incurred in preparing the property for sale. See Environmental regulation in Note 3 of HEI s Notes to Consolidated Financial Statements for a description of the Honolulu Harbor investigation.

Income taxes. Deferred income tax assets and liabilities are established for the temporary differences between the financial reporting bases and the tax bases of the Company s assets and liabilities using tax rates expected to be in effect when such deferred tax assets or liabilities are realized or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions) and advice from its tax advisors. Management believes that the Company s provision for tax contingencies is reasonable. However, the ultimate resolution of tax treatments disputed by governmental authorities may adversely affect the Company s current and deferred income tax amounts. See Income taxes in Notes 1 and 11 of HEI s Notes to Consolidated Financial Statements.

Following are discussions of the electric utility and bank segments. Additional segment information is shown in Note 2 of HEI s Notes to Consolidated Financial Statements. The discussion concerning Hawaiian Electric Company, Inc. should be read in conjunction with its

consolidated financial statements and accompanying notes.

Electric utility

Executive overview and strategy. The electric utilities are vertically integrated and regulated by the PUC. The separate island utility systems are not currently interconnected, which requires that additional reliability be built into each system, but also means that the utilities are not exposed to the risks of inter-ties. The electric utilities strategic focus has been to meet Hawaii s growing energy needs through a combination of diverse activities modernizing and adding needed infrastructure through capital investment, placing emphasis on

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energy efficiency and conservation, pursuing renewable energy generation (including the use of biofuels) and taking the necessary steps to secure regulatory support for their plans.

Reliability projects remain a priority for HECO and its subsidiaries. HECO has completed construction of a new generating unit designed to operate using biodiesel fuel, has completed the first phase and is currently constructing the remaining phase of the East Oahu Transmission Project (EOTP) a needed alternative route to move power from the west side of Oahu to load centers on the east side and is working with the State and U.S. Department of Energy on an undersea cable system to interconnect proposed independent power producer (IPP) wind farms on the islands of Lanai and Molokai with the Oahu grid.

Major infrastructure projects can have a pronounced impact on the communities in which they are located. The electric utilities continue to expand their community outreach and consultation process so they can better understand, evaluate and address community concerns early in the process.

With large power users in the electric utilities service territories, such as the U.S. military, hotels and state and local government, management believes that retaining customers by offering them specialized services and energy efficiency audits to help them save on energy costs is critical to long-term success.

Hawaii Clean Energy Initiative. On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State of Hawaii Department of Commerce and Consumer Affairs, and HECO, on behalf of itself and its subsidiaries, HELCO and MECO (collectively, the parties), signed an Energy Agreement setting forth the goals and objectives of the HCEI and the related commitments of the parties (the Energy Agreement). The Energy Agreement provides that the parties shall pursue a wide range of actions with the purpose of decreasing the State of Hawaii s dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. See Hawaii Clean Energy Initiative in Note 3 of HEI s Notes to Consolidated Financial Statements.

Decoupling. Decoupling is a new method of setting electric rates that is designed to support Hawaii s efforts to reduce its dependence on imported oil. In December 2010, the PUC allowed HECO to implement decoupling, which removes the link between electricity usage and utility revenues. This aligns the utility with public policy to promote energy efficiency and conservation. Customers will still have an incentive to conserve energy because their bills continue to be based on how much electricity they use. Decoupling also allows the utility to recover on a more timely basis the investments and costs to further support reliability and clean energy. See Decoupling proceeding below.

Renewable energy strategy. The electric utilities have been taking actions intended to protect Hawaii s island ecology and reduce greenhouse gas (GHG) emissions, while continuing to provide reliable power to customers, and committed to a number of related actions in the Energy Agreement. A three-pronged strategy supports attainment of the requirements and goals of the State of Hawaii Renewable Portfolio Standards (RPS), the Hawaii Global Warming Solutions Act of 2007 and the HCEI by: (1) the greening of existing assets, (2) the expansion of renewable energy generation and (3) the acceleration of energy efficiency and load management programs. Major initiatives are being pursued in each category.

In 2009, Hawaii s RPS law was amended to require electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. For the eleven months ended November 30, 2010, HECO s consolidated RPS was 16.2%, including electrical energy savings. Accordingly, the utilities are expected to meet the 2010 RPS. This was accomplished through a combination of municipal solid waste, geothermal, wind, biomass, hydro, photovoltaic and biodiesel renewable generation resources; renewable energy displacement technologies; and energy savings from efficiency technologies. Demand-side management (DSM) programs contributed significantly to achieving the 16.2% RPS level and, without including the DSM energy savings, the RPS would have been 9.1%. Energy savings resulting from energy efficiency programs will not count toward the RPS after 2014.

In January 2007, the PUC opened a docket (RPS Docket) to examine Hawaii s RPS law. In December 2007, the PUC issued a D&O approving a stipulated RPS framework to govern electric utilities compliance with the RPS law. In the D&O, the PUC deferred an RPS incentive framework to a new generic

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docket (Renewable Energy Infrastructure Program (REIP) Docket). In December 2008, the PUC approved a potential penalty of $20 for every MWh that an electric utility is deficient under the RPS law. The PUC must evaluate the standards every five years, beginning in 2013, to determine whether the standards remain effective and achievable or should be revised.

The electric utilities are actively pursuing the use of biofuels for existing and planned company-owned generating units. HECO s new 110 MW generating unit began on-going operations in 2010 with 100% biodiesel supplied under a two-year biodiesel supply contract with Renewable Energy Group Marketing & Logistics, LLC (REG) as approved by the PUC in June 2010. HECO is also moving toward operating some of its steam generating units with a blend of fossil and biofuels (co-firing). In June 2010, the PUC approved HECO s and MECO s biofuel supply contracts for their respective biofuel demonstration projects. HECO completed installation of capital equipment in 2010 in preparation for a co-firing test completed in February 2011 at its Kahe Power Plant. MECO plans to test biodiesel at its Maalaea Power Plant in 2011.

In March 2010, HECO and its subsidiaries issued a request for proposal (RFP) for biofuels produced from feedstock grown in, made in, or otherwise originating in Hawaii (local biofuel) to potentially supply multiple locations. In January 2011, HELCO signed a 20-year contract with Aina Koa Pono-Ka u LLC to supply 16 million gallons of biodiesel per year with initial consumption at HELCO s Keahole Power Plant to begin by 2015. HECO is continuing negotiations with other bidders. In January 2011, HECO issued a RFP for biodiesel to supply CIP CT-1 upon the expiration of the REG contract in July 2012. HECO expects to issue a RFP in 2011 for commercial supplies of biofuel to co-fire with fossil fuel at HECO s Kahe Power Plant by 2015Under current RPS law, biofuel use in existing and new generating units counts toward the RPS.

The electric utilities also support renewable energy through the negotiation and execution of power purchase agreements (PPAs) with non-utility generators using renewable sources (e.g., refuse-fired, geothermal, hydroelectric, photovoltaic and wind turbine generating systems).

On April 30, 2009, HECO filed an application with the PUC for approval of a Photovoltaic (PV) Host Pilot Program, which would be a two-year pilot program whereby HECO, HELCO and MECO would lease rooftops or other space from property owners, with a focus on governmental facilities, for the installation of third-party owned PV systems. The PV developer would own, operate and maintain the system and sell the energy to the utilities at a fixed rate under a long-term contract. On August 31, 2010, HECO proposed several modifications to the pilot program, including deferment of HELCO s and MECO s participation in the program and utilization of select PV Host projects on Oahu as test platforms to evaluate grid integration technologies (as well as to help address grid integration issues associated with existing and growing penetration levels of distributed intermittent generation).

In 2008, HECO issued an Oahu Renewable Energy Request for Proposals (2008 RFP) for combined renewable energy projects up to 100 MW. HECO is currently negotiating PPAs with the bidders in the Award Group a proposed wind project (70 MW) and a proposed solar project (5 MW).

Included in the bids received in response to the 2008 RFP were proposals for two large scale neighbor island wind projects that would produce energy to be imported from Lanai and Molokai to Oahu via a yet-to-be-built undersea transmission cable system (Interisland Wind projects). In accordance with the Energy Agreement, the proposals for the Interisland Wind Projects were bifurcated from the Oahu Renewable Energy RFP for separate negotiation. Subsequently, HECO received a PUC waiver from the competitive bidding framework for the two non-conforming proposals and negotiations are ongoing.

In September 2010 and January 2011, MECO executed PPAs with Kaheawa Wind Power II, LLC and Auwahi Wind Energy, LLC, respectively, for the purchase of 21 MW (each) of as available wind energy. The PPA with Auwahi Wind Energy, LLC is subject to PUC approval. In January 2011, MECO requested that the PUC open a docket for MECO s plans to acquire up to 50 MW of renewable, firm dispatchable capacity generation resources on Maui, with the initial increment coming on line in 2015.

On September 30, 2010, the PUC approved the electric utilities proposed Electric Vehicle (EV) Charging Time of Use Pilot Rates, which are now available to 1,000 HECO, 300 HELCO and 300 MECO customers for charging highway-capable, four-wheeled EVs. The EV Pilot Rates will remain in effect for three years and are designed to encourage early adoption of EVs and incentivize customers to charge EVs during off-peak times of the day.

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The electric utilities promote research and development in the areas supporting renewable energy such as biofuels, ocean energy, energy storage, smart grids and integration of non-firm power into the separate island electric grids. The utilities are evaluating several potential energy storage and smart grid demonstration projects, and conducting various integration studies.

Results of operations.

(dollars in millions, except per barrel amounts)	2010	% change	2009	% change	2008
Revenues (1)	$ 2,382	17	$ 2,035	(29)	$ 2,860
Expenses					
Fuel oil	900	34	672	(45)	1,229
Purchased power	549	10	500	(28)	690
Other	755	9	694	(8)	750
Operating income	178	5	170	(11)	191
Allowance for funds used during construction	9	(51)	17	33	13
Net income for common stock	77	(4)	79	(14)	92
Return on average common equity	5.8%		6.4%		8.0%
Average fuel oil cost per barrel (1)	$ 87.62	37	$ 63.91	(44)	$ 114.50
Kilowatthour sales (millions)	9,579	(1)	9,690	(2)	9,936
Cooling degree days (Oahu)	4,661	(3)	4,815	(3)	4,943
Number of employees (at December 31)	2,318	1	2,297	4	2,203

(1) The rate schedules of the electric utilities currently contain ECACs through which changes in fuel oil prices and certain components of purchased energy costs are passed on to customers.

- Net income for common stock for HECO and its subsidiaries was $77 million in 2010 compared to $79 million in 2009. The net income decrease in 2010 compared to 2009 was primarily due to higher O&M spending (excluding DSM program expenses) to maintain system reliability, lower KWH sales and lower allowance for funds used during construction (AFUDC), partly offset by higher interim rate increases that became effective for HECO (test year 2009) in August 2009 and February 2010 and for MECO (test year 2010) in August 2010 and $6 million of interest income, net of taxes, due to a federal tax settlement.

In 2010, the electric utilities revenues increased by 17%, or $347 million, from 2009 primarily due to higher fuel prices ($326 million), interim rate relief granted by the PUC to HECO for its 2009 test year ($43 million) and interim rate relief granted by the PUC to MECO for its 2010 test year ($4 million) (see Most recent rate requests below), partly offset by the impact of lower KWH sales ($22 million) and lower DSM program recovery revenues ($20 million) (see Demand-side management programs below). KWH sales were 1.1% lower when compared to 2009 due largely to cooler, less humid weather and continued conservation efforts by customers.

Operating income in 2010 was $9 million higher than in 2009 due primarily to the interim rate relief for HECO and MECO, partly offset by the impact of lower KWH sales, higher other expenses, including higher O&M expenses and higher depreciation expense.

Fuel oil expense in 2010 increased by 34% due primarily to higher fuel costs, partly offset by lower KWHs generated and improved operating unit efficiency. Purchased power expenses in 2010 increased by 10% due primarily to higher purchased energy costs, partly offset by lower KWHs purchased. Higher fuel costs are generally passed on to customers.

Other expenses increased 9% ($61 million) (12% and $78 million excluding DSM expenses) in 2010 due primarily to increases of 16% ($30 million) in taxes, other than income taxes, primarily due to the increase in revenues, 6% ($22 million) in other O&M expenses and 4% ($5 million) in depreciation expenses due to 2009 plant additions. Other operation expenses increased by $3 million in 2010 when compared to 2009 due primarily to higher administrative and general expenses ($17 million) including higher employee benefits expense due to higher retirement benefit expense ($7 million) and higher production and transmission and distribution expense ($6 million) to maintain reliable operations, offset in part by lower DSM ($17 million) and bad debt expenses ($5 million). Maintenance expense increased $20 million from 2009 due primarily to increased production maintenance expenses ($13 million), including generating unit overhauls ($9 million), full year operation of CT-1 ($2 million), increased maintenance on boiler plant equipment ($2 million) and

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higher transmission and distribution expenses ($7 million) due to increased levels of work to address aging infrastructure.

- Net income for common stock for HECO and its subsidiaries was $79 million in 2009 compared to $92 million in 2008. The decrease in 2009 compared to 2008 was primarily due to lower KWH sales and certain higher expenses (other O&M, depreciation and interest), partly offset by higher AFUDC.

In 2009, the electric utilities revenues decreased by 29%, or $825 million, from 2008 primarily due to lower fuel prices ($766 million), lower KWH sales ($77 million) and lower DSM program recovery revenues ($13 million), partly offset by interim rate relief granted by the PUC to HECO for its 2009 test year ($26 million). KWH sales were 2.5% lower when compared to 2008, due largely to customer conservation efforts and the impact of cooler weather, partially offset by new load growth (i.e., increase in number of customers) and the impact of a drop in the average electricity price. Cooling degree days for Oahu were 2.6% lower in 2009 compared to 2008.

Operating income in 2009 was $22 million lower than in 2008 due primarily to lower KWH sales, higher other expenses, including higher O&M expenses and higher depreciation expense, partly offset by the interim rate relief for HECO granted by the PUC.

Fuel oil expense in 2009 decreased by 45% due primarily to lower fuel costs and lower KWHs generated. Purchased power expenses in 2009 decreased by 28% due primarily to lower purchased energy costs and lower KWHs purchased. Lower fuel costs are generally passed on to customers.

Other expenses decreased 8% in 2009 (6% excluding DSM expenses) due to a 27% (or $70 million) decrease in taxes, other than income taxes, primarily due to the decrease in revenues, partly offset by a 3% (or $11 million) increase in other O&M expenses. Other operation expenses increased by $5 million in 2009 when compared to 2008 due primarily to higher administrative and general expense ($9 million), including higher employee benefit expense due to higher retirement benefit expense ($5 million) and a retrospective medical plan premium adjustment ($2 million) and higher production and transmission and distribution expense to maintain reliable operations ($6 million), including more employees for CIP CT-1, offset in part by lower DSM expense ($12 million). Maintenance expense increased $6 million from 2008 due primarily to higher transmission and distribution expense for substation maintenance, overhead and underground line maintenance and vegetation management.

- O&M expenses (excluding DSM program costs) for the year 2011 are expected to be approximately 7% higher than 2010 as the electric utilities expect higher production expenses and higher contract services. Transmission and distribution expenses are expected to increase consistent with the new asset management initiatives to modernize the infrastructure. Also, additional expenses are expected for the costs to operate and maintain CIP CT-1, and are expected to be incurred for environmental compliance in response to existing compliance programs as well as numerous new, more stringent regulatory requirements, and to execute the provisions of the Energy Agreement. HCEI-related initiatives appear to be progressing at a pace to achieve the state s clean energy goals under the HCEI.

Most recent rate requests. The electric utilities initiate PUC proceedings from time to time to request electric rate increases to cover rising operating costs and the cost of plant and equipment, including the cost of new capital projects to maintain and improve service reliability. The PUC may grant an interim increase within 10 to 11 months following the filing of an application, but there is no guarantee of such an interim increase and interim amounts collected are refundable, with interest, to the extent they exceed the amount approved in the PUC s final D&O. The

timing and amount of any final increase is determined at the discretion of the PUC. The adoption of revenue, expense, rate base and cost of capital amounts (including the return on average common equity (ROACE) and return on rate base (RORB)) for purposes of an interim rate increase does not commit the PUC to accept any such amounts in its final D&O.

ROACEs of 10.0% (reflects implementation of decoupling), 10.7% (without decoupling) and 10.7% (without decoupling) were found to be reasonable by the PUC in the most recent final rate decisions issued in December 2010, October 2010 and July 2010 in HECO, HELCO and MECO rate cases based on 2009, 2006 and 2007 test years, respectively. The ROACE used by the PUC for the purposes of the most recent

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interim rate increases issued in November 2010 and July 2010 in HELCO and MECO rate cases, respectively, based on 2010 test years was 10.5% (without decoupling).

For 2010, the actual ROACEs (calculated under the rate-making method, which excludes the effects of items not included in determining electric utility rates, and reported to the PUC) for HECO, HELCO and MECO were 6.15%, 6.24% and 3.90%, respectively. The utilities actual ROACEs were lower than their final and interim D&O ROACEs primarily due to lower KWH sales than the sales used to determine the interim rates and increased O&M expenses.

The RORBs found to be reasonable by the PUC in the most recent final rate decisions were 8.16% for HECO, 8.33% for HELCO and 8.67% for MECO (final D&Os noted above). The RORBs used by the PUC for purposes of the most recent interim increases were 8.59% for HELCO and 8.43% for MECO (interim D&Os noted above). For 2010, the actual RORBs (calculated under the rate-making method, which excludes the effects of items not included in determining electric utility rates, and reported to the PUC) for HECO, HELCO and MECO were 5.93%, 5.86% and 4.86%, respectively.

In the most recent interim and final rate decisions, the PUC allowed the use by each utility of pension and postretirement benefits other than pensions (OPEB) tracking mechanisms (with varied treatment of the pension assets of each utility) and allowed the continuation of each utility s energy cost adjustment clauses (ECAC).

HECO.

2007 test year rate case. On December 22, 2006, HECO filed a request for a general rate increase of $99.6 million, or 7.1% over the electric rates then in effect, based on a 2007 test year, an 11.25% ROACE and an 8.92% RORB on a $1.214 billion average rate base. HECO s application included a proposed new tiered rate structure for residential customers to reward customers who practice energy conservation with lower electric rates for lower monthly usage.

On September 6, 2007, HECO, the Consumer Advocate and the federal Department of Defense (DOD) (collectively, the parties) executed and filed an agreement on most of the issues in this rate case, and on October 22, 2007, the PUC issued, and HECO implemented, an interim D&O granting HECO an increase of $70 million in annual revenues over rates effective at the time of the interim D&O, subject to refund with interest. The interim increase was based on the settlement agreement which included, as a negotiated compromise of the parties respective positions, an ROACE of 10.7%, an 8.62% RORB, a $1.158 billion average rate base and a capital structure which includes a 55.1% common equity capitalization. In May 2008, the interim increase was adjusted from $70 million to $77.9 million in annual revenues to take into account the changes in current effective rates as a result of the final D&O in the 2005 test year rate case. In September 2008, the interim increase was corrected to $77.5 million based on a filing submitted by HECO.

On September 14, 2010, the PUC issued a final D&O that confirmed the interim increase of $77.5 million and approved the stipulated rate design, which includes the new tiered rate structure for residential customers. Decoupling was not addressed in this proceeding and the final D&O did not address the implementation of decoupling.

2009 test year rate case. In July 2008, HECO filed a request for a general rate increase of $97 million, or 5.2% over the electric rates then in effect, based on a 2009 test year, an 11.25% ROACE and an 8.81% RORB on a $1.408 billion average rate base. The requested rate increase was based on higher O&M costs required for HECO s electrical system, higher depreciation expenses since the last rate case and anticipated plant additions estimated at the time of filing of $375 million in 2008 and 2009 (including the new CIP CT-1 and related transmission line in 2009) to maintain and improve system reliability.

In May 2009, HECO, the Consumer Advocate and the DOD (the parties) executed an agreement (the Settlement Agreement) on most of the issues in the rate case, representing a negotiated compromise of the parties respective positions. The Settlement Agreement included an interim increase of $79.8 million annually, or a 6.2% increase over the rates then in effect. As part of the settlement, the parties also agreed that the PUC should allow HECO to establish a revenue balancing account, which would provide a

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mechanism to adjust revenues (increases/decreases) for the differences (shortages/overages) between the actual revenues and the revenues determined in the interim D&O.

In July 2009, the PUC issued an interim D&O, which approved an interim rate increase, but directed that adjustments be made to reduce the Settlement Agreement increase for several items, including certain labor expenses and costs related to CIP CT-1. HECO calculated an interim increase of $61.1 million annually, or a 4.7% increase, based on an ROACE of 10.50% and an 8.45% RORB on a rate base of $1.169 billion. The interim increase was implemented on August 3, 2009.

In February 2010, the PUC issued a second interim D&O in this proceeding granting an additional increase of $12.7 million in annual revenues (implemented effective February 20, 2010) to recover costs associated with CIP CT-1 and related transmission facilities. The increase was based on an ROACE of 10.50% and an RORB of 8.45%, both of which were used for the first interim increase.

The two interim increases granted totaled $73.8 million, or a 5.7% increase.

On December 29, 2010, the PUC issued a final D&O, which allowed HECO to implement the decoupling mechanism approved by the PUC in the decoupling proceeding described below. The PUC determined that, in view of implementing decoupling, the appropriate ROACE is 10.0% and RORB is 8.16% (which reflects a capital structure that includes 55.8% common equity). The PUC also approved a purchased power adjustment clause (PPAC) that will allow HECO to recover purchase power expenses through a surcharge mechanism rather than through base rates as currently recovered. The PPAC provides a mechanism that more closely aligns cost recovery with costs incurred, thus reducing HECO s risk profile associated with its PPAs. The PPAC is expected to enhance HECO s credit quality, help HECO maintain access to capital markets at reasonable costs and help position HECO to invest in infrastructure to both facilitate the addition of new renewable resources from IPPs and to maintain reliable electrical service.

Based on the final D&O, HECO will be refunding $2.1 million to customers (including interest) during February 2011. In December 2010, HECO recorded charges of $1.9 million related to this refund, which reduced net income by approximately $1 million.

On January 24, 2011, HECO filed tariffs for the final rates for the PUC s review and approval and requested the tariffs become effective on March 1, 2011. The tariffs included provisions to establish the decoupling revenue balancing account (which removes the historic link between electricity usage and revenues), the revenue adjustment mechanism (which allows the utility to recover its investments and costs in a timelier manner) and the PPAC. The tariffs also included a tiered rate structure. The final revenue requirements incorporate a ROACE of 10.0%, resulting in an annualized revenue increase of $66.4 million, or 5.1%, compared to the annualized interim increase of $73.8 million (a decrease in annual revenues of $7.4 million).

Management cannot predict when the tariffs implementing the final rate increase will be approved and become effective.

2011 test year rate case. On July 30, 2010, HECO filed a request with the PUC for a general rate increase of $94 million, or 5.4% over the electric rates then in effect (which included the interim increases in the HECO 2007 and 2009 rate cases), based on a 2011 test year, the

estimated impacts of the implementation of decoupling and depreciation rates and methods as proposed by HECO. Excluding the effects of the implementation of decoupling, the effective revenue request is $113.5 million, or a 6.6% increase. The request includes an increase of $54 million, or 3.1% (or $74 million, or 4.3% without the implementation of decoupling), primarily to pay for major capital projects (including investments in the 110 MW biofuel generating facility that were not part of the 2009 test year rate case and Phase 1 of the East Oahu Transmission Project, which was placed in service on June 29, 2010) and higher operating and maintenance costs to maintain service reliability. The remainder of the request is to recover the costs for several proposed programs to help reduce Hawaii s dependence on imported oil, further increase reliability and increase fuel security.

The request is based on a 10.75% ROACE, an 8.54% RORB, a $1.57 billion average rate base and a capital structure which includes a 56% common equity capitalization.

Management cannot predict the timing, or the ultimate outcome, of an interim or final D&O in this rate case.

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HELCO.

2006 test year rate case. In May 2006, HELCO filed a request for a general rate increase of $29.9 million, or 9.24% over the electric rates then in effect, based on a 2006 test year, an 8.65% RORB, an 11.25% ROACE and a $369 million average rate base. HELCO s request included a proposed new tiered rate structure to reward residential customers who practice energy conservation with lower electric rates for lower monthly usage. The proposed rate increase was requested to pay for improvements made to increase reliability, including transmission and distribution line improvements and the two generating units at the Keahole power plant (CT-4 and CT-5), and increased O&M expenses.

In March 2007, HELCO and the Consumer Advocate reached settlement agreements on all revenue requirement issues in the rate case proceeding. HELCO agreed to write off a portion of CT-4 and CT-5 costs, which resulted in an after-tax charge of approximately $7 million in the first quarter of 2007.

On April 4, 2007, the PUC issued an interim D&O granting HELCO an increase of 7.58%, or $24.6 million in annual revenues, over revenues at present rates. The interim increase reflected the settlement of the revenue requirement issues reached between HELCO and the Consumer Advocate and was based on an average rate base of $357 million (which reflects the write-off of a portion of CT-4 and CT-5 costs) and an RORB of 8.33% (incorporating an ROACE of 10.7%).

On October 28, 2010, the PUC issued a final D&O that confirmed the interim increase of $24.6 million and approved the stipulated rate design, which includes the new tiered rate structure. Decoupling was not addressed in this proceeding nor the final D&O. In November 2010, HELCO filed its revised tariff sheets and rate schedules, which the PUC approved on January 7, 2011 and became effective on January 14, 2011.

On December 17, 2010, Keahole Defense Coalition (KDC) filed a notice of appeal of the final D&O with the Intermediate Court of Appeals. KDC had been granted participant status in the rate case, limited to issues pertinent to HELCO s expansion of the Keahole generating station, and proposed a number of disallowances of costs associated with CT-4 and CT-5, but did not propose a total amount of disallowances. The appeal is pending, and management cannot predict the timing, or the ultimate outcome, of this appeal. However, the pendency of the appeal has not affected implementation of the rate increase approved in the final D&O.

2010 test year rate case. On December 9, 2009, HELCO filed a request for a general rate increase of $20.9 million, or 6.0% over the electric rates then in effect, based on a 2010 test year, a 10.75% ROACE and an 8.73% RORB on a $487 million average rate base. The proposed rate increase would cover investments for system upgrade projects, including an 18 MW heat recovery steam generator (ST-7) and two major transmission line upgrades, as well as increasing O&M expenses. HELCO s proposed RORB and ROACE assume (1) the establishment of a revenue balancing account and a revenue adjustment mechanism, based on the Joint Decoupling Proposal (see Decoupling proceeding below), (2) the implementation of the REIP/CEIS, which the PUC has approved in a separate proceeding, and (3) a purchased power adjustment clause to recover non-energy PPA costs proposed in the proceeding. If the cost recovery mechanisms are not approved, the test year revenue requirements would be $22.1 million, based on an 8.87% RORB and an 11.0% ROACE.

HELCO s filing also proposed adoption of inverted tiered rates and an optional residential time-of-use service rate to enable customers to manage their energy usage.

HELCO and the Consumer Advocate executed and filed a settlement agreement on all material issues in this rate case proceeding on September 16, 2010, and filed a Joint Statement of Probable Entitlement (JSPE) on October 5, 2010, both of which are subject to approval by the PUC. If the settlement were to be approved by the PUC, the net interim increase in annual revenues would amount to $4.4 million, or a 1.2% increase. As part of the settlement agreement, HELCO would reset the heat rate used in its ECAC calculation when the interim rates become effective, which would shift $13.9 million of revenues that would have been included in the ECAC revenues to the interim increase and result in a total interim increase of $18.3 million. The agreement included a 10.125% ROACE, an 8.38% RORB, a $465 million average rate base and a capital structure which includes 56% of common equity. In the settlement agreement, the parties agreed to accept the

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ROACE authorized in the final D&O for HECO s 2009 test year rate case (10.0%, reflecting decoupling) as the final ROACE in this rate case.

The difference between the amounts requested in the initial application and the $4.4 million net increase under the settlement relates primarily to changes in expenses since the rate case was filed and changes in the ROACE and RORB.

On November 3, 2010, the PUC issued an interim D&O granting an interim rate increase as set forth in the JSPE, but adjusting recovery for labor costs downward to 2008 levels, reducing medical, dental and vision benefit costs by approximately 50%, deferring the implementation of decoupling for HELCO until the final D&O, and deferring resetting of the heat rate used in HELCO s ECAC calculation. Since the interim D&O deferred implementation of decoupling, the PUC found that a 10.5% ROACE and an 8.593% RORB (which reflects a capital structure that includes 56% common equity), was reasonable for purposes of the interim D&O.

On January 7, 2011, the PUC approved HELCO s revised revenue requirements resulting in an interim increase of approximately $6.0 million in annual revenues. The difference between the $4.4 million increase in the JSPE and the $6.0 million increase as a result of the interim D&O relates primarily to an adjustment of $1.5 million to the JSPE interim increase amount to take into account the changes in current effective rates as a result of the final rates from the HELCO 2006 test year rate case issued subsequent to the JSPE. The HELCO 2010 test year interim D&O adjustments to the JSPE for lower expenses were largely offset by the higher allowed ROACE. The interim increase reflects the new depreciation rates and methods proposed by HELCO and approved by the PUC on a temporary basis which will result in a $4.7 million annualized decrease in depreciation expense effective with interim rates.

HELCO implemented the interim rate increase and the final rates as a result of the 2006 test year rate case on January 14, 2011.

Management cannot predict the ultimate outcome or timing of a final D&O in this rate case.

MECO.

2007 test year rate case. In February 2007, MECO filed a request for a general rate increase of $19.0 million, based on a 2007 test year. In September 2007, MECO proposed an updated lower increase in annual revenues of $18.3 million, or 5.1% over the electric rates then in effect based on an 11.25% ROACE and an 8.98% RORB on a $386 million rate base. MECO s request included a proposed new tiered rate structure to reward residential customers who practice energy conservation with lower electric rates for lower monthly usage. The proposed rate increase would pay for improvements to increase reliability, including two new generating units, and transmission and distribution infrastructure improvements.

In December 2007, MECO and the Consumer Advocate reached a settlement of all the revenue requirement issues in this rate case, and the PUC issued an interim D&O based on the settlement agreement granting MECO an increase of $13.2 million in annual revenues, or 3.7%, based on a 10.7% ROACE and an 8.67% RORB on a $383 million rate base. On July 30, 2010, the PUC issued a final D&O in the rate case confirming the December 2007 interim D&O rate increase.

2010 test year rate case. On September 30, 2009, MECO filed a request for a general rate increase of $28.2 million, or 9.7% over the electric rates then in effect, based on a 2010 test year, a 10.75% ROACE and an 8.57% RORB on a $390 million rate base. The proposed rate increase was requested to cover investments to improve service reliability, including the replacement and upgrade of power plant control systems, installation of a new 150-kW photovoltaic system, replacement and upgrade of underground lines, new or expanded substations to support growth and improve service, and higher O&M expenses due to MECO s aging infrastructure. MECO s proposed RORB and ROACE assumed the establishment of a revenue balancing account and a revenue adjustment mechanism, based on the Joint Decoupling Proposal. If the Joint Decoupling Proposal is not approved, the test year revenue requirements would be recalculated using an 11% ROACE and an 8.72% RORB.

On June 21, 2010, MECO and the Consumer Advocate executed and filed a settlement agreement on all material issues in this rate case proceeding, which agreement is subject to approval by the PUC. On July 27, 2010, the PUC issued an interim D&O granting MECO an increase of $10.3 million in annual revenues, or 3.3% over revenues currently in effect (implemented effective on August 1, 2010). The interim increase was

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based on the settlement agreement, which included a 10.5% ROACE, an 8.43% RORB, a $387 million average rate base and a capital structure which includes 56.9% of common equity. The interim increase also reflected the new depreciation rates and methods proposed by MECO and approved by the PUC on a temporary basis in a separate depreciation proceeding, but did not reflect the implementation of decoupling. In the settlement agreement, the parties agreed to accept the ROACE authorized in the final D&O for HECO s 2009 test year rate case (10.0%, reflecting decoupling) as the final ROACE in this rate case.

Under the settlement agreement, MECO agreed to limit to $3.5 million the amount to be included in rate base for the investment in plant for a combined heat and power (CHP) system installed at a hotel site in September 2009, resulting in a charge to expense of approximately $1.3 million in the second quarter of 2010.

On November 24, 2010, MECO and the Consumer Advocate filed a joint motion to adjust the interim increase, based on the final rates approved in the MECO 2007 test year rate case on July 30, 2010. On January 5, 2011, the PUC approved MECO s request to adjust the 2010 test year interim increase to $8.5 million, or 2.7% over revenues based on the rates approved in the MECO 2007 test year rate case. The downward adjustment resulted from a shift in recovery from the interim surcharges to the final 2007 base rates, with no net impact on total rates. On January 12, 2011, the adjusted interim rates (2010 test year) and the final rates (2007 test year) became effective.

Management cannot predict the ultimate outcome or the timing of a final D&O in this rate case.

Decoupling proceeding. In the Energy Agreement, the parties agreed to seek approval from the PUC to implement, beginning with the HECO 2009 test year rate case interim D&O, a decoupling mechanism, similar to that in place for several California utilities, which decouples revenues from KWH sales and provides for revenue adjustments between rate cases. Overall, general rate cases for each utility would be expected to be less frequent than in the utilities recent history. The decoupling mechanism would be subject to review at any time by the PUC or upon request of any utility or the Consumer Advocate.

In October 2008, the PUC opened an investigative proceeding to examine implementing a decoupling mechanism for the utilities. In May 2009, the utilities and the Consumer Advocate filed their joint proposal (Joint Decoupling Proposal) for a decoupling mechanism with three components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a revenue adjustment mechanism (RAM) and (3) an earnings sharing mechanism. The RBA mechanism provides for revenue adjustments (increases or decreases) between rate cases to account for the difference between the revenues allowed in the most recent rate case (target revenues) and the revenues actually received by the utility. The RAM provides for changes in revenue requirements between rate cases for changes in O&M expenses and to allow for the return on and return of plant additions between rate cases (excluding plant additions for projects recovered through the REIP Surcharge. The RAM provides more timely recovery of invested capital and O&M costs because the utilities revenue requirements will reflect some portion of the increased costs without the need for a rate proceeding. The earnings sharing mechanism would provide for a reduction of rates between rate cases in the event the utility exceeds the ROACE allowed in its most recent rate case.

On August 31, 2010, the PUC issued a Final D&O, which approved the decoupling mechanism proposed in the Joint Decoupling Proposal, subject to certain modifications. Those modifications excluded merit wage increases and cost overruns for major capital projects (capital projects greater than or equal to $2.5 million) from the RAM (with recovery of such increases and overruns to be considered in the utility s next rate case), required additional information related to capital projects less than $2.5 million**,** and required the utilities and the Consumer Advocate to jointly file an outreach plan. Implementation of the decoupling mechanism is to occur when rates that reflect a reduced rate of return due to decoupling are approved by the PUC in either an interim or final D&O in the utilities pending rate cases.

In the final D&O in HECO s 2009 test year rate case issued on December 29, 2010, the PUC approved a reduced ROACE due to decoupling and allowed HECO to implement the approved decoupling mechanism and to immediately begin tracking target revenue and recorded adjusted revenue. In January 2011, HECO filed tariffs for final rates for the PUC s review and approval and requested that the tariffs become effective on March 1, 2011. Upon approval and implementation of the final rates, HECO will implement the approved decoupling mechanism. Authorizations for the implementation of decoupling for HELCO and MECO are pending final D&Os or other action by the PUC in their pending rate

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cases. Per the decoupling D&O, the utilities will file staggered rate cases every three years, the first being HECO s 2011 test year filed in July 2010.

Other regulatory matters. In addition to the items below, also see Hawaii Clean Energy Initiative and Major projects in Note 3 of HEI s Notes to Consolidated Financial Statements.

Demand-side management programs.

Energy Efficiency Demand-side Management Programs. In February 2007, the PUC required that the administration of all Energy Efficiency (EE) DSM programs be turned over to a non-utility, third-party administrator. The PUC executed a public benefits fund (PBF) administrator contract with Science Applications International Corporation (SAIC) and on July 1, 2009, SAIC began administering the EE DSM programs. A PBF surcharge on electric utility revenues (1% in 2010, 1.5% in 2011 and 2012 and 2% thereafter) is being used to fund EE DSM programs, incentives, program administration, and other related program costs.

The PUC continues to permit recovery of reasonably-incurred DSM implementation costs (within approved budgets), under the integrated resource plan framework. Through 2009, the PUC also provided for DSM utility incentives derived from a graduated performance-based schedule of net system benefits. In order to qualify for an incentive, the utility must have met cumulative MW and MWh reduction goals for its EE DSM programs in the commercial, industrial and residential sectors. The amount of the annual incentive has been subject to caps determined separately for each utility. The DSM utility incentive mechanism ended once the energy efficiency programs were transferred to the PBF administrator in July 2009.

HECO and MECO earned their maximum DSM utility incentives of $4 million and $0.3 million, respectively, in 2008. In a December 30, 2010 order, the PUC denied HECO s request to increase its 2009 energy efficiency program budgets and the utilities request to reallocate a portion of the unspent funding between DSM programs to cover actual expenditures in 2009. Because the utilities were not able reallocate the unspent funding between programs and thus recover the entire amount of 2009 DSM program expenditures, the utilities recorded an expense of $1.3 million in December 2010. In addition, the PUC advised that the utilities cannot include any of the energy savings from the program applications that exceeded their budgets in the calculations of DSM utility incentives. Based on the order, HECO calculated revised 2009 DSM incentives of $0.6 million and has submitted them for PUC review and approval.

Load Management DSM Programs. Unlike the EE DSM programs, load management DSM programs continue to be administered by the utilities. HECO s residential load management program includes a monthly electric bill credit for eligible customers who participate in the program, which allows HECO to disconnect the customer s residential electric water heaters or central air conditioning systems from HECO s system to reduce system load when deemed necessary by HECO. The commercial and industrial load management program provides an incentive on the portion of the demand load that eligible customers allow to be controlled or interrupted by HECO. This program includes a small business direct load control element.

In December 2009, the PUC approved HECO s requests to extend the Commercial and Industrial Direct Load Control (CIDLC) Program and the Residential Direct Load Control (RDLC) Program through 2012. The CIDLC Program application included an action plan for a load aggregator pilot program.

In October 2010, HECO filed an RDLC Program increase request to accommodate anticipated base expenses for the cost of a program impact evaluation needed to update the cost-effectiveness calculations identified by the PUC. In November 2010, HECO filed its 2011 CIDLC and RDLC Program budgets approval request. The PUC suspended both requests in order to gather additional information to further evaluate the requests.

In August 2010, HECO filed an application for a Fast Demand Response Pilot (Fast DR) Program a two-year pilot program designed to test commercial and industrial market acceptance of load reductions within 10-minutes of event notification, and demonstrate the technical aspects of semi-automatic and automatic mechanisms to initiate customer reductions in load. The procedural steps in the docket will be completed in February 2011, after which the PUC can make a decision.

Renewable Energy Infrastructure Program. The Renewable Energy Infrastructure Program (REIP) proposed by HECO in December 2007 consisted of two components: (1) renewable energy infrastructure

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projects that facilitate third-party development of renewable energy resources, maintain existing renewable energy resources and/or enhance energy choices for customers, and (2) the creation and implementation of a temporary renewable energy infrastructure surcharge to recover the capital costs, deferred costs for software development and licenses, and/or other relevant costs approved by the PUC. These costs would be removed from the surcharge and included in base rates in the utility s next rate case. In December 2009, the PUC issued a D&O approving HECO s proposed REIP, including the REIP surcharge, subject to certain conditions specified in the D&O. The PUC may review the benefits and continued need for the REIP every three years or earlier if necessary.

The PUC approved the use of the REIP surcharge to recover certain interconnection costs for a wind project. In July 2010, the utilities submitted (as directed by the PUC) proposed Standards and Guidelines for Utility Funding of Renewable Infrastructure Projects Associated with Independent Power Producers.

Delinking energy payment rates from oil costs. On April 18, 2008, the PUC initiated a docket to examine the methodology for calculating Schedule Q electricity payment rates in the State of Hawaii. In general, Schedule Q rates are available to customers with cogeneration and/or small power production facilities with a capacity of 100 kW or less who buy power from or sell power to the electric utility. The proceeding was intended to examine new methodologies for calculating Schedule Q payment rates, with the intent of removing or reducing any linkages between the price of fossil fuels and the rate for non-fossil fuel generated electricity. The parties to the Energy Agreement agreed that all new renewable energy contracts are to be delinked from fossil fuel and that the utilities would seek to renegotiate existing PPAs with IPPs that are based on fossil fuel prices to delink their energy payment rates from oil costs. In December 2010, HECO, HELCO and MECO filed updated avoided energy costs rates and Schedule Q rates to be effective for 2011, subject to monthly adjustment of the fuel component of the rates for changes in fuel prices. A Stipulated Procedural Schedule for the Schedule Q proceeding, which calls for the filing of final statements of position in April 2012, was approved by the PUC in January 2011.

Clean energy scenario planning, integrated resource planning and requirements for additional generating capacity. The PUC issued an order in 1992 requiring the energy utilities in Hawaii to develop integrated resource plans (IRPs), which would then be approved, rejected or modified by the PUC. The goal of integrated resource planning is the identification of demand- and supply-side resources and the integration of these resources for meeting near- and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost.

Under the PUC s IRP framework, the utilities were entitled to recover all appropriate and reasonable integrated resource planning costs either through a surcharge or through their base rates. Under procedural schedules for the IRP cost proceedings, the utilities were able to recover their incremental IRP costs in the month following the filing of their actual costs incurred for the year, subject to refund with interest pending the PUC s final D&O approving recovery in the docket for each year s costs. HELCO (since February 2001), HECO (since September 2005) and MECO (since December 2007) recover IRP costs through base rates. Previously, HECO, HELCO and MECO recovered their costs through a surcharge. The Consumer Advocate had objected to recovery of $1.2 million (before interest) of the $4.0 million of incremental IRP costs incurred by the utilities during 2002-2007. In January 2011, the PUC issued a D&O that allowed the utilities to recover their 2002-2007 IRP planning costs, but disallowed certain costs, primarily costs incurred during a rate case test year. The utilities will be refunding to customers approximately $1.2 million (representing disallowed costs previously recovered through a surcharge and interest) to its customers in February 2011. The utilities had been reserving for a potential refund for portions of the cost previously recovered and related interest, based on final D&Os related to 1995-2001 IRP planning costs. In December 2010, the utilities recorded additional charges of $0.8 million to fully accrue for this refund.

The parties to the Energy Agreement agreed to seek to replace the IRP process with a new Clean Energy Scenario Planning (CESP) process intended to be used to determine future investments in generation and transmission that will be necessary to facilitate high levels of renewable energy production and reductions in electricity use through energy efficiency programs. In the fourth quarter of 2008, the PUC closed the IRP-4

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processes and directed the utilities to suspend all activities pursuant to the IRP framework to allow for resources to be diverted to the development of the CESP framework.

HECO and the Consumer Advocate filed a proposed CESP framework with the PUC in April 2009. In May 2009, the PUC opened an investigative proceeding to examine the proposed framework. As consensus between all parties and participants in the proceeding could not be reached, four revised proposed frameworks were separately filed by various parties and participants in August 2010 for the PUC s consideration. The CESP framework filed jointly by HECO and its subsidiaries, the Consumer Advocate, Kauai Island Utility Cooperative and the County of Kauai proposes a planning process resulting in a 5-year Action Plan developed from multiple scenarios and associated 20-year resource plans for each scenario. The proposed focus on scenario planning and shorter-term action plans (rather than 20-year plans) recognizes that planning assumptions are uncertain and that the planning framework should facilitate making adjustments to resource plans as circumstances change. PUC adoption of a CESP framework is pending.

Adequacy of supply.

HECO. In February 2011, HECO filed its 2011 Adequacy of Supply (AOS) letter, which indicated that based on its May 2010 sales and peak forecast, HECO s generation capacity for 2011 to 2015 is sufficiently large to meet all reasonably expected demands for service and provide reasonable reserves for emergencies. HECO anticipates that it will acquire 8 MW from a distributed standby generation facility to be located at the Honolulu International Airport and 27 MW from an expansion of the existing H-Power waste-to-energy facility located at Campbell Industrial Park within the next two years. Beginning in 2016, HECO anticipates that based on increasing demand it will begin experiencing reserve capacity shortfalls if no more firm generating capacity is added to the system. Also, four existing generating units may be retired within the next 10 years. Waiau Units 3 and 4 are being considered for retirement because of their age. Honolulu Units 8 and 9 may need to be retired because of more stringent environmental regulations. HECO estimates it will need approximately 300 MW of new, firm generating capacity to replace the capacity that would be lost with the retirement of these four units and to accommodate load growth. HECO plans to solicit proposals in 2011 for firm renewable generating capacity.

HELCO. In January 2011, HELCO filed its 2011 AOS letter, which indicated that HELCO s generation capacity through 2013 is sufficiently large to meet all reasonably expected demands for service and provide reasonable reserves for emergencies. HELCO is currently negotiating with two IPPs to supply additional firm renewable generating capacity to the HELCO grid. Should these additional firm renewable facilities come on line within the next three years as anticipated, HELCO will not have a need for additional firm capacity in the foreseeable future. HELCO, however, may choose to add additional renewable generating capacity to replace existing nonrenewable generation.

MECO. In January 2011, MECO filed its 2011 AOS letter, which indicated that MECO s generation capacity through 2014 is sufficient to meet the forecasted demands on the islands of Maui, Lanai and Molokai, but also stated that additional increments of firm capacity will be needed on Maui in 2015 and 2018 should a major IPP cease providing capacity and energy to MECO after December 31, 2014. Also, in January 2011, MECO filed a request to open a new docket related to MECO s plan to proceed with a competitive bidding process to acquire up to approximately 50 MW of new, renewable firm dispatchable capacity generation resources on the island of Maui, with the initial increment expected to come on line in the 2015 timeframe.

December 2008 outage. On December 26, 2008, an island-wide outage occurred on the island of Oahu during a severe lightning storm that resulted in a loss of electric service to HECO customers ranging from approximately 7 to 20 hours. On January 12, 2009, the PUC initiated an investigation of the outage.

In March 2009, HECO submitted an outage report prepared by its expert consultant, which concluded that the island-wide outage was triggered by lightning strikes and found that: (1) the HECO system was in proper operating condition and was appropriately staffed at the time of the lightning storm, and (2) HECO s restoration efforts were prudent and allowed for restoration of power as quickly as possible under the circumstances.

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In January 2010, the Consumer Advocate submitted its Statement of Position that HECO could not have anticipated or prevented the outage through reasonable measures and could not have reasonably shortened the outage and restored power more quickly to customers. The Consumer Advocate further stated that penalties should not be assessed for the outage, but recommended that numerous studies be performed with the objective of preventing or minimizing the scope and duration of future power outages.

Management cannot at this time predict the outcome of the PUC s investigation of the 2008 outage or its impact on HECO.

Intra-governmental wheeling of electricity. In June 2007, the PUC initiated a docket to examine the feasibility of implementing intra-governmental wheeling of electricity in the State of Hawaii. The PUC subsequently suspended this docket, but reinstated it in November 2010. In January 2011, the PUC adopted the procedural schedule proposed by the Parties and Participants, which includes a panel hearing around the fourth quarter of 2012.

Collective bargaining agreements. See Collective bargaining agreements in Note 3 of HEI s Notes to Consolidated Financial Statements.

Legislation and regulation. Congress and the Hawaii legislature periodically consider legislation that could have positive or negative effects on the utilities and their customers. Also see Hawaii Clean Energy Initiative and Environmental regulation in Note 3 of HEI s Notes to Consolidated Financial Statements and Major tax legislation in 2010 above.

Increase in oil tax. On July 1, 2010, the state tax on petroleum products shipped to Hawaii increased from $0.05 to $1.05 per barrel. The higher tax, which is passed on to consumers, increased the price of gasoline and electricity and is expected to generate funds to reduce the state s budget deficit and support local food production and renewable energy programs.

Renewable energy. In 2007, a Hawaii law was enacted that stated that the PUC may consider the need for increased renewable energy in rendering decisions on utility matters. Due to this measure, it is possible that, if energy from a renewable source were more expensive than energy from fossil fuel, the PUC may still approve the purchase of energy from the renewable source.

In 2008, a Hawaii law was enacted to promote and encourage the use of solar thermal energy. This measure requires the installation of solar thermal water heaters in residences constructed after January 1, 2010, but allows for limited variances in cases where installation of solar water heating is deemed inappropriate. The measure establishes standards for quality and performance of such systems. Also in 2008, a Hawaii law was enacted that is intended to facilitate the permitting of larger (200 MW or greater) renewable energy projects. The Energy Agreement includes several undertakings by the utilities to integrate solar energy into the electric grid.

In 2009, a bill became Hawaii law (Act 185) that authorizes preferential rates to agricultural energy producers selling electricity to utilities. This will help support the long-term development of locally grown biofuel crops, cultivating potential local renewable fuel sources for the utilities. In addition, pursuant to Act 50 (also adopted in 2009), avoided cost is no longer a consideration in determining a just and reasonable rate for non-fossil fuel generated electricity. This will allow the utilities to negotiate purchased power prices for renewable energy that have the potential

to be more stable and less costly than current pricing tied to avoided cost.

Biofuels. In 2007, a Hawaii law was enacted with the stated purpose of encouraging further production and use of biofuels in Hawaii. It established that biofuel processing facilities in Hawaii are a permitted use in designated agricultural districts and established a program with the Hawaii Department of Agriculture to encourage the production in Hawaii of energy feedstock (i.e., raw materials for biofuels).

In 2008, a Hawaii law was enacted that encourages the development of biofuels by authorizing the Hawaii Board of Land and Natural Resources to lease public lands to growers or producers of plant and animal material used for the production of biofuels.

The utilities have agreed in the Energy Agreement to test the use of biofuels in their generating units and, if economically feasible, to connect them to the use of biofuels. For its part, the State agrees to support

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this testing and conversion by expediting all necessary approvals and permitting. The Energy Agreement recognizes that, if such conversion is possible, HECO s requirements for biofuels would encourage the development of a local biofuels industry. HECO and MECO have received PUC approval to enter into and recover the costs of biodiesel fuel contracts under which they are purchasing biofuels to operate HECO s CIP CT-1 and to test their use in other HECO and MECO generating units. HELCO has entered into a 20-year contract, subject to PUC approval, to purchase 16 million gallons of biodiesel per year beginning in 2015.

For additional discussion of environmental legislation and regulations, see Environmental regulation in Note 3 of HEI s Notes to Consolidated Financial Statements. At this time, it is not possible to predict with certainty the impact of the foregoing legislation or legislation that is, or may in the future be, proposed.

Other developments.

Advanced Metering Infrastructure. In December 2008, the utilities filed an Advanced Metering Infrastructure (AMI) project application with the PUC for approval of (1) implementation of an AMI project, covering approximately 451,000 meters (65% on Oahu, 20% on the island of Hawaii and 15% on Maui), and (2) a contract between Sensus Metering Systems, Inc. (Sensus) and HECO under which the utilities would purchase smart meters and pay Sensus to provide and maintain a radio frequency communication system to operate the smart meters and related equipment.

HECO submitted a proposal to the PUC in May 2010, describing an extended pilot test of the AMI system and smart meters involving 5,000 new Sensus AMI meters. HECO s proposal also contained an update on developments in the Smart Grid, Customer Information System (CIS) and cyber-security areas.

On July 26, 2010, the PUC issued an Order denying the utilities request to defer certain costs for an extended pilot test of their AMI system and smart meters on Oahu, and dismissing the utilities AMI application, but without prejudice to the filing of a new application. In its Order, the PUC reiterated its support for an AMI and smart grid concept to reduce the state s dependence on fossil fuels, but noted that future AMI and smart grid applications should include or be preceded by an overall smart grid plan or proposal filed with the PUC. As of December 31, 2010, the utilities did not have any deferred costs related to the AMI project proceeding.

The utilities, like the PUC and Consumer Advocate, continue to support a broad range of smart grid initiatives, including AMI, as important components of a clean energy strategy and are assessing, testing and deploying various smart grid technologies on its systems. HECO is actively working with Sensus on further testing of its AMI and broader smart grid capabilities. The cost of this testing will be expensed. HECO and Sensus have agreed that their respective rights to terminate their contract (based on the lack of PUC application approval) shall extend until March 31, 2011.

Commitments and contingencies. See Commitments and contingencies in Note 3 of HEI s Notes to Consolidated Financial Statements.

Recent accounting pronouncements. See Recent accounting pronouncements and interpretations in Note 1 of HEI s Notes to Consolidated Financial Statements.

Liquidity and capital resources. Management believes that HECO s ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities, commercial paper and lines of credit, is adequate to maintain sufficient liquidity to fund their respective capital expenditures and investments and to cover debt, retirement benefits and other cash requirements in the foreseeable future.

HECO s consolidated capital structure was as follows as of the dates indicated:

December 31 (dollars in millions)	**2010**		**2009**	
Short-term borrowings	$	%	$	%
Long-term debt, net	1,058	44	1,058	44
Preferred stock	34	1	34	1
Common stock equity	1,338	55	1,306	55
	$ 2,430	100%	$ 2,398	100%

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HECO s short-term borrowings (other than from HELCO and MECO), HECO s line of credit facility and the principal amount of special purpose revenue bonds that have been authorized by the Hawaii legislature for future issuance by the DBF for the benefit of the utilities were as follows for the period and as of the dates indicated:

(in millions)	Year ended December 31, 2010 Average balance	Year ended December 31, 2010 End-of-period balance	December 31, 2009
Short-term borrowings(1)			
Commercial paper	$ 4	$	$
Line of credit draws			
Borrowings from HEI			
Line of credit facilities			
Undrawn capacity under line of credit facility expiring May 7, 2013	N/A	175	175
Special purpose revenue bonds authorized for issue			
2005 legislative authorization (expired June 30, 2010)-HELCO		$	$ 20
2007 legislative authorization (expiring June 30, 2012)			
HECO		170	170
HELCO		55	55
MECO		25	25
Total special purpose revenue bonds available for issue		$ 250	$ 270

(1) The maximum amount of external short-term borrowings in 2010 was $19 million. At December 31, 2010, HECO had $31 million and $30 million of short-term borrowings from HELCO and MECO, respectively, which borrowings are eliminated in consolidation. At February 10, 2011, HECO had no outstanding commercial paper, its line of credit facility was undrawn, it had no borrowings from HEI and it had borrowings of $31 million and $21 million from HELCO and MECO, respectively.

HECO utilizes short-term debt, typically commercial paper, to support normal operations, to refinance short-term debt and for other temporary requirements. HECO also borrows short-term from HEI for itself and on behalf of HELCO and MECO, and HECO may borrow from or loan to HELCO and MECO short-term. The intercompany borrowings among the utilities, but not the borrowings from HEI, are eliminated in the consolidation of HECO s financial statements. HECO and its subsidiaries periodically utilize long-term debt, historically borrowings of the proceeds of special purpose revenue bonds issued by the State of Hawaii Department of Budget and Finance (DBF), to finance the utilities capital improvement projects, or to repay short-term borrowings used to finance such projects. The PUC must approve issuances, if any, of equity and long-term debt securities by HECO, HELCO and MECO.

Due to market conditions since September 2008 (which resulted in a tightening of the commercial paper market, higher commercial paper rates and limitations on maturity options) and as a result of an S&P downgrade of HECO s short-term borrowing rating to A-3 from A-2, HECO drew on its previous $175 million syndicated line of credit facility in June and July 2009, rather than issue commercial paper. All such draws/borrowings were repaid in August 2009. HECO re-entered the commercial paper market in March 2010, experiencing higher rates and shorter terms.

Effective May 7, 2010, HECO entered into a revolving noncollateralized credit agreement establishing a line of credit facility of $175 million, with a letter of credit sub-facility, with a syndicate of eight financial institutions. See Note 7 of HEI s Notes to Consolidated Financial Statements.

The credit agreement contains provisions for revised pricing in the event of a ratings change. For example, a ratings downgrade of HECO s Issuer Rating (e.g., from BBB/Baa2 to BBB-/Baa3 by S&P and Moody s, respectively) would result in a commitment fee increase of 5 basis points and an interest rate increase of 25 basis points on any drawn amounts. On the other hand, a ratings upgrade (e.g., from BBB/Baa2 to BBB+/Baa1 by S&P or Moody s, respectively) would result in a commitment fee decrease of 10 basis points and an interest rate decrease of 25 basis points on any drawn amounts. The agreement contains customary conditions that must be met in order to draw on it, including compliance with several covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HECO, and restricting its ability as well as the ability of any of

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its subsidiaries to guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary s Consolidated Subsidiary Funded Debt to Capitalization Ratio to exceed 65% (actual ratio of 43% for HELCO and 43% for MECO as of December 31, 2010, as calculated under the agreement)). In addition to customary defaults, HECO s failure to maintain its financial ratios, as defined in its agreement, or meet other requirements may result in an event of default. For example, under its agreement, it is an event of default if HECO fails to maintain a Consolidated Capitalization Ratio (equity) of at least 35% (actual ratio of 55% as of December 31, 2010, as calculated under the agreement).

In addition to their impact on pricing under HECO s credit agreement, the ratings of HECO s commercial paper and debt securities could significantly impact the ability of HECO to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (e.g., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of HECO securities. On July 30, 2010, Moody s changed HECO s rating outlook to stable from negative and affirmed HECO s long-term and short-term (commercial paper) ratings, indicating that the ratings affirmation and outlook change reflected the progress being made to transform the regulatory framework for the utilities to a decoupling structure that will reduce sales volume risk and produce more timely recovery of invested capital and O&M costs. Moody s indicated the rating could be downgraded if the Hawaii PUC does not follow through with the regulatory transformation contemplated under the HCEI, including all elements of the decoupling mechanism or if the utilities cash flow to debt declined to below 17% on a sustainable basis and its cash flow coverage of interest fell below 3.5 times. On November 15, 2010, S&P issued an update in which it lowered its long-term ratings for HECO, HELCO and MECO to BBB- from BBB, and indicated the outlook as stable. In addition, S&P affirmed its A-3 short-term rating on HECO and revised HECO s financial profile to aggressive from significant. S&P indicated the rating downgrade reflects an aggressive financial profile combined with weak cash flow generation at HEI s electric utilities, delays in implementing new utility rate recovery mechanisms, the growing risks of regulatory disallowances in future rate cases, and a protracted recession.

As of February 10, 2011, the S&P and Moody s ratings of HECO securities were as follows:

	S&P	Moody s
Commercial paper	A-3	P-2
Special purpose revenue bonds-insured (principal amount noted in parentheses, senior unsecured, insured as follows):		
Ambac Assurance Corporation ($0.2 billion)	BBB-*	Baa1*
Financial Guaranty Insurance Company ($0.3 billion)	BBB-*	Baa1*
MBIA Insurance Corporation ($0.3 billion)	BBB**	Baa1**
Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) ($0.1 billion)	BBB-*	Baa1*
Special purpose revenue bonds uninsured ($150 million)	BBB-	Baa1
HECO-obligated preferred securities of trust subsidiary	BB	Baa2
Cumulative preferred stock (selected series)	Not rated	Baa3

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

* Rating corresponds to HECO s rating (senior unsecured debt rating by S&P or issuer rating by Moody s) because, as a result of rating agency actions to lower or withdraw the ratings of these bond insurers after the bonds were issued, HECO s current ratings are either higher than the current rating of the applicable bond insurer or the bond insurer is not rated.

** Following MBIA Insurance Corporation s (MBIA s) announced restructuring in February 2009, the revenue bonds issued for the benefit of HECO and its subsidiaries and insured by MBIA have been reinsured by MBIA Insurance Corp. of Illinois (MBIA Illinois), whose name was subsequently changed to National Public Finance Guarantee Corp. (National). The financial strength rating of National by S&P is BBB. Moody s ratings on securities that are guaranteed or wrapped by a financial guarantor are generally maintained at a level equal to the higher of the rating of the guarantor (if rated at the investment grade level) or the published underlying rating. The insurance financial strength rating of National by Moody s is Baa1, which is the same as Moody s issuer rating for HECO.

Management believes that, if HECO s commercial paper ratings were to be further downgraded or if credit markets were to further tighten, it would be even more difficult and expensive to sell commercial paper or secure other short-term borrowings. Similarly, management believes that if HECO s long-term credit ratings

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were to be further downgraded, or if credit markets further tighten, it could be even more difficult and/or expensive for DBF and/or the Company to sell special purpose revenue bonds and other debt securities, respectively, for the benefit of the utilities in the future. Such limitations and/or increased costs could materially adversely affect the results of operations and financial condition of HECO and its subsidiaries.

The PUC must approve issuances, if any, of equity and long-term debt securities by HECO, HELCO and MECO. Revenue bonds are issued by the DBF to finance capital improvement projects of HECO and its subsidiaries, but the source of their repayment is the unsecured obligations of HECO and its subsidiaries under loan agreements and notes issued to the DBF, including HECO s guarantees of its subsidiaries obligations. The payment of principal and interest due on SPRBs currently outstanding and issued prior to 2009 are insured either by Ambac Assurance Corporation, Financial Guaranty Insurance Company, MBIA (which bonds have been reinsured by National Public Finance Guarantee Corp.) or Syncora Guarantee Inc. (which bonds have been reinsured by Syncora Capital Assurance Inc.). The insured outstanding revenue bonds were initially issued with S&P and Moody s ratings of AAA and Aaa, respectively, based on the ratings at the time of issuance of the applicable bond insurer. Beginning in 2008, however, ratings of the insurers (or their predecessors) were downgraded and/or withdrawn by S&P and Moody s, resulting in a downgrade of the bond ratings of all of the bonds as shown in the ratings table above. The $150 million of SPRBs sold by the DBF for the benefit of HECO and HELCO on July 30, 2009, were sold without bond insurance. Management believes that if HECO s long-term credit ratings were to be downgraded, or if credit markets further tighten, it could be even more difficult and/or expensive to sell bonds in the future.

On November 15, 2010, the PUC approved the request of HECO, HELCO and MECO for the sale of each utility s common stock over a five-year period from 2010 through 2014 (HECO s sale to HEI of up to $210 million and HELCO and MECO s sales to HECO of up to $43 million and $15 million, respectively), and the purchase of the HELCO and MECO common stock by HECO. In December 2010, HELCO and MECO sold $23 million and $3 million, respectively, of their common stock to HECO, and HECO sold $4 million of its common stock to HEI.

Operating activities provided $248 million in net cash during 2010. Investing activities used net cash of $150 million, primarily for capital expenditures, net of contributions in aid of construction. Financing activities used net cash of $48 million for the payment of common and preferred stock dividends of $51 million, partly offset by $4 million net proceeds from issuance of common stock.

For the five-year period 2011 through 2015, the utilities forecast $2.2 billion of gross capital expenditures, approximately 44% of which is for transmission and distribution projects and 45% for generation projects, with the remaining 11% for general plant and other projects. These estimates do not include expenditures, which could be material, related to significant renewable energy infrastructure projects or environmental compliance requirements not currently contemplated for that period. The electric utilities net capital expenditures (which exclude AFUDC and capital expenditures funded by third-party contributions in aid of construction) for 2011 through 2015 are currently estimated to total approximately $2.0 billion. HECO s consolidated cash flows from operating activities (net income for common stock, adjusted for non-cash income and expense items such as depreciation, amortization and deferred taxes), after the payment of common stock and preferred stock dividends, are currently not expected to provide sufficient cash to cover the forecasted net capital expenditures. Debt and equity financing are expected to be required to fund this estimated shortfall as well as to refinance maturing revenue bonds ($57.5 million in 2012 and $11.4 million in 2014) and to fund any unanticipated expenditures not included in the 2011 through 2015 forecast, such as increases in the costs or acceleration of the construction of capital projects, capital expenditures that may be required by new environmental laws and regulations, unbudgeted acquisitions or investments in new businesses, significant increases in retirement benefit funding requirements and higher tax payments that would result if tax positions taken by the utilities do not prevail.

Proceeds from the issuances of equity, cash flows from operating activities, temporary increases in short-term borrowings and existing cash and cash equivalents are expected to provide the forecast $260 million needed for the net capital expenditures in 2011. For 2011, gross capital expenditures are estimated to be $300 million, including approximately $176 million for transmission and distribution projects, approximately $90 million for generation projects and approximately $34 million for general plant and other

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projects. Consolidated net capital expenditures for HECO and subsidiaries for 2010, 2009 and 2008 were $173 million, $288 million and $257 million, respectively.

Management periodically reviews capital expenditure estimates and the timing of construction projects. These estimates may change significantly as a result of many considerations, including changes in economic conditions, changes in forecasts of KWH sales and peak load, the availability of purchased power and changes in expectations concerning the construction and ownership of future generation units, the availability of generating sites and transmission and distribution corridors, the need for fuel infrastructure investments, the ability to obtain adequate and timely rate increases, escalation in construction costs, commitments under the Energy Agreement, the effects of opposition to proposed construction projects and requirements of environmental and other regulatory and permitting authorities.

For a discussion of funding for the electric utilities retirement benefits plans, see Note 1 and Note 9 of HEI s Notes to Consolidated Financial Statements and Retirement benefits above. The electric utilities were required to make contributions of $19.1 million for 2010, but not required to make any contributions for 2009 and 2008 to the qualified pension plans to meet minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006. The electric utilities made voluntary contributions in 2010, 2009 and 2008. Contributions by the electric utilities to the retirement benefit plans for 2010, 2009 and 2008 totaled $31 million, $24 million and $14 million, respectively, and are expected to total $63 million in 2011. In addition, the electric utilities paid directly $2 million of benefits in 2010, less than $1 million of benefits in each of 2009 and 2008 and expect to pay less than $2 million of benefits in 2011. Depending on the performance of the assets held in the plans trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The electric utilities believe they will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Certain factors that may affect future results and financial condition. Also see Forward-Looking Statements and Certain factors that may affect future results and financial condition for Consolidated HEI above.

HCEI Energy Agreement. HECO, for itself and its subsidiaries, entered into the Energy Agreement on October 20, 2008. See Hawaii Clean Energy Initiative in Note 3 of HEI s Notes to Consolidated Financial Statements.

The far-reaching nature of the Energy Agreement, including the extent of renewable energy commitments and implementation of a new regulatory model which will decouple revenues from sales, present new increased risks to the Company. Among such risks are: (1) the dependence on third-party suppliers of renewable purchased energy, which if the utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the utilities achievement of their commitments under the Energy Agreement and/or the utilities ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and materially impact the financial condition and cash flows of the utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the utilities depending on their design and implementation. These initiatives include, but are not limited to, decoupling revenues from sales; implementing feed-in tariffs to encourage development of renewable energy; removing the system-wide caps on net energy metering (but studying DG interconnections on a per-circuit basis); and developing an Energy Efficiency Portfolio Standard. Management cannot predict the ultimate impact or outcome of the implementation of these or other HCEI programs on the results of operations, financial condition and cash flows of the electric utilities.

Regulation of electric utility rates. The rates the electric utilities are allowed to charge for their services, and the timeliness of permitted rate increases, are among the most important items influencing their financial condition, results of operations and cash flows. The PUC has broad discretion over the rates the electric

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utilities charge and other matters. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts permitted to be included in rate base, the authorized returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding could have a material adverse affect on the Company s and HECO s consolidated results of operations, financial condition and cash flows. Upon a showing of probable entitlement, the PUC is required to issue an interim D&O in a rate case within 10 months from the date of filing a completed application if the evidentiary hearing is completed (subject to extension for 30 days if the evidentiary hearing is not completed). There is no time limit for rendering a final D&O. Interim rate increases are subject to refund with interest, pending the final outcome of the case. Through December 31, 2010, HECO and its subsidiaries had recognized $4 million of revenues with respect to interim orders.

Management cannot predict when the final D&Os in pending or future rate cases will be rendered or the amount of any interim or final rate increase that may be granted. Further, the increasing levels of O&M expenses (including increased retirement benefit costs), increased plant-in-service, and other factors have and are likely to continue to result in the electric utilities seeking rate relief more often than in the past.

Fuel oil and purchased power. The electric utilities rely on fuel oil suppliers and IPPs to deliver fuel oil and power, respectively. See Fuel contracts and Power purchase agreements in Note 3 of HEI s Notes to Consolidated Financial Statements. The Company estimates that 75% of the net energy generated and purchased by HECO and its subsidiaries in 2011 will be generated from the burning of fossil fuel oil. Purchased KWHs provided approximately 40.2% of the total net energy generated and purchased in 2010 compared to 40.2% in 2009 and 40.4% in 2008.

Failure or delay by the electric utilities oil suppliers and shippers to provide fuel pursuant to existing supply contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could interrupt the ability of the electric utilities to deliver electricity, thereby materially adversely affecting the Company s results of operations and financial condition. HECO generally maintains an average system fuel inventory level equivalent to 35 days of forward consumption. HELCO and MECO generally maintain an inventory level equivalent to one month s supply of both medium sulfur fuel oil and diesel fuel. Some, but not all, of the electric utilities PPAs require that the IPPs maintain minimum fuel inventory levels and all of the firm capacity PPAs include provisions imposing substantial penalties for failure to produce the firm capacity anticipated by those agreements.

Other operation and maintenance expenses. Other O&M expenses increased 6%, 3% and 8% for 2010, 2009 and 2008, respectively, when compared to the prior year (12%, 7% and 5% respectively, excluding DSM program expense). This trend of increased O&M expenses is expected to continue in 2011 as the electric utilities expect higher production expenses (primarily to maintain and improve the efficiency of the production units), and higher costs for material and contract services. Transmission and distribution expenses are also expected to increase consistent with the new asset management initiatives to modernize the infrastructure. The timing and amount of these expenses can vary as circumstances change. For example, recent overhauls have been more expensive than in the past due to the larger scope of work necessary to maintain aging equipment, which has experienced heavier usage as demand has increased to current levels. Also, the cost of overhauls can be higher than originally planned after full assessments of the repair work are performed. In addition, the costs of environmental compliance continue to increase with more stringent regulatory requirements. Increased O&M expenses were among the reasons HECO, HELCO and MECO filed requests with the PUC in recent years to increase base rates. The successful implementation of decoupling mechanisms may partially and more promptly mitigate the negative net income impact of rising other O&M expenses.

Other regulatory and permitting contingencies. Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other agencies. Delays in obtaining PUC approval or permits can result in increased costs. If a project does not proceed or if the PUC disallows costs of the project, the project costs may need to be written off in amounts that could have a material adverse effect on the Company. Two major capital improvement utility projects, the Keahole project (consisting of CT-

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4, CT-5 and ST-7) and the East Oahu Transmission Project, encountered opposition and were seriously delayed before being placed in service, with a write-down being required for the Keahole project. See Note 3 of HEI s Notes to Consolidated Financial Statements for a discussion of additional regulatory contingencies.

Competition. Although competition in the generation sector in Hawaii has been moderated by the scarcity of generation sites, various permitting processes and lack of interconnections to other electric utilities, HECO and its subsidiaries face competition from IPPs and customer self-generation, with or without cogeneration.

In October 2003, the PUC opened investigative proceedings on two specific issues (competitive bidding and DG) to move toward a more competitive electric industry environment under cost-based regulation.

Competitive bidding proceeding. In December 2006, the PUC issued a decision that included a final competitive bidding framework, which became effective immediately. The final framework states, among other things, that under the framework: (1) a utility is required to use competitive bidding to acquire a future generation resource or a block of generation resources unless the PUC finds bidding to be unsuitable; (2) the framework does not apply in certain situations identified in the framework; (3) waivers from competitive bidding for certain circumstances will be considered; (4) the utility is required to select an independent observer from a list approved by the PUC whenever the utility or its affiliate seeks to advance a project proposal (i.e., in competition with those offered by bidders); (5) the utility may consider its own self-bid proposals in response to generation needs identified in its RFP; and (6) for any resource to which competitive bidding does not apply (due to waiver or exemption), the utility retains its traditional obligation to offer to purchase capacity and energy from a Qualifying Facility (QF) at avoided cost upon reasonable terms and conditions approved by the PUC.

Management cannot currently predict the ultimate effect of the framework on the ability of the utilities to acquire or build additional generating capacity in the future.

The utilities received approval for waivers from the competitive framework to negotiate modifications to existing PPAs that generate electricity from renewable resources. Also, certain renewable energy projects were grandfathered from the competitive bidding process. The PUC can also grant waivers on its own volition to renewable energy projects that are not exempt from the Competitive Bidding Framework (as was done in December 2010 for four 5 MW solar facilities proposed for Oahu).

Distributed generation proceeding. In January 2006, the PUC issued a D&O indicating that its policy is to promote the development of a market structure that assures distributed generation (DG) is available at the lowest feasible cost, DG that is economical and reliable has an opportunity to come to fruition and DG that is not cost-effective does not enter the system. The D&O affirmed the ability of the utilities to procure and operate DG for utility purposes at utility sites. The PUC also indicated its desire to promote the development of a competitive market for customer-sited DG. The PUC found that the disadvantages outweigh the advantages of allowing a utility to provide DG services on a customer s site. However, the PUC also found that the utility is the most informed potential provider of DG and it would not be in the public interest to exclude the utilities from providing DG services at this early stage of DG market development. Therefore, the D&O allows the utility to provide DG services on a customer-owned site as a regulated service when (1) the DG resolves a legitimate system need, (2) the DG is the lowest cost alternative to meet that need and (3) it can be shown that, in an open and competitive process acceptable to the PUC, the customer operator was unable to find another entity ready and able to supply the proposed DG service at a price and quality comparable to the utility s offering.

In April 2006, the PUC provided clarification to the conditions under which the utilities are allowed to provide regulated DG services (e.g., the utilities can use a portfolio perspective a DG project aggregated with other DG systems and other supply-side and demand-side options to support a finding that utility-owned customer-sited DG projects fulfill a legitimate system need, and the economic standard of least cost in the order means lowest reasonable cost consistent with the standard in the IRP framework).

In March 2010, the PUC approved the amended agreement between HECO and the State of Hawaii Department of Transportation to develop a dispatchable standby generation facility at the Honolulu International Airport that will be owned by the State and operated by HECO. The PUC also waived the project

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from the Competitive Bidding Framework. The dispatchable standby generation facility is projected to be in operation in July 2012.

HECO is also evaluating the potential to develop utility-owned DG at Oahu military bases in order to meet utility system needs and the energy objectives of the federal Department of Defense (DOD).

In February 2008, the PUC approved a MECO agreement for the installation at a hotel site on the island of Lanai of a CHP system, which was placed in service in September 2009.

DG tariff proceeding. In 2008, the PUC approved modifications to the utilities interconnection tariffs and a standby service tariff. In January 2010, the utilities requested modifications of the DG interconnection tariff. In May 2010, the PUC approved certain modifications that had been stipulated to by the parties, including (1) modifying requirements for conducting detailed interconnection studies; (2) establishing a standard three-party interconnection agreement; (3) including cross-limitation of liability and non-indemnification language with respect to projects where a State of Hawaii agency is the customer; and (4) requiring additional information regarding the customer s generating facility. The remaining issues continue to be evaluated in the proceeding.

DG and distributed energy storage under the Energy Agreement. Under the Energy Agreement, the utilities committed to facilitate planning for distributed energy resources through a new Clean Energy Scenario Planning process. Under this process, Locational Value Maps were developed in 2009 to identify areas where DG and distributed energy storage would provide utility system benefits and can be reasonably accommodated.

The utilities also agreed to power utility-owned DG using sustainable biofuels or other renewable technologies and fuels, and to support either customer-owned or utility-owned distributed energy storage. The utilities are currently planning distributed energy storage research, development and demonstration projects for installation in 2011-2012.

The parties to the Energy Agreement support reconsideration of the PUC s restrictions on utility-owned DG where it is proven that utility ownership and dispatch clearly benefits grid reliability and ratepayer interests, and the equipment is competitively procured. The parties also support HECO s dispatchable standby generation units upon showing reasonable ratepayer benefits.

The utilities may contract with third parties to aggregate fleets of DG or standby generators for utility dispatch or under PPAs, or may undertake such aggregation themselves if no third parties respond to a solicitation for such services.

The Energy Agreement also provides that to the degree that transmission and distribution automation and other smart grid technology investments are needed to facilitate distributed energy resource utilization, those investments should be recoverable through a Clean Energy Infrastructure Surcharge (which was replaced by the Renewable Energy Infrastructure Program Surcharge) and later placed in rate base in the next rate case proceeding.

Environmental matters. The HECO, HELCO and MECO generating stations operate under air pollution control permits issued by the Hawaii Department of Health (DOH) and, in a limited number of cases, by the EPA. The 2004 Hawaii State Legislature passed legislation that requires an environmental assessment for proposed waste-to-energy facilities, landfills, oil refineries, power-generating facilities greater than 5 MW and wastewater facilities, except individual wastewater systems. Meeting this requirement results in increased project costs.

The 1990 amendments to the Clean Air Act (CAA), changes to the National Ambient Air Quality Standard (NAAQS) for ozone, and adoption of a NAAQS for fine particulate matter resulted in substantial changes for the electric utility industry. Further significant impacts may occur under newly adopted rules (e.g., one-hour NAAQS for sulfur dioxide and nitrogen dioxide, control of GHGs under the GHG PSD and Title V Tailoring Rule), under rules deemed applicable to the utilities facilities (e.g., Regional Haze Rule), if currently proposed legislation, rules and standards are adopted (e.g., GHG emission reduction rules), or if new legislation, rules or standards are adopted in the future. Similarly, soon-to-be issued rules governing cooling water intake may significantly impact HECO s steam generating facilities on Oahu.

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See Environmental regulation in Note 3 of HEI s Notes to Consolidated Financial Statements. There can be no assurance that a significant environmental liability will not be incurred by the electric utilities or that the related costs will be recoverable through rates.

Additional environmental compliance costs are expected to be incurred as a result of the initiatives called for in the Energy Agreement, including permitting and siting costs for new facilities and testing and permitting costs related to changing to the use of biofuels.

Management believes that the recovery through rates of most, if not all, of any costs incurred by HECO and its subsidiaries in complying with environmental requirements would be allowed by the PUC, but no assurance can be given that this will in fact be the case.

Technological developments. New technological developments (e.g., the commercial development of fuel cells, DG and generation from renewable sources) may impact the electric utility s future competitive position, results of operations and financial condition.

Material estimates and critical accounting policies. Also see Material estimates and critical accounting policies for Consolidated HEI above.

Property, plant and equipment. Property, plant and equipment are reported at cost. Self-constructed electric utility plant includes engineering, supervision, and administrative and general costs, and an allowance for the cost of funds used during the construction period. These costs are recorded in construction in progress and are transferred to property, plant and equipment when construction is completed and the facilities are either placed in service or become useful for public utility purposes. Upon the retirement or sale of electric utility plant, no gain or loss is recognized. The cost of the plant retired is charged to accumulated depreciation. Amounts collected from customers for cost of removal (expected to exceed salvage value in the future) are included in regulatory liabilities.

HECO and its subsidiaries evaluate the impact of applying lease accounting standards to their new PPAs, PPA amendments and other arrangements they enter into. A possible outcome of the evaluation is that an arrangement results in its classification as a capital lease, which could have a material effect on HECO s consolidated balance sheet if a significant amount of capital assets of the IPP and lease obligations needed to be recorded.

Management believes that the PUC will allow recovery of property, plant and equipment in its electric rates. If the PUC does not allow recovery of any such costs, the electric utility would be required to write off the disallowed costs at that time. See the discussion under Major projects in Note 3 of HEI s Notes to Consolidated Financial Statements concerning costs of major projects that have not yet been approved for inclusion in the applicable utility s rate base.

Regulatory assets and liabilities. The electric utilities are regulated by the PUC. In accordance with accounting standards for regulatory operations, the Company s financial statements reflect assets, liabilities, revenues and costs of HECO and its subsidiaries based on current cost-based rate-making regulations. The actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities.

Regulatory liabilities represent amounts collected from customers for costs that are expected to be incurred in the future. Regulatory assets represent incurred costs that have been deferred because their recovery in future customer rates is probable. As of December 31, 2010, the consolidated regulatory liabilities and regulatory assets of the utilities amounted to $297 million and $478 million, respectively, compared to $288 million and $427 million as of December 31, 2009, respectively. Regulatory liabilities and regulatory assets are itemized in Note 3 of HEI s Notes to Consolidated Financial Statements. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory environment. Because current rates include the recovery of regulatory assets existing as of the last rate case and rates in effect allow the utilities to earn a reasonable rate of return, management believes that the recovery of the regulatory assets as of December 31, 2010 is probable. This determination assumes continuation of the current political and regulatory climate in Hawaii, and is subject to change in the future.

Management believes HECO and its subsidiaries operations currently satisfy the criteria for regulatory accounting. If events or circumstances should change so that those criteria are no longer satisfied, the

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electric utilities expect that the regulatory assets would be charged to expense and the regulatory liabilities would be credited to income or refunded to ratepayers immediately. In the event of unforeseen regulatory actions or other circumstances, however, management believes that a material adverse effect on the Company s results of operations and financial position may result if regulatory assets have to be charged to expense or if regulatory liabilities are required to be refunded to ratepayers immediately.

Revenues. Electric utility revenues are based on rates authorized by the PUC and include revenues applicable to energy consumed in the accounting period but not yet billed to customers. As of December 31, 2010, revenues applicable to energy consumed, but not yet billed to customers, amounted to $104 million.

Revenue amounts recorded pursuant to a PUC interim order are subject to refund, with interest, pending a final order. As of December 31, 2010, HECO and its subsidiaries had recognized $4 million of such revenues with respect to interim orders. Also, the rate schedules of the electric utilities include ECACs under which electric rates are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. Management believes that a material adverse effect on the Company s results of operations, financial position and cash flows may result if the utilities were to lose their ECACs.

Consolidation of variable interest entities. A business enterprise must evaluate whether it should consolidate a VIE. The Company evaluates the impact of applying accounting standards for consolidation to its relationships with IPPs with whom the utilities execute new PPAs or execute amendments of existing PPAs. A possible outcome of the analysis is that HECO (or its subsidiaries, as applicable) may be found to meet the definition of a primary beneficiary of a VIE (the IPP) which finding may result in the consolidation of the IPP in HECO s consolidated financial statements. The consolidation of IPPs could have a material effect on HECO s consolidated financial statements, including the recognition of a significant amount of assets and liabilities, and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. The utilities do not know how the consolidation of IPPs would be treated for regulatory or credit ratings purposes. See Notes 1 and 5 of HEI s Notes to Consolidated Financial Statements.

Bank

Executive overview and strategy. When ASB was acquired by HEI in 1988, it was a traditional thrift with assets of $1 billion and net income of about $13 million. ASB has grown by both acquisition and internal growth, but has been optimizing its balance sheet in recent years as a result of its multi-year performance improvement project, which has resulted in a reduction in asset size and a concomitant improvement in profitability and capital efficiency. ASB ended 2010 with assets of $4.8 billion and net income of $58 million, compared to assets of $4.9 billion as of December 31, 2009 and net income of $22 million in 2009. The weak national economic environment and declines in the national housing market in 2009 and 2008 impacted securities in ASB s investment portfolio. The rating agencies downgraded the ratings on a significant number of mortgage-related securities in 2009, including several mortgage-related securities held in ASB s portfolio. During 2009, ASB sold its private issue mortgage-related securities portfolio to reduce its credit risk and improve the prospects for consistent future earnings. The sales resulted in a net charge of $19 million ($32 million pretax) in the fourth quarter of 2009. ASB also improved its interest rate risk by selling substantially all of its salable fixed rate residential loan production during 2009 and more than 75% of its fixed rate residential loan production in the first nine months of 2010 into the secondary market. A portion of the excess liquidity was used to pay off other borrowings that were maturing. Also in 2009, ASB recorded a net charge of $9 million ($15 million pretax) for other-than-temporary impairment (OTTI) in the value of securities and a higher provision for loan losses than in 2010 and 2008.

ASB is a full-service community bank serving both consumer and commercial customers. In order to remain competitive and continue building core franchise value, ASB continues to develop and introduce new products and services in order to meet the needs of those markets. Additionally, the banking industry is constantly changing and ASB is making the investments in people and technology necessary to adapt and remain competitive. ASB s ongoing challenge is to continue to increase revenues and control expenses after the completion of its performance improvement project.

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The interest rate environment and the quality of ASB s assets will continue to impact its financial results.

ASB continues to face a challenging interest rate environment. The weak global, national and local economic environments have resulted in a persistent, low level of interest rates, weak loan demand, and excess liquidity in the financial system. In addition, expectations are increasing that interest rates will rise rapidly once there are strong signs that the economic recovery is taking hold. ASB s decision to sell substantial fixed rate mortgage production in 2009 and 2010, weak loan demand, and challenges in finding investments with adequate risk-adjusted returns resulted in declining loan balances and an increase in ASB s liquidity position, which had a negative impact on ASB s asset yields and net interest margin. The potential for compression of ASB s margin when interest rates rise is an ongoing concern.

As part of its interest rate risk management process, ASB uses simulation analysis to measure net interest income sensitivity to changes in interest rates (see Quantitative and Qualitative Disclosures about Market Risk). ASB then employs strategies to limit the impact of changes in interest rates on net interest income. ASB s key strategies include:

(1) attracting and retaining low-cost, core deposits, particularly those in non-interest bearing transaction accounts;

(2) reducing the overall exposure to fixed-rate residential mortgage loans and diversifying the loan portfolio with higher-spread, shorter-maturity loans or variable-rate loans such as commercial, commercial real estate and consumer loans;

(3) managing costing liabilities to optimize cost of funds and manage interest rate sensitivity; and

(4) focusing new investments on shorter duration or variable rate securities.

Although ASB s loan quality improved in 2010, there are still signs of financial stress in the Hawaii and mainland markets. The slowdown in the economy, both nationally and locally, has resulted in ASB experiencing higher levels of loan delinquencies and losses, which were concentrated in the vacant land portfolio and on the neighbor islands. As a result, ASB s provision for loan losses had increased in 2009 and remained at a high level in 2010, following several years of historically low loan losses and loan loss allowances. While a mild recovery began in 2010 as the global economic recovery began to take hold, many challenges remain and the outlook for the Hawaii economy is for a slow, steady recovery. Consumers and businesses are expected to recover slowly in 2011 as gradual improvement in measures such as job growth, unemployment and real personal income are expected. Continued financial stress on ASB s customers may result in higher levels of loan delinquencies and losses.

Results of operations.

(dollars in millions)	2010	% change	2009	% change	2008
Revenues	$ 283	3	$ 275	(23)	$ 359
Net interest income	190	(6)	201	(3)	207
Operating income	93	192	32	18	27
Net income	58	169	22	22	18
Return on average common equity (1)	11.6%	156	4.5%	43	3.2%
Earning assets					

Average balance (1)	$ 4,492	(6)	$ 4,804	(16)	$ 5,722	
Weighted-average yield	4.68%	(8)	5.10%	(7)	5.46%	
Costing liabilities						
Average balance (1)	$ 3,445	(9)	$ 3,801	(20)	$ 4,754	
Weighted-average rate	0.59%	(49)	1.15%	(48)	2.22%	
Net interest margin (2)	4.23%	1	4.19%	16	3.62%	

(1) Calculated using the average daily balances.

(2) Defined as net interest income as a percentage of average earning assets.

- Net interest income before provision for loan losses for 2010 decreased by $11.5 million, or 5.7%, when compared to 2009 due to lower balances and yields on earning assets, partly offset by lower funding costs. ASB s average interest earning assets and loan portfolio balances decreased by $312 million and $347 million, respectively, primarily due to the sale of substantial residential loan production in 2009 and 2010. The average

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commercial market and residential land loan portfolio balances decreased by $42 million and $31 million, respectively, due to repayments in the portfolios. The average home equity line of credit portfolio balance increased by $74 million due to promotional campaigns in the first half of 2010. The average investment and mortgage-related securities portfolio balance decreased by $61 million due to the sale of private-issue mortgage-related securities portfolio in the fourth quarter of 2009. The other investments average balance increased by $97 million due to an increase in liquidity as a result of ASB s fixed rate mortgage production sales. Average deposit balances for 2010 decreased by $116 million compared to 2009 due to an outflow of time certificates of $372 million as ASB did not aggressively price its time certificate products, partly offset by a $256 million increase in the average core deposit balance as ASB introduced new core deposit products. The other borrowings average balance decreased by $160 million primarily due to the payoff of maturing amounts. Net interest margin increased from 4.19% in 2009 to 4.23% in 2010 due to lower funding costs as a result of the outflow of higher costing term certificates and a shift in deposit mix.

During 2010, ASB recorded a provision for loan losses of $20.9 million, or $11.1 million lower than the provision for loan losses in 2009, primarily due to a $10 million provision for loan loss in 2009 on a commercial loan that subsequently sold and lower level of nonperforming loans. ASB s nonaccrual and renegotiated loans represented 2.8%, 2.3% and 0.7% of total loans outstanding as of December 31, 2010, 2009 and 2008, respectively.

Net charge-offs for 2010 totaled $21.9 million compared to $26.1 million in 2009. The decrease in net charge-offs was due to a $10 million partial charge-off of a commercial loan in 2009. ASB experienced an increase in net charge-offs of 1-4 family and residential land loans in 2010.

Noninterest income for 2010 of $72.6 million was $42.7 million higher than noninterest income for 2009. Excluding the losses on sale of private-issue mortgage-related securities and OTTI charges in 2009, noninterest income for 2010 was $4.9 million lower than 2009 due to lower deposit fees as a result of new overdraft fee legislation and lower gain on sale of loans.

Noninterest expense for 2010 of $148.9 million was $18.5 million lower than 2009 operating expenses primarily due to lower compensation, occupancy, data processing, services and equipment expenses as a result of ASB s performance improvement project, which reduced ASB s cost structure through improved processes and procedures, and improved the efficiency of ASB. In May 2010, ASB completed the conversion to the Fiserv Inc. banking platform system, which reduced service bureau expenses by approximately $0.5 million per month beginning in June 2010. ASB incurred conversion costs totaling approximately $4.4 million in 2010 to complete the project.

- Net interest income before provision for loan losses for 2009 decreased by $5.7 million, or 2.8%, when compared to 2008 due to lower balances and yields of earning assets, partly offset by lower funding costs. ASB s average interest earning assets decreased by $918 million primarily due to the balance sheet restructure in June 2008 and ASB s sales of the residential loans it produced in 2009. Net interest margin increased from 3.62% in 2008 to 4.19% in 2009 due to the balance sheet restructure, which removed lower-spread net assets (investment and mortgage-related securities and other borrowings) and lowered funding costs as a result of the outflow of higher costing term certificates, a shift in deposit mix and the paydown of other borrowings. The decrease in the average loan portfolio balance was due to a decrease in the average 1-4 family residential loan portfolio of $315 million as ASB sold substantially all of its salable residential loan production in the current low interest rate environment. Offsetting the decrease in the residential loan portfolio were increases in the average balances of the home equity line of credit and commercial markets portfolios of $66 million and $39 million, respectively. The average investment and mortgage-related securities portfolio balances decreased by $797 million due to the balance sheet restructure in June 2008 and the sale of the private-issue mortgage-related securities portfolio in the fourth quarter of 2009. The other investments average balance increased by $114 million due to an increase in liquidity as a result of ASB s fixed rate mortgage production sales throughout 2009, weak loan demand, and challenges in finding investments with adequate risk-adjusted returns. Average deposit balances for 2009 decreased by $140 million compared to 2008 as ASB experienced an outflow of term certificates of $337 million, partly offset by an inflow in core deposits of $197 million. The decrease in other borrowings average balance was due to the early extinguishment of other

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borrowings in the balance sheet restructure in 2008 and the paydown of maturing other borrowings in 2009 with excess liquidity.

During 2009, ASB recorded a provision for loan losses of $32 million, or $21.7 million higher than in 2008, primarily due to a $10 million provision for loan loss on a commercial loan that was subsequently sold and a higher level of nonperforming residential 1-4 family, residential lot and consumer loans and increases in the historical loss ratios for these loan types.

Net charge-offs for 2009 totaled $26.1 million compared to $4.7 million in 2008. The increase from 2008 to 2009 in net charge-offs was primarily due to the $10 million partial charge-off of a commercial loan that was subsequently sold and higher residential 1-4 family, residential lot and home equity lines of credit charge-offs. In the fourth quarter of 2009, ASB recorded charge-offs of $7.2 million relating to residential 1-4 family, residential lot and home equity lines of credit loans, which had specific allowance for loan losses allocated to them in prior periods. ASB took a partial charge-off on these loans for the amount of the specific allowance for loan losses.

Noninterest income for 2009 of $29.9 million was $16.2 million lower than noninterest income for 2008. Excluding losses on sale of securities and OTTI charges, noninterest income for 2009 was $6.1 million higher than 2008, primarily due to higher gains on sale of loans and deposit account fees. 2008 noninterest income included insurance recoveries on legal and litigation matters of $4.3 million and a $1.9 million gain on sale of stock in membership organizations.

Noninterest expense for 2009 decreased by $48.6 million when compared to 2008, primarily due to losses on the early extinguishment of certain borrowings from the balance sheet restructuring in 2008. Excluding the losses from the balance sheet restructuring, noninterest expense for 2009 decreased by $8.7 million primarily due to lower consulting and contract services, compensation and equipment expenses, partly offset by higher data processing expenses and an FDIC special assessment of $2.3 million. In 2008, ASB began a performance improvement project to increase revenues, reduce ASB s cost structure through improved processes and procedures and improve the efficiency of ASB. The performance improvement project includes changes to bank operating processing, reorganization of personnel and review of bank real estate. For example, in the second quarter of 2009, ASB signed an agreement with Fiserv Inc. to use its technology to consolidate ASB s disparate manual processes using a single, integrated approach. Included in 2009 noninterest expenses were the following charges related to ASB s performance improvement project: (1) real estate transaction losses and expenses of $3.9 million; (2) professional services costs of $2.5 million; (3) severance of $1.7 million; (4) Fiserv (service bureau) conversion costs of $1.7 million; (5) prepayment penalty on early extinguishment of debt of $0.7 million; and (6) technology software write-off of $0.2 million.

See Note 4 of HEI s Notes to Consolidated Financial Statements for a discussion of guarantees and further information about ASB.

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Average balance sheet and net interest margin. The following tables set forth average balances, together with interest and dividend income earned and accrued, and resulting yields and costs for 2010, 2009 and 2008.

	2010			2009		
($ in thousands)	**Average balance**	**Interest**	**Average rate (%)**	**Average balance**	**Interest**	**Average rate (%)**
Assets:						
Other investments (1)	$ 334,270	$ 621	0.19	$ 237,770	$ 329	0.14
Investment and mortgage-related securities	566,126	14,468	2.56	627,365	26,648	4.25
Loans receivable (2)	3,591,794	195,192	5.43	3,938,575	217,838	5.53
Total interest-earning assets (3)	4,492,190	210,281	4.68	4,803,710	244,815	5.10
Allowance for loan losses	(39,135)			(42,121)		
Non-interest-earning assets	415,986			352,398		
Total assets	$ 4,869,041			$ 5,113,987		
Liabilities and Shareholder s Equity:						
Interest-bearing demand and savings deposits	$ 2,410,118	3,475	0.14	$ 2,234,259	6,676	0.30
Time certificates	768,991	11,221	1.46	1,140,997	27,370	2.40
Total interest-bearing deposits	3,179,109	14,696	0.46	3,375,256	34,046	1.01
Other borrowings	266,149	5,653	2.12	425,947	9,497	2.23
Total interest-bearing liabilities	3,445,258	20,349	0.59	3,801,203	43,543	1.15
Non-interest bearing liabilities:						
Deposits	824,039			743,982		
Other	96,510			89,248		
Shareholder s equity	503,234			479,554		
Total Liabilities and Shareholder s Equity	$ 4,869,041			$ 5,113,987		
Net interest income		$ 189,932			$ 201,272	
Net interest margin (%) (4)			4.23			4.19

2008