# Hawaiian Electric Industries, Inc.
# 1992 Annual Report


Serving Hawaii's Growth


**Hawaiian Electric Industries, Inc.**, is a diversified electric utility holding company providing essential services to the people of Hawaii. Its businesses — electricity, banking, maritime freight transportation and real estate development — are vital parts of Hawaii's economy.

**Hawaiian Electric Company** and its subsidiaries, **Maui Electric Company** and **Hawaii Electric Light Company** are embarking on their second century of service. The companies provide electricity to approximately 95% of the state's 1.15 million residents, serving more than 363,000 residential, commercial and industrial accounts on the islands of Oahu, Maui, Hawaii, Lanai and Molokai.

**American Savings Bank**, with assets of $2.5 billion, is among the nation's strongest savings banks. The bank's strength is based on asset quality, a strong retail franchise and a focus on residential mortgage lending. American Savings serves more than 250,000 account holders through a network of 45 branch offices — the largest branch network of any savings bank in Hawaii.

**Hawaiian Tug & Barge Corp.** and **Young Brothers, Ltd.**, are the principal movers of maritime cargo within the state, operating a fleet of 12 tugs and 15 barges. Hawaiian Tug & Barge provides towing and harbor-assist services. Young Brothers provides regulated, scheduled barge service to all of the state's major islands.

**Malama Pacific Corp.**, a real estate development subsidiary, is helping to ease the state's chronic housing shortage by developing residential homes and lots.

## Contents



**On the cover:**
**At dusk, Hawaiian Electric Company primary troublemen Randall Katada, on ladder, and Ronald Vicens make a service call at a home in the Alewa Heights neighborhood of Honolulu.**

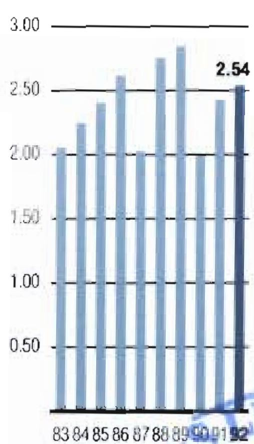
# Financial Highlights

Hawaiian Electric Industries, Inc. and subsidiaries

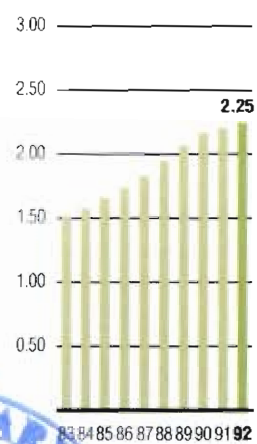
| Years ended December 31 (dollars in thousands, except per share amounts) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Operating income from continuing operations | **$136,219** | $133,056 | $116,500 |
| Net income (loss) | **$(11,582)** | $54,826 | $43,602 |
| Continuing operations | **$61,715** | $55,620 | $42,895 |
| Discontinued operations | **$(73,297)** | $(794) | $707 |
| Earnings (loss) per common share | **$(0.48)** | $2.40 | $2.02 |
| Continuing operations | **$2.54** | $2.43 | $1.99 |
| Discontinued operations | **$(3.02)** | $(0.03) | $0.03 |
| Dividends per common share | **$2.25** | $2.21 | $2.17 |
| Book value per common share (year end) | **$22.12** | $24.36 | $23.29 |
| Market price range per common share | | | |
| High | **$44.63** | $37.88 | $40.00 |
| Low | **$34.75** | $29.38 | $27.25 |
| Year end | **$37.25** | $36.75 | $31.63 |
| Return on average common equity | **(2.1)%** | 10.0% | 8.7% |
| Indicated annual yield (year end) | **6.1%** | 6.1% | 7.0% |
| Price earnings ratio (year end) | **NM** | 15.3 | 15.6 |
| Common shares outstanding (thousands) | | | |
| Year end | **24,762** | 23,867 | 21,918 |
| Weighted average | **24,275** | 22,882 | 21,559 |

NM Not meaningful.

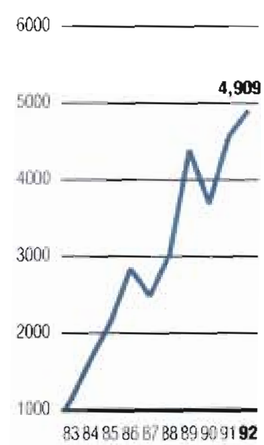
**Earnings per share from continuing operations ($)**




**Dividends per share ($)**




**Value of $1,000 invested in HEI stock**

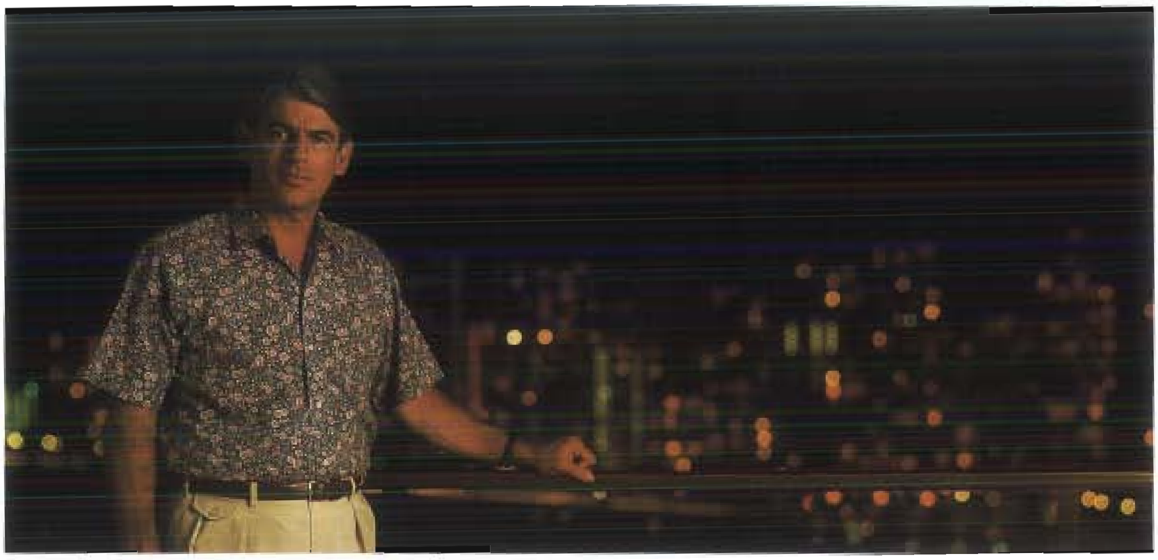



With dividends reinvested

10-year average annual total return (%):

| | |
|---|---|
| HEI | 17 |
| S&P 500 | 16 |
| S&P Elec. | 17 |

# To Our Stockholders



Robert F. Clarke
President and
Chief Executive Officer

Aloha.

In 1992, earnings from continuing operations increased due to strong performances by our major operating companies — Hawaiian Electric Company and American Savings Bank. Both subsidiaries progressed on many fronts in 1992 and have good prospects in 1993 and beyond. But we reported a net loss for the year because of the write-downs of our investments in our property-casualty insurance subsidiary and Kahuku wind farm. More later about those developments and the devastation wrought by Hurricane Iniki.

In utility operations, the construction program of Hawaiian Electric Company and its subsidiaries on Maui and the Big Island of Hawaii received key support from the Hawaii Public Utilities Commission. We appreciate the commission's timely consideration of two 1992 rate cases and are particularly encouraged that the commission acknowledged the need to support long-term financial plans of our utility operations during the coming years of heavy construction.

Other advances in 1992 include the completion of a second major independent power plant on the island of Oahu and negotiation of new four-year labor contracts with the International Brotherhood of Electrical Workers. The 180-megawatt, fluidized-bed, coal-fired power plant not only diversifies our fuel mix but also uses new technology to reduce emissions. The labor contracts provide for more flexible scheduling which benefits eligible employees with more consecutive time off and the company with increased efficiency.

Two major problems still concern our utilities. First is the need for a southern transmission corridor on Oahu to improve service reliability. The approval process has been long and frustrating but we are making progress.

Second, we are troubled by the continuing narrow margin of generating reserve on the Big Island of Hawaii. The lack of adequate reserve capability has caused rolling blackouts that are unacceptable to the community and unacceptable to us. The primary cause is the fact that develop-

About 70% of the housing units on the island of Kauai were damaged when Hurricane Iniki struck on September 11, 1992. More than 6,000 homes were destroyed.

ment of a 25-megawatt, independent geothermal plant is two years behind schedule. While we hope that geothermal power will be available in 1993, we are accelerating installation of a company-owned power plant on the Big Island. The situation is further complicated by the bankruptcy of a sugar company that supplies 10 megawatts of power. It is unclear whether this power will be lost to us as a result of the legal actions involved.

American Savings Bank had another terrific year in 1992. Since we acquired the bank in 1988, American Savings has more than doubled its assets and has expanded its retail branch network by 11 offices. The bank's operating income of $31.3 million was up 24% from 1991 and leveraged return on equity improved to 16.7%.

More importantly, credit quality at American Savings remains superior with delinquency ratios well below both national and regional norms.

During 1992, the bank adopted a bold strategy to enhance its profitability and increase its share of the retail market. When interest rates fell early in the year, American Savings purposely kept the rates it pays its customers higher than competitors — foregoing some short-term profits in return for attracting new customers. This strategy was successful. In five months, nearly 11,000 new passbook and checking accounts were opened and deposits increased by $268 million. This is significant because the bank's profitability is driven by its high percentage of these core deposits to total liabilities. American Savings ended the year with 61% of its liabilities in core deposits — nearly double the industry average.

Our other nonutility subsidiaries began to reorganize under new presidents in 1992. At our maritime companies, Charles O. Swanson, president and chief executive officer, retired and was succeeded by chief financial officer Glenn K. Y. Hong. The maritime companies plan to stop the intrastate shipment of heavy fuel oil because the federal Oil Pollution Act of 1990 could subject us to unlimited liability in the event of an oil spill. Increased costs led Young Brothers, Limited, the regulated portion of our maritime operations, to ask state regulators for a 15.7% rate increase in 1993 — the first proposed increase in nearly 11 years.

Robert G. Diffley was named president of our real estate subsidiary in 1992. The company had a slow year because of a soft real estate market.

1992 will always be remembered for Hurricane Iniki, which smashed into the island of Kauai on September 11 with winds gusting to more than 220 miles per

**Kauai, the northern-most of the major Hawaiian Islands, is home to about 52,000. The "eye" of Hurricane Iniki passed over the island near midday on September 11. Sustained winds of 160 miles per hour and gusts to 227 miles per hour caused damage estimated at $2 billion. About 70% of the island's housing units were damaged or destroyed. Kauai tourism was essentially shut down until early 1993. Reconstruction is underway and will boost the economies of the island and the state in 1993.**

hour. Iniki caused the third-most-costly natural disaster in U.S. history and led to many personal tragedies. Lives were disrupted, jobs lost and homes destroyed. The people of Kauai are still suffering six months after the storm. Iniki also had a profound impact on HEI, forcing us to exit the insurance business.

We acquired Hawaiian Insurance and Guaranty Company in 1987. HIG had substantial assets, a strong surplus, an A-minus (excellent) rating from A.M. Best & Company, and one of the largest reinsurance programs in the industry for a company its size. About 10% of HIG's property policies were written on Kauai.

Our initial estimate of $150 million in Iniki claims against HIG was based on the best information available at the time. We expected HIG to sustain a substantial, but manageable pre-tax loss of $27 million. However, to provide capital for the company's continuing operations and to preserve HEI's investment, we contributed $20 million of new equity to HIG on September 30. As hard as we tried to preserve this 77-year-old company, regrettably, our efforts failed.

As more claims were adjusted, the estimate of losses continued to mount. Ultimately, HIG estimated that its 6,200 claims would exceed $300 million, compared with total claims of $261 million for all Hawaii insurers from Hurricane Iwa in 1982.

In light of this larger damage estimate, maintaining HIG as a going concern would have required an additional HEI contribution of at least $112 million in new equity and an immediate corporate write-off of $80 million, which would have brought our loss to more than $140 million — well beyond our ability to absorb.

An uncertainty continues to exist concerning future actions the state-appointed rehabilitator may take which might affect HEI.

At every step, we have sought to act responsibly toward the citizens of Hawaii, our shareholders and our employees. Hurricane Iniki wiped out HEI's equity in HIG and forced us to take a write-off of $60 million in 1992. We deeply regret the distress Iniki caused the people of Kauai and the loss of this fine company which provided an essential service to the people of Hawaii.

For several years, HEI's wind-energy subsidiary has recorded operating losses. Regrettably, a new look at that company in 1992 convinced us that these losses would not only continue indefinitely but also were likely to increase. Accordingly, we have signed a letter of intent to sell our principal wind farm on Oahu. HEI was one of the early developers of wind energy and it's unfortunate that the economics of this industry have proved so difficult.

While the losses from Hurricane Iniki and the wind farm were substantial, HEI remains a strong company with its future earning power intact. We expect that more than 90% of our operating income will continue to come from our electric utility and savings bank subsidiaries, both of which performed strongly in 1992.

Despite our prospects, many customers and investors in Hawaii are concerned about the relationships between our utility and nonutility operations. We want to lay these concerns to rest and have proposed an independent study to determine the effect of our diversified activities on Hawaiian Electric Company. The study is expected to begin as soon as state regulators select a consultant in early 1993. We believe the study will support our position that HEI's diversification has not had a negative effect on electric utility subsidiaries.

Two valuable members of our board of directors are retiring. After 16 years as a director, C. Dudley Pratt, Jr. will not stand for re-election at our 1993 annual meeting. A 37-year employee of the utility and HEI, Dudley retired in 1990 as president and chief executive officer of HEI. William G. Foster has resigned for personal reasons. Bill served with distinction for 14 years on the boards of HEI and the utility. Kelvin H. Taketa, vice president and director of the Pacific Region of The Nature Conservancy, will serve the remainder of Bill's unexpired term. Oswald K. Stender, trustee of Kamehameha Schools/Bishop Estate, has been nominated to replace Dudley. With great sadness, I note the death of Colin Cameron, a director of Maui Electric Company, respected business leader and generous contributor to many community and environmental causes. We will miss the wise counsel of Dudley, Bill and Colin, and look foward to contributions of Kelvin and Os. I thank all of the directors for their support and, in particular, the employees for their dedication and hard work in 1992.

With a new administration in Washington and the country coming out of a prolonged recession, it's time for optimism. Our earning power remains intact and our goal to continue to increase dividends to at least keep pace with inflation over time is in the forefront of our strategy. Our customers — current and future — will see a sustained thrust in our utility construction program aimed at improving system reliability and offering increased support to the state economy. Hawaii has exceeded national economic norms in the past and we believe it can continue to do so. Our economy is largely based on tourism and the reasons to visit Hawaii remain unchanged: the beauty of the mountains and the sea, a climate unmatched in the world and the graciousness of Hawaii's people.

Robert F. Clarke

Robert F. Clarke
President and Chief Executive Officer
February 26, 1993

**Hawaiian Electric Industries** (HEI) is a diversified electric utility holding company with growing utility operations and a sound, profitable savings bank that earns premium returns. HEI and its predecessor company have paid common-stock dividends continuously since 1901. Dividends have been increased annually for 29 consecutive years. HEI's goal: Increase dividends to at least match inflation, over time.

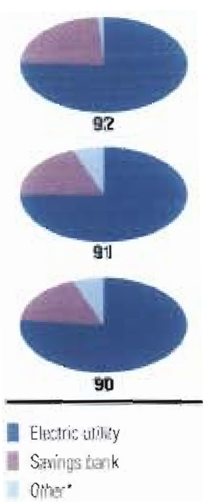
More than 99% of HEI's 1992 operating income from continuing operations was generated by the utility and savings bank. Other subsidiaries are engaged in maritime freight transportation and real estate development. In 1992, HEI wrote off its investments in its property-casualty insurance and wind-energy businesses.

HEI's utility, **Hawaiian Electric Company** (HECO), has no nuclear operations. Its kilowatthour sales are growing at above-average rates and the outlook is for continued growth.

To serve this growth, HECO plans to build $1.2 billion in transmission, distribution and generating facilities over the next five years. The Hawaii Public Utilities Commission has supported HECO's growth plans through timely and adequate rate relief.

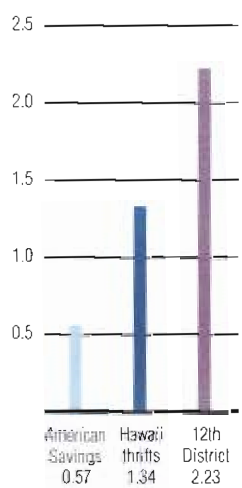
**American Savings Bank** is the centerpiece of HEI's nonutility operations. Its focus on single-family residential mortgage lending has resulted in excellent loan quality and two straight years of leveraged returns on equity in excess of 15%. American Savings is well capitalized and is increasing productivity through expanded automation. Since 1988, its share of Hawaii bank and thrift deposits has increased from 6.5% to 10.8% in 1992.

**Operating income by segment ($ mil)**



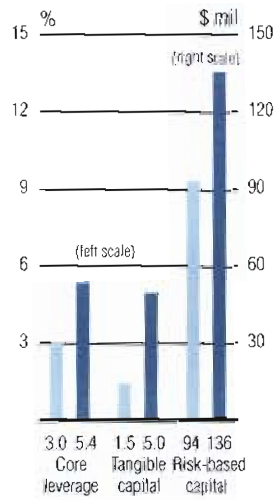

*Excluding investment writedowns in 1990

**American Savings Bank delinquent loans/ total assets (%)**




Source: Office of Thrift Supervision as of September 30, 1992

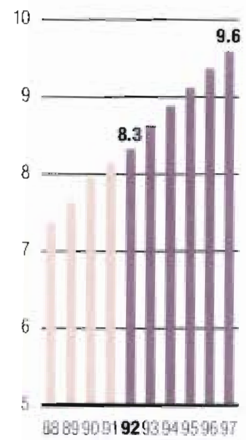
**American Savings Bank regulatory capital**




At December 31, 1992

Required ASB

Electric utility KWH sales (bil)



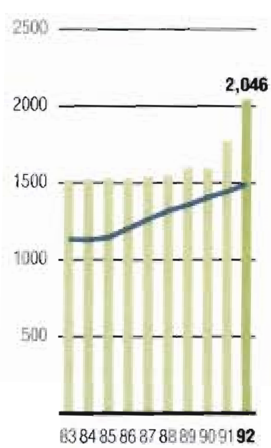

**Forecast**
93–97 compounded annual average growth 2.7%

## Electric utility profile for the years ended December 31

| | 1992 | 1991 | 1990 |
|---|---|---|---|
| Electricity sold—KWH (millions) | **8,332** | 8,090** | 7,968 |
| Revenues (millions) | **$779** | $741 | $707 |
| Operating income (millions) | **$104** | $100 | $100 |
| Net income (millions) | **$49** | $42 | $44 |
| Return on average common equity | **10.5%** | 10.3% | 12.3% |
| Net plant (millions)* | **$1,294** | $1,165 | $1,074 |
| Service area population (thousands) | **1,082** | 1,062 | 1,057 |
| Customer accounts* | **363,117** | 357,046 | 346,417 |
| Average annual residential use—KWH | **7,460** | 7,427 | 7,416 |
| Generating and firm purchased capability—MW* *** | **2,046** | 1,780 | 1,601 |
| Peak demand—MW**** | **1,493** | 1,446 | 1,408 |

* At December 31.
** Excludes the effect of the change in method of estimating unbilled kilowatthour sales and revenues.
*** Sum of the generating and firm purchased capability on five islands.
**** Sum of the peak demands on five islands, noncoincident and nonintegrated.

**Electric utility generating and firm purchased capability vs. peak demand (MW)**




## Savings bank profile for the years ended December 31

| | 1992** | 1991 | 1990 |
|---|---|---|---|
| Total interest income (millions) | **$193** | $189 | $171 |
| Net interest income (millions) | **$78** | $64 | $52 |
| Operating income (millions) | **$31** | $25 | $22 |
| Net income (millions) | **$19** | $15 | $13 |
| Loans receivable and mortgage-backed securities (millions)* | **$2,173** | $1,951 | $1,762 |
| Total assets (millions)* | **$2,462** | $2,176 | $2,028 |
| Deposits (millions)* | **$2,033** | $1,615 | $1,511 |
| Real estate owned through foreclosure (millions)* | **$2** | None | None |
| Delinquent loans to total loans outstanding* | **1.42%** | 0.74% | 0.51% |
| Interest rate spread | **3.45%** | 3.26% | 3.00% |

* At December 31.
** Reflects allocation of corporate-level expenses for segment reporting purposes.

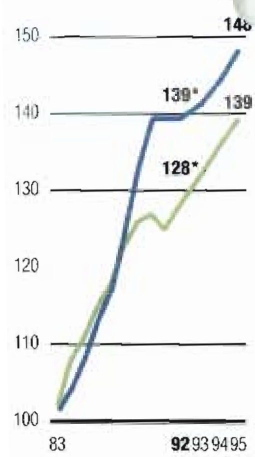
# ECONOMY

1992 was a tough year for the 50th state. In current dollars, the state economy grew nearly $1 billion to $29.6 billion. However, real gross state product declined slightly in 1992 for the first time in 10 years.

Restraining factors included the loss of business and income after a September 11 hurricane devastated the island of Kauai, economic stagnation on the U.S. mainland and airline fare restructurings. State unemployment increased during the year but remained low at less than 5%, compared with more than 7% for the nation as a whole.

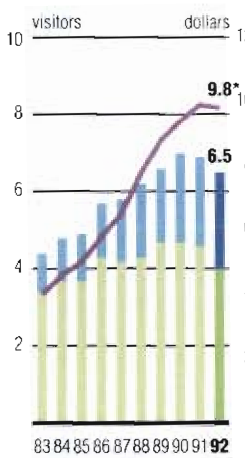
Despite Hurricane Iniki and the ripple effects of a national recession, Hawaii's long-term economic growth prospects remain sound. In 1993, Hawaii's economy is expected to grow about 1% in real terms and will be boosted, in part, by reconstruction of Kauai's commercial, residential and public infrastructure. The state's population,

**Real economic growth trends**
GDP vs. Hawaii gross state product

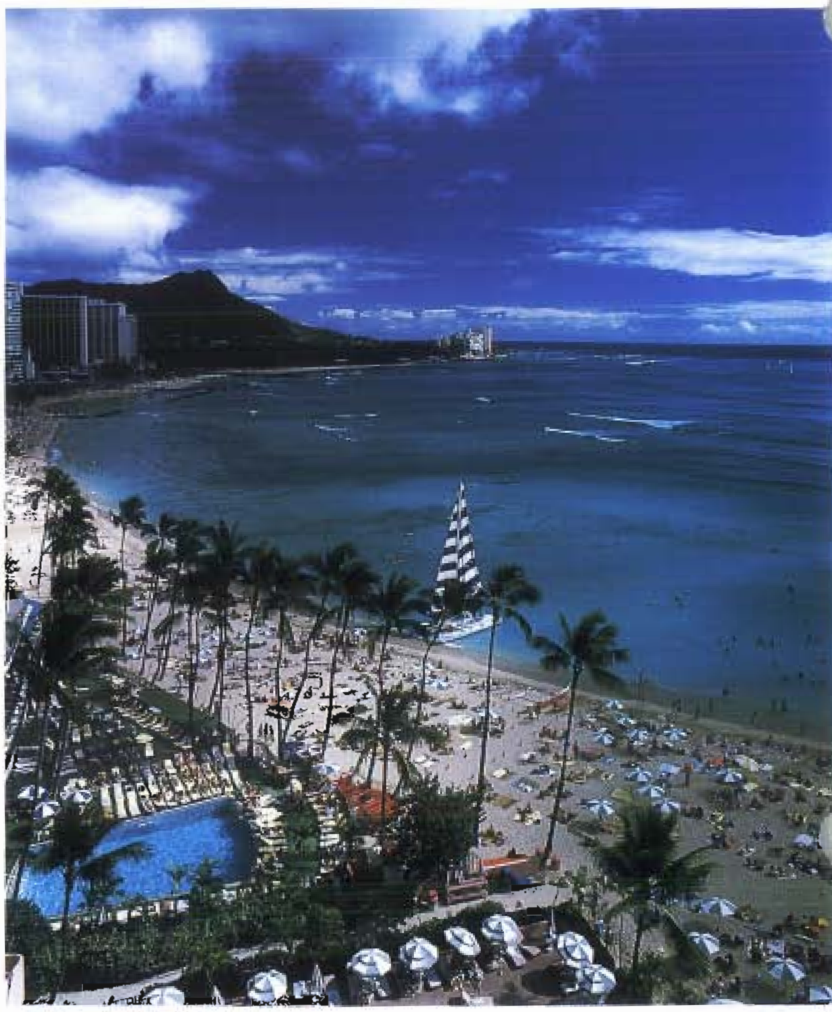


Growth index (1981=100)
*Estimated

**Visitor arrivals (mil) and dollars spent ($ bil)**



*Bank of Hawaii projection



among the nation's 10 fastest growing in 1991, increased about 1.5% in 1992 to 1.15 million.

The expanding economies of Asia-Pacific nations — China, Hong Kong, Korea, Singapore and Taiwan, in particular — continue to brighten the long-term economic outlook for the Pacific Basin where economic growth is forecast to exceed 4% per year through 1994. By mid-decade, Hawaii is expected to benefit from this growth through the resumption of external investment from around the Asia-Pacific region.

More immediately, Hawaii tourism, the state's largest industry, continues to benefit from the growing Pacific Basin economy through steady increases in Asian visitors. In 1992, the eastbound visitor count increased about 11% from 1991 levels, helping to offset a 13% decline in westbound arrivals. Visitor arrivals totaled 6.5 million, down about 5% in 1992. The 1993 visitor count is expected to match 1992's total and resume growing in 1994.

**By mid-decade, external investment in Hawaii from rapidly expanding Asia-Pacific economies is expected to resume.**

Federal government spending in Hawaii totaled $6.3 billion in 1992 — the second largest component of the state economy. Defense expenditures com-

Opposite: On the island of Oahu, the beaches of Waikiki with vistas of Diamond Head continue to attract tourists from around the world.

Above: Through a joint venture, HEI's real estate subsidiary is completing the first phase of Westcliff, a development with 107 single-family homes in the Makakilo area west of Honolulu, where this worker is silhouetted by sunlight.

ECONOMY

prised about $2.9 billion of that total and are expected to remain stable through 1994, despite post-Cold War pressures to shrink the military and close bases. Hawaii is headquarters for the U.S. Pacific Command and 55,000 troops are stationed here. Military and civilian agencies employ about 33,000 throughout the state.

In construction, the value of completed projects is estimated at $3.9 billion in 1992, down from a record $4.3 billion in 1991. In 1993, expenditures are expected to stabilize at about $3.5 billion to $4 billion. Kauai reconstruction and accelerated spending on public projects are offsetting the decline in large hotel and resort construction. Government construction spending in 1992 was on a record pace and is expected to exceed $1.5 billion. Work continues on the expansion of Honolulu International Airport, valued at nearly $2.3 billion, and the third freeway on Oahu, about $1 billion. Planning for Honolulu's $1.7-billion, 17-mile, light-rail transit system halted when the city council declined to pass a temporary tax increase.

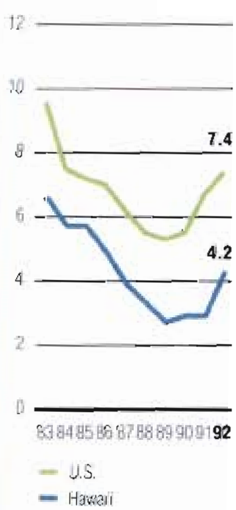
Residential development declined throughout the state in 1992. Building permits for housing construction totaled 8,100, down from 10,000 in 1991 — the highest annual total since 1980. Housing prices have been steady at relatively high levels for two years, reflecting the imbalance of a low supply and high demand. The state average for single-family homes is $344,500 and $212,900 for condominiums.

On the whole, Hawaii's economy has stalled temporarily after rapid growth in the late 1980s. By mid-decade, external investment and more normal turns in the business cycle are forecast to resume, causing more robust growth.

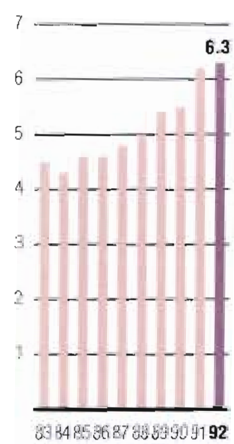
**Defense expenditures in Hawaii are forecast to remain stable through 1994, despite post-Cold War pressures to shrink the military.**

Ship repair and maintenance, such as this repainting job, were reassigned to Pearl Harbor Shipyard and Guam after the closure of U.S. bases in the Philippines. A stable workload is projected at Pearl Harbor through 1995.

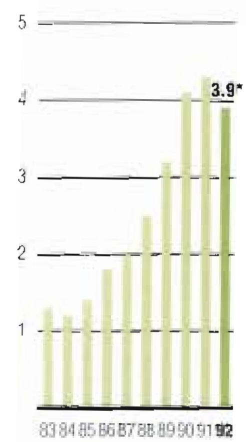
**Unemployment rates (%)**
U.S. vs. Hawaii




**Federal government spending ($ bil)**




**Construction spending ($ bil)**
Value of completed projects




*Bank of Hawaii projection

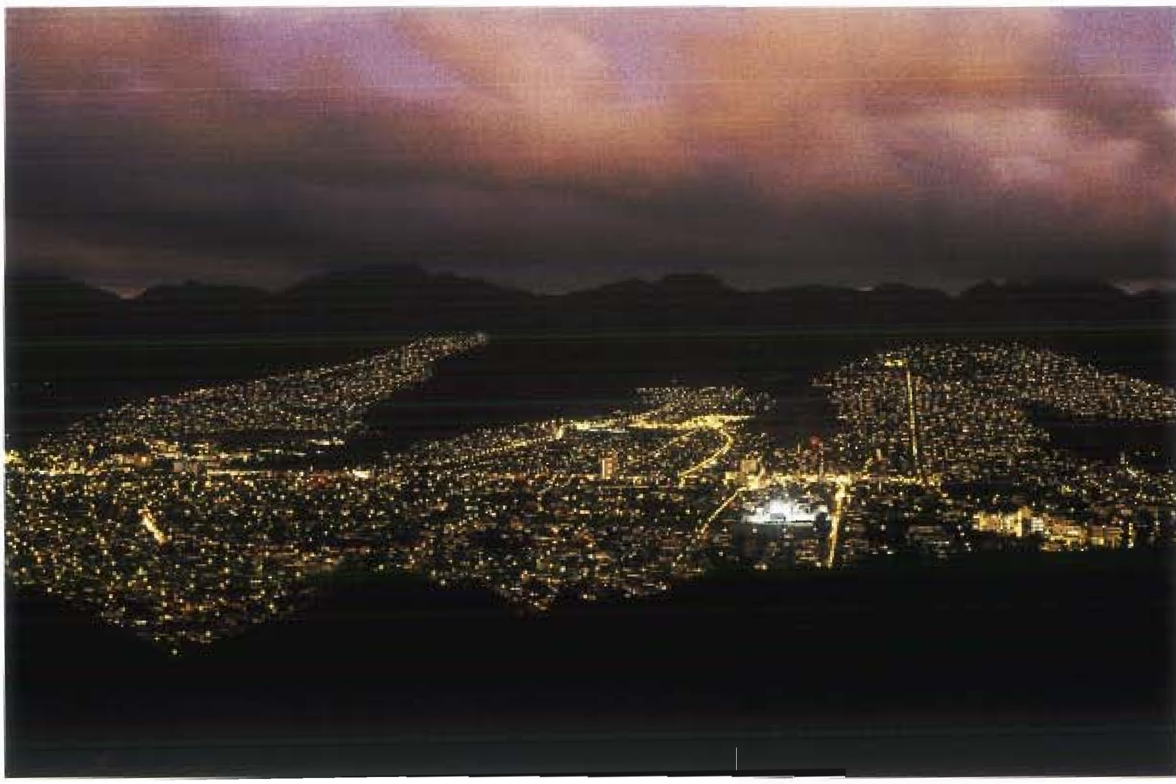
# GROWTH

The narrative section of HEI's 1992 annual report is organized around key issues that distinguish the company and shape its future — Growth of our markets and businesses; the drive to enhance Service and value to our customers and investors through improved Efficiency; and our investments in a diverse, unique Community.

Growth is the most distinctive feature of HEI's largest subsidiaries, Hawaiian Electric Company and American Savings Bank.

Although state economic growth slowed in 1992 because of the effects of the national recession on Hawaii tourism and Hurricane Iniki, Hawaii's population increased 1.5% in 1992. The state's population was among the nation's 10 fastest growing in 1991.

In the five-island service territory of Hawaiian Electric Company (HECO), 1992's growth translated into a 1.7% increase in customer accounts to 363,000. Consolidated kilowatthour sales increased 3% during the year. The increases



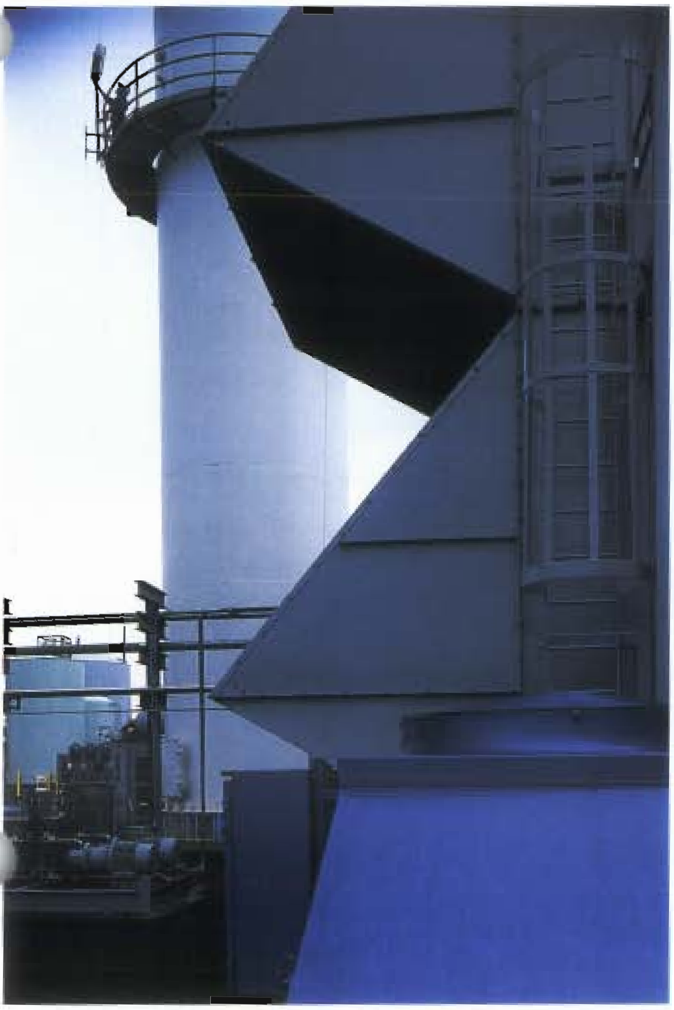
At dusk, the densely populated ridges of eastern Honolulu on the island of Oahu begin to sparkle with electric lights.

were even greater for the systems that serve the Big Island of Hawaii and Maui, Lanai and Molokai. Kilowatthour sales in 1992 advanced 5.2% in the Big Island system and 7.3% in the Maui system. Electricity sales on Oahu, HECO's largest system, increased 2.2%. In contrast, according to the most current data available from the Edison Electric Institute, electricity sales at U.S. investor-owned electric utility companies increased just 0.2% for the year ended September 30, 1992.

HECO's forecast calls for kilowatthour sales growth of 3% in 1993, moderating to slightly more than 2% by 1997 as energy savings from demand-side management programs are realized.

Serving this growth reliably and efficiently is the principal challenge facing HECO over the next five years. HECO plans to invest $1.2 billion in transmission, distribution and generating facilities during the 1993-1997 period. Transmission and distribution projects are expected to require the majority of utility capital requirements, with company-owned generation projects requir-

**HECO forecasts consolidated kilowatthour sales growth of 3% in 1993, moderating to slightly more than 2% in 1997. Serving this growth reliably and efficiently is the principal challenge facing the company over the next five years.**



This 20-megawatt combustion turbine near Hilo was installed during 1992 to help improve service to the rapidly increasing population on the Big Island.

GROWTH

ing about 30%. Over the five-year period, about 65% of the $1.2 billion must be raised in the debt and equity capital markets.

Electric rates must increase to help pay for these system improvements. The Hawaii Public Utilities Commission supported HECO's growth plans in 1992 through timely and adequate rate relief. During the year, HECO systems serving the islands of Oahu and Hawaii were granted rate increases totaling $128.1 million. The Oahu increase included approximately $93 million to cover the costs of purchasing power from AES Barbers Point Inc., an independent producer. The systems serving Maui, Lanai and Molokai have a pending request for an $11.4-million increase based on a 1993 test year. Approximately $2.8 million of the request was authorized in an interim increase in early 1993 with the remainder requested when generating units come on line.

At American Savings Bank, interest-rate declines spurred strong growth of the bank's loan and deposit volumes in 1992. Declining rates contributed to a

Helicopters expedite the surveying of rights of way for a southern transmission corridor from power plants at Campbell Industrial Park on Oahu's leeward coast to HECO's Waiau power plant west of downtown Honolulu. The new corridor has been planned for more than five years and is expected to be in service by late 1994. It will enhance the reliability of HECO's transmission system and help serve the growing suburbs west of Honolulu.

Opposite: HECO distribution line workers, left to right, Patrick Kapoi, Anthony Cantiberos and Patrick O'Toole, descend into a manhole to install power lines to a Kapolei area housing development. Several thousand new homes are planned for Kapolei, Oahu's "second city" west of Honolulu.

nationwide surge in first mortgage lending and refinancings. American Savings' loan production advanced to $588 million nearly 58% over 1991 levels. From its 1988 acquisition through year-end 1992, the bank's assets have more than doubled from $1.2 billion to $2.5 billion.

American Savings' deposit base increased, largely because of a successful strategy to keep the rates it pays its customers higher than those of competitors. Although some short-term profits were foregone, many new customers were attracted. In five months, nearly 11,000 new passbook and checking accounts were opened and deposits increased by $268 million. This is significant because the bank's profitability is driven by its high percentage of these core deposits to total liabilities. American Savings ended the year with 61% of its liabilities in core deposits — nearly double the industry average.

**HECO plans to invest $1.2 billion in transmission, distribution and generating facilities throughout its five-island service territory during 1993–1997.**

# SERVICE

All of HEI's companies strive to improve service. Their efforts are growing with their markets.

At Hawaiian Electric Company, customer service involves both the routine and the exceptional. In 1992, HECO crews installed more than 182 miles of overhead and underground transmission and distribution lines. HECO has installed and maintains a total of 1,748 miles of transmission lines and 6,602 miles of distribution lines throughout its service territory.

On Oahu alone in 1992, the total number of meters read increased 2% to 3.2 million — an average of more than 265,000 meters read per month, HECO's customer service staff fielded nearly 315,000 telephone calls during the year.

Customers want reliable electrical service and take it for granted. But it's impossible to be perfect, which frustrates customers and utility staff alike. The Hawaii Public Utilities Commission is studying system reliability on the islands of Oahu and Hawaii, where transmission problems and generation shortfalls, respectively, have caused power outages. The studies and their recommendations are expected to be completed in 1993.

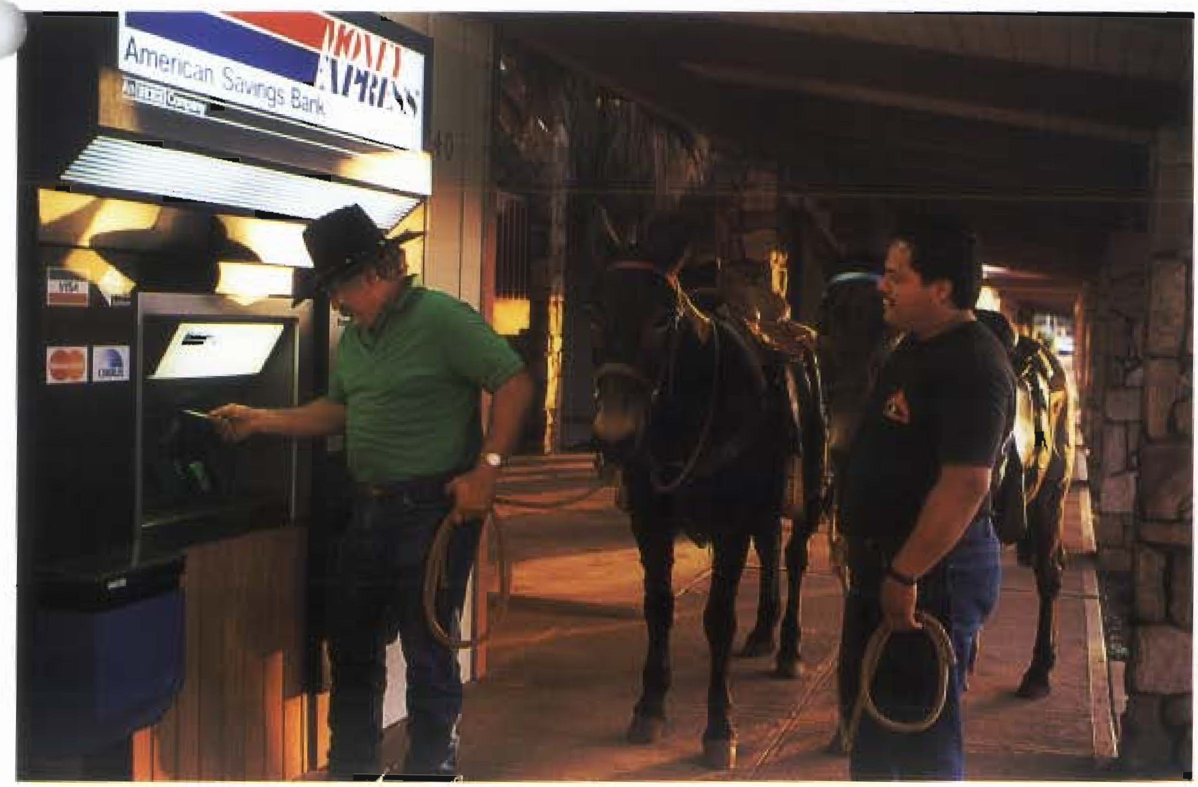
To serve Oahu's growing population, HECO designed special towers to carry transmission lines over the windy, rugged Koolau ridges. Engineer Pat Calizar and construction supervisor Joe Keahiolalo need a helicopter to make maintenance calls at the remote site above Waimanalo.

In the meantime, on Oahu, the approval process is advancing to establish a southern transmission corridor, which improves reliability by increasing the number of available routes to deliver power. On the Big Island, where the population has increased significantly, 1992's installation of a new company-owned combustion turbine was accelerated as much as government permitting procedures could accommodate. Additional company-owned and independent power plants on the Big Island are planned or under construction because drilling and permitting problems have delayed the delivery of new power from an independent geothermal energy plant for two years.

Despite these challenges, HECO's reliability compares favorably to U.S. mainland utility companies — measured by industry standards on maintenance and the number and frequency of outages over five years.

Support for improved service advanced significantly in 1992 with the completion of ACCESS, a $3-million computer network that tracks a wide range of customer-service activities throughout HECO's five-island territory. ACCESS (Automated Corporate Customer Electric Services System) simpli-

**Despite the challenges of remote island systems, HECO's reliability compares favorably to U.S. mainland utility companies — measured by industry standards on maintenance and the number and frequency of outages over five years.**




Molokai ride-up customers Buzzy Sproat, left, and John Borden use American Savings Bank's "Money Express" automated teller machine.

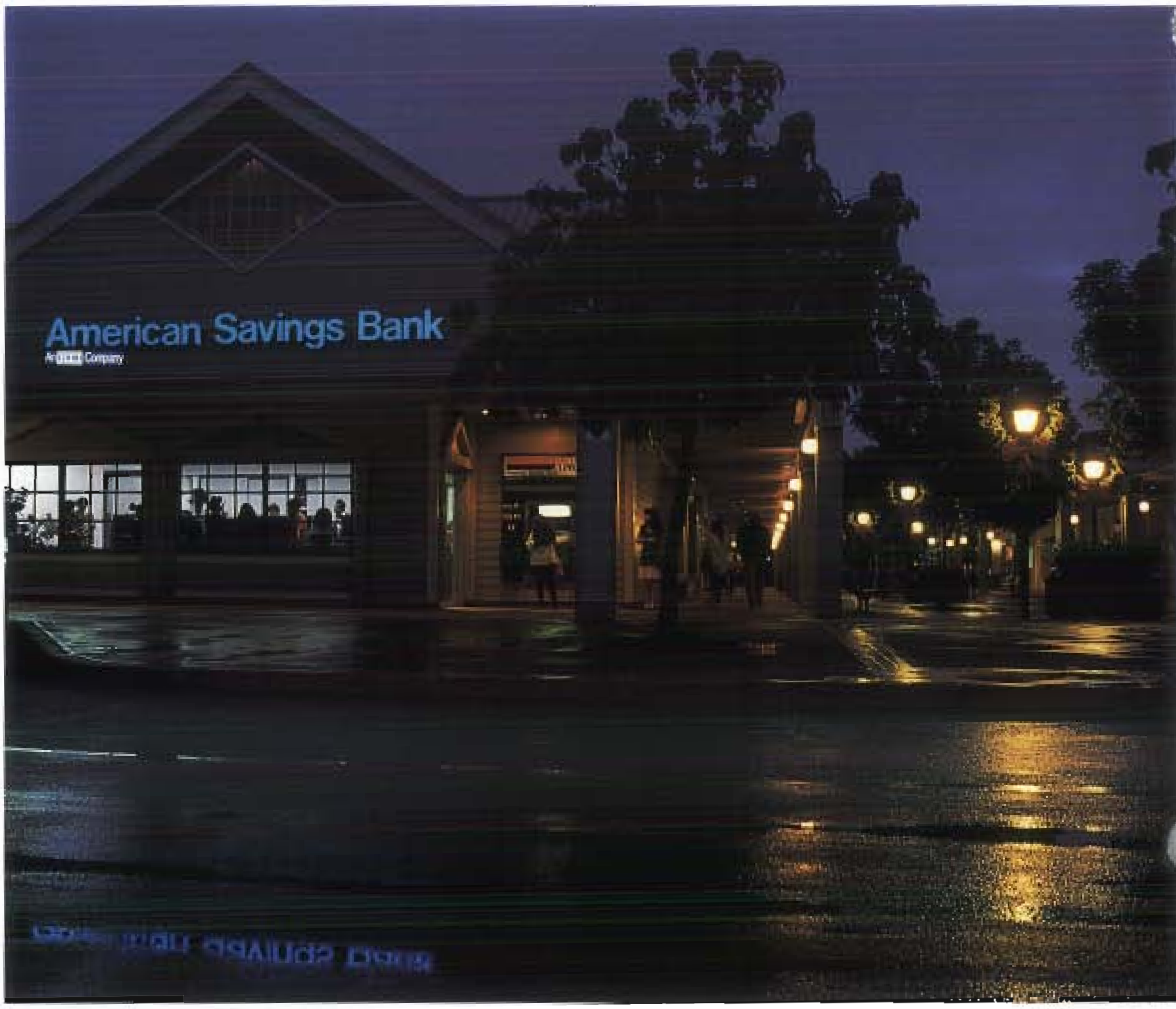
The first ATM on the Friendly Isle was installed in late 1992 at the Kaunakakai branch.

SERVICE

fies and improves bill-paying, trouble-shooting and other technical monitoring. For instance, the system allows HECO customers from any island to pay their bills on any island. During an outage, ACCESS helps dispatchers pinpoint system problems and speed service restoration.

Customer service received renewed emphasis at Hawaiian Tug & Barge Corp. and Young Brothers, Ltd. in 1992. Responsibility for customer service was consolidated under one manager, just as operations and maintenance were in 1991. Shipments to Kauai were increased to serve post-hurricane reconstruction work. From acquisition in late 1986 through year-end 1992, the maritime companies have invested more than $56 million in shoreside equipment, tugs and barges to improve service. In 1993, capital expenditure plans call for additional investments of more than $6 million.

American Savings Bank's service commitment has many facets. Loan production surged during the year to $588 million — nearly 58% over 1991 levels — and extra shifts of loan processors were scheduled to respond to the volume.



Convenient access to customer accounts continued to be enhanced in 1992. The first automated teller machine on the island of Molokai was installed and the number of suburban branches with extended operating hours was increased. The first phase of the "Five Star Customer Service" program was introduced to emphasize superior service to customers as well as co-workers. The program was augmented by American Savings' 1992 television advertising campaign, which featured the "We Hear You" slogan.

In early 1993, the bank dedicated an expanded training center in Honolulu with six teller stations and other branch equipment. The new center provides training and continuing education for approximately 150 employees each month.

**The entire staff of American Savings Bank — front-line and support employees — is participating in the development of the "Five Star Customer Service" program. The first phase has been launched and focuses on interdepartmental service and efficiency.**

Left: The lights of American Savings Bank's busy Mililani Town Center branch reflect in the puddles after an evening rain shower. The suburban Honolulu branch has offered customers convenient access to financial services through extended operating hours since early 1991.

Above: Boiler insulators Donald Chun, left, and James Kaholo apply insulating material at HECO's Kahe power plant on Oahu to minimize heat loss and improve efficiency.

# EFFICIENCY

Increased efficiency is a key element in HEI's strategy for serving Hawaii's growth — and delivering value to investors and customers.

At Hawaiian Electric Company, demand side management (DSM) is part o a comprehensive process of working with customers to promote energy efficiency. This can defer the need to build expensive power plants. Utility companies across the nation are incorporating DSM initiatives in their plans and services.

In 1992, HECO launched a $2-million DSM pilot program to reduce commercial energy consumption by subsidizing installation of efficient lighting systems. Commercial and industrial customers consume about 70% of the energy in the state and replacing old inefficient lights could reduce energy usage up to 18%. A pilot program for residential lighting is before the Hawaii Public Utilities Commission and a test program for efficient water heating is also being developed. Data from these pilot programs will help develop full-scale DSM programs for implementation in 1994.

HECO will ask state regulators for authority to recover $105 million in DSM expenditures over the next eight years. The objective is to reduce peak load require-


Above: American Savings Bank's new on-line signature verification speeds customer service and increases branch productivity. Lily Udani-LaForga, new-accounts counselor, verifies a signature at the Kalihi branch, Honolulu.

Right: In late 1992, American Savings helped introduce "IslePay," a cooperative debit-card system that allows consumers to make purchases without writing checks. Julie Smith, a Hawaiian Electric Industries office administrator, demonstrates an IslePay transaction at a Honolulu Foodland Super Market.

ments by about 75 megawatts — equivalent to the generating capacity needed to serve nearly 40,000 residential customers or three years of electrical load growth on Oahu. Construction costs are vastly higher for a power plant of that size. DSM benefits are manifold: customers lower their bills by using less electricity; HECO capital needs are deferred; Hawaii's reliance on imported oil is also diminished.

American Savings Bank is investing more than $3 million in system automation over three years to enhance customer service and improve staff productivity. In 1992, sophisticated check-processing equipment, a signature-verification system and advanced teller terminals were installed. By late 1994, additional systems will be on-line to speed loan approval and processing, increase customer access to account information, streamline branch administration and improve sales and marketing.

To enhance efficiency at Hawaiian Tug & Barge and Young Brothers, the maritime companies containerize and consolidate as much freight as possible. Efficiency of neighbor island service will be further enhanced in mid-1994 when state pier expansion on Kauai is completed, allowing two Young Brothers barges to load and unload at one berth.

**American Savings Bank is investing more than $3 million in system automation over three years to enhance customer service and improve staff productivity.**

The Young Brothers fleet of 35-ton, high-lift tractors helps move cargo more efficiently. In 1993, Young Brothers plans to invest more than $1 million in high-lift tractors, such as this unit with a 40-foot container at Nawiliwili Harbor, Kauai.

COMMUNITY

The people of Hawaiian Electric Industries invest and participate in a wide range of community activities and services to help make our state a better place to live, work and play.

Through the HEI Charitable Foundation, we contributed more than $1 million in 1992 to 109 qualified nonprofit organizations. Since its formation in 1984, the foundation has contributed $6 million to nonprofit organizations in six categories — education, culture and arts, social welfare, health and rehabilitation, youth services, and environment.

Foundation and employee giving to the United Way increased 13% in 1992 to more than $857,000. HEI contributions represented nearly 4% of the record $22.1 million raised by all of the United Way campaigns in Hawaii in 1992.

Our strong emphasis on supporting education continues. In an 18-month period in 1991 and 1992, American Savings Bank approved more than 2,300 student loans totaling $4.2 million. Approximately 30% of HEI foundation grants were directed to education in 1992. The foundation's matching program for employee contributions to education was extended to include primary and

secondary schools. By 1996, we plan to increase education grants to 35% of total foundation contributions.

Environmental education and energy conservation are the objectives of "In Concert with the Environment," a statewide program sponsored by Hawaiian Electric Company for high school students. Introduced in 1992, the HECO program shows students how to research energy consumption in their homes and analyze the environmental benefits of energy savings. More than 3,500 students, teachers and community leaders statewide participated in the program in 1992. Our goal is energy-awareness training for 15,000 students throughout Hawaii each year.

HEI companies are committed to protect Hawaii's environment. Our commitment is articulated in our corporate environmental credo, which was adopted by the HEI board of directors in 1990. The credo commits HEI companies to consider public health, safety and the environment as important components in their business decisions. For example, HECO helps fund research on the health effects of electric and magnetic fields, recycles more

**HEI companies are committed to consider public health, safety and the environment in business decisions.**


Above: HECO Vice President David M. Rodrigues, an Air National Guard colonel, led the Kauai Power Council in its efforts to restore emergency services to hurricane victims.

Left: Young Brothers tugs and barges, like this loaded vessel in Honolulu Harbor, hauled 2,400 tons of cargo to Kauai free of charge to support relief agencies after Hurricane Iniki.

Opposite: Environmental education and energy conservation are the objectives of "In Concert with the Environment," a statewide program sponsored by Hawaiian Electric Company. Lynn Kobayashi of HECO's Education and Consumer Affairs Division leads students in an ICE lesson at Radford High School, Honolulu.

# COMMUNITY

than 1 million pounds of metals and other materials each year and works with residential and commercial customers to use energy efficiently. More than 50,000 copies of HECO's booklet *Energy Tips & Choices* were distributed to customers in 1992.

Disaster relief dominated community-service activity throughout Hawaii in 1992 after Hurricane Iniki struck the island of Kauai on September 11. In addition to other charitable donations throughout the year, the people of HEI contributed nearly $150,000 to help Iniki victims.

Hundreds of our people logged countless hours of disaster-relief work. Young Brothers donated its services to haul 2,400 tons of cargo to Kauai to support food banks, the Red Cross, Salvation Army and other relief agencies. Seven HECO crews from the islands of Oahu, Maui and Hawaii worked for two months to help Kauai Electric Company, a subsidiary of Citizens Utilities, restore power to the Garden Isle.

A colonel in the Air National Guard, David M. Rodrigues, HECO vice president for operations, was selected to lead the Kauai Power Council. In the weeks after Iniki, the council made critical decisions on restoring emergency services.

HEI companies are committed to protect Hawaii's environment. Environmental aides Stan Oshiro and Allen Hee sample water quality near Maui Electric Company's Kahului power plant as part of ongoing programs to monitor and control utility emissions.

# Selected Financial Data

Hawaiian Electric Industries, Inc. and subsidiaries, years ended December 31.

| (dollars in thousands, except per share amounts) | 1992 | 1991 | 1990 | 1989 | 1988[1] |
|---|---|---|---|---|---|
| **Results of operations** | | | | | |
| Revenues | $1,031,383 | $993,242 | $928,702 | $810,828 | $671,791 |
| Net income (loss) | | | | | |
| Continuing operations | $ 61,715 | $ 55,620 | $ 42,895 | $ 59,726 | $ 52,308 |
| Discontinued operations | (73,297) | (794) | 707 | 4,349 | 2,700 |
| | $ (11,582) | $ 54,826 | $ 43,602 | $ 64,075 | $ 55,008 |
| Earnings (loss) per common share | | | | | |
| Continuing operations | $ 2.54 | $2.43 | $1.99 | $2.85 | $ 2.76 |
| Discontinued operations | (3.02) | (0.03) | 0.03 | 0.21 | 0.14 |
| | $(0.48) | $2.40 | $2.02 | $3.06 | $2.90 |
| Return on average common equity | (2.1)% | 10.0% | 8.7% | 13.5% | 13.8% |
| **Financial position (December 31)** | | | | | |
| Total assets | $4,142,768 | $3,716,872 | $3,502,023 | $2,968,382 | $2,533,316 |
| Deposit liabilities | $2,032,869 | $1,615,361 | $1,511,291 | $1,094,558 | $964,640 |
| Advances from Federal Home Loan Bank | $194,099 | $258,593 | $205,716 | $253,410 | $211,432 |
| Long-term debt | $582,475 | $525,641 | $463,362 | $430,385 | $417,870 |
| Preferred stock of electric utility subsidiaries | | | | | |
| Subject to mandatory redemption | $48,920 | $50,665 | $52,210 | $53,655 | $24,050 |
| Not subject to mandatory redemption | $36,293 | $36,293 | $36,293 | $36,293 | $36,293 |
| Stockholders' equity | $547,741 | $581,446 | $510,543 | $493,014 | $453,985 |
| **Common stock data** | | | | | |
| Book value per common share (year end) | $22.12 | $24.36 | $23.29 | $23.18 | $21.95 |
| Market price range per common share | | | | | |
| High | $44.63 | $37.88 | $40.00 | $40.25 | $33.63 |
| Low | $34.75 | $29.38 | $27.25 | $29.38 | $25.88 |
| Year end | $37.25 | $36.75 | $31.63 | $40.25 | $29.63 |
| Market price to book value per common share (year end) | 168% | 151% | 136% | 174% | 135% |
| Price earnings ratio (year end) | NM | 15.3 | 15.6 | 13.2 | 10.2 |
| Dividends per common share | $2.25 | $2.21 | $2.17 | $2.07 | $1.95 |
| Dividend payout ratio | NM | 92.0% | 107.2% | 67.6% | 67.5% |
| Shares outstanding (thousands) | | | | | |
| Weighted average | 24,275 | 22,882 | 21,559 | 20,960 | 18,984 |
| Geographic distribution of ownership (year end) | | | | | |
| State of Hawaii | 6,663 | 6,399 | 6,100 | 5,610 | 5,565 |
| Other | 18,099 | 17,468 | 15,818 | 15,656 | 15,116 |
| Total shares outstanding | 24,762 | 23,867 | 21,918 | 21,266 | 20,681 |
| Stockholders by geographic distribution (year end) | | | | | |
| State of Hawaii | 21,305 | 20,441 | 18,053 | 17,350 | 16,793 |
| Other | 16,891 | 15,598 | 13,883 | 13,946 | 13,544 |
| Total stockholders | 38,196 | 36,039 | 31,936 | 31,296 | 30,337 |

[1] The Company acquired American Savings Bank, F.S.B. on May 26, 1988.
NM Not meaningful.

# Segment Financial Information

Hawaiian Electric Industries, Inc. and subsidiaries, years ended December 31,

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Revenues** | | | |
| Electric utility | $ 778,690 | $ 740,632 | $ 707,085 |
| Savings bank | 202,995 | 198,776 | 180,513 |
| Other (includes investment writedowns of $12,577 in 1990) | 49,698 | 53,834 | 41,104 |
| | $ 1,031,383 | $ 993,242 | $ 928,702 |
| **Operating income (loss)** | | | |
| Electric utility | $ 103,841 | $ 100,256 | $ 99,758 |
| Savings bank | 31,327 | 25,215 | 22,042 |
| Other (includes investment writedowns of $12,577 in 1990) | 1,051 | 7,585 | (5,300) |
| | $ 136,219 | $ 133,056 | $ 116,500 |
| **Depreciation and amortization of property, plant and equipment** | | | |
| Electric utility | $ 53,856 | $ 49,005 | $ 45,165 |
| Savings bank | 2,852 | 2,466 | 1,941 |
| Other | 5,220 | 4,805 | 4,353 |
| | $ 61,928 | $ 56,276 | $ 51,459 |
| **Capital expenditures** | | | |
| Electric utility (includes allowance for equity funds used during construction) | $ 188,323 | $ 145,898 | $ 127,408 |
| Savings bank | 4,828 | 5,099 | 3,328 |
| Other | 4,283 | 10,463 | 9,697 |
| | $ 197,434 | $ 161,460 | $ 140,433 |
| **Identifiable assets (at December 31)** | | | |
| Electric utility | $ 1,501,330 | $ 1,318,023 | $ 1,250,142 |
| Savings bank | 2,461,694 | 2,175,789 | 2,028,222 |
| Other | 179,072 | 170,968 | 177,182 |
| | 4,142,096 | 3,664,780 | 3,455,546 |
| Net assets of discontinued operations | 672 | 52,092 | 46,477 |
| | $ 4,142,768 | $ 3,716,872 | $ 3,502,023 |

For a description of each segment, see Note 3, "Segment financial information" in the "Notes to Consolidated Financial Statements."

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Results of Operations

**The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes.**

Hawaiian Electric Industries, Inc. (HEI) reported a net loss of 48 cents per share in 1992, due to $73.3 million in losses from the discontinued operations of The Hawaiian Insurance & Guaranty Co., Limited (HIG) and its insurance subsidiaries (the HIG Group) and Hawaiian Electric Renewable Systems, Inc. (HERS). Earnings per share from continuing operations for 1992 were up 4.5% to $2.54 per share from 1991's $2.43 per share.

Many factors affected HEI's 1992 results, including Hawaii's regulatory and economic environment. Two of HEI's three electric utility companies received final rate relief and demand for electricity continued to increase. The real gross state product declined, however, for the first time in 10 years, due largely to the loss of business and income after Hurricane Iniki devastated the island of Kauai, the weakness in the U.S. economy and a decline in visitor arrivals from the U.S. mainland.

In 1993, HEI will face the continuing need to obtain timely and adequate rate relief, the uncertainty surrounding the rehabilitation and related proceedings involving the HIG Group and a statewide shortage of insurance capacity in the wake of Hurricane Iniki, an uncertain real estate market and moderation in Hawaii's economic growth as construction activity slows and the economic recovery on the U.S. mainland is prolonged.

Over the longer term, Hawaii's economy is expected to grow, driven by rebounding tourism markets and the resumption of foreign investment and construction. By providing essential services in Hawaii, HEI management believes that the Company is well positioned to take advantage of the State's projected economic growth.

### Consolidated

| (in millions, except per share amounts) | 1992 | % change | 1991 | % change | 1990 | % change |
|---|---|---|---|---|---|---|
| Revenue | $1,031 | 4 | $ 993 | 7 | $ 929 | 15 |
| Operating income | 136 | 2 | 133 | 14 | 117 | (9) |
| Net income (loss) | | | | | | |
| Continuing operations | $ 61.7 | 11 | $ 55.6 | 30 | $42.9 | (28) |
| Discontinued operations | (73.3) | NM | (0.8) | NM | 0.7 | (84) |
| | $ (11.6) | NM | $54.8 | 26 | $43.6 | (32) |
| Earnings (loss) per common share | | | | | | |
| Continuing operations | $ 2.54 | 5 | $2.43 | 22 | $1.99 | (30) |
| Discontinued operations | (3.02) | NM | (0.03) | NM | 0.03 | (86) |
| | $(0.48) | NM | $2.40 | 19 | $2.02 | (34) |
| Weighted average number of common shares outstanding | 24.3 | 6 | 22.9 | 6 | 21.6 | 3 |
| Effective tax rate for continuing operations (%) | 32.4 | | 36.8 | | 42.1 | |

NM Not meaningful.

- 1992 results include $73.3 million, or $3.02 per share, in losses from the discontinued operations of the HIG Group and HERS, the company's property and casualty insurance and wind energy businesses. Higher revenues and earnings from continuing operations resulted from increases at the electric utility companies and the savings bank, partly offset by decreases in the "Other" segment. In 1992, the electric utilities on Oahu and Hawaii obtained interim and final rate relief, the electric utilities' kilowatthour sales increased 3% and the savings bank's interest rate spread increased 19 basis points. "Interest expense—electric utility and other," applicable to continuing operations, increased 8% due to increased borrowings at the electric utilities and at the corporate level, partially offset by lower interest rates.

- 1991 results reflect the change in the method used by the electric utility companies to estimate unbilled kilowatthour sales and revenues which added $3.8 million to net income. Excluding $11.7 million of investment writedowns, net of taxes, in 1990, 1991 earnings per share from continuing operations would have been 10 cents lower than 1990, primarily due to lower earnings from the electric utility and real estate companies, partially offset by higher earnings from the savings bank. In 1991, the electric utilities waited for needed rate relief, the real estate company was faced with a slowdown in the market and the entire company was affected by the Gulf war and recession on the U.S. mainland. The 7% increase in 1991 consolidated revenues from continuing operations was due to higher revenues from all segments. "Interest expense—electric utility and other," applicable to continuing operations, increased 5% primarily due to increased electric utility companies' borrowings.

• 1990 results reflect investment writedowns of $11.7 million, net of taxes, or 54 cents per share by HEI Investment Corp. (HEIIC). Most of these investments were sold in 1991. Excluding the investment write-downs, income from continuing operations declined 9% from 1989 due to the electric utilities' higher operating expenses and preferred stock dividends and the freight transportation companies' higher repairs and maintenance expenses and insurance premium calls. The 15% increase in consolidated revenues from continuing operations was due to higher revenues from the electric utility and savings bank. The 4% decrease in "interest expense — electric utility and other," applicable to continuing operations, was due in part to the repayment of a $25 million note in late 1989.

• The effective tax rate applicable to continuing operations was relatively low in 1992 due to the utilization of capital loss carryforwards. The effective tax rate was relatively high in 1990 largely due to the HEIIC investment writedowns, most of which were not deductible in determining income taxes.

• Dividends per common share increased in 1992 to $2.25, from $2.21 in 1991 and $2.17 in 1990. Dividends have been higher each year for the past 29 consecutive years.

**Following is a general discussion of revenues, expenses and operating income by business segment. Segment information is also shown in "Segment Financial Information" on page 26 and in the "Notes to Consolidated Financial Statements."**

**Electric utility**

| (in millions, except per barrel amounts) | 1992 | % change | 1991 | % change | 1990 | % change |
|---|---|---|---|---|---|---|
| Revenue[1] | **$779** | 5 | $741 | 5 | $707 | 17 |
| Expenses | | | | | | |
| Fuel oil | **226** | (18) | 276 | (17) | 330 | 24 |
| Purchased power | **173** | 62 | 107 | 131 | 46 | 70 |
| Other | **276** | 7 | 258 | 12 | 231 | 9 |
| Operating income | **104** | 4 | 100 | 0 | 100 | (1) |
| Allowance for funds used during construction | **8.9** | 67 | 5.3 | (10) | 5.9 | 16 |
| Net income | **49.2** | 18 | 41.6 | (5) | 43.8 | (5) |
| Average price per barrel of fuel oil[1] | **19.69** | (14) | 22.79 | (8) | 24.82 | 23 |
| Kilowatthour sales | **8,332** | 3.0 | 8,090[2] | 1.5 | 7,968 | 4.2 |

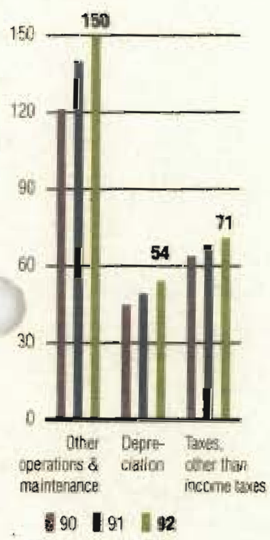
[1]The rate schedules of the electric utility companies include fuel adjustment clauses under which electric rates are adjusted for changes in the weighted average price paid for fuel oil and certain components of purchased power, and the relative amount of company generated and purchased power.
[2]Excludes the effect of HECO and its subsidiaries' change in the method of estimating unbilled kilowatthour sales and revenues.

• In 1992, Hawaiian Electric Company, Inc. (HECO) and its subsidiaries' revenue increased due to higher kilowatthour sales of electricity and rate relief granted by the Hawaii Public Utilities Commission (PUC), including rate relief for purchased power from two major independent power producers, Kalaeloa Partners L.P. and AES Barbers Point, Inc., which commenced operations in May 1991 and September 1992, respectively. The increase was tempered by lower fuel oil prices, the cost savings of which are passed through to customers. While sales of electricity in HECO and its subsidiaries' service territory continue to increase faster than the national industry average, consolidated HECO kilowatthour sales growth was only 3% due to the slowing in the state economy. Lower fuel oil expense is the result of lower prices and fewer kilowatthours generated. Higher purchased power expense is due to additional power purchased from the two major independent power producers. The 7% increase in other expenses is partly due to a 13% increase in maintenance and overhaul expenses, a 10% increase in depreciation as a result of plant additions and a 4% increase in other operation expenses resulting from higher employee-related expenses and higher production expenses relating to additional generating units placed into service in 1992. Higher operating income is primarily due to rate relief and increased kilowatthour sales at HECO, offset in part by higher purchased power and other expenses. Net income increased 18% as a result of the higher operating income and a higher allowance for funds used during construction due to higher work-in-progress balances. HECO and its subsidiaries do not provide electric service to the island of Kauai and, thus, were not significantly impacted by Hurricane Iniki.

• 1991 revenues increased over 1990 revenues largely due to rate increases granted by the PUC, primarily to permit HECO to recover the cost of power purchased from Kalaeloa Partners L.P., a 1.5% increase in kilowatthour sales of electricity and the one-time effect of a change in the method of estimating unbilled kilowatthour sales and revenues of approximately $7 million. The increase in revenues was tempered by lower fuel oil prices, the cost savings of which are passed through to customers. The relatively low kilowatthour sales growth reflected the departure of troops and ships to the Middle East in early 1991 and a decline in tourism due to the Gulf war and the recession on the U.S. mainland. Operating income for 1991 was about the same as 1990 because the effect of the increase in 1991 kilowatthour sales was offset by higher other operations and maintenance expenses and by higher depreciation expense as a result of plant additions.

• 1990 revenues were higher than 1989 due primarily to higher fuel oil prices and a 4.2% growth in kilowatthour sales due to the State's strong economy. The slight decrease in operating income in 1990, despite increases in kilowatthour sales and some interim rate relief, was primarily the result of higher other operation expenses, higher depreciation expense and more generating unit overhauls.

**Utility major expenses***
**($ mil)**




*Other than fuel oil & purchased power

### Regulation of electric utility rates

The PUC regulates the rates charged by HEI's electric utility subsidiaries. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the authorized returns on equity or other matters, or a significant delay in rendering a decision in a rate proceeding, could have a material effect on the Company's financial condition and results of operations. Upon the showing of probable entitlement, the PUC is required to issue an interim decision in a rate case within 10 months from the date of filing a completed application—subject to a 30-day extension. However, there is no time limit for rendering a final decision.

#### *Recent rate decisions*

• **HECO.** In July 1991, HECO applied to the PUC for an annual rate increase of approximately $138 million over the revenues provided by rates in effect at the time of the filing. In June 1992, the PUC issued a final decision and order which reaffirmed an interim decision which had been issued in March 1992. The interim and final decision and orders together provided for an annual increase in revenues of approximately $124 million, based on a 13.0% return on common equity. Approximately $93 million of the increase was to cover firm capacity and nonfuel energy payments associated with the AES Barbers Point, Inc. power purchase contract. The increase is subject to possible adjustment for postretirement benefits other than pensions. The PUC is considering the rate-making effects of a change in the method of accounting for postretirement benefits other than pensions in a separate generic docket.

• **HELCO.** In July 1991, Hawaii Electric Light Company, Inc. (HELCO) applied for a rate increase of approximately $7.5 million. In October 1992, the PUC issued a final decision and order which reaffirmed an interim decision which had been issued in June 1992. The interim and final decision and orders together provided for an annual increase in revenues of approximately $3.9 million, based on a 13.0% return on common equity. The increase is subject to possible adjustments for postretirement benefits other than pensions, which are being considered in a separate generic docket, and the results of a service reliability investigation.

#### *Pending rate request*

• **MECO rate case.** In November 1991, Maui Electric Company, Ltd. (MECO) applied for a rate increase of approximately $18.3 million, or approximately 17% above the rates in effect at the time of the filing, in several steps in 1992 and 1993. The requested increase included the cost of adding a 56-MW combined-cycle generating unit on Maui in three phases and the increased cost of postretirement benefits other than pensions. Evidentiary hearings were held in January 1993. At the conclusion of the hearings, MECO's final requested increase was adjusted to $11.4 million, or approximately 10%, in several steps in 1993. The decrease in the requested rate increase resulted primarily from a reduced cost of capital, lower administrative and general expenses and other revisions to MECO's estimated revenue requirements for the 1993 test year used in the rate case. MECO's revised request reflects a requested return on equity of 13.0%. The amount of MECO's probable entitlement was $3.2 million and on January 29, 1993, MECO received an interim decision authorizing an annual increase of $2.8 million, or 2.4%, effective February 1, 1993, based on a 12.75% return on common equity and subject to refund with interest.

### HECO power outage

On April 9, 1991, HECO experienced a power outage that affected all customers on the island of Oahu. See "HECO power outage" under Note 4 in the "Notes to Consolidated Financial Statements" for a discussion of HECO's contingent liabilities related to the outage.

### HELCO reliability investigation

The PUC initiated an investigation into the reliability of HELCO's system in July 1991. See "HELCO reliability investigation" under Note 4 in the "Notes to Consolidated Financial Statements" for a further discussion of this matter.

### Savings bank

| (dollars in millions) | 1992[1] | % change | 1991 | % change | 1990 | % change |
|---|---|---|---|---|---|---|
| Revenues | $ 203 | 2 | $ 199 | 10 | $ 181 | 18 |
| Net interest income | 77.9 | 21 | 64.2 | 22 | 52.5 | 31 |
| Operating income | 31.3 | 24 | 25.2 | 14 | 22.0 | 29 |
| Net income | 18.6 | 24 | 15.0 | 16 | 13.0 | 27 |
| Interest earning assets | | | | | | |
| Average balance | 2,207 | 15 | 1,917 | 15 | 1,669 | 19 |
| Weighted average yield | 8.73% | (11) | 9.84% | (4) | 10.22% | 2 |
| Interest bearing liabilities | | | | | | |
| Average balance | $2,171 | 14 | $1,898 | 15 | $1,645 | 19 |
| Weighted average rate | 5.28% | (20) | 6.58% | (9) | 7.22% | (2) |
| Interest rate spread | 3.45% | 6 | 3.26% | 9 | 3.00% | 14 |
| One-year "Gap" | 2.3% | | (10.1)% | | (12.7)% | |

[1] Reflects allocation of corporate-level expenses for segment reporting purposes.

American Savings Bank, F.S.B. (ASB) earnings depend primarily on net interest income, the difference between the interest income earned on interest-earning assets (loans receivable, mortgage-backed securities and investments) and the interest expense incurred on interest-bearing liabilities (deposit liabilities and borrowings). ASB's loan volumes and yields are affected by market interest rates, competition, the demand for real estate financing, the availability of funds and management's responses to these factors. Other factors affecting ASB's operating results include income from servicing loans and expenses from operations.

- 1992 net interest income increased 21% due largely to a higher average balance of interest-earning assets, a low interest rate environment and an inflow of low-cost deposits resulting in an increase in the interest rate spread. The $290 million increase in the average balance of interest-earning assets was funded primarily with low-cost deposits. The increase in the interest rate spread of 19 basis points can be attributed to an unusually wide spread between short-term and long-term interest rates.

- 1991 net interest income increased 22% due primarily to the higher average balance of interest-earning assets resulting from the investment of proceeds received after assuming the First Nationwide Bank deposit liabilities in October 1990, the favorable interest rate environment and the increase in the interest rate spread. The volume of ASB's business increased as reflected in the $248 million increase in the average balance of interest-earning assets in 1991 over 1990. During 1991, declining interest rates lowered the cost of interest-bearing liabilities faster than the yield on interest-earning assets which resulted in an improvement in the interest rate spread of 26 basis points.

- 1990 net interest income increased by 31% as a result of a favorable interest rate environment, higher average balances in interest-earning assets and decreased cost of funds. The interest rate spread improved by 36 basis points to 3.00% in 1990 from 2.64% in 1989.

- "Gap" is the difference between the amounts of interest-earning assets and interest-bearing liabilities that reprice during a given period. A "positive gap" exists when more assets than liabilities reprice within a given period; a "negative gap" exists when more liabilities than assets reprice within a given period. At the end of 1992, ASB's one-year gap position was a positive 2.3% of total assets, compared to the one-year negative gap positions at the end of 1991 and 1990 of 10.1% and 12.7%, respectively. The 1992 "positive gap" was primarily due to a very low interest rate environment that led to faster prepayments of fixed rate loans with high interest rates coupled with the increase of passbook deposits with a life expectancy of greater than a year. Generally, an increase in interest rates should result in higher net interest income for a financial institution that is in a positive gap position, as the yields on interest-earning assets increase at a faster rate than the cost of interest-bearing liabilities. Conversely, a decline in interest rates should result in lower net interest income.

### Effects of Hurricane Iniki

At December 31, 1992, approximately $102 million, or 7% of ASB's $1.5 billion gross loan portfolio, represented loans originated on Kauai. Approximately $92 million of the $102 million were mortgage loans. The current high unemployment rate on Kauai due to Hurricane Iniki may result in loan payment defaults or deferrals which would require such loans to be placed on a nonaccrual status. The accrual of interest on a loan is discontinued when the loan becomes more than 90 days delinquent or on an earlier basis when there is reasonable doubt as to its collectibility. As of December 31, 1992, delinquencies of ASB's Kauai loans were $2.2 million, $2.5 million, $3.1 million and $0.4 million for 1-29 days, 30-59 days, 60-89 days and 90 days and over delinquent, respectively. In anticipation of additional loans falling into the 90 days and over category, ASB added reserves of $0.6 million for Kauai loans for a total general loan loss provision of $1.5 million for 1992. ASB's net charge-offs for its entire loan portfolio were approximately $0.2 million for each of the years ended December 31, 1992, 1991 and 1990. ASB also added reserves for uncollectible interest on Kauai loans of $0.2 million.

ASB has a policy requiring borrowers to have insurance on real property that secures the borrowers loans. Due to the losses created by Hurricane Iniki, several insurance companies have discontinued the sale and/or renewal of homeowners' insurance on real estate in Hawaii. If a borrower is unable to obtain insurance, ASB has procedures to "force place" insurance coverage. The "force place" policies are underwritten by two U.S. insurance companies and would protect ASB, as lender, for loans secured by real estate covered by such policies. The cost of the policy is charged to the borrower. Based on current circumstances, management believes that the effect of the current shortage of homeowners' insurance in Hawaii and the effect of Hurricane Iniki on ASB's future earnings should not be material to the consolidated results of operations of the Company.

### Other

| (in millions) | 1992 | % change | 1991 | % change | 1990 | % change |
|---|---|---|---|---|---|---|
| Revenues | **$49.7** | **(8)** | $53.8 | 31 | $41.1 | (20) |
| Operating income (losses) | **1.1** | **(86)** | 7.6 | >100 | (5.3) | (>100) |

The "Other" business segment includes results of operations from Hawaiian Tug & Barge Corp. (HTB) and its subsidiary, Young Brothers, Limited (YB), which are freight transportation companies; HEIIC, which is a company primarily holding investments in leveraged leases; Malama Pacific Corp. (MPC) and its subsidiaries, which are real estate investment and development companies; HEI Diversified, Inc. (HEIDI), the parent company of ASB and HIG; HEI, the parent company; and eliminations of intercompany transactions.

- Operating income for the freight transportation subsidiaries was $3.4 million in 1992, compared with $5.0 million in 1991 and $4.6 million in 1990. The decrease in operating income in 1992 was primarily the result of a 5% decrease in tug operating hours, higher maintenance costs due to the drydocking of more barges and higher depreciation expense. The increase in 1991 was primarily due to the gain on the sale of an oil barge and lower maintenance expenses, offset in part by higher depreciation expense. The decrease in 1990 was attributable to increased vessel repairs and maintenance expenses, a premium call from the mutual marine insurance pool and higher depreciation expenses. In mid-1992, HTB decided to exit the heavy fuel oil shipping business by the end of 1993. The decision is the result of concerns about the potential unlimited liability for oil spills under the federal Oil Pollution Act of 1990. HTB currently carries $700 million of marine pollution insurance coverage.

- In 1990, HEIIC wrote down $12.6 million of investments to reflect an other than temporary decline in their market value for a loss of $11.7 million, net of taxes. Most of these investments were sold in 1991. As of December 31, 1992, HEIIC primarily held investments in leveraged leases. No new investments are currently planned.

- MPC's operating loss was $1.3 million in 1992, compared with operating income of $0.9 million in 1991 and $1.0 million in 1990. Certain of MPC's joint ventures wrote down the carrying value of their real estate projects in response to the slowing in the real estate market in 1992 and 1991. See Notes 6 and 15 in the "Notes to Consolidated Financial Statements" for a further discussion on MPC and its subsidiaries.

### Discontinued operations

| (in millions, except per share amounts) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Net income (loss) | | | |
| Insurance business | **$ (59.7)** | $ 1.7 | $ 2.0 |
| Nonutility wind energy business | **(13.6)** | (2.5) | (1.3) |
| | **$(73.3)** | $ (0.8) | $ 0.7 |
| Earnings (loss) per common share | | | |
| Insurance business | **$(2.46)** | $ 0.08 | $0.09 |
| Nonutility wind energy business | **(0.56)** | (0.11) | (0.06) |
| | **$(3.02)** | $(0.03) | $0.03 |

**Hawaiian Insurance & Guaranty Company, Limited**

HIG and its insurance company subsidiaries are property and casualty insurance companies in the State of Hawaii. On December 2, 1992, the Board of Directors of HEI concluded that it would not contribute additional capital to the insurance businesses conducted by the HIG Group and HEI's remaining investment in the HIG Group was written off in the fourth quarter of 1992. The decision resulted from an increase in the estimate of policyholder claims from Hurricane Iniki (which hit the Hawaiian Islands on September 11, 1992) from $200 million to more than $300 million. At that level of claims, HEI estimated that the shortfall in the assets of the HIG Group available to pay claims would be in excess of $80 million, and that at least an additional $112 million would be required if the HIG Group were to continue to write insurance as in the past—$80 million to cover the shortfall plus $32 million of new capital.

On December 24, 1992, with the consent of the HIG Group, a formal rehabilitation order (the Rehabilitation Order) was entered by the First Circuit Court of the State of Hawaii. The effect of the Rehabilitation Order was to vest full control over the HIG Group in the Insurance Commissioner and her deputies. On January 7, 1993, the Deputy Rehabilitator sent a letter to HEIDI, the holder of record of the outstanding shares of HIG stock, purporting to assess the stock of HIG. The Rehabilitator or her representatives have also advised HEI that it will be requested to participate financially in any rehabilitation plan that is developed, that the operations of the HIG Group and the relationships between the HIG Group and its HEI affiliates are being reviewed and that various statutory, contractual and other claims may be asserted against the Company. In February 1993, a complaint was filed by an individual against the Company in the First Circuit Court seeking damages in an unspecified amount for an alleged class of all direct purchasers of home and automobile insurance in the State of Hawaii under various theories, including the theory that the alleged acts of the Company with respect to the HIG Group constitute unfair or deceptive acts or practices for which treble damages are requested. The complaint also asserts claims against the Company on alleged "alter ego" and mismanagement theories.

Based on the investigation and analysis done to date, management believes that it has good and meritorious defenses to any claims that have been or may be asserted against the Company by the Rehabilitator, by the plaintiff in the alleged class action complaint or others and intends to defend vigorously against any claims that are asserted. However, the ultimate outcome of claims that have been or may be asserted against the Company cannot presently be determined. Management intends to cooperate with and assist the Rehabilitator in her efforts to develop a rehabilitation plan that will maximize the assets and minimize the liabilities of the HIG Group. See Note 2 in the "Notes to Consolidated Financial Statements" for more information on the discontinued operations of HIG.

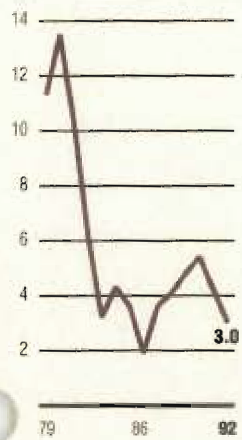
**Hawaiian Electric Renewable Systems, Inc.**

On October 6, 1992, the Board of Directors of HEI ratified management's September 30, 1992 plan to exit the nonutility wind energy business because of chronic mechanical problems with its wind turbines and continuing losses from operations. The Company plans to wind down or dispose of HERS in 1993. See Note 2 in the "Notes to Consolidated Financial Statements" for more information on the discontinued operations of HERS.

## Environmental matters

HEI and its subsidiaries are subject to numerous laws and regulations designed to protect the environment such as air and water quality controls, hazardous waste and toxic substance controls and The Federal Oil Pollution Act of 1990. HEI and its subsidiaries are exempt from certain environmental requirements applicable on the U.S. mainland. For example, HECO and its subsidiaries are exempt from the acid rain provisions of the 1990 Clean Air Act Amendments. However, the environmental regulations and laws to which HEI and its subsidiaries are subject potentially impact the Company in terms of operating existing facilities, constructing and operating new facilities and ensuring the proper cleanup and disposal of hazardous waste and toxic substances. Management believes that most, if not all, of any costs incurred by HECO and its subsidiaries in complying with these environmental requirements would be recognized by the PUC as reasonable and necessary costs of service for rate-making purposes. Management also believes that unrecovered costs, if any, would not have a material adverse effect upon the Company.

**Inflation (CPI) 1979-1992 (%)**




## Effects of inflation

Inflation, as measured by the Consumer Price Index (CPI), averaged 3.0% in 1992, 4.2% in 1991 and 5.4% in 1990. Although the rate of inflation over the past three years has been relatively low compared with the late 1970s and early 1980s, 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 utility companies, replace assets at much higher costs and must request rate relief to maintain adequate earnings. In the past, the PUC has generally approved rate relief to cover the effects of inflation. In 1992 and early 1993, the electric utility companies received rate relief, in part to cover increases due to inflation in operating expenses and construction costs, as reflected in higher depreciation expense.

## Future accounting changes

### Accounting for income taxes

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The new standard requires companies to use the asset and liability method of accounting for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company adopted the provisions of SFAS No. 109 on January 1, 1993 and recorded a cumulative adjustment which was not material.

### Accounting for postretirement benefits other than pensions

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires accrual, during the years that an employee renders the necessary service, of the expected cost of providing those benefits to that employee and the employee's beneficiaries and covered dependents. As of January 1, 1993, the Company adopted the provisions of SFAS No. 106 and is recognizing the transition obligation on a delayed basis over 20 years. The annual pre-tax costs for postretirement benefits other than pensions are estimated to be approximately $20 million greater in 1993 under the provisions of SFAS No. 106 than under the pay-as-you-go method of accounting. The PUC has opened a generic docket to determine whether SFAS No. 106 should be adopted for rate-making purposes. HECO has requested that a final decision and order on the generic docket be issued before March 31, 1993. See Note 17 in the "Notes to Consolidated Financial Statements" for a further discussion of postretirement benefits other than pensions.

## Consolidated

HEI believes that its profitability from continuing operations and balance sheet strength are adequate to generate cash, both internally from operations and externally from debt and equity issues, to fund its construction programs and to cover debt and other cash requirements in the foreseeable future.

HEI's total assets were $4.1 billion and $3.7 billion at December 31, 1992 and 1991, respectively. Asset growth in 1992 stemmed from growth in ASB's loan portfolio and increased capital expenditures by the electric utility companies.

At December 31, 1992, cash and equivalents were $101 million higher than at December 31, 1991 due in part to an increased liquidity requirement of the Office of Thrift Supervision (OTS), increased savings inflows, faster prepayments of loans and mortgage-backed securities and temporarily higher balances at HECO.

The consolidated capital structure of HEI was as follows:

| | December 31, | | | |
|---|---|---|---|---|
| (dollars in thousands) | 1992 | | 1991 | |
| Short-term borrowing | $ 160,211 | 11.7% | $ 29,420 | 2.4% |
| Long-term debt | 582,475 | 42.3 | 525,641 | 43.0 |
| Preferred stock of electric utility subsidiaries | 85,213 | 6.2 | 86,958 | 7.1 |
| Common stock equity | 547,741 | 39.8 | 581,446 | 47.5 |
| | $1,375,640 | 100.0% | $1,223,465 | 100.0% |

The consolidated capital structure does not include ASB's deposit liabilities, securities sold under agreements to repurchase and advances from the Federal Home Loan Bank.

HEI plans to maintain its debt and equity structure within range of the levels at December 31, 1992 and 1991 through HEI and certain of its subsidiaries' issuance of short-term and long-term debt, the electric utilities' issuance of preferred stock, retained earnings and issuance of common stock through public offerings and the Dividend Reinvestment and Stock Purchase Plan and other plans.

At December 31, 1992, short-term borrowings were $131 million higher than at December 31, 1991. The additional short-term borrowings were used primarily to fund the electric utility companies' capital expenditures. In 1993, much of the short-term financing will be replaced with long-term debt and common and preferred equity financing.

As of February 26, 1993, HEI and HECO's Standard & Poor's Corporation (S&P), Moody's Investors Service (Moody's) and Duff & Phelps Credit Rating Co.'s (Duff & Phelps) security ratings were as follows:

| | S&P | Moody's | | Duff & Phelps |
|---|---|---|---|---|
| | Rating | Rating | Status | Rating |
| HEI | | | | |
| Medium-term notes | BBB | Baa2 | Under Review | BBB+ |
| Commercial paper | A–2 | P–2 | Under Review | Duff 1– |
| HECO | | | | |
| First mortgage bonds | BBB+ | A3 | | A |
| Unsecured notes | BBB | Baa1 | | A– |
| Cumulative preferred stock | BBB | baa1 | | BBB+ |
| Commercial paper | A–2 | P–2 | | Duff 1– |

Neither HEI nor HECO management can predict with certainty future rating agency actions or their effects on the future cost of capital of HEI or HECO.

At December 31, 1992, $40 million of a $100 million registered medium-term note program remained unused by HEI. At December 31, 1992, HEI and HECO also maintained bank lines of credit which totaled $30 million and $135 million, respectively, and which supported the issuance of commercial paper. At December 31, 1992, there were no borrowings against any line of credit. In the first half of 1993, HEI plans to register an additional $110 million of medium-term notes and proceed with a common stock offering of approximately 1,500,000 to 2,000,000 shares.

Operating activities provided net cash of $98 million in 1992, $142 million in 1991 and $56 million in 1990.

Capital expenditures, origination and purchases of loans and purchases of mortgage-backed securities accounted for a significant portion of the net cash used in investing activities of $392 million in 1992, $318 million in 1991 and $453 million in 1990.

Financing activities provided net cash of $395 million in 1992, $130 million in 1991 and $439 million in 1990. The most significant source of cash in 1992 was deposit liabilities. Other sources included short-term bank loans, commercial paper, long-term debt and common stock.

A portion of net assets (assets less liabilities) of HECO and ASB are not available for transfer to HEI in the form of dividends, loans or advances without regulatory approval. However, 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 other cash obligations. (See Note 18 in the "Notes to Consolidated Financial Statements.")

**Following is a discussion of the liquidity and capital resources of HEI's largest segments.**

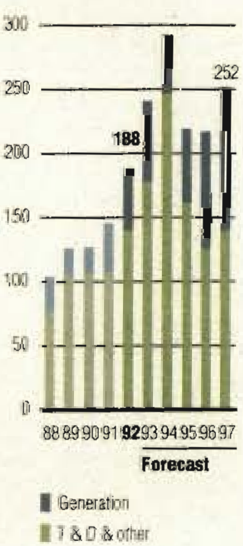
## Electric utility

In 1992, the electric utility companies used $182 million for capital expenditures. In addition, $23 million was used to repay long-term debt and $28 million was used for preferred and common stock dividends. $18 million of cash inflows came from third-party contributions in aid of construction and $14 million from the sale of assets. $79 million in cash came from operations. Financing activities provided $88 million from the issuance of commercial paper and $33 million from the drawdown of the proceeds from the sale of tax-exempt special purpose revenue bonds. HEI provided $33 million through its purchase of HECO common stock.

Capital expenditures, including the allowance for funds used during construction (AFUDC) and capital expenditures funded by third party contributions in aid of construction, for the five-year period 1993 through 1997 are currently estimated to total $1.2 billion. Of this amount, approximately 65% is for transmission and distribution projects, with the remaining 35% primarily for generation projects. Capital expenditures include projects which are required to meet expected load growth and projects to replace and upgrade existing equipment. At December 31, 1992, purchase commitments other than fuel and power purchase contracts were approximately $91 million, including amounts for construction projects. (Refer also to Note 4 in the "Notes to Consolidated Financial Statements" for a discussion of power purchase commitments.)

Capital expenditure estimates and the timing of construction projects are reviewed continually by management and may change as a result of many considerations, including changes in economic conditions, changes in forecasts of kilowatthour sales and peak load, the availability of alternate energy and purchased power sources, the availability of generating sites and transmission and distribution corridors, the ability to obtain adequate and timely rate relief, escalation in construction costs, demand side management programs and requirements of environmental and other regulatory and permitting authorities.

**Utility capital expenditures, including AFUDC ($ mil)**




The electric utility's consolidated financing requirements for the years 1993 through 1997, including net capital expenditures, debt retirements, and sinking fund payment requirements, are estimated to total $1.2 billion. Internal and external sources of funds are expected to be adequate in meeting these needs. Subject to obtaining the requisite PUC approvals, debt and equity financing is expected to be obtained as needed in order to maintain a sound capital structure.

Electric utility capital expenditures for 1993 are estimated to be $240 million, of which approximately 65% is for transmission and distribution projects. An estimated $50 million is planned for new generation projects. It is estimated that $23 million of the $240 million in capital expenditures will be provided through third-party contributions in aid of construction. Drawdowns of proceeds from the sale of tax-exempt special purpose revenue bonds, sales of preferred stock, sales of common stock to HEI and internal sources of funds are expected to provide the remaining funds needed for capital expenditures.

During 1992, the State of Hawaii issued a total of $60 million in tax-exempt special purpose revenue bonds on behalf of HECO, HELCO and MECO at a 6.55% fixed interest rate. At December 31, 1992, approximately $45 million of the proceeds from the sale of special purpose revenue bonds had not yet been drawn to finance specifically approved projects. At December 31, 1992, an additional $12 million and $135 million of revenue bonds were authorized by the Hawaii legislature for issuance prior to the end of 1993 and 1995, respectively.

## Savings bank

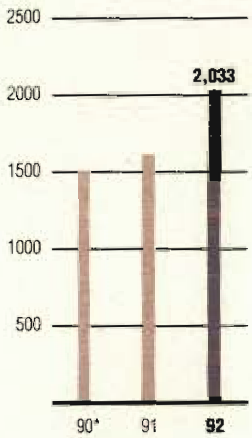
| (in billions) | December 31, 1992 | % change | December 31, 1991 | % change |
|---|---|---|---|---|
| Assets | $2.5 | 13 | $2.2 | 7 |
| Loans receivable | 1.5 | 27 | 1.1 | 23 |
| Mortgage-backed securities | 0.7 | (12) | 0.8 | (3) |
| Deposit liabilities | 2.0 | 26 | 1.6 | 7 |

In 1992, ASB's total assets increased 13% primarily due to originations and purchases of loans of $585 million partly offset by repayments on loans of $269 million. At September 30, 1992, ASB was the second largest savings bank in the state based on total assets of $2.4 billion.

At December 31, 1992, loans which do not accrue interest totaled $14 million or only 0.97% of net loans outstanding. At the end of 1992, there was only one commercial real estate property acquired in settlement of loans valued at $2 million. There was no real estate acquired in settlement of loans at December 31, 1991.

At December 31, 1992, securities sold under agreements to repurchase consisted of mortgage-backed securities sold under fixed-coupon agreements. Other than Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities, the securities underlying the agreements were delivered to the brokers/dealers who arranged the transactions. The FHLMC mortgage-backed securities are book-entry securities and were delivered by appropriate entry into the counterparties' account at the Federal Reserve System. The dollar amount of securities underlying the agreements remained in ASB's asset accounts. The agreements are a source of financing for ASB with the obligations to repurchase securities sold being reflected as a liability in the consolidated balance sheet. At December 31, 1992, the balance of securities sold under agreements to repurchase was reduced to $27 million compared to $131 million at December 31, 1991. The reduction in securities sold under agreements to repurchase as well as the reduction in advances from Federal Home Loan Bank were primarily due to the significant increase in lower cost deposits.

**American Savings Bank deposits ($ mil)**




As of December 31

*ASB's acquisiton of FNB's Hawaii operations increased ASB's deposit base by $247 million

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 receipt of interest and principal on outstanding loans receivable, borrowings from the Federal Home Loan Bank of Seattle, securities sold under agreements to repurchase and other sources. Minimum liquidity levels are currently governed by the regulations adopted by the OTS. ASB was in compliance with OTS liquidity requirements as of December 31, 1992.

OTS regulations require each savings association to have regulatory capital at least sufficient to meet three requirements: tangible capital and core (leverage) capital of 1.5% and 3.0%, respectively, of adjusted total assets; and a risk-based capital standard equal to 8.0% of risk-adjusted assets. As of December 31, 1992, ASB was in full compliance with the minimum capital requirements with a tangible capital ratio of 4.95%, a core capital ratio of 5.39% and risk-based capital of $135.9 million, $41.4 million in excess of the minimum requirement.

The OTS is currently considering proposed regulations which will increase capital requirements. One of the proposed regulations includes increasing core capital requirements to either 4% or 5% for many savings associations. Under the proposed regulation, ASB believes it would be required to comply with a 4% requirement. As of December 31, 1992, ASB would have been in compliance with the proposed 4% requirement with a core capital ratio of 5.39%.

The OTS has modified its December 31, 1990 proposed regulation to add an interest rate risk (IRR) component to the existing risk-based capital requirement. Institutions with an "above normal" level of IRR exposure will be required to hold additional capital. "Above normal" IRR is defined as any decline in market value of an institution's portfolio equity (as defined in the OTS proposal) in excess of 2% of the market value of its assets, which would result from an immediate 200 basis point change in interest rates. The OTS proposal would require such a savings association to hold one-half of the "above normal" IRR times the market value of its assets as capital in addition to its existing 8% risk-based capital requirement. Based on IRR reported as of September 30, 1992, ASB would not be required to hold additional capital if the proposed regulation were to be adopted.

The Federal Deposit Insurance Corporation Improvement Act of 1991 established a statutory framework for closer monitoring of insured depository institutions in order to ensure "prompt corrective action" by regulators as an institution's capital position declines. The OTS rules for prompt corrective action, effective on December 19, 1992, define the capital measures for five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), and provide for progressively more stringent restrictions and supervision as capital levels decline. To be classified as "well capitalized," an institution must have a "leverage ratio" of 5%, a "Tier 1 risk-based ratio" of 6% and a "total risk-based ratio" of 10%. In August 1992, HEI contributed $22.0 million of additional equity to ASB in order to have ASB considered a "well capitalized" institution. As of December 31, 1992, ASB believes that based on OTS capital standards it would have been classified as "well capitalized" with a leverage ratio of 5.39%, a Tier 1 risk-based ratio of 11.07% and a total risk-based ratio of 11.51%.

ASB believes that a satisfactory regulatory capital position provides a basis for public confidence, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a foundation for anticipated growth.

# Independent Auditors' Report

The Board of Directors and Stockholders
Hawaiian Electric Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Hawaiian Electric Industries, Inc. and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1992. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian Electric Industries, Inc. and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 2, there are asserted and unasserted claims against the Company related to the Company's discontinued insurance segment. The ultimate outcome of these claims cannot presently be determined. Accordingly, the adjudication or settlement of such claims may result in the future recognition of additional liabilities with respect to the discontinued insurance segment.

KPMG Peat Marwick

Honolulu, Hawaii
February 19, 1993

# Consolidated Statements of Income

Hawaiian Electric Industries, Inc. and subsidiaries, years ended December 31,

| (in thousands, except per share amounts) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Revenues** | | | |
| Electric utility | $ 778,690 | $ 740,632 | $ 707,085 |
| Savings bank | 202,995 | 198,776 | 180,513 |
| Other (includes investment writedowns of $12,577 in 1990) | 49,698 | 53,834 | 41,104 |
| | 1,031,383 | 993,242 | 928,702 |
| **Expenses** | | | |
| Electric utility | 674,849 | 640,376 | 607,327 |
| Savings bank | 171,668 | 173,561 | 158,471 |
| Other | 48,647 | 46,249 | 46,404 |
| | 895,164 | 860,186 | 812,202 |
| **Operating income** | | | |
| Electric utility | 103,841 | 100,256 | 99,758 |
| Savings bank | 31,327 | 25,215 | 22,042 |
| Other (includes investment writedowns of $12,577 in 1990) | 1,051 | 7,585 | (5,300) |
| | 136,219 | 133,056 | 116,500 |
| Interest expense—electric utility and other | (47,141) | (43,521) | (41,265) |
| Allowance for borrowed funds used during construction | 2,095 | 1,307 | 1,375 |
| Preferred stock dividends of electric utility subsidiaries | (6,710) | (6,887) | (7,048) |
| Allowance for equity funds used during construction | 6,781 | 3,998 | 4,526 |
| **Income from continuing operations before income taxes** | 91,244 | 87,953 | 74,088 |
| Income taxes | 29,529 | 32,333 | 31,193 |
| **Income from continuing operations** | 61,715 | 55,620 | 42,895 |
| **Discontinued operations, net of income taxes** | | | |
| Income (loss) from operations | (57,090) | (794) | 707 |
| Loss on disposal | (16,207) | — | — |
| **Income (loss) from discontinued operations** | (73,297) | (794) | 707 |
| **Net income (loss)** | $ (11,582) | $ 54,826 | $ 43,602 |
| **Earnings (loss) per common share** | | | |
| **Continuing operations** | $ 2.54 | $ 2.43 | $ 1.99 |
| **Discontinued operations** | (3.02) | (0.03) | 0.03 |
| | $ (0.48) | $ 2.40 | $ 2.02 |
| **Dividends per common share** | $ 2.25 | $ 2.21 | $ 2.17 |
| **Weighted average number of common shares outstanding** | 24,275 | 22,882 | 21,559 |

# Consolidated Statements of Retained Earnings

Hawaiian Electric Industries, Inc. and subsidiaries, years ended December 31,

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Retained earnings, beginning of year** | $ 204,663 | $200,286 | $ 203,424 |
| Net income (loss) | (11,582) | 54,826 | 43,602 |
| Common stock dividends | (54,597) | (50,449) | (46,740) |
| **Retained earnings, end of year** | $ 138,484 | $204,663 | $200,286 |

See accompanying "Notes to Consolidated Financial Statements."

# Consolidated Balance Sheets

Hawaiian Electric Industries, Inc. and subsidiaries, December 31,

| (in thousands) | 1992 | 1991 |
|---|---|---|
| **Assets** | | |
| Cash and equivalents | $ 156,754 | $ 55,735 |
| Accounts receivable and unbilled revenues, net | 118,246 | 102,391 |
| Inventories, at average cost | 38,952 | 41,545 |
| Loans receivable, net | 1,462,888 | 1,148,626 |
| Notes receivable from joint ventures | 1,347 | 20,403 |
| Marketable securities (estimated market value $785,926 at December 31, 1992 and $896,730 at December 31, 1991) | 768,415 | 864,844 |
| Other investments | 81,974 | 72,035 |
| Property, plant and equipment, net | 1,387,828 | 1,258,143 |
| Other | 74,689 | 46,378 |
| Goodwill and other intangibles | 51,003 | 54,680 |
| Net assets of discontinued operations | 672 | 52,092 |
| | $ 4,142,768 | $ 3,716,872 |
| **Liabilities and stockholders' equity** | | |
| Accounts payable | $ 82,235 | $ 73,243 |
| Deposit liabilities | 2,032,869 | 1,615,361 |
| Short-term borrowings | 160,211 | 29,420 |
| Securities sold under agreements to repurchase | 27,223 | 131,018 |
| Advances from Federal Home Loan Bank | 194,099 | 258,593 |
| Long-term debt | 582,475 | 525,641 |
| Deferred income taxes | 156,915 | 164,332 |
| Unamortized tax credits | 42,912 | 40,025 |
| Contributions in aid of construction | 126,308 | 113,234 |
| Other | 104,567 | 97,601 |
| | 3,509,814 | 3,048,468 |
| **Preferred stock of electric utility subsidiaries** | | |
| Subject to mandatory redemption | 48,920 | 50,665 |
| Not subject to mandatory redemption | 36,293 | 36,293 |
| | 85,213 | 86,958 |
| **Stockholders' equity** | | |
| Common stock, no par value, authorized 100,000 shares; outstanding 24,762 shares at December 31, 1992 and 23,867 shares at December 31, 1991 | 409,257 | 376,783 |
| Retained earnings | 138,484 | 204,663 |
| | 547,741 | 581,446 |
| | $ 4,142,768 | $ 3,716,872 |

See accompanying "Notes to Consolidated Financial Statements."

# Consolidated Statements of Cash Flows

Hawaiian Electric Industries, Inc. and subsidiaries, years ended December 31,

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income from continuing operations | $ 61,715 | $ 55,620 | $ 42,895 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities | | | |
| Depreciation and amortization of property, plant and equipment | 61,928 | 56,276 | 51,459 |
| Other amortization | 602 | 2,033 | 85 |
| Deferred income taxes and tax credits, net | (4,530) | 7,456 | (8,702) |
| Net losses (gains) on marketable securities and other investments. | 806 | (521) | 12,404 |
| Changes in assets and liabilities, net of effects from disposal of businesses and acquisition of partnership interest | | | |
| Decrease (increase) in accounts receivable and unbilled revenues, net | (17,515) | 14,248 | (30,334) |
| Decrease (increase) in inventories | 2,593 | 15,959 | (16,651) |
| Increase in other securities held for trading | (9,161) | (13,876) | — |
| Increase in accounts payable | 8,474 | 1,975 | 3,521 |
| Changes in other assets and liabilities | (7,159) | 2,235 | 417 |
| | 97,753 | 141,405 | 55,094 |
| Cash flows from discontinued operations | — | 750 | 1,325 |
| **Net cash provided by operating activities** | 97,753 | 142,155 | 56,419 |
| **Cash flows from investing activities** | | | |
| Increase in notes receivable from joint ventures | (1,792) | (8,297) | (25,711) |
| Principal repayments on notes receivable from joint ventures | 1,351 | 9,224 | 4,381 |
| Loans receivable originated and purchased | (585,292) | (379,445) | (365,109) |
| Principal repayments on loans receivable | 268,672 | 164,848 | 147,745 |
| Proceeds from sale of loans receivable | 5,208 | 6,271 | 9,637 |
| Mortgage-backed securities purchased | (216,289) | (169,276) | (236,198) |
| Principal repayments on mortgage-backed securities | 307,364 | 162,269 | 89,016 |
| Proceeds from sale of mortgage-backed securities | — | 29,543 | 19,663 |
| Increase in other marketable securities and investments | (1,506) | (16,112) | (33,094) |
| Proceeds from redemption, sale, maturity and principal repayments of other marketable securities and investments | 12,129 | 30,934 | 43,361 |
| Capital expenditures | (190,653) | (157,462) | (135,907) |
| Contributions in aid of construction | 17,949 | 16,632 | 31,671 |
| Other | 15,771 | (394) | (2,379) |
| | (367,088) | (311,265) | (452,924) |
| Net investment in discontinued operations | (24,751) | (6,750) | — |
| **Net cash used in investing activities** | (391,839) | (318,015) | (452,924) |
| **Cash flows from financing activities** | | | |
| Net increase in deposit liabilities | 417,508 | 104,070 | 170,014 |
| Proceeds from other short-term borrowings | 36,000 | — | — |
| Proceeds from assumption of deposit liabilities | — | — | 238,967 |
| Net increase (decrease) in short-term borrowings with original maturities of three months or less | 92,303 | (93,876) | 61,606 |
| Proceeds from securities sold under agreements to repurchase | 43,000 | 235,307 | 278,206 |
| Repurchase of securities sold under agreements to repurchase | (145,200) | (242,876) | (262,777) |
| Proceeds from advances from Federal Home Loan Bank | 32,900 | 178,860 | 326,239 |
| Principal payments on advances from Federal Home Loan Bank | (97,400) | (126,000) | (374,100) |
| Proceeds from issuance of long-term debt | 83,736 | 125,579 | 41,298 |
| Repayment of long-term debt | (43,436) | (63,300) | (8,330) |
| Redemption of electric utility subsidiaries' preferred stock | (1,745) | (1,545) | (1,445) |
| Net proceeds from issuance of common stock | 18,248 | 51,415 | 10,351 |
| Common stock dividends | (39,214) | (36,877) | (36,424) |
| Other | (1,595) | (617) | (4,688) |
| **Net cash provided by financing activities** | 395,105 | 130,140 | 438,917 |
| Net increase (decrease) in cash and equivalents | 101,019 | (45,720) | 42,412 |
| Cash and equivalents, beginning of year | 55,735 | 101,455 | 59,043 |
| **Cash and equivalents, end of year** | $156,754 | $ 55,735 | $ 101,455 |

See accompanying "Notes to Consolidated Financial Statements."

# Notes to Consolidated Financial Statements

## 1 • Summary of significant accounting policies

### General

**Basis of financial statement presentation.** The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the provision for costs in excess of net realizable values of real estate projects and the provisions for losses relating to the disposal of discontinued businesses. Management believes that such allowances and provisions have been appropriately established in accordance with generally accepted accounting principles.

**Consolidation.** The consolidated financial statements include the accounts of Hawaiian Electric Industries, Inc. (HEI), a holding company, and its wholly owned subsidiaries (collectively, the Company). These subsidiaries are Hawaiian Electric Company, Inc. (HECO), parent company of Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO); HEI Diversified, Inc. (HEIDI), parent company of American Savings Bank, F.S.B. (ASB) and The Hawaiian Insurance & Guaranty Company, Limited (HIG); Hawaiian Tug & Barge Corp. (HTB), parent company of Young Brothers, Limited (YB); Hawaiian Electric Renewable Systems, Inc. (HERS); Malama Pacific Corp. (MPC); and HEI Investment Corp. (HEIIC). As of December 2, 1992, HEI wrote off its investment in HIG and no longer consolidates the accounts of HIG and its subsidiaries.

MPC and its subsidiaries do not consolidate real estate joint ventures in which they own a 50% or less interest.

All significant intercompany transactions and balances have been eliminated in consolidation.

**Investments.**

***Marketable securities.*** Long-term investments in mortgage-backed and other debt securities, which management intends and has the ability to hold until maturity, are carried at amortized cost.

Long-term investments in marketable equity securities are carried at the lower of cost or market with changes in market value below cost reflected in stockholders' equity.

Other securities held for trading are carried at market value with unrealized gains or losses reflected in net income.

***Other investments.*** Investments in real estate joint ventures are accounted for under the equity method.

Other investments, which have no quoted market value and for which the Company owns less than 20% of the voting stock, are carried at cost.

For all investments, declines in value determined to be other than temporary are reflected in net income.

The specific identification method is used in determining realized gains and losses on the sale of securities.

**Property, plant and equipment.** Property, plant and equipment are stated at cost. The cost of plant constructed by the electric utility subsidiaries includes applicable engineering, supervision, administrative and general expenses, and an allowance for the cost of funds used during the construction period. Upon the retirement or sale of electric utility plant, no gain or loss is recognized. The cost of the plant retired or sold and the cost of removal (net of salvage obtained) are charged to accumulated depreciation.

**Retirement benefits.** Pension costs are charged primarily to expense and electric utility plant. The Company's policy is to fund pension costs in amounts consistent with the requirements of the Employee Retirement Income Security Act.

Certain health care and/or life insurance benefits are provided to retired employees, substantially all of whom become eligible for these benefits upon retirement, and the employees' beneficiaries and covered dependents. Through December 31, 1992, the cost of these benefits has not been recognized until paid. Accordingly, no provision was made for future postretirement benefits other than pensions to retired employees. Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

**Depreciation and amortization.** Depreciation of plant and equipment is computed primarily using the straight-line method over the estimated useful lives of the assets.

At December 31, 1991, goodwill relating to acquisitions was being amortized on a straight-line basis over various periods up to 25 years. At December 31, 1992, goodwill relates to the acquisition of ASB and is being amortized on a straight-line basis over 25 years.

Core deposit intangibles are being amortized each year at the greater of the actual attrition rate of such deposit base or 10% of the original value.

**Income taxes.** Deferred income taxes are provided for substantially all timing differences in the recognition of items for financial reporting and income tax purposes. Effective January 1, 1993, the Company adopted the provisions of SFAS No. 109, "Accounting for Income Taxes."

In accordance with the State of Hawaii Public Utilities Commission's (PUC) method of establishing electric rates, the excess of accumulated deferred income taxes previously provided over the amount that is required, based on tax rates established by the 1986 Tax Reform Act, is being amortized into income by the electric utility subsidiaries over the estimated remaining lives of the assets which gave rise to the deferred income taxes.

Tax credits are amortized over the estimated useful lives of the properties which qualified for the credits.

**Earnings per common share.** Earnings per common share are based upon the weighted average number of shares of common stock outstanding. The dilutive effect of stock options is not material.

**Cash flows.** The Company considers cash on hand, deposits in banks, deposits with the Federal Home Loan Bank, money market accounts, certificates of deposits, short-term commercial paper and reverse repurchase agreements with original maturities of three months or less to be cash and equivalents.

**Reclassifications.** Certain reclassifications have been made to prior years' consolidated financial statements to conform to the 1992 presentation.

**Discontinued operations.** During the third quarter of 1992, management decided to discontinue the operations of HERS. During the fourth quarter of 1992, the Board of Directors of HEI concluded that it would not contribute additional capital to the insurance businesses conducted by HIG and its subsidiaries and the remaining investment in HIG and its subsidiaries was written off. For 1991 and 1990, the nonutility wind energy business (previously classified in the "Other" segment) and the insurance businesses were reclassified to discontinued operations.

***Insurance.***

The accounting policies followed by the insurance company until its discontinuance in 1992 were:

***Marketable securities.*** Investments held for trading were carried at market value with unrealized gains or losses reflected in stockholders' equity.

***Unpaid insurance losses and loss expenses.*** Unpaid insurance losses and loss expenses were determined on the basis of estimates of unpaid amounts with respect to reported losses and losses incurred but not reported. Provisions for losses and loss expenses were intended to cover ultimate payment amounts, less amounts recoverable from reinsurance. The insurance company ceded insurance to reinsurers under various contracts which covered individual risks or entire classes of business.

***Unearned insurance premiums.*** Unearned insurance premiums, less any portions ceded to reinsurers, were recognized as income ratably over the terms of the policies.

See Note 2 for further information on discontinued operations. Except where indicated, footnote disclosures relate solely to continuing operations.

## Electric utility

**Electric utility revenues.** Electric utility revenues are based on rates authorized by the PUC and include revenues applicable to electric energy consumed in the accounting period but not yet billed to the customers. The rate schedules of the electric utility subsidiaries include fuel oil adjustment clauses 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 and purchased power.

**Contributions in aid of construction.** The electric utility subsidiaries receive contributions from customers for special construction requirements. As directed by the PUC, the contributions are amortized on a straight-line basis over the estimated useful lives of the facilities for which the contributions were received. This amortization is an offset against depreciation expense.

## Savings bank

**Loans receivable.** Any discount or premium on loans is amortized over the estimated life of the loan using the level-yield method.

The valuation allowance for estimated losses on loans receivable is provided to the extent that such losses are expected to be incurred.

The accrual of interest on a loan is discontinued when the loan becomes more than 90 days delinquent or on an earlier basis when there is reasonable doubt as to its collectibility.

**Real estate acquired in settlement of loans.** Real estate acquired in settlement of loans is recorded at the lower of cost or fair value less estimated selling expenses.

**Loan origination and commitment fees.** Loan origination fees (net of direct loan origination costs) are deferred and recognized as an adjustment of yield over the life of the loan. Nonrefundable commitment fees (net of direct loan origination costs, if applicable) for commitments to originate or purchase loans are deferred and, if the commitment is exercised, recognized as an adjustment of yield over the life of the loan. If the commitment expires unexercised, nonrefundable commitment fees are recognized as income upon expiration of the commitment.

## 2 • Discontinued operations

### Hawaiian Electric Renewable Systems, Inc.

On October 6, 1992, the Board of Directors of HEI ratified management's September 30, 1992 plan to exit the nonutility wind energy business because of chronic mechanical problems with its wind turbines and continuing losses from operations. The Company plans to wind down or dispose of HERS in 1993.

Summary financial information for the discontinued operations of HERS is as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Income statement data** | | | |
| **Operations** | | | |
| Revenues | $ 564 | $ 1,063 | $ 1,985 |
| Operating loss | $ (12,630) | $ (3,151) | $ (1,819) |
| Interest expense | (953) | (1,385) | (1,270) |
| Income tax benefits | 8,128 | 2,038 | 1,799 |
| Loss from operations | $ (5,455) | $(2,498) | $(1,290) |
| **Disposal** | | | |
| Loss, including provision of $700 for loss from operations during phase-out period | $ (17,131) | | |
| Income tax benefits | 9,021 | | |
| Loss on disposal | $ (8,110) | | |

| | December 31, | |
|---|---|---|
| (in thousands) | 1992 | 1991 |
| **Balance sheet data** | | |
| **Assets** | | |
| Property, plant and equipment, net | $ 71 | $25,406 |
| Other | 642 | 446 |
| | 713 | 25,852 |
| **Liabilities** | | |
| Long-term debt | — | 14,335 |
| Deferred income taxes | (112) | 7,539 |
| Unamortized tax credits | 6 | 6,794 |
| Other | 147 | 944 |
| | 41 | 29,612 |
| Net assets (liabilities) of discontinued windfarm operations | $ 672 | $(3,760) |

## The Hawaiian Insurance & Guaranty Company, Limited

HIG and its insurance company subsidiaries (the HIG Group) are property and casualty insurance companies in the State of Hawaii. On December 2, 1992, the Board of Directors of HEI concluded that it would not contribute additional capital to the insurance businesses conducted by the HIG Group and HEI's remaining investment in the HIG Group was written off in the fourth quarter of 1992. The decision resulted from an increase in the estimate of policyholder claims from Hurricane Iniki (which hit the Hawaiian Islands on September 11, 1992) from $200 million (unaudited) to more than $300 million (unaudited). At that level of claims, HEI estimated that the shortfall in the assets of the HIG Group available to pay claims would be in excess of $80 million (unaudited), and that at least an additional $112 million (unaudited) would be required if the HIG Group were to continue to write insurance as in the past — $80 million (unaudited) to cover the shortfall plus $32 million (unaudited) of new capital. As discussed below, under the caption "Rehabilitation," control of the HIG Group has been vested in the Insurance Commissioner of the State of Hawaii.

Summary financial information for the discontinued operations of the HIG Group is as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Income statement data** | | | |
| **Operations** | | | |
| Revenues | $ 80,654 | $89,536 | $80,078 |
| Operating income (loss) | $(80,146) | $ 1,328 | $ 1,614 |
| Income tax benefits | 28,511 | 376 | 383 |
| Income (loss) from operations | $ (51,635) | $ 1,704 | $ 1,997 |
| **Disposal** | | | |
| Loss | $(13,060) | | |
| Income tax benefits | 4,963 | | |
| Loss on disposal | $ (8,097) | | |

| (in thousands) | December 31, 1991 |
|---|---|
| **Balance sheet data** | |
| **Assets** | |
| Marketable securities | $154,770 |
| Other | 59,115 |
| | 213,885 |
| **Liabilities** | |
| Unearned insurance premiums | 36,034 |
| Unpaid insurance losses and loss expenses | 105,929 |
| Other | 16,070 |
| | 158,033 |
| Net assets of discontinued insurance operations | $55,852 |

In 1992, $5.7 million of the $33.5 million of income tax benefits related to the discontinued operations of the HIG Group were allocated to the HIG Group under the HEI tax allocation policy.

### Rehabilitation

On December 24, 1992, with the consent of the HIG Group, a formal rehabilitation order (the Rehabilitation Order) was entered by the First Circuit Court of the State of Hawaii. The effect of the Rehabilitation Order was to vest full control over the HIG Group in the Insurance Commissioner and her deputies. On January 7, 1993, the Deputy Rehabilitator sent a letter to HEIDI, the holder of record of the outstanding shares of HIG stock, purporting to assess the stock of HIG. The Rehabilitator or her representatives have also advised HEI that it will be requested to participate financially in any rehabilitation plan that is developed, that the operations of the HIG Group and the relationships between the HIG Group and its HEI affiliates are being reviewed and that various statutory, contractual and other claims may be asserted against the Company. In February 1993, a complaint was filed by an individual against the Company in the

First Circuit Court seeking damages in an unspecified amount for an alleged class of all direct purchasers of home and automobile insurance in the State of Hawaii under various theories, including the theory that the alleged acts of the Company with respect to the HIG Group constitute unfair or deceptive acts or practices for which treble damages are requested. The complaint also asserts claims against the Company on alleged "alter ego" and mismanagement theories.

Based on the investigation and analysis done to date, management believes that it has good and meritorious defenses to any claims that have been or may be asserted against the Company by the Rehabilitator, by the plaintiff in the alleged class action complaint or others and intends to defend vigorously against any claims that are asserted. However, the ultimate outcome of claims that have been or may be asserted against the Company cannot presently be determined. Management intends to cooperate with and assist the Rehabilitator in her efforts to develop a rehabilitation plan that will maximize the assets and minimize the liabilities of the HIG Group.

## 3 • Segment financial information

Segment financial information on page 26 is incorporated herein by reference.

HEI's principal segments are as follows:

### Electric utility.

HECO and its wholly owned subsidiaries, HELCO and MECO, are operating electric public utilities in the business of generating, purchasing, transmitting, distributing, and selling electric energy, and are regulated by the PUC.

### Savings bank.

ASB is a federally chartered savings bank providing a full range of banking services to individual and corporate customers through its branch system in Hawaii. ASB is subject to examination and comprehensive regulation by the Department of Treasury, Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation, and is also subject to regulations of the Board of Governors of the Federal Reserve System.

### Other.

HTB provides tugboat and charter barge services in Hawaii and the Pacific area and, together with its subsidiary, YB, provides general freight and containerized cargo transportation between the Hawaiian islands. YB operates as the sole authorized common carrier under the Hawaii Water Carrier Act and is regulated by the PUC.

MPC and its wholly owned subsidiaries invest in and develop real estate.

HEIIC invests primarily in leveraged leases.

Other also includes certain HEI and HEIDI activities and intercompany eliminations.

### Discontinued operations.

HIG and its subsidiaries United National Insurance Company, Ltd. and Hawaiian Underwriters Insurance Co., Ltd. are property and casualty insurance companies which have been operating under a Rehabilitation Order entered by the First Circuit Court of the State of Hawaii since December 24, 1992.

HERS and its wholly owned subsidiary, Lalamilo Ventures, Inc., own nonutility wind energy and cogeneration facilities. The Company plans to wind down or dispose of HERS in 1993.

See Note 2 for further information on discontinued operations.

Hawaiian Electric Company, Inc. and subsidiaries
Selected consolidated financial information

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Income statement data** | | | |
| **Revenues** | | | |
| Operating revenues | $776,929 | $739,636 | $704,853 |
| Other—nonregulated | 1,761 | 996 | 2,232 |
| | 778,690 | 740,632 | 707,085 |
| **Expenses** | | | |
| Fuel oil | 225,611 | 275,806 | 330,421 |
| Purchased power | 172,761 | 106,660 | 46,101 |
| Other operation | 105,303 | 100,990 | 88,034 |
| Maintenance | 44,653 | 39,463 | 32,992 |
| Depreciation | 53,856 | 49,005 | 45,165 |
| Taxes, other than income taxes | 71,452 | 67,648 | 64,442 |
| Other—nonregulated | 1,213 | 804 | 172 |
| | 674,849 | 640,376 | 607,327 |
| Operating income from regulated and nonregulated activities | 103,841 | 100,256 | 99,758 |
| Allowance for equity funds used during construction | 6,781 | 3,998 | 4,526 |
| Interest and other charges | (35,196) | (35,535) | (33,248) |
| Allowance for borrowed funds used during construction | 2,095 | 1,307 | 1,375 |
| Income before income taxes and preferred stock dividends of HECO | 77,521 | 70,026 | 72,411 |
| Income taxes | 23,843 | 23,816 | 23,927 |
| Income before preferred stock dividends of HECO | 53,678 | 46,210 | 48,484 |
| Preferred stock dividends of HECO | 4,525 | 4,600 | 4,674 |
| Net income for common stock | $ 49,153 | $ 41,610 | $ 43,810 |

| | December 31, | |
|---|---|---|
| (dollars in thousands) | 1992 | 1991 |
| **Balance sheet data** | | |
| **Assets** | | |
| Utility plant, at cost | | |
| Property, plant and equipment | $1,770,374 | $1,586,244 |
| Less accumulated depreciation | (583,031) | (536,552) |
| Construction in progress | 107,030 | 114,974 |
| Net utility plant | 1,294,373 | 1,164,666 |
| Accounts receivable, net | 62,088 | 53,231 |
| Unbilled revenues, net | 35,647 | 27,409 |
| Other | 109,222 | 72,717 |
| | $1,501,330 | $1,318,023 |
| **Capitalization and liabilities** | | |
| Common stock equity | $ 499,894 | $ 440,831 |
| Cumulative preferred stock | | |
| Not subject to mandatory redemption, dividend rates of 4.25–8.875% | 36,293 | 36,293 |
| Subject to mandatory redemption, dividend rates of 7.68–13.75% | 48,920 | 50,665 |
| Long-term debt | 374,835 | 365,098 |
| Total capitalization | 959,942 | 892,887 |
| Short-term borrowings, including borrowings from affiliate | 122,176 | 34,570 |
| Deferred income taxes | 101,447 | 112,521 |
| Unamortized tax credits | 41,608 | 38,756 |
| Contributions in aid of construction | 126,308 | 113,234 |
| Other | 149,849 | 126,055 |
| | $1,501,330 | $1,318,023 |

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Cash flow data** | | | |
| **Cash flows from operating activities** | | | |
| Income before preferred stock dividends of HECO | $ 53,678 | $ 46,210 | $ 48,484 |
| Adjustments to reconcile income before preferred stock dividends of HECO to net cash provided by operating activities | | | |
| Depreciation and amortization of property, plant and equipment | 53,856 | 49,005 | 45,165 |
| Decrease (increase) in accounts receivable and unbilled revenues, net | (17,095) | 8,109 | (23,713) |
| Decrease (increase) in inventories | 2,449 | 16,027 | (16,300) |
| Other | (14,195) | 3,667 | (2,381) |
| **Net cash provided by operating activities** | 78,693 | 123,018 | 51,255 |
| **Cash flows from investing activities** | | | |
| Capital expenditures | (181,542) | (141,900) | (122,882) |
| Contributions in aid of construction | 17,949 | 16,632 | 31,671 |
| Proceeds from sales of assets | 14,270 | — | — |
| **Net cash used in investing activities** | (149,323) | (125,268) | (91,211) |
| **Cash flows from financing activities** | | | |
| Net increase (decrease) in short-term borrowings, including borrowings from affiliate | 87,606 | (35,350) | 33,020 |
| Proceeds from issuance of long-term debt | 33,130 | 40,579 | 41,298 |
| Repayment of long-term debt | (23,393) | (32,222) | (2,256) |
| Redemption of preferred stock | (1,745) | (1,545) | (1,445) |
| Preferred stock dividends | (4,525) | (4,600) | (4,674) |
| Proceeds from issuance of common stock | 33,000 | 61,000 | 8,000 |
| Common stock dividends | (23,048) | (27,468) | (32,821) |
| Other | 67 | 831 | (3,261) |
| **Net cash provided by financing activities** | 101,092 | 1,225 | 37,861 |
| Net increase (decrease) in cash and equivalents | 30,462 | (1,025) | (2,095) |
| Cash and equivalents, beginning of year | 421 | 1,446 | 3,541 |
| **Cash and equivalents, end of year** | $ 30,883 | $ 421 | $ 1,446 |

**Cumulative preferred stock**. Certain cumulative preferred shares of HECO and its subsidiaries are redeemable at the option of the respective company at a premium or par. The remaining cumulative preferred shares are subject to mandatory sinking fund provisions at par and optional redemption provisions at a premium. The total sinking fund requirements on preferred stock subject to mandatory redemption for the next five years are $1,370,000 in 1993, $1,320,000 in 1994, $2,320,000 in 1995, and $2,220,000 in 1996 and 1997.

**Major customers.** The electric utility subsidiaries derived 10% of their operating revenues from the sale of electricity to various federal government agencies amounting to $78 million in 1992, $77 million in 1991 and $72 million in 1990.

**Commitments and contingencies.**

***Fuel contracts and other purchase commitments.*** To assure access to a long-term supply of residual fuel oil and diesel fuel, HECO has contractual agreements to purchase a minimum amount of 0.5% sulfur fuel oil and diesel fuel annually through 1993. The fuel oil prices under these contracts are tied to prices as reported in Singapore and Los Angeles. Based on the average price per barrel at January 1, 1993, the amount of required purchases for 1993 approximates $124 million. HECO purchased $150 million, $193 million and $277 million of fuel under these or prior contractual agreements in 1992, 1991 and 1990, respectively. HECO's subsidiaries have contractual agreements through 1993 under which estimated annual purchase commitments based on the average price per barrel at January 1, 1993 approximate $42 million. New contracts to replace expiring ones are expected to be entered into in the normal course of business.

At December 31, 1992, HECO and its subsidiaries had purchase commitments other than fuel and power purchase contracts amounting to approximately $91 million.

***Power purchase agreements.*** HECO currently has three major power purchase agreements. In general, HECO's payments under these power purchase agreements are based upon available capacity and energy. Payments for capacity generally are not required if the contracted capacity is not available, and payments are reduced, under certain conditions, if available capacity drops below contracted levels. In general, the payment rates for capacity have been predetermined for the terms of the agreements. The energy charges will vary over the terms of the agreements and HECO may pass on changes in the fuel component of the energy charges to customers through fuel price adjustment clauses in its rate schedules. HECO does not operate nor does it participate in the operation of any of the facilities that provide power under the three agreements. Title to the facilities does not pass to HECO upon expiration of the agreements, and the agreements do not contain bargain purchase options with respect to the facilities.

The PUC has approved and allowed rate recovery for the costs related to HECO's three major power purchase agreements, which provide a total of 406 megawatts (MW) of firm capacity, representing 24% of HECO's total generating capability on the island of Oahu as of December 31, 1992. Assuming that the minimum availability criteria in the power purchase agreements are met, aggregate fixed capacity charges under the three major agreements are expected to be between approximately $91 million and $96 million annually from 1993 through 2015, $71 million in 2016, between $54 million and $59 million annually from 2017 through 2021, and $39 million in 2022.

As of December 31, 1992, HELCO and MECO had power purchase agreements for 28 MW and 20 MW of firm capacity, respectively, representing 15% and 10% of their respective generating capabilities. Assuming that the minimum availability criteria in these power purchase agreements are met, aggregate fixed capacity charges are expected to be approximately $5 million annually from 1993 through 1997, $4 million in 1998 and 1999 and $2 million annually from 2000 through 2002. HELCO also has a power purchase agreement for 25 MW of firm capacity with Puna Geothermal Ventures, which entity has experienced delays and has not yet commenced commercial operations.

***HECO power outage.*** On April 9, 1991, HECO experienced a power outage that affected all customers on the island of Oahu. One major transmission line was de-energized for routine maintenance when two major transmission lines tripped, causing another major transmission line to become overloaded and automatically trip. An island-wide power outage resulted, but power was restored over the next 12 hours.

The PUC initiated an investigation of the outage by its order dated April 16, 1991. This investigation was consolidated with a pending investigation of an outage that occurred in 1988. The PUC held a hearing on the April 9, 1991 outage in May 1991, and it is expected that further hearings will be held at a later time. In July 1991, HECO filed a report of its internal investigative task force with the PUC. The report indicated that the results of the investigation were inconclusive with respect to why one of the major lines tripped and recommended actions to strengthen system reliability. The parties to the investigation (HECO, Consumer Advocate of the State of Hawaii and United States Department of Defense) agreed that HECO should retain an independent consultant to investigate the cause of the line trip. By an order dated October 23, 1991, the PUC approved HECO's retention of Power Technologies, Inc. (PTI) and directed that the objectives of the study be to assess the reliability and overall stability of HECO's electric power system, to identify possible weaknesses, deficiencies and conditions within the system that contributed to the island-wide power outage, and to recommend a plan to increase the reliability of HECO's system and minimize the occurrence of future island-wide outages.

In its order, the PUC also stated that: "[n]either the [PUC] nor HECO nor any of the other parties to this docket is bound by PTI's report or analysis or is precluded from retaining other consultants." PTI's report is expected in the first quarter of 1993. Management cannot predict the timing and outcome of any decision and order to be issued by the PUC with respect to the outages.

HECO's PUC-approved tariff rule states that "[t]he Company will not be liable for interruption or insufficiency of supply or any loss, cost, damage or expense of any nature whatsoever, occasioned thereby if caused by accident, storm, fire, strikes, riots, war or any cause not within the Company's control through the exercise of reasonable diligence and care." Under the rule, customers had 30 days from the date of the power outage to file claims. HECO has approximately 2,900 open customer claims which are estimated to total approximately $7 million.

On April 19, 1991, seven direct or indirect business customers on the island of Oahu filed a lawsuit against HECO on behalf of themselves and an alleged class, claiming $75 million in compensatory damages and additional unspecified amounts for punitive damages because of the April 9, 1991 outage. On May 30, 1991, HECO filed an answer which denies the principal allegations in the complaint, sets forth affirmative defenses, and asserts that the suit should not be maintained as a class action. Plaintiff's pre-trial statement is due on or before March 1, 1993. HECO has commenced preliminary discovery proceedings. No trial date has been set.

A reserve equal to the deductible limits with respect to HECO's insurance coverage has been recorded. In the opinion of management, losses (if any), net of estimated insurance recoveries, resulting from the ultimate outcome of the lawsuit and claims related to the April 9, 1991 outage will not have a material adverse effect upon the consolidated financial condition of the Company.

***HELCO reliability investigation.*** In July 1991, following service interruptions and rolling blackouts instituted on the island of Hawaii, the PUC issued an order calling for an investigation into the reliability of HELCO's system. An evidentiary hearing was held in September 1991 and public hearings were held in October 1991.

In light of subsequent rolling blackouts and service interruptions resulting from insufficient generation margin, further evidentiary hearings were held in July 1992. In compliance with the PUC order at the conclusion of such hearings, HELCO submitted to the PUC in August 1992 additional information, memoranda addressing issues raised by the PUC and the proposed scope of HELCO's system reliability study to be performed by an independent consultant. With the input from the independent consultant, the PUC may formulate minimum reliability standards for HELCO, use the standards to assess HELCO's system reliability, and re-examine the rate increase approved on October 2, 1992. The PUC may adjust such rate increase if it deems appropriate after assessing HELCO's system reliability.

In the opinion of management, the PUC's adjustment, if any, of HELCO's rate increase resulting from the reliability investigation will not have a material adverse effect upon the consolidated results of operations of the Company.

**Change in accounting estimate.** In September 1991, HECO and its subsidiaries revised the method of estimating unbilled kilowatthour sales and revenues. The revised method should result in more accurate estimates. The effect of this change in accounting estimate resulted in a nonrecurring increase in HECO and its subsidiaries' net income of $3.8 million for 1991, or $0.17 per HEI common share.

## 5 • Savings bank subsidiary

In the second quarter of 1992, HEI changed its method of billing corporate-level expenses to ASB. Under the new billing procedure, only certain direct charges, rather than fully-allocated costs, are billed to ASB. However, no change was made by HEI in the manner in which corporate-level expenses are allocated for segment reporting purposes. Thus, operating income for the savings bank segment differs from the operating income reported in the separate financial statements of ASB for the year ended December 31, 1992 because of corporate-level expenses allocated to the segment which have not been billed. Also, because of the change in intercompany billing practice, net income of ASB shown below for the year ended December 31, 1992 is $1.0 million greater than it would have been had the billing practice used in prior years been consistently followed.

American Savings Bank, F.S.B. and subsidiaries
Selected consolidated financial information

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Income statement data** | | | |
| Interest income | $192,644 | $189,072 | $171,244 |
| Interest expense | 114,748 | 124,840 | 118,776 |
| Net interest income | 77,896 | 64,232 | 52,468 |
| Provision for loan losses | (1,494) | (641) | (628) |
| Other income | 10,351 | 9,704 | 9,269 |
| Operating, administrative and general expenses | (53,915) | (48,080) | (39,067) |
| Operating income | 32,838 | 25,215 | 22,042 |
| Income taxes | 13,280 | 10,224 | 9,073 |
| Net income | $ 19,558 | $ 14,991 | $ 12,969 |

| (in thousands) | December 31, 1992 | 1991 |
|---|---|---|
| **Balance sheet data** | | |
| **Assets** | | |
| Cash and equivalents | $ 117,937 | $ 55,163 |
| Investment securities | 58,524 | 59,414 |
| Mortgage-backed securities | 709,891 | 802,430 |
| Loans receivable, net | 1,462,888 | 1,148,626 |
| Other | 61,451 | 55,476 |
| Goodwill and other intangibles | 51,003 | 54,680 |
| | $2,461,694 | $2,175,789 |
| **Liabilities and equity** | | |
| Deposit liabilities | $2,032,869 | $ 1,615,361 |
| Securities sold under agreements to repurchase | 27,223 | 131,018 |
| Advances from Federal Home Loan Bank | 194,099 | 258,593 |
| Other | 35,504 | 32,809 |
| Total liabilities | 2,289,695 | 2,037,781 |
| Common stock equity | 171,999 | 138,008 |
| | $2,461,694 | $2,175,789 |

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| **Cash flow data** | | | |
| **Cash flows from operating activities** | | | |
| Net income | $ 19,558 | $ 14,991 | $ 12,969 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Decrease (increase) in accounts receivable | 1,461 | 3,424 | (6,237) |
| Increase in other securities held for trading | (9,161) | (13,876) | — |
| Increase (decrease) in accounts payable | 237 | 2,003 | (1,136) |
| Other | (1,360) | 7,405 | (2,909) |
| **Net cash provided by operating activities** | 10,735 | 13,947 | 2,687 |
| **Cash flows from investing activities** | | | |
| Loans receivable originated and purchased | (585,292) | (379,445) | (365,109) |
| Principal repayments on loans receivable | 268,672 | 164,848 | 147,745 |
| Proceeds from sale of loans receivable | 5,208 | 6,271 | 9,637 |
| Mortgage-backed securities purchased | (216,289) | (169,276) | (236,198) |
| Principal repayments on mortgage-backed securities | 307,364 | 162,269 | 89,016 |
| Proceeds from sale of mortgage-backed securities | — | 29,543 | 19,663 |
| Other | 7,178 | (71) | 8,328 |
| **Net cash used in investing activities** | (213,159) | (185,861) | (326,918) |
| **Cash flows from financing activities** | | | |
| Net increase in deposit liabilities | 417,508 | 104,070 | 170,014 |
| Proceeds from assumption of deposit liabilities | — | — | 238,967 |
| Proceeds from securities sold under agreements to repurchase | 43,000 | 235,307 | 278,206 |
| Repurchase of securities sold under agreements to repurchase | (145,200) | (242,876) | (262,777) |
| Proceeds from advances from Federal Home Loan Bank | 32,900 | 178,860 | 326,239 |
| Principal payments on advances from Federal Home Loan Bank | (97,400) | (126,000) | (374,100) |
| Other | 14,390 | (21,347) | (7,942) |
| **Net cash provided by financing activities** | 265,198 | 128,014 | 368,607 |
| Net increase (decrease) in cash and equivalents | 62,774 | (43,900) | 44,376 |
| Cash and equivalents, beginning of year | 55,163 | 99,063 | 54,687 |
| Cash and equivalents, end of year | $ 117,937 | $ 55,163 | $ 99,063 |

**Mortgage-backed securities.** The weighted average interest rate of mortgage-backed securities at December 31, 1992 and 1991 was 7.60% and 8.72%, respectively.

Mortgage-backed securities with a carrying value of approximately $88 million and $75 million at December 31, 1992 and 1991, respectively, were pledged as collateral to secure deposits and other liabilities. At December 31, 1992 and 1991, mortgage-backed securities sold under agreements to repurchase had a carrying value of $33 million and $140 million, respectively.

**Loans receivable.** Loans receivable consisted of the following:

| | December 31, | |
|---|---|---|
| (in thousands) | 1992 | 1991 |
| Real estate loans | | |
| Conventional | $1,294,769 | $ 976,004 |
| Construction and development | 33,123 | 24,978 |
| Troubled debt restructurings | 8,945 | 180 |
| | 1,336,837 | 1,001,162 |
| Loans secured by savings deposits | 15,013 | 15,528 |
| Consumer loans | 134,943 | 144,356 |
| Commercial loans | 21,830 | 22,998 |
| | 1,508,623 | 1,184,044 |
| Undisbursed portion of loans in process | (20,008) | (15,290) |
| Deferred fees and discounts, including net purchase accounting discounts | (20,570) | (16,310) |
| Allowance for loan losses | (5,157) | (3,818) |
| | $1,462,888 | $1,148,626 |

At December 31, 1992 and 1991, the weighted average interest rate for loans receivable was 8.47% and 9.71%, respectively.

Nonaccrual and renegotiated loans were $14 million and $1 million at December 31, 1992 and 1991, respectively. Interest income of $0.8 million realized on nonaccrual loans in 1992 was $0.4 million lower than would have been reported had these loans earned interest in accordance with their original contractual terms. Comparable amounts for 1991 and 1990 were insignificant.

At December 31, 1992 and 1991, real estate loans with unpaid principal balances of approximately $233 million and $310 million, respectively, were pledged as collateral to secure advances from the Federal Home Loan Bank.

The Bank services real estate loans ($311 million, $487 million and $571 million at December 31, 1992, 1991 and 1990, respectively) which are not included in the accompanying consolidated financial statements. Fees earned for servicing loans are reported as income when the related mortgage loan payments are collected. Loan servicing costs are charged to expense as incurred.

Mortgage loan commitments of approximately $64 million are not reflected on the balance sheet as of December 31, 1992. Of such commitments, $20 million were for variable-rate mortgage loans and $44 million were for fixed-rate mortgage loans.

**Allowance for loan losses.** For the years ended December 31, 1992, 1991 and 1990, net charge-offs amounted to $0.2 million. The ratio of net charge-offs to average loans outstanding was 0.01% for the year ended December 31, 1992 and 0.02% for the years ended December 31, 1991 and 1990.

**Real estate acquired in settlement of loans.** At December 31, 1992, ASB had real estate acquired in settlement of loans of $2 million. At December 31, 1991, ASB had no real estate acquired in settlement of loans.

**Deposit liabilities.** Deposit liabilities consisted of the following:

| (dollars in thousands) | December 31, 1992 Weighted average rate | 1992 Amount | 1991 Weighted average rate | 1991 Amount |
|---|---|---|---|---|
| Commercial checking | —% | $ 19,060 | —% | $ 11,000 |
| Interest-bearing checking | 3.25 | 278,366 | 5.25 | 182,413 |
| Passbook | 3.97 | 969,222 | 5.40 | 422,370 |
| Money market | 3.65 | 131,774 | 5.58 | 182,108 |
| Term certificates | 4.93 | 634,447 | 6.56 | 817,470 |
| | 4.11% | $2,032,869 | 5.95% | $1,615,361 |

At December 31, 1992 and 1991, deposit accounts of $100,000 or more were $465 million and $329 million, respectively.

The approximate scheduled maturities of term certificates outstanding at December 31, 1992 were $501 million in 1993, $73 million in 1994, $18 million in 1995, $5 million in 1996, $5 million in 1997 and $32 million in subsequent years.

The interest expense on savings deposits by type of deposit was as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Interest-bearing checking | $ 9,982 | $ 8,575 | $ 6,354 |
| Passbook | 34,645 | 20,266 | 16,993 |
| Money market | 6,447 | 9,845 | 6,569 |
| Term certificates | 43,265 | 60,356 | 56,213 |
| | $94,339 | $99,042 | $86,129 |

**Securities sold under agreements to repurchase.** At December 31, 1992 and 1991, securities sold under agreements to repurchase consisted of mortgage-backed securities sold under fixed-coupon agreements. Other than Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities, the securities underlying the agreements were delivered to the brokers/dealers who arranged the transactions. The FHLMC mortgage-backed securities are book-entry securities and were delivered by appropriate entry into the counterparties' account at the Federal Reserve System. At December 31, 1992 and 1991, the $33 million and $140 million carrying value of securities underlying the agreements, respectively, and accrued interest of approximately $2 million at December 31, 1991, remained in ASB's asset accounts. The obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets. At December 31, 1992 and 1991, approximately $27 million and $131 million, respectively, of agreements to repurchase identical securities were outstanding. At December 31, 1992 and 1991, the weighted average interest rate on securities sold under agreements to repurchase was 3.34% and 5.78%, respectively, and the weighted average remaining days to maturity were 270 days and 146 days, respectively. Securities sold under agreements to repurchase averaged $66 million, $124 million and $151 million during 1992, 1991 and 1990, respectively, and the maximum amount outstanding at any month-end during 1992, 1991 and 1990 was $125 million, $136 million and $169 million, respectively.

**Advances from Federal Home Loan Bank.** Advances from the Federal Home Loan Bank (FHLB), secured by real estate loans and stock in the FHLB, are summarized as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 1992 | | 1991 | |
| (dollars in thousands) | Weighted average rate | Amount | Weighted average rate | Amount |
| 1992 | —% | $ — | 7.57% | $ 66,494 |
| 1993 | 8.57 | 21,917 | 8.57 | 21,917 |
| 1994 | 6.94 | 62,000 | 7.60 | 60,000 |
| 1995 | 8.33 | 16,822 | 8.33 | 16,822 |
| 1996 | 7.48 | 52,860 | 7.48 | 52,860 |
| 1997 | 6.95 | 40,500 | 6.95 | 40,500 |
| | 7.39% | $194,099 | 7.60% | $258,593 |

ASB is required to own a specific number of shares of capital stock of the FHLB of Seattle and is required to maintain cash and investments in U.S. Government and other qualifying securities in an amount equal to 5% of the amount of its savings accounts and other obligations due within one year.

**Common stock equity.** OTS regulations require each thrift institution to have regulatory capital at least sufficient to meet three requirements: tangible capital and core (leverage) capital of 1.5% and 3.0%, respectively, of adjusted total assets, and a risk-based capital standard equal to 8.0% of risk-adjusted assets. As of December 31, 1992, ASB was in full compliance with all of the minimum capital requirements.

## 6 • Real estate subsidiary

At December 31, 1992 and 1991, MPC and its subsidiaries' total real estate project inventory and equity investment in real estate joint ventures amounted to $39 million and $16 million, respectively. Additionally, MPC and its subsidiaries have extended loans to the joint ventures with outstanding balances totaling $1 million and $20 million at December 31, 1992 and 1991, respectively.

On August 17, 1992, Malama Mohala Corp. (MMO), a wholly owned subsidiary of MPC, acquired MDT BF Limited Partnership's (MDT) 50% interest in Ainalani Associates (Ainalani), a joint venture between MMO and MDT. The consideration for the transfer will be determined by arbitration. MMO plans to complete the development and sale of Ainalani's three projects on the islands of Maui and Hawaii and has assumed Ainalani's 50% partnership interest in Palailai Associates, a partnership with Palailai Holdings, Inc.

**Related party transactions.** Two of MPC's joint ventures involve partnerships in which a director of the Company has significant interests. Another director of the Company has a significant interest in MDT, MMO's former partner in Ainalani. One of MPC's joint ventures involves a corporate partner in which the family of an officer of the Company has a significant interest. Investments in joint ventures with related parties aggregated $21 million as of December 31, 1992. Loans to and investments in joint ventures with related parties aggregated $28 million as of December 31, 1991.

**Commitments and contingencies.** At December 31, 1992, MPC or its subsidiaries were directly liable for $9.7 million of outstanding construction loans and had additional construction loan facilities of $0.8 million. In addition, at December 31, 1992, MPC or its subsidiaries had issued (i) guaranties under which they were jointly and severally contingently liable with their joint venture partners for $10.5 million of outstanding construction loans and $3.8 million of additional undrawn construction loan facilities, and (ii) payment guaranties under which MPC or its subsidiaries were severally contingently liable for $7.8 million of outstanding construction loans and $1.6 million of additional undrawn construction loan facilities. In total, MPC or its subsidiaries were liable or contingently liable for $28.0 million of outstanding construction loans and $6.2 million in undrawn construction loan facilities. At December 31, 1992, HEI had agreed with the lenders for approximately $41.2 million of the construction loans and loan facilities, of which approximately $25.9 million was outstanding, that it will maintain ownership of 100% of the stock of MPC and that it intends, subject to good and prudent business practices, to keep MPC financially sound and responsible to meet its obligations as guarantor. MPC or its subsidiaries may enter into additional commitments in connection with the financing of future phases of development of MPC's projects and HEI may enter into similar agreements regarding the ownership and financial condition of MPC.

## 7 • Investments

Marketable securities consisted of the following:

| (in thousands) | December 31, 1992 Carrying value | 1992 Estimated market value | 1991 Carrying value | 1991 Estimated market value |
|---|---|---|---|---|
| Savings bank | | | | |
| Mortgage-backed and other debt securities | $748,221 | $765,732 | $843,912 | $875,798 |
| Stock in Federal Home Loan Bank of Seattle | 20,194 | 20,194 | 17,932 | 17,932 |
| Other | | | | |
| Corporate preferred stock subject to mandatory redemption | — | — | 3,000 | 3,000 |
| | $768,415 | $785,926 | $864,844 | $896,730 |

The amortized cost and estimated market values of ASB's mortgage-backed and other debt securities were as follows:

| (in thousands) | 1992 Amortized cost | 1992 Gross unrealized gains | 1992 Gross unrealized losses | 1992 Estimated market value | 1991 Amortized cost | 1991 Gross unrealized gains | 1991 Gross unrealized losses | 1991 Estimated market value |
|---|---|---|---|---|---|---|---|---|
| Mortgage-backed securities held for investment | | | | | | | | |
| Federal Home Loan Mortgage Corporation | $182,670 | $12,378 | $ — | $195,048 | $259,597 | $18,188 | $ — | $277,785 |
| Private issue | 491,566 | 4,090 | (1,472) | 494,184 | 506,702 | 9,901 | (105) | 516,498 |
| Government National Mortgage Association | 22,488 | 1,030 | (106) | 23,412 | 14,315 | 1,306 | — | 15,621 |
| Federal National Mortgage Association | 13,167 | 1,100 | — | 14,267 | 21,816 | 1,658 | — | 23,474 |
| U.S. Government and federal agencies securities held for investment | 15,293 | 491 | — | 15,784 | 27,606 | 938 | — | 28,544 |
| Other securities held for trading | 23,037 | — | — | 23,037 | 13,876 | — | — | 13,876 |
| | $748,221 | $19,089 | $(1,578) | $765,732 | $843,912 | $31,991 | $(105) | $875,798 |

At December 31, 1992, ASB's U.S. Government and federal agencies debt securities held for investment are contractually due in one year or less. Contractual maturities are not presented for ASB's mortgage-backed securities held for investment because these securities are not due at a single maturity date.

There were no sales of mortgage-backed securities held for investment in 1992. Proceeds from the sale of mortgage-backed securities held for investment were approximately $30 million and $20 million for 1991 and 1990, respectively. The proceeds on the sale of individual mortgage-backed securities held for investment in 1991 and 1990 approximated the carrying values for those securities. There were no sales of ASB's other debt securities held for investment during 1992, 1991 and 1990.

Other investments, which have no ready market, consisted of the following:

| (in thousands) | December 31, 1992 | 1991 |
|---|---|---|
| Leveraged leases (see Note 8) | $51,202 | $50,340 |
| Real estate joint venture interests | 24,796 | 15,867 |
| Other | 5,976 | 5,828 |
| | $ 81,974 | $ 72,035 |

Realized gains and losses from the sale and writedown of investments, excluding ASB's investments were not material in 1992 and 1991. Net realized losses were $13 million in 1990. The net realized losses in 1990 were primarily attributable to HEIIC's write-off of its $5.9 million investment ($5.0 million after-tax write-off) in Ocean Farms of Hawaii and writedown of its preferred stock portfolio by $6.7 million for which no income tax benefit was recognized.

## 8 • Investment in leveraged leases

HEIIC owns commercial real estate which is subject to several leveraged lease agreements entered into in 1987. The initial lease terms expire in 2009 and 2010, after which the lessees have options to renew the leases at fixed rentals for additional periods of up to 28 years. The real estate reverts back to HEIIC at the end of the last renewal term if not purchased by the lessees.

HEIIC has a 25% interest in a leveraged lease agreement entered into in 1985 under which 60% of an 818-megawatt coal-fired generating unit was leased until 2013. The lessee has options to renew the lease at fixed rentals for at least 8.5 additional years, and thereafter at fair market rentals.

HEIIC's net investment in leveraged leases was as follows:

| | December 31, | |
|---|---|---|
| (in thousands) | 1992 | 1991 |
| Rentals receivable, net of principal and interest on nonrecourse debt | $ 49,055 | $ 49,441 |
| Estimated residual value of leased assets | 35,268 | 35,268 |
| Less unearned income | (33,121) | (34,369) |
| Investment in leveraged leases | 51,202 | 50,340 |
| Less deferred taxes arising from leveraged leases | (44,928) | (43,480) |
| | $ 6,274 | $ 6,860 |

## 9 • Property, plant and equipment

Property, plant and equipment consisted of the following:

| | December 31, | |
|---|---|---|
| (in thousands) | 1992 | 1991 |
| Land | $ 35,646 | $ 33,331 |
| Plant and equipment | 1,858,150 | 1,668,945 |
| Construction in progress | 109,116 | 117,505 |
| | 2,002,912 | 1,819,781 |
| Less—accumulated depreciation | (615,084) | (561,638) |
| | $1,387,828 | $1,258,143 |

## 10 • Short-term borrowings

Short-term borrowings at December 31, 1992 consisted of a bank loan and commercial paper. Short-term borrowings at December 31, 1991 consisted of commercial paper.

HEI maintained bank lines of credit which totaled $30 million and $35 million at December 31, 1992 and 1991, respectively. HECO maintained bank lines of credit which totaled $135 million and $55 million at December 31, 1992 and 1991, respectively. The HEI and HECO lines of credit support the issuance of commercial paper. There were no borrowings against any line of credit during 1992 and 1991.

## 11 • Long-term debt

Long-term debt consisted of the following:

| (dollars in thousands) | December 31, 1992 | 1991 |
|---|---|---|
| First mortgage bonds | | |
| 4.45–6.875%, due in various years through 1997 | $ 40,850 | $ 40,860 |
| 7.625–10.75%, due in various years through 2016 | 100,000 | 123,000 |
| | 140,850 | 163,860 |
| Obligations to the State of Hawaii for the repayment of special purpose revenue bonds issued on behalf of electric utility subsidiaries | | |
| 6.875% refunding series 1987, due 2012 | 57,500 | 57,500 |
| 7.2% series 1984, due 2014 | 11,400 | 11,400 |
| 7.625% series 1988, due 2018 | 50,000 | 50,000 |
| 7.35–7.6% series 1990, due 2020 | 100,000 | 100,000 |
| 6.55% series 1992, due 2022 | 60,000 | — |
| | 278,900 | 218,900 |
| Less funds on deposit with trustees | (44,993) | (18,123) |
| | 233,907 | 200,777 |
| Promissory notes | | |
| 7.59–9.9%, due in various years through 2011 | 148,500 | 139,000 |
| 5.334–7.25%, due in various years through 1997 | 59,140 | 1,500 |
| Variable rate, paid in 1992 | — | 20,000 |
| Other | 78 | 504 |
| | 207,718 | 161,004 |
| | $582,475 | $525,641 |

The first mortgage bonds are secured by indentures which purport to be liens on substantially all of the real and personal property now owned or hereafter acquired by the respective electric utility subsidiaries.

In October 1992, HEI issued $50 million of senior unsecured debt comprised of a $30 million 6.262% note and a $20 million 6.42% note, both due in October 1997.

In March 1991 and December 1991, HEI issued $35 million and $50 million, respectively, of senior unsecured debt. The $35 million issuance is comprised of a $25 million 8.375% note due in 1994 and a $10 million 8.92% note due in 1996. The $50 million issuance is comprised of $26 million 7.59% notes due in 1996, a $2 million 8.20% note due in 1999 and $22 million 8.52% notes due in 2001.

During 1992 and 1990, $60 million and $100 million, respectively, of fixed rate, tax-exempt special purpose revenue bonds were issued by the Department of Budget and Finance of the State of Hawaii on behalf of the electric utility subsidiaries. The funds on deposit with trustees represent the undrawn proceeds from the issuance of the special purpose revenue bonds and earn interest at market rates. These funds are only available to the electric utility subsidiaries for certain authorized construction projects and certain expenses related to the bonds.

At December 31, 1992, the aggregate payments of principal required on long-term debt during the next five years are $28 million in 1993, $27 million in 1994, $33 million in 1995, $38 million in 1996 and $65 million in 1997.

## 12 • Capital stock

Changes to common stock were as follows:

| (in thousands) | 1992 Shares | 1992 Common stock | 1991 Shares | 1991 Common stock | 1990 Shares | 1990 Common stock |
|---|---|---|---|---|---|---|
| Balance, beginning of year | 23,867 | $ 376,783 | 21,918 | $ 310,257 | 21,266 | $289,590 |
| Issuance of common stock | | | | | | |
| Public offering | — | — | 1,200 | 41,250 | — | — |
| Dividend reinvestment and stock purchase plan | 703 | 27,102 | 652 | 22,476 | 516 | 16,551 |
| HEI retirement savings and other plans | 192 | 6,822 | 97 | 3,145 | 136 | 4,549 |
| Expenses and other | — | (1,450) | — | (345) | — | (433) |
| Balance, end of year | 24,762 | $409,257 | 23,867 | $376,783 | 21,918 | $ 310,257 |

At December 31, 1992, the Company had reserved a total of 2,504,000 shares of common stock for issuance under the HEI retirement savings plan, the dividend reinvestment and stock purchase plan, and the stock option and incentive plan.

At December 31, 1992 and 1991, 10,000,000 shares of HEI cumulative preferred stock without par value were authorized but not issued.

## 13 • Interest expense

Interest expense, including amounts capitalized as allowance for borrowed funds used during construction, consisted of the following:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Interest expense | | | |
| Savings bank | $114,606 | $124,532 | $118,503 |
| Electric utility | 33,011 | 33,248 | 30,874 |
| Other | 14,130 | 10,273 | 10,391 |
| | $ 161,747 | $168,053 | $ 159,768 |

## 14 • Income taxes

The components of income taxes were as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Federal | | | |
| Current | $32,425 | $21,950 | $36,345 |
| Deferred | (7,085) | 5,942 | (9,394) |
| Deferred tax credits, net | (1,777) | (1,771) | (1,787) |
| | 23,563 | 26,121 | 25,164 |
| State | | | |
| Current | 1,634 | 2,927 | 3,550 |
| Deferred | (332) | 1,467 | (1,043) |
| Deferred tax credits, net | 4,664 | 1,818 | 3,522 |
| | 5,966 | 6,212 | 6,029 |
| | $29,529 | $32,333 | $ 31,193 |

Deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of timing differences and the related deferred tax amounts were as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Excess of tax pension deduction over book expense | $ (47) | $ 2,984 | $ — |
| Excess of tax depreciation over book straight-line depreciation rates | 2,977 | 3,218 | 2,819 |
| Excess tax deductions from leveraged leases | 2,099 | 2,676 | 2,305 |
| Contributions in aid of construction and customer advances, net | (6,095) | (2,773) | (10,611) |
| Gain on sale of land interest deferred for book purposes | (4,737) | — | — |
| Interest capitalized for tax purposes | (3,347) | (1,967) | (2,189) |
| Unbilled revenues at December 31, 1986 amortized for tax purposes | — | — | (2,081) |
| Other | 1,733 | 3,271 | (680) |
| | $ (7,417) | $ 7,409 | $ (10,437) |

At December 31, 1992, deferred income taxes of approximately $6 million (at current tax rates) were not provided for cumulative net timing differences related to electric utility operations. It is expected that these taxes will be recovered through future utility rates.

A reconciliation of the amount of income taxes computed at the 34% federal statutory rate to income taxes provided in the Company's Consolidated Statements of Income is as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Amount at the federal tax rate | $31,023 | $29,904 | $25,190 |
| Preferred stock dividends of electric utility subsidiaries | 2,281 | 2,342 | 2,397 |
| Allowance for funds used during construction | (2,375) | (1,403) | (1,584) |
| State income taxes, net of effect on federal income taxes | 3,938 | 4,100 | 3,979 |
| Difference between book and tax straight-line depreciation for which no deferred taxes were provided | 3,015 | 2,676 | 2,185 |
| Amortization of deferred tax credits | (1,776) | (1,787) | (1,829) |
| Amortization of utility deferred income taxes in excess of current rates | (1,675) | (1,537) | (1,893) |
| Amortization of contributions in aid of construction | (1,658) | (1,476) | (1,132) |
| Utilization of capital loss carryforwards | (3,317) | (481) | (129) |
| Writedown of capital assets for which no tax benefit was recognized | — | — | 3,885 |
| Other | 73 | (5) | 124 |
| | $29,529 | $32,333 | $ 31,193 |

At December 31, 1992, for financial statement purposes the Company had capital loss carryforwards of $2 million arising from the investment writedowns in 1990. For income tax purposes, these loss carryforwards also totaled $2 million and will expire if not used by 1996.

In February 1992, the Financial Accounting Standards Board (FASB) issued SFAS No. 109, "Accounting for Income Taxes." The new standard requires companies to use the asset and liability method of accounting for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company adopted the provisions of SFAS No. 109 on January 1, 1993 and recorded a cumulative adjustment which was not material.

## 15 • Cash flows

**Supplemental disclosures of cash flow information.** Cash paid for interest (net of capitalized amounts which were not material) and income taxes was as follows:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Interest (including interest paid by savings bank, but excluding interest paid on nonrecourse debt from leveraged leases) | $158,553 | $169,092 | $156,530 |
| Income taxes | $ 29,162 | $ 28,810 | $ 31,781 |

In 1992, 1991 and 1990, cash paid for interest on nonrecourse debt from leveraged leases amounted to $11 million.

**Supplemental disclosures of noncash activities.** As described in Note 6, on August 17, 1992, MMO, a wholly owned subsidiary of MPC, acquired MDT's 50% interest in Ainalani, a joint venture between MMO and MDT. Upon closing of the purchase, Ainalani was dissolved. The consideration for the transfer will be determined by arbitration, based primarily on the net present value of MDT's partnership interest in Ainalani as of June 30, 1992. Pursuant to the terms of the purchase agreement, the arbitration must be concluded by March 31, 1993. Thus, as of December 31, 1992, MMO had made no payment to MDT for MDT's 50% interest in Ainalani. Prior to the acquisition of MDT's interest in Ainalani, MMO accounted for its investment in Ainalani under the equity method. Subsequent to the acquisition, MMO consolidated all of Ainalani's assets and liabilities, which constituted less than 1% of the total consolidated assets and liabilities, respectively, of HEI and its subsidiaries.

ASB exchanged approximately $65 million of loans receivable for mortgage-backed securities in 1990. In 1992 and 1991, ASB did not exchange loans receivable for mortgage-backed securities.

Common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to $15 million in 1992, $14 million in 1991 and $10 million in 1990.

The allowance for equity funds used during construction, which was capitalized as part of the cost of electric utility plant, amounted to $7 million, $4 million and $5 million in 1992, 1991 and 1990, respectively.

## 16 • Stock option and incentive plan

Under the 1987 Stock Option and Incentive Plan, as amended, an aggregate of 1,250,000 shares of common stock may be issued to officers and key employees as incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights, stock payments or dividend equivalents.

For options granted to date, the purchase price of common stock was based on the market value of the common stock on or near the date of grant. Options may be exercised as determined by the Compensation Committee of the Board of Directors, but in no event after 10 years from the date of grant in the case of incentive stock options or after 10 years and one day from the date of grant in the case of nonqualified stock options.

Nonqualified stock option transactions were as follows:

| | 1992 | 1991 | 1990 |
|---|---|---|---|
| Options outstanding, beginning of year | 227,500 | 152,500 | 98,500 |
| Granted | 209,000 | 98,500 | 56,500 |
| Exercised | (75,625) | (20,500) | (2,500) |
| Canceled | (2,500) | (3,000) | — |
| Options outstanding, end of year | 358,375 | 227,500 | 152,500 |
| Options exercisable, December 31 | 187,750 | 92,750 | 46,500 |
| Price range for options | | | |
| Exercised | | | |
| High | $36 | $33 | $33 |
| Low | 27 | 27 | 33 |
| Outstanding, December 31 | | | |
| High | 41 | 36 | 36 |
| Low | 30 | 27 | 27 |

The Company has several defined benefit pension plans which cover substantially all employees. Benefits are based on the employees' years of service and base compensation.

The funded status of the pension plans and the amounts recognized in the consolidated financial statements were as follows:

| | December 31, | |
|---|---|---|
| (in thousands) | 1992 | 1991 |
| Accumulated benefit obligation | | |
| Vested | $ 241,834 | $227,701 |
| Nonvested | 30,774 | 29,994 |
| | $272,608 | $257,695 |
| Projected benefit obligation | $ 336,617 | $318,432 |
| Plan assets at fair value, primarily equity securities and fixed income investments | 351,589 | 353,690 |
| Plan assets in excess of projected benefit obligation | (14,972) | (35,258) |
| Unrecognized prior service cost | (2,666) | (1,153) |
| Unrecognized net gain | 44,542 | 65,876 |
| Unrecognized net transition obligation | (24,657) | (27,051) |
| Adjustment required to recognize minimum liability | 1,162 | 1,015 |
| Accrued pension liability | $ 3,409 | $ 3,429 |

The accumulated benefit obligation is the actuarial present value of benefits attributed to past services rendered by employees based on recent pay levels. The projected benefit obligation is the accumulated benefit obligation adjusted for the effect of assumed future pay increases. Plans with an accumulated benefit obligation exceeding assets were not material.

Net periodic pension cost included the following components:

| (in thousands) | 1992 | 1991 | 1990 |
|---|---|---|---|
| Service cost—benefits earned during the period | $ 10,358 | $ 9,518 | $ 9,212 |
| Interest cost on projected benefit obligation | 27,401 | 24,741 | 23,090 |
| Actual loss (return) on plan assets | (14,050) | (73,139) | 5,168 |
| Net amortization and deferral | (5,721) | 55,043 | (22,671) |
| | $ 17,988 | $ 16,163 | $ 14,799 |

Of these net periodic pension costs, $12 million, $11 million and $11 million were expensed in 1992, 1991 and 1990, respectively, and the remaining amounts were charged primarily to electric utility plant and plant-related accounts.

For all pension plans, as of December 31, 1992 and 1991, the discount rate assumed in determining the actuarial present value of the projected benefit obligation was 8.5%. For 1992, 1991 and 1990, the expected long-term rate of return on assets was 8.0% and the assumed rate of increase in future compensation levels was 5%.

The unrecognized net transition obligation is the projected benefit obligation in excess of plan assets at January 1, 1987, less amounts amortized. For most of the plans, the unrecognized net transition obligation is being amortized over 16 years beginning in 1987.

Payments for postretirement benefits other than pensions amounted to $3 million in 1992, 1991 and 1990. Through December 31, 1992, the cost of these benefits has not been recognized until paid. Accordingly, no provision was made for future postretirement benefits other than pensions to retired employees.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires accrual, during the years that an employee renders the necessary service, of the expected cost of providing those benefits to that employee and the employee's beneficiaries and covered dependents. Effective January 1, 1993, the Company adopted the provisions of SFAS No. 106 and is recognizing the transition obligation on a delayed basis over 20 years. The transition obligation is estimated to be $141 million as of January 1, 1993. The annual pre-tax costs for postretirement benefits other than pensions are estimated to be approximately $20 million greater in 1993 under the provisions of SFAS No. 106 than under the pay-as-you-go method of accounting.

The PUC has opened a generic docket to determine whether SFAS No. 106 should be adopted for rate-making purposes. If SFAS No. 106 is adopted for rate-making purposes or if it is determined that the increase in expense under SFAS No. 106 gives rise to an offsetting regulatory asset under current PUC rate-making procedures, then the adoption of SFAS No. 106 for financial reporting purposes would not be expected to have a significant effect on 1993 and future results of operations. If SFAS No. 106 is not adopted for rate-making purposes on a timely basis and if under current accounting guidelines it is concluded that recognition of a regulatory asset would be inappropriate, then the adoption of SFAS No. 106 would result in a reduction in net earnings in 1993 and future years. On December 31, 1992, HECO, HELCO and MECO requested that the PUC authorize the companies to (1) defer the additional costs for postretirement benefits other than pensions not included in rates between January 1, 1993 and the effective date of the rate increases for such costs and (2) recover the deferred costs in rates. HECO has requested that a final decision and order on the generic docket be issued before March 31, 1993.

## 18 • Regulatory restrictions on net assets

At December 31, 1992, net assets (assets less liabilities) of approximately $420 million were not available for transfer to HEI from its subsidiaries in the form of dividends, loans or advances without regulatory approval. However, HEI expects that the regulatory restrictions will not materially affect the operations of the Company or its ability to pay dividends on its common stock.

## 19 • Significant group concentrations of credit risk

Substantially all of the Company's business activity is with customers located in the State of Hawaii. Most of the financial instruments reflected on the Consolidated Balance Sheets are based in the State of Hawaii, except for the mortgage-backed securities. Substantially all real estate loans receivable are secured by real estate in Hawaii.

At December 31, 1992, ASB's private-issue mortgage-backed securities represent whole or participating interests in pools of first mortgage loans collateralized by real estate in the continental United States. Approximately 87% of the portfolio is collateralized by real estate in California.

Substantially all private-issue mortgage-backed securities at December 31, 1992, are rated investment grade by various securities rating agencies.

## 20 • Disclosures about fair value of financial instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values for certain financial instruments.

The following methods and assumptions were used to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

**Cash and equivalents.** The carrying amount approximates fair value because of the short maturity of these instruments.

**Loans receivable.** For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities.

**Notes receivable from joint ventures.** Fair value is estimated by discounting the future cash flows using the current rates at which similar notes would be made for similar borrowers for similar remaining maturities.

**Marketable securities.** Fair value is based on quoted market prices or dealer quotes.

**Deposit liabilities.** Under SFAS No. 107, the fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

**Short-term borrowings.** The carrying amount approximates fair value because of the short maturity of these investments.

**Securities sold under agreements to repurchase.** Dealer quotes currently available to ASB for securities sold under agreements to repurchase with similar terms and remaining maturities are used to estimate fair value.

**Advances from Federal Home Loan Bank and long-term debt.** Fair value is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same or similar remaining maturities.

The estimated fair values of certain of the Company's financial instruments were as follows:

| | December 31, 1992 | |
|---|---|---|
| (in thousands) | Carrying amount | Estimated fair value |
| **Financial assets** | | |
| Cash and equivalents | $ 156,754 | $ 156,754 |
| Loans receivable, net | 1,462,888 | 1,504,930 |
| Notes receivable from joint ventures | 1,347 | 1,347 |
| Marketable securities | 768,415 | 785,926 |
| Other investments for which it is not practicable to estimate fair value[1] | 5,976 | N/A |
| **Financial liabilities** | | |
| Deposit liabilities | 2,032,869 | 2,038,552 |
| Short-term borrowings | 160,211 | 160,211 |
| Securities sold under agreements to repurchase | 27,223 | 27,272 |
| Advances from Federal Home Loan Bank | 194,099 | 205,154 |
| Long-term debt | 582,475 | 589,142 |
| **Off-balance sheet** | | |
| Commitments to extend credit[2] | | |
| Financial guarantees written[3] | | |

[1] At December 31, 1992, the other investments for which it is not practicable to estimate fair value consists primarily of an investment representing approximately 10% of the issued common stock of an untraded company; that investment is carried at its original cost of $5 million in the balance sheet. At December 31, 1991, the total assets reported by this company were $57 million and the common stockholders' equity was $54 million. For 1991, revenues were $2.2 million and net loss was $0.2 million.

[2] At December 31, 1992, neither the commitment fees received on commitments to extend credit nor the fair value thereof were significant to the consolidated financial statements of the Company.

[3] At December 31, 1992, MPC or its subsidiaries had issued guarantees of construction loans as described in Note 6. These guarantees relate to borrowings from third parties which bear interest at rates ranging from prime plus 0.75% to prime plus 1.25%. It is not practicable to estimate the fair value of these guarantees.

**Limitations.** Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include inventories, property, plant and equipment, goodwill, deferred income taxes, unamortized tax credits and contributions in aid of construction. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered.

## 21 • Quarterly information (unaudited)

Selected quarterly information was as follows:

| (in thousands, except per share amounts) | Quarter ended | | | | Year ended |
|---|---|---|---|---|---|
| 1992 | March 31 | June 30 | Sept. 30 | Dec. 31 | Dec. 31 |
| Revenues | $237,456 | $241,404 | $270,917 | $281,606 | $1,031,383 |
| Operating income | 31,644 | 33,511 | 37,301 | 33,763 | 136,219 |
| Net income (loss) | | | | | |
| Continuing operations | $ 13,183 | $ 15,513 | $ 16,552 | $ 16,467 | $ 61,715 |
| Discontinued operations | 809 | 228 | (53,479) | (20,855) | (73,297) |
| | $ 13,992 | $ 15,741 | $(36,927) | $ (4,388) | $ (11,582) |
| Earnings (loss) per common share[1] | | | | | |
| Continuing operations | $ 0.55 | $ 0.64 | $ 0.68 | $ 0.67 | $ 2.54 |
| Discontinued operations | 0.03 | 0.01 | (2.20) | (0.85) | (3.02) |
| | $ 0.58 | $ 0.65 | $ (1.52) | $ (0.18) | $ (0.48) |
| Dividends per common share[2] | $ 0.56 | $ 0.56 | $ 0.56 | $ 0.57 | $ 2.25 |
| Market price per common share[3] | | | | | |
| High | 37.00 | 39.88 | 44.63 | 42.00 | 44.63 |
| Low | 35.13 | 36.13 | 39.50 | 34.75 | 34.75 |

| 1991 | March 31 | June 30 | Sept. 30 | Dec. 31 | Dec. 31 |
|---|---|---|---|---|---|
| Revenues | $264,373 | $237,744 | $250,877[4] | $240,248 | $993,242 |
| Operating income | 31,788 | 32,373 | 35,022[4] | 33,873 | 133,056 |
| Net income (loss) | | | | | |
| Continuing operations | $ 12,303 | $ 12,968 | $ 15,357[4] | $ 14,992 | $ 55,620 |
| Discontinued operations | 406 | 148 | (337) | (1,011) | (794) |
| | $ 12,709 | $ 13,116 | $ 15,020[4] | $ 13,981 | $ 54,826 |
| Earnings (loss) per common share[1] | | | | | |
| Continuing operations | $ 0.56 | $ 0.58 | $ 0.65 | $ 0.63 | $ 2.43 |
| Discontinued operations | 0.02 | 0.01 | (0.01) | (0.04) | (0.03) |
| | $ 0.58 | $ 0.59 | $ 0.64 | $ 0.59 | $ 2.40 |
| Dividends per common share[2] | $ 0.55 | $ 0.55 | $ 0.55 | $ 0.56 | $ 2.21 |
| Market price per common share[3] | | | | | |
| High | 33.50 | 36.50 | 35.63 | 37.88 | 37.88 |
| Low | 29.38 | 31.38 | 31.88 | 35.00 | 29.38 |

[1] The quarterly earnings per common share are based upon the weighted average number of shares of common stock outstanding in each quarter.

[2] HEI has paid cash dividends on its common stock each year since 1901. HEI expects to continue its policy of paying regular quarterly cash dividends. However, the declaration and amount of future dividends is within the discretion of the HEI Board of Directors and will be dependent upon future earnings and other factors.

[3] Market prices shown are as reported on the New York Stock Exchange. The common stock of HEI is traded on the New York and Pacific Stock Exchanges under the symbol HE.

[4] Includes the one-time effect of HECO and its subsidiaries' change in the method of estimating unbilled kilowatthour sales and revenues. The effect was approximately $7 million on a pre-tax basis ($4 million on an after-tax basis).

# Directors

**Robert F. Clarke,** 50 (1)
President and Chief Executive Officer
Hawaiian Electric Industries, Inc.
1989

**Edwin L. Carter,** 67 (1, 3)
President
Bishop Trust Company, Ltd.
(financial services)
1985

**John D. Field,** 67 (2)
Retired vice president-regulatory affairs
GTE Service Corporation
(telecommunications services)
1986

**William G. Foster,** 68 (1)
Chairman of the board
Malia International, Ltd.
(garment manufacturing)
1981

**Richard Henderson,** 64 (1, 3, 4)
President
HSC, Inc.
(real estate investment and development)
1981

**Ben F. Kaito,** 66 (1, 2, 4)
Of Counsel
Kaito & Ishida
(private law firm)
1981

**Victor Hao Li, S.J.D.,** 51 (2)
Co-chairman
Asia Pacific Consulting Group
1988

**Bill D. Mills,** 41 (3)
Chairman of the board and
Chief Executive Officer
Bill Mills Development Company, Inc.;
Mills/Dowling;
MDT, Inc.
(real estate development)
1988

**A. Maurice Myers,** 52 (3)
President and Chief Executive Officer
Aloha Airgroup, Inc.
(commercial air transportation services)
1991

**Ruth M. Ono, Ph.D.,** 57 (2)
Vice President
The Queen's Health System
(hospital and health care services)
1987

**Diane J. Plotts,** 57 (2)
General partner
Hemmeter Investment Company
(real estate development)
1987

**C. Dudley Pratt, Jr.,** 65 (1)
Trustee
The Estate of James Campbell
(real estate development)
Retired president and
chief executive officer
Hawaiian Electric Industries, Inc.
1981

**Thurston Twigg-Smith,** 71 (1, 4)
President and Chief Executive Officer
Persis Corporation
(newspaper publishing)
1981

**Jeffrey N. Watanabe,** 50 (1, 3)
Senior partner
Watanabe, Ing and Kawashima
(private law firm)
1987

**Harwood D. Williamson,** 61
Group Vice President-utility companies
Hawaiian Electric Industries, Inc.
1985

Committees of the board of directors
(1) Executive:
Thurston Twigg-Smith, chairman
(2) Audit:
Diane J. Plotts, chairman
(3) Compensation:
Edwin L. Carter, chairman
(4) Nominating:
Richard Henderson, chairman

Year denotes year of appointment or election to the board of directors

## Subsidiary Outside Directors

**Jorge G. Camara, M.D.,** 42
Camara Eye Clinic
(ophthalmology)
American Savings Bank director
1991

**Shiro "Sam" Hironaka,** 72
Retired executive vice president
American Savings and Loan
(financial services)
American Savings Bank director
1988

**Richard T. Ishida,** 57
Attorney at law
Goodsill Anderson Quinn & Stifel
(private law firm)
Hawaii Electric Light Company director
1984

**Mildred D. Kosaki,** 68
Specialist in education research
Hawaiian Electric Company director
1973

**Sanford J. Langa,** 63
Attorney at law
(private law firm)
Maui Electric Company director
1961

**B. Martin Luna,** 54
Partner
Carlsmith, Ball, Wichman, Murray,
Case, Mukai and Ichiki
(private law firm)
Maui Electric Company director
1979

**Norman A. Oss,** 67
Retired president
Hawaii Electric Light Company
Hawaii Electric Light Company director
1983

**Denzil W. Rose,** 67
Retired president and general manager
Hawaii Motors
(automobile dealership)
Hawaii Electric Light Company director
1960

**Donald K. Yamada,** 61
President
Yamada Diversified Corporation
(construction and trucking services)
Hawaii Electric Light Company director
1985

## Hawaiian Electric Industries, Inc.

**Robert F. Clarke**
President and Chief Executive Officer
1987

**Harwood D. Williamson**
Group Vice President-utility companies
1956

**Edward J. Blackburn,** 62
Group Vice President-
diversified companies
1987

**Robert F. Mougeot,** 50
Financial Vice President and
Chief Financial Officer
1988

**Peter C. Lewis,** 58
Vice President-administration
1968

**Charles F. Wall,** 53
Vice President and
Corporate Information Officer
1990

**Andrew I. T. Chang,** 53
Vice President-government relations
1985

**Constance H. Lau,** 40
Treasurer
1984

**Curtis Y. Harada,** 37
Controller
1989

**Betty Ann M. Splinter,** 47
Secretary
1974

**Molly M. Egged,** 42
Assistant Secretary
1983

## Subsidiary Presidents

**Harwood D. Williamson**
Hawaiian Electric Company, Inc.

**Thomas J. Jezierny,** 48
Maui Electric Company, Limited
1970

**Warren H. W. Lee,** 45
Hawaii Electric Light Company, Inc.
1972

**Wayne K. Minami,** 50
American Savings Bank, F.S.B.
1987

**Robert F. Mougeot**
HEI Investment Corp.

**Glenn K. Y. Hong,** 45
Hawaiian Tug & Barge Corp. and
Young Brothers, Ltd.
1989

**Robert G. Diffley,** 51
Malama Pacific Corp.
1992

Year denotes year of employment by the company

## Corporate headquarters

Hawaiian Electric Industries, Inc.
900 Richards Street
Honolulu, Hawaii 96813
Telephone: 808-543-5662
Facsimile: 808-543-7966

Mailing address:
P. O. Box 730
Honolulu, Hawaii 96808-0730

## Stock Transfer Division

P. O. Box 730
Honolulu, Hawaii 96808-0730
Telephone: 808-532-5841
Facsimile: 808-532-5868

Correspondence about stock ownership, dividend payments, transfer requirements, changes of address, lost stock certificates, duplicate mailings and account status may be directed to the Stock Transfer Division.

Copies of the Form 10-K annual report for Hawaiian Electric Industries, Inc., and Hawaiian Electric Company, Inc., may be obtained upon written request without charge from the Stock Transfer Division.

## Stock exchanges

Common stock symbol: HE
New York Stock Exchange
Pacific Stock Exchange

## Transfer agents

Common stock:

Hawaiian Electric Industries, Inc.
Stock Transfer Division

First Chicago Trust Company of New York
30 West Broadway
New York, New York 10007-2192
Telephone: 212-406-5482

Utility company preferred stock:

Hawaiian Electric Industries, Inc.
Stock Transfer Division

## Dividends

Common stock record dates are normally on or about the 10th of February, May, August and November. Quarterly dividends are customarily paid on or about the 10th of March, June, September and December.

Utility company preferred stock quarterly dividends are paid on the 15th of January, April, July and October to stockholders of record on the 5th of these months.

## Dividend reinvestment plan

Common stockholders of record, utility company preferred stockholders and Hawaii residents of legal age may be eligible to enroll in the company's dividend reinvestment and stock purchase plan. Participants may purchase shares of HEI common stock at market prices without brokerage fees by automatically reinvesting dividends and/or making optional cash payments of up to $25,000 per quarter. A prospectus describing the plan may be obtained by writing or calling the Stock Transfer Division.

## Institutional investor and securities analyst inquiries

Please direct inquiries to:
Constance H. Lau
Treasurer
Telephone: 808-543-7384
Facsimile: 808-543-7966

Gary S. Sharpe
Director-investor relations
Telephone: 808-543-7385

## Annual meeting

Tuesday, April 20, 1993, 9:30 a.m.
Pacific Ballroom
Ilikai Hotel
1777 Ala Moana Boulevard
Honolulu, Hawaii 96815
808-949-3811

## Independent auditors

KPMG Peat Marwick
Pauahi Tower
1001 Bishop Street - Suite 2100
Honolulu, Hawaii 96813
808-531-7286

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PO Box 730
Honolulu, Hawaii 96808-0730